ORIGINAL 14-056

ILLINOIS HEALTH FACILITIES AND SERVICES REVIEW BOARD
APPLICATION FOR PERMIT

RECEIVED
NOV 05 2014
HEALTH FACILITIES & SERVICES REVIEW BOARD

SECTION I. IDENTIFICATION, GENERAL INFORMATION, AND CERTIFICATION

This Section must be completed for all projects.

Facility/Project Identification

Facility Name:	St. Anthony's Hospital Ambulatory Care Center				
Street Address:	503 North Maple Street (Hospital Campus address)				
City and Zip Code:	Effingham				
County:	Effingham	Health Service Area	5	Health Planning Area:	F-02

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

Exact Legal Name:	St. Anthony's Memorial Hospital of the Hospital Sisters of the Third Order of St. Francis
Address:	503 North Maple Street, Effingham, Illinois 62401
Name of Registered Agent:	Amy L. Marquardt
Name of Chief Executive Officer:	Theresa Rutherford
CEO Address:	503 North Maple Street, Effingham, Illinois 62401
Telephone Number:	217-347-1494

Type of Ownership of Applicant/Co-Applicant

- ☒ Non-profit Corporation
- ☐ For-profit Corporation
- ☐ Limited Liability Company
- ☐ Partnership
- ☐ Governmental
- ☐ Sole Proprietorship
- ☐ Other

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

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

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

Name:	Theresa Rutherford
Title:	President and CEO
Company Name:	St. Anthony's Memorial Hospital
Address:	503 North Maple Street, Effingham, Illinois 62401
Telephone Number:	217-347-1494
E-mail Address:	Theresa.Rutherford@hshs.org
Fax Number:	217-347-1563

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

Name:	Edwin W. Parkhurst, Jr.
Title:	Managing Principal
Company Name:	PRISM Healthcare Consulting
Address:	800 Roosevelt Road, Building E, Suite 110, Glen Ellyn, Illinois 60137
Telephone Number:	630-790-5089
E-mail Address:	eparkhurst@consultprism.com
Fax Number:	630-790-2696

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

Name:	Amy Ballance
Title:	Vice President, Business Development and Strategy
Company Name:	HSHS Southern Illinois Division
Address:	224 West Garfield Belleville, Illinois 62220
Telephone Number:	618-641-5479
E-mail Address:	Amy.Ballance@hshs.org
Fax Number:	618-222-1100

Name:	Jody A. Puckett
Title:	Executive Director of Patient Experience and Support Services
Company Name:	St. Anthony's Memorial Hospital
Address:	503 North Maple Street, Effingham, Illinois 62401
Telephone Number:	217-347-1478
E-mail Address:	Jody.Puckett@hshs.org
Fax Number:	217-347-1454

Name:	Dave Storm, CPA MBA
Title:	Director of Finance
Company Name:	St. Anthony's Memorial Hospital
Address:	503 North Maple Street, Effingham, Illinois 62401
Telephone Number:	217-347-1333
E-mail Address:	dave.storm@hshs.org
Fax Number:	217-347-1563

Name:	Nicole Holst
Title:	Vice President, Legal Affairs/Associate General Council
Company Name:	Hospital Sisters Health System
Address:	224 W Garfield, Belleville, IL 62220
Telephone Number:	618-641-5883
E-mail Address:	Nicole.Holst@hshs.org
Fax Number:	618-222-4748

ILLINOIS HEALTH FACILITIES AND SERVICES REVIEW BOARD
APPLICATION FOR PERMIT

SECTION I. IDENTIFICATION, GENERAL INFORMATION, AND CERTIFICATION

This Section must be completed for all projects.

Facility/Project Identification

Facility Name:	St. Anthony's Hospital Ambulatory Care Center				
Street Address:	503 North Maple Street (Hospital Campus address)				
City and Zip Code:	Effingham				
County: Effingham		Health Service Area	5	Health Planning Area:	F-02

Applicant /Co-Applicant Identification

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

Exact Legal Name:	Hospital Sisters Health System
Address:	4936 LaVerna Road, Springfield Illinois 62707
Name of Registered Agent:	Amy L. Marquardt
Name of Chief Executive Officer:	Mary Starrman-Harrison,
CEO Address:	4936 LaVerna Road, Springfield, Illinois 62707
Telephone Number:	217-523-5483

Type of Ownership of Applicant/Co-Applicant

- ☒ Non-profit Corporation
- ☐ For-profit Corporation
- ☐ Limited Liability Company
- ☐ Partnership
- ☐ Governmental
- ☐ Sole Proprietorship
- ☐ Other

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

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

Primary Contact

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

Name:	Amy Ballance
Title:	Vice President, Business Development and Strategy
Company Name:	HSHS Southern Illinois Division
Address:	224 West Garfield Belleville, Illinois 62220
Telephone Number:	618-334-4009 (cell)
E-mail Address:	Amy.Ballance@hshs.org
Fax Number:	618-222-1100

Additional Contact

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

Name:	Edwin W. Parkhurst, Jr.
Title:	Managing Principal
Company Name:	PRISM Healthcare Consulting
Address:	800 Roosevelt Road, Building E, Suite 110, Glen Ellyn, Illinois 60137
Telephone Number:	630-790-5089
E-mail Address:	eparkhurst@consultprism.com
Fax Number:	630-790-2696

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

Name:	Amy L. Marquardt
Title:	Registered Agent
Company Name:	Hospital Sisters Health System
Address:	4936 LaVerna Road Springfield, Illinois 62707
Telephone Number:	217-492-9167
E-mail Address:	Amy.Marquardt@hshs.org
Fax Number:	217-523-0542

Post Permit Contact

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

Name:	Theresa Rutherford
Title:	CEO
Company Name:	St. Anthony's Memorial Hospital
Address:	503 North Maple Street, Effingham, Illinois 62401
Telephone Number:	217-347-1494
E-mail Address:	Theresa.Rutherford@hshs.org
Fax Number:	217-347-1563

Site Ownership (Based on leased site)

[Provide this information for each applicable site]

Exact Legal Name of Site Owner:	Effingham MOB, LLC
Address of Site Owner:	2201 Willenborg, Suite Number 2, Effingham, Illinois 62401
Street Address or Legal Description of Site:	503 North Maple Street, Effingham, Illinois 62401 Note: Legal description in Exhibit A of August 1, 2014 Developer Agreement (included)

Proof of ownership or control of the site is to be provided as Attachment 2. Examples of proof of ownership are property tax statement, tax assessor's documentation, deed, notarized statement of the corporation attesting to ownership, an option to lease, a letter of intent to lease or a lease.

APPEND DOCUMENTATION AS ATTACHMENT-2, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

Operating Identity/Licensee

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

Exact Legal Name:	St. Anthony's Memorial Hospital (See Attachment 3)
Address:	503 North Maple Street, Effingham, Illinois 62401

- ☒ Non-profit Corporation
- ☐ For-profit Corporation
- ☐ Limited Liability Company
- ☐ Partnership
- ☐ Governmental
- ☐ Sole Proprietorship
- ☐ Other

- o Corporations and limited liability companies must provide an Illinois Certificate of Good Standing.
- o Partnerships must provide the name of the state in which organized and the name and address of each partner specifying whether each is a general or limited partner.
- o **Persons with 5 percent or greater interest in the licensee must be identified with the % of ownership.**

APPEND DOCUMENTATION AS ATTACHMENT-3, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

Organizational Relationships

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

APPEND DOCUMENTATION AS ATTACHMENT-4, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

Flood Plain Requirements

[Refer to application instructions.]

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

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

Historic Resources Preservation Act Requirements

[Refer to application instructions.]

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

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

DESCRIPTION OF PROJECT

1. Project Classification

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

Part 1110 Classification:	Part 1120 Applicability or Classification: [Check one only.]
☐ Substantive	☐ Part 1120 Not Applicable
☒ Non-substantive	☐ Category A Project
	☒ Category B Project
	☐ DHS or DVA Project

2. Narrative Description

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

In an Assessment of Applicability Request dated June 2, 2014 to the Illinois Health Facilities and Services Review Board (IHFSRB), St. Anthony's Memorial Hospital (SAE), 535 North Maple Avenue, Effingham, Illinois, 62401, sought an advisory opinion related to developing an ambulatory care center (ACC) within a physician / professional office building (POB) to be constructed on leased property, on the Hospital Campus, by a third-party developer (Agracel).

The IHFSRB determined the proposed ACC/POB facility was "on-or-behalf of the Hospital and that a CON was required even though neither SAE or the Hospital Sisters Health System (HSHS) were at risk for financing the proposed development as attested to in the CON Applicability request (see Narrative, Exhibit 1).

This specific Application for Permit responds to the IHFSRB applicability determination and includes those services and related costs for which the Hospital will lease space (see Narrative Exhibit 2) as well as the overall project.

SAE proposes to relocate and consolidate select clinical and non-clinical services into leased spaced within a Hospital-campus based physician office building (ACC/POB) to be constructed by an independent third-party developer (Agracel), on leased property, in order to create an ambulatory care center (ACC). The proposed Hospital services will be located in the new ACC/POB facility which will also include a local independent physician office (Marshall Clinic).

ACC related space associated with St. Anthony's Hospital will approximate 25,710 sq. ft. (BGSF) with approximately 20,942 being rentable (see Narrative, Exhibit 3, LOI). The leased area includes outpatient clinical space such as laboratory testing services (Express Testing), imaging services, a woman's wellness center, a walk-in clinic (convenient care), in addition to select non-clinical services. Consistent with emerging healthcare trends, the services proposed in the ACC leased space, coupled with co-located independent physician offices and the Marshall Clinic space, will assist the Hospital in meeting care delivery trends emphasizing ambulatory care services. The new ACC/POB facility will approximate 45,730 total square feet including a connection to an existing hospital-owned medical office building on the campus (Effingham Medical Center).

Project costs for developing the proposed ACC/POB facility are not a Hospital nor HSHS cost. Rather, the third-party developer of the Effingham MOB, LLC (ACC/POB), Agracel, is assuming all costs and risk for the facility at their estimated total project cost of $10,893,090 (rounded) of which approximately $5,351,337 is applicable to SAE leased space, plus additional Hospital related project costs including such items as equipment and furnishing costs. (See Attachment 7)

The total project cost for SAE approximates $8,462,866 of which $5,351,337 is the FMV of leased space. The Fair Market Value (FMV) of the leased space is the third-party developer's allocated project cost for the Hospital component of the new ACC/POB building. St. Anthony's and HSHS will fund the incremental $3,111,529 project costs over and above the developer's obligation.

In aggregate, the total project cost attributable to SAE and the third-party developer approximates $14,004,619.

In accordance with Public Act 93-31 (a), this Application for Permit is classified as non-substantive.

AGRACEL, INC.
Industrial Developers

P.O. Box 1107, Effingham, IL 62401
Ph. 217-342-4443 • Fx. 217-342-3299 • www.agracel.com

June 2, 2014

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

Re: Attestation Letter
St. Anthony's Professional Office Building

Dear Ms. Avery,

This letter attests to the following facts pertaining to our proposed development on the St. Anthony Memorial Hospital campus in Effingham, Illinois.

Agracel, Inc. as Manager of Effingham MOB, LLC. is an independent third-party from St. Anthony Memorial Hospital. Effingham MOB, LLC is an independent third party from St. Anthony Memorial Hospital.

Agracel, Inc. is proposing to develop an 84,800 square foot medical office building on the campus of St. Anthony Memorial Hospital of which St. Anthony Memorial Hospital would be a tenant occupying approximately 24% of the gross rentable space. Agracel, Inc. along with its other independent investors will fund the development of the project and St. Anthony Hospital will have no risk or provide any guarantees for the development other than the lease of its space from Effingham MOB, LLC.

Effingham MOB, LLC will lease the land necessary for the development of the MOB from St. Anthony Memorial Hospital at a market rate determined by an independent appraisal.

The total project cost for the proposed MOB development is estimated to cost approximately $18 million dollars of which St. Anthony's portion is estimated to be 28% or just over $5 million dollars. The balance of the space will be occupied by a number other physician groups, most of which already occupy space in Effingham County.

We look forward to the opportunity of this development and would be glad to provide any additional information necessary. You can reach me at 217-342-4443 or dbingham@agracel.com.

The CAN DO! Co.

Sincerely,

R. Dean Bingham
President
Agracel, Inc., Manager Effingham MOB, LLC

Notorization:

Subscriber and sworn to before me this 2nd day June, 2014.

Sharon K. Harper

Signature of Notary

Seal OFFICIAL SEAL
SHARON K HARPER
NOTARY PUBLIC, STATE OF ILLINOIS
MY COMMISSION EXPIRES 5/15/17

Note: The details associated with the Term Sheet have changed due to a reduced project scope, as noted in the Narrative, Exhibit 1. However, the underlying terms remain as stated.

TERM SHEET

EFFINGHAM AMBULATORY CARE CENTER PROJECT

1. **The Parties:** The ground lessor is St. Anthony's Memorial Hospital of the Hospital Sisters of the Third Order of St. Francis, an Illinois not-for-profit corporation (the "Hospital").

   The developer and ground lessee will be Effingham MOB, LLC an Illinois limited liability company (the "Developer").

DEVELOPMENT AGREEMENT

2. **Project:** An ambulatory care center building that is estimated to be between 50,000 square feet and 70,000 square feet (the "Building"), along with the associated parking areas, located on the Premises (the "Project"). A proposed site plan depicting the Project is set forth in "Exhibit A," attached hereto and incorporated herein. The size of the Building will be adjusted and finalized during the Conceptualization Period.

3. **Project Premises:** A to be determined amount of land (to be finalized during the Conceptualization Period) that is owned by Hospital and located within the Effingham Medical Park in Effingham, Illinois (the "Premises"). The Premises will be ground leased, not sold, to the Developer. Developer shall be responsible for legally splitting the Premises from the larger parent parcel and obtaining a separate tax parcel number for the Project.

4. **Conceptualization Period:** Commencing on the Effective Date through and until July 11, 2014 (the "Conceptualization Period"), Developer will be responsible for determining if the project concept is feasible. For purposes of determining if the project is feasible, at a minimum, Developer will: a) review existing conceptual site plans and space plans for the Project that were prepared by Canon Design, b) solicit prospective tenants identified by Hospital for the Project and secure executed letters of intent for the prospective tenants on terms acceptable to Hospital and Developer, c) work with Canon Design to revise the conceptual site plans and space plans based on input from Hospital and prospective tenants, which, at a minimum, Developer agrees to use its best efforts to ensure that the conceptual site plan includes one Building, as opposed to multiple buildings that are joined by a building connector, to house Hospital, any affiliate of Hospital, and any other tenant interested in being located in the Effingham Medical Park, d) explore the availability of governmental subsidies, tax incentives, property tax exemptions and grants for infrastructure and other items, e) explore financing alternatives, and f) assist Hospital, to the extent necessary, in supplying information about the Project, in order for Hospital to obtain a certificate of need for the Project (the "CON"). During the Conceptualization, Period, Developer will focus on completing the items set forth above and finalizing the Development Agreement referenced below.

   At any time prior to the expiration of the Conceptualization Period, if either Developer or Hospital is dissatisfied with the concept for the Project or Hospital is unable to secure the necessary internal approvals to proceed with the Project, Developer or Hospital may elect to rescind, cancel and terminate this Term Sheet by sending a written notice of its election to the other party during such period. Upon either party's election to so rescind, cancel and terminate this Term Sheet, the transaction contemplated hereby will be terminated, all agreements with respect thereto will be rendered null and void, and both Developer and Hospital will be relieved of all liability hereunder.

5. **Hospital's Conceptualization Materials:**

Within ten (10) days after the Effective Date, Hospital will provide Developer with the following items, at Hospital's expense, to assist Developer with its conceptualization activities:

a. a current title insurance commitment for the Premises, issued by Bray Title Services, as agent for First American Title Insurance Company;

b. copies of all existing surveys, phase I reports, and other studies relating to the Premises in Hospital's possession; and

c. copies of all existing conceptual site plans and space plans for the Project that were prepared by Canon Design.

6. **Closing:**

The closing and delivery of the Ground Lease, Declaration and Space Lease(s) (the "Closing") shall occur not later than thirty (30) days after the CON has been approved for the Project, which, at the present time, approval is anticipated to occur on October 15, 2014. After the Closing, Developer shall promptly seek all governmental approvals and permits to complete the Project, and upon receipt of the same, Developer will begin constructing the Project.

GROUND LEASE

7. **Leased Property:**

The Project will be constructed on the Premises. The legal description of the Premises will be determined by an ALTA/ACSM Land Title Survey, to be prepared during the Conceptualization Period.

8. **Ground Rent and Additional Rent:**

Ground rent will be determined by appraisal of the Premises. The appraisal shall take into account the cost of any existing improvements or improvements that may be constructed by Hospital to support the Project, including, without limitation, access roads, parking areas, landscaping features, infrastructure improvements, drainage ponds and the like. The appraisal shall also take into account any additional land that would be required for access and drainage, as if the Project were a stand alone development. Developer will be responsible for all utilities and taxes associated with the Project. Additionally, Developer will pay a pro rata share of the taxes, costs and expenses relating to the parking and access areas and other campus common areas serving the Project. Within ten (10) days from the date that this Term Sheet is executed, Hospital and Developer will mutually select an MAI appraiser that has at least ten (10) years of experience establishing ground rental rates for long-term ground lease agreements used in the medical or healthcare industry. The selected appraiser shall set the ground rental rate in accordance with this section.

9. **Term:**

The initial term will be for a period of fifty (50) years (the "Initial Term"). Developer will have two (2) options to extend the Initial Term for periods of twenty-five (25) years each (each, an Extended Term"). The "Term" shall mean the Initial Term and any Extended Term that has been exercised by Developer. At the end of the Term, title in and to the Project will revert to the Hospital without charge to the Hospital and free from liens and encumbrances.

10. **Uses:**

Uses in the Building will be limited to physician offices and other medical services. Ground Lessor will have the right to approve all tenants, occupants and users in the Building. All physician occupants shall hold active or courtesy medical staff privileges at the Hospital at the time that they enter into a lease for space within the Project; provided, however, to the extent that a physician relinquishes or loses its staff privileges at the Hospital, Developer will not be required to remove the physician from the Project. A list of tenants that have been approved by Hospital is attached hereto as "Exhibit B".

No hospital, medical center or system, or ambulatory surgery center owner, or any affiliate, employee, officer, or agent of any hospital, medical center or system or ambulatory surgery center, other than Hospital and its affiliates, employees, officers, and agents, may, directly or indirectly, own, manage, lease, sublease, license, occupy or use all or any portion of the Project. Notwithstanding the foregoing, physician tenants or healthcare providers leasing space in the Building will be permitted to invest in the Project; provided, however, to the extent that a physician or healthcare provider elects to invest in the Project, Developer shall promptly notify Hospital of the name of the investor. Developer acknowledges and agrees that, for compliance purposes, Hospital must be appraised of any physician or healthcare providers that invest in Developer. Further, the space lease and ground lease between Hospital and Developer for the Project must contain Hospital's fraud and abuse compliance language to address potential compliance risks associated with the leasing arrangements. Developer acknowledges and agrees that it has reviewed and approved Hospital's fraud and abuse compliance language.

The following services may not be provided in the Building under any circumstances without the prior written approval of the Hospital in each instance: MRI, CT, invasive and/or intravascular procedures, ultrasound, mammography, osteoporosis screening services, digital radiology, physical or occupational therapy, or any procedure involving the administration of a radiopharmaceutical for diagnosis, therapy or research (nuclear medicine); any procedure requiring anesthesia which must be administered by an anesthesiologist or certified registered nurse anesthetist (CRNA) or other trained anesthetist; pharmacy; laboratory; imaging center; ambulatory surgery center; or emergency or urgent care center (collectively, "Prohibited Services"). In addition, no part of the Building shall be used to provide other health care services that are at any time provided to inpatients or outpatients of the Hospital ("Restricted Services"). However, this will not prohibit an occupant in the Building from providing Restricted Services to an occupant's "own patients" so long as the Restricted Services are not Prohibited Services. The term "own patients" shall mean persons who specifically seek out and request the professional services of an occupant of the Building for purposes unrelated to the provision of the Restricted Services, or who are referred for professional services unrelated to the provision of Restricted Services.

The Project shall not be utilized for any purpose or use in contravention of the Ethical and Religious Directives for Catholic Health Care Services, as approved, issued, and amended from time to time by the United States Conference of Catholic Bishops.

The foregoing use provisions shall be inserted into all space leases for tenants that will lease space in the Building.

11. **Right of First Refusal:**

Hospital shall have a right of first refusal in connection with any proposed sale of the Project or any sale or transfer of a controlling interest in Developer and any merger or consolidation between Developer and any other person or entity. In addition, Hospital shall have a right of first refusal to lease any space that becomes available in the Project. The right of first refusal to purchase the Project or any interest therein and the right of first refusal to lease any space in the Project, will provide that Hospital has thirty (30) days to exercise its right of first refusal in the event that it is triggered.

12. **Option to Purchase:**

Hospital shall have an option to purchase the Project for a purchase price equal to the then appraised fair market value. Hospital will be permitted to exercise the option at any time after the fifteenth (15^{th}) anniversary of the commencement date of Hospital's space lease for the Project.

13. **Management of the Project:**

Developer or an affiliate of Developer will serve as the initial property manager for the Project. The property manager will be permitted to charge a property management fee equal to three percent (3%) of the net rents collected by tenants leasing space in the Project. The property management fee will be charged to all tenants leasing space in the Building as an operating expense under their space lease agreements. Developer will provide all building services including, maintenance, leasing janitorial, snow removal, and other services; provided, however, to the extent that Hospital is able and willing to provide any building services at a competitive price, then Hospital will be permitted to provide such service for the Project. Further, to the extent that the property manager fails to perform property management services in a manner satisfactory to Hospital, Hospital may elect to remove the property manager and to replace the property manager with another property manager selected by Hospital and approved by Developer.

14.	**Signs:**	Developer and Hospital will work together to establish a signage plan acceptable to both parties; provided, however, all signage must (i) be consistent with the existing signage on Hospital's main campus; and (ii) meet all applicable codes, ordinances, rules and regulations.
15.	**Holding Period:**	Developer shall be prohibited from selling or otherwise transferring title in and to the Project, or transferring management control of the Developer for a period of five (5) years from the commencement date set forth in the Hospital's space lease.
16.	**Non-Compete:**	Developer and Agracel, Inc., an affiliate of Developer, will execute a joinder agreement that will be attached to the Ground Lease whereby both agree for themselves and for any of their affiliates (collectively, the "Developer Entities") that they will not use any information that they obtain from Hospital or any other tenant or subtenant that agrees to lease or sublease space in the Project (each, an "Occupant") regarding the Occupant's service lines, business model, business strategy, or any specifics about the Occupants space or equipment located within its space in the Project that Developer receives or is privy to as a result of its role as the developer, owner and operator of the Project to benefit any other project or any other tenant, subtenant or occupant within any other project that the Developer Entities own, control, lease or manage in Effingham County, Illinois. Notwithstanding the foregoing, the Developer Entities will not be prohibited from owning, controlling, leasing or managing one or more medical facilities within Effingham County, Illinois so long as the Developer Entities comply with the terms of this non-compete.
17.	**Parking:**	Developer will be responsible for constructing a sufficient number of parking spaces on the Premises to support the Project. The parking areas will be subject to restrictions agreed upon by Hospital and Developer.
18.	**Financing:**	Developer will be allowed to place a mortgage on its leasehold interest and the building improvements, but no lien may be placed on the fee interest in the underlying land. Any mortgage financing will be limited to a maximum of 80% of the then fair market value of Developer's leasehold interest and the improvements constructed on the Premises, as determined by an appraisal.
19.	**Declaration:**	A declaration of easements covenants and restrictions (the "Declaration") will be entered into by Hospital and Developer and recorded in the Effingham County, Illinois real estate records to restrict the Project. The Declaration will contain easements for utilities, drainage and access, to the extent necessary. In addition, the right of first refusal, option to purchase and certain non-competition covenants will be placed in the Declaration.
20.	**Hospital Space Leases:**	Any space leases in the building where Hospital or an affiliate is tenant (each, a "Space Lease") shall contain commercially reasonable terms. The Space Lease shall include an initial term of fifteen (15) years, with four (4) options to extend the term thereafter

for periods of five (5) years each. The Space Lease shall be considered a net lease meaning that Hospital will pay a base rental amount currently projected to be Sixteen and 50/100 Dollars ($16.50) per square foot ("Base Rent"). Base Rent will increase by 2% per annum throughout the initial term. In addition to Base Rent, Hospital will be responsible for paying its pro rata share of all ordinary operating expenses incurred by Developer in owning, operating, and managing the Project. Hospital and Developer have agreed upon the operating expense language for Hospital's Space Lease, a copy of which is set forth in "Exhibit C" attached hereto. The terms for the Space Lease contained in this paragraph shall only apply to a Space Lease entered within one (1) year after Closing.

Under the Space Lease, Developer will be responsible for constructing the Building core and shell at its expense. Developer will provide Hospital with a tenant improvement allowance in the amount of Sixty and 00/100 Dollars ($60.00) per square foot of space leased by Hospital in the Building (the "Allowance"). To the extent that the cost of finishing Hospital's space exceeds the Allowance (an "Overage"), Hospital will have the option to either: (i) pay the entire amount of the Overage itself, or (ii) ask that Developer pay all or a portion of the Overage. If Developer pays any portion of the Overage, the amount of the Overage paid by Developer will be amortized over the initial term of Hospital's Space Lease, with interest at a rate of five percent (5%) per annum, and repaid by Hospital on a monthly basis at the same time that Hospital makes an installment of Base Rent and its share of operating expenses.

Prior to the end of the Conceptualization Period, Developer will provide Hospital with a budget for the Project. In the budget, Developer shall disclose its expected internal rate of return and its calculations thereof for the Project based on the revenue generated by the tenants leasing space in the Building. Hospital's satisfaction with the proposed rental rates and operating expense projections will be a condition precedent to Hospital's obligation to move forward with the Project. Hospital shall advise Developer in writing prior to the end of the Conceptualization Period if the rates and operating expense projections are satisfactory. If rental rates are based directly or indirectly on the costs of constructing the Project, Developer will disclose such costs to Hospital on an "open book" basis.

21. **Transaction Documents:**

Prior to the Closing, Hospital's legal counsel, Hall, Render, Killian, Heath & Lyman, P.C., will draft and the parties will negotiate and execute the following contracts (the "Transaction Documents"):

a. The "Ground Lease";
b. The "Declaration";
c. "Space Lease(s)" between Developer, as landlord, and Hospital (or its affiliate), as tenant; and
d. Any other document(s) reasonably necessary to continue the transactions contemplated herein.

The Transaction Documents will evidence the parties' intent to proceed with the development of the Project and will contain all provisions necessary to consummate those transactions. Once the Transaction Documents are prepared and executed, if any of the provisions of this term sheet are inconsistent with any of the provisions of the Transaction Documents, the provisions of the Transaction Documents will govern and control.

22. **Signing Dates:**

If the parties agree that the Project is feasible, the parties will finalize and execute the Development Agreement before the expiration of the Conceptualization Period. The Development Agreement will contain such commercially reasonable provisions as mutually agreed upon by the parties. The Development Agreement may provide for additional time for Developer to perform specific due diligence activities. The other Transaction Documents will be finalized and executed before the Closing.

23. **Confidentiality:**

The parties agree to keep the provisions of this Term Sheet and the transactions contemplated herein strictly confidential, except that each party may disclose: (i) information about the Project to its accountants, attorneys and other consultants engaged with respect to the transaction contemplated herein, (ii) the design concept and projected rental rates for the Project to the prospective tenants identified by Hospital for the Project, and (iii) information to any other party as required by law or any court of competent jurisdiction. A party will not disclose any information about the Project to any other third party, including the press, without the written consent of the other party. This provision will survive the termination of this Term Sheet.

24. **Failure to Execute the Development Agreement:**

This Term Sheet includes some, but not all, of the material terms of the transaction between Hospital and Developer. Neither party will be bound unless and until the Development Agreement is finalized and signed by both parties, and neither party will have any liability due to the fact that the party fails to negotiate, execute and/or deliver the Development Agreement nor for any failure to consummate the proposed transactions referenced herein. Notwithstanding the foregoing, the parties will be bound by the confidentiality terms of Section 23 from and after the Effective Date hereof.

25. **Accounting Review:**

The Transaction Documents shall be subject to accounting review to ensure that the Building and other improvements are off balance sheet, as reasonably determined by Hospital's counsel and auditors. Hospital will complete its review and reply prior to the Closing.

26. **Other Provisions:**

a. Governing Law:

Illinois law will be applicable for all documents, including this Term Sheet, the Development Agreement and the Transaction Documents.

7

b. Out of Pocket Expenses:

Each party is responsible for payment of its own fees incurred in the negotiation of this Term Sheet. If, after the execution of this Term Sheet, Developer incurs any architectural, legal, consulting, contractor, and appraisal fees and costs, governmental fees and charges, costs of due diligence inspections and testing, title and survey costs (collectively, "Out of Pocket Expenses"), those costs should be included in the budget for the Project and be paid by Developer. If the Project does not move forward for any reason other than an event of default or bad faith of Developer in the performance of its duties, then Hospital will reimburse Developer for any Out of Pocket Expenses that are supported by evidence that such Out of Pocket Expenses were paid or incurred by Developer in connection with the design and planning of the Project. Developer will not charge Hospital any development fee or any other fees for its time and effort if the Project is not completed for any reason whatsoever. Attached as "Exhibit D" is a preliminary budget of the Out of Pocket Expenses that Developer may incur during the Conceptualization Period. Notwithstanding anything to the contrary set forth herein, in no event will Developer be permitted to incur Out of Pocket Expenses in excess of Seventy Five Thousand and 00/100 Dollars ($75,000.00) without the prior written consent of Hospital, which consent may be given or withheld in Hospital's sole and absolute discretion.

c. Execution:

This term sheet may be executed by the parties in counterparts and via facsimile or pdf electronic signature. The Effective Date of this term sheet will be the date upon which the later of the two (2) parties has executed this term sheet.

Agreed to by the parties as of the dates set forth below.

HOSPITAL:

ST. ANTHONY'S MEMORIAL HOSPITAL, OF THE HOSPITAL SISTERS OF THE THIRD ORDER OF ST. FRANCIS

By: Theresa J. Rutherford
Theresa Rutherford
President and Chief Executive Officer

Date: May 13th, 2014

DEVELOPER:

EFFINGHAM MOB, LLC

By: Agracel, Inc., its Manager

By: ____________________
Dean Bingham, President

Date: May 14th, 2014

1519817v9

St. Anthony's Memorial Hospital

AN AFFILIATE OF HOSPITAL SISTERS HEALTH SYSTEM

LETTER OF INTENT
MEDICAL OFFICE BUILDING/AMBULATORY CARE CENTER
EFFINGHAM MOB, LLC
EFFINGHAM, ILLINOIS

This is to confirm our intention to lease space in the new Medical Office Building and Ambulatory Care Center (the "MOB/ACC") under development on the principal campus of St. Anthony's Memorial Hospital in Effingham, Illinois by Effingham MOB, LLC

Premises:	A portion of the MOB/ACC, consisting of approximately 20,942 rentable square feet.
Initial Lease Term:	180 months.
Renewal Term:	Two (2) options to extend for a period of five (5) years each.
Lease Commencement:	The date on which the City of Effingham authorizes the occupancy of the MOB/ACC, currently estimated to be the third quarter of 2015.
Base Rent:	$16.50 per rentable square foot per year in year one.
Operating Expenses:	Approximately $5.00 to $7.00 per rentable square foot per year in year one. Operating expenses will be passed through to tenants and will include their pro-rata share of real estate taxes, utilities, insurance, management, maintenance, janitorial services, trash disposal, lawn care, snow removal, equipment service contracts, Ground Lease rentals and capital improvements.
Full-Service Rent:	$21.50 to $23.50 per rentable square foot per year in year one.
Security Deposit:	Equal to the Base Rent for one month.
Cost of Living Increase:	Base rent will increase two percent (2%) per year.
Tenant Improvements:	Each suite will be professionally designed to provide customized practice-ready space to meet the specific requirements of each tenant. An allowance of $60.00 per rentable square foot will be provided and allocated towards the design construction of tenant improvements.
Parking:	Ample parking in the new surface parking lots to be constructed adjacent

503 N MAPLE · EFFINGHAM, IL 62401
www.stanthonyshospital.org · 217.342.2121

to the MOB/ACC.

Uses: Uses in the MOB/ACC will be limited to physician offices and other health care professional offices. St. Anthony's Memorial Hospital of the Hospital Sisters of the Third Order of St. Francis, an Illinois not-for-profit corporation (the "Hospital") will have the right to approve all tenants, occupants and users in the MOB/ACC. All physician occupants shall hold active or courtesy medical staff privileges at the Hospital at the time that they enter into a lease for space within the Project; provided, however, to the extent that a physician relinquishes or loses its staff privileges at the Hospital, Effingham MOB, LLC will not be required to remove the physician as a tenant from the Project.

No hospital, medical center or system, or ambulatory surgery center owner, or any affiliate, employee, officer, or agent of any hospital, medical center or system or ambulatory surgery center, other than Hospital and its affiliates, employees, officers, and agents, may, directly or indirectly, own, manage, lease, sublease, license, occupy or use all or any portion of the Project. Notwithstanding the foregoing, physician tenants leasing space in the MOB/ACC will be permitted to invest in the Project.

The following services may not be provided in the MOB/ACC under any circumstances without the prior written approval of the Hospital in each instance: MRI, CT, invasive and/or intravascular procedures, ultrasound, mammography, osteoporosis screening services, digital radiology, physical or occupational therapy, or any procedure involving the administration of a radiopharmaceutical for diagnosis, therapy or research (nuclear medicine); any procedure requiring anesthesia which must be administered by an anesthesiologist or certified registered nurse anesthetist (CRNA) or other trained anesthetist; pharmacy; laboratory; imaging center; ambulatory surgery center; or emergency or urgent care center (collectively, "Prohibited Services"). In addition, no part of the MOB/ACC shall be used to provide other health care services that are at any time provided to inpatients or outpatients of the Hospital ("Restricted Services"). However, this will not prohibit an occupant in the MOB/ACC from providing Restricted Services to an occupant's "own patients." The term "own patients" shall mean persons who specifically seek out and request the professional services of an occupant of the MOB/ACC for purposes unrelated to the provision of the Restricted Services, or who are referred for professional services unrelated to the provision of Restricted

503 N MAPLE · EFFINGHAM, IL 62401
www.stanthonyshospital.org · 217.342.2121

Services.

The Project shall not be utilized for any purpose or use in contravention of the Ethical and Religious Directives for Catholic Health Care Services, as approved, issued, and amended from time to time by the United States Conference of Catholic Bishops.

Non-Binding: The terms and conditions as set forth herein represent a mutual interest between the parties to proceed towards the execution of a Lease Agreement, and this Letter of Intent is not binding upon either party.

Agreed and executed:

Theresa J Rutherford

Signature

Theresa J. Rutherford

Print Name

St. Anthony's Memorial Hospital

Practice Name

Oct 24, 2014

Date

Received:

Effingham MOB, LLC, an Illinois Limited Liability Company by Agracel, Inc., an Illinois Corporation, Manager

R. Dean Bingham, President

10/23/14

Date

3

Project Costs and Sources of Funds (St. Anthony's Hospital only)

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

Project Costs and Sources of Funds (Hospital Only)			
USE OF FUNDS	**CLINICAL**	**NONCLINICAL**	**TOTAL**
Preplanning Costs	--	--	--
Site Survey and Soil Investigation	--	--	*
Site Preparation	--	--	*
Off Site Work	--	--	*
New Construction Contracts (See FMV)	--	--	*
Modernization Contracts	--	--	*
Contingencies	--	--	*
Architectural/Engineering Fees	--	--	*
Consulting and Other Fees (Allowance)	48,300	44,598	92,898
Movable or Other Equipment (not in construction contracts)	2,317,713	136,798	2,454,511
Bond Issuance Expense (project related)	--	--	*
Net Interest Expense During Construction (project related)	--	--	*
Fair Market Value of Leased Space or Equipment	3,382,838	1,968,499	5,351,337 *
Other Costs To Be Capitalized (Allowance)	204,280	359,840	564,120
Acquisition of Building or Other Property (excluding land)	--	--	--
TOTAL USES OF FUNDS (Estimated)	$ 5,953,131	$ 2,510,735	$ 8,462,866
SOURCE OF FUNDS	**CLINICAL**	**NONCLINICAL**	**TOTAL**
Cash and Securities	2,570,293	542,236	3,111,529
Pledges			
Gifts and Bequests			
Bond Issues (project related)			
Mortgages			
Leases (fair market value)	3,382,383	1,968,499	5,351,337
Governmental Appropriations			
Grants			
Other Funds and Sources			
TOTAL SOURCES OF FUNDS	$ 5,953,131	$ 2,510,735	$ 8,462,866
NOTE: ITEMIZATION OF EACH LINE ITEM MUST BE PROVIDED AT ATTACHMENT-7, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.			

* Construction cost (Agracel 10/22/14)

Use of Funds

	Clinical	Non Clinical	Total
Consulting and Other Fees	$ 48,300	$ 44,598	$ 92,898
Moveable or Other Equipment			
Imaging	$2,066,200	--	$2,066,200
Furniture / support	141,145	130,285	271,430
Contingency @ 5%	110,368	6,513	116,881
Total	$2,317,713	$ 136,798	$2,454,511
Other Costs to be Capitalized			
MRI Relocation	$ 165,570	--	$ 165,570
Building Demolition	--	30,000	30,000
CON and related fees	32,760	30,240	63,000
Connecting Corridor (allowance)	--	180,000	180,000
Canopies (allowance)	--	10,000	10,000
Parking lot improvements	--	100,000	100,000
Other (allowance)	5,950	9,600	15,500
Total	$ 204,280	$ 359,840	$ 564,120

Related Project Costs

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

Land acquisition is related to project ☐ Yes ☒ No
Purchase Price: $________________
Fair Market Value: $________________

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

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

Estimated start-up costs and operating deficit cost is $ 50,000 .

Project Status and Completion Schedules

Indicate the stage of the project's architectural drawings:

☐ None or not applicable ☐ Preliminary

☒ Schematics ☐ Final Working

Anticipated project completion date (refer to Part 1130.140): June, 17, 2016

Indicate the following with respect to project expenditures or to obligation (refer to Part 1130.140):

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

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

State Agency Submittals

Are the following submittals up to date as applicable:
☒ Cancer Registry
☒ APORS
☒ All formal document requests such as IDPH Questionnaires and Annual Bed Reports been submitted
☒ All reports regarding outstanding permits
☒ ESRD DPH Facility Survey @ Illinois.gov .
Failure to be up to date with these requirements will result in the application for permit being deemed incomplete.

Cost Space Requirements

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

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

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

Facility Bed Capacity and Utilization

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

FACILITY NAME: St. Anthony's Memorial Hospital			**CITY:** Effingham		
REPORTING PERIOD DATES:		**From:** January 1, 2013	to: December 31, 2013		
Category of Service	**Authorized Beds**	**Admissions**	**Patient Days** [1]	**Bed Changes**	**Proposed Beds**
Medical/Surgical	100	3,636	15,664	0	100
Obstetrics/Gyn	17	770	1,839	0	17
Pediatrics	6	121	432	0	6
Intensive Care [2]	10	577	1,088	0	10
Comprehensive Physical Rehabilitation	0	0	0	0	0
Acute/Chronic Mental Illness	0	0	0	0	0
Neonatal Intensive Care	0	0	0	0	0
General Long Term Care	13	389	3,013	0	13
Specialized Long Term Care	0	0	0	0	0
Long Term Acute Care	0	0	0	0	0
Other ((identify)	0	0	0	0	0
TOTALS:	146	5,493	22,036	0	146

Source: Annual Hospital Questionnaire, 2013

1. Includes observation days
2. Direct admissions only

Note: St. Anthony's Memorial Hospital filed a CON Permit Application, Project 14-035, to Discontinue the Long Term Care Category of Service. This permit was deemed complete and approved by the State Board. The project is complete.

Facility Bed Capacity and Utilization

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

FACILITY NAME: St. Anthony's Memorial Hospital | **CITY**: Effingham

REPORTING PERIOD DATES: **From:** January 1, 2012 to: December 31, 2012

Category of Service	Authorized Beds	Admissions	Patient Days *	Bed Changes	Proposed Beds
Medical/Surgical	100	4,473	18,777	0	100
Obstetrics/Gyn	17	849	1,949	0	17
Pediatrics	6	144	453	0	6
Intensive Care **	10	652	1,464	0	10
Comprehensive Physical Rehabilitation	0	0	0	0	0
Acute/Chronic Mental Illness	0	0	0	0	0
Neonatal Intensive Care	0	0	0	0	0
General Long Term Care	13	430	3,288	0	13
Specialized Long Term Care	0	0	0	0	0
Long Term Acute Care	0	0	0	0	0
Other ((identify)	0	0	0	0	0
TOTALS:	146	6,548	25,931	0	146

Source: Annual Hospital Questionnaire, 2012

1. Includes observation days
2. Direct admissions only

Note: Inpatient days plus observation days total 26,432 in the AHQ due to inclusion of ICU transfer data.

CERTIFICATION

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

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

This Application for Permit is filed on the behalf of St. Anthony's Memorial Hospital of the Hospital Sisters of the Third Order of St. Francis
*

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

Theresa J Rutherford
SIGNATURE

Theresa Rutherford
PRINTED NAME
President and Chief Executive Officer
PRINTED TITLE

Notarization:
Subscribed and sworn to before me
this 30 day of October 2014

Cathy L. Wesselman
Signature of Notary

Seal
OFFICIAL SEAL
CATHY L WESSELMAN
NOTARY PUBLIC - STATE OF ILLINOIS
MY COMMISSION EXPIRES:08/23/15

Dave Storm
SIGNATURE

Dave Storm
PRINTED NAME
Director of Finance
PRINTED TITLE

Notarization:
Subscribed and sworn to before me
this 30 day of October 2014

Cathy L. Wesselman
Signature of Notary

Seal
OFFICIAL SEAL
CATHY L WESSELMAN
NOTARY PUBLIC - STATE OF ILLINOIS
MY COMMISSION EXPIRES:08/23/15

*Insert EXACT legal name of the applicant

CERTIFICATION

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

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

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

Mary Starmann-Harrison	Lawrence P Schumacher
SIGNATURE	SIGNATURE
Mary Starmann-Harrison	Lawrence P. Schumacher
PRINTED NAME	PRINTED NAME
President and Chief Executive Officer	Chief Operating Officer .
PRINTED TITLE	Hospital Sisters Health System
Notarization: Subscribed and sworn to before me this 3rd day of November, 2014	Notarization: Subscribed and sworn to before me this 3rd day of November, 2014
Barbara J. Schmidt	Barbara J. Schmidt
Signature of Notary	Signature of Notary
Seal OFFICIAL SEAL BARBARA J SCHMIDT Notary Public - State of Illinois My Commission Expires Aug 15, 2016	Seal OFFICIAL SEAL BARBARA J SCHMIDT Notary Public - State of Illinois My Commission Expires Aug 15, 2016

*Insert EXACT legal name of the applicant

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

INDEX OF ATTACHMENTS

ATTACHMENT NO.		PAGES
1	Applicant/Coapplicant Identification including Certificate of Good Standing	35 – 37
2	Site Ownership	38 – 41
3	Persons with 5 percent or greater interest in the licensee must be identified with the % of ownership.	42 – 45
4	Organizational Relationships (Organizational Chart) Certificate of Good Standing Etc.	46 – 48
5	Flood Plain Requirements	49 - 60
6	Historic Preservation Act Requirements	61 – 62
7	Project and Sources of Funds Itemization	63 – 64
8	Obligation Document if required	65
9	Cost Space Requirements	66 – 67
10	Discontinuation	NA
11	Background of the Applicant	68 – 78
12	Purpose of the Project	79 – 82
13	Alternatives to the Project	83 – 86
14	Size of the Project	87 – 93
15	Project Service Utilization	94 – 96
16	Unfinished or Shell Space	NA
17	Assurances for Unfinished/Shell Space	NA
18	Master Design Project	NA
19	Mergers, Consolidations and Acquisitions	NA
	Service Specific: (Verify Services)	
20	Medical Surgical Pediatrics, Obstetrics, ICU	97 – 98
21	Comprehensive Physical Rehabilitation	NA
22	Acute Mental Illness	NA
23	Neonatal Intensive Care	NA
24	Open Heart Surgery	NA
25	Cardiac Catheterization	NA
26	In-Center Hemodialysis	NA
27	Non-Hospital Based Ambulatory Surgery	NA
28	Selected Organ Transplantation	NA
29	Kidney Transplantation	NA
30	Subacute Care Hospital Model	NA
31	Children's Community-Based Health Care Center	NA
32	Community-Based Residential Rehabilitation Center	NA
33	Long Term Acute Care Hospital	NA
34	Clinical Service Areas Other than Categories of Service	99 - 109
35	Freestanding Emergency Center Medical Services	NA
	Financial and Economic Feasibility:	
36	Availability of Funds	110 – 118
37	Financial Waiver	119 – 123
38	Financial Viability	124 – 126
39	Economic Feasibility	127 – 129
40	Safety Net Impact Statement	130 – 132
41	Charity Care Information	133 – 134
Appendix A	Loan Commitment Letter	135 – 138
Appendix B	Developer Agreement	139 – 187
Appendix C	Audited Financial Statement (HSHS)	188 – 249

Attachments

SECTION I. IDENTIFICATION, GENERAL INFORMATION, AND CERTIFICATION

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

Exact Legal Name:	St. Anthony's Memorial Hospital of the Hospital Sisters of the Third Order of St. Francis
Address:	503 North Maple Street, Effingham, Illinois 62401
Name of Registered Agent:	Amy L. Marquardt
Name of Chief Executive Officer:	Theresa Rutherford
CEO Address:	503 North Maple Street, Effingham, Illinois 62401
Telephone Number:	217-347-1494

Exact Legal Name:	Hospital Sisters Health System
Address:	4936 LaVerna Road, Springfield Illinois 62707
Name of Registered Agent:	Amy L. Marquardt
Name of Chief Executive Officer:	Mary Starmann-Harrison,
CEO Address:	4936 LaVerna Road, Springfield, Illinois 62707
Telephone Number:	217-523-5483

See Attachment 1, Exhibits 1 and 2

File Number 3528-153-3

STATE OF ILLINOIS
OFFICE OF THE SECRETARY OF STATE

To all to whom these Presents Shall Come, Greeting:

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

ST. ANTHONY'S MEMORIAL HOSPITAL, OF THE HOSPITAL SISTERS OF THETHIRD ORDER OF ST. FRANCIS, A DOMESTIC CORPORATION, INCORPORATED UNDER THE LAWS OF THIS STATE ON JUNE 03, 1955, 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* FEBRUARY *A.D.* 2014 .

Authentication #: 1404900266
Authenticate at: http://www.cyberdriveillinois.com

Jesse White
SECRETARY OF STATE

File Number 5163-355-5

STATE OF ILLINOIS

OFFICE OF THE SECRETARY OF STATE

To all to whom these Presents Shall Come, Greeting:

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

HOSPITAL SISTERS HEALTH SYSTEM, A DOMESTIC CORPORATION, INCORPORATED UNDER THE LAWS OF THIS STATE ON DECEMBER 26, 1978, 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* 31ST *day of* MARCH *A.D.* 2014 .

SEAL OF THE STATE OF ILLINOIS AUG. 26TH 1818

Authentication #: 1409000428

Authenticate at: http://www.cyberdriveillinois.com

Jesse White

SECRETARY OF STATE

Site Ownership (Based on leased site)
[Provide this information for each applicable site]

Exact Legal Name of Site Owner:	Effingham MOB, LLC
Address of Site Owner:	2201 Willenborg, Suite Number 2, Effingham, Illinois 62401
Street Address or Legal Description of Site:	503 North Maple Street, Effingham, Illinois 62401 Note: Legal description in Exhibit A of August 1, 2014 Developer Agreement (included)
Proof of ownership or control of the site is to be provided as Attachment 2. Examples of proof of ownership are property tax statement, tax assessor's documentation, deed, notarized statement of the corporation attesting to ownership, an option to lease, a letter of intent to lease or a lease.	
APPEND DOCUMENTATION AS ATTACHMENT-2, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.	

Note: Subject Property will be leased to:

Effingham MOB, LLC.
2201 Willenborg, Suite Number 2
Effingham, Illinois 62401

By St. Anthony's Memorial Hospital, for the term of the lease, under ground leases as described in the Developer's Agreement, attached, as well as Attachment 5, Exhibit 1, A; not withstanding the site owner is the Hospital.

EFFINGHAM COUNTY
CERTIFICATE OF STATUS OF EXEMPT PROPERTY
For the TAX YEAR 2014

In accordance with Section 15-10 of the Property Tax Code, Chapter 35 of the Illinois Compiled Statutes (35 ILCS 200/15-10), I submit this statement of status of the below described property. As property owner, owner of a beneficial interest in said property, corporate officer, or an authorized agent, I declare that as of January 1, 2014, there has been no change in ownership or use of said parcel since the time exemption was granted, except as noted.

PIN: 03-16-009-022

Name: St Anthony Memorial Hospital
Address: Attn: Administrator
503 N Maple St
City Effingham IL 62401

Legal Description:
Lots 1 & 2 of St Anthony
Subd. of Pt NW SE 6

If any part or parcel of the property listed as exempt is leased, loaned, or otherwise made available for profit, the property owner, owner of a beneficial interest in said property, corporate officer, or an authorized agent shall file, with the Supervisor of Assessments, a copy of all such leases or agreements at the time the certificate of affidavit is filed. Failure to file such documents shall, in the discretion of the Supervisor of Assessments, constitute cause to terminate the exemption from taxation of that property, notwithstanding any other provision of this Act.

Nature of change in use, if any: None

Dave Storm, CFO
Authorized Signature
Signed this 13 of Jan, 2014

Address of owner, officer, or agent 503 N. Maple
Effingham, IL
62401

NOTE: FAILURE TO FILE THIS CERTIFICATE SHALL CONSTITUTE CAUSE TO TERMINATE THE EXEMPTION FROM TAXATION OF THIS PROPERTY.

This form must be returned to : Effingham County Supervisor of Assessments
101 North Fourth Street, Suite 400, Effingham IL 62401
Phone (217) 342-6711 Fax (217) 342-6124

Date returned ______________, 2014

EFFINGHAM COUNTY
CERTIFICATE OF STATUS OF EXEMPT PROPERTY
For the TAX YEAR 2014

In accordance with Section 15-10 of the Property Tax Code, Chapter 35 of the Illinois Compiled Statutes (35 ILCS 200/15-10), I submit this statement of status of the below described property. As property owner, owner of a beneficial interest in said property, corporate officer, or an authorized agent, I declare that as of January 1, 2014, there has been no change in ownership or use of said parcel since the time exemption was granted, except as noted.

PIN: 03-16-009-014

Name: St Anthony Memorial Hospital
Address: Attn: Administrator
503 N Maple St
City Effingham IL 62401

Legal Description:
E 70ft Lots 4 & 5 Blk 2
Kepley s Addn & that pt

If any part or parcel of the property listed as exempt is leased, loaned, or otherwise made available for profit, the property owner, owner of a beneficial interest in said property, corporate officer, or an authorized agent shall file, with the Supervisor of Assessments, a copy of all such leases or agreements at the time the certificate of affidavit is filed. Failure to file such documents shall, in the discretion of the Supervisor of Assessments, constitute cause to terminate the exemption from taxation of that property, notwithstanding any other provision of this Act.

Nature of change in use, if any: None

Dave Storm, CFO
Authorized Signature

Signed this 13 of Jan, 2014

Address of owner, officer, or agent 503 N. Maple
Effingham, IL 62401

NOTE: FAILURE TO FILE THIS CERTIFICATE SHALL CONSTITUTE CAUSE TO TERMINATE THE EXEMPTION FROM TAXATION OF THIS PROPERTY.

This form must be returned to : Effingham County Supervisor of Assessments
101 North Fourth Street, Suite 400, Effingham IL 62401
Phone (217) 342-6711 Fax (217) 342-6124

Date returned ________________, 2014

EFFINGHAM COUNTY
CERTIFICATE OF STATUS OF EXEMPT PROPERTY
For the TAX YEAR 2014

In accordance with Section 15-10 of the Property Tax Code, Chapter 35 of the Illinois Compiled Statutes (35 ILCS 200/15-10), I submit this statement of status of the below described property. As property owner, owner of a beneficial interest in said property, corporate officer, or an authorized agent, I declare that as of January 1, 2014, there has been no change in ownership or use of said parcel since the time exemption was granted, except as noted.

PIN: 03-16-009-017

Name: St Anthony Memorial Hospital
Address: Attn: Administrator
503 N Maple St
City Effingham IL 62401

Legal Description:
W 1/2 Lots 6 & 7 Blk 2
Kepley s Add & that pt

If any part or parcel of the property listed as exempt is leased, loaned, or otherwise made available for profit, the property owner, owner of a beneficial interest in said property, corporate officer, or an authorized agent shall file, with the Supervisor of Assessments, a copy of all such leases or agreements at the time the certificate of affidavit is filed. Failure to file such documents shall, in the discretion of the Supervisor of Assessments, constitute cause to terminate the exemption from taxation of that property, notwithstanding any other provision of this Act.

Nature of change in use, if any: None

Dave Storm, CFO
Authorized Signature
Signed this 13 of Jan, 2014

Address of owner, officer, or agent 503 N. Maple
Effingham, IL 6240[illegible]

NOTE: FAILURE TO FILE THIS CERTIFICATE SHALL CONSTITUTE CAUSE TO TERMINATE THE EXEMPTION FROM TAXATION OF THIS PROPERTY.

This form must be returned to: Effingham County Supervisor of Assessments
101 North Fourth Street, Suite 400, Effingham IL 62401
Phone (217) 342-6711 Fax (217) 342-6124

rned __________, 2014

Operating Identity/Licensee

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

Exact Legal Name:	St Anthony's Memorial Hospital of the Hospital Sisters of the Third Order of St. Francis
Address:	503 North Maple Street, Effingham, Illinois 62401

☒ Non-profit Corporation
☐ For-profit Corporation
☐ Limited Liability Company
☐ Partnership
☐ Governmental
☐ Sole Proprietorship
☐ Other

- Corporations and limited liability companies must provide an Illinois Certificate of Good Standing.
- Partnerships must provide the name of the state in which organized and the name and address of each partner specifying whether each is a general or limited partner.
- **Persons with 5 percent or greater interest in the licensee must be identified with the % of ownership.**

APPEND DOCUMENTATION AS ATTACHMENT-3, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

HF104554

Illinois Department of
PUBLIC HEALTH

LICENSE, PERMIT, CERTIFICATION, REGISTRATION

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

LaMar Hasbrouck, MD, MPH
Acting Director

Issued under the authority of the Illinois Department of Public Health

EXPIRATION DATE	CATEGORY	I.D. NUMBER
12/31/2014		0002279

General Hospital

Effective: 01/01/14

St. Anthony's Memorial Hospital
503 North Maple Street
Effingham, IL 62401

The face of this license has a colored background. Printed by Authority of the State of Illinois • P.O. #4012320 10M 3/12

DISPLAY THIS PART IN A CONSPICUOUS PLACE

Exp. Date 12/31/2014
Lic Number 0002279

Date Printed 11/25/2013

St. Anthony's Memorial Hospital
503 North Maple Street
Effingham, IL 62401
FEE RECEIPT NO.

File Number 3528-153-3

STATE OF ILLINOIS
OFFICE OF THE SECRETARY OF STATE

To all to whom these Presents Shall Come, Greeting:

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

ST. ANTHONY'S MEMORIAL HOSPITAL, OF THE HOSPITAL SISTERS OF THETHIRD ORDER OF ST. FRANCIS, A DOMESTIC CORPORATION, INCORPORATED UNDER THE LAWS OF THIS STATE ON JUNE 03, 1955, 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* FEBRUARY *A.D.* 2014 .

SEAL OF THE STATE OF ILLINOIS AUG. 26TH 1818

Authentication #: 1404900266
Authenticate at: http://www.cyberdriveillinois.com

Jesse White
SECRETARY OF STATE

File Number 5163-355-5

STATE OF ILLINOIS
OFFICE OF THE SECRETARY OF STATE

To all to whom these Presents Shall Come, Greeting:

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

HOSPITAL SISTERS HEALTH SYSTEM, A DOMESTIC CORPORATION, INCORPORATED UNDER THE LAWS OF THIS STATE ON DECEMBER 26, 1978, 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* 31ST *day of* MARCH *A.D.* 2014 .

SEAL OF THE STATE OF ILLINOIS AUG. 26TH 1818

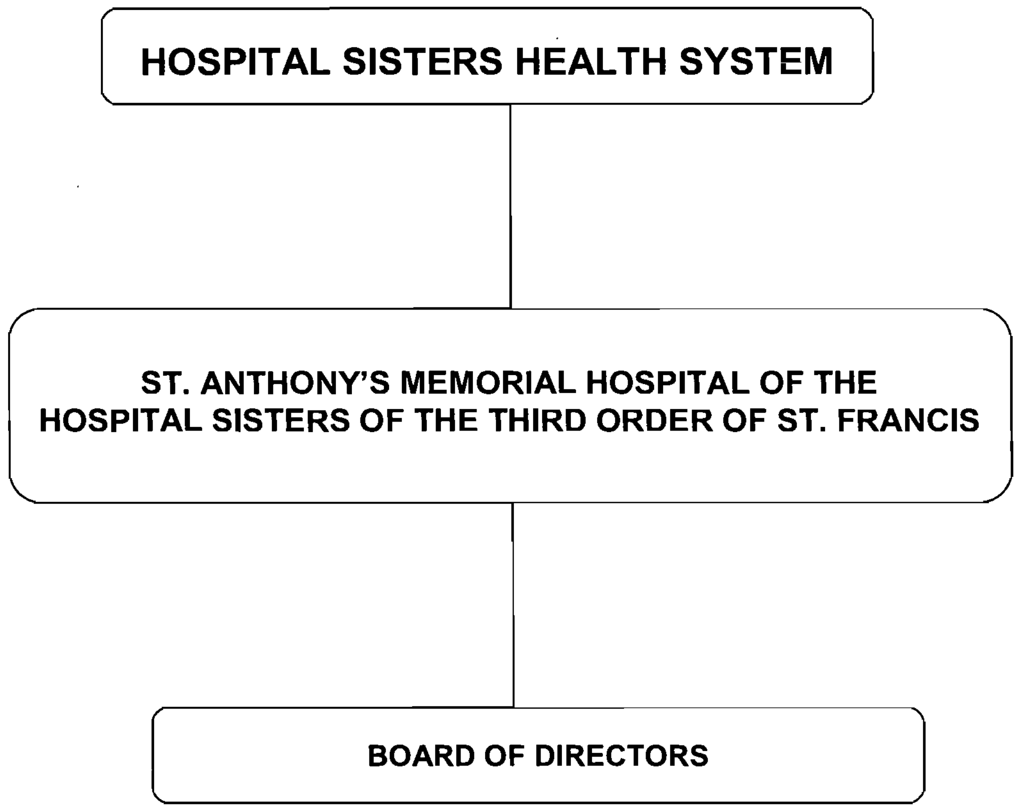
Authentication #: 1409000428
Authenticate at: http://www.cyberdriveillinois.com

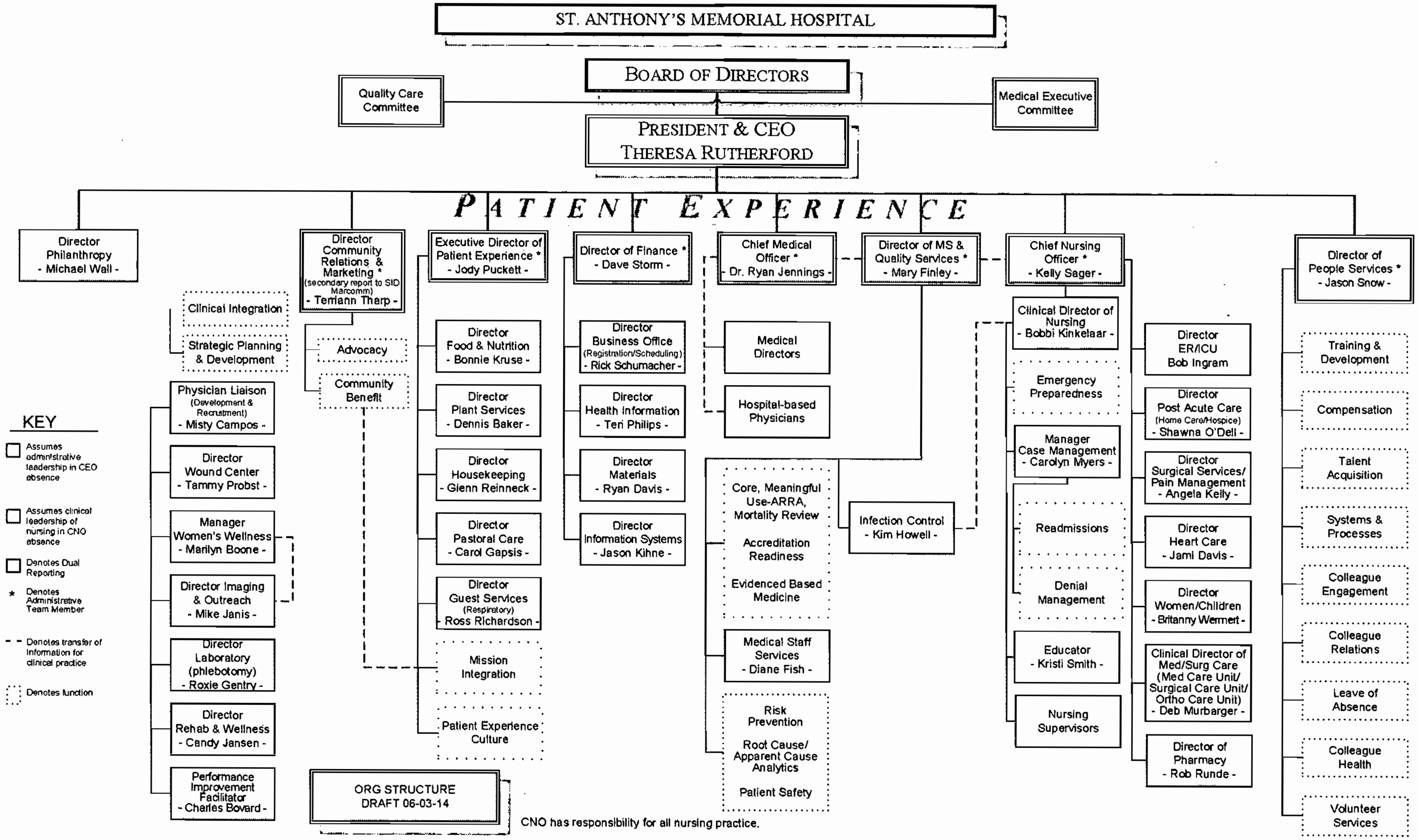
Jesse White
SECRETARY OF STATE

Organizational Relationships

Provide (for each co-applicant) an organizational chart containing the name and relationship of any person or entity who is related (as defined in Part 1130.140). If the related person or entity is participating in the development or funding of the project, describe the interest and the amount and type of any financial contribution.
APPEND DOCUMENTATION AS ATTACHMENT-4, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

Corporate Relationship Chart





ST. ANTHONY'S MEMORIAL HOSPITAL
BOARD OF DIRECTORS
Quality Care Committee
Medical Executive Committee
PRESIDENT & CEO
THERESA RUTHERFORD
PATIENT EXPERIENCE
Director Philanthropy - Michael Wall -
Director Community Relations & Marketing * (secondary report to SID Marcomm) - Terriann Tharp -
Executive Director of Patient Experience * - Jody Puckett -
Director of Finance * - Dave Storm -
Chief Medical Officer * - Dr. Ryan Jennings -
Director of MS & Quality Services * - Mary Finley -
Chief Nursing Officer * - Kelly Sager -
Director of People Services * - Jason Snow -
Clinical Integration
Strategic Planning & Development
Physician Liaison (Development & Recruitment) - Misty Campos -
Director Wound Center - Tammy Probst -
Manager Women's Wellness - Marilyn Boone -
Director Imaging & Outreach - Mike Janis -
Director Laboratory (phlebotomy) - Roxie Gentry -
Director Rehab & Wellness - Candy Jansen -
Performance Improvement Facilitator - Charles Bovard -
Advocacy
Community Benefit
Director Food & Nutrition - Bonnie Kruse -
Director Plant Services - Dennis Baker -
Director Housekeeping - Glenn Reinneck -
Director Pastoral Care - Carol Gapsis -
Director Guest Services (Respiratory) - Ross Richardson -
Mission Integration
Patient Experience Culture
Director Business Office (Registration/Scheduling) - Rick Schumacher -
Director Health Information - Teri Philips -
Director Materials - Ryan Davis -
Director Information Systems - Jason Kihne -
Medical Directors
Hospital-based Physicians
Core, Meaningful Use-ARRA, Mortality Review
Accreditation Readiness
Evidenced Based Medicine
Medical Staff Services - Diane Fish -
Risk Prevention
Root Cause/ Apparent Cause Analytics
Patient Safety
Infection Control - Kim Howell -
Clinical Director of Nursing - Bobbi Kinkelaar -
Emergency Preparedness
Manager Case Management - Carolyn Myers -
Readmissions
Denial Management
Educator - Kristi Smith -
Nursing Supervisors
Director ER/ICU Bob Ingram
Director Post Acute Care (Home Care/Hospice) - Shawna O'Dell -
Director Surgical Services/ Pain Management - Angela Kelly -
Director Heart Care - Jami Davis -
Director Women/Children - Britanny Wermert -
Clinical Director of Med/Surg Care (Med Care Unit/ Surgical Care Unit/ Ortho Care Unit) - Deb Murbarger -
Director of Pharmacy - Rob Runde -
Training & Development
Compensation
Talent Acquisition
Systems & Processes
Colleague Engagement
Colleague Relations
Leave of Absence
Colleague Health
Volunteer Services
ORG STRUCTURE DRAFT 06-03-14
CNO has responsibility for all nursing practice.
KEY
Assumes administrative leadership in CEO absence
Assumes clinical leadership of nursing in CNO absence
Denotes Dual Reporting
* Denotes Administrative Team Member
Denotes transfer of information for clinical practice
Denotes function

Flood Plain Requirements

[Refer to application instructions.]

Provide documentation that the project complies with the requirements of Illinois Executive Order #2005-5 pertaining to construction activities in special flood hazard areas. As part of the flood plain requirements please provide a map of the proposed project location showing any identified floodplain areas. Floodplain maps can be printed at **www.FEMA.gov** or **www.illinoisfloodmaps.org**. **This map must be in a readable format**. In addition please provide a statement attesting that the project complies with the requirements of Illinois Executive Order #2005-5 **(http://www.hfsrb.illinois.gov)**.
APPEND DOCUMENTATION AS ATTACHMENT -5, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

Crossroads of Opportunity

Effingham
ILLINOIS

CITY HALL
201 East Jefferson
P.O. Box 648
Effingham, Illinois
62401-0648

Mayor
Mervin D. Gillenwater
Public Affairs

Commissioners
Alan Harris
Accounts & Finances

Don Althoff
Public Property

Brian T. Milleville
Public Health & Safety

Matt Hirtzel
Streets & Public
Improvements

August 7, 2014

Mr. David Storm
St. Anthony Memorial Hospital
503 N. Maple St.
Effingham, IL 62401

Re: Flood determination letter for property located at 900 Medical Park Drive, Effingham, IL 62401 (See Attached Legal Description w/map).

Dear Mr. Storm:

The undersigned, Building Official and Flood Plain Administrator for the City of Effingham, Illinois, does hereby certify that the property described above is located in a Zone "C", area of minimum flooding. This determination was made from City of Effingham FIRM Map, Community No. 170229 B, Effective Date July 18, 1985 (See Attached FIRM Map).

If you have any questions concerning this letter please contact the undersigned.

Sincerely,

CITY OF EFFINGHAM

BRUCE D. DEVALL
BUILDING OFFICIAL

attachment(s)

cc: Flood Plain Letter File

Administration
217-342-5308
Fax 217.342.2746

City Clerk
217-342-5301
Fax 217.347.2675

City Treasurer
217-342-5302
Fax 217.342.5311

Economic Development
217-342-5304
Fax 217.342.2746

Emergency Management Agency
217-342-5368
Fax 217.342.2746

Public Works/Engineering
217-342-5303
Fax 217.342.5391

Street/Building Official
217-342-5300
Fax 217.342.5391

Water/Sewer
217-342-2366
Fax 217.342.5356

www.effinghamil.com

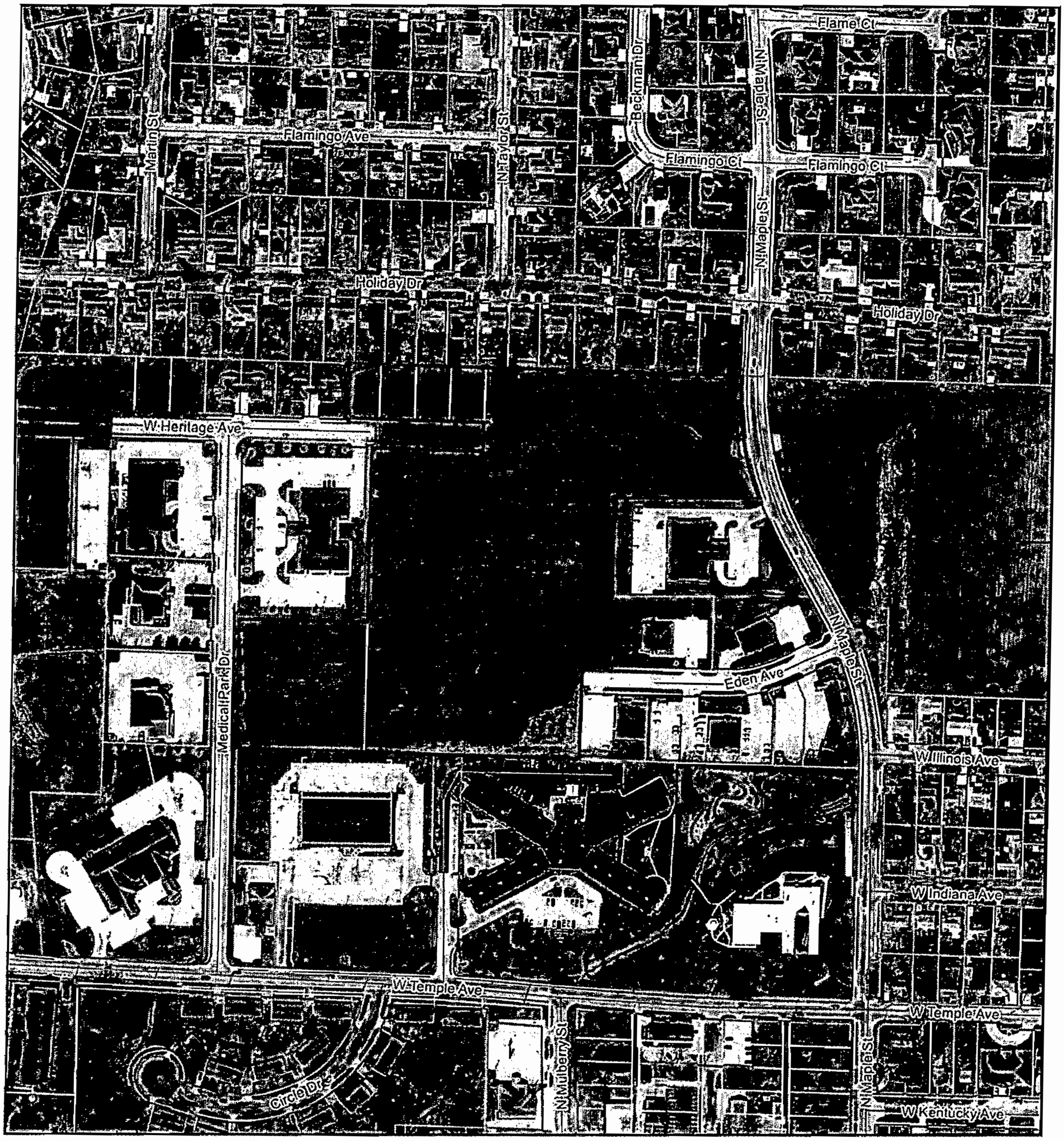
EXHIBIT A

DESCRIPTION OF THE CAMPUS

Tract #1: Lot 5 of First Addition to Medical Park Subdivision No. 1 (reference made to Book 1498 page 245, Plat #258A in the Effingham County Recorder's Office); situated in the City of Effingham, County of Effingham and State of Illinois.

Tract #2: A part of Section 20, Township 8 North, Range 6 East of the 3rd P.M., Effingham County, Illinois, and, Lot 2 of First Addition to Medical Park Subdivision No. 1 (reference made to Book 1498 page 245, Plat #258-A in the Effingham County Recorder's Office), and, Lots 1A, 1B, 2A and 2B in Medical Park Subdivision No. 2 (reference made to Plat #232-B and Book 1366 page 54 in the Effingham County Recorder's Office), being more particularly described as follows: Beginning at the Northwest corner of Lot 2 in Medical Park Subdivision No. 3, Fourth Addition (reference made to Book 2346 page 17, Plat #349-A in the Effingham County Recorder's Office), being a point; thence S 00°35'40" W, all bearings are referenced to the Illinois State Plane Coordinate System East Zone Datum of 1983, to the Southwest corner of said Lot 2, a distance of 147.71 feet to a point; thence N 88°03'15" W along the North Rightof-Way line of Eden Avenue, a distance of 61.47 feet to a point; thence S 01°56'45" W along the West Right-of-Way line of Eden Avenue to the Northwest corner of Lot 1 of Medical Park Subdivision No. 3, Third Addition (reference Made to Book 2162 page 229, Plat #333-B in the Effingham County Recorder's Office), a distance of 60.00 feet to a point; thence S 01°24'40" W to the Southwest corner of said Lot 1, a distance of 141.64 feet to a point; thence N 88°03'15" W to the East line of said Lot 2 in First Addition to Medical Park Subdivision No. 1, a distance of 452.57 feet to a point; thence S 00°17'45" W along the East line of said Lot 2 to the Southeast corner of said Lot 2, a distance of 0.23 feet to a point; thence N 88°03'15" W along the South line of said Lot 2 to the Southwest corner of said Lot 2, a distance of 279.99 feet to a point; thence N 00°17'45" E along the West line of said Lot 2 to the Northwest corner of said Lot 2, a distance of 272.09 feet to a point; thence S 88°31'59" E along the North line of said Lot 2 to the Northeast corner of said Lot 2, a distance of 279.93 feet to a point; thence N 00°17'45" E along the East line of First Addition to Medical Park Subdivision No. 1 to the Northeast corner of Lot 5 in said First Addition to Medical Park Subdivision No. 1, a distance of 370.00 feet to a point; thence S 88°31'57" E along the South Right-of-Way line of Heritage Avenue to the Southeast corner of said Medical Park Subdivision No. 2, a distance of 238.67 feet to a point; thence N 01°28'03" E along the East Right-of-Way line of Heritage Avenue to the Southeast corner of said Lot 1A of said Medical Park Subdivision No. 2, a distance of 60.00 feet to a point; thence N 88°31'57" W along the North Right-of-Way line of Heritage Avenue to the Southwest corner of said Lot 2B, a distance of 300.00 feet to a point; thence N 01°28'03" E along the West line of said Lot 2B to the Northwest corner of said Lot 2B, a distance of 120.00 feet to a point; thence S 88°31'57" E along the South line of Northmore Heights Subdivision (reference made to Plat Book 4 page 66 in the Effingham County Recorder's Office) and Schafer Place Subdivision (reference made to Plat Book 8 page 80 in the Effingham County Recorder's Office) to the West Right-of-Way line of Maple Street, a distance of 844.29 feet to a point; thence S 02°09'09" W along the West Right-of-Way line of Maple Street, a distance of 8.76 feet to a point; thence Southeasterly along the West Right-of-Way line of Maple Street to the Northeast corner of Lot 1 in Medical Park Subdivision No. 3, Fifth Addition (reference made to Book 2443 page 17, Plat #357-A in the Effingham County Recorder's Office), being a curve to the left having a radius of 684.84 feet, an arc length of 265.62 feet, a chord bearing of S 08°57'33" E and a chord length of 263.96 feet to a point; thence N 89°35'20" W along the North line of said Lot 1 to the Northwest corner of said Lot 1, a distance of 308.49 feet to a point; thence S 00°35'40" W along the West line of said Lot 1, a distance of 205.00 feet to the Point of Beginning; situated in the City of Effingham, County of Effingham and State of Illinois.

Effingham County GIS Department ~ 101 N Fourth St, Ste 400 ~ Effingham, IL 62401 ~ (217) 342-8519



GIS Department, Effingham County

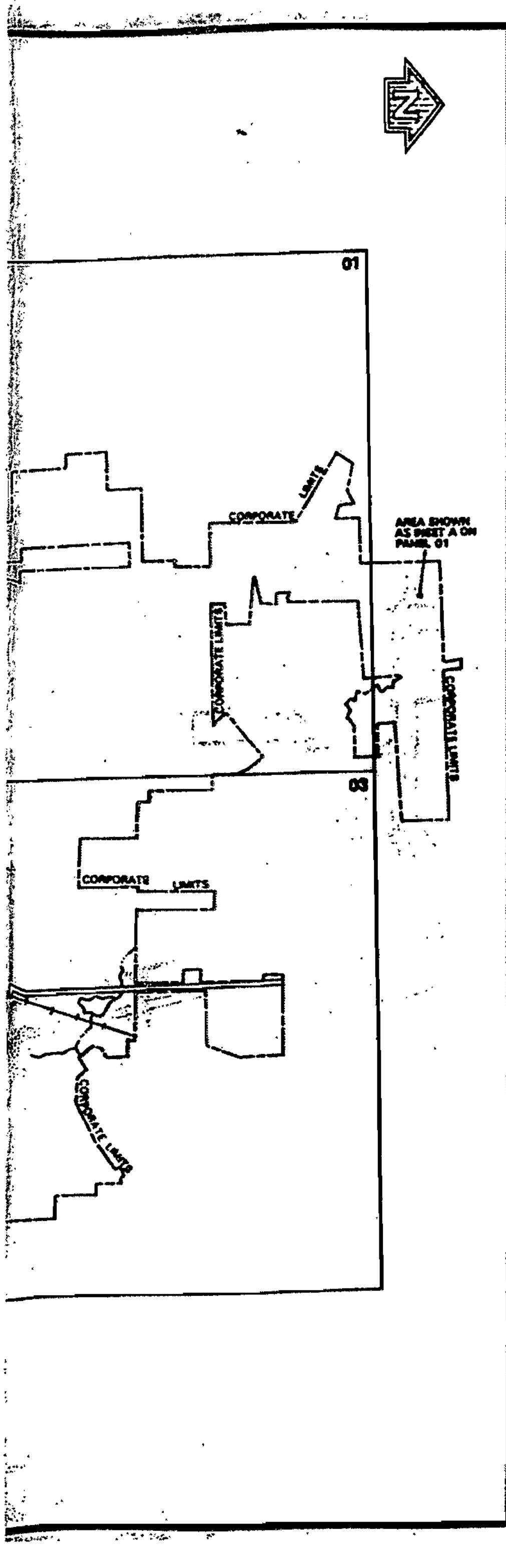
THIS CADESTRAL TAX MAP IS COMPILED FOR ASSESSMENT AND TAX INFORMATION PURPOSES FROM OFFICIAL COUNTY RECORDS. ALL MAP INFORMATION IS FOR THE FOREGOING PURPOSE AND DOES NOT REPRESENT A SURVEY OF THE LAND.

N

1 inch = 273 feet

Date: 8/7/2014

Printed from web browser



KEY TO MAP

ZONE DESIGNATIONS*

ZONE C

ZONE A

ZONE C

Base Flood Elevation Line with elevation in feet	~~513~~
Base Flood Elevation where uniform within zone	(EL 987)
Elevation Reference Mark	$RM7_x$
River Mile	•M1.5

***EXPLANATION OF ZONE DESIGNATIONS**

A flood insurance map displays the zone designations for a community according to areas of designated flood hazards. The zone designations used by FEMA are

ZONE	EXPLANATION
A	Areas of 100-year flood base flood elevations and flood hazard factors not determined
AO	Areas of 100-year shallow flooding where depths are between one (1) and three (3) feet, average depths of inundation are shown, but no flood hazard factors are determined
AH	Areas of 100-year shallow flooding where depths are between one (1) and three (3) feet, base flood elevations are shown, but no flood hazard factors are determined
A1-A30	Areas of 100-year flood, base flood elevations and flood hazard factors determined
A99	Areas of 100-year flood to be protected by flood protection system under construction, base flood elevations and flood hazard factors not determined
B	Areas between limits of the 100-year flood and 500-year flood, or certain areas subject to 100-year flooding with average depths less than one (1) foot or where the contributing drainage area is less than one square mile, or areas protected by levees from the base flood (Medium shading)
C	Areas of minimal flooding (No shading)
D	Areas of undetermined, but possible flood hazards
V	Areas of 100-year coastal flood with velocity (wave action), base flood elevations and flood hazard factors not determined
V1-V30	Areas of 100-year coastal flood with velocity (wave action), base flood elevations and flood hazard factors determined

NOTES TO USER

Certain areas not in the special flood hazard areas (zones A and V) may be protected by flood control structures.

This map is for flood insurance purposes only, it does not necessarily show all areas subject to flooding in the community or all planimetric features outside special flood hazard areas.

To determine if flood insurance is available in this community contact your insurance agent or call the National Flood Insurance Program at (800) 638-6620.

INITIAL IDENTIFICATION: MARCH 22, 1974

FLOOD HAZARD BOUNDARY MAP REVISIONS: APRIL 23, 1976

FLOOD INSURANCE RATE MAP EFFECTIVE: JULY 18, 1985

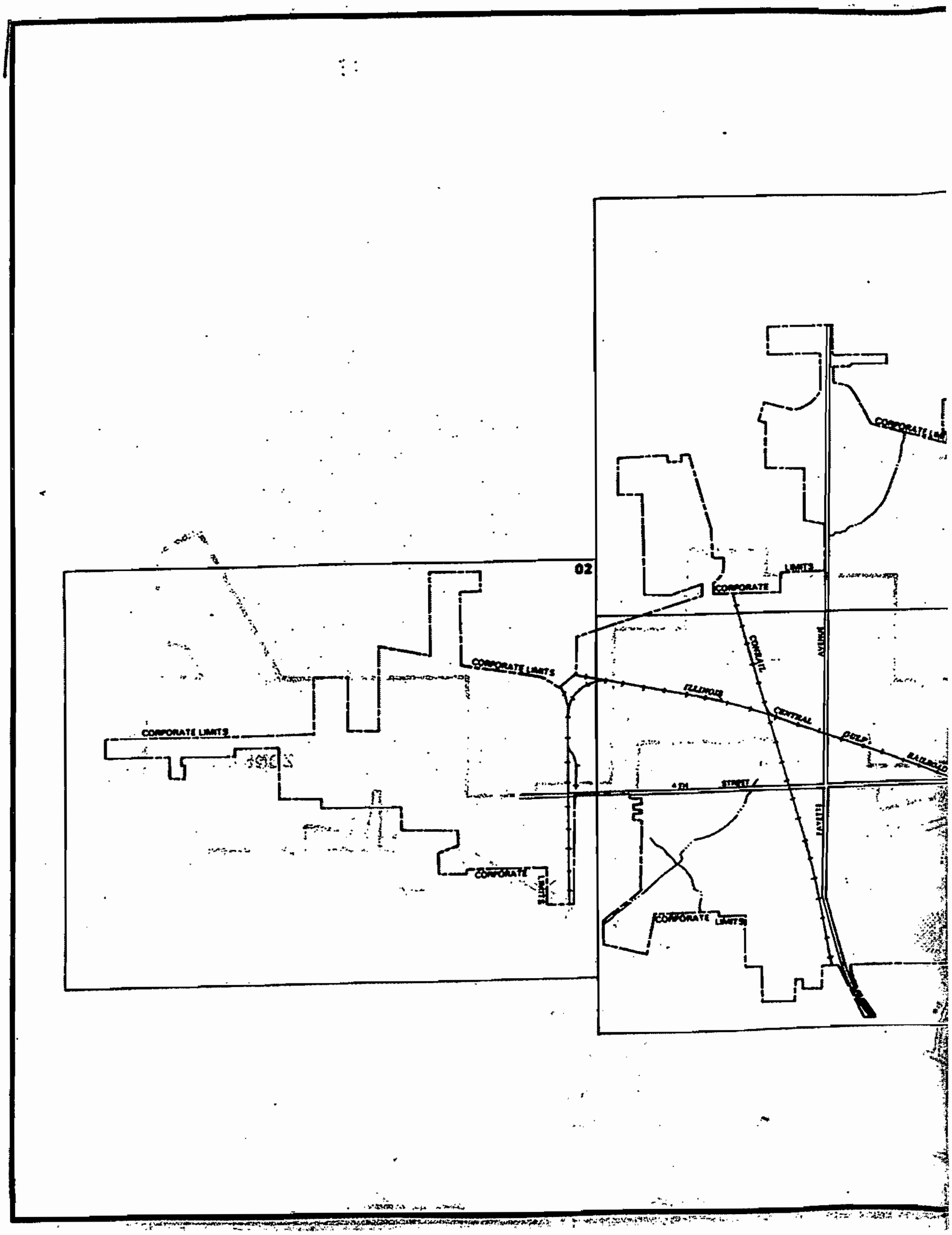
FLOOD INSURANCE RATE MAP REVISIONS:

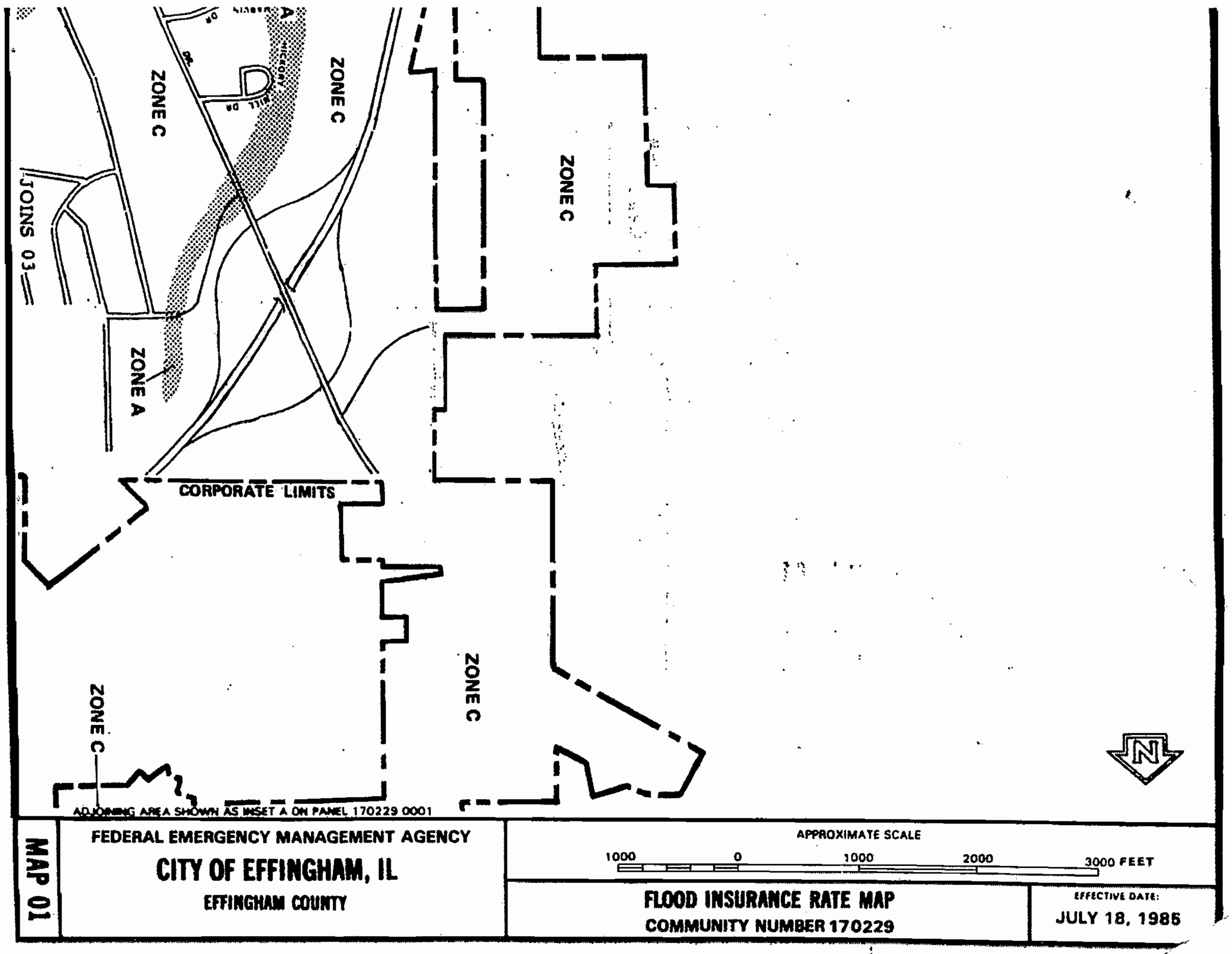
FEDERAL EMERGENCY MANAGEMENT AGENCY

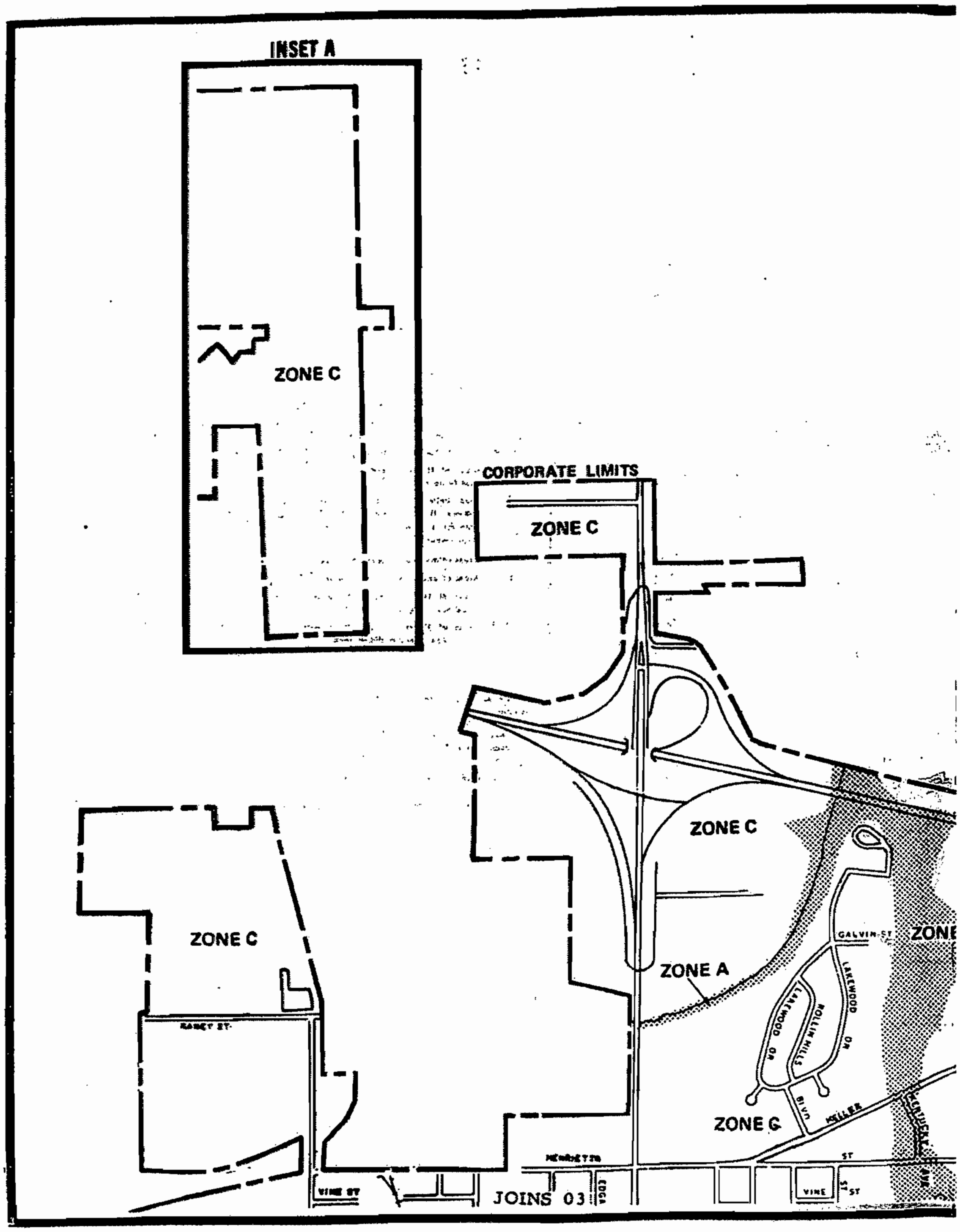
FIRM

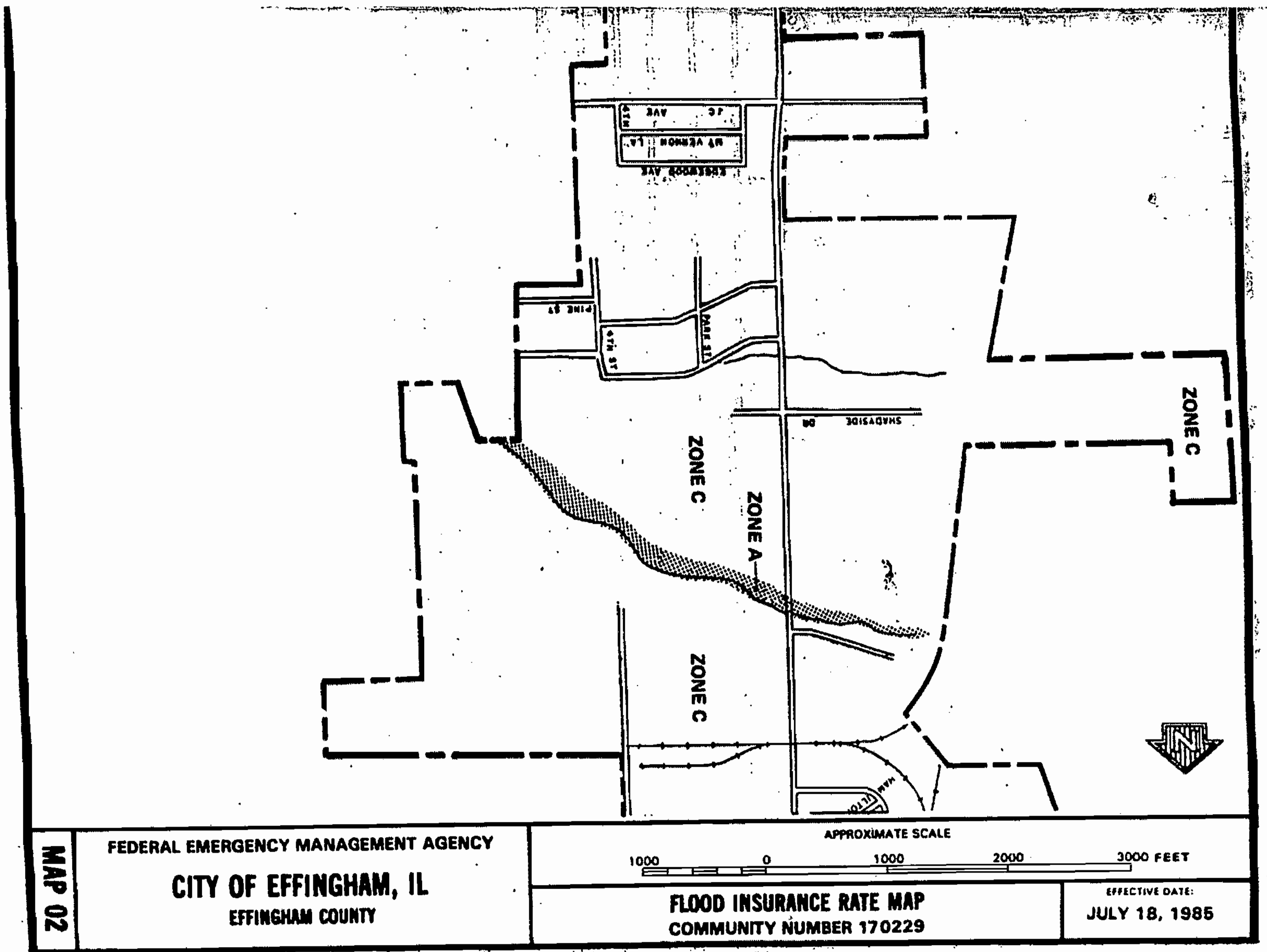
FLOOD INSURANCE RATE MAP 01-03
MAP INDEX
CITY OF EFFINGHAM, IL
EFFINGHAM COUNTY

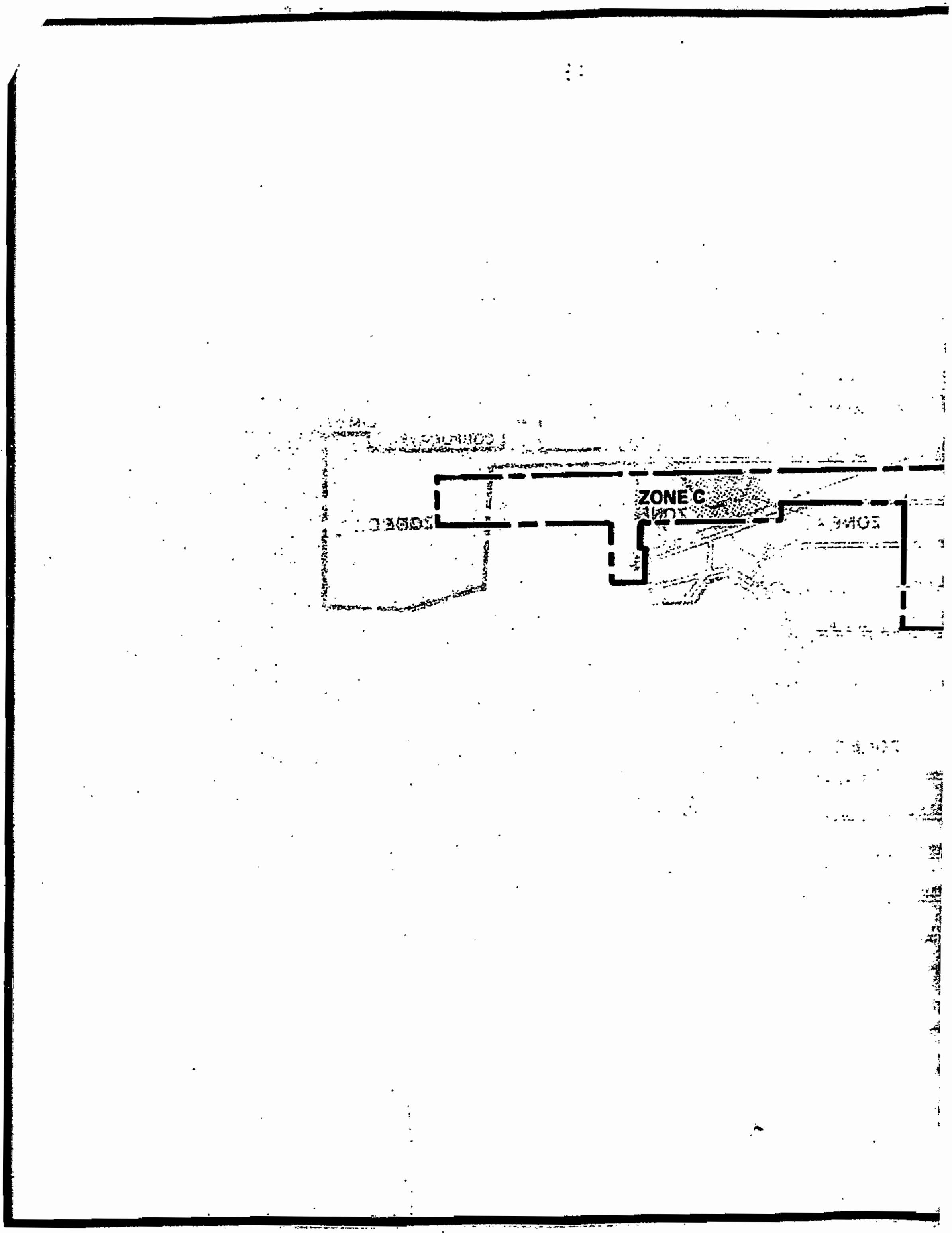
COMMUNITY NUMBER 170229 B

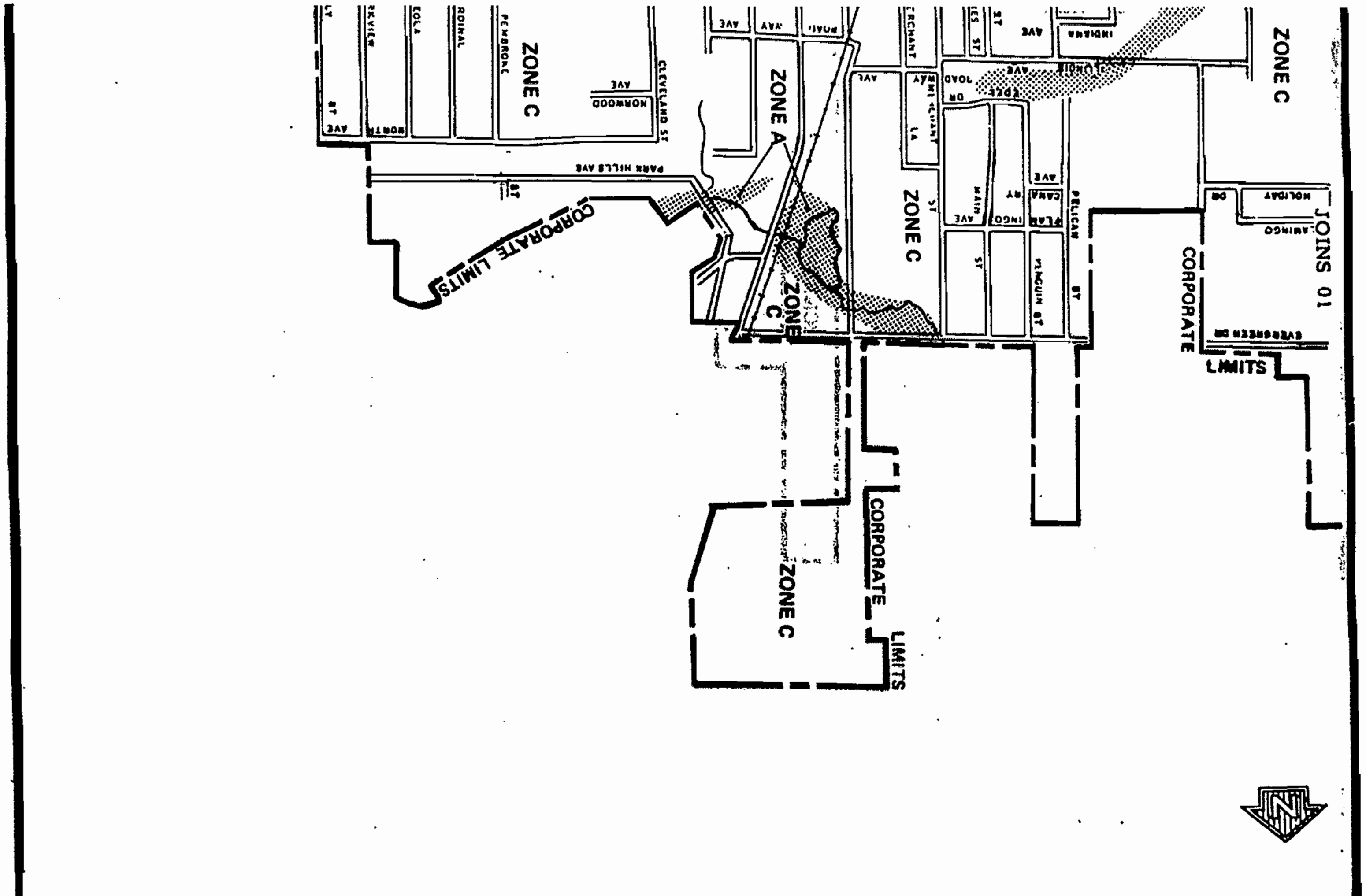

02
CORPORATE LIMITS
CORPORATE LIMITS
CORPORATE
LIMITS
CORPORATE
CORPORATE LIMITS
STREET


ZONE C
ZONE C
ZONE C
ZONE A
JOINS 03
HICKORY
HILL DR
CORPORATE LIMITS
ZONE C
ZONE C
ADJOINING AREA SHOWN AS INSET A ON PANEL 170229 0001
N
MAP 01
FEDERAL EMERGENCY MANAGEMENT AGENCY
CITY OF EFFINGHAM, IL
EFFINGHAM COUNTY
APPROXIMATE SCALE
1000 0 1000 2000 3000 FEET
FLOOD INSURANCE RATE MAP
COMMUNITY NUMBER 170229
EFFECTIVE DATE:
JULY 18, 1985

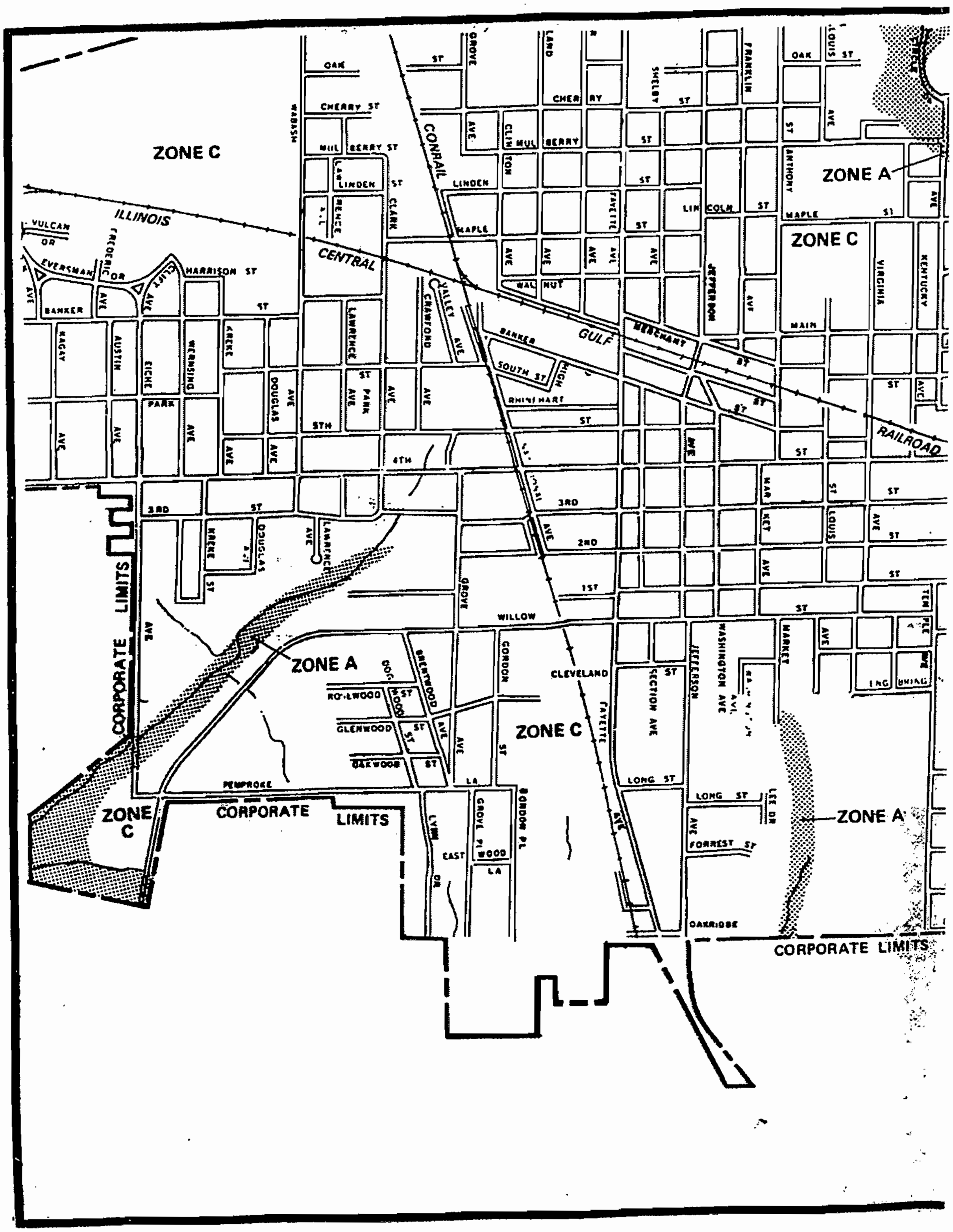

INSET A
ZONE C
CORPORATE LIMITS
ZONE C
ZONE C
ZONE C
ZONE A
GALVIN ST
LAKEWOOD DR
ROLLIN HILLS
BLVD
ZONE C
MILLER
ST
VINE ST
JOINS 03
VINE
ST


ZONE C
ZONE C
ZONE A
ZONE C
ZONE C
PARK ST
4TH ST
PINE ST
SHADYSIDE DR
MT VERNON LA
EDGEWOOD AVE
MAP 02
FEDERAL EMERGENCY MANAGEMENT AGENCY
CITY OF EFFINGHAM, IL
EFFINGHAM COUNTY
APPROXIMATE SCALE
1000 0 1000 2000 3000 FEET
FLOOD INSURANCE RATE MAP
COMMUNITY NUMBER 170229
EFFECTIVE DATE:
JULY 18, 1985


ZONE C



MAP 03	FEDERAL EMERGENCY MANAGEMENT AGENCY **CITY OF EFFINGHAM, IL** **EFFINGHAM COUNTY**	APPROXIMATE SCALE 1000 0 1000 2000 3000 FEET **FLOOD INSURANCE RATE MAP** COMMUNITY NUMBER 170229	EFFECTIVE DATE. JULY 18, 1985


ZONE C
ZONE A
ZONE C
ILLINOIS
CENTRAL
GULF
RAILROAD
CONRAIL
ZONE A
ZONE C
CORPORATE LIMITS
ZONE C
CORPORATE
LIMITS
ZONE A
CORPORATE LIMITS
WILLOW
CLEVELAND
GORDON
JEFFERSON
WASHINGTON AVE
SECTION AVE
FAYETTE
MARKET
CHERRY ST
LINDEN
MAPLE
HARRISON ST
MERCHANT
SOUTH ST
LONG ST
FORREST ST
OAKRIDGE
PEMBROKE
GLENWOOD
OAKWOOD
BRENTWOOD
EAST
WOOD
GORDON PL
VIRGINIA
KENTUCKY
FRANKLIN
ANTHONY
JEFFERSON
MAIN
3RD
2ND
1ST
4TH
5TH
DOUGLAS
KREKE
LAWRENCE
CRAWFORD
CLARK
WABASH
PARK
AUSTIN
BANKER
VULCAN
EVERSMAN
FREDERIC

Historic Resources Preservation Act Requirements

[Refer to application instructions.]

Provide documentation regarding compliance with the requirements of the Historic Resources Preservation Act.
APPEND DOCUMENTATION AS <u>ATTACHMENT-6,</u> IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

IHPA
ILLINOIS HISTORIC Preservation AGENCY

FAX 217/524-7525

Effingham County
Effingham
503 North Maple
Section:20-Township:8N-Range:6E
IHFSRB
New construction, Ambulatory care center, physician office bldg. & clinic - St. Anthony's Memorial Hospital

PLEASE REFER TO: IHPA LOG #002082614

September 3, 2014

Edwin Parkhurst, Jr.
Prism Consulting Services Inc.
Healthcare Consulting Division
800 Roosevelt Road
Building E, Suite 110
Glen Ellyn, IL 60137

Dear Mr. Parkhurst:

The Illinois Historic Preservation Agency is required by the Illinois State Agency Historic Resources Preservation Act (20 ILCS 3420, as amended, 17 IAC 4180) to review all state funded, permitted or licensed undertakings for their effect on cultural resources. Pursuant to this, we have received information regarding the referenced project for our comment.

Our staff has reviewed the specifications under the state law and assessed the impact of the project as submitted by your office. We have determined, based on the available information, that no significant historic, architectural or archaeological resources are located within the proposed project area.

According to the information you have provided concerning your proposed project, apparently there is no federal involvement in your project. However, please note that the state law is less restrictive than the federal cultural resource laws concerning archaeology. If your project will use federal loans or grants, need federal agency permits, use federal property, or involve assistance from a federal agency, then your project must be reviewed under the National Historic Preservation Act of 1966, as amended. Please notify us immediately if such is the case.

This clearance remains in effect for two (2) years from date of issuance. It does not pertain to any discovery during construction, nor is it a clearance for purposes of the IL Human Skeletal Remains Protection Act (20 ILCS 3440).

Please retain this letter in your files as evidence of compliance with the Illinois State Agency Historic Resources Preservation Act.

Sincerely,

Anne E. Haaker

Anne E. Haaker
Deputy State Historic
Preservation Officer

1 Old State Capitol Plaza
Springfield IL 62701

ILLINOISHISTORY.GOV

Project Costs and Sources of Funds (St. Anthony's Hospital only)

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

Project Costs and Sources of Funds (Hospital Only)			
USE OF FUNDS	**CLINICAL**	**NONCLINICAL**	**TOTAL**
Preplanning Costs	--	--	--
Site Survey and Soil Investigation	--	--	*
Site Preparation	--	--	*
Off Site Work	--	--	*
New Construction Contracts (See FMV)	--	--	*
Modernization Contracts	--	--	*
Contingencies	--	--	*
Architectural/Engineering Fees	--	--	*
Consulting and Other Fees (Allowance)	48,300	44,598	92,898
Movable or Other Equipment (not in construction contracts)	2,317,713	136,798	2,454,511
Bond Issuance Expense (project related)	--	--	*
Net Interest Expense During Construction (project related)	--	--	*
Fair Market Value of Leased Space or Equipment	3,382,838	1,968,499	5,351,337 *
Other Costs To Be Capitalized (Allowance)	204,280	359,840	564,120
Acquisition of Building or Other Property (excluding land)	--	--	--
TOTAL USES OF FUNDS (Estimated)	$ 5,953,131	$ 2,510,735	$ 8,462,866
SOURCE OF FUNDS	**CLINICAL**	**NONCLINICAL**	**TOTAL**
Cash and Securities	2,570,293	542,236	3,111,529
Pledges			
Gifts and Bequests			
Bond Issues (project related)			
Mortgages			
Leases (fair market value)	3,382,383	1,968,499	5,351,337
Governmental Appropriations			
Grants			
Other Funds and Sources			
TOTAL SOURCES OF FUNDS	$ 5,953,131	$ 2,510,735	$ 8,462,866
NOTE: ITEMIZATION OF EACH LINE ITEM MUST BE PROVIDED AT ATTACHMENT-7, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.			

* Construction cost (Agracel 10/22/14)

Use of Funds

	Clinical	Non Clinical	Total
Consulting and Other Fees	$ 48,300	$ 44,598	$ 92,898
Moveable or Other Equipment			
Imaging	$2,066,200	--	$2,066,200
Furniture / support	141,145	130,285	271,430
Contingency @ 5%	110,368	6,513	116,881
Total	$2,317,713	$ 136,798	$2,454,511
Other Costs to be Capitalized			
MRI Relocation	$ 165,570	--	$ 165,570
Building Demolition	--	30,000	30,000
CON and related fees	32,760	30,240	63,000
Connecting Corridor (allowance)	--	180,000	180,000
Canopies (allowance)	--	10,000	10,000
Parking lot improvements	--	100,000	100,000
Other (allowance)	5,950	9,600	15,500
Total	$ 204,280	$ 359,840	$ 564,120

Project Status and Completion Schedules

Indicate the stage of the project's architectural drawings:

- ☐ None or not applicable
- ☐ Preliminary
- ☒ Schematics
- ☐ Final Working

Anticipated project completion date (refer to Part 1130.140): June 17, 2016

Indicate the following with respect to project expenditures or to obligation (refer to Part 1130.140):

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

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

Cost Space Requirements

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

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

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

St. Anthony's Space in ACC/POB

Project Cost / Space Requirements - SAE Only								
		Gross Square Feet		Amount of Proposed Total GSF That Is:				
Department	Project Cost	Existing	Proposed	New Construction	Work Column	Remodeled	As Is	Vacated Space
Reviewable / Clinical								
Express Testing (Lab)	$ 238,125	639	1,066	1,066		--	--	557 *
Women's Wellness	$ 1,488,280	2,619	5,031	5,031		--	--	2,619
Diagnostic Imaging	$ 3,899,306	5,171	5,987	5,987		--	--	1,797 **
Walk-In Clinic (Convenient Care)	$ 327,420	4,915	1,402	1,402				4,915
Total Clinical	$ 5,953,131	13,344	13,486	13,486				9,888
Non Clinical								
Patient Access (Registration)	$ 50,215	0	251	251		--	--	--
Education Center / Employee Support	$ 282,141	0	1,404	1,404		--	--	0
Physician Office	$ 499,975	1,197	2,488	2,488				1,197
Circulation / Mechanical /	$ 1,678,404	0	8,081	8,081		--	--	0
Connecting Corridor / Canopies								
Total Non-Clinical	2,510,735	1,197	12,224	12,224				1,197
Total Project	$8,462,866	14,541	25,710	25,710				11,085

* 82 sq. ft. is leased, 557 sq. ft. is Hospital owned for a total 639 existing sq. ft.

** Open MRI Building at 3,374 sq. ft. will be demolished

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

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

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

READ THE REVIEW CRITERION and provide the following required information:

BACKGROUND OF APPLICANT

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

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

For criterion 1110.230 Background; see the following exhibits for Attachment 11.

- Background; HSHS Illinois licenses and Hospital (SAE) property listing
- Exhibit 1; Hospital license
- Exhibit 2; Joint Commission Accreditation
- Exhibit 3; Attestation letter regarding adverse actions and permission to access documents

III. Criterion 1110.230 – Background of the Applicant

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

<u>Certified Listing of Health Care Facilities Owned or Operated by the Applicants in Illinois</u>

Attachment 11, Table –
Identification, Location, License Numbers and Joint Commission Accreditation Numbers of All HSHS Illinois Hospitals

Facility	Location	Illinois License Number	Joint Commission Accreditation Number
St. Elizabeth's Hospital	Belleville	0002345	ID #7242
St. Joseph's Hospital	Highland	0002543	ID #2825
St. Anthony's Memorial Hospital	Effingham	0002279	ID #7335
St. Francis Hospital	Litchfield	0002386	ID #7374
St. John's Hospital	Springfield	0002451	ID #7432
St. Joseph's Hospital	Breese	0002527	ID #7250
St. Mary's Hospital	Decatur	0002592	ID #4605
St. Mary's Hospital	Streator	0002659	ID #7436
Prairie Diagnostic Center at St. John's Hospital	Springfield	7003157	ID #495818

A copy of the most recent State of Illinois License for St. Anthony's Memorial Hospital is included as Attachment 11, Exhibit 1. A copy of the Hospital's Joint Commission Accreditation status is included as Attachment 11, Exhibit 2.

HOSPITAL PROPERTY

1) 300 N. Maple (7328)..Marshall Clinic Diag. Center (lease space)
2) 410 (420) N. Maple (8928)..Medical Office Building (leased to Bandy's DME)
3) 503 N. Maple ....Hospital
4) 603 N. Maple (8917)...Parking Lot
5) 605 N. Maple (8920)...Parking Lot
6) 607 N. Maple (8921)...Parking Lot
7) 609 N. Maple (8923)...Parking Lot
8) 600 W. Kentucky (8919) ... Together on tax bill ....Parking Lot
9) 602 W. Kentucky (8919) ... .Parking Lot
10) 604 W. Kentucky (8918) ....Parking Lot
11) 606 W. Kentucky (8911) ....Parking Lot
12) 702 W. Kentucky (8925) ....Parking Lot
13) 704 W. Kentucky (8913) .... Together on tax bill ...Hospital Maintenance Garage
14) 708 W. Kentucky (Mulberry) (8913)... ...Parking Lot
15) 604 N. Linden (8916) ....Parking Lot
16) 605 N. Linden (8926) ....Parking Lot
17) 608 N. Linden (8933) ....Parking Lot
18) 609 W. St. Anthony (8936)...Empty Lot
19) 701 W. St. Anthony (8934)...Parking Lot
20) 710 W. St. Anthony (8930)...Bernsmeyer Building
21) 800 W. St. Anthony (8937)...House (Hoops/Fr. Ralph)
22) 802 W. St. Anthony (8937)...Empty/Lot (Hoops/Fr. Ralph)
23) 605 W. Temple (8922)...Empty Lot
24) 701 W. Temple (8933)...Medical Office Building (Home Care/Hospice)
25) 801 W. Temple (8912)...Medical Office Building (Convenient Care)
26) 900 W. Temple (8929)...Effingham Medical Center
27) 902 W. Temple (8932)...SAMH - Open MRI and Diagnostic Center (To be demolished if permit application is approved)

28) 500 W. Virginia (8935)..Empty Lot

29) 502 W. Virginia (8924)..Medical Office Building (Rhodes Chiropractic)

30) 511 W. Virginia (8938) (Unit A & B)............................Medical Office Building (Borreggine/Clark's)

31) 507 W. Washington, Newton (7326).............................Newton Diagnostic Center (leased space)

32) 223 East Sixth Street, Neoga (7327)..............................Neoga Clinic (leased space)

33) 501 – 511 N. Mulberry (5 lots)..............................Parking Lot (leased space)

34) NE Corner of Cumberland and Main, Altamont..........Empty Lot – Altamont

35) 206 N. Pearl, Teutopolis...T-Town Diagnostic Clinic (leased space)

36) 3 Do-It Drive, Altamont...Altamont Diagnostic Clinic (leased space)

37) Diagnostic Centers:

Vacated with building of ACC:

a) Marshall Clinic Diagnostic Center, 300 N. Maple, Effingham, IL (leased)

Equipment: Floor Mount X-ray Unit with CR, Ultrasound Machine, Dexa Machine, EKG Machine

Services: X-ray, US, Dexa, EKG, Point of Care Protime

b) Effingham Medical Center Diagnostic Center (Suite 210), 900 W. Temple, Effingham, IL

Equipment to be relocated to ACC / POB … space to be vacated

Floor Mount X-ray Unit with CR, EKG Machine

Services: X-ray, EKG, Lab

c) Open MRI and Diagnostic Center, 902 W. Temple Ave, Effingham, IL (to be demolished)

Equipment: Open MRI

Services: Open MRI

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

   See Attachment 11, Exhibit 3

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

   See Attachment 11, Exhibit 3

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

   Not Applicable

Illinois Department of PUBLIC HEALTH

HF104554

DISPLAY THIS PART IN A CONSPICUOUS PLACE

LICENSE, PERMIT, CERTIFICATION, REGISTRATION

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

LaMar Hasbrouck, MD, MPH
Acting Director

Issued under the authority of the Illinois Department of Public Health

EXPIRATION DATE	CATEGORY	I.D. NUMBER
12/31/2014		0002279

General Hospital

Effective: 01/01/14

St. Anthony's Memorial Hospital

503 North Maple Street

Effingham, IL 62401

The face of this license has a colored background. Printed by Authority of the State of Illinois • P.O. #4012320 10M 3/12

Exp. Date 12/31/2014

Lic Number 0002279

Date Printed 11/25/2013

St. Anthony's Memorial Hospital

503 North Maple Street

Effingham, IL 62401

FEE RECEIPT NO.

The Joint Commission

Official Accreditation Report

St. Anthony's Memorial Hospital
503 North Maple Street
Effingham, IL 62401

Organization Identification Number: 7335

Unannounced Full Event: 7/8/2014 - 7/11/2014

The Joint Commission

October 14, 2014

Theresa J. Rutherford, BSN, MS, MBA, FACHE
President and CEO
St. Anthony's Memorial Hospital
503 North Maple Street
Effingham, IL 62401

Joint Commission ID #: 7335
Program: Hospital Accreditation
Accreditation Activity: 60-day Evidence of Standards Compliance
Accreditation Activity Completed: 10/14/2014

Dear Mrs. Rutherford:

The Joint Commission would like to thank your organization for participating in the accreditation process. This process is designed to help your organization continuously provide safe, high-quality care, treatment, and services by identifying opportunities for improvement in your processes and helping you follow through on and implement these improvements. We encourage you to use the accreditation process as a continuous standards compliance and operational improvement tool.

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

- Comprehensive Accreditation Manual for Hospitals

This accreditation cycle is effective beginning July 12, 2014. The Joint Commission reserves the right to shorten or lengthen the duration of the cycle; however, the certificate and cycle are customarily valid for up to 36 months.

Please visit Quality Check® on The Joint Commission web site for updated information related to your accreditation decision.

We encourage you to share this accreditation decision with your organization's appropriate staff, leadership, and governing body. You may also want to inform the Centers for Medicare and Medicaid Services (CMS), state or regional regulatory services, and the public you serve of your organization's accreditation decision.

Please be assured that The Joint Commission will keep the report confidential, except as required by law. To ensure that The Joint Commission's information about your organization is always accurate and current, our policy requires that you inform us of any changes in the name or ownership of your organization or the health care services you provide.

Sincerely,

Mark Pelletier

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

Report Contents

Executive Summary

Requirements for Improvement

Observations noted within the Requirements for Improvement (RFI) section require follow up through the Evidence of Standards Compliance (ESC) process. The timeframe assigned for completion is due in either 45 or 60 days, depending upon whether the observation was noted within a direct or indirect impact standard. The identified timeframes of submission for each observation are found within the Requirements for Improvement Summary portion of the final onsite survey report. If a follow-up survey is required, the unannounced visit will focus on the requirements for improvement although other areas, if observed, could still become findings. The time frame for performing the unannounced follow-up visit is dependent on the scope and severity of the issues identified within the Requirements for Improvement.

Opportunities for Improvement

Observations noted within the Opportunities for Improvement (OFI) section of the report represent single instances of non-compliance noted under a C category Element of Performance. Although these observations do not require official follow up through the Evidence of Standards Compliance (ESC) process, they are included to provide your organization with a robust analysis of all instances of non-compliance noted during survey.

Equivalencies/Plan for Improvement

The Plan for Improvement (PFI) items were extracted from your Statement of Conditions™ (SOC) and represent all open and accepted PFIs during this survey. The number of open and accepted PFIs does not impact your accreditation status, and is fully in sync with the self-assessment process of the SOC. The implementation of Interim Life Safety Measures (ILSM) must have been assessed for each PFI. The Projected Completion Date within each PFI replaces the need for an individual ESC (Evidence of Standards Compliance) so the corrective action must be achieved within six months of the Projected Completion Date. Future surveys will review the completed history of these PFIs.

The Joint Commission

Executive Summary

Program(s)	**Survey Date(s)**
Hospital Accreditation Home Care Accreditation	07/08/2014-07/11/2014

Hospital Accreditation :	As a result of the accreditation activity conducted on the above date(s), Requirements for Improvement have been identified in your report. You will have follow-up in the area(s) indicated below: • Evidence of Standards Compliance (ESC)
Home Care Accreditation :	As a result of the accreditation activity conducted on the above date(s), Requirements for Improvement have been identified in your report. You will have follow-up in the area(s) indicated below: • Evidence of Standards Compliance (ESC)

If you have any questions, please do not hesitate to contact your Account Executive.

Thank you for collaborating with The Joint Commission to improve the safety and quality of care provided to patients.

St. Anthony's Memorial Hospital

AN AFFILIATE OF HOSPITAL SISTERS HEALTH SYSTEM

October 27, 2014

Kathryn J. Olson, Chair
Administrator
Illinois Health Facilities and Services Review Board
525 West Jefferson Street, 2nd Floor
Springfield, Illinois 62761

Dear Ms. Olson,

I hereby certify under penalty of perjury as provided in § 1-109 of the Illinois Code of Civil Procedures, 735 ILCS 5/1-109 that no adverse action has been taken against any facility owned or operated by the Hospital Sisters Health System during the three years prior to filing this CON permit application.

Neither Hospital Sisters Health System nor any of its corporate officers or directors:

- have been cited, arrested, taken into custody, charged with, indicted, convicted or tried for, or pled guilty to the commission of (1) any felony or misdemeanor or violation of the law, except for minor parking violations or (2) the subject of any juvenile delinquency or youthful offender proceeding; or
- has been charged with fraudulent conduct or any act involving moral turpitude; or
- has any unsatisfied judgments against him or her; or
- is in default in the performance or discharge of any duty or obligation imposed by a judgment, decree, order, or directive of any court or governmental agency.

Additionally, pursuant to 77 Ill. Admin. Code § 1110.1540(b)(3)(J), I hereby authorize the Health Facilities and Services Review Board ("HFSRB") and the Illinois Department of Public Health ("IDPH") access to any documents necessary to verify information submitted as part of this Freestanding Emergency Medical Services application for permit. I further authorize HFSRB and IDPH to obtain any additional information or documents from other government agencies which HFSRB or IDPH deem pertinent to process this permit application.

Sincerely,

Theresa Rutherford

Theresa Rutherford
President and Chief Executive Officer

Notarization:

Subscribed and sworn to before me

this 27th day of OCTOBER, 2014

Diane Sue Fish

Signature of Notary

Seal "OFFICIAL SEAL"
Diane Sue Fish
Notary Public, State of Illinois
My Commission Expires 3/20/2017

503 N MAPLE · EFFINGHAM, IL 62401
www.stanthonyshospital.org · 217.342.2121

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

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

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

PURPOSE OF PROJECT

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

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

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

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

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

Project Purpose

1. Healthcare Improvement

St. Anthony's Memorial Hospital already provides the select services to be relocated and consolidated into the proposed ambulatory care center. Currently these services are distributed between Hospital space, Effingham Medical Center space, and leased Marshall Clinic space as well as the open MRI building which will be demolished. This distributed and fragmented care delivery model is inefficient for patients to access integrated health care. Service consolidation into the proposed new ACC/POB will be more efficient and effective for patients, care delivery staff, and physicians thereby improving access to care and patient well-being. In addition, the linkage to the existing Effingham Medical Center physician office building will enhance referrals between physician specialties.

2. Market Area

The market area is defined by current patient origin (COMPdata). These areas are:

Primary Service Area

Effingham County

Jasper County

Secondary Service Area

Clay County

Cumberland County

Fayette County

Shelby County

Tertiary Service Area

Marion County

Wayne County

Richland County

Crawford County

Clark County

Coles County

3. Existing Issues

The primary issue is that the selected services are distributed and fragmented leading to compromised patient access for integrated care. The project proposes to correct this situation by consolidating select Hospital outpatient services, independent physician offices, and the Marshall Clinic into one integrated ACC/POB facility.

4. Information Sources

Sources for information in the relevant permit application sections are Hospital data (internal), COMPdata, and relocation of select existing services based on facilities and space programming documentation.

5. Improvements Based on Project Implementation

The proposed project will consolidate currently dispersed and fragmented care delivery locations. With the proposed service co-locations (consolidation) patients will benefit from the opportunity to access relevant services in one geographic location / building and caregivers will benefit from interactions associated with their co-locations. Integration, in and of itself, is more beneficial than fragmented services particularly related to patient access and referrals between specialists and clinical support services.

6. Goals

The primary goal is to improve access to an integrated care delivery model and improve efficiencies based on co-locating clinical services and physician services to improve access and way finding. At this point the measurable objective is to decrease patient travel time between services, but no specific targets have been identified. The time frame to provide improvements is based on the project implementation schedule. Measureable improvements are anticipated immediately upon opening.

Criterion 1110.230 (Purpose) requires the Applicant to "...include repair and maintenance records ...", for equipment being replaced in modernization projects. For this purpose, it is assumed the imaging equipment is relevant in that a great majority of the clinical equipment will be relocated from existing space. In this case, equipment replacement is not based on "age and condition", but the respective depreciation for each unit. More specifically:

1. The Convenient Care Center radiographic unit is fully depreciated.
2. The Marshall Clinic radiographic unit is fully depreciated.
3. The Effingham Medical Center (EMC) radiographic unit will be fully depreciated in May 2016, prior to the anticipated ACC/POB opening.
4. The Marshall Clinic ultrasound unit was leased and purchased in 2011 (lease buy-out) and is fully depreciated.

Hence, the new replacement imaging equipment to be purchased for the ACC/POB project will be:

1. A radiographic imaging unit.
2. A radiographic and fluoroscopic imaging unit.
3. A digital mammographic imaging unit.

Additionally, an ultrasound unit will be purchased along with a CT unit.

Other required equipment as noted in Attachment 15 will be relocated to the new ACC/POB from existing facilities.

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

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

ALTERNATIVES

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

Alternative options **must** include:

A) Proposing a project of greater or lesser scope and cost;

B) Pursuing a joint venture or similar arrangement with one or more providers or entities to meet all or a portion of the project's intended purposes; developing alternative settings to meet all or a portion of the project's intended purposes;

C) Utilizing other health care resources that are available to serve all or a portion of the population proposed to be served by the project; and

D) Provide the reasons why the chosen alternative was selected.

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

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

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

Attachment 13
Alternatives

St. Anthony's Memorial Hospital considered several alternatives to provide an integrated ambulatory-focused care delivery model based on co-locating select hospital clinical services, independent physician office practices, and the Marshall Clinic. The overarching objective was to improve efficiency as well as patient access and way finding which is exacerbated by the current fragmented and distributed care delivery model. Thus the focus for developing alternatives was to consolidate / co-locate similar and existing ambulatory care related clinical functions.

Alternative 1 SAE and HSHS / HSSI to finance and develop Hospital facilities and related space to be leased to physicians (an ACC/POB).

A. Total project cost

An approximate 45,730 bgsf comparable ACC/POB mixed use facility would cost in the range of $16.5 to $17.4 million.

B. Patient access

Improved due to consolidation of services and co-location with physicians

C. Quality

Improved due to the creation of an integrated care delivery model.

D. Financial benefit

Financial benefits would accrue to the patient based on increased staff and physician productivity as well as providing easier access to clinical services. There is no data to quantify these benefits. In addition, co-locations will improve physician productivity. Again, no data is available, but practice efficiencies can be implied.

E. Financial implication

Utilizing internal capital could detract from other clinical investments.

Alternative 2 Develop a SAE / HSHS financed ancillary building co-located with a third party developer facility leased to independent physicians and the Marshall Clinic.

A. Total project cost (Hospital / HSHS / HSSI only)

An approximate 25,700 bgsf Hospital-owned facility would cost in the range of $11.8 million to $12.3 million not including the developers cost for an associated POB / Clinic facility.

B. Patient access

Improved due to consolidation of services and co-location with physicians

C. Quality

Improved due to the creation of an integrated care delivery model.

D. Financial benefit

Similar to Alternative 1, except patient costs would increase due to incremental increase in project capitalized cost over and above the preferred alternative.

E. Financial implication

Utilizing internal capital could detract from other clinical investments, but less so than Alternative 1.

Alternative 3 Joint Venture

There are no locally available providers available to provide joint venture opportunities.

Alternative 4 Other Resources

There are no locally available other resources to serve the proposed population of existing patients who will utilize the proposed project.

Alternative 5 Utilize a Third Party Developer to implement the proposed ACC/POB facility limited to the existing Effingham Medical Center (POB) (Preferred / lowest cost alternative).

A. Total project cost

Estimated to be approximately $14.0 million including $8.4 million attributable to St. Anthony's based on developer provided FMV project costs and associated Hospital costs (see narrative and Attachment 7 for final project costs).

B. Patient access

Improved due to consolidation of services co-located with physicians

C. Quality

Improved due to the creation of an integrated care delivery model

D. Financial benefit

Similar to Alternative 1, but less costly to patients due to lower overall project costs.

Discussion

Alternative 5 was selected as the lowest project cost alternative approximating a St. Anthony's investment in the range of $8.4 million.

Alternatives 1 and 2 were rejected based on SAE / HSHS / HSSI related development costs which are greater than the third-party developer option, Alternative 5.

Alternatives 3 and 4 were rejected as not being reasonable, or feasible within the local Effingham market.

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

The proposed services currently exist. Hence, the empirical evidence criterion is not applicable. The walk-in / convenient care clinic will provide improved access to care on a timely basis thereby potentially reducing acute episodes and/or contributing to the physiological effects related to clinic care.

SECTION IV - PROJECT SCOPE, UTILIZATION, AND UNFINISHED/SHELL SPACE

Criterion 1110.234 - Project Scope, Utilization, and Unfinished/Shell Space

READ THE REVIEW CRITERION and provide the following information:

SIZE OF PROJECT:

1. Document that the amount of physical space proposed for the proposed project is necessary and not excessive. **This must be a narrative.**
2. If the gross square footage exceeds the BGSF/DGSF standards in Appendix B, justify the discrepancy by documenting one of the following::
   a. Additional space is needed due to the scope of services provided, justified by clinical or operational needs, as supported by published data or studies;
   b. The existing facility's physical configuration has constraints or impediments and requires an architectural design that results in a size exceeding the standards of Appendix B;
   c. The project involves the conversion of existing space that results in excess square footage.

Provide a narrative for any discrepancies from the State Standard. A table must be provided in the following format with Attachment 14.

SIZE OF PROJECT				
DEPARTMENT/SERVICE	PROPOSED BGSF/DGSF	STATE STANDARD	DIFFERENCE	MET STANDARD?

APPEND DOCUMENTATION AS ATTACHMENT-14, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

Background

Narrative

The proposed new ACC / POB is comprised of two major components. These are:

1. Space to relocate select existing Hospital services into new facilities which will be co-located with existing Hospital-owned physician offices in the Effingham Medical Center and new facilities for the independent Marshall Clinic (physician offices).
2. Physician office space for the Marshall Clinic.

The Hospital clinical facilities to be relocated to the ACC/POB and co-located with the existing Hospital-owned Effingham Medical Center are:

1. Express Testing (laboratory draw and stat testing)

   This proposed service in the new ACC/POB currently exists in the Hospital and other Hospital operated diagnostic centers.

2. Convenient Care

This Hospital program functions as a walk-in clinic to enhance access to healthcare services. It is currently located at 801 W. Temple in a medical office building (see Attachment 11). The proposed location in the new ACC/POB will co-locate these services closer to a greater number of physicians and diagnostic modalities thereby enhancing access to both physician and related ancillary / diagnostic services.

3. Diagnostic Imaging

This proposed outpatient /ambulatory care focused imaging program proposes to relocate and consolidate select radiographic, fluoroscopic, CT, and ultrasound services currently located in the main Hospital building and existing Marshall Clinic facility (physician offices) into the ACC/POB. In addition, the existing open MRI located at 902 W. Temple will be relocated and the facility demolished to provide adequate parking for the new ACC/POB (See campus plan and related site plan, herein.)

4. Women's Wellness

This program is currently located in the Effingham Medical Center facility which will be connected to the new ACC/POB. The current space allocation is inadequate, and when relocated, the vacated area proposed to be leased for physician offices. The program supports cancer care initiatives, lactation programs, and breast related diagnostic services including mammography and stereotactic biopsy procedures. In addition, the related Dexa modality will continue to assist in diagnosing osteoporosis in women.

Allocated Square Footage

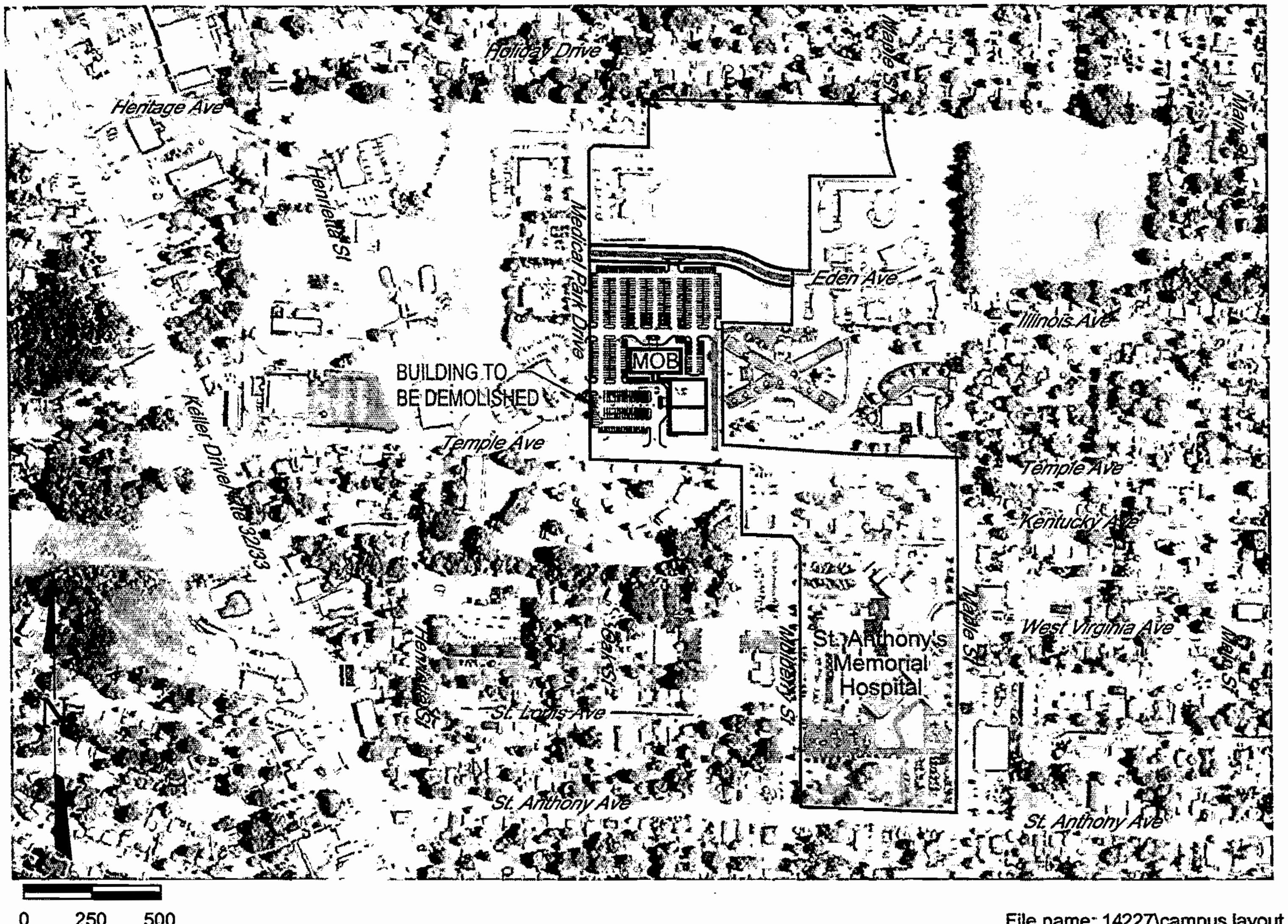
	Square Feet (dgsf)		
Program	Existing	Proposed	Met Standard
1. Express Testing	639	1,066	No Standard
2. Convenient Care	4,915	1,402	Yes
3. Imaging	4,500	5,987	Yes
4. Women's Wellness	2,619	5,031	Yes

Department/Service	Number of Key Rooms	Proposed DGSF	Proposed DGSF per Room (Average)	State Guideline/ Allowable	Difference per Key Room	Met Standard
Express Testing	4	1,066	266	NA	NA	NA
Convenient Care	4	1,402	350	800	(450)	Yes
Imaging Services						
• Radiographic	1	998	998	1,300	(302)	Yes
• Fluoroscopic	1	998	998	1,300	(302)	Yes
• Ultrasound	2		800	900	(100)	Yes
• CT	1		1,195	1,800	(605)	Yes
• MRI	1		1,195	1,800	(605)	Yes
Women's Wellness						
• Mammography	2	1,256	628	900	(272)	Yes
• Ultrasound	1	628	628	900	(272)	Yes
• Stereotactic	1	628	628	900 *	(272)	Yes
• Dexa	1	628	628	900 *	(272)	Yes
• Exam / Prep	3	628	628	800 **	(172)	Yes

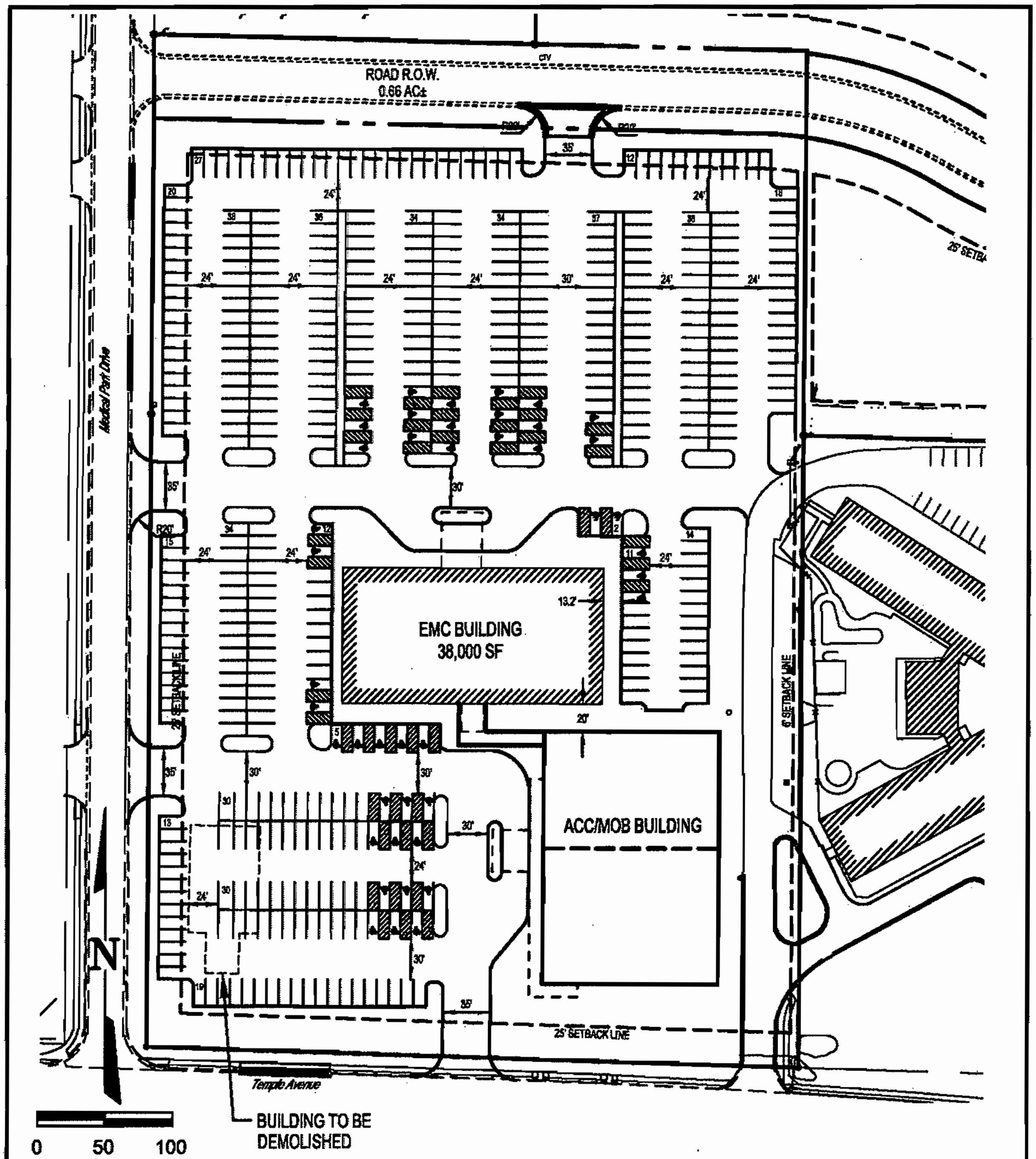
* No State Guideline; assumed to be same as mammography benchmark

** No State Guideline; assumed to be same as outpatient benchmark

HOSPITAL CAMPUS



File name: 14227\campus layout.dwg

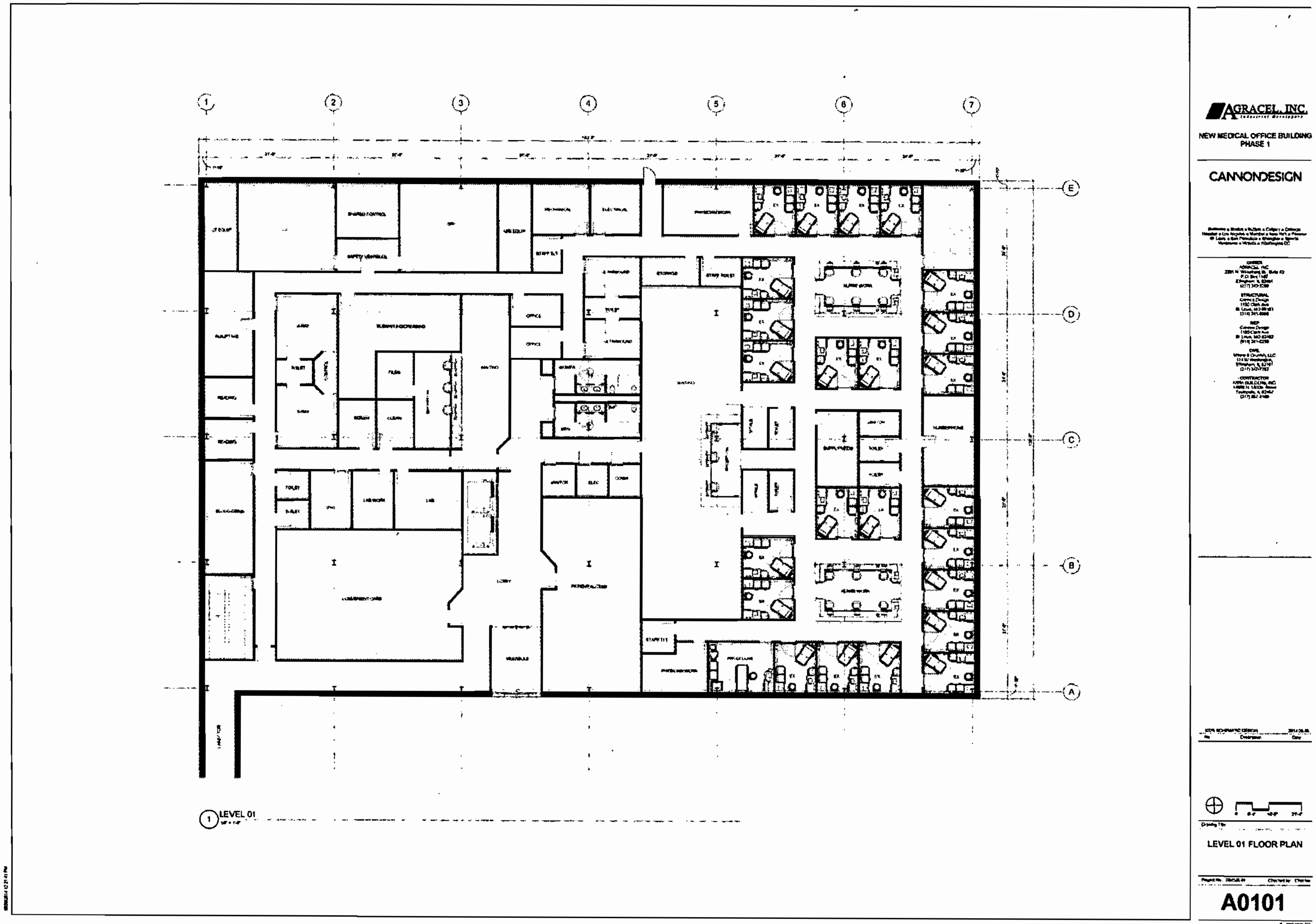


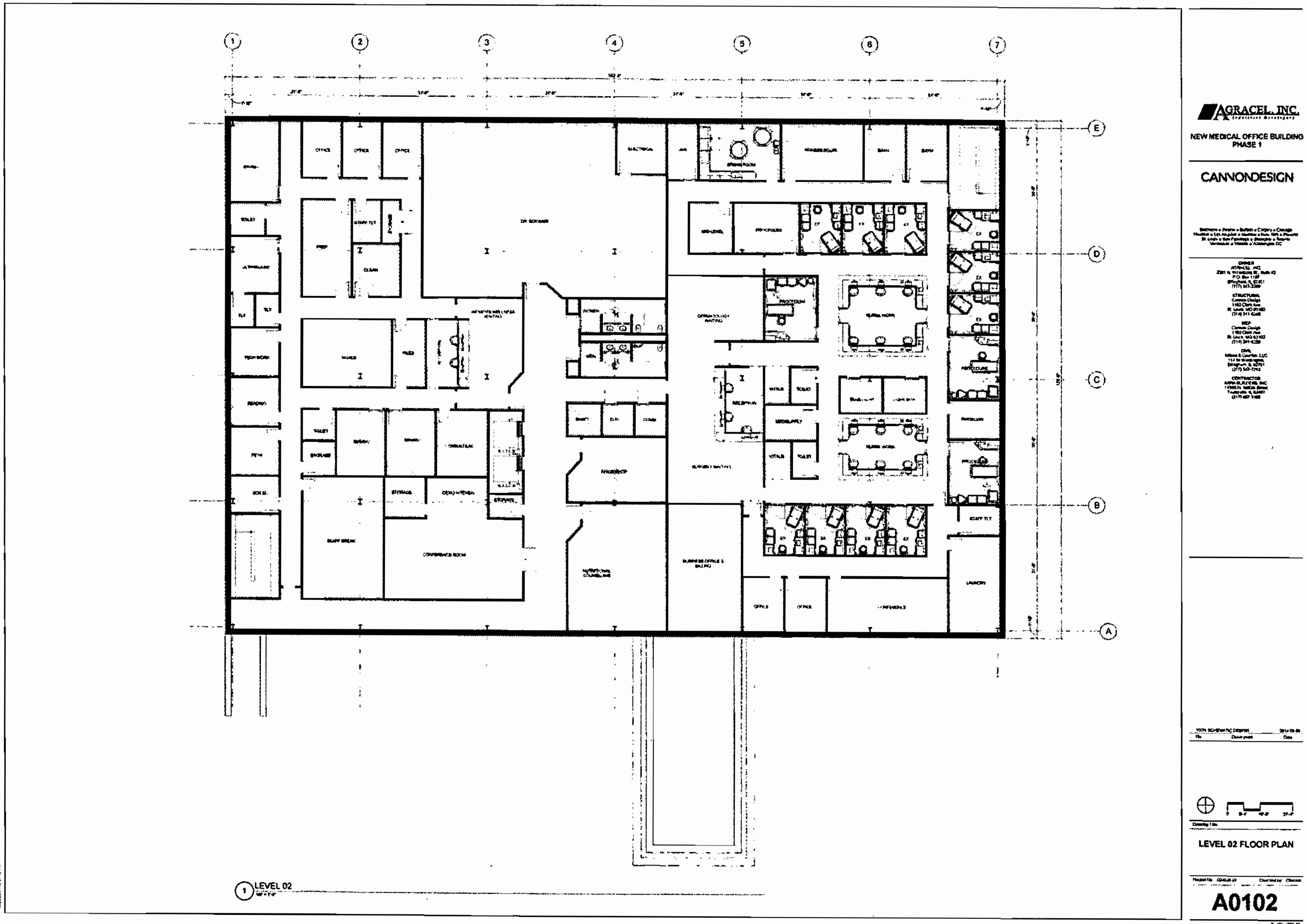
MILANO & GRUNLOH ENGINEERS, LLC
114 WEST WASHINGTON
P.O. BOX 897
EFFINGHAM, ILLINOIS 62401
Phone: (217) 347-7262
(800) 677-2714
Fax #: (217) 342-3433
Web Address: www.mgengineers.com
Design Firm #: 184-003108

LAYOUT
MEDICAL OFFICES
EFFINGHAM, ILLINOIS

File name: 14227\layout.dwg

Plot date: 10/20/14


AGRACEL, INC.
NEW MEDICAL OFFICE BUILDING
PHASE 1
CANNONDESIGN
LEVEL 01 FLOOR PLAN
A0101
LEVEL 01


AGRACEL, INC.
NEW MEDICAL OFFICE BUILDING PHASE 1
CANNONDESIGN
LEVEL 02 FLOOR PLAN
A0102
LEVEL 02

SECTION IV - PROJECT SCOPE, UTILIZATION, AND UNFINISHED/SHELL SPACE

Criterion 1110.234 - Project Scope, Utilization, and Unfinished/Shell Space

READ THE REVIEW CRITERION and provide the following information:

PROJECT SERVICES UTILIZATION:

This criterion is applicable only to projects or portions of projects that involve services, functions or equipment for which HFSRB has established utilization standards or occupancy targets in 77 Ill. Adm. Code 1100.

Document that in the second year of operation, the annual utilization of the service or equipment shall meet or exceed the utilization standards specified in 1110.Appendix B. **A narrative of the rationale that supports the projections must be provided.**

A table must be provided in the following format with Attachment 15.

UTILIZATION					
	DEPT./ SERVICE	HISTORICAL UTILIZATION (PATIENT DAYS) (TREATMENTS) ETC.	PROJECTED UTILIZATION	STATE STANDARD	MET STANDARD?
YEAR 1					
YEAR 2					

APPEND DOCUMENTATION AS ATTACHMENT-15, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE. APPLICATION FORM.

Project Services Utilization

Year *	Dept./ Service	Historical Utilization	Projected Utilization	State Standard	Met Standard
	Convenient Care (4 exams)				
Historical		5,760			
1		--	6,284	2,000 visits / exam room	Yes
2		--	6,480		Yes
	Imaging Radiology (1 unit)		--		
Historical	Marshall Clinic and EMC	3,936			
1		--	4,300	8,000 proc. / unit	Yes
2		--	4,430		Yes
	R/F (1 unit)				
Historical	(10% Hosp. OPD volume)	2,190	--		
1		--	2,324	6,500 proc. / unit	Yes
2		--	2,370		Yes
	Ultrasound (2 units)				
Historical		3,250	--		
1		--	3,550	3,100 visits / unit	Yes
2		--	3,660		Yes
	CT (1 unit)				
Historical		7,886	--		
1		--	8,620	7,000 visits / unit	Yes
2		--	8,875		Yes
	MRI (Open) (1 unit)				
Historical		3,050	--		
1		--	3,236	2,500 visits / unit	Yes
2		--	3,330		Yes

Year *	Dept./ Service	Historical Utilization	Projected Utilization	State Standard	Met Standard
	Women's Wellness Mammography (2 units)				
Historical		6,197	--		--
1		--	6,708	5,000 visits / unit	Yes
2		--	6,842		Yes
	Ultrasound (1 unit)				
Historical		673			
1			830	3,100 visits / unit	Yes
2			870		
	Stereotactic (1 unit)				
Historical		42	--		
1		--	49	NA	Yes
2		--	51	NA	Yes
	Dexa (1 unit)				
Historical		832	--	--	--
1		--	1,048	NA	Yes
2		--	1,132	NA	Yes
	Exam / Prep (3 exam rooms)				
Historical		7,073			
1		--	7,506	2,000 visits / exam room	Yes
2		--	7,656		Yes

* Year Historical utilization is for 2013. Years 1 and 2 are 2017 and 2018, the projected first full two years of operation after ACC/POB completion.

SECTION VII - SERVICE SPECIFIC REVIEW CRITERIA

This Section is applicable to all projects proposing establishment, expansion or modernization of categories of service that are subject to CON review, as provided in the Illinois Health Facilities Planning Act [20 ILCS 3960]. It is comprised of information requirements for each category of service, as well as charts for each service, indicating the review criteria that must be addressed for each action (establishment, expansion and modernization). After identifying the applicable review criteria for each category of service involved , read the criteria and provide the required information, AS APPLICABLE TO THE CRITERIA THAT MUST BE ADDRESSED:

A. Criterion 1110.530 - Medical/Surgical, Obstetric, Pediatric and Intensive Care

1. Applicants proposing to establish, expand and/or modernize Medical/Surgical, Obstetric, Pediatric and/or Intensive Care categories of service must submit the following information: Not Applicable

2. Indicate bed capacity changes by Service: Indicate # of beds changed by action(s): No Bed Changes

Category of Service	# Existing Beds	# Proposed Beds
☐ **Medical/Surgical**		
☐ **Obstetric**		
☐ **Pediatric**		
☐ **Intensive Care**		

3. READ the applicable review criteria outlined below and **submit the required documentation for the criteria:**

APPLICABLE REVIEW CRITERIA	Establish	Expand	Modernize
1110.530(b)(1) - Planning Area Need - 77 Ill. Adm. Code 1100 (formula calculation)	X		
1110.530(b)(2) - Planning Area Need - Service to Planning Area Residents	X	X	
1110.530(b)(3) - Planning Area Need - Service Demand - Establishment of Category of Service	X		
1110.530(b)(4) - Planning Area Need - Service Demand - Expansion of Existing Category of Service		X	
1110.530(b)(5) - Planning Area Need - Service Accessibility	X		
1110.530(c)(1) - Unnecessary Duplication of Services	X		
1110.530(c)(2) - Maldistribution	X	X	
1110.530(c)(3) - Impact of Project on Other Area Providers	X		
1110.530(d)(1) - Deteriorated Facilities			X
1110.530(d)(2) - Documentation			X

APPLICABLE REVIEW CRITERIA	Establish	Expand	Modernize
1110.530(d)(3) - Documentation Related to Cited Problems			X
1110.530(d)(4) - Occupancy			X
110.530(e) - Staffing Availability	X	X	
1110.530(f) - Performance Requirements	X	X	X
1110.530(g) - Assurances	X	X	X
APPEND DOCUMENTATION AS <u>ATTACHMENT-20,</u> IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.			

<u>Not Applicable</u>

O. Criterion 1110.3030 - Clinical Service Areas Other than Categories of Service

1. Applicants proposing to establish, expand and/or modernize Clinical Service Areas Other than Categories of Service must submit the following information:
2. Indicate changes by Service: Indicate # of key room changes by action(s):

Service	# Existing Key Rooms	# Proposed Key Rooms
☐ *		
☐		
☐		

3. READ the applicable review criteria outlined below and **submit the required documentation for the criteria:**

:

PROJECT TYPE	REQUIRED REVIEW CRITERIA	
New Services or Facility or Equipment	(b) −	Need Determination − Establishment
Service Modernization	(c)(1) −	Deteriorated Facilities
		and/or
	(c)(2) −	Necessary Expansion
		PLUS
	(c)(3)(A) −	Utilization − Major Medical Equipment
		Or
	(c)(3)(B) −	Utilization − Service or Facility

APPEND DOCUMENTATION AS ATTACHMENT-34, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

* See Attachment 34, Exhibit 1 for key room profile.

Background

St. Anthony's Memorial Hospital was developed as an inpatient facility. In general, the existing facilities are functionally oriented to provide inpatient services and not outpatient / ambulatory care on an effective and efficient basis consistent with healthcare trends, health reform initiatives, and ACA precepts.

In response to changing care delivery patterns emphasizing ambulatory care, the Hospital has, over the years, developed several outpatient / ambulatory care delivery sites both on and off campus (see Attachment 11, Hospital Property). These various sites are both owned and leased. This ACC/POB project proposes to replace and co-locate certain select outpatient clinical services in a centralized on-campus location to improve efficiency, enhance access, and encourage coordinated care between independent providers including the Hospital and physicians.

The Affordable Care Act (ACA) encourages preventative care and population health management to improve community health status. Although subject to some disagreement amongst healthcare professionals, expanded coverage for care under the ACA is expected to place an ever-increasing burden on hospital emergency departments. In addition, the complementary emphasis on improving population health and encouraging preventative care is expected to increase the demand for ambulatory / outpatient care programs. Ambulatory care focused facility development will provide for a better care delivery model than the "traditional" inpatient facility emphasis now in place.

Healthcare reform is a mixed blessing for hospitals. Increased insurance coverage is anticipated to accelerate care delivery models which emphasize ambulatory and preventative care while deemphasizing inpatient care. However, the ACA also limits reimbursement. Thus, the implications for a hospital are not only related to transforming its care delivery model, but also providing care as efficiently and effectively as possible. A major trend encouraged by the ACA is the development of ambulatory care centers which focus on outpatient and physician care delivery models. The face of ambulatory care is changing in great part due to the Affordable Care Act.

Project Type

The ambulatory care center and physician office building (ACC/POB) will be on the Hospital campus and provide space for relocating, replacing, and consolidating select existing ambulatory / outpatient services and leased physician office suites in a centralized location. Thus, under the Review Board rules, it is best classified as a non-substantive modernization program.

The relocation can be best defined as being necessary to respond to changes in healthcare industry patient care delivery trends.

Clinical Services Areas (CSA's)

Introduction

These various existing clinical service areas were determined to be of the highest priority for facility development. Future utilization is based on various strategic and business analysis as well as conservative financial modeling predicated on historical utilization and Hospital experience. The stated historical utilization is typically based on 2013 outpatient / ambulatory care program volume as the primary base for projected utilization (see also Attachment 34, Exhibit 1), but also select 2014 data where applicable.

1. Convenient Care

This relatively new Hospital program functions as a walk-in clinic. Its' intent is to enhance access and potentially reduce the current demand for emergency services. The program currently operates 5 hours per day and will be expanding to 8 hours per day. The historical 2014 volume is estimated based on current experience as extrapolated.

Utilization (visits)		
Year	Current	Projected
2014	5,760	--
--	--	--
2017	--	6,284
2018	--	6,480

Projection Assumption

Growth assumes an average annual 3.0 percent (CAGR) conservative growth pattern based on historical trends and internal financial modeling.

2. Express Testing (Laboratory)

This program is located at various Hospital sites and serves to collect required patient samples. Processing is very limited and the majority of the collected specimens are referred to the Hospital and other laboratories for more sophisticated testing.

Utilization (Visits)		
Year	Current	Projected
2013	39,700	--
--	--	--
2017	--	42,130
2018	--	42,970

Projection Assumption

The new ACC/POB, if in operation, is estimated to have had approximately 45,150 patient visits in 2014. Based on Hospital experience, approximately 88 percent of these visits would have resulted in a laboratory specimen collection of some type. The expected annual growth is conservatively 2 percent (CAGR) based on internal financial modeling.

3. Imaging

These select existing imaging services support an ambulatory care delivery model and exist in leased Marshall Clinic space, the Effingham Medical Center (EMC), the Convenient Care Diagnostic Center (801 W. Temple), and the Open MRI and Diagnostic Center (902 W. Temple). The replacement and co-location of these imaging services with existing physician offices in the EMC, and new leased physician offices in the ACC/POB facility, will enhance ambulatory care delivery. The vacated EMC space will be leased for independent physician offices (non-clinical) as will the vacated space in 801 W. Temple. Vacated Hospital space will be utilized to improve patient flows / way finding and the Open MRI Building (902 W. Temple) will be demolished.

a. General Radiology

Utilization (Procedures)		
Year	Current	Projected
2014	3,936	--
--	--	--
2017	--	4,300
2018	--	4,430

Projection Assumption

Growth assumes an annual 3 percent (CAGR) conservative growth pattern based on historical trends and internal financial modeling.

b. Radiographic / Fluoroscopic

Utilization (Procedures)		
Year	Current	Projected
2013	2,190	--
--	--	--
2017	--	2,324
2018	--	2,370

Projection Assumption

Growth assumes an annual 2 percent (CAGR) conservative growth pattern based on historical trends and internal financial modeling.

c. Ultrasound

Utilization (Visits)		
Year	Current	Projected
2013	3,250	--
--	--	--
2017	--	3,550
2018	--	3,660

Projection Assumption

Growth assumes an annual 3 percent (CAGR) conservative growth pattern based on historical trends and internal financial modeling.

d. Computerized Tomography (CT)

Utilization		
Year	Current	Projected
2013	7,886	--
--	--	--
2017	--	8,620
2018	--	8,875

Projection Assumption

Growth assumes an annual 3 percent (CAGR) conservative growth pattern based on historical trends and internal financial modeling.

e. Magnetic Resonance Imaging (MRI)

Utilization		
Year	Current	Projected
2013	3,050	--
--	--	--
2017	--	3,236
2018	--	3,330

Projection Assumption

Growth assumes an annual 3 percent (CAGR) conservative growth pattern based on historical trends and internal financial modeling.

4. Women's Wellness

This program serves to support key clinical services associated primarily with women's diseases; in particular breast health and bone disease (osteoporosis). The key services are diagnostic and pre-therapeutic. In addition, specialty services are provided in support of those women undergoing treatment for cancer related diseases.

a. Mammography

Utilization		
Year	Current	Projected
2013	6,197	--
--	--	--
2017	--	6,708
2018	--	6,842

Projection Assumption

Growth assumes an annual 2 percent (CAGR) conservative growth pattern based on historical trends and internal financial modeling.

b. Ultrasound

Utilization (Visits)		
Year	Current	Projected
2013	673	--
--	--	--
2017	--	830
2018	--	870

Projection Assumption

Growth assumes an annual 5 percent (CAGR) conservative growth pattern based on historical trends and internal financial modeling.

c. Stereotactic Biopsy

Utilization (Visits)		
Year	Current	Projected
2014	42	--
--	--	--
2017	--	49
2018	--	51

Projection Assumption

Growth assumes an annual 5 percent (CAGR) conservative growth pattern based on historical trends and internal financial modeling.

d. Dexa Scan (Bone Densitometry)

Utilization (Procedures)		
Year	Current	Projected
2014	832	--
--	--	--
2017	--	1,048
2018	--	1,132

Projection Assumption

Growth assumes an annual 8 percent (CAGR) conservative growth rate pattern for this bone density exam given an aging population with decalcification syndromes (osteoporosis). The projection is conservative based on trends and internal financial modeling.

e. Exam Rooms

Utilization (Visits)		
Year	Current	Projected
2013	7,073	--
--	--	--
2017	--	7,506
2018	--	7,656

Projection Assumption

Growth assumes an annual 2 percent (CAGR) conservative growth pattern based on historical trends and internal financial modeling

Criterion 1110.3030

Key Room Profile

Clinical Service Areas Other Than Categories of Service

(Outpatient Related to new ACC/POB)

Clinical Service Area	Existing Key Rooms *	Proposed New Key Rooms	Total Key Rooms	Variance	Comments
Convenient Care					
• Exam Room	4	4	4	0	Relocated
Express Testing					
(Laboratory)	NA	3	3	3	Outpatient draw and specimen collection
Imaging					
• Gen Rad	1	1	1	0	Relocated
• Rad / Fluoro	1	1	1	0	Relocated
• Ultrasound	2	2	2	0	Relocated
• CT	1	1	1	0	Relocated
• MRI	1	1	1	0	Building to be demolished
Women's Wellness					
• Mammography	2	2	2	0	Relocated
• Ultrasound	2	1	1	(1)	Relocated
• Stereotactic	1	1	1	0	Relocated
• Dexa	1	1	1	0	Relocated
• Exam	4	3	3	(1)	Relocated

* Ambulatory care related; current locations include Hospital, Marshall Clinic, Effingham Medical Center (EMC), and open MRI.

VIII. - 1120.120 - Availability of Funds

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

This section is not applicable. Hospital Sisters Health System's bonds have been rated by Fitch as AA- and by Standard& Poor's as AA- which qualifies the applicants for the waiver. Bond rating letters are appended as Attachment 34, Exhibit. 1.

$3,111,529	a) Cash and Securities – statements (e.g., audited financial statements, letters from financial institutions, board resolutions) as to: 1) the amount of cash and securities available for the project, including the identification of any security, its value and availability of such funds; and 2) interest to be earned on depreciation account funds or to be earned on any asset from the date of applicant's submission through project completion;
_______	b) Pledges – for anticipated pledges, a summary of the anticipated pledges showi g anticipat d receipts and discounted value, estimated time table of gross receipts and relat d undraising expenses, and a discussion of pa t fundra sin experience.
_______	c) Gifts and Bequests – verification of the dollar amount, identification of any conditions of use, and the estimated time table of receipts;
_______	d) Debt – a statement of the estimated terms and conditions (including the debt time period, variable or permanent interest rates over the debt time period, and the anticipated repayment schedule) for any interim and for the permanent financing proposed to fund the project, including: 1) For general obligation bonds, proof of passage of the required referendum or evidence that the governmental unit has the authority to issue the bonds and evidence of the dollar amount of the issue, including any discounting anticipated; 2) For revenue bonds, proof of the feasibility of securing the specified amount and interest rate; 3) For mortgages, a letter from the prospective lender attesting to the expectation of making the loan in the amount and time indicated, including the anticipated interest rate and any conditions associated with the mortgage, such as, but not limited to, adjustable interest rates, balloon payments, etc.; 4) For any lease, a copy of the lease, including all the terms and conditions, including any purchase options, any capital improvements to the property and provision of capital equipment; 5) For any option to lease, a copy of the option, including all terms and conditions.
_______	e) Governmental Appropriations – a copy of the appropriation Act or ordinance accompanied by a statement of funding availability from an official of the governmental unit. If funds are to be made available from subsequent fiscal years, a copy of a resolution or other action of the governmental unit attesting to this intent;
_______	f) Grants – a letter from the granting agency as to the availability of funds in terms of the amount and time of receipt;
_______	g) All Other Funds and Sources – verification of the amount and type of any other funds that will be used for the project.
$3,111,529	**TOTAL FUNDS AVAILABLE** (exclusive of FMV)

APPEND DOCUMENTATION AS ATTACHMENT-36, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

Bond Rating Letters

1. Fitch
2. Standard & Poors

Fitch Ratings

33 Whitehall Street
New York, NY 10004

T 212 908 0500 / 800 75 FITCH
www.fitchratings.com

October 22, 2014

Ms. Ann M. Carr
Vice President and Treasurer
Hospital Sisters Services Inc.
4936 LaVerna Road
Springfield, IL 62707

Dear Ms. Carr:

Fitch Ratings has assigned one or more ratings and/or otherwise taken rating action(s), as detailed in the attached Notice of Rating Action.

In issuing and maintaining its ratings, Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction.

The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors.

Users of Fitch's ratings should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings can be affected by future events or conditions that were not anticipated at the time a rating was issued or affirmed.

Fitch seeks to continuously improve its ratings criteria and methodologies, and periodically updates the descriptions on its website of its criteria and methodologies for securities of a given type. The criteria and methodology used to determine a rating action are those in effect at the time the rating action is taken, which for public ratings is the date of the related rating action commentary. Each rating action commentary provides information about the criteria and methodology used to arrive at the stated rating, which may differ from the general criteria and methodology for the applicable security type posted on the website at a given time. For this reason, you should always consult the applicable rating action commentary for the most accurate information on the basis of any given public rating.

Ratings are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only.

Ratings are not a recommendation or suggestion, directly or indirectly, to you or any other person, to buy, sell, make or hold any investment, loan or security or to undertake any investment strategy with respect to any investment, loan or security or any issuer. Ratings do not comment on the adequacy of market price, the suitability of any investment, loan or security for a particular investor (including without limitation, any accounting and/or regulatory treatment), or the tax-exempt nature or taxability of payments made in respect of any investment, loan or security. Fitch is not your advisor, nor is Fitch providing to you or any other party any financial advice, or any legal, auditing, accounting, appraisal, valuation or actuarial services. A rating should not be viewed as a replacement for such advice or services.

The assignment of a rating by Fitch does not constitute consent by Fitch to the use of its name as an expert in connection with any registration statement or other filings under US, UK or any other relevant securities laws. Fitch does not consent to the inclusion of its ratings nor this letter communicating our rating action in any offering document.

It is important that you promptly provide us with all information that may be material to the ratings so that our ratings continue to be appropriate. Ratings may be raised, lowered, withdrawn, or placed on Rating Watch due to changes in, additions to, accuracy of or the inadequacy of information or for any other reason Fitch deems sufficient.

Nothing in this letter is intended to or should be construed as creating a fiduciary relationship between Fitch and you or between us and any user of the ratings.

In this letter, "Fitch" means Fitch, Inc. and Fitch Ratings Ltd and any subsidiary of either of them together with any successor in interest to any such person.

We are pleased to have had the opportunity to be of service to you. If we can be of further assistance, please feel free to contact us at any time.

Jeff Schaub
Managing Director, Operations
U.S. Public Finance /
Global Infrastructure & Project Finance

JS/mb

Enc: Notice of Rating Action
(Doc ID: 195170)

Notice of Rating Action

Bond Description	Rating Type	Action	Rating	Outlook/ Watch	Eff Date	Notes
Wisconsin Health & Educational Facilities Authority (WI) (Hospital Sisters Services, Inc. - Obligated Group) rev rfdg bonds ser 2014A	Long Term	New Rating	AA-	RO:Sta	22-Oct-2014	

Key: RO: Rating Outlook, RW: Rating Watch; Pos: Positive, Neg: Negative, Sta: Stable, Evo: Evolving

(Doc ID: 195170)

STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

130 East Randolph Street
Suite 2900
Chicago, IL 60601
tel 312-233-7000
reference no.: 1364495

October 22, 2014

Hospital Sisters Health System
P.O. Box 19456
4936 Laverna Road
Springfield, IL 62707-9456
Attention: Ms. Ann M. Carr, Vice President and Treasurer

Re: ***US$180,000,000 Hospital Sisters Services, Inc., Illinois, Revenue Refunding Bonds, Series 2014, dated: Date of delivery, due: November 13, 2054***

Dear Ms. Carr:

Pursuant to your request for a Standard & Poor's Ratings Services ("Ratings Services") rating on the above-referenced obligations, Ratings Services has assigned a rating of "AA-". Standard & Poor's views the outlook for this rating as stable. A copy of the rationale supporting the rating is enclosed.

This letter constitutes Ratings Services' permission for you to disseminate the above-assigned ratings to interested parties in accordance with applicable laws and regulations. However, permission for such dissemination (other than to professional advisors bound by appropriate confidentiality arrangements) will become effective only after we have released the rating on standardandpoors.com. Any dissemination on any Website by you or your agents shall include the full analysis for the rating, including any updates, where applicable.

To maintain the rating, Standard & Poor's must receive all relevant financial and other information, including notice of material changes to financial and other information provided to us and in relevant documents, as soon as such information is available. Relevant financial and other information includes, but is not limited to, information about direct bank loans and debt and debt-like instruments issued to, or entered into with, financial institutions, insurance companies and/or other entities, whether or not disclosure of such information would be required under S.E.C. Rule 15c2-12. You understand that Ratings Services relies on you and your agents and advisors for the accuracy, timeliness and completeness of the information submitted in connection with the rating and the continued flow of material information as part of the surveillance process. Please send all information via electronic delivery to: pubfin_statelocalgovt@standardandpoors.com. If SEC rule 17g-5 is applicable, you may post such information on the appropriate website. For any information not available in electronic format or posted on the applicable website,

Please send hard copies to:

Standard & Poor's Ratings Services
Public Finance Department
55 Water Street
New York, NY 10041-0003

PF Ratings U.S. (7/18/14)

The rating is subject to the Terms and Conditions, if any, attached to the Engagement Letter applicable to the rating. In the absence of such Engagement Letter and Terms and Conditions, the rating is subject to the attached Terms and Conditions. The applicable Terms and Conditions are incorporated herein by reference.

Ratings Services is pleased to have the opportunity to provide its rating opinion. For more information please visit our website at www.standardandpoors.com. If you have any questions, please contact us. Thank you for choosing Ratings Services.

Sincerely yours,

Standard & Poor's

Standard & Poor's Ratings Services

sf
enclosures

STANDARD & POOR'S
RATINGS SERVICES
McGRAW HILL FINANCIAL

Standard & Poor's Ratings Services
Terms and Conditions Applicable To Public Finance Credit Ratings

General. The credit ratings and other views of Standard & Poor's Ratings Services ("Ratings Services") are statements of opinion and not statements of fact. Credit ratings and other views of Ratings Services are not recommendations to purchase, hold, or sell any securities and do not comment on market price, marketability, investor preference or suitability of any security. While Ratings Services bases its credit ratings and other views on information provided by issuers and their agents and advisors, and other information from sources it believes to be reliable, Ratings Services does not perform an audit, and undertakes no duty of due diligence or independent verification, of any information it receives. Such information and Ratings Services' opinions should not be relied upon in making any investment decision. Ratings Services does not act as a "fiduciary" or an investment advisor. Ratings Services neither recommends nor will recommend how an issuer can or should achieve a particular credit rating outcome nor provides or will provide consulting, advisory, financial or structuring advice. Unless otherwise indicated, the term "issuer" means both the issuer and the obligor if the obligor is not the issuer.

All Credit Rating Actions in Ratings Services' Sole Discretion. Ratings Services may assign, raise, lower, suspend, place on CreditWatch, or withdraw a credit rating, and assign or revise an Outlook, at any time, in Ratings Services' sole discretion. Ratings Services may take any of the foregoing actions notwithstanding any request for a confidential or private credit rating or a withdrawal of a credit rating, or termination of a credit rating engagement. Ratings Services will not convert a public credit rating to a confidential or private credit rating, or a private credit rating to a confidential credit rating.

Publication. Ratings Services reserves the right to use, publish, disseminate, or license others to use, publish or disseminate a credit rating and any related analytical reports, including the rationale for the credit rating, unless the issuer specifically requests in connection with the initial credit rating that the credit rating be assigned and maintained on a confidential or private basis. If, however, a confidential or private credit rating or the existence of a confidential or private credit rating subsequently becomes public through disclosure other than by an act of Ratings Services or its affiliates, Ratings Services reserves the right to treat the credit rating as a public credit rating, including, without limitation, publishing the credit rating and any related analytical reports. Any analytical reports published by Ratings Services are not issued by or on behalf of the issuer or at the issuer's request. Ratings Services reserves the right to use, publish, disseminate or license others to use, publish or disseminate analytical reports with respect to public credit ratings that have been withdrawn, regardless of the reason for such withdrawal. Ratings Services may publish explanations of Ratings Services' credit ratings criteria from time to time and Ratings Services may modify or refine its credit ratings criteria at any time as Ratings Services deems appropriate.

Reliance on Information. Ratings Services relies on issuers and their agents and advisors for the accuracy and completeness of the information submitted in connection with credit ratings and the surveillance of credit ratings including, without limitation, information on material changes to information previously provided by issuers, their agents or advisors. Credit ratings, and the maintenance of credit ratings, may be affected by Ratings Services' opinion of the information received from issuers, their agents or advisors.

PF Ratings U.S. (02/16/13)

Confidential Information. Ratings Services has established policies and procedures to maintain the confidentiality of certain non-public information received from issuers, their agents or advisors. For these purposes, "Confidential Information" shall mean verbal or written information that the issuer or its agents or advisors have provided to Ratings Services and, in a specific and particularized manner, have marked or otherwise indicated in writing (either prior to or promptly following such disclosure) that such information is "Confidential."

Ratings Services Not an Expert, Underwriter or Seller under Securities Laws. Ratings Services has not consented to and will not consent to being named an "expert" or any similar designation under any applicable securities laws or other regulatory guidance, rules or recommendations, including without limitation, Section 7 of the U.S. Securities Act of 1933. Rating Services has not performed and will not perform the role or tasks associated with an "underwriter" or "seller" under the United States federal securities laws or other regulatory guidance, rules or recommendations in connection with a credit rating engagement.

Disclaimer of Liability. Ratings Services does not and cannot guarantee the accuracy, completeness, or timeliness of the information relied on in connection with a credit rating or the results obtained from the use of such information. RATINGS SERVICES GIVES NO EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE. Ratings Services, its affiliates or third party providers, or any of their officers, directors, shareholders, employees or agents shall not be liable to any person for any inaccuracies, errors, or omissions, in each case regardless of cause, actions, damages (consequential, special, indirect, incidental, punitive, compensatory, exemplary or otherwise), claims, liabilities, costs, expenses, legal fees or losses (including, without limitation, lost income or lost profits and opportunity costs) in any way arising out of or relating to a credit rating or the related analytic services even if advised of the possibility of such damages or other amounts.

No Third Party Beneficiaries. Nothing in any credit rating engagement, or a credit rating when issued, is intended or should be construed as creating any rights on behalf of any third parties, including, without limitation, any recipient of a credit rating. No person is intended as a third party beneficiary of any credit rating engagement or of a credit rating when issued.

IX. 1120.130 - Financial Viability

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

Financial Viability Waiver **The applicant is not required to submit financial viability ratios if:** **1. "A" Bond rating or better** **2. All of the projects capital expenditures are completely funded through internal sources** **3. The applicant's current debt financing or projected debt financing is insured or anticipated to be insured by MBIA (Municipal Bond Insurance Association Inc.) or equivalent** **4. The applicant provides a third party surety bond or performance bond letter of credit from an A rated guarantor.** **See Section 1120.130 Financial Waiver for information to be provided**
APPEND DOCUMENTATION AS ATTACHMENT-37, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

Not Applicable regarding SAE / HSHS

See attached Agracel letters regarding financing of proposed development and loan commitment letter.

THE FIRST NATIONAL BANK
EST. 1909 OF DIETERICH

July 7, 2014

Effingham MOB, LLC
PO Box 1107
Effingham, IL 62401

Dear Effingham MOB, LLC or whom it may concern:

RE: MEDICAL BUILDING FINANCING

This letter is to inform you that the First National Bank of Dieterich has had conversations with representatives of St. Anthony's Hospital and Agracel, Inc. regarding the Hospital's proposed Ambulatory Care Medial Building project, and based on our understanding of the project and subject to final underwriting, the First National Bank of Dieterich would have an interest in leading a local group of financial institutions in providing financing for the approximately $20 million project.

Should you or any other associated parties have any questions, feel free to contact me. Thank you for this opportunity to work with you on this exciting project!

Sincerely,

Steve Will

Steve Will (swill@primebanc.com)
President
The First National Bank of Dieterich

DIETERICH
101 S. MAIN ST.
P.O. BOX 186
DIETERICH, IL 62424
217.925.5225

NEWTON
1108 S. VAN BUREN ST.
P.O. BOX 335
NEWTON, IL 62448
618.783.8300

NATIONAL TRAIL
1510 E. FAYETTE AVE.
P.O. BOX 6010
EFFINGHAM, IL 62401
217.857.1313

LAKE SARA
10911 E. STATE HWY. 33
EFFINGHAM, IL 62401
217.868.5995

EFFINGHAM
510 W. FAYETTE ST
P.O. BOX 1248
EFFINGHAM, IL 62401
217.540.1000

RED BUD
115 W. Market St.
P.O. BOX 145
RED BUD, IL 62278
618.282.3861

BELLEVILLE
2100 S. ILLINOIS ST.
BELLEVILLE, IL 62220
618.277.3800

www.primebanc.com

THE FIRST NATIONAL BANK
EST. 1909 OF DIETERICH

DIETERICH
101 S. MAIN ST.
P.O. BOX 186
DIETERICH, IL 62424
217.925.5225

NEWTON
1108 S. VAN BUREN ST.
P.O. BOX 335
NEWTON, IL 62448
618.783.8300

NATIONAL TRAIL
1510 E. FAYETTE AVE.
P.O. BOX 6010
EFFINGHAM, IL 62401
217.857.1313

LAKE SARA
10911 E. STATE HWY. 33
EFFINGHAM, IL 62401
217.868.5995

EFFINGHAM
510 W. FAYETTE ST
P.O. BOX 1248
EFFINGHAM, IL 62401
217.540.1000

RED BUD
115 W. Market St.
P.O. BOX 145
RED BUD, IL 62278
618.282.3861

BELLEVILLE
2100 S. ILLINOIS ST.
BELLEVILLE, IL 62220
618.277.3800

October 23, 2014

Effingham MOB, LLC
c/o Mike Mumm
2201 N. Willenborg St., Suite #2
Effingham, IL 62401

Re: Commercial real estate term loan between The First National Bank Dieterich (Lender or Bank) and Effingham MOB, LLC (Borrower)

Dear Effingham MOB, LLC:

It is our pleasure to provide the following terms to Effingham MOB, LLC for the below mentioned purpose. We look forward to a mutually rewarding relationship and ask you to consider us for additional banking services. This commitment is subject to the following terms, and final approval of the Bank's loan committee.

Purpose: To finance the construction of a 44,728 square foot medical building on 1.5 acres in Effingham, Illinois (collateral property).

Terms:

Amount: $8,169,818.00 initially subject to total cost and appraisal*.

Rate: Fixed for initial term at 3.74%#.

Term/Amort: 69 month initial term; loan will initially be structured as a closed in line of credit for the initial nine months; in the 10th month, loan will covert to monthly principal and interest payments for remainder of term based on a 20 year amortization. Assuming loan has performed per the note terms, and not deteriorated significantly in quality, loan will be renewable at maturity at rate tied to the like (five year) treasury rate plus 250 basis points. Future rate adjustments will not be any higher than 3.0% over the immediately previous rate, and at no time will the renewal rate be below 3.5% or above 10%

Payment: Monthly payments of interest only during initial nine month line of credit phase followed by 60 monthly payments of principal and interest to fully amortize the loan at the above amount, rate and term.

Fee: A .1 of 1% (approximately $8,169.82)) of the loan amount origination fee will be charged plus any applicable third party fees.

Prepayment penalty:

If this loan is paid off early via refinance with another Lender, a prepayment penalty will be assessed as per the following schedule:

- If the loan is paid off in the first 12 months after the date of this document, a penalty in the amount of 3% of the original loan amount be will be assessed

w w w . p r i m e b a n c . c o m

- If the loan is paid off in the first 24 months after the date of this document, a penalty in the amount of 2% of the original loan amount be will be assessed
- If the loan is paid off in the first 36 months after the date of this document, a penalty in the amount of 1% of the original loan amount be will be assessed

The prepayment penalty will not be assessed if the loan is paid off early via the sale of the collateral securing the loan or by normal cash flow from operations of the borrower.

Collateral: The First National Bank of Dieterich will secure the credit with the following collateral:

* Verified first mortgage lien against collateral real property in Effingham, Illinois inclusive of Lender's rights to take Borrower's place on ground lease if necessary to protect collateral interest and liquidate collateral
* Assignment of rents on above property

Appraisal: An appraisal by a third party appraiser of the Lender's choice will be required. Said appraisal will be done based on an as completed basis. Loan amount not to exceed 80% of said appraised value or 75% of costs.

Guarantee: TBD based on final loan terms and underwriting conditions.

Title: Prior to the closing we will require evidence of clear title to the collateral via a title commitment provided by a title company of the Lender's choice

Insurance: Evidence of insurance coverage in an amount satisfactory to the Bank will be submitted prior to closing, showing the Lender as primary lien holder and loss payee.

Costs: All applicable costs, including but not limited to legal fees, filing fees, appraisal costs, lien search fees, title costs, origination fees and any other out-of-pocket costs will be your responsibility.

Other:

- Loan approval contingent on final approval of the Bank's Directors' Loan Committee.
- Final approval may also be contingent on Lender acquiring participating lenders and their approval of loan terms.
- Annual financial statements on Borrower to be provided to Lender.
- Annual rent rolls to be provided to Lender.
- Lender to be provided with copies of all applicable executed leases
- Borrower agrees to not pay any dividends, distributions, or any other sort of payments to owners, members, etc. if said causes annualized debt service coverage to fall below 1.05X without prior written approval of lender.
- Borrower must remain in good standing at all times loan is outstanding.
- Borrower required to maintain a depository account with the First National Bank of Dieterich.

Financial Covenants: This commitment is issued based upon information provided (or to be provided) by you to the Bank. You hereby warrant that the information submitted is an accurate representation of the facts and any material adverse change in your financial condition or the information provided prior to the first advance is reason for the Bank to render this commitment invalid. You hereby agree to execute and deliver such instruments, documents, certificates, opinions, assurances, and actions as we may request, to effect the purpose of the transaction described in this commitment letter. Our obligation to make the loan shall be subject to receipt by us of properly executed documents in form and substance satisfactory to us and our counsel. All proceedings, agreements, instruments, documents and other matters relating to the making of the loan, and all other transactions herein contemplated, shall be satisfactory to us and to our counsel.

Expiration: Subject to final underwriting, this commitment is valid until March 31, 2015. The above rate quote is valid until November 15, 2014. After that time, the rate will be equal to the then current five year treasury as a constant maturity plus 215 basis points subject to the above mentioned rate floor and ceiling#. After that, this commitment may be extended at Lender's option.

Thank you very much for the opportunity to provide the above terms to you, and I look forward to working with you. Feel free to contact me if you have any questions or concerns.

Respectfully,

FIRST NATIONAL BANK OF DIETERICH

Steve Will

Steve Will
President

ACCEPTANCE OF TERMS

I/we hereby accept the terms and conditions of this commitment letter (please keep the letter marked "copy" for your records and return the original documents).

BORROWER:

Effingham MOB, LLC.

_______________________________________ ______________
Authorized signer for **Effingham MOB, LLC** Date

____
Printed name and title of above authorized signer

3

IX. 1120.130 - Financial Viability

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

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

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

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

2. Variance

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

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

Not applicable regarding HSHS / SAE

Agracel will fund the project through debt based on leases from SAE and the Marshall Clinic. There is no financial risk to SAE or HSHS. (See attestation letter attached and also in Narrative)

AGRACEL, INC.
Industrial Developers
P.O. Box 1107, Effingham, IL 62401
Ph. 217-342-4443 • Fx. 217-342-3299 • www.agracel.com

June 2, 2014

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

Re: Attestation Letter
St. Anthony's Professional Office Building

Dear Ms. Avery,

This letter attests to the following facts pertaining to our proposed development on the St. Anthony Memorial Hospital campus in Effingham, Illinois.

Agracel, Inc. as Manager of Effingham MOB, LLC. is an independent third-party from St. Anthony Memorial Hospital. Effingham MOB, LLC is an independent third party from St. Anthony Memorial Hospital.

Agracel, Inc. is proposing to develop an 84,800 square foot medical office building on the campus of St. Anthony Memorial Hospital of which St. Anthony Memorial Hospital would be a tenant occupying approximately 24% of the gross rentable space. Agracel, Inc. along with its other independent investors will fund the development of the project and St. Anthony Hospital will have no risk or provide any guarantees for the development other than the lease of its space from Effingham MOB, LLC.

Effingham MOB, LLC will lease the land necessary for the development of the MOB from St. Anthony Memorial Hospital at a market rate determined by an independent appraisal.

The total project cost for the proposed MOB development is estimated to cost approximately $18 million dollars of which St. Anthony's portion is estimated to be 28% or just over $5 million dollars. The balance of the space will be occupied by a number other physician groups, most of which already occupy space in Effingham County.

We look forward to the opportunity of this development and would be glad to provide any additional information necessary. You can reach me at 217-342-4443 or dbingham@agracel.com.

The CAN DO! Co.

Sincerely,

R. Dean Bingham
President
Agracel, Inc., Manager Effingham MOB, LLC

Notorization:

Subscriber and sworn to before me this 2nd day June, 2014.

Sharon K. Harper

Signature of Notary

Seal

OFFICIAL SEAL
SHARON K HARPER
NOTARY PUBLIC, STATE OF ILLINOIS
MY COMMISSION EXPIRES 5/15/17

X. 1120.140 - Economic Feasibility

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

A. Reasonableness of Financing Arrangements

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

1) That the total estimated project costs and related costs will be funded in total with cash and equivalents, including investment securities, unrestricted funds, received pledge receipts and funded depreciation; or

2) That the total estimated project costs and related costs will be funded in total or in part by borrowing because:

A) A portion or all of the cash and equivalents must be retained in the balance sheet asset accounts in order to maintain a current ratio of at least 2.0 times for hospitals and 1.5 times for all other facilities; or

B) Borrowing is less costly than the liquidation of existing investments, and the existing investments being retained may be converted to cash or used to retire debt within a 60-day period.

B. Conditions of Debt Financing

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

1) That the selected form of debt financing for the project will be at the lowest net cost available;

2) That the selected form of debt financing will not be at the lowest net cost available, but is more advantageous due to such terms as prepayment privileges, no required mortgage, access to additional indebtedness, term (years), financing costs and other factors;

3) That the project involves (in total or in part) the leasing of equipment or facilities and that the expenses incurred with leasing a facility or equipment are less costly than constructing a new facility or purchasing new equipment.

C. **Reasonableness of Project and Related Costs**

Read the criterion and provide the following:

1.Identify each department or area impacted by the proposed project and provide a cost and square footage allocation for new construction and/or modernization using the following format (insert after this page).
2.

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

D. Projected Operating Costs

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

E. Total Effect of the Project on Capital Costs

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

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

D. Projected Operating Costs

	Year 1	Year 2
Equivalent Patient Days	$ 52,000.00	$ 52,000.00
Direct Expense	3,310,671.00	3,470,230.00
Direct Expense per Equivalent Day	$63,667.00	$66,735.00

E. Total Effect of the Project on Capital Costs

	Year 1	Year 2
Capital *	$ 3,311,529.00	$ 0.00
Capital Cost per Equivalent Day	59.84	0.00
Depreciation	536,948.00	536,948.00
Depreciation per Equivalent Day	$ 10.33	$ 10.33

* Note: The SAE capital expense will be allocated to year one operations yet the depreciation will occur over a longer time horizon.

	Cost and Gross Square Feet by Department or Service								
	A	B	C	D	E	F	G	H	Total Cost
	Cost / Square Foot		Gross Square Feet		Gross Square Feet		Const. Cost	Mod. Cost	
Department	New	Mod.	New	Circ. %	Mod.	Circ.	(AxC)	(BxE)	(G+H)
Clinical									
Express Testing (Lab)	$ 183	--	1,066						$ 195,078
Convenient Care (Walk-in Clinic)	$ 183		1,402						$ 256,566
Imaging	$ 298		5,987						$ 1,784,126
Women's Wellness	$ 228		5,031						$ 1,147,068
Clinical / Average Cost / Sq. Ft.	$250.84		13,486						$ 3,382,838
Clinical Contingency/ Sq. Ft.	incl.		--						incl.
Clinical Subtotal	$250.84		13,486						$ 3,382,838
Non-Clinical									
Patient Access (Registration)	$ 168		251						$ 42,168
Education / Staff Support	$ 168		1,404						$ 235,872
Physician Office	$ 168		2,488						$ 417,648
Connecting Corridor / Circulation /	$ 158		8,081						$ 1,272,811
Canopies / Mechanical									
Non-Clinical Average Cost / Sq. Ft.	$ 161		12,224						$ 1,968,499
Non-Clinical Contingency / Sq. Ft.	Incl.		--						Incl.
Non-Clinical Average Cost / Sq. Ft.	$ 161		12,224						--
Total with Contingency/Average Cost/Sq. Ft.	$ 208		25,710						$ 5,351,337

XI. Safety Net Impact Statement

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

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

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

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

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

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

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

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

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

Safety Net Information per PA 96-0031			
CHARITY CARE			
Charity (# of patients)	**2011**	**2012**	**2013**
Inpatient			
Outpatient			
Total			
Charity (cost In dollars)			
Inpatient			
Outpatient			
Total			
MEDICAID			
Medicaid (# of patients)	**2011**	**2012**	**2013**
Inpatient			
Outpatient			
Total			
Medicaid (revenue)			
Inpatient			
Outpatient			
Total			

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

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

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

To the applicants' knowledge, St. Anthony's Memorial Hospital's proposed project will have no material impact on essential safety net services as to the community.

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

To the applicants' knowledge, the project will have no impact on the ability of any other provider or health care system to cross subsidize safety net services.

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

Not Applicable. No facilities or services are being discontinued.

Safety Net Information per PA 96-0031			
CHARITY CARE			
Charity (# of patients)	**Year 2011**	**Year 2012**	**Year 2013**
Inpatient	548	553	110
Outpatient	989	1,118	1,838
Total	1,537	1,671	1,948
Charity (cost In dollars)			
Inpatient	680,144	624,599	649,591
Outpatient	1,226,790	1,262,934	1,531,129
Total	1,906,934	1,887,593	2,180,720
MEDICAID			
Medicaid (# of patients)	**Year 2011**	**Year 2012**	**Year 2013**
Inpatient	773	714	549
Outpatient	45,627	46,661	38,868
Total	46,400	47,375	39,417
Medicaid (revenue)			
Inpatient	4,014,559	3,397,813	2,746,095
Outpatient	6,322,432	5,458,528	5,230,392
Total	10,336,991	8,856,341	7,976,487

XII. Charity Care Information

Charity Care information MUST be furnished for ALL projects.

1. All applicants and co-applicants shall indicate the amount of charity care for the latest three **audited** fiscal years, the cost of charity care and the ratio of that charity care cost to net patient revenue.

2. If the applicant owns or operates one or more facilities, the reporting shall be for each individual facility located in Illinois. If charity care costs are reported on a consolidated basis, the applicant shall provide documentation as to the cost of charity care; the ratio of that charity care to the net patient revenue for the consolidated financial statement; the allocation of charity care costs; and the ratio of charity care cost to net patient revenue for the facility under review.

3. If the applicant is not an existing facility, it shall submit the facility's projected patient mix by payer source, anticipated charity care expense and projected ratio of charity care to net patient revenue by the end of its second year of operation.

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

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

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

APPEND DOCUMENTATION AS ATTACHMENT-41, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

Attachment 44, Table 1
St. Anthony's Memorial Hospital

CHARITY CARE			
	Year 2011	**Year 2012**	**Year 2013**
Net Patient Revenue	115,519,188	118,536,477	118,705,147
Amount of Charity Care (charges)	5,258,408	5,596,633	5,943,637
Cost of Charity Care	1,226,490	1,887,533	2,180,720

THE FIRST NATIONAL BANK
EST. 1909 OF DIETERICH

October 23, 2014

Effingham MOB, LLC
c/o Mike Mumm
2201 N. Willenborg St., Suite #2
Effingham, IL 62401

Re: Commercial real estate term loan between The First National Bank Dieterich (Lender or Bank) and Effingham MOB, LLC (Borrower)

Dear Effingham MOB, LLC:

It is our pleasure to provide the following terms to Effingham MOB, LLC for the below mentioned purpose. We look forward to a mutually rewarding relationship and ask you to consider us for additional banking services. This commitment is subject to the following terms, and final approval of the Bank's loan committee.

Purpose: To finance the construction of a 44,728 square foot medical building on 1.5 acres in Effingham, Illinois (collateral property).

Terms:

Amount: $8,169,818.00 initially subject to total cost and appraisal*.

Rate: Fixed for initial term at 3.74%#.

Term/Amort: 69 month initial term; loan will initially be structured as a closed in line of credit for the initial nine months; in the 10th month, loan will covert to monthly principal and interest payments for remainder of term based on a 20 year amortization. Assuming loan has performed per the note terms, and not deteriorated significantly in quality, loan will be renewable at maturity at rate tied to the like (five year) treasury rate plus 250 basis points. Future rate adjustments will not be any higher than 3.0% over the immediately previous rate, and at no time will the renewal rate be below 3.5% or above 10%

Payment: Monthly payments of interest only during initial nine month line of credit phase followed by 60 monthly payments of principal and interest to fully amortize the loan at the above amount, rate and term.

Fee: A .1 of 1% (approximately $8,169.82)) of the loan amount origination fee will be charged plus any applicable third party fees.

Prepayment penalty:

If this loan is paid off early via refinance with another Lender, a prepayment penalty will be assessed as per the following schedule:

- If the loan is paid off in the first 12 months after the date of this document, a penalty in the amount of 3% of the original loan amount be will be assessed

DIETERICH
101 S. MAIN ST.
P.O. BOX 186
DIETERICH, IL 62424
217.925.5225

NEWTON
1108 S. VAN BUREN ST.
P.O. BOX 335
NEWTON, IL 62448
618.783.8300

NATIONAL TRAIL
1510 E. FAYETTE AVE.
P.O. BOX 6010
EFFINGHAM, IL 62401
217.857.1313

LAKE SARA
10911 E. STATE HWY. 33
EFFINGHAM, IL 62401
217.868.5995

EFFINGHAM
510 W. FAYETTE ST
P.O. BOX 1248
EFFINGHAM, IL 62401
217.540.1000

RED BUD
115 W. Market St.
P.O. BOX 145
RED BUD, IL 62278
618.282.3861

BELLEVILLE
2100 S. ILLINOIS ST.
BELLEVILLE, IL 62220
618.277.3800

www.primebanc.com

- If the loan is paid off in the first 24 months after the date of this document, a penalty in the amount of 2% of the original loan amount be will be assessed
- If the loan is paid off in the first 36 months after the date of this document, a penalty in the amount of 1% of the original loan amount be will be assessed

The prepayment penalty will not be assessed if the loan is paid off early via the sale of the collateral securing the loan or by normal cash flow from operations of the borrower.

Collateral: The First National Bank of Dieterich will secure the credit with the following collateral:

* Verified first mortgage lien against collateral real property in Effingham, Illinois inclusive of Lender's rights to take Borrower's place on ground lease if necessary to protect collateral interest and liquidate collateral
* Assignment of rents on above property

Appraisal: An appraisal by a third party appraiser of the Lender's choice will be required. Said appraisal will be done based on an as completed basis. Loan amount not to exceed 80% of said appraised value or 75% of costs.

Guarantee: TBD based on final loan terms and underwriting conditions.

Title: Prior to the closing we will require evidence of clear title to the collateral via a title commitment provided by a title company of the Lender's choice

Insurance: Evidence of insurance coverage in an amount satisfactory to the Bank will be submitted prior to closing, showing the Lender as primary lien holder and loss payee.

Costs: All applicable costs, including but not limited to legal fees, filing fees, appraisal costs, lien search fees, title costs, origination fees and any other out-of-pocket costs will be your responsibility.

Other:

- Loan approval contingent on final approval of the Bank's Directors' Loan Committee.
- Final approval may also be contingent on Lender acquiring participating lenders and their approval of loan terms.
- Annual financial statements on Borrower to be provided to Lender.
- Annual rent rolls to be provided to Lender.
- Lender to be provided with copies of all applicable executed leases
- Borrower agrees to not pay any dividends, distributions, or any other sort of payments to owners, members, etc. if said causes annualized debt service coverage to fall below 1.05X without prior written approval of lender.
- Borrower must remain in good standing at all times loan is outstanding.
- Borrower required to maintain a depository account with the First National Bank of Dieterich.

Financial Covenants: This commitment is issued based upon information provided (or to be provided) by you to the Bank. You hereby warrant that the information submitted is an accurate representation of the facts and any material adverse change in your financial condition or the information provided prior to the first advance is reason for the Bank to render this commitment invalid. You hereby agree to execute and deliver such instruments, documents, certificates, opinions, assurances, and actions as we may request, to effect the purpose of the transaction described in this commitment letter. Our obligation to make the loan shall be subject to receipt by us of properly executed documents in form and substance satisfactory to us and our counsel. All proceedings, agreements, instruments, documents and other matters relating to the making of the loan, and all other transactions herein contemplated, shall be satisfactory to us and to our counsel.

Expiration: Subject to final underwriting, this commitment is valid until March 31, 2015. The above rate quote is valid until November 15, 2014. After that time, the rate will be equal to the then current five year treasury as a constant maturity plus 215 basis points subject to the above mentioned rate floor and ceiling#. After that, this commitment may be extended at Lender's option.

Thank you very much for the opportunity to provide the above terms to you, and I look forward to working with you. Feel free to contact me if you have any questions or concerns.

Respectfully,

FIRST NATIONAL BANK OF DIETERICH

Steve Will
President

ACCEPTANCE OF TERMS

I/we hereby accept the terms and conditions of this commitment letter (please keep the letter marked "copy" for your records and return the original documents).

BORROWER:

Effingham MOB, LLC.

Authorized signer for **Effingham MOB, LLC** Date

Printed name and title of above authorized signer

Appendix B
Developer Agreement

Pages 140 – 187

Appendix C
HSHS Audited Financials

Pages 189 - 249

DEVELOPMENT AGREEMENT

This Development Agreement (this "**Agreement**") is made and entered into this 1st day of August, 2014 ("**Effective Date**"), by and between **ST. ANTHONY'S MEMORIAL HOSPITAL OF THE HOSPITAL SISTERS OF THE THIRD ORDER OF ST. FRANCIS**, an Illinois not-for-profit corporation ("**Hospital**"), and **EFFINGHAM MOB, LLC**, an Illinois limited liability company ("**Developer**").

RECITALS:

WHEREAS, Hospital owns real property at its Campus in Effingham, Illinois.

WHEREAS, Hospital desires to engage a developer to explore the feasibility of planning, designing, constructing and developing a medical office building and outpatient health care facility on the Campus that will be owned by Developer and leased to Hospital and other health care providers in a manner contemplated herein;

WHEREAS, Developer has experience in the planning, design, construction and development of health care related buildings and desires to develop the Buildings in accordance with Hospital's requirements and specifications;

WHEREAS, to the extent that Hospital and Developer determine that constructing the Buildings is feasible, then Developer will be responsible for obtaining the financing sufficient to cover the cost of constructing the Buildings and any infrastructure and site improvements that are necessary to support the Buildings; and

WHEREAS, the parties now desire to enter into this Agreement to accomplish the above objectives, in addition to others described herein.

NOW, THEREFORE, in consideration of the foregoing Recitals and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, Developer and Hospital hereby agree as follows:

1. **Definitions.** Any capitalized terms not defined within this Section 1 shall have the respective meanings given to them elsewhere in this Agreement, as applicable:

"**Accounting Approval**" shall mean that, under the terms and conditions of this Agreement, the Ground Lease, Declaration of Restrictions, Covenants and Easements, the Hospital Space Lease and other related documents and agreements, the Buildings will not be included on Hospital's financial statements under applicable accounting rules, as determined in the reasonable judgment of Hospital's independent auditors.

"**Affiliate**" means with reference to a Person, means another Person that Controls, is Controlled by, or is under common Control with such Person.

"**Anticipated Completion Date**" shall mean the date that is fourteen (14) months after the Development Conditions and the Hospital Conditions are satisfied or waived in writing and a Closing occurs. The schedule contemplated in Section 9.8 of this Agreement more specifically outlines the conceptual master schedule for the Project.

"**Applicable Law**" shall mean all applicable governmental constitutions, statutes, laws, orders, ordinances, codes, rulings, regulations, and decrees, as the same may be amended.

"**Appraised Value**" means either (i) the fair market value of the Improvements, or partially completed Improvements, as the case may be, as agreed upon between Hospital and Developer, or (ii) if the Hospital and Developer are unable to agree upon such value within thirty (30) days of request by either party, then Hospital and Developer shall each selected a Qualified Appraiser to establish the fair market value of the completed Improvements. If the Hospital's Appraised Value and Developer's Appraised Value are within ten percent (10%) of each other (as measured by the lower value), the two Appraised Values shall be averaged to determine the final Appraised Value. If the Hospital's Appraised Value and the Developer's Appraised Value are not within ten percent (10%) of each other, then such Hospital's appraiser and Developer's appraiser shall, within ten (10) days of request, select a third Qualified Appraiser who shall, within twenty (20) days of her or his selection, choose either Hospital's Appraised Value or Developer's Appraised Value as the final Appraised Value. The determination of such third appraiser shall be final and binding on Hospital and Developer. Hospital and Developer shall each bear the cost of their own appraiser and shall each pay one-half (1/2) of the third appraiser, if needed.

"**Architect**" shall mean Cannon Design located in St. Louis, Missouri.

"**Buildings**" shall collectively refer to Building 1 and Building 2, along with the Connectors.

"**Building 1**" shall mean an approximately 59,500 square foot ambulatory care center and medical office building to be built on the Campus, the final size of which will be confirmed during the Project Conceptualization Period. A description of the Building 1 core and shell elements, along with the tenant improvements to be constructed in the space to be leased to Hospital, will be specifically set forth in the Plans and Specifications.

"**Building 2**" shall mean an approximately 25,300 square foot medical office building to be built on the Campus that will be occupied by Marshall Clinic Effingham, S.C. ("Marshall Clinic"), the final size of which will be confirmed during the Project Conceptualization Period. A description of the Building 2 core and shell elements, along with the tenant improvements to be constructed in the space, will be specifically set forth in the Plans and Specifications.

"**Campus**" shall mean the Effingham Medical Park located in Effingham, Illinois, which is more particularly described on Exhibit A.

"**Class A**" means, in connection with improvements to real estate, improvements that are designed, built, maintained and operated at a standard comparable to other facilities providing similar services in Southern Illinois as of the time period in question.

"**<u>Clinic Space Lease</u>**" means a space lease mutually agreed upon by Marshall Clinic and Developer for all of the space within Building 2, which shall include the compliance language set forth in <u>Exhibit C-2</u>.

"**<u>Closing</u>**" shall mean ten (10) days following the expiration of the Due Diligence Period as the same may be extended pursuant to the terms of the final sentence of Section 4.3.9 hereof.

"**<u>Commencement of Construction</u>**" shall mean the date that Ground Lessee or its contractor begins construction of the Buildings, which shall be deemed to occur when earth moving or foundation excavation begins, whichever is earlier.

"**<u>Connector</u>**" shall mean those connector hallways connecting Building 1 to Building 2.

"**<u>Construction Costs</u>**" shall mean the amount paid or incurred by Developer and Ground Lessee for all hard costs and soft costs incurred in connection with the construction, development and financing of the Improvements pursuant to the Plans and Specifications. The estimated amount of such costs is set forth on the Development Budget and shall include, without limitation, all engineering, architect, Contractor (as defined herein) and Developer fees, attorneys' fees, financing expenses and costs, environmental and other consultants' fees, all costs for site work, construction, insurance, letters of credit, performance and payment bond(s), utility excess facility charges, tap fees, impact fees, testing, water treatment, fire alarm, landscaping costs and the costs of any necessary permits.

"**<u>Control</u>**" and its derivate terms such as "Controlling" or "Controlled" shall mean the direct or indirect power to direct the management and policies of a person or entity, whether through the ownership of voting securities, by contract or otherwise.

"**<u>Declaration of Restrictions, Covenants, and Easements" or "Declaration</u>**" shall mean an agreement or declaration under which Hospital grants Ground Lessee necessary access, utility, drainage and parking easements for the benefit of, and in reasonably close proximity to, the Buildings, all as more particularly set forth in such Declaration. The Declaration and/or the Ground Lease shall also contain provisions regarding the following matters:

(i) The Use Restrictions, which will be incorporated into the Ground Lease and/or Declaration as they are written in <u>Exhibit G</u>;

(ii) An option to purchase and a right of first refusal to purchase either or both of the Buildings that mirror the Ground Lease provisions set forth in <u>Exhibit C-1</u>.

(iii) A right of first refusal to lease space in the Buildings; provided, however, the right of first refusal will not be exercisable for a period of twelve (12) months from the effective date of the Ground Lease if the proposed leasing arrangement involves a Qualified Tenant;

(iv) Cross access easements for the Connectors;

(v) Temporary construction easement for construction of the Buildings; and

(vi) Parking and access easements for the Parking Area.

"**Demolition Work**" means the work necessary to: (i) gain ownership of all of the condominium units within the building commonly known as the Effingham Medical Center located at 900 W. Temple Avenue, Effingham, Illinois (the "EMC"), (ii) terminate all leases for space within the EMC, (iii) demolish and remove the EMC and any improvements associated with the EMC, including any parking areas, below grade construction such as basement walls, foundation walls and footings, (iv) fill any voids left from the removal of improvements, (v) grade the site so that it is generally level, and (vi) remove all debris from the site; provided, however, Hospital shall not be responsible for performing any additional work except as otherwise set forth in this paragraph.

"**Developer's Appraised Value**" means the fair market value of the Improvements determined by a Qualified Appraiser selected by Developer.

"**Developer Delay**" shall mean: (i) delay resulting from the failure of either the Ground Lessee or the Developer to comply with the requirements of this Agreement, the Declaration, or the Ground Lease; (ii) any Developer or Ground Lessee requested change order (that is not a Hospital change order) to the guaranteed maximum price contracts resulting in delay; or (iii) any other act or omission of Developer or Ground Lessee that causes a delay in completion of construction of the Buildings.

"**Development Budget**" shall mean the Developer's estimate of Construction Costs for the Project attached hereto as Exhibit B, which will be supplemented by Developer during the Project Conceptualization Period and as reasonably approved by Hospital.

"**Due Diligence Period**" shall mean one hundred eighty (180) days immediately following the Project Conceptualization Period.

"**Easement Areas**" shall be those areas within the Campus which shall provide the necessary access, utility connections, drainage and adequate parking for the benefit of, and in reasonably close proximity to, the Buildings all as more particularly set forth and defined in the Ground Lease, and Declaration.

"**Endorsements**" shall mean, to the extent such endorsements are available under the laws of the state of Illinois, at the election of Developer (i) extended coverage, (ii) owner's comprehensive, (iii) access, to be modified based on the Plans and Specifications (as defined herein), (iv) survey (accuracy of survey), (v) location (survey legal matches title legal), (vi) separate tax parcel (modified to reflect filings necessary to obtain tax divisions), (vii) plat act/subdivision or legal lot, (viii) zoning 3.1 (with parking and loading docks), (to be modified based on plans and specifications), (ix) contiguity (if applicable), (x) restrictions (if applicable), (xi) utility facility endorsement, to be modified based on plans and specifications, (xii) leasehold valuation, (xiii) affirmative mechanic lien coverage as of the closing of the construction loan for the Buildings, other than on account of any act of Developer and (xiv) such other endorsements as Developer may require during the Due Diligence Period based upon its review of the Title Commitment and Survey, as both terms are defined herein.

"**Ethical and Religious Directives**" shall mean the Ethical and Religious Directives for Catholic Health Care Services as outlined by the United States Conference of Catholic Bishops, as amended from time-to-time.

"**Force Majeure**" shall mean acts of God, fire, earthquake, flood, explosion, actions of the elements, war, invasion, insurrection, riot, mob violence, sabotage, inability to procure or general shortage of labor, equipment, facilities, materials or supplies in the open market, failure of transportation, strikes, lock outs, actions of labor unions, condemnation, requisition, laws, governmental action or inaction, orders of government or civil or military or naval authorities, unforeseen subsurface conditions, adverse weather conditions not reasonably expected for the location of the Campus and the time of year in question or any cause, whether similar or dissimilar to the foregoing, not within the reasonable control of, as applicable, the Developer or Hospital. In no event, however, shall a lack of money be grounds for Force Majeure.

"**Ground Lease**" **or** "**Ground Leases**" shall mean two separate agreements that will be nearly identical in form between the Ground Lessee, as ground lessee, and Hospital, as ground lessor, for the footprint of Building 1 and the footprint of Building 2, respectively, upon the terms outlined in this Agreement and further outlined in the attached Exhibit C-1 and Exhibit C-2. Hospital and Developer agree to use Hospital's form of ground lease, subject to any modifications that are necessary to incorporate the terms contemplated in this Agreement.

"**Ground Lessee**" shall mean Developer and/or a special purpose entity or partnership that is an Affiliate of Developer and that is created for the sole purpose of owning one or both of the Buildings.

"**Hospital's Appraised Value**" means the fair market value of the Improvements determined by a Qualified Appraiser selected by Hospital.

"**Hospital Delay**" shall mean: (i) delay resulting from the failure of Hospital to comply with the requirements of this Agreement, the Declaration, or the Ground Lease; (ii) any Hospital-requested change order (that is not a Developer or Ground Lessee initiated change order) to the guaranteed maximum price contracts resulting in delay; or (iii) any other act or omission of Hospital that causes a delay in Developer's completion of construction of the Buildings.

"**Hospital Space Lease**" shall mean a space lease, written on Hospital's form of space lease for development projects, for an agreed upon amount of space within Building 1 and which will include the terms generally outlined in the attached Exhibit D-1 and Exhibit D-2.

"**Improvements**" shall mean (i) the core/shell of the Buildings and the Connectors, (ii) the leasehold improvements necessary to accommodate tenants occupying space in the Buildings, (iii) the leasehold improvements necessary to complete the Connectors, and (iv) the Infrastructure, all of which will be constructed by Developer in accordance with Applicable Law and the Plans and Specifications.

"**Infrastructure**" shall mean (i) the Parking Area, sidewalks, site lighting, signage, and landscaping around those areas, (ii) any on-site or off-site infrastructure that will serve the Buildings, and (iii) any electric conduit, electric service, natural gas, water, sanitary sewer, storm sewer and telecommunications facilities, parking, landscaping, signage, access roads and all other improvements necessary to make the Buildings comply with the requirements of Applicable Law, the Plans and Specifications, and the terms of this Agreement.

"**Leased Premises**" shall mean a to be determined amount of land located on the Campus that is equal to the footprint of each Building plus a perimeter of five (5) feet. The Survey shall describe the Leased Premises by metes and bounds.

"**Parking Area**" shall mean the parking facilities to be constructed by Developer and depicted generally on the Site Plans, which parking facilities will contain no fewer than the minimum number of spaces, landscaping, lighting, irrigation and other attributes for the Buildings to comply with all Applicable Laws. The Parking Area and the improvements thereon and associated therewith shall be the property of Hospital and shall be included in the "Common Areas" as such term is defined in the Ground Lease.

"**Permitted Exceptions**" shall mean those exceptions contained within the Title Commitment and shown on the Survey that are approved or deemed approved by Developer pursuant to Section 3 of this Agreement, the Declaration, the Ground Lease (or memorandum thereof) and any real estate taxes or assessments not yet due and payable.

"**Person**" means an individual, partnership, limited liability company, limited liability partnership, firm, association, corporation, trust or any other form of business or government entity.

"**Plans and Specifications**" shall mean the schematic drawings, the design development drawings and the construction documents for the Improvements.

"**Predevelopment Budget**" shall mean the budget set forth in Exhibit I attached hereto.

"**Project**" shall mean the design and construction of the Improvements.

"**Project Conceptualization Period**" shall mean the period of time from the Effective Date through and until September 17, 2014.

"**Project Premises**" shall mean the Leased Premises and any additional area of the Campus depicted on the Site Plans such as the Connectors, Parking Area and including any additional Easement Areas.

"**Qualified Appraiser**" shall mean an independent MAI appraiser not affiliated with either Hospital or Developer and having at least ten (10) years of experience appraising medical office buildings on ground-leased land in the United States.

"**Qualified Tenants**" shall mean qualified physicians, physician groups, medical users and health care providers, other than Hospital or an Affiliate of Hospital, that are more particularly described in Exhibit E.

"**Site Plans**" shall mean Site Plan A and Site Plan B, which depict the alternative site plan concepts for the Project Premises, Improvements, Parking Areas, access-ways to and from the Project Premises and the nearest public rights of way and the footprint of the Buildings.

"**Site Plan A**" shall mean the site plan attached hereto as Exhibit F-1.

"**Site Plan B**" shall mean the site plan attached hereto as Exhibit F-2.

"**Substantial Completion**," "**Substantially Completed**," or "**Substantially Complete**" shall mean when (i) Developer or Ground Lessee has substantially completed construction of the Improvements in accordance with the Plans and Specifications, (ii) Developer has delivered to Hospital a certificate of substantial completion from the Architect, and (iii) the Buildings shall have been approved for and received a temporary certificate of occupancy or an equivalent thereof by the applicable governmental authorities, or, if the applicable governmental authorities will not issue such a certificate, then by the Architect in a form reasonably acceptable to Hospital (the "**CO**" or "**Certificate of Occupancy**"). Substantial Completion of the Project shall be deemed to have been achieved notwithstanding that any of such officials or agencies have issued a Certificate of Occupancy with conditions (so long as the Buildings can be occupied) or a Punch-List (as defined below) listing minor or seasonal items requiring completion or correction.

"**Survey**" shall mean a current survey of the Project Premises and the Easement Areas, prepared by Milano & Grunloh, LLC and reasonably acceptable to Developer, certified to Hospital, Developer, Ground Lessee, and the Title Company as having been prepared in accordance with the ALTA/ACSM 2011 Minimum Standard Detail Requirements, and in a form reasonably acceptable to Hospital and Developer.

"**Title Commitment**" shall mean a commitment for the Title Policy (defined below) for the Leased Premises and the Easement Areas in the full amount of the hard and soft costs of constructing the Building as well as the leasehold value of the Leased Premises (and any benefiting easements) on or after the Effective Date, showing Hospital as the owner of the Project Premises and Easement Areas, and setting forth the state of title and all exceptions, including easements, rights-of-ways, covenants, reservations and other conditions affecting the Leased Premises and the Easement Areas.

"**Title Company**" shall mean Bray Title Services, in Effingham, Illinois.

"**Title Policy**" shall mean an Owner's Leasehold Title Insurance Policy (2006) of title insurance, with extended coverage, issued by the Title Company as of the date and time of the recording of the Memorandum of Ground Lease, in the amount of the hard and soft costs of constructing the Buildings as well as the leasehold value of the Leased Premises, containing the Endorsements, insuring Ground Lessee's leasehold interest in the Leased Premises, with the Easement Areas as an additional insured parcel, and insuring Ground Lessee's interest in the to be constructed Improvements subject only to the Permitted Exceptions.

"**Use Restrictions**" shall mean the terms, covenants and conditions set forth in Exhibit G.

2. **Statement of Intention**. Developer and Hospital are entering into this Agreement for purposes of memorializing their vision for the construction of a medical office building and ambulatory care center on the Campus. For several years, Hospital envisioned that the project would consist of one single building located on the Campus that would be owned by a real estate developer and leased to several occupants, including Hospital, Marshall Clinic, and the Qualified Tenants (the "**Single Building Concept**"). As of the Effective Date, the Single Building Concept

may not be possible in that Marshall Clinic, a physician practice group that Hospital expected to lease space in the building, has requested a separate and distinct building that will be located on the Campus, but that will be connected to any building constructed for Hospital and any Qualified Tenants on the Campus (the "**Separate Building Concept**"). In response to Marshall Clinic's request for the Separate Building Concept, Developer, Hospital and Marshall Clinic have collaborated on a design that will involve the construction of Building 1, which will house Hospital and Qualified Tenants, and the construction of Building 2, which will house Marshall Clinic, and for purposes of allowing for the free flow of access, the Buildings will be joined with Connectors. It is Hospital's intention that Developer continue to work with the Architect to ensure that the Buildings look and feel like they are one facility. A copy of Site Plan A attached hereto delineate the concept that Hospital desires. The purpose of this Agreement is to further define the Separate Building Concept shown on the Site Plan A and to determine if sufficient interest exists from Marshall Clinic and Qualified Tenants to move forward with the construction and development of the Project.

3. **Title and Survey Approval**. As soon as reasonably practicable after the Effective Date, but in no event longer than fifteen (15) days following the Project Conceptualization Period, Developer shall, at its cost and expense, cause to be prepared and delivered to Developer and Hospital with respect to the Project Premises: (i) the Title Commitment, (ii) true, complete and legible copies of all documents referenced in the Title Commitment, and (iii) the Survey. Within ten (10) days after receipt of the last of the foregoing, Developer shall give Hospital written notice of any exceptions enumerated in the Title Commitment that are unacceptable to Developer. Any special exceptions or issues disclosed on the Survey not objected to by Developer shall be deemed Permitted Exceptions. Hospital shall have fifteen (15) days after receipt of that notice to have those exceptions removed and those states of fact corrected ("**Hospital's Title Cure Period**"), and shall use commercially reasonable efforts promptly to do so. If Hospital is unable to do so, Developer shall have the option to terminate this Agreement by giving written notice thereof to Hospital, provided that such notice shall be delivered to Hospital within ten (10) days following expiration of Hospital's Title Cure Period. Upon such termination, the obligations of both parties shall cease except for Developer's obligations to indemnify Hospital as set forth in Section 15.2. If Developer fails to timely exercise the option to terminate this Agreement, Developer's objection(s) to such special exception(s) shall be deemed waived and such exceptions shall be considered permitted by Developer and no longer grounds for termination of this Agreement and shall be deemed Permitted Exceptions.

4. **Conditions Precedent to Closing**.

4.1 **Project Conceptualization.** During the Project Conceptualization Period, Developer and Hospital shall work diligently and cooperatively to create a concept for the Project.

4.1.1 Developer shall complete the following tasks during the Project Conceptualization Period.

(i) Gather needed existing due diligence information from Hospital to develop Project concept (i.e. surveys, plans, environmental reports, title info, geotechnical information, etc.).

(ii) Secure a written appraisal from James H. Webster & Associates that establishes the ground rental rate and a methodology for increasing ground rent for the Ground Leases.

(iii) Secure a written geotechnical report to confirm that the soil conditions and the geology underlying the Leased Premises are sufficient to support a conventional shallow foundation system for the Buildings.

(iv) Further develop the exterior design concept for the Buildings that is currently depicted on Site Plan A. Gain Hospital and Marshall Clinic's approval of the same.

(v) Secure non-binding commitments from Qualified Tenants to lease seventy percent (70%) of the space in Building 1.

(vi) Review Hospital's space requirements for Building 1 and develop a written space program for Hospital.

(vii) Review space requirements for Qualified Tenants that commit to lease space in Building 1 and develop a written space program for those tenants.

(viii) Secure a non-binding commitment from Marshall Clinic to lease all of the space in Building 2.

(ix) Review Marshall Clinic's space requirements for Building 2 and develop a written space program.

(x) Confirm the size of the Buildings with Hospital.

(xi) Review and approve the location of the Leased Premises and the Project Premises.

(xii) Review site constraints of the Campus with Hospital and Marshall Clinic and revise Site Plan A as needed.

(xiii) Develop the interior layout, flow, and adjacency concept of the Buildings, including the layout and flow of the Connectors. Gain Hospital and Marshall Clinic's approval of the same.

(xiv) Assist Hospital and Hospital's Certificate of Need consultant, to the extent requested by Hospital, by providing information about the Project, participating in strategy discussions and attending hearings that may be held in connection with Hospital's efforts to apply for and to secure a Certificate of Need for the Project ("**CON Assistance**").

(xv) Work with the City of Effingham and Effingham County to fund the installation of an access driveway to the Project Premises.

(xvi) Work with the City of Effingham and Effingham County to explore any available economic incentives for the Project. At the request of Developer, Hospital agrees to assist Developer in any efforts to secure economic incentives, which, by way of example, may involve Hospital participating in meetings and attending hearings in connection with Developer's efforts to secure economic incentives.

(xvii) Update the Development Budget based on the concept for the Project agreed upon by Developer and Hospital during the Project Conceptualization Period using the same methodology outlined in the Development Budget attached hereto as Exhibit B. Gain Hospital's approval of same.

(xviii) Develop a package of information for approval by Developer, Hospital and Marshall Clinic. Written approval by all parties shall signify conclusion of the Project Conceptualization Period and such information shall become part of this Agreement.

4.1.2 In the event that Hospital elects to terminate this Agreement for any reason during the Project Conceptualization Period or Due Diligence Period, then Hospital shall reimburse Developer for its actual third-party out-of-pocket predevelopment expenses paid or incurred through the date of termination, including design, conceptualization, preliminary civil engineering, geotechnical analysis, construction budgeting, land appraisal, legal fees and reimbursable expenses that are supported by evidence that such expenses were paid or incurred by Developer in connection with the Project (collectively, "**Predevelopment Expenses**"). Hospital acknowledges and agrees that, prior to the execution of this Agreement, Hospital had authorized Developer to incur Predevelopment Expenses up to $75,000, and so long as Developer is able to provide evidence that it incurred Predevelopment Expenses up to $75,000, then, in the event that this Agreement is terminated, Hospital will be responsible for reimbursing Developer for those Predevelopment Expenses. Hospital acknowledges and agrees that, after the Effective Date, Developer will continue to incur Predevelopment Expenses each month in the estimated amounts set forth in the Predevelopment Budget; provided, however, in recognition of the fact that the amounts set forth in the Predevelopment Budget are estimates, at least seven (7) days before the end of each calendar month during the Project Conceptualization Period and the Due Diligence Period, beginning with the month of August, Dean Bingham, as a representative of Developer agrees to send Nicole Lewer-Holst – Nicole.Holst@hshs.org , Dave Storm – Dave.Storm@hshs.org , and Jody Puckett – Jody.Puckett@hshs.org , all representatives of Hospital, an electronic mail message with a not-to-exceed amount of Predevelopment Expenses that Developer intends to incur during the following calendar month (the "**Predevelopment Expense Estimate**"). Upon receipt of each Predevelopment Expense Estimate, any Hospital representative described in the preceding sentence will have until the end of the calendar month to respond to Mr. Bingham's email with instructions stating that: (a) Hospital is electing to terminate this Agreement, (b) Developer shall stop performing work under this Agreement until further notified, in which case, the Project Conceptualization Period and Due Diligence Period shall be extended for an equal number of days that Developer is instructed to stop work, or (c) Developer shall continue performing work under this Agreement and that Developer is authorized to incur Predevelopment Expenses up to the Predevelopment Expense Estimate. Only one of Hospital's representatives is required to respond to Mr. Bingham's email. In the event that a Hospital representative fails to respond to Mr. Bingham's email, then such failure shall be considered an instruction by Hospital to Developer to stop performing work under this Agreement until further notified, in which case, Developer shall not incur any additional Predevelopment Expenses, and as a result, the Project Conceptualization Period and the Due Diligence Period shall be extended until Developer is once again authorized to work on the Project. Notwithstanding the foregoing, Developer will not incur Predevelopment Expenses in excess of $375,000 without the prior written consent of Hospital, which consent may be given or withheld in Hospital's sole and absolute discretion. If the conditions contemplated in this Agreement are satisfied and a Closing occurs, the Predevelopment Expenses shall be assumed by Developer and included in the Development Budget.

4.1.3 Developer may elect, on or prior to the expiration of the Project Conceptualization Period, to terminate this Agreement if the Project substantially changes during the Project Conceptualization Period. If Developer elects to terminate as described above, neither party shall have any further obligations hereunder other than the Hospital's obligation under Section 4.1.2 hereof and Developer's obligations under Sections 14 and 25 of this Agreement. If Developer makes no such election, Developer shall be deemed to have waived its right to terminate this Agreement pursuant to this Section 4.1.3 and both parties shall proceed to the Due Diligence Period.

4.1.4 Hospital may elect, on or prior to the expiration of the Project Conceptualization Period to terminate this Agreement i) if Developer fails to perform all of its obligations hereunder during the Project Conceptualization Period or ii) Hospital, in its sole and absolute discretion, elects not to move forward with the Project as it is being proposed by Developer, in which case, neither party shall have any further obligations hereunder other than the Hospital's obligation under Section 4.1.2 hereof and Developer's obligation under Sections 14 and 25 of this Agreement. If Hospital makes no such election, Hospital shall be deemed to have waived its right to terminate this Agreement pursuant to this Section 4.1.4 and both parties shall proceed to the Due Diligence Period.

4.2 **Project Due Diligence**. During the Project Conceptualization Period and the Due Diligence Period, Developer shall have the right to enter upon the Project Premises to inspect the soil condition, to conduct environmental studies, review the availability of utilities and otherwise determine the feasibility of constructing the Improvements on the Project Premises. During the Due Diligence Period, Developer agrees, to the extent requested by Hospital, to provide general guidance on the planning and completion of the Demolition Work and to continue to provide CON Assistance. Further, to the extent that Hospital does not reasonably believe that the

Demolition Work will be accomplished to permit the construction and development of the Project as shown on Site Plan A, Developer agrees to reposition the Project Premises in a manner consistent with Site Plan B so that the Project is able to be completed on the Campus even if the EMC continues to remain in place; provided, however, Hospital acknowledges and agrees that repositioning the Project Premises in a manner consistent with Site Plan B will require Developer to incur additional design and engineering costs that are not currently included in the Predevelopment Budget or in the Development Budget. In recognition of the fact that additional design and engineering costs associated with repositioning the Project Premises are uncertain at this time, in the event that repositioning is necessary, Hospital and Developer will work together in good faith to establish an estimate of the additional costs and to mutually agree upon a revised Development Budget that accounts for the additional costs.

Developer shall coordinate in advance with Hospital any on-site inspections of the Project Premises. All inspections of the Project Premises shall be conducted in such a manner as to avoid any unreasonable interference with the business operations of Hospital or other users of the Campus. Without limiting the generality of the foregoing, Hospital's advance written approval shall be required prior to any testing or sampling of surface or subsurface soils, surface water, groundwater, or any materials in, on or under the land in connection with Developer's inspections thereof. After completing its inspection of the Project Premises, Developer shall, at its sole cost and expense, repair and replace any damage it has caused as a result of its inspections. All information obtained by Developer during the Project Conceptualization Period and Due Diligence Period shall be held in confidence by Developer and shall be treated as confidential information by Developer (except as disclosure may be required by law, or as may be disclosed to Developer's attorneys, financial advisors, land use consultants, or lender) and Developer shall instruct all of its employees, agents, representatives and contractors as to the confidentiality of such information. Developer shall indemnify and hold Hospital harmless for all claims, losses, damages and expenses (including reasonable attorneys' fees and costs) arising out of or in connection with such investigations by or on behalf of Developer or in connection with Developer's breach of its agreement of confidentiality as provided hereinabove (but in no event shall Developer be liable for any consequences or damages associated to the mere discovery of adverse information relating to the Project Premises) and Developer shall defend on Hospital's behalf any claim or cause of action resulting from injury or death of any person or damage to or destruction of any property caused by the actions of Developer or Developer's agents, employees, representatives or independent contractors while on the Project Premises or Campus. Developer agrees that, in making any inspections of, or conducting any testing of, on or under the land, Developer or Developer's agents will carry not less than Two Million Dollars ($2,000,000.00) comprehensive general liability insurance with contractual liability endorsement which insures Developer's indemnity obligations pursuant to this Agreement, and will, upon written request from Hospital, provide Hospital with written evidence of same. The foregoing indemnification by Developer shall survive the termination of this Agreement. If Hospital has made the payments to Developer required under Section 4.1.2 hereof, Developer shall promptly furnish to Hospital the results and copies of Developer's surveys, soil and other physical tests, including any environmental studies.

4.3 **Development Conditions**. Unless a shorter time period is indicated, on or prior to the expiration of the Due Diligence Period, and as a condition to Developer's obligations under this Agreement, the conditions listed below must be satisfied in Developer's reasonable judgment, or waived in writing by Developer (collectively, the **"Development Conditions"**).

4.3.1 **Zoning; Land Use Approvals.** Developer shall review and be satisfied with all zoning, land use, and environmental laws, codes, ordinances, and regulations affecting the Project Premises and the construction and use of the Improvements and shall have obtained all zoning, subdivision and environmental permits and approvals and any other applicable grading, foundation, curb cut, building or other permits, approvals, consents or licenses, as may be necessary for the use, development and construction of the Improvements, and the relevant appeal periods for all such permits, approvals, licenses and consents shall have expired without any appeal having been taken (collectively, the "**Approvals**"). Developer and Hospital shall cooperate fully with each other in order to obtain the Approvals. Such cooperation shall include executing such documents, signing and filing such applications and documents, attending and giving testimony at such proceedings and otherwise doing such acts and things as are reasonably necessary in connection with obtaining such Approvals.

4.3.2 **Execution of Ground Leases.** The Ground Leases shall have been fully executed.

4.3.3 **Execution of Hospital Space Lease.** The Hospital Space Lease shall have been fully executed.

4.3.4 **Execution of the Clinic Space Lease.** The Clinic Space Lease shall have been fully executed.

4.3.5 **Execution of Declaration.** The Declaration shall have been fully executed.

4.3.6 **Financing**. Developer has received a satisfactory financing commitment by a lender of its choice. In no event will Hospital be required to subordinate its fee interest in the Leased Premises in connection with any construction or permanent financing for the Project. Further, Hospital will not be required to secure any other Person to guarantee its obligations under the Hospital Space Lease or to assume responsibility for providing any additional security in order for Developer to construct the Project or in order for Developer to secure any necessary financing to construct the Project. Developer may only finance 80% of the Construction Costs.

4.3.7 **Demolition Work**. Hospital has delivered a written commitment to Developer indicating that it will complete the Demolition Work, at its sole cost and expense, within forty-five (45) days from Substantial Completion.

4.3.8 **Dedication of Access Drives**. Hospital has dedicated or has agreed, in writing, to dedicate land on the Campus for the installation of any access roads or access drives that may be reasonably necessary to provide access to the Project.

4.3.9 **Hospital Conditions**. The Hospital Conditions, as defined herein, shall have been satisfied or waived in writing by Hospital.

Upon the commencement of the Due Diligence Period and through and until the expiration of the Due Diligence Period, Developer shall use commercially reasonable, good faith efforts to satisfy the Development Conditions. As part of the Developer's efforts to satisfy the foregoing Development Conditions, Developer may have discussions with governmental representatives and agencies and in connection therewith, may submit applications for permits, special zoning approvals, amendments, waivers, variances or special exceptions, so long as such applications and agreements are conditioned upon Ground Lessee's lease of the Leased Premises pursuant to the Ground Lease.

If the Development Conditions are not, in Developer's reasonable judgment, satisfied during the Due Diligence Period, Developer may, on or prior to the expiration of the Due Diligence Period, either (i) terminate this Agreement by written notice to Hospital, in which event neither party shall have further obligations hereunder, except as specifically set forth herein, or (ii) accept the Project Premises by providing written notice to Hospital of such acceptance, or (iii) raise certain objections by providing notice in writing (the **"Objection Notice"**), which Objection Notice shall specify which matters (the **"Objections"**) that Developer does not find satisfactory with respect to the Project Premises. If Developer does not timely terminate this Agreement or provide an Objection Notice, Developer shall be deemed to have waived its right to terminate this Agreement.

If Developer timely provides an Objection Notice, Hospital shall have up to thirty (30) days after delivery of such Objection Notice to remove or cause to be corrected to Developer's reasonable satisfaction, all of such Objections; provided, however, Hospital shall have no obligation to remove or cause to correct any Objection and Hospital's failure to take action to remove or cause to correct any Objection shall not be a breach of default under this Agreement. To the extent that Hospital elects to remove or correct an Objection, Developer shall have up to thirty (30) days after Hospital's removal or correction of the Objections (**"Developer Verification Period"**) to verify any Objections have been removed or corrected by Hospital, and if such removal or correction has been made to Developer's reasonable satisfaction. Developer shall elect, on or prior to the expiration of the Developer Verification Period, to (i) terminate this Agreement, in which event neither party shall have any further obligations hereunder, or (ii) accept the Project Premises "as-is", waive any Objections and proceed to close. If Developer makes no such election, Developer shall be deemed to have waived its right to terminate this Agreement pursuant to this Section 4.3.

The Closing shall be extended the number of days necessary to give effect to the notice and cure periods set forth in this Section.

5. **Hospital Conditions**. On or prior to the expiration of the Due Diligence Period and as a condition to Hospital's obligations under this Agreement the following conditions must be satisfied or waived in writing by Hospital (collectively, the **"Hospital Conditions"**):

5.1 **Ground Rent**. The amount of ground rent payable to Hospital under the Ground Lease shall be consistent with the fair rental value thereof that has been determined by James H. Webster & Associates pursuant to a written appraisal, the form of which will be subject to the approval of Hospital and Developer.

5.2 **Demolition Work**. Hospital has (a) gained ownership of all of the condominium units within the EMC, and (b) entered into lease termination agreements with occupants of the EMC or confirmed that it will be in a position to terminate all leases for space within the EMC, so that Hospital will be in a position to complete the Demolition Work within forty-five (45) days from Substantial Completion.

5.3 **Leasing Threshold.** Developer has secured binding commitments, the terms and conditions of which are satisfactory to Hospital, from (i) Qualified Tenants who have agreed to lease no less than seventy percent (70%) of the rentable space in Building 1, and (ii) Marshall Clinic who has agreed to lease all of the space in Building 2 (hereinafter, (a) and (b) shall be considered the "**Leasing Threshold**"). Developer will create and execute a program designed to market space in Building 1 to Qualified Tenants and space in Building 2 to Marshall Clinic during the Project Conceptualization Period. All leases with Qualified Tenants will be directly with Developer as opposed to subleasing arrangements between Hospital or an Affiliate of Hospital and a Qualified Tenant. Developer acknowledges and agrees that the Leasing Threshold must be met in order for the Project to be financially viable for Hospital. Developer will provide Hospital with status reports describing its efforts to obtain commitments from Qualified Tenants monthly or more frequently as agreed to between Developer and Hospital.

5.4 **Accounting Approval**. Hospital shall have received the Accounting Approval.

5.5 **Hospital's Internal Approvals**. Hospital shall have obtained any required approval of the Ground Lease, the Declaration, the Hospital Space Lease and all related documents from Hospital's corporate parent and Hospital's board of directors.

5.6 **Ground Lease, Declaration, Hospital Space Lease, and Clinic Space Lease.** The Ground Lease, Declaration, Hospital Space Lease, and Clinic Space Lease shall have been executed.

5.7 **Approval of the Development Budget and Plans and Specifications**. Hospital shall have approved (i) the Development Budget, and (ii) conceptual plans and specifications pursuant to the provisions set forth herein.

5.8 **Certificate of Need**. Hospital has secured a Certificate of Need for the Project from the State of Illinois Health Facilities and Services Review Board.

If the Hospital Conditions are not, in Hospital's reasonable judgment, satisfied during the Due Diligence Period, Hospital may, on or prior to the expiration of the Due Diligence Period, either (i) terminate this Agreement by written notice to Developer, in which event neither party shall have further obligations hereunder, except as specifically set forth herein, or (ii) waive any Hospital Condition that has not been satisfied, and proceed to Closing.

6. **Physician Participation Plan**. Developer shall offer certain qualified physicians the opportunity to invest in the equity required to capitalize Ground Lessee on a basis that is equal to the terms offered to Developer's other potential cash equity investors, subject to the terms of Developer's operating agreement, but containing at least the following terms:

The governing documents used for physician investments shall contain the following provisions:

a. The Ground Lessee will borrow, from a third party financial institution ("Lender"), an amount acceptable to Ground Lessee, not to exceed eighty percent (80%) of the Construction Costs.

b. The equity required by the Ground Lessee to construct and own the Buildings will be provided by the Developer; provided, however, Developer may raise up to one hundred percent (100%) of the equity from physicians or physician practice groups who will specifically be full-time occupants of the Buildings ("**Physician Equity**") consistent with the following plan:

(i) Developer will guarantee the loan, if required, and tenants will not be required to guarantee the loan.

(ii) Notwithstanding the fact that Developer alone will guarantee the loan to Ground Lessee, tenants and Developer will share on a pari passu basis the income, loss, gain, distributions and other economic attributes of the Ground Lessee.

(iii) The Company will be managed by Agracel, Inc.

(iv) Physician Equity will be required to be paid thirty (30) days prior to closing of the construction loan for the initial construction of the Improvements.

(v) At any time that a physician, health care provider or medical service or equipment provider elects to invest in the Project, Developer shall immediately identify the name of the physician to Hospital.

7. **Preparation of Plans and Specifications; Hospital Approval**. Hospital shall have the right to reasonably approve the following with respect to the Plans and Specifications: (i) the core and shell of the Buildings and the Connectors are designed consistent with the concept mutually agreed upon in the Project Conceptualization Period, and (ii) any tenant improvements to be completed by Developer are consistent with the proposed floor plan, space plan and millwork plan for Hospital's space in Building 1 that was developed during the Project Conceptualization Period (collectively, the "**Hospital Approval Items**"). Prior to commencing construction of the Improvements, Developer shall provide Hospital with copies of the Plans and Specifications and Hospital will not unreasonably withhold its approval of the Hospital Approval Items. Upon submission of such copies to Hospital, Hospital shall have ten (10) business days to either approve the Hospital Approval Items or provide written objections thereto. Developer shall, within ten (10) business days following delivery of such objections, make such revisions as reasonably requested by Hospital.

Developer will cause the Improvements to be constructed in a Class A manner, and the features and qualities of the Improvements shall be included on the Plans and Specifications when delivered to Hospital for Hospital's review and approval. In addition to the foregoing, the design and construction of the Improvements will comply with all Applicable Law. Two (2) sets of the Plans and Specifications as approved by Hospital and Developer (the "**Final Plans**") shall be initialed by the parties, and one approved set shall be delivered to each of Hospital and Developer. Approval of the Plans and Specifications and the Final Plans shall not imply Hospital's approval of the structural or engineering designs, or quality or fitness of any material or device used or that the same are in compliance with all Applicable Law (it being agreed that such compliance is solely the Developer's responsibility), nor shall it relieve Developer of the responsibility of designing structurally sound improvements free of defects, nor shall such approval impose any present or future liability on Hospital to Developer or any third party. Developer shall pay the costs of completing the Plans and Specifications and the Final Plans for the Improvements and any and all costs required to obtain the Approvals necessary to commence construction of the Improvements.

8. **Closing**. The parties shall use good faith, commercially reasonable efforts to achieve Closing within the time period contemplated in this Agreement. Closing shall be deemed to have occurred upon the full execution of the Ground Lease, Declaration, Hospital Space Lease, and Clinic Space Lease.

9. **Construction of Improvements**.

9.1 **Timing**. Developer shall use commercially reasonable efforts, subject to events of Force Majeure and Hospital Delay, to cause the Improvements to be Substantially Completed on or prior to the Anticipated Completion Date.

9.2 **Process**. In connection with the construction of the Improvements, Developer shall solicit, at a minimum, one bid from Akra Buildings, Inc. or any other general contractor with a principal place of business in Effingham County, Illinois (the "**County**") to serve as a general contractor for the Project ("**General Contractor**"). Developer and the General Contractor may, at their option, have the various components of the Project constructed by subcontractors so long as each subcontractor is selected pursuant to the process described in this Section 9.2. Following Developer's receipt of the bid(s), Developer and Hospital shall mutually select the lowest priced, responsive, and responsible General Contractor (if more than one bid was secured) and any subcontractor for completion of the Project (each, a "**Contractor**") and shall require that such Contractor(s) construct the Project pursuant to a guaranteed maximum price contract. To the extent that subcontractors are used on the Project, Developer and/or the General Contractor will use their best efforts to solicit bids from subcontractors and to select subcontractors located in the County; provided, however, to the extent that a subcontractor does not exist for a particular building trade within the County, or to the extent that a subcontractor in the County does not possess the experience and skill needed to complete a particular part of the Project, then Developer and/or General Contractor may solicit bids from subcontractors and may select subcontractors located outside of the County. All subcontractors performing work for the General Contractor shall be subject to Hospital's reasonable approval. Developer, or its Contractor, shall provide a payment and performance bond in an amount equal to the full amount of the Construction Costs issued by a surety reasonable acceptable to Hospital, naming Hospital as a co-obligee or co-payee. The cost of the payment and performance bond shall be included the Development Budget.

9.3 **Failure to Timely Complete**. Rent under the Ground Lease shall commence upon Substantial Completion. Subject to events of Force Majeure and Hospital Delay, at its election, Hospital may either (i) if Developer is unable to cause Substantial Completion of the Improvements on or prior to thirty (30) days following the Anticipated Completion Date, impose a per diem charge upon Developer equal to One Thousand and 00/100 Dollars ($1,000.00) for each day beyond the date that is thirty (30) days following the Anticipated Completion Date that the

Improvements are not Substantially Complete, or (ii) if Substantial Completion is not achieved within one hundred fifty (150) days following the Anticipated Completion Date, terminate the Ground Lease as described in the following sentence in which case Hospital will pay Developer the Appraised Value (if any) of the partially completed Improvements less the appraised value of the estimated cost to complete the Improvements. If Developer fails to pay Hospital such per diem charge when due, or if Hospital elects to terminate the Ground Lease under clause (b) in the immediately preceding sentence, then, after the expiration of applicable notice and cure periods hereunder and under the Ground Lease (including without limitation those to be given to a leasehold mortgagee under the Ground Lease), and subject to those cure rights given to such mortgagee, Hospital shall have the right to terminate this Agreement and the Ground Lease by giving Developer and mortgagee written notice of such election within sixty (60) days after the expiration of such cure periods. Subject to events of Force Majeure and Developer Delay, if Developer is unable to cause Substantial Completion of the Improvements on or prior to the date that is thirty (30) days following the Anticipated Completion Date as a result of Hospital Delay, Developer, at its election, may impose a per diem charge upon Hospital equal to One Thousand and 00/100 Dollars ($1,000.00) for each day beyond the Anticipated Completion Date that the Improvements are not Substantially Complete as a result of such delay.

9.4 **Cost**. Developer shall pay all costs and expenses incurred in connection with the development and construction of the Improvements and Infrastructure, including, without limitation, Construction Costs, insurance, and Developer's legal fees.

9.5 **Procurement and Compliance with Approvals**. Developer shall procure, at Developer's sole cost, the Approvals, any and all necessary building permits, and the Certificate of Occupancy (excluding any Certificate of Need from the Illinois Health Facilities and Services Review Board, which, if required, Hospital shall pay for and obtain for Building 1 with the assistance of Developer). Developer shall deliver to Hospital, at Developer's expense, evidence of compliance with all Approvals, including payment of all permit fees and other construction fees and escrows, if any.

9.6 **Supervision**. Developer shall supervise the construction of the Improvements so that they are constructed in a good and workmanlike manner and in accordance with this Agreement, the Final Plans, the Approvals, the Ground Lease and all Applicable Law. Construction of the Project, once undertaken, shall proceed in a continuous and reasonably expeditious manner until completion of the Project is achieved.

9.7 **Open Book**. The Project will be developed in an "open book" manner where all financial information related to the construction of the Project will be shared with Hospital as and when reasonably requested by Hospital.

9.8 **Critical Path**. Attached as Exhibit H is a conceptual master schedule that includes a detailed critical path timeline for the development, construction, and completion of the Improvements that has been approved by Hospital (the **"Critical Path"**). At completion of the Project Conceptualization Period, Developer shall furnish a revised Critical Path that shall supersede Exhibit H hereto. After completion of the Due Diligence Period, Developer shall prepare in writing and furnish to Hospital, at least monthly, a job progress schedule reflecting the status of the development and construction of the Project and the projected time to complete the same and reflecting any delays in any of the various stages of such work set forth in the Critical Path and all proposed plans and undertakings to correct or accommodate such delays, all to the end that Hospital shall be fully apprised in writing from month to month as to the status of such construction.

9.9 **Compilation of Warranties**. Upon Substantial Completion of the Improvements, Developer will require the Contractors to obtain and compile any and all warranties and guarantees received from all contractors, subcontractors and suppliers of equipment for the Improvements. Developer, at its sole cost and expense, will cause the Contractors to cause the applicable Contractor, subcontractor or supplier to remedy any deficiency, error, defect or insufficiency in construction to the Improvements caused by defective, insufficient, erroneous, or poor workmanship or materials which are brought to its attention by written notice within a period of two (2) years from Substantial Completion.

10. **Construction Site Safety and Logistics**. Developer shall install and maintain appropriate and necessary signage, reasonably acceptable to Hospital and Developer directing all construction traffic to the Project Premises, parking, storage areas, and staging areas using routes reasonably acceptable to Hospital and Developer.

10.1 **Logistics Plan**. Developer shall prepare and submit to Hospital for its reasonable approval a construction site logistics plan (the **"Logistics Plan"**) to coordinate the efforts of Hospital, Developer and their respective contractors, and governmental agencies. Developer shall submit the Logistics Plan to Hospital prior to Commencement of Construction of the Improvements. Hospital shall promptly review, comment on, and reasonably approve the Logistics Plan prior to Developer proceeding with construction on the Project Premises. If Hospital fails to respond in writing with any specific objections within five (5) business days of Developer's request for approval, such Logistics Plan shall be deemed approved. The Logistics Plan shall be consistent with ongoing construction activities on the Campus. The Logistics Plan shall contain a scaled drawing (**"Drawing"**) showing all applicable rights-of-way, existing improvements within close proximity of the Improvements, and those items specifically identified below:

10.1.1 **Contractor Facilities.** The Drawing shall show the presently contemplated approximate location of contractor, architect, and subcontractor field offices, storage areas, and staging areas;

10.1.2 **Access Points.** The Drawing shall show the presently contemplated approximate location of material delivery points and other access points to the Project Premises and parking, storage, and staging areas;

10.1.3 **Parking**. The Drawing shall identify the presently contemplated approximate location of parking areas for construction workers, other construction personnel, and visitors. Such parking areas shall be paved or all weather gravel surface and located as mutually agreed by Hospital and Developer;

10.1.4 **Construction Signs.** All directional and information signage related to Developer's construction activities;

10.1.5 **Excavation Haul Routes.** The Drawing shall identify the presently contemplated approximate location of haul routes. Hospital and Developer shall cooperate in determining the placement of surplus excavation at a location reasonably convenient to the Project Premises on the Campus; and

10.1.6 **Sanitation.** The Logistics Plan shall describe trash and litter handling and disposal methods and frequencies. The Drawing shall show proposed, approximate locations of temporary dumpsters and temporary toilet facilities. The Logistics Plan shall identify the proposed, approximate location for washing down concrete trucks. Developer shall maintain the Campus free of windblown debris to the extent arising from the construction of the Improvements.

10.2 **Other Requirements.**

10.2.1 **Permitted Times for Construction.** No construction work shall be permitted during such times prohibited or requested by any governing authority.

10.2.2 **Notice of Unusual Construction.** Developer shall notify Hospital at least 24 hours prior to the commencement of any unusual or excessive sound causing construction on the Campus or within any right-of-way on the Campus or prior to any significant and unusual usage of rights-of-way by heavy equipment.

10.2.3 **Insurance.** Developer shall procure and maintain during the course of construction and installation of the Improvements a policy or policies of insurance, written by a responsible insurance company or companies, insuring Developer, Ground Lessee and Hospital against any and all losses, claims, demands or actions for injury to or death of any one or more persons in any one occurrence to the limit of not less than Two Million Dollars ($2,000,000), and for damage to property in an amount not less than Two Million Dollars ($2,000,000), which insurance will cover accidents or occurrences: (i) occurring on the Campus and Project Premises; and (ii) arising from, related to or connected with the construction of the Improvements and any other improvements described herein. Developer shall also procure and maintain at all times any insurance required by and specified within the Ground Lease. If requested by Hospital, Landlord shall provide to Hospital certificates of such insurance. If permitted, all policies of insurance shall contain a provision to the effect that they may not be canceled except upon thirty (30) days prior written notice to Hospital.

11. **Representatives of Developer and Hospital.** Developer designates R. Dean Bingham as its representative(s) for all purposes of this Agreement. Hospital designates Dave Storm as its representative(s) for all purposes of this Agreement. Wherever this Agreement requires any notice to be given to or by a party, or any determination or action to be made or taken by a party, the representative(s) of each party shall act for and on behalf of such party, and the other party shall be entitled to rely thereon. Either party may designate one or more substitute representatives for all or a specified portion of the provisions of this Agreement, subject to notice to the other party of the identity of such substitute representative(s). From time to time during construction of the Improvements, Hospital, and its employees, agents and consultants may, but shall not be required to, examine the status of the construction without obtaining permission from Developer and without delivering any prior notice of such entry.

12. **Developer's Additional Responsibilities**. In addition to its obligations elsewhere expressed in this Agreement, Developer shall have the following additional responsibilities:

12.1 **Management of Contractor(s)**. To require the Contractor(s) to arrange for and coordinate the obtaining of all labor and materials required to develop, construct and furnish the Improvements in accordance with the Final Plans, and the terms of this Agreement and the Ground Lease.

12.2 **Compliance with Construction Loans**. To comply with all requirements of the construction loan during construction of the Improvements, including, without limitation, providing interim waivers from contractors and subcontractors and other documents necessary to receive construction funds.

12.3 **Mechanics Lien Waivers**. Upon completion of the Improvements, Developer shall deliver to Hospital, duly executed waivers of mechanic's liens signed by each contractor and subcontractor which provided labor or materials on the Improvements.

13. **Representations**.

13.1 **Marketable Title**. Hospital represents that it has good, record and marketable title in fee simple to the Campus, subject only to the Declaration, Ground Lease, and such matters disclosed in the Title Commitment and Survey.

13.2 **No Breach of Other Agreements**. Each of the parties represents to the other that neither will violate any other agreements or documents by which it may be bound by entering into this Agreement nor performing their respective obligations hereunder.

13.3 **Authority and Enforceability**. Each of the parties hereto represents and warrants to the other that it is duly authorized to execute, deliver and perform this Agreement, that this Agreement is legal, valid, binding and enforceable against such party in accordance with its terms except as enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws that affect the enforcement of creditors' rights generally; and that such party's execution, delivery and performance of this Agreement does not violate or constitute a breach of any agreement to which such party is a party, or any law, order, rule, regulation, decree or award of any applicable governmental authority.

13.4 **No Brokers**. With respect to the transactions contemplated by this Agreement, each of the parties represents to the other that it has not engaged any broker in connection with such transactions. Each party hereto agrees that if any person or entity makes a claim or files a lien upon any portion of the Campus for brokerage commissions or finder's fees related to such transactions, and such claim is made by, through or on account of any acts or alleged acts of said party or its representatives, said party will protect, indemnify, defend and hold the other party free and harmless from and against any and all loss, liability, cost, damage and expense (including reasonable attorneys' fees) in connection therewith.

14. **Confidentiality**. Developer will use commercially reasonable efforts to cause all information regarding Hospital (and its Affiliates) obtained in connection with the negotiation and performance of this Agreement to be treated as confidential and will not use, and will not

knowingly permit others to use, any such information in a manner detrimental to Hospital (or its Affiliates); provided, however, that the foregoing shall not apply to information that: (a) was known by Developer when received; (b) is or thereafter becomes lawfully obtainable from other sources; (c) is necessary or appropriate to disclose to any regulatory authority having jurisdiction over Developer or any Affiliate thereof or as otherwise required by law, or (d) that must reasonably be disclosed to Marshall Clinic as Developer works with Marshall Clinic on Building 2 (excluding any financial data that Hospital or any Affiliate provides to Developer). Developer acknowledges that there is not an adequate remedy at law for the breach of this Section and that, in addition to any other remedies available, injunctive relief may be granted for any such breach. The provisions of this Section shall survive the termination of this Agreement for a period of one (1) year. Notwithstanding anything to the contrary herein, to the extent that this Agreement is terminated and Hospital reimburses Developer for its Predevelopment Expenses, the Due Diligence Materials will not be considered confidential under this Section 14, and Hospital may use and distribute the Due Diligence Materials in any manner that it deems acceptable.

15. **Survival of Terms; Indemnification.**

15.1 **Survivability**. Except for the terms and conditions that expressly survive the expiration or termination of this Agreement, all of the terms and conditions of this Agreement, together with the representations, warranties and covenants contained herein or in any instrument or document delivered or to be delivered pursuant to this Agreement, shall be applicable until the earlier of the (i) execution of the Ground Lease, or (ii) first anniversary of the termination of the Agreement.

15.2 **Indemnification By Developer**. Developer shall indemnify, defend and hold Hospital and its Affiliates harmless by, against and in respect of any and all damage, loss, deficiency, liability, obligation, commitment, cost or expense (including reasonable attorneys' fees) resulting from, or in respect of, any misrepresentation, breach of warranty, or non-fulfillment of any obligation on the part of Developer under this Agreement, any document relating thereto or contained in any schedule or exhibit to this Agreement, or from any misrepresentation in, omission from, or failure to keep current any certificate, schedule, exhibit, other agreement or instrument by Developer or under the control of Developer, or from Developer's or Developer's agents', employees', representatives' or independent contractors' access or use of the Project Premises and/or the construction of the Building, and all demands, assessments, judgments, costs and reasonable attorneys' fees and other expenses arising from, or in connection with any action, claim, obligation, liability, expense, lawsuit, demand, suit, inquiry, hearing, investigation, notice of a violation, litigation, proceeding, arbitration, or other dispute, whether civil, criminal, administrative or otherwise, whether pursuant to contractual obligations or otherwise (**"Claim"**), incident to any of the foregoing, except to the extent such Claim is the result of Hospital's negligence, recklessness or willful misconduct.

15.3 **Indemnification by Hospital**. Hospital shall indemnify, defend and hold Developer and its Affiliates harmless by, against and in respect of any and all damage, loss, deficiency, liability, obligation, commitment, cost or expense (including reasonable attorneys' fees) resulting from, or in respect of, any misrepresentation, breach of warranty, or non-fulfillment of any obligation on the part of Hospital under this Agreement, any document relating thereto or contained in any schedule or exhibit to this Agreement or from any misrepresentation in, omission from, or failure to keep current any certificate, schedule, exhibit, other agreement or instrument by Hospital or under the control of Hospital and all demands, assessments, judgments, costs and reasonable attorneys' fees and other expenses arising from, or in connection with any Claim incident to any of the foregoing, except to the extent such Claim is the result of Developer's negligence, recklessness or willful misconduct.

15.4 **Third Party Claims**. The following procedures shall be applicable with respect to indemnification for third-party Claims. Promptly after receipt by the party seeking indemnification hereunder (hereinafter referred to as the "**indemnitee**") of notice of the commencement of any action or the assertion of any Claim, liability or obligation by a third party (whether by legal process or otherwise), against which Claim, liability or obligation the other party to this Agreement (hereinafter the "**indemnitor**") is, or may be, required under this Agreement to indemnify such indemnitee, the indemnitee will, if a Claim thereon is to be, or may be, made against the indemnitor, notify the indemnitor in writing of the commencement or assertion thereof and give the indemnitor a copy of such Claim, process and all legal pleadings. Failure of the indemnitee to provide such notice shall not limit or exclude the indemnitee from obtaining indemnification under this Section, unless such failure has a material adverse affect on the ability of the indemnitor to defend against any such claim. The indemnitor shall have the right, at its sole discretion, to assume the defense of such action. The indemnitee shall cooperate in the defense of such Claims. If the indemnitor shall assume or participate in the defense of such audit, assessment or other proceeding as provided herein, the indemnitee shall make available to the indemnitor all relevant records and take such other actions and sign such documents as are necessary to defend such audit, assessment or other proceeding. If the indemnitee shall be required by judgment or a settlement agreement to pay any amount in respect of any obligation or liability against which the indemnitor has agreed to indemnify the indemnitee under this Agreement, the indemnitor shall reimburse the indemnitee an amount equal to the amount of such payment. An indemnitor shall have the right to settle any Claim against the indemnitee.

16. **Building Management**. At all times that Hospital or an Affiliate of Hospital leases space in one or both of the Buildings, Hospital or its Affiliate will have the option to (a) select a person or entity (the "**Property Manager**") that will be responsible for managing the Building and performing all maintenance, cleaning or janitorial, waste disposal (general, hazardous and medical waste), care, security, snow removal, pest control, lawn care, landscaping and safety services for the Project Premises (each a "**Management Responsibility**" and collectively, "**Management Responsibilities**"), (b) to serve as the Property Manager itself and agree to perform the Management Responsibilities, or (c) elect to appoint a Property Manager, but retain the right to perform or contract with a third party to perform certain Management Responsibilities. All Management Responsibilities shall be performed in a manner and at a frequency approved by the owner of the Buildings, which will be memorialized in a separate agreement by and between the owner and the Property Manager. In the event that Developer or an Affiliate of Developer is not selected to serve as the Property Manager or in the event that Developer is selected to serve as Property Manager, but Hospital agrees to perform a particular Management Responsibility, then Developer will not be entitled to charge Hospital or any other tenant leasing space in the Buildings a management fee or fee for any Management Responsibility being performed by Hospital or a third-party engaged by Hospital to perform a Management Responsibility, and as a result, Hospital will be responsible for all reasonable and customary management costs incurred in connection with performing the services of Property Manager, engaging the services of a Property Manager or for

any costs incurred by Hospital or a third party engaged by Hospital to perform a Management Responsibility (collectively, "**Management Costs**"). At the request of Hospital, Developer agrees to pass through any Management Costs as an operating expense to any tenant leasing space in the Buildings. Further, at any time and from time to time, Hospital shall have the right to require the replacement of any third-party Property Manager that is not otherwise affiliated with Hospital, if, in Hospital's reasonable discretion, the Property Manager has failed to adequately perform its duties. Notwithstanding the foregoing, as of the date of this Agreement, Agracel, Inc. is hereby approved by Hospital as the initial Property Manager. At any time that Developer or its Affiliate serves as the Property Manager, it may charge all tenants leasing space in the Project a management fee equal to three percent (3%) of the net rents collected.

17. **Notices**. Except for the notices sent by Hospital and Developer under Section 4.1.2, any notice, consent, approval, or other communication which is provided for or required by this Agreement must be in writing and may be delivered in person to any party or may be sent by Federal Express or other reputable courier service regularly providing evidence of delivery, or registered or certified U.S. Mail, with postage prepaid, return receipt requested (with charges paid by the party sending the notice). Any such notice or other written communications shall be deemed received by the party to whom it is sent (i) in the case of personal delivery, on the date of delivery to the party to whom such notice is addressed as evidenced by a written receipt signed on behalf of such party, (ii) in the case of courier delivery, the date receipt is acknowledged by the party to whom such notice is addressed as evidenced by a written receipt signed on behalf of such party, and (iii) in the case of registered or certified mail, the earlier of the date receipt is acknowledged on the return receipt for such notice or five (5) business days after the date of posting by the United States Post Office. For purposes of notices, the addresses of the parties hereto shall be as follows, which addresses may be changed at any time by written notice given in accordance with this provision:

If to Developer:

Effingham MOB, LLC
2201 Willenborg, St #2
Effingham, Illinois 62401
Attn: Dean Bingham
Phone: 217-342-4443

With copies to:

Craig & Craig, LLC
1807 Broadway Ave.
Mattoon, Illinois 61938
Attn: Robert G. Grierson
Phone: 217-234-6481

If to Hospital:

St. Anthony's Memorial Hospital
503 N. Maple Street
Effingham, Illinois 62401
Attn: Dave Storm
Phone: 217-347-1333

With copies to:

Hall, Render, Killian, Heath & Lyman, P.C.
Suite 2000, One American Square
Indianapolis, Indiana 46282
Attn: Andrew Dick
Phone: 317-977-1491

18. **Naming Rights.** Hospital shall have the right to name the Building, provided that such name shall be approved by Developer in its reasonable discretion.

19. **Time of the Essence**. Time is of the essence in the performance of all obligations by the parties under this Agreement.

20. **Press Releases**. No press release or other public announcement or statement concerning this Agreement or the transactions contemplated hereby shall be made by either party without advance approval thereof by all parties, except as may be required by law.

21. **Waiver of Trial by Jury**. The parties hereby knowingly, voluntarily and intentionally waive the right either may have to a trial by jury in respect to any litigation based hereon, or arising out of, under or in connection with this Agreement and any agreement contemplated to be executed by the parties in conjunction herewith, or any course of conduct, course of dealing, statements (whether verbal or written) or actions of either party. This provision is a material inducement for the parties entering into this Agreement.

22. **Assignment.**

22.1 Except as otherwise provided in Section 22.2 below, neither party hereto shall have the right to assign this Agreement or any of its rights hereunder without the prior written consent of the other party, and any such assignment in the absence of such written consent shall, for all purposes, be deemed null and void.

22.2 Notwithstanding the provisions of Section 22.1 hereof, Hospital shall have the absolute right and privilege, at its sole option and in its sole discretion, at any time and from time to time, to assign Hospital's rights and interests under this Agreement, subject to the provisions hereof and all of the rights of Developer hereunder, in whole or in part, to an Affiliate or to any person or entity participating with Hospital in the acquisition, ownership or development of all or any portion of the Project.

23. **Developer Default**. If an Event of Default exists, as defined herein, prior to execution of the Ground Lease, Hospital shall have the right, in addition to all other rights and remedies available to Hospital at law or in equity, to terminate this Agreement by giving written notice of such termination to Developer. Any one or more of the following events shall constitute an "Event of Default" by Developer under this Agreement:

23.1 If Developer shall fail to observe, perform or comply with any term, covenant, agreement or condition of this Agreement which is to be observed, performed or complied with by Developer under the provisions of this Agreement, and such failure shall continue uncured for thirty (30) days after the giving of written notice thereof by Hospital to Developer specifying the nature of such failure (or such longer period of time as may be needed in the exercise by Developer of due diligence to effect a cure of any non-monetary default);

23.2 If Developer shall make a general assignment for the benefit of creditors;

23.3 If any petition shall be filed against Developer in any court, whether or not pursuant to any statute of the United States or of any state, in any bankruptcy, reorganization, dissolution, liquidation, composition, extension, arrangement or insolvency proceedings, and such proceedings shall not be dismissed within thirty (30) days after the institution of the same, or if any such petition shall be so filed by Developer;

23.4 If, in any proceeding, a receiver, trustee or liquidator be appointed for all or a substantial portion of the property and assets of Developer, and such receiver, trustee or liquidator shall not be discharged within thirty (30) days after such appointment.

24. **Default of Hospital**. If Hospital fails to comply with or perform in any respect any of the material terms and provisions to be complied with or any of the obligations to be performed by Hospital under this Agreement prior to execution of the Ground Lease, and such failure continues uncured for a period of thirty (30) days after written notice to Hospital specifying the nature of such default (or such longer period of time as may be needed in the exercise by it of due diligence to effect a cure of any such non-monetary default), then Developer shall have the right, in addition to all other rights and remedies available to Developer at law or in equity, at its option, to terminate this Agreement by giving written notice thereof to Hospital. After execution of the Ground Lease, the terms of the Ground Lease shall govern defaults by Hospital and remedies therefor.

25. **Actions Upon Termination**. Upon any termination of this Agreement prior to Closing, provided that the Hospital has made all payments to Developer required under Section 4.1.2 hereof, Developer shall deliver and assign its interest to Hospital or to such other person as Hospital shall designate in writing, all plans, materials, supplies, equipment, keys, contracts, documents and books and records pertaining to this Agreement or the development of the Improvements within the possession or control of Developer (collectively, "**Due Diligence Materials**"). Developer shall also furnish all such information, take all such other action and shall cooperate with Hospital as Hospital shall reasonably require in order to effectuate an orderly and systematic termination of Developer's duties and activities hereunder and transfer of duties to a successor.

26. **Governing Law**. This Agreement shall be governed by and construed in accordance with the laws of the State of Illinois.

27. **Counterparts**. This Agreement may be executed in multiple counterparts, each of which shall be deemed an original but all of which shall constitute one and the same Agreement.

28. **Entire Agreement**. This Agreement shall contain the entire understanding among the parties and supersedes any prior understanding and agreements between them respecting the Project. There are no representations, agreements, arrangements or understandings, oral or written, between or among, the parties hereto relating to the subject matter of this Agreement which are not fully expressed herein.

29. **Severability**. This Agreement is intended to be performed in accordance with, and only to the extent permitted by, all Applicable Law. If any provision of this Agreement or the application thereof to any person or circumstance, shall, for any reason and to any extent, be invalid or unenforceable, the remainder of this Agreement and the application of such provision to other persons or circumstances shall not be affected thereby, but rather shall be enforced to the greatest extent permitted by Applicable Law.

30. **Section Headings**. The section headings are inserted only as a matter of convenience and for reference and in no way define, limit or describe the scope or intent of this Agreement or in any way affect this Agreement.

31. **Successors and Assigns**. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and permitted assigns. Whenever the terms "Hospital" and "Developer" are used herein, they shall be deemed to include Hospital and Developer and their respective successors and permitted assigns in the same manner and to the same extent as if specified each time said terms appear herein.

32. **Estoppel Certificates**. Each party hereto shall, from time to time, upon not less than twenty (20) days' notice from the other party, execute and deliver to the other party a certificate stating whether or not, to the best of the certifying party's knowledge, that this Agreement is unmodified and in full force and effect, or, if modified, that this Agreement is in full force and effect as modified, and stating the modifications and stating whether or not, to the best of the certifying party's knowledge, the other party is in default in any respect under this Agreement, and, if in default, specifying the nature and character of such default.

33. **Amendment**. This Agreement may not be amended, altered or modified except by instrument in writing and signed by the parties hereto.

34. **Property Taxes and Tax Division**. The taxes and assessments (collectively, "**Taxes**") for the Project Premises shall be prorated between Hospital and Developer as of the date of the Closing ("**Proration Date**"). For example, if the Proration Date is December 31, 2014, then Hospital would be responsible for all Taxes assessed against the Project Premises that are payable in 2015, and Developer would be responsible for all taxes assessed against the Project Premises that are due and payable in 2016 and at any point in time thereafter so long as the Ground Lease is in place. Because the Project Premises are currently taxed as a portion of a larger parcel, Hospital shall pay any Taxes on the larger parcel due and payable through the Proration Date to taxing authorities,

and shall continue to pay the real property taxes assessed and billed against the larger parcel, including the Project Premises, on or before the due date thereof, provided that Developer pays its allocable portion of such Taxes as set forth below. Developer and Hospital agree to cooperate and use diligent efforts, after Substantial Completion, to see that the Project Premises are promptly delineated as a separate tax parcel to the extent possible.

The Taxes allocable to the Project Premises (which shall be prorated as contemplated above) shall be determined in a fair and equitable manner based on the relative assessed values of the improvements and land for the larger parcel as compared with the assessed values for the Project Premises, or on such other basis as mutually agreed to by the parties. During construction of the Improvements, the value attributable to the Improvements will take into account the status of the construction of such Improvements. Such determination shall continue to govern the responsibility for all bills for Taxes until the "Tax Division Date" (as defined below). Hospital shall submit to Developer, copies of the tax bills and Hospital's calculation of the amount owed by Developer at least thirty (30) days prior to the date the tax installment in question is due and payable and Developer agrees to pay sums to Hospital within five (5) days of the due date of such tax installment in question.

As used herein the "**Tax Division Date**" means the date on which the last of the following events occurs (i) the Project Premises are made a separate tax parcel (with no other tax parcel numbers affecting the Project Premises related solely to the Project Premises and no other property) and (ii) separate tax bills have been issued for the Project Premises. If Hospital fails to pay such taxes and assessments when due, and provided Developer has paid the sums owing by Developer, Developer shall have the right to pay such taxes and assessments and seek reimbursement from Hospital on demand. In addition to Developer's right to reimbursement, Developer shall have the right to offset, against the rent payable by it under the Ground Lease, the amounts owed to it hereunder. If either party fails to pay to the other any amounts due under this Section, such amounts shall bear interest (unless such sum is offset as set forth in the preceding sentence), until paid in full, at a rate per annum equal to the Interest Rate as defined in the Ground Lease.

35. **Effect of Closing**. This Agreement shall terminate that Term Sheet by and between Developer and Hospital which became fully executed on May 14, 2014. Notwithstanding anything to the contrary contain in this Agreement, if the Closing occurs, this Agreement shall be terminated and superseded and replaced by the Ground Leases, Declaration, and Hospital Space Lease, and this Agreement shall be null and void and of no further force or effect.

[signatures are on the following page]

IN WITNESS WHEREOF, the undersigned have duly executed and delivered this Agreement as of the date first set forth above.

HOSPITAL:

ST. ANTHONY'S MEMORIAL HOSPITAL
OF THE HOSPITAL SISTERS OF THE
THIRD ORDER OF ST. FRANCIS

By:________________________
Dave Storm, Director of Finance,
at the direction of Theresa Rutherford,
President & CEO

DEVELOPER:

EFFINGHAM MOB, LLC

By: Agracel, Inc., its manager

By:________________________
R. Dean Bingham
President

1585591v9

EXHIBIT A

DESCRIPTION OF THE CAMPUS

Tract #1: Lot 5 of First Addition to Medical Park Subdivision No. 1 (reference made to Book 1498 page 245, Plat #258A in the Effingham County Recorder's Office); situated in the City of Effingham, County of Effingham and State of Illinois.

Tract #2: A part of Section 20, Township 8 North, Range 6 East of the 3rd P.M., Effingham County, Illinois, and, Lot 2 of First Addition to Medical Park Subdivision No. 1 (reference made to Book 1498 page 245, Plat #258-A in the Effingham County Recorder's Office), and, Lots 1A, 1B, 2A and 2B in Medical Park Subdivision No. 2 (reference made to Plat #232-B and Book 1366 page 54 in the Effingham County Recorder's Office), being more particularly described as follows: Beginning at the Northwest corner of Lot 2 in Medical Park Subdivision No. 3, Fourth Addition (reference made to Book 2346 page 17, Plat #349-A in the Effingham County Recorder's Office), being a point; thence S 00°35'40" W, all bearings are referenced to the Illinois State Plane Coordinate System East Zone Datum of 1983, to the Southwest corner of said Lot 2, a distance of 147.71 feet to a point; thence N 88°03'15" W along the North Rightof-Way line of Eden Avenue, a distance of 61.47 feet to a point; thence S 01°56'45" W along the West Right-of-Way line of Eden Avenue to the Northwest corner of Lot 1 of Medical Park Subdivision No. 3, Third Addition (reference Made to Book 2162 page 229, Plat #333-B in the Effingham County Recorder's Office), a distance of 60.00 feet to a point; thence S 01°24'40" W to the Southwest corner of said Lot 1, a distance of 141.64 feet to a point; thence N 88°03'15" W to the East line of said Lot 2 in First Addition to Medical Park Subdivision No. 1, a distance of 452.57 feet to a point; thence S 00°17'45" W along the East line of said Lot 2 to the Southeast corner of said Lot 2, a distance of 0.23 feet to a point; thence N 88°03'15" W along the South line of said Lot 2 to the Southwest corner of said Lot 2, a distance of 279.99 feet to a point; thence N 00°17'45" E along the West line of said Lot 2 to the Northwest corner of said Lot 2, a distance of 272.09 feet to a point; thence S 88°31'59" E along the North line of said Lot 2 to the Northeast corner of said Lot 2, a distance of 279.93 feet to a point; thence N 00°17'45" E along the East line of First Addition to Medical Park Subdivision No. 1 to the Northeast corner of Lot 5 in said First Addition to Medical Park Subdivision No. 1, a distance of 370.00 feet to a point; thence S 88°31'57" E along the South Right-of-Way line of Heritage Avenue to the Southeast corner of said Medical Park Subdivision No. 2, a distance of 238.67 feet to a point; thence N 01°28'03" E along the East Right-of-Way line of Heritage Avenue to the Southeast corner of said Lot 1A of said Medical Park Subdivision No. 2, a distance of 60.00 feet to a point; thence N 88°31'57" W along the North Right-of-Way line of Heritage Avenue to the Southwest corner of said Lot 2B, a distance of 300.00 feet to a point; thence N 01°28'03" E along the West line of said Lot 2B to the Northwest corner of said Lot 2B, a distance of 120.00 feet to a point; thence S 88°31'57" E along the South line of Northmore Heights Subdivision (reference made to Plat Book 4 page 66 in the Effingham County Recorder's Office) and Schafer Place Subdivision (reference made to Plat Book 8 page 80 in the Effingham County Recorder's Office) to the West Right-of-Way line of Maple Street, a distance of 844.29 feet to a point; thence S 02°09'09" W along the West Right-of-Way line of Maple Street, a distance of 8.76 feet to a point; thence Southeasterly along the West Right-of-Way line of Maple Street to the Northeast corner of Lot 1 in Medical Park Subdivision No. 3, Fifth Addition (reference made to Book 2443 page 17, Plat #357-A in the Effingham County Recorder's Office), being a curve to the left having a radius of 684.84 feet, an arc length of 265.62 feet, a chord bearing of S 08°57'33" E and a chord length of 263.96 feet to a point; thence N 89°35'20" W along the North line of said Lot 1 to the Northwest corner of said Lot 1, a distance of 308.49 feet to a point; thence S 00°35'40" W along the West line of said Lot 1, a distance of 205.00 feet to the Point of Beginning; situated in the City of Effingham, County of Effingham and State of Illinois.

EXHIBIT B

DEVELOPMENT BUDGET

	Shell	Fit Out	Total
St Anthony Hospital			
Architecture & General Requirements	$1,038,042	$1,222,799	
Structure	$485,892	$0	
Site & Civil	$110,430	$0	
Plumbing	$44,172	$208,136	
Sprinklers	$66,258	$0	
HVAC	$265,032	$650,425	
Electrical	$198,774	$520,340	
	$2,208,600	$2,601,700	$4,810,300
Other Tenants			
Architecture & General Requirements	$1,982,178	$1,101,210	
Structure	$927,828	$0	
Site & Civil	$210,870	$0	
Plumbing	$84,348	$187,440	
Sprinklers	$126,522	$0	
HVAC	$506,088	$585,750	
Electrical	$379,566	$468,600	
	$4,217,400	$2,343,000	$6,560,400
Architect			$892,806
Total Construction Cost			$12,263,506
Construction Financing			$245,270
Development Fee			$735,810
Legal, Misc.			$35,000
Total Project Costs			$13,279,586

Exhibit B 1 - Page 1

EXHIBIT C-1

GROUND LEASE TERMS

Ground Lease Summary – Any defined terms used herein but not defined in this Exhibit C-1 shall have the meaning as set forth in the Development Agreement.

Lessor:	The Hospital or such other entity who is the title holder of the land beneath the Leased Premises.
Lessee:	Ground Lessee
Premises:	The Leased Premises
Easement Areas:	Hospital and Ground Lessee will enter into the Declaration of Restrictions, Covenants, and Easements providing Ground Lessee with rights to a temporary construction easement, access, parking, ingress, egress, and utilities for the Buildings and the occupants of the Buildings.
Term:	The Ground Lease will be entered into between Hospital and Ground Lessee with an initial term of fifty (50) years. Ground Lessee will have two (2) consecutive options to renew the Ground Lease for a period of twenty-five (25) years each.
Rental Rate:	The ground rent rate shall be consistent with the fair rental value of the Leased Premises and Ground Lessee's rights to the Easement Areas, and the cost of the Improvements made by Hospital to the Easement Areas, as determined by a James H. Webster & Associates.
Commencement:	The Ground Lease will become effective and the term will commence upon execution. The ground rent payment will commence upon Substantial Completion.
Common Area Expenses:	Ground Lessee shall be responsible for all expenses associated with the Leased Premises, including the cost to maintain the Easement Area, Connectors, utilitiy consumption costs and real estate taxes.
Signage:	Developer to provide all necessary site wayfinding signage identifying the Buildings on the Campus, which will be consistant with Hospital's standard signage that is used throughout its hospital campus. Ground Lessee will provide the exterior building mounted signage on the Building 1 identifying Hospital and the exterior signage on Building 2 identifying Marshall Clinic, the syle and size of both signs will be subject to Hospital's approval.

Minimum Hold Period:	Developer or an Affiliate of Developer (each, a "**Developer Entity**") will hold an ownership interest in the Ground Lessee and maintain managing control of the Ground Lessee for a minimum of five (5) years ("**Hold Period**") following the rent commencement date of the Ground Lease. During the Hold Period, the Developer Entity will not sell, convey, assign or otherwise transfer its ownership interest in the Ground Lessee or relinquish its managing control of the Ground Lessee.
Option to Purchase:	Hospital shall have a one-time option to purchase either or both Buildings for a purchase price equal to the then appraised fair market value of the Building or Buildings in which Hospital elects to purchase. Hospital will be permitted to exercise its option on or after the fifteenth (15^{th}) anniversary of the commencement date of the Hospital Space Lease ("Hospital Exercise Date") so long as Hospital provides Ground Lessee with notice one hundred eighty (180) days prior to the Hospital Exercise Date of its intention to exercise its option to purchase. Notwithstanding the foregoing, Hospital's option to purchase Building 2 will be subject to a one-time option to purchase Building 2 held by Marshall Clinic under the Clinic Space Lease. Marshall Clinic's option to purchase Building 2 will be structured so that it is exercisable by Marshall Clinic on the fifteenth (15^{th}) anniversary of the commencement date of the Clinic Space Lease ("Clinic Exercise Date"), although it will require Marshall Clinic to provide notice to Developer of its intention to exercise the option at least two hundred forty (240) days prior to the Clinic Exercise Date. In the event that Marshall Clinic exercises its option to purchase Building 2, then Hospital's option to purchase Building 2 will terminate. If, on the other hand, Marshall Clinic waives or fails to exercise its option to purchase Building 2, Hospital will have the right to exercise its option to purchase Building 2 in accordance with the terms of this paragraph.
Right of First Refusal:	If Ground Lessee receives an unsolicited offer to Purchase its ownership interest in either or both Buildings or any ownership interest in Ground Lessee (each, an "Ownership Interest"), Hospital shall have a continuing Right of First Refusal to purchase the Ownership Interest. Ground Lessee shall provide notice to Hospital outlining the Ownership Interest to be sold, the name of the potential buyer and the purchase price. Hospital shall then have thirty (30) days to determine if it wishes to purchase the Ownership Interest at the same purchase price and on the same terms and conditions. If Hospital desires to purchase the Ownership Interest, Ground Lessee and Hospital shall enter into a formal purchase and sale agreement and move toward a closing. If Hospital does not desire to purchase the Ownership Interest, Ground Lessee shall have the right to pursue and close the sale of the Ownership Interest with the potential third-party buyer; provided, however, if, after Hospital waives its right of first refusal, Ground Lessee and a third party buyer negotiate a purchase price that is less than ninety five percent (95%) of the purchase price presented to Hospital, then Hospital shall once again have a right of first refusal to purchase the Ownership Interest at the third party purchase price. Hospital's right of first refusal shall be irrevocable and continuing such

that it will continue to apply to any subsequent offer to purchase an Ownership Interest. Notwithstanding the foregoing, Hospital's right of first refusal with respect to an Ownership Interest in Building 2 will be subject to a one-time right of first refusal to purchase Building 2 or any interest in Ground Lessee that is limited to Building 2 ("Building 2 Interest") held by Marshall Clinic under the Clinic Space Lease. Marshall Clinic's right of first refusal will be structured so that Ground Lessee must give Marshall Clinic notice of the first proposed transfer of a Building 2 Interest, and if Marshall Clinic waives its right of first refusal, then Ground Lessee must then offer the Building 2 Interest to Hospital in accordance with the terms and conditions set forth in this paragraph. Marshall Clinic's right of first refusal will terminate after the first transfer of a Building 2 Interest.

Use Restrictions:	The Project shall not be utilized for any purpose that conflicts with the Ethical and Religious Directives, nor shall the Ground Lease be interpreted in a manner that conflicts with the Ethical and Religious Directives. Ground Lessee shall require the same of all tenants or occupants of the Buildings, and as a result, the terms hereof shall be incorporated into any lease agreement, license agreement or occupancy agreement for space in the Buildings. The Project will be subject to the Use Restrictions set forth in Exhibit G. The terms of the Declaration will be incorporated into the Ground Lease.
Land Division:	Ground Lessee shall pursue a separate tax parcel identification from the required governing authority(s) for the Lease Premises and will complete any necessary legal land division to gain said separate tax parcel.
Construction Cost Transparency:	Ground Lessee shall share Construction Cost information with Hospital as it becomes available over the course of project development.
Property Management:	The Ground Lease shall incorporate the terms and conditions regarding property management that are set forth in Section 16 of the Development Agreement.
Non-Compete:	Lessee and Agracel, Inc., an affiliate of Lessee, will execute a joinder agreement that will be attached to the Ground Lease whereby both agree for themselves and for any of their affiliates (collectively, the "Developer Entities") that they will not use any information that they obtain from Hospital or any other tenant or subtenant that agrees to lease or sublease space in the Project (each, an "Occupant") regarding the Occupant's service lines, business model, business strategy, or any specifics about the Occupants space or equipment located within its space in the Project that Lessee receives or is privy to as a result of its role as the developer, owner and operator of the Project to benefit any other project or any other tenant, subtenant or occupant within any other project that the Developer Entities own, control, lease or manage in Effingham County, Illinois. Notwithstanding the foregoing, the Developer Entities will not be prohibited from owning, controlling, leasing or managing one or more

medical facilities within Effingham County, Illinois so long as the Developer Entities comply with the terms of this non-compete.

Compliance Language:	The Ground Lease shall incporate the compliance language set forth in Exhibit C-2.
Condition of the Premises:	Ground Lessee will accept the Premises in its "as-is, where is" condition with all faults and defects. Ground Lessor shall have no obligation to make any improvements to the Premises.

EXHIBIT C-2

COMPLIANCE LANGUAGE

Health Law and Regulatory Compliance. The parties agree that this Lease is intended to comply with all applicable state and federal laws, rules, regulations and accreditation standards including, but not limited to, HIPAA, OSHA and standards of accrediting bodies, including JCAHO standards, and all regulations governing use of facilities financed with tax-exempt bonds ("Laws"). If, at any time, this Lease is found to violate any applicable provision of these Laws, or if either party has a reasonable belief that this Lease creates a material risk of violating the Laws, and after consultation with the other party, and thirty (30) days after written notice to the other party, the parties shall renegotiate the portion of this Lease that creates the violation of the Laws. If the parties fail to reach agreement within one hundred twenty (120) days following said written notice, this Lease shall terminate.

It is also the intent and good faith belief that this Lease complies with the provisions of the Medicare and Medicaid Fraud and Abuse Statute and Regulations and the Stark Law and does not in any manner violate the foregoing laws. Subsequent to the execution of this Lease, should any provision of this Lease be deemed by either party to be contrary to the provisions said Statute, Law, regulations, or the "safe harbor" regulations, then the parties agree to attempt in good faith to renegotiate the problematic provision to the mutual satisfaction of the parties. In the event the parties are not able to mutually agree on modification of the problematic provision, then either party may terminate this Lease upon thirty (30) days written notice to the other party if the terminating party has a good faith belief that the problematic provision creates an unfavorable exposure under said Statute, Law, regulations or safe harbor provisions

EXHIBIT D-1

HOSPITAL SPACE LEASE TERMS

Hospital Space Lease Summary – Any defined terms used herein but not defined in this Exhibit D-1 shall have the meaning as set forth in the Development Agreement.

Landlord:	Ground Lessee
Tenant:	Hospital
Commencement Date:	The date that Landlord has completed Tenant's interior improvements and a certificate of occupancy has been issued such that Tenant is lawfully permitted to occupy the space.
Term:	Fifteen (15) year initial term with four (4) options to extend the initial term for periods of five (5) years each.
Rental Rate:	The annual base rent for the Premises shall be triple net ("NNN") as outlined below and paid in equal monthly installements. Base rent will not exceed $16.50 per rentable square foot for the first lease year during the Term, which includes the TI Allowance. Base rent will increase 2% on the anniversary of the Commencement Date and on on each annversary thereafter during the Term. The Base Rent amount set forth above does not account for any Overage (defined below) that may be financed by Landlord, which, if financed by Landlord, will be financed in accordance with the terms set forth below and treated as additional rent under the Hospital Space Lease. Unlike base rent, any Overage amount financed by Landlord will not be subject to a 2% annual increase.
Operating Expenses:	The rent provided for under the lease will be NNN, with Hospital being responsible for all ordinary operating expenses. Hospital and Landlord have agreed upon the operating expense language set forth in Exhibit D-2, which will be incorporated into the Hospital Space Lease.
Tenant Improvement Allowance:	Ground Lessee will provide Hospital with an allowance of $60.00 per square foot (the "TI Allowance") to design, permit, and construct Hospital's interior improvements. During the Project Conceptualization Period and the Due Diligence Period, Hospital and Developer may adjust the TI Allowance up or down depending upon the scope of the tenant improvements requested by Hospital. Once the TI Allowance has been set, to the extent that the cost of finishing Hospital's space exceeds the TI Allowance (an "Overage"), Hospital will have the option to either: (i) pay the entire amount of the Overage itself, or (ii) ask that Landlord pay all or a portion of the Overage. If Landlord pays any portion of the Overage, the amount of the Overage paid by Landlord will be amortized over the initial

term of Hospital's Space Lease, with interest at a rate of five percent (5%) per annum, and repaid by Hospital on a monthly basis at the same time that Hospital makes an installment of base rent and its share of operating expenses. Ground Lessee will manage the tenant improvement proccess at no cost to Hospital. Ground Lessee will perform the tenant improvement work on an open book basis with Hospital. To the extent that Hospital does not use all of its TI Allowance upon substantial completion of the Project, then the remaining balance will be made available to Hospital for a period of two (2) years following the substantial completion date for design, permitting and construction costs associated with additional tenant improvements to be made within the Building.

Permitted Use(s):	Outpatient medical services, associated physician offices and related services.
Compliance Language:	The Space Lease shall include the compliance language set forth in Exhibit C-2.

EXHIBIT D-2

OPERATING EXPENSE LANGUAGE

Operating Costs. In addition to Base Rent, Hospital shall pay to Developer, computed from the Commencement Date payable monthly and throughout the Term of this Lease, Hospital's Proportionate Share of Operating Costs. The term "Operating Costs," as used in this Lease, shall mean all reasonable and customary expenses and costs (other than special costs which are separately billed to and paid by specific tenants) of every kind and nature which Developer shall pay or become obligated to pay because of or in connection with the ownership, management, maintenance, repair, replacement and operation of the Project, including but not limited to the following:

1. Wages, salaries, fringe benefit costs, payroll taxes, unemployment compensation payments, workmen's compensation insurance premiums and other related expenses of all employees directly engaged on a full time basis in the operation, maintenance and security of the Project; and the management fees payable by Developer;

2. All supplies and materials used in the operation, cleaning and maintenance of the Project and all of its machinery and equipment;

3. Utility costs, including but not limited to, gas, water and electric power for heating, lighting, air conditioning and ventilating the Building, fuel adjustment charges, sewer use charges and any utility taxes actually incurred;

4. Cost of all management, maintenance and service agreements for the Building, Common Areas and the equipment therein, including, without limitation, alarm service, trash removal, window cleaning and elevator maintenance;

5. Accounting costs, including the costs of audits by certified public accountants, pertaining solely to the management and operation of the Project;

6. Cost of all insurance including, without limitation, fire, casualty, liability and rental value insurance applicable to the Building, Common Areas and Developer's personal property used in connection therewith;

7. Costs of repairs, general maintenance and non-capital replacements of or additions to the Building, Common Areas and each part thereof (excluding repairs, replacements and general maintenance paid by proceeds of insurance or by Hospital or other third parties, and alterations attributable solely to other lessees or occupants of the Project);

8. Amortization of the cost of any capital improvements, replacements and additions made to the Project subsequent to the Commencement Date of this Lease. For purposes of this Lease, capital improvements, replacements or additions shall be those improvements, replacements or additions which cost more than Five Hundred and No/100 Dollars ($500.00) and which (i) are required by a governmental authority, (ii) increase the operating efficiency of the Building, which, for purposes of this Lease, shall mean that the costs of such capital improvements, replacements or additions are recovered as a result of lower operating costs within four (4) years after the installation thereof, or (iii) are reasonably necessary to maintain the roofing system or HVAC system in good working order, condition and repair. For purposes of this Lease, the cost of capital improvements, replacements and additions shall be amortized, using a straight-line method of amortization, over the useful life of the improvement, replacement or addition (in accordance with generally

accepted accounting principles consistently applied ("GAAP")) and together with interest at the Prime Rate. Hospital will be responsible for Hospital's Proportionate Share of the annual payment amount each year during the Term (including any extensions or renewals thereof). If, for example, Developer is forced to make a capital roof repair that costs Twenty Thousand and 00/100 Dollars ($20,000.00) in year 10 of this Lease, and the repair has a ten (10) year useful life, then Developer will amortize the cost thereof over ten (10) years, and assuming that the Prime Rate is five percent (5%) per annum, Developer will be permitted to charge Hospital $1,018.22 (which is designed to represent Hospital's Proportionate Share of $2,545.56, to the extent that Hospital occupies 40% of the rentable space in the Building) during Lease year 10, 11, 12, 13, 14 and 15 (or any subsequent year, to the extent that Hospital elects to extend or renew the Term, until Developer is reimbursed for Hospital's Proportionate Share of the cost of the repair). Any remaining amount that has not been recovered by Developer upon the expiration of the Term shall be assumed and paid by Developer. Developer shall not break down projects that would ordinarily be considered one capital improvement, replacement or addition project, the cost of which is in excess of Five Hundred and 00/100 Dollars ($500.00), as a means of avoiding Developer's obligation to amortize the cost thereof in accordance with this Section.;

9. Any and all other maintenance and repair costs related to the Project;

10. Real estate taxes and assessments;

11. Ground rent paid by Developer to the owner of the real estate upon which the Building is constructed; and

12. Service payments in lieu of taxes, assessments, excises, levies, fees, or charges, general and special, ordinary and extraordinary, unforeseen as well as foreseen, of any kind which are assessed, levied, charged, confirmed, or imposed by any public authority upon the real estate, the Building, personal property owned or used in connection with the operation of the Building or upon its operations or the rent provided for in this Lease and payable during the term of this Lease, but excluding any income taxes upon Developer's rental receipts. It is agreed that Hospital will be responsible for the ad valorem taxes on its own personal property improvements to the Leased Premises made by Hospital.

Notwithstanding the foregoing, the following items shall not be included in Operating Costs:

13. Costs of repairs, replacements or other work occasioned by fire, windstorm or other casualty, or the exercise by governmental authorities of the right to eminent domain;

14. Except as permitted in 8 above, costs of any improvements, repairs, alterations, additions, changes, replacements, equipment, tools and other items which under GAAP are classified as capital expenditures (whether incurred directly or through a lease or service contract or otherwise);

15. Leasing commissions, attorneys' fees, costs, disbursements and other expenses incurred by Developer or its agents in connection with negotiations for leases with tenants, prospective tenants or other occupants of the Property, and similar costs incurred in connection with disputes with and/or enforcement of any leases with tenants, prospective tenants or other occupants of the Building or the Ground Leased Premises;

16. "Tenant allowances," "tenant concessions," work letters, and other costs or expenses (including but not limited to permit, license and inspection fees) incurred in completing, fixturing,

furnishing, renovating or otherwise improving, decorating or redecorating space leased to tenants or other occupants of the Ground Leased Premises;

17. Depreciation and other "non-cash" expense items or amortization;

18. Payments of principal, finance charges or interest on debt or amortization on any mortgage, deed of trust or other debt;

19. Advertising and promotional expenses;

20. Costs for which Developer is compensated through or reimbursed by insurance;

21. Except as provided in Section 10, Federal, state, county or municipal taxes on income, death taxes, excess profit taxes, franchise taxes, or any taxes imposed or measured on or by the income, gross receipts or revenue of Developer from the operation of the Leased Premises;

22. The cost of the maintenance, repair and replacement of the foundation, concrete slab floors or subfloors, structural steel, elevator shaft, elevator car and exterior wall structure of the Building (each of the foregoing shall hereinafter be defined as a "Structural Component") excluding any ordinary maintenance and repair of the surface of the exterior walls of the Building, including, but not limited to, painting, caulking, sealing, and tuck-pointing which shall be included in Operating Costs; provided, however, Hospital shall be responsible for any costs associated with maintaining, repairing and replacing any Structural Component to the extent that the cost is incurred by Developer as a result of damage to a Structural Component that was caused by Hospital, its agents or employees; and

23. The cost of any improvement, repair or replacement that is necessary as a result of a defect in the Building, Common Areas or the Leasehold Improvements, including, without limitation, a defect in the design or method used to construct or install any component or components that together complete the Building, Common Areas, or Leasehold Improvements or any material used to construct the Building, Common Areas or the Leasehold Improvements, or the failure of the Building, Common Areas or the Leasehold Improvements to comply with any applicable local, state, or federal laws, ordinance, rules or regulations, including any building codes.

EXHIBIT E

QUALIFIED TENANTS

HSHS Medical Group

Southern Illinois Healthcare Foundation (Effingham Medical Clinic)

Bella Vein Medical Spa

Ruben Boyajian, MD

Paul Oltman, MD

Central Illinois Pediatric (William Eckstein, MD)

Effingham Surgical Associates

James Graham, DPM

Mid-Illinois Medical Associates- Eugene Dust, MD

Bandy's Medical Equipment

Omni Care Labs

Illinois Eye Care

Joseph Borreggine, DPM

EXHIBIT F-1

SITE PLAN A
(Showing Building 1 and Building 2 South of Pines Medical Center)

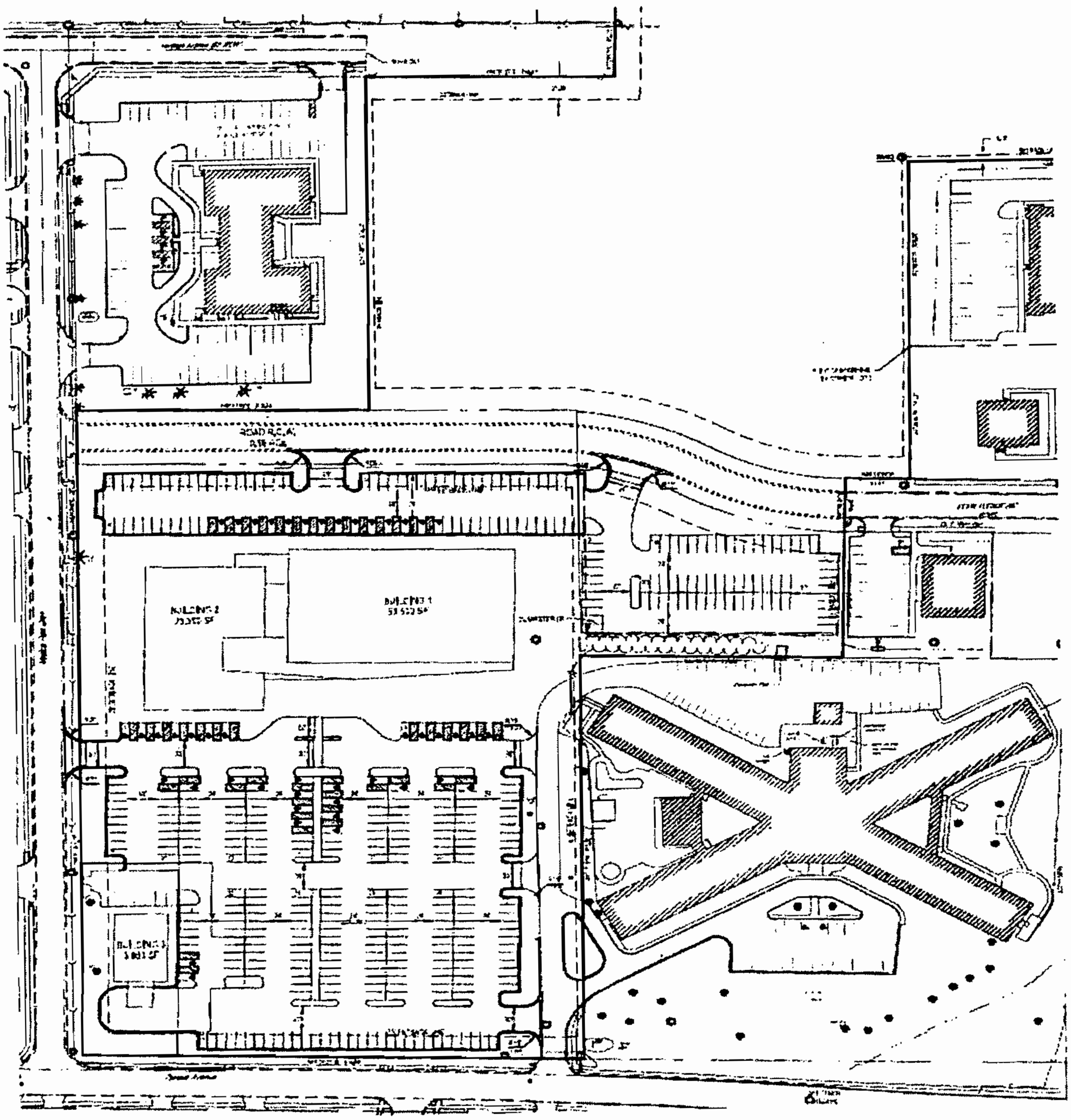


EXHIBIT F-2

SITE PLAN B
(Showing Building 1 and Building 2 East of Pines Medical Center)

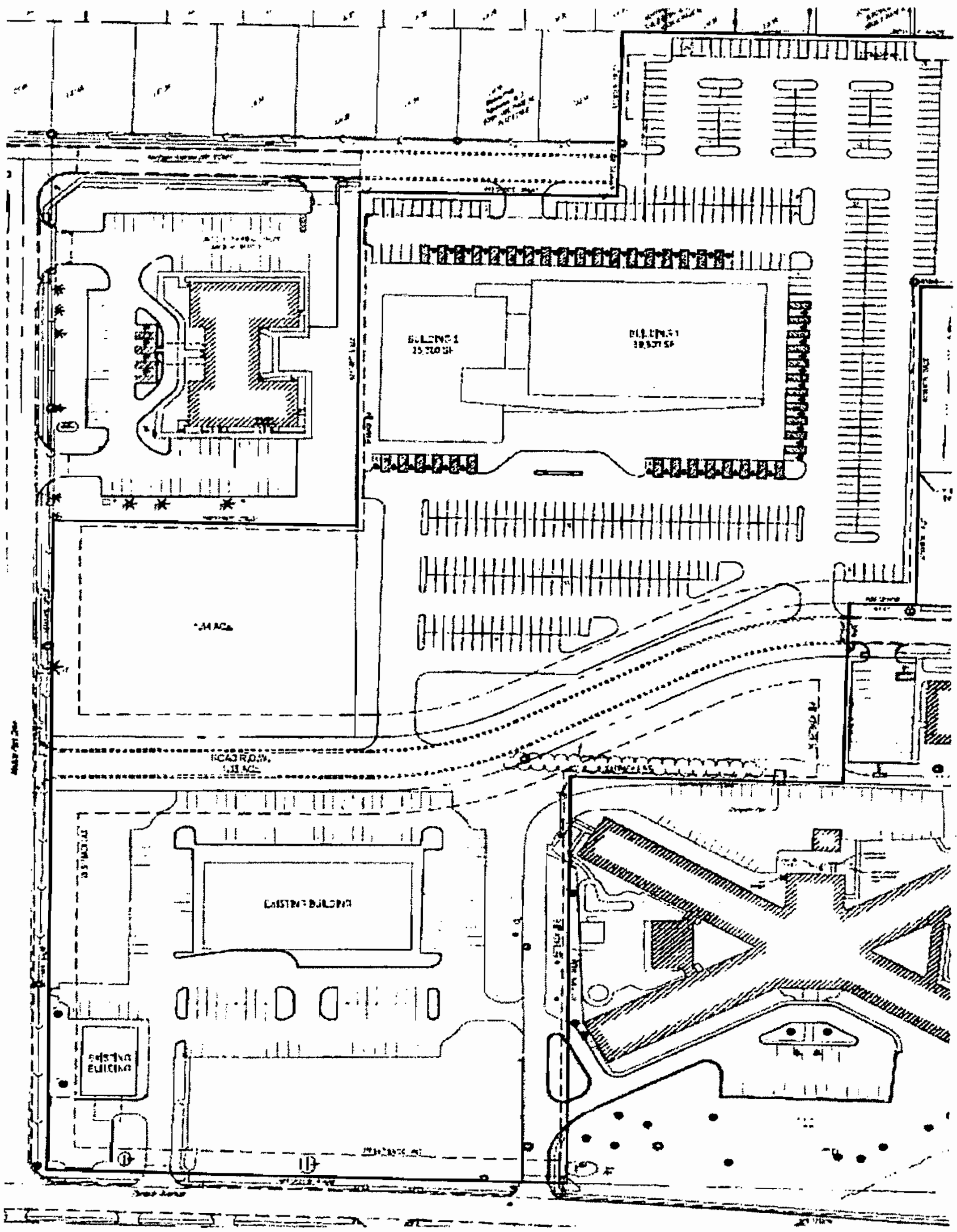


EXHIBIT G

USE RESTRICTIONS

1. Use. The Premises [referring to the space leased or occupied by an occupant of a Building] shall be occupied, leased and used exclusively for physician offices and medical services. All such physician offices shall be exclusively used and occupied by physicians and staff necessary to support such physicians in the practice of medicine. All physicians using or occupying the Premises, whether on a full time or part time basis, must at all times hold active or courtesy medical staff privileges, in good standing, at St. Anthony's Memorial Hospital of the Hospital Sisters of the Third Order of St. Francis, an Illinois not-for-profit corporation or its successor or assignee (the "Hospital"); provided, however, to the extent that a physician relinquishes or loses its staff privileges at the Hospital, Landlord will not be required to remove the physician from the Premises. It is expressly agreed that no hospital, medical center or system (other than Hospital and its affiliates), or ambulatory surgery center, or any affiliate, employee, officer, or agent of any hospital, medical center or system (other than Hospital and its affiliates) or ambulatory surgery center, may, directly or indirectly, own, lease, sublease, license, occupy or use all or any portion of either Building.

2. Ethical and Religious Directives. The Premises shall not be utilized for any purpose in contravention of the Ethical And Religious Directives for Catholic Health Care Services as approved, issued and amended from time to time by the United States Conference of Catholic Bishops and as the same may be interpreted by the local Bishop.

3. Covenant Regarding Restricted Services and Prohibited Services. No Part of the Premises shall be used to provide health care services that are at any time provided to inpatients or outpatients of the Hospital ("Restricted Services"). However, this provision shall not prohibit an occupant of the Premises from providing Restricted Services to such occupant's "own patients" so long as the Restricted Services are not Prohibited Services. The term "own patients," as used herein shall mean persons who specifically seek out and request the professional services of an occupant of the Premises for such occupant's medical specialty and not solely because such occupant provides Restricted Services, or who are referred for professional services because of such occupant's medical specialty and not solely because such occupant provides Restricted Services. Occupants of the Premises shall not market or promote the provision of Restricted Services in the Premises to any person. In the event that there is any disagreement between the Hospital and an occupant of the Premises regarding whether services are Restricted Services, or whether a person seeks out or is referred to an occupant for purposes unrelated to the provision of Restricted Services, such disagreement shall be resolved by the Hospital in its reasonable discretion and the same shall be binding upon such occupant.

Notwithstanding any provision to the contrary contained herein, occupants shall not perform any of the following services within the Premises without the prior written consent of the Hospital, which consent may be granted or withheld by the Hospital in its sole and absolute discretion: magnetic resonance imaging (MRI), computerized tomography (CT), invasive and/or intravascular procedures, ultrasound, mammography, osteoporosis screening services, digital radiology, physical or occupational therapy, or any procedure involving the administration of a radiopharmaceutical for diagnosis, therapy or research (nuclear medicine); any procedure requiring anesthesia which must be administered by an anesthesiologist or certified registered nurse anesthetist (CRNA) or other trained anesthetist; pharmacy; laboratory; imaging center; ambulatory surgery center; or emergency or urgent care center (collectively, the "Prohibited Services"). From time to time, the Hospital may add to, delete from or otherwise modify the definition of Prohibited Services, and the Premises shall not be used to provide any such Prohibited

Services so added; provided, however Lessee shall not be charged with knowledge of any modification to the Prohibited Services until a copy of the same shall have been provided to Lessee by the Hospital.

4. Hazardous Materials and Infectious Wastes.

Tenant Covenants. Tenant covenants that it will, and will cause the Tenant Parties to (i) not use, maintain, generate, store, treat or dispose of any Hazardous Materials or Infectious Wastes in or on the Premises or the Project other than de minimus amounts of materials that are required for the normal maintenance and operation of the Premises for normal medical office use and that are used, stored and disposed of in accordance with all Environmental Requirements, (ii) clean or remediate in accordance with all Environmental Requirements any Hazardous Materials or Infectious Wastes which may contaminate, or emanate from, any part of the Project, the Premises or the soils, ground water or aquifer under the Project as a result of Tenant's or the Tenant Parties' use or occupancy of the Premises, (iii) not place or permit to be placed any Hazardous Materials or Infectious Wastes in any receptacle not specifically designated for such materials, (iv) cause all Hazardous Materials and Infectious Wastes to be disposed of by licensed, reputable contractors approved by Landlord and (v) to promptly provide Landlord with any notice received by Tenant or the Tenant Parties concerning Hazardous Materials or Infectious Wastes.

Indemnity. Without limiting the indemnification contained in Section __ above, Tenant shall indemnify, defend (with counsel reasonably approved by Landlord) and hold Landlord and the Landlord Parties harmless from and against any Claims, including, without limitation, cleanup, engineering and attorneys' fees and expenses that Landlord or such indemnified parties may incur by reason of (1) a violation of the covenants set forth in Section 1,2 and 3 above, (2) Tenant's or the Tenant Parties' use, maintenance, generation, storage, treatment or disposal of any Hazardous Materials or Infectious Wastes in, on or under the Project or the Premises, (3) the violation of any applicable Environmental Requirement by Tenant or the Tenant Parties and relating to the Premises or Tenant's or the Tenant Parties' use, occupancy or operation thereof, (4) any Claim brought or asserted against Landlord or such indemnified parties, regardless of when brought, which directly or indirectly relates to or arises out of any of the matters indemnified in this Section ____ or (5) any investigation or claim of any governmental agency or third party for any actions taken by Tenant or the Tenant Parties on or about the Premises. Tenant's indemnity obligations under this Section 4 shall survive the cancellation or termination of this Lease.

EXHIBIT H

CRITICAL PATH SCHEDULE

Due to the size of the Critical Path Schedule and the level of detail in the schedule, the parties have elected to reference the schedule as opposed to attaching it to this Exhibit. For purposes of this Exhibit, the Critical Path Schedule shall mean that Critical Path Schedule created by Cannon Design that is titled "St. Anthony's Memorial – Effingham, Illinois – Agracel, Inc." and dated July 23, 2014.

EXHIBIT I

PREDEVELOPMENT BUDGET

2014

Previously Authorized	$375,000
September	$150,000
October	$150,000
November	$97,500
December	$57,000

2015

January	$20,000
February	$15,500
March	$13,000
April	$11,000
May	$11,000
June	$11,000
July	$11,000
August	$11,000
September	$20,000
Total:	$953,000

KPMG

HOSPITAL SISTERS HEALTH SYSTEM AND SUBSIDIARIES

Springfield, Illinois

Consolidated Financial Statements and Supplementary Information

June 30, 2013 and 2012

(With Independent Auditors' Report Thereon)

KPMG

KPMG LLP
Aon Center
Suite 5500
200 East Randolph Drive
Chicago, IL 60601-6436

Independent Auditors' Report

The Board of Directors
Hospital Sisters Health System:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Hospital Sisters Health System and Subsidiaries (HSHS), which comprise the consolidated balance sheets as of June 30, 2013 and 2012, and the related consolidated statements of operations, 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 accordance 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 from material misstatement, whether due to fraud or error.

Auditors' 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from 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 auditors' 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.

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 financial position of Hospital Sisters Health System as of June 30, 2013 and 2012, and the results of its operations, the changes in its net assets, and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

KPMG

Emphasis of Matter

As described in note 2(n) to the consolidated financial statements, HSHS adopted the provisions of Financial Accounting Standards Board Accounting Standards Update No. 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Healthcare Entities,* for the year ended June 30, 2012. As a result of this adoption, HSHS has presented on a separate line the provision for uncollectible accounts as a deduction from net patient service revenue (net of contractual allowances and discounts) and included enhanced disclosures about the entity's policies for recognizing revenue and assessing bad debts. Our opinion is not modified with respect to the matter emphasized.

Other Matters

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information included in schedules 1 through 6 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

October 28, 2013

HOSPITAL SISTERS HEALTH SYSTEM AND SUBSIDIARIES
Springfield, Illinois

Consolidated Balance Sheets

June 30, 2013 and 2012

(Dollars in thousands)

Assets		**2013**	**2012**
Current assets:			
Cash and cash equivalents	$	81,110	90,514
Receivables:			
Patients' accounts, less allowance for uncollectible accounts of $129,300 in 2013 and $107,196 in 2012		294,578	307,814
Due from third-party reimbursement programs		2,813	4,497
Other		23,635	22,088
Total receivables		321,026	334,399
Current portion of assets whose use is limited or restricted		284,142	201,738
Inventories		40,051	40,230
Prepaid expenses		20,305	16,376
Total current assets		746,634	683,257
Assets whose use is limited or restricted, net of current portion		1,523,707	1,446,720
Property, plant, and equipment, net		1,257,517	1,152,063
Other assets		68,208	73,657
Total assets	$	3,596,066	3,355,697
Liabilities and Net Assets			
Current liabilities:			
Current installments of long-term debt	$	17,909	28,517
Long-term debt subject to short-term remarketing agreements		169,508	158,047
Accounts payable		114,093	100,336
Accrued liabilities		133,937	125,848
Estimated payables under third-party reimbursement programs		43,637	41,554
Total current liabilities		479,084	454,302
Long-term debt, excluding current installments		430,669	379,378
Estimated self-insurance liabilities		94,173	81,124
Derivative instruments		41,831	64,437
Accrued benefit liability		251,894	410,039
Other noncurrent liabilities		46,906	47,194
Total liabilities		1,344,557	1,436,474
Net assets:			
Unrestricted		2,202,951	1,875,690
Temporarily restricted		25,487	20,783
Permanently restricted		23,071	22,750
Total net assets		2,251,509	1,919,223
Total liabilities and net assets	$	3,596,066	3,355,697

See accompanying notes to consolidated financial statements.

HOSPITAL SISTERS HEALTH SYSTEM AND SUBSIDIARIES
Springfield, Illinois

Consolidated Statements of Operations

Years ended June 30, 2013 and 2012

(Dollars in thousands)

		2013	2012
Net patient service revenues	$	2,012,108	1,981,070
Provision for uncollectible accounts		(107,131)	(111,142)
Net patient service revenue less provision for uncollectible accounts		1,904,977	1,869,928
Other revenues:			
Investment income		2,751	786
Net assets released from restrictions used for operations		1,513	1,702
Other		98,325	57,458
Total revenues		2,007,566	1,929,874
Expenses:			
Sisters' services		1,275	1,155
Salaries and wages		740,688	722,856
Employee benefits		242,056	205,171
Professional fees		113,362	114,690
Supplies		275,961	275,291
Depreciation and amortization		135,871	143,523
Interest		7,247	6,313
Other		469,542	460,584
Total expenses		1,986,002	1,929,583
Income from operations		21,564	291
Nonoperating gains (losses):			
Investment income		128,782	23,565
Change in fair value of interest rate swaps		22,606	(35,799)
Loss on conversion and early extinguishment of debt		(5,073)	—
Revenues and gains (losses) in excess (deficient) of expenses		167,879	(11,943)
Other changes in unrestricted net assets:			
Net assets released from restrictions used for the purchase of property, plant, and equipment		1,237	7,369
Reversal (recognition) of change in pension funded status		158,145	(160,928)
Change in unrestricted net assets	$	327,261	(165,502)

See accompanying notes to consolidated financial statements.

HOSPITAL SISTERS HEALTH SYSTEM AND SUBSIDIARIES
Springfield, Illinois

Consolidated Statements of Changes in Net Assets

Years ended June 30, 2013 and 2012

(Dollars in thousands)

		2013	2012
Unrestricted net assets:			
Revenues and gains (losses) in excess (deficient) of expenses	$	167,879	(11,943)
Other changes in unrestricted net assets:			
Net assets released from restrictions used for the purchase of property, plant, and equipment		1,237	7,369
Reversal (recognition) of change in pension funded status		158,145	(160,928)
Change in unrestricted net assets		327,261	(165,502)
Temporarily restricted net assets:			
Investment income		1,182	308
Contributions		6,272	8,630
Net assets released from restrictions		(2,750)	(9,071)
Change in temporarily restricted net assets		4,704	(133)
Permanently restricted net assets:			
Investment income (loss)		(9)	28
Contributions		330	393
Change in permanently restricted net assets		321	421
Change in net assets		332,286	(165,214)
Net assets at beginning of year		1,919,223	2,084,437
Net assets at end of year	$	2,251,509	1,919,223

See accompanying notes to consolidated financial statements.

HOSPITAL SISTERS HEALTH SYSTEM AND SUBSIDIARIES
Springfield, Illinois

Consolidated Statements of Cash Flows

Years ended June 30, 2013 and 2012

(Dollars in thousands)

		2013	2012
Cash flows from operating activities:			
Change in net assets	$	332,286	(165,214)
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Loss on conversion and early extinguishment of debt		5,073	—
Recognition (reversal) of change in pension funded status		(158,145)	160,928
Income from equity basis investments		(4,158)	(5,241)
Cash received from equity basis investments, net		4,230	3,944
Net assets released from restrictions and used for operations		1,513	1,702
Restricted contributions and investment return		(7,775)	(9,359)
Amortization of bond issuance costs, included in interest expense		244	197
Depreciation and amortization		135,871	143,523
Provision for uncollectible accounts		107,131	111,142
Change in net unrealized gain and losses on investments		(69,286)	63,563
Net realized gains on sale of investments		(40,538)	(58,743)
Change in the fair value of derivative instruments		(22,606)	35,799
Changes in assets and liabilities:			
Patients' accounts receivable		(93,895)	(141,257)
Other receivables		(1,547)	4,488
Inventories		179	(179)
Prepaid expenses		(3,929)	1,642
Net amounts due to third-party reimbursement programs		3,767	6,328
Accounts payable and accrued liabilities		21,846	18,424
Estimated self-insurance liabilities and other noncurrent liabilities		12,761	6,291
Net cash provided by operating activities		223,022	177,978
Cash flows from investing activities:			
Acquisition of property, plant, and equipment		(242,210)	(192,020)
Gross purchases of investments		(1,917,036)	(1,828,882)
Gross proceeds from sale or maturity of investments		1,867,469	1,874,143
Change in other assets		5,133	2,908
Net cash used in investing activities		(286,644)	(143,851)
Cash flows from financing activities:			
Repayment of long-term debt		(468,900)	(22,130)
Proceeds from issuance of debt		520,720	10,000
Payment of bond issuance cost		(3,864)	—
Net assets released from restrictions and used for operations		(1,513)	(1,702)
Restricted contributions and investment return		7,775	9,359
Net cash provided by (used in) financing activities		54,218	(4,473)
Change in cash and cash equivalents		(9,404)	29,654
Cash and cash equivalents at beginning of year		90,514	60,860
Cash and cash equivalents at end of year	$	81,110	90,514
Supplemental disclosure of cash flow information:			
Cash paid for interest, net of amounts capitalized	$	7,085	4,137
Supplemental disclosure of noncash transactions:			
Assets acquired under capital lease	$	885	24,332

See accompanying notes to consolidated financial statements.

(1) Organization and Purpose

Hospital Sisters Health System (HSHS), an Illinois not-for-profit corporation, considers all wholly owned or controlled entities as subsidiaries for consolidated financial statement purposes. The accompanying consolidated financial statements include the accounts of HSHS and its subsidiaries. HSHS is the parent corporation for several subsidiary corporations and exerts control through various reserved powers. The subsidiary corporations and controlled entities presented in the accompanying consolidated financial statements include Hospital Sisters Services, Inc. (HSSI), HSHS System Services Center (the SSC), Hospital Sisters of St. Francis Foundation, Inc. (the Foundation), and Kiara, Inc.

HSSI, an Illinois not-for-profit holding company, is the sole member of 13 hospitals in Illinois and Wisconsin (collectively referred to as the Obligated Group), Hospital Sisters Healthcare – West, Inc. (HCW), HSHS Medical Group, Inc., and HSHS Wisconsin Medical Group, Inc. (collectively referred to as the Medical Group), Unity Limited Partnership, Kiara Clinical Integration Network (KCIN), and Renaissance Quality Insurance, Ltd. (RQIL). HSSI and the 13 hospitals have formed an Obligated Group for debt financing purposes through the use of a Master Trust Indenture (MTI) (note 11). The hospitals are organized for the purpose of providing inpatient and outpatient healthcare services. HSSI formed the Medical Group for the purpose of affiliating with physicians. RQIL is a captive insurance company incorporated in the Cayman Islands to provide professional and general liability insurance coverage to HSSI and affiliates. HCW, the Medical Group, Unity Limited Partnership, KCIN, and RQIL are not members of the Obligated Group.

The 13 hospitals who are members of the Obligated Group, along with HSSI, are as follows:

Hospital	Location
	Illinois:
St. Elizabeth's Hospital	Belleville
St. Joseph's Hospital	Breese
St. Mary's Hospital	Decatur
St. Anthony's Memorial Hospital	Effingham
St. Joseph's Hospital	Highland
St. Francis Hospital	Litchfield
St. John's Hospital	Springfield
St. Mary's Hospital	Streator
	Wisconsin:
St. Joseph's Hospital	Chippewa Falls
Sacred Heart Hospital	Eau Claire
St. Mary's Hospital Medical Center	Green Bay
St. Vincent Hospital	Green Bay
St. Nicholas Hospital	Sheboygan

The SSC administers the Workers Compensation Fund, Health Care Trust Fund, and Flex Plan. The SSC is supported by annual fees paid by the HSHS affiliated hospitals and certain other HSHS controlled entities to the SSC. The SSC utilizes these funds to provide centralized management and information services to the 13 affiliated hospitals, workers' compensation, and employee health administration. In addition, the SSC administers a centralized investment program and defined contribution pension plan on behalf of all HSHS entities.

The Foundation, an Illinois not-for-profit corporation, is an entity whose purpose is to solicit and administer philanthropic funds. The Foundation is structured into 14 separate divisions to administer restricted and unrestricted gifts and bequests at each of the respective hospital locations and the SSC.

Kiara, Inc., an Illinois for-profit corporation, provides a vehicle for joint ventures with physicians and an entry into those health related services, which do not qualify as tax-exempt services, such as pharmacy, durable medical equipment, nonaffiliate electronic health records (EHR) implementations, and real estate holdings. Kiara, Inc. is the holding company of three subsidiary corporations in which it is the sole stockholder, LaSante, Inc., LaSante Wisconsin, Inc., and Prairie Cardiovascular Consultants, Inc. (PCC). The operations of these three wholly owned subsidiaries are consolidated into the financial statements of Kiara, Inc. In connection with the acquisition of PCC, $3,372 and $5,059 is still payable at June 30, 2013 and 2012, respectively, and is a component of other noncurrent liabilities in the accompanying consolidated balance sheets.

All significant intercompany transactions have been eliminated in consolidation.

(2) Summary of Significant Accounting Policies

The significant accounting policies of HSHS are as follows:

(a) Presentation

For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of healthcare services are reported as revenues and expenses. Peripheral or incidental transactions are reported as nonoperating gains or losses. Nonoperating gains or losses include investment income, other than that which is associated with self-insurance programs, or funds held by trustee under indenture agreements, settlements on derivative instruments, loss on conversion and early extinguishment of debt, and the change in fair value of the interest rate swap agreements.

(b) Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Significant estimates include allowances for contractual allowances and bad debts, third-party payor settlements, valuation of investments, recoverability of property, plant, and equipment, self-insurance liabilities, derivative instruments, accrued benefit liability, and other liabilities. Actual results could differ from those estimates.

(c) ***Cash and Cash Equivalents***

Cash and cash equivalents include investments in highly liquid debt instruments with a maturity of three months or less when purchased, excluding those amounts included as assets whose use is limited or restricted.

(d) ***Assets Whose Use is Limited or Restricted***

Assets whose use is limited or restricted include assets set aside by the board of directors for future capital improvements, over which the board of directors retains control and may at its discretion subsequently use for other purposes; assets held by third-party trustees under indenture agreements; and funds temporarily or permanently restricted by donors. Management classifies the current portion of assets whose use is limited or restricted based on the approximate amount of the current portion of long-term debt.

Investments in equity securities with readily determinable values and all investments in debt securities are measured at fair value in the accompanying consolidated balance sheets. Investment income on assets associated with self-insurance programs or assets deposited in funds held by trustee under indenture agreements is reported as other revenues. Investment income from all other investments is reported as nonoperating gains – investment income, unless the income or loss is restricted by donor or law. Changes in net unrealized gains and losses on investments are included in revenues and gains (losses) in excess (deficient) of expenses and losses as all investments are considered to be trading securities.

(e) ***Inventories***

Inventories are stated at the lower of cost or market. Cost is determined on a first-in, first-out basis.

(f) ***Property, Plant, and Equipment***

Property, plant, and equipment additions are stated at cost or fair value at the date of acquisition or donation. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method of accounting. 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. Capitalized interest is reduced by the amount of investment income earned on unexpended proceeds from project specific borrowings.

(g) ***Long-Lived Assets***

Long-lived assets (including property, plant, and equipment) are periodically assessed for recoverability based on the occurrence of a significant adverse event or change in the environment in which HSHS operates or if the expected future cash flows (undiscounted and without interest) would become less than the carrying amount of the asset. An impairment loss would be recorded in the period such determination is made based on the fair value of the related entity. No impairments were recorded for the years ended June 30, 2013 and 2012.

(h) Other Assets – Joint Ventures

HSHS invests in various organizations that are not wholly owned or controlled by HSHS. Investments in affiliates in which HSHS has significant influence but does not control are reported on the equity method of accounting, which represents HSHS' equity in the underlying net book value. The equity method of accounting is discontinued when the investment is reduced to zero unless HSHS has guaranteed the obligations of the organization or is committed to provide additional capital support. There were no existing guarantees at June 30, 2013 or 2012.

(i) Loss Reserves

HSHS is self-insured for professional and general liability, workers' compensation, and employee health claims. The provisions for loss reserves include the ultimate cost for both reported losses and losses incurred, but not reported as of the respective consolidated balance sheet dates.

The liability for loss reserves represents an estimate of the ultimate net cost of all such amounts that are unpaid at the consolidated balance sheet dates. The liability is based on projections and the historical claim experience of HSHS and gives effect to estimates of trends. Although management believes that the estimate of the liability for claims is reasonable, it is possible that HSHS' actual incurred claims will not conform to the assumptions' inherent variability with respect to the significant assumptions utilized. Accordingly, the ultimate settlement of claims may vary from the liability for unpaid claims included in the accompanying consolidated financial statements.

(j) Derivative Instruments

HSHS accounts for derivatives and hedging activities in accordance with Financial Accounting Standards Board Accounting Standards Codification (ASC) Subtopic 815-10, *Accounting for Derivative Instruments and Hedging Activities*, which requires that an entity recognize all derivatives as either assets or liabilities in the consolidated balance sheet and measure those instruments at fair value. HSHS is involved in various interest rate swaps. The fair value of the interest rate swap programs is included as derivative instruments in the accompanying consolidated balance sheets. For HSHS, the derivatives are not designated as hedge instruments, and therefore, settlements on derivative instruments and the change in fair values of the interest rate swap agreements are recognized in the consolidated statements of operations as a component of nonoperating gains (losses).

(k) Asbestos Removal Costs

HSHS accounts for asbestos removal costs in accordance with ASC Subtopic 410-20, *Accounting for Conditional Asset Retirement Obligations*. ASC Subtopic 410-20 requires the current recognition of a liability when a legal obligation exists to perform an asset retirement obligation (ARO) in which the timing or method of settlement is conditional on a future event that may or may not be under the control of the entity. ASC Subtopic 410-20 requires an ARO liability be recorded at its net present value with recognition of a related long-lived asset in a corresponding amount. The ARO liability is accreted through periodic charges to depreciation expense. The initially capitalized ARO long-lived asset is depreciated over the corresponding long-lived asset's remaining useful life. HSHS is legally liable to remove asbestos from existing buildings prior to future remodeling or demolishing of the existing hospital buildings. The estimated asbestos removal cost at June 30, 2013 and 2012 is \$28,957 and \$28,786, respectively, and is included within other noncurrent liabilities in the accompanying consolidated balance sheets. The net book value of the ARO long-lived asset at June 30, 2013 and 2012 is \$553 and \$742, respectively, and is included within other assets in the accompanying consolidated balance sheets.

(l) Donor-Restricted Net Assets

Net assets and activities are classified into three classes based on the existence or absence of donor-imposed restrictions: unrestricted, temporarily restricted, and permanently restricted. Temporarily restricted net assets represent those net assets whose use by HSHS has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by HSHS in perpetuity.

HSHS classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment, the original value of subsequent gifts to the permanent endowment, and accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument. Investment returns in excess of spending are classified as increases in temporarily restricted net assets until appropriated for expenditure by HSHS.

HSHS has established a spending policy, which is evaluated and approved by the Foundation board every year. The approved spending rate for fiscal year 2013 and 2012 was 2.30% and 3.45%, respectively. In establishing this policy, the long-term expected return on the endowment is considered. This is consistent with HSHS' objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term.

Endowment funds are commingled with the pooled investment fund administered by HSHS. HSHS relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). HSHS targets a diversified asset allocation of 40.5% fixed income, 44.5% equities, and 15% custom hedge funds to achieve its long-term return objectives within prudent risk constraints.

(m) Gifts, Bequests, and Grants

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received, which is then treated as cost. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations as assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are recorded as unrestricted contributions. Unrestricted contributions are included in other revenues.

Gifts of long-lived assets such as property, plant, and equipment are reported as unrestricted gifts and bequests and are excluded from revenues and gains (losses) in excess (deficient) of expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted contributions. In the absence of explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

(n) Net Patient Service Revenues

Net patient service revenues are reported at the estimated net realizable amounts due from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors and amounts received under the Medicaid assessment tax programs. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Effective July 1, 2012, HSHS adopted the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*. ASU 2011-07 requires that entities that recognize significant amounts of patient service revenue at the time the services are rendered even though they do not assess the patient's ability to pay must present the provision for bad debts related to patient service revenue as a deduction from patient service revenue (net of contractual allowances and discounts) on their statement of operations. The provision for uncollectible accounts on the accompanying consolidated statements of operations for the years ended June 30, 2013 and 2012 has been presented on a separate line as a deduction from net patient service revenue.

(o) Charity Care

HSHS provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Amounts determined to qualify as charity care are not reported as net patient service revenues, since HSHS does not pursue collection of such amounts.

(p) Revenues and Gains (Losses) in Excess (Deficient) of Expenses

The consolidated statements of operations include revenues and gains (losses) in excess (deficient) of expenses. Changes in unrestricted net assets that are excluded from revenues and gains (losses) in excess (deficient) of expenses, consistent with industry practice, include: contributions of property, plant, and equipment (including assets acquired using contributions that by donor restrictions or grants were to be used for the purpose of acquiring such assets); nonreciprocal transfer to affiliate for other than goods and services; and (recognition) reversal of change in pension funded status.

(q) Income Taxes

HSHS and the Foundation are Illinois not-for-profit organizations as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. Kiara, Inc. is an Illinois for-profit corporation that recognizes income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax basis and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

HSHS has adopted ASC Subtopic 740-10, *Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109*. ASC Subtopic 740-10 addresses the determination of how tax benefits claimed or expected to be claimed on a tax return should be recorded in the consolidated financial statements. Under ASC Subtopic 740-10, HSHS must recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the consolidated financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. ASC Subtopic 740-10 also provides guidance on derecognition, classification, interest and penalties on income taxes, and accounting in interim periods and requires increased disclosures. As of June 30, 2013 and 2012, HSHS does not have an asset or liability for unrecognized tax benefits.

(r) Fair Value

HSHS has adopted the provisions of ASC Topic 820, *Fair Value Measurements,* for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the financial statements on a recurring basis. ASC Topic 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC Topic 820 also establishes a framework for measuring fair value and expands disclosures about fair value measurements.

In conjunction with the adoption of ASC Topic 820, HSHS adopted the measurement provisions of ASU 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent),* to certain investments in funds that do not have readily determinable fair values including private investments, hedge funds, real estate, and other funds. This guidance amends ASC Topic 820 and allows for the estimation of the fair value of investments in investment companies for which the investment does not have a readily determinable fair value using net asset value (NAV) per share or its equivalent.

(Dollars in thousands)

(s) ***EHR Incentive Program***

The EHR Incentive Program (the Program) provides incentive payments to eligible hospitals and professionals as they adopt, implement, upgrade, or demonstrate meaningful use of certified EHR technology in their first year of participation and demonstrate meaningful use for up to five remaining participation years. HSHS accounts for the Program using the grant model. HSHS applies the "ratable recognition" approach, which states that the grant income can be recognized ratably over the entire EHR reporting period once a "reasonable assurance" income recognition threshold is met. For the years ended June 30, 2013 and 2012, HSHS recognized $31,800 and $4,181, respectively, as other revenue related to EHR incentives, which have been received or are expected to be received based on certifications prepared by management under the appropriate guidelines for year 1 and year 2 payments.

(3) Community Benefit

Consistent with its mission, HSHS provides medical care to all patients regardless of their ability to pay. In addition, HSHS provides services intended to benefit the poor and underserved, including those persons who cannot afford health insurance because of inadequate resources and/or are uninsured or underinsured, and to enhance the health status of the communities in which it operates.

The following summary has been prepared in accordance with the Catholic Health Association of the United States' (CHA) policy document, *A Guide for Planning and Reporting Community Benefit*, released in May 2006. HSHS uses a cost-to-charge ratio to calculate the cost of charity care and the unpaid cost of Medicaid. The amounts in the following table reflect the quantifiable costs of HSHS' community benefit for the years ended June 30, 2013 and 2012:

		2013	**2012**
Benefits for the poor:			
Charity care at cost	$	45,974	43,076
Unpaid cost of Medicaid and other public programs		104,232	97,878
Community health services		1,657	1,322
Other		1,798	766
		153,661	143,042
Benefits for the broader community:			
Community health services		4,451	4,443
Health professions education		15,558	15,895
Other		13,083	10,772
		33,092	31,110
Total community benefit	$	186,753	174,152

Benefits for the poor represent the cost of services provided to persons who cannot afford healthcare because of inadequate resources and who are uninsured or underinsured.

Benefits for the broader community represent the cost of services provided to other needy populations that may not qualify as poor, but that need special services and support. It also includes the cost of services for the general benefit of the communities in which HSHS operates. Many programs are targeted toward populations that may be poor, but also include those areas that may need special health services and support. These programs are not financially self-supporting.

Charity care at cost represents the cost of services provided to patients who cannot afford healthcare services due to inadequate resources. All or a portion of a patient's services may be considered charity care for which no payment is anticipated in accordance with HSHS' established policies.

Unpaid cost of Medicaid and other public programs represents the cost of providing services to beneficiaries of public programs, including state Medicaid and indigent care programs, in excess of payments for those services. (See note 4 for an explanation of changes to the Medicaid reimbursement from the State of Illinois and the State of Wisconsin.)

Community health services are activities and services for which no patient bill exist although there may be nominal patient fees. These services are not expected to be financially self-supporting although some may be partially supported by outside grants or funding.

Health professions education includes the unreimbursed cost of training health professionals, such as medical residents, nursing students, technicians, and students, in allied health professions.

Other benefits include subsidized health services, in-kind donations, and other benefits.

In addition to the amounts reported above, HSHS committed significant resources in serving the Medicare population. The cost (determined using a cost-to-charge ratio) of providing services to primarily elderly beneficiaries of the Medicare program, in excess of governmental and managed care contract payments, was $152,293 and $160,570 for the years ended June 30, 2013 and 2012, respectively.

A related organization, the Foundation, funded $5,885 and $15,948 for charity care or other operating expenses on behalf of the hospitals during the years ended June 30, 2013 and 2012, respectively. The community benefits reported above are net of the contributions from the Foundation for such benefits.

HSHS also provides a significant amount of uncompensated care for patients, which is not included above, but is reported in the consolidated statements of operations as a provision for uncollectible accounts. Many of those patients are uninsured or underinsured, but did not apply for, or qualify for, charity care.

(4) Net Patient Service Revenues

HSHS has agreements with third-party payors that provide for payment at amounts different from their established rates. A summary of the payment arrangements with major third-party payors is as follows:

Medicare – Inpatient acute care services rendered to Medicare program beneficiaries are generally paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient nonacute services and certain outpatient services related to Medicare beneficiaries are paid based upon a cost reimbursement method, prospectively determined rates, established fee screens, or a combination thereof. The hospitals are reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the hospitals and audits by the Medicare fiscal intermediary. Certain outpatient services performed by the hospitals are reimbursed at a prospectively determined rate per service based upon their ambulatory payment classification. Home health services performed by the hospitals are reimbursed at a prospectively determined rate per episodic treatment.

As of June 30, 2013, Medicare cost reports have been audited and final settled through June 30, 2009.

Medicaid – Inpatient services rendered to Medicaid program beneficiaries are reimbursed at prospectively determined rates per discharge. Outpatient services rendered to Medicaid program beneficiaries are reimbursed based upon per visit rates. Medicaid payment methodologies and rates for services are based on the amount of funding available to state Medicaid programs. As of June 30, 2013 and 2012, Medicaid receivables aggregate to $24,764 and $59,271, respectively, and are valued using historical collection percentages of enacted rates.

HSHS participates in the State of Illinois (the State) provider assessment program that assists in the financing of its Medicaid program. The program has been renewed by the State since its inception in 2004 and was renewed again on December 4, 2008 for the State's fiscal years ending June 30, 2009 through June 30, 2013. Renewal for the period July 1, 2013 to December 31, 2014 has been approved by the State. Pursuant to this program, hospitals within the State are required to remit payment to the State Medicaid program under an assessment formula approved by the Centers for Medicare and Medicaid Services (CMS).

The hospitals have included their related prorated assessments of $26,772 and $26,823 in 2013 and 2012, respectively, within other expenses in the accompanying consolidated statements of operations. The assessment program also provides hospitals within the State with additional Medicaid reimbursement based on funding formulas also approved by CMS. The hospitals have included their additional related prorated reimbursement of $45,564 and $47,108 in 2013 and 2012, respectively, within net patient service revenues in the accompanying consolidated statements of operations.

(Dollars in thousands)

During 2009, the State of Wisconsin enacted an assessment tax on the gross revenues of all Wisconsin hospitals retroactive to July 1, 2008, which is used to increase reimbursements made under its Medicaid program. During the years ended June 30, 2013 and 2012, the HSHS Wisconsin hospitals were assessed $21,118 and $20,210, respectively, related to this tax, which is included as a component of other expenses in the accompanying consolidated statements of operations, and received $24,198 and $26,513, respectively, in supplemental Medicaid reimbursement, which is included as a component of net patient service revenues in the accompanying consolidated statements of operations.

Other – HSHS has also entered into payment agreements with Blue Cross, certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined per diem rates.

A summary of gross and net patient service revenues for the years ended June 30, 2013 and 2012 is as follows:

		2013	2012
Inpatient revenues	$	2,400,777	2,296,455
Outpatient revenues		2,940,995	2,791,571
Less provisions for estimated contractual adjustments under third-party reimbursement programs		3,329,664	3,106,956
Net patient service revenues	$	2,012,108	1,981,070

Net patient service revenues for the years ended June 30, 2013 and 2012 include $8,591 and $995, respectively, of favorable retrospectively determined prior year settlements with third-party payors. In addition, net patient service revenues include $15,547 for the year ended June 30, 2012, from Medicare for fiscal years 2007–2011 as settlement of the Rural Floor Budget Neutrality Adjustment Appeal. Additionally, professional fees expense includes $3,997 for the year ended June 30, 2012, of settlement fees paid as part of the Rural Floor Budget Neutrality Adjustment Appeal.

A summary of Medicare, Medicaid, and managed care/contracted payor utilization percentages, based upon gross patient service revenues, is as follows:

	2013	2012
Medicare	47%	46%
Medicaid	14	14
Managed care/contracted payor	32	32
Self-pay	4	5
Other	3	3

Patients' accounts receivable are reduced by an allowance for uncollectible accounts. In evaluating the collectibility of patients' accounts receivable, HSHS analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for uncollectible accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, HSHS analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (e.g., for expected uncollectible deductibles and co-payments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and co-payment balances due for which third-party coverage exists for part of the bill), HSHS records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

HSHS' allowance for uncollectible accounts for self-pay patients increased from 81.0% of self-pay accounts receivable at June 30, 2012, to 81.7% of self-pay accounts receivable at June 30, 2013. In addition, HSHS' self-pay write-offs decreased $13,604 from $98,642 for fiscal year 2012 to $85,038 for fiscal year 2013. Both changes were the result of current trends experienced in the collection of amounts from self-pay patients in fiscal year 2013. HSHS has not substantially changed its charity care or uninsured discount policies during fiscal years 2012 or 2013. HSHS does not maintain a material allowance for uncollectible accounts from third-party payors, nor did it have significant write-offs from third-party payors.

(Dollars in thousands)

HSHS recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, HSHS recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of HSHS' uninsured patients will be unable or unwilling to pay for the services provided. Thus, HSHS records a significant provision for bad debts related to uninsured patients in the period the services are provided. Patient service revenue, net of contractual allowances and discounts (before the provision for bad debts), is recognized in the period from these major payor sources, as follows:

		2013	2012
Medicare	$	709,095	693,335
Medicaid		205,618	213,011
Managed care/contracted payor		935,800	893,712
Self-pay		104,459	111,130
Other		57,136	69,882
Net patient service revenues	$	2,012,108	1,981,070

(5) Concentration of Credit Risk

HSHS provides healthcare services through their inpatient and outpatient facilities located in Illinois and Wisconsin. HSHS grants credit to patients, substantially all of whom are local residents. HSHS does not require collateral or other security in extending credit to patients; however, they routinely obtain assignment of (or are otherwise entitled to receive) patients' benefits payable under their health insurance programs, plans, or policies (e.g., Medicare, Medicaid, Blue Cross, health maintenance organizations, and commercial insurance policies).

The mix of net receivables from patients and third-party payors as of June 30, 2013 and 2012 is as follows:

	2013	2012
Medicare	26%	22%
Medicaid	8	19
Managed care/contracted payor	48	42
Self-pay	10	8
Other	8	8

(6) Investment Composition and Fair Value Measurements

(a) Overall Investment Objective

The overall investment objective of HSHS is to invest its assets in a prudent manner that will achieve an expected rate of return, manage risk exposure, and focus on downside protection. HSHS' invested assets will maintain sufficient liquidity to fund a portion of HSHS' annual operating activities and structure the invested assets to maintain a high percentage of available liquidity. HSHS diversifies its investments among various asset classes incorporating multiple strategies and managers. The HSHS board approves the investment policy statement. The Investment Subcommittee oversees the investment program in accordance with investment policy statement.

(b) Allocation of Investment Strategies

To manage risk, HSHS invests in fixed income, domestic equities, international equities, and custom hedge funds. HSHS engages outside portfolio managers as follows: 5 fixed income mangers, 15 domestic equity managers, 5 international managers, and 2 custom hedge fund portfolio managers. Because of the inherent uncertainties for valuation of some holdings, the estimated fair values may differ from values that would have been used had a ready market existed.

(c) Basis of Reporting

Assets whose use is limited or restricted are reported at estimated fair value. If an investment is held directly by HSHS and an active market with quoted prices exists, the market price of an identical security is used as reported fair value. Reported fair values for shares in common and preferred stock and fixed income are based on share prices reported by the funds as of the last business day of the fiscal year. HSHS' interests in alternative investment funds are generally reported at the NAV reported by the fund managers, which is used as a practical expedient to estimate the fair value of the HSHS' interest therein, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. As of June 30, 2013, HSHS had no plans or intentions to sell investments at amounts different from NAV.

(d) Fair Value of Financial Instruments

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

- The carrying amount reported in the consolidated balance sheets for the following approximates fair value because of the short maturities of these instruments: cash and cash equivalents, receivables, accounts payable, accrued liabilities, and estimated payables under third-party reimbursement programs.
- Fair values of HSHS' investments held as assets whose use is limited or restricted are estimated based on prices provided by its investment managers and its custodian bank except for the carrying value of pledges receivable and other, which equals fair value. Fair value for cash and cash equivalents, corporate and preferred stocks, foreign securities, U.S. government securities, corporate bonds, municipal bonds, and commingled mutual funds are measured using quoted market prices at the reporting date multiplied by the quantity held. The carrying value equals fair value.
- HSHS has two hedge fund investments for which quoted market prices are not available. The two hedge fund investments are K2 multistrategy fund and Mesirow multistrategy fund. The

(Dollars in thousands)

estimated fair value of these hedge fund investments includes estimates, appraisals, assumptions, and methods provided by external financial advisers and reviewed by HSHS.

The investment objective of the K2 multistrategy fund is to achieve equity type returns with reduced volatility and risk. This is achieved through a diversified portfolio targeting allocations of long strategies and low volatility strategies.

The investment objective of the Mesirow multistrategy fund is to achieve positive returns with low volatility and risk. This is achieved through a multimanager, multistrategy, and diversified investment approach.

- Fair value of fixed rate long-term debt is estimated based on the quoted market prices for the same or similar issues or on the current rates offered to HSHS for debt of the same remaining maturities. For variable rate debt, carrying amounts approximate fair value. Fair value was estimated using quoted market prices based upon HSHS' current borrowing rates for similar types of long-term debt securities.
- Fair value of interest rate swaps is determined using pricing models developed based on the LIBOR swap rate and other observable market data by financial advisers. The value was determined after considering the potential impact of collateralization and netting agreements, adjusted to reflect nonperformance risk of both the counterparty and HSHS. The carrying value equals fair value.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although HSHS believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table presents the carrying amounts and estimated fair values of HSHS' financial instruments not carried at fair value at June 30, 2013:

	2013		2012	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Long-term debt	$ 618,086	615,920	565,942	571,456

(e) Fair Value Hierarchy

HSHS has adopted ASC Topic 820 for fair value measurements of financial assets and liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis. ASC Topic 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

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

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period. There were no transfers between Level 1, Level 2, or Level 3 for the fiscal years ended June 30, 2013 and 2012.

(Dollars in thousands)

The following table summarizes HSHS' cash and cash equivalents and assets whose use is limited or restricted by major category in the fair value hierarchy as of June 30, 2013, as well as related strategy, liquidity, and funding commitments:

	June 30, 2013				Redemption	Days'
	Level 1	Level 2	Level 3	Total	or liquidation	notice
Cash and cash equivalents	$ 81,110	—	—	81,110	Daily	One
Assets whose use is limited or restricted excluding accrued interest and other of $4,491 and pledges receivable and other of $28,248:						
Cash and cash equivalents	$ 93,530	—	—	93,530	Daily	One
Common stocks	525,568	—	—	525,568	Daily	Three
U.S. government securities	—	162,032	—	162,032	Daily	One
Municipal bonds	—	33,890	—	33,890	Daily	Two
Corporate bonds	—	269,256	—	269,256	Daily	Two
Foreign securities	259,087	25,276	—	284,363	Daily	Three
Commingled mutual funds	—	154,378	—	154,378	Daily	Three
Hedge funds:						
K2 multistrategy fund	—	—	196,551	196,551	Monthly	Thirty
Mesirow multifund	—	—	55,542	55,542	Monthly	Thirty
Total financial assets	$ 878,185	644,832	252,093	1,775,110		
Liabilities:						
Derivative instruments	$ —	41,831	—	41,831		

The table below sets forth a summary of changes in the fair value of the HSHS' Level 3 assets for the year ended June 30, 2013:

	Level 3 assets, year ended June 30, 2013		
	K2 fund	Mesirow fund	Total funds
Balance, beginning of year	$ 165,890	43,413	209,303
Purchases	11,607	7,738	19,345
Sales	—	—	—
Total net gains	19,054	4,391	23,445
Balance, end of year	$ 196,551	55,542	252,093

(Dollars in thousands)

The following table summarizes HSHS' cash and cash equivalents and assets whose use is limited or restricted by major category in the fair value hierarchy as of June 30, 2012, as well as related strategy, liquidity, and funding commitments:

		June 30, 2012				Redemption	Days'
		Level 1	Level 2	Level 3	Total	or liquidation	notice
Cash and cash equivalents	$	90,514	—	—	90,514	Daily	One
Assets whose use is limited or restricted excluding accrued interest and other of $8,666 and pledges receivable and other of $22,127:							
Cash and cash equivalents	$	114,831	—	—	114,831	Daily	One
Common stocks		443,162	—	—	443,162	Daily	Three
U.S. government securities		—	296,522	—	296,522	Daily	One
Municipal bonds		—	33,879	—	33,879	Daily	Two
Corporate bonds		—	121,931	—	121,931	Daily	Two
Foreign securities		217,740	27,460	—	245,200	Daily	Three
Commingled mutual funds		—	152,837	—	152,837	Daily	Three
Hedge funds:							
K2 multistrategy fund		—	—	165,890	165,890	Monthly	Thirty
Mesirow multifund		—	—	43,413	43,413	Monthly	Thirty
Total financial assets	$	775,733	632,629	209,303	1,617,665		
Liabilities:							
Derivative instruments	$	—	64,437	—	64,437		

The table below sets forth a summary of changes in the fair value of the HSHS' Level 3 assets for the year ended June 30, 2012:

		Level 3 assets, year ended June 30, 2012		
		K2 fund	Mesirow fund	Total funds
Balance, beginning of year	$	—	—	—
Purchases		166,400	41,600	208,000
Total net gains (losses)		(510)	1,813	1,303
Sales		—	—	—
Balance, end of year	$	165,890	43,413	209,303

(Dollars in thousands)

A summary of assets whose use is limited or restricted as of June 30, 2013 and 2012 is as follows:

		2013	2012
Assets whose use is limited or restricted:			
By the board for capital improvements	$	1,547,405	1,375,077
Funds held by trustee under indenture agreements		—	34,723
Funds held by trustee for self-insurance		90,251	83,710
Funds held by RQIL		73,541	64,051
Funds temporarily restricted by donors		463	425
Investments held at the Foundation		96,189	90,472
Total assets whose use is limited or restricted	$	1,807,849	1,648,458

The composition of investment return for the years ended June 30, 2013 and 2012 is as follows:

		2013	2012
Investment return:			
Interest and dividend income	$	22,883	29,548
Net realized gains on sale of investments		40,538	58,743
Change in net unrealized gains and losses		69,286	(63,563)
Total investment return	$	132,707	24,728

Investment returns are included in the accompanying consolidated statements of operations and changes in net assets for the years ended June 30, 2013 and 2012 as follows:

		2013	2012
Other revenues – investment income	$	2,751	786
Nonoperating gains – investment income		128,782	23,565
Temporarily restricted net assets – investment income		1,182	308
Permanently restricted net assets – investment income (loss)		(9)	28
Interest income capitalized as part of construction in progress		1	41
Total investment return	$	132,707	24,728

(7) Derivative Instruments

HSHS has interest-rate related derivative instruments to manage its exposure on its debt instruments. HSHS does not enter into derivative instruments for any purpose other than cash flow hedging purposes, and HSHS does not speculate using derivative instruments.

By using derivative financial instruments to hedge exposures to changes in interest rates, HSHS exposes itself to credit risk, tax risk, and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty owes HSHS, which creates credit risk for HSHS. When the fair value of a derivative contract is negative, HSHS owes the counterparty, and therefore, it does not possess credit risk. HSHS minimizes the credit risk in derivative instruments by entering into transactions with high-quality counterparties.

Tax risk is the adverse effect that HSHS takes on to the extent tax law changes impact the rates paid to a variable rate bondholder (either positively or negatively) that would affect the variable rate received from the counterparty under a LIBOR-based swap that may not match the tax-exempt equivalent rate being paid. HSHS minimizes the tax risk in derivative instruments by maintaining sufficient cash reserves to handle potential tax law changes.

Market risk is the adverse effect on the value of the derivative instrument that results from a change in interest rates. The market risk associated with interest rate contracts is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken.

HSHS is exposed to credit loss in the event of nonperformance by the counterparty to the interest rate swap agreements; however, this is not anticipated. During the years ended June 30, 2013 and 2012, HSHS was not required to post collateral.

HSHS maintains interest rate swap agreements, which effectively change the interest rate exposure on a portion of its variable rate bonds to a fixed rate. HSHS receives the SIFMA Index variable rate and pays a fixed rate of 4.02% and 3.47%. The interest rate swap agreements have notional amounts of $218,475 at both June 30, 2013 and 2012, which will amortize through March 2036.

HSHS also entered into a fixed spread basis swap in fiscal year 2008 that removes the tax risk from the bondholders and transfers the risk to HSHS. The premium that HSHS receives for taking on this risk is 67.00% of the one-month LIBOR plus a fixed spread of 48 basis points less the SIFMA Index rate. The fixed spread basis swap has a notional amount of $150,000 with a final maturity in May 2033.

(Dollars in thousands)

The following is a summary of the swaps as of June 30, 2013:

Type of interest swap		Notional amount		Settlement value	Fair value
Fixed payor	$	76,750		(13,409)	(12,627)
Fixed spread basis		150,000		(4,705)	(3,633)
Fixed payor		41,300		(8,011)	(7,448)
Fixed payor		100,425		(19,495)	(18,123)
			$	(45,620)	(41,831)

The following is a summary of the swaps as of June 30, 2012:

Type of interest swap		Notional amount		Settlement value	Fair value
Fixed payor	$	76,750		(25,211)	(22,536)
Fixed spread basis		150,000		(3,781)	(2,302)
Fixed payor		41,300		(13,145)	(11,533)
Fixed payor		100,425		(31,996)	(28,066)
			$	(74,133)	(64,437)

(8) Property, Plant, and Equipment

A summary of property, plant, and equipment at June 30, 2013 and 2012 is as follows:

		2013	2012
Land	$	49,952	47,294
Land improvements		38,184	37,113
Buildings and permanent fixtures		1,296,440	1,246,834
Equipment and furnishings		1,193,187	1,142,086
		2,577,763	2,473,327
Less accumulated depreciation		1,509,277	1,433,133
		1,068,486	1,040,194
Construction in progress		189,031	111,869
	$	1,257,517	1,152,063

(Dollars in thousands)

As of June 30, 2013, construction in progress represents various building and remodeling projects. These projects, which have remaining contracted costs at June 30, 2013 of approximately $84,973, will be financed with board-designated assets or from operations.

A reconciliation of total interest costs, as reported in the accompanying consolidated statements of operations for 2013 and 2012, is as follows:

		2013	2012
Interest cost capitalized	$	3,238	3,997
Interest cost charged to expense		7,247	6,316
Total interest cost	$	10,485	10,313
Interest income capitalized	$	1	41

(9) Self-Insurance

(a) Professional and General Liability

Under the System's professional and general liability self-insurance program through RQIL, claims are reflected based upon actuarial estimation, including both reported and incurred but not reported claims, taking into consideration the severity of incidents and the expected timing of claim payments. At June 30, 2013 and 2012, funds held by RQIL were $73,541 and $64,051, respectively. The related estimated self-insurance liabilities for June 30, 2013 and 2012 were $66,881 and $51,488, respectively. At June 30, 2013 and 2012, RQIL's estimated self-insurance liability for all future claims payments reflects the actuarially determined outstanding losses at the undiscounted/expected level. The amount included in expenses for professional and general liability insurance by RQIL for 2013 and 2012 was $19,099 and $14,267, respectively, and is included in other expense in the consolidated statements of operations. These calculations take into consideration any liability that may be covered under an extended reporting endorsement and considered "tail" liability.

HSHS is involved in litigation arising in the ordinary course of business. Reported claims are in various stages of litigation. Additional claims may be asserted against HSHS arising from services through June 30, 2013. It is the opinion of management that the estimated malpractice liabilities accrued at June 30, 2013 are adequate to provide for potential losses resulting from pending or threatened litigation.

(b) Workers' Compensation and Employee Health

The HSHS self-insurance program provides workers' compensation insurance and health insurance for employees. An independent actuary has been retained to assist management in determining funding requirements for workers' compensation insurance. For health insurance claims, HSHS has developed internal techniques for estimating the ultimate costs. The amounts funded for each program have been placed in separate accounts that are administered by the trustee.

At June 30, 2013 and 2012, funds held by the trustee and critical access hospitals for workers' compensation liability self-insurance are $28,790 and $25,237, respectively, and related estimated self-insurance liabilities are $15,274 and $13,005, respectively. The discount rate used to compute the estimated self-insurance liability at June 30, 2013 and 2012 was 4%, for all future claim payments. The amount included in employee benefits for 2013 and 2012 was $8,256 and $5,599, respectively, and is included in other expense in the consolidated statements of operations. Subsequently, in July 2013, the estimated workers' compensation liability of $15,274 was transferred to RQIL to begin to administer this risk program.

At June 30, 2013 and 2012, funds held by the trustee for health insurance liability for employees' self-insurance are $61,461 and $58,473, respectively, and are included in assets whose use is limited or restricted. At June 30, 2013 and 2012, related estimated self-insurance liabilities are $12,018 and $10,518, respectively.

(10) Pension

HSHS employees participate in The Hospitals Sisters Health System Employees Pension Plan (the Plan). This noncontributory defined benefit pension plan covers substantially all employees of the System who have completed 1,000 hours of employment during any calendar year subsequent to the commencement of employment. The Plan recognizes and funds the costs related to employee service using the projected unit credit actuarial cost method. The information below represents the aggregation of HSHS' pension financial status, which is determined by the consulting actuaries on a member-specific basis.

(Dollars in thousands)

The following table sets forth the Plan's funded status, amounts recognized in HSHS' consolidated financial statements, and assumptions at June 30, 2013 and 2012:

		2013	2012
Change in benefit obligation:			
Benefit obligation at beginning of year	$	1,293,236	1,057,227
Service cost		49,622	40,998
Interest cost		60,884	58,154
Actuarial loss (gain)		(6,623)	161,114
Expected expenses		(102,258)	(6,061)
Benefits paid		(23,091)	(18,196)
Benefit obligation at end of year	$	1,271,770	1,293,236
Change in plan assets:			
Fair value of plan assets at beginning of year	$	883,197	808,116
Actual gain on plan assets		92,864	52,814
Employer contributions		66,906	40,463
Benefits paid		(23,091)	(18,196)
Fair value of plan assets at end of year	$	1,019,876	883,197
Reconciliation of funded status:			
Funded status	$	(251,894)	(410,039)
Amounts recognized in the accompanying consolidated balance sheets:			
Accrued benefit liability		(251,894)	(410,039)
Amounts not yet reflected in net periodic benefit cost and included as an accumulated charge to unrestricted net assets:			
Prior service cost	$	(2,495)	(3,070)
Actuarial loss		(249,399)	(406,969)
	$	(251,894)	(410,039)

(Dollars in thousands)

		2013	2012
Changes recognized in unrestricted net assets:			
Net loss (gain) arising during the period	$	(128,269)	170,762
Amortization of prior service credit		(575)	303
Amortization or settlement recognition of net loss		(29,301)	(10,137)
Total recognized in unrestricted net assets	$	(158,145)	160,928
Total recognized in net periodic pension cost and unrestricted net assets	$	(91,239)	201,392
Estimated amounts that will be amortized from unrestricted net assets over the next fiscal year:			
Prior service credit		(575)	(575)
Net loss		(16,866)	(28,876)
Accumulated benefit obligation		1,169,337	1,172,307
Components of net periodic benefit cost:			
Service cost	$	49,622	40,998
Interest cost		60,884	58,154
Expected return on plan assets		(73,476)	(68,522)
Amortization of prior service cost		575	(303)
Amortization of net loss		29,301	10,137
Net periodic benefit cost	$	66,906	40,464

	2013	2012
Weighted average assumptions used to determine benefit obligations at June 30:		
Discount rate	5.24%	4.75%
Average rate of compensation increase	3.00	3.00
Measurement date	6/30/2013	6/30/2012
Weighted average assumptions used to determine net periodic benefit cost for the year ended June 30:		
Discount rate	4.75%	5.69%
Expected long-term return on plan assets	8.25	8.25
Average rate of compensation increase	3.00	3.00
Measurement date	6/30/2012	6/30/2011

The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual assets categories. The return is based exclusively on historical returns, without adjustments.

As of June 30, 2013 and 2012, the Mercer Bond Model was used to determine the discount rate used to measure liabilities of the Plan. HSHS concluded the Mercer Bond Model provided the best estimate of the interest rates at which the pension benefits could be effectively settled in accordance with ASC Section 715-30-55-25. The Mercer Bond Model discounts the Plan's cash flow and calculates the Plan's appropriate equivalent single discount rate for the given cash flow based on a hypothetical bond portfolio whose cash flows from coupons and maturities match year-by-year the projected liability benefit payments from the Plan.

(Dollars in thousands)

HSHS expects to contribute to its pension plan for the 2014 fiscal year the following amount	$	49,908
The following benefit payments that reflect expected future service, as appropriate, are expected to be paid:		
2014	$	30,401
2015		36,236
2016		42,432
2017		49,385
2018		56,541
2019–2023		384,527

The expected benefits are based on the same assumptions used to measure HSHS' benefit obligation at June 30, 2013 and include estimated future employee service.

The Plan has developed a Pension Plan Investment Policy Statement (the IPS), which is reviewed and approved by the HSHS board of directors. The IPS established goals and objectives of the fund, asset allocations, allowable and prohibited investments, socially responsible guidelines, and asset classifications, as well as specific investment manager guidelines. The IPS dictates that assets should be rebalanced back to target allocation on a quarterly basis. Investments are managed by independent advisers. Management monitors the performance of these managers on a monthly basis.

The table below lists the target asset allocation and acceptable ranges and actual asset allocations as of June 30, 2013 and 2012:

Asset	Target allocation	Acceptable range	Actual allocation at June 30 2013	Actual allocation at June 30 2012
Equities	57%	30%–70%	58%	55%
Debt securities	30	20–70	26	29
Alternative investments	13	0–15	13	12
Cash and cash equivalents	—	0–6	3	4

(a) Overall Investment Objective

The overall investment objective of the Plan is to invest the Plan's assets in a prudent manner to best serve the participants of the Plan. Plan investment assets are to produce investment results that achieve the Plan's actuarial assumed rate of return, protect the integrity of the Plan, assist HSHS in meeting the obligations to the Plan's participants, manage risk exposures, focus on downside protection, and to maintain enough liquidity in the portfolio to ensure timely cash outflows and beneficiary payments. The Plans' investments are diversified among various asset classes incorporating multiple strategies and managers to exceed a weighted benchmark return based upon policy asset allocation targets and standard index returns. Major investment decisions are authorized by the Board's Retirement Committee, which oversees the Plan's investment program in accordance with established guidelines.

(b) Allocation of Investment Strategies

The Plan maintains a percent of assets in domestic and international equity stocks to achieve the expected rate of return. To manage risk exposure, up to 30% of the Plans' assets are invested in a liability driven investment strategy.

(c) Basis of Reporting

Investments are reported at estimated fair value. If an investment is held directly by HSHS and an active market with quoted prices exists, the market price of an identical security is used as reported fair value. Reported fair values for shares in mutual funds registered with them are based on share prices reported by the funds as of the last business day of the fiscal year. The Plan's interests in alternative investment funds are generally reported at the net asset value reported by the fund managers, which is used as a practical expedient to estimate the fair value of the Plan's interest therein, unless it is probable that all or a portion of the investment will be sold for an amount different from net asset value. As of June 30, 2013, the Plan had no plans or intentions to sell investments at amounts different from net asset value.

(Dollars in thousands)

The fair values of HSHS' pension plan assets at June 30, 2013, by asset category class, are as follows:

	June 30, 2013				Redemption or liquidation	Days' notice
	Level 1	Level 2	Level 3	Total		
Pension plan assets excluding accrued interest of $2,084:						
Cash and cash equivalents	$ 56,421	—	—	56,421	Daily	One
Common stocks	409,767	—	—	409,767	Daily	Three
U.S. government securities	—	105,915	—	105,915	Daily	One
Commingled mutual funds	—	143,194	—	143,194	Daily	One
Municipal bonds	—	2,688	—	2,688	Daily	Two
Corporate bonds, notes, and debentures	—	5,794	—	5,794	Daily	Two
Foreign securities	154,366	5,092	—	159,458	Daily	Three
Hedge funds:						
K2 multistrategy fund	—	—	29,679	29,679	Monthly	Thirty
Mesirow multistrategy fund	—	—	104,876	104,876	Monthly	Thirty
Total assets at fair value	$ 620,554	262,683	134,555	1,017,792		

The table below sets forth a summary of changes in the fair value of the Plan's Level 3 assets for the year ended June 30, 2013:

	Level 3 assets, year ended June 30, 2013		
	K2 fund	Escrow fund	Total funds
Balance, beginning of year	$ 20,537	86,305	106,842
Purchases	6,657	9,986	16,643
Total net gains	2,485	8,585	11,070
Sales	—	—	—
Balance, end of year	$ 29,679	104,876	134,555

(Dollars in thousands)

The fair values of the HSHS' pension plan assets at June 30, 2012, by asset category class, are as follows:

	June 30, 2012				Redemption	Days'
	Level 1	Level 2	Level 3	Total	or liquidation	notice
Pension plan assets excluding accrued interest of $2,017:						
Cash and cash equivalents	$ 31,627	—	—	31,627	Daily	One
Common stocks	342,927	—	—	342,927	Daily	Three
U.S. government securities	—	108,654	—	108,654	Daily	One
Commingled mutual funds	—	142,355	—	142,355	Daily	One
Municipal bonds	—	2,917	—	2,917	Daily	Two
Corporate bonds, notes, and debentures	—	11,893	—	11,893	Daily	Two
Foreign securities	129,130	4,835	—	133,965	Daily	Three
Hedge funds:						
K2 multistrategy fund	—	—	20,537	20,537	Monthly	Thirty
Mesirow multistrategy fund	—	—	86,305	86,305	Monthly	Thirty
Total assets at fair value	$ 503,684	270,654	106,842	881,180		

The table below sets forth a summary of changes in the fair value of the Plan's Level 3 assets for the year ended June 30, 2012:

	Level 3 assets, year ended June 30, 2012		
	K2 fund	Mesirow fund	Total funds
Balance, beginning of year	$ —	—	—
Purchases	20,600	82,700	103,300
Total net gains (losses)	(63)	3,605	3,542
Sales	—	—	—
Balance, end of year	$ 20,537	86,305	106,842

(d) Fair Value of Financial Instruments

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2013 and 2012.

- Cash and cash equivalents: Valued at the carrying amount that approximates fair value because of the short-term maturity of these investments.
- Common and preferred stocks, U.S. government securities, commingled mutual funds, and foreign securities: Valued at the closing price reported on the active market on which the individual securities are traded.

- Municipal bonds, corporate bonds, notes, and debentures: Certain corporate bonds are valued at the closing price reported in the active market in which the bond is traded. Other corporate bonds are valued based on yields currently available on comparable securities of issuers with similar credit ratings. When quoted prices are not available for identical or similar bonds, the bond is valued under a discounted cash flows approach that maximizes observable inputs, such as current yields of similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity.

The Plan has certain hedge fund investments for which quoted market prices are not available. The estimated fair value of these hedge fund investments includes estimates, appraisals, assumptions, and methods provided by external financial advisers and reviewed by HSHS.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

(e) Fair Value Hierarchy

The Plan has adopted ASC Subtopic 715-20-50, *Compensation – Retirement Benefits: Defined Benefit Plans – General: Disclosures*, for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis. ASC Subtopic 715-20-50 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value.

(11) Long-Term Debt

HSSI and its 13 hospital affiliates are included in the HSSI Obligated Group. Under the terms of the Obligated Group MTI, each member of the Obligated Group is jointly and severally liable for all obligations issued thereunder. Bonds issued are unsecured general obligations, but carry covenants regarding withdrawals from the Obligated Group, issuance of additional debt, and creations of liens on property. Obligations outstanding under the Obligated Group MTI are issued through state health facility authorities and comprise both serial and term bonds with varying maturities.

(Dollars in thousands)

As of June 30, 2013, long-term debt consisted of the following:

Series	Interest rates	Final maturity dates		2013
Fixed interest rate issues:				
2007A	5.00%	March 15, 2028	$	72,035
2012B	2.00% to 5.00%	August 15, 2021		76,880
2012C	2.00% to 5.00%	August 15, 2021		68,785
Variable interest rate issues:				
2012A	Variable 0.88% at June 30, 2013	June 30, 2041		20,300
2012D	Variable 0.05% at June 30, 2013	August 1, 2040		61,050
2012E	Variable 0.05% at June 30, 2013	August 1, 2040		41,550
2012F	Variable 0.07% at June 30, 2013	August 1, 2040		31,645
2012G	Variable 0.07% at June 30, 2013	August 1, 2040		31,645
2012H	Variable 0.15% and 0.16% at June 30, 2013	August 1, 2040		65,885
2012I	Variable 0.13% to 0.17% at June 30, 2013	August 1, 2040		89,460
2012J	Variable 0.16% at June 30, 2013	August 1, 2040		14,160
Total fixed and variable interest debt				573,395
Other long-term debt				23,974
Plus unamortized bond issue premiums				20,717
Total debt				618,086
Less current installments				17,909
Less long-term debt subject to short-term remarketing agreements				169,508
Total long-term debt, excluding current installments			$	430,669

(Dollars in thousands)

As of June 30, 2012, long-term debt consisted of the following:

Series	Interest rates	Final maturity dates		2012
Fixed interest rate issues:				
2007A	5.00%	March 15, 2028	$	72,035
Variable interest rate issues:				
2003A	Variable 0.50% at June 30, 2012	December 1, 2023		65,550
2003B	Variable 0.25% to 0.37% at June 30, 2012	December 1, 2023		69,850
2007B-1	Variable 0.35% at June 30, 2012	March 15, 2036		76,750
2007B-2	Variable 0.50% at June 30, 2012	March 15, 2036		41,300
2007C	Variable 0.50% at June 30, 2012	March 15, 2036		100,425
2008A	Variable 0.15% to 0.19% at June 30, 2012	June 1, 2029		89,005
2008B	Variable 0.17% to 0.18% at June 30, 2012	June 1, 2029		14,090
				529,005
Other long-term debt				34,318
				563,323
Plus unamortized bond issue premiums				2,619
Total debt				565,942
Less current installments				28,517
Less long-term debt subject to short-term remarketing agreements				158,047
Total long-term debt, excluding current installments			$	379,378

(Dollars in thousands)

The Obligated Group's effective interest rates for variable debt for the years ended June 30, 2013 and 2012 are as follows:

	2013
Variable interest rate issues:	
2012A	0.06%
2012D	0.05
2012E	0.05
2012F	0.07
2012G	0.07
2012H	0.16
2012I	0.15
2012J	0.16

	2012
Variable interest rate issues:	
2003A	0.26%
2003B	0.32
2007B-1	0.19
2007B-2	0.26
2007C	0.27
2008A	0.16
2008B	0.15

Bond issue premiums and costs are amortized over the term of the related bonds using the bonds outstanding method. Bond issuance costs, net of amortization, are reported as other assets in the accompanying consolidated balance sheets.

HSSI has variable rate bonds, a portion of which have a put option available to the creditor. If the put option is exercised, the bonds are presented to the bank, which in turn draws on the underlying direct pay letter of credit, if available. Self-liquidity bonds are backed by the financial assets of HSSI. The bond series and the underlying credit facility terms are described as follows as of June 30, 2013:

Series	Term
Series 2012 D, E, F, and G	Equal quarterly installments on the first business day of each January, April, July, or October whichever occurs first on or following the 367th day after the purchase date and paid in full no later than the third anniversary of the purchase date
Series 2012 H, I, and J	Self-liquidity – 270 days

(Dollars in thousands)

On October 1, 2012, HSSI issued $601,475 of Series 2012 bonds of which $100,115 remain held as bank bonds as of June 30, 2013. HSSI received a bond premium of $19,360 related to this issuance as part of the proceeds. The proceeds of $520,720 were used to refund prior outstanding bonds and issue new bonds. As part of this issuance, $160,415 was issued as new bonds of which $100,115 remain held as bank bonds. The remaining part of the issuance of $441,060 was issued as bonds refunding prior outstanding bonds. As a result of this issuance, HSSI incurred a non-cash loss of $5,073 for previously unamortized bond issue costs.

Scheduled principal repayments on long-term debt based on the variable rate demand notes being put back to HSHS and a corresponding draw being made on the underlying credit facility, if available, are as follows:

Year ending June 30:		
2014	$	187,417
2015		72,872
2016		71,769
2017		71,649
2018		16,919
Thereafter		176,743
	$	597,369

Scheduled principal repayments on the long-term debt based on the scheduled redemptions according to the Obligated Group MTI are as follows:

Year ending June 30:		
2014	$	17,909
2015		17,575
2016		16,473
2017		16,353
2018		16,919
Thereafter		512,140
	$	597,369

(Dollars in thousands)

(12) Capital Leases

HSHS leases certain equipment under capital leases. Included with property, plant, and equipment are $25,184 of assets held under capital leases and $8,317 of related accumulated amortization at June 30, 2013. A summary of future minimum lease payments and the present value of future minimum lease payments related to capital leases at June 30, 2013 is as follows:

		Amount
Year:		
2014	$	4,606
2015		3,805
2016		2,251
2017		1,381
2018		1,189
Thereafter		9,882
Total future minimum lease payments		23,114
Less amount representing interest at rates ranging from 5.0% to 6.5%		5,535
Present value of future minimum lease payments		17,579
Less current portion of obligations under capital leases included in current installments of long-term debt		3,684
Obligations under capital leases, excluding current portion included in long-term debt, excluding current installments	$	13,895

(13) Functional Expenses

HSHS provides general healthcare services to residents within its respective geographic regions. Expenses related to providing these services for the years ended June 30, 2013 and 2012 are as follows:

		2013	2012
Healthcare services	$	1,545,042	1,506,246
General and administrative services		440,960	423,337
	$	1,986,002	1,929,583

(14) Prevea

St. Vincent Hospital (St. Vincent) and St. Mary's Hospital Medical Center (St. Mary's) (collectively referred to as the Green Bay Hospitals), two members of the Obligated Group located in Green Bay, Wisconsin, each have a 25% interest in Prevea Health Systems, Inc. (Prevea). The Green Bay Hospitals held $21,989 (21,989 shares), at June 30, 2013 and 2012, of Prevea preferred stock. Prevea has

9,000 shares of authorized stock consisting of 900 shares of Class P voting common stock, 3,600 shares of Class P nonvoting, and 4,500 shares of Class H common stock.

With respect to all matters upon which shareholders are entitled to vote or give consent, the outstanding shares of Class P voting common stock constitute one voting group and the holders of outstanding shares of Class H common stock constitute a separate voting group. Each voting group gets 50% of the total voting privileges (with each entitled to elect one-half of the total authorized number of directors of the corporation). Based on Prevea numbers as of June 30, there are 100 voting shares for the Hospitals (Class H), 146 voting shares for Physicians (Class P). There are 457 nonvoting shares. The preferred stockholders of Prevea have liquidation preferences to common stockholders, as defined in the Articles of Incorporation of Prevea. The preferred stock entitles the Green Bay Hospitals to receive dividends equal to 7% of the face value of the preferred stock. Additionally, preferred stock dividends are cumulative. The Green Bay Hospitals' policy is to recognize preferred stock dividends when the dividends are declared. Dividends were declared and paid by Prevea totaling $0 in 2013 and $500 in 2012. The investment in Prevea is accounted for using the equity method. The carrying value of the Green Bay Hospitals' investment in Prevea, inclusive of preferred stock holdings, is reported as other assets in the accompanying consolidated balance sheets.

Prevea formed a wholly owned subsidiary, Prevea Clinic, Inc. (the Clinic). The Clinic started operations in 1995. The Clinic consists of several medical clinic locations throughout the Green Bay and Sheboygan area with approximately 296 physicians and midlevel providers.

Prevea formed Prevea Regional Services, Inc. (Prevea Regional) in 1997 to develop a regional clinic system throughout the outlying areas of Green Bay. Prevea held all of the voting common stock of Prevea Regional on June 30, 2009. The Green Bay Hospitals held $5,550 (1,110 shares) at June 30, 2009 of nonvoting preferred stock in Prevea Regional. In August 2009, Prevea Regional was merged into the Clinic by Prevea. Also in August 2009, the Green Bay Hospitals' preferred stock shares of $5,550 (1,110 shares) in Prevea Regional were exchanged for preferred shares of equal value in Prevea Health Services, Inc.

In September 2009, the Clinic entered into several transactions with St. Vincent. They are summarized as follows:

- Certain assets of the Clinic were sold, transferred, and assigned in the amount of $31,370 in exchange for the redemption of the appropriate number of shares of preferred stock owned by St. Vincent having the same value.
- Lease arrangements – St. Vincent leased all real property, equipment, furnishings, and other personal property and intellectual property from the Clinic for use in the operations of the Clinic.
- Physician services agreement – St. Vincent entered into physician services agreement with the Clinic whereby the Clinic provides certain professional medical services in connection with the operations of the clinic.
- Managed and staff services agreement – St. Vincent entered into a management and nonphysician staff services agreement with the Clinic in connection with the operations of the clinics whereby the

(Dollars in thousands)

Clinic provides certain management and nonphysician staff services in connection with the operations of the Clinic.

Since September 2009, St. Vincent, with the completion of these transactions, has assumed operations of the Clinic's medical clinic locations, and it is now operating these sites as St. Vincent doing business as Prevea Health receiving all of the Clinic's patient revenues and responsible for all of the operating expenses. The expenses directly related to Prevea Health, mainly for the leasing of all employees and doctors, for the years ended June 30, 2013 and 2012 are $184,806 and $178,214, respectively, included in other expenses in the consolidated statements of operations.

During the years ended June 30, 2013 and 2012, the Green Bay Hospitals have $906 and $930, respectively, of notes receivable for cash advances to Prevea.

The following are Prevea's condensed unaudited financial statement data as of and for the years ended June 30, 2013 and 2012:

		2013	2012
Total assets	$	86,283	83,914
Total liabilities		50,347	50,458
Total equity		35,935	33,456
Total net revenue		198,779	182,007
Net income		2,682	2,220

The Green Bay Hospitals' equity portion in Prevea at June 30, 2013 and 2012 increased by $774 and $1,595, respectively, and is included in other operating income in the accompanying consolidated statements of operations.

During fiscal year 2010, the Obligated Group replaced the St. Vincent guarantee whereby the Obligated Group agrees to guarantee the lesser of $10,500, or 39.92%, of the outstanding notes. The Obligated Group will be paid 1.25% of the lesser of 39.92% of the average outstanding principal amount of $10,500 the outstanding notes. Included in the guarantee executed in December 2009 are $2,920 taxable variable rate demand notes of PHP Insurance Plan, Inc. (PHP). PHP, a former health maintenance organization, sold its insurance license, changed its corporate structure, and became Prevea Ventures, LLC (PV). Prevea is the sole corporate member of PV. At June 30, 2013 and 2012, the Clinic has notes outstanding with balances of $21,291 and $22,555, respectively. At June 30, 2013 and 2012, PV has notes outstanding of $2,364 and $2,505, respectively.

(Dollars in thousands)

(15) Joint Ventures

Joint ventures are accounted for using the equity method of accounting and represent $14,925 and $18,002 of other long-term assets in the accompanying consolidated balance sheets at June 30, 2013 and 2012, respectively. The most significant of these investments, excluding Prevea (note 14), include:

- Protestant Memorial Medical Center and St. Elizabeth's Healthcare Services, LLP (held by St. Elizabeth's Hospital) – 50% ownership interest
- Northeast Wisconsin Radiation Therapy Services, LLC (held by St. Vincent and St. Mary's, Green Bay) – each hospital has a 25% ownership interest
- Pain Center of Wisconsin (held by St. Vincent) – 50% ownership interest
- Surgery Center of Sheboygan, LLC (held by St. Nicholas Hospital) – 50% ownership interest
- Orange Cross Ambulance, Inc. (held by St. Nicholas Hospital) – 50% ownership interest
- Holy Family (held by St. Vincent) – 50% ownership interest
- Wisconsin Upper Peninsula Oncology Management Services, Inc. (held by St. Vincent) – 50% ownership interest
- Community Memorial Hospital – (held by St. Vincent (70%) and St. Mary's, Green Bay (30%)) – 24% ownership interest overall, beginning May 17, 2011.

For the years ended June 30, 2013 and 2012, HSHS recognized income of $3,384 and $4,131, respectively, in investments in affiliated companies. This activity is included as a component of other revenue in the accompanying consolidated statements of operations. During 2013 and 2012, HSHS received cash distributions of $4,230 and $4,039, respectively, from the joint ventures. During 2012, HSHS also contributed cash of $95 to the joint ventures.

The following table summarizes the unaudited aggregated financial information of unconsolidated affiliated companies of HSHS as of June 30, 2013 and 2012:

		2013	2012
Total assets	$	51,504	52,613
Total liabilities		17,143	18,411
Total equity		34,361	34,202
Total net revenue		33,489	35,030
Net income		6,590	7,886

(Dollars in thousands)

(16) Pledges Receivable

Pledges, net of a present value discount rate, determined in the year the pledge is made, and an allowance for uncollectible pledges are recorded as a component of assets whose use is limited or restricted in the accompanying consolidated financial statements based on their expected collection date.

Included in assets whose use is limited or restricted at June 30, 2013 and 2012 are the following unconditional promises to give:

		2013	2012
Unconditional promises to give	$	7,103	8,291
Less unamortized discount		158	419
		6,945	7,872
Less allowance for uncollectible pledges		260	286
Net pledges receivable	$	6,685	7,586
Amounts due in:			
Less than one year	$	2,487	2,553
One to five years		4,413	4,751
More than five years		203	987
Total	$	7,103	8,291

(17) Temporarily and Permanently Restricted Assets

Temporarily restricted assets are available for the following purposes or periods at June 30, 2013 and 2012:

		2013	2012
Healthcare services	$	11,916	9,475
Capital expenditures		13,109	10,883
Catholic Radio		207	221
College of nursing		255	204
	$	25,487	20,783

(Dollars in thousands)

As of June 30, 2013 and 2012, HSHS has permanently restricted endowments as follows:

		2013	2012
Assets to be held in perpetuity, the income from which is expendable to support nursing schools	$	2,430	2,300
Assets to be held in perpetuity, the income from which is expendable to support specific operations of HSHS facilities		20,641	20,450
	$	23,071	22,750

As of June 30, 2013 and 2012, HSHS has unrestricted and temporarily restricted funds that represent the unspent accumulation of earnings for endowment funds as follows:

		2013	2012
Unspent income from which is expendable to support nursing schools	$	324	241
Unspent income from which is expendable to support specific operations of HSHS facilities		8,673	7,334
	$	8,997	7,575

(18) Commitments and Contingencies

(a) Operating Leases

HSHS occupies space in certain facilities and leases various pieces of equipment under long-term noncancelable operating lease arrangements. Total equipment rental, asset lease, and facility rental expense in 2013 and 2012 were $29,053 and $28,552, respectively.

The following is a schedule by year of future minimum lease payments to be made under operating leases as of June 30, 2013 that have initial or remaining lease terms in excess of one year:

		Amount
Year ending June 30:		
2014	$	23,278
2015		17,936
2016		15,785
2017		14,600
2018		14,102
Thereafter		17,651

(b) Legal, Regulatory, and Other Contingencies and Commitments

The laws and regulations governing the Medicare, Medicaid, and other government healthcare programs are extremely complex and subject to interpretation, making compliance an ongoing challenge for HSHS and other healthcare organizations. Recently, the federal government has increased its enforcement activity, including audits and investigations related to billing practices, clinical documentation, and related matters. HSHS maintains a compliance program designed to educate employees and to detect and correct possible violations.

(c) Litigation

HSHS is involved in litigation arising in the ordinary course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the HSHS's future consolidated financial position or results of operations.

(d) Unemployment

The Wisconsin hospitals of HSHS pledged a U.S. Treasury note as collateral for any unpaid unemployment compensation claims with a face value of $4,000 for 2013 and 2012 to the Wisconsin Unemployment Reserve Fund. The pledged U.S. Treasury note remained unused at June 30, 2013 and 2012.

(e) The Patient Protection and Affordable Care Act

The Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010 (often referred to, collectively, as the Affordable Care Act or the healthcare reform law), was signed into law on March 23, 2010. The statute will change how healthcare services are delivered and reimbursed through a variety of mechanisms. The law contains stronger antifraud enforcement provisions and provides additional funding for enforcement activity.

On May 6, 2011, CMS issued a final rule establishing a value-based purchasing program for acute care hospitals paid under the Medicare Inpatient Prospective Payment System. Beginning in federal fiscal year 2013, incentive payments will be made based on achievement of or improvement in a set of clinical and quality measures designed to foster improved clinical outcomes. HSHS continues to monitor the impact of this ruling as regulations become finalized.

(f) Tax Exemption for Sales Tax and Property Tax

Effective June 14, 2012, the Governor of Illinois signed into law, *Public Act 97-0688*, which creates new standards for state sales tax and property tax exemptions in Illinois. The law establishes new standards for the issuance of charitable exemptions, including requirements for a nonprofit hospital to certify annually that in the prior year, it provided an amount of qualified services and activities to low-income and underserved individuals with a value at least equal to the hospital's estimated property tax liability. HSHS certified in 2013 and has not recorded a liability for related property taxes based upon management's current determination of qualified services provided.

(g) Investment Risk and Uncertainties

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

(19) Subsequent Events

HSHS evaluated events and transactions through October 28, 2013, the date the consolidated financial statements were issued, noting no subsequent events requiring recording or disclosure.

HOSPITAL SISTERS HEALTH SYSTEM AND SUBSIDIARIES
Springfield, Illinois

Consolidating Balance Sheet Information

June 30, 2013

(Dollars in thousands)

Assets	HSSI – Obligated Group	RQIL	Unity Limited Partnership	KCIN	Healthcare West
Current assets:					
Cash and cash equivalents	$ 55,473	—	3,693	1,666	106
Receivables:					
Patients' accounts, less allowance for uncollectible accounts of $129,300	276,021	—	1,932	—	—
Due from third-party reimbursement programs	2,813	—	—	—	—
Other	18,702	—	26	380	—
Total receivables	297,536	—	1,958	380	—
Current portion of assets whose use is limited or restricted	156,825	—	4,048	—	—
Inventories	38,875	—	—	—	—
Prepaid expenses	9,691	—	—	438	—
Total current assets	558,400	—	9,699	2,484	106
Assets whose use is limited or restricted	1,552,282	73,541	317	—	8,571
Property, plant, and equipment, net	1,058,097	—	5,216	7,495	1,971
Other assets	71,232	—	—	—	—
Total assets	$ 3,240,011	73,541	15,232	9,979	10,648
Liabilities and Net Assets					
Current liabilities:					
Current installments of long-term debt	$ 14,481	—	—	—	—
Long-term debt subject to short-term remarketing agreements	169,508	—	—	—	—
Accounts payable	96,058	—	1,319	3,005	78
Accrued liabilities	96,804	475	43	721	12
Estimated payables under third-party reimbursement programs	43,637	—	—	—	—
Total current liabilities	420,488	475	1,362	3,726	90
Long-term debt, excluding current installments	474,091	—	—	5,000	—
Estimated self-insurance liabilities	15,274	66,881	—	—	—
Derivative instruments	41,831	—	—	—	—
Accrued benefit liability	232,510	—	—	—	—
Other noncurrent liabilities	30,041	—	6,242	—	411
Total liabilities	1,214,235	67,356	7,604	8,726	501
Net assets:					
Unrestricted	1,929,884	6,185	7,628	1,253	10,147
Temporarily restricted	72,821	—	—	—	—
Permanently restricted	23,071	—	—	—	—
Total net assets	2,025,776	6,185	7,628	1,253	10,147
Stockholder's equity	—	—	—	—	—
Total liabilities and net assets	$ 3,240,011	73,541	15,232	9,979	10,648

See accompanying independent auditors' report.

System Office	HSHS Medical Group	Health Care Trust Fund	Flex Plan	Foundation	Kiara	Eliminations	Total
6,381	7,733	—	762	2,717	5,296	(2,717)	81,110
—	7,829	—	—	—	8,796	—	294,578
—	—	—	—	—	—	—	2,813
14,430	4,588	—	1,983	6,685	4,838	(27,997)	23,635
14,430	12,417	—	1,983	6,685	13,634	(27,997)	321,026
108,645	6,599	—	—	—	8,025	—	284,142
41	—	—	—	—	1,135	—	40,051
9,034	659	—	—	—	483	—	20,305
138,531	27,408	—	2,745	9,402	28,573	(30,714)	746,634
760	—	61,461	—	87,931	—	(261,156)	1,523,707
173,657	6,132	—	—	—	4,949	—	1,257,517
28,223	—	—	—	918	9,989	(42,154)	68,208
341,171	33,540	61,461	2,745	98,251	43,511	(334,024)	3,596,066
3,199	—	—	—	—	229	—	17,909
—	—	—	—	—	—	—	169,508
9,007	1,948	20,558	2,557	—	875	(21,312)	114,093
14,193	10,795	3,351	—	98,251	7,755	(98,463)	133,937
—	—	—	—	—	—	—	43,637
26,399	12,743	23,909	2,557	98,251	8,859	(119,775)	479,084
121,836	—	—	—	—	7,755	(178,013)	430,669
—	—	12,018	—	—	—	—	94,173
—	—	—	—	—	—	—	41,831
15,480	3,405	—	—	—	499	—	251,894
6,237	—	—	—	—	3,975	—	46,906
169,952	16,148	35,927	2,557	98,251	21,088	(297,788)	1,344,557
170,459	17,392	25,534	188	—	—	34,281	2,202,951
760	—	—	—	—	—	(48,094)	25,487
—	—	—	—	—	—	—	23,071
171,219	17,392	25,534	188	—	—	(13,813)	2,251,509
—	—	—	—	—	22,423	(22,423)	—
341,171	33,540	61,461	2,745	98,251	43,511	(334,024)	3,596,066

HOSPITAL SISTERS HEALTH SYSTEM AND SUBSIDIARIES
Springfield, Illinois

Consolidating Statement of Operations Information

Year ended June 30, 2013

(Dollars in thousands)

	HSSI – Obligated Group	RQIL	Unity Limited Partnership	KCIN	Healthcare West
Net patient service revenues	$ 1,902,152	—	19,777	—	—
Provision for uncollectible accounts	(100,341)	—	—	—	—
Net patient service revenue less provision for uncollectible accounts	1,801,811	—	19,777	—	—
Other revenues:					
Investment income	2,036	4,789	—	—	—
Net assets released from restrictions used for operations	1,933	—	—	—	—
Other	65,763	14,310	617	6,922	885
Total revenues and other support	1,871,543	19,099	20,394	6,922	885
Expenses:					
Sisters' services	244	—	—	—	—
Salaries and wages	550,241	—	9,649	—	—
Employee benefits	208,683	—	4,094	—	—
Professional fees	96,221	—	211	95	7
Supplies	275,015	—	217	19	44
Depreciation and amortization	102,209	—	430	1,908	322
Interest	7,881	—	—	99	—
Other	570,069	19,099	5,226	9,218	306
Total expenses	1,810,563	19,099	19,827	11,339	679
Income (loss) from operations	60,980	—	567	(4,417)	206
Nonoperating gains (losses):					
Investment income	110,721	—	(26)	4	573
Change in fair value of interest rate swaps	22,606	—	—	—	—
Loss on conversion and early extinguishment of debt	(5,073)	—	—	—	—
Revenues and gains (losses) in excess (deficient) of expenses	189,234	—	541	(4,413)	779
Other changes in unrestricted net assets:					
Net assets released from restrictions used for the purchase of property, plant, and equipment	4,218	—	—	—	—
Reversal of change in pension funded status	150,522	—	—	—	—
Transfers from (to) affiliates	(47,095)	—	—	1,500	—
Change in unrestricted net assets	$ 296,879	—	541	(2,913)	779

See accompanying independent auditors' report.

System Office	HSHS Medical Group	Health Care Trust Fund	Flex Plan	Foundation	Kiara	Eliminations	Total
—	55,862	—	—	—	34,317	—	2,012,108
—	(6,597)	—	—	—	(193)	—	(107,131)
—	49,265	—	—	—	34,124	—	1,904,977
—	—	2,737	1	—	814	(7,626)	2,751
—	—	—	—	2,483	—	(2,903)	1,513
118,304	46,117	140,121	160	2,056	29,745	(326,675)	98,325
118,304	95,382	142,858	161	4,539	64,683	(337,204)	2,007,566
1,031	—	—	—	—	—	—	1,275
48,866	71,081	—	—	—	60,848	3	740,688
13,301	11,200	139,649	126	—	8,054	(143,051)	242,056
7,447	8,417	—	—	—	964	—	113,362
228	3,228	—	—	—	1,148	(3,938)	275,961
28,098	1,211	—	—	—	1,693	—	135,871
3,305	—	—	—	—	256	(4,294)	7,247
38,656	16,599	—	—	9,493	8,631	(207,755)	469,542
140,932	111,736	139,649	126	9,493	81,594	(359,035)	1,986,002
(22,628)	(16,354)	3,209	35	(4,954)	(16,911)	21,831	21,564
15,411	606	—	—	5,683	—	(4,190)	128,782
—	—	—	—	—	—	—	22,606
—	—	—	—	—	—	—	(5,073)
(7,217)	(15,748)	3,209	35	729	(16,911)	17,641	167,879
—	—	—	—	—	—	(2,981)	1,237
4,643	1,264	—	—	—	1,716	—	158,145
28,737	16,858	—	—	(729)	15,195	(14,466)	—
26,163	2,374	3,209	35	—	—	194	327,261

HOSPITAL SISTERS HEALTH SYSTEM AND SUBSIDIARIES
Springfield, Illinois

Consolidating Statement of Changes in Net Assets Information

Year ended June 30, 2013

(Dollars in thousands)

	HSSI – Obligated Group	RQIL	Unity Limited Partnership	KCIN	Healthcare West
Unrestricted net assets:					
Revenues and gains (losses) in excess (deficient) of expenses	$ 189,234	—	541	(4,413)	779
Other changes in unrestricted net assets:					
Net assets released from restrictions use for the purchase of property, plant, and equipment	4,218	—	—	—	—
Reversal of change in pension funded status	150,522	—	—	—	—
Transfers from (to) affiliates	(47,095)	—	—	1,500	—
Change in unrestricted net assets	296,879	—	541	(2,913)	779
Temporarily restricted net assets:					
Investment income	6,118	—	—	—	—
Contributions	5,423	—	—	—	—
Transfers from (to) affiliates	—	—	—	—	—
Net assets released from restrictions	(6,151)	—	—	—	—
Change in temporarily restricted net assets	5,390	—	—	—	—
Permanently restricted net assets:					
Investment income (loss)	(9)	—	—	—	—
Contributions	330	—	—	—	—
Transfers from (to) affiliates	—	—	—	—	—
Change in permanently restricted net assets	321	—	—	—	—
Change in net assets	302,590	—	541	(2,913)	779
Net assets at beginning of year	1,723,186	6,185	7,087	4,166	9,368
Net assets at end of year	$ 2,025,776	6,185	7,628	1,253	10,147

See accompanying independent auditors' report.

System Office	HSHS Medical Group	Health Care Trust Fund	Flex Plan	Foundation	Kiara	Eliminations	Total
(7,217)	(15,748)	3,209	35	729	(16,911)	17,641	167,879
—	—	—	—	—	—	(2,981)	1,237
4,643	1,264	—	—	—	1,716	—	158,145
28,737	16,858	—	—	(729)	15,195	(14,466)	—
26,163	2,374	3,209	35	—	—	194	327,261
752	—	—	—	1,182	—	(6,870)	1,182
(703)	—	—	—	5,967	—	(4,415)	6,272
—	—	—	—	(4,666)	—	4,666	—
—	—	—	—	(2,483)	—	5,884	(2,750)
49	—	—	—	—	—	(735)	4,704
—	—	—	—	(9)	—	9	(9)
—	—	—	—	329	—	(329)	330
—	—	—	—	(320)	—	320	—
—	—	—	—	—	—	—	321
26,212	2,374	3,209	35	—	—	(541)	332,286
145,007	15,018	22,325	153	—	—	(13,272)	1,919,223
171,219	17,392	25,534	188	—	—	(13,813)	2,251,509

HOSPITAL SISTERS SERVICES, INC. – OBLIGATED GROUP
Springfield, Illinois

Consolidating Balance Sheet Information

June 30, 2013

(Dollars in thousands)

Assets		St. Elizabeth's Belleville, Illinois	St. Joseph's Breese, Illinois	St. Mary's Decatur, Illinois	St. Anthony's Effingham, Illinois	St. Joseph's Highland, Illinois	St. Francis Litchfield, Illinois
Current assets:							
Cash and cash equivalents	$	2,288	3,546	4,395	5,922	(1,682)	2,382
Receivables:							
Patients' accounts, less allowance for uncollectible accounts		24,507	7,729	20,536	18,340	4,116	2,003
Due from third-party reimbursement programs		1,129	—	842	(49)	1	(6)
Other		1,958	35	2,209	479	231	157
Total receivables		27,594	7,764	23,587	18,770	4,348	2,154
Current portion of assets whose use is limited or restricted		3,266	2,572	2,241	8,054	2,385	1,307
Inventories		2,421	628	3,137	4,788	468	387
Prepaid expenses		679	241	712	239	177	298
Total current assets		36,248	14,751	34,072	37,773	5,696	6,528
Assets whose use is limited or restricted, net of current portion		12,708	87,228	10,548	256,257	5,463	22,229
Property, plant, and equipment, net		60,264	22,084	98,543	60,040	42,263	22,542
Other assets		4,549	166	219	153	340	66
Total assets	$	113,769	124,229	143,382	354,223	53,762	51,365
Liabilities and Net Assets							
Current liabilities:							
Current installments of long-term debt	$	810	191	688	948	1,125	97
Long-term debt subject to short-term remarketing agreements		10,080	2,381	8,565	7,106	14,002	1,210
Accounts payable		6,153	1,199	6,647	5,548	2,158	1,083
Accrued liabilities		6,891	2,361	4,930	4,625	1,118	1,487
Estimated payables under third-party reimbursement programs		2,822	3,078	6,752	8,387	825	1,423
Total current liabilities		26,756	9,210	27,582	26,614	19,228	5,300
Long-term debt, excluding current installments		57,546	6,132	32,293	21,338	30,570	8,879
Estimated self-insurance liabilities		3,343	125	1,768	300	468	599
Derivative instruments		34	2,402	12	7,007	9	535
Accrued benefit liability		21,639	4,682	17,863	9,468	3,558	6,117
Other noncurrent liabilities		8,488	2,501	1,806	687	1,025	868
Total liabilities		117,806	25,052	81,324	65,414	54,858	22,298
Net assets:							
Unrestricted		(10,927)	97,531	55,077	286,716	(6,543)	26,066
Temporarily restricted		6,798	1,646	5,780	1,981	5,447	2,378
Permanently restricted		92	—	1,201	112	—	623
Total net assets		(4,037)	99,177	62,058	288,809	(1,096)	29,067
Total liabilities and net assets	$	113,769	124,229	143,382	354,223	53,762	51,365

See accompanying independent auditors' report.

St. John's Springfield, Illinois	St. Mary's Streator, Illinois	St. Joseph's Chippewa Falls, Wisconsin	Sacred Heart Eau Claire, Wisconsin	St. Mary's Green Bay, Wisconsin	St. Vincent Green Bay, Wisconsin	St. Nicholas Sheboygan, Wisconsin	Hospital Sisters Services, Inc.	Eliminations	Total
2,201	(507)	637	858	6,598	19,204	6,211	3,420	—	55,473
90,001	7,078	6,406	23,582	11,839	49,664	10,220	—	—	276,021
—	101	—	—	295	198	302	—	—	2,813
3,359	457	127	715	613	9,004	647	149	(1,438)	18,702
93,360	7,636	6,533	24,297	12,747	58,866	11,169	149	(1,438)	297,536
72,599	3,747	4,674	17,669	9,793	22,970	4,848	700	—	156,825
10,975	922	391	5,100	2,780	5,267	1,611	—	—	38,875
3,608	351	59	677	205	2,305	140	—	—	9,691
182,743	12,149	12,294	48,601	32,123	108,612	23,979	4,269	(1,438)	558,400
273,858	31,509	92,615	342,836	56,429	320,129	40,473	—	—	1,552,282
331,112	37,618	24,610	103,424	74,994	131,919	48,684	—	—	1,058,097
4,857	460	93	352	10,355	41,347	1,449	6,826	—	71,232
792,570	81,736	129,612	495,213	173,901	602,007	114,585	11,095	(1,438)	3,240,011
5,399	279	348	1,314	728	1,958	596	—	—	14,481
67,200	3,468	4,326	16,355	9,065	21,262	4,488	—	—	169,508
25,664	2,066	2,963	11,682	5,439	18,338	4,978	3,578	(1,438)	96,058
21,244	2,180	3,583	7,705	3,798	30,898	2,565	3,419	—	96,804
10,394	2,886	1,033	5,321	96	620	—	—	—	43,637
129,901	10,879	12,253	42,377	19,126	73,076	12,627	6,997	(1,438)	420,488
155,455	8,933	11,144	42,129	23,350	60,155	16,167	—	—	474,091
6,461	433	170	870	97	352	288	—	—	15,274
8,092	840	2,271	9,424	1,542	8,614	1,049	—	—	41,831
51,999	9,418	13,966	23,967	15,828	47,025	6,980	—	—	232,510
10,203	1,855	—	500	231	654	582	641	—	30,041
362,111	32,358	39,804	119,267	60,174	189,876	37,693	7,638	(1,438)	1,214,235
402,509	46,957	79,994	368,796	106,744	404,059	69,448	3,457	—	1,929,884
25,458	2,339	3,464	1,813	4,684	5,240	5,793	—	—	72,821
2,492	82	6,350	5,337	2,299	2,832	1,651	—	—	23,071
430,459	49,378	89,808	375,946	113,727	412,131	76,892	3,457	—	2,025,776
792,570	81,736	129,612	495,213	173,901	602,007	114,585	11,095	(1,438)	3,240,011

HOSPITAL SISTERS SERVICES, INC. – OBLIGATED GROUP
Springfield, Illinois

Consolidating Statement of Operations Information

Year ended June 30, 2013

(Dollars in thousands)

	St. Elizabeth's Belleville, Illinois	St. Joseph's Breese, Illinois	St. Mary's Decatur, Illinois	St. Anthony's Effingham, Illinois	St. Joseph's Highland, Illinois	St. Francis Litchfield, Illinois
Net patient service revenues	$ 158,547	48,566	137,909	118,705	25,655	33,943
Provision for uncollectible accounts	(17,624)	(785)	(10,770)	(5,239)	(955)	(2,569)
Net patient service revenue less provision for uncollectible accounts	140,923	47,781	127,139	113,466	24,700	31,374
Other revenues:						
Investment income	395	25	253	71	6	62
Net assets released from restrictions used for operations	—	9	—	—	—	—
Other	6,512	2,396	6,540	5,446	442	1,193
Total revenues	147,830	50,211	133,932	118,983	25,148	32,629
Expenses:						
Sisters' services	2	—	2	—	24	—
Salaries and wages	53,068	16,962	42,169	32,491	8,466	10,716
Employee benefits	19,287	6,607	16,384	14,030	4,261	4,372
Professional fees	4,996	3,012	7,362	6,039	2,525	2,944
Supplies	21,496	4,022	18,971	17,360	2,462	2,651
Depreciation and amortization	9,395	3,316	8,044	6,247	1,005	1,429
Interest	857	135	645	511	136	11
Other	54,644	9,271	39,046	24,730	6,980	7,746
Total expenses	163,745	43,325	132,623	101,408	25,859	29,869
Income (loss) from operations	(15,915)	6,886	1,309	17,575	(711)	2,760
Nonoperating gains (loss):						
Investment income (loss)	23	6,156	(281)	18,582	(129)	1,516
Change in fair value of interest rate swap	5,673	(1,067)	3,409	(3,793)	460	910
Loss on conversion and early extinguishment of debt	(370)	(101)	(368)	(239)	(5)	(51)
Revenues and gains (losses) in excess (deficient) of expenses	(10,589)	11,874	4,069	32,125	(385)	5,135
Other changes in unrestricted net assets:						
Net assets released from restrictions used for the purchase of property, plant, and equipment	444	—	81	275	115	—
Transfers to affiliate	(6,382)	(1,084)	(4,929)	(2,990)	(765)	(2,368)
Reversal of changes in pension funded status	16,928	3,001	10,720	7,387	2,979	3,599
Change in unrestricted net assets	$ 401	13,791	9,941	36,797	1,944	6,366

See accompanying independent auditors' report.

St. John's Springfield, Illinois	St. Mary's Streator, Illinois	St. Joseph's Chippewa Falls, Wisconsin	Sacred Heart Eau Claire, Wisconsin	St. Mary's Green Bay, Wisconsin	St. Vincent Green Bay, Wisconsin	St. Nicholas Sheboygan, Wisconsin	Hospital Sisters Services, Inc.	Eliminations	Total
440,166	48,050	68,622	215,929	123,136	415,744	67,180	—	—	1,902,152
(37,485)	(1,816)	(952)	(5,007)	(4,912)	(9,743)	(2,484)	—	—	(100,341)
402,681	46,234	67,670	210,922	118,224	406,001	64,696	—	—	1,801,811
819	99	18	70	21	126	71	—	—	2,036
1,924	—	—	—	—	—	—	—		1,933
20,047	2,532	2,401	5,856	6,086	7,293	4,311	235	(5,527)	65,763
425,471	48,865	70,089	216,848	124,331	413,420	69,078	235	(5,527)	1,871,543
57	—	—	—	—	159	—	—	—	244
138,423	16,037	27,605	72,264	34,141	77,894	20,005	—	—	550,241
50,495	6,549	10,428	24,785	13,692	30,459	7,334	—	—	208,683
41,392	5,370	3,467	5,452	3,099	12,347	984	(200)	(2,568)	96,221
81,948	4,834	4,695	32,579	18,493	55,839	9,665	—	—	275,015
26,013	3,739	2,931	12,812	6,483	16,212	4,583	—	—	102,209
2,413	155	226	863	537	1,183	209	—	—	7,881
95,757	13,865	14,975	39,799	35,609	205,809	23,925	872	(2,959)	570,069
436,498	50,549	64,327	188,554	112,054	399,902	66,705	672	(5,527)	1,810,563
(11,027)	(1,684)	5,762	28,294	12,277	13,518	2,373	(437)	—	60,980
23,280	2,273	6,025	23,803	3,755	23,433	2,243	42	—	110,721
14,771	692	(372)	(2,224)	2,446	765	936			22,606
(1,351)	(141)	(186)	(694)	(421)	(957)	(189)	—	—	(5,073)
25,673	1,140	11,229	49,179	18,057	36,759	5,363	(395)	—	189,234
41	66	512	734	494	555	901	—	—	4,218
(18,149)	(1,797)	(1,265)	(2,001)	(1,097)	(3,645)	(623)	—	—	(47,095)
37,387	6,714	6,513	13,523	9,368	26,284	6,119	—	—	150,522
44,952	6,123	16,989	61,435	26,822	59,953	11,760	(395)	—	296,879

HOSPITAL SISTERS SERVICES, INC. –
OBLIGATED GROUP
Springfield, Illinois

Consolidating Statement of Changes in Net Assets Information

Year ended June 30, 2013

(Dollars in thousands)

		St. Elizabeth's Belleville, Illinois	St. Joseph's Breese, Illinois	St. Mary's Decatur, Illinois	St. Anthony's Effingham, Illinois	St. Joseph's Highland, Illinois	St. Francis Litchfield, Illinois
Unrestricted net assets:							
Revenues and gains (losses) in excess (deficient) of expenses	$	(10,589)	11,874	4,069	32,125	(385)	5,135
Other changes in unrestricted net assets:							
Net assets released from restrictions used for the purchase of property, plant, and equipment		444	—	81	275	115	—
Transfers to affiliate		(6,382)	(1,084)	(4,929)	(2,990)	(765)	(2,368)
Reversal of changes in pension funded status		16,928	3,001	10,720	7,387	2,979	3,599
Change in unrestricted net assets		401	13,791	9,941	36,797	1,944	6,366
Temporarily restricted net assets:							
Investment income		428	103	307	138	198	165
Contributions		588	5	552	7	1,157	198
Net assets released from restrictions		(444)	(9)	(81)	(275)	(115)	—
Change in temporarily restricted net assets		572	99	778	(130)	1,240	363
Permanently restricted net assets:							
Investment loss		—	—	—	—	—	—
Contributions		18	—	—	—	—	—
Change in permanently restricted net assets		18	—	—	—	—	—
Change in net assets		991	13,890	10,719	36,667	3,184	6,729
Net assets at beginning of year		(5,028)	85,287	51,339	252,142	(4,280)	22,338
Net assets at end of year	$	(4,037)	99,177	62,058	288,809	(1,096)	29,067

See accompanying independent auditors' report.

Schedule 6

St. John's Springfield, Illinois	St. Mary's Streator, Illinois	St. Joseph's Chippewa Falls, Wisconsin	Sacred Heart Eau Claire, Wisconsin	St. Mary's Green Bay, Wisconsin	St. Vincent Green Bay, Wisconsin	St. Nicholas Sheboygan, Wisconsin	Hospital Sisters Services, Inc.	Eliminations	Total
25,673	1,140	11,229	49,179	18,057	36,759	5,363	(395)	—	189,234
41	66	512	734	494	555	901	—	—	4,218
(18,149)	(1,797)	(1,265)	(2,001)	(1,097)	(3,645)	(623)	—	—	(47,095)
37,387	6,714	6,513	13,523	9,368	26,284	6,119	—	—	150,522
44,952	6,123	16,989	61,435	26,822	59,953	11,760	(395)	—	296,879
1,926	164	670	503	481	473	562	—	—	6,118
947	57	236	160	(7)	1,455	68	—	—	5,423
(1,965)	(66)	(512)	(734)	(494)	(555)	(901)	—	—	(6,151)
908	155	394	(71)	(20)	1,373	(271)	—	—	5,390
—	—	—	(9)	—	—	—	—	—	(9)
15	1	19	237	2	28	10	—	—	330
15	1	19	228	2	28	10	—	—	321
45,875	6,279	17,402	61,592	26,804	61,354	11,499	(395)	—	302,590
384,584	43,099	72,406	314,354	86,923	350,777	65,393	3,852	—	1,723,186
430,459	49,378	89,808	375,946	113,727	412,131	76,892	3,457	—	2,025,776