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HEALTH FACILITIES &
SERVICES REVIEW BOARD

Alteration Number One

to the

CON PERMIT PROJECT # 14-056

Development of an

Ambulatory Care Center
Physician Office Building
(ACC/POB)

at

St. Anthony's Memorial Hospital,
Effingham, Illinois

In conjunction with

Hospital Sisters Health System
Springfield, Illinois

(The Co-applicants)

February 19, 2016

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February 19, 2016

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

Re: Alteration Request Number One (Section 1130.750)
Project Number # 14-056
St. Anthony's Memorial Hospital (SAE)
Ambulatory Care Center (ACC/POB)

Dear Ms. Avery,

This project has gone through several iterations with the Review Board. Initially, only the Hospital component of the Project was submitted for CON review in that a third-party developer, Agracel, was to assume all risk and develop the ACC/POB facility on the Hospital campus. Subsequently, the Review Board requested the entire facility project development cost be submitted for review which occurred through a Type A modification of the original permit application. The modified permit was received by the Illinois Health Facilities and Services Review Board (IHFSRB) on January 25, 2015. The ACC/POB Project, in the total amount of $14,004,619.00, was approved on March 10, 2015. In conjunction with the Type A Modified Permit Application, the Hospital (SAE) and Hospital Sisters Health System (HSHS) also filed an Attestation Letter, dated January 13, 2015, stating that if Agracel, the proposed third-party developer, were to no longer be associated with the ACC/POB Project, HSHS would provide necessary funding to complete and assume Project ownership.

Due to unforeseen circumstances, Agracel is no longer associated with the Project and will not be developing the approved ACC/POB facility on the Hospital campus. In addition, the Marshall Clinic, an independent local physician office-based practice, has withdrawn its commitment to lease space in the proposed ACC/POB facility given its acquisition by another Illinois-based physician / clinic.

Thus, these circumstances have led HSHS and SAE to honor their commitments, as stated in the Project Completion Attestation Letter, and these related organizations will be completing the ACC/POB project, as approval, excepting certain considerations identified in this First Alteration Request. More specifically, given that the Marshall Clinic has withdrawn its commitment, the Alteration, assuming approved, will convert the original Marshall Clinic space to shell space, in anticipation of it being occupied by the HSHS Medical Group. As required by Section 1110.234 d) e), Unfinished or Shell Space, this First Alteration Request includes an Assurance or Attestation Letter indicating the project co-applicants, HSHS and SAE, will submit a CON Permit Application to the IHFSRB to develop and utilize the shell space regardless of the capital thresholds in effect at that time

To summarize this Alteration request:

1. HSHS and SAE will assume all responsibility to fund and develop the approved ACC/POB based on CON Permit #14-056 and the associated Project Completion Attestation Letter dated January 13, 2015. Neither Agracel nor the Marshall Clinic are currently associated with the Project.

2. The total project sq. ft., as permitted, will remain unchanged at approximately 49,494 sq. ft. (Attachment 39).

3. The original Marshall Clinic space at approximately 23,784 sq. ft. (Attachment 39) will be shelled in anticipation of a new occupant; costs will be adjusted accordingly.

4. Completion of the proposed shell area will require the filing and approval of a CON Permit Application, regardless of requisite tenant project related improvement costs or the capital thresholds in effect at that time.

5. Requests to extend the Financial Commitment Date to June 16, 2017 (Section 1130.730), the Project Completion Date (Permit Renewal, Section 11130.740), and the Annual Progress Report for Project 14-056 are being simultaneously filed with this first Alteration Request in order that complete documentation is on file as requested by the Review Board Staff.

Our application processing fee in the amount of $1,000 is enclosed.

If you have any questions please contact Theresa Rutherford at Theresa.Rutherford@hshs.org or by telephone at 271-347-1494.

On behalf:

St. Anthony's Memorial Hospital

Theresa J. Rutherford
President and Chief Executive Officer

Hospital Sisters Health System

Mike Cottrell
Chief Financial Officer

Attachment: Check #267720

CC: Mike Constantino, Supervisor, Project Review Section
E.W. Parkhurst, Jr., PRISM Healthcare Consulting

St. Anthony's Memorial Hospital

AN AFFILIATE OF HOSPITAL SISTERS HEALTH SYSTEM

January 22, 2015

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

Re: Type A Permit Application Modification
Project 14-056
St. Anthony's Memorial Hospital
Ambulatory Care Center

Dear Ms. Avery,

As requested, we have modified our original Permit Application to include the total project costs, some of which are attributable to Agracel, our third-party independent developer, and also those attributable to St. Anthony's as they were included in the original Permit Application submission. The total project cost is $14,004,619 including St. Anthony's FMV of leased space which is $5,351,337, as well as our direct capital investment of $3,111,529. Included in this modification are the original Permit Application pages and those requiring modification. (Narrative; Attachments 7, 9, 36, and 39)

Pursuant to Section 1130.650 we anticipate some additional fees may be assessed. Please advise us of any additional amounts so that our review can quickly proceed.

Additionally, we were requested to provide an attestation letter indicating the proposed ACC/POB project would be completed if Agracel, our independent third-party developer, defaulted in any manner. This attestation letter has been submitted under separate cover.

We look forward to securing a positive response from the State Board at its March 10th meeting for this important project which is consistent with healthcare delivery trends.
Please contact me if you have any questions. I can be reached by e-mail at Theresa.Rutherford@hshs.org or by telephone at 217-347-1494.

Sincerely,

Theresa Rutherford
President/CEO

Cc: Mike Constantino, Supervisor, Project Review Section

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

Project 14-056
Alteration #1

Revised Attachments
- Type A Permit Application
- Alteration Number 1 Request, Updates

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), 503 North Maple Street, 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 49,500 (corrected; 45,730 in the original permit application) 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 and the project cost distributions which follow)

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 for certain Hospital related expenses.

In aggregate, the total project cost attributable to SAE and the third-party developer approximates $14,004,619. The costs are allocated as follows:

Source of Funds

By Source		
Cash and Securities		
SAE/HSHS	$3,111,529	
Agracel (Developer)	2,723,272	
Subtotal	$5,834,801	
Mortgage / Bank Loan		
Agracel (Developer)	$8,169,818	(Attachment 37 and Appendix A)
Grand Total	$14,004,619	(Attachment 7, Full Project Costs)

By Organization

Agracel (Project Construction Cost)			
Cash / Securities		$2,723,272	
Bank Loan		8,169,818	
	Subtotal	$10,893,090 *	
SAE/HSHS		3,111,529 **	
	Grand Total	$14,004,619	(Attachment 7, Full Project Costs)

* Of which $5,351,337 is the FMV of SAE leased space

** Consulting fees, equipment, etc. (See Attachment 7 for detail)

SAE Project Cost Related

Cash / Securities		$3,111,529	(Attachment 7, Page 25, Source of Funds)
FMV Leased Space		5,351,337	(Attachment 7, Page 25, Use of Funds)
	Total SAE	$8,462,866	

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

2. Narrative Description (Alteration Number One)

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).

At that time, 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 nor the Hospital Sisters Health System (HSHS) were at risk for financing the proposed development as attested to in the CON Applicability request. The determination letter is attached as Alteration Number 1, Exhibit 1.

Subsequently, a CON Permit Application was filed, as well as a Type A Modification, based on a request by the IHFSRB. To ensure project completion, the IHFSRB also requested an Attestation Letter stating HSHS and SAE would complete, fund, and own the facility if the developer was no longer involved. This letter, dated January 13, 2015, was provided (Attestation Narrative, Exhibit 2). The Project was approved by the Review Board on March 10, 2015.

Unfortunately, Agracel and the Marshall Clinic are no longer associated with the Project, hence this First Alteration Request.

By way of background, SAE proposed to relocate and consolidate select clinical and non-clinical services into what was then leased space within the new Hospital-campus based physician facility (ACC/POB) to be constructed and owned by the independent third-party developer, Agracel. The facility was to have been developed under a ground lease agreement using Hospital property in order to create the ambulatory care center (ACC). The proposed Hospital services would have been located in the new ACC/POB facility which would also have included a local independent physician office (The Marshall Clinic) which is now being proposed as shell space in this Alteration Request. This Alteration Permit Request, if approved, would comply with the Attestation Letter.

Space associated with SAE and other non-clinical areas approximates 25,710 sq. ft. with approximately an additional 23,784 being available to house the HSHS Medical Group which is proposed to occupy the previous Marshall Clinic space (see Attachment 39, revised). The

Hospital 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 space component, coupled with a co-located physician office area proposed for the HSHS Medical group (POB) (physician offices), will assist the Hospital in meeting care delivery trends emphasizing ambulatory care services (the ACC/POB) in an integrated facility. The project approximates 49,500 total square feet including a connection to and through an existing hospital-owned medical office building on the campus (Effingham Medical Center or EMC) which will be connected to the new ACC/POB.

Project costs for developing the proposed ACC/POB facility, as proposed in this Alteration, will now become an HSHS and SAE obligation per the Attestation Letter on file (Alteration Number 1, Narrative, Exhibit 2). The estimated total project cost is $12,181,075 (Attachment 7).

Funding for the project will be through cash and securities. Hospital Sisters Health System is an A-rate organization (Attachment 36).

Given HSHS and SAE will now assume development, funding, and ownership, they propose to develop the entire facility, as originally planned, but initially "shell" the original Marshall Clinic area for future use by the HSHS Medical Group (approximately 23,784 sq. ft.). The applicants attest to the fact that a new CON will be filed to complete the shelled area regardless of the expenditure threshold in effect at that time (Alteration Narrative, Exhibit 3).

In accordance with Section 1110.40, this Application for Permit is classified as non-substantive.

Attachments Narrative Exhibits:

IHFSRB Advisory Opinion Determination Letter (Exhibit 1, Narrative)
Attestation Letter (Exhibit 2, Narrative)
CON Attestation Letter (Exhibit 3, Narrative)

STATE OF ILLINOIS
HEALTH FACILITIES AND SERVICES REVIEW BOARD

525 WEST JEFFERSON ST. • SPRINGFIELD, ILLINOIS 62761 •(217) 782-3516 FAX: (217) 785-4111

June 9, 2014

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

Annette Schnabel, DPT MBA FACHE
Executive Director of Strategy and Administration
503 North Maple Street
Effingham, Illinois 62401

Re: St. Anthony Professional Office Building

Dear Ms Schnabel:

We are in receipt of your request for an advisory opinion regarding the professional office building (POB) being proposed to be constructed on the campus of St. Anthony Hospital in Effingham Illinois. Our review of the information that you forwarded to us indicates that the POB is by or on behalf of the hospital, that clinical services will be provided in the POB, and that the entire cost of the building needs to be considered to determine whether or not the POB requires a certificate of need. If the entire cost of the POB exceeds the capital threshold minimum of $12,495,668, **a certificate of need is required**.

This opinion is based upon the information contained in your request, the Health Facilities Planning Act, and the current rules of the State Board. This is a staff advisory opinion and does not constitute a determination by the State Board. Should you wish to obtain a determination by the State Board, you may request a declaratory ruling pursuant to the provisions contained in 77 Ill. Adm. Code 1130.810, "Declaratory Rulings." Declaratory ruling requests must be made in writing and should be addressed to me.

This opinion relates solely to the applicability of certificate of need requirements and is based upon the applicable statutory requirements, rules and regulations in effect as of this date. In addition you are advised that this opinion does not address the applicability of or need to comply with any other regulations or requirements of other programs or agencies, such as licensing or certification. Please advise and give notice to the State Board if and when the transaction as described in your correspondence becomes effective.

Should you have any questions please contact Mike Constantino or George Roate at 217.782.3516 or Mike.Constantino@illinois.gov or George.Roate@illinois.gov

Sincerely,

Courtney R Avery

Courtney R. Avery
Administrator
Illinois Health Facilities and Services Review Board

cc: Kathy Olson, Chairman

HSHS
St. Anthony's
Memorial Hospital

January 13, 2015

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

Re: Project Completion Attestation Letter
Project 14-046
St. Anthony's Memorial Hospital
Effingham, Illinois

Dear Ms. Avery,

This letter attests to the fact that if Agracel, Inc. (the third-party developer) is unable or unwilling to complete the proposed Ambulatory Care Center and Physician Office Building (ACC/POB) (Project 14-056), Hospital Sisters Health System will provide the funding necessary to complete and assume ownership of the project.

his attestation letter is being submitted at the request of the Illinois Health Facilities and Services Review Board. However, as attested to in the underlying Permit Application, Agracel, Inc. (or its affiliate Effingham MOB, LLC) will fund the project development and St. Anthony's Memorial Hospital will have no risk or provide any guarantees for the development other than the lease of space from Effingham MOB, LLC (See Permit Application, Narrative, Exhibit 1).

We trust this attestation letter addresses your request.

On Behalf of:
St. Anthony's Memorial Hospital

Theresa J. Rutherford

Theresa J. Rutherford
President and Chief Executive Officer

Notarization:
Subscribed and sworn to before me
this 13th day of January, 2015

Paula J Tolch
Signature of Notary

Seal OFFICIAL SEAL
PAULA J TOLCH
NOTARY PUBLIC - STATE OF ILLINOIS
MY COMMISSION EXPIRES 06/07/15

Hospital Sisters Health System

Lawrence P. Schumacher

Lawrence P. Schumacher
Chief Operating Officer

Notarization:
Subscribed and sworn to before me
this 20th day of January

Sylvia Rebecca Gansz
Signature of Notary

Seal OFFICIAL SEAL
SYLVIA REBECCA GANSZ
Notary Public - State of Illinois
My Commission Expires Apr 17, 2016

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

HSHS St. Anthony's Memorial Hospital

February 19, 2016

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

Re: Shelled Space Attestation Letter (Section 1110.234 d) e)
Project Number # 14-056
St. Anthony's Memorial Hospital ACC/POB (SAE)
Alteration Request Number 1

Dear Ms. Avery,

As defined in the associated First Alteration Request, we propose to convert the original third-party Marshall Clinic space (23,784 sq. ft., Attachment 39) to shell space for a future non-clinical physician office tenant currently anticipated to be the Hospital Sisters Health System (HSHS) Medical Group.

This letter's purpose is to assure the Health Facilities and Services Review Board (IHFSRB) that the co-applicants will submit a CON Permit Application to develop and utilize this space regardless of the capital thresholds in effect at the time build-outs for this shell area might occur.

Timing of the build-out depends on physician recruitment and HSHS capital allocation approvals. It is anticipated the ACC/POB development and shelled space completion will occur simultaneously (SAE and HSHS) and have the same Project completion date.

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

Please contact Ms. Rutherford if there are any questions. She can be contacted by e-mail at Theresa.Rutherford@hshs.org or by telephone at 271-347-1494.

On behalf:

St. Anthony's Memorial Hospital	Hospital Sisters Health System
Theresa J. Rutherford	Mike Cottrell
Theresa J. Rutherford President and Chief Executive Officer	Mike Cottrell Chief Financial Officer

Notarization:

Subscribed and sworn to before me
this 17th day of February 2016
Theresa H. Harner
Signature of Notary

Seal

"OFFICIAL SEAL"
THERESA H HARNER
Notary Public, State of Illinois
My Commission Expires 3/12/2018

Notarization:

Subscribed and sworn to before me
this 17th day of February, 2016
Donna J Chase
Signature of Notary

Seal

OFFICIAL SEAL
DONNA J CHASE
Notary Public - State of Illinois
My Commission Expires Jun 21, 2018

CC: Mike Constantino, Supervisor, Project Review Section
E.W. Parkhurst, Jr., PRISM Healthcare Consulting

Project Costs and Sources of Funds (Total Project Cost)

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 (Total Project)			
USE OF FUNDS	CLINICAL (SAE)	NONCLINICAL (SAE) (DEVL)	TOTAL
Preplanning Costs	0	41,000	41,000
Site Survey and Soil Investigation	0	80,000	80,000
Site Preparation	0	40,000	40,000
Off Site Work	0	0	0
New Construction Contracts	3,382,838	5,087,925	8,470,763
Modernization Contracts	0	0	0
Contingencies (Allowance)	0	720,000	720,000
Architectural/Engineering Fees	0	565,937	565,937
Consulting and Other Fees	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)	0	55,000	55,000
Net Interest Expense During Construction (project related)	0	199,965	199,965
Fair Market Value of Leased Space or Equipment	0	0	0
Other Costs To Be Capitalized	204,280	1,080,265	1,284,545
Acquisition of Building or Other Property (excluding land)	0		0
TOTAL USES OF FUNDS	5,953,131	8,051,488	14,004,619
SOURCE OF FUNDS	CLINICAL	NONCLINICAL	TOTAL
Cash and Securities (SAE/HSHS/Agracel)	2,570,293	3,264,508	5,834,801
Pledges	--	--	0
Gifts and Bequests	--	--	0
Bond Issues (project related)	--	--	0
Mortgages (Includes FMV Cost)	3,382,838	4,786,980	8,169,818
Leases (fair market value)	--	--	0
Governmental Appropriations	--	--	0
Grants	--	--	0
Other Funds and Sources	--	--	0
TOTAL SOURCES OF FUNDS	5,953,131	8,051,488	14,004,619
NOTE: ITEMIZATION OF EACH LINE ITEM MUST BE PROVIDED AT ATTACHMENT-7, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.			

Project Development Costs

Agracel Related (Attachment 7, Modified)

New Construction	$8,470,763	*
Contingencies	720,000	
Subtotal	$9,190,763	
Pre-planning costs	41,000	
Site Survey / Soils	80,000	
Site Preparation	40,000	
A & E Fees	565,937	
Bond Issue Expense	55,000	
Capitalized Interest	199,965	
Other Costs to be Capitalized	720,425	
Subtotal – Agracel	$10,893,090	

SAE/HSHS Related (Attachment 7, Original)

Consulting / Other	$92,898	
Equipment	2,454,511	
Other Costs to be Capitalized	564,120	
FMV Leased Space	5,351,337	
Subtotal – SAE	$8,462,866	
Subtotal	$19,355,956	
Less SAE FMV	(5,351,337)	(Double counted)
Project Total	$14,004,619	

* Includes SAE FMV of leased space @ $5,351,337

Project Costs and Sources of Funds (Alteration Number 1)

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

Project Costs and Sources of Funds			
USE OF FUNDS	**CLINICAL (SAE)**	**NONCLINICAL (SAE)**	**TOTAL**
Preplanning Costs	18,450	22,550	41,000
Site Survey and Soil Investigation	36,000	44,000	80,000
Site Preparation	18,000	22,000	40,000
Off Site Work	0	0	0
New Construction Contracts	3,089,350	3,834,478	6,923,828
Modernization Contracts	0	0	0
Contingencies	293,488	364,275	657,763
Architectural/Engineering Fees @ 8.0%	270,630	335,900	606,530
Consulting and Other Fees	41,450	51,448	92,898
Movable or Other Equipment (not in construction contracts)	2,317,713	136,798	2,454,511
Bond Issuance Expense (project related)	0	0	0
Net Interest Expense During Construction (project related)	0	0	0
Fair Market Value of Leased Space or Equipment	0	0	0
Other Costs To Be Capitalized	578,000	706,545	1,284,545
Acquisition of Building or Other Property (excluding land)	0	0	0
TOTAL USES OF FUNDS	6,663,081	5,517,994	12,181,075
SOURCE OF FUNDS	**CLINICAL**	**NONCLINICAL**	**TOTAL**
Cash and Securities	6,663,081	5,517,994	12,181,075
Pledges			
Gifts and Bequests			
Bond Issues (project related)			
Mortgages			
Leases (fair market value)			
Governmental Appropriations			
Grants			
Other Funds and Sources			
TOTAL SOURCES OF FUNDS	6,663,081	5,517,994	12,181,075

NOTE: ITEMIZATION OF EACH LINE ITEM MUST BE PROVIDED AT ATTACHMENT-7, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

Attachment 7, Itemization (Budget estimates based on current and estimated expenditures)

	Clinical	Non Clinical
Preplanning Costs		
Business Plan Development	12,000	14,500
Market Analysis	6,450	7,500
Subtotal	18,450	22,000
Site Survey / Soils		
Engineering and Testing Services	36,000	44,000
Site Preparation / Grading	18,000	22,000
New Construction / Link to add through EMC	3,089,350	3,834,478
Contingencies	293,488	364,275
Architectural/Engineering Fees @ 8%	270,630	335,900
Consulting and Other Fees		
Legal (allocated)	41,450	51,448
Equipment (Allowance)		
Clinical - Lab, CT, etc.	2,317,713	0
FF&E	0	136,798
Other Costs to be Capitalized		
(Allocated based on expected and budgeted funds)		
CON Prep	12,120	14,600
CON Fees (HFSRB)	15,600	19,200
Capitalized Developer	550,280	672,745
Related fees, legal fees, and miscellaneous fees resulting from modified project	578,000	706,545

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

* Included in Permit Modification Submittal

Project Costs and Sources of Funds (Total Project Cost)
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 (Total Project)			
USE OF FUNDS	CLINICAL (SAE)	NONCLINICAL (SAE) (DEVL)	TOTAL
Preplanning Costs	0	41,000	41,000
Site Survey and Soil Investigation	0	80,000	80,000
Site Preparation	0	40,000	40,000
Off Site Work	0	0	0
New Construction Contracts	3,382,838	5,087,925	8,470,763
Modernization Contracts	0	0	0
Contingencies (Allowance)	0	720,000	720,000
Architectural/Engineering Fees	0	565,937	565,937
Consulting and Other Fees	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)	0	55,000	55,000
Net Interest Expense During Construction (project related)	0	199,965	199,965
Fair Market Value of Leased Space or Equipment	0	0	0
Other Costs To Be Capitalized	204,280	1,080,265	1,284,545
Acquisition of Building or Other Property (excluding land)	0		0
TOTAL USES OF FUNDS	5,953,131	8,051,488	14,004,619
SOURCE OF FUNDS	CLINICAL	NONCLINICAL	TOTAL
Cash and Securities (SAE/HSHS/Agracel)	2,570,293	3,264,508	5,834,801
Pledges	--	--	0
Gifts and Bequests	--	--	0
Bond Issues (project related)	--	--	0
Mortgages (Includes FMV Cost)	3,382,838	4,786,980	8,169,818
Leases (fair market value)	--	--	0
Governmental Appropriations	--	--	0
Grants	--	--	0
Other Funds and Sources	--	--	0
TOTAL SOURCES OF FUNDS	5,953,131	8,051,488	14,004,619

NOTE: ITEMIZATION OF EACH LINE ITEM MUST BE PROVIDED AT ATTACHMENT-7, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

Project Development Costs

Agracel Related (Attachment 7, Modified)

New Construction	$8,470,763	*
Contingencies	720,000	
Subtotal	$9,190,763	
Pre-planning costs	41,000	
Site Survey / Soils	80,000	
Site Preparation	40,000	
A & E Fees	565,937	
Bond Issue Expense	55,000	
Capitalized Interest	199,965	
Other Costs to be Capitalized	720,425	
Subtotal – Agracel	$10,893,090	

SAE/HSHS Related (Attachment 7, Original)

Consulting / Other	$92,898	
Equipment	2,454,511	
Other Costs to be Capitalized	564,120	
FMV Leased Space	5,351,337	(Included in Agracel)
Subtotal – SAE	$8,462,866	
Subtotal	$19,355,956	
Less SAE FMV	(5,351,337)	(Double counted)
Project Total	$14,004,619	(Modified Attachment 7)

* Includes SAE FMV of leased space @ $5,351,337

Project Costs and Sources of Funds (Alteration Number 1)

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

Project Costs and Sources of Funds			
USE OF FUNDS	**CLINICAL (SAE)**	**NONCLINICAL (SAE)**	**TOTAL**
Preplanning Costs	18,450	22,550	41,000
Site Survey and Soil Investigation	36,000	44,000	80,000
Site Preparation	18,000	22,000	40,000
Off Site Work	0	0	0
New Construction Contracts	3,089,350	3,834,478	6,923,828
Modernization Contracts	0	0	0
Contingencies	293,488	364,275	657,763
Architectural/Engineering Fees @ 8.0%	270,630	335,900	606,530
Consulting and Other Fees	41,450	51,448	92,898
Movable or Other Equipment (not in construction contracts)	2,317,713	136,798	2,454,511
Bond Issuance Expense (project related)	0	0	0
Net Interest Expense During Construction (project related)	0	0	0
Fair Market Value of Leased Space or Equipment	0	0	0
Other Costs To Be Capitalized	578,000	706,545	1,284,545
Acquisition of Building or Other Property (excluding land)	0	0	0
TOTAL USES OF FUNDS	6,663,081	5,517,994	12,181,075
SOURCE OF FUNDS	**CLINICAL**	**NONCLINICAL**	**TOTAL**
Cash and Securities	6,663,081	5,517,994	12,181,075
Pledges			
Gifts and Bequests			
Bond Issues (project related)			
Mortgages			
Leases (fair market value)			
Governmental Appropriations			
Grants			
Other Funds and Sources			
TOTAL SOURCES OF FUNDS	6,663,081	5,517,994	12,181,075
NOTE: ITEMIZATION OF EACH LINE ITEM MUST BE PROVIDED AT ATTACHMENT-7, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.			

Attachment 7, Itemization (Budget estimates based on current and estimated expenditures)

	Clinical	Non Clinical
Preplanning Costs		
Business Plan Development	12,000	14,500
Market Analysis	6,450	7,500
Subtotal	18,450	22,000
Site Survey / Soils		
Engineering and Testing Services	36,000	44,000
Site Preparation / Grading	18,000	22,000
New Construction / Link to add through EMC	3,089,350	3,834,478
Contingencies	293,488	364,275
Architectural/Engineering Fees @ 8%	270,630	335,900
Consulting and Other Fees		
Legal (allocated)	41,450	51,448
Equipment (Allowance)		
Clinical - Lab, CT, etc.	2,317,713	0
FF&E	0	136,798
Other Costs to be Capitalized		
(Allocated based on expected and budgeted funds)		
CON Prep	12,120	14,600
CON Fees (HFSRB)	15,600	19,200
Capitalized Developer	550,280	672,745
Related fees, legal fees, and miscellaneous fees resulting from modified project	578,000	706,545

Total Space in ACC/POB (SAE and Marshall Clinic)

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	SAE 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 (SAE)	$	499,975	1,197	2,488	2,488				1,197
Circulation / Mechanical /	$	1,678,404	0	8,081	8,081		--	--	0
Connecting Corridor / Canopies									
Marshall Clinic (POB) and related costs ***	$	5,540,753	NA	23,784	23,784				NA
Total Non-Clinical	$	8,051,488	1,197	36,008	36,008				1,197
Total Project	$	14,004,619	14,541	49,494	49,494				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

*** Includes Marshall Clinic and related allocated space at 23,784 sq. ft. plus developers related costs not allocated to the SAE FMV (Developers construction cost) of leased space which is $5,351,337

Project Cost / Space Requirements								
		Gross Square Feet		Amount of Proposed Total GSF That Is:				
Department	Allocated Project Cost	Existing	Proposed	New Construction	Work Column	Remodeled	As Is	SAE Vacated Space
Reviewable / Clinical								
Express Testing (Lab)	$ 261,940	639 *	1,066	1,066		--	--	557
Women's Wellness	$ 1,654,900	2,619	5,031	5,031		--	--	2,619
Diagnostic Imaging	$ 4,397,541	5,171 **	5,987	5,987		--	--	1,797
Walk-In Clinic (Convenient Care)	$ 348,700	4,915	1,402	1,402				4,915
Total Clinical	$ 6,663,081	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 (SAE)	$ 499,975	1,197	2,488	2,488				1,197
Circulation / Mechanical /	$ 1,678,404	0	8,081	8,081		--	--	0
Connecting Corridor / Canopies / EMC								
Shelled Space and related costs ***	$ 3,007,259	NA	23,784	23,784		—		NA
Total Non-Clinical	$ 5,517,994	1,197	36,008	36,008				1,197
Total Project	$ 12,181,075	14,541	49,494	49,494				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 eventually be demolished

*** Includesshelled area and related allocated space at 23,784 sq. ft.

VIII. - 1120.120 - Availability of Funds (Agracel – Third Party Developer)

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.

$2,723,272 *	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 ross 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;
$8,169,818	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.
$10,893,090		**TOTAL FUNDS AVAILABLE**

* See Appendix D, Agracel Auditors Statement, Modified Permit Application Pages 251 – 253

** See Appendix A, Pages 136 – 138 Loan agreement dated 10/23/14 between Effingham MOB, LLC (Agracel) and The First National Bank of Dieterich. (Original Application)

VIII. - 1120.120 - Availability of Funds

(HSHS is an AA-rate organization with cash and securities available to fund this project as attested to)

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.

$12,181,075	a)	Cash and Securities – statements (e.g., audited financial statements, letters from financial institutions, board resolutions) as to: 1) the amount of cash and securities available for the project, including the identification of any security, its value and availability of such funds; and 2) interest to be earned on depreciation account funds or to be earned on any asset from the date of applicant's submission through project completion;
_______	b)	Pledges – for anticipated pledges, a summary of the anticipated pledges showing anticipated receipts and discounted value, estimated time table of gross receipts and related fundraising expenses, and a discussion of past fundraising experience.
_______	c)	Gifts and Bequests – verification of the dollar amount, identification of any conditions of use, and the estimated time table of receipts;
_______	d)	Debt – a statement of the estimated terms and conditions (including the debt time period, variable or permanent interest rates over the debt time period, and the anticipated repayment schedule) for any interim and for the permanent financing proposed to fund the project, including: 1) For general obligation bonds, proof of passage of the required referendum or evidence that the governmental unit has the authority to issue the bonds and evidence of the dollar amount of the issue, including any discounting anticipated; 2) For revenue bonds, proof of the feasibility of securing the specified amount and interest rate; ** 3) For mortgages, a letter from the prospective lender attesting to the expectation of making the loan in the amount and time indicated, including the anticipated interest rate and any conditions associated with the mortgage, such as, but not limited to, adjustable interest rates, balloon payments, etc.; 4) For any lease, a copy of the lease, including all the terms and conditions, including any purchase options, any capital improvements to the property and provision of capital equipment; 5) For any option to lease, a copy of the option, including all terms and conditions.
_______	e)	Governmental Appropriations – a copy of the appropriation Act or ordinance accompanied by a statement of funding availability from an official of the governmental unit. If funds are to be made available from subsequent fiscal years, a copy of a resolution or other action of the governmental unit attesting to this intent;
_______	f)	Grants – a letter from the granting agency as to the availability of funds in terms of the amount and time of receipt;
_______	g)	All Other Funds and Sources – verification of the amount and type of any other funds that will be used for the project.
$12,181,075		**TOTAL FUNDS AVAILABLE**

Total Project Construction Cost Including Contingency

	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.	$251		13,486						$ 3,382,838
Clinical Contingency/ Sq. Ft.	incl.		--						incl.
Clinical Subtotal	$251		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									
Marshall Clinic (Physician Office) and related	$ 161		23,784						$ 3,839,426
construction and contingency cost									
Non-Clinical Average Cost / Sq. Ft.	$ 161		36,008						$ 5,807,925
Non-Clinical Contingency / Sq. Ft.	Incl.		--						Incl.
Non-Clinical Average Cost / Sq. Ft.	$ 161		36,008						--
Total with Contingency/Average Cost/Sq. Ft.	$ 186		49,494						$ 9,190,763

Note: Errors due to rounding; construction cost @ $8,470,763 and contingency @ $720,000 (Attachment 7, modified)

Total Project Construction Cost Including Contingency

	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.	$251		13,486						$ 3,382,838
Clinical Contingency/ Sq. Ft.	incl.		–						incl.
Clinical Subtotal	$251		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						$ 417,984
Connecting Corridor / Circulation / EMC	$ 158		8,081						$ 1,276,798
Canopies / Mechanical									
Shelled Space (Future Physician Offices) and related construction and contingency cost	$ 94		23,784						$ 2,225,931
Non-Clinical Average Cost / Sq. Ft.	$ 117		36,008						$ 4,198,753
Non-Clinical Contingency / Sq. Ft.	Incl.		--						Incl.
Non-Clinical Average Cost / Sq. Ft.	$ 117		36,008						--
Total with Contingency/Average Cost/Sq. Ft.	$ 153		49,494						$ 7,581,591

Note: Errors due to rounding; construction cost @ $6,923,828 and contingency @ $657,763 (Attachment 7, Alteration #1)

Bond Rating Letter

Included is a press release from Fitch dated February 3, 2016 and 2014 Bond Rating letters from Fitch and Standard and Poors. Updated rating letters are expected shortly and will be provided to the Review Board as soon as they are received.

FitchRatings

FITCH AFFIRMS HOSPITAL SISTERS SERVICES (IL) REVS AT 'AA-'; OUTLOOK STABLE

Fitch Ratings-Chicago-03 February 2016: Fitch Ratings has affirmed the 'AA-' long-term ratings on the following outstanding revenue bonds issued on behalf of Hospital Sisters Services, Inc., IL (HSSI):

--$180 million Wisconsin Health & Educational Facilities Authority revenue bonds, series 2014A;
--$$69.8 million Wisconsin Health & Educational Facilities Authority revenue bonds, series 2012B;
--$62.4 million Illinois Finance Authority (IL) revenue refunding bonds, series 2012C;
--$31.6 million Illinois Finance Authority, series 2012G*;
--$72 million Illinois Finance Authority, series 2007A.

*Underlying rating. The bonds are supported by an irrevocable direct pay letter of credit issued by the Bank of Montreal, N.A.

In addition, Fitch has affirmed the 'AA-/F1+' ratings to the following variable-rate demand revenue bonds issued on behalf of HSSI. The 'F1+' is based on the sufficiency of the self-liquidity provided by HSSI:

--$65.9 million Illinois Finance Authority, series 2012H;
--$89.5 million Illinois Finance Authority, series 2012I.

The Rating Outlook is Stable.

SECURITY
The bonds are a joint and several liability of each member of the obligated group.

KEY RATING DRIVERS
ROBUST LIQUIDITY POSITION: HSSI's consistently healthy liquidity position provides a strong financial cushion, which mitigates the system's modest operating profitability for the 'AA' category, and offsets the risks associated with a 40% variable-rate debt structure and defined benefit pension liability.

MAJOR PROJECTS AHEAD: HSSI's five year capital plan includes a $244 million replacement facility and $112 million electronic health record investment and will likely be financed in part with additional debt. A currently modest debt burden coupled with healthy liquidity should allow HSSI some additional debt capacity at the 'AA-' rating level.

LIGHT BUT IMPROVING PROFITABILITY: HSSI maintained a 9.1% operating EBITDA margin in fiscal 2015, which has improved steadily from a low of 4.4% in fiscal 2011. Performance was supported in part by supplemental Medicaid funding which helped to offset elevated pension and depreciation expense. Profitability is expected to continue to incrementally improve going forward.

SOLID DEBT SERVICE COVERAGE: Coverage of pro forma maximum annual debt service (MADS) by operating EBITDA has been consistent, at 5.2x through the six month interim period ended Dec. 31, 2015 and at 5.1x in fiscal 2015, versus Fitch's 'AA' category median of

4.4x. Further, HSSI's modest debt burden should allow for additional debt while still generating coverage at levels sufficient for the rating.

CHALLENGING SERVICE AREAS: HSSI's location in midsized markets with mixed economic profiles and its reliance on governmental payors remain credit concern. Still, a growing and well-aligned physician network is expected to support both targeted clinical expansion into favorable markets, and HSSI's ongoing transition to value-based care.

AMPLE LIQUID RESOURCES: The 'F1+' rating reflects HSSI's long-term credit quality, as well as the adequacy of internal liquidity resources to meet optional tenders on its outstanding series 2012 variable rate demand bonds. Such resources include cash and cash equivalents and highly liquid, highly rated investments. Investments are discounted based on Fitch's criteria. At Sept. 30, 2015, HSSI maintained highly liquid resources sufficient to cover the maximum mandatory put on any given date in excess of Fitch's expected level of 1.25x.

RATING SENSITIVITIES

STEADY CASH FLOW: Sustained operating cash flow will be necessary for Hospital Sisters Services to undertake the expected large capital projects, which will likely include additional debt within the next 12-18 months. A failure to preserve cash flow and liquidity could result in negative rating pressure.

CREDIT PROFILE

HSSI is currently composed of 13 inpatient hospitals, with seven facilities in Illinois and six facilities in Wisconsin. Effective Jan. 4, 2016, HSSI transferred operations of its St. Mary's hospital in Streator, IL reducing its inpatient hospital total from 14 to 13. In fiscal 2015 (June 30 year-end), the system had 2,810 licensed and 1,947 staffed beds in operation and total revenue of $2.2 billion. The obligated group represented 91.2% of total revenues and 90.1% of total assets of the consolidated entity. Fitch's analysis is based on the consolidated entity.

FINANCIAL PROFILE

HSSI's liquidity position and balance sheet strength is the primary credit strength which mitigates generally light and somewhat volatile profitability for the 'AA' rating category. At Dec. 31, 2015, HSSI had 313.5 days of cash on hand, 266.4% cash to debt, and 46.1x cushion ratio, all favorable to Fitch's 'AA' category medians.

HSSI continues to demonstrate improved operating performance and profitability since fiscal year 2011 (FY11) when the system posted a $44.8 million loss from operations (-2.4% operating margin). HSSI produced a 0.9% operating margin in fiscal 2015, which has improved to 1.4% through the three-month interim period.

OPERATING CHALLENGES

Still, operating performance continues to be challenged by HSSI's market dynamics, which are generally weaker in Illinois where the majority of its revenue is sourced (declining population and unfavorable income levels), though healthier in Wisconsin. A 65% of gross revenue concentration in governmental payors also presents concern, despite beneficial recent supplemental funding. During fiscal 2015, HSSI recognized over $46 million in Illinois and Wisconsin provider tax and enhanced hospital assessment payments (net of assessments), which is expected to be pressured going forward.

HSSI's well-aligned medical staff coupled with ongoing strategic alignment, growth efforts and push into value-based care arrangements should position HSSI well, particularly as it reaches beyond its current markets. The five year capital plan totals $849 million and includes the expected replacement of its St. Elizabeth's facility in its Southern Illinois market, which is expected to result in stronger positioning in that market, once it comes on line in late 2017.

DEBT PROFILE
HSSI has approximately $687 million in long-term debt, of which approximately $370 million (60%) is fixed rate and $237 million (40%) is variable rate debt. Of the $237 million in variable rate debt, $155 million is supported by self-liquidity. Total debt also includes $80.5 million in unamortized premium and other long-term obligations.

The LOC supporting the series 2012G bonds currently expires July 31, 2017. As of Dec. 31 2015, HSSI had four interest rate swaps outstanding for an aggregate notional amount of $368.5 million; three totaling $218.5 million are floating-to-fixed with hedge designation, while the remaining $150 million swap is a basis swap. The mark-to-market was negative $57.6 million, but no collateral posting was required based on HSSI's current 'AA-' rating.

DISCLOSURE
HSSI covenants to provide bondholders with audited annual information within 120 days of fiscal year-end and unaudited quarterly statements within 45 days of quarter-end to the Municipal Securities Rulemaking Board's 'EMMA' System. Disclosure to-date has been timely and includes a balance sheet, income statement, cash flow statement, utilization statistics, and management discussion and analysis.

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Additional information is available at 'www.fitchratings.com'.

Applicable Criteria
Rating U.S. Public Finance Short-Term Debt (pub. 17 Nov 2015)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=873508
Revenue-Supported Rating Criteria (pub. 16 Jun 2014)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=750012
U.S. Nonprofit Hospitals and Health Systems Rating Criteria (pub. 09 Jun 2015)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=866807

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FitchRatings

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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.

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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.

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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

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

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

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HSHS Financial Statements

The FY 2015 HSHS Consolidated Financials with Independent Auditors Report are included in Appendix A.

KPMG

HOSPITAL SISTERS HEALTH SYSTEM AND SUBSIDIARIES
Springfield, Illinois

Consolidated Financial Statements and Supplementary Information

June 30, 2015 and 2014

(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, which comprise the consolidated balance sheets as of June 30, 2015 and 2014, and the related consolidated statements of operations and change in unrestricted net assets, 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 and Subsidiaries as of June 30, 2015 and 2014, and the results of their operations, the changes in their net assets, and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information included in schedules 1 through 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

Chicago, Illinois
October 19, 2015

HOSPITAL SISTERS HEALTH SYSTEM AND SUBSIDIARIES
Springfield, Illinois

Consolidated Balance Sheets

June 30, 2015 and 2014

(Dollars in thousands)

Assets	**2015**	**2014**
Current assets:		
Cash and cash equivalents	$ 140,061	122,197
Receivables:		
Patients' accounts, less allowance for uncollectible accounts of approximately $130,100 in 2015 and $118,700 in 2014	356,123	325,652
Due from third-party reimbursement programs	3,104	4,887
Other	34,064	38,527
Total receivables	393,291	369,066
Current portion of assets whose use is limited or restricted	250,636	214,898
Inventories	43,869	38,035
Prepaid expenses	22,866	20,878
Total current assets	850,723	765,074
Assets whose use is limited or restricted, net of current portion	1,785,891	1,749,958
Property, plant, and equipment, net	1,274,214	1,283,353
Assets held for sale	40,569	44,525
Other assets	69,808	73,545
	$ 4,021,205	3,916,455
Liabilities and Net Assets		
Current liabilities:		
Current installments of long-term debt	$ 26,565	18,494
Long-term debt subject to short-term remarketing agreements	155,345	169,508
Current portion of estimated self-insurance liabilities	40,606	26,896
Accounts payable	120,057	104,101
Accrued liabilities	148,321	145,617
Estimated payables under third-party reimbursement programs	62,476	60,586
Total current liabilities	553,370	525,202
Long-term debt, excluding current installments	505,791	485,193
Estimated self-insurance liabilities, net of current portion	61,717	76,335
Derivative instruments	48,734	43,052
Accrued benefit liability	317,480	210,621
Other noncurrent liabilities	47,700	45,550
Total liabilities	1,534,792	1,385,953
Net assets:		
Unrestricted	2,434,840	2,479,350
Temporarily restricted	25,754	26,695
Permanently restricted	25,819	24,457
Total net assets	2,486,413	2,530,502
	$ 4,021,205	3,916,455

See accompanying notes to consolidated financial statements.

HOSPITAL SISTERS HEALTH SYSTEM AND SUBSIDIARIES
Springfield, Illinois

Consolidated Statements of Operations and Change in Unrestricted Net Assets

Years ended June 30, 2015 and 2014

(Dollars in thousands)

		2015	2014
Net patient service revenue	$	2,162,241	2,035,878
Provision for uncollectible accounts		(66,390)	(96,383)
Net patient service revenue less provision for uncollectible accounts		2,095,851	1,939,495
Other revenue:			
Investment return		209	1,812
Net assets released from restrictions used for operations		4,023	1,657
Other		94,150	102,804
Total revenue		2,194,233	2,045,768
Expenses:			
Sisters' services		1,073	1,202
Salaries and wages		804,716	748,546
Employee benefits		247,030	221,788
Professional fees		96,441	112,071
Supplies		304,008	279,665
Depreciation and amortization		167,947	148,004
Interest		13,490	8,472
Restructuring costs		—	1,800
Other		540,345	503,732
Total expenses		2,175,050	2,025,280
Income from operations		19,183	20,488
Nonoperating gains (losses):			
Investment return		34,928	212,803
Contributions of excess assets over liabilities for St. Clare Hospital		8,900	—
Discontinued operations – gain (loss) from operations		3,203	(3,820)
Change in fair value of interest rate swaps		(5,682)	(1,221)
Loss on conversion and early extinguishment of debt		(907)	—
Revenue and gains in excess of expenses and losses		59,625	228,250
Other changes in unrestricted net assets:			
Net assets released from restrictions used for the purchase of property, plant, and equipment		2,724	6,876
Change in pension funded status		(106,859)	41,273
Change in unrestricted net assets	$	(44,510)	276,399

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, 2015 and 2014

(Dollars in thousands)

		2015	2014
Unrestricted net assets:			
Revenues and gains in excess of expenses and losses	$	59,625	228,250
Other changes in unrestricted net assets:			
Net assets released from restrictions used for the purchase of property, plant, and equipment		2,724	6,876
Change in pension funded status		(106,859)	41,273
Change in unrestricted net assets		(44,510)	276,399
Temporarily restricted net assets:			
Investment return		(179)	2,109
Contributions		5,985	7,632
Net assets released from restrictions		(6,747)	(8,533)
Change in temporarily restricted net assets		(941)	1,208
Permanently restricted net assets:			
Investment return		9	9
Contributions		1,353	1,377
Change in permanently restricted net assets		1,362	1,386
Change in net assets		(44,089)	278,993
Net assets at beginning of year		2,530,502	2,251,509
Net assets at end of year	$	2,486,413	2,530,502

See accompanying notes to consolidated financial statements.

HOSPITAL SISTERS HEALTH SYSTEM AND SUBSIDIARIES
Springfield, Illinois

Consolidated Statements of Cash Flows

Years ended June 30, 2015 and 2014

(Dollars in thousands)

		2015	2014
Cash flows from operating activities:			
Change in net assets	$	(44,089)	278,993
Adjustments to reconcile change in net assets to net cash from operating activities:			
Loss on conversion and early extinguishment of debt		907	—
Change in pension funded status		106,859	(41,273)
Income from equity basis investments		(2,238)	(4,193)
Cash received from equity basis investments, net		2,570	5,740
Net assets released from restrictions used for operations		4,023	1,657
Contributions of excess assets over liabilities for St. Clare Hospital		(8,900)	—
Restricted contributions and investment return		(7,168)	(11,127)
Amortization of bond issuance costs, included in interest expense		389	253
Depreciation and amortization, including $4,463 and $4,872, respectively, included in discontinued operations		172,410	151,683
Provision for uncollectible accounts		66,390	98,003
Change in net unrealized gain and losses on investments		39,486	(86,580)
Net realized gains on sale of investments		(56,445)	(105,423)
Change in the fair value of derivative instruments		5,682	1,221
Changes in assets and liabilities:			
Patients' accounts receivables		(93,486)	(129,077)
Other receivables		4,463	(14,892)
Inventories		(4,049)	2,016
Prepaid expenses		(1,844)	(573)
Net amounts due to third-party reimbursement programs		3,992	14,875
Accounts payable and accrued liabilities		15,134	1,688
Estimated self-insurance liabilities and other noncurrent liabilities		1,092	7,702
Net cash provided by operating activities		205,178	170,693
Cash flows from investing activities:			
Acquisition of property, plant, and equipment		(157,766)	(224,242)
Cash received from acquisition of St. Clare		2,152	—
Gross purchases of investments		(944,489)	(1,761,889)
Gross proceeds from sale or maturity of investments		893,551	1,796,885
Change in other assets		2,408	(7,137)
Net cash used in investing activities		(204,144)	(196,383)
Cash flows from financing activities:			
Repayment of long-term debt		(164,537)	(13,663)
Proceeds from issuance of debt		180,000	70,970
Payment of bond issuance cost		(1,778)	—
Net assets released from restrictions used for operations		(4,023)	(1,657)
Restricted contributions and investment return		7,168	11,127
Net cash provided by financing activities		16,830	66,777
Change in cash and cash equivalents		17,864	41,087
Cash and cash equivalents at beginning of year		122,197	81,110
Cash and cash equivalents at end of year	$	140,061	122,197

HOSPITAL SISTERS HEALTH SYSTEM AND SUBSIDIARIES
Springfield, Illinois

Consolidated Statements of Cash Flows

Years ended June 30, 2015 and 2014

(Dollars in thousands)

		2015	2014
Supplemental disclosure of cash flow information:			
Cash paid for interest, net of amounts capitalized	$	13,490	8,383
Supplemental disclosure of noncash transactions:			
Assets acquired under capital lease		7,806	2,198
Noncash transactions associated with acquisition of St. Clare Hospital:			
Patients' accounts receivable	$	3,375	—
Inventories		1,785	—
Prepaid expenses		144	
Investments		6,873	—
Property, plant, and equipment		9,355	—
Other assets		299	—
Estimated third-party payor settlements		319	—
Accounts payable and accrued expenses		(3,526)	—
Other long-term liabilities		(150)	—
Long-term debt		(8,627)	—

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 14 hospitals in Illinois and Wisconsin, 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), Prairie Education & Research Cooperative (PERC), and Renaissance Quality Insurance, Ltd. (RQIL).

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 HSHS and affiliates. Effective July 1, 2013, RQIL started providing workers compensation coverage for the 14 hospitals.

Other than St. Clare, Oconto Falls (SCO), the remaining 13 hospitals within HSSI have formed an Obligated Group for debt financing purposes through the use of a Master Trust Indenture (MTI) (note 12).

On September 1, 2014, HSSI became the sole corporate member of Community Memorial Hospital (CMH) in Oconto Falls, Wisconsin. Effective on the acquisition date, CMH became a Catholic entity and the hospital name was changed to St. Clare Memorial Hospital, Inc. Prior to the acquisition, two HSSI affiliates held a combined 24% minority interest in CMH. Revised governing documents are consistent with HSHS policies applicable to affiliates. HSSI will retain certain reserve powers over St. Clare Memorial Hospital, Inc. consistent with other HSSI subsidiaries. As a part of the change in sponsorship, HSHS recorded $8,900 of contribution for the excess of fair value of assets over liabilities less their equity based investment in SCO of $3,100 and acquired $22,978 of total assets, $10,978 of total liabilities, and $12,000 of net assets. Annual revenue and expenses for SCO are estimated as $40,500 and $40,800, respectively.

The 14 hospitals, of which HSSI is the sole corporate member, 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
St. Clare Hospital	Oconto Falls

The SSC administers the Health Care Trust Fund. 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 14 affiliated hospitals 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, nonaffiliated electronic health records (EHR) implementations, and real estate holdings. Kiara, Inc. is the sole stockholder of 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, $1,686 was payable at June 30, 2014 and was a component of other noncurrent liabilities in the accompanying consolidated balance sheets.

Pursuant to a Membership Substitution Agreement, HSSI became the sole corporate member of PERC on October 1, 2013. As part of the change in sponsorship, HSHS acquired $3,886 of total assets, $2,121 of total liabilities, and $1,765 of unrestricted contributions. HSSI retains certain reserved powers over PERC consistent with other HSSI subsidiaries.

On June 22, 2015, the Board of Directors approved the intention to sell and donate certain assets associated with St. Mary's Hospital (SMS) in Streator, Illinois. As a result, these assets have been presented as assets held for sale in the accompanying consolidated balance sheets (note 9).

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 revenue and expenses. Peripheral or incidental transactions are reported as nonoperating gains or losses. Nonoperating gains or losses include investment return, other than that which is associated with self-insurance programs, or funds held by trustee under indenture agreements, loss on conversion and early extinguishment of debt, contributions of excess assets over liabilities for St. Clare Hospital, discontinued operation – gain (loss) from operations, 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 revenue 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, self-insurance funding, and for other purposes 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 and self-insurance.

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 return on assets associated with self-insurance programs or assets deposited in funds held by trustee under indenture agreements is reported as other revenue. Investment return from all other investments is reported as nonoperating gains – investment return, unless the income or loss is restricted by donor or law. Changes in net unrealized gains and losses on investments are included in revenue and gains in excess 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. Useful lives may be reassessed from time to time as facts and circumstances change in regards to how assets are being used. Interest cost incurred on borrowed funds during the period of construction of major projects are 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, 2015 and 2014.

(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.

(i) ***Loss Reserves***

HSHS is self-insured for professional and general liability, workers' compensation, and employee health claims. The provision 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. HSHS reports the amount predicted to settle within one year as the current portion of estimated self-insurance liabilities with the corresponding investments held as current portion of assets whose use is limited or restricted. The long-term portion is reported as estimated self-insurance liabilities with the corresponding investments held as assets whose use is limited or restricted.

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 the estimate of the liability for claims is reasonable, it is possible HSHS' actual incurred claims will not conform to the assumptions' inherent variability with respect to the significant assumptions utilized. 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 (FASB) 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 and change in unrestricted net assets 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, 2015 and 2014 is $28,897 and $27,927, 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, 2015 and 2014 is $258 and $334, 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's board every year. The approved spending rate for fiscal year 2015 and 2014 was 4.90%. 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 35.5% fixed income, 22.5% domestic equities, 17% international equities, 20% custom hedge funds, and 5% real assets 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 and change in unrestricted net assets 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 revenue.

Gifts of long-lived assets such as property, plant, and equipment are reported as unrestricted gifts and bequests and are excluded from revenue and gains in excess of expenses and losses, 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 Revenue

Net patient service revenue 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.

(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 revenue, since HSHS does not pursue collection of such amounts.

(p) Revenue and Gains in Excess of Expenses and Losses

The consolidated statements of operations and change in unrestricted net assets include revenue and gains in excess of expenses and losses. Changes in unrestricted net assets that are excluded from revenue and gains in excess of expenses and losses, 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) and the 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.

Kiara, Inc.'s tax effects of temporary differences that give rise to significant portions of the deferred tax assets at June 30, 2015 and 2014 are primarily the result of net operating loss carryforwards of $94,120 and $72,356 at June 30, 2015 and 2014, respectively, which expire at various future dates through 2034.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers projected future taxable income and tax planning strategies in making this assessment. Based upon the level of historical taxable losses and projections for future taxable losses over the periods for which the deferred tax assets are deductible, management believes it is more likely than not Kiara, Inc. will not realize the majority of the benefits of these deductible differences. The deferred tax assets attributable to the net operating loss carryforwards not realized as of June 30, 2015 and 2014 have been fully reserved in the accompanying consolidated financial statements due to the uncertainty of realization.

HSHS recognizes the tax benefit from an uncertain tax position only if it is more likely than not the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. As of June 30, 2015 and 2014, HSHS does not have any liabilities for unrecognized tax benefits.

(r) Fair Value

HSHS has adopted the provisions of ASC Topic 820, *Fair Value Measurement*, 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 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 FASB Accounting Standards Update (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.

(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, 2015 and 2014, HSHS recognized $8,427 and $15,586, 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.

(Dollars in thousands)

(t) ***Reclassification***

Certain 2014 amounts have been reclassified to conform to the 2015 consolidated financial statement presentation as a result of discontinued operations presentation (note 9).

(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, 2015 and 2014:

		2015	**2014**
Benefits for the poor:			
Charity care at cost	$	24,026	37,951
Unpaid cost of Medicaid and other public programs		129,546	92,685
Community health services		1,845	1,532
Other		2,826	2,042
		158,243	134,210
Benefits for the broader community:			
Community health services		5,100	4,680
Health professions education		18,298	17,883
Other		9,472	12,002
		32,870	34,565
Total community benefit	$	191,113	168,775

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.)

Community health services are activities and services for which no patient bill exists 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 $183,772 and $171,288 for the years ended June 30, 2015 and 2014, respectively.

A related organization, the Foundation, funded $12,794 and $8,865 for charity care or other operating expenses on behalf of the hospitals during the years ended June 30, 2015 and 2014, 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 and change in unrestricted net assets as a provision for uncollectible accounts. Many of those patients are uninsured or underinsured, but did not apply for, or qualify for, charity care.

St. Mary's Hospital, Streator, Illinois, provided $4,155 and $5,190 for benefits to the community during the years ended June 30, 2015 and 2014, respectively, which is included in discontinued operations.

(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. Certain patient 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, 2015, Medicare cost reports have been audited and final settled through June 30, 2010.

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.

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. 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 assessments of $25,743 for both 2015 and 2014 within other expenses in the accompanying consolidated statements of operations and change in unrestricted net assets. 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 reimbursement of $43,897 for both 2015 and 2014 within net patient service revenue in the accompanying consolidated statements of operations and change in unrestricted net assets.

As of and for the years ended June 30, 2015 and 2014, HSHS has included its assessment of $8,106 and $16,678, respectively, under the Illinois Enhanced Hospital Assessment Program, within other expenses in the accompanying consolidated statement of operations and change in unrestricted net assets. The Enhanced Hospital Assessment Program provides hospitals within the State with additional Medicaid reimbursement, based on funding formulas also approved by CMS. HSHS has included its additional related reimbursements for the years ended June 30, 2015 and 2014 of $13,519 and $27,366, respectively, within net patient service revenue in the accompanying consolidated statement of operations and change in unrestricted net assets.

(Dollars in thousands)

During 2015, CMS approved Illinois' request for a new supplemental payment to hospitals for services provided to newly eligible Medicaid beneficiaries under the Affordable Care Act. The new supplemental payment to hospitals was approved retroactive to March 1, 2014. Illinois will use same pro rata allocation as a percentage of the gross assessment payments under the existing Hospital Assessment Programs. HSHS has included its additional related reimbursements for the year ended June 30, 2015 of $18,030 within net patient service revenue in the accompanying 2015 consolidated statement of operations and change in unrestricted net assets.

During 2009, the State of Wisconsin enacted an assessment tax on the gross revenue of all Wisconsin hospitals, which is used to increase reimbursements made under its Medicaid program. During the years ended June 30, 2015 and 2014, the HSHS Wisconsin hospitals were assessed $20,640 and $20,834, respectively, related to this tax, which is included as a component of other expenses in the accompanying consolidated statements of operations and change in unrestricted net assets, and received $25,499 and $24,329, respectively, in supplemental Medicaid reimbursement, which is included as a component of net patient service revenues in the accompanying consolidated statements of operations and change in unrestricted net assets.

Other – HSHS has also entered into payment agreements with 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 revenue for the years ended June 30, 2015 and 2014 is as follows:

		2015	2014
Inpatient revenue	$	2,492,017	2,343,084
Outpatient revenue		3,629,158	3,171,066
Less provisions for estimated contractual adjustments under third-party reimbursement programs		3,958,934	3,478,272
Net patient service revenue	$	2,162,241	2,035,878

Net patient service revenue for the years ended June 30, 2015 and 2014 include $4,829 and $2,784, respectively, of favorable retrospectively determined prior year settlements with third-party payors.

(Dollars in thousands)

A summary of Medicare, Medicaid, and managed care/contracted payor utilization percentages, based upon gross patient service revenue, is as follows:

	2015	2014
Medicare	47%	48%
Medicaid	18	15
Managed care/contracted payor	31	32
Self-pay	1	3
Other	3	2

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 copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), 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 80.4% of self-pay accounts receivable at June 30, 2014, to 83.6% of self-pay accounts receivable at June 30, 2015. HSHS' self-pay write-offs decreased $53,570 from $108,560 for fiscal year 2014 to $54,990 for fiscal year 2015 as a result of the expansion of Medicaid eligibility.

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:

(Dollars in thousands)

	2015	2014
Medicare	$ 737,981	689,437
Medicaid	294,603	246,287
Managed care/contracted payor	1,034,681	964,106
Self-pay	30,567	76,698
Other	64,409	59,350
Net patient service revenue	$ 2,162,241	2,035,878

(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, 2015 and 2014 is as follows:

	2015	2014
Medicare	31%	28%
Medicaid	11	10
Managed care/contracted payor	47	46
Self-pay	5	9
Other	6	7

(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 Committee oversees the investment program in accordance with the investment policy statement.

(b) Allocation of Investment Strategies

To manage risk, HSHS invests in fixed income, domestic equities, international equities, custom hedge funds, and real assets. HSHS engages outside portfolio managers as follows: 6 fixed income managers, 13 domestic equity managers, 5 international managers, 2 custom hedge fund portfolio managers (K2 and Mesirow), and 1 real estate manager. 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.

The investment objective of the K2 Custom Solutions Hospital Sisters 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 and spread across 29 separate underlying funds.

The investment objective of the Mesirow Custom Solutions Hospital Sisters Fund is to achieve positive returns with low volatility and risk. This is achieved through a multimanager, multi-strategy, and diversified investment approach and spread across 31 separate underlying funds.

A summary of the strategies used by the hedge fund managers is as follows:

- *Commodities* include investment entities that may trade in agricultural, metal, and energy markets at various stages of the commodity cycle.
- *Event Driven* includes investment entities that focus on identifying and analyzing securities that may benefit from the occurrence of specific corporate events.
- *Global Macro* includes investment entities, which invest in products that may benefit from overall economic and political events of various countries.
- *Insurance-Linked* includes investment entities with an income-based strategy that invest across instruments, the value of which is driven by insurance-related events primarily related to property and life insurance. Risk is managed by diversifying over geography, insurance type, and sensitivity to insured losses amongst other factors. The strategy is a tool to reduce overall investment risk as underlying insurance risk factors are less sensitive to general market factors.
- *Long/Short Equity* includes investment entities that invest both long and short, primarily in common stocks and debt instruments, based on the manager's perception of such securities being undervalued or overvalued by the market.
- *Multi-Strategy* includes investment entities that pursue multiple strategies to diversify risks and reduce volatility.
- *Relative Value* includes investment entities that utilize nondirectional strategies. Relative value investing involves trading around the mispricing of two related securities using various types of securities or instruments.

- *Specialist Credit* includes investment entities that seek to generate superior risk-adjusted returns from a combination of capital appreciation and current income by opportunistically investing and trading in a diversified portfolio of credit-related securities and other instruments.
- *Structured Credit* includes investment entities that invest across structured credit markets including agency and nonagency residential mortgage-backed securities, commercial mortgage-backed securities, and various asset-backed securities. Strategies can be trading oriented or directional, and may include a hedging component to offset market risks.

(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, 2015, 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 pledges receivable and other, whereby carrying amounts approximate 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 estimated fair value of these hedge fund investments includes estimates, appraisals, assumptions, and methods provided by external financial advisers and reviewed by HSHS.
- 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

(Dollars in thousands)

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, 2015:

	2015		2014	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Long-term debt	$ 687,701	684,863	673,195	673,845

(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 inputs are observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 inputs are unobservable inputs for the asset or liability.

(Dollars in thousands)

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, 2015 and 2014.

The following table summarizes HSHS' fair values of cash and cash equivalents, assets whose use is limited or restricted by major category and derivative instruments in the fair value hierarchy as of June 30, 2015, as well as related strategy, liquidity, and funding commitments:

	June 30, 2015				Redemption	Days'
	Level 1	Level 2	Level 3	Total	or liquidation	notice
Cash and cash equivalents	$ 140,061	—	—	140,061	Daily	One
Assets whose use is limited or restricted excluding accrued interest and other of $4,306 and pledges receivable and other of $25,684:						
Cash and cash equivalents	80,971	—	—	80,971	Daily	One
Common stocks	477,992	—	—	477,992	Daily	One
U.S. government securities	—	191,577	—	191,577	Daily	One
Taxable municipals	—	32,929	—	32,929	Daily	Two
Corporate bonds	—	144,863	—	144,863	Daily	Two
Foreign securities	355,643	21,150	—	376,793	Daily	Three
Commingled mutual funds	12,633	316,455	—	329,088	Daily	Three
Hedge funds:						
K2 multistrategy fund	—	—	284,267	284,267	See below	
Mesirow multistrategy	—	—	88,057	88,057	See below	
Total financial assets	$ 1,067,300	706,974	372,324	2,146,598		
Liabilities:						
Derivative instruments	$ —	48,734	—	48,734		

(Dollars in thousands)

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, 2015:

		Level 3 assets, year ended June 30, 2015		
		K2 fund	Mesirow fund	Total funds
Balance, beginning of year	$	277,432	69,560	346,992
Purchases		—	15,500	15,500
Total net gains		6,835	2,997	9,832
Balance, end of year	$	284,267	88,057	372,324

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, 2014, as well as related strategy, liquidity, and funding commitments:

		June 30, 2014				Redemption	Days'
		Level 1	Level 2	Level 3	Total	or liquidation	notice
Cash and cash equivalents	$	122,197	—	—	122,197	Daily	One
Assets whose use is limited or restricted excluding accrued interest and other of $4,585 and pledges receivable and other of $29,393:							
Cash and cash equivalents		82,195	—	—	82,195	Daily	One
Common stocks		446,359	—	—	446,359	Daily	One
U.S. government securities		—	106,851	—	106,851	Daily	One
Taxable municipals		—	31,068	—	31,068	Daily	Two
Corporate bonds		—	138,213	—	138,213	Daily	Two
Foreign securities		347,370	17,824	—	365,194	Daily	Three
Commingled mutual funds		12,492	401,514	—	414,006	Daily	Three
Hedge funds:							
K2 multistrategy fund		—	—	277,432	277,432	See below	
Mesirow multistrategy		—	—	69,560	69,560	See below	
Total financial assets	$	1,010,613	695,470	346,992	2,053,075		
Liabilities:							
Derivative instruments	$	—	43,052	—	43,052		

(Dollars in thousands)

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, 2014:

		Level 3 assets, year ended June 30, 2014		
		K2 fund	Mesirow fund	Total funds
Balance, beginning of year	$	196,551	55,542	252,093
Purchases		63,000	10,000	73,000
Total net gains		17,881	4,018	21,899
Balance, end of year	$	277,432	69,560	346,992

The following table presents information about the redemption terms and restrictions as of June 30, 2015 and 2014 for the alternative investments:

K2 Custom Solutions Hospital Sisters Fund

		Fair value		Notice period (days) minimum maximum
		2015	2014	
Redemption terms:				
Monthly	$	63,040	69,302	15–90 days
Quarterly		170,647	191,480	30–90 days
Biannual		22,297	8,325	60–90 days
Annually		28,283	8,325	90 days
Total	$	284,267	277,432	

(Dollars in thousands)

Mesirow Custom Solutions Hospital Sisters Fund

	Fair value 2015	Fair value 2014	Notice period (days) minimum maximum
Redemption terms:			
Monthly	$ 31,786	28,024	15–90 days
Quarterly	17,279	32,342	30–90 days
Biannual	35,381	6,299	60–90 days
Annually	3,611	2,895	90 days
Total	$ 88,057	69,560	

A summary of assets whose use is limited or restricted as of June 30, 2015 and 2014 is as follows:

	2015	2014
Assets whose use is limited or restricted:		
By the board for capital improvements	$ 1,769,762	1,692,347
Funds held by trustee for self-insurance	63,849	67,687
Funds held by RQIL	103,291	100,258
Funds temporarily restricted by donors	527	484
Investments held at the Foundation	99,098	104,080
Total assets whose use is limited or restricted	$ 2,036,527	1,964,856

The composition of investment return for the years ended June 30, 2015 and 2014 is as follows:

	2015	2014
Investment return:		
Interest and dividend income	$ 18,008	24,745
Net realized gains on sale of investments	56,445	105,423
Change in net unrealized gains and losses	(39,486)	86,580
Total investment return	$ 34,967	216,748

(Dollars in thousands)

Investment returns are included in the accompanying consolidated statements of operations and change in unrestricted net assets and changes in net assets for the years ended June 30, 2015 and 2014 as follows:

		2015	2014
Other revenue – investment return	$	209	1,827
Nonoperating gains – investment return		34,928	212,803
Temporarily restricted net assets – investment return		(179)	2,109
Permanently restricted net assets – investment return		9	9
Total investment return	$	34,967	216,748

(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, 2015 and 2014, 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 86.1% of the three-month LIBOR ($76,750 notional amount) and 67% of the one-month LIBOR ($41,300 and $100,425 notional amounts) and pays a fixed rate of 4.02% ($76,750 notional amount) and 3.47% ($41,300 and $100,425 notional amounts). The interest rate swap agreements have notional amounts of $218,475 at June 30, 2015 and 2014, respectively, which will amortize through March 2036.

(Dollars in thousands)

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.

The following is a summary of the swaps as of June 30, 2015:

Type of interest swap	Notional amount	Settlement value	Fair value
Fixed payor	$ 76,750	(17,755)	(16,723)
Fixed spread basis	150,000	(96)	221
Fixed payor	41,300	(9,955)	(9,385)
Fixed payor	100,425	(24,238)	(22,847)
		$ (52,044)	(48,734)

The following is a summary of the swaps as of June 30, 2014:

Type of interest swap	Notional amount	Settlement value	Fair value
Fixed payor	$ 76,750	(14,748)	(13,350)
Fixed spread basis	150,000	(4,855)	(3,333)
Fixed payor	41,300	(8,635)	(7,680)
Fixed payor	100,425	(21,014)	(18,689)
		$ (49,252)	(43,052)

(Dollars in thousands)

(8) Property, Plant, and Equipment

A summary of property, plant, and equipment at June 30, 2015 and 2014 is as follows:

		2015	2014
Land	$	56,974	58,172
Land improvements		39,619	40,051
Buildings and permanent fixtures		1,510,514	1,456,753
Equipment and furnishings		1,180,086	1,169,400
		2,787,193	2,724,376
Less accumulated depreciation		1,588,496	1,520,478
		1,198,697	1,203,898
Construction in progress		75,517	79,455
	$	1,274,214	1,283,353

As of June 30, 2015, construction in progress represents various building and remodeling projects. These projects, which have remaining contracted costs at June 30, 2015 of $175,246, 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 and change in unrestricted net assets for 2015 and 2014, is as follows:

		2015	2014
Interest cost capitalized	$	—	2,766
Interest cost charged to expense		13,490	8,472
Total interest cost	$	13,490	11,238

(9) Discontinued Operations

SMS in Streator, Illinois is an inpatient hospital currently operated by HSSI. HSSI and SMS will be submitting a Certificate of Exemption application to the Health Facilities and Services Review Board for the State of Illinois to discontinue all services, both inpatient and outpatient at SMS.

SMS' long term assets of property, plant and equipment have been presented as assets held for sale in the accompanying consolidated balance sheets for $40,569 and $44,525 during the years ended June 30, 2015 and 2014, respectively. The operations of SMS are presented in the accompanying 2015 consolidated statement of operations and changes in unrestricted net assets as discontinued operations. HSHS's results of operations for the year ended June 30, 2014 have also been reclassified to reflect the discontinuance of SMS.

(Dollars in thousands)

A summary of the operating components of the gain (loss) from discontinued operations for SMS for the years ended June 30, 2015 and 2014 is as follows:

		2015	2014
Revenue	$	44,378	43,249
Expenses		41,175	47,069
Gain (loss) from discontinued operations	$	3,203	(3,820)

(10) Self-Insurance

(a) Workers' Compensation, Professional and General Liability

On July 1, 2013, the hospital workers' compensation self-insurance program was transferred to RQIL and over the course of the fiscal year 2014, the nonhospital subsidiaries that were previously commercially insured were added to RQIL. RQIL provides coverage in addition to workers' compensation, professional and general liability, but the associated liabilities for the other coverages are less than 1% of the total RQIL liabilities at June 2015 and at June 2014.

Under the System's Workers' Compensation, 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, 2015 and 2014, funds held by RQIL were $103,291 and $100,258, respectively. The related current estimated self-insurance liabilities for June 30, 2015 and 2014 were $29,319 and $16,478, respectively. The related long-term estimated self-insurance liabilities for June 30, 2015 and 2014 were $61,717 and $76,335, respectively. At June 30, 2015 and 2014, the 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 2015 and 2014 was $26,862 and $32,833, respectively, and is included in other expense in the consolidated statements of operations and change in unrestricted net assets. 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, 2015. It is the opinion of management that the estimated liabilities accrued at June 30, 2015 are adequate to provide for potential losses resulting from pending or threatened litigation.

(b) Employee Health

The HSHS self-insurance program provides health insurance for employees. HSHS has developed internal techniques for estimating costs. The amounts funded are administered by the trustee.

At June 30, 2015 and 2014, funds held by the trustee for health insurance liability for employees' self-insurance are $63,849 and $67,687, respectively, and are included in current and noncurrent assets whose use is limited or restricted. At June 30, 2015 and 2014, related estimated current self-insurance liabilities are $11,287 and $10,418, respectively.

(11) Pension

HSHS employees participate in The Hospital Sisters Health System Employees' Pension Plan (the Plan). This noncontributory defined benefit pension plan covers substantially all employees of HSHS 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, 2015 and 2014:

		2015	2014
Change in benefit obligation:			
Benefit obligation at beginning of year	$	1,350,052	1,271,770
Service cost		54,409	47,117
Interest cost		63,934	65,606
Plan amendments		160	—
Actuarial loss		87,859	82,721
Expected expenses		(8,546)	(7,649)
Benefits paid		(33,277)	(109,513)
Benefit obligation at end of year	$	1,514,591	1,350,052
Change in plan assets:			
Fair value of plan assets at beginning of year	$	1,139,431	1,019,876
Actual gain on plan assets		35,707	179,208
Employer contributions		55,250	49,860
Benefits paid		(33,277)	(109,513)
Fair value of plan assets at end of year	$	1,197,111	1,139,431
Reconciliation of funded status:			
Funded status	$	(317,480)	(210,621)
Amounts recognized in the accompanying consolidated balance sheets:			
Accrued benefit liability		(317,480)	(210,621)
Amounts not yet reflected in net periodic benefit cost and included as an accumulated charge to unrestricted net assets:			
Prior service cost	$	(1,495)	(1,920)
Actuarial loss		(315,985)	(208,701)
	$	(317,480)	(210,621)

(Dollars in thousands)

		2015	2014
Changes recognized in unrestricted net assets:			
Net gain arising during the period	$	128,756	(23,259)
Prior service cost arising during the period		160	—
Amortization of prior service credit		(583)	(575)
Amortization or settlement recognition of net loss		(21,474)	(17,439)
Total recognized in unrestricted net assets	$	106,859	(41,273)
Total recognized in net periodic pension cost and unrestricted net assets	$	162,107	8,586
Estimated amounts that will be amortized from unrestricted net assets over the next fiscal year:			
Prior service credit		(581)	(575)
Net loss		(21,979)	(19,938)
Accumulated benefit obligation		1,386,244	1,237,243
Components of net periodic benefit cost:			
Service cost	$	54,409	47,117
Interest cost		63,934	65,606
Expected return on plan assets		(85,150)	(80,877)
Amortization of prior service cost		583	575
Amortization of net loss		21,474	17,439
Net periodic benefit cost	$	55,250	49,860

	2015	2014
Weighted average assumptions used to determine benefit obligations at June 30:		
Discount rate	4.86%	4.74%
Average rate of compensation increase	3.00	3.00
Measurement date	June 30, 2015	June 30, 2014
Weighted average assumptions used to determine net periodic benefit cost for the year ended June 30:		
Discount rate	4.74%	5.24%
Expected long-term return on plan assets	8.25	8.25
Average rate of compensation increase	3.00	3.00
Measurement date	June 30, 2014	June 30, 2013

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.

(Dollars in thousands)

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.

HSHS expects to contribute to its pension plan for the 2016 fiscal year the following amount	$	92,372
The following benefit payments that reflect expected future service, as appropriate, are expected to be paid:		
2016		41,055
2017		47,787
2018		54,918
2019		62,005
2020		68,988
2021–2025		443,859

The expected benefits are based on the same assumptions used to measure HSHS' benefit obligation at June 30, 2015 and include estimated future employee service. In 2014, HSHS offered all participants of the plan terminated prior to June 30, 2014 a onetime option to take their full benefit in the form of a lump sum, which 1,643 deferred vested participants accepted for a total amount of $80,773.

As of June 30, 2015, HSHS adopted the new RP-2014 Mortality Table with generational improvements using projection scale MP-2014. As a result of the adoption, the projected benefit obligation increased by approximately $96,900.

The Plan has developed an Investment Policy Statement (the IPS), which is reviewed and approved by the HSHS Board of Directors. The IPS establishes goals and objectives of the fund, asset allocations, allowable and prohibited investments, socially responsible guidelines, and asset classifications. The IPS dictates that assets should be rebalanced back to target allocation on a quarterly basis. Investments are managed by independent managers. Management monitors the performance of these managers on a quarterly basis.

(Dollars in thousands)

The table below lists the target asset allocation and acceptable ranges and actual asset allocations as of June 30, 2015 and 2014:

Asset	Target allocation	Acceptable range	Actual allocation at June 30 2015	Actual allocation at June 30 2014
Equities	57%	30%–70%	55%	58%
Debt securities	30	20–70	27	28
Alternative investments	13	0–15	13	13
Cash and cash equivalents	—	0–6	5	1

(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 the Plan 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 ownership 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 Plan's ownership 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, 2015, the Plan had no plans or intentions to sell investments at amounts different from NAV.

(Dollars in thousands)

The fair values of the Plan's assets at June 30, 2015, by asset category class, are as follows:

	June 30, 2015					
	Level 1	**Level 2**	**Level 3**	**Total**	**Redemption or liquidation**	**Days' notice**
Pension plan assets excluding accrued interest of $1,311:						
Cash and cash equivalents $	55,624	—	—	55,624	Daily	One
Common stocks	460,007	—	—	460,007	Daily	One
U.S. government securities	—	125,260	—	125,260	Daily	One
Commingled mutual funds	—	194,721	—	194,721	Daily	Three
Municipal bonds	—	1,231	—	1,231	Daily	Two
Corporate bonds, notes, and debentures	—	4,395	—	4,395	Daily	Two
Foreign securities	202,285	1,899	—	204,184	Daily	Three
Hedge funds:						
K2 multistrategy fund	—	—	33,161	33,161	Note 6(e)*	Note 6(e)*
Mesirow multistrategy fund	—	—	117,217	117,217	Note 6(e)*	Note 6(e)*
Total assets at fair value $	717,916	327,506	150,378	1,195,800		

* Liquidity terms are allocated the same as disclosed in note 6(e) for plan assets.

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, 2015:

	Level 3 assets, year ended June 30, 2015		
	K2 fund	**Mesirow fund**	**Total funds**
Balance, beginning of year	$ 32,363	112,282	144,645
Total net gains	798	4,935	5,733
Balance, end of year	$ 33,161	117,217	150,378

(Dollars in thousands)

The fair values of the Plan's assets at June 30, 2014, by asset category class, are as follows:

		June 30, 2014				Redemption	Days'
		Level 1	Level 2	Level 3	Total	or liquidation	notice
Pension plan assets excluding accrued interest of $1,909:							
Cash and cash equivalents	$	30,336	—	—	30,336	Daily	One
Common stocks		448,067	—	—	448,067	Daily	One
U.S. government securities		—	116,649	—	116,649	Daily	One
Commingled mutual funds		—	192,942	—	192,942	Daily	Three
Municipal bonds		—	2,781	—	2,781	Daily	Two
Corporate bonds, notes, and debentures		—	5,343	—	5,343	Daily	Two
Foreign securities		192,154	4,605	—	196,759	Daily	Three
Hedge funds:							
K2 multistrategy fund		—	—	32,363	32,363	Note 6(e)*	Note 6(e)*
Mesirow multistrategy fund		—	—	112,282	112,282	Note 6(e)*	Note 6(e)*
Total assets at fair value	$	670,557	322,320	144,645	1,137,522		

* Liquidity terms are allocated the same as disclosed in note 6(e) for plan assets.

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, 2014:

		Level 3 assets, year ended June 30, 2014		
		K2 fund	Escrow fund	Total funds
Balance, beginning of year	$	29,679	104,876	134,555
Total net gains		2,684	7,406	10,090
Balance, end of year	$	32,363	112,282	144,645

(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, 2015 and 2014.

- 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.

(12) Long-Term Debt

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.

On November 1, 2014, HSSI issued $180,000 in fixed rate debt Series 2014A bonds. HSSI received a bond premium of $27,358 and paid bond issue costs of $1,778, related to this issuance. These bonds are noncallable and mature in 2029. The proceeds of 2014A were used to refund prior outstanding bonds 2012D, 2012E, 2012F, and 2012J and a portion of 2012A, which were variable rate debt. As a result of this issuance, HSSI incurred a noncash loss of $907 for previously unamortized bond issue costs.

(Dollars in thousands)

As of June 30, 2015, long-term debt consisted of the following:

Series	Interest rates	Final maturity dates	2015
Fixed interest rate issues:			
2007A	5.00%	March 15, 2028	$ 72,035
2012B	4.00% and 5.00%	August 15, 2021	62,430
2012C	5.00%	August 15, 2021	55,610
2014A	5.00%	November 15, 2029	180,000
Variable interest rate issues:			
2012A	Variable 0.87% at June 30, 2015	June 30, 2041	50,160
2012G	Variable 0.07% at June 30, 2015	August 1, 2041	31,645
2012H	Variable 0.07% to 0.10% at June 30, 2015	August 1, 2041	65,885
2012I	Variable 0.08% to 0.09% at June 30, 2015	August 1, 2041	89,460
Total fixed and variable interest debt			607,225
Other long-term debt			37,724
Plus unamortized bond issue premiums			42,752
Total debt			687,701
Less current installments			26,565
Less long-term debt subject to short-term remarketing agreements			155,345
Total long-term debt, excluding current installments			$ 505,791

(Dollars in thousands)

As of June 30, 2014, long-term debt consisted of the following:

Series	Interest rates	Final maturity dates		2014
Fixed interest rate issues:				
2007A	5.00%	March 15, 2028	$	72,035
2012B	4.00% and 5.00%	August 15, 2021		69,755
2012C	3.00% and 5.00%	August 15, 2021		62,290
Variable interest rate issues:				
2012A	Variable 0.85% at June 30, 2014	June 30, 2041		91,270
2012D	Variable 0.06% at June 30, 2014	August 1, 2041		61,050
2012E	Variable 0.06% at June 30, 2014	August 1, 2041		41,550
2012F	Variable 0.05% at June 30, 2014	August 1, 2041		31,645
2012G	Variable 0.05% at June 30, 2014	August 1, 2041		31,645
2012H	Variable 0.08% to 0.10% at June 30, 2014	August 1, 2041		65,885
2012I	Variable 0.07% to 0.09% at June 30, 2014	August 1, 2041		89,460
2012J	Variable 0.09% at June 30, 2014	August 1, 2041		14,160
Total fixed and variable interest debt				630,745
Other long-term debt				23,013
Plus unamortized bond issue premiums				19,437
Total debt				673,195
Less current installments				18,494
Less long-term debt subject to short-term remarketing agreements				169,508
Total long-term debt, excluding current installments			$	485,193

(Dollars in thousands)

The Obligated Group's effective interest rates for variable debt for the years ended June 30, 2015 and 2014 are as follows:

	2015
Variable interest rate issues:	
2012A	0.87%
2012G	0.05
2012H	0.08
2012I	0.08

	2014
Variable interest rate issues:	
2012A	0.57%
2012D	0.05
2012E	0.05
2012F	0.05
2012G	0.05
2012H	0.11
2012I	0.10
2012J	0.11

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 has a put option available to the holder. 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, 2015:

Series	**Term**
Series 2012 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 and I	Self-liquidity – 270 days

(Dollars in thousands)

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:		
2016	$	181,910
2017		26,897
2018		27,488
2019		26,586
2020		27,163
Thereafter		354,905
	$	644,949

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:		
2016	$	26,565
2017		26,897
2018		27,488
2019		26,586
2020		27,163
Thereafter		510,250
	$	644,949

(Dollars in thousands)

(13) Capital Leases

HSHS leases certain equipment under capital leases. Included with property, plant, and equipment are $35,178 and $27,381 of assets held under capital leases and $12,145 and $10,130 of related accumulated amortization at June 30, 2015 and 2014, respectively. A summary of future minimum lease payments and the present value of future minimum lease payments related to capital leases at June 30, 2015 are as follows:

		Amount
Year:		
2016	$	6,096
2017		5,284
2018		4,530
2019		2,370
2020		1,570
Thereafter		14,264
Total future minimum lease payments		34,114
Less amount representing interest at rates ranging from 5.0% to 6.5%		9,782
Present value of future minimum lease payments		24,332
Less current portion of obligations under capital leases included in current installments of long-term debt		4,704
Obligations under capital leases, excluding current portion included in long-term debt, excluding current installments	$	19,628

(14) 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, 2015 and 2014 are as follows:

		2015	2014
Healthcare services	$	1,684,563	1,568,691
General and administrative services		490,487	456,589
	$	2,175,050	2,025,280

(Dollars in thousands)

(15) 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, 2015 and 2014, 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). As of June 30, 2015 and 2014, there are 100 voting shares for the Hospitals (Class H) and 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 $250 in 2015 and $1,350 in 2014. 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.

In September 2009, St. Vincent assumed operations of the Clinic's medical clinic locations, and is now operating these sites as St. Vincent doing business as Prevea Health receiving all of the Clinic's patient revenue and responsible for all of the operating expenses. The expenses directly related to Prevea Health, primarily for the leasing of all employees and doctors, for the years ended June 30, 2015 and 2014 are $217,981 and $198,573, respectively, included in other expenses in the consolidated statements of operations and change in unrestricted net assets.

During the years ended June 30, 2015 and 2014, the Green Bay Hospitals have $857 and $882, 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, 2015 and 2014:

		2015	2014
Total assets	$	92,796	90,644
Total liabilities		51,219	49,673
Total equity		41,577	40,971
Total net revenue		265,012	228,959
Net income		611	5,824

The Green Bay Hospitals' equity portion in Prevea at June 30, 2015 and 2014 increased by $106 and $2,058, respectively, and is included in other operating income in the accompanying consolidated statements of operations and change in unrestricted net assets.

During fiscal year 2010, the Obligated Group replaced the St. Vincent guarantee whereby the Obligated Group agreed to guarantee the lesser of $10,500, or 39.92%, of the outstanding notes. In fiscal year 2014, the agreement changed, and now the Obligated Group is guaranteeing all outstanding debt. The Obligated Group will be paid 1.25% of the average outstanding principal amount of 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, 2015 and 2014, the Clinic has notes outstanding with balances of $19,258 and $20,419, respectively. At June 30, 2015 and 2014, PV has notes outstanding of $2,170 and $2,267, respectively.

(16) Joint Ventures

Joint ventures are accounted for using the equity method of accounting and represent $6,686 and $11,445 of other long-term assets in the accompanying consolidated balance sheets at June 30, 2015 and 2014, respectively. The most significant of these investments, excluding Prevea (note 15), 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. St. Vincent hospital purchased the remaining 50% of the LLC on April 3, 2015. Then St. Mary's hospital transferred its 25% ownership interest to St. Vincent hospital. This service is an operating department of St. Vincent hospital as of April 3, 2015.
- Pain Center of Wisconsin (held by St. Vincent) – 50% ownership interest
- Surgery Center of Sheboygan, LLC (held by St. Nicholas Hospital) – HSHS purchased the remaining 50% during 2015 and it is a department of the St. Nicholas Hospital.
- Orange Cross Ambulance, Inc. (held by St. Nicholas Hospital) – 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. Effective September 1, 2014, CMH became a wholly owned subsidiary of HSSI.

For the years ended June 30, 2015 and 2014, HSHS recognized income of $2,132 and $2,135, respectively, in investments in affiliated companies. This activity is included as a component of other revenue in the accompanying consolidated statements of operations and change in unrestricted net assets. During 2015 and 2014, HSHS received cash distributions of $2,320 and $4,390, respectively, from the joint ventures.

(Dollars in thousands)

The following table summarizes the unaudited aggregated financial information of unconsolidated affiliated companies of HSHS as of June 30, 2015 and 2014:

		2015	2014
Total assets	$	14,491	43,412
Total liabilities		1,172	12,853
Total equity		13,319	30,559
Total net revenue		15,942	52,488
Net income		4,264	3,431

(17) 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, 2015 and 2014 are the following unconditional promises to give:

		2015	2014
Unconditional promises to give	$	5,407	6,506
Less unamortized discount		189	190
		5,218	6,316
Less allowance for uncollectible pledges		140	168
Net pledges receivable	$	5,078	6,148
Amounts due in:			
Less than one year	$	4,057	2,600
One to five years		1,189	3,732
More than five years		161	174
Total	$	5,407	6,506

(Dollars in thousands)

(18) Temporarily and Permanently Restricted Assets

Temporarily restricted assets are available for the following purposes or periods at June 30, 2015 and 2014:

		2015	2014
Healthcare services	$	18,754	17,234
Capital expenditures		6,522	8,978
Catholic radio		260	271
College of nursing		218	212
	$	25,754	26,695

As of June 30, 2015 and 2014, HSHS has permanently restricted endowments as follows:

		2015	2014
Assets to be held in perpetuity, the income from which expendable to support nursing schools	$	3,044	3,179
Assets to be held in perpetuity, the income from which expendable to support specific operations of HSHS facilities		22,775	21,278
	$	25,819	24,457

As of June 30, 2015 and 2014, HSHS has unrestricted and temporarily restricted funds that represent the unspent accumulation of earnings for endowment funds as follows:

		2015	2014
Unspent income from which is expendable to support nursing schools	$	365	409
Unspent income from which is expendable to support specific operations of HSHS facilities		8,707	10,010
	$	9,072	10,419

(19) 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 2015 and 2014 were $39,931 and $34,309, respectively.

(Dollars in thousands)

The following is a schedule by year of future minimum lease payments to be made under operating leases as of June 30, 2015 that have initial or remaining lease terms in excess of one year:

		Amount
Year ending June 30:		
2016	$	27,691
2017		21,485
2018		18,753
2019		15,157
2020		13,295
Thereafter		24,843

(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. 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 $4,630 and $4,000 for 2015 and 2014, respectively, to the Wisconsin Unemployment Reserve Fund. The pledged U.S. Treasury note remained unused at June 30, 2015 and 2014.

(e) The Patient Protection and Affordable Care Act

In March 2010, the Patient Protection and Affordable Care Act of 2010 (the Affordable Care Act) was enacted. Some of the provisions of the Affordable Care Act took effect immediately, while others will take effect or will be phased in over time, ranging from a few months to ten years following approval. The Affordable Care Act was designed to make available, or subsidize the premium costs of, healthcare insurance for some of the millions of currently uninsured or underinsured consumers below certain income levels. An increase in utilization of healthcare services by those who are currently avoiding or rationing their healthcare was expected. Although bad debt expenses and/or charity care provided were expected to be reduced, increased utilization would be associated with increased variable and fixed costs of providing healthcare services, which may or may not be offset by increased revenues.

The Affordable Care Act contains more than 32 Sections related to healthcare fraud and abuse and program integrity. The potential for increased legal exposure related to the Affordable Care Act's enhanced compliance and regulatory requirements could increase operating expenses.

Key provisions of the Affordable Care Act include:

- Annual Medicare market basket updates for hospitals will be reduced based on productivity adjustments through September 30, 2019
- Payments under "Medicare Advantage" programs (Medicare managed care) will be reduced
- A value-based purchasing program was established to provide incentive payments or payment reductions to hospitals based on performance on quality and efficiency measures
- Commencing October 1, 2013, Medicare disproportionate share hospital (DSH) payments are reduced initially by 75%. DSH payments will be adjusted thereafter to account for the national rate of consumers who do not have healthcare insurance and receive care
- Expansion of Medicaid programs to a broader population
- The Hospital Readmissions Reduction Program, which began in October 2012, reduces Medicare payments to hospitals that have a high rate of potentially preventable readmissions of Medicare patients with certain clinical conditions to account for such excessive and "preventable" costs associated with hospital readmissions. As of October 1, 2014, Medicare payments to certain hospitals that experience high levels of hospital-acquired conditions are being reduced by 2%
- Introduced a requirement that healthcare insurers include quality improvement covenants in their contracts. Commencing January 1, 2015, healthcare insurers participating in the health insurance exchanges may contract only with hospitals that have implemented programs designed to ensure patient safety and enhance quality of care.

HSHS continues to analyze the Affordable Care Act to assess its effects on current and projected operations, financial performance, and financial condition.

(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 2015 and 2014 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.

(h) Guarantee Agreement

During fiscal year 2014, the Obligated Group executed a Guarantee Agreement with JPMorgan Chase, NA to guaranty $10,000 of debt for Touchette Regional Hospital in East Saint Louis, Illinois. The Obligated Group will be paid a fee of 0.90% of the average outstanding principal amount of the outstanding debt. Relative to the Guarantee Agreement, no amounts have been paid or accrued as of June 30, 2015 and 2014.

(20) Subsequent Events

Effective July 1, 2015, HSHS elected to change its accounting methodology for recognizing pension expense on the Plan. Previous to the change, net actuarial gains or losses were recognized over the average remaining service life of employees in the plan. Further, a calculated value of plan assets reflecting changes in the fair value of plan assets was used for recognition. Under the new accounting method, actuarial gains or losses and the difference between actual and expected return on plan assets are recognized annually within benefits expense. The remaining components of pension expense: service and interest costs and the expected return on plan assets, will continue to be recorded as ongoing pension expense within benefits expense. While the historical method is acceptable, HSHS believes the new policy is preferable as it eliminates the delay in recognition of changes in fair value of plan assets and actuarial gains and losses into operating expense. The change will also be applied retrospectively to all periods presented. Had the impact been reflected within the consolidated 2015 and 2014 financial statements there would have been a mark-to-market adjustment within pension expense of $(133,244) and $18,777 in 2015 and 2014, respectively.

In connection with the preparation of the consolidated financial statements and in accordance with ASC Topic 855, *Subsequent Events*, HSHS evaluated subsequent events after the consolidated statements of financial position date of June 30, 2015 through October 19, 2015, which was the date the financial statements were issued.

HOSPITAL SISTERS HEALTH SYSTEM AND SUBSIDIARIES
Springfield, Illinois

Consolidating Balance Sheet Information

June 30, 2015

(Dollars in thousands)

Assets		HSSI – Obligated Group	St. Clare Oconto Falls, Wisconsin	RQIL	Unity Limited Partnership	KCIN
Current assets:						
Cash and cash equivalents	$	90,147	4,419	—	1,425	4,204
Receivables:						
Patients' accounts, less allowance for uncollectible accounts of approximately $130,100		332,616	4,048	—	3,367	—
Due from third-party reimbursement programs		3,104	—	—	—	—
Other		29,498	222	—	38	3,230
Total receivables		365,218	4,270	—	3,405	3,230
Current portion of assets whose use is limited or restricted		150,641	—	34,545	5,632	—
Inventories		40,219	1,919	—	—	—
Prepaid expenses		11,097	57	—	—	978
Total current assets		657,322	10,665	34,545	10,462	8,412
Assets whose use is limited or restricted, net of current portion		1,764,822	6,897	68,746	364	—
Property, plant, and equipment, net		1,091,909	8,816	—	4,717	4,338
Assets held for sale		33,115	—	—	—	—
Other assets		76,157	294	—	—	—
	$	3,623,325	26,672	103,291	15,543	12,750
Liabilities and Net Assets						
Current liabilities:						
Current installments of long-term debt	$	21,970	375	—	—	2
Long-term debt subject to short-term remarketing agreements		155,345	—	—	—	—
Current portion of estimated self-insurance liabilities		—	—	29,319	—	—
Accounts payable		86,242	5,052	5,034	1,476	7,804
Accrued liabilities		105,736	868	192	50	581
Estimated payables under third-party reimbursement programs		61,366	1,110	—	—	—
Total current liabilities		430,659	7,405	34,545	1,526	8,387
Long-term debt, excluding current installments		588,850	7,978	—	—	5,005
Estimated self-insurance liabilities, net of current portion		—	—	61,717	—	—
Derivative instruments		48,734	—	—	—	—
Accrued benefit liability		279,562	49	—	—	—
Other noncurrent liabilities		34,499	150	—	6,309	—
Total liabilities		1,382,304	15,582	96,262	7,835	13,392
Net assets:						
Unrestricted		2,144,528	11,041	7,029	7,708	(642)
Temporarily restricted		71,688	35	—	—	—
Permanently restricted		24,805	14	—	—	—
Total net assets		2,241,021	11,090	7,029	7,708	(642)
Stockholder's equity		—	—	—	—	—
	$	3,623,325	26,672	103,291	15,543	12,750

See accompanying independent auditors' report.

(Continued)

HCW	System Office	HSHS Medical Group	Health Care Trust Fund	Flex Plan	Foundation	Kiara, Inc.	PERC	Eliminations	Total
26	13,988	10,728	—	753	1,346	12,825	1,546	(1,346)	140,061
—	—	9,977	—	—	—	6,115	—	—	356,123
—	—	—	—	—	—	—	—	—	3,104
—	10,136	3,178	—	2,205	5,078	3,404	754	(23,679)	34,064
—	10,136	13,155	—	2,205	5,078	9,519	754	(23,679)	393,291
—	—	7,493	11,287	—	—	195	—	40,843	250,636
—	—	—	—	—	—	1,731	—	—	43,869
—	9,970	294	—	—	—	446	24	—	22,866
26	34,094	31,670	11,287	2,958	6,424	24,716	2,324	15,818	850,723
9,976	165,562	—	52,562	—	93,832	7,933	1,036	(385,839)	1,785,891
2,411	144,262	12,153	—	—	—	5,323	285	—	1,274,214
—	7,454	—	—	—	—	—	—	—	40,569
—	31,106	—	—	—	426	8,402	—	(46,577)	69,808
12,413	382,478	43,823	63,849	2,958	100,682	46,374	3,645	(416,598)	4,021,205
—	4,023	—	—	—	—	195	—	—	26,565
—	—	—	—	—	—	—	—	—	155,345
—	—	—	11,287	—	—	—	—	—	40,606
211	3,851	2,365	20,094	2,758	—	1,534	32	(16,396)	120,057
—	15,488	14,801	2,800	—	100,682	9,299	711	(102,887)	148,321
—	—	—	—	—	—	—	—	—	62,476
211	23,362	17,166	34,181	2,758	100,682	11,028	743	(119,283)	553,370
—	152,747	—	—	—	—	7,375	—	(256,164)	505,791
—	—	—	—	—	—	—	—	—	61,717
—	—	—	—	—	—	—	—	—	48,734
—	29,719	7,102	—	—	—	880	168	—	317,480
433	5,632	—	—	—	—	677	—	—	47,700
644	211,460	24,268	34,181	2,758	100,682	19,960	911	(375,447)	1,534,792
11,769	167,944	19,555	29,668	200	—	—	2,734	33,306	2,434,840
—	2,074	—	—	—	—	—	—	(48,043)	25,754
—	1,000	—	—	—	—	—	—	—	25,819
11,769	171,018	19,555	29,668	200	—	—	2,734	(14,737)	2,486,413
—	—	—	—	—	—	26,414	—	(26,414)	—
12,413	382,478	43,823	63,849	2,958	100,682	46,374	3,645	(416,598)	4,021,205

HOSPITAL SISTERS HEALTH SYSTEM AND SUBSIDIARIES
Springfield, Illinois

Consolidating Statement of Operations and Change in Unrestricted Net Assets

Year ended June 30, 2015

(Dollars in thousands)

	HSSI – Obligated Group	St. Clare Oconto Falls, Wisconsin	RQIL	Unity Limited Partnership	KCIN
Net patient service revenue	$ 2,010,146	24,241	—	17,741	—
Provision for uncollectible accounts	(61,191)	(795)	—	—	—
Net patient service revenue less provision for uncollectible accounts	1,948,955	23,446	—	17,741	—
Other revenue:					
Investment return	—	—	3,626	115	—
Net assets released from restrictions used for operations	1,366	—	—	—	—
Other	50,546	6,026	23,236	520	10,968
Total revenue	2,000,867	29,472	26,862	18,376	10,968
Expenses:					
Sisters' services	67	—	—	—	—
Salaries and wages	547,698	12,334	—	10,400	—
Employee benefits	195,879	3,861	—	3,013	—
Professional fees	73,266	86	—	314	77
Supplies	296,484	6,982	—	234	15
Depreciation and amortization	109,978	1,368	—	408	1,089
Interest	14,579	194	—	—	111
Other	660,770	5,505	26,862	4,223	12,338
Total expenses	1,898,721	30,330	26,862	18,592	13,630
Income (loss) from operations	102,146	(858)	—	(216)	(2,662)
Nonoperating gains (losses):					
Investment return	22,169	38	—	—	(7)
Contributions of excess assets over liabilities for St. Clare Hospital	—	8,900	—	—	—
Discontinued operations – gain from operations	3,203	—	—	—	—
Change in fair value of interest rate swaps	(5,682)	—	—	—	—
Loss on conversion and early extinguishment of debt	(907)				
Revenues and gains in excess (deficient) of expenses and losses	120,929	8,080	—	(216)	(2,669)
Other changes in unrestricted net assets:					
Net assets released from restrictions used for the purchase of property, plant, and equipment	6,581	—	—	—	—
Change in pension funded status	(93,329)	(49)	—	—	—
Transfers (to) from affiliates	(68,703)	3,010	—	—	—
Change in unrestricted net assets	$ (34,522)	11,041	—	(216)	(2,669)

See accompanying independent auditors' report.

(Continued)

HCW	System Office	HSHS Medical Group	Health Care Trust Fund	Flex Plan	Foundation	Kiara, Inc.	PERC	Eliminations	Total
—	—	75,358	—	—	—	34,755	—	—	2,162,241
—	—	(4,095)	—	—	—	(309)	—	—	(66,390)
—	—	71,263	—	—	—	34,446	—	—	2,095,851
—	—	—	1,311	1	—	205	—	(5,049)	209
—	—	—	—	—	6,432	—	—	(3,775)	4,023
944	127,525	69,648	155,600	211	2,929	29,311	5,461	(388,775)	94,150
944	127,525	140,911	156,911	212	9,361	63,962	5,461	(397,599)	2,194,233
—	1,006	—	—	—	—	—	—	—	1,073
—	62,226	105,062	—	—	—	64,912	2,084	—	804,716
—	18,018	15,441	154,778	161	—	12,589	452	(157,162)	247,030
17	5,415	15,899	—	—	—	740	627	—	96,441
40	266	3,924	—	—	—	1,286	12	(5,235)	304,008
401	50,530	2,649	—	—	—	1,445	79	—	167,947
—	493	—	—	—	—	244	—	(2,131)	13,490
323	49,790	21,190	—	—	16,512	9,867	935	(267,970)	540,345
781	187,744	164,165	154,778	161	16,512	91,083	4,189	(432,498)	2,175,050
163	(60,219)	(23,254)	2,133	51	(7,151)	(27,121)	1,272	34,899	19,183
168	12,670	91	—	—	1,791	—	23	(2,015)	34,928
—	—	—	—	—	—	—	—	—	8,900
—	—	—	—	—	—	—	—	—	3,203
—	—	—	—	—	—	—	—	—	(5,682)
									(907)
331	(47,549)	(23,163)	2,133	51	(5,360)	(27,121)	1,295	32,884	59,625
—	—	—	—	—	—	—	—	(3,857)	2,724
—	(8,998)	(2,616)	—	—	—	(1,699)	(168)	—	(106,859)
—	34,065	31,628	—	—	5,360	28,820	—	(34,180)	—
331	(22,482)	5,849	2,133	51	—	—	1,127	(5,153)	(44,510)

HOSPITAL SISTERS HEALTH SYSTEM AND SUBSIDIARIES
Springfield, Illinois

Consolidating Statement of Changes in Net Assets Information

Year ended June 30, 2015

(Dollars in thousands)

	HSSI – Obligated Group	St. Clare Oconto Falls, Wisconsin	RQIL	Unity Limited Partnership	KCIN
Unrestricted net assets:					
Revenue and gains in excess (deficient) of expenses and losses	$ 120,929	8,080	—	(216)	(2,669)
Other changes in unrestricted net assets:					
Net assets released from restrictions use for the purchase of property, plant, and equipment	6,581	—	—	—	—
Change in pension funded status	(93,329)	(49)	—	—	—
Transfers (to) from affiliates	(68,703)	3,010	—	—	—
Change in unrestricted net assets	(34,522)	11,041	—	(216)	(2,669)
Temporarily restricted net assets:					
Investment return	(745)	—	—	—	—
Contributions	1,097	35	—	—	—
Transfers (to) from affiliates	—	—	—	—	—
Net assets released from restrictions	(7,947)	—	—	—	—
Change in temporarily restricted net assets	(7,595)	35	—	—	—
Permanently restricted net assets:					
Investment return	9	—	—	—	—
Contributions	339	14	—	—	—
Transfers (to) from affiliates	—	—	—	—	—
Change in permanently restricted net assets	348	14	—	—	—
Change in net assets	(41,769)	11,090	—	(216)	(2,669)
Net assets at beginning of year	2,282,790	—	7,029	7,924	2,027
Net assets at end of year	$ 2,241,021	11,090	7,029	7,708	(642)

See accompanying independent auditors' report.

(Continued)

HCW	System Office	HSHS Medical Group	Health Care Trust Fund	Flex Plan	Foundation	Kiara, Inc.	PERC	Eliminations	Total
331	(47,549)	(23,163)	2,133	51	(5,360)	(27,121)	1,295	32,884	59,625
—	—	—	—	—	—	—	—	(3,857)	2,724
—	(8,998)	(2,616)	—	—	—	(1,699)	(168)	—	(106,859)
—	34,065	31,628	—	—	5,360	28,820	—	(34,180)	—
331	(22,482)	5,849	2,133	51	—	—	1,127	(5,153)	(44,510)
—	2,362	—	—	—	(179)	—	—	(1,617)	(179)
—	(1,112)	—	—	—	5,641	—	—	324	5,985
—	—	—	—	—	970	—	—	(970)	—
—	—	—	—	—	(6,432)	—	—	7,632	(6,747)
—	1,250	—	—	—	—	—	—	5,369	(941)
—	—	—	—	—	9	—	—	(9)	9
—	1,000	—	—	—	1,340	—	—	(1,340)	1,353
—	—	—	—	—	(1,349)	—	—	1,349	—
—	1,000	—	—	—	—	—	—	—	1,362
331	(20,232)	5,849	2,133	51	—	—	1,127	216	(44,089)
11,438	191,250	13,706	27,535	149	—	—	1,607	(14,953)	2,530,502
11,769	171,018	19,555	29,668	200	—	—	2,734	(14,737)	2,486,413

HOSPITAL SISTERS HEALTH SYSTEM AND SUBSIDIARIES
Springfield, Illinois

Consolidating Balance Sheet Information

June 30, 2015

(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
Current assets:					
Cash and cash equivalents	$ 3,351	4,590	7,266	11,517	3,029
Receivables:					
Patients' accounts, less allowance for uncollectible accounts	34,530	9,589	27,310	28,997	7,834
Due from third-party reimbursement programs	1,261	192	(372)	957	531
Other	4,052	89	3,405	1,692	(1,190)
Total receivables	39,843	9,870	30,343	31,646	7,175
Current portion of assets whose use is limited or restricted	29	2,485	118	8,101	6,822
Inventories	3,162	634	3,182	4,607	525
Prepaid expenses	1,024	245	782	119	1,116
Total current assets	47,409	17,824	41,691	55,990	18,667
Assets whose use is limited or restricted, net of current portion	6,879	111,646	7,137	306,299	3,025
Property, plant, and equipment, net	69,430	20,541	92,476	61,094	46,308
Assets held for sale	—	—	—	—	—
Other assets	5,183	126	226	171	189
	$ 128,901	150,137	141,530	423,554	68,189
Liabilities and Net Assets					
Current liabilities:					
Current installments of long-term debt	$ 1,286	304	1,162	1,004	1,785
Long-term debt subject to short-term remarketing agreements	9,238	2,181	7,849	6,513	12,833
Accounts payable	7,218	1,390	4,403	5,572	1,806
Accrued liabilities	11,777	2,726	4,996	5,259	1,374
Estimated payables under third-party reimbursement programs	3,831	6,139	10,237	10,192	5,231
Total current liabilities	33,350	12,740	28,647	28,540	23,029
Long-term debt, excluding current installments	111,802	5,802	28,744	19,689	41,257
Derivative instruments	1	2,991	3	8,361	36
Accrued benefit liability	25,212	6,725	20,182	12,767	5,298
Other noncurrent liabilities	8,976	2,654	1,804	484	—
Total liabilities	179,341	30,912	79,380	69,841	69,620
Net assets:					
Unrestricted	(57,318)	117,424	55,016	352,457	(4,420)
Temporarily restricted	6,744	1,801	5,933	1,078	2,989
Permanently restricted	134	—	1,201	178	—
Total net assets	(50,440)	119,225	62,150	353,713	(1,431)
	$ 128,901	150,137	141,530	423,554	68,189

See accompanying independent auditors' report.

(Continued)

Schedule 4

St. Francis Litchfield, Illinois	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
4,431	11,536	1,581	773	3,320	2,732	24,031	8,626	3,364	—	90,147
2,654	89,156	7,260	9,298	28,772	13,505	60,414	13,297	—	—	332,616
—	—	214	—	—	185	—	136	—	—	3,104
201	3,480	459	215	1,096	1,502	13,954	803	1,238	(1,498)	29,498
2,855	92,636	7,933	9,513	29,868	15,192	74,368	14,236	1,238	(1,498)	365,218
1,273	69,717	3,621	4,517	17,075	9,464	22,198	4,685	536	—	150,641
378	11,003	750	350	5,130	2,618	6,016	1,864	—	—	40,219
235	3,192	582	112	524	145	2,747	274	—	—	11,097
9,172	188,084	14,467	15,265	55,917	30,151	129,360	29,685	5,138	(1,498)	657,322
35,664	221,217	28,224	104,409	452,890	77,696	360,360	49,376	—	—	1,764,822
24,459	367,713	—	31,332	105,730	82,654	144,438	45,734	—	—	1,091,909
—	—	33,115	—	—	—	—	—	—	—	33,115
44	9,502	249	97	394	9,889	41,175	793	8,119	—	76,157
69,339	786,516	76,055	151,103	614,931	200,390	675,333	125,588	13,257	(1,498)	3,623,325
165	8,131	442	613	2,087	1,156	2,997	838	—	—	21,970
1,108	61,586	3,179	3,964	14,988	8,308	19,485	4,113	—	—	155,345
1,123	14,441	1,954	3,201	15,186	6,055	20,175	5,216	—	(1,498)	86,242
1,618	16,867	2,216	3,496	8,137	3,763	35,746	3,347	4,414	—	105,736
3,927	12,550	2,442	850	5,730	5	211	21	—	—	61,366
7,941	113,575	10,233	12,124	46,128	19,287	78,614	13,535	4,414	(1,498)	430,659
8,680	216,597	8,452	14,193	39,859	22,092	56,654	15,029	—	—	588,850
800	7,347	820	2,634	12,099	2,133	10,288	1,221	—	—	48,734
8,547	59,796	11,116	17,422	29,365	18,989	55,237	8,906	—	—	279,562
5,481	9,874	1,901	—	1,000	238	681	316	1,090	—	34,499
31,449	407,189	32,522	46,373	128,451	62,739	201,474	39,007	5,504	(1,498)	1,382,304
34,568	350,775	40,579	94,570	477,789	130,841	465,987	78,507	7,753	—	2,144,528
2,074	25,893	2,871	3,731	2,665	4,511	5,020	6,378	—	—	71,688
1,248	2,659	83	6,429	6,026	2,299	2,852	1,696	—	—	24,805
37,890	379,327	43,533	104,730	486,480	137,651	473,859	86,581	7,753	—	2,241,021
69,339	786,516	76,055	151,103	614,931	200,390	675,333	125,588	13,257	(1,498)	3,623,325

HOSPITAL SISTERS HEALTH SYSTEM AND SUBSIDIARIES
Springfield, Illinois
Consolidating Statement of Operations Information
Year ended June 30, 2015
(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 revenue	$	169,517	55,828	141,800	127,703	39,078	40,211
Provision for uncollectible accounts		(16,293)	(3,414)	(3,627)	(1,392)	(2,083)	(1,817)
Net patient service revenue less provision for uncollectible accounts		153,224	52,414	138,173	126,311	36,995	38,394
Other revenues:							
Net assets released from restrictions used for operations		—	—	—	—	—	12
Other		6,226	1,553	4,314	4,118	433	902
Total revenue		159,450	53,967	142,487	130,429	37,428	39,308
Expenses:							
Sisters' services		—	—	—	—	—	—
Salaries and wages		55,012	18,318	41,420	34,959	11,202	10,965
Employee benefits		19,065	7,320	14,930	14,075	4,298	4,255
Professional fees		6,110	1,329	5,530	5,659	1,724	2,542
Supplies		23,686	4,372	19,729	17,455	3,376	3,087
Depreciation and amortization		8,374	2,867	9,199	6,763	3,621	2,413
Interest		2,066	64	714	481	2,454	471
Other		59,479	13,314	43,693	28,789	10,312	8,876
Total expenses		173,792	47,584	135,215	108,181	36,987	32,609
Income (loss) from operations		(14,342)	6,383	7,272	22,248	441	6,699
Nonoperating gains (losses):							
Investment return		46	1,336	136	4,002	200	541
Discontinued operations – gains from operations		—	—	—	—	—	—
Change in fair value of interest rate swap		(1)	(387)	2	(898)	(3)	(240)
Loss on conversion and early extinguishment of debt		(53)	(13)	(45)	(38)	(74)	(6)
Revenues and gains in excess (deficient) of expenses and losses		(14,350)	7,319	7,365	25,314	564	6,994
Other changes in unrestricted net assets:							
Net assets released from restrictions used for the purchase of property, plant, and equipment		839	73	833	241	121	59
Transfers (to) from affiliates		(9,086)	(1,244)	(6,764)	(2,880)	(1,028)	(837)
Changes in pension funded status		(9,576)	(2,471)	(5,317)	(4,461)	(1,963)	(2,471)
Change in unrestricted net assets	$	(32,173)	3,677	(3,883)	18,214	(2,306)	3,745

See accompanying independent auditors' report.

(Continued)

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
466,699	—	70,082	236,485	122,810	462,361	77,572	—	—	2,010,146
(19,417)	—	(1,219)	(2,325)	(2,749)	(5,350)	(1,505)	—	—	(61,191)
447,282	—	68,863	234,160	120,061	457,011	76,067	—	—	1,948,955
1,332	—	6	16	—	—	—	—	—	1,366
24,379	—	1,366	2,956	5,811	7,377	2,473	314	(11,676)	50,546
472,993	—	70,235	237,132	125,872	464,388	78,540	314	(11,676)	2,000,867
42	—	—	—	—	25	—	—	—	67
138,899	—	27,086	70,220	34,705	83,230	21,682	—	—	547,698
48,220	—	9,952	25,091	13,194	28,241	7,238	—	—	195,879
29,948	—	3,970	5,560	3,308	9,692	1,212	—	(3,318)	73,266
90,974	—	4,645	34,058	19,383	65,329	10,390	—	—	296,484
33,337	—	3,054	12,220	6,416	17,408	4,306	—	—	109,978
5,892	—	202	606	423	996	210	—	—	14,579
130,708	1,247	16,912	46,136	40,791	241,262	27,607	2	(8,358)	660,770
478,020	1,247	65,821	193,891	118,220	446,183	72,645	2	(11,676)	1,898,721
(5,027)	(1,247)	4,414	43,241	7,652	18,205	5,895	312	—	102,146
3,003	303	1,218	5,465	468	4,870	575	6	—	22,169
—	3,203	—	—	—	—	—	—	—	3,203
(231)	(41)	(162)	(1,987)	(338)	(1,187)	(209)			(5,682)
(356)	(20)	(30)	(87)	(48)	(113)	(24)	—	—	(907)
(2,611)	2,198	5,440	46,632	7,734	21,775	6,237	318	—	120,929
835	6	1,437	421	568	1,078	70	—	—	6,581
(32,881)	(1,374)	(1,823)	(2,039)	(2,471)	(5,607)	(669)	—	—	(68,703)
(22,231)	(3,489)	(4,126)	(9,047)	(7,529)	(17,529)	(3,119)	—	—	(93,329)
(56,888)	(2,659)	928	35,967	(1,698)	(283)	2,519	318	—	(34,522)

HOSPITAL SISTERS HEALTH SYSTEM AND SUBSIDIARIES
Springfield, Illinois

Consolidating Statement of Changes in Net Assets Information

Year ended June 30, 2015

(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 in excess (deficient) of expenses and losses	$ (14,350)	7,319	7,365	25,314	564	6,994
Other changes in unrestricted net assets.						
Net assets released from restrictions used for the purchase of property, plant, and equipment	839	73	833	241	121	59
Transfer (to) from affiliates	(9,086)	(1,244)	(6,764)	(2,880)	(1,028)	(837)
Changes in pension funded status	(9,576)	(2,471)	(5,317)	(4,461)	(1,963)	(2,471)
Change in unrestricted net assets	(32,173)	3,677	(3,883)	18,214	(2,306)	3,745
Temporarily restricted net assets:						
Investment return	(47)	(13)	(51)	(14)	(14)	(25)
Contributions	37	49	887	(540)	(138)	92
Net assets released from restrictions	(839)	(73)	(833)	(241)	(121)	(71)
Change in temporarily restricted net assets	(849)	(37)	3	(795)	(273)	(4)
Permanently restricted net assets.						
Investment return	—	—	—	—	—	—
Contributions	32	—	—	—	—	—
Change in permanently restricted net assets	32	—	—	—	—	—
Change in net assets	(32,990)	3,640	(3,880)	17,419	(2,579)	3,741
Net assets at beginning of year	(17,450)	115,585	66,030	336,294	1,148	34,149
Net assets at end of year	$ (50,440)	119,225	62,150	353,713	(1,431)	37,890

See accompanying independent auditors' report.

(Continued)

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
(2,611)	2,198	5,440	46,632	7,734	21,775	6,237	318	—	120,929
835	6	1,437	421	568	1,078	70	—	—	6,581
(32,881)	(1,374)	(1,823)	(2,039)	(2,471)	(5,607)	(669)	—	—	(68,703)
(22,231)	(3,489)	(4,126)	(9,047)	(7,529)	(17,529)	(3,119)	—	—	(93,329)
(56,888)	(2,659)	928	35,967	(1,698)	(283)	2,519	318	—	(34,522)
(232)	(7)	(94)	(64)	(54)	(66)	(64)	—	—	(745)
(889)	(7)	111	10	(10)	991	504	—	—	1,097
(2,167)	(6)	(1,443)	(437)	(568)	(1,078)	(70)	—	—	(7,947)
(3,288)	(20)	(1,426)	(491)	(632)	(153)	370	—	—	(7,595)
—	—	—	9	—	—	—	—	—	9
57	(5)	29	473	—	(257)	10	—	—	339
57	(5)	29	482	—	(257)	10	—	—	348
(60,119)	(2,684)	(469)	35,958	(2,330)	(693)	2,899	318	—	(41,769)
439,446	46,217	105,199	450,522	139,981	474,552	83,682	7,435	—	2,282,790
379,327	43,533	104,730	486,480	137,651	473,859	86,581	7,753	—	2,241,021