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HEALTH FACILITIES & SERVICES REVIEW BOARD

ILLINOIS HEALTH FACILITIES AND SERVICES REVIEW BOARD APPLICATION FOR PERMIT

SECTION I. IDENTIFICATION, GENERAL INFORMATION, AND CERTIFICATION

This Section must be completed for all projects.

Facility/Project Identification

Facility Name: Palos Community Hospital South Campus MOB
Street Address: Southwest Corner of 153rd Street and West Avenue
City and Zip Code: Orland Park, Illinois 60462
County: Cook Health Service Area 7 Health Planning Area: A-04

Applicant /Co-Applicant Identification

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

Exact Legal Name: The St. George Corporation
Address: 12251 South 80th Avenue, Palos Heights, Illinois 60463
Name of Registered Agent: Barbara J. Medley
Name of Chief Executive Officer: Terrence Moisan, M.D.
CEO Address: 12251 South 80th Avenue, Palos Heights, Illinois 60463
Telephone Number: 708-923-400

Type of Ownership of Applicant/Co-Applicant

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

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

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

Primary Contact

[Person to receive ALL correspondence or inquiries)

Name: Kara M. Friedman
Title: Attorney
Company Name: Polsinelli P.C.
Address: 161 North Clark Street, Suite 4200, Chicago, Illinois 60601
Telephone Number: 312-873-3639
E-mail Address: KFriedman@polsinelli.com
Fax Number:

Additional Contact

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

Name: Timothy J. Brosnan
Title: Vice President, Planning and Community Relations
Company Name: Palos Community Hospital
Address: 12251 South 80th Avenue, Palos Heights, Illinois 60463
Telephone Number: 708-923-5003
E-mail Address: tbrosnan@paloscomm.org
Fax Number:

ILLINOIS HEALTH FACILITIES AND SERVICES REVIEW BOARD
APPLICATION FOR PERMIT

SECTION I. IDENTIFICATION, GENERAL INFORMATION, AND CERTIFICATION

This Section must be completed for all projects.

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E-mail Address: tbrosnan@paloscomm.org
Fax Number:

Post Permit Contact

Post Permit Contact

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

Name: Timothy J. Brosnan
Title: Vice President, Planning and Community Relations
Company Name: Palos Community Hospital
Address: 12251 South 80th Avenue, Palos Heights, Illinois 60463
Telephone Number: 708-923-5003
E-mail Address: tbrosnan@paloscomm.org
Fax Number:

Site Ownership

[Provide this information for each applicable site]

Exact Legal Name of Site Owner: Palos Community Hospital
Address of Site Owner: 12251 South 80th Avenue, Palos Heights, Illinois 60463
Street Address or Legal Description of Site: See Attachment 2 for Legal Description of Site

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

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

Operating Identity/Licensee

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

Exact Legal Name: Palos Community Hospital
Address: 12251 South 80th Avenue, Palos Heights, Illinois 60463

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

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

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

Organizational Relationships

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

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

Flood Plain Requirements

[Refer to application instructions.]

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

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

Historic Resources Preservation Act Requirements

[Refer to application instructions.]

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

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

DESCRIPTION OF PROJECT

1. Project Classification

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

Part 1110 Classification:

☐ Substantive

☒ Non-substantive

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.

Palos Community Hospital proposes a new construction and modernization project as an expansion of its South Campus outpatient complex in Orland Park at 15300 West Avenue, southwest corner of 153rd St and West Avenue. The Project includes three components: the construction of a 4 story 107,760 gross square foot medical office building ("MOB") to include physician offices and diagnostic and treatment space for a variety of medical specialties; a 16,000 gross square foot three story building connection joining two existing office buildings and the new MOB, which will span three floors, and a 125,000 gross square foot below-grade parking garage. Site improvements include access roadway improvements.

The MOB will primarily house physician medical offices and exam rooms, offering an array of physician and related ancillary services.

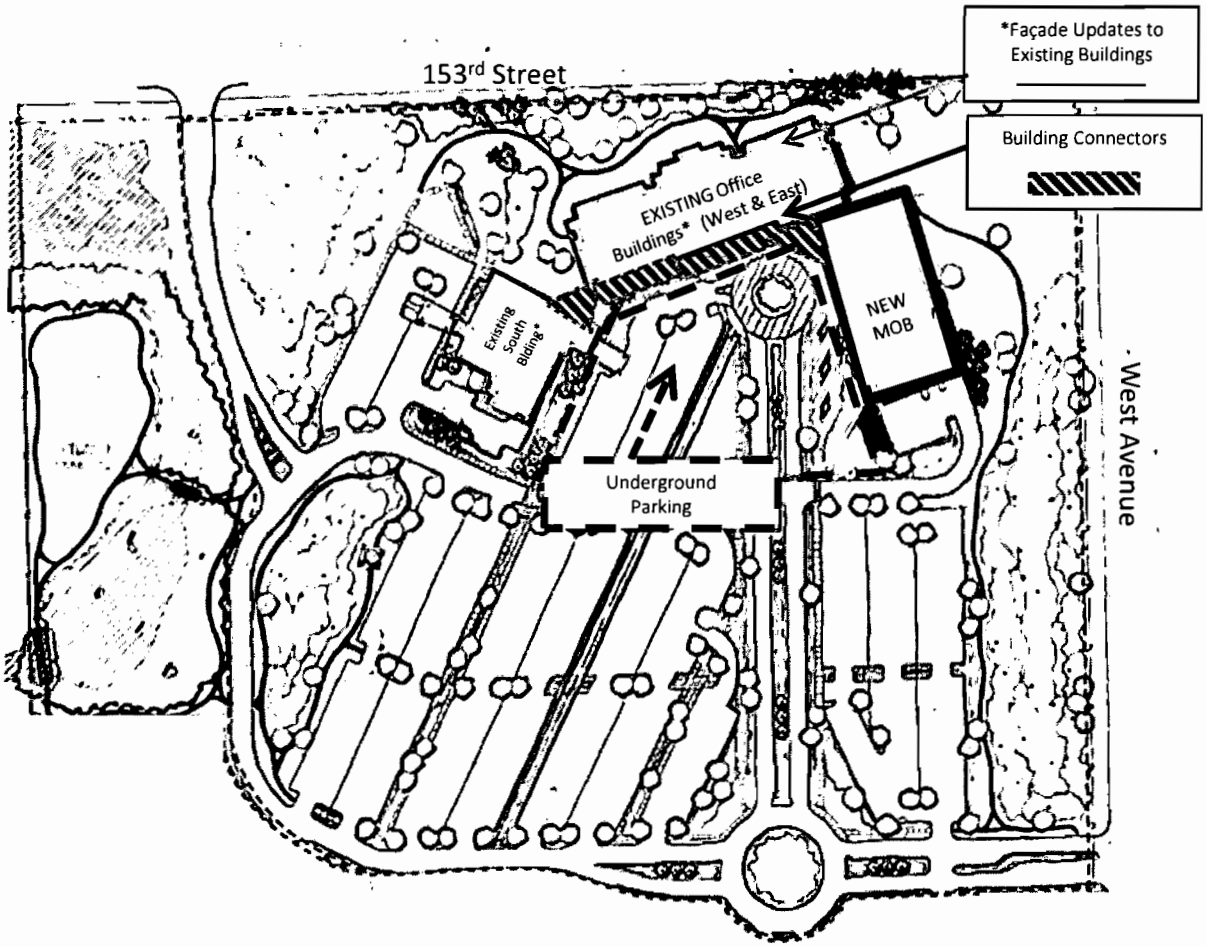
The "building connector" will provide hallway connections joining two existing office buildings at a lower level, ground level and 2nd and 3rd floors. Each of the existing buildings will undergo modifications necessary to accommodate the building connector.

The project is subject to Certificate of Need because it is an expenditure by or on behalf of a hospital that exceeds the State's capital expenditure threshold, The project does not have an inpatient component, does not establish any category of service nor will there be any hospital services provided by the Applicants in the new building. As such, it is classified as non-substantive.

Total capital cost of the project is $133,202,791. Total square footage for the construction and modernization project consists of 248,760 gross square feet of newly constructed space and 47,550 gross square feet of modernized space for a total of 296,310 gross square feet of non-clinical space. A diagram on the next page shows the South Campus outpatient complex, with existing buildings and proposed new construction.

The project will be completed by June 30, 2019.

Orland Park South Campus



Preliminary Site Plan:
Existing Office Buildings &
Proposed New MOB with Underground Parking

Project Costs and Sources of Funds

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

Project Costs and Sources of Funds			
USE OF FUNDS	CLINICAL	NONCLINICAL	TOTAL
Preplanning Costs		$197,394	$197,394
Site Survey and Soil Investigation		$103,500	$103,500
Site Preparation		$7,478,263	$7,478,263
Off Site Work		$1,236,000	$1,236,000
New Construction Contracts		$71,203,228	$71,203,228
Modernization Contracts		$6,123,364	$6,123,364
Contingencies		$8,038,828	$8,038,828
Architectural/Engineering Fees		$6,000,000	$6,000,000
Consulting and Other Fees		$890,000	$890,000
Movable or Other Equipment (not in construction contracts)		$31,598,433	$31,598,433
Bond Issuance Expense (project related)			
Net Interest Expense During Construction (project related)			
Fair Market Value of Leased Space or Equipment			
Other Costs To Be Capitalized		$333,781	$333,781
Acquisition of Building or Other Property (excluding land)			
TOTAL USES OF FUNDS		$133,202,791	$133,202,791
SOURCE OF FUNDS	CLINICAL	NONCLINICAL	TOTAL
Cash and Securities		$133,202,791	$133,202,791
Pledges			
Gifts and Bequests			
Bond Issues (project related)			
Mortgages			
Leases (fair market value)			
Governmental Appropriations			
Grants			
Other Funds and Sources			
TOTAL SOURCES OF FUNDS		$133,202,791	$133,202,791
NOTE: ITEMIZATION OF EACH LINE ITEM MUST BE PROVIDED AT ATTACHMENT-7, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.			

Related Project Costs

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

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

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

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

Estimated start-up costs and operating deficit cost is $ 0

Project Status and Completion Schedules

For facilities in which prior permits have been issued please provide the permit numbers.

Indicate the stage of the project's architectural drawings:

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

Anticipated project completion date (refer to Part 1130.140): June 30,2019

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

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

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

State Agency Submittals

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

Cost Space Requirements

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

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

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

Facility Bed Capacity and Utilization

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

FACILITY NAME: Palos Community Hospital		CITY: Palos Heights			
REPORTING PERIOD DATES:		From: January 1, 2014	to: December 31, 2014		
Category of Service	**Authorized Beds**	**Admissions**	**Patient Days**	**Bed Changes**	**Proposed Beds**
Medical/Surgical	306	14,848	78,959	0	306
Obstetrics	28	1,029	2,932	0	28
Pediatrics	15	341	1,058	0	15
Intensive Care	36	2,492	5,499	0	36
Comprehensive Physical Rehabilitation	0	0	0	0	0
Acute/Chronic Mental Illness	40	1,448	6,531	0	40
Neonatal Intensive Care	0	0	0	0	0
General Long Term Care	0	0	0	0	0
Specialized Long Term Care	0	0	0	0	0
Long Term Acute Care	0	0	0	0	0
Other ((identify)	0	0	0	0	0
TOTALS:	425	20,158	94,979	0	425

CERTIFICATION

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

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

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

SIGNATURE	SIGNATURE
Terrence Moisan, MD	Charles Reiter, III, JD
PRINTED NAME	PRINTED NAME
President	Secretary
PRINTED TITLE	PRINTED TITLE
Notarization: Subscribed and sworn to before me this 21ST day of DECEMBER, 2015	Notarization: Subscribed and sworn to before me this 21ST day of DECEMBER, 2015
Signature of Notary	Signature of Notary
Seal "OFFICIAL SEAL" BARBARA J. MEDLEY NOTARY PUBLIC, STATE OF ILLINOIS MY COMMISSION EXPIRES 12/29/2017	Seal "OFFICIAL SEAL" BARBARA J. MEDLEY NOTARY PUBLIC, STATE OF ILLINOIS MY COMMISSION EXPIRES 12/29/2017

*Insert EXACT legal name of the applicant

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*Insert EXACT legal name of the applicant

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

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

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

READ THE REVIEW CRITERION and provide the following required information:

BACKGROUND OF APPLICANT

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

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

PURPOSE OF PROJECT

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

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

NOTE: Information regarding the "Purpose of the Project" will be included in the State Board Report.
APPEND DOCUMENTATION AS ATTACHMENT-12, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM. EACH ITEM (1-6) MUST BE IDENTIFIED IN ATTACHMENT 12.

ALTERNATIVES

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

Alternative options **must** include:

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

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

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

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

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

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

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

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

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

READ THE REVIEW CRITERION and provide the following information:

SIZE OF PROJECT:

1. Document that the amount of physical space proposed for the proposed project is necessary and not excessive. **This must be a narrative.**

2. If the gross square footage exceeds the BGSF/DGSF standards in Appendix B, justify the discrepancy by documenting one of the following::

   a. Additional space is needed due to the scope of services provided, justified by clinical or operational needs, as supported by published data or studies;

   b. The existing facility's physical configuration has constraints or impediments and requires an architectural design that results in a size exceeding the standards of Appendix B;

   c. The project involves the conversion of existing space that results in excess square footage.

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

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

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

PROJECT SERVICES UTILIZATION:

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

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

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

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

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

UNFINISHED OR SHELL SPACE:

Provide the following information:

1. Total gross square footage of the proposed shell space;

2. The anticipated use of the shell space, specifying the proposed GSF tot be allocated to each department, area or function;

3. Evidence that the shell space is being constructed due to
   a. Requirements of governmental or certification agencies; or
   b. Experienced increases in the historical occupancy or utilization of those areas proposed to occupy the shell space.

4. Provide:
   a. Historical utilization for the area for the latest five-year period for which data are available; and
   b. Based upon the average annual percentage increase for that period, projections of future utilization of the area through the anticipated date when the shell space will be placed into operation.

APPEND DOCUMENTATION AS ATTACHMENT-16, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

ASSURANCES:

Submit the following:

1. Verification that the applicant will submit to HFSRB a CON application to develop and utilize the shell space, regardless of the capital thresholds in effect at the time or the categories of service involved.

2. The estimated date by which the subsequent CON application (to develop and utilize the subject shell space) will be submitted; and

3. The anticipated date when the shell space will be completed and placed into operation.

APPEND DOCUMENTATION AS ATTACHMENT-17, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

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

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

VIII. - 1120.120 - Availability of Funds

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:**

$133,202,791	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.
$133,202,791	TOTAL FUNDS AVAILABLE	

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

IX. 1120.130 - Financial Viability

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

Financial Viability Waiver

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

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

See Section 1120.130 Financial Waiver for information to be provided.

APPEND DOCUMENTATION AS ATTACHMENT-37, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

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

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

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

2. Variance

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

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

X. 1120.140 - Economic Feasibility

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

A. Reasonableness of Financing Arrangements

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

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

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

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

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

B. Conditions of Debt Financing

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

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

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

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

C. Reasonableness of Project and Related Costs

Read the criterion and provide the following:

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

COST AND GROSS SQUARE FEET BY DEPARTMENT OR SERVICE

Department (list below)	A	B	C	D	E	F	G	H	Total Cost (G + H)
	Cost/Square Foot New	Cost/Square Foot Mod.	Gross Sq. Ft. New	Gross Sq. Ft. Circ.*	Gross Sq. Ft. Mod.	Gross Sq. Ft. Circ.*	Const. $ (A x C)	Mod. $ (B x E)	
Contingency									
TOTALS									

* Include the percentage (%) of space for circulation

D. **Projected Operating Costs**

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

E. **Total Effect of the Project on Capital Costs**

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

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

XI. Safety Net Impact Statement

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

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

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

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

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

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

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

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

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

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

Outpatient			
Total			
Medicaid (revenue)			
Inpatient			
Outpatient			
Total			

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

XII. Charity Care Information

Charity Care information MUST be furnished for ALL projects.

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

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

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

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

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

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

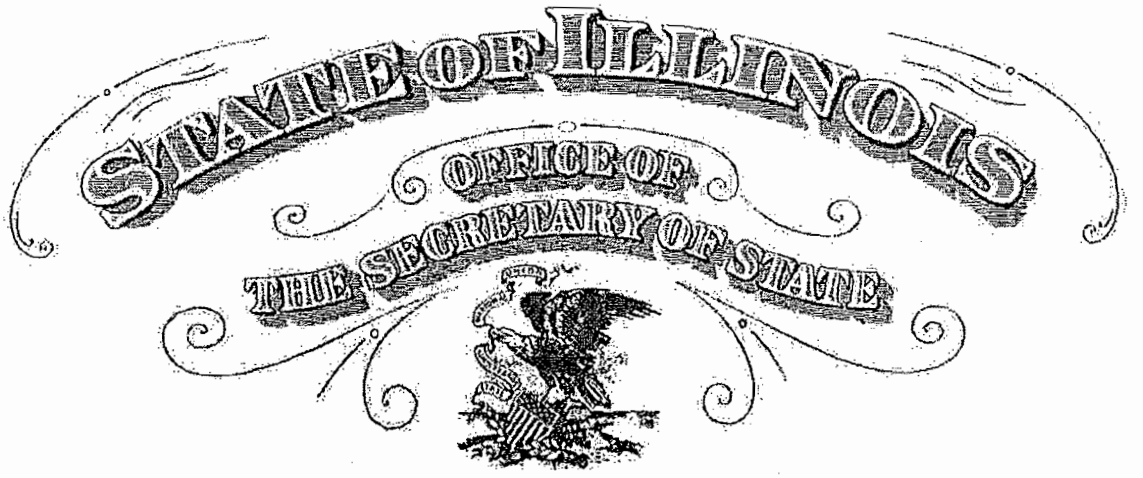
APPEND DOCUMENTATION AS ATTACHMENT-41, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

Section I, Identification, General Information, and Certification
Applicants/Co-Applicant Identification

Certificates of Good Standing for The St. George Corporation and Palos Community Hospital (collectively, "Palos") are attached at Attachment – 1. Palos Community Hospital will be the owner of the Palos Community Hospital South Campus Medical Office Building (the "South Campus MOB"). As the person with final control over Palos Community Hospital, The St. George Corporation is named as an applicant on this certificate of need application.

Attachment - 1

File Number 2564-757-2



To all to whom these Presents Shall Come, Greeting:

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

PALOS COMMUNITY HOSPITAL, A DOMESTIC CORPORATION, INCORPORATED UNDER THE LAWS OF THIS STATE ON MAY 02, 1938, APPEARS TO HAVE COMPLIED WITH ALL THE PROVISIONS OF THE GENERAL NOT FOR PROFIT CORPORATION ACT OF THIS STATE, AND AS OF THIS DATE, IS IN GOOD STANDING AS A DOMESTIC CORPORATION IN THE STATE OF ILLINOIS.

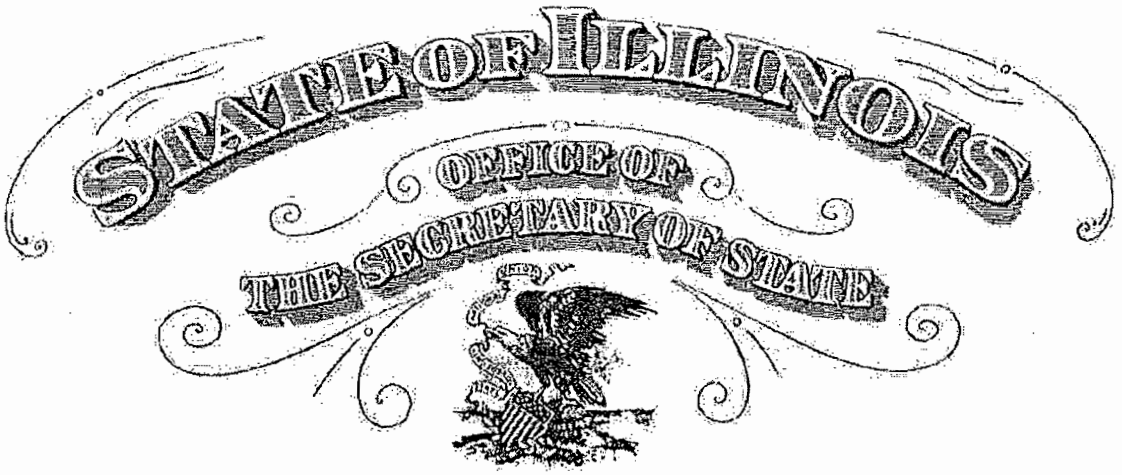
In Testimony Whereof, *I hereto set my hand and cause to be affixed the Great Seal of the State of Illinois, this* 29TH *day of* OCTOBER *A.D.* 2015 .

Jesse White

SECRETARY OF STATE

Authentication #: 1530203002 verifiable until 10/29/2016
Authenticate at: http://www.cyberdriveillinois.com

File Number 6114-192-8



To all to whom these Presents Shall Come, Greeting:

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

THE ST. GEORGE CORPORATION, A DOMESTIC CORPORATION, INCORPORATED UNDER THE LAWS OF THIS STATE ON JULY 10, 2000, APPEARS TO HAVE COMPLIED WITH ALL THE PROVISIONS OF THE GENERAL NOT FOR PROFIT CORPORATION ACT OF THIS STATE, AND AS OF THIS DATE, IS IN GOOD STANDING AS A DOMESTIC CORPORATION IN THE STATE OF ILLINOIS.

Authentication #: 1530203016 verifiable until 10/29/2016
Authenticate at: http://www.cyberdrivelllinois.com

In Testimony Whereof, *I hereto set my hand and cause to be affixed the Great Seal of the State of Illinois, this* 29TH *day of* OCTOBER *A.D.* 2015 .

Jesse White

SECRETARY OF STATE

Attachment - 1

Section I, Identification, General Information, and Certification
Site Owners

Attached at Attachment – 2 is a notarized statement from Palos Community Hospital attesting to ownership of the site of the proposed South Campus MOB.

The legal description for the site parcel covered by this project is as follows:

The Southeast quarter of the Northwest quarter of Section 16, Township 36 North, Range 12 East of the Third Principal Meridian, except a tract of land described as follows: Beginning at the Southwest corner of the Southeast quarter of the Northwest quarter of said Section 16, thence East along the South line of said Southeast quarter a distance of 200 feet; thence North along a line parallel with the West line of said Southeast quarter a distance of 200 feet; thence West along a line parallel with the South line of said Southeast quarter a distance of 200 feet; thence South along the West line of said Southeast quarter a distance of 200 feet to the place of beginning; ALSO excepting that part of the Northwest quarter of said Section 16 described as follows: Beginning at a point of intersection of the West line of the East half of said Northwest quarter of Section 16 and the South right of way line of 153rd Street, according to document no. 87255318 recorded May 12, 1987; thence Easterly along the South line of said 153rd Street having an Illinois East Zone Grid bearing of North 88 degrees 01 minute 35 seconds East, a distance of 868.00 feet; thence South 01 degree 46 minutes 14 seconds East, 10.00 feet to a point on a line 60.00 feet South of, measured perpendicular to and parallel with the North line of the South half of said Northwest quarter; thence South 88 degrees 01 minute 35 seconds West, 595.25 feet along said parallel line; thence South 01 degree 46 minutes 14 seconds East, 5.00 feet to a point 65.00 feet South of, measured perpendicular to and parallel with said North line; thence South 88 degrees 01 minute 35 seconds West, 272.75 feet along said parallel line to a point on said West line of the East half of the Northwest quarter; thence North 01 degree 46 minutes 14 seconds West, 15.00 feet along said West line to the point of beginning, in Cook County, Illinois.

Palos Community Hospital

12251 S. 80th Avenue Palos Heights, Illinois 60463 (708) 923-4000

Executive Offices

December 15, 2015

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

Dear Chair Olson:

I hereby attest that the property included in the Palos Community Hospital South Campus Expansion project, is controlled and owned by Palos Community Hospital.

The property description is as follows:
The Southeast quarter of the Northwest quarter of Section 16, Township 36 North, Range 12 East of the Third Principal Meridian, except a tract of land described as follows: Beginning at the Southwest corner of the Southeast quarter of the Northwest quarter of said Section 16, thence East along the South line of said Southeast quarter a distance of 200 feet; thence North along a line parallel with the West line of said Southeast quarter a distance of 200 feet; thence West along a line parallel with the South line of said Southeast quarter a distance of 200 feet; thence South along the West line of said Southeast quarter a distance of 200 feet to the place of beginning; ALSO excepting that part of the Northwest quarter of said Section 16 described as follows: Beginning at a point of intersection of the West line of the East half of said Northwest quarter of Section 16 and the South right of way line of 153rd Street, according to document no. 87255318 recorded May 12, 1987; thence Easterly along the South line of said 153rd Street having an Illinois East Zone Grid bearing of North 88 degrees 01 minute 35 seconds East, a distance of 868.00 feet; thence South 01 degree 46 minutes 14 seconds East, 10.00 feet to a point on a line 60.00 feet South of, measured perpendicular to and parallel with the North line of the South half of said Northwest quarter; thence South 88 degrees 01 minute 35 seconds West, 595.25 feet along said parallel line; thence South 01 degree 46 minutes 14 seconds East, 5.00 feet to a point 65.00 feet South of, measured perpendicular to and parallel with said North line; thence South 88 degrees 01 minute 35 seconds West, 272.75 feet along said parallel line to a point on said West line of the East half of the Northwest quarter; thence North 01 degree 46 minutes 14 seconds West, 15.00 feet along said West line to the point of beginning, in Cook County, Illinois.

Sincerely,

Terrence Moisan, M.D.
President
Palos Community Hospital

Subscribed and sworn to me
This 21ST day of DECEMBER, 2015

Notary Public

"OFFICIAL SEAL"
BARBARA J. MEDLEY
NOTARY PUBLIC, STATE OF ILLINOIS
MY COMMISSION EXPIRES 12/29/2017

Attachment - 2

Section I, Identification, General Information, and Certification
Operating Entity/Licensee

The certificate of good standing for Palos Community Hospital is attached hereto at Attachment – 3.

File Number 2564-757-2

To all to whom these Presents Shall Come, Greeting:

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

PALOS COMMUNITY HOSPITAL, A DOMESTIC CORPORATION, INCORPORATED UNDER THE LAWS OF THIS STATE ON MAY 02, 1938, APPEARS TO HAVE COMPLIED WITH ALL THE PROVISIONS OF THE GENERAL NOT FOR PROFIT CORPORATION ACT OF THIS STATE, AND AS OF THIS DATE, IS IN GOOD STANDING AS A DOMESTIC CORPORATION IN THE STATE OF ILLINOIS.

In Testimony Whereof, *I hereto set my hand and cause to be affixed the Great Seal of the State of Illinois, this* 29TH *day of* OCTOBER *A.D.* 2015 .

Authentication #: 1530203002 verifiable until 10/29/2016
Authenticate at: http://www.cyberdriveillinois.com

Jesse White

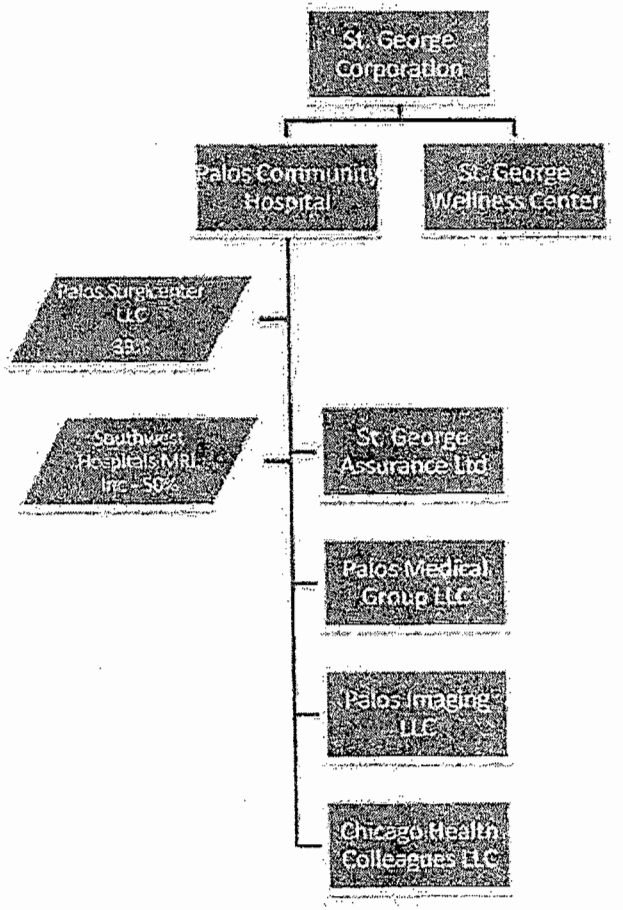
SECRETARY OF STATE

Section I, Identification, General Information, and Certification
Organizational Relationships

The organizational chart for Palos Community Hospital is attached at Attachment – 4.

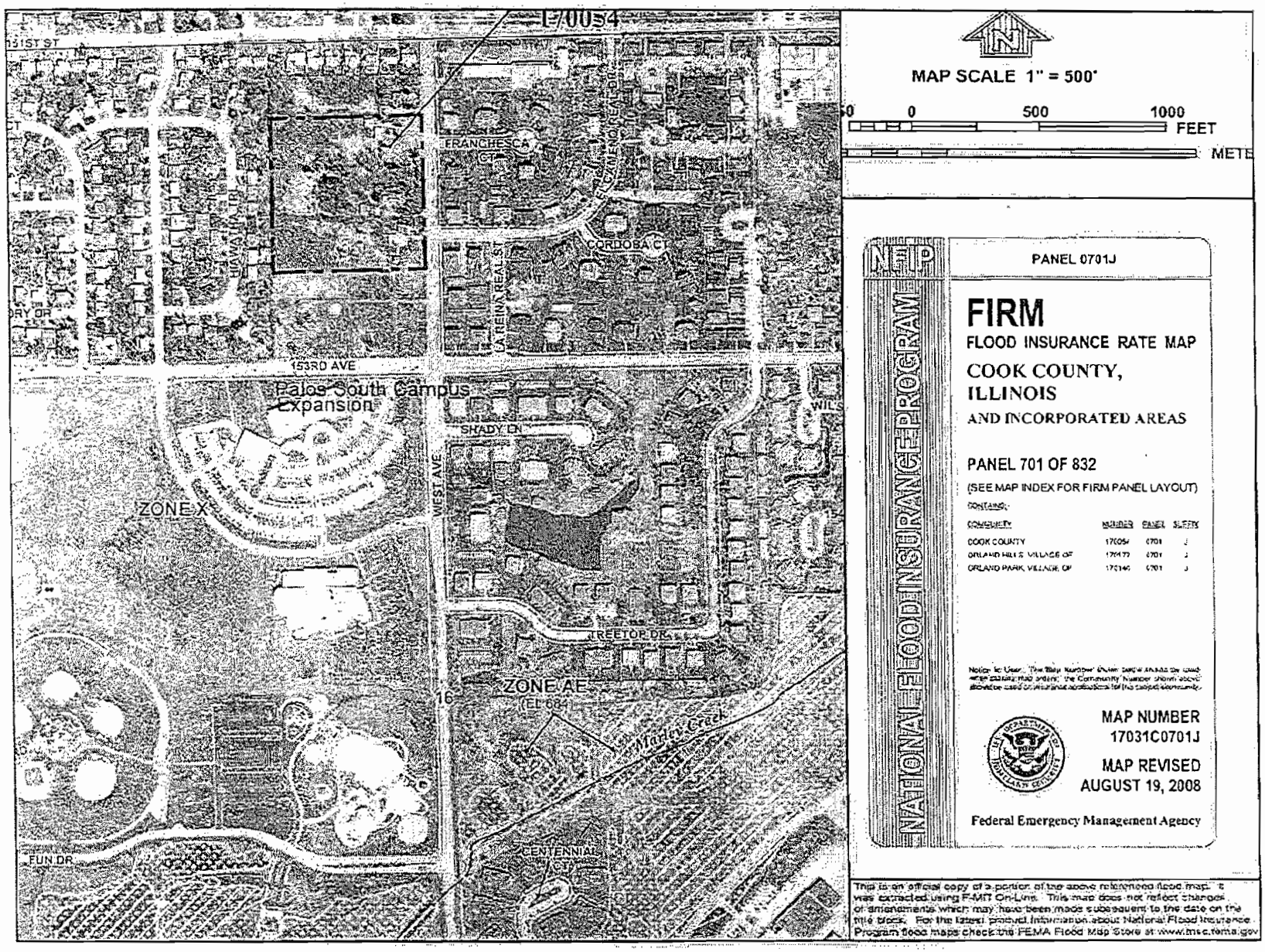
Attachment - 4

St. George Corporation Organization Chart



Section I, Identification, General Information, and Certification
Flood Plain Map

The site of the proposed South Campus MOB complies with the requirements of Illinois Executive Order #2005-5. As shown on the FEMA flood plain map attached at Attachment -- 5, the site of the proposed South Campus MOB is located outside of a flood plain.


L/0054
151ST ST
FRANCHESCA CT
CORDOBA CT
LA REINA REAL ST
153RD AVE
Palos South Campus Expansion
SHADY LN
WEST AVE
ZONE X
TREETOP DR
ZONE AE
(EL 684)
Marley Creek
CENTENNIAL CT
FUN DR
MAP SCALE 1" = 500'
0 0 500 1000
FEET
METE
NFIP
NATIONAL FLOOD INSURANCE PROGRAM
PANEL 0701J
FIRM
FLOOD INSURANCE RATE MAP
COOK COUNTY, ILLINOIS
AND INCORPORATED AREAS
PANEL 701 OF 832
(SEE MAP INDEX FOR FIRM PANEL LAYOUT)
CONTAINS:
COMMUNITY NUMBER PANEL SUFFIX
COOK COUNTY 170054 0701 J
ORLAND HILLS, VILLAGE OF 170172 0701 J
ORLAND PARK, VILLAGE OF 170140 0701 J
MAP NUMBER
17031C0701J
MAP REVISED
AUGUST 19, 2008
Federal Emergency Management Agency
This is an official copy of a portion of the above referenced flood map. It was extracted using F-MIT On-Line. This map does not reflect changes or amendments which may have been made subsequent to the date on the title block. For the latest product information about National Flood Insurance Program flood maps check the FEMA Flood Map Store at www.msc.fema.gov

Section I, Identification, General Information, and Certification
Historic Resources Preservation Act Requirements

The Applicants submitted a request for determination that the site of the proposed South Campus MOB is compliant with the Historic Resources Preservation Act from the Illinois Historic Preservation Agency. A copy of the letter is attached at Attachment – 6.

Attachment - 6

POLSINELLI

161 N. Clark Street, Suite 4200, Chicago, IL 60601-3316 • 312.819.1900

December 23, 2015

Anne M. Cooper
(312) 873-3606
(312) 276-4317 Direct Fax
acooper@polsinelli.com

Via Federal Express

Rachel Liebowitz, Ph.D.
Deputy State Historic Preservation Officer
Preservation Services Division
Illinois Historic Preservation Agency
1 Old State Capitol Plaza
Springfield, Illinois 62701

Re: Historic Preservation Act Determination – Palos Community Hospital

Dear Ms. Liebowitz:

This office represents Palos Community Hospital ("Requestor"). Pursuant to Section 4 of the Illinois State Agency Historic Resources Preservation Act, Requestor seeks a formal determination from the Illinois Historic Preservation Agency as to whether Requestor's proposed project to establish a medical building located in Orland Park ("Proposed Project"), affects historic resources.

1. Project Description and Address

The Requestor is seeking a certificate of need from the Illinois Health Facilities and Services Review Board to establish a medical office building in Orland Park. The legal description of the site of the proposed medical office building is attached at Attachment 1. The Proposed Project will involve the construction of a new building.

Topographical or Metropolitan Map

A metropolitan map showing the location of the Proposed Project is attached at Attachment 2.

POLSINELLI

2. Historic Architectural Resources Geographic Information System

A map from the Historic Architectural Resources Geographic Information System is attached at Attachment 3. The property is not listed on the (i) National Register, (ii) within a local historic district, or (iii) within a local landmark.

3. Photographs of Standing Buildings/Structure

Photograph of the site of the proposed facility is attached at Attachment 4.

4. Addresses for Buildings/Structures

The Proposed Project legal description is attached at Attachment 1.

Thank you for your time and consideration of our request for Historic Preservation Determination. If you have any questions or need any additional information, please feel free to contact me at 312-873-3606 or acooper@polsinelli.com

Sincerely,

Anne M. Cooper

Attachments

ATTACHMENT 1

LEGAL DESCRIPTION

The Southeast quarter of the Northwest quarter of Section 16, Township 36 North, Range 12 East of the Third Principal Meridian, except a tract of land described as follows: Beginning at the Southwest corner of the Southeast quarter of the Northwest quarter of said Section 16, thence East along the South line of said Southeast quarter a distance of 200 feet; thence North along a line parallel with the West line of said Southeast quarter a distance of 200 feet; thence West along a line parallel with the South line of said Southeast quarter a distance of 200 feet; thence South along the West line of said Southeast quarter a distance of 200 feet to the place of beginning; ALSO excepting that part of the Northwest quarter of said Section 16 described as follows: Beginning at a point of intersection of the West line of the East half of said Northwest quarter of Section 16 and the South right of way line of 153rd Street, according to document no. 87255318 recorded May 12, 1987; thence Easterly along the South line of said 153rd Street having an Illinois East Zone Grid bearing of North 88 degrees 01 minute 35 seconds East, a distance of 868.00 feet; thence South 01 degree 46 minutes 14 seconds East, 10.00 feet to a point on a line 60.00 feet South of, measured perpendicular to and parallel with the North line of the South half of said Northwest quarter; thence South 88 degrees 01 minute 35 seconds West, 595.25 feet along said parallel line; thence South 01 degree 46 minutes 14 seconds East, 5.00 feet to a point 65.00 feet South of, measured perpendicular to and parallel with said North line; thence South 88 degrees 01 minute 35 seconds West, 272.75 feet along said parallel line to a point on said West line of the East half of the Northwest quarter; thence North 01 degree 46 minutes 14 seconds West, 15.00 feet along said West line to the point of beginning, in Cook County, Illinois.

ATTACHMENT 2

Google Maps

Hiawatha Trail
First 1 airport & suburbs taxi
Hickory Dr
Bell Young Park
153rd St
W 153rd St
153rd St
La Reina Real St
W 15
West Ave
Primary Care Pharmacy
Southwest Dermatology
Shady Ln
Oral & Maxillofacial Surgery of Chicago
Treetop Park
Grinding Edge Skate Park
West Ave
Palos Health & Fitness Center
Treetop Dr
Treetop Dr
Centennial Ball Field 1
Centennial Ball Field 4
West Ave
Centennial Park Aquatic Center
Google
Fun Dr
Fun Dr
Fun Dr
Map data ©2015 Google
200 ft

ATTACHMENT 3

Attachment - 6

ATTACHMENT 4

Attachment - 6

Attachment - 6

Attachment - 6

Section I, Identification, General Information, and Certification
Project Costs and Sources of Funds

Table 1120.110			
Project Cost	Clinical	Non-Clinical	Total
Preplanning Costs		$197,394	$197,394
Site Survey and Soil Investigation			
Site Survey & Investigation		$75,000	$75,000
Geo Tech – Soil Borings Follow Up		$25,000	$25,000
Arborist		$3,500	$3,500
Total Site Survey and Soil Investigation		$103,500	$103,500
Site Preparation			
Site Work		$6,087,763	$6,087,763
Site Signage		$154,500	$154,500
Landscape		$1,236,000	$1,236,000
Total Site Preparation		$7,478,263	$7,478,263
Off Site Work			
Roadway & Signaling Improvement		$721,000	$721,000
Electric, Gas, Sewer, Water Upgrades		$515,000	$515,000
Total Off Site Work		$1,236,000	$1,236,000
New Construction Contracts			
MOB		$36,726,600	$36,726,600
Garage		$17,144,144	$17,144,144
New Entry, Canopy & Connectors		$9,710,583	$9,710,583
MEP Upgrades		$7,621,901	$7,621,901
Total New Construction Contracts		$71,230,228	$71,230,228
Modernization Contracts			
Building Facade Modifications		$4,423,864	$4,423,864
Interior Renovations for Connections		$1,699,500	$1,699,500
Total Modernization Contracts		$6,123,364	$6,123,364
Contingencies			
New Construction (10%)		$7,120,323	$7,120,323
Modernization (15%)		$918,505	$918,505
Total Contingencies		$8,038,828	$8,038,828
Architectural/Engineering Fees		$6,000,000	$6,000,000
Consulting and Other Fees			
Materials Testing		$320,000	$320,000
3rd Party Reviews & Commissioning		$200,000	$200,000
CON Consultants		$75,000	$75,000

Table 1120.110			
Project Cost	**Clinical**	**Non-Clinical**	**Total**
Marketing		$50,000	$50,000
Permits Plan Review Fees		$145,000	$145,000
Legal/Consultants Fees		$100,000	$100,000
Total Consulting and Other Fees		$890,000	$890,000
Moveable and Other Equipment			
MOB Medical Equipment		$24,029,900	$24,029,900
MOB FFE		$2,457,453	$2,457,453
Interior Signage		$168,000	$168,000
Art		$100,000	$100,000
Low Voltage, Computers, Servers, IT, Security		$4,843,080	$4,843,080
Total Moveable and Other Equipment		$31,598,433	$31,598,433
All other Capital Costs			
Activation Expenses		$125,000	$125,000
Builder's Risk		$208,781	$208,781
Total All other Capital Costs		$333,781	$333,781
Total Project Costs		**$133,202,791**	**$133,202,791**

Section I, Identification, General Information, and Certification
Current Projects

Palos Community Hospital Current Projects			
Project Number	**Name**	**Project Type**	**Completion Date**
08-075	Palos Community Hospital	Expansion of clinical and non-clinical services	March 31, 2018

Attachment - 8

Section I, Identification, General Information, and Certification
Cost Space Requirements

		Gross Square Feet		Amount of Total Gross Sq Ft That Is:			
Dept/Area	Cost	Existing	Proposed	New Const.	Modernization	As Is	Vacated Space
CLINICAL							
Total Clinical							
NON-CLINICAL							
Physician offices, exam, treatment	$25,318,635		48,675	48,675			
Reception/ Registration	$571,350		1,402	1,402			
Storage, supplies, equip	$1,261,085		3,824	3,824			
Patient lockers, toilet	$727,650		2,110	2,110			
Staff lockers, lounges	$914,160		2,804	2,804			
Public toilet	$465,450		1,280	1,280			
MEP, Facilities, housekeeping	$7,621,901		9,940	9,940			
Communications, IT, electric	$500,980		1,080	1,080			
Entry, circulation, waiting	$6,967,290		16,432	16,432			
Parking	$17,144,144		125,000	125,000			
Building Connectors	$9,710,583		16,000	16,000			
Connector Renovations	$1,699,500	6,000			6,000		
Building Facade Renovations	$4,423,864	41,550			41,550		
Total Non-clinical	$77,326,592	47,550	228,547	228,547	47,550		
TOTAL SPACE (dgsf)	$77,326,592	47,550	228,547	228,547	47,550		
Building gross			20,213	20,213			
TOTAL SPACE (bgsf)	$77,326,592	47,550	248,760	248,760	47,550		
OTHER COSTS							
Preplanning Costs	$197,394						
Site Survey and Soil Investigation	$103,500						
Site Preparation	$7,478,263						
Off Site Work	$1,236,000						

Attachment - 9

		Gross Square Feet		Amount of Total Gross Sq Ft That Is:			
Dept/Area	Cost	Existing	Proposed	New Const.	Modernization	As Is	Vacated Space
Contingencies	$8,038,828						
A&E Fees	$6,000,000						
Consulting and Other Fees	$890,000						
Moveable or Other Equipment	$31,598,433						
Other Costs to be Capitalized	$333,781						
TOTAL OTHER COSTS	$55,876,199						
Grand Total	$133,202,791						

Notes: Total space includes 123,760 bgsf of MOB space, 125,000 bgsf of new parking structure,

Building Connectors line item includes a new main lobby and new circulation and building connectors on multiple levels. Connector Renovations includes area that requires modification to accept new building connectors on multiple levels. Program will not be modified through this work.

Building facade renovations includes the area of the building that will be required to be accessed as part of upgrading the building envelope. Program will not be modified through this work.

MEP Facilities and housekeeping includes area for a new central plant that will service the existing facility as well as the new ACC.

Section III, Background, Purpose of the Project, and Alternatives
Criterion 1110.230, Background

The Applicants are fit, willing and able, and have the qualifications, background and character to adequately provide a proper standard of health care services for the community. This project is for the establishment of a medical office building to be located on Palos Community Hospital's South Campus in Orland Park, Illinois. The South Campus MOB is the culmination of focused planning, in response to the continued health care needs of a growing population and changes in the health care delivery system, to provide improved access to quality, coordinated, efficient and cost effective services for the residents of the Southwest Suburban community of metropolitan Chicago.

Improving Access to Tertiary Care

With the passage of the Patient Protection and Affordable Care Act ("ACA") in 2010, the health care delivery system is in the midst of a paradigm shift with the transition to value based reimbursement, consumerism, high deductibles and payer controlled referrals. Recognizing the challenges presented by this fundamental change in health care delivery, Palos Community Hospital and Loyola University Medical Center entered into an innovative affiliation in 2015. With a focus on coordinated and collaborative patient care, the affiliation presents a new way to build a network of care that doesn't involve mergers, acquisitions or consolidations, a trend in today's evolving health care landscape. The affiliation allows both organizations to respond to the challenges of health care reform, share research and expand training and educational opportunities. By providing complementary services, both systems will avoid unnecessary and costly duplication of services in the future. Patients will also benefit from both providers working from the same electronic medical record platform to improve quality and outcomes and ensure seamless collaboration. It gives patients greater access to Loyola's renowned specialty care services, such as neurosciences and oncology, while ensuring continued access to Palos' primary care network.

The goal of this affiliation is not to get bigger, it is to get better. It is creating a network of care that provides the right service for the patient at the right location at the right time. It places collaboration above ego by taking the best of what Palos offers and the best of what Loyola offers to create an innovative network serving patients in the southwest suburbs.

Already, programs are in place to achieve these goals. In November of 2015, Palos and Loyola launched a telestroke program that brings the expertise of Loyola stroke specialists to the patient's bedside at Palos Community Hospital. In December, Loyola opened a new cancer treatment center at the Palos South Campus in Orland Park. The stroke and cancer programs are among several initial patient-care initiatives allowing patients to receive specialized care from a leading academic center closer to home

Community Benefit

Palos' mission is one of compassionate care, which is founded in the rich tradition of the Sisters of the Religious Hospitallers of St. Joseph. As part of its mission, Palos consistently and compassionately provides high-quality health care services to all members of its communities without regard for the ability to pay. Palos offers financial assistance for individuals with limited means to obtain low-cost or reduced-fee medical care.

Further, Palos provides resources to Medicare recipients and individuals requiring financial assistance. Palos serves as a Senior Health Insurance Program (SHIP) site. This is a **free** statewide health insurance counseling service for Medicare beneficiaries and their caregivers. The hospital provides office space and other resources to support volunteers offering community members information and resources to apply for Medicare and Medicare coverage. Additionally, Palos provides financial assistance to people with limited means. Uninsured or underinsured individuals may be eligible for discounts on the cost of care. Financial counselors are available to help patients determine terms befitting of their financial situation, as well as to provide patients with information regarding local, state and federal assistance programs

Within the service area, Palos Community Hospital serves as a resource for health education and wellness initiatives for residents. Palos continues to monitor the health care needs of its service area to insure health care needs are met and to evaluate opportunities to develop new programs and services as necessary. Palos works with and in support of other not-for-profit, educational, governmental, civic and community organizations, as appropriate, to promote health and wellness through awareness, education, research, access and support. Demonstrating Palos' commitment to disease prevention and wellness, more than 150 community education programs were held with approximately 3,000 participants each year.

Of particular note, the development of behavioral health services at the South Campus provides a unique opportunity for Palos to collaborate with other community resources in addressing the growing concerns in dealing with mental illness and alcohol/drug addictions. Palos had been engaged in planning efforts with the community and court system to develop and provide services which would provide treatment options to reduce recidivism and improve the potential recovery for non-violent offenders.

In addition to the provision of Medicare certified licensed home care services, Palos assists the homebound and elderly in the community with two special programs, Home Delivered Meals and Lifeline personal response system. Home Delivered Meals are prepared at Palos and delivered through a dedicated corps of hospital volunteers to people in the service area who are homebound, live alone and unable to prepare their own meals. This program provides both nutritional and social support to the recipients. Lifeline is a personal response service for at risk elderly or disabled which enhances their independence and quality of life through 24 hour coverage for assistance at the touch of a button. Palos works collaboratively with agencies in the community such as PLOWS Council on Aging to plan and respond to needs of the elderly. These programs as well as others, such as the Transitional Employment for high school students with developmental needs, reflect Palos' commitment to provide needed services to improve the lives and strengthen the communities it serves.

1. A list of all health care facilities owned or operated by the Applicants in Illinois, including licensing and certification information is attached at Attachment – 11A.

2. No corporate officers or directors of Palos Community Hospital or The Saint George Corporation own or operate any health care facilities in Illinois. Accordingly, this criterion is not applicable.

3. Neither the Centers for Medicare and Medicaid Services nor the Illinois Department of Public Health ("IDPH") has taken any adverse action involving civil monetary penalties or restriction or termination of participation in the Medicare or Medicaid programs against any of the applicants, or against any Illinois health care facilities owned or operated by

the Applicants, directly or indirectly, within three years preceding the filing of this application.

4. Attached at Attachment – 11B is a certification that no corporate officers or directors of Palos Community Hospital or The Saint George Corporation:

    a. have been cited, arrested, taken into custody, charged with, indicted, convicted or tried for, or pled guilty to:

        i. the commission of any felony or misdemeanor or violation of law, except for minor parking violations; or

        ii. has been the subject of any juvenile delinquency or youthful offender proceeding;

    b. has been charged with fraudulent conduct or any act involving moral turpitude;

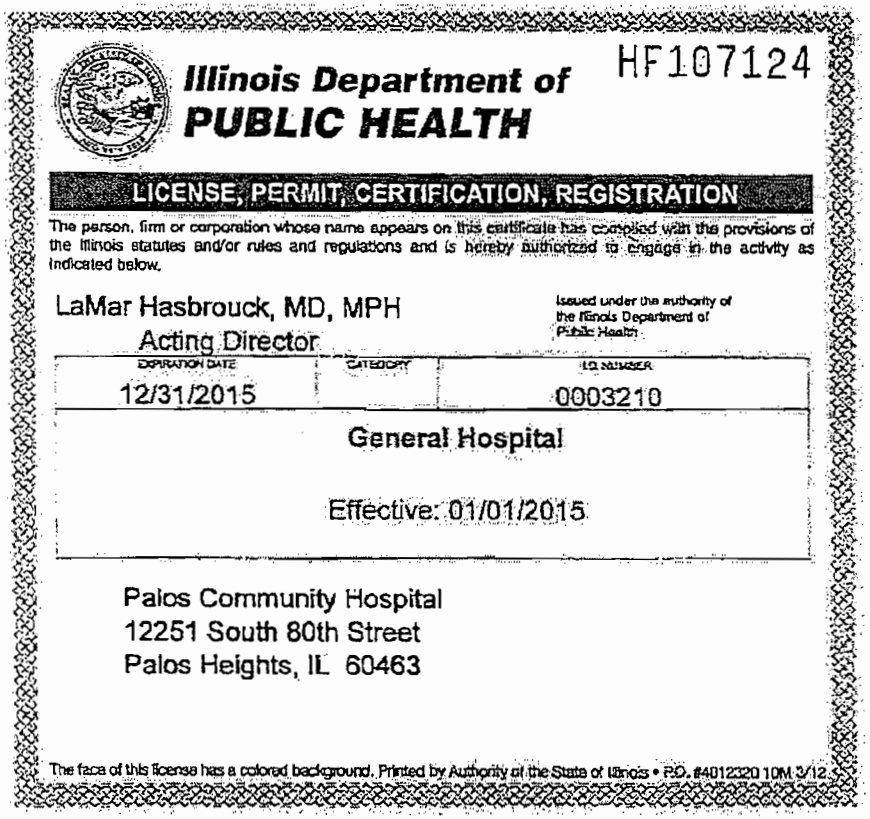
    c. has any unsatisfied judgments against him or her; or

    d. is in default in the performance or discharge of any duty or obligation imposed by a judgment decree, order or directive of any court or governmental agency.

5. An authorization permitting the State Board and IDPH access to any documents necessary to verify information submitted, including, but not limited to: official records of IDPH or other State agencies and the records of nationally recognized accreditation organizations is attached at Attachment – 11B.

6. The Applicant has not previously submitted an application for permit during this calendar year. Accordingly, this criterion is not applicable.

Palos Community Hospital Illinois Facility List						
Name	Address	City	County	State	Zip Code	License No.
Palos Community Hospital	12251 South 80th Street	Palos Heights	Cook	Illinois	60463	0003210
Palos Community Hospital Hospice	15295 East 127th Street	Lemont	Cook	Illinois	60439	2001888
Palos Community Hospital Home Health Care	15295 East 127th Street	Lemont	Cook	Illinois	60439	3000370
Palos Community Hospital Home Health Care	15295 East 127th Street	Lemont	Cook	Illinois	60439	1008069



Illinois Department of PUBLIC HEALTH

HF107124

LICENSE, PERMIT, CERTIFICATION, REGISTRATION

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

LaMar Hasbrouck, MD, MPH
Acting Director

Issued under the authority of the Illinois Department of Public Health

EXPIRATION DATE	CATEGORY	LIC NUMBER
12/31/2015		0003210

General Hospital

Effective: 01/01/2015

Palos Community Hospital
12251 South 80th Street
Palos Heights, IL 60463

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

← DISPLAY THIS PART IN A CONSPICUOUS PLACE

Exp. Date 12/31/2015

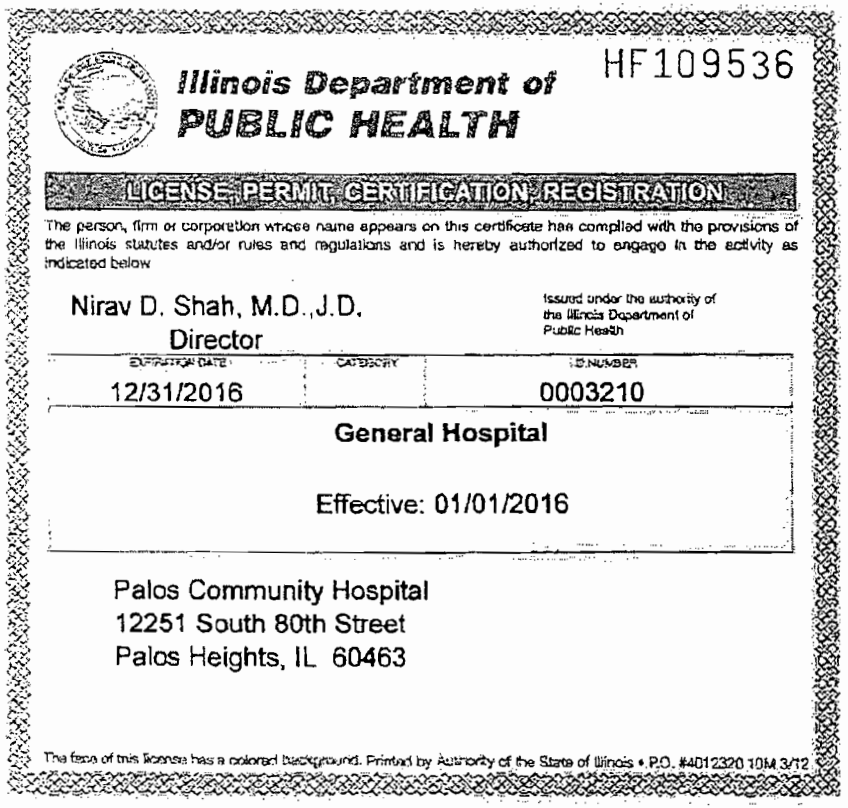
Lic Number 0003210

Date Printed 11/25/2014

Palos Community Hospital

12251 South 80th Street
Palos Heights, IL 60463

FEE RECEIPT NO.



Illinois Department of PUBLIC HEALTH

HF109536

LICENSE, PERMIT, CERTIFICATION, REGISTRATION

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

Nirav D. Shah, M.D., J.D.
Director

Issued under the authority of the Illinois Department of Public Health

EXPIRATION DATE	CATEGORY	ID NUMBER
12/31/2016		0003210

General Hospital

Effective: 01/01/2016

Palos Community Hospital
12251 South 80th Street
Palos Heights, IL 60463

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DISPLAY THIS PART IN A CONSPICUOUS PLACE

Exp. Date 12/31/2016

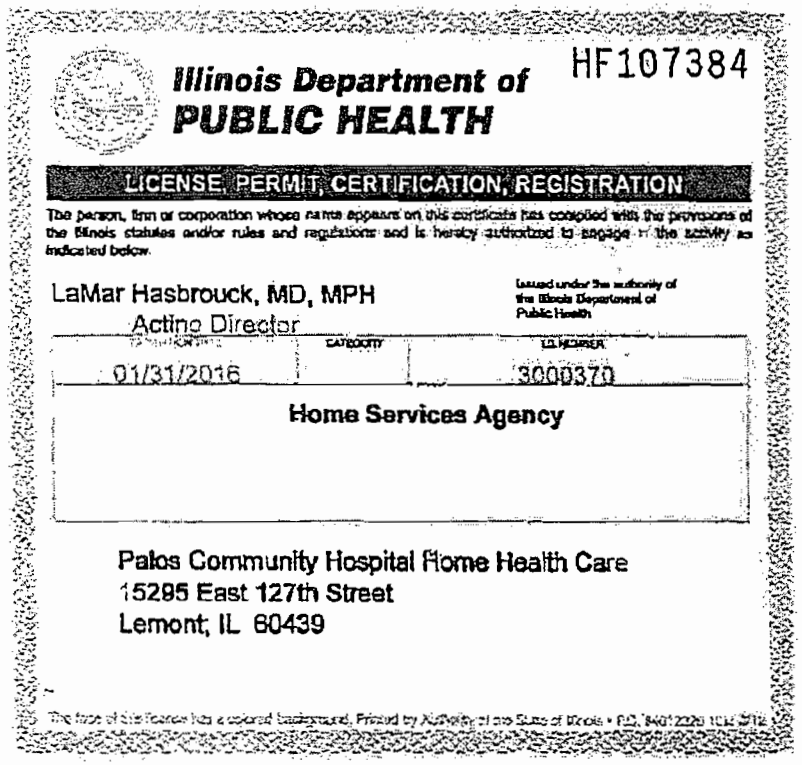
Lic Number 0003210

Date Printed 10/28/2015

Palos Community Hospital

12251 South 80th Street
Palos Heights, IL 60463

FEE RECEIPT NO.



Illinois Department of PUBLIC HEALTH

HF107384

LICENSE, PERMIT, CERTIFICATION, REGISTRATION

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

LaMar Hasbrouck, MD, MPH
Acting Director

Issued under the authority of the Illinois Department of Public Health

EXPIRATION DATE	CATEGORY	I.D. NUMBER
01/31/2016		3000370

Home Services Agency

Palos Community Hospital Home Health Care
15295 East 127th Street
Lemont, IL 60439

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DISPLAY THIS PART IN A CONSPICUOUS PLACE

Exp. Date 01/31/2016

Lic Number 3000370

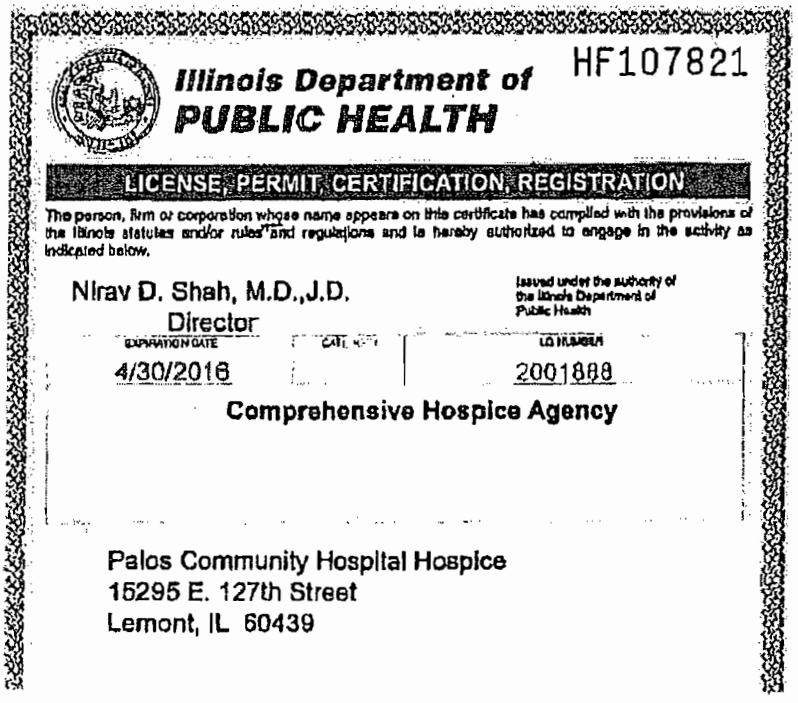
Date Printed 01/07/2015

Palos Community Hospital Home Healt

15295 East 127th Street
Lemont, IL 60439

FEE RECEIPT NO.

Attachment - 11A



Illinois Department of
PUBLIC HEALTH

HF107821

LICENSE, PERMIT, CERTIFICATION, REGISTRATION

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

Nirav D. Shah, M.D.,J.D.
Director

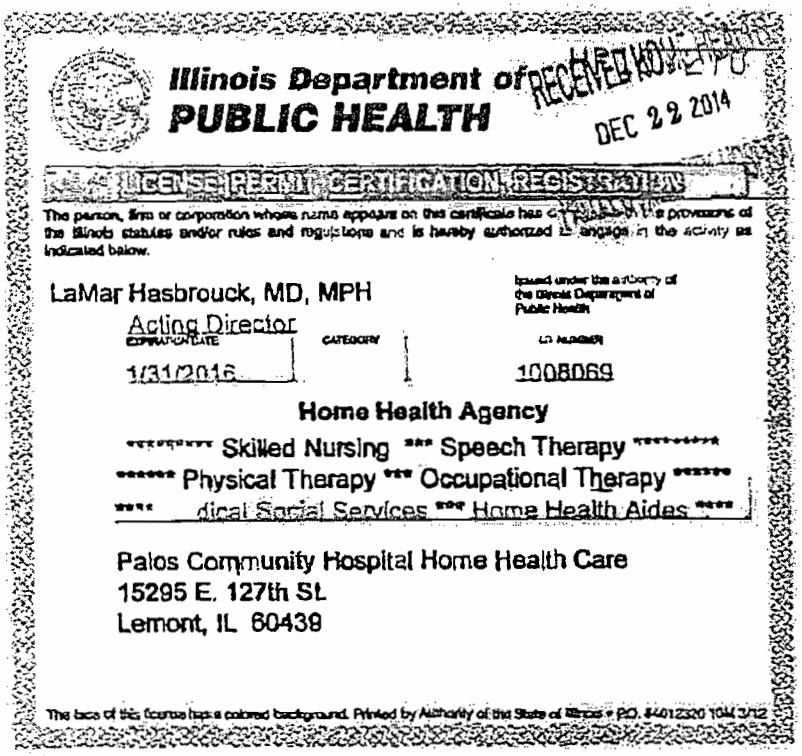
Issued under the authority of the Illinois Department of Public Health

EXPIRATION DATE: 4/30/2016

LO NUMBER: 2001888

Comprehensive Hospice Agency

Palos Community Hospital Hospice
15295 E. 127th Street
Lemont, IL 60439



Illinois Department of PUBLIC HEALTH

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DEC 22 2014

LICENSE, PERMIT, CERTIFICATION, REGISTRATION

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

LaMar Hasbrouck, MD, MPH
Acting Director

Issued under the authority of the Illinois Department of Public Health

EXPIRATION DATE: 1/31/2016
CATEGORY:
LIC NUMBER: 1008069

Home Health Agency

******** Skilled Nursing *** Speech Therapy ********
****** Physical Therapy *** Occupational Therapy ******
**** dical Social Services *** Home Health Aides ****

Palos Community Hospital Home Health Care
15295 E. 127th St.
Lemont, IL 60439

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DISPLAY THIS PART IN A CONSPICUOUS PLACE

Exp. Date 01/31/2016

Lic Number 1008069

Date Printed 12/18/2014

Palos Community Hospital Home Healt

15295 E. 127th St.
Lemont, IL 60439

FEE RECEIPT NO.

St. George Corporation

12251 S. 80th Avenue
Palos Heights, IL 60463
708.923.5000

December 14, 2015

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

Dear Chair Olson:

I hereby certify under penalty of perjury as provided in § 1-109 of the Illinois Code of Civil Procedure, 735 IL S 5/1-109 that no adverse action has been taken against any facility owned or operated by Palos Community Hospital during the three years prior to filing this application.

Neither The St. George Corporation nor any officer or director of The St. George Corporation:

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

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

Sincerely,

Terrence Moisan, M.D.
President
The St. George Corporation

Subscribed and sworn to me
This 21ST day of DECEMBER, 2015

Barbara J. Medley
Notary Public

"OFFICIAL SEAL"
BARBARA J. MEDLEY
NOTARY PUBLIC, STATE OF ILLINOIS
COMMISSION EXPIRES 12/29/2017

Palos Community Hospital

12251 S. 80th Avenue Palos Heights, Illinois 60463 (708) 923-4000

Executive Offices

December 14, 2015

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

Dear Chair Olson:

I hereby certify under penalty of perjury as provided in § 1-109 of the Illinois Code of Civil Procedure, 735 IL S 5/1-109 that no adverse action has been taken against any facility owned or operated by Palos Community Hospital during the three years prior to filing this application.

Neither Palos Community Hospital nor any officer or director of Palos Community Hospital:

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

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

Sincerely,

Terrence Moisan, M.D.
President
Palos Community Hospital

Subscribed and sworn to me
This 21ST day of DECEMBER 2015

Notary Public

"OFFICIAL SEAL"
BARBARA J. MEDLEY
NOTARY PUBLIC, STATE OF ILLINOIS
MY COMMISSION EXPIRES 12/29/2017

Section III, Background, Purpose of the Project, and Alternatives
Criterion 1110.230(a), Purpose of the Project

1. The Applicants proposed establishment of the South Campus MOB to expand the existing Orland Park campus is the culmination of focused planning, in response to the continued health care needs of a growing and aging population and changes in the health care delivery system. It is anticipated to provide improved access to quality, coordinated, efficient and cost effective services for the residents of the Southwest Suburban communities of metropolitan Chicago.

   Palos Community Hospital has been the primary health care provider for the Orland Park community for more than 40 years. The hospital, which is approximately six miles from the South Campus, was originally constructed as a 265 bed hospital. Over the years, it has grown to a licensed capacity of 425 beds. Palos Community Hospital is recognized as one of the top hospitals in the area through the delivery of quality inpatient and outpatient medical services, behavioral health programs, home health services and a wide range of community education and preventative services. With a medical staff of more than 500 physicians in a broad range of specialties, Palos has developed outstanding clinical programs in cardiovascular services, orthopaedics, primary care and behavioral health delivered in safe modern facilities with advanced technology.

   Increasing Population Growth in the Palos Service Area

   Anticipating the growing demand for outpatient care and in response to population growth, Palos was among the first hospitals in the area to expand to satellite facilities. Through the construction of the first primary care center satellite facility on the South Campus in 1985, along with subsequent expansions in 1988 and 1999, Palos responded to this growth with quality diagnostic and treatment services for both medical and behavioral health issues while assuring the presence of a primary care and specialist physician complement. Today, the South Campus houses the Immediate Care Center, outpatient lab and imaging services, outpatient behavioral health services including partial hospitalization and chemical dependency programs, pharmacy, infusion and cancer treatment services, and more than 70 physician and dentist offices.

   Population growth in Planning Area A-04, along with the corresponding need for medical services has been steady and is projected to continue. Historically, the population in Palos' service area, which consists of 25 communities located within Planning Area A-04 as well as parts of Cook and Will Counties, has increased 25% since 1990, from 498,185 residents in 1990 to 625,010 residents in 2015.

   This growth is projected to remain strong for the next ten years with the most rapid growth expected in those residential markets which are less mature – areas like Frankfort, New Lenox, Mokena, Lockport and Homer Glen. In the Applicant's key markets 10 year growth projections exceed 12%.

   In addition to population increases, this population of the market served by Palos Community Hospital is aging. The percentage of residents in the Palos service area in the 60+ age cohort is higher than the State average, and in ten years, 28% of the area's population will be over 60 years old. Given the aging population and the disease states associated with aging (e.g., cancer, cardiovascular conditions and degenerative

musculoskeletal disorders), the need and reliance on outpatient services and physicians will increase.

According to the Health Care Advisory Board Outpatient Estimator for Palos' service area, there is an anticipated projected ten year growth rate in the following outpatient service lines:

- Cardiology 15%,
- Dermatology 36%
- Endocrinology 29%
- Evaluation and Management 15%
- Gastroenterology 14%
- General Surgery 19%
- Neurology 7%
- Neurosurgery 41%
- Oncology 46%
- Ophthalmology 22%
- Orthopedics 12%
- Physical Therapy 41%
- Podiatry 30%
- Pulmonology 44%
- Spine 33%
- Thoracic Surgery 54%
- Trauma 18%
- Urology 35%
- Vascular 17%

Further, the number of annual outpatient visits in Planning Area A-04 is expected to grow by 700,000 to 5.7 million by 2018.

Palos is the principal health care provider for patients originating from within its service area. Palos' application to build the South Campus MOB is a direct response to the changing healthcare environment in which more care will be delivered in an ambulatory setting.

Shift in Health Care Delivery

In order to be responsive to the shift to value based reimbursement, consumer driven health care, high deductibles and payer controlled referrals, hospitals continue to move health care services from traditional inpatient settings to ambulatory care even as provider based ambulatory care is experiencing reduced reimbursement. Furthermore, demographic imperatives are forcing a redesign of the health care system. With advances in medicine, people are living longer and the management of associated chronic conditions, multiple comorbidities and difficulties with activities of daily living will continue to place increasing demands on health care systems. Managing chronic illness and care transitions from acute to post-acute settings has become a critical imperative requiring more resources, new approaches to care delivery and a greater focus on wellness and prevention.

Loyola Affiliation

The South Campus MOB also allows Palos and Loyola to more fully develop their affiliation. Loyola has projected the placement of 25 FTE physicians in multiple specialties all with demonstrated market need to be located on the South Campus. Palos continues to grow its primary care and specialist physician complement as well. This mix of academic and community based physicians will allow patients to receive high quality coordinated care from two highly regarded health care systems at a lower cost to patients and payers through integration that will reduce duplicative treatments and testing.

Beyond the programmatic aspects of the project, the South Campus MOB will include all elements of an infrastructure intended to improve patient access, wayfinding, energy efficient operations and flexibility for adaptation to new and evolving delivery models. This will include a new parking structure, roadways and facility updates..

2. A map of the planning area for the proposed South Campus MOB is attached at Attachment – 12. The planning area closely approximates Palos Community Hospital's services area, which is centered in Orland Park.

3. As discussed more fully above, the passage of the ACA and the shift to value based reimbursement, consumerism, high deductible health insurance plans and payer controlled referrals along with the aging of the baby boomers are fundamentally changing the delivery of health care in the United States. In order to be responsive to these changes, hospitals must transition health care services from traditional inpatient settings to ambulatory care settings to better manage patient populations and to focus more on wellness and prevention.

4. The South Campus MOB is a response to the fundamental change in health care delivery brought about by demands placed on reimbursement systems by the ACA and the care demands of the aging of baby boomer population. The Palos' affiliation with Loyola focuses on coordinated and collaborative patient care, allowing both organizations to respond to the challenges of health care reform, share research and expand training and educational opportunities. By providing complementary services, both systems will avoid unnecessary and costly duplication of services in the future. Patients will also benefit from both providers working from the same electronic medical record platform to improve quality and outcomes and ensure seamless collaboration. It gives patients greater access to Loyola's renowned specialty care services, such as neurosciences and oncology, while ensuring continued access to Palos' primary care network.

Palos Service Area

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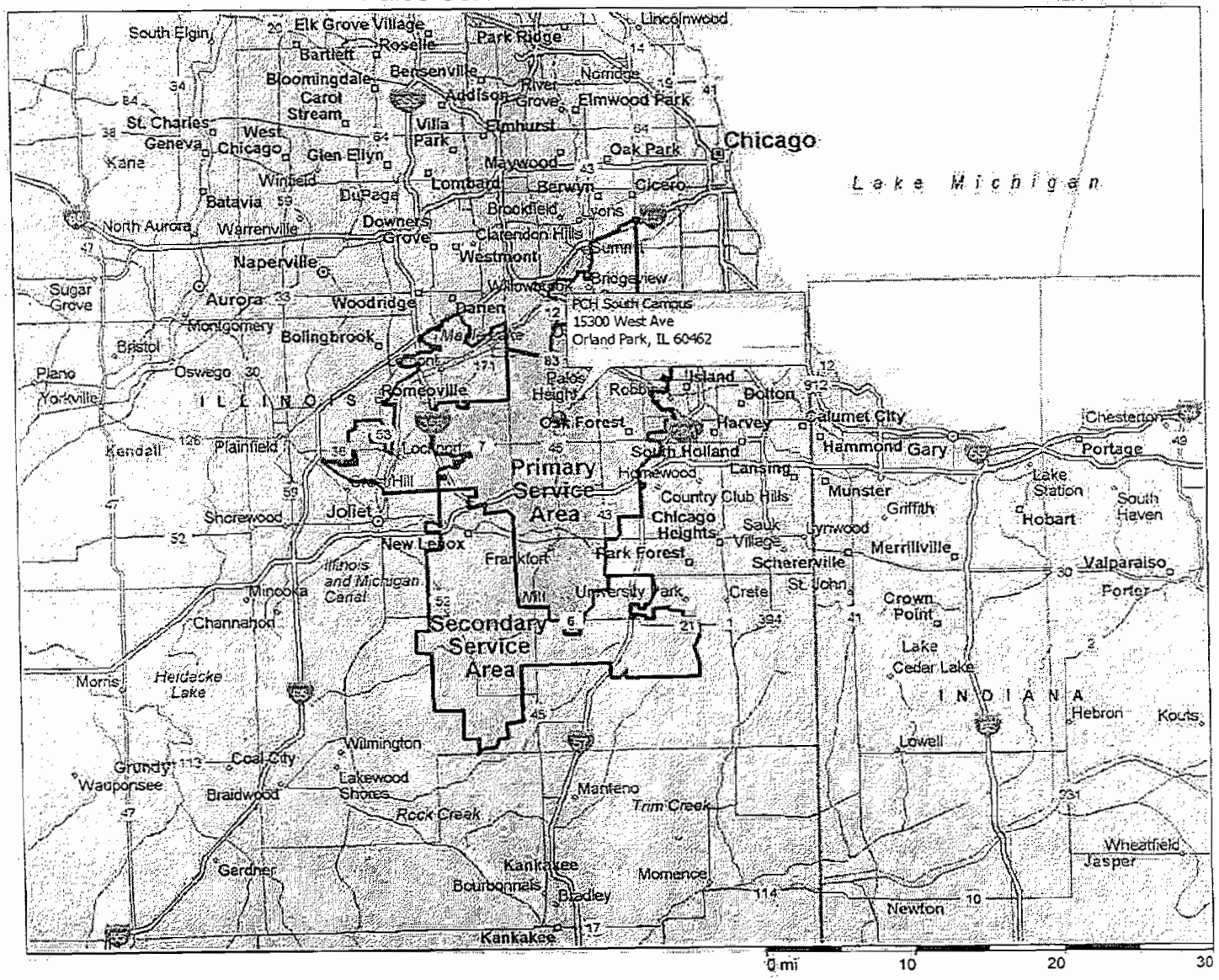
Custom territories
Primary Service Area
Secondary Service Ar...



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Section III, Background, Purpose of the Project, and Alternatives
Criterion 1110.230(c), Alternatives

Alternatives

The Applicants explored three options prior to determining to establish the South Campus MOB. The options considered are as follows:

- Locate the medical office building on the Palos main campus;
- Locate the medical office building elsewhere in the geographic service area; and
- Establish the South Campus MOB.

After exploring these options, which are discussed in more detail below, the Applicants decided to establish the proposed South Campus MOB. A review of each of the options considered and the reasons they were rejected follows.

Establish Medical Office Building on the Palos Main Campus

The Applicants considered constructing a medical office building on Palos' main campus in Palos Heights. A primary purpose of the South Campus MOB is to respond to evolving health care needs of a growing population and changes in the health care delivery system, to provide improved access to quality, coordinated, efficient and cost effective services to the residents of the Southwest Suburban community of metropolitan Chicago.

Although Palos' main campus is located in Palos Heights, its geographic service area is centered in Orland Park. Developing services on the South Campus allows for the expansion of facilities to more fully expand Palos' affiliation with Loyola through the development of physician office space and radiation therapy services. Loyola has projected the placement of 25 FTE physicians in multiple specialties all with demonstrated market need to be located on the South Campus. Palos continues to grow its primary care and specialist physician complement as well. This mix of academic and community based physicians will allow patients to receive high quality coordinated care from two highly regarded health care systems at a lower cost to patients and payers through integration that will reduce duplicative treatments and testing.

Establish the Medical Office Building Elsewhere in the Geographic Service Area

Recognizing the growing demand for outpatient care and in response to population growth, Palos was among the first hospitals in the area to expand to satellite facilities. In 1985, Palos established its primary care center satellite facility on the South Campus. Subsequent expansions in 1988 and 1999, expanded the services offered on the South Campus to include quality diagnostic treatment services for both medical and behavioral issues while assuring the presence of an excellent primary care and specialist physician complement. Today, the South Campus houses the Immediate Care Center, outpatient lab and imaging services, outpatient behavioral health services, including partial hospitalization and chemical dependency programs, pharmacy, infusion and cancer treatment services, and more than 70 physician and dentist offices. The proposed South Campus MOB will complement the existing services already provided on the South Campus by adding a women's health clinic, cardiac diagnostic services, health and wellness, radiation therapy, and additional clinic space for physicians.

Establishing a medical office building elsewhere in the geographic service area will result in unnecessary and costly duplication of services. It is counter to the goals of the affiliation to provide the right service for the patient at the right location at the right time. Loyola projects the placement of 25 FTE physicians in multiple specialties all with demonstrated market need to be located on the South Campus. Palos continues to grow its primary care and specialist physician complement as well. The mix of academic and community based physicians will allow patients to receive high quality coordinated care from two highly regarded health care systems at a lower cost to patients and payers through integration that will reduce duplicative treatments and testing. It gives patients greater access to Loyola's renowned specialty care services, such as neurosciences and oncology, while ensuring continued access to Palos' primary care network.

Establishing a medical office building elsewhere in the geographic service area would result in unnecessary and costly duplication of services and is contrary to the goals of the Palos-Loyola affiliation. Accordingly, this alternative was rejected.

Establish the South Campus MOB

As previously noted, Palos recognized the growing demand for outpatient services and was one of the first hospitals in the area to expand to satellite facilities. In 1985, Palos established its primary care center satellite facility on the South Campus. Subsequent expansions in 1988 and 1999, expanded the services offered on the South Campus to include quality diagnostic treatment services for both medical and behavioral issues while assuring the presence of an excellent primary care and specialist physician complement. Today, the South Campus houses the Immediate Care Center, outpatient lab and imaging services, outpatient behavioral health services including partial hospitalization and chemical dependency programs, pharmacy, infusion and cancer treatment services, and more than 70 physician and dentist offices. The proposed South Campus MOB will complement the existing services already provided on the South Campus by adding a women's health clinic, cardiac diagnostic services, health and wellness, radiation therapy, and additional clinic space for physicians.

The South Campus MOB will allow for the expansion of facilities to more fully develop the Palos-Loyola affiliation through the development of physician office space and radiation therapy services. Loyola has projected the placement of 25 FTE physicians in multiple specialties all with demonstrated market need to be located on the South Campus. Palos continues to grow its primary care and specialist physician complement as well. This mix of academic and community based physicians will allow patients to receive high quality coordinated care from two highly regarded health care systems at a lower cost to patients and payers through integration that will reduce duplicative treatments and testing.

To better serve the evolving health care needs of the residents of the Southwest Suburban community of metropolitan Chicago, the Applicants decided to establish the proposed South Campus MOB. The estimated cost of this alternative is $133,202,791.

Section IV, Project Scope, Utilization, and Unfinished/Shell Space
Criterion 1110.234(a), Size of the Project

This criterion is applicable only to projects or portions of projects that involve one or more hospital clinical departments. This project will not create any new hospital clinical service areas, and all health care services offered will be provided in the physician office setting and billed as physician related ancillary services. These physician services will include radiation therapy. None of these services will be provider-based or billed as hospital services and are therefore categorized as non-clinical areas. Accordingly, this criterion is not applicable.

Section IV, Project Scope, Utilization, and Unfinished/Shell Space
Criterion 1110.234(b), Project Services Utilization

This criterion is applicable only to projects or portions of projects that involve services, functions or equipment for which the State Board has established utilization standards or occupancy targets in 77 Ill. Adm. Code 1100. This project includes no categories of service for which the State Board has established utilization or occupancy targets.

Section IV, Project Scope, Utilization, and Unfinished/Shell Space
Criterion 1110.234(d), Unfinished Shell Space

This project will not include unfinished space designed to meet an anticipated future demand for hospital services. Accordingly, this criterion is not applicable.

Section IV, Project Scope, Utilization, and Unfinished/Shell Space
Criterion 1110.234(e), Assurances

This project will not include unfinished space designed to meet an anticipated future demand for hospital services. Accordingly, this criterion is not applicable.

Section VIII, Financial Feasibility
Criterion 1120.120 Availability of Funds

The project will be funded entirely with cash and cash equivalents. A copy Palos Community Hospital's 2014 audited financial statements evidencing sufficient internal resources to fund the project is attached at Attachment – 36.

Attachment - 36

Palos Community Hospital

Financial Report
December 31, 2014

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McGladrey

Independent Auditor's Report

To the Board of Directors
Palos Community Hospital
Palos Heights, Illinois

Report on the Financial Statements

We have audited the accompanying financial statements of Palos Community Hospital which comprise the balance sheets as of December 31, 2014 and 2013, and the related statements of operations, changes in net assets and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Palos Community Hospital as of December 31, 2014 and 2013, and the results of its operations, its changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

McGladrey LLP

Chicago, Illinois
May 19, 2015

Member of the RSM international network of independent accounting, tax and consulting firms

Palos Community Hospital

Balance Sheets
December 31, 2014 and 2013
(Dollars in Thousands)

	2014	2013
Assets		
Current Assets		
Cash and cash equivalents	$ 11,617	$ 18,039
Investments	21,691	15,304
Patient accounts receivable, net of allowance for doubtful accounts of $12,134 in 2014 and $14,738 in 2013	43,691	34,578
Inventories	2,336	1,833
Collateral received for securities loaned	65	33,500
Assets limited as to use - internally designated for self-insurance	2,000	2,000
Due from affiliated organizations	4,649	2,445
Other current assets	4,205	3,990
Total current assets	90,053	109,690
Investments and Assets Limited as to Use		
Investments internally designated for capital purposes	294,155	282,855
Investments internally designated for self-insurance, net of amounts required to meet current obligations	41,246	38,983
Total assets limited as to use	335,401	321,838
Property and Equipment		
Land and land improvements	14,314	14,277
Buildings	396,832	394,128
Equipment	180,921	196,915
Construction in progress	66,160	30,469
	658,227	635,789
Less accumulated depreciation	(217,854)	(247,563)
Property and equipment, net	440,373	388,226
Other Assets, net	9,859	10,783
Total assets	$ 875,786	$ 930,547
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	$ 21,993	$ 19,096
Accrued liabilities and other	40,608	38,222
Obligations for collateral received for securities loaned	65	33,500
Due to third-party payors	40,906	35,207
Current portion of professional liability	2,000	2,000
Total current liabilities	105,570	128,025
Professional Liability, less current portion	33,668	35,195
Other Long-Term Liabilities	4,292	5,788
Long-Term Debt, less current portion	374,051	338,351
Total liabilities	517,581	507,359
Commitments and Contingencies (Note 12)		
Net Assets		
Unrestricted net assets	358,093	323,068
Temporarily restricted net assets	112	120
Total net assets	358,205	323,188
Total liabilities and net assets	$ 875,786	$ 830,547

See Notes to Financial Statements.

Palos Community Hospital

Statements of Operations
Years Ended December 31, 2014 and 2013
(Dollars in Thousands)

	2014	2013
Revenue:		
Patient service revenue	$ 343,946	$ 319,991
Provision for uncollectible accounts	(13,250)	(16,921)
Net patient service revenue	330,696	303,070
Medicaid assessment program revenue	10,258	12,217
Total net patient service revenue	340,954	315,287
Investment income	28,638	25,564
Other revenue	6,156	6,131
Meaningful use incentive revenue	2,570	3,485
Total revenue	378,318	350,467
Expenses:		
Salaries and employee benefits	199,460	211,805
Supplies and other	85,440	77,470
Physicians' fees	2,435	2,265
Interest and financing costs	13,766	12,095
Depreciation and amortization	22,220	21,013
Insurance	1,467	1,404
Utilities	3,869	3,841
Medicaid assessment program expense	11,300	13,192
Total expenses	339,957	342,885
Operating income	38,361	7,582
Nonoperating income:		
Unrestricted contributions	803	682
Excess of revenue over expenses	39,164	8,264
Other changes in unrestricted net assets:		
Net asset transfer from affiliate	8,222	-
Net changes in unrealized gains and losses on investments	(12,361)	23,636
Increase in unrestricted net assets	$ 35,025	$ 31,900

See Notes to Financial Statements.

Palos Community Hospital

Statements of Changes in Net Assets
Years Ended December 31, 2014 and 2013
(Dollars in Thousands)

	2014	2013
Unrestricted net assets:		
Excess of revenue over expenses	$ 39,184	$ 8,264
Net asset transfer from affiliate	8,222	-
Net changes in unrealized gains and losses on investments	(12,381)	23,636
Increase in unrestricted net assets	35,025	31,900
Temporarily restricted net assets:		
Contributions	52	54
Net assets released from restriction	(60)	(48)
(Decrease) increase in temporarily restricted net assets	(8)	6
Increase in net assets	35,017	31,906
Net assets:		
Beginning of year	323,188	291,282
End of year	$ 358,205	$ 323,188

See Notes to Financial Statements.

Palos Community Hospital

Statements of Cash Flows
Years Ended December 31, 2014 and 2013
(Dollars in Thousands)

	2014	2013
Cash Flows from Operating Activities		
Increase in net assets	$ 36,017	$ 31,906
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Net asset transfer from affiliate	(8,222)	-
Net changes in unrealized gains and losses on investments	12,361	(23,636)
Realized gain on investments	(22,044)	(19,361)
Loss (gain) on disposal of property and equipment	662	(60)
Change in undistributed income of investment in joint venture	165	189
Depreciation and amortization	22,220	21,013
Provision for uncollectible accounts	13,250	16,921
Change in operating assets and liabilities:		
Receivables	(22,282)	(20,447)
Other assets	(2,542)	(1,091)
Accounts payable	2,218	650
Accrued liabilities and other	556	2,566
Due to third-party payors	5,699	993
Professional liability	(1,527)	(938)
Net cash provided by operating activities	35,541	8,705
Cash Flows from Investing Activities		
Construction and other additions to property and equipment	(74,117)	(51,443)
Cash received from disposal of property and equipment	67	100
Purchase of investments and assets limited as to use	(849,979)	(1,195,917)
Proceeds from sales of investments and assets limited as to use	848,034	1,198,547
Net cash used in investing activities	(75,995)	(48,713)
Cash Flows from Financing Activities		
Proceeds from the issuance of long-term debt	36,032	52,040
Net cash provided by financing activities	36,032	52,040
Net (decrease) increase in cash and cash equivalents	(4,422)	12,032
Cash and cash equivalents:		
Beginning of year	16,039	4,007
End of year	$ 11,617	$ 16,039
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest, net of amounts capitalized	$ 13,780	$ 12,112
Supplemental Schedule of Non Cash Investing and Financing Activities		
Property and equipment additions included in accounts payable and accrued liabilities	$ 14,947	$ 14,268

See Notes to Financial Statements.

Note 1. Nature of Organization and Significant Accounting Policies

Organization and nature of business: Palos Community Hospital (the Hospital) is an Illinois not-for-profit corporation whose sole corporate member is The St. George Corporation (St. George). The Hospital is a licensed 436-bed acute care facility located in Palos Heights, Illinois, providing inpatient, outpatient, and emergency care services primarily to residents of the southwest suburbs of Chicago.

In January 2015, St. George Assurance, Ltd. was incorporated as a Cayman Islands-based captive insurance company that will provide professional and general liability coverage to the Hospital.

Significant accounting policies are as follows:

Accounting policies: The Hospital follows accounting standards established by the Financial Accounting Standards Board (FASB) to ensure consistent reporting of financial condition, results of operations, and cash flows. References to Generally Accepted Accounting Principles (GAAP) in these footnotes are to the *FASB Accounting Standards Codification™*, sometimes referred to as the Codification or ASC.

Use of estimates: The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. The use of estimates and assumptions in the preparation of the accompanying financial statements is primarily related to the determination of the net patient accounts receivable and settlements with third-party payors, the accrual for professional liability, and the valuation of alternative investments. Due to uncertainties inherent in the estimation and assumption process, it is at least reasonably possible that changes in these estimates and assumptions in the near-term would be material to the financial statements.

Basis of presentation: The Hospital may classify its net assets into three categories, which are unrestricted, temporarily restricted and permanently restricted.

Unrestricted net assets are reflective of revenues and expenses associated with the principal operating activities of the Hospital and are not subject to donor-imposed stipulations.

Temporarily restricted net assets are subject to donor-imposed stipulations that may or will be met either by actions of the Hospital and/or the passage of time. When a donor restriction expires, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of operations and changes in net assets as net assets released from restriction.

Permanently restricted net assets are subject to donor-imposed stipulations that they be maintained permanently by the Hospital.

The Hospital had temporarily restricted net assets of $112 and $120 at December 31, 2014 and 2013, respectively, whose use has been restricted to the Hospital's animal-assisted therapy program.

The Hospital had no permanently restricted net assets at December 31, 2014 and 2013.

Donor-restricted gifts: Unconditional promises to give cash and other assets to the Hospital are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. 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 statements of operations and changes in net assets as net assets released from restriction. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying financial statements.

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support and are excluded from the excess of revenue over expenses unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent 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.

Cash and cash equivalents: All investments that are not externally managed with an original maturity of three months or less at the time of acquisition are reflected as cash equivalents.

Throughout the year, the Hospital may have amounts on deposit with financial institutions in excess of those insured by the Federal Deposit Insurance Corporation (FDIC).

Patient accounts receivable, allowance for doubtful accounts and due from/to third party-payors: The collection of receivables from third-party payors and patients is the Hospital's primary source of cash for operations and are critical to its operating performance. The primary collection risks relate to uninsured patient accounts and patient accounts for which the primary insurance payor has paid, but patient responsibility amounts (deductibles and copayments) remain outstanding. Patient receivables, where a third-party payor is responsible for paying the amount, are carried at a net amount determined by the original charge for the service provided, less an estimate made for contractual allowances or discounts provided to third-party payors.

Patient receivables due directly from patients are carried at the original charge for the service provided less amounts covered by third-party payors and less estimated allowances for doubtful accounts and charity care. Management estimates the allowance for doubtful accounts based on the aging of its accounts receivable and its historical collection experience for each payor type. Management estimates the allowance for charity care based on the Hospital's charity care policy and historical charity care experience. Recoveries of accounts receivable previously written off as uncollectible are recorded as a reduction of the provision for uncollectible accounts when received.

The past due status of receivables is determined on a case-by-case basis depending on the payor responsible. Interest is generally not charged on past due accounts.

The Hospital's allowance for uncollectible accounts for self-pay patients was approximately 94 and 90 percent of self-pay accounts receivable at December 31, 2014 and 2013, respectively. The Hospital's self-pay write-offs were $9,615 and $7,993 in 2014 and 2013, respectively. The increase in self-pay write-offs and the allowance for uncollectible accounts are primarily the result of an increase in self pay portions that do not qualify for charity care. While the Hospital has experienced a decrease in self pay accounts, there has been an increase in high copay/deductible plans under the Affordable Care Act that are uncollectible. The Hospital updated its charity care and uninsured discount policies during 2014. The Hospital does not maintain a material allowance for uncollectible accounts from third-party payors, nor did it have significant write-offs from third-party payors.

Receivables or payables related to estimated settlements on various payor contracts, primarily Medicare and Blue Cross, are reported as amounts due from or to third-party payors. Significant changes in payor mix, business office operations, economic conditions or trends in federal and state governmental health care coverage could affect the Hospital's collection of accounts receivable, cash flows and results of operations.

Inventories: Inventories are stated at cost (first-in, first-out method). Inventories consist mainly of supplies and pharmaceuticals.

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Investments and assets limited as to use: Investments in debt and equity securities are recorded at fair value based on quoted market prices for the same or similar investments. Investments classified as assets limited as to use are intended to be used for capital purposes and self-insurance arrangements. All other investments are classified as current assets and are available for current operations. Investment income and realized gains and losses are included in investment income in the accompanying statements of operations. Unrealized gains and losses in the fair value of investments are reflected as increases or decreases in unrestricted net assets in the accompanying statements of operations and changes in net assets unless such unrealized losses are deemed to be an "other-than-temporary decline" in which case the decline is recognized as an investment loss included in investment income in the accompanying statements of operations.

The Hospital assesses whether a decline in an investment value is other-than-temporary on a quarterly basis. The Hospital considers factors affecting the investee, factors affecting the industry the investee operates within, and general debt and equity trends. The Hospital considers the length of time an investment's fair value has been below carrying value, the near-term prospects for recovery to carrying value, and whether it is more likely than not that the Hospital will be required to sell the security before recovery is realized. If and when a determination is made that a decline in fair value below the cost basis is other-than-temporary, the related investment is written down to its estimated fair value and included as a realized loss in excess of revenue over expenses. During 2014 and 2013, the Hospital recorded other-than-temporary declines of $3,517 and $907, respectively, which adjusted the cost basis for those investments. When the investments are sold, the realized gain or loss will be based upon the adjusted cost basis.

Alternative investments are valued using the net asset values reported by the investment funds, which in turn is based on the most recent information available to the fund manager for the underlying investments held by the investment fund. All realized and unrealized gains and losses on the alternative investments are included in investment income.

Assets limited as to use consist of investments and are recorded at fair value based on quoted market prices. Realized investment income is included in excess of revenue over expenses unless the income or loss is restricted by donor or law. The change in unrealized gains and losses in the value of these investments is recognized as a change in net assets.

Assets limited as to use consist of investments set aside by the Board of Directors for future capital replacement and expansion and self-insurance over which the Board of Directors retains control and may, at its discretion, subsequently use for other purposes. Assets limited as to use also include trustee-held investment assets externally restricted under bond agreements or for capital expenditures.

Securities lending: The Hospital participates in a securities lending program with The Northern Trust Company through which the Hospital increases its investment income by lending securities to independent third parties. When the Hospital lends securities, it is subject to a risk of failure by the borrower to return the loaned securities or a delay in delivery of the securities, in which case the Hospital may incur a loss. To alleviate the risk, such loans are continuously secured by collateral consisting of cash, cash equivalents, or U.S. Treasury bonds, in an amount equal to approximately 102 percent of the market value of the securities loaned. At December 31, 2014 and 2013, approximately $83 and $32,830, respectively, of the Hospital's securities reported on the balance sheets were on loan which were secured by cash collateral of $85 and $33,500 at December 31, 2014 and 2013, respectively, which is reported on the balance sheets as collateral received for securities loaned. The securities on loan were secured by total collateral with a market value of approximately $85 and $33,557 at December 31, 2014 and 2013, respectively.

The Hospital had capped its participation in the securities lending program at $32,823. Due to fluctuations in the market this cap was exceeded temporarily at December 31, 2013. At December 31, 2014, the Hospital was in the process of exiting the securities lending program.

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Joint venture: The Hospital has a joint venture arrangement with the Southwest Hospitals MRI, Inc. which includes a 50 percent interest in the entity. This investment is accounted for on the equity basis and is included in other assets in the accompanying balance sheets.

Property and equipment: Property and equipment are recorded at cost and depreciated using the straight-line method. The estimated useful lives of depreciable property and equipment range from 10 to 20 years for land improvements, 6 to 60 years for buildings, building components and improvements, and 3 to 25 years for equipment. At December 31, 2014 and 2013, property and equipment includes capitalized asset retirement obligations with a cost of $1,933 and accumulated depreciation of $1,883 and $1,871, respectively.

Following completion of the new Hospitaller Pavilion in March 2013, the Hospital has started construction to transform existing patient rooms from semi-private to private rooms as well as to expand emergency, cardiology, radiology, nuclear medicine and support services.

Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. The Hospital capitalized interest of $360 and $1,720 in 2014 and 2013, respectively.

During 2014, the Hospital engaged an outside third party to perform an inventory of fixed assets. The inventory identified $50,400 of fixed asset disposals which carried a net book value of $525.

Deferred financing costs: Deferred financing costs are amortized using the effective interest method over the period which the related debt is expected to be outstanding and are included in other assets in the accompanying balance sheets.

Accrued professional liability: The provision for accrued professional liability includes estimates of the ultimate costs of claims incurred but not reported and is actuarially determined.

Net patient service revenue: The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different than its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, per diem payments, and per procedure payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and are adjusted in future periods, as final settlements are determined.

Medicare and Medicaid Electronic Health Records (EHR) Incentive Programs: The American Recovery and Reinvestment Act of 2009 provides for Medicare and Medicaid Incentive Programs beginning in Federal fiscal year 2011 for eligible acute care hospitals that are meaningful users of certified EHR technology, as defined by the Federal Register. The Hospital has implemented certified EHR technology that has enabled it to demonstrate its meaningful use and to qualify for the Medicare incentive program. The initial incentive payment received for the Medicare EHR incentive program is an estimate based upon data from prior year's cost report. The final settlement will be determined after the submission of the current annual cost report and subsequent audit by the fiscal intermediary. The Hospital's compliance with the meaningful use criteria is also subject to audit by the Federal government. The EHR Incentive Programs are expected to continue through September 30, 2017, and the incentive payments will be calculated annually. The Hospital accounts for EHR incentive funds using the contingency model. Under this model, the Hospital records EHR incentive revenue when the Hospital has actually complied with the meaningful use criteria during the entire EHR reporting period.

The Hospital has recorded $2,570 and $3,485 of Medicare EHR incentive revenue for the years ended December 31, 2014 and 2013, respectively, in the accompanying statements of operations. As of December 31, 2014, the Hospital has not applied for Medicaid EHR incentives.

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Uncompensated care and community service: The Hospital provides care to all patients regardless of their ability to pay. Uncompensated care and community service provided by the Hospital are excluded from net patient service revenue.

Operating income: The statements of operations include operating income. Changes in unrestricted net assets that are excluded from operating income include unrestricted contributions and other income which management views as outside of normal activity.

Excess of revenue over expenses: The statements of operations and changes in net assets include excess of revenue over expenses that represents the results of operations. Changes in unrestricted net assets that are excluded from excess of revenue over expenses, consistent with industry practice, include the change in net unrealized gains and losses on investments not designated as trading securities.

Income taxes: The Hospital has received a determination letter from the Internal Revenue Service stating that it is exempt from the payment of income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, income taxes are not provided for in the accompanying financial statements.

The Hospital adopted the FASB-issued guidance for accounting for uncertainty in income taxes on January 1, 2007. The Hospital files a Form 990 (Return of Organization Exempt from Income Tax) annually. When this return is filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would ultimately be sustained. Examples of tax positions common to health systems include such matters as the following: the tax exempt status of each entity, the continued tax exempt status of bonds issued by the obligated group, the nature, characterization and taxability of joint venture income and various positions relative to potential sources of unrelated business taxable income (UBTI). UBTI is reported on Form 990T, as appropriate. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes that it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any.

Tax positions are not offset or aggregated with other positions. Tax positions that meet the "more-likely-than-not" recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely to be realized on settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying balance sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Upon the adoption of the FASB-issued guidance at January 1, 2007, and since that date through December 31, 2013, there were no unrecognized tax benefits identified and recorded as a liability.

Forms 990 and 990T filed by the Hospital are subject to examination by the Internal Revenue Service (IRS) up to three years from the extended due date of each return. Forms 990 and 990T filed by the Hospital are no longer subject to examination for the years 2010 and prior.

Recent accounting pronouncements: In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. Early adoption is not permitted. The updated standard will be effective for the Hospital's December 31, 2017 financial statements. The Hospital has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on the financial statements.

Subsequent events: The Hospital has evaluated subsequent events for potential recognition and/or disclosure through May 19, 2015, the date the financial statements were issued.

Note 2. Asset Retirement Obligations

In accordance with FASB-issued guidance for asset retirement costs, the Hospital records all known asset retirement obligations for which the liability's fair value can be reasonably estimated, including certain asbestos removal and a storage tank. At December 31, 2014 and 2013, the Hospital had remaining asset retirement obligations of $4,292 and $5,788, respectively, which are recorded as other long-term liabilities in the balance sheets. The liability was estimated using an inflation rate of 4 percent and a discount rate of 4 percent.

Note 3. Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for reimbursement at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the Hospital's billings at list price and the amounts reimbursed by Medicare, Medicaid, Blue Cross, and certain other third-party payors; and any differences between estimated third-party reimbursement settlements for prior years and subsequent final settlements. Contractual adjustments under third-party reimbursement programs are accrued on an estimated basis in the period the related services are rendered and are adjusted in future periods as final settlements are determined. A summary of the basis of reimbursement with major third-party payors follows:

Medicare: The Hospital is paid for inpatient acute care and outpatient care services rendered to Medicare program beneficiaries under prospectively determined rates per discharge (Prospective Payment Systems). These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. The Hospital's classification of patients under Prospective Payment Systems and the appropriateness of the patient's admissions are subject to validation reviews. The Hospital is reimbursed for cost reimbursable items, such as Medicare patient bad debts, at tentative rates with final settlement determined after submission of annual reimbursement reports by the Hospital and audits by the Medicare fiscal intermediary.

Medicaid: The Hospital is reimbursed at prospectively determined rates for each Medicaid inpatient discharge. Outpatient services are reimbursed based on established fee screens. For inpatient acute care services, payment rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. The prospectively determined rates are not subject to retroactive adjustment. Medicaid reimbursement may be subject to periodic adjustment, as well as to changes in existing payment levels and rates, based on the amount of funding available to the Medicaid program.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The Hospital believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. Net patient service revenue was decreased in 2014 and 2013 by the impact of third-party settlements and changes in allowance estimates in the amounts of $(1,237) and $(1,934), respectively.

Note 3. Net Patient Service Revenue (Continued)

Medicaid Hospital Tax Assessment Program: The Hospital participates in the State of Illinois hospital tax assessment program which is administered by the Illinois Department of Public Aid. The provider assessment program payments are in effect for the state fiscal years ending each June 30. The laws and regulations authorizing this program have been extended through June 30, 2018. In October 2013, the Hospital was notified that under the Enhanced Hospital Assessment program, the Hospital would receive additional annual revenue of $3,383 and pay an additional annual provider tax assessment of $3,393. These additional enhanced payments are retroactive to June 10, 2012. For the years ended December 31, 2014 and 2013, the Hospital has recorded $10,258 and $12,217, respectively, in assessment revenue and $11,300 and $13,192, respectively, in assessment expense (Medicaid tax). Of the 2013 amounts, $1,868 of revenue and $1,892 of expense relate to the period from June 10, 2012 through December 31, 2012. At December 31, 2014 and 2013, there were no advanced provider tax payments received or prepaid assessment tax payments made.

Blue Cross: Substantially all of the Hospital's reimbursement from Blue Cross is derived from three managed care contracts, which reimburse the Hospital based on a combination of discounts from established charges and prospectively determined rates. The Hospital also participates as a provider of health care services under a cost-based reimbursement agreement with Blue Cross.

Managed care organizations: The Hospital has also entered into reimbursement agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment under these agreements includes discounts from established charges and prospectively determined per diem, per case and per procedure rates.

Note 4. Concentration of Credit Risk

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of net receivables from patients and third-party payors, before consideration of the allowance for doubtful accounts, at December 31, 2014 and 2013, was as follows:

	2014	2013
Blue Cross managed care	17 %	17 %
Managed care, other than Blue Cross	16	15
Self-pay	21	28
Medicare	24	23
Commercial insurance	13	12
Medicaid	9	5
	100 %	100 %

Note 4. Concentration of Credit Risk (Continued)

The mix of the Hospital's patient service revenue, before provision for uncollectible accounts, from patients and third-party payors in 2014 and 2013, was as follows:

	2014	2013
Blue Cross managed care	31 %	33 %
Managed care, other than Blue Cross	15	15
Self-pay	1	3
Medicare	48	46
Commercial insurance	2	1
Medicaid	3	2
	100 %	100 %

Note 5. Community Commitment and Charity Care

In the ordinary course of business, the Hospital renders services to patients who are financially unable to pay for medical care. The Hospital provides care to these patients who meet certain criteria under its charity care policy without charge or at amounts less than the established rates. Charity care eligibility is established based on limited or no insurance coverage, income compared to published poverty levels and family size, as well as other factors. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The Hospital maintains records to identify and monitor the level of charity care it provides. Charity care is measured based on the Hospital's estimated direct and indirect costs of providing charity care services. That estimate is made by calculating a ratio of cost to gross charges, applied to the uncompensated charges associated with providing charity care to patients. The estimated cost of charity care provided during 2014 and 2013, was approximately $5,472 and $7,044, respectively.

Note 6. Investments and Assets Limited as to Use

The composition of investments and assets limited as to use (including amounts classified as current assets) at December 31, 2014 and 2013, consists of the following:

	2014	2013
U.S. Government and agency securities	$ 61,196	$ 63,724
Equities	225,398	207,587
Corporate bonds	46,786	40,919
Collateralized mortgage obligations	13,911	10,798
Cash and cash equivalents	5,259	9,535
Accrued interest and other	790	717
Alternative investments	5,652	5,882
	$ 358,992	$ 339,142

Note 6. Investments and Assets Limited as to Use (Continued)

Investment income for 2014 and 2013 consists of the following:

	2014	2013
Interest and other investment income	$ 6,464	$ 6,271
Realized gain, net (including other-than-temporary investment loss of $3,617 in 2014 and $907 in 2013)	22,044	19,381
Income (loss) on alternative investments	140	(88)
	$ 28,636	$ 25,564
Net changes in unrealized gains and losses on investments	$ (12,361)	$ 23,636

The Hospital has invested in certain alternative investments which are structured as commingled funds and are included in investments and assets limited as to use in the balance sheets. Audited information is only available annually based on each fund's year-end. These investments are valued using the net asset values reported by the investment funds, which in turn are based on the most recent information available to the fund manager for the underlying securities which have readily determinable market values.

The following table summarizes the nature and risk of the alternative investments by major category at fair value at December 31, 2014 and 2013.

	2014	2013
International bond funds	$ 982	$ 888
Emerging markets bond fund	-	952
Asset-backed securities bond fund	4,670	4,042
	$ 5,652	$ 5,882

The Hospital may make daily redemptions from all of the funds classified as alternative investments at December 31, 2014. At December 31, 2014, there are no unfunded commitments relating to the Hospital's alternative investments.

Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, such as the collateralized mortgage obligations, it is reasonably possible that changes in the fair value of investment securities will occur in the near-term and that such change could materially affect amounts reported in the balance sheets.

Note 6. Investments and Assets Limited as to Use (Continued)

The following table summarizes the unrealized losses and fair value of the Hospital's investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2014 and 2013.

	Less Than Twelve Months		Twelve Months or Longer	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
2014				
U.S. Government and agency securities	$ 4,201	$ 75	$ 11,057	$ 1,918
Equities	344	4	184	1
Corporate bonds	6,024	97	2,450	99
Collateralized mortgage obligations	3,933	37	3,131	46
Other	1,194	3	-	-
Total	$ 15,696	$ 216	$ 16,822	$ 2,081

	Less Than Twelve Months		Twelve Months or Longer	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
2013				
U.S. Government and agency securities	$ 50,993	$ 1,332	$ 530	$ 41
Equities	4,555	222	-	-
Corporate bonds	5,648	202	636	52
Collateralized mortgage obligations	5,652	65	749	41
Other	8,061	81	-	-
Total	$ 75,109	$ 1,892	$ 1,915	$ 134

U.S. Government and agency securities: The contractual cash flows of these investments are guaranteed by an agency of the U.S. Government. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost of the Hospital's investment. Because the decline in market value is attributable to changes in interest rates and not credit quality and because it is not more likely than not that the Hospital will be required to sell these investments before a recovery of fair value, which may be maturity, the Hospital does not consider these investments to be other-than-temporarily impaired at December 31, 2014.

Equities: The Hospital's investments in marketable equity securities consist of various investments in common stock. Because it is not more likely than not that the Hospital will be required to sell these investments before a forecasted recovery of fair value, the Hospital does not consider these investments to be other-than-temporarily impaired at December 31, 2014.

Corporate bonds: The Hospital's unrealized losses on investments in corporate bonds relate to current economic conditions. The unrealized losses were primarily caused by decreases in profitability and near-term profit forecasts by industry analysts. Because it is not more likely than not that the Hospital will be required to sell these investments before a recovery of fair value, which may be maturity, the Hospital does not consider these investments to be other-than-temporarily impaired at December 31, 2014.

Note 6. Investments and Assets Limited as to Use (Continued)

Collateralized mortgage obligations: The unrealized losses on the Hospital's investment in collateralized mortgage obligations were caused by current economic conditions. Because it is not more likely than not that the Hospital will be required to sell these investments before a recovery of fair value, which may be maturity, the Hospital did not consider these investments to be other-than-temporarily impaired at December 31, 2014.

Other: The Hospital's unrealized losses on investments in other fixed income securities relate to current economic conditions. The unrealized losses were primarily caused by decreases in profitability and near-term profit forecasts by industry analysts. Because it is not more likely than not that the Hospital will be required to sell these investments before a recovery of fair value, which may be maturity, the Hospital does not consider these investments to be other-than-temporarily impaired at December 31, 2014.

Derivative financial instruments: To enhance investment return and manage risk associated with fixed income securities, the Hospital has entered into various futures and options contracts as a part of its investment portfolio. The Hospital backs these positions with liquid investments from its investment accounts. At December 31, 2014 and 2013, the Hospital had contracts to buy securities for $10,518 and $22,026, respectively, and contracts to sell securities for $8,017 and $4,268, respectively. The fair value of these contracts is immaterial and is included in cash and cash equivalents.

At December 31, 2014 and 2013, the Hospital also held as part of its investment portfolio interest rate swaps and credit default swaps with an estimated fair value of $65 and $8, respectively. The fair value of the swaps is reported within the investment portfolio in the balance sheets. The Hospital's investment managers use these swaps to hedge certain risks and exposures within the Hospital's investment portfolio; however, the Hospital has not designated the swaps as hedges for accounting purposes.

Note 7. Investment in Affiliate and Other

Investment in affiliate, included in other assets on the balance sheets, is $1,859 and $2,023 at December 31, 2014 and 2013, respectively. This investment is accounted for under the equity method. Net income from this investment is included in other revenue on the Hospital's statements of operations as this investment is directly related to the Hospital's core business. Summarized (unaudited) information as to assets, liabilities, total equity, and net income (loss) of the investee as of and for the years ended December 31, 2014 and 2013, is presented below:

	2014	2013
Assets	$ 4,645	$ 4,953
Liabilities	64	84
Total equity	4,581	4,869
Net loss	(280)	(372)

Southwest Hospitals MRI, Inc., a not-for-profit corporation in which the Hospital has a 50 percent interest, provides diagnostic MRI tests.

Note 8. Long-Term Debt and Pledged Assets

Long-term debt at December 31, 2014 and 2013, consists of the following:

	2014	2013
Illinois Finance Authority Revenue Bonds, Series 2007A, bearing interest at fixed rates of 4.5% and 5%, varying principal payments due beginning May 2019 through May 2037	$ 120,145	$ 120,145
Illinois Finance Authority Revenue Bonds, Series 2010C, bearing interest at fixed rates ranging from 5% to 5.37%, varying principal payments due beginning May 2016 through May 2035	147,525	147,525
Illinois Finance Authority Revenue Bonds, Series 2010A, in an aggregate principal amount not in excess of $50,000, variable interest at a LIBOR-based rate (0.98% and 1.01% at December 31, 2013 and 2012), refinanced in May 2015	50,000	31,980
Illinois Finance Authority Revenue Bonds, Series 2010B, in an aggregate principal amount not in excess of $50,000, variable interest at a LIBOR-based rate (0.82% and 0.85% at December 31, 2013 and 2012), refinanced in May 2015	50,000	31,980
	367,670	331,630
Unamortized bond premium	6,381	6,721
	$ 374,051	$ 338,351

The Series 2010A, 2010B, and 2010C bonds were issued to fund the construction of the new Hospitalier Pavilion and the modernization of the existing space.

St. George, together with the Hospital (collectively, the Obligated Group), are members of an obligated group under terms of a Master Trust Indenture (Indenture) for purposes of long-term borrowing. All members of the Obligated Group are jointly and severally obligated to pay all debt issued under the Indenture. All of the Hospital's outstanding debt was issued under the Indenture. The Hospital's debt constitutes all of the debt for which the Obligated Group is jointly and severally liable.

The revenue bonds are collateralized by substantially all assets of the Obligated Group. The provisions of the Indenture agreement require the Obligated Group to maintain certain financial covenants, including a minimum debt service coverage level, number of days cash on hand, and a specified maximum funded indebtedness ratio.

Scheduled repayments of long-term debt are as follows:

Years ending December 31:	
2015	$ -
2016	7,625
2017	8,020
2018	8,415
2019	8,835
Thereafter	334,775
	$ 367,670

Note 8. Long-Term Debt and Pledged Assets (Continued)

In May 2015, the Hospital refinanced the Series 2010A and 2010B bonds with $100,000 Illinois Finance Authority Revenue Refunding Bonds, Series 2015A, which mature in May 2040 and bear interest at a private placement floating rate based on LIBOR (initial rate at June 1, 2015 will be 0.8706%). The Series 2010B bonds were scheduled to mature in May 2015 while the Series 2010A bonds were scheduled to mature in May 2035. Based on this refinancing, the Series 2010A and 2010B bonds are presented as long-term liabilities in the December 31, 2014 balance sheet, and the scheduled repayments presented in the table above have been adjusted to reflect the scheduled repayments of the refinanced obligations.

Note 9. Retirement Plan

The Hospital has a contributory retirement plan (the Plan) covering eligible employees. The Plan is a defined contribution plan whereby benefits are determined by the accumulation of contributions made on each employee's behalf prior to retirement. Under the Plan, the Hospital is obligated to provide a matching contribution up to 7.5 percent. Annual contributions are based on a percentage of the eligible employee's salary. Contributions to the Plan were $9,084 and $9,652 in 2014 and 2013, respectively.

Note 10. Professional and General Liability Insurance and Subsequent Event

Through the normal course of operations, the Hospital becomes subject to claims alleging professional malpractice. Since July 1, 1985, the Hospital has been self-insured for professional malpractice liability claims and general liability exposures. Commercial coverage is maintained for losses in excess of a per-claim self-insured retention.

The Hospital has recorded a discounted liability of $35,668 and $37,195 at December 31, 2014 and 2013, respectively, for professional and general liability insurance, of which $33,668 and $35,195 is recorded as a noncurrent liability at December 31, 2014 and 2013, respectively. The discount rate used was 4 percent in 2014 and 2013. The related undiscounted liability is approximately $4,985 and $5,122 higher at December 31, 2014 and 2013, respectively.

An insurance recovery receivable of $4,817 and $5,196 has been recorded with a corresponding increase in accrued professional liability as of December 31, 2014 and 2013, respectively. These receivables are reported in other assets as of December 31, 2014 and 2013.

In the opinion of management, the ultimate disposition of claims covered under its professional and general liability coverage will not have a material adverse effect on the financial position of the Hospital.

See Note 1 regarding the incorporation in January 2015 of St. George Assurance, Ltd.

Note 11. Functional Expenses

The Hospital's expenses related to providing health care services to its patients for 2014 and 2013, including allocations of depreciation and interest expense, are as follows:

	2014	2013
Health care services	$ 275,318	$ 276,714
General and administrative	64,487	66,037
Fundraising	152	134
	$ 339,957	$ 342,885

Note 12. Commitments and Contingencies

Litigation: The Hospital is a defendant in various lawsuits arising in the ordinary course of business. Although the outcome of the lawsuits cannot be determined with certainty, management believes the ultimate disposition of such matters will not have a material effect on the Hospital's financial statements.

Regulatory investigations: The U.S. Department of Justice, other federal agencies and the Illinois Department of Public Aid routinely conduct regulatory investigations and compliance audits of health care providers. The Hospital is subject to these regulatory efforts. Management is currently unaware of any regulatory matters which may have a material effect on the Hospital's financial position or results from operations.

Construction in progress: At December 31, 2014, the Hospital had entered into commitments totaling approximately $144,559 related to construction projects and technology upgrades of which $73,750 had been paid and $13,781 has been accrued as of December 31, 2014.

Construction commitments at December 31, 2014 include approximately $35,169 relating to the implementation of the EPIC system. This comprehensive implementation will encompass software and hardware, training and certification, and other related implementation costs.

Following completion of the new Hospitaller Pavilion in March 2013, the Hospital began construction to transform existing patient rooms from semi-private to private rooms as well as expand emergency, cardiology, radiology, nuclear medicine and support services. The Hospital estimates that these projects will continue through 2016. The project has been funded from proceeds of the Series 2010A/B bonds and will continue to be funded with internal cash.

Regulatory environment including fraud and abuse matters: The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity continues with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Hospital is in compliance with fraud and abuse, as well as other applicable government laws and regulations. While no regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or asserted at this time.

CMS Recovery Audit Contractor Program: Congress passed the Medicare Modernization Act in 2003, which among other things established a three-year demonstration of the Medicare Recovery Audit Contractor (RAC) program. The RAC identified and corrected a significant amount of improper overpayments to providers. In 2006, Congress passed the Tax Relief and Health Care Act of 2006 which authorized the expansion of the RAC program to all 50 states by 2010. CMS implemented the RAC program in Illinois in 2010. Management does not believe that Medicare RAC audits will have a material effect on the Hospital's results of operations or cash flows. At December 31, 2014 and 2013, the Hospital has recorded a reserve for estimated amounts that will be repaid under the RAC program based on the Hospital's RAC program experience to date.

Note 12. Commitments and Contingencies (Continued)

Property and Sales Tax Exemption: On June 14, 2012, the Governor of Illinois signed into law legislation that governs property and sales tax exemption for not-for-profit hospitals. The law took effect on the date it was signed. Under the law, in order to maintain its property and sales tax exemption, the value of specified services and activities of a not-for-profit hospital must equal or exceed the estimated value of the hospital's property tax liability, as determined under a formula in the law. The specified services are those that address the health care needs of low-income or underserved individuals or relieve the burden of government with regard to health care services, and include: the cost of free or discounted services provided pursuant to the hospital's financial assistance policy; other unreimbursed costs of addressing the health needs of low-income and underserved individuals; direct or indirect financial or in-kind subsidies of State and local governments; the unreimbursed cost of treating Medicaid and other means-tested program recipients; the unreimbursed cost of treating dual-eligible Medicare/Medicaid patients; and other activities that the Illinois Department of Revenue determines relieve the burden of government or address the health of low-income or underserved individuals. Management believes that the Hospital meets the requirements under the law to maintain its property and sales tax exemption.

Note 13. Fair Value Disclosures

Fair value measurements: Guidance provided by the FASB 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. In determining fair value, the Hospital uses various methods including market, income and cost approaches. Based on these approaches, the Hospital often utilizes certain assumptions that market participants would use in pricing the asset or liability, assuming that market participants act in their economic best interest, including assumptions about risk and or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. The Hospital utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques the Hospital is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1: Quoted prices for identical instruments in active markets.

Level 2: Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third-party pricing services for identical or similar assets or liabilities.

Level 3: Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

For 2014 and 2013, the application of valuation techniques applied to similar assets and liabilities has been consistent. The following is a description of the valuation techniques and inputs used for instruments measured at fair value:

Investments in Marketable Securities

The fair value of investments in marketable securities is the market value based on quoted market prices, when available, or market prices provided by recognized broker-dealers. If listed prices or quotes are not available, fair value is based upon externally developed models that use unobservable inputs due to the limited market activity of the instrument.

Note 13. Fair Value Disclosures (Continued)

Alternative Investments

The fair value of alternative investments is $5,652 and $5,882 at December 31, 2014 and 2013, respectively. Alternative investments with no market activity are valued using the net asset values reported by the investment funds, which in turn is based on the most recent information available to the fund manager for the underlying investments held by the investment fund.

In determining the appropriate levels, the Hospital performs a detailed analysis of the assets and liabilities that are subject to the FASB-issued guidance. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

Securities Lending

The fair value of the securities that were on loan in the program was secured by cash collateral of $85 and $33,500 at December 31, 2014 and 2013, respectively. The valuations were obtained from third-party pricing services for identical or similar assets and are classified as Level 2.

Fair Value on a Recurring Basis

The table below presents the balances of assets and liabilities measured at fair value on a recurring basis, as of December 31, 2014 and 2013.

	December 31, 2014			
	Level 1	Level 2	Level 3	Total
U.S. Government and agency securities	$ -	$ 61,196	$ -	$ 61,196
Equities[A]	225,398	-	-	225,398
Corporate bonds	154	46,632	-	46,786
Collateralized mortgage obligations	-	13,911	-	13,911
Alternative investments[B]	-	5,652	-	5,652
	$ 225,552	$ 127,391	$ -	$ 352,943
Collateral received for securities loaned	$ -	$ 85	$ -	$ 85

	December 31, 2013			
	Level 1	Level 2	Level 3	Total
U.S. Government and agency securities	$ -	$ 63,724	$ -	$ 63,724
Equities[A]	207,567	-	-	207,567
Corporate bonds	166	40,753	-	40,919
Collateralized mortgage obligations	-	10,798	-	10,798
Alternative investments[B]	-	5,882	-	5,882
	$ 207,733	$ 121,157	$ -	$ 328,890
Collateral received for securities loaned	$ -	$ 33,500	$ -	$ 33,500

[A] The investment objective for equities is both growth and value.

[B] Substantially all of the underlying investments are Level 1 and Level 2 investments.

Note 13. Fair Value Disclosures (Continued)

Fair value of financial instruments: The following methods and assumptions were used by the Hospital to estimate the fair value of other financial instruments not described above:

The carrying values of cash and cash equivalents, accounts receivable, other receivables, accounts payable, accrued expenses and estimated settlements due to or from third-party payors are reasonable estimates of their fair value due to the short-term nature of these financial instruments.

The fair value of the Hospital's long-term debt, including current portion, which has a total carrying value of $374,051 and $338,351, respectively, at December 31, 2014 and 2013, was $392,853 and $334,412 respectively. The fair value of the long-term debt is estimated based on the quoted market prices for the same or similar issues or on current rates offered to market participants. The fair value of the debt is based on Level 2 inputs within the fair value hierarchy.

Note 14. Related-Party Transactions and Subsequent Events

St. George is the sole corporate member of the Hospital, the St. George Wellness Center (the Wellness Center), and through December 31, 2014, Palos Medical Group, LLC (PMG). On January 1, 2015, St. George contributed its sole membership interest in PMG to the Hospital. Summarized information as to assets, liabilities, total equity, and net loss of PMG as of and for the year ended December 31, 2014 is presented below:

Assets	$ 975
Liabilities	8,155
Net Deficit	(7,180)
Net loss	(7,317)

In 2014, St. George made a net asset transfer of $8,222 to the Hospital in connection with a rebalancing of the organizations' investment portfolios.

The Hospital provides accounting, administrative, and maintenance services to St. George. In 2014 and 2013 these charges totaled $80 and $71, respectively.

The Hospital also provides services to PMG. In 2014 and 2013 these charges totaled $2,674 and $2,489, respectively. Included in these charges were rent ($573 and $670, respectively), laboratory services ($917 and $763, respectively), billing services ($349 and $337, respectively) and other administrative services including management, accounting, information systems, staffing, materials management, and employee physicals ($888 and $798, respectively).

The charges described above are reported within other revenue in the accompanying statements of operations. Amounts due from these affiliated organizations totaled $4,649 and $2,445 at December 31, 2014 and 2013, respectively.

In January 2015, the Hospital made a net asset transfer to St. George in the amount of $258,172. This transfer was made in connection with realignment of the investment portfolio between the organizations. Beginning in 2015, St. George will hold all of the investment assets excluding the short term investments which will be held in Palos Community Hospital.

Section IX, Financial Feasibility
Criterion 1120.130 – Financial Viability Waiver

Attached at Attachment – 36 are the Palos Community Hospital 2014 audited financial statements. The project will be funded through internal resources, Investments Internally Designated for Capital Purposes.

Section X, Economic Feasibility Review Criteria
Criterion 1120.140(a), Reasonableness of Financing Arrangements

Attached at Attachment – 39A is a letter from Terrence Moisan, M.D. President of Palos Community Hospital attesting that the total estimated project costs will be funded entirely with cash and other liquid assets.

Attachment – 39A

Palos Community Hospital

12251 S. 80th Avenue Palos Heights, Illinois 60463 (708) 923-4000

Executive Offices

December 15, 2015

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

Dear Chair Olson:

I hereby attest that the total estimated project costs associated with the Palos Community Hospital South Campus Expansion project at 15300 West Avenue, Orland Park, Illinois will be funded through the use of cash and other liquid assets.

Sincerely,

Terrence Moisan, M.D.
President
Palos Community Hospital

Subscribed and sworn to me
This 21ST day of DECEMBER 2015

Notary Public

"OFFICIAL SEAL"
BARBARA J. MEDLEY
NOTARY PUBLIC, STATE OF ILLINOIS
MY COMMISSION EXPIRES 12/29/2017

Section X, Economic Feasibility Review Criteria
Criterion 1120.140(b), Conditions of Debt Financing

This project will be funded in total with cash and cash equivalents. Accordingly, this criterion is not applicable.

Section X, Economic Feasibility Review Criteria
Criterion 1120.140(c), Reasonableness of Project and Related Costs

1. The Cost and Gross Square Feet by Department is provided in the table below.

COST AND GROSS SQUARE FEET BY DEPARTMENT OR SERVICE									
Department (list below) CLINICAL	A	B	C	D	E	F	G	H	Total Cost (G + H)
	Cost/Square Foot New	Mod.	Gross Sq. Ft. New	Circ.*	Gross Sq. Ft. Mod.	Circ.*	Const. $ (A x C)	Mod. $ (B x E)	
CLINICAL									
Contingency									
TOTAL CLINICAL									
NON-CLINICAL									
Physician offices, exam, treatment	$415		61,033	30%			$25,318,635		$25,318,635
Reception/ Registration	$325		1,758	35%			$571,350		$571,350
Storage, supplies, equip	$263		4,795	25%			$1,261,085		$1,261,085
Patient lockers, toilet	$275		2,646	25%			$727,650		$727,650
Staff lockers, lounges	$160		3,516	25%			$914,160		$914,160
Public toilet	$260		1,605	35%			$465,450		$465,450
MEP, Facilities, housekeeping	$767		9,940	10%			$7,621,901		$7,621,901
Communications, IT, electric	$370		1,354	10%			$500,980		$500,980
Entry, circulation, waiting	$330		21,113	100%			$6,967,290		$6,967,290
Parking	$137		125,000	N/A			$17,144,144		$17,144,144
Building Connectors	$607		16,000	100%			$9,710,583		$9,710,583
Connector Renovations		$326			6,000	N/A		$1,699,500	$1,699,500
Building Facade Renovations		$113			41,550	N/A		$4,423,864	$4,423,864
Contingency	$29	$19	248,760		47,550		$7,120,323	$918,505	$8,038,828
TOTAL NON-CLINICAL	$315	$148	248,760		47,550		$78,323,551	$7,041,869	$85,365,420
TOTAL	**$315**	**$148**	**248,760**		**47,550**		**$78,323,551**	**$7,041,869**	**$85,365,420**
* Include the percentage (%) of space for circulation									

Attachment – 39C

Section X, Economic Feasibility Review Criteria
Criterion 1120.140(d), Projected Operating Costs

This criterion is applicable only to projects or portions of projects that involve clinical departments or areas. The project is considered non-clinical. It does not have an inpatient component, does not establish any category of service nor will there be any new hospital services added. Accordingly, this criterion is not applicable.

Section X, Economic Feasibility Review Criteria
Criterion 1120.140(e), Projected Capital Costs

This criterion is applicable only to projects or portions of projects that involve clinical departments or areas. The project is considered non-clinical. It does not have an inpatient component, does not establish any category of service nor will there be any new hospital services added. Accordingly, this criterion is not applicable.

Section XI, Safety Net Impact Statement

The Applicants propose the establishment of a medical office building. A medical office building constitutes a non-substantive project. Accordingly, this criterion is not applicable.

Section XII, Charity Care Information

The tables below provide charity care information for Palos Community Hospital for the most recent three calendar years.

Palos Community Hospital CHARITY CARE			
	2012	**2013**	**2014**
Net Patient Revenue	**$311,344,001**	**$315,296,194**	**$340,954,308**
Amount of Charity Care (charges)	$6,553,999	$5,888,760	$5,172,296
Cost of Charity Care	$6,553,999	$5,888,760	$5,172,296

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