

[ORIGINAL]

16-010

ILLINOIS HEALTH FACILITIES AND SERVICES REVIEW BOARD

APPLICATION FOR PERMIT- July 2013 Edition

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ILLINOIS HEALTH FACILITIES AND SERVICES REVIEW BOARD
APPLICATION FOR PERMIT

FEB 22 2016

SECTION I. IDENTIFICATION, GENERAL INFORMATION, AND CERTIFICATION

HEALTH FACILITIES &
SERVICES REVIEW BOARD

This Section must be completed for all projects.

Facility/Project Identification

Facility Name:	OSF St. Mary Medical Center Expansion and Modernization of Key Clinical Services, 2016		
Street Address:	3333 N. Seminary Street		
City and Zip Code:	Galesburg, Illinois 61401		
County:	Knox	Health Service Area	2
Health Planning Area:	C-03		

Applicant /Co-Applicant Identification

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

Exact Legal Name:	OSF Healthcare System dba OSF St. Mary Medical Center		
Address:	800 NE Glen Oak Ave, Peoria, Illinois 61603		
Name of Registered Agent:	Sister Theresa Ann Brazeau OSF		
Name of Chief Executive Officer:	Kevin D Schoeplein		
CEO Address:	800 NE Glen Oak Ave, Peoria, Illinois 61603		
Telephone Number:	309-655-2850		

Type of Ownership of Applicant/Co-Applicant

<input checked="" type="checkbox"/> Non-profit Corporation	<input type="checkbox"/> Partnership
<input type="checkbox"/> For-profit Corporation	<input type="checkbox"/> Governmental
<input type="checkbox"/> Limited Liability Company	<input type="checkbox"/> Sole Proprietorship
	<input type="checkbox"/> 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:	Mark E. Hohulin
Title:	Senior Vice President, Healthcare Analytics
Company Name:	OSF Healthcare System
Address:	800 NE Glen Oak Ave, Peoria, Illinois 61603
Telephone Number:	309-624-2360
E-mail Address:	mark.e.hohulin@osfhealthcare.org
Fax Number:	309-655-4794

Additional Contact

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

Name:	H. Curt Lipe CPA
Title:	Vice President, Chief Financial Officer
Company Name:	OSF St. Mary Medical Center
Address:	3333 N. Seminary Street, Galesburg, Illinois 61401
Telephone Number:	309-344-3161 ext. 1137
E-mail Address:	curt.lipe@osfhealthcare.org
Fax Number:	309-344-9498

Additional Contact

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

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

Additional Contact

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

Name: Janet Scheuerman
Title: Senior Consultant
Company Name: PRISM Healthcare Consulting
Address: 1808 Woodmere Drive, Valparaiso, Indiana 46383
Telephone Number: 219-464-3969
E-mail Address: prismjanet@aol.com
Fax Number: 219-464-0027

**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

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Street Address: 3333 N. Seminary Street			
City and Zip Code: Galesburg, Illinois 61401			
County: Knox	Health Service Area	2	Health Planning Area: C-03

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

Exact Legal Name:	OSF Healthcare System
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Telephone Number:	309-655-2850

Type of Ownership of Applicant/Co-Applicant

<input checked="" type="checkbox"/>	Non-profit Corporation	<input type="checkbox"/>	Partnership	
<input type="checkbox"/>	For-profit Corporation	<input type="checkbox"/>	Governmental	
<input type="checkbox"/>	Limited Liability Company	<input type="checkbox"/>	Sole Proprietorship	<input type="checkbox"/> Other

Corporations and limited liability companies must provide an **Illinois certificate of good standing**.
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Telephone Number: 219-464-3969
E-mail Address: prismjanet@aol.com
Fax Number: 219-464-0027

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:	H. Curt Lipe CPA
Title:	Vice President, Chief Financial Officer
Company Name:	OSF St. Mary Medical Center
Address:	3333 N. Seminary Street, Galesburg, Illinois 61401
Telephone Number:	309-344-3161 ext. 1137
E-mail Address:	curt.lipe@osfhealthcare.org
Fax Number:	309-344-9498

Site Ownership

[Provide this information for each applicable site]

Exact Legal Name of Site Owner:	OSF Healthcare System
Address of Site Owner:	800 NE Glen Oak Avenue, Peoria, Illinois 61603
Street Address or Legal Description of Site:	3333 N. Seminary Street, Galesburg, Illinois 61401
<p>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.</p>	
<p>APPEND DOCUMENTATION AS ATTACHMENT-2, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.</p>	

Operating Identity/Licensee

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

Exact Legal Name:	OSF St. Mary Medical Center		
Address:	3333 N. Seminary Street, Galesburg, Illinois 61401		
<input checked="" type="checkbox"/>	Non-profit Corporation	<input type="checkbox"/>	Partnership
<input type="checkbox"/>	For-profit Corporation	<input type="checkbox"/>	Governmental
<input type="checkbox"/>	Limited Liability Company	<input type="checkbox"/>	Sole Proprietorship
		<input type="checkbox"/>	Other
<ul style="list-style-type: none"> o Corporations and limited liability companies must provide an Illinois Certificate of Good Standing. o Partnerships must provide the name of the state in which organized and the name and address of each partner specifying whether each is a general or limited partner. o Persons with 5 percent or greater interest in the licensee must be identified with the % of ownership. 			
<p>APPEND DOCUMENTATION AS ATTACHMENT-3, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.</p>			

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.

OSF Healthcare System dba OSF St. Mary Medical Center is seeking approval to construct new space and modernize existing space in order to right-size several key departments, to create improved department adjacencies that will support the increasing proportion of outpatients to enhance workflow, and to redevelop the infrastructure of the entire facility in order to efficiently operate the redeveloped departments. The following table summarizes the key clinical departments in the project and their new construction and modernization square footages.

Summary of Clinical Services in New and Modernized Space

Level	Department/Area	New Construction DGSF	Modernization DGSF	As Is	Total DGSF
First	Laboratory	2,736	2,266		5,002
First	Center for Outpatient Services	0	2,456		2,456
	Pain Management	0	0	620	620
Second	Surgical Operating Rooms	3,190	8,419		11,609
Second	Surgical Procedure Rooms	0	1,914		1,914
Second	Phase I Post Anesthesia Recovery (PACU)	0	1,802		1,802
Second	Phase II Post Anesthesia Recovery (Prep/Recovery)	0	8,355		8,355
Total		5,926	25,212	620	31,758

In addition to the clinical space, the project will include 11,447 (DGSF/BGSF) of non-clinical space including a mechanical penthouse on the third level as part of the 7,666 DGSF/BGSF of new construction and 3,781 BGSF/DGSF of remodeled space. The total project will include 43,205 DGSF/BGSF of new and modernized space.

OSF Healthcare is an integrated health system owned and operated by The Sisters of the Third Order of St. Francis and includes 11 acute care facilities; the system's Ministry Services office provides corporate management services as well as direction, consultation and assistance to the administration of the health care facilities. St. Mary Hospital (now OSF St. Mary Medical

Center) was established in Galesburg in 1909. To keep pace with modern medical practices and a changing and more health-conscious society, the institution moved to the current facility on Seminary Street in 1974. This new campus is home to not only the hospital but also to a number of medical offices including OSF Home Care Services, OSF Medical Group, Healthcare Midwest, and OSF Galesburg Clinic. The proposed project is the newest phase in the continuing evolution of OSF St. Mary Medical Center to provide the latest in health care technology and advanced medical treatments while still adhering to the basic principles of the Sisters. The mission remains constant *"In the Spirit of Christ and the example of St. Francis of Assisi, the Mission of OSF Healthcare is to serve persons with the greatest care and love in a community that celebrates the Gift of Life."*

A site plan showing the location of the new construction on the existing Seminary Street site is included as Narrative Exhibit 1.

The phasing plan for the proposed project is included as Narrative Exhibit 2. The project will be developed in four major with several sub-phases. If the project is approved by the Health Facilities and Services Review Board in May 2016, Phase I construction will begin in the third quarter of 2016. Project completion is expected to be August 15, 2019. Several factors contribute to the duration of the project. For example the staging of construction and modernization is very complex. It must ensure that existing operations are maintained. Strict requirements for fire safety, infection control and acoustical control during each phase will require extensive interim measures. Further, it will also be necessary to maintain internal circulation paths.

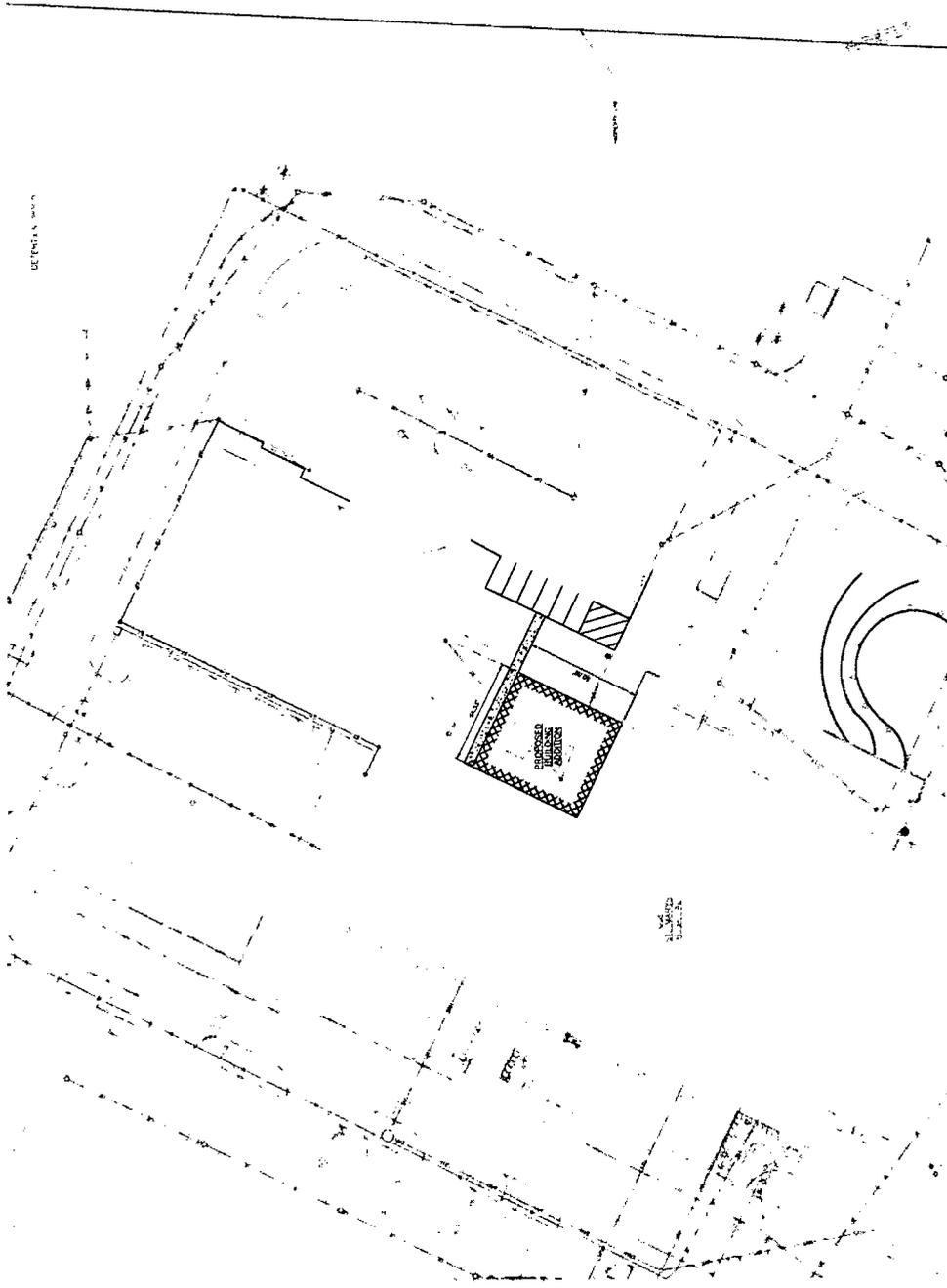
The phasing is shown in the existing and proposed drawings in Narrative, Exhibit 3.

A stacking diagram of the proposed new construction and modernization is included as Narrative Exhibit 4.

The total project cost is estimated to be \$28,107,515; the project will be financed with cash and securities, gifts and bequests, and debt.

Community support for the project is provided in the letters included as Narrative, Exhibit 5.

In accordance with Public Act 96-31, the project is classified as non substantive because it does not include a new facility, does not add or discontinue a service or propose a change in capacity of more than 20 beds.



C1



Certificate of Need Pricing Package
SURGERY SUITE REDEVELOPMENT
OSF St Mary Medical Center
Coeburg, Illinois
14 December 2015



Narrative
Exhibit 1
Site Plan

OSF St. Mary Medical Center Proposed Project Phasing Plan

The phasing plan for the expansion and modernization of OSF St. Mary Medical Center includes four major phases with several sub-phases. The duration of the overall plan is approximately 31 months. Factors that contribute to the project duration include the need to maintain current operations and interim circulation paths, in particular, during the multi-phase modernization / renovation construction process. The anticipated schedule is based on Review Board approval at its May 2016 meeting.

1. Phase 0, Level 2 (from August 2016 through September 2016; 1 month duration)

Temporarily relocate Center for Outpatient Services (COPS), including Cardiology to allow for “surge space” to facilitate renovation plan (Phases 1b / 1c). This existing space will be renovated for Phase II prep and recovery in construction Phase 1b / 1c.

2. Phase 1a, Levels G, 1, 2, and 3 (from October 2016 through September 2017, 12 months duration)

Construct new addition to the hospital at the northeast corner – 3 levels plus mechanical penthouse. (New space to become: Level G, storage; Level 1, Laboratory; Level 2, Surgery; Level 3, Penthouse)

3. Phases 1b and 1c, Level 2 (from October 2016 through July 2017, 10 months duration)

Renovate / modernize vacated COPS Cardiology and Pain area (Level 2 South) into Phase II Prep and Recovery area. Temporarily relocate Phase I Recovery (PACU) into this modernized area to allow for surgical suite expansion / modernization.

4. Phase 1b, Level 1 (April 2017 through July 2017, 4 month duration)

Complete modernization of laboratory space and link to new area (Phase 1a).

5. Phase 2a, Level 1 (October 2017 through March 2018, 5 month duration)

Renovate portion of existing laboratory to accommodate Center for Outpatient Services, including Cardiology at completion of Phase 1a / 1b (Laboratory services).

6. Phases 2a and 2b, Level 2 (October 2017 through May 2018, 7 months duration)

Renovate existing Phase I and Phase II recovery areas to create new surgery support and locker room (Phase 2a) as well as renovate existing ORs #1, 2, and 3 to create 2 modern operating rooms (Phase 2b).

7. Phase 3a and 3b, Level 3 (June 2018 through September 2018, 4 months duration)

Renovate existing surgery support to create new PACU (phase 3a) as well as renovate current ORs 4 and 5 to create 1 modern operating room (Phase 3b).

8. Phase 3a, Level 2 (Construction can float anytime until completion)

Public space, waiting, and corridor upgrades.

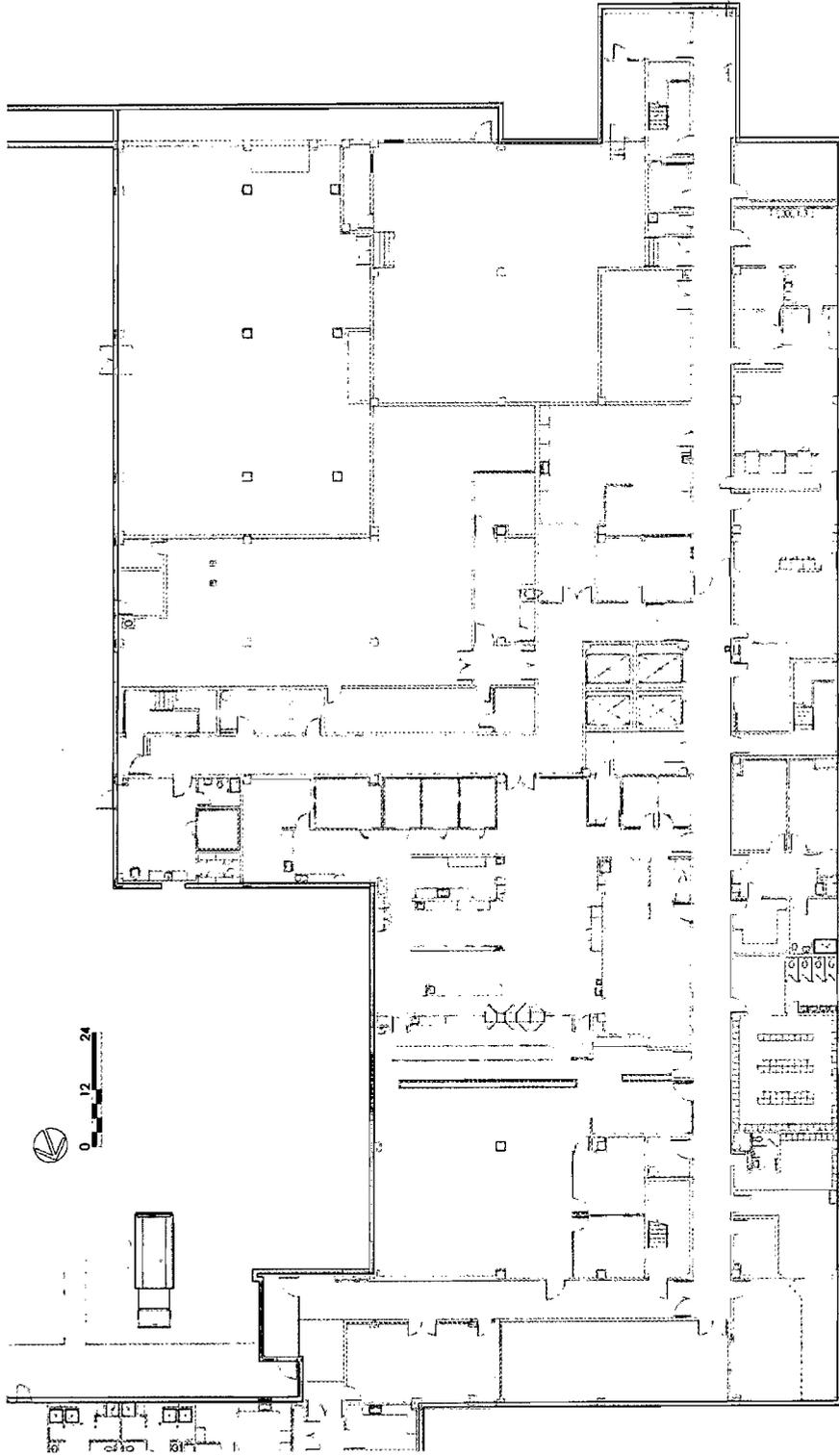
9. Phase 4a, Level 2 (October 2018 through January 2019, 4 months duration)

Renovate current ORs 6 and 7 to create two new procedure rooms and related support space.

10. Relocate Pain Management into portion of existing Phase II prep and recovery area.

11. IDPH final inspection and move-in contemplated to be completed by mid-February 2019.

Note: This initial phasing schedule is subject to change based on CON approval date and unanticipated construction conditions during the various renovation stages.



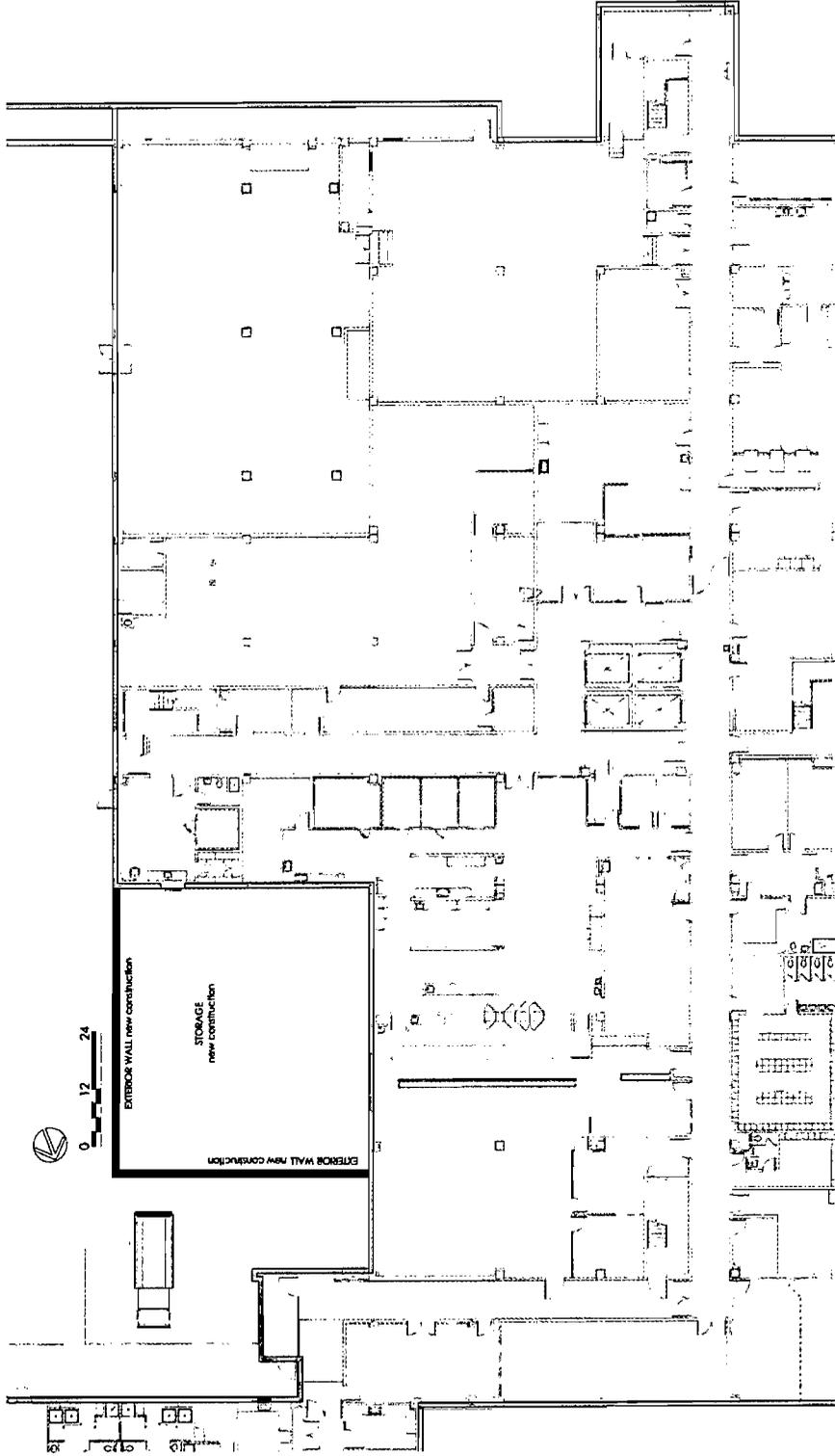
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PARTIAL



Certificate of Need
SURGERY SUITE REDEVELOPMENT
 OSF St. Mary Medical Center
 Celeburg, Illinois



CON: Existing Ground Floor Plan



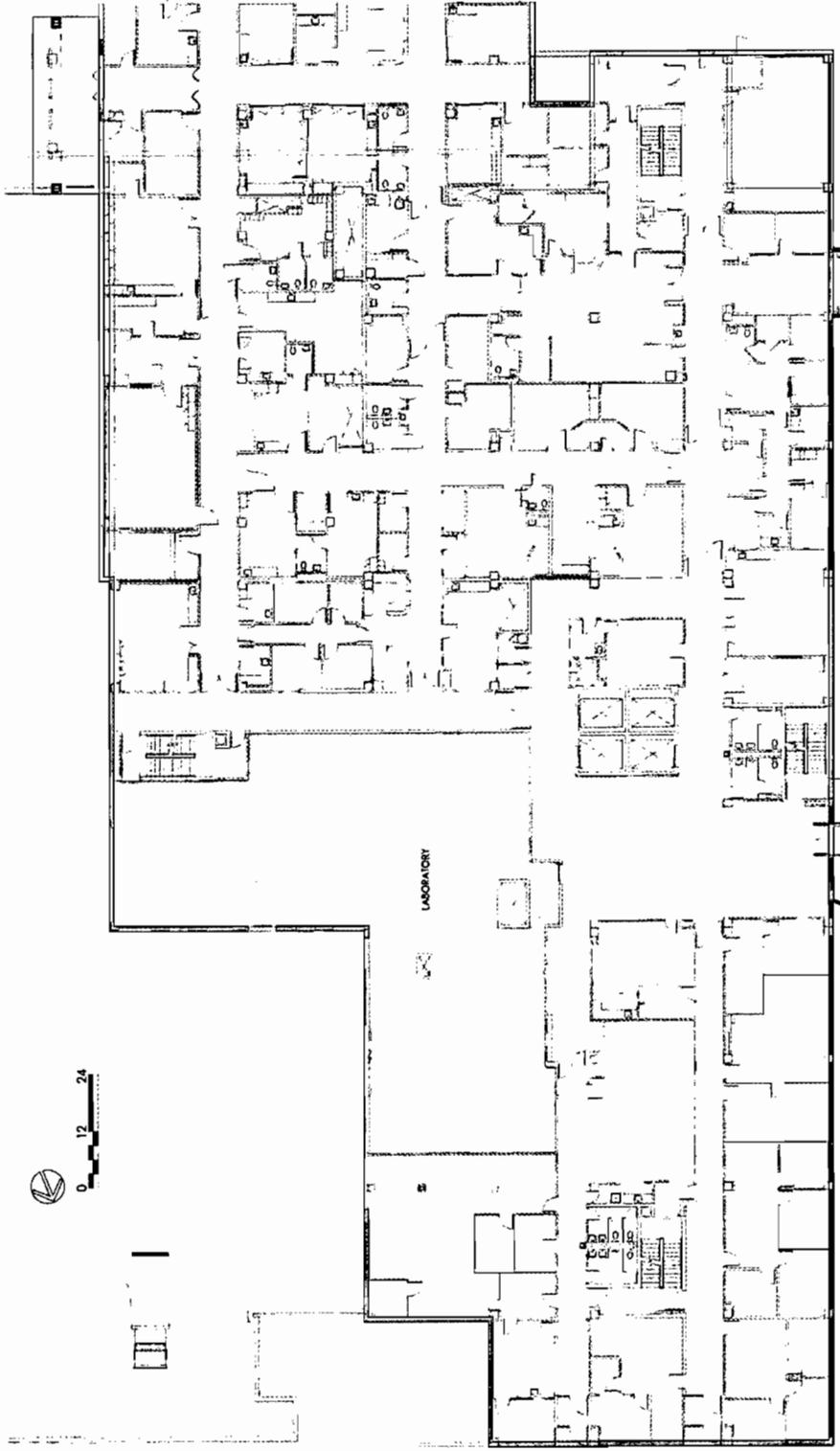
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CON: Proposed Ground Floor Plan

Certificate of Need
SURGERY SUITE REDEVELOPMENT
OSF St. Mary's Medical Center
 Canton, Illinois





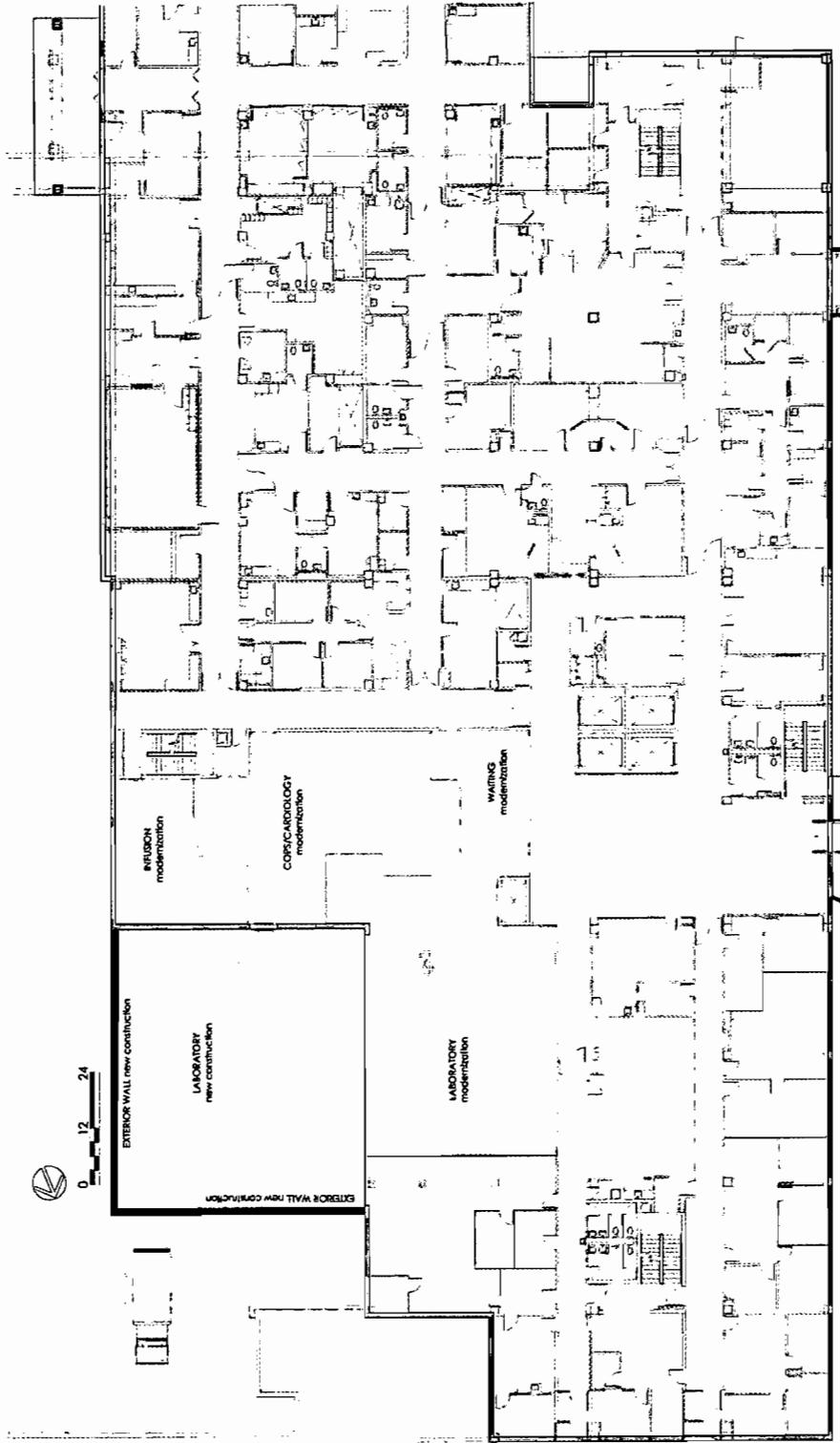
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PARTIAL

CON: Existing First Floor Plan



Certificate of Need
SURGERY SUITE REDEVELOPMENT
 OSF St. Mary Medical Center
 Carleburg, Illinois





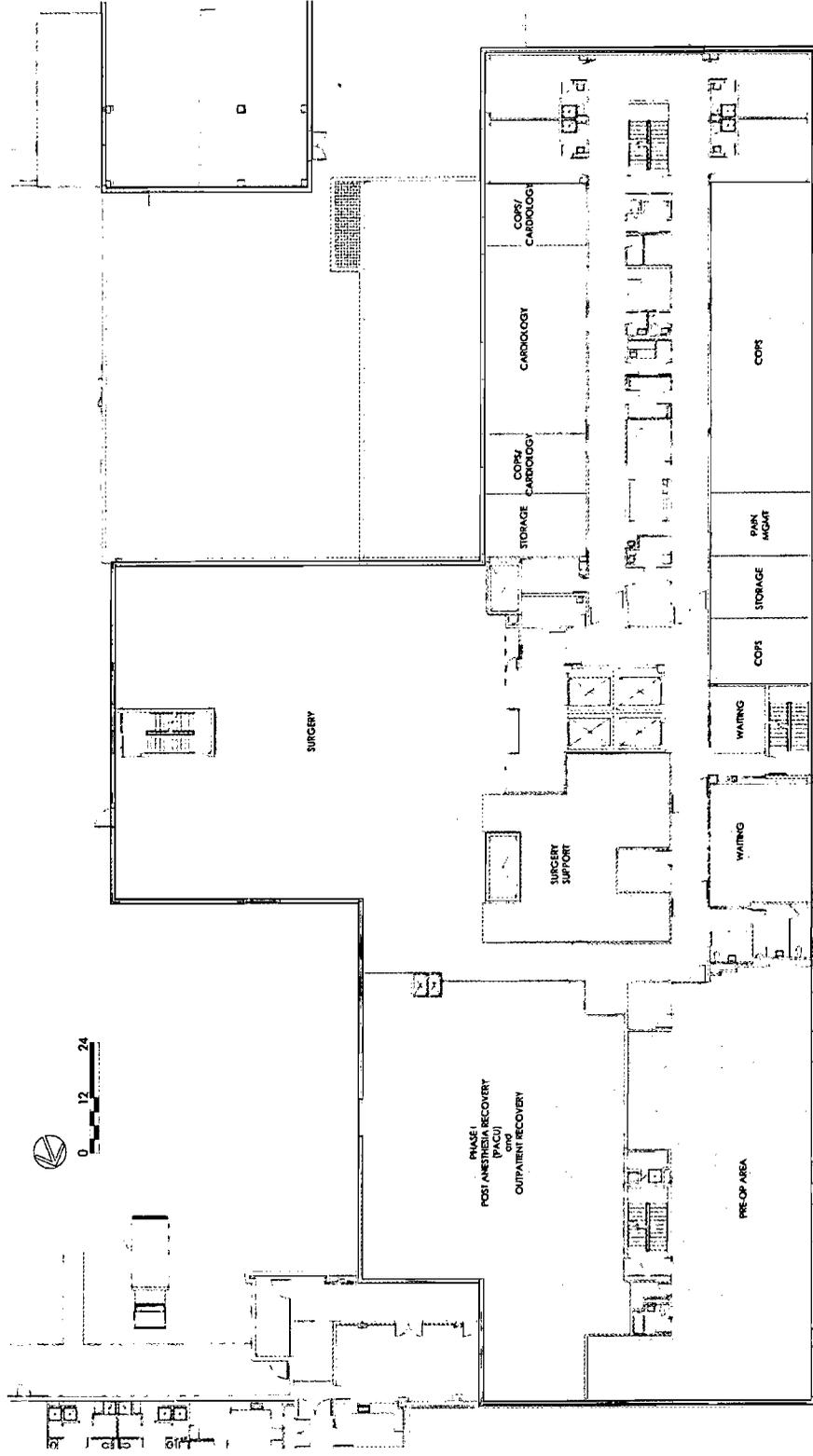
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CON: Proposed First Floor Plan



Certificate of Need
SURGERY SUITE REDEVELOPMENT
OSF St Mary Medical Center
 Galesburg, Illinois





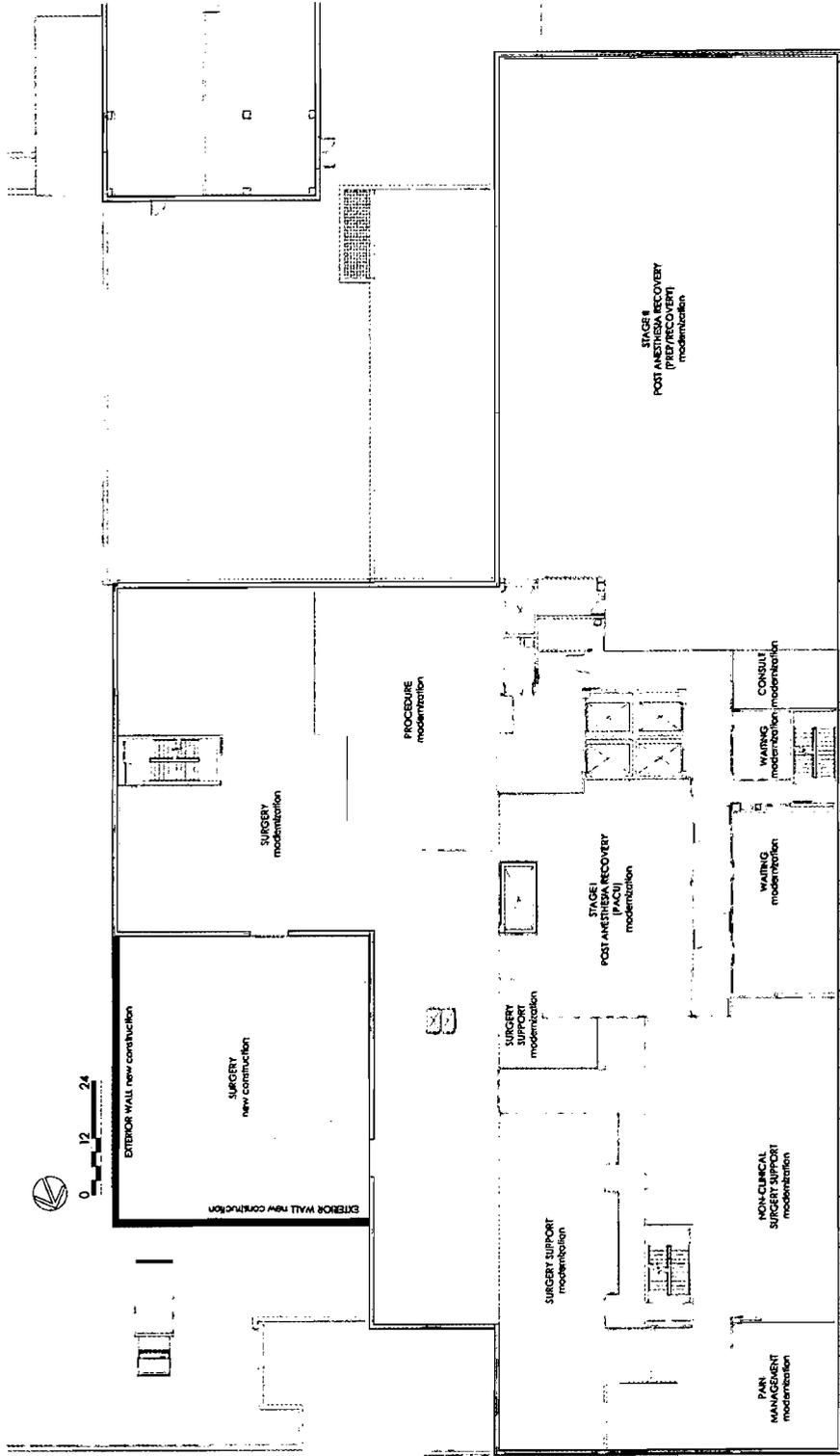
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PARTIAL

CON: Existing Second Floor Plan



Certificate of Need
SURGERY SUITE REDEVELOPMENT
OSF St. Mary Medical Center
Galesburg, Illinois





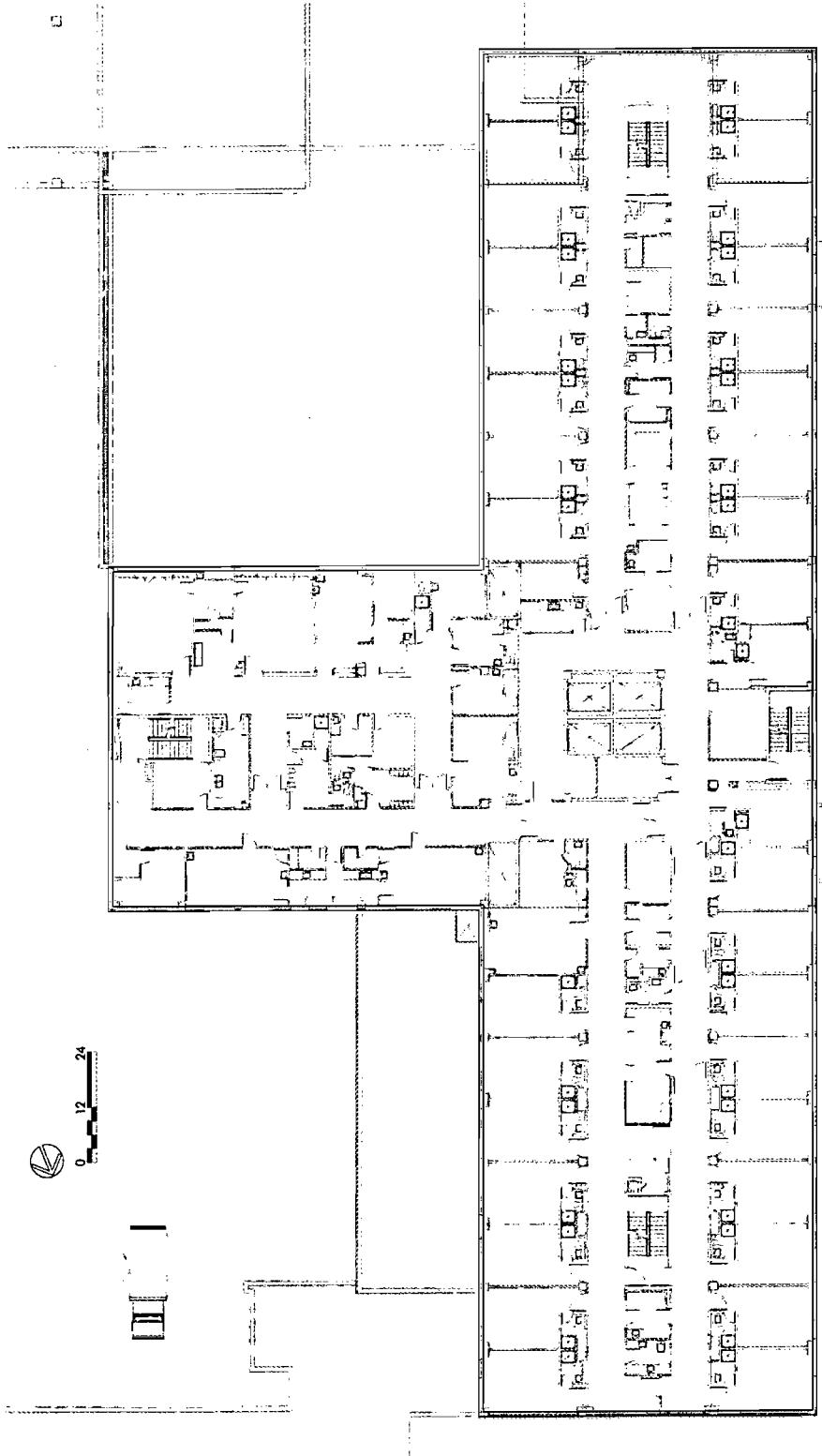
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CON: Proposed Second Floor Plan

Certificate of Need
SURGERY SUITE REDEVELOPMENT
OSF SMMC Medical Center
 Canton, IL 61820



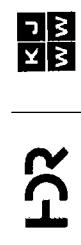


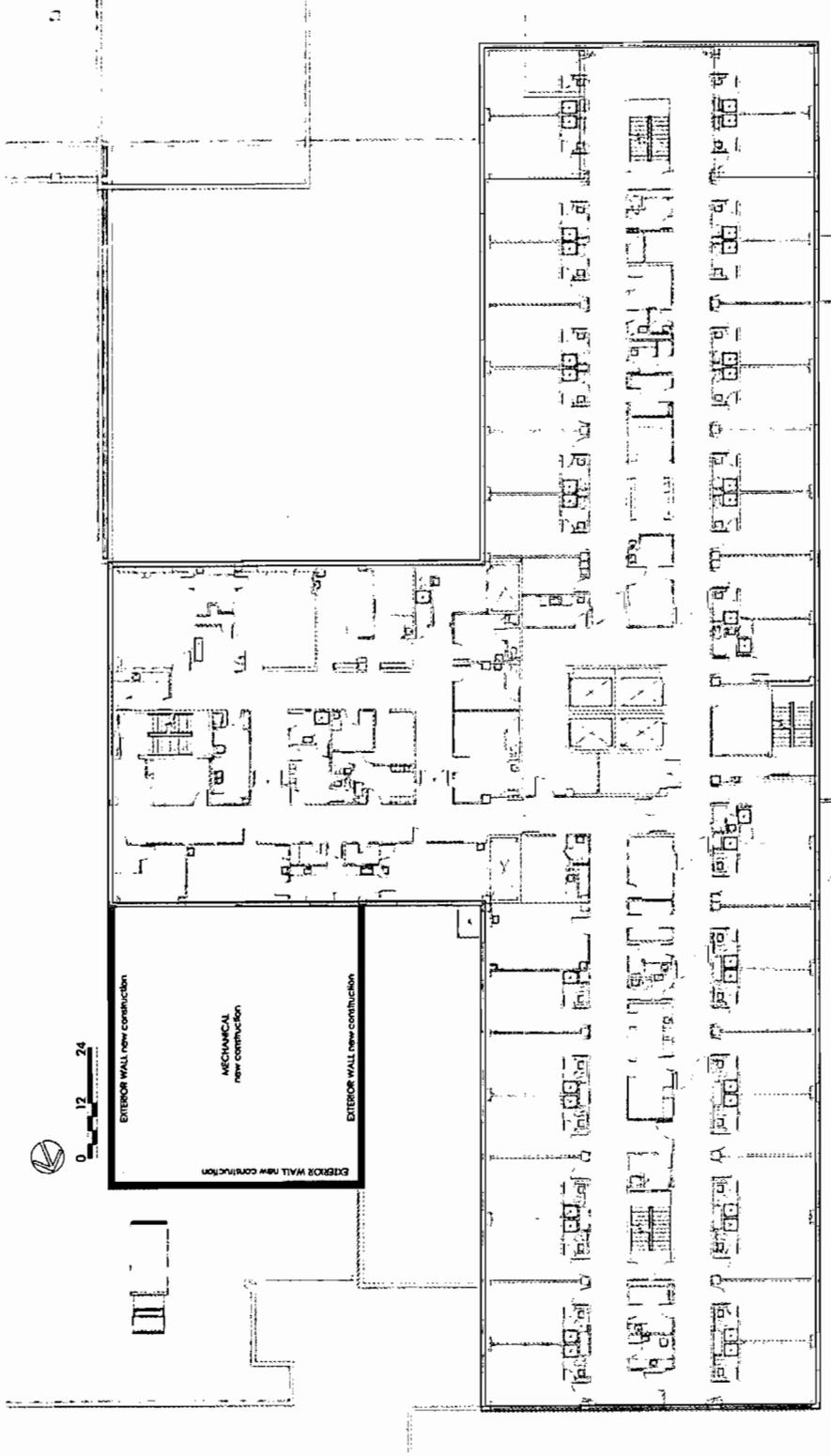
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PARTIAL

CON: Existing Third Floor Plan



Certificate of Need
SURGERY SUITE REDEVELOPMENT
OSF St. Mary Medical Center
 Canton, Illinois





03

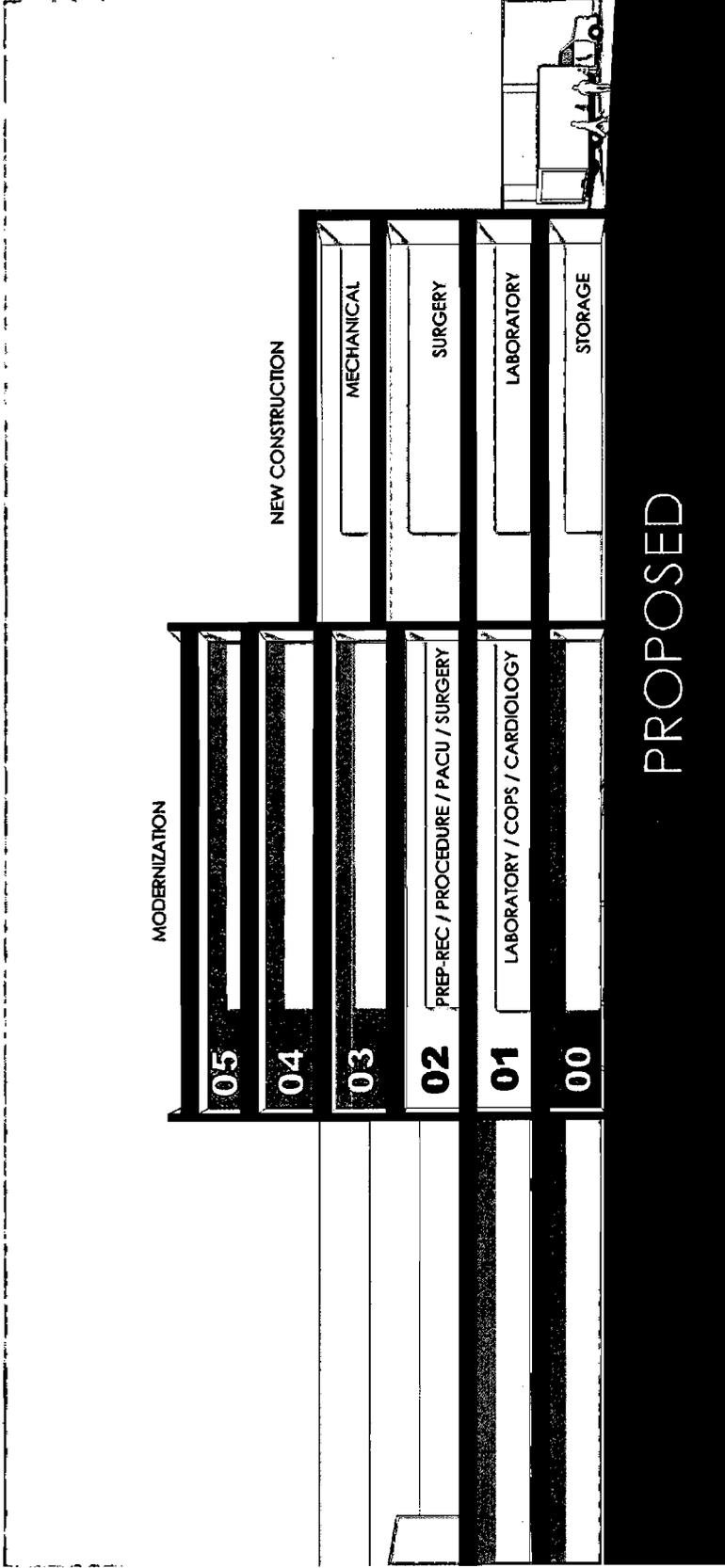
PARTIAL

CON: Proposed Third Floor Plan



Certificate of Need
SURGERY SUITE REDEVELOPMENT
 OSF St. Mary Medical Center
 Coblesburg, Illinois





Support Letters

Chuck Weaver
State Senator
37th District

Illinois State Senate

Donald L. Moffitt
State Representative
74th District

Illinois House of Representatives

John Pritchard
Mayor

City of Galesburg, Illinois

David R. Pearson
Chairman

Galesburg Chamber of Commerce

Michele Fishburn, MPH
Public Health Administrator

Knox County Health Department

Ken Springer
President

Knox County Area Partnership for
Economic Development

Mike Cruz, M.D.
President

OSF Saint Francis Medical Center

Patty Luker
President

OSF Holy Family Medical Center

Lynn A. Fulton
President

OSF Saint Luke Medical Center

Kishor Patel, M.D. FCCP
Chief of Staff – SMMC
Lead Physician

OSF Galesburg Clinic

Jerry Mitchell, M.D.
Chief of Surgery

OSF Galesburg Clinic

MINORITY SPOKESPERSON
COMMERCE AND ECONOMIC DEVELOPMENT



COMMITTEES:
CRIMINAL LAW
JUDICIARY
LICENSED ACTIVITIES
AND PENSIONS

ILLINOIS STATE SENATE

CHUCK WEAVER

STATE SENATOR • 37TH DISTRICT
email: Chuck@senweaver.com

January 21, 2016

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

Dear Ms. Avery:

I am writing to support OSF St. Mary Medical Center's certificate of need request for the expansion and modernization on their Galesburg campus.

My constituents rely on this facility for their health care needs, and this facility's continued ability to provide quality care is critical to these residents. As health care delivery changes with more focus on outpatient care, OSF St. Mary's must keep up with those changes if they are to continue to be competitive in the health care arena and provide the care that will be available in the future to the residents.

I urge members of the Illinois Health Facilities and Services Board to approve this certificate of need.

Thank you for your consideration.

Sincerely,

A handwritten signature in black ink that reads "Chuck Weaver".

Chuck Weaver

M103D STATE CAPITOL
SPRINGFIELD, IL 62706
217/782-1942
FAX: 217/782-9586

64 S. PRAIRIE, SUITE 4
GALESBURG, IL 61401
309/343-8176
FAX: 309/343-2683

400 N. MAIN STREET
PRINCETON, IL 61356
815/872-1964
FAX: 815/872-1965

5415 NORTH UNIVERSITY
SUITE 105
PEORIA, IL 61614
309/693-4921
FAX: 309/693-4923

RECYCLED PAPER • SOYBEAN INKS

ILLINOIS HOUSE OF REPRESENTATIVES

COMMITTEES:

Agriculture & Conservation
Approp Public Safety
Counties & Townships
— Minority Spokesperson
Elementary & Secondary Ed
Museums, Art & Cultural Enhancement
Public Safety: Police & Fire
— Minority Spokesperson
Veterans Affairs
JCAR



DONALD L. MOFFITT
STATE REPRESENTATIVE • 74TH DISTRICT

217-N STRATTON BUILDING
SPRINGFIELD, IL 62706
217/782-8032 • 217/557-0179 FAX

64 S. PRAIRIE ST., STE. 5
GALESBURG, IL 61401-4623
309/343-8000 • 309/343-2683 FAX
800/342-8010 TOLL-FREE

400 NORTH MAIN
PRINCETON, IL 61356
815/872-1964

December 31, 2015

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

Dear Ms. Avery:

The Sisters of the Third Order of St. Francis established St. Mary's Hospital in 1909 in Galesburg, Illinois. For one hundred and six years, that facility, now known as OSF St. Mary Medical Center, has addressed the health care needs of people in Galesburg and the surrounding area. This 99 bed acute care provider delivers therapeutic, diagnostic, surgical and general medical care for its patients. OSF St. Mary Medical Center serves as a very important part of the West Central Illinois area.

The present building was built in 1974, and it has grown with the addition of several buildings since that date. At this time, the hospital has determined a need to make certain renovations and improvements in order to continue to provide the best possible care for patients and to attract the best providers. The proposed improvements are significant to citizens of Galesburg, Knox County and the surrounding places, and the changes will further enhance medical care for our area.

I support the proposal by OSF St. Mary Medical Center to undergo significant renovations and expansions to their facilities through this \$22,100,000 project and ask for your approval. This will mean continuing the tradition of excellent health care for the area, as well as bringing much needed jobs through the construction trades.

Sincerely yours,

A handwritten signature in cursive script that reads "Donald L. Moffitt".

Donald L. Moffitt
State Representative
74th District

DLM:cjh

RECYCLED PAPER • SOY INKS



Operating Under Council – Manager Government Since 1957
Kelli R. Bennewitz
City Clerk

December 24, 2015

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

Dear Ms. Avery:

OSF St. Mary Medical Center is an integral part of the community of Galesburg and to our efforts to provide a high quality of life to our citizens. As one of the largest employers in the area, they are also a vital part of our economy.

The renovation and expansion of their surgical, laboratory, cardiology and infusion services is great news for the residents of Galesburg and Knox County, allowing them to continue their mission of providing care to all those in need, irrespective of their ability to pay.

I am pleased to support the project that is being proposed by OSF St. Mary Medical Center.

Sincerely,


John Pritchard
Mayor
City of Galesburg, Illinois

GALESBURGCHAMBER

CONNECT IMPACT SUCCEED

December 23, 2015

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

Dear Ms. Avery:

I support the proposed surgery, laboratory, cardiology and infusion center project of OSF St. Mary Medical Center.

The proposed \$25 million investment is a welcome contribution to the local economy. The hospital's continued investment in our community strengthens the business environment in Galesburg and the surrounding area. Adding to this dollar investment, OSF remains as one of the largest employers in our area. This project can only enhance that role.

We know that in our community's economic development efforts, access to quality healthcare is a major recruiting tool for business executives as well as their employees. We recognize that having a modern facility which offers many services locally is a key criterion to attract new business to the Galesburg area.

Ms. Avery, this project is good for our community and area. I, along with the Chamber of Commerce, fully support this project.

Cordially,



David R. Pearson
Chairman



Public Health
Prevent. Promote. Protect.

Knox County Health Department

Knox County Health Department · 1361 West Fremont Street · Galesburg, Illinois 61401
309.344.2224 (phone) · 309.344.5049 (fax) · www.knoxcountyhealth.org

December 23, 2015

Ms. Courtney Avery, Administrator
Illinois Health Facilities and Services Review Board
525 West Jefferson Street; 2nd Floor
Springfield, Illinois 61401

Dear Ms. Avery:

This letter is intended to strongly convey Knox County Health Department support of OSF St. Mary Medical Center's efforts to obtain a certificate of need from the Illinois Health Facilities and Services Planning Board. OSF St. Mary Medical Center plays a fundamental role within the public health system which supports Knox County. For the past 20 years, community health data has indicated that transportation and access to care are significant priority health concerns for community members. Primary causes of death in Knox County continue to centralize around chronic disease; many individuals suffering from multiple chronic conditions throughout the remainder of their life. As the local public health authority, the Department focuses on individuals managing their condition(s) and preventing chronic disease from occurring. OSF St. Mary Medical Center is vital to these efforts! They are a local, accessible provider. One which takes intentional steps to ensure access to medical care for this community as an essential part of their mission.

OSF St. Mary Medical Center and the Knox County Health Department have partnered and supported one another in numerous efforts related to the improvement of health and well-being for our community. The Department is working on its fifth Community Health Improvement Plan. OSF St. Mary Medical Center has played an active role in each. Currently, the Department participates with the Medical Center in their 3-year community health plan as a part of our own. This actions allow for our organizations to not only interact with one another; *but, to compliment the actions of the other; preventing duplication of services and allowing for the most efficient use of local resources.*

Additionally, the Knox Community Health Center, a section 330 federally funded Community Health Center operates as part of the Health Department. It focuses on access to primary medical, dental, and behavioral health care for the less fortunate among us. In this effort, the Department has the privilege of relying on our partnership with OSF St. Mary Medical Center to aid us in meeting the diverse needs of our patients. The renovation and expansion of their surgical, laboratory, cardiology, and infusion services is essential for the residents of Knox County! It will allow greater access to local, high quality services; positively impacting local transportation and access to care needs for residents.

Again, I reiterate that the Department strongly supports the new construction and modernization proposed for the Medical Center and encourages the Illinois Health Facilities and Services Review Board to certify the needs outlined in their proposal. I look forward to the continued presence of, and partnership with, the OSF St. Mary Medical Center, their ability to provide local, cost efficient health care for our community is vital to our public health system.

Respectfully,

Michele Fishburn, MPH
Public Health Administrator



Knox County Partnership
185 S Kellogg St, Galesburg, IL 61401
(309) 343-1194
www.knoxpartnership.org

January 4th, 2016

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

Dear Ms. Avery:

As the President of the Knox County Area Partnership for Economic Development, I am in full support of the planned expansion and renovation of the Surgical, Laboratory, Cardiology and Outpatient Infusion services as OSF St. Mary Medical Center in Galesburg, IL.

OSF St. Mary has long been a key community employer and a significant economic contributor to this area. Additionally, the range and quality of services they provide are an asset as we seek to attract and retain other businesses, employers and skilled workers to the area.

In addition, OSF also provides a wide array of community services in areas such as disaster preparedness, diabetes education, parenting, health fairs, sports physicals, and many others. Their commitment to providing care and supporting the healthcare needs of our region and of developing services to support the changing needs relative to healthcare are commendable.

I fully support this proposed project, and I would respectfully encourage the Board to approve their recommended project.

Sincerely,

A handwritten signature in black ink, appearing to read "Ken Springer".

Ken Springer, President
Knox County Area Partnership for Economic Development

 **OSF**
SAINT FRANCIS MEDICAL CENTER

January 6, 2016

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

Dear Ms. Avery:

As President of OSF Saint Francis Medical Center, I fully support the expansion and modernization of OSF St. Mary Medical Center in Galesburg.

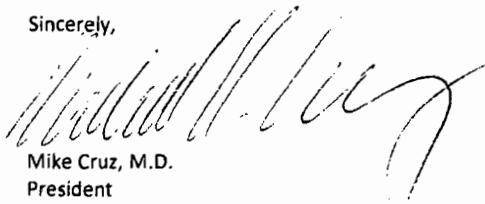
This project is the first major upgrade to the facility's surgical space since it opened more than 40 years ago. The delivery of hospital services has changed dramatically since then, with an increasing amount of care moving from the inpatient to the outpatient setting. These plans are a significant response to this trend.

I applaud OSF St. Mary Medical Center for proposing a project that will provide state-of-the-art outpatient care, improving patient access to outpatient services, and working to meet the area's future health care demands.

Additionally, as Peoria is the hub of the OSF Healthcare System, this kind of regionalization of healthcare services can serve to lessen our capacity issues here while still maintaining high quality outcomes and improve the patient experience.

I urge members of the Illinois Health Facilities and Services Review Board to approve this certificate of need request.

Sincerely,



Mike Cruz, M.D.
President

cc: Roxanna Cresser



January 4, 2016

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

Dear Ms. Avery,

As the President of OSF Holy Family Medical Center, I would like to offer my support for the proposed Surgery, Lab, Cardiology and Infusion services project at OSF St. Mary Medical Center.

OSF St. Mary Medical Center is a key component in our patient's continuity of care. While OSF Holy Family Medical Center can provide a wide variety of services, to maintain quality care for our patients, we utilize OSF St. Mary Medical Center for more complex patients that we cannot care for. This project will ensure that our patients receive the very best quality and safest care possible.

The proposed project will also continue to allow us to recruit needed physicians and other professionals to both of our communities to care for our patients.

I am in support of the proposed project at OSF St. Mary Medical Center.

Respectfully,

A handwritten signature in cursive script, appearing to read "Patty Luker".

Patty Luker
President
OSF Holy Family Medical Center

1000 W. Harmon Avenue, Monmouth IL 61452 Phone 309-754-1141 Fax 309-744-8029 www.osfholyfamily.org
The Sisters of the Third Order of St. Francis

 **OSF**
**SAINT LUKE
MEDICAL CENTER**

January 5, 2016

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

RE: Letter of Support for OSF St. Mary Medical Center Expansion and Renovation

Dear Ms. Avery:

I am writing to provide my full support of the planned expansion and renovation of Surgical and Laboratory Services and the relocation of Cardiology and Infusion Services ("Project") at OSF St. Mary Medical Center. The Project will greatly benefit patients in our region.

OSF Saint Luke is a more recent addition to the OSF Ministry and has benefited from the close relationship with OSF St. Mary Medical Center. Patients from the Kewanee community who need more advanced care are able to be referred to OSF St. Mary's and stay within the OSF Healthcare System. The clinicians at OSF Saint Luke work directly with the OSF St. Mary providers for services such as advanced surgical care. This relationship has allowed OSF Saint Luke to further extend services to our community and improve overall patient care.

In closing, this project will enable our team to continue to provide a broad spectrum of services to our local communities. I appreciate the time consideration of the Board.

Sincerely,



Lynn A. Fulton
President
OSF Saint Luke Medical Center

1051 West South Street, PO Box 747, Kewanee, IL 61443 Phone (309) 852-7500
The Sisters of the Third Order of St. Francis



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

Dear Ms. Avery:

As the President of the Medical Staff at OSF St. Mary Medical Center, I have observed and been impressed with the Medical Center's ongoing efforts to improve the programs and services for the patients we services in this area.

The proposed new construction and modernization of the Surgery, Laboratory, Cardiology, and Infusion services are integral to the Medical Center's ability to provide contemporary care to the community and to maintain the high quality of care which our patients have come to expect.

It is also important to note that the proposed project will enhance our ability to recruit new physicians to the community.

The members of the Medical Staff are especially pleased with the emphasis on outpatient care that is part of the new plan. Outpatient care, where appropriate, is certainly preferred by patients, and the new design of surgery and the other services included in the project certainly address our ability to provide efficient, convenient outpatient care.

On behalf of myself and the other members of the Medical Staff, I support the proposed new construction and modernization project at OSF St. Mary Medical Center.

Sincerely,

A handwritten signature in black ink, appearing to read "K. Patel", written over a horizontal line.

Kishor Patel, M.D. FCCP.
Chief of Staff-SMMC
Lead Physician-OSF Galesburg Clinic

3315 North Seminary Street, Galesburg, IL 61401 Phone (309) 344-1000 www.osfgalesburgclinic.org
The Sisters of the Third Order of St. Francis



December 29, 2015

Ms. Courtney Avery, Administrator
Illinois Health Facilities and Services Review Board
525 West Jefferson Street, 2nd. Floor
Springfield, IL 61401

Dear Ms. Avery:

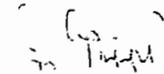
I am providing this letter in support of the proposed project by which OSF St. Mary Medical Center will upgrade and expand their surgical and laboratory services and relocate their Cardiology and Infusion services for the convenience of their patients.

This will be the first major modification to the actual surgical rooms since the facility was completed and occupied in 1974. At that time, 80% of the surgical cases were inpatient and 20% were outpatient. Those numbers have reversed themselves over the years, with 80% or more of the surgical cases now being outpatient, which requires a different flow for the patients, as they typically are discharged home from the surgical area rather than to a patient room.

The proposed project, from a surgical perspective, will bring the surgical rooms in line with current standards in terms of size, which among other things, will enhance the efforts of the Medical Center to attract new physicians. Additionally, patient privacy will be enhanced as much of the pre-op and post-op space will be private rather than curtained cubicles.

This project will greatly enhance the services provided to the residents of our community and the surrounding area, and I am pleased to support this project.

Sincerely,


Jerry Mitchell, M.D.
Chief of Surgery

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	214,764	85,236	300,000
Site Survey and Soil Investigation			
Site Preparation	21,883	8,684	30,567
Off Site Work			
New Construction Contracts	2,827,335	3,836,634	6,663,969
Modernization Contracts	8,908,221	1,728,848	10,637,069
Contingencies	1,613,099	640,208	2,253,307
Architectural/Engineering Fees	851,921	338,079	1,190,000
Consulting and Other Fees	89,488	35,512	125,000
Movable or Other Equipment (not in construction contracts)	4,000,000	594,710	4,594,710
Bond Issuance Expense (project related)	296,556	116,337	412,893
Net Interest Expense During Construction (project related)	1,364,654	535,346	1,900,000
Fair Market Value of Leased Space or Equipment			
Other Costs To Be Capitalized			
Acquisition of Building or Other Property (excluding land)			
TOTAL USES OF FUNDS	\$20,187,921	\$7,919,594	\$28,107,515
SOURCE OF FUNDS	CLINICAL	NONCLINICAL	TOTAL
Cash and Securities			5,000,000
Pledges			
Gifts and Bequests			150,000
Bond Issues (project related)			22,957,515
Mortgages			
Leases (fair market value)			
Governmental Appropriations			
Grants			
Other Funds and Sources			
TOTAL SOURCES OF FUNDS			\$28,107,515
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: **NA**

Land acquisition is related to project	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Purchase Price: \$	_____	
Fair Market Value: \$	_____	
The project involves the establishment of a new facility or a new category of service		
	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> 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 \$ <u>NA</u> .		

Project Status and Completion Schedules

For facilities in which prior permits have been issued please provide the permit numbers. NA OSF St. Mary has no open permits
Indicate the stage of the project's architectural drawings:
<input type="checkbox"/> None or not applicable <input type="checkbox"/> Preliminary <input checked="" type="checkbox"/> Schematics <input type="checkbox"/> Final Working
Anticipated project completion date (refer to Part 1130.140): <u>August 15, 2019</u>
Indicate the following with respect to project expenditures or to obligation (refer to Part 1130.140):
<input type="checkbox"/> Purchase orders, leases or contracts pertaining to the project have been executed. <input type="checkbox"/> Project obligation is contingent upon permit issuance. Provide a copy of the contingent "certification of obligation" document, highlighting any language related to CON Contingencies <input checked="" type="checkbox"/> 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:
<input checked="" type="checkbox"/> Cancer Registry
<input checked="" type="checkbox"/> APORS
<input checked="" type="checkbox"/> All formal document requests such as IDPH Questionnaires and Annual Bed Reports been submitted
<input checked="" type="checkbox"/> 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.**

Dept. / Area	Cost	Gross Square Feet		Amount of Proposed Total Gross Square Feet That Is:			
		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							
<p>APPEND DOCUMENTATION AS <u>ATTACHMENT-9</u>, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.</p>							

Cost / Space Requirements						
Department	Project Cost	Gross Square Feet		Amount of Proposed Total GSF That Is:		
		Existing	Proposed	New Construction	Remodeled	As Is
Clinical						
Surgical Operating Suite	\$ 9,989,182	7,770	11,609	3,190	8,419 ***	
Surgical Procedure Suite	\$ 1,730,094	Incl. in OR	1,914		1,914	
Phase I Post Anesthesia Recovery (PACU)	\$ 1,621,155	1,693	1,802		1,802	
Phase II Post Anesthesia Recovery (Prep/Recovery)	\$ 2,363,436	5,852	8,355 *		8,355	
Laboratory	\$ 3,189,020	5,206	5,002	2,736	2,266	
Center for Outpatient Services **	\$ 1,295,034	2,740	2,456		2,456	
Pain Management	\$ 0	310	620		620	
Total Clinical	\$ 20,187,921	23,571	31,758	5,926	25,212	620
Non Clinical						
Non Clinical Storage and Shared Support	\$ 1,140,422	383	3,825	3,442	383	
Public Space / Amenities	\$ 831,557	574	1,528	0	1,528	
Building Components ****	\$ 4,617,123		4,224	4,224	incl.	
Level 2 Circulation / Mechanical / Stairs, etc.	\$ 1,330,492	5,060	1,870	0	1,870	
Total Non-Clinical	\$ 7,919,594	6,017	11,447	7,666	3,781	0
Total Project	\$ 28,107,515	29,588	43,205	13,592	28,993	620

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

Note: 1. The elements that comprise non clinical area are: storage and shared support such as public space/amenities, building components, structural elements, existing walls, waiting, public toilets, intradepartmental circulation, etc.

2. The new construction and modernization project that OSF St. Mary Medical Center is proposing utilizes all the square footage very efficiently. At project completion there is no vacated space. The existing spaces are all reallocated. The existing space at 29,588 sq. ft. and remodeled plus "as is" space at 29,613 sq. ft. differs by 25 sq. ft.; error due to rounding in space take-offs.

3. Existing COPS net sq. ft. adjusted to include departmental elements @ 10% (N: G conversion factor)
 * Includes internal circulation corridor @ 2,185 sq. ft.

** Proposed Center for Outpatient Services (COPS) Includes Infusion (694 sq. ft.) and Cardiology (1,762 sq. ft.)

*** Includes departmental shared support @ 2,406 sq. ft.

**** Includes new external walls and mechanical penthouse

Project cost allocations based on Attachments 7 and 39

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: OSF St. Mary Medical Center		CITY: Galesburg			
REPORTING PERIOD DATES: From: December 31, 2013 to: December 31, 2014					
Category of Service	Authorized Beds	Admissions	Patient Days ¹	Bed Changes	Proposed Beds
Medical/Surgical	60	2,510	10,260	-	60
Obstetrics	7	300	381	-	7
Pediatrics	5	13	25	-	5
Intensive Care	9	172	1,140	-	9
Comprehensive Physical Rehabilitation	-				
Acute/Chronic Mental Illness	-				
Neonatal Intensive Care	-				
General Long Term Care	-				
Specialized Long Term Care	-				
Long Term Acute Care	-				
Other ((identify))	-				
TOTALS:	81	2,995	11,806	-	81

¹ Includes observation days

Observation Days

Medical/Surgical	1,637
Obstetrics	0
Pediatrics	1
Intensive Care	<u>1</u>
Total	1,639

CERTIFICATION

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

- o in the case of a corporation, any two of its officers or members of its Board of Directors;
- o 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);
- o 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);
- o in the case of estates and trusts, two of its beneficiaries (or the sole beneficiary when two or more beneficiaries do not exist); and
- o in the case of a sole proprietor, the individual that is the proprietor.

This Application for Permit is filed on the behalf of OSF Healthcare System dba OSF St. Mary Medical Center * 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.

Roxanna Crosser
SIGNATURE

H. Curt Lipe
SIGNATURE

Roxanna Crosser
PRINTED NAME

H. Curt Lipe CPA
PRINTED NAME

President
PRINTED TITLE

Vice President, Chief Financial Officer
PRINTED TITLE

Notarization:
Subscribed and sworn to before me
this 10th day of February, 2016

Notarization:
Subscribed and sworn to before me
this 10th day of February, 2016

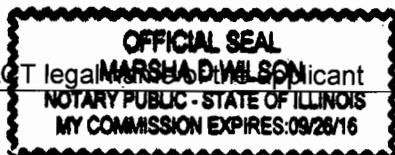
Marsha D Wilson
Signature of Notary

Marsha D Wilson
Signature of Notary

Seal

Seal

*Insert EXACT legal name of the Applicant



CERTIFICATION

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

- in the case of a corporation, any two of its officers or members of its Board of Directors;
- in the case of a limited liability company, any two of its managers or members (or the sole manger or member when two or more managers or members do not exist);
- in the case of a partnership, two of its general partners (or the sole general partner, when two or more general partners do not exist);
- in the case of estates and trusts, two of its beneficiaries (or the sole beneficiary when two or more beneficiaries do not exist); and
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Kevin D Schoepflein
 SIGNATURE
Kevin D Schoepflein
 PRINTED NAME
Chief Executive Officer
 PRINTED TITLE

Robert Sehring
 SIGNATURE
Robert Sehring
 PRINTED NAME
Regional Chief Executive Officer
 PRINTED TITLE

Notarization:
 Subscribed and sworn to before me
 this 15th day of February

Notarization:
 Subscribed and sworn to before me
 this 16th day of February

Tonda L Stewart
 Signature of Notary

Tonda L Stewart
 Signature of Notary

Seal
 OFFICIAL SEAL
 TONDA L STEWART
 Notary Public - State of Illinois
 My Commission Expires Aug 26, 2016

Seal
 OFFICIAL SEAL
 TONDA L STEWART
 Notary Public - State of Illinois
 My Commission Expires Aug 26, 2016

*Insert EXACT legal name of the applicant

OFFICIAL SEAL
 TONDA L STEWART
 Notary Public - State of Illinois
 My Commission Expires Aug 26, 2016

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

INDEX OF ATTACHMENTS		
ATTACHMENT NO.		PAGES
1	Applicant/Co-applicant Identification including Certificate of Good Standing	42 – 43
2	Site Ownership	44 – 45
3	Persons with 5 percent or greater interest in the licensee must be identified with the % of ownership.	46 – 47
4	Organizational Relationships (Organizational Chart) Certificate of Good Standing Etc.	48 – 49
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8	Obligation Document if required	57
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19	Mergers, Consolidations and Acquisitions	
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23	Neonatal Intensive Care	
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38	Financial Viability	127
39	Economic Feasibility	128 – 138
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Appendix A	OSF Healthcare System Consolidated Financials	149 – 222
Appendix B	Bond Rating Letters	223 – 245

ATTACHMENTS

SECTION I. IDENTIFICATION, GENERAL INFORMATION, AND CERTIFICATION

Applicant /Co-Applicant Identification

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

Exact Legal Name:	OSF Healthcare System dba OSF St. Mary Medical Center
Address:	3333 N. Seminary Street, Galesburg, Illinois 61401
Name of Registered Agent:	Sister Theresa Ann Brazeau OSF
Name of Chief Executive Officer:	Kevin D. Schoeplein
CEO Address:	800 NE Glen Oak Ave, Peoria, Illinois 61603
Telephone Number:	309-655-2850

Applicant /Co-Applicant Identification

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

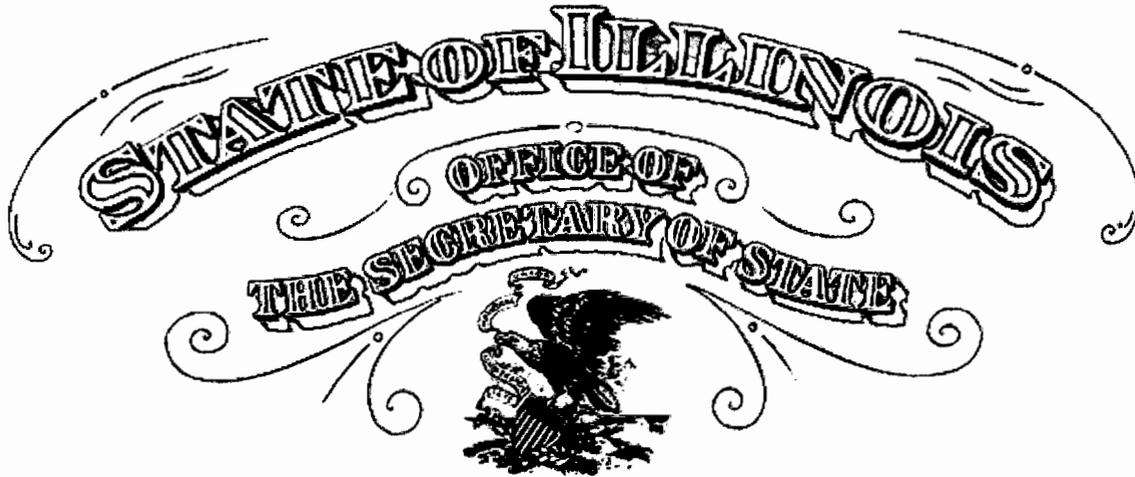
Exact Legal Name:	OSF Healthcare System
Address:	800 NE Glen Oak Ave, Peoria, Illinois 61603
Name of Registered Agent:	Sister Theresa Ann Brazeau OSF
Name of Chief Executive Officer:	Kevin D. Schoeplein
CEO Address:	800 NE Glen Oak Ave, Peoria, Illinois 61603
Telephone Number:	309-655-2850

Type of Ownership of Applicant/Co-Applicant

<input checked="" type="checkbox"/> Non-profit Corporation	<input type="checkbox"/> Partnership
<input type="checkbox"/> For-profit Corporation	<input type="checkbox"/> Governmental
<input type="checkbox"/> Limited Liability Company	<input type="checkbox"/> Sole Proprietorship
	<input type="checkbox"/> Other

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

A copy of the Certificate of Good Standing for OSF Healthcare System is appended as Attachment 1, Exhibit 1.



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

OSF HEALTHCARE SYSTEM, A DOMESTIC CORPORATION, INCORPORATED UNDER THE LAWS OF THIS STATE ON JANUARY 02, 1880, 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 5TH day of JANUARY A.D. 2016 .



Authentication #: 1600500186 verifiable until 01/05/2017
Authenticate at: <http://www.cyberdriveillinois.com>

Jesse White

SECRETARY OF STATE

Site Ownership

[Provide this information for each applicable site]

Exact Legal Name of Site Owner:	OSF Healthcare System
Address of Site Owner:	800 NE Glen Oak Avenue, Peoria, Illinois 61603
Street Address or Legal Description of Site:	3333 N. Seminary St. Galesburg, Illinois 61401
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.	

The current Certificate of Property Insurance is appended as Attachment 2, Exhibit 1. This document is proof of ownership of the OSF St. Mary Medical Center site.



CERTIFICATE OF PROPERTY INSURANCE

DATE (MM/DD/YYYY)
12/15/2015

THIS CERTIFICATE IS ISSUED AS A MATTER OF INFORMATION ONLY AND CONFERS NO RIGHTS UPON THE CERTIFICATE HOLDER. THIS CERTIFICATE DOES NOT AFFIRMATIVELY OR NEGATIVELY AMEND, EXTEND OR ALTER THE COVERAGE AFFORDED BY THE POLICIES BELOW. THIS CERTIFICATE OF INSURANCE DOES NOT CONSTITUTE A CONTRACT BETWEEN THE ISSUING INSURER(S), AUTHORIZED REPRESENTATIVE OR PRODUCER, AND THE CERTIFICATE HOLDER.

If this certificate is being prepared for a party who has an insurable interest in the property, do not use this form. Use ACORD 27 or ACORD 28.

PRODUCER McLaughlin & Sons, Inc. 3701 N. Sheridan Road Peoria, IL 61614-7140	CONTACT NAME: Mary Ellen DeBord
	PHONE (A/C, No, Ext): 309-685-1010 FAX (A/C, No): 309-685-3389 E-MAIL ADDRESS: MaryEllen@McLaughlinInsurance.net PRODUCER CUSTOMER ID: 1002087
INSURED OSF Healthcare System Attn: Lisa Roher 1420 W. Pioneer Parkway Peoria, IL 61615 309-655-2870	INSURER(S) AFFORDING COVERAGE NAIC #
	INSURER A: Chubb (Vigilant Insurance Company)
	INSURER B:
	INSURER C:
	INSURER D:
	INSURER E:

COVERAGES **CERTIFICATE NUMBER:** **REVISION NUMBER:**

LOCATION OF PREMISES / DESCRIPTION OF PROPERTY (Attach ACORD 101, Additional Remarks Schedule, if more space is required)
 OSF Healthcare System dba OSF St. Mary Medical Center 3375 N. Seminary Street, Galesburg, IL 61401.

THIS IS TO CERTIFY THAT THE POLICIES OF INSURANCE LISTED BELOW HAVE BEEN ISSUED TO THE INSURED NAMED ABOVE FOR THE POLICY PERIOD INDICATED. NOTWITHSTANDING ANY REQUIREMENT, TERM OR CONDITION OF ANY CONTRACT OR OTHER DOCUMENT WITH RESPECT TO WHICH THIS CERTIFICATE MAY BE ISSUED OR MAY PERTAIN, THE INSURANCE AFFORDED BY THE POLICIES DESCRIBED HEREIN IS SUBJECT TO ALL THE TERMS, EXCLUSIONS AND CONDITIONS OF SUCH POLICIES. LIMITS SHOWN MAY HAVE BEEN REDUCED BY PAID CLAIMS.

INSR LTR	TYPE OF INSURANCE	POLICY NUMBER	POLICY EFFECTIVE DATE (MM/DD/YYYY)	POLICY EXPIRATION DATE (MM/DD/YYYY)	COVERED PROPERTY	LIMITS
A	<input checked="" type="checkbox"/> PROPERTY	3594-26-02	10/01/2015	10/01/2016	BUILDING	\$
	<input type="checkbox"/> CAUSES OF LOSS				PERSONAL PROPERTY	\$
	<input type="checkbox"/> BASIC				<input checked="" type="checkbox"/> BUSINESS INCOME	\$
	<input type="checkbox"/> BROAD				<input checked="" type="checkbox"/> EXTRA EXPENSE	\$
	<input checked="" type="checkbox"/> SPECIAL				RENTAL VALUE	\$
	<input checked="" type="checkbox"/> EARTHQUAKE				BLANKET BUILDING	\$
	<input type="checkbox"/> WIND				BLANKET PERS PROP	\$
	<input checked="" type="checkbox"/> FLOOD				<input checked="" type="checkbox"/> BLANKET BLDG & PP	\$
					<input checked="" type="checkbox"/> Per Occurrence	\$ 1,000,000,000
						\$
	INLAND MARINE	TYPE OF POLICY				\$
	CAUSES OF LOSS					\$
	NAMED PERILS	POLICY NUMBER				\$
						\$
	CRIME					\$
	TYPE OF POLICY					\$
						\$
	<input checked="" type="checkbox"/> BOILER & MACHINERY / EQUIPMENT BREAKDOWN					\$
						\$
						\$

SPECIAL CONDITIONS / OTHER COVERAGES (Attach ACORD 101, Additional Remarks Schedule, if more space is required)
 OSF St. Mary Medical Center is a dba of OSF Healthcare System and is located at 3375 N. Seminary Street, Galesburg, IL 61401.

CERTIFICATE HOLDER OSF Healthcare System 800 N.E. Glen Oak Ave. Peoria, IL 61603	CANCELLATION SHOULD ANY OF THE ABOVE DESCRIBED POLICIES BE CANCELLED BEFORE THE EXPIRATION DATE THEREOF, NOTICE WILL BE DELIVERED IN ACCORDANCE WITH THE POLICY PROVISIONS. AUTHORIZED REPRESENTATIVE 
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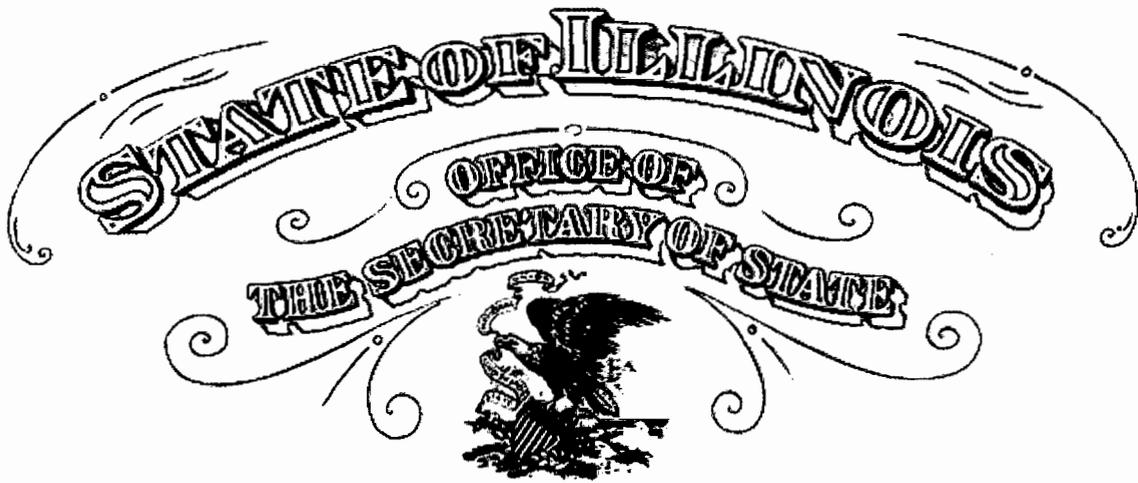
ACORD 24 (2009/09) The ACORD name and logo are registered marks of ACORD

Operating Identity/Licensee

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

Exact Legal Name:	OSF Healthcare System dba OSF St. Mary Medical Center		
Address:	3333 N. Seminary Avenue Galesburg, Illinois 61401		
<input checked="" type="checkbox"/>	Non-profit Corporation	<input type="checkbox"/>	Partnership
<input type="checkbox"/>	For-profit Corporation	<input type="checkbox"/>	Governmental
<input type="checkbox"/>	Limited Liability Company	<input type="checkbox"/>	Sole Proprietorship
		<input type="checkbox"/>	Other
<ul style="list-style-type: none">o Corporations and limited liability companies must provide an Illinois Certificate of Good Standing.o Partnerships must provide the name of the state in which organized and the name and address of each partner specifying whether each is a general or limited partner.o Persons with 5 percent or greater interest in the licensee must be identified with the % of ownership.			
APPEND DOCUMENTATION AS ATTACHMENT-3, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.			

The Certificate of Good Standing for OSF Healthcare System is included as Attachment 3, Exhibit 1.



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

OSF HEALTHCARE SYSTEM, A DOMESTIC CORPORATION, INCORPORATED UNDER THE LAWS OF THIS STATE ON JANUARY 02, 1880, 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 5TH day of JANUARY A.D. 2016 .



Authentication #: 1600500186 verifiable until 01/05/2017
Authenticate at: <http://www.cyberdriveillinois.com>

Jesse White

SECRETARY OF STATE

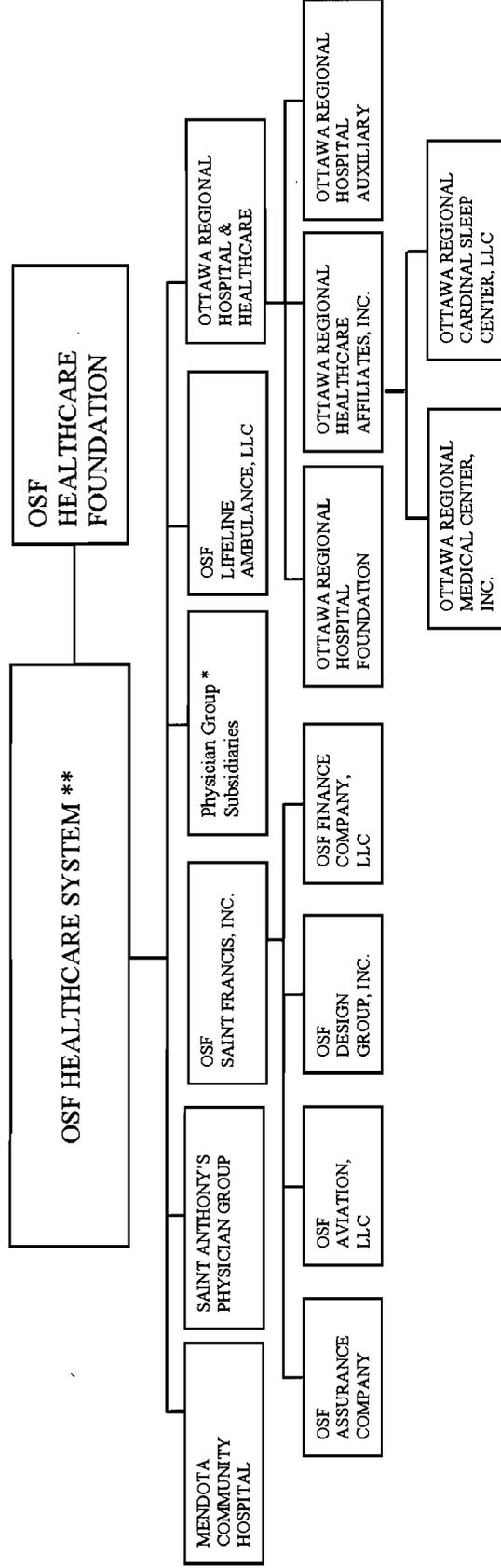
Organizational Relationships

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

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

Attachment 4, Exhibit 1 is a diagram of the corporate structure of OSF Healthcare System and OSF St. Mary Medical Center.

**OSF HEALTHCARE SYSTEM AND RELATED CORPORATIONS
CORPORATE STRUCTURE**



***Physician Group Subsidiaries**

- OSF Multi-Specialty Group
- OSF Multispecialty Group – Peoria, LLC
- OSF Multispecialty Group – Eastern Region, LLC
- OSF Multispecialty Group – Western Region, LLC
- OSF Heart & Vascular Institute
- Cardiovascular Institute at OSF, LLC
- HeartCare Midwest, Ltd.
- Children's Hospital of Illinois Medical Group
- OSF Children's Medical Group - Congenital Heart Center, LLC
- OSF Perinatal Associates, LLC
- Illinois Neuroscience Institute
- Illinois Neurological Institute – Physicians, LLC
- Illinois Pathologist Services, LLC
- Illinois Specialty Physician Services at OSF, LLC

****OSF Healthcare System**

- OSF Saint Francis Medical Center
- OSF Saint Anthony Medical Center
- OSF St. Joseph Medical Center
- OSF Saint James-John W. Albrecht Medical Center
- OSF St. Mary Medical Center
- OSF Holy Family Medical Center
- OSF St. Francis Hospital
- OSF Saint Luke Medical Center
- OSF Saint Anthony's Health Center
- OSF Saint Paul Medical Center
- OSF Home Care Services
- OSF Medical Group
 - Cardiovascular Services
 - Neuroscience Services
 - Children's Services
 - Ambulatory Services

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.

In accordance with the Flood Plain Requirements in the July 2013 Edition of the Certificate of Need Application and Illinois Executive Order # 2005-5, and by the signature on the application OSF Healthcare System and OSF St. Mary Medical Center (the Applicants) submit the following:

OSF Healthcare System and OSF St. Mary Medical Center attest that the proposed expansion and modernization of OSF St. Mary Medical Center will not be in a flood plain and that the location complies with Flood Plain Rule under Executive Order # 2005-5.

In addition, the Applicants are providing a flood plain map of the hospital's location as Attachment 5, Exhibit 1 that shows that hospital site is not in a flood plain.

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.

Attachment 6, Exhibit 1 is a letter from the Illinois Historic Preservation Agency dated December 9, 2015, stating that the OSF St. Mary Medical Center project area has no historic, architectural, or archeological sites.



1 Old State Capitol Plaza, Springfield, IL 62701-1512

FAX (217) 524-75
www.illinoishistory.gov

Knox County

Galesburg

CON - New 3 Floor Addition & Rehabilitation and Expansion of 2nd Floor Surgery, OSF St. Mary Medical Center

3333 N. Seminary St.

IHPA Log #021113015

December 9, 2015

Janet Scheuerman
PRISM Healthcare Consulting
1808 Woodmere Drive
Valparaiso, IN 46383

Dear Ms. Scheuerman:

This letter is to inform you that we have reviewed the information provided concerning the referenced project.

Our review of the records indicates that no historic, architectural or archaeological sites exist within the project area.

Please retain this letter in your files as evidence of compliance with Section 4 of the Illinois State Agency Historic Resources Preservation Act (20 ILCS 3420/1 et. seq.). This clearance remains in effect for two years from date of issuance. It does not pertain to any discovery during construction, nor is it a clearance for purposes of the Illinois Human Skeletal Remains Protection Act (20 ILCS 3440).

If you have any further questions, please contact me at 217/785-5031.

Sincerely,

Rachel Leibowitz, Ph.D.
Deputy State Historic
Preservation Officer

For TTY communication, dial 888-440-9009. It is not a voice or fax line.

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	214,764	85,236	300,000
Site Survey and Soil Investigation			
Site Preparation	21,883	8,684	30,567
Off Site Work			
New Construction Contracts	2,827,335	3,836,634	6,663,969
Modernization Contracts	8,908,221	1,728,848	10,637,069
Contingencies	1,613,099	640,208	2,253,307
Architectural/Engineering Fees	851,921	338,079	1,190,000
Consulting and Other Fees	89,488	35,512	125,000
Movable or Other Equipment (not in construction contracts)	4,000,000	594,710	4,594,710
Bond Issuance Expense (project related)	296,556	116,337	412,893
Net Interest Expense During Construction (project related)	1,364,654	535,346	1,900,000
Fair Market Value of Leased Space or Equipment			
Other Costs To Be Capitalized			
Acquisition of Building or Other Property (excluding land)			
TOTAL USES OF FUNDS	\$20,187,921	\$7,919,594	\$28,107,515
SOURCE OF FUNDS	CLINICAL	NONCLINICAL	TOTAL
Cash and Securities			5,000,000
Pledges			
Gifts and Bequests			150,000
Bond Issues (project related)			22,957,515
Mortgages			
Leases (fair market value)			
Governmental Appropriations			
Grants			
Other Funds and Sources			
TOTAL SOURCES OF FUNDS			\$28,107,515
NOTE: ITEMIZATION OF EACH LINE ITEM MUST BE PROVIDED AT ATTACHMENT-7, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.			

Attachment 7, Itemization

	<u>Clinical</u>	<u>Non Clinical</u>
Preplanning Costs		
Consulting Fees	214,764	85,236
Site Preparation	21,883	8,684
New Construction Contracts		
Surgical Operating Suites	1,427,844	
Surgical Procedure Suite		
Phase I Post Anesthesia Recovery (PACU)		
Phase II Post Anesthesia Recovery Prep/Recovery)		
Laboratory	1,399,491	
Center for Outpatient Services (COPS)		
Non-clinical areas		3,836,634
Contingency (9.95% of New Construction)	281,320	381,745
Modernization Contracts		
Surgical Operating Suites	3,645,213	
Surgical Procedure Suite	876,191	
Phase I Post Anesthesia Recovery (PACU)	818,414	
Phase II Post Anesthesia Recovery Prep/Recovery)	1,716,346	
Laboratory	913,742	
Center for Outpatient Services (COPS)	938,315	
Non-clinical areas		1,728,848
Contingency (14.95% of New Construction)	1,331,779	258,463
Architectural/Engineering Fees	851,921	338,079
Consulting and Other Fees		
CON Filing Fee	50,120	19,880
CON Preparation Fees	39,368	15,632

Attachment 7, Itemization

	<u>Clinical</u>	<u>Non Clinical</u>
Moveable or Other Equipment		
Surgery	4,000,000	205,000
Laboratory		339,710
Center for Outpatient Services (COPS)		50,000
Bond Issuance Expense	296,556	116,337
Net Interest Expense During Construction	1,364,654	535,346
Total	20,187,921	7,919,594

Project Status and Completion Schedules

For facilities in which prior permits have been issued please provide the permit numbers. NA
OSF St. Mary has no open permits

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): August 15, 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.

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.**

Dept. / Area	Cost	Gross Square Feet		Amount of Proposed Total Gross Square Feet That Is:			
		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.							

Department		Cost / Space Requirements				Amount of Proposed Total GSF That Is:			
		Project Cost	Existing	Proposed	New Construction	Remodeled	As Is	Vacated Space	
Clinical									
Surgical Operating Suite		\$ 9,989,182	7,770	11,609	3,190	8,419 ***			
Surgical Procedure Suite		\$ 1,730,094	Incl. in OR	1,914		1,914			
Phase I Post Anesthesia Recovery (PACU)		\$ 1,621,155	1,693	1,802		1,802			
Phase II Post Anesthesia Recovery (Prep/Recovery)		\$ 2,363,436	5,852	8,355 *		8,355			
Laboratory		\$ 3,189,020	5,206	5,002	2,736	2,266			
Center for Outpatient Services **		\$ 1,295,034	2,740	2,456		2,456			
Pain Management		\$ 0	310	620			620		
Total Clinical		\$ 20,187,921	23,571	31,758	5,926	25,212	620	0	
Non Clinical									
Non Clinical Storage and Shared Support		\$ 1,140,422	383	3,825	3,442	383			
Public Space / Amenities		\$ 831,557	574	1,528	0	1,528			
Building Components ****		\$ 4,617,123		4,224	4,224	incl.			
Level 2 Circulation / Mechanical / Stairs, etc.		\$ 1,330,492	5,060	1,870	0	1,870			
Total Non-Clinical		\$ 7,919,594	6,017	11,447	7,666	3,781	0	0	
Total Project		\$ 28,107,515	29,588	43,205	13,592	28,993	620	0	

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

Note: 1. The elements that comprise non clinical area are: storage and shared support such as public space/amenities, building components, structural elements, existing walls, waiting public toilets, intradepartmental circulation, etc.

2. The new construction and modernization project that OSF St. Mary Medical Center is proposing utilizes all the square footage very efficiently. At project completion there is no vacated space. The existing spaces are all reallocated. The existing space at 29,588 sq. ft. and remodeled plus "as is" space at 29,613 sq. ft. differs by 25 sq. ft.; error due to rounding in space take-offs.

3. Existing COPS net sq. ft. adjusted to include departmental elements @ 10% (N: G conversion factor)

* Includes internal circulation corridor @ 2,185 sq. ft.

** Proposed Center for Outpatient Services (COPS) Includes Infusion (694 sq. ft.) and Cardiology (1,762 sq. ft.)

*** Includes departmental shared support @ 2,406 sq. ft.

**** Includes new external walls and mechanical penthouse

Project cost allocations based on Attachments 7 and 39

. 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:

<p>BACKGROUND OF APPLICANT</p> <ol style="list-style-type: none"> 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.
<p>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.</p>

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

The following hospitals are owned and operated in Illinois by OSF Healthcare System.

Facility	Location	License Number	Accreditation
OSF St. Mary Medical Center	Galesburg	0002675	7349
OSF Holy Family Medical Center	Monmouth	0005439	¹
OSF Saint Anthony Medical Center	Rockford	0002253	7419
OSF Saint Anthony's Health Center	Alton	0005942	7237
Ottawa Regional Hospital and Healthcare Center dba OSF Saint Elizabeth Medical Center	Ottawa	0005520	7402
OSF Saint Francis Medical Center	Peoria	0002394	7410
OSF Saint James Hospital	Pontiac	0005264	7412
OSF St. Joseph Medical Center	Bloomington	0002535	7248
OSF Saint Luke Medical Center	Kewanee	0005926	¹
Mendota Community Hospital dba OSF Saint Paul Medical Center	Mendota	0005819	¹

¹ These facilities are not accredited.

The license for OSF St. Mary Medical Center is included as Attachment 11, Exhibit 1.

The most recent accreditation certificate for OSF St. Mary Medical Center is included as Attachment 11, Exhibit 2.

OSF St. Mary Medical Center participates in Medicaid and Medicare.



Illinois Department of PUBLIC HEALTH HF109533

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	LD NUMBER
12/31/2016		0002675
General Hospital		
Effective: 01/01/2016		

St. Mary Medical Center
3333 North Seminary Street
Galesburg, IL 61401

The face of this license has a colored background. Printed by Authority of the State of Illinois • P.C. #4012300 10M 2/12

← DISPLAY THIS PART IN A CONSPICUOUS PLACE

Exp. Date 12/31/2016
 Lic Number 0002675
 Date Printed 10/28/2015

St. Mary Medical Center
 3333 North Seminary Street
 Galesburg, IL 61401

FEE RECEIPT NO.

O.S.F St. Mary Medical Center

Galesburg, IL

has been Accredited by



The Joint Commission

Which has surveyed this organization and found it to meet the requirements for the
Hospital Accreditation Program

January 11, 2014

Accreditation is customarily valid for up to 36 months.

A handwritten signature in black ink, appearing to read "Rebecca J. Patchin MD".

Rebecca J. Patchin, MD
Chair, Board of Commissioners

Organization ID #7349

Print/Reprint Date: 03/24/2014

A handwritten signature in black ink, appearing to read "Mark R. Chassin".

Mark R. Chassin, MD, FACP, MPP, MPH
President

The Joint Commission is an independent, not-for-profit national body that oversees the safety and quality of health care and other services provided in accredited organizations. Information about accredited organizations may be provided directly to The Joint Commission at 1-800-994-6610. Information regarding accreditation and the accreditation performance of individual organizations can be obtained through The Joint Commission's web site at www.jointcommission.org.



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.*

By the signatures on this application, OSF Healthcare System hereby attests that there have been no adverse actions against any facility owned and/or operated by OSF Healthcare System by any regulatory agency which would affect its ability to operate as a licensed entity during the three years prior to the filing of this 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.***

By the signatures on this application, OSF Healthcare System hereby authorizes the Health Facilities and Services Review Board and the Department of Public Health to access information in order to verify any documentation or information submitted in response to the requirements of this subsection, or to obtain any documentation or information which the State Board or Department of Public Health find pertinent to this subsection.

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.*

Not applicable. This is the first certificate of need filed by OSF Healthcare System in 2016. CON # 15-058 Streator freestanding emergency center (FSEC) was filed by OSF Healthcare System in December 2015 and was heard and approved by the Health Facilities and Services Review Board on February 16, 2016.

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.

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.*

OSF St. Mary Medical Center (OSF SMMC, Medical Center) is proposing a new construction and modernization project that will provide health facilities designed to improve the health care and well being of the market area population served. The proposed project will provide facilities that better meet the needs of the increasing proportion of outpatients in surgery, procedure rooms, and recovery areas, will enhance the delivery of outpatient care in the Center for Outpatient Services, and will modernize the clinical laboratory to meet all accreditation requirements. The design of the project will improve ease of patient movement through the facility, safety, comfort and privacy in the clinical areas, as well as work flow and efficiency for the staff. The project will also promote the recruitment of needed physicians to the area. Further this project is fully consistent with Section 1100.360 Modern Facilities of the Illinois Administrative Code which states that:

"The people of Illinois should have facilities which are modern in accord with all recognized standards of design, construction, operation and which represent the most cost efficient alternative for the provision of quality care."

2. *Define the planning area, or other market area, per the applicant's definition.*

OSF Healthcare System defines the service area of OSF St. Mary Medical Center as the zip codes identified on Attachment 12, Exhibit 1. These zip codes account for 88.5 percent of the Medical Center's FY 2015 inpatients. Attachment 12, Exhibit 2 is a map of this service area. Attachment 12, Exhibit 3 is a copy of the Demographic and Income Profile of the Galesburg zip code (61401) which accounts for 45.9 percent of the Medical Center's inpatients. Attachment 12, Exhibit 4 is a copy of the same report for the State of Illinois.

The median age of the Galesburg population in 2010 was 5.6 years older than the population of the State of Illinois. The population of OSF St. Mary Medical Center's local service area is expected to decline less than 0.2 percent overall while the population of the State is expected to increase by 0.2 percent. While only 12.5 percent of the population in Illinois was over age 65, 18.4 percent of OSF SMMC's local market was over age 65. This profile of an aging population is very important, because an older population requires more health care services.

Other indicators of greater need for health care services in the Galesburg area are substantially lower median income, average household income and per capita income than the Statewide population.

The State overall has a higher percentage of minority population and a faster rate of growth for these minority populations than does the Galesburg market.

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.*

OSF St. Mary Medical Center (OSF SMMC) was established in 1909 and moved to its current site in 1974. Since the relocation to this Seminary Street site, only modest facility modernization has occurred. Consequently several key areas are no longer contemporary and challenge the staff's ability to provide high quality, cost effective care.

The existing problems or issues by department or area as well as more general infrastructure issues that need to be addressed at OSF SMMC include the following:

Surgical Operating Rooms

The current seven-room surgical operating suite is located on the second floor of the hospital and has an acute shortage of space. The operating rooms range in size from 303 NSF to 447 NSF, or considerably smaller than the industry standard of 600 NSF. These small rooms provide a very cramped working environment, inadequate space for equipment, and are a deterrent to recruiting needed surgeons to OSF SMMC. The current anesthesia workroom is too small (only 65 NSF) and space for supplies is inadequate. A more efficient control desk and a larger scheduling space are also needed.

Overall, the department is also undersized or only 1,100 DGSF per operating room compared to the State Guideline of 2,750 DGSF per room.

Surgical Procedure Rooms

Today, OSF SMMC has no dedicated procedure (endoscopic) rooms. In the past, the procedure room was cited as inadequate by IDPH due to ventilation problems and because the instrument cleaning area was too close to the patient area. To rectify this inadequacy, OSF SMMC is using OR 7 for endoscopy cases.

Phase I Post Anesthesia Recovery (PACU)

PACU recovery stations are used for all inpatient and a portion of outpatient surgery cases. When the PACU area at OSF SMMC was constructed in 1974, it was designed primarily as an inpatient service. Even though the area underwent renovations in the early 1990s, the existing 10-station PACU is not conducive to outpatient surgical care. In 2015, more than 80 percent of the surgical cases at OSF SMMC were performed for outpatients. Although the number of PACUs meets code requirements, the PACU area is somewhat undersized or only 169 DGSF per station (or less than the State Agency Guideline of 180 DGSF per station). While in the PACU, patients are only separated by curtains; consequently, they have no privacy and it is difficult for staff to maintain HIPAA requirements. It is very difficult to maneuver equipment in these small areas or for visitors to be with patients in the PACU.

Phase II Post Anesthesia Recovery (Prep/Recovery)

The existing Phase II prep/recovery is used by surgery, endoscopy and pain management patients; this function is located in two separate areas; one is a pre-op area, the other is recovery; this is a very inefficient model for the delivery of contemporary outpatient surgery. The average size of the existing Phase II recovery stations is only 254 DGSF per station, which is substantially less than the State Guideline of 400 DGSF per station.

This shortfall of space in the Phase II recovery stations results in crowding and the use of PACUs for low acuity outpatients. It detracts from quality care and patient flow through surgery and recovery.

Laboratory

The laboratory at OSF SMMC has remained essentially unchanged since it was originally built more than 40 years ago, except for a modest increase in space to accommodate new chemistry equipment in 2014. During their most recent two accreditation visits the College of American Pathologists cited the lab for inadequate space in multiple areas including technical work areas, administrative and clerical functions, as well as for equipment and instruments. The lighting was also deemed to be inadequate.

These space deficiencies were exacerbated with the recent consolidation of the OSF Galesburg Clinic lab into the OSF SMMC lab. This consolidation worsened the space issues already cited by the CAP because the consolidation resulted in the lab having six more employees and an additional 50,000 annual tests.

The working conditions in the lab are a significant cause of employee dissatisfaction.

Center for Outpatient Services

The Center for Outpatient Services (Center) was originally located on the third floor of the hospital and then relocated to the second floor to accommodate the greater volume. The Center houses two departments (Cardiology and Infusion), both are essentially outpatient services. The Center's current location on the second floor is very inconvenient for patients who must take an elevator to access these ambulatory services. The Center provides infusions (such as Dobutamine, iron, antibiotics and chemotherapy), blood transfusions and injections (such as Xolair, B-12, Neupogen and rabies). In addition, the Center provides cardiology services including echo, stress echo, as well as EKG exams and Holter monitoring.

Pain Management

Pain management procedures are currently performed in a designated exam room that is adequately sized and equipped for this service in the Center for Outpatient Services. While Pain Management has no deficiencies, it must be relocated to allow for the development of an efficient, contemporary Phase II Post Anesthesia Recovery area.

Infrastructure Improvements

Because many elements of the hospital's infrastructure date back 40 years to the time when the building was constructed and because additional square footage is being added to the building, many of the mechanical, electrical and plumbing systems are inadequate and will be even more so when the new square footage becomes operational.

4. *Cite the sources of the information provided as documentation*

The following sources of information were used in the development of the responses in this application:

- OSF Healthcare System and OSF St. Mary Medical Center clinical, administrative and financial data
- Studies performed by external planners, architects, and engineers
- State of Illinois and local population and demographic reports
- *Hospital Profiles, 2011 through 2014*, Illinois Department of Public Health. Declaratory Ruling accepted January 27, 2016.
- *Certificate of Need Rules and Regulations*, Illinois Department of Public Health
- *Illinois Licensing Code*, Illinois Department of Public Health
- IDPH and College of American Pathologists citations
- Technical Assistance from HFSRB Staff
- Health care literature related to ambulatory care, and
- Illinois and local building mechanical, electrical and accessibility codes

5. *Detail how the project will address or improve the previously referenced issues, as well as population health status and well being.*

The project will address the existing problems and issues cited above and thereby improve population health status and well being in the following ways.

Surgical Operating Rooms

As part of the project, the number of surgical operating rooms will be decreased from seven to five to better align capacity with current and anticipated future demand for surgical services at OSF SMMC. The five rooms and related support will be located in 2,322 DGSF per room of new construction and modernized space in the current general location. The operating rooms will be approximately 600 NSF each. This space is larger than the current surgery rooms and will better accommodate the number of surgeons, anesthesiologists, nurses and surgical technicians in the room during a surgical procedure as well as the ever-increasing amount of equipment. The new operating rooms will address existing problems and issues and will provide an environment that will support quality and safe care.

Surgical Procedure Rooms

Two of the seven existing surgical operating rooms will be modernized to support the endoscopy service. These rooms will be 957 DGSF per room or consistent with the State Guideline of 1,100 DGSF per room. These rooms will adequately accommodate the Medical Center's increasing volume of gastroenterology and bronchoscopy procedures based industry changes in technology and reimbursement, coupled with the aging of the population.

Phase I Post Anesthesia Recovery (PACU)

As part of the project, the number of post anesthesia recovery rooms will be reduced from 10 to six, consistent with IDPH planning guidelines of at least one PACU for each surgical operating room. Of these rooms, one will be a private room for patients with known infection or for those so compromised that they are at greater risk for acquiring infections. The remodeled PACU area will have 300 GSF per room. This space will provide adequate work space for staff, will afford patients privacy, will permit families to be with the patients during their recovery and will accommodate the increasing amount of technology being used in Phase I recovery.

Phase II Surgical Recovery Area (Prep/Recovery)

In the proposed remodeled recovery area there will be 17 rooms with 21 stations; four rooms will each have two recovery stations. The total number of Phase II surgical recovery stations meets IDPH code requirements. The remodeled area is a previously vacated patient care unit; the remodeled stations will have 398 DGSF per station or considerably more than the current area and consistent with the State Guideline of 400 DGSF per station. Most outpatients will be admitted to a prep recovery station on the day of surgery. Patients will have their vitals recorded, their IVs started, and they may meet with the anesthesiologist and surgeon. After surgery they will be returned to the prep/recovery area for monitoring and given instruction on care after discharge. Phase II recovery areas will be used by surgery, endoscopy and pain management patients. In the future it may also be used by sedated MRI and CT scanning patients.

Laboratory

The project includes redeveloping the laboratory in the existing location on the first level in new construction and modernized space. The proposed rectangular configuration of the lab will be more functional than the current lab and all of the College of American Pathologist citations will be fully addressed. Being on the first floor, the lab will be more accessible for outpatients who are referred for laboratory services and especially patients of the Center for Outpatient Services who often require frequent lab services. It will also meet the needs of inpatients for laboratory services.

The Center for Outpatient Services

In its new modernized location on level one in the proposed project, the Center for Outpatient Services will be more convenient for the patients who use the Infusion and Cardiology services housed in the Center. Since many of these patients have mobility issues, the location will reduce travel distances for them. Parking for these patients will be conveniently located. Further, the first level location is desirable because it will create “one stop shopping” and minimize travel within the Hospital, will minimize patient confusion, and create a more positive patient experience. The configuration of the Center will allow for separation of patients as well as adequate privacy.

Pain Management

Pain management will be relocated space vacated by Phase II recovery near surgery. The space will comfortably house the exam/treatment room and have an adjacent waiting room. The location will also be convenient for the pain management physician, an anesthesiologist, who will always be near the surgical suite should an unexpected event occur there.

Infrastructure

Improvements to the infrastructure to be addressed as part of the project include improved domestic water distribution, sanitary waste removal, heat and cooling generating systems, controls and instrumentation, sprinklers, other fire protection systems, communication and security systems, new air handling units and other electrical systems.

Summary

In summary, the proposed project has been designed to provide patients more convenient access, more appropriately-sized accommodations during their stay at the hospital and greater privacy. Overall the spaces have been designed for more efficient work flow for staff and physicians. These improvements will address the deficiencies of the current departments and provide an environment that supports the delivery of quality and safe patient care.

6. *Provide goals with quantified and measurable objectives, with specific timeframes that relate to achieving stated goals **as appropriate.***

Overarching Goal

The overarching goal of OSF Healthcare System and OSF St. Mary Medical Center is to improve access and clinical outcomes of care in a patient-centered clinically excellent manner for current and future residents of the Medical Center's service area.

Objective 1

Reduce the number of surgical operating rooms to from seven to five and Phase I post anesthesia recovery rooms from 10 to six to meet current and future demand for inpatient and outpatient surgery patients and to design and size these clinical service areas to meet contemporary standards.

Objective 2

Increase the number of surgical procedure rooms from zero to two to meet the current and future need for endoscopic procedures and to reduce the number of Phase II post anesthesia recovery rooms from 23 to 21 to meet the current and future need of outpatient surgery, procedures, pain management and other potential patients and to design and size these clinical service areas to meet contemporary standards.

Objective 3

Redevelop the laboratory to meet all College of American Pathologists standards as well as the needs of physicians, inpatients and outpatients in a timely way.

Objective 4

Provide both inpatient and outpatient care as deemed appropriate by patient needs. Increasingly, focus will be on the expanding needs and expectations of outpatients in surgery, recovery, Center for Outpatient Services and Pain Management and other emerging services that are appropriate for OSF SMMC.

Objective 5

Design all areas of the project to meet the needs of the valued members of the OSF SMMC staff. The project will provide functional work areas and adequate quiet spaces to relieve the stress of care giving.

Objective 6

Continue to serve as an important link in the OSF Healthcare system-wide surgery service in two ways. First, by receiving more complex patients from the smaller, nearby OSF hospitals, assuring them that their patients will have quality and safe care. Second, by serving as a key link in the OSF regional system, OSF SMMC can relieve capacity issues at Saint Francis Medical Center in Peoria while still maintaining high quality outcomes and improving the patient experience.

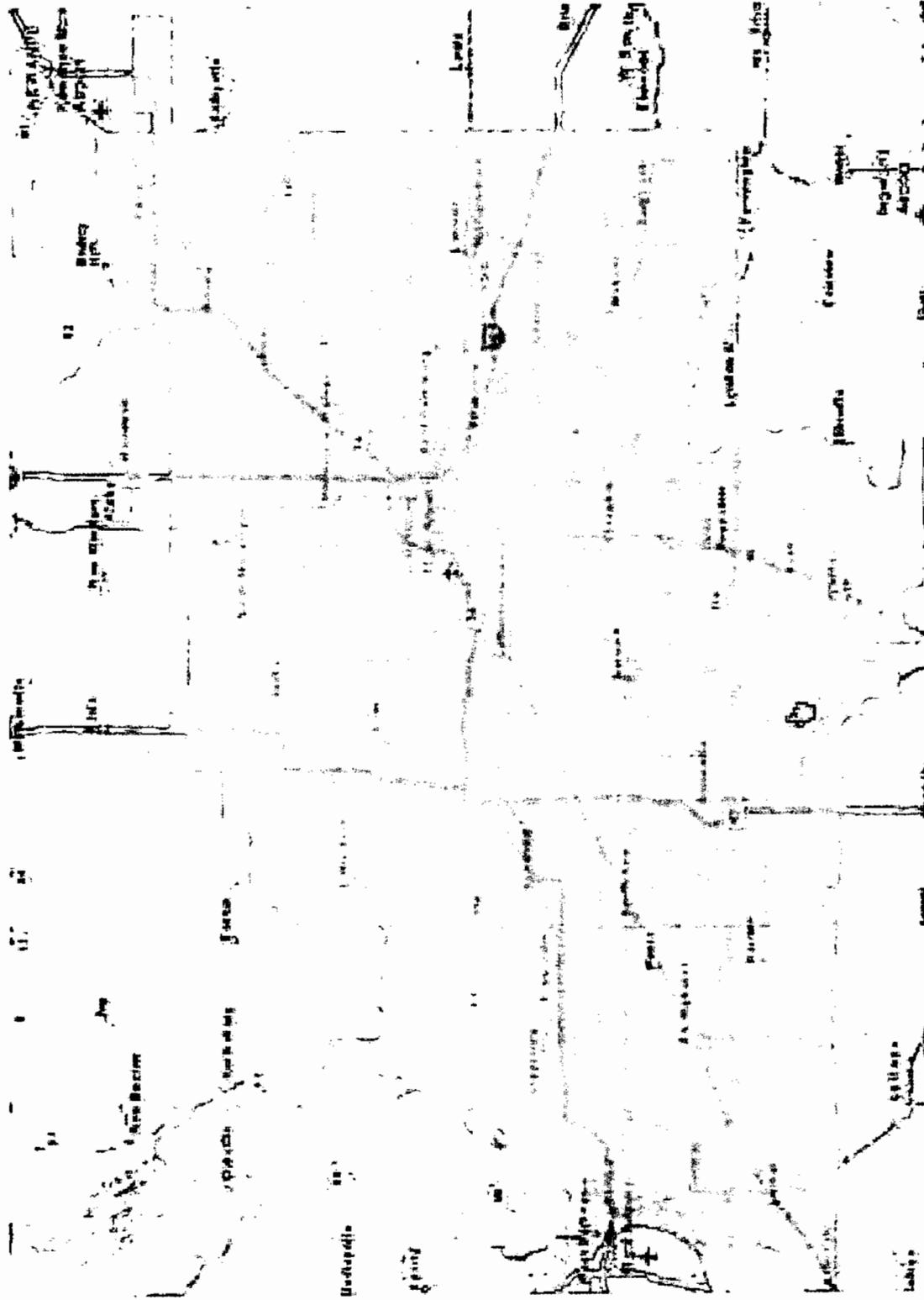
Objective 7

Prudently use scarce resources in the development of the project.

These objectives will be achieved when the project is completed in August 2019. The proposed benefits of the project will enhance the provision of care at OSF SMMC and at other OSF regional hospitals into the future.

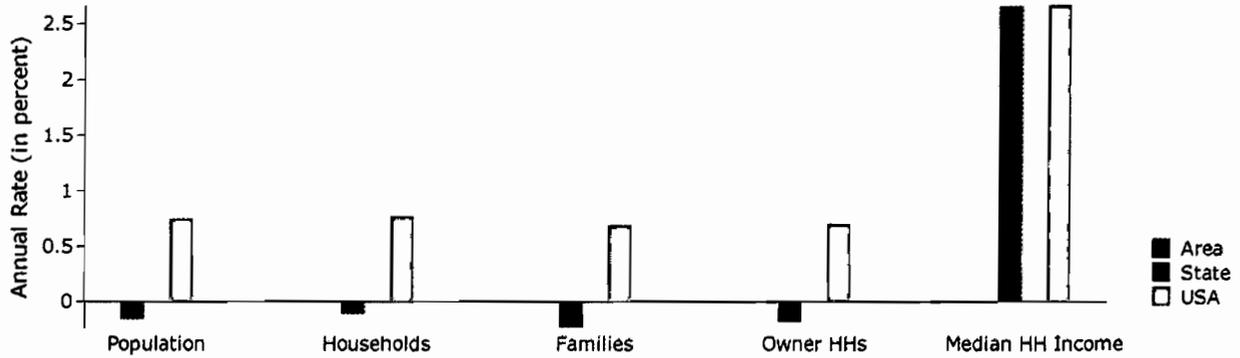
OSF St. Mary Medical Center
Service Area, 2015

<u>Community</u>		<u>Zip Code</u>	<u>Patients</u>	<u>Percent of Total</u>
Galesburg	IL	61401	1,554	45.9
Monmouth	IL	61462	315	9.3
Abingdon	IL	61410	178	5.3
Knoxville	IL	61448	151	4.5
Galva	IL	61434	88	2.6
Avon	IL	61415	65	1.9
Alexis	IL	61412	51	1.5
Wataga	IL	61488	47	1.4
East Galesburg	IL	61430	40	1.2
Oquawka	IL	61469	39	1.2
Oneida	IL	61467	39	1.2
Maquon	IL	61458	30	0.9
Woodhull	IL	61490	28	0.8
Rio	IL	61472	27	0.8
Dahinda	IL	61428	27	8.0
Roseville	IL	61473	25	0.7
Kirkwood	IL	61447	25	0.7
Cameron	IL	61423	24	0.7
Stronghurst	IL	61480	23	0.7
Gilson	IL	61436	23	0.7
Altona	IL	61414	23	0.7
Little York	IL	61453	22	0.6
Williamsfield	IL	61489	20	0
Victoria	IL	61485	19	0.6
Saint Augustine	IL	61474	17	0.5
Prairie City	IL	61470	14	0.4
Smithshire	IL	61478	12	0.4
Berwick	IL	61417	12	0.4
Galesburg	IL	60142	12	0.4
North Henderson	IL	61466	9	0.3
Biggsville	IL	61418	8	0.2
Yates City	IL	61572	6	0.2
Gerlaw	IL	61435	6	0.2
Media	IL	61460	5	0.1
Henderson	IL	61439	5	0.1
Gladstone	IL	61437	3	0.1
Carman	IL	61425	3	0.1
Galesburg	IL	60410	2	0.1
Raritan	IL	61471	1	0
Ophiem	IL	61468	1	0
Galesburg	IL	60412	<u>1</u>	<u>0</u>
Subtotal			3,000	88.5
All Other			<u>389</u>	<u>11.5</u>
Total			<u>3,389</u>	<u>100.0</u>

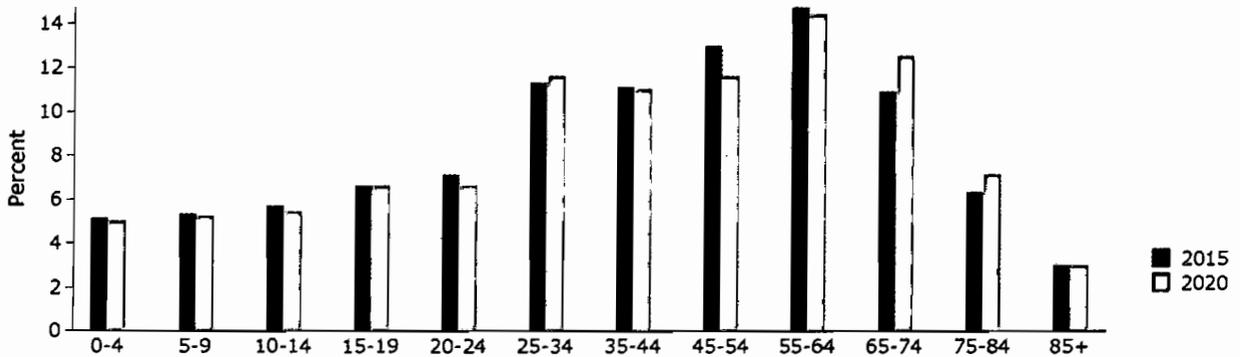


Source: OSF Healthcare System

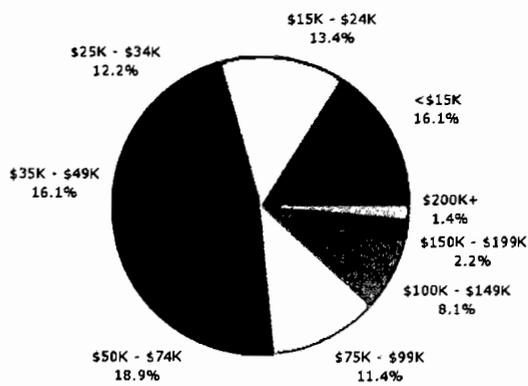
Trends 2015-2020



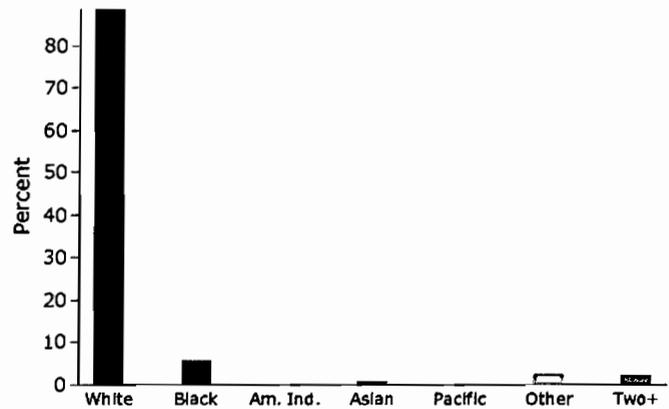
Population by Age



2015 Household Income



2015 Population by Race



2015 Percent Hispanic Origin: 5.9%

Source: U.S. Census Bureau, Census 2010 Summary File 1. Esri forecasts for 2015 and 2020.

Summary	Census 2010	2015	2020			
Population	12,830,632	12,917,613	13,054,000			
Households	4,836,972	4,896,983	4,960,135			
Families	3,182,984	3,191,455	3,213,959			
Average Household Size	2.59	2.58	2.57			
Owner Occupied Housing Units	3,263,639	3,190,362	3,218,808			
Renter Occupied Housing Units	1,573,333	1,706,621	1,741,327			
Median Age	36.5	37.4	38.2			
Trends: 2015 - 2020 Annual Rate	Area	State	National			
Population	0.21%	0.21%	0.75%			
Households	0.26%	0.26%	0.77%			
Families	0.14%	0.14%	0.69%			
Owner HHs	0.18%	0.18%	0.70%			
Median Household Income	2.80%	2.80%	2.66%			
		2015	2020			
Households by Income		Number	Percent	Number	Percent	
<\$15,000		587,948	12.0%	550,877	11.1%	
\$15,000 - \$24,999		451,029	9.2%	342,039	6.9%	
\$25,000 - \$34,999		489,522	10.0%	416,356	8.4%	
\$35,000 - \$49,999		640,321	13.1%	615,975	12.4%	
\$50,000 - \$74,999		863,496	17.6%	837,512	16.9%	
\$75,000 - \$99,999		617,784	12.6%	724,448	14.6%	
\$100,000 - \$149,999		692,641	14.1%	803,259	16.2%	
\$150,000 - \$199,999		273,204	5.6%	348,003	7.0%	
\$200,000+		281,013	5.7%	321,641	6.5%	
Median Household Income		\$56,107		\$64,426		
Average Household Income		\$78,861		\$89,279		
Per Capita Income		\$30,165		\$34,195		
		Census 2010	2015	2020		
Population by Age	Number	Percent	Number	Percent	Number	Percent
0 - 4	835,577	6.5%	798,662	6.2%	796,376	6.1%
5 - 9	859,405	6.7%	828,388	6.4%	792,506	6.1%
10 - 14	879,448	6.9%	856,592	6.6%	844,685	6.5%
15 - 19	922,092	7.2%	855,222	6.6%	842,164	6.5%
20 - 24	878,964	6.9%	923,707	7.2%	828,767	6.3%
25 - 34	1,775,957	13.8%	1,797,665	13.9%	1,839,581	14.1%
35 - 44	1,725,890	13.5%	1,660,763	12.9%	1,724,618	13.2%
45 - 54	1,870,879	14.6%	1,732,698	13.4%	1,611,304	12.3%
55 - 64	1,473,207	11.5%	1,635,858	12.7%	1,669,490	12.8%
65 - 74	849,535	6.6%	1,044,583	8.1%	1,230,468	9.4%
75 - 84	524,766	4.1%	529,039	4.1%	611,705	4.7%
85+	234,912	1.8%	254,436	2.0%	262,336	2.0%
		Census 2010	2015	2020		
Race and Ethnicity	Number	Percent	Number	Percent	Number	Percent
White Alone	9,177,877	71.5%	9,093,407	70.4%	9,032,241	69.2%
Black Alone	1,866,414	14.5%	1,849,326	14.3%	1,841,091	14.1%
American Indian Alone	43,963	0.3%	44,881	0.3%	47,187	0.4%
Asian Alone	586,934	4.6%	666,869	5.2%	756,077	5.8%
Pacific Islander Alone	4,050	0.0%	4,646	0.0%	5,133	0.0%
Some Other Race Alone	861,412	6.7%	932,699	7.2%	1,009,480	7.7%
Two or More Races	289,982	2.3%	325,785	2.5%	362,791	2.8%
Hispanic Origin (Any Race)	2,027,578	15.8%	2,198,823	17.0%	2,404,218	18.4%

Data Note: Income is expressed in current dollars.

Source: U.S. Census Bureau, Census 2010 Summary File 1. Esri forecasts for 2015 and 2020.

January 18, 2016

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.

Introduction

Over the past several years, as facility, programmatic, or operational issues have been identified, the leadership of OSF Healthcare System and OSF St. Mary Medical Center (OSF SMMC, Medical Center), have been engaged in defining alternative resolutions to these problems. Although many of these issues having facility implications could have been addressed as separate projects, it became evident a single more comprehensive project would better meet patients' needs and be less costly than multiple smaller projects. The following describes the journey to the preferred solution that is the subject of this certificate of need permit application.

OSF SMMC's most recent strategic facility effort began in 2011 with a comprehensive review of its strategic development, building conditions, planning objectives, and priority facility needs which were all based on the Medical Center's program development initiatives. This effort identified several facility improvement priorities and the options A through E inclusive in the included table:

1. Improved critical care beds (completed modernization)
2. Laboratory modernization
3. Infusion services consolidation [Center for Outpatient Services (COPS); includes Cardiology and Infusion Departments]
4. Outpatient access to Cardiology [Center for Outpatient Services (COPS); includes Cardiology and Infusion Departments]
5. Surgery suite modernization including operating room "right-sizing" as well as providing for dedicated GI/Endoscopy procedure rooms. This priority also included Phase I PACU and Phase II prep and recovery considerations.

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

A) 1) Proposing a project of greater scope and cost;

Five options (A through E, inclusive) and six potential development sites were identified to resolve these five high-priority facility improvement projects. The identified sites were:

1. Existing basement unassigned space modernization (not considered viable due to space constraints).
2. The Rehab Building vertical expansion. The Rehab Building was built as business occupancy; consequently Options A and B would require major infrastructure enhancements and were not considered viable.
3. New multi-level addition located at the Medical Center's main entrance (Level 2 and below).
4. New multi-level addition located contiguous to surgery (Level 2 and below).
5. New building addition on the parking lot west of the rehab building; and
6. Vertical expansion of the clinic building (not considered viable due to distance and infrastructure considerations and limitations).

Utilizing a comprehensive planning process, these facility options were developed and ultimately rejected for the reasons noted below:

Option	Site Location (See Above)	Proposed Sq. Ft.	Summary Analysis	Est. Project Cost *
A	2 and 3	New 26,190 Renov. <u>62,960</u> Total 89,150	Rejected based on impact to ICU, delayed lab development as well as infrastructure issues.	\$58.0 million
B	2 and 3	New 26,750 Renov. <u>49,330</u> Total 76,080	Rejected due to functional separation of departments, infrastructure, increased travel distance, and ICU modernization delay;	\$49.5 million
C	3	New 33,600 Renov. <u>47,160</u> Total 80,760	Rejected due to high construction cost and operational disruptions during construction.	\$52.5 million
D	4	New 31,600 Renov. <u>46,540</u> Total 78,140	Similar to proposed project; rejected based on space required to implement.	\$50.8 million
E	3 and 5	New 19,730 Renov. <u>50,400</u> Total 70,130	Rejected based on the same rationale as Options C and D analysis, above.	\$45.6 million

* Based on a comparative average weighted project cost per sq. ft. of \$650.56. This cost is based on current estimates for the proposed project in this CON Permit Application.

Although the process resulted in a comprehensive program evaluation and resulting facility requirements, the estimated project costs exceeded what was deemed financially feasible given the then changes in the health care delivery system, expected healthcare delivery changes, and probable reimbursement declines.

A) 2) Proposing a project of lesser scope and cost;

Several related alternatives were developed for select high-priority departments and these were ultimately rejected for the reasons stated below.

Project Description	Alternative Approaches	Analysis
1) Surgery Modernization	1. New Surgery Department similar to Option C above.	Rejected due to high project cost; greater than \$72.0 million.
	2. Free Standing ASTC	Rejected due to staffing inefficiencies and split program (inpatient and outpatient); high operating cost; no project cost developed.
	3. Modernize / Remodel "in place"	Rejected due to inadequate space; infrastructure limitations; multi-year phasing and disruptions; project cost estimated \$24.1 million, does not resolve all priority issues.
2) Laboratory Modernization	Expand by displacing admin type space	Rejected due to sub-optimal layout; potentially inefficient operation; and, leaving surgery needs unresolved. Therefore, no costs were developed.
3) COPS program / Cardiology, EKG and Infusion)	1. Relocate to Cardiac Rehab; integrate program	Rejected due to inadequate space and non-functional relationships. No costs were developed.
	2. Relocate to existing medical records space	Rejected due to inadequate space to co-locate the two functions; medical records would have to be relocated. No costs were developed.
	3. Relocate Infusion to another on-site facility	Rejected in that the service would be separated from required clinical support services. No costs were developed.

- 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, and*
- 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.*

OSF St. Mary Medical Center did not consider joint venturing with other providers to redevelop surgery, laboratory and the other services that are included in this application. These services operate as part of the premises licensed under the Hospital Licensing Act. Consequently, a joint venture would need to involve a joint venture of the entire Medical Center, and this is not a feasible arrangement. Therefore no cost was developed for this alternative.

OSF SMMC did not consider using alternative settings to meet all or a portion of the project's intended purposes. The purpose of the project is to modernize several services that are essential to the Medical Center's being licensed as a hospital. To use alternative settings for all or a portion of the volumes of the proposed services would result in fragmented, operationally inefficient and more costly services. This was not deemed to be in the best interest of quality care. Therefore no cost was developed for this alternative.

Although joint venture or alternative setting alternatives were not considered to be in the best interest of the patients, OSF SMMC does engage in a wide range of collaborative arrangements to improve access, enhance the standard of care, and reduce cost. Many of these arrangements are part of our relationship with OSF Healthcare System, with other community providers and agencies and with the Knox County Public Health Department.

"OSF St. Mary Medical Center and the Knox County Health Department have partnered and supported one another in numerous efforts related to the improvement of health and well-being for our community. The Department is working on its fifth Community Health Improvement Plan. OSF St. Mary Medical Center has played an active role in each. Currently the Department participates with the Medical Center in their 3-year community health plan as part of our own. These actions allow our organizations to not only interact with one another, but, to complement the actions of the other, preventing duplication of services and allowing for the most efficient use of local resources."

Michele Fishburn, MPH
Public Health Administrator
Knox County Health Department

"OSF St. Mary Medical Center is a key component in our patients' continuity of care. While OSF Holy Family Medical Center can provide a wide variety of services, to maintain quality care for our patients, we utilize OSF St. Mary Medical Center for more complex patients than we cannot care for. This project will ensure that our patients receive the very best quality and safest care possible."

Patty Luker
President, OSF Holy Family Medical Center

"Patients from the Kewanee community who need more advanced care are able to be referred to OSF St. Mary's and stay within the OSF Healthcare System. The clinicians at OSF Saint Luke work directly with the OSF St. Mary providers for services such as advanced surgical care. This relationship has allowed OSF Saint Luke to further extend services to our community and improve overall patient care."

Lynn Fulton
President, OSF Saint Luke Medical Center

"I applaud OSF St. Mary Medical Center for proposing a project that will provide state-of-the-art outpatient care, improving patient access to outpatient services, and working to meet the area's future health care demands.

"Additionally, as Peoria is the hub of the OSF Healthcare System, this kind of regionalization of healthcare services can serve to lessen our capacity issues here, while still maintaining high quality outcomes and improve the patient experience."

Mike Cruz, MD
President
OSF Saint Francis Medical Center

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

(See Options A-E, inclusive herein, as well as the three independent related alternatives, as described).

- The Project is composed of the three special interrelated projects as noted above.
 - Surgery modernization and expansion
 - Lab modernization and expansion
 - Center for Outpatient Services (COPS)
- The proposed project includes the construction of a three floor addition (ground, first and second) on the northeast side of the building, plus a mechanical penthouse).
 - Advantages of combining the three projects
 - Center for Outpatient Services was compromised in originally planned optional locations. Patient-first design / ambulatory patient access for the Center for Outpatient Services as well as Laboratory are positioned to be in the most desirable locations for ambulatory patient access (first level location).

- Completion time for Center for Outpatient Services is shorter given they are to be located in the desired locations for access and because design and construction would happen simultaneously with the addition and not be sequential projects.
- Project cost efficiencies are gained in sharing costs of infrastructure, building foundation, roof, etc.
- Laboratory configuration as a rectangle is more functionally / operationally efficient.

Summary

The proposed project includes an estimated 43,205 sq. ft. of “as-is,” remodeled, and new space, with an estimated \$28.1 million project cost. This development was determined to be the most functional and least costly project to resolve defined facility priorities.

ALTERNATIVES

- 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.

Empirical Evidence

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

OSF Healthcare System and OSF St. Mary Medical Center (OSF SMMC) are committed to providing state-of-the art compassionate care to the communities they serve. OSF Healthcare provides data to many "public reporting" organizations and agencies. These organizations and agencies use this data to create public reports that help the public chose where they will receive their care. However, OSF Healthcare System and OSF SMMC also use the data to explore and develop new and better ways to provide the highest quality and safest care for their patients.

OSF SMMC is fully accredited by The Joint Commission; this accreditation is recognized nationwide as a symbol of quality that reflects an organization's commitment to meeting certain performance standards. To earn and maintain this accreditation, OSF SMMC must undergo an onsite survey by a Joint Commission survey team at least every three years. OSF SMMC was additionally recognized by The Joint Commission in 2014 for attaining and sustaining excellence in accountability measure performance for heart failure, pneumonia and surgical care. Thus OSF SMMC was recognized as a hospital for improving performance on evidence-based interventions that increase the chances for healthy outcomes with these conditions.

OSF St. Mary Medical Center's Recognitions and Awards for Quality Service

In 2015, iVantage Health Analytics named OSF SMMC as a 2015 "HEALTHSTRONG" hospital, one of only 18 Illinois hospitals to receive this national recognition.

Also in 2015, OSF SMMC received the 2015 Women's Choice Award® ranking among America's Best Hospitals in Obstetrics. This distinction is based on robust criteria that consider female patient satisfaction, clinical excellence, and what women say they want in a hospital, including quality physician communications, responsiveness of nurses and support staff, cleanliness and trusted referrals from other women.

The administrative team at OSF SMMC recently received The Patriot Award by The Employer Support of the Guard and Reserve. The Patriot Award recognizes supervisors who provide support to employees who are called to military active duty.

In the Fall of 2014, OSF SMMC was honored with an "A" Hospital Safety Score by the Leap Frog Group that's mission is to trigger giant leaps forward in the safety, quality, and affordability of health care.

OSF Healthcare System for the third year in a row has been recognized as one of the nation's MOST WIRED according to the results of the 2014 Most Wired Survey conducted by *Hospitals and Healthcare Networks*.

OSF SMMC was also the recipient of the 2013 Bronze Award for "Commitment to Excellence" for demonstrating that senior leaders' actions guide and sustain the organization and the use of systematic approaches to improve key work processes. Recipients of the ILPEX Bronze Award are organizations that have demonstrated earnest efforts to adopt and apply continuous improvement principles, following the *Baldrige Criteria for Performance Excellence*.

In 2013, OSF SMMC was awarded a 3-year term of accreditation in computed tomography by the American College of Radiology. This accreditation represents the highest level of image quality and patient safety.

In 2009, The Illinois General Assembly passed MB2244, allowing the creation of stroke systems of care in Illinois. The law identifies hospitals capable of providing emergency stroke care and directs EMS to transport possible acute stroke patients to these hospitals. OSF SMMC has been designated as a Emergency Stroke Ready Hospital; this designation means that OSF SMMC provides the care needed the minute these patients enter the hospital to the time life-saving drugs are administered within the recommended 60 minute treatment window.

Illinois Surgical Quality Improvement Collaborative

The Illinois Surgical Quality Improvement Collaborative (ISQIC) is a group of 55 leading Illinois hospitals working together to improve quality and safety of surgical care while lowering costs. Their overall objective is to obtain rapid, meaningful, and sustained improvement in surgical quality by facilitating engagement in mentored, targeted Quality Improvement /Performance Improvement (QI/PI) initiatives. OSF St. Mary Medical Center is among the leading Illinois hospitals participating in the ISQIC initiatives.

The ISQIC member hospitals have designed a process to achieve their objective that includes:

- A common data collection infrastructure
- Guidance from mentors, coaches, and a coordinating center
- Annual statewide and local quality improvement projects
- Illinois-specific reports with additional detail
- Pilot grants, and
- Funding to support participation.

Through these initiatives, the ISQIC hospitals expect:

- 30 % reduction in complications and death
- 25% fewer readmissions and reduced length of stay
- \$1-2 million in savings for each participating hospital and,
- \$2.5 million of potential savings per hospital by reducing 250 complications per year at a cost per complication of \$10,000.

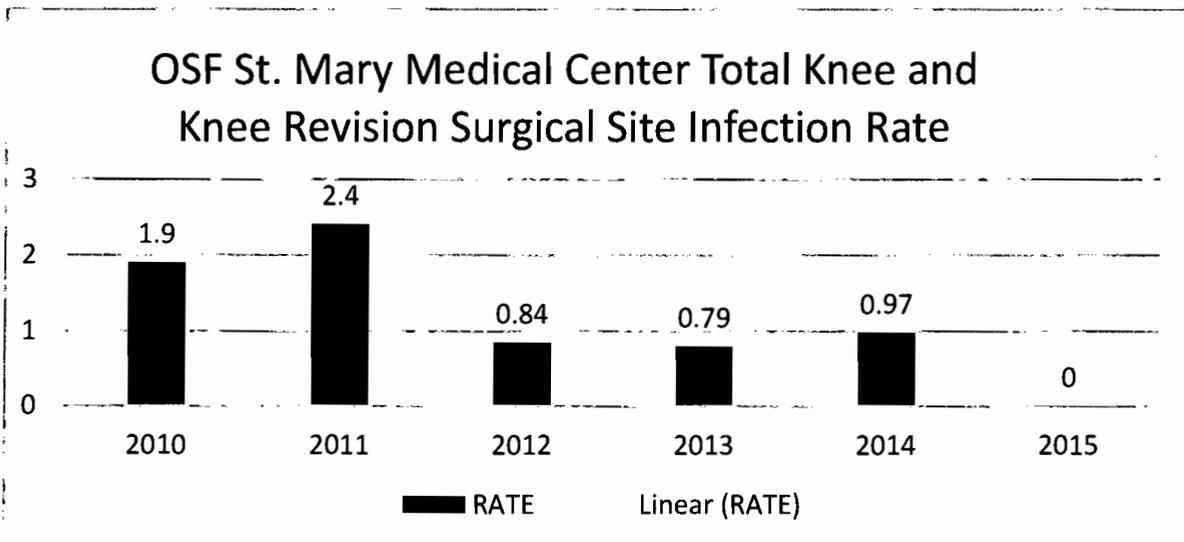
These represent significant gains in the delivery of quality patient care.

Empirical Evidence of Quality Improvement Project at OSF St. Mary Medical Center

OSF SMMC CON Surgical Performance Improvement

In 2010, OSF St. Mary Medical Center reviewed trended data that showed an increase in total knee infections. A team of surgical staff, physician, and the Infection Preventionist, reviewed all processes related to the procedure. The team looked at room humidity, OR cleaning processes, antibiotic timing, length of surgeries, preps and dressings as well as post-surgical care on the Acute Care unit. Processes put in place to reduce infection rates were the following:

- Reduced Flash Sterilization from 33% to <2%
- Re-educated staff and physicians on use of proper use of dressing and sterile technique in dressing changes
- Changed dressing to one that had silver added
- Placed tape across doorway to OR room to restrict traffic
- Reviewed surgery prep, chlorhexidine baths for patients preoperatively and educated patients on clean sheets, clean pajamas prior to surgery, and
- Pre-op antibiotic given within 1 hour of incision was consistently 95%-100% 2013-2015. In 2015 pre-op antibiotic timeliness was 100% for the year.



By rigorously implementing and monitoring compliance of these processes, OSF St. Mary Medical Center was able to reduce the revision surgical site infection rate from 1.9 percent in 2010 to 0 in 2015.

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.

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.***

The square footage of each department in OSF St. Mary Medical Center's (OSF SMMC, Medical Center) proposed project is compared to the State Guideline on the following table. As shown on Attachment 14, Table 1, only one of the department areas, Phase I Post Anesthesia Recovery, does not meet the meet the Standard.

Attachment 14, Table 1

Size of the Project						
Department/Area	Proposed DGSF	Number of Key Rooms/Stations	DGSF per Key Room	State Guideline per Key Room	Difference	Met Standard?
Surgical Operating Suite	11,609	5	2,322	2,750	-428	Yes
Surgical Procedure Suite	1,914	2	957	1,100	-143	Yes
Phase I Post Anesthesia Recovery (PACU)	1,802	6	300	180	+120	No
Phase II Post Anesthesia Recovery (Prep/Recovery)	8,355	21	398	400	-2	Yes

Source: Attachment 9 and Section 1110, Appendix B

2. *If the gross square footage exceeds the BGSF or the 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.*

The current State Guidelines for Phase I Post Anesthesia Recovery (PACU) appear to have been developed at least 12 years ago.

OSF St. Mary Medical Center's proposed six station PACU will have 300 DGSF per room or will exceed the State Guideline by 120 DGSF per station. The additional square footage is justified for the following changes in clinical and operational services provided in Phase I Post Anesthesia Recovery since the current State Guidelines were adopted.

1. The proposed six-station PACU will have 5 open bays to provide good visibility and easy access by the nursing staff. In today's post acute recovery units there is need for better visibility by the nursing staff. In HealthcareBuildingIdeas.com, the following is noted: "The trend has been to design larger bed positions (in the PACU) approaching the size for an ICU bed with a headwall of 11 to 12 feet, despite the lack of change in codes and guidelines. However, the last two updates of the *AIA Guidelines for the Design and Construction of Health Care Facilities* added clearance around each bed that results in an average bed position of at least 120 NSF plus necessary circulation area within the PACU itself as well as required areas for licensure such as clean holding, soiled holding, nursing station / charting, etc.." This is 50 percent greater than most current codes that require only 80 DGSF. This additional space for clearance around the patient bed, the increase of circulation area and the inclusion of space for licensure requirements add space to the Phase I post anesthesia recovery station square footage.

2. There is an increasing demand for private recovery spaces to care for patients who have a known infection or who are so compromised that they are at greater risk for acquiring an infection; therefore one private room equipped with appropriate air pressure is part of the project. On occasion the private room may be used for a pediatric patient post-surgery. Children tend to cry and disturb other patients. The additional private room adds square footage to the unit.
3. A hospital's infection control efforts to manage the risk of a contact infection of Methicillin Resistant Staph Aureus (MRSA) require a larger zone of contact be maintained between recovery stations. The potential for accidental cross contact and contagion is greater when the space is confined. A larger zone to reduce potential contact requires more square footage in the PACU.
4. The increase in the complexity of care has resulted in more post surgical imaging (x-ray / fluoroscope) being done in the PACU. Among the reasons why images are taken in the recovery area include:
 - a. Chest images for patients who develop breathing problems
 - b. Patients with mediport or other implants may be imaged to confirm correct placement, and
 - c. Patients with "hardware" (e.g. screws in an ankle) may be imaged to confirm correct placement.

The mobile x-ray and fluoroscopic (C-arm) imaging equipment requires space to be maneuvered without disturbing nearby patients in the process. The increasing use of imaging equipment in the PACU requires additional space.

5. More patients require infusion pumps, portable physiological monitors, and also are on ventilators when they leave surgery. This additional contemporary equipment requires space not only for the equipment but also for the staff to monitor it.

6. The Illinois Health and Services Review Board Code, 1110.234 a) notes the following:

"The applicant shall document that the physical space proposed for the project is necessary and appropriate. The proposed square footage (SF) cannot deviate from the SF range indicated in Appendix B, or exceed the SF standard in Appendix B if the standard is a single number, unless SF can be justified by documenting, as described in the following:

- a. *Additional space is mandated by government or certification agency requirements that were not in existence when Appendix B standard were adopted.*

In the Hospital Licensing Code, Part 250.1320, effective March 4, 2011, is a revision that permits visitors to be in the Phase I recovery area while the patient is recovering from a surgical procedure. The Code notes the importance of safeguarding the privacy of other patients and still allowing PACU staff to give constant attention to patients recovering from general anesthesia. At OSF St. Mary Medical Center the PACU will need waiting space and hand washing for visitors, for visitor seating in the recovery space, for an increase in staffing related to visitors. The Code calls for at least one additional staff person in the PACU assigned to oversee, supervise and assist the visitors for the time they are present. OSF St. Mary Medical Center has adopted a policy to have visitors in the Phase I Post Anesthesia Recovery area. With this significant change in the Code, it is necessary to have additional space for visitors. Space for visitors and additional staff requires more square footage in the PACU.

For all these reasons, the additional PACU square footage is justified.

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

NA

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

The proposed PACU is being redeveloped in modernized space and there are limiting factors that required additional space. Some of these factors include existing locations of structural columns, mechanical shafts, egress stairs, and corridors.

In view of these significant changes in medical practice, equipment requirements, and family support, it is important that OSF St. Mary Medical Center be prepared to prepare for both the code and operational demand for space.

SMMC has justified the need for the additional space in Phase I Post Anesthesia Recovery.

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.

There are only two service areas in OSF St. Mary Medical Center's proposed project that have State Guidelines. As shown in Attachment 15, Table 1, the applicant meets these State Guidelines with current utilization.

Attachment 15, Table 1
Utilization of Services with State Guidelines

Department/Service	Historical Utilization			No. In Project	State Guideline	Rooms Justified			Met Standard ?
	2013	2014	2015			2013	2014	2015	
Surgical Operating (Hours)	6,922	6,424	1,500	5	1,500 hours per room	4.6	4.4	4.3	Yes
Surgical Procedure (Hours) ¹	1,316	1,305	1,688	2	1,500 hours per room	.9	.9	1.1	Yes

Source: OSF SMMC Records and Section 1110. Appendix B

¹ During 2013, 2014, and 2015, OSF SMMC performed endoscopic procedures in surgery. The almost 30 percent increase in volume in 2015 reflects, in part, the implementation of provisions of the Affordable Care Act for cancer screening.

Attachment 15, Table 2 includes three years of utilization data for other clinical services that do not have State Guidelines that are part of the project.

Attachment 15, Table 2

Utilization of Services with No State Guidelines

Department or Area	2013	2014	2015
Phase I Post Anesthesia Recovery (PACU) (Minutes)	214,837	201,701	206,124
Phase II Post Anesthesia Recovery (Prep/Recovery) (Minutes)	318,159	310,994	308,482
Laboratory Studies			
Inpatient and Outpatient Performed under Contract	417,876	443,778	466,647
	73,257	72,284	62,104
Center for Outpatient Services			
Infusion – Patients	1,645	1,695	1,635
EKG – Procedures	7,495	7,882	8,799
Echo – Procedures	2,009	1,816	2,273
Stress Echo – Procedures	758	758	983
Other Procedures – Holters/TEEs	316	348	404
Pain Management – Patients	905	902	743

Source: OSF SMMC Records and Section 1110. Appendix B

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

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

Service	# Existing Key Rooms	# Proposed Key Rooms
<input checked="" type="checkbox"/> Surgical Operating Rooms	7	5
<input checked="" type="checkbox"/> Surgical Procedure Rooms	0	2
<input checked="" type="checkbox"/> Phase I Post Anesthesia Recovery (PACU)	10	6
<input checked="" type="checkbox"/> Phase II Post Anesthesia Recovery (Prep/Recovery)	23	21
<input checked="" type="checkbox"/> Laboratory	1	1
<input checked="" type="checkbox"/> Center for Outpatient Services	12	10
<input checked="" type="checkbox"/> Pain Management	1	1

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

PROJECT TYPE	REQUIRED REVIEW CRITERIA	
New Services or Facility or Equipment	(b) -	Need Determination - Establishment
Service Modernization	(c)(1) -	Deteriorated Facilities
		and/or
	(c)(2) -	Necessary Expansion
		PLUS
	(c)(3)(A) -	Utilization - Major Medical Equipment
		Or
	(c)(3)(B) -	Utilization - Service or Facility
<p>APPEND DOCUMENTATION AS <u>ATTACHMENT-34</u>, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.</p>		

Clinical Service Areas
Surgical Operating Suite (Class C)

a. Service Modernization

The applicant must document that the proposed project meets one of the following:

1) Deteriorated Equipment or Facilities

The proposed project will result in the replacement of equipment or facilities that have deteriorated and need replacement. Documentation shall consist of, but is not limited to: historical utilization data, downtime or time spent out of service due to operational failures, upkeep and annual maintenance costs, and licensure or fire code deficiency citations involving the proposed project.

NA. The acute shortage of space in the Surgical Operating Suite (Surgery Department) at OSF St. Mary Medical Center (OSF SMMC, Medical Center) is among the primary reasons that the hospital is seeking approval for this project from the Illinois Health Facilities and Services Review Board.

The existing infrastructure deficiencies including the mechanical, electrical and plumbing systems are all relevant to the Surgery Department and will be corrected as part of the proposed project.

2) Necessary Expansion

The proposed project is necessary to provide expansion for diagnostic, treatment, ancillary training or other support services to meet the requirements of patient service demand. Documentation shall consist of, but is not limited to historical utilization data, evidence of changes in industry standards, changes in the scope of services offered, and licensure or code deficiency citations involving the proposed project.

When OSF SMMC opened in 1974, pediatrics and later occupational medicine occupied the space that currently houses surgery. In the 1980's, or more than 30 years ago, the space was remodeled for surgery. Since then the change in the scope of surgical services at the hospital has changed dramatically with utilization changing from 80 percent inpatient/20 percent outpatient to 20 percent inpatient/80 percent outpatient.

The Surgery Department at OSF SMMC has an acute shortage of space. This shortage is reflected in the size of the operating rooms and in the size of the department.

The existing Surgery Department has seven operating rooms that average slightly more than 300 NSF per room, compared to the current industry standard of 600 NSF per room. Because of this acute shortage of space, the rooms are too small to accommodate the increasing amount of equipment needed in the operating room (such as fluoroscopy) during a procedure as well as the staff of surgeon(s), anesthesiologist, surgical tech and nurses. The result is very cramped space with the potential for unsafe operating conditions.

In the proposed project there will be five operating rooms and they will be approximately 600 NSF each. This enlarged space will alleviate the cramped and potentially unsafe operating conditions that currently exist.

The existing Surgery Department with seven rooms is currently located in 7,700 DGSF or 1,100 DGSF per room; this is substantially lower or only 40 percent of the State Guideline of 2,750 DGSF per room. As a result of this space shortage, hallways are used for equipment and other storage and there is inadequate space to hold gurneys. During the most recent Joint Commission survey, it was noted that the electrical panels and gas shutoffs outside of each operating room were blocked by equipment and carts needed for patient care because there is no other space available.

In the proposed project the number of operating rooms will be reduced from seven to five. A three-floor addition (ground, first and second) will be constructed on the northeast side of the building. As part of the project, two new operating rooms will be redeveloped in the new construction on the second floor and three rooms in the existing space will be enlarged to meet contemporary standards. The two new and three modernized operating rooms and support space will be located in 2,322 DGSF per room; this square footage is more consistent with the State Guideline of 2,750 DGSF per room. Not only will the room sizes be enlarged to meet contemporary standards, the support space will also benefit from the expansion. In addition, medical, operating room techs, and nurses are now being trained in the department and the additional space will support these educational programs.

The new and renovated surgery department and operating rooms will alleviate the deficiencies of the current department and rooms. The square footage of the combined new and modernized space meets State Guidelines.

A. Major Medical Equipment

Proposed project for the acquisition of major medical equipment shall document that the equipment will achieve or exceed any applicable target utilization levels specified in Appendix B within 12 months of acquisition.

There is no surgery equipment in this project that exceeds the medical equipment threshold.

B. Service or Facility

Projects involving the modernization of a service or facility shall meet or exceed the utilization standards for the service as specified in Appendix B. The number of key rooms being modernized shall not exceed the number justified by historical utilization rates for each of the latest two years, unless additional key rooms can be justified per section c) 2) Necessary Utilization.

OSF St. Mary Medical Center meets the Appendix B Square Footage and Utilization State Guidelines for Surgical Operating Rooms.

Comparison of Surgery (Class C) Square Footage and Utilization with State Guidelines

Proposed Square Footage		State Guideline for Square Footage	Meets Guideline?
2,322 DGSF per room		2,750 DGSF per room	Yes

Historical Utilization		State Guideline for Utilization	Meets Guideline?
2014	2015		
6,554 hours	6,424 hours	1,500 hours per room	Yes
4.4 or 5 rooms	4.3 or 5 rooms		

Current utilization justifies the five operating rooms being proposed.

C. *If no utilization standards exist, the applicant shall document in detail its anticipated utilization in terms of incidence of disease of population use rates.*

NA. Current utilization supports OSF SMMC's request for five operating rooms.

Even so, OSF SMMC expects a modest increase in surgical utilization based on its expanding role in the OSF Healthcare System regionalization of surgical services, the recent addition of needed surgeons to the medical staff (including a podiatrist, urologist and OB/GYN), and the ongoing recruitment for other surgical specialists as well as the aging of the population.

Clinical Service Area
Surgical Procedure Suite (Class B)

c. Modernization

The applicant must document that the proposed project meets one of the following:

1) Deteriorated Equipment or Facilities

The proposed project will result in the replacement of equipment or facilities that have deteriorated and need replacement. Documentation shall consist of, but is not limited to: historical utilization data, downtime or time spent out of service due to operational failures, upkeep and annual maintenance costs and licensure or fire code deficiency citations involving the proposed project.

NA. At the present time, OSF SMMC has no dedicated procedure (endoscopy) rooms. In the past, The Joint Commission cited the endoscopy room as inadequate due to the instrument cleaning area being too close to the patient care area as well as ventilation issues. OSF SMMC's interim solution to this deficiency was to move the patients from the procedure area to OR 7. A scope cleaning area has been developed across the hall from OR 7.

Hence, although OSF SMMC has maintained careful records of the endoscopic patient volume in this area, there are no dedicated procedure rooms at the Medical Center to report.

The existing infrastructure deficiencies including the mechanical, electrical and plumbing systems are all relevant to the Surgical Procedure Rooms and will be corrected as part of the proposed project.

2) Necessary Expansion

The proposed project is necessary to provide expansion for diagnostic, treatment, ancillary training or other support services to meet the requirements of patient service demand. Documentation shall consist of, but is not limited to historical utilization data, evidence of changes in industry standards, changes in the scope of services offered, and licensure or code deficiency citations involving the project.

A purpose of this project is to expand the number of dedicated procedure rooms from zero to two. As part of this project, OSF SMMC will be decreasing the number of surgical operating rooms from seven to five and converting the remaining two operating rooms to surgical procedure rooms. Including the two procedure rooms, the existing scope room and corridor space, the procedure area will have 1,914 DGSF or 957 DGSF per room, consistent with the 1,100 DGSF per room State Guideline.

The renovated surgical procedure area will provide dedicated space for endoscopic procedures. Both bronchoscopy and gastrointestinal procedures are now being performed in Room 7 and will be performed in the two modernized procedure rooms when the project is finished.

A) Major Medical Equipment

Proposed project for the acquisition of major medical equipment shall document that the equipment will achieve or exceed any applicable target utilization levels specified in Appendix B within 12 months of acquisition.

NA. There is no procedure equipment in this project that exceeds the medical equipment threshold.

B) Service or Facility

Projects involving the modernization of a service or facility shall meet or exceed the utilization standards for the service as specified in Appendix B. The number of key rooms being modernized shall not exceed the number justified by historical utilization rates for each of the latest two years, unless additional key rooms can be justified per section c) 2) Necessary Expansion.

OSF St. Mary Medical Center meets the Appendix B square footage and utilization State Guidelines for surgical procedure rooms.

Comparison of Surgical Procedure Suite (Class B) Square Footage and Utilization with State Guidelines

Proposed Square Footage		State Guideline for Square Footage	Meets Guideline?
957 DGSF per room		1,100 DGSF per room	Yes
Historical Utilization		State Guideline for Utilization	Meets Guideline?
2014	2015		
1,305 hours	1,688 hours	1,500 hours per room	Yes
0.9 or 1 room	1.2 or 2 rooms		

Between 2014 and 2015, gastrointestinal endoscopy volume increased 30.3 percent and bronchoscopy volume increased 12.3 percent for a total overall endoscopy increase of 29.3 percent. This strong increase reflects two very important industry changes and the presence of three pulmonologists on the medical staff at OSF SMMC.

Experts expect these important industry changes to continue to increase endoscopy volume over the next several years. The first set of changes relates to technology; the second to reimbursement.

Changes in technology include new applications of established procedures, emerging technologies capable of identifying gastric disease at earlier stages, new minimally invasive techniques, and expanding new therapeutic options. The second major change relates to reimbursement. The provisions of the Affordable Care Act are already increasing the volume of colon screening for cancer. While this provision affects only Medicare patients, eventually all health plans must include these diagnostic screenings with no co-payment. These technological and reimbursement industry standards are already evident in OSF SMMC's 2015 data and are expected to continue to increase during the next several years.

In addition, OSF SMMC now has three pulmonologists on the staff and their active role in diagnosing and treating lung disease has not only increased historical bronchoscopy volume, but also is expected to affect future growth.

OSF SMMC clearly justified the need for 2 endoscopy rooms based on current utilization, industry changes in technology and reimbursement, and the increased number of pulmonologists on the medical staff.

- C) *If no utilization standards exist, the applicant shall document in detail its anticipated utilization in terms of incidence of disease or conditions or population use rates.*

NA. Current utilization supports OSF SMMC's request for two surgical procedure rooms for gastrointestinal endoscopy and bronchoscopy. Even so, OSF SMMC expects even further growth in surgical procedure volume based on the factors outlined above – technological advances, changes in reimbursement and access to pulmonologists – coupled with the aging of the population.

Clinical Service Area
Phase I Post Anesthesia Recovery (PACU)

c) Service Modernization

The applicant shall document that the proposed project meets one of the following:

1) Deteriorated Equipment or Facilities

The proposed project will result in the replacement of facilities that have deteriorated and need replacement. Documentation shall consist of, but is not limited to: historical utilization of data, downtime or time spent out of service due to operational failures, upkeep and annual maintenance costs and licensure or fire code citations involving the proposed project.

NA. The existing Phase I Post Anesthesia Recovery (PACU) at OSF St. Mary Medical Center is located in space that is the most functionally suitable for the expansion of the Surgical Operating Suite. As part of the proposed project, the PACU will be relocated to existing surgical support space; however, the PACU will remain immediately adjacent to the Surgical Operating Suite. The highest and best use of the space for surgery is the primary reason for the relocation and modernization of the PACU.

The existing infrastructure mechanical, electrical and plumbing deficiencies are also evident in this area. These deficiencies will be corrected as part of the proposed project.

2) Necessary Expansion

The proposed project is necessary to provide expansion for diagnostic treatment, ancillary training or the support services to meet the requirements for patient demand. Determination shall be limited to: historical utilization data, evidence of changes in industry standards, changes in the scope of services offered, and licensure or fire code deficiency citations involving the proposed project.

As part of the proposed project, the number of surgical operating rooms will be reduced from seven to five to better align with current and projected hospital surgical volume. In keeping with the reduction in surgical capacity, the PACU will be reduced from 10 stations to six stations, consistent with the IDPH Hospital Code. One of the rooms will be a private room.

The existing space has not undergone modernization since the early 1990s; the stations are very small and average only 169 DGSF per station, which is even less than the State Guideline. This small space is divided only by curtains so that patients have little privacy. There is no space for loved ones to be with the patients. When originally built, the area was designed primarily as an inpatient service which is no longer the case, as more than 80 percent of the surgery cases are outpatient. Phase I recovery is divided into two areas – one for inpatients with six beds and one for outpatients with four beds. With the current patient inpatient/outpatient mix this split area is operationally inefficient. All surgical inpatients are admitted to the PACU post surgical recovery; outpatient surgical patients may also be admitted to the PACU.

The necessary expansion is related to sizing the Phase I Post Anesthesia Recovery stations to meet the requirements of contemporary post anesthesia care. In the proposed project, the Phase I recovery stations will be in open bays for improved visibility and access by the nurses. The increased size of these recovery stations will improve infection control, allow for imaging equipment to be easily maneuvered in the bays, and will accommodate other contemporary equipment that often accompanies the patient to the recovery area from surgery such as infusion pumps, portable physiological monitors, and ventilators.

A) Major Medical Equipment

Proposed projects for the acquisition of major medical equipment shall document that the equipment will achieve or exceed any applicable target utilization levels specified in Appendix B within 12 months of acquisition.

NA. There is no Phase I Post Anesthesia Recovery equipment in this project that meets or exceeds the major medical equipment threshold.

B) Service or Facility

Projects involving the modernization of a service or facility shall meet or exceed the utilization standards for the service as specified in Appendix B. The number of key rooms being modernized shall not exceed the number justified by historical utilization rates for each of the latest two years, unless additional key rooms can be justified per section c) 2) Necessary Expansion.

NA. There are no utilization standards for Phase I Post Anesthesia Recovery in Appendix B.

- C) *If no utilization standards exist, the applicant shall document in detail its anticipated utilization in terms of incidence of disease or population use rates.*

IDPH Hospital Code 250.2442 Need for Recovery Stations requires a minimum of one post-operative recovery room for each operating room. OSF St. Mary Medical Center is proposing to redevelop five operating rooms and six Phase I Recovery stations, one of which will be a private room. Hence the proposed number of Phase I Recovery stations will meet the IDPH code requirement.

Clinical Service Area
Phase II Post Anesthesia Recovery (Prep/Recovery)

c) Service Modernization

The applicant shall document that the proposed project meets one of the following:

1) Deteriorated Equipment or Facilities

The proposed project will result in the replacement of equipment or facilities that have deteriorated and need replacement. Documentation shall consist of, but is not limited to utilization data, downtime or time spent out of service due to operational failures, upkeep and annual maintenance costs, and licensure or fire code deficiency citations involving the proposed project.

NA. Phase II Post Anesthesia Recovery (Prep/Recovery) is currently located in two areas near the existing surgical operating rooms. The first area is more remote from the Surgery Department and used for pre-op outpatient services (vitals taken, IVs started, and surgeon and anesthesiologist visits); the second is adjacent to Phase I Recovery (PACU) and used to recover outpatients.

The existing infrastructure mechanical, electrical and plumbing deficiencies are also present in the space to be remodeled for Phase II recovery. These deficiencies will be corrected as part of the project.

The primary reason for the relocation of the Phase II prep/recovery area is to provide adequate space for the contemporary delivery of outpatient prep/recovery care for primarily surgical, endoscopic and pain management patients.

2) Necessary Expansion

The proposed project is necessary to provide expansion for diagnostic treatment, ancillary training or the support services to meet the requirements for patient demand. Determination shall be limited to: historical utilization data, evidence of changes in industry standards, changes in the scope of services offered, and licensure or fire code deficiency citations involving the proposed project.

As part of the proposed project, the number of Phase II Post Anesthesia Recovery rooms will be decreased from 23 to 21 to better align with current and projected outpatient utilization of surgery, endoscopy, and pain management; the number of total surgery, endoscopy and pain management rooms will not change.

Only minimal cost is associated with remodeling the vacated Center for Outpatient Services, because the existing patient-unit configuration readily adapts to the requirements of a contemporary prep/recovery unit.

The existing Phase II prep/recovery space has not undergone modernization since the early 1990s. The relocation, modernization and expansion of the Phase II Post Anesthesia Recovery stations will provide the space needed to deliver excellent care to all prep/post-op patients. In the current configuration, pre-op services are in a different location than Phase II recovery, which is a very outdated and inefficient arrangement. The current 23 prep/recovery stations are located in 5,852 DGSF of space or 254 DGSF per station which is substantially less than the State Guideline of 400 DGSF per station. These small stations are separated only by curtains which detract from patient privacy. The unit will house 17 prep/recovery rooms all except four of which will be private for a total of 21 Phase II prep/recovery stations; one will be a private room. The 21 proposed rooms will be located in 8,355 DGSF or 398 DGSF per station, consistent with the State Standard of 400 DGSF per station. The number of rooms is consistent with IDPH Hospital Code.

A) Major Medical Equipment

Proposed projects for the acquisition of major medical equipment shall document that the equipment will achieve or exceed any applicable target utilization levels specified in Appendix B within 12 months of acquisition.

NA. There is no Phase II Post Anesthesia Recovery equipment in this project that meets or exceeds the major medical equipment threshold.

B) Service or Facility

Projects involving the modernization of a service or facility shall meet or exceed the utilization standards for the service as specified in Appendix B. The number of key rooms being modernized shall not exceed the number justified by historical utilization rates for each of the latest two years, unless additional key rooms can be justified per section c) 2) Necessary Expansion.

NA. There are no utilization standards for Phase II Post Anesthesia Recovery in Appendix B.

IDPH Hospital Code Section 250.2440 i) 5) B) requires a minimum of four recovery stations per surgery operating room and a minimum of one Phase I recovery room for each operating room. OSF SMMC will meet the Phase I

requirement. If code requires four recovery stations per operating room and one must be a Phase I room, then each operating room will also be supported by three Phase II recovery stations. In addition, the code requires that each procedure room be supported by three Phase II recovery stations. The complement of surgical operating rooms and surgical procedure rooms requires that OSF SMMC provide 21 Phase II recovery stations.

$$\begin{aligned} &5 \text{ operating rooms} \times 3 \text{ Phase II recovery station per operating room} = \\ &\quad 15 \text{ Phase II recovery stations} \\ &2 \text{ procedure rooms} \times 3 \text{ Phase II recovery stations per procedure rooms} = \\ &\quad 6 \text{ Phase II recovery stations} \\ &15 \text{ Phase II stations} + 6 \text{ Phase II stations} = \\ &\quad 21 \text{ required Phase II recovery stations} \end{aligned}$$

OSF SMMC is providing the number of Phase II recovery stations required by the IDPH Hospital Code.

Clinical Service Area
Laboratory

c) Service Modernization

The applicant shall document that the proposed project meets on of the following:

1) Deteriorated Equipment or Facilities

The proposed project will result in the replacement of equipment or facilities that have deteriorated and need replacement. Documentation shall consist of, but is not limited to: historical utilization data, downtime or time spent out of service due to operational failures, upkeep and annual maintenance costs, and licensure or fire code deficiency citations involving the proposed project.

The size and configuration of the existing Laboratory at OSF St. Mary Medical Center (OSF SMMC) has remained essentially unchanged for the last 25 years. Because of fixed countertops, reconfiguration of space to accommodate new equipment has been limited and resulted in a less than ideal equipment placement. Today, the Laboratory equipment is not strategically placed and often detracts from efficient work flow.

During their most recent two visits, the College of American Pathologists (CAP) cited OSF SMMC Laboratory for inadequate space in multiple areas including technical work areas, administrative and clerical functions, and instruments and equipment. Further, CAP noted lack of physician consultation rooms, inadequate waiting space for patients and inadequate lighting. (CAP references: MIC18000, MIC 18050, MIC 18100, MIC 18250, GEN 60000, GEN 62000, 74000, HEM 50000, HEM 50050, CHM 26000, 26100, 26200, 26500, TRM 60100, 60200, 60800, and 61,200.)

These space deficiencies were exacerbated with the recent consolidation of the OSF Galesburg Clinic Lab into the OSF SMMC Lab. The consolidation resulted in the Laboratory having six more employees and 50,000 additional annual tests.

The existing mechanical infrastructure relating the mechanical, electrical and plumbing system deficiencies are all relevant to the current Laboratory space. These deficiencies will be corrected as part of the proposed project.

The Laboratory at SMMC will be redeveloped in its current location on the first level of the hospital in new construction and expanded in modernized space. The actual square footage of the laboratory will be reduced modestly by approximately 3.9 percent (or from 5,206 DGSF to 5,002 DGSF). However, the configuration of the laboratory will change from a "reverse J-shape" to a rectangle. This revised configuration and the more strategic/functional equipment placement that is possible in the proposed department will improve work flow. Further, the increased automation in the lab and smaller analyzers (decrease footprint) also reduce the amount of square footage needed.

All of the College of American Pathologists citations and the infrastructure issues cited above are being addressed in the proposed project.

2) Necessary Expansion

The proposed project is necessary to provide expansion for diagnostic treatment, ancillary training or other support services to meet the requirements of patient service demand. Documentation shall consist of, but is not limited to: historical utilization data, evidence of changes in industry standards, changes in the scope of services offered, and licensure or fire code deficiency citations involving the proposed project.

The proposed project is necessary to reconfigure the Laboratory at OSF SMMC in order to address the College of American Pathology citations regarding allocation of space to certain functions within the Laboratory, to improve the efficiency of work flow in the department and to modestly increase volume.

A) Major Medical Equipment

Proposed projects for the acquisition of major medical equipment shall document that the equipment will achieve or exceed any applicable target utilization levels specified in Appendix B within 12 months.

NA. There is no major laboratory equipment in this project that exceeds the major medical equipment threshold.

B) Service or Facility

Projects involving the modernization of a service or facility shall meet or exceed the utilization standards for the service, as specified in Appendix B. The number of key rooms being modernized shall not exceed the number justified by historical utilization rates for each of the latest two years, unless additional key rooms can be justified per subsection c) Necessary Expansion.

NA There is no State Guideline for utilization of laboratories.

C) *If no utilization standards exist, the application shall detail its anticipated utilization in terms of incidence of disease or population use rates.*

Laboratory utilization is influenced hospital patients and referrals. Referrals to OSF SMMC from the OSF Galesburg Clinic, OSF Family Practice Clinic, OSF Prompt Care, OSF Home Health, and five OSF clinics in nearby towns also increase volume.

Laboratory total inpatient and outpatient volume increased by 11.7 percent or from 417,876 studies in 2013 to 466,647 studies in 2015. Studies performed under contract declined by about 11,000 studies.

OSF SMMC does not foresee any major changes in either hospital-based or referral volume. However, Laboratory growth is expected to increase gradually at a rate of about 2.0 percent per year due to the aging of the service area population.

Clinical Service Area
Center for Outpatient Services – Cardiology and Infusion

Introduction

The Center for Outpatient Services (COPS, Center) at OSF St. Mary Medical Center (OSF SMMC) houses two departments that primarily serve outpatients; these are Infusion and Cardiology.

About five years ago, these two departments were moved and co-located on a vacated patient care unit on the second floor of the hospital. The vacated unit is a race track design with administrative functions in the center, a corridor that rings the administrative functions and patient rooms on either side. Cardiology is housed on one side of the race track and Infusion and Pain Management on the other. Cardiology occupies five of the patient rooms, Infusion occupies six patient rooms and Pain Management occupies one room. The unoccupied rooms on the unit are used for storage and other support functions for the hospital. The administrative space is shared by the two departments.

During the early phases of planning for the current project, it became evident that the second level of the hospital already housed OSF SMMC's surgery, procedure and recovery areas and it was determined that if the existing space housing these functions could be enlarged and modernized, the second floor could become a very efficient, contemporary interventional platform. This concept could only be implemented, however, if the area housing the Center for Outpatient Services could be relocated and the space repurposed as a contemporary Phase II recovery area to support the predominantly outpatient surgery and procedure rooms.

c. Service Modernization

The applicant shall document that the proposed project meets one of the following.

1) Deteriorated Equipment or Facilities

The proposed project will result in the replacement of equipment or facilities that have deteriorated and need replacement. Documentation shall consist of, but is not limited to: historical utilization data, downtime or time spent out of service due to operational failures, upkeep and annual maintenance costs, and licensure or fire code deficiency citations involving the proposed project.

NA. The purpose of the proposed project is not to replace deteriorated facilities or equipment. Rather, COPS (both Infusion and Cardiology) is currently located in an interim location that was never designed for outpatient care; these departments will be relocated to a more suitable location on the first level in space designed for outpatients. Their current temporary location will be remodeled to house Phase II Post Anesthesia Recovery (Prep/Recovery).

2) Necessary Expansion

The proposed project is necessary to provide expansion for diagnostic treatment, ancillary training or other support services to meet the requirements of patient service demand. Documentation shall consist of, but is not limited to: historical utilization data, evidence of changes in industry standards, changes in the scope of services offered, and licensure or fire code deficiency citations involving the propose project.

The proposed location of the Center for Outpatient Services is the ideal location for Infusion and Cardiology.

The space allocated COPS is 2,456 DGSF or about 10 percent less than in the current patient unit location. This modest reduction in square footage is possible because the space is specially and more efficiently designed for Cardiology and Infusion; in this remodeled space, certain functions can be shared between Cardiology and Infusion or with the immediately adjacent Laboratory. The proposed project will not expand the departments.

The proposed project results in the relocation of the Center for Outpatient Services from the second to the first floor of the hospital. Many of the outpatients who receive exams or treatments in either Cardiology or Infusion have limited mobility. The proposed location on the first floor will be more accessible for them from outside the hospital and will be near the main parking lot with handicapped parking. The location will eliminate patients' need to use elevators and travel long distances during the course of their treatment. For example, patients who currently undergo a nuclear stress test must take five elevator rides between departments on the first and second floors in order to complete their exam. Further, the Center will be immediately adjacent and share space with the Laboratory. This proximal location is important because many of the Center's patients frequently require laboratory tests as part of their treatments. Further, the blood bank is in the Laboratory and this location will expedite obtaining blood for transfusions. The Center also will be near the Emergency Department – which benefits both cardiology and infusion patients when an unforeseen event occurs. In addition, pre-admission testing will be coordinated through the Center and the relevant functions will be easier to access. Patients will not have to navigate to the fourth floor for an EKG and then find the Laboratory for blood work. The co-location of these services will provide "one stop shopping."

A) Major Medical Equipment

Proposed project for the acquisition of major medical equipment shall document that the equipment will achieve or exceed any applicable target utilization levels specified in Appendix B within 12 months of acquisition.

NA. There is no infusion or cardiology equipment in this project that exceeds the major medical equipment threshold.

B) Service or Facility

Projects involving the modernization of a service or facility shall meet or exceed the utilization standards for the service as specified in Appendix B. The number of key rooms being modernized shall not exceed the number justified by historical utilization rates for each of the latest two years, unless additional key rooms can be justified per section c) 2) Necessary Expansion.

NA. There is no State Guideline for the cardiology and infusion services that are located in the Center for Outpatient Services.

C) *If no utilization standards exist, the applicant shall document in detail its anticipated utilization in terms of incidence of disease or conditions or population use rates.*

The Cardiology Department includes two echo units, two treadmills for stress tests as well as EKG and Holter monitoring equipment. Cardiology services have experienced strong growth between 2013 and 2015.

Cardiology Modality	2013	2014	2015	Percent Change
EKG Procedures	7,495	7,882	8,799	17.4
Echo Procedures	2,009	1,816	2,273	13.1
Stress Echo Procedures	758	758	983	29.7
Other – Holter Monitors/TEES	316	348	404	27.8

Cardiology volume is expected to increase about 3 percent annually reflecting growth in the low risk chest pain program, the recent addition of a pulmonologist/intensivist to the medical staff, and the aging of the population.

Infusion

Infusion provides a wide variety of services. These include infusions (Dobutamine, iron, antibiotics, and chemotherapy); blood transfusions (RBCs and platelets); and injections (Xolair, B-12, Neupogen, rabies). An Infusion treatment can last as long as eight hours or as little as 30 minutes. Patient volume in Infusion has remained fairly constant from 2013 to 2015. During this time, chemotherapy volume declined substantially when another provider opened a cancer center in Galesburg. However, despite the decline in chemotherapy patients, the volume of other patients has steadily increased so that overall Infusion volume has remained constant.

	2013	2014	2015	Percent Change
All Patients	1,645	1,695	1,635	--

Based on stable market area population and no anticipated changes in the scope of infusion services, Infusion utilization of Center is expected to remain at the current level.

Clinical Service Area
Pain Management

c. Service Modernization

The applicant shall document that the proposed project meets one of the following.

1) Deteriorated Equipment of Facilities

The proposed project will result in the replacement of equipment or facilities that have deteriorated and need replacement. Documentation shall consist of, but is not limited to: historical utilization data, downtime or time spent out of service due to operational failures, upkeep and annual maintenance costs, and licensure or fire code deficiency citations involving the proposed project.

NA. The purpose of the proposed project is not to replace deteriorated Pain Management facilities or equipment. Pain Management is currently located on the vacated patient unit that also houses the Center for Outpatient Services. As part of the proposed project, this unit will be remodeled for Phase II Post Anesthesia Recovery thus requiring Pain Management to relocate.

Pain Management services at OSF St. Mary Medical Center (OSF SMMC) were started by an anesthesiologist. Based on this clinical leadership of the program, OSF SMMC management determined that Pain Management should be located with other surgery-related services. At that time, the only space available was the vacated patient unit that houses the Center for Outpatient Services. Pain Management has one exam room on the unit, and this location has served the department well because of adjacent vacated space that could be used as support space or surge space, when necessary. If this project is approved by the Illinois Health Facilities and Services Review Board in May of 2016, the plan is to relocate Pain Management to space vacated by Pre-Op/Phase II Recovery. The space chosen for Pain Management will be used "as is."

This new location will be in close proximity to both surgery and recovery; this location is not only desirable for treatment of pain patients but is also convenient for the anesthesiologist who also provides anesthesiology services in surgery and the recovery area.

Pain Management at OSF SMMC provides a wide range of pain treatments including, for example, cervical/thoracic and lumbar facet injections; selective nerve blocks (cervical/thoracic, lumbar/sacral and transforaminal); pain blocks (including joint, bilateral medial branch, and bilateral cervical/thoracic). Other

patient procedures include genicular knee block injections; hip injections, radio frequency ablation of the knee genicular nerves, hip, lumbar/sacral, and thoracic/cervical; and implant of trial spinal cord simulator leads. Many of the Pain Management patients at OSF SMMC are diagnosed at major medical centers such as OSF Saint Francis Medical Center in Peoria and referred to Pain Management services closer to their home. Patients who live close to Galesburg and utilize OSF SMMC appreciate being able to stay local for their treatment.

The existing infrastructure deficiencies including the mechanical, electrical and plumbing systems are all relevant to Pain Management space and will be corrected as part of the proposed project.

2) Necessary Expansion

The proposed project is necessary to provide expansion for diagnostic treatment, ancillary training or other support services to meet the requirements of patient service demand. Documentation shall consist of, but is not limited to: historical utilization data, evidence of changes in industry standards, changes in the scope of services offered, and licensure or fire code deficiency citations involving the propose project.

NA. As part of the proposed project at OSF SMMC, Pain Management will be relocated in 620 DGSF of remodeled space near surgery and recovery on the second floor. This is no change in square footage. The current space includes an exam/treatment room and a waiting room. Further, it will have needed storage space

A) Major Medical Equipment

Proposed project for the acquisition of major medical equipment shall document that the equipment will achieve or exceed any applicable target utilization levels specified in Appendix B within 12 months of acquisition.

NA. There is no pain management equipment in this project that exceeds the major medical equipment threshold.

B) Service or Facility

Projects involving the modernization of a service or facility shall meet or exceed the utilization standards for the service as specified in Appendix B. The number of key rooms being modernized shall not exceed the number justified by historical utilization rates for each of the latest two years, unless additional key rooms can be justified per section c) 2) Necessary Expansion.

NA. There is no State Guideline for Pain Management.

C) *If no utilization standards exist, the applicant shall document in detail its anticipated utilization in terms of incidence of disease or conditions or population use rates.*

The number of Pain Management patients declined between 2013 and 2015. Of the total patients seen, 98 percent are treated. Typically, each patient receives a series of three treatments.

	2013	2014	2015
Pain Management Patients	905	902	743

The decline in patients is attributable to two factors: a new practitioner with a competing practice entered the market and new insurance policies reducing coverage.

Based on stable market population, future utilization is expected to remain essentially constant at the 2015 level unless insurance policies change.

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:***

a) Cash and Securities \$ 5,000,000.00

Audited Financial Statements Cover Sheet – Exhibit 1

OSF Healthcare System Audited Financial Statements

September 30, 2014 and 2013 – Appendix A

c) Gifts and Bequests \$ 150,000.00

OSF St. Mary Foundation Letter – Exhibit 2

d) Debt \$ 22,957,515.00

Bond Rating Letter Cover Sheets – Exhibit 3

Standard & Poor's Rating Services

Moody's Investor Services

Fitch Ratings

Bond Rating Letters – Appendix B



OSF HEALTHCARE SYSTEM AND SUBSIDIARIES

Consolidated Financial Statements
and Supplementary Information

September 30, 2014 and 2013

(With Independent Auditors' Report Thereon)

Complete Audited Financials are included as Appendix A



ST. MARY FOUNDATION

February 12, 2016

Roxanna Crosser, MHA
President
OSF St. Mary Medical Center
3333 N. Seminary St.
Galesburg, IL 61401

Dear Roxanna:

This letter will confirm that the OSF St. Mary Foundation will contribute \$150,000 to the expansion and modernization of the OSF St. Mary Medical Center surgery, laboratory and outpatient service area.

There are no conditions related to the use of these funds, and they are available upon request by OSF St. Mary Medical Center.

Sincerely,

H. Curt Lipe, CPA
Treasurer
OSF St. Mary Foundation

Bond Rating Letter Cover Sheets – Exhibit 3

Standard & Poor's Rating Services

Moody's Investor Services

Fitch Ratings

Complete Bond Rating Letters are included as Appendix B

RatingsDirect®

Summary:

Illinois Finance Authority OSF Healthcare System; Joint Criteria; System

Primary Credit Analyst:

J. Kevin K Holloran, Dallas (1) 214-871-1412; kevin.holloran@standardandpoors.com

Secondary Contact:

Brian T Williamson, Chicago (1) 312-233-7009; brian.williamson@standardandpoors.com

Table Of Contents

Rationale

Outlook

Related Criteria And Research

MOODY'S

INVESTORS SERVICE

New Issue: Moody's upgrades OSF Healthcare System (IL) to A2 and assigns A2 to Ser. 2015A bonds; stable outlook

Global Credit Research - 27 Aug 2015

\$950M pro forma rated debt outstanding

ILLINOIS FINANCE AUTHORITY
Hospitals & Health Service Providers
IL

Moody's Rating		RATING
ISSUE		
Revenue Bonds, Series 2015A		A2
Sale Amount	\$366,725,000	
Expected Sale Date	09/16/15	
Rating Description	Revenue: Other	

Moody's Outlook STA

NEW YORK, August 27, 2015 --Moody's Investors Service assigns an A2 rating to OSF Healthcare System's \$367 million of proposed Series 2015A fixed rate bonds to be issued by the Illinois Finance Authority. The bonds are expected to mature in 2045. At this time, we are upgrading the rating on outstanding bonds to A2 from A3. The rating outlook is stable.

SUMMARY RATING RATIONALE

The A2 rating is based on OSF's large, multi-site system and expanding presence in several markets in northern and central Illinois, leading market positions in the largest markets, and strong and liquid investment position. OSF's challenges include higher-than-average direct leverage, sizable indirect obligations, and strong competition in most markets.

OUTLOOK

The stable outlook reflects expectations that operating cashflow margins will stabilize in the range of levels achieved in FY 2014 and year-to-date FY2015, given operating initiatives and strategic investments to support higher and more consistent margins. Capital spending plans are manageable, which should help grow absolute investment levels and deleverage the balance sheet.

WHAT COULD MAKE THE RATING GO UP

- Significant reduction in balance sheet leverage (improved cash-to-direct debt) and operating leverage (reduction in debt-to-cashflow)
- Further and sustained improvement in operating cashflow margin

WHAT COULD MAKE THE RATING GO DOWN

- Materially dilutive acquisition or merger
- Prolonged decline in margins
- Meaningful increase in leverage

STRENGTHS

OSF Healthcare System, Illinois

Revenue Bonds
New Issue Report

Ratings

New Issue

\$366,725,000 Illinois Finance
Authority Tax-Exempt Revenue
Bonds, Series 2015A A

Outstanding Debt

\$144,265,000 Illinois Finance
Authority Revenue Bonds, Series
2007A A

\$70,000,000 Illinois Finance
Authority Variable-Rate Demand
Bonds, Series 2007E A

\$55,000,000 Illinois Finance
Authority Variable-Rate Demand
Bonds, Series 2007F A

\$93,165,000 Illinois Finance
Authority Revenue Bonds, Series
2009A A

\$50,000,000 Illinois Finance
Authority Variable-Rate Demand
Bonds, Series 2009B A

\$50,000,000 Illinois Finance
Authority Variable-Rate Demand
Bonds, Series 2009C A

\$25,000,000 Illinois Finance
Authority Variable-Rate Demand
Bonds, Series 2009D A

\$156,900,000 Illinois Finance
Authority Revenue Bonds, Series
2010A A

\$174,800,000 Illinois Finance
Authority Revenue Bonds, Series
2012A A

Rating Outlook

Stable

Related Research

2015 Outlook: U.S. Nonprofit Hospitals
and Healthcare Systems (December
2014)

2015 Medians for Nonprofit Hospitals and
Healthcare Systems (August 2015)

Analysts

Paul Rizzo
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Emily Wadhvani
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emily.wadhvani@fitchratings.com

New Issue Details

Sale Information: \$366,725,000 Illinois Finance Authority Tax-Exempt Revenue Bonds, Series 2015A, scheduled to sell the week of Sept. 14 via negotiation.

Security: Security interest in the obligated group's unrestricted receivables.

Purpose: Bond proceeds will advance refund all of the series 2007A bonds, a portion of the series 2009A bonds, all of the series 2009E bonds, refinance a taxable term loan and finance a variety of capital projects.

Final Maturity: Nov. 15, 2045.

Key Rating Drivers

Strengthening Liquidity: OSF Healthcare System's (OSF) liquidity position has improved steadily over the past five years, and metrics are now more in line with Fitch Ratings' 'A' rating category medians. As of June 30, 2015, \$1.25 billion of unrestricted cash and investments amounts to 221.4 days operating expenses. Liquidity growth has been driven by disciplined capital spending policies, adequate cash flow from operations and good investment returns.

Improving Operating Performance: After weak profitability in fiscal 2013 due to spending initiatives designed to transform its care delivery model, operating performance rebounded nicely over the next two years. Steady business growth, management-led supply chain and productivity measures and increased supplemental funding resulted in 2.9% and 5.2% operating margins, respectively, in fiscal 2014 and the nine-month interim period for fiscal 2015.

Regional Growth Strategy: OSF continues to undertake strategic growth initiatives intended to further develop and strengthen its regional relationships and footprint, including the recent acquisition of three community hospitals, its partnership with the University of Illinois College of Medicine and pending affiliation agreements with a variety of specialty providers.

Integrated System: OSF's significant physician employment (approximately 579 employed physicians and 275 advanced practitioners), combined with a systemwide approach to leadership emphasizing physician input and innovation, have led to improved clinical alignment and an integrated care management approach.

Manageable Debt Burden: Despite over \$200 million of additional debt, pro forma maximum annual debt service (MADS) coverage is healthy at 3.0x in fiscal 2014 and a more robust 4.5x through the first nine months of fiscal 2015. Pro forma MADS as a percentage of revenue is also very manageable at 3.0%, which is just above Fitch's 'A' rating category median of 2.8%.

Rating Sensitivities

Maintenance of Financial Improvement: Positive rating action is possible should OSF sustain its operating profitability improvements over the next several years, even without the benefit of increased Medicaid supplemental funding. Furthermore, positive rating movement could occur if OSF can continue to bolster liquidity metrics in light of its capital spending and pension funding plans.

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.

NA OSF Healthcare System has an A bond rating.

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.

NA OSF Healthcare System has an A bond rating.

X. 1120.140 - Economic Feasibility

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

A. Reasonableness of Financing Arrangements NA OSF Healthcare System has an A Bond rating

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 See Attachment 39, Exhibit 1

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

- 1) That the selected form of debt financing for the project will be at the lowest net cost available;
- 2) That the selected form of debt financing will not be at the lowest net cost available, but is more advantageous due to such terms as prepayment privileges, no required mortgage, access to additional indebtedness, term (years), financing costs and other factors;
- 3) That the project involves (in total or in part) the leasing of equipment or facilities and that the expenses incurred with leasing a facility or equipment are less costly than constructing a new facility or purchasing new equipment.

C. Reasonableness of Project and Related Costs

Read the criterion and provide the following:

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

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

* Include the percentage (%) of space for circulation

Attachment 39, Exhibit 2 is a letter describing project impediments.

C. Reasonableness of Project and Related Costs

Department	Cost and Gross Square Feet by Department or Service											Total Cost (G+H)					
	A		B		C		D		E		F		G		H		
	New	Mod.	New	Mod.	New	Circ. %	New	Circ. %	Mod.	Circ.	Const. Cost (AxC)		Mod. Cost (BxE)	Const. Cost (AxC)	Mod. Cost (BxE)		
Clinical																	
Surgical Operating Suite	447.60	432.97	3,190						8,419		1,427,844	3,645,213					\$ 5,073,057
Surgical Procedure Suite	-	457.78	-						1,914		0.00	876,191					\$ 876,191
Phase I Post Anesthesia Recovery (PACU)	-	454.17	-						1,802		0.00	818,414					\$ 818,414
Phase II Post Anesthesia Recovery (Prep/Recovery)	-	205.43	-						8,355		0.00	1,716,346					\$ 1,716,346
Laboratory	511.51	403.24	2,736						2,266		1,399,491	913,742					\$ 2,313,233
Center for Outpatient Services (COPS)	-	382.05	-						2,456		0.00	938,315					\$ 938,315
Pain Management *	-	0.00	-						620		0.00	0.00					\$ -
Subtotal / Average Clinical	477.11	344.85	5,926						25,832		2,827,335	8,908,221					\$ 11,735,556
Clinical / Average Cost / Sq. Ft.	477.11	344.85	5,926						25,832		--	--					--
Clinical Contingency/ Sq. Ft.	47.47	51.56									--	--					--
Clinical Subtotal (with Contingency)	524.58	396.41	5,926								3,108,655	10,240,000					\$ 13,348,655
Non-Clinical																	
Non-Clinical Storage and Shared Support	171.82	545.82	3,442						383		591,404	209,051					800,455
Public Space / Amenities		383.11	0						1,528		0	585,388					585,388
Building Components / Infrastructure **	768.28	0.00	4,224						0		3,245,230	0					3,245,230
Level 2 Circulation / Mechanical / Stairs, etc.		499.68	0						1,870		0	934,409					934,409
Subtotal / Average Non-Clinical	500.47	457.25	7,666						3,781		3,836,634	1,728,848					5,565,482
Grand Total Clinical / Non-Clinical			13,592						29,613		6,663,969	10,637,069					17,301,038
Non-Clinical Cost / Sq. Ft.	500.47	457.25	7,666						29,613		--	--					--
Non-Clinical Contingency / Sq. Ft.	49.80	68.35	--						--		--	--					--
Non-Clinical Average Cost / Sq. Ft.	550.27	525.60	--						--		4,218,379	1,987,311					6,205,690
Total with Contingency/Average Cost/Sq. Ft.	539.07	412.90	13,592						29,613		7,327,034	12,227,311					19,554,345

* Move-in only, no upgrades - reassigned existing pre-op space

** Includes MEP / Infrastructure upgrades @ approximately \$2.97 million for which there is no sq. ft.



ST. MARY MEDICAL CENTER

February 16, 2016

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

Dear Ms. Avery:

The purpose of this letter is to attest to the fact that the selected form of debt financing for the proposed OSF St. Mary Medical Center expansion and modernization of key clinical services project will be the lowest net cost available, or if a more costly form of financing is selected, that form is more advantageous due to such terms as prepayment privileges, no required mortgage, access to additional debt, term financing costs, and other factors. Generally the term of indebtedness is anticipated to be twenty-five years but not to exceed thirty years and the interest rate approximately 5%, but not to exceed 7%.

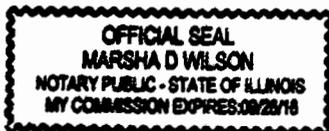
Sincerely,

Roxanna Crosser, MHA
President
OSF St. Mary Medical Center

Subscribed and sworn before me on the 16th day of February, 2016

Signature of Notary

Seal of Notary



3333 North Seminary Street, Galesburg, Illinois 61401 Phone (309) 344-3161 Fax (309) 344-9494 www.osfstmary.org
The Sisters of the Third Order of St. Francis



**OSF St. Mary's Medical Center
Surgery Addition/Modernization Project
Galesburg, IL**

Re: Project Construction Cost

To Whom It May Concern:

OSF St. Mary's Medical Center in Galesburg, IL is undertaking the construction of an addition to and the modernization of several areas in its existing physical plant in order to provide state-of-the-art surgical care, outpatient care and laboratory services. HDR and our sub-consultant, KJWW Engineers have been hired as the architect and engineer respectively for this project.

This letter documents several reasons why the construction cost on this project will necessarily exceed the construction cost data published by Means and used for Certificate of Need review in the State of Illinois. It is also pertinent that the construction costs forecasted for this project were estimated by a professional construction cost estimating firm, RLB.

Reasons for increased construction cost include:

1. Please see the attached letter prepared by KJWW outlining several mechanical and electrical issues on the project which drive costs higher on this project.
2. Architectural and Structural impediments present in the existing physical plant include:
 - A. Renovation construction in hospitals is historically more expensive than new construction
 - B. Phased construction on this project drives the General Conditions cost from the general contractor higher.
 - C. Phased construction on this project necessitates increased installation of infection control measures.
 - D. Phased construction on this project will necessitate the use of Fire Watch personnel to ensure the safety of occupants in the building during construction.
 - E. In order to be least disruptive to ongoing operations of the hospital, off hours work will occur on this project. Off hours work comes at a cost premium from the contractors.

hdrinc.com

30 W. Monroe Street, Suite 700, Chicago, IL 60603-2425
(312) 470-9501



- F. Cantilevered structure is required where the new addition meets the existing building in order to not overload or undermine footings and foundations of the existing hospital.
- G. Steel beams used in the new addition will be specified to a low depth but higher weight than typical for the needed spans in order to decrease the overall structural depth allowing for the matching of floor to floor heights new to old yet still allowing as much interstitial space above ceilings needed to install infrastructure compliant with current building codes.
- H. Fireproofing must be added to the underside of existing floor slabs uncovered during renovation in order to upgrade them to current code. This is being done in accordance with prior agreements between St. Mary's and IDPH.
- I. Renovated areas will require floor leveling throughout in order to provide a proper underlayment for new flooring materials. This is typical in hospital renovations.
- J. Due to the vintage of the original hospital building, it is expected that areas to be renovated included clay tile partitions and terrazzo flooring that need to be removed. This is very expensive.
- K. Construction costs on this project include the modification of site and building drainage in and around the existing building as well as the new addition.

Thank you very much.

HDR

R. Todd Eicken, AIA
Sr. Vice President

hdrinc.com

30 W. Monroe Street, Suite 700, Chicago, IL 60603-2425
(312) 470-9501

January 18, 2016

Mr. Todd Eicken
HDR Architecture, Inc.
33 West Monroe, Suite 1750
Chicago, Illinois 60603

RE: CON Impediments
OSF SMMC Surgery Addition & Renovation
Galesburg, Illinois
KJWW #15.096800

Dear Todd:

As requested, the following is a list of mechanical and electrical challenges that would be identifiable as impediments that create additional MEPFPt infrastructure costs:

- Phased Construction
 - Additional cost required to limit disruption to operations.
- Low Floor to Floor Height
 - Additional HVAC Cost to limit size of ductwork and occurrences of duct crossing.
 - Additional renovation to claim spaces to accommodate ductwork routing.
- Infrastructure Deficiencies
 - Blended Emergency Power Supply System circuits. IDPH will require "clean" critical and life safety branches in all renovated areas.
 - Existing generator capacity will not support ADDING a chiller to support increased surgery HVAC loads.
 - Existing EPSS equipment is located in a non-compliant room and must be segregated into a dedicated room.
 - Fire Pump city water supply line is undersized for current campus.
 - Fire Pump must be replaced.
 - AHU-1A and AHU-1B dual duct HVAC equipment serving all of first and ground floor are at end of life and have no excess capacity for expansion.
 - Existing penthouse AHUs serving surgery are not dedicated units according to IDPH requirements.
 - Remove prep-recovery induction units and replace with an all air VAV system.
 - Upgrade fire alarm system to support new fire alarm devices.

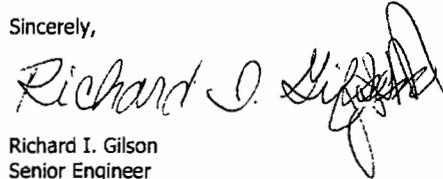
623 26th Avenue, Quad Cities, IL 61201
309.788.0673 | Fax: 309.786.5967 | www.kjww.com

Todd Eicken
January 18, 2016

KJWW #15.0968.00
Page 2 of 2

I hope this list provides a high level description of the engineering impediments that will cause higher than "typical" construction costs for this limited area of renovation.

Sincerely,



Richard I. Gilson
Senior Engineer
gilsonri@kjww.com

RIG/jlm

\\ad.kjww.com\kjww\kjww\Projects\2015\15.0968.00\Budget-Estimates\tr.20160118.ricgil.impediments.docx

cc: Todd Eicken - HDR Architecture, Inc.
Michael McGinn - HDR
Michael Zorich - KJWW Engineering
Richard Vedvik - KJWW Engineering



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.

Attachment 39, Exhibit 3, is OSF St. Mary Medical Center's calculation of equivalent patient days.

Attachment 39, Exhibit 4 provides projected operating costs per equivalent patient days.

Attachment 39, Exhibit 5 provides total effect of the project on capital costs per equivalent patient days for FY 2020.

Calculation of Equivalent Patient Days

	<u>Projected FY 2020</u>
Inpatient Revenue	\$125,773,000
Inpatient Days	11,436
Inpatient Revenue Per Day	\$10,998
Outpatient Revenue	\$280,097,000
Equivalent Outpatient Days	25,468
Total Equivalent Patient Days	36,904

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

	OSF St. Mary Medical Center	Project	Total
Total Operating Cost Per Equivalent Patient Day	\$1,946	\$15	\$1,961

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

	OSF St. Mary Medical Center	Project	Total
Total Capital Cost Per Equivalent Patient Day	\$96.02	\$30.47	\$126.48

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)	Year	Year	Year
Inpatient			
Outpatient			
Total			
MEDICAID			
Medicaid (# of patients)	Year	Year	Year
Inpatient			
Outpatient			
Total			
Medicaid (revenue)	Year	Year	Year
Inpatient			
Outpatient			
Total			

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

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

OSF Healthcare System, as a system, provides quality care to over three million people annually. In addition, OSF Healthcare's hospitals provide essential community services and programs to patients and families in their communities. It is significant that in 2014, OSF Healthcare delivered care to 221,531 Medicaid patients and 27,841 charity care patients.

OSF St. Mary Medical Center has historically provided services to a growing number of patients with financial barriers to healthcare, special needs, or other limitations. In 2014, the Medical Center served 21,214 Medicaid patients and 3,171 charity patients. Charity care cost was \$2,687,295. The project will enhance access to essential services – surgery, endoscopy, laboratory, cardiology, infusion and pain management to all residents of the community.

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

OSF St. Mary Medical Center's proposed project should not affect any other facilities' ability to cross-subsidize other safety net services. The patients expected to use the services at OSF SMMC historically have been served by OSF SMMC.

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

Not applicable. No facility or service will be discontinued as part of the proposed project.

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 specific by the Board.*
2. *For the fiscal three year 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.*

By the signatures on this application, OSF Healthcare System certifies that the following charity care information is accurate and complete and in accordance with the Illinois Community Benefits Act, and certifies that the amount of care provided to Medicaid patients is consistent with the information published in the *Annual Hospital Profile*.

St. Mary Medical Center

Safety Net Information per PA 96-0031			
CHARITY CARE			
Charity (# of patients)	FY 2012	FY 2013	FY 2014
Inpatient	440	293	165
Outpatient	<u>6,820</u>	<u>6,579</u>	<u>3,006</u>
Total	7,260	6,872	3,171
Charity (cost In dollars)			
Inpatient	\$1,561,737	\$1,429,504	\$ 639,592
Outpatient	<u>3,397,376</u>	<u>3,546,834</u>	<u>2,047,701</u>
Total	\$4,959,113	\$4,976,338	\$2,687,293
MEDICAID			
Medicaid (# of patients)	FY 2012	FY 2013	FY 2014
Inpatient	556	418	737
Outpatient	<u>14,011</u>	<u>15,228</u>	<u>20,477</u>
Total	14,567	15,646	21,214
Medicaid (revenue)			
Inpatient	\$3,011,115	\$3,542,195	\$4,483,866
Outpatient	<u>5,460,743</u>	<u>5,031,023</u>	<u>8,053,671</u>
Total	\$8,471,858	\$8,573,218	\$12,537,537

OSF Healthcare System

Safety Net Information per PA 96-0031			
CHARITY CARE			
Charity (# of patients)	FY 2012	FY 2013	FY 2014
Inpatient	4,373	3,912	1,830
Outpatient	<u>50,575</u>	<u>57,497</u>	<u>26,011</u>
Total	54,948	61,409	27,841
Charity (cost In dollars)			
Inpatient	\$29,729,121	\$35,055,905	\$20,185,121
Outpatient	<u>27,923,208</u>	<u>31,817,535</u>	<u>21,290,035</u>
Total	\$57,652,329	\$66,873,440	\$41,475,556
MEDICAID			
Medicaid (# of patients)	FY 2012	FY 2013	FY 2014
Inpatient	11,413	9,189	8,532
Outpatient	<u>199,181</u>	<u>206,694</u>	<u>212,999</u>
Total	210,594	215,883	221,531
Medicaid (revenue)			
Inpatient	\$155,838,991	\$170,076,068	\$173,873,247
Outpatient	<u>46,794,083</u>	<u>59,119,131</u>	<u>71,874,943</u>
Total	\$202,633,074	\$229,195,199	\$245,748,190

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

OSF Healthcare's community benefits expenditures allow the System to meet the health and wellness needs of the communities it serves and to expand access to care. In addition to the free and charity care for the uninsured and underinsured, OSF Healthcare provides care without reimbursement for Medicare and Medicaid patients.

In addition to free and subsidized care, OSF Healthcare and its individual hospitals offer programs and services that respond to communities' unique healthcare needs. Outreach efforts include health fairs and free health screenings, disease prevention programs, support groups, and food drives. Also provided are language-assistance services, interpreters, and non-English educational materials.

The following is taken from the most recent 10/1/13 to 9/30/14 ODF Healthcare System Annual Non Profit Hospital Community Benefits Plan Report.

Community benefits actually provided other than charity care.

Community Benefit Type	
Language Assistance Services	\$ 399,261
Government Sponsored Indigent Healthcare	157,515,244
Donations	747,403
Employee Volunteer Services	483,604
Education	43,076,740
Research	542,779
Subsidized Health Services	21,214,219
Bad Debts (reported at cost)	12,629,865
Other Community Benefits ¹	<u>625,882</u>
Total	\$237,234,997

- ¹. OSF Healthcare System employees, outside of work hours, and non-employees donate to the OSF communities in many ways. These donations include giving of time, monetary contributions, and other resources that are above and beyond the amounts identified in this report.

Community Benefits Initiatives in Galesburg

OSF St. Mary Medical Center uses patient origin and population change information in its strategic planning process conducted each year to identify the communities to serve and the methods of providing those services. A collaborative team identifies the most critical health-related issues in the service area (primarily Knox County) based on results of a survey respondents defined as living in deep poverty. The key health care needs they identified were:

- Diabetes (prevalence in the general public increasing; rates in Knox County exceed the State of Illinois average)
- Risky Behaviors (substance abuse)
- Healthy Behaviors (limited exercise, poor eating habits and increased incidence of smoking)
- Mental Health (includes mental disabilities, depression, other self-perceptions of mental health; rates in Knox County exceed the State of Illinois average)
- Obesity (significant increase in the percentage of Knox County residents reporting obesity; rates in Knox County now exceed the State of Illinois average), and
- Dental (Knox County residents reported that their last dental visit was more than two years ago or higher than the State of Illinois average.)

OSF St. Mary Medical Center provides state-of-the-art therapeutic, diagnostic, medical and surgical support for its patients and has been doing so since 1909. A strong, specialized nursing and technical staff is maintained by the hospital. Professional health educators are the nucleus of the in-house and outreach health screening, information and education programs. Supported by certified social workers, nutritionists and therapists, this team ensures the ability to provide high quality patient care and education in the pre-and post-medical center experiences. A 24-hour Level II Trauma Center ensures the service area residents access to intensive emergency services. The Emergency Department is also a certified pediatric ED and EMS Resource Center.

OSF St. Mary Medical Center owns and operates seven family health clinics to provide primary health care. These clinics are located in Abingdon, Galesburg, Galva, Knoxville, Roseville, Williamsfield and Woodhull. In addition to the family health clinics, the OSF Galesburg Clinic, a multi-specialty group practice, is located in Galesburg, to serve the patients in OSF St. Mary Medical Center's service area.

OSF's role within the community goes beyond comprehensive health care provider to that of responsible corporate citizen. OSF sees a moral obligation to provide the highest quality healthcare possible without compromising the trust and respect of those OSF is privileged to serve.

Community Response

These excerpts from the Letters of Support found in the Narrative of this application express the communities' respect for OSF St. Mary Medical Center.

“The renovations and expansion of their surgical, laboratory, cardiology and infusion services is great news for the residents of Galesburg and Knox County, allowing them to continue their mission of providing care to all those in need respective of their ability to pay.”

John Prichard
Mayor of Galesburg

*“Additionally, the Knox Community Health Center, a section 330 federally funded Community Health Center operates as a part of the Health Department. It focuses on access to primary medical, dental, and mental health care for the less fortunate living among us. In this effort, the Department has the privilege of relying on our partnership with OSF St. Mary Medical Center to aid us in meeting the diverse needs of our patients. The renovation and expansion of their surgical, laboratory, cardiology and infusion services is essential for the residents of Knox County! It will allow greater access to local, **high quality services**, positively impacting local transportation and access to care needs for residents.”*

Michele Fishburn, MPH
Public Health Administrator

“In addition, OSF also provides a wide array of community services in areas such as disaster preparedness, diabetes education, parenting, health fairs, sports physicals, and many others. Their commitment to providing care and supporting the health care needs of our region and developing services to support the changing needs relative to healthcare are commendable.”

Ken Springer
President
Knox County Area Partnership for
Economic Development

XII. Charity Care Information

Charity Care information **MUST** be furnished for **ALL** projects.

3. 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.
4. 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.
5. 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.

Charity Care for St. Mary Medical Center

Charity Care			
	FY 2012	FY 2013	FY 2014
Net Patient Revenue	\$82,062,243	\$84,738,575	\$86,161,803
Amount of Charity Care (charges)	26,856,619	28,439,327	16,848,988
Cost of Charity Care	\$ 5,116,186	\$ 5,161,738	\$ 2,795,247

Charity Care for OSF Healthcare

Charity Care			
	FY 2012	FY 2013	FY 2014
Net Patient Revenue	\$1,745,075,000	\$1,823,570,000	\$1,800,620,959
Amount of Charity Care (charges)	285,925,649	353,591,840	221,417,876
Cost of Charity Care	\$ 61,658,261	\$ 74,049,916	\$ 45,062,165

Note: The dollar amounts for "Cost of Charity Care", in both tables, includes charity care dollars for OSF Medical Groups.

February 10, 2016

Ms. Courtney Avery
Administrator
Illinois Health Facilities and Services Review Board
515 west Jefferson Street, Second Floor
Springfield, Illinois 62761

Re: OSF Healthcare System – Assurances, Section 1130.234 e) 1)

Dear Ms. Avery:

This letter provides the Illinois Health Facilities and Services Review Board with assurances regarding our application to expand and modernize key clinical services at OSF St. Mary Medical Center.

We hereby state that it is our understanding, based upon information available to us at this time, that by the second year of operation after project completion, OSF St. Mary Medical Center reasonably expects to operate all clinical services included in this application for which there are utilization targets at the State Agency utilization specified in 77 Ill. Adm. Code 1110 Appendix B.

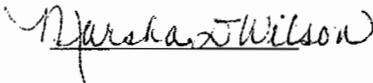
Sincerely,



Roxanna Crosser
President
OSF St. Mary Medical Center

Notarization
Subscribed and sworn before me
on this 10th day of February, 2016

Signature of Notary



Seal



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The Sisters of the Third Order of St. Francis

Appendix A

OSF Healthcare System
Consolidated Financial Statements



OSF HEALTHCARE SYSTEM AND SUBSIDIARIES

Consolidated Financial Statements
and Supplementary Information

September 30, 2014 and 2013

(With Independent Auditors' Report Thereon)

OSF HEALTHCARE SYSTEM AND SUBSIDIARIES

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KPMG LLP
Aon Center
Suite 5500
200 East Randolph Drive
Chicago, IL 60601-6436

Independent Auditors' Report

OSF Healthcare System
Peoria, Illinois:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of OSF Healthcare System and Subsidiaries (OSF), which comprise the consolidated balance sheets as of September 30, 2014 and 2013, and the related consolidated statements of operations and changes in unrestricted net assets, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of OSF Healthcare System and Subsidiaries as of September 30, 2014 and



2013, and the results of their operations and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information included in schedules 1 through 8 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

Chicago, Illinois
February 10, 2015

OSF HEALTHCARE SYSTEM AND SUBSIDIARIES

Consolidated Balance Sheets

September 30, 2014 and 2013

(In thousands)

Assets	2014	2013
Current:		
Cash and cash equivalents	\$ 280,090	264,949
Patients' and residents' accounts receivable, net of allowance for doubtful accounts of approximately \$144,902 in 2014 and \$158,939 in 2013	398,852	369,698
Other	68,767	72,547
Total current assets	747,709	707,194
Investments	907,012	754,601
Assets limited as to use	166,896	150,482
Property and equipment, net	973,022	960,810
Restricted assets	59,767	54,637
Other assets	68,829	66,949
Total assets	\$ 2,923,235	2,694,673
Liabilities and Net Assets		
Current liabilities:		
Current portion of long-term debt	\$ 13,232	8,783
Accounts payable and accrued expenses	265,220	224,561
Estimated third-party payor settlements	82,486	80,167
Total current liabilities	360,938	313,511
Long-term debt, net of current portion	907,682	881,390
Accrued benefit liability	428,805	274,073
Estimated self-insurance liabilities	177,026	158,014
Other liabilities	54,503	49,015
Total liabilities	1,928,954	1,676,003
Net assets:		
Unrestricted:		
Unrestricted net assets of OSF	925,538	954,777
Noncontrolling interests in subsidiaries	8,976	9,256
Total unrestricted net assets	934,514	964,033
Temporarily restricted	36,966	38,213
Permanently restricted	22,801	16,424
Total net assets	994,281	1,018,670
Total liabilities and net assets	\$ 2,923,235	2,694,673

See accompanying notes to consolidated financial statements.

OSF HEALTHCARE SYSTEM AND SUBSIDIARIES

Consolidated Statements of Operations and Change in Unrestricted Net Assets

Years ended September 30, 2014 and 2013

(In thousands)

	<u>2014</u>	<u>2013</u>
Net patient service revenue, net of contractual allowances and discounts	\$ 2,065,269	2,005,184
Provision for uncollectible accounts	<u>(67,258)</u>	<u>(94,333)</u>
Net patient service revenues less provision for uncollectible accounts	1,998,011	1,910,851
Other revenues:		
Contributions	3,434	4,043
Other	92,513	81,228
Net assets released from restrictions used for operations	<u>2,868</u>	<u>2,578</u>
Total revenues	<u>2,096,826</u>	<u>1,998,700</u>
Expenses:		
Salaries and benefits	1,154,034	1,140,414
Sisters' evaluated services	1,191	1,152
Supplies and other expenses	745,619	735,627
Depreciation and amortization	95,517	91,448
Interest	<u>36,185</u>	<u>35,726</u>
Total expenses	<u>2,032,546</u>	<u>2,004,367</u>
Income (loss) before income tax expense	64,280	(5,667)
Income tax expense	<u>363</u>	<u>331</u>
Income (loss) from operations	<u>63,917</u>	<u>(5,998)</u>
Nonoperating gains (losses):		
Investment income	38,137	35,745
Net settlement of derivative instruments	(7,914)	1,364
Change in fair value of investments	12,308	18,559
Loss on early extinguishment of debt	(2,993)	(738)
Change in fair value of derivative instruments	(4,835)	18,389
Contribution of excess assets over liabilities for Saint Luke Medical Center and other	<u>23,270</u>	<u>—</u>
Total nonoperating gains, net	57,973	73,319
Discontinued operations:		
Loss from operations of OSF Saint Clare Home	<u>—</u>	<u>(1,172)</u>
Net income	121,890	66,149
Other changes in unrestricted net assets:		
Net assets released from restrictions used for the purchase of property and equipment	6,429	2,641
Transfer to affiliate and other	(200)	(8,947)
Recognition of change in pension funded status	(151,927)	156,685
Net (distributions made to) contributions from noncontrolling shareholders	<u>(5,711)</u>	<u>163</u>
Change in unrestricted net assets	\$ <u>(29,519)</u>	<u>216,691</u>

See accompanying notes to consolidated financial statements.

OSF HEALTHCARE SYSTEM AND SUBSIDIARIES

Consolidated Statements of Changes in Net Assets

Years ended September 30, 2014 and 2013

(In thousands)

	<u>2014</u>	<u>2013</u>
Unrestricted net assets:		
Net income	\$ 121,890	66,149
Other changes in unrestricted net assets:		
Net assets released from restrictions used for the purchase of property and equipment	6,429	2,641
Transfer to affiliate and other	(200)	(8,947)
Recognition of change in pension funded status	(151,927)	156,685
Net (distributions made to) contributions from noncontrolling shareholders	(5,711)	163
Change in unrestricted net assets	<u>(29,519)</u>	<u>216,691</u>
Temporarily restricted net assets:		
Contributions and other	6,271	13,782
Investment income	1,779	1,608
Net assets released from restrictions, including \$71 related to discontinued operations in 2013	(9,297)	(5,290)
Change in temporarily restricted net assets	<u>(1,247)</u>	<u>10,100</u>
Permanently restricted net assets:		
Contributions	6,377	3,245
Change in net assets	<u>(24,389)</u>	<u>230,036</u>
Net assets, beginning of year	<u>1,018,670</u>	<u>788,634</u>
Net assets, end of year	<u>\$ 994,281</u>	<u>1,018,670</u>

See accompanying notes to consolidated financial statements.

OSF HEALTHCARE SYSTEM AND SUBSIDIARIES

Consolidated Statements of Cash Flows
Years ended September 30, 2014 and 2013
(In thousands)

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Change in net assets	\$ (24,389)	230,036
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Income from equity basis investments and gain on sale	(1,290)	(5,408)
Contribution of excess assets over liabilities for Saint Luke Medical Center and other	(24,005)	—
Distributions from equity basis investments	842	4,121
Loss on early extinguishment of debt	2,993	738
Amortization of bond issue costs and premiums/discounts included in interest expense	83	(96)
Change in fair value of derivative instruments	4,835	(18,389)
Change in fair value of trading securities	(18,001)	(15,519)
Transfer to affiliate and other	200	8,947
Net realized gains on investments	(17,642)	(13,430)
Net distributions paid to (contributions from) noncontrolling interests, including \$6,815 from consolidating joint venture in 2013	5,711	(163)
Depreciation and amortization	95,517	91,448
Restricted contributions and investment income	(14,427)	(18,635)
Net assets released from restrictions	2,868	2,649
Provision for uncollectible accounts	67,258	94,333
Recognition of change in pension funded status	151,927	(156,685)
Changes in assets and liabilities:		
Patients' and residents' accounts receivable	(91,177)	14,930
Other current assets	3,132	14,007
Other assets	1,158	14,535
Other liabilities	3,458	(18,607)
Accounts payable and accrued expenses	38,020	16,183
Estimated third-party payor settlements	516	(9,077)
Estimated self-insurance liabilities	19,012	10,252
Net cash provided by operating activities	<u>206,599</u>	<u>246,170</u>
Cash flows from investing activities:		
Acquisition of property and equipment	(91,674)	(116,705)
Asset/stock purchase of affiliates	(500)	(1,058)
Change in restricted assets	(4,393)	13,345
Cash received from acquisition of Saint Luke Medical Center and other	4,647	—
Gross purchases of investments	(562,558)	(493,553)
Gross proceeds from the sale of investments	453,936	505,156
Net cash used in investing activities	<u>(200,542)</u>	<u>(92,815)</u>
Cash flows from financing activities:		
Restricted contributions and investment income	14,427	18,635
Net assets released from restriction for operations	(2,868)	(2,649)
Net distributions paid to noncontrolling interests	(5,711)	(6,652)
Proceeds from issuance of long-term debt, including premium	69,456	126,604
Transfer to affiliate and other	(200)	(8,947)
Extinguishment of long-term debt, including redemption premium	(57,378)	(1,893)
Repayment of long-term debt	(8,642)	(134,205)
Cash from consolidating joint venture	—	694
Net cash provided by (used in) financing activities	<u>9,084</u>	<u>(8,413)</u>
Net change in cash and cash equivalents	15,141	144,942
Cash and cash equivalents:		
Beginning of year OSF	264,949	120,007
End of year OSF	\$ <u>280,090</u>	<u>264,949</u>
Supplemental disclosures of cash flow information:		
Cash paid for interest, net of amounts capitalized	\$ 36,225	33,338
Cash paid for income taxes	12	12

OSF HEALTHCARE SYSTEM AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended September 30, 2014 and 2013

(In thousands)

	<u>2014</u>	<u>2013</u>
Noncash transactions associated with Saint Luke Medical Center for 2014 and a consolidating joint venture for 2013:		
Patient accounts receivable	\$ 5,235	2,252
Other current assets	1,480	282
Investments	24,560	—
Property and equipment	16,055	1,260
Restricted assets	737	—
Other long-term assets	3,038	15,409
Accounts payable and accrued expenses	(2,639)	(2,228)
Estimated third-party payor settlements	(1,803)	—
Long-term debt	(27,305)	(3,023)

See accompanying notes to consolidated financial statements.

(1) Organization

OSF Healthcare System (OSF) is an Illinois not-for-profit corporation incorporated in 1880 as The Sisters of the Third Order of St. Francis. OSF's current name was adopted as part of a corporate restructuring in 1989 at which time a new Illinois not-for-profit corporation known as The Sisters of the Third Order of St. Francis (Parent) was incorporated by a religious congregation of the Roman Catholic Church having the same name. The Parent is the sole member of OSF and OSF Healthcare Foundation (the Foundation). OSF currently owns and operates eight hospitals, one nursing home (through February 2013), and other healthcare-related entities. OSF operates its healthcare facilities as a single corporation, with each healthcare facility functioning as an operating division of OSF. OSF consists of the following healthcare providers (Providers):

- OSF St. Francis Hospital, Escanaba, Michigan
- OSF Saint Anthony Medical Center, Rockford, Illinois (SAMC)
- OSF Saint James-John W. Albrecht Medical Center, Pontiac, Illinois (SJJAMC)
- OSF St. Joseph Medical Center, Bloomington, Illinois (SJMC)
- OSF Saint Francis Medical Center, Peoria, Illinois (SFMC)
- OSF St. Mary Medical Center, Galesburg, Illinois
- OSF Holy Family Medical Center, Monmouth, Illinois (HFMC)
- OSF Saint Clare Home, Peoria Heights, Illinois (Sold effective February 2013)
- OSF Home Care, Peoria, Illinois
- OSF Saint Luke Medical Center, Kewanee, Illinois

In addition to the Providers, the consolidated financial statements include activities of the OSF Corporate Office and OSF's subsidiaries: Ottawa Regional Hospital & Healthcare Center and Subsidiaries, OSF Saint Francis, Inc. and Subsidiaries (SFI), OSF Lifeline Ambulance, LLC, 11 wholly owned physician group subsidiaries, and PointCore, LLC.

On April 30, 2012, OSF became the sole corporate member of Ottawa Regional Hospital & Healthcare Center d/b/a OSF Saint Elizabeth Medical Center (SEMC) an Illinois not-for-profit corporation. SEMC owns all of the capital stock of Ottawa Regional Healthcare Affiliates, Inc. (ORHA) and Ottawa Regional Hospital Auxiliary. SEMC is the sole member of Ottawa Regional Hospital Foundation and has a 57% ownership in Radiation Oncology of Northern Illinois, LLC (RONI). RONI is consolidated by SEMC.

ORHA is an Illinois for-profit corporation, was incorporated in 2008, and is wholly owned by SEMC. ORHA is a holding company and does not itself operate any businesses. ORHA is the sole stockholder of Ottawa Regional Medical Center, Inc. (ORMC) and Ottawa Regional Cardinal Sleep Center, LLC (ORCSC) and 50% owner of Ottawa Regional DME, LLC (DME). ORHA has not made any initial capital contributions to ORCSC and DME and there have been no operations within these entities at September 30, 2014 and 2013.

ORMC, an Illinois for-profit corporation, was incorporated in 2009. It provides primary care services through employed physicians and nurse practitioners at two locations. It also renders occupational health services, and operates a full-service laboratory and an urgent care clinic.

ORCSC and DME are limited liability companies formed in July 2010.

Ottawa Regional Hospital Auxiliary is an Illinois not-for-profit corporation organized and operated to support the charitable purposes of SEMC.

Ottawa Regional Hospital Foundation is an Illinois not-for-profit fund raising organization whose purpose is to support and encourage healthcare services in furtherance of the purpose of an in assistance to SEMC.

RONI is an Illinois limited liability company, formed in 2007 to own and operate a radiation oncology center.

OSF is the sole member of the Board of Managers of Pointcore, LLC, a limited liability company organized under the laws of the State of Delaware on December 20, 2013 the purpose of which is to pool resources, such as data storage and telecommunications, to improve the quality of healthcare services to its Members and to third parties.

OSF Saint Luke Medical Center (SLMC) (formerly known as Kewanee Hospital), Kewanee, Illinois merged into OSF pursuant to a statutory merger on April 1, 2014. SLMC is a 25-bed critical access hospital serving the community since 1919. The transaction resulted in a contribution of excess assets over liabilities of \$21,875 being recorded in the consolidated statements of operations and change in unrestricted net assets during 2014.

The following table represents the balance sheet as of April 1, 2014 for SLMC:

Assets	
Current:	
Cash and cash equivalents	\$ 3,254
Patients' accounts receivable, net	5,235
Other current assets	1,480
Total current assets	<u>9,969</u>
Investments	24,560
Property and equipment, net	16,055
Restricted assets	737
Other long-term assets	3,038
Total assets	<u>\$ 54,359</u>

Liabilities and Net Assets

Current liabilities:	
Current portion of long-term debt	\$ 965
Accounts payable and accrued expenses	2,639
Estimated third-party payor settlements	1,803
Total current liabilities	5,407
Long-term debt, net of current portion	26,340
Total liabilities	31,747
Net Assets:	
Unrestricted	21,875
Temporarily restricted	54
Permanently restricted	683
Total net assets	22,612
Total liabilities and net assets	\$ 54,359

On an annualized basis the expected revenue and expense for SLMC is \$28,600 and \$27,500, respectively.

SFI is an Illinois for-profit corporation incorporated in 1986 and is engaged in the following lines of business: medical practice management, retail pharmacies, mobile medical systems, durable medical equipment, home therapeutics, real estate rental, and equipment technology services. SFI also participates in various health-related joint ventures and is the sole corporate member of OSF Aviation, Inc., OSF Design Group, Inc., OSF Assurance Company, and OSF Finance Company LLC (OSFFC). OSF Aviation, Inc. is an Illinois limited liability corporation formed on January 28, 2002 for the purpose of acquiring and operating emergency medical equipped helicopters in support of the trauma services programs of SFMC and SAMC. OSF Design Group, Inc. is an Illinois limited liability corporation formed on October 1, 2004 to provide professional architectural services as a registered professional design firm to OSF and its subsidiaries. OSF Assurance Company is a Vermont general corporation incorporated on December 8, 2004 and organized for the purpose of writing insurance and reinsurance as a captive insurance company. OSFFC, an Illinois limited liability company, was organized in November 2007 to be a nominal issuer of taxable corporate notes or other debt instruments used to finance certain capital expenditures that would not be eligible for tax-exempt financing. OSF is not a borrower, obligor, or guarantor of any indebtedness issued by OSFFC.

OSF Lifeline Ambulance, LLC is an Illinois limited liability corporation that commenced operations on October 1, 2003, as a subsidiary of SFI, to provide emergency ground transportation services. SFI contributed all of its ownership interest of OSF Lifeline Ambulance, LLC to OSF effective January 1, 2009.

OSF has 11 wholly owned physician group subsidiaries, which have been formed or acquired to provide physician services and function as physician groups and include the following:

OSF Multispecialty Group – Peoria, LLC was organized on June 11, 2008 and commenced operations on July 1, 2008 to provide pediatric care for cardiovascular illnesses in central Illinois.

Illinois Neurological Institute – Physicians, LLC (INI) was organized on July 23, 2008 and commenced operations on September 22, 2008. INI provides a full spectrum of adult and pediatric care for illnesses affecting the brain, spinal cord, and peripheral nerves.

HeartCare Midwest, Ltd (HCM) was acquired by OSF in a stock purchase transaction on September 1, 2008. HCM is physician group of cardiovascular specialists serving central and northern Illinois.

Cardiovascular Institute at OSF, LLC was organized on January 13, 2009 and commenced operations on April 17, 2009. Cardiovascular Institute at OSF, LLC is a physician group of cardiovascular specialists serving northern Illinois.

OSF Multispecialty Group – Eastern Region, LLC was organized on May 28, 2009 and commenced operations on September 14, 2009. OSF Multispecialty Group – Eastern Region, LLC is a multispecialty clinic serving eastern Illinois, offering services in a wide variety of general and specialty medical categories.

Illinois Pathologist Services, LLC was organized on July 9, 2009 and commenced operation on July 19, 2009 to provide pathology services in northern Illinois.

Illinois Specialty Physician Services at OSF, LLC was organized on August 4, 2009 and commenced operations on November 1, 2009 to provide pulmonary, critical care, and sleep medicine in central Illinois.

OSF Perinatal Associates, LLC was organized on October 21, 2009 and commenced operations on December 13, 2009 to provide perinatology services in central Illinois.

OSF Multispecialty Group – Western Region, LLC was organized on June 8, 2010 and commenced operations on November 1, 2010. OSF Multispecialty Group – Western Region, LLC is a multispecialty clinic serving western Illinois, offering services in a wide variety of general and specialty medical categories.

OSF Children’s Medical Group – Congenital Heart Center, LLC was organized on April 28, 2011 and commenced operations on July 24, 2011 to provide pediatric care for cardiovascular illnesses in northern Illinois.

Preferred Emergency Physicians of Illinois, LLC was organized on August 4, 2011 and commenced operation on September 1, 2011 to provide physician coverage for emergency departments.

OSF owns 50% or more and has management control in the following consolidated joint venture entities:

State and Roxbury, LLC (SAR) was formed in 2009 to establish and operate a real estate management organization in Rockford, Illinois. SAMC has a 51.00% controlling interest in SAR as of September 30, 2014 and 2013.

The Center For Health Ambulatory Surgery Center, LLC (CHASC) was formed in 2007 to establish and operate a multispecialty ambulatory surgical center in Peoria, Illinois. SFMC has a 55.50% controlling interest in CHASC as of September 30, 2014 and 2013.

Fort Jesse Imaging Center, LLC (FJIC) was formed in 2002 to establish and operate a medical imaging center in Bloomington, Illinois. SJMC has a 50.10% controlling interest in FJIC as of September 30, 2014 and 2013.

Sleep Center of Central Illinois, LLC (SCCI) was formed in 2002 to establish and operate a sleep disorder diagnostic center in Bloomington, Illinois. SJMC has a 50.05% controlling interest in SCCI as of September 30, 2014 and 2013.

Eastland Medical Plaza SurgiCenter, LLC (EMPS) was formed in 2000 to establish and operate an ambulatory surgery treatment center in Bloomington, Illinois. SJMC has a 52.72% and 53.60% controlling interest in EMPS as of September 30, 2014 and 2013, respectively.

RONI, an Illinois limited liability company, was formed in 2007 to own and operate a radiation oncology center. SEMC has a 57.00% controlling ownership in RONI as of September 30, 2014 and 2013.

The following represents a reconciliation of beginning and ending balances of OSF's interest and the noncontrolling interests for each class of net assets for which a noncontrolling interest exists during the years ended September 30, 2014 and 2013:

	Unrestricted net assets		
	Total	Controlling interest	Noncontrolling interest
Balance at September 30, 2012	\$ 747,342	744,555	2,787
Net income	66,149	59,843	6,306
Transfer to affiliate and other	(8,947)	(8,947)	—
Net assets released from restrictions used for the purchase of property and equipment	2,641	2,641	—
Recognition of change in pension funded status	156,685	156,685	—
Net contributions received from noncontrolling shareholders	163	—	163
Balance at September 30, 2013	964,033	954,777	9,256
Net income	121,890	116,459	5,431
Transfer to affiliate and other	(200)	(200)	—
Net assets released from restrictions used for the purchase of property and equipment	6,429	6,429	—
Recognition of change in pension funded status	(151,927)	(151,927)	—
Net distributions made to noncontrolling shareholders	(5,711)	—	(5,711)
Balance at September 30, 2014	\$ 934,514	925,538	8,976

The accompanying consolidated financial statements do not include the accounts of the Parent and the Foundation. The Foundation is an Illinois not-for-profit corporation, created to promote, encourage, and solicit, as well as receive and accept, funds in support of the purposes and functions of OSF and the Parent by establishing a council at each of OSF's Provider locations. It is the responsibility of the Foundation staff to develop and implement sound, practical, fund-raising strategies and tactics, the ultimate goal of which is to produce philanthropic support for the various OSF facilities. All funds collected and pledges received are done on behalf of the various OSF facilities and, therefore, shown as due to affiliates by the Foundation. OSF recognizes its net interest in the net assets of the Foundation based on contributions and pledges received by the Foundation on its behalf. The Foundation is a controlled subsidiary of the Parent and, therefore, is not required to be consolidated in the accompanying consolidated financial statements.

Summarized financial information of the Foundation for the years ended September 30, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Cash, investments, pledges, and other	\$ 90,641	84,457
Accounts payable and due to affiliates	4,006	4,830
Unrestricted net assets	40,144	37,164
Temporarily restricted net assets	29,522	31,190
Permanently restricted net assets	16,969	11,273
Cash transfers to OSF during the year	11,871	6,725

The amount due from the Foundation recognized at September 30, 2014 and 2013 consists of \$2,008 and \$2,682, respectively, in other current assets, \$39,693 and \$36,236, respectively, in investments, \$46,491 and \$42,946, respectively, in restricted assets in the accompanying consolidated balance sheets.

Expenses included in the accompanying consolidated financial statements relate primarily to the provision of healthcare services and general and administrative costs.

(2) Summary of Significant Accounting Policies

(a) Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include: the useful lives of fixed assets; allowances for doubtful accounts; the valuation of derivative instruments, recoverability of deferred tax assets, carrying value of fixed assets, fair value of investments; and reserves for employee benefit and self-insurance liabilities.

(b) Cash and Cash Equivalents

Cash and cash equivalents include certain investments in highly liquid debt instruments with original maturities of three months or less when purchased, except amounts shown as assets limited as to use, investments (including amounts held at the Foundation), and restricted assets.

(c) Investments and Investment Income

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated balance sheets.

Investment income on funds held in trust for self-insurance purposes is included in other revenue. Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is reported as nonoperating gains or losses in the accompanying consolidated

statements of operations and changes in unrestricted net assets, unless the income or loss is restricted by donor or law. Management considers all investments to be trading securities.

(d) *Assets Limited as to Use*

Assets limited as to use include amounts held by the bond trustee for payment of principal, interest, and acquisition and construction of equipment and facilities as defined in the loan agreement along with designated assets set aside for self-insurance of medical malpractice, unemployment compensation, and workers' compensation. It is OSF's policy to classify all amounts held by a trustee as long term.

(e) *Other Assets – Joint Ventures*

OSF and certain subsidiaries have investments in organizations that are not majority owned or controlled by OSF organizations. OSF and its subsidiaries account for their investments in these organizations using the cost or equity method of accounting. The equity method of accounting is discontinued when investment is reduced to zero unless OSF or its subsidiary has guaranteed the obligations of the organization or is committed to provide additional capital support.

Investments in organizations using the equity method of accounting are reflected as a component of other assets in the accompanying consolidated balance sheets.

(f) *Property and Equipment*

Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed primarily using the straight-line method. Included in property and equipment are leasehold improvements that are amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the improvement. Net interest costs incurred on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets. Interest costs are not capitalized if the capital assets are acquired using donor-restricted funds.

Gifts of long-lived assets such as land, building, or equipment are reported at fair market value at the time of the donation and are excluded from the excess of unrestricted revenues, gains, and other support and nonoperating gains, net over expenses. Gifts of long-lived assets 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.

(g) *Long-Lived Assets*

Long-lived assets (including property and equipment) are periodically assessed for recoverability based on the occurrence of a significant adverse event or change in the environment in which OSF operates or if the expected future cash flows (undiscounted and without interest) would become less than the carrying amount of the asset. An impairment loss would be recorded in the period such determination is made based on the fair value of the related entity. Fair value of the entity would be

considered Level 3 in the fair value hierarchy (footnote 11). No impairments were recorded for the years ended September 30, 2014 and 2013.

(h) Goodwill

Goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. Goodwill is reviewed for impairment at least annually. In September 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-08, *Testing Goodwill for Impairment*, which provides an entity the option to perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount prior to performing the two-step goodwill impairment test. If this is the case, the two-step goodwill impairment test is required. If it is more likely than not that the fair value of a reporting unit is greater than its carrying amount, the two-step goodwill impairment test is not required. OSF adopted this guidance in 2014.

If the two-step goodwill impairment test is required, first, the fair value of the reporting unit is compared with its carrying amount (including goodwill). If the fair value of the reporting unit is less than its carrying amount, an indication of goodwill impairment exists for the reporting unit and the entity must perform step two of the impairment test (measurement). Under step two, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation and the residual fair value after this allocation is the implied fair value of the reporting unit goodwill. Fair value of the reporting unit is determined using a discounted cash flow analysis. If the fair value of the reporting unit exceeds its carrying amount, step two does not need to be performed.

OSF performs its annual impairment review of goodwill at September 30, and when a triggering event occurs between annual impairment tests. At September 30, 2014 and 2013, OSF performed a qualitative assessment of goodwill and determined that it is not more likely than not that the fair values of its reporting units are less than the carrying amounts. Accordingly, no impairment loss was recorded in 2014 and 2013. OSF has determined the proper reporting unit for goodwill is the consolidated OSF entity unless the goodwill is related to a joint venture, in which case the reporting unit is the joint venture.

(i) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use has been limited by the donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by OSF in perpetuity.

Resources restricted by donors for replacement and expansion of property and equipment are added to unrestricted net assets to the extent expended within the period.

Resources restricted by donors or grantors for specific operating purposes are reported in unrestricted revenues, gains, and other support to the extent used within the period.

OSF classifies as permanently restricted net assets the original fair value of gifts donated to the permanent endowment, the original value of subsequent gifts to the permanent endowment, and accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument. Investment returns in excess of spending are classified as increases in temporarily restricted net assets until appropriated for expenditure by OSF.

The Foundation has established an investment policy that is reviewed annually by the Foundation Board of Directors. The policy directs at the discretion of the local facility Foundation Council that funds may be invested and supervised locally or pooled with other the Foundation funds.

Currently, the investment of endowment funds are invested and supervised by each local Foundation Council following the guidelines established by the Foundation investment policy.

(j) Net Income

The consolidated statements of operations and changes in unrestricted net assets include a performance indicator, net income. Changes in unrestricted net assets, which are excluded from net income, consistent with industry practice, include contributions of long-lived assets (including assets acquired using contributions that were used for the purpose of acquiring such assets by donor restriction), recognition of change in pension funded status, net contributions from (distributions made to) noncontrolling shareholders, and transfers to affiliate and other.

(k) Net Patient Service Revenue

OSF has agreements with third-party payors that provide for payments to OSF at amounts different from its established rates. Payment arrangements include prospectively determined rates-per-discharge, reimbursed costs, discounted charges, and per diem 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 accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

(l) Charity Care

OSF provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because OSF does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

(m) Donor-Restricted Gifts

Unconditional promises to give cash and other assets to OSF 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 pledges or are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted

net assets and reported in the consolidated statements of operations and changes in unrestricted net assets as net assets released from restrictions. Pledges are considered a Level 3 financial instrument in the fair value hierarchy (footnote 11).

Pledges receivable, included as restricted assets, at September 30, 2014 are expected to be collected according to the following schedule:

	<u>Amount</u>
2015	\$ 491
2016	491
2017	491
2018	491
2019	491
Thereafter	<u>982</u>
Pledges receivable	<u>\$ 3,437</u>

(n) *Estimated Self-Insurance Liabilities*

The provisions for estimated self-insured medical malpractice, workers' compensation, health and dental, and unemployment claims include estimates of the ultimate costs for both reported claims and claims incurred but not reported. OSF's policy is to record all self-insurance liabilities as long-term consistent with the related investments due to the uncertainty of the payment stream, except for employee health and dental, which is considered a current liability.

(o) *Services Provided by the Religious Community*

Services provided by the individuals in the religious community are recorded as expense at lay-equivalent values.

(p) *Derivative Instruments*

OSF accounts for derivatives and hedging activities in accordance with Accounting Standards Codification (ASU) Subtopic 815-10, *Accounting for Derivative Instruments and Hedging Activities*, as amended, which requires that an entity recognize all derivatives as either assets or liabilities in the consolidated balance sheets and measure those instruments at fair values. OSF and SFI are involved in various interest rate swap programs. The fair values of the interest rate swap programs are included as a component of the other liabilities in the accompanying consolidated balance sheets. The derivatives are not designated as hedge instruments and, therefore, the change in fair value of the interest rate swap is recorded as a component of nonoperating gains (losses) – change in fair value of derivative instruments in the period of change as well as net settlement of derivative instruments.

(g) Income Taxes

OSF is a not-for-profit corporation as described by Section 501(c)(3) of the Internal Revenue Code (Code) and is exempt from federal income taxes on related income pursuant to Section 501(c)(3) of the Code.

SFI and subsidiaries are for-profit corporations that recognize income taxes under the asset-and-liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

OSF and SFI adopted ASC Subtopic 740-10, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109*. The interpretation addresses the determination of how tax benefits claimed or expected to be claimed on a tax return should be recorded in the consolidated financial statements. Under ASC Subtopic 740-10, OSF and SFI must recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the consolidated financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. ASC Subtopic 740-10 also provides guidance on derecognition, classification, interest and penalties on income taxes, and accounting in interim periods and requires increased disclosures. As of September 30, 2014 and 2013, OSF and SFI do not have any uncertain tax positions.

(r) Fair Value

OSF adopted the provisions of ASC Topic 820, *Fair Value Measurements and Disclosures*, for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis. ASC Topic 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC Topic 820 also establishes a framework for measuring fair value and expands disclosures about fair value measurements.

In conjunction with the adoption of ASC Topic 820, OSF adopted the measurement provisions for investments in funds that do not have readily determinable fair values including domestic and foreign mutual funds and commingled funds. This guidance amended ASC Topic 820 and allows for the estimation of the fair value of investments in investment companies for which the investment does not have a readily determinable fair value using net asset value per share or its equivalent.

(s) ***Electronic Health Record Incentive Program***

The Electronic Health Record (EHR) Incentive Program (the Program) provides incentive payments to eligible hospitals and professionals as they adopt, implement, upgrade, or demonstrate meaningful use of certified EHR technology in their first year of participation and demonstrate meaningful use for up to five remaining participation years. OSF accounts for the Program using the grant model of accounting. OSF applies the “ratable recognition” approach, which states that the grant income can be recognized ratably over the entire EHR reporting period once the “reasonable assurance” income recognition threshold of IAS 20 is met. For the years ended September 30, 2014 and 2013, OSF recognized \$7,960 and \$12,798, respectively, as other revenue related to EHR incentives, which have been received or are expected to be received based on certifications prepared by management under the appropriate guidelines.

(t) ***Reclassifications***

Certain 2013 amounts have been reclassified to conform to the 2014 consolidated financial statement presentation.

(3) Net Patient and Resident Service Revenue

OSF has agreements with third-party payors that provide for payment at amounts different from its established rates. A summary of the payment arrangements with major third-party payors is as follows:

(a) ***Medicare***

Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient nonacute services and certain outpatient services are paid based upon a cost-reimbursement method, established fee screens, or a combination thereof. OSF is reimbursed for cost reimbursable items at a tentative rate, with final settlement determined after submission of annual cost reports by OSF and audits by the Medicare fiscal intermediary. Certain outpatient services are reimbursed at a prospectively determined rate per service based upon their ambulatory payment classification. As of September 30, 2014, Medicare cost reports have been audited and final-settled through September 30, 2012 for SJH, SJMC, and SFH; through September 30, 2011 for SMMC and SAMC; through September 30, 2010 for HFMC and SFMC. HFMC is audited and final-settled for September 30, 2012 but not September 30, 2011. Re-opening notices have been received for SAMC for September 30, 2009, 2010, and 2011; for SJMC for September 30, 2009 and 2011; and for SMMC for September 30, 2010.

OSF is in its third year of participation in a Pioneer ACO program sponsored by the Center for Medicare and Medicaid Innovation. Under the Pioneer ACO program, OSF has agreed to share risk with the Centers of Medicare and Medicaid Services (CMS) for the cost of providers. OSF will share in any savings over projected targets as well as in the costs of any excess expense. OSF’s share of savings or loss is capped at 10.0% and the contract with the Center for Medicare and Medicaid Innovation may be terminated without cause on 60 days’ notice. OSF believes that the Pioneer ACO risk is limited. The Center for Medicare and Medicaid Innovation requires a letter of credit for all

Pioneer ACO participants in which OSF has provided. For fiscal year 2014, a \$2,500 payable was recorded to estimate the impact for final settlement under the Pioneer ACO program. No draws are anticipated on the line of credit.

(b) Medicaid

Inpatient services rendered to Medicaid program beneficiaries are reimbursed at prospectively determined rates per discharge. Outpatient services rendered to Medicaid program beneficiaries are reimbursed upon per-visit rates. Medicaid payment methodologies and rates for services are based on the amount of funding available to the State of Illinois Medicaid program.

OSF participates in the State of Illinois (the State) assessment program that assists in the financing of its Medicaid program. The State assessment program has been renewed by the State since its inception in 2004 and was renewed again on December 4, 2008 for the State's fiscal years ended June 30, 2009 through June 30, 2013. In past years, pursuant to this program, hospitals within the State were required to remit payment to the State Medicaid Program under an assessment formula approved by the CMS. Renewal for the period beginning July 1, 2013 did not require CMS approval as the program was passed through state law on June 16, 2014. The program has been extended through June 30, 2018.

As of and for the years ended September 30, 2014 and 2013, OSF has included its related assessment of \$34,259 and \$34,044, respectively, within other expense in the accompanying consolidated statements of operations and changes in unrestricted net assets. All of the assessment was paid as of September 30, 2014 and 2013. The assessment program also provides hospitals within the State with additional Medicaid reimbursement based on funding formulas, also approved by CMS. OSF has included its additional related reimbursements for the years ended September 30, 2014 and 2013 of \$53,193 and \$52,341, respectively, within net patient service revenue in the accompanying consolidated statements of operations and changes in unrestricted net assets. The net effect of the assessment and reimbursement for the years ended September 30, 2014 and 2013 included in the accompanying consolidated statements of operations is \$18,934 and \$18,297, respectively.

During 2013, The U.S. CMS notified the Illinois Department of Healthcare and Family Services (HFS) of its approval of the Enhanced Hospital Assessment program (outpatient payments approved September 27; inpatient payments approved September 30). The Enhanced Assessment program was authorized by Public Act 97-688 in the spring of 2012. P.A. 98-104 further amended the original Act, changing the original effective date from July 1, 2012 to June 10, 2012, adding an additional 21 days. The current effective date of the Enhanced Assessment as approved by CMS is June 10, 2012 – June 30, 2018. HFS will be developing a schedule for the issuance of the payments to hospitals by the State and the paying of assessments to the State by hospitals, retroactive to the June 10, 2012 effective date.

As of and for the year ended September 30, 2014 and 2013, OSF has included its related assessment of \$15,852 and \$20,478, (the 2013 figure includes a portion retroactive to June 10, 2012), respectively, within other expense in the accompanying consolidated statements of operations and changes in unrestricted net assets for the Enhanced Hospital Assessment Program. The Enhanced

Hospital Assessment Program provides hospitals within the State with additional Medicaid reimbursement based on funding formulas, also approved by CMS. OSF has included its additional related reimbursements for the year ended September 30, 2014 of \$21,036 and \$26,752, (the 2013 figure includes a portion retroactive to June 10, 2012), respectively, within net patient service revenue in the accompanying consolidated statements of operations and changes in unrestricted net assets. The net effect of the assessment and reimbursement for the year ended September 30, 2014 and 2013 included in the accompanying consolidated statements of operations is \$5,184 and \$6,274, respectively.

On January 9, 2015, the Centers for Medicare and Medicaid Services approved a new Illinois Medicaid supplemental hospital payment program for services provided to individuals who qualify as a Medicaid beneficiary under the Affordable Care Act. The program is retroactive to March 1, 2014 and expires June 30, 2018. The estimated annual net reimbursement for OSF Healthcare System is approximately \$17,000.

(c) Other

OSF has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to OSF under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined per diem rates. OSF shares risk and receives bonuses for a portion of managed care payers. These types of structures will continue to grow during fiscal year 2015.

Net patient service revenue for the years ended September 30, 2014 and 2013 includes approximately \$444 and \$7,926, respectively, of net favorable retroactively determined settlements from third-party payors relating to prior years exclusive of the amounts related to the aforementioned Medicaid program.

Patients' accounts receivable are reduced by an allowance for uncollectible accounts. In evaluating the collectibility of patients' accounts receivable, OSF analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for uncollectible accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, OSF analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary. For receivables associated with patient responsibility (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the patients are screened against the OSF charity care policy and uninsured discount policy. For any remaining patient responsibility balance, OSF records a provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

OSF's allowance for uncollectible accounts for self-pay patients, which includes uninsured patients and residual copayments and deductibles for which managed care has already paid, increased from 77.22% of self-pay accounts receivable at September 30, 2013, to 77.26% of self-pay accounts receivable at September 30, 2014. In addition, OSF's self-pay write-offs decreased from \$93,089 for fiscal year 2013 to \$82,198 for fiscal year 2014, primarily due to the expansion of Medicaid eligibility. During fiscal year 2014, OSF changed the financial assistance and uninsured discount policies to reflect updates in Federal and State regulatory changes. OSF does not maintain a material allowance for uncollectible accounts from third-party payors, nor did it have significant write-offs from third-party payors.

OSF recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, OSF recognizes revenue for services provided (on the basis of discounted rates, as provided by policy). On the basis of historical experience, a portion of OSF's uninsured patients will be unable or unwilling to pay for the services provided. Thus, OSF records a provision for bad debts related to uninsured patients in the period the services are provided. Patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts), recognized in the period from these major payor sources, is as follows:

	<u>2014</u>	<u>2013</u>
Medicare	\$ 554,927	596,757
Medicaid	334,723	301,586
Managed Care/contracted payor	956,813	888,214
Self-pay	25,697	28,754
Other	193,109	189,873
	<u>\$ 2,065,269</u>	<u>2,005,184</u>
Net patient service revenues		

(4) Concentration of Credit Risk

OSF grants credit without collateral to its patients and residents, most of whom are local residents and are insured under third-party payor arrangements. The mix of receivables from patients, residents, and third-party payors at September 30, 2014 and 2013 was as follows:

	<u>2014</u>	<u>2013</u>
Medicare	\$ 24%	26%
Medicaid	30	26
Blue cross	7	7
Other third-party payors	30	28
Patients	9	13
	<u>\$ 100%</u>	<u>100%</u>

(5) **Charity Care**

OSF affirms and maintains its commitment to serve its communities in a manner consistent with the philosophy of OSF and the Parent. The philosophy is that adequate access to healthcare is a basic human right for all. OSF is committed to the promotion, preservation, protection, and restoration of wellness, whenever possible. OSF's services are provided to all persons with compassion and regardless of a patient's financial resources. To support this statement, the costs (determined using an estimated current year Medicare cost-to-charge ratio) incurred for services and supplies furnished under OSF's charity assistance policy aggregated \$43,755 and \$71,713 in 2014 and 2013, respectively. Not included in these amounts are benefits provided to the poor through the unpaid cost of Medicaid and other public programs. Additional other benefits provided are for the broader community that represents the unpaid cost of health education, research, and other community health services responding to a special need in the communities that OSF serves.

(6) **Investments**

(a) *Investments*

The composition of investments, at fair value, at September 30, 2014 and 2013 is set forth in the following table:

	<u>2014</u>	<u>2013</u>
Cash and cash equivalents	\$ 10,521	15,020
Domestic equities	155,070	138,776
U.S. Treasury obligations	54,290	39,470
U.S. government agencies	3,203	3,195
Municipal securities	8,257	11,159
Domestic corporate obligations	81,469	62,615
Domestic mutual funds – equities	33,232	17,944
Domestic mutual funds – bonds	405,304	333,170
Domestic mutual funds – other	676	—
Domestic commingled funds	48,247	41,729
Foreign equities	51,228	41,298
Foreign bonds	10,382	9,143
Foreign mutual funds – equities	6,983	3,116
Foreign mutual funds – bonds	869	—
Foreign securities – commingled	36,748	37,855
Other	533	111
	<u>\$ 907,012</u>	<u>754,601</u>

(b) Restricted Assets

The composition of restricted assets, at fair value, at September 30, 2014 and 2013 is set forth in the following table:

	<u>2014</u>	<u>2013</u>
Cash and cash equivalents	\$ 777	623
Domestic equities	3,524	2,844
Domestic corporate obligations	226	109
Domestic mutual funds – equities	1,376	1,564
Domestic mutual funds – bonds	1,494	710
Foreign mutual funds – equities	730	943
Foreign mutual funds – bonds	259	282
Foreign equities	63	90
Pledges receivable and other	12,651	13,755
Investments held at Foundation:		
Cash and cash equivalents	7,121	9,476
Domestic equities	5,901	3,665
U.S. government agencies	164	97
Corporate obligations	278	233
Domestic mutual funds – equities	11,520	7,758
Domestic mutual funds – bonds	10,041	9,692
Foreign mutual funds – equities	3,446	2,371
Foreign mutual funds – bonds	196	425
	<u>\$ 59,767</u>	<u>54,637</u>

(c) *Assets Limited as to Use*

The composition of assets limited as to use, at fair value, with the exception of the guaranteed investment contract, which is at contract value, at September 30, 2014 and 2013 is set forth in the following table:

	<u>2014</u>	<u>2013</u>
Held by trustee under indenture agreement:		
Cash and cash equivalents	\$ 62	765
Domestic mutual funds – equities	364	296
Foreign mutual funds – equities	261	200
Domestic commingled funds	2,733	1,566
	<u>3,420</u>	<u>2,827</u>
Board-designated for self-insurance:		
Cash and cash equivalents	16,298	12,019
U.S. Treasury obligations	64,526	56,843
U.S. government agencies	1,868	4,975
Domestic corporate obligations	38,638	37,536
Foreign bonds	7,686	7,127
Domestic commingled funds	34,460	29,155
	<u>163,476</u>	<u>147,655</u>
	<u>\$ 166,896</u>	<u>150,482</u>

The composition of OSF's investment return for the years ended September 30, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Investment return:		
Interest and dividend income	\$ 22,273	26,627
Net realized gains	17,642	13,430
Change in net unrealized gains on trading securities	18,001	15,519
Total investment return	<u>\$ 57,916</u>	<u>55,576</u>

Investment returns included in the accompanying consolidated statements of operations and changes in unrestricted net assets for the years ended September 30, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Unrestricted revenue, gains, and other support:		
Other	\$ 5,692	(336)
Nonoperating gains:		
Investment income	38,137	35,745
Change in fair value of investments	12,308	18,559
Other changes in unrestricted net assets:		
Temporarily restricted net assets:		
Investment income	1,779	1,608
Total investment return	<u>\$ 57,916</u>	<u>55,576</u>

(7) Property and Equipment

A summary of property and equipment at September 30 is as follows:

	<u>2014</u>	<u>2013</u>
Land	\$ 30,418	29,362
Land improvements	27,568	25,998
Buildings	1,261,127	1,176,291
Equipment	856,212	804,994
	<u>2,175,325</u>	<u>2,036,645</u>
Less accumulated depreciation	1,218,585	1,118,926
	956,740	917,719
Construction in progress	16,282	43,091
Property and equipment, net	<u>\$ 973,022</u>	<u>960,810</u>

As of September 30, 2014, construction budgets of approximately \$74,609 exist for construction and remodeling at various OSF facilities. At September 30, 2014, the remaining contractual commitment on these budgets approximated \$11,443 and will be financed by operations and existing funds. During the years ended September 30, 2014 and 2013, OSF did not capitalize any interest.

(8) Other Assets

Included in other assets at September 30 are the following:

- Bond financing costs, net of accumulated amortization of \$7,040 in 2014 and \$7,471 in 2013

- Escrow deposits of \$3,776 in 2014 and \$4,052 in 2013 for the self-insured workers' compensation program.
- Goodwill of \$22,040 and \$22,040 at September 30, 2014 and 2013, respectively. Goodwill includes \$15,408 and \$15,408 related to a consolidated joint venture in 2014 and 2013, respectively, along with \$6,632 related to a provider in both 2014 and 2013.
- Deferred tax assets of \$16,094 and \$12,121 at September 30, 2014 and 2013, respectively (note 15).
- Other miscellaneous assets of \$9,948 and \$12,264 at September 30, 2014 and 2013, respectively.
- The investments in affiliated companies accounted for using the equity method of accounting totaled \$9,951 and \$9,001 at September 30, 2014 and 2013, respectively. The most significant of these investments include:
 - Community Cancer, LLC – 50.0% ownership interest
 - Renal Intervention Center, LLC – 34.0% ownership interest
 - SimNext, LLC – 50.0% ownership interest
 - River Plex Fitness Center, LLC – 50.0% ownership interest (in operating results only)
 - McLean Imaging Properties, LLC – 49.9% ownership interest
 - Rockford Orthopedic Surgery Center, LLC (ROSC) – 25.0% ownership interest
 - Eastland Medical Plaza SurgiCenter, LLC – 52.72% and 53.6% ownership interest as of September 30, 2014 and 2013, respectively.

For the years ended September 30, 2014 and 2013, OSF recognized income of \$1,290 and \$2,099 in investments in affiliated companies, respectively, as a component of other revenue.

The following table summarizes the unaudited aggregated financial information of unconsolidated affiliated companies of OSF as of September 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Total assets	\$ 31,811	28,803
Total liabilities	12,310	11,625
Total net assets	<u>\$ 19,501</u>	<u>17,178</u>
Total revenues	\$ 20,827	19,906
Operating expenses	13,937	14,848
Net income	<u>\$ 6,890</u>	<u>5,058</u>

(9) **Long-Term Debt**

A summary of long-term debt at September 30, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
OSF Master Trust Indenture Obligations:		
Revenue Refunding Bonds (Illinois Finance Authority Bonds, Series 2012A), payable in annual installments of varying amounts, commencing on May 15, 2013 at fixed interest rates between 4.00% and 5.00% depending on the date of maturity through May 15, 2041.	\$ 176,345	178,095
Revenue Refunding Bonds (Illinois Finance Authority Bonds, Series 2010A), payable in annual installments of varying amounts, commencing on May 15, 2011 at a fixed interest rate of 6.00%. The bonds mature on May 15, 2039.	156,880	156,880
Revenue Bonds (Illinois Finance Authority Bonds, Series 2009A), payable in annual installments of varying amounts, commencing on November 15, 2025 at fixed interest rates between 5.000% and 7.125% depending on the date of maturity through November 15, 2037.	83,165	83,165
Revenue Bonds (Illinois Finance Authority Bonds, Series 2009B, Series 2009C, and Series 2009D), payable in annual installments of varying amounts, commencing November 15, 2021 through November 15, 2037. Interest is determined weekly based on current market conditions (0.04%, 0.05%, and 0.04%, respectively, as of September 30, 2014 and 0.07%, 0.08%, and 0.07%, respectively, as of September 30, 2013).	125,000	125,000
Revenue Bonds (Illinois Finance Authority Bonds, Series 2009E), payable in semiannual installments of varying amounts, commencing May 15, 2010 through November 15, 2024. Interest is fixed at 3.94%, which will be reset every three years commencing on November 15, 2012	21,527	22,376

	<u>2014</u>	<u>2013</u>
Revenue Bonds (Illinois Finance Authority Bonds, Series 2009G), payable in annual installments of varying amounts, commencing August 1, 2010 through August 1, 2029. Interest is determined monthly based on the current market conditions (0.7735% as of September 30, 2014 and 0.7923% as of September 30, 2013).	\$ 17,500	18,000
Revenue Bonds (Illinois Finance Authority Bonds, Series 2007A), payable in annual installments of varying amounts, commencing on November 15, 2010 at fixed interest rates between 4.75% and 5.75% depending on the date of maturity through November 15, 2037.	114,265	115,560
Revenue Bonds (Illinois Finance Authority Bonds, Series 2007E and Series 2007F) payable in annual installments of varying amounts commencing November 15, 2024 through November 15, 2037. Interest is determined weekly based on current market conditions (0.05% and 0.05%, respectively, as of September 30, 2014 and 0.37% and 0.37%, respectively, as of September 30, 2013).	125,000	125,000
Direct Note Obligation (Series 2014A) to PNC Bank, due and payable in full on August 27, 2017. Interest is determined daily based on current market conditions (0.954% as of September 30, 2014)	26,458	—
Other Debt:		
Mortgage note payable to Byron Bank, secured by an EMS training facility. The note bears interest at a rate of 2.91%. Principal and interest of \$3 are payable monthly through October 30, 2017 with a balloon payment of \$489 due on November 30, 2017.	540	562
Mortgage note payable to Rockford Bank and Trust, secured by medical office building. The note bears an interest rate of 3.80% payable monthly. Principal and interest of \$22 is payable monthly with a balloon payment of \$2,916 on June 20, 2020.	3,665	3,786
Revenue Bonds (OSF Finance Company, LLC, Adjustable Rate Taxable Securities, Series 2007-A) payable in annual installments of varying amounts commencing on December 1, 2009 through December 1, 2037. Interest rate varies weekly based on current market conditions (0.11% as of September 30, 2014 and 0.15% at September 30, 2013).	25,020	25,320

	<u>2014</u>	<u>2013</u>
Mortgage note payable to Busey Bank, secured by a medical office building. The note bears an interest rate of 4.32% payable monthly. Principal and interest of \$16 are due monthly through July 2016 with a balloon payment of \$1,260 due August 26, 2016.	\$ 1,495	1,618
Mortgage note payable to Wells Fargo Bank, secured by a medical office building. The note bears an interest rate of 2.46%. The loan was paid off in June 2014.	—	334
Mortgage note payable to JP Morgan Chase Bank, N.A., secured by a medical office building. The interest rate varies monthly based on current market conditions (1.9532% and 1.9685% as of September 30, 2014 and 2013, respectively). Principal payment of \$47 plus accrued interest is due monthly through August 2017 with a balloon payment of \$3,556 due September 30, 2017, plus interest.	5,187	5,747
Mortgage note payable to Commerce Bank, secured by a medical office building. The note bears an interest rate of 4.27% payable monthly. Principal and interest of \$32 are payable monthly through June 30, 2015 with a balloon payment of \$3,154 due July 31, 2015.	3,328	3,565
Mortgage note payable to Busey Bank, secured by an office building. The note bears an interest rate of 4.36% payable monthly. Principal and interest of \$68 is payable monthly through April 2024 with a balloon payment of \$6,598 due May 1, 2024.	10,660	—
Mortgage note payable to Byron Bank, secured by a medical office building. The note bears an interest rate of 4.42% payable monthly. Principal and interest of \$10 is payable monthly through August 2029.	1,240	—
Mortgage note payable to Commerce Bank, secured by a medical office building. The note bears an interest rate of 4.27% payable monthly. Principal and interest of \$15 are payable monthly through June 30, 2015 with a balloon payment of \$1,490 due July 30, 2015.	1,572	1,685
Mortgage note payable to Heartland Bank, secured by a medical office building. The note bears an interest rate of 4.24% payable monthly. Principal and interest of \$32 are payable monthly through May 19, 2017 with a balloon payment of \$3,173 due June 19, 2017.	3,793	4,012

	<u>2014</u>	<u>2013</u>
Note payable to Commerce Bank, secured by an aviation hangar. The note bears an interest rate of 3.05%. Principal and interest of \$14 are payable monthly through May 1, 2017 with a balloon payment of \$1,064 due June 1, 2017.	\$ 1,404	1,526
Note payable to Commerce Bank. The note bears an interest rate of 2.50%. Principal and interest of \$3 are payable monthly through June 1, 2015.	27	62
Mortgage note payable to Commerce Bank, secured by a medical office building. The note bears an interest rate of 3.69% payable monthly. Principal and interest payments of \$43 are payable monthly through October 1, 2015 with a balloon payment of \$4,361 due November 1, 2015.	4,724	5,059
Mortgage note payable to Busey Bank, secured by a medical office building. The note bears interest at a rate of 3.08%. Principal and interest of \$6 are payable monthly through April 1, 2018 with a balloon payment of \$804 due on May 11, 2018.	943	980
Other miscellaneous notes payable	<u>3,593</u>	<u>3,885</u>
	913,331	882,217
Plus original issue premium, net	<u>7,583</u>	<u>7,956</u>
Total debt	920,914	890,173
Less current installments	<u>13,232</u>	<u>8,783</u>
Total long-term debt, excluding current installments	<u>\$ 907,682</u>	<u>881,390</u>

OSF's average interest rates for variable rate debt for the years ended September 30, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Variable interest rate issues:		
2007E	0.05%	0.37%
2007F	0.05	0.37
2009B	0.06	0.12
2009C	0.06	0.12
2009D	0.06	0.13
2009G	0.80	1.07

OSF entered into an amended and restated Master Trust Indenture (MTI) dated September 15, 1999. The purpose of the MTI is to provide a mechanism for the efficient and economical advancement of funds to various operating divisions of OSF using the collective borrowing capacity and credit rating of OSF. OSF has pledged letters of credit as collateral on certain borrowings under the MTI. Under the terms of the MTI, OSF is also required to maintain certain deposits with a trustee. Such deposits are included with assets limited as to use. The MTI also places limits on the incurrence of additional borrowings and requires that OSF satisfy certain measures of financial performance as long as the notes are outstanding. As of September 30, 2014 and 2013, amounts outstanding under the MTI totaled \$846,140 and \$824,076, respectively.

Bond issue premiums and costs are amortized over the term of the related bonds using a weighted average method, based on outstanding debt.

In conjunction with acquiring Kewanee Hospital (now Saint Luke Medical Center), OSF initially acquired Kewanee Hospital's outstanding debt, which was subsequently defeased, resulting in a loss on early extinguishment of debt of \$2,993.

In August 2014, OSF issued Direct Note Obligation, Series 2014A debt of \$26,458 with PNC Bank.

In September 2013, OSF remarketed the Series 2007E and 2007F. The result of the remarketing was a loss of \$738.

OSF has variable rate demand notes that have a put option available to the creditor. If the put option is exercised, the bonds are presented to the bank, which in turn draws on the underlying letter of credit or liquidity facility. The series and the underlying credit facility terms are described as follows as of September 30, 2014:

	Term
OSF Master Trust Indenture Obligations:	
2007E	Quarterly beginning 367 days after bank purchase date and ending on the fifth anniversary of the bank purchase date.
2007F	Quarterly beginning 367 days after bank purchase date and ending on the fifth anniversary of the bank purchase date.
2009B	Quarterly over three years beginning three months after 366 days elapsed since liquidity advance.
2009C	Quarterly over three years beginning on the first day of the calendar quarter after 366 days elapsed since liquidity advance.
2009D	Quarterly over two years beginning after 367 days elapsed since liquidity advance.
Other debt:	
2007A	Principal and interest at 367 days, payable in full, from date of liquidity advance.

Scheduled principal repayments on long-term debt based on the scheduled redemptions according to the MTI are as follows:

Year ending September 30:		
2015	\$	13,232
2016		11,481
2017		48,872
2018		21,030
2019		20,652
Thereafter		805,647

Principal repayments on long-term debt in the event that the variable rate demand bonds are put back to OSF and corresponding draws are made on the underlying letter-of-credit facilities are as follows:

Year ending September 30:		
2015	\$	13,232
2016		108,567
2017		125,375
2018		84,979
2019		55,394
Thereafter		533,367

A summary of interest cost and investment income on borrowed funds held by the trustee under the MTI during the years ended September 30, 2014 and 2013 is as follows:

		<u>2014</u>	<u>2013</u>
Interest cost – charged to operations	\$	30,981	31,007

(10) Derivative Instruments and Hedging Activities

OSF has interest-rate-related derivative instruments to manage its exposure on its variable-rate debt instruments and does not enter into derivative instruments for any purpose other than cash flow hedging purposes.

By using derivative financial instruments to hedge exposures to changes in interest rates, OSF exposes itself to credit risk, tax risk, and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contracts. When the fair value of a derivative contract is positive, the counterparty owes OSF, which creates credit risk for OSF. When the fair value of a derivative contract is negative, OSF owes the counterparty, and therefore, it does not pose a credit risk. OSF minimizes the credit risk in derivative instruments by entering into transactions with high-quality counterparties whose credit rating is at least “A” or “A2” by Standard and Poor’s or Moody’s, respectively.

Tax risk refers to the potential adverse effect that a change in tax law could have on the relationship between taxable (LIBOR) and tax-exempt (SIFMA) rates. OSF minimizes the tax risk in derivative instruments by maintaining sufficient cash reserves to handle potential tax law changes.

Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates. The market risk associated with interest rate contracts is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken.

OSF is exposed to credit loss in the event of nonperformance by the counterparty to the interest rate swap agreements; however, this is not anticipated. During the years ended September 30, 2014 and 2013, neither OSF nor any counterparty to the interest rate swap agreements was required to post collateral.

A summary of outstanding positions under OSF's interest rate swap program at September 30, 2014 is as follows:

	<u>Notional amount</u>	<u>Maturity date</u>	<u>Rate received</u>	<u>Rate paid</u>
\$	47,700	November 2, 2029	BMA Index	3.969%
	47,975	October 19, 2029	BMA Index	3.969%
	11,325	November 15, 2024	BMA Index	3.794%
	130,000	November 15, 2037	67% of USD – LIBOR-BBA	3.651%
	128,725	May 15, 2041	67% 1 Mo. Libor + 0.70%	SIFMA

Net payments equal to the differential to be paid under all interest rate swap agreements are recognized within nonoperating gains (losses) and amounted to approximately \$(7,914) and \$1,364 in 2014 and 2013, respectively. In addition, OSF terminated three swaps in March 2013 with notional amounts of \$110,000, \$110,000 and \$100,000 resulting in \$9,780 of cash receipts, which is also recognized within nonoperating gains (losses) as net settlement of derivative instruments in the consolidated statements of operations and change in unrestricted net assets.

The fair value of the swap agreements under ASC Subtopic 820-10 was \$(44,479) and \$(39,225) and is recorded as a component of other liabilities in the accompanying consolidated balance sheets at September 30, 2014 and 2013, respectively. For the years ended September 30, 2014 and 2013, OSF recognized an unrealized gain (loss) of \$(5,254) and \$17,707, respectively, as its change in the fair value of the interest rate swaps as a component of nonoperating gains (losses) – change in cash flow hedging derivative instruments.

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

<u>Type of interest swap</u>	<u>Notional amount</u>	<u>Mark to market</u>	<u>Fair value</u>
Floating-to-fixed	\$ 47,700	(7,406)	(7,116)
Floating-to-fixed	47,975	(7,429)	(7,137)
Floating-to-fixed	11,325	(1,127)	(1,217)
Floating-to-fixed	130,000	(30,054)	(27,882)
Floating-to-fixed	128,725	(1,886)	(1,127)
		<u>\$ (47,902)</u>	<u>(44,479)</u>

The following is a summary of the swaps as of September 30, 2013:

<u>Type of interest swap</u>	<u>Notional amount</u>	<u>Mark to market</u>	<u>Fair value</u>
Floating-to-fixed	\$ 49,150	(6,818)	(6,565)
Floating-to-fixed	48,875	(6,733)	(6,541)
Floating-to-fixed	12,125	(1,428)	(1,360)
Floating-to-fixed	130,000	(26,060)	(24,759)
		<u>\$ (41,039)</u>	<u>(39,225)</u>

A summary of outstanding positions under SFI's interest rate swap program at September 30, 2014 is as follows:

<u>Notional amount</u>	<u>Maturity date</u>	<u>Rate received</u>	<u>Rate paid</u>
\$ 13,000	December 1, 2017	USD – LIBOR-BBA	4.353%

Net payments equal to the differential to be received under the interest rate swap program are recognized as a component of interest expense and amounted to approximately \$724 and \$712 in 2014 and 2013, respectively.

The fair value of the SFI swap agreements was \$(1,251) and \$(1,669) and is recorded as a component of other liabilities in the accompanying consolidated balance sheets as of September 30, 2014 and 2013, respectively. For the years ended September 30, 2014 and 2013, SFI recognized an unrealized gain (loss) of \$418 and \$682, respectively, as its change in the fair value of the interest rate swaps as a component of nonoperating gains (losses) – change in cash flow hedging derivative instruments.

The following is a summary of SFI's swaps as of September 30, 2014:

Type of interest swap	Notional amount	Mark to market	Fair value
Fixed rate payor	\$ 13,000	(1,251)	(1,251)
		\$ (1,251)	(1,251)

The following is a summary of SFI's swaps as of September 30, 2013:

Type of interest swap	Notional amount	Mark to market	Fair value
Fixed rate payor	\$ 13,000	(1,714)	(1,669)
		\$ (1,714)	(1,669)

(11) Investment Composition and Fair Value Measurements

(a) Overall Investment Objective

The overall investment objective of OSF is to invest its assets in a prudent manner that will achieve an expected rate of return, manage risk exposure, and focus on downside protection. OSF's invested assets will maintain sufficient liquidity to fund a portion of OSF's annual operating activities and structure the invested assets to maintain a high percentage of available liquidity. OSF diversifies their investments among various asset classes incorporating multiple strategies and managers. Major investment decisions are authorized by the Board's Investment Committee, which oversees the investment program in accordance with established guidelines.

(b) Allocation of Investment Strategies

OSF maintains a percentage of assets in domestic and international stocks. To manage its risk exposure, the majority of assets are invested in intermediate term fixed income funds and invested with intermediate and short-term fixed income managers. Because of the inherent uncertainties for valuation of some holdings, the estimated fair values may differ from values that would have been used had a ready market existed.

(c) Basis of Reporting

Assets whose use is limited or restricted are reported at estimated fair value. If an investment is held directly by OSF and an active market with quoted prices exists, the market price of an identical security is used as reported fair value. Reported fair values for shares in common and preferred stock and fixed income are based on share prices reported by the funds as of the last business day of the fiscal year.

(d) Fair Value of Financial Instruments

The following methods and assumptions were used by OSF in estimating the fair value of its financial instruments:

- The carrying amount reported in the consolidated balance sheets for the following approximates fair value because of the short maturities of these instruments: cash and cash equivalents, other assets, accounts payable and accrued expenses, and estimated third-party payor settlements.
- Fair values of OSF's investments held as investments, assets limited as to use, and restricted assets are estimated based on prices provided by its investment managers and its custodian bank. Fair value for cash and cash equivalents, equities, and foreign equities are measured using quoted market prices at the reporting date multiplied by the quantity held. U.S. Treasury obligations, U.S. government agencies, municipal securities, corporate obligations, and foreign securities are measured using other observable inputs. The carrying value equals fair value.
- Commingled funds and mutual funds are valued using net asset value as a practical expedient to measure fair value as allowed by ASU No. 2009-12.
- Fair value of fixed rate long-term debt is estimated based on the quoted market prices for the same or similar issues or on the current rates offered to OSF for debt of the same remaining maturities. For variable rate debt, carrying amounts approximate fair value. Fair value was estimated using quoted market prices based upon OSF's current borrowing rates for similar types of long-term debt securities.
- Fair value of interest rate swaps is determined using pricing models developed based on the LIBOR swap rate and other observable market data. The value was determined after considering the potential impact of collateralization and netting agreements, adjusted to reflect nonperformance risk of both the counterparty and OSF.

The following table presents the carrying amounts and estimated fair values of OSF's financial instruments not carried at fair value at September 30, 2014 and 2013:

	2014		2013	
	Carrying amount	Fair value	Carrying amount	Fair value
Long-term debt	\$ 920,914	985,340	890,173	924,087

(e) Fair Value Hierarchy

OSF adopted ASC Subtopic 820-10 for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis. OSF did not elect to fair value any of its nonfinancial assets or liabilities as of September 30, 2014 and 2013. ASC Subtopic 820-10 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure

fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that OSF has the ability to access at the measurement date.
- Level 2 are observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 inputs are unobservable inputs for the asset or liability.

The following tables present OSF's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of September 30, 2014:

	<u>Fair value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Financial assets:				
Cash and cash equivalents	\$ 280,090	280,090	—	—
Investments:				
Cash and cash equivalents	10,521	6,179	4,342	—
Domestic equities	155,070	155,070	—	—
U.S. Treasury obligations	54,290	54,290	—	—
U.S. government agencies	3,203	—	3,203	—
Municipal securities	8,257	—	1,535	6,722
Domestic corporate obligations	81,469	—	75,239	6,230
Domestic mutual funds – equities	33,232	33,232	—	—
Domestic mutual funds – bonds	405,304	405,304	—	—
Domestic mutual funds – other	676	676	—	—
Domestic commingled funds	48,247	45,688	2,559	—
Foreign equities	51,228	51,228	—	—
Foreign bonds	10,382	—	10,382	—
Foreign mutual funds – equities	6,983	6,983	—	—
Foreign mutual funds – bonds	869	869	—	—
Foreign securities – commingled	36,748	—	36,748	—
Other	533	533	—	—
Total investments	<u>907,012</u>	<u>760,052</u>	<u>134,008</u>	<u>12,952</u>

	<u>Fair value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Restricted assets – excluding pledges and other of \$12,651:				
Cash and cash equivalents	\$ 777	777	—	—
Domestic equities	3,524	3,524	—	—
Domestic corporate obligations	226	—	226	—
Domestic mutual funds – equities	1,376	1,376	—	—
Domestic mutual funds – bonds	1,494	1,494	—	—
Foreign mutual funds – equities	730	730	—	—
Foreign mutual funds – bonds	259	259	—	—
Foreign equities	63	63	—	—
Investments held at foundation:				
Cash and cash equivalents	7,121	7,046	75	—
Domestic equities	5,901	5,901	—	—
U.S. government agencies	164	—	164	—
Domestic corporate obligations	278	—	278	—
Domestic mutual funds – equities	11,520	11,520	—	—
Domestic mutual funds – bonds	10,041	10,041	—	—
Foreign mutual funds – equities	3,446	3,446	—	—
Foreign mutual funds – bonds	196	196	—	—
Total restricted assets	47,116	46,373	743	—
Assets limited as to use:				
Cash and cash equivalents	16,360	16,360	—	—
U.S. Treasury obligations	64,526	64,526	—	—
U.S. government agencies	1,868	—	1,868	—
Domestic corporate obligations	38,638	—	38,638	—
Domestic mutual funds – equities	364	364	—	—
Foreign mutual funds – equities	261	261	—	—
Foreign mutual funds – bonds	7,686	—	7,686	—
Domestic commingled funds	37,193	35,315	1,878	—
Total assets limited as to use	166,896	116,826	50,070	—
Total financial assets	\$ 1,401,114	1,203,341	184,821	12,952

	<u>Fair value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Financial liabilities:				
Fair value of swap agreements	\$ 45,730	—	45,730	—
Total financial liabilities	\$ 45,730	—	45,730	—

OSF's accounting policy is to recognize transfers between levels of the fair value hierarchy on the date of the event or change in circumstances that caused the transfer. There were no transfers into or out of Level 1, Level 2, or Level 3 for the years ended September 30, 2014 and 2013.

The following table summarizes the changes for the year ended September 30, 2014 in investments classified within Level 3. The classification of an investment within Level 3 is based on the significance of the unobservable inputs to the overall fair value measurement.

Level 3 assets	Beginning balance, September 30, 2013	Realized gains	Unrealized gains, net	Sales	Ending balance, September 30, 2014
Corporate obligations –					
2 Corporate obligations	\$ 5,684	3	549	(6)	6,230
Municipal securities –					
3 Municipal securities	6,397	45	280	—	6,722
	<u>\$ 12,081</u>	<u>48</u>	<u>829</u>	<u>(6)</u>	<u>12,952</u>

The following tables present OSF's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of September 30, 2013:

	Fair value	Level 1	Level 2	Level 3
Financial assets:				
Cash and cash equivalents	\$ 264,949	264,949	—	—
Investments:				
Cash and cash equivalents	15,020	7,857	7,163	—
Domestic equities	138,776	138,776	—	—
U.S. Treasury obligations	39,470	39,470	—	—
U.S. government agencies	3,195	—	3,195	—
Municipal securities	11,159	—	4,762	6,397
Domestic corporate obligations	62,615	—	56,931	5,684
Domestic mutual funds – equities	17,944	17,944	—	—
Domestic mutual funds – bonds	333,170	333,170	—	—
Domestic commingled funds	41,729	41,729	—	—
Foreign equities	41,298	41,298	—	—
Foreign bonds	9,143	—	9,143	—
Foreign mutual funds – equities	3,116	3,116	—	—
Foreign securities – commingled	37,855	1,715	36,140	—
Other	111	—	111	—
Total investments	<u>754,601</u>	<u>625,075</u>	<u>117,445</u>	<u>12,081</u>

	<u>Fair value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Restricted assets – excluding pledges and other of \$13,755:				
Cash and cash equivalents	\$ 623	623	—	—
Domestic equities	2,844	2,844	—	—
Domestic corporate obligations	109	—	109	—
Domestic mutual funds – equities	1,564	1,564	—	—
Domestic mutual funds – bonds	710	710	—	—
Foreign mutual funds – equities	943	943	—	—
Foreign mutual funds – bonds	282	282	—	—
Foreign equities	90	90	—	—
Investments held at foundation:				
Cash and cash equivalents	9,476	9,371	105	—
Domestic equities	3,665	3,665	—	—
Domestic corporate obligations	233	—	233	—
Domestic mutual funds – equities	10,129	10,129	—	—
Domestic mutual funds – bonds	10,117	10,117	—	—
U.S. government agencies	97	—	97	—
Total restricted assets	<u>40,882</u>	<u>40,338</u>	<u>544</u>	<u>—</u>
Assets limited as to use:				
Cash and cash equivalents	12,784	12,784	—	—
U.S. Treasury obligations	56,843	56,843	—	—
U.S. government agencies	4,975	—	4,975	—
Domestic corporate obligations	37,536	—	37,536	—
Domestic mutual funds – equities	296	296	—	—
Foreign securities	7,327	200	7,127	—
Domestic commingled funds	30,721	29,666	1,055	—
Total assets limited as to use	<u>150,482</u>	<u>99,789</u>	<u>50,693</u>	<u>—</u>
Total financial assets	<u>\$ 1,210,914</u>	<u>1,030,151</u>	<u>168,682</u>	<u>12,081</u>

	<u>Fair value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Financial liabilities:				
Fair value of swap agreements	\$ (40,894)	—	(40,894)	—
Total financial liabilities	<u>\$ (40,894)</u>	<u>—</u>	<u>(40,894)</u>	<u>—</u>

The following table summarizes the changes for the year ended September 30, 2013 in investments classified within Level 3. The classification of an investment within Level 3 is based on the significance of the unobservable inputs to the overall fair value measurement.

Level 3 assets	Beginning balance, September 30, 2012	Realized gains	Realized (losses)	Unrealized gains losses, net	Sales	Ending balance, September 30 2013
Corporate obligations- 13 Corporate obligations	\$ 14,024	13	(1,093)	1,531	(8,791)	5,684
Municipal securities- 3 Municipal securities	6,800	—	—	(403)	—	6,397
Other – land trust- 1 land trust	139	—	—	—	(139)	—
	\$ 20,963	13	(1,093)	1,128	(8,930)	12,081

None of the assets, except those listed below, have any redemption restrictions so the redemption frequency is daily and would have a one-day notice for redemption:

	2014	2013	Redemption frequency	Days notice
Investments:				
Foreign securities-commingled	\$ 36,748	36,140	Monthly	10
Foreign securities-commingled	—	1,715	Daily	3
Domestic commingled funds	48,247	41,729	Daily	2
Assets limited as to use:				
Domestic commingled funds	34,461	29,155	Daily	2

(12) Temporarily and Permanently Restricted Net Assets

OSF's temporarily restricted net assets of \$36,966 and \$38,213 at September 30, 2014 and 2013, respectively, are restricted for nursing education, and various programs related to the provision of healthcare.

OSF's permanently restricted net assets of \$22,801 and \$16,424 at September 30, 2014 and 2013, respectively, consist of investments to be held in perpetuity, the majority of income of which is expendable to support healthcare services.

During 2014 and 2013, net assets were released from donor restrictions by purchasing equipment and incurring expenses, which satisfied the restricted purpose of healthcare and nursing education in the amount of \$9,297 and \$5,290, respectively.

(13) Self-Insurance

OSF has established a self-insurance program for professional and general liability, which provides for both self-insured limits and purchased coverage above such limits. Beginning October 1, 2008, excess coverage is provided by OSF Assurance Company, who purchases reinsurance from a third-party carrier for professional and general liability that has a limit of \$35,000 for each claim and in the aggregate and is in excess of \$7,000 for each and every occurrence. There are known claims and incidents that may result in the assertion of additional claims, as well as claims from unknown incidents that may be asserted arising from services provided to patients. OSF has employed independent actuaries to estimate the ultimate costs, if any, of the settlement of such claims. Accrued professional and general liability losses are recorded on an undiscounted basis. In management's opinion, the accrued professional and general liability losses provide an adequate reserve for loss contingencies.

OSF is self-insured for workers' compensation. OSF has employed independent actuaries to estimate the ultimate costs, if any, of the settlement of workers' compensation claims.

OSF is also self-insured for unemployment compensation benefits and health and dental claims. OSF has developed internal techniques for estimating the ultimate costs of these claims. Accrued losses are recorded on an undiscounted basis. In management's opinion, accrued losses provide an adequate reserve for loss contingencies. Due to the short-term nature of health and dental claims, estimated liabilities of \$9,493 and \$10,253 as of September 30, 2014 and 2013, respectively, have been reported as accrued expenses. The associated expense of \$120,815 and \$120,113 as of September 30, 2014, respectively, is included in salaries and benefits in the accompanying consolidated statements of operations and changes in net assets.

As of September 30, 2014 and 2013, estimated self-insurance liabilities are comprised of the following:

	<u>2014</u>	<u>2013</u>
Professional and general liability	\$ 152,448	134,261
Workers' compensation	21,263	19,983
Other	3,315	3,770
Total estimated self-insurance liabilities	<u>\$ 177,026</u>	<u>158,014</u>

Self-insurance expense is included in supplies and other expenses in the accompanying consolidated statements of operations and changes in net assets. As of September 30, 2014 and 2013, self-insurance expense is comprised of the following:

	<u>2014</u>	<u>2013</u>
Professional and general liability	\$ 27,672	27,044
Workers' compensation	6,527	7,855
Total self-insurance expense	<u>\$ 34,199</u>	<u>34,899</u>

(14) Retirement Benefits

OSF has a noncontributory defined benefit pension plan (the Plan) covering substantially all employees of the Providers and OSF Corporate Office. The Plan was changed to eliminate benefit accruals after March 5, 2011. Curtailment accounting occurred effective December 31, 2010. Prior to the Plan's change, benefits were based on a minimum benefit, which was increased for years of service. Contributions are intended to fund current service cost and, over 30 years, benefits from qualifying service prior to establishment of the Plan. The Plan is a "Church" plan and is not subject to Employee Retirement Income Security Act (ERISA).

The actuarial funding method used in the actuarial valuation for 2014 and 2013 is the projected unit credit cost method. The measurement date for plan liabilities and assets is September 30 for the years ended September 30, 2014 and 2013. The following tables set forth the Plan's funded status and amounts recognized in OSF's consolidated financial statements at September 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 735,420	834,821
Interest cost	37,049	33,899
Actuarial gain (loss)	157,283	(116,367)
Benefits paid	<u>(19,284)</u>	<u>(16,933)</u>
Benefit obligation at end of year	<u>\$ 910,468</u>	<u>735,420</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 471,022	420,557
Actual return on plan assets	40,913	61,243
Employer contributions	7,039	6,155
Benefits paid	<u>(19,284)</u>	<u>(16,933)</u>
Fair value of plan assets at end of year	<u>\$ 499,690</u>	<u>471,022</u>

	<u>2014</u>	<u>2013</u>
Reconciliation of funded status:		
Funded status	\$ (410,778)	(264,398)
Net amount recognized at year-end	<u>\$ (410,778)</u>	<u>(264,398)</u>
Amounts recognized in the accompanying consolidated balance sheets:		
Accrued benefit liability	\$ (410,778)	(264,398)
Amounts not yet reflected in net periodic benefit cost and included as an accumulated credit to unrestricted net assets:		
Net actuarial loss	\$ (396,889)	(250,262)
Prior service cost	(7,552)	(7,786)
Net amounts recognized in the accompanying consolidated balance sheets	<u>\$ (404,441)</u>	<u>(258,048)</u>
	<u>2014</u>	<u>2013</u>
Weighted average assumptions:		
Discount rate:		
Benefit obligation	4.50%	5.10%
Net periodic benefit cost	5.10	4.10
Rate of compensation increase:		
Benefit obligation	N/A	N/A
Net periodic benefit cost	N/A	N/A
Expected return on plan assets	8.00	8.00
Components of net periodic benefit cost:		
Interest cost	\$ 37,049	33,899
Expected return on plan assets	(36,024)	(36,141)
Amortization of prior service cost	234	234
Amortization of actuarial loss	5,768	8,177
Net periodic benefit cost	<u>\$ 7,027</u>	<u>6,169</u>

The accumulated benefit obligation for the Plan was \$910,468 and \$735,420 at September 30, 2014 and 2013, respectively. As of September 30, 2014, OSF adopted the new RP-2014 Mortality Table with generational improvements using projection scale MP-2014. As a result of the adoption, the projected benefit obligation increased \$67,664.

Benefit costs are included in salaries and benefits in the accompanying consolidated financial statements.

The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based exclusively on historical returns, without adjustments.

OSF is expected to contribute approximately \$12,092 to the Plan in 2015.

The benefits expected to be paid in each year 2015 through 2019 are approximately \$20,827, \$24,680, \$27,907, \$31,226, and \$34,498, respectively. The aggregate benefits expected to be paid in the five years from 2020 through 2024 are approximately \$217,907. The expected benefits are based on the same assumptions used to measure OSF's benefit obligation at September 30, 2014.

The Plan has a statement of investment policy, which is reviewed and approved by the OSF board of directors. The policy establishes goals and objectives of the fund, asset allocations, allowable and prohibited investments, socially responsible guidelines, and asset classifications, as well as specific investment manager guidelines. The policy states that the rebalancing of these assets to the target allocations will be reviewed on a semiannual basis. Investments are managed by independent advisors. Management monitors the performance of these managers on a monthly basis.

The table below lists the target asset allocation and acceptable ranges and actual asset allocations as of September 30, 2014 and 2013:

Asset	Target allocation	Acceptable range	Actual allocation at September 30	
			2014	2013
Large cap equity	39%	34 to 44%	41.0%	41.4%
Small cap equity	6	1 to 11	5.8	6.8
International equity	20	15 to 25	20.0	22.3
Fixed income	35	30 to 40	32.6	28.6
Cash	—	—	0.6	0.9

Fair Value of Financial Instruments

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at September 30, 2014 and 2013.

- Fair values of the Plan's assets are estimated based on prices provided by its investment managers and its custodian bank except for commingled funds. Fair value for cash and cash equivalents, equities, and foreign equities are measured using quoted market prices at the reporting date multiplied by the quantity held. U.S. Treasury obligations, U.S. government agencies, municipal securities, corporate obligations, and foreign securities are measured using other observable inputs. The carrying value equals fair value.
- Commingled funds and mutual funds are valued using net asset value as a practical expedient to measure fair value as allowed by ASU No. 2009-12.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies

or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Fair Value Hierarchy

The Plan adopted ASC Subtopic 715-20-50, *Compensation – Retirement Benefits*, on October 1, 2009 for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis. ASC Subtopic 715-20-50 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value.

The following table presents the Plan’s fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of September 30, 2014:

	<u>Fair value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Financial assets:				
Investments:				
Cash and cash equivalents	\$ 8,801	8,801	—	—
Domestic equities	145,590	145,590	—	—
U.S. Treasury obligations	14,913	14,913	—	—
U.S. government agencies	1,273	—	1,273	—
Municipal securities	414	—	414	—
Domestic corporate obligations	15,484	—	15,484	—
Domestic mutual funds – equities	561	561	—	—
Domestic mutual funds – bonds	124,385	124,385	—	—
Foreign equities	61,297	61,297	—	—
Foreign bonds	3,149	—	3,149	—
Foreign commingled funds	52,132	—	52,132	—
Domestic commingled funds	71,552	70,827	725	—
Partnership	139	—	—	139
Total financial assets	<u>\$ 499,690</u>	<u>426,374</u>	<u>73,177</u>	<u>139</u>

The following table summarizes the changes for the year ended September 30, 2014 in investments classified within Level 3. The classification of an investment within Level 3 is based on the significance of the unobservable inputs to the overall fair value measurement.

<u>Level 3 assets</u>	<u>Beginning balance, October 1, 2013</u>	<u>Unrealized loss</u>	<u>Sales</u>	<u>Ending balance, September 30, 2014</u>
Partnership (1 Partnership) \$	226	(87)	—	139

The following table presents the Plan's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of September 30, 2013:

	<u>Fair value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Financial assets:				
Investments:				
Cash and cash equivalents	\$ 17,907	17,907	—	—
Domestic equities	143,181	143,181	—	—
U.S. Treasury obligations	16,909	16,909	—	—
U.S. government agencies	2,373	—	2,373	—
Municipal securities	366	—	366	—
Domestic corporate obligations	14,932	—	14,932	—
Domestic mutual funds – equities	124	124	—	—
Domestic mutual funds – bonds	89,678	89,678	—	—
Foreign equities	59,772	59,772	—	—
Foreign bonds	3,278	—	3,278	—
Foreign commingled funds	51,271	—	51,271	—
Domestic commingled funds	71,005	70,313	692	—
Partnership	226	—	—	226
Total financial assets	<u>\$ 471,022</u>	<u>397,884</u>	<u>72,912</u>	<u>226</u>

The following table summarizes the changes for the year ended September 30, 2013 in investments classified within Level 3. The classification of an investment within Level 3 is based on the significance of the unobservable inputs to the overall fair value measurement.

<u>Level 3 assets</u>	<u>Beginning balance, October 1, 2012</u>	<u>Realized Gains</u>	<u>Unrealized Losses</u>	<u>Sales</u>	<u>Ending balance, September 30, 2013</u>
Corporate obligations (1 Corporate obligation)	\$ 189	(5)	—	(184)	—
Partnership (1 Partnership)	254	—	(28)	—	226
	<u>\$ 443</u>	<u>(5)</u>	<u>(28)</u>	<u>(184)</u>	<u>226</u>

The Plan's accounting policy is to recognize transfers between levels of the fair value hierarchy on the date of the event or change in circumstances that caused the transfer. There were no transfers into or out of Level 1, Level 2, or Level 3 for the years ended September 30, 2014 and 2013.

None of the assets, except those listed below, have any redemption restrictions so the redemption frequency is daily and would have a one-day notice for redemption.

	<u>2014</u>	<u>2013</u>	<u>Redemption frequency</u>	<u>Days notice</u>
Foreign commingled funds	\$ 52,132	51,271	Monthly	10
Domestic commingled funds	71,552	71,005	Daily	2
Partnership	139	226	At GP discretion	N/A

In addition, OSF sponsors a retirement savings plan that includes a 401(k) feature. In conjunction with the change in the pension plan on March 5, 2011, OSF enhanced the retirement savings plan by increasing the match and adding an annual discretionary contribution. In 2013 and 2014, participants may deposit an amount from 1% to 90% of their eligible compensation up to the IRS limit. OSF contributes 100% of the employee contribution up to 5% of eligible compensation. OSF may also make annual discretionary contributions based on a participant's age and years of service. OSF contributed \$49,529 in 2014 and \$53,520 in 2013 to the retirement savings plan, which has been expensed as salaries and benefits expense. OSF also accrued for an anticipated discretionary contribution of \$17,094 in 2014 and \$17,529 in 2013, which has been expensed as salaries and benefits expense.

SFI has a defined benefit pension plan (SFI Plan) covering substantially all of its employees. The plan was changed to eliminate benefit accruals after March 5, 2011. Curtailment accounting occurred effective December 31, 2010. Prior to the plan change, SFI Plan benefits were based on years of service and the employee's compensation during those years of service. SFI's funding policy is to contribute an amount not less than the minimum required contribution under the ERISA of 1974.

The actuarial funding method used in the actuarial valuation for 2014 and 2013 for the SFI Plan is the projected unit credit cost method. The measurement date for plan liabilities and assets is September 30. The following tables set forth the SFI Plan's funded status and amounts recognized in the consolidated financial statements at September 30, 2014:

	<u>2014</u>	<u>2013</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 51,970	59,419
Interest cost	2,653	2,450
Actuarial gain (loss)	12,286	(9,059)
Benefits paid	(998)	(840)
Benefit obligation at end of year	<u>\$ 65,911</u>	<u>51,970</u>

	<u>2014</u>	<u>2013</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 42,295	37,535
Actual return on plan assets	5,307	5,200
Employer contributions	1,280	400
Benefits paid	(998)	(840)
Fair value of plan assets at end of year	<u>\$ 47,884</u>	<u>42,295</u>
Reconciliation of funded status:		
Funded status	\$ (18,027)	(9,675)
Net amount recognized at year-end	<u>\$ (18,027)</u>	<u>(9,675)</u>
Amounts recognized in the accompanying consolidated balance sheets:		
Accrued benefit liability	\$ (18,027)	(9,675)
Amounts not yet reflected in net periodic benefit cost and included as an accumulated credit to stockholder's equity:		
Net actuarial loss	\$ 24,351	14,610
Prior service cost	308	317
Net amounts recognized in the accompanying consolidated balance sheets	<u>\$ 24,659</u>	<u>14,927</u>
	<u>2014</u>	<u>2013</u>
Weighted average assumptions:		
Discount rate:		
Benefit obligation	4.55%	5.15%
Net periodic benefit cost	5.15	4.15
Rate of compensation increase:		
Benefit obligation	N/A	N/A
Net periodic benefit cost	4.50	4.50
Expected return on plan assets	8.00	8.00
Components of net periodic benefit cost:		
Interest cost	\$ 2,653	2,450
Expected return on plan assets	(3,132)	(2,914)
Amortization of transition asset	371	608
Amortization of prior service cost	9	9
Net periodic benefit cost	<u>\$ (99)</u>	<u>153</u>

The accumulated benefit obligation for the SFI Plan was \$65,911 and \$51,970 at September 30, 2014 and 2013, respectively. As of September 30, 2014, OSF adopted the new RP-2014 Mortality Table with generational improvements using projection scale MP-2014. As a result of the adoption, the projected benefit obligation increased \$4,851 before considering income taxes.

The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based exclusively on historical returns, without adjustments.

SFI expects to contribute \$730 to the SFI Plan in 2015.

The benefits expected to be paid in each year 2015 through 2019 for the SFI Plan are approximately \$1,121, \$1,386, \$1,630, \$1,884, and \$2,115, respectively. The aggregate benefits expected to be paid in the five years from 2020 through 2024 are approximately \$14,246.

The SFI Plan has a statement of investment policy, which is reviewed and approved by the SFI board of directors. The policy establishes goals and objectives of the fund, asset allocations, allowable and prohibited investments, socially responsible guidelines, and asset classifications as well as specific investment manager guidelines. The policy states that the rebalancing of these assets to the target allocations will be reviewed on a semiannual basis. Investments are managed by independent advisors. Management monitors the performance of these managers on a monthly basis.

The table below lists the target asset allocation and acceptable ranges and actual asset allocations for the SFI Plan as of September 30, 2014 and 2013:

Asset	Target allocation	Acceptable range	Actual allocation at September 30	
			2014	2013
Large cap equity	39%	34% to 44%	41.5%	42.0%
Small cap equity	6	2 to 10	5.9	6.4
International equity	20	15 to 25	19.8	20.1
Fixed income	35	30 to 40	30.8	30.3
Cash	—	—	2.0	1.3

The following table presents the SFI Plan's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of September 30, 2014:

	<u>Fair value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Financial assets:				
Investments (excluding accrued interest of \$30):				
Cash and cash equivalents	\$ 947	947	—	—
Domestic mutual funds – equities	2,844	2,844	—	—
Domestic mutual funds – bonds	14,718	14,718	—	—
Foreign securities	9,473	9,473	—	—
Domestic commingled funds	<u>19,872</u>	<u>19,872</u>	<u>—</u>	<u>—</u>
Total financial assets	<u>\$ 47,854</u>	<u>47,854</u>	<u>—</u>	<u>—</u>

The following table presents the SFI Plan's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of September 30, 2013:

	<u>Fair value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Financial assets:				
Investments (excluding accrued interest of \$27):				
Cash and cash equivalents	\$ 550	550	—	—
Domestic mutual funds – equities	2,685	2,685	—	—
Domestic mutual funds – bonds	12,787	12,787	—	—
Foreign securities	8,509	8,509	—	—
Domestic commingled funds	<u>17,737</u>	<u>17,737</u>	<u>—</u>	<u>—</u>
Total financial assets	<u>\$ 42,268</u>	<u>42,268</u>	<u>—</u>	<u>—</u>

The SFI Plan's accounting policy is to recognize transfers between levels of the fair value hierarchy on the date of the event or change in circumstances that caused the transfer. There were no transfers into or out of Level 1, Level 2, or Level 3 for the years ended September 30, 2014 and 2013.

None of the assets, except those listed below, have any redemption restrictions so the redemption frequency is daily and would have a one-day notice for redemption:

	<u>2014</u>	<u>2013</u>	<u>Redemption frequency</u>	<u>Days notice</u>
Domestic commingled funds	\$ 19,872	17,737	Daily	2

In addition, SFI sponsors a retirement savings plan that includes a 401(k) feature. In 2013 and 2014, participants may deposit an amount from 1% to 90% of their eligible compensation up to the IRS limit. SFI may make matching contributions equal to a discretionary percentage of the participant's contributions. SFI may also make annual discretionary contributions based on a participant's age and years of service. SFI contributed \$5,604 in 2014 and \$6,027 in 2013 to the retirement savings plan, which has been expensed as salaries and benefits expense. SFI also accrued for an anticipated discretionary contribution of \$2,152 in 2014 and \$2,194 in 2013, which has been expensed as salaries and benefits expense.

(15) Income Taxes

Income tax expense (benefit) for SFI, ORHA, Illinois Pathologist Services, LLC, and Preferred Emergency Physicians of Illinois, LLC for the years ended September 30, 2014 and 2013 consist of the following:

	2014		
	Current	Deferred	Total
U.S. federal	\$ (36)	356	320
State	(11)	54	43
	<u>\$ (47)</u>	<u>410</u>	<u>363</u>
	2013		
	Current	Deferred	Total
U.S. federal	\$ (220)	563	343
State	(27)	15	(12)
	<u>\$ (247)</u>	<u>578</u>	<u>331</u>

Income tax benefit attributable from revenues, gains, and other support over expenses was \$363 and \$331 for the years ended September 30, 2014 and 2013, respectively, and differed from the amounts computed by applying the U.S. federal income tax rate of 34% to pretax income as a result of the following:

	2014	2013
Computed "expected" tax benefit	\$ (1,783)	(153)
(Decrease) increase in income taxes resulting from:		
State income taxes, net of federal income tax effect	(472)	(36)
Other nondeductible expenses and other	2,618	520
Total income tax expense	<u>\$ 363</u>	<u>331</u>

Significant components of deferred tax assets and liabilities, using a combined federal and state income tax rate of 43% at September 30, 2014 and 2013, are as follows:

	<u>2014</u>	<u>2013</u>
Deferred tax assets:		
Accounts receivable reserves	\$ 450	354
Benefit accruals, including pension	12,894	8,481
Investments in joint ventures	(211)	31
Pledges and contributions	56	105
Net operating loss carryforward	615	567
Contribution carryover	872	880
Market valuation of derivatives	538	718
401K Discretionary	880	903
Accounting change – accelerated revenue recognition	—	82
Total gross deferred tax assets	<u>16,094</u>	<u>12,121</u>
Less valuation allowance	<u>—</u>	<u>—</u>
Net deferred tax assets	<u>\$ 16,094</u>	<u>12,121</u>

Deferred tax assets are recorded as other assets in the accompanying consolidated balance sheets.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes that it is more likely than not that OSF will realize the benefits of these deductible differences to the extent they exceed the valuation allowance reported above.

The expiration of the net operating loss carryforwards range from 2033 to 2034.

(16) Commitments and Contingencies

(a) Operating Leases

OSF occupies space in certain facilities under long-term noncancelable operating lease arrangements. Total equipment rental, asset lease, and facility rental expenses in 2014 and 2013 were \$56,965 and \$49,779, respectively.

The following is a schedule by year of future minimum lease payments to be made under operating leases as of September 30, 2014 that have initial or remaining lease terms in excess of one year:

	<u>Amount</u>
Year ending September 30:	
2015	\$ 31,074
2016	21,417
2017	17,061
2018	14,139
2019	9,763
Thereafter	51,426

(b) *Litigation*

OSF and its subsidiaries are involved in litigation arising in the ordinary course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on OSF and its subsidiaries' future financial position or results from operations.

(c) *Legal, Regulatory, and Other Contingencies and Commitments*

The laws and regulations governing the Medicare, Medicaid, and other government healthcare programs are extremely complex and subject to interpretation, making compliance an ongoing challenge for OSF and other healthcare organizations. Recently, the federal government has increased its enforcement activity, including audits and investigations related to billing practices, clinical documentation, and related matters. OSF maintains a compliance program designed to educate employees and to detect and correct possible violations.

(d) *The Patient Protection and Affordable Care Act*

The Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010 (often referred to, collectively, as the Affordable Care Act of the healthcare reform law), was signed into law on March 23, 2010. The statute will change how healthcare services are delivered and reimbursed through a variety of mechanisms. The law contains stronger anti fraud enforcement provisions and provides additional funding for enforcement activity.

On May 6, 2011, CMS issued a final rule establishing a value-based purchasing program for acute care hospitals paid under the Medicare Inpatient Prospective Payment System. Beginning in federal fiscal year 2014, incentive payments are made based on achievement of or improvement in a set of clinical and quality measures designed to foster improved clinical outcomes. There has been no significant impact as a result of this regulation.

The Budget Control Act of 2011 (BCA) mandated significant reductions and spending caps on the federal budget for fiscal year 2012 through 2021. The BCA also created a joint select committee on deficit reduction (the Super Committee) to develop a plan to further reduce the federal deficit. Since the Super Committee failed to act before the mandatory deadline, a 2% reduction in Medicare spending, among other reductions, was to take effect January 1, 2013 in a process known as Sequestration. The BCA also required a 26.5% reduction in the sustainable growth rate formula regarding physician reimbursement under Medicare effective January 1, 2013.

On January 2, 2013, the President signed into law the American Taxpayers Relief Act (ATRA), which delayed Sequestration until March 1, 2013 and is now in effect as of March 1, 2013 and will continue until Congress takes further action. The ATRA delays the reduction in physician reimbursement until the end of 2014. As such, only the 2% reduction for nonphysician payments was effective April 1, 2013.

(e) *Tax Exemption for Sales Tax and Property Tax*

Effective June 14, 2012, the Governor of Illinois signed into law, *Public Act 97-0688*, which creates new standards for state sales tax and property tax exemptions in Illinois. The law establishes new standards for the issuance of charitable exemptions, including requirements for a nonprofit hospital to certify annually that in the prior year, it provided an amount of qualified services and activities to low-income and underserved individuals with a value at least equal to the hospital's estimated property tax liability. OSF certified in 2014 in accordance with the legislation and is pending determination. OSF has not recorded a liability for related property taxes greater than the amount recorded in fiscal year 2014 based upon management's current determination of qualified services provided.

(f) *Investment Risk and Uncertainties*

OSF invests in various investment securities. Investment securities are exposed to various risks such as interest rate, credit, and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying consolidated balance sheets.

(17) Subsequent Events

In connection with the preparation of the consolidated financial statements and in accordance with ASC Topic 855, *Subsequent Events*, OSF evaluated subsequent events after the consolidated balance sheet date of September 30, 2014 through February 10, 2015, which was the date the consolidated financial statements were issued.

On November 1, 2014, Saint Anthony's Health Center and Saint Clare's Hospital in Alton, Illinois merged into OSF Healthcare System. The new names are OSF Saint Anthony's Health Center (the Health Center) and OSF Saint Clare's Hospital. The two campuses have 203 beds and serve area residents of the Riverbend area of Madison County. The transaction resulted in a contribution of excess assets over liabilities of \$2,000 being recorded in the consolidated statements of operations and change in unrestricted net assets during 2015.

OSF HEALTHCARE SYSTEM AND SUBSIDIARIES

Consolidating Balance Sheet Information – OSF Healthcare System and Subsidiaries

September 30, 2014

(In thousands)

Assets	Total healthcare providers	Corporate office
Current:		
Cash and cash equivalents	\$ 36,458	208,250
Patients' and residents' accounts receivable, net of allowance for doubtful accounts of approximately \$144,902	379,480	—
Other	46,254	19,465
Total current assets	462,192	227,715
Investments	86,757	820,255
Assets limited as to use	—	166,896
Property and equipment, net	756,402	127,450
Restricted assets	59,767	—
Other assets	973,811	138,954
Total assets	\$ 2,338,929	1,481,270
Liabilities, Net Assets (Liabilities), and Stockholder's Equity		
Current liabilities:		
Current portion of long-term debt	\$ 4,376	4,281
Accounts payable and accrued expenses	173,552	46,457
Estimated third-party payor settlements	82,601	—
Total current liabilities	260,529	50,738
Long-term debt, net of current portion	107,071	849,982
Accrued benefit liability	—	410,778
Estimated self-insurance liabilities	1,238	155,692
Other liabilities	4,049	983,903
Total liabilities	372,887	2,451,093
Net assets (liabilities):		
Unrestricted:		
Unrestricted net assets of OSF	1,897,575	(969,823)
Noncontrolling interests in subsidiaries	8,700	—
Total unrestricted net assets	1,906,275	(969,823)
Temporarily restricted	36,966	—
Permanently restricted	22,801	—
Total net assets (liabilities)	1,966,042	(969,823)
Stockholder's equity	—	—
Total liabilities and net assets	\$ 2,338,929	1,481,270

See accompanying independent auditors' report.

Schedule 1

Eliminations and reclassifications	Total obligated group	OSF Saint Francis, Inc. and other non obligated group entities	Eliminations and reclassifications	Consolidated
(7,069)	237,639	30,815	11,636	280,090
(2,250)	377,230	21,622	—	398,852
(6,829)	58,890	18,725	(8,848)	68,767
(16,148)	673,759	71,162	2,788	747,709
—	907,012	—	—	907,012
—	166,896	—	—	166,896
—	883,852	89,170	—	973,022
—	59,767	—	—	59,767
(1,037,779)	74,986	19,436	(25,593)	68,829
(1,053,927)	2,766,272	179,768	(22,805)	2,923,235
(2,558)	6,099	7,133	—	13,232
(13,590)	206,419	56,013	2,788	265,220
—	82,601	(115)	—	82,486
(16,148)	295,119	63,031	2,788	360,938
(101,631)	855,422	52,260	—	907,682
—	410,778	18,027	—	428,805
—	156,930	20,096	—	177,026
(936,148)	51,804	2,699	—	54,503
(1,053,927)	1,770,053	156,113	2,788	1,928,954
—	927,752	—	(2,214)	925,538
—	8,700	—	276	8,976
—	936,452	—	(1,938)	934,514
—	36,966	—	—	36,966
—	22,801	—	—	22,801
—	996,219	—	(1,938)	994,281
—	—	23,655	(23,655)	—
(1,053,927)	2,766,272	179,768	(22,805)	2,923,235

OSF HEALTHCARE SYSTEM AND SUBSIDIARIES
Consolidating Balance Sheet Information – Healthcare Providers
September 30, 2014
(In thousands)

Assets	Escanaba	Rockford	Pontiac	Bloomington
Current:				
Cash and cash equivalents	\$ 768	3,611	694	2,781
Patients' and residents' accounts receivable, net of allowance for doubtful accounts of approximately \$119,099	9,251	76,357	9,048	28,337
Other	4,000	10,015	2,246	5,614
Total current assets	14,019	89,983	11,988	36,732
Investments	560	8,611	325	3,265
Property and equipment, net	14,383	82,826	25,306	79,276
Restricted assets	1,938	6,496	2,036	548
Other assets	1	7,011	19,848	195,901
Total assets	\$ 30,901	194,927	59,503	315,722
Liabilities and Net Assets (Liabilities)				
Current liabilities:				
Current portion of long-term debt	\$ 1,290	125	—	1,585
Accounts payable and accrued expenses	6,707	32,473	7,190	16,794
Estimated third-party payor settlements	—	20,539	609	11,852
Total current liabilities	7,997	53,137	7,799	30,231
Long-term debt, net of current portion	52,198	3,540	—	1,855
Estimated self-insurance liabilities	—	—	—	—
Other liabilities	113	588	64	404
Total liabilities	60,308	57,265	7,863	32,490
Net assets (liabilities):				
Unrestricted:				
Unrestricted net assets of OSF	(31,347)	131,488	49,605	275,478
Noncontrolling interests in subsidiaries	—	(322)	—	7,206
Total unrestricted net assets	(31,347)	131,166	49,605	282,684
Temporarily restricted	1,150	2,740	1,152	503
Permanently restricted	790	3,756	883	45
Total net assets (liabilities)	(29,407)	137,662	51,640	283,232
Total liabilities and net assets	\$ 30,901	194,927	59,503	315,722

See accompanying independent auditors' report.

Schedule 2

Peoria	Galesburg	Kewanee	Monmouth	Home Care	Ottawa (obligated group)	Total
12,491	975	3,513	7,268	345	4,012	36,458
216,932	14,632	6,859	3,231	6,780	8,053	379,480
13,366	2,027	1,088	1,781	2,124	3,993	46,254
242,789	17,634	11,460	12,280	9,249	16,058	462,192
25,581	1,088	24,963	95	447	21,822	86,757
466,724	20,407	15,253	10,950	8,709	32,568	756,402
39,310	6,804	737	550	1,029	319	59,767
628,027	110,190	20	6,632	—	6,181	973,811
<u>1,402,431</u>	<u>156,123</u>	<u>52,433</u>	<u>30,507</u>	<u>19,434</u>	<u>76,948</u>	<u>2,338,929</u>
108	—	600	—	668	—	4,376
79,286	8,683	3,794	2,504	5,574	10,547	173,552
43,696	2,068	1,611	542	—	1,684	82,601
123,090	10,751	6,005	3,046	6,242	12,231	260,529
45	—	23,435	—	25,998	—	107,071
—	—	—	—	—	1,238	1,238
1,538	174	26	180	—	962	4,049
<u>124,673</u>	<u>10,925</u>	<u>29,466</u>	<u>3,226</u>	<u>32,240</u>	<u>14,431</u>	<u>372,887</u>
1,236,632	138,394	22,230	26,731	(13,834)	62,198	1,897,575
1,816	—	—	—	—	—	8,700
1,238,448	138,394	22,230	26,731	(13,834)	62,198	1,906,275
27,556	2,259	54	550	688	314	36,966
11,754	4,545	683	—	340	5	22,801
<u>1,277,758</u>	<u>145,198</u>	<u>22,967</u>	<u>27,281</u>	<u>(12,806)</u>	<u>62,517</u>	<u>1,966,042</u>
<u>1,402,431</u>	<u>156,123</u>	<u>52,433</u>	<u>30,507</u>	<u>19,434</u>	<u>76,948</u>	<u>2,338,929</u>

OSF HEALTHCARE SYSTEM AND SUBSIDIARIES

Consolidating Balance Sheet Information – OSF Saint Francis, Inc. and Other Subsidiaries

September 30, 2014

(In thousands)

Assets	OSF Saint Francis, Inc.*	Ottawa (Non-Obligated group)	Other subsidiaries**	Eliminations	OSF Saint Francis, Inc. and other non obligated group entities
Current:					
Cash and cash equivalents	\$ 37,932	1,651	(8,768)	—	30,815
Patients' and residents' accounts receivable, net of allowance for doubtful accounts of approximately \$25,803	9,350	867	11,405	—	21,622
Other	17,288	1,053	3,365	(2,981)	18,725
Total current assets	64,570	3,571	6,002	(2,981)	71,162
Property and equipment, net	83,044	648	5,478	—	89,170
Restricted assets	—	—	—	—	—
Other assets	18,153	1,283	—	—	19,436
Total assets	\$ 165,767	5,502	11,480	(2,981)	179,768
Liabilities and Stockholder's Equity					
Current liabilities:					
Current portion of long-term debt	\$ 7,133	—	—	—	7,133
Accounts payable and accrued expenses	37,242	1,161	20,591	(2,981)	56,013
Estimated third-party payor settlements	—	—	(115)	—	(115)
Total current liabilities	44,375	1,161	20,476	(2,981)	63,031
Long-term debt, net of current portion	52,260	—	—	—	52,260
Accrued benefit liability	18,027	—	—	—	18,027
Estimated self-insurance liabilities	20,096	—	—	—	20,096
Other liabilities	1,251	1,228	220	—	2,699
Total liabilities	136,009	2,389	20,696	(2,981)	156,113
Stockholder's equity	29,758	3,113	(9,216)	—	23,655
Total liabilities and stockholder's equity	\$ 165,767	5,502	11,480	(2,981)	179,768

* OSF Saint Francis, Inc. includes the accounts of OSF Saint Francis, Inc., OSF Aviation, OSF Design Group, and OSF Assurance Company.

** Other subsidiaries include the accounts of OSF Multispecialty Group – Peoria, LLC, HeartCare Midwest, Ltd., Illinois Neurological Institute – Physicians, LLC, Cardiovascular Institute at OSF, LLC, OSF Multispecialty Group – Eastern Region, LLC, OSF Lifeline Ambulance, LLC, Illinois Pathologist Services, LLC, Illinois Specialty Physician Services at OSF, LLC, OSF Perinatal Associates, LLC, OSF Multispecialty Group – Western Region, LLC, OSF Children's Medical Group – Congenital Heart Center, LLC, and Preferred Emergency Physicians of Illinois, LLC.

See accompanying independent auditors' report.

OSF HEALTHCARE SYSTEM AND SUBSIDIARIES

Consolidating Statement of Operations and Changes in Unrestricted Net Assets
Information – OSF Healthcare System and Subsidiaries

Year ended September 30, 2014

(In thousands)

	<u>Total healthcare providers</u>	<u>Corporate office</u>
Net patient service revenue	\$ 1,966,573	—
Provision for uncollectible accounts	<u>(60,036)</u>	<u>—</u>
Net patient service revenues, less provision for uncollectible accounts	1,906,537	—
Other revenues:		
Contributions	3,434	—
Other	58,792	165,713
Net assets released from restrictions used for operations	<u>2,866</u>	<u>—</u>
Total revenues	<u>1,971,629</u>	<u>165,713</u>
Expenses:		
Salaries and benefits	871,110	101,281
Sisters' evaluated services	115	1,076
Supplies and other expenses	848,802	60,673
Depreciation and amortization	86,640	21,541
Interest	<u>5,032</u>	<u>81,772</u>
Total expenses	<u>1,811,699</u>	<u>266,343</u>
Income (loss) before income tax expense	159,930	(100,630)
Income tax expense	<u>—</u>	<u>—</u>
Income (loss) from operations	<u>159,930</u>	<u>(100,630)</u>
Nonoperating gains (losses):		
Investment income (loss)	51,371	39,078
Net settlement of derivative instruments	—	(7,914)
Change in fair value of investments	3,167	9,141
Loss on early extinguishment of debt	(628)	(2,365)
Change in fair value of derivative instruments	—	(5,253)
Contribution of excess assets over liabilities for Saint Luke Medical Center and other	<u>23,270</u>	<u>—</u>
Total nonoperating gains	<u>77,180</u>	<u>32,687</u>
Net income (loss)	237,110	(67,943)
Other changes in unrestricted net assets:		
Net assets released from restrictions used for the purchase of property and equipment	6,429	—
Transfer (to) from affiliate and other	(2,481)	(39,180)
Recognition of change in pension funded status	—	(151,927)
Net distributions made to noncontrolling shareholders	<u>(5,603)</u>	<u>—</u>
Change in unrestricted net assets	\$ <u>235,455</u>	\$ <u>(259,050)</u>

See accompanying independent auditors' report.

Schedule 4

Eliminations	Total obligated group	OSF Saint Francis, Inc. and other non obligated group entities	Eliminations	Consolidated
(40,457)	1,926,116	139,153	—	2,065,269
—	(60,036)	(7,222)	—	(67,258)
(40,457)	1,866,080	131,931	—	1,998,011
—	3,434	—	—	3,434
(179,944)	44,561	143,272	(95,320)	92,513
—	2,866	2	—	2,868
(220,401)	1,916,941	275,205	(95,320)	2,096,826
43,575	1,015,966	138,068	—	1,154,034
—	1,191	—	—	1,191
(243,638)	665,837	199,699	(119,917)	745,619
(20,338)	87,843	7,674	—	95,517
(52,434)	34,370	1,815	—	36,185
(272,835)	1,805,207	347,256	(119,917)	2,032,546
52,434	111,734	(72,051)	24,597	64,280
—	—	363	—	363
52,434	111,734	(72,414)	24,597	63,917
(52,434)	38,015	122	—	38,137
—	(7,914)	—	—	(7,914)
—	12,308	—	—	12,308
—	(2,993)	—	—	(2,993)
—	(5,253)	418	—	(4,835)
—	23,270	—	—	23,270
(52,434)	57,433	540	—	57,973
—	169,167	(71,874)	24,597	121,890
—	6,429	—	—	6,429
—	(41,661)	55,961	(14,500)	(200)
—	(151,927)	(7,633)	7,633	(151,927)
—	(5,603)	(108)	—	(5,711)
—	(23,595)	(23,654)	17,730	(29,519)

OSF HEALTHCARE SYSTEM AND SUBSIDIARIES

Consolidating Statement of Operations and Changes in Unrestricted Net Assets
Information – Healthcare Providers

Year ended September 30, 2014

(In thousands)

	<u>Escanaba</u>	<u>Rockford</u>	<u>Pontiac</u>	<u>Bloomington</u>
Net patient service revenue	\$ 72,807	358,797	66,584	198,076
Provision for uncollectible accounts	(6,236)	(12,816)	(4,306)	(8,193)
Net patient service revenues, less provision for uncollectible accounts	66,571	345,981	62,278	189,883
Other revenues:				
Contributions	122	183	65	153
Other	1,975	9,631	3,368	5,350
Net assets released from restrictions used for operations	6	586	104	230
Total revenues	68,674	356,381	65,815	195,616
Expenses:				
Salaries and benefits	35,702	159,482	30,786	74,802
Sisters' evaluated services	—	—	—	—
Supplies and other expenses	30,799	176,902	30,998	81,532
Depreciation and amortization	2,337	15,035	3,472	9,891
Interest	2,395	519	—	110
Total expenses	71,233	351,938	65,256	166,335
Income (loss) from operations	(2,559)	4,443	559	29,281
Nonoperating gains:				
Investment income	31	463	1,012	9,391
Change in fair value of investments	—	443	3	(142)
Loss on early extinguishment of debt	—	—	—	—
Contribution of excess assets over liabilities for Saint Luke Medical Center and other	—	—	—	—
Total nonoperating gains	31	906	1,015	9,249
Net income (loss)	(2,528)	5,349	1,574	38,530
Other changes in unrestricted net assets (liabilities):				
Net assets released from restrictions used for the purchase of property and equipment	2,098	223	2,589	55
Transfer (to) from affiliate and other	—	—	—	—
Net distributions made to noncontrolling shareholders	—	—	—	(3,289)
Change in unrestricted net assets (liabilities)	\$ (430)	5,572	4,163	35,296

See accompanying independent auditors' report.

Peoria	Galesburg	Kewanee	Monmouth	Home Care	Ottawa (obligated group)	Total
1,019,799 (14,404)	92,792 (6,631)	15,039 (1,077)	26,492 (1,766)	47,690 (148)	68,497 (4,459)	1,966,573 (60,036)
1,005,395	86,161	13,962	24,726	47,542	64,038	1,906,537
1,791	283	—	48	317	472	3,434
30,439	1,392	358	1,976	632	3,671	58,792
1,878	55	—	6	—	1	2,866
1,039,503	87,891	14,320	26,756	48,491	68,182	1,971,629
440,544	36,264	6,613	15,373	34,048	37,496	871,110
67	48	—	—	—	—	115
442,319	33,204	5,350	9,036	13,015	25,647	848,802
46,127	3,587	1,111	894	937	3,249	86,640
4	—	689	—	1,218	97	5,032
929,061	73,103	13,763	25,303	49,218	66,489	1,811,699
110,442	14,788	557	1,453	(727)	1,693	159,930
33,023	5,951	282	124	8	1,086	51,371
1,955	16	143	—	32	717	3,167
—	—	(628)	—	—	—	(628)
—	—	21,877	—	—	1,393	23,270
34,978	5,967	21,674	124	40	3,196	77,180
145,420	20,755	22,231	1,577	(687)	4,889	237,110
816	47	—	600	1	—	6,429
—	—	—	—	—	(2,481)	(2,481)
(2,314)	—	—	—	—	—	(5,603)
143,922	20,802	22,231	2,177	(686)	2,408	235,455

OSF HEALTHCARE SYSTEM AND SUBSIDIARIES

Consolidating Statement of Operations and Changes in Stockholder's Equity
Information – OSF Saint Francis, Inc. and Other Subsidiaries

Year ended September 30, 2014

(In thousands)

	OSF Saint Francis, Inc.*	Ottawa (Non-Obligated Group)	Other subsidiaries**	Eliminations	OSF Saint Francis, Inc. and other non obligated group entities
Net patient service revenue	\$ 27,944	8,750	102,459	—	139,153
Provision for uncollectible accounts	(1,025)	(586)	(5,611)	—	(7,222)
Net patient service revenues, less provision for uncollectible accounts	26,919	8,164	96,848	—	131,931
Other revenues:					
Contributions	—	—	—	—	—
Other	170,599	557	3,916	(31,800)	143,272
Net assets released from restrictions used for operations	—	2	—	—	2
Total revenues	197,518	8,723	100,764	(31,800)	275,205
Expenses:					
Salaries and benefits	131,334	6,734	—	—	138,068
Supplies and other expenses	64,866	5,798	160,835	(31,800)	199,699
Depreciation and amortization	5,194	354	2,126	—	7,674
Interest	1,815	—	—	—	1,815
Total expenses	203,209	12,886	162,961	(31,800)	347,256
Loss before income tax benefit	(5,691)	(4,163)	(62,197)	—	(72,051)
Income tax expense	209	5	149	—	363
Loss from operations	(5,900)	(4,168)	(62,346)	—	(72,414)
Nonoperating gains:					
Investment income	30	14	78	—	122
Change in fair value of derivative instruments	418	—	—	—	418
Contribution of excess assets over liabilities for Saint Luke Medical Center and other	—	—	—	—	—
Total nonoperating gains	448	14	78	—	540
Net loss	(5,452)	(4,154)	(62,268)	—	(71,874)
Other changes in stockholder's equity:					
Transfer from affiliate	—	2,481	53,480	—	55,961
Recognition of change in pension funded status	(7,633)	—	—	—	(7,633)
Net distributions made to noncontrolling shareholders	—	(108)	—	—	(108)
Change in stockholder's equity	\$ (13,085)	(1,781)	(8,788)	—	(23,654)

* OSF Saint Francis, Inc. includes the accounts of OSF Saint Francis, Inc., OSF Aviation, OSF Design Group, and OSF Assurance Company.

** Other subsidiaries include the accounts of OSF Multispecialty Group – Peoria, LLC, HeartCare Midwest, Ltd., Illinois Neurological Institute – Physicians, LLC, Cardiovascular Institute at OSF, LLC, OSF Multispecialty Group – Eastern Region, LLC, OSF Lifeline Ambulance, LLC, Illinois Pathologist Services, LLC, Illinois Specialty Physician Services at OSF, LLC, OSF Perinatal Associates, LLC, OSF Multispecialty Group – Western Region, LLC, OSF Children's Medical Group – Congenital Heart Center, LLC, and Preferred Emergency Physicians of Illinois, LLC.

See accompanying independent auditors' report.

OSF HEALTHCARE SYSTEM AND SUBSIDIARIES

Consolidating Statement of Changes in Net Assets Information – OSF Healthcare System

Year ended September 30, 2014

(In thousands)

	Total healthcare providers	Corporate office	OSF Saint Francis, Inc. and other non obligated group entities	Eliminations	Consolidated
Unrestricted net assets (liabilities):					
Net income (loss)	\$ 237,110	(67,943)	(71,874)	24,597	121,890
Other changes in unrestricted net assets:					
Net assets released from restrictions used for the purchase of property and equipment	6,429	—	—	—	6,429
Transfer (to) from affiliate and other	(2,481)	(39,180)	55,961	(14,500)	(200)
Recognition of change in pension funded status	—	(151,927)	(7,633)	7,633	(151,927)
Net distributions made to noncontrolling shareholders	(5,603)	—	(108)	—	(5,711)
Change in unrestricted net assets (liabilities)	<u>235,455</u>	<u>(259,050)</u>	<u>(23,654)</u>	<u>17,730</u>	<u>(29,519)</u>
Temporarily restricted net assets:					
Contributions and other	6,271	—	—	—	6,271
Investment income	1,779	—	—	—	1,779
Net assets released from restrictions	(9,295)	—	(2)	—	(9,297)
Change in temporarily restricted net assets	<u>(1,245)</u>	<u>—</u>	<u>(2)</u>	<u>—</u>	<u>(1,247)</u>
Permanently restricted net assets:					
Contributions	6,377	—	—	—	6,377
Change in net assets (liabilities)	<u>240,587</u>	<u>(259,050)</u>	<u>(23,656)</u>	<u>17,730</u>	<u>(24,389)</u>
Net assets (liabilities), beginning of year	<u>1,725,455</u>	<u>(710,773)</u>	<u>(40,167)</u>	<u>44,155</u>	<u>1,018,670</u>
Net assets (liabilities), end of year	<u>\$ 1,966,042</u>	<u>(969,823)</u>	<u>(63,823)</u>	<u>61,885</u>	<u>994,281</u>

See accompanying independent auditors' report.

OSF HEALTHCARE SYSTEM AND SUBSIDIARIES

Consolidating Statement of Changes in Net Assets Information – Healthcare Providers

Year ended September 30, 2014

(In thousands)

	<u>Escanaba</u>	<u>Rockford</u>	<u>Pontiac</u>	<u>Bloomington</u>
Unrestricted net assets (liabilities):				
Net income (loss)	\$ (2,528)	5,349	1,574	38,530
Other changes in unrestricted net assets:				
Net assets released from restrictions used for the purchase of property and equipment	2,098	223	2,589	55
Net distributions made to noncontrolling shareholders	—	—	—	(3,289)
Transfer (to) from affiliate and other	—	—	—	—
Change in unrestricted net assets (liabilities)	<u>(430)</u>	<u>5,572</u>	<u>4,163</u>	<u>35,296</u>
Temporarily restricted net assets:				
Contributions and other	216	796	193	439
Investment income	61	304	67	1
Net assets released from restrictions	(2,104)	(809)	(2,693)	(285)
Net assets transferred to affiliate	—	—	—	—
Change in temporarily restricted net assets	<u>(1,827)</u>	<u>291</u>	<u>(2,433)</u>	<u>155</u>
Permanently restricted net assets:				
Contributions	—	40	1	42
Change in net assets (liabilities)	<u>(2,257)</u>	<u>5,903</u>	<u>1,731</u>	<u>35,493</u>
Net assets (liabilities), beginning of year	<u>(27,150)</u>	<u>131,759</u>	<u>49,909</u>	<u>247,739</u>
Net assets (liabilities), end of year	\$ <u><u>(29,407)</u></u>	<u><u>137,662</u></u>	<u><u>51,640</u></u>	<u><u>283,232</u></u>

See accompanying independent auditors' report.

<u>Peoria</u>	<u>Galesburg</u>	<u>Kewanee</u>	<u>Monmouth</u>	<u>Home Care</u>	<u>Ottawa (obligated group)</u>	<u>Total</u>
145,420	20,755	22,231	1,577	(687)	4,889	237,110
816	47	—	600	1	—	6,429
(2,314)	—	—	—	—	—	(5,603)
<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(2,481)</u>	<u>(2,481)</u>
<u>143,922</u>	<u>20,802</u>	<u>22,231</u>	<u>2,177</u>	<u>(686)</u>	<u>2,408</u>	<u>235,455</u>
3,492	61	54	647	71	302	6,271
831	515	—	—	—	—	1,779
(2,694)	(102)	—	(606)	(1)	(1)	(9,295)
<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
<u>1,629</u>	<u>474</u>	<u>54</u>	<u>41</u>	<u>70</u>	<u>301</u>	<u>(1,245)</u>
<u>5,519</u>	<u>85</u>	<u>682</u>	<u>—</u>	<u>8</u>	<u>—</u>	<u>6,377</u>
<u>151,070</u>	<u>21,361</u>	<u>22,967</u>	<u>2,218</u>	<u>(608)</u>	<u>2,709</u>	<u>240,587</u>
<u>1,126,688</u>	<u>123,837</u>	<u>—</u>	<u>25,063</u>	<u>(12,198)</u>	<u>59,808</u>	<u>1,725,455</u>
<u>1,277,758</u>	<u>145,198</u>	<u>22,967</u>	<u>27,281</u>	<u>(12,806)</u>	<u>62,517</u>	<u>1,966,042</u>

Appendix B

Bond Rating Letters – Complete

Standard & Poor's Rating Services

Moody's Investor Services

Fitch Ratings

RatingsDirect®

Summary:

Illinois Finance Authority OSF Healthcare System; Joint Criteria; System

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Outlook

Related Criteria And Research

Summary:

Illinois Finance Authority OSF Healthcare System; Joint Criteria; System

Credit Profile

US\$366.725 mil rev bnds (OSF Hlthcare Sys) ser 2015A due 11/15/2045

Long Term Rating

A/Positive

New

Rationale

Standard & Poor's Ratings Services revised the outlook to positive from stable and affirmed its 'A' long-term rating on the Illinois Finance Authority's (IFA) series 2007A, 2009A, 2010A, and 2012A fixed-rate bonds as well as its 'A' underlying rating (SPUR) on the IFA's series 2007E, 2007F, 2009B, 2009C, and 2009D bonds. At the same time, Standard & Poor's assigned its 'A' long-term rating to the IFA's \$366.725 million series 2015A revenue bonds.

Finally, Standard & Poor's affirmed its 'AAA/A-1+' joint criteria rating on the IFA's series 2009C bonds, its 'AAA/A-1' joint criteria rating on the IFA's series 2009B bonds, and its 'AAA/A-2' joint criteria rating on the IFA's series 2007E, 2007F, and 2009D bonds.

All bonds were issued on behalf of OSF Healthcare System (OSF).

The ratings on the series 2007E, 2007F, 2009B, 2009C, and 2009D bonds are based on the application of our joint criteria, whereby the long-term component of the rating is based on the 'A' SPUR on OSF and on the short-term ratings on various banks providing letters of credit (LOCs). The ratings are based on our joint criteria with medium correlation for the series 2009B bonds and low correlation for the series 2007E, 2007F, 2009C, and 2009D bonds. Each series has the benefit of a separate LOC; Barclays Bank PLC (2007E and F), PNC Bank N. A. (2009B), Wells Fargo Bank N.A. (2009C) and JPMorgan Chase Bank, N.A. (2009D), all issued LOCs to back the series 2007E, 2007F, 2009B, 2009C, and 2009D bonds, respectively. The obligation of OSF, as well as the banks' obligations established by the LOCs, to make debt service payments support the joint ratings. The short-term component of the ratings is based solely on the bank ratings.

The 'A' ratings are based on our view of OSF's group credit profile (GCP) and the obligated group's "core" status. Accordingly, we rate the bonds at the same level as the GCP. The outlook is positive.

The 'A' rating reflects our view of OSF's successful implementation to improve the organization's operations during the past two years, after a challenging fiscal 2013. In addition, OSF has been able to improve its balance sheet and improve its operations at a time when health care reform is being implemented. The solid balance sheet, coupled with leadership's historical ability to implement successful improvement plans, supports the rating.

The 'A' rating and outlook revision further reflect our assessment of OSF's:

- Improved unrestricted reserves, with solid cash on hand for the rating at 221 days as of fiscal 2015 to date (unaudited nine-month interim through June 30, 2015);
- Operational improvements in fiscal 2015 to date, with a 5.0% operating margin, on top of a successful fiscal 2014, which generated an operating margin of 2.6%;
- Dominant business position in the Peoria, Ill., market, where its flagship, Saint Francis Medical Center, is located, and generally good position in its other markets; and
- Breadth of facilities and services, enhanced by its systemwide strategic priorities focused on specific business-line development, growth in ambulatory care, and enhanced physician alignment.

Partly offsetting the above strengths, in our view, are OSF's:

- Still moderately high leverage, with debt to capitalization of approximately 50%, and
- Anticipated modest capital spending in its Northern Illinois market.

Total bond proceeds of \$461.12 million, which includes an unrated taxable series 2015B private placement (\$94.395 million), will be used to provide partial funding for a new pavilion at OSF's Rockford facility, fund other capital projects at OSF's Peoria, Bloomington, and Galesburg facilities, and reimburse OSF for prior capital expenditures (\$23.7 million). The proceeds will also refund several previously issued series of debt, including prior 2007A, 2009A, and 2009E series.

The Peoria-based Sisters of the Third Order of Saint Francis sponsor OSF and operate 11 hospitals and other health-care-related entities. Ten of the hospitals are located in central and northern Illinois, while one is in Michigan. The flagship hospital, Saint Francis Medical Center, is a 609-licensed-bed, tertiary acute care teaching hospital. The obligated group's unrestricted receivables secure all obligations. Our analysis takes into account the consolidated system results, and all figures and ratios in this report reflect the consolidated system unless otherwise stated.

For more information see our full analysis published Sept. 1, 2015 on RatingsDirect.

Outlook

The positive outlook reflects our anticipation that OSF's improvement plan, which has clearly had operational results in fiscal 2014 and into 2015, will continue for the two-year outlook period, solidifying OSF's financial performance levels and gradually strengthening the balance sheet.

Upside scenario

OSF has begun to generate additional flexibility at the current rating. We could raise the rating with additional balance sheet accretion and consistent successful operations over the outlook period.

Downside scenario

Although we do not anticipate doing so over the two-year outlook period, we could lower the rating if OSF does not maintain improvements in operations and does not keep maximum annual debt service (MADS) coverage above 3x, or if the balance sheet declines and unrestricted reserves fall to less than 175 days' cash on hand.

Related Criteria And Research

Related Criteria

- USPF Criteria: Not-For-Profit Health Care, June 14, 2007
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- USPF Criteria: Contingent Liquidity Risks, March 5, 2012
- Criteria: Methodology And Assumptions: Approach To Evaluating Letter Of Credit-Supported Debt, Feb. 20, 2015
- USPF Criteria: Municipal Applications For Joint Support Criteria, June 25, 2007
- Criteria: Joint Support Criteria Update, April 22, 2009
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Methodology Applied To Bank Branch-Supported Transactions, Oct. 14, 2013
- General Criteria: Methodology: Industry Risk, Nov. 20, 2013
- Criteria Update: Joint-Support Criteria Refined, Feb. 3, 2006
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

Ratings Detail (As Of September 1, 2015)

Illinois Fin Auth, Illinois

OSF Hlthcare Sys, Illinois

Illinois Fin Auth (OSF Hlthcare Sys) hosp ins VRDB rev bnds (OSF Hlthcare Sys) ser 2007E RMKTD 09/06/2013 due 09/30/2038

<i>Long Term Rating</i>	AAA/A-2	Affirmed
<i>Unenhanced Rating</i>	A(SPUR)/Positive	Outlook Revised

Illinois Fin Auth (OSF Hlthcare Sys) hosp ins VRDB rev bnds (OSF Hlthcare Sys) ser 2007F RMKTD 09/26/2013 due 09/30/2038

<i>Long Term Rating</i>	AAA/A-2	Affirmed
<i>Unenhanced Rating</i>	A(SPUR)/Positive	Outlook Revised

Series 2007A , 2009A, 2010A,2012

<i>Long Term Rating</i>	A/Positive	Outlook Revised
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Series 2009B

<i>Unenhanced Rating</i>	A(SPUR)/Positive	Outlook Revised
<i>Long Term Rating</i>	AAA/A-1	Affirmed

Series 2009D

<i>Unenhanced Rating</i>	A(SPUR)/Positive	Outlook Revised
<i>Long Term Rating</i>	AAA/A-1	Affirmed

Series2009C

<i>Unenhanced Rating</i>	A(SPUR)/Positive	Outlook Revised
<i>Long Term Rating</i>	AAA/A-1+	Affirmed

Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

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MOODY'S

INVESTORS SERVICE

New Issue: Moody's upgrades OSF Healthcare System (IL) to A2 and assigns A2 to Ser. 2015A bonds; stable outlook

Global Credit Research - 27 Aug 2015

\$950M pro forma rated debt outstanding

ILLINOIS FINANCE AUTHORITY
Hospitals & Health Service Providers
IL

Moody's Rating

ISSUE	RATING
Revenue Bonds, Series 2015A	A2
Sale Amount \$366,725,000	
Expected Sale Date 09/16/15	
Rating Description Revenue: Other	

Moody's Outlook STA

NEW YORK, August 27, 2015 --Moody's Investors Service assigns an A2 rating to OSF Healthcare System's \$367 million of proposed Series 2015A fixed rate bonds to be issued by the Illinois Finance Authority. The bonds are expected to mature in 2045. At this time, we are upgrading the rating on outstanding bonds to A2 from A3. The rating outlook is stable.

SUMMARY RATING RATIONALE

The A2 rating is based on OSF's large, multi-site system and expanding presence in several markets in northern and central Illinois, leading market positions in the largest markets, and strong and liquid investment position. OSF's challenges include higher-than-average direct leverage, sizable indirect obligations, and strong competition in most markets.

OUTLOOK

The stable outlook reflects expectations that operating cashflow margins will stabilize in the range of levels achieved in FY 2014 and year-to-date FY2015, given operating initiatives and strategic investments to support higher and more consistent margins. Capital spending plans are manageable, which should help grow absolute investment levels and deleverage the balance sheet.

WHAT COULD MAKE THE RATING GO UP

- Significant reduction in balance sheet leverage (improved cash-to-direct debt) and operating leverage (reduction in debt-to-cashflow)
- Further and sustained improvement in operating cashflow margin

WHAT COULD MAKE THE RATING GO DOWN

- Materially dilutive acquisition or merger
- Prolonged decline in margins
- Meaningful increase in leverage

STRENGTHS

- Large, multi-site system with over \$2 billion in operating revenue and expanding presence in several markets in northern and central Illinois, supported by investments in physicians and facilities and progressive IT capabilities
- Leading market position in the primary service area in and around the City of Peoria, the site of OSF's flagship
- Second year of improved operating cashflow margins reaching a strong 11% year-to-date FY 2015
- Very good and liquid investment position with 221 days cash on hand at June 30, 2015
- Manageable debt structure risks with over 300% monthly liquidity-to-demand debt

CHALLENGES

- Strong competition in most markets with competitors in largest markets owned or closely affiliated with larger parent organizations
- High proforma leverage, with 54% debt-to-revenue and 5.3 times debt-to-cashflow
- Sizable indirect debt obligations, including operating leases and defined benefit pension plan; comparatively modest cash-to-comprehensive debt of 71% at FYE 2014
- History of variable operating cashflow margins

RECENT DEVELOPMENTS

Recent developments are incorporated in the Detailed Rating Rationale section.

DETAILED RATING RATIONALE

MARKET POSITION: LARGE MULTI-SITE SYSTEM OPERATING IN COMPETITIVE MARKETS

Over the last several years, OSF has been consolidating and integrating clinical and support areas to reduce variation, improve quality, and improve productivity and reduce costs. The system is targeting to reduce referral leakage related to those practices.

OSF has completed the installation of an electronic medical record (EMR) system, which allows more advanced predictive analysis. The system has invested heavily in care coordinators in most regions to support population health management. These strategies are allowing OSF to take on more shared savings and risk arrangements with payers.

As one of the few Pioneer ACOs in the country, OSF has been investing in care coordinators and quality initiatives to better manage the population, which is reducing utilization. As a result, OSF will be receiving a bonus payment under the Pioneer program. OSF also has a relationship with Blue Cross Blue Shield of Illinois ACO.

OSF continues to make investments in facilities and physicians to compete in competitive markets. Most of OSF's competitors are owned or closely aligned with larger healthcare systems. More recently, both Rockford competitors are now part of Wisconsin-based systems that are investing in upgrading facilities. OSF's capital investment in Rockford, discussed below, will enhance its competitive position in the market.

OPERATING PERFORMANCE, BALANCE SHEET, AND CAPITAL PLANS: IMPROVING MARGINS AND VERY GOOD LIQUIDITY

OSF's financial performance year-to-date FY 2015 represents the second year of improvement. The system's strategic initiatives position it well to sustain improved margins, which is important given higher leverage and a history of variable operating performance. Adjusted for the items noted below, OSF had a 9% operating cashflow margin in FY 2014, improved materially from under 6% in FY 2013. Through nine months of FY 2015 (ended June), OSF had a strong 11% operating cashflow margin. The Peoria market had significant gains over this period due to volume growth, especially in more profitable regional referrals and ambulatory services. Rockford's operating losses have increased in part as a result of physician turnover, which has been addressed, and also because of an old facility which is being updated with proceeds of the Series 2015A.

Better performance is due to a large improvement program primarily centered around cost reductions, volume gains and supplemental Medicaid funding. OSF targeted \$180 million in improvements over four years and reports

achieving over \$100 million through FY 2015. Major initiatives include reimbursement opportunities, productivity improvement, and supplies. The system benefited from Medicaid expansion as well as increases in supplemental Medicaid payments, most of which is expected to continue through 2018.

Capital spending will increase starting in FY 2016 but at manageable levels relative to cashflow. Spending is projected at approximately \$190 million and \$170 million in FY 2016 and FY 2017, respectively, averaging 1.6 times depreciation expense, and will be funded with bond proceeds from the proposed offering and cashflow. The largest project is a \$85 million bed pavilion in the Rockford market.

Liquidity

OSF's liquidity is very good with 221 days cash on hand at June 30, 2015. While capital spending is increasing, it is well under current and projected operating cashflow levels, which should allow the system at least to maintain liquidity. OSF maintains a conservative and liquid asset allocation with 71% invested in cash and fixed income.

DEBT STRUCTURE AND LEGAL COVENANTS

OSF's debt increases about 23% following the proposed financing, driving higher than average proforma balance sheet and operating leverage including a high 54% debt-to-revenue and 5.3 times debt-to-cashflow and moderate 108% cash-to-direct debt based on FY 2014. Better performance year-to-date FY 2015 improves debt-to-cashflow to 4.3 times, emphasizing the need to sustain higher performance levels to support debt. Based on year-to-date FY 2015, proforma maximum annual debt service coverage is good at 4.8 times.

Debt Structure

In addition to the Series 2015A bonds, OSF plans to issue \$94 million in taxable variable rate Series 2015B bonds directly placed with a bank, which will not carry a Moody's rating. Debt structure risks are manageable with over 300% monthly liquidity-to-demand debt. Demand debt, including bank provided letters of credit and private placements, are diversified among banks and commitment periods. OSF has ample room under financial covenants, which include 1.1 times debt service coverage and 75 or 80 days cash on hand, depending on whether covenants apply to banks or insurer. Covenants are now calculated based on the system under the revised master trust indenture. Covenants in the proposed Series 2015B direct placement are expected to be consistent with existing covenants.

Debt-Related Derivatives

OSF is a party to five interest rate swap agreements with a total notional amount of \$361 million. Four of the swaps are floating to fixed rate agreements under which OSF pays fixed rates ranging from 3.65% to 3.97% to the counterparty, Bank of America, N.A., in exchange for payments based on variable rate indices (SIFMA or LIBOR). OSF has a basis swap with Barclays whereby OSF pays SIFMA and receives 67% of 1-month LIBOR + 0.7%. As of June 30, 2015, the cumulative mark to market valuation of the swaps was a negative \$52 million (based on management data). The fixed payer swaps are insured by Assured Guaranty. Collateral posting is not required unless Assured's rating falls below A3 or the equivalent by at least one rating agency; the system has not had to post collateral.

Pensions and OPEB

OSF's pension plan is a Church plan and, therefore, not subject to ERISA requirements. The plan was frozen in March 2011. The system's philosophy has been to fund at pension expense levels. Compared with other health systems, however, the pension obligation is large and grew to \$411 million at FYE 2014 (55% funded). Combined with operating leases, cash-to-comprehensive debt is moderate at 71% for fiscal year 2014. The system did an extensive analysis to determine the appropriate level of debt to issue related to the pension, and as a result, will use \$50 million from the taxable Series 2015B bonds to fund the pension plan.

GOVERNANCE AND MANAGEMENT

OSF has been migrating from a holding company model to a consolidated and integrated model, which we view favorably in allowing more effective and timely execution of operating and strategic initiatives. For example, the system's moderate-sized acquisitions have been quickly integrated, resulting in operating improvement. The system has a disciplined approach to capital spending which is tied to cashflow generation at the individual hospitals.

KEY STATISTICS

Based on OSF Healthcare System and Subsidiaries

First number reflects audited fiscal year ended September 30, 2014

Second number reflects unaudited nine months ended June 30, 2015, annualized and including \$210 million incremental debt and \$24 million in cash reimbursement

Investment returns normalized at 6% unless otherwise noted

Comprehensive debt includes direct debt, operating leases, and pension obligation, if applicable

Monthly liquidity to demand debt ratio is not included if demand debt is de minimis

Non-recurring items or adjustments: FY14 and FY15 exclude gifts and investment income from operating revenue and reclassify net settlement of derivatives to operating expenses; FY15 also excludes \$10.6 million of prior period supplemental Medicaid payments

-Inpatient admissions: 56,577; 62,208

-Observation stays: 17,542; N/A

-Medicare % of gross revenues: 45%; N/A

-Medicaid % of gross revenues: 18%; N/A

-Total operating revenues (\$): \$2.1 billion; \$2.3 billion

-Revenue growth rate (%) (3 yr CAGR): 6%; 7%

-Operating margin (%): 2.2%; 4.2%

-Operating cash flow margin (%): 8.9%; 11.1%

-Debt to cash flow (x): 4.1 times; 4.3 times proforma

-Days cash on hand: 223 days; 224 days

-Maximum annual debt service (MADS) (\$): \$58 million; \$68 million

-MADS coverage with reported investment income (x): 3.9 times; 4.7 times

-Moody's-adjusted MADS Coverage with normalized investment income (x): 4.6 times; 4.8 times

-Direct debt (\$): \$913 million; \$1.2 billion

-Cash to direct debt (%): 130%; 110%

-Comprehensive debt: \$1.7 billion; N/A

-Cash to comprehensive debt (%): 71%; N/A

-Monthly liquidity to demand debt (%): 310%; 317%

OBLIGOR PROFILE

OSF Healthcare System operates eleven acute care hospitals and a multi-specialty physician group of close to 690 physicians. Ten of the system's hospitals are located in Illinois; OSF also owns a small critical access hospital in the Upper Peninsula of Michigan. The System's largest hospital, OSF Saint Francis Medical Center in Peoria, Illinois, is a 609-licensed bed tertiary care teaching center.

LEGAL SECURITY

Legal security for the bonds is a security interest in the Unrestricted Receivables of the Members of the Obligated Group, which make up most of the system. Members of the Obligated Group include OSF Healthcare System, Ottawa Regional Hospital & Healthcare Center, Ottawa Regional Hospital Foundation, and Saint Anthony's

Physician Group. With the proposed financing, the OSF Multi-Specialty Group will be added to the obligated group.

USE OF PROCEEDS

Proceeds of the Series 2015A and Series 2015B bonds will be used to refund the Series 2007A, Series 2009A, and Series 2009E bonds, refinance a taxable term loan, provide \$50 million to fund the pension plan, and provide approximately \$145 million in funds for capital projects discussed above.

RATING METHODOLOGY

The principal methodology used in this rating was Not-for-Profit Healthcare Rating Methodology published in March 2012. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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OSF Healthcare System, Illinois

Revenue Bonds New Issue Report

Ratings

New Issue

\$366,725,000 Illinois Finance Authority Tax-Exempt Revenue Bonds, Series 2015A A

Outstanding Debt

\$144,265,000 Illinois Finance Authority Revenue Bonds, Series 2007A A

\$70,000,000 Illinois Finance Authority Variable-Rate Demand Bonds, Series 2007E A

\$55,000,000 Illinois Finance Authority Variable-Rate Demand Bonds, Series 2007F A

\$83,165,000 Illinois Finance Authority Revenue Bonds, Series 2009A A

\$50,000,000 Illinois Finance Authority Variable-Rate Demand Bonds, Series 2009B A

\$50,000,000 Illinois Finance Authority Variable-Rate Demand Bonds, Series 2009C A

\$25,000,000 Illinois Finance Authority Variable-Rate Demand Bonds, Series 2009D A

\$156,900,000 Illinois Finance Authority Revenue Bonds, Series 2010A A

\$174,800,000 Illinois Finance Authority Revenue Bonds, Series 2012A A

Rating Outlook

Stable

Related Research

2015 Outlook: U.S. Nonprofit Hospitals and Healthcare Systems (December 2014)

2015 Medians for Nonprofit Hospitals and Healthcare Systems (August 2015)

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New Issue Details

Sale Information: \$366,725,000 Illinois Finance Authority Tax-Exempt Revenue Bonds, Series 2015A, scheduled to sell the week of Sept. 14 via negotiation.

Security: Security interest in the obligated group's unrestricted receivables.

Purpose: Bond proceeds will advance refund all of the series 2007A bonds, a portion of the series 2009A bonds, all of the series 2009E bonds, refinance a taxable term loan and finance a variety of capital projects.

Final Maturity: Nov. 15, 2045.

Key Rating Drivers

Strengthening Liquidity: OSF Healthcare System's (OSF) liquidity position has improved steadily over the past five years, and metrics are now more in line with Fitch Ratings' 'A' rating category medians. As of June 30, 2015, \$1.25 billion of unrestricted cash and investments amounts to 221.4 days operating expenses. Liquidity growth has been driven by disciplined capital spending policies, adequate cash flow from operations and good investment returns.

Improving Operating Performance: After weak profitability in fiscal 2013 due to spending initiatives designed to transform its care delivery model, operating performance rebounded nicely over the next two years. Steady business growth, management-led supply chain and productivity measures and increased supplemental funding resulted in 2.9% and 5.2% operating margins, respectively, in fiscal 2014 and the nine-month interim period for fiscal 2015.

Regional Growth Strategy: OSF continues to undertake strategic growth initiatives intended to further develop and strengthen its regional relationships and footprint, including the recent acquisition of three community hospitals, its partnership with the University of Illinois College of Medicine and pending affiliation agreements with a variety of specialty providers.

Integrated System: OSF's significant physician employment (approximately 579 employed physicians and 275 advanced practitioners), combined with a systemwide approach to leadership emphasizing physician input and innovation, have led to improved clinical alignment and an integrated care management approach.

Manageable Debt Burden: Despite over \$200 million of additional debt, pro forma maximum annual debt service (MADS) coverage is healthy at 3.0x in fiscal 2014 and a more robust 4.5x through the first nine months of fiscal 2015. Pro forma MADS as a percentage of revenue is also very manageable at 3.0%, which is just above Fitch's 'A' rating category median of 2.8%.

Rating Sensitivities

Maintenance of Financial Improvement: Positive rating action is possible should OSF sustain its operating profitability improvements over the next several years, even without the benefit of increased Medicaid supplemental funding. Furthermore, positive rating movement could occur if OSF can continue to bolster liquidity metrics in light of its capital spending and pension funding plans.

Rating History

Rating	Action	Outlook/ Watch	Date
A	Affirmed	Stable	8/28/15
A	Affirmed	Stable	7/30/14
A	Affirmed	Stable	8/17/12
A	Affirmed	Stable	5/17/12
A	Affirmed	Stable	7/1/10
A	Affirmed	Stable	2/3/09
A	Affirmed	Stable	4/10/08
A	Affirmed	Stable	7/17/07
A	Affirmed	Stable	9/14/05
A	Assigned	—	8/30/99

Credit Profile

Headquartered in Peoria, IL, OSF owns and operates 11 healthcare facilities (10 in Illinois and one in Michigan), has over 14,000 full-time equivalent employees and more than 3,000 doctors on its medical staffs. OSF's flagship hospital, Saint Francis Medical Center, is a 609-licensed acute care bed, Level I trauma center that serves as a regional referral center for high acuity, complex clinical services. OSF also operates a comprehensive, integrated physician network with 224 offices and clinics, vast ambulatory services including urgent care centers and home health, medical education programs and a medical training simulation center. Total revenue in fiscal 2014 was nearly \$2.1 billion.

The system continues to extend its reach throughout Illinois via ongoing physician employment and alignment, expansion of its ambulatory care network and affiliation or ownership arrangements with various community hospitals. In 2012, OSF added Ottawa Regional Hospital to the obligated group. Over the past two years, Kewanee Hospital, Saint Anthony's Health Center and Mendota Community Hospital were also added to the system.

OSF's corporate office in Peoria (known as Ministry Shared Services) provides management services, compliance, facilities planning, healthcare analytics, wellness services, performance improvement consultation, retail services and supply chain programs to all its affiliates that are organized geographically into five regional divisions: central, northern, eastern, I-80 region and Alton, IL.

The central region includes OSF Saint Francis Medical Center and two other community hospitals and operates primarily in the Peoria metropolitan area. In fiscal 2014, the central region was responsible for 55.9% of the system's net patient service revenues. The northern region includes OSF Saint Anthony Medical Center and Saint Francis Hospital and operates primarily in the Rockford metropolitan area. In fiscal 2014, the northern region accounted for 20.9% of the system's net patient service revenue. The eastern region includes OSF Saint Joseph Medical Center and OSF Saint James-John W. Albrecht Medical Center and operates in the Bloomington metropolitan area. In fiscal 2014, the eastern region was responsible for 12.8% of the net patient service revenues of the system.

The I-80 region includes OSF Saint Elizabeth Medical Center and OSF Saint Paul Medical Center and is located in northcentral Illinois along Interstate 80. In fiscal 2014, the I-80 region was responsible for 3.3% of the system's net patient service revenues. Saint Elizabeth joined OSF in 2012 and was formerly known as Ottawa Regional Health Center. Saint Paul joined the system in April 2015 and was known as Mendota Community Hospital. The Alton region includes OSF Saint Anthony's Health Center and is not located within one of the system's four main geographic regions. Saint Anthony's is a 173-licensed acute care bed and 30-bed skilled nursing care hospital. OSF commenced ownership and operations of Saint Anthony's on Nov. 1, 2014.

OSF's largest and most influential nonhospital enterprises are its physician subsidiaries. OSF has 12 active wholly owned subsidiaries, which have been formed or acquired to provide physician services and function as medical groups. OSF Medical Group, an operating division of the parent corporation, was formed in 1994 and initially provided physician management services for primary care physicians. OSF Medical Group has expanded its services over the past 20 years, and currently has approximately 650 providers. OSF is expected to reorganize its physician groups effective Jan. 1, 2016 into a consolidated OSF Multi-Specialty Group, but this is merely an administrative maneuver. OSF's significant physician and advanced practitioner employment, combined with a systemwide approach to leadership emphasizing physician input and innovation, has led to improved clinical alignment and an integrated care management approach.

Related Criteria

U.S. Nonprofit Hospitals and Health Systems Rating Criteria (June 2015)

Revenue-Supported Rating Criteria (June 2014)

Strategic Planning

OSF's strategic vision has remained consistent over the past several years. Management's plans are very elaborate and include specific goals and initiatives. The plan is constantly updated and measured against performance parameters. OSF's main strategies are to transform care for population health and provide convenient on-demand care models. The transformation strategy is comprehensive and touches its care model, payment model, operations and innovation programs like its medical training simulation center. Underlying this strategy is OSF's quality and patient safety goal: creating superior clinical outcomes and eliminating all preventable harm.

The three parts of OSF's strategy focus on systemwide clinical service lines, primary care transformation and enhancing its clinical systems of care. To leverage its core competencies and expand its footprint, OSF is further developing systemwide clinical service lines in cardiovascular, pediatrics, neuroscience and oncology.

Primary care transformation programs include patient-centered medical homes, care management programs for high-risk populations and teleservices. For instance, OSF is in the process of developing and implementing its telehealth services such as electronic care management and wellness programs. In addition, its telemedicine programs include ICU monitoring, medication management and OSF OnCall. OSF OnCall is an online/phone service providing 24/7 patient access to clinical care providers for low acuity complaints. Fitch views these initiatives positively as they better position OSF for accountable care and value-based payment models.

Business Position

OSF continues to undertake strategic growth initiatives intended to further develop and strengthen its regional relationships and geographic footprint, including the acquisition of three community hospitals, pending affiliation agreement with the Institute of Physical Medicine and Rehabilitation and letters of intent to consolidate with a variety of specialty physician groups. Evidence of OSF's growing market presence is its 41.6% inpatient market share in its entire northern and central Illinois service area through second-quarter fiscal 2015. During fiscal 2010, OSF's inpatient primary service area market share was 35.9%.

As it transitions to value-based reimbursement and population health, OSF is focusing on unique patients served (as measured by Epic's electronic medical record system). As a result of its regional growth strategies and integration success, patient encounters are growing. Excluding the three recently acquired hospitals, OSF experienced a 6.5% increase in unique patients served in fiscal 2013 and a 7.2% jump in fiscal 2014. For the nine-month period ending June 30, 2015, annualized unique patients served are up another 4.6%. Traditional utilization metrics, excluding the three recently acquired facilities, are also favorable, with historical discharges, observation patients, emergency room, outpatient and physician office visits experiencing steady gains over the past several years.

OSF's market position in its key central region of the Peoria metropolitan area has strengthened over the past several years due to facility improvements, programmatic upgrades and enhanced relationship with specialty physicians. OSF's inpatient/observation patient market share in the greater Peoria region increased to 49.9% during the first half of fiscal 2015 from 47.6% in fiscal 2012. Furthermore, OSF's hospital-based outpatient surgical market share jumped to 52.3% in the first half of fiscal 2015 from 49.5% in fiscal 2012. Regardless, the Peoria market dynamics changed last year with sizable UnityPoint Health acquiring OSF's two main hospital competitors. Competitive threats could heighten given UnityPoint Health's financial resources and its good combined Peoria-region inpatient market share of about 35%.

OSF's eastern region market position in the Bloomington/Pontiac area remains solid. While inpatient market share is down relative to its main competitor, Advocate BroMenn Medical Center, outpatient surgical share is up slightly. OSF's inpatient/observation patient market share in the greater Bloomington region dropped to 46.2% during the first half of fiscal 2015 from 48.0% in fiscal 2012. However, OSF's hospital-based outpatient surgical market share increased to 60.8% in the first half of fiscal 2015 from 57.9% in fiscal 2012.

The northern region in the greater Rockford area is highly competitive, with three moderately sized providers, but market shares have been relatively stable. For the first half of fiscal 2015, OSF secured 27.8% inpatient/observation patient market share, versus 37.1% for SwedishAmerican Hospital (rated A/Stable by Fitch), and 27.2% for Rockford Health System. However, the market dynamics have changed considerably after the Federal Trade Commission won a preliminary injunction from a federal judge to stop the proposed merger of OSF Saint Anthony Medical Center and Rockford Health System in 2012.

Subsequent to the blocked merger attempt, Rockford Health System merged with Janesville, WI-based Mercy Health to form MercyRockford Health System. MercyRockford Health System recently announced plans to build a new inpatient campus in northeast Rockford with better access to patients in southern Wisconsin. The old Rockford Memorial Hospital campus will keep its emergency department, outpatient services and offer low-intensity inpatient care. The new campus will house its Level I trauma center, tertiary care inpatient services and include a women's and children's hospital.

Additionally, the city of Rockford's other healthcare provider and market leader, SwedishAmerican Hospital, consolidated with University of Wisconsin Health, bringing a large and influential player to the market. OSF remains committed to the Rockford area given its adequate business position, the region's improving economic conditions and its current capital plans for Saint Anthony that will be funded with a portion of the proceeds of the series 2015A bond issue. Fitch views OSF's market position in the Rockford area as a challenging credit factor due to the heightened competitive pressures and required capital investments at Saint Anthony Medical Center to keep their facilities appealing.

The project at Saint Anthony includes the construction of an approximately 150,000-square-foot, four-story bed pavilion that will be attached to the existing hospital facility. The new bed pavilion will house 78 private rooms for medical and surgical beds. In the existing hospital facility, semi-private rooms will be converted to private rooms, allowing for a total of 190 private rooms when the project is completed. Additionally, some ambulatory services and urgent care will be offered on the first floor of the new pavilion. Construction of the new bed pavilion commenced in August 2015 and is expected to be completed in late 2017. The estimated cost of the project is \$85 million and will be financed with moneys from a fundraising campaign and a portion of the proceeds of the series 2015A bonds.

Moreover, Saint Anthony is also renovating and expanding its existing cancer center. Construction on the project commenced in August 2014 and includes an approximately 15,000-square-foot expansion and 3,000-square-foot remodeling of the existing facility. Construction is expected to be completed in the fourth calendar quarter of 2015 at an estimated cost of \$8.4 million, which will be financed through private donations and a portion of the proceeds of the series 2015 bonds.

Utilization Data

(Audited Fiscal Years Ended Sept. 30)

	2011	2012	2013	2014	Nine Mos. Ended 6/30/15 ^a
Operated Beds	1,189	1,352	1,228	1,244	1,442
Acute Adult Admissions/Discharges	57,140	59,157	60,034	58,577	46,656
Acute Adult Patient Days	265,406	271,545	274,778	262,212	219,586
Average Length of Stay (Days)	4.6	4.6	4.6	4.6	4.7
Average Daily Census	727	744	753	718	802
Occupancy (%)	61.2	55.0	61.3	57.8	55.6
Observation Cases	14,040	0	14,311	17,542	12,511
Hospital Stays (Admissions plus Observation Cases)	71,180	59,157	74,345	74,119	59,167
Births	4,634	5,198	5,245	5,503	4,166
Inpatient Surgeries	24,499	25,130	24,748	23,325	17,856
Outpatient Surgeries	48,072	50,937	53,340	54,664	41,993
Emergency Department Visits, Net of Admissions	206,490	213,850	232,929	254,041	255,705
Outpatient/Clinic Visits	1,136,890	1,210,889	1,310,740	1,321,782	1,117,863
Medicare Casemix Index	1.65	1.68	1.72	1.76	1.74

^aUnaudited.

Sources: OSF Healthcare System (IL) and Fitch.

Payor Mix

Part of OSF's strategic plan is to transform its care and payment models to position them for population health management. As a result, OSF has multiple accountable care activities implemented across the system. While fee for service still dominates payment models (at about 73% of total patient lives served as of June 30, 2015), pay for performance, shared savings and shared-risk mechanisms are a growing portion of OSF's business. OSF has a variety of contracts and agreements with both commercial and governmental health plans that require care management and include payment incentives.

Capitated (per member per month arrangements) and full risk agreements are limited to a small Medicare HMO (with 9,261 total lives served) and OSF's self-insured employees (with 31,996 total lives served). OSF's Medicare Pioneer Accountable Care Organizations (ACO) performed adequately in calendar year 2014, so management continued the arrangements for the current calendar year. For instance, in OSF's eastern region, ACO use rates declined about 6.3% from 2013 levels, resulting in lower medical costs per member per month.

Payor Mix

(% Gross Revenues; Audited Fiscal Years Ended Sept. 30)

	2011	2012	2013	2014	Nine Mos. Ended 6/30/15 ^a
Medicare	36.6	37.1	37.6	35.6	33.6
Medicaid	15.4	15.8	16.0	18.1	20.1
Commercial and Managed Care	36.4	35.8	35.5	38.2	41.3
Other	11.6	11.3	10.9	8.1	5.0
Total	100.0	100.0	100.0	100.0	100.0

^aUnaudited.

Sources: OSF Healthcare System (IL) and Fitch.

OSF's governmental payor mix is restrictive, with Medicare (33.6%) and Medicare Advantage (11.8%) accounting for 45.4% of gross patient services revenue during the first nine months of fiscal 2015. Moreover, Medicaid and Medicaid HMOs represent a high 20.1% of gross patient services revenues and are increasing as a result of program expansion in the state of Illinois.

OSF is reliant upon supplemental and disproportionate share payments for approximately 40% of its Medicaid payments, or a total of about \$53 million net of Medicaid provider taxes in fiscal 2014, which Fitch views as a negative credit factor. Nonetheless, the state of Illinois hospital assessment and supplemental payment programs have increased funding levels (to approximately \$77 million net of Medicaid provider taxes in fiscal 2015) and have been extended through June 30, 2018, providing budgetary certainty and a boost to operating profitability.

Financial Performance

Operating profitability improved nicely in fiscal 2014 and the first nine months of fiscal 2015 after a weak performance in fiscal 2013 from spending initiatives designed to transform its care delivery model. The operating and operating EBITDA margins were 2.9% and 9.2%, respectively, in fiscal 2014, compared with Fitch's 'A' rating category medians of 3.6% and 10.3%. For the first nine months of fiscal 2015, the operating margin (5.2%) and operating EBITDA margin (11.6%) continued to improve as a result of increased Medicaid supplemental funding and management's accelerated clinical and cost transformation (ACT) plan, which Fitch views very favorably.

The ACT initiative is a comprehensive plan designed to dramatically reduce OSF's cost structure through new patient-centric care delivery models, service line reconfigurations, staffing productivity and pay practices and supply chain optimization through clinical utilization improvements and demand matching. Through year two of the four-year ACT plan, OSF has realized \$109 million of its \$100 million cost savings goal. The total four-year savings target is \$180 million. Further evidence of OSF's improved expenditure controls is the 5% reduction in its cost per case mix adjusted discharge during fiscal 2014 and another 1% decline for the nine-month interim period ending June 30 for fiscal 2015. Furthermore, OSF's functional transformation programs are driving administrative efficiencies and reducing costs in supply chain management, legal services, marketing and facilities management and construction.

OSF's central region driven by Saint Francis Medical Center in Peoria remains the system's earnings driver, generating operating income in excess of the consolidated system total. For instance, the central region produced \$99.6 million of operating income during the first nine months of fiscal 2015, versus a consolidated total of \$91.5 million after external interest expenses are allocated. The northern region centered on Rockford remains a laggard, producing a \$4.2 million operating loss through the first nine months of fiscal 2015, versus a \$1.2 million loss in the prior nine-month period.

Cash Position

OSF's liquidity position continues to improve, and its metrics are now more in line with Fitch's 'A' rating category medians. As of June 30, 2015, \$1.25 billion of unrestricted cash and investments amounts to 221.4 days operating expenses, 18.5x cushion and 131.8% cash to debt. This compares with Fitch's 'A' rating category medians of 205.3 days operating expenses, 18.5x cushion ratio and 143.7% cash to debt. After issuing over \$200 million of new debt and reimbursing themselves about \$24 million, pro forma cash to debt moderates to 120%. Liquidity growth has been driven by revenue cycle improvements, management's strict capital spending targets that are based on a percentage of each affiliate's EBIDTA, improved operating profitability and solid investment performance.

Furthermore, liquidity is somewhat suppressed due to the state of Illinois's delayed Medicaid payments as a result of its continued budgetary challenges. This is evidenced in heightened days in accounts receivable balances that amount to a high 69.3 days for the period ending June 30, 2015. This level of days in accounts receivable compares unfavorably with Fitch's

48.1 days 'A' rating category median. Regardless, OSF earns interest on its overdue amounts and enjoys a good history (with manageable adjustments) of collecting the Medicaid accounts receivable from the state of Illinois.

Debt Profile

Despite over \$200 million of additional borrowings, pro forma MADS coverage was healthy at 3.0x in fiscal 2014 and a more robust 4.5x through the first nine months of fiscal 2015. Pro forma MADS as a percentage of revenue for the interim period was also very manageable at 3.0%, which is just above Fitch's 'A' rating category median of 2.8%. Debt to EBITDA strengthened in each of the past four years, amounting to 3.0x at the end of the June 30, 2015 interim period, from 3.8x in fiscal 2011. Pro forma debt to capitalization is a bit elevated at 50.8% as of June 30, 2015, which is above Fitch's 36.2% 'A' rating category median. Pro forma debt to capital, excluding OSF's \$459 million pension liability, is more manageable at 42.4%.

In addition to the series 2015A fixed-rate bonds, OSF plans a \$94.4 million series 2015B taxable bond issue. The series 2015B bond proceeds will refund the remaining series 2009A bonds and provide \$50 million for a contribution to its defined benefit pension plan. OSF froze its defined benefit pension plan in 2011, and its policy continues to contribute to the actuarially determined pension expense. As a result of its contribution levels and a lower discount rate, OSF's accrued benefit obligation remains moderately high. At the end of fiscal 2015, OSF's accrued pension funding status was 55%, very similar to fiscal 2011's funded status of 57%. To leverage the current market's interest rate levels and spreads, OSF plans to contribute \$50 million from the taxable bond proceeds to the pension plan.

The funding is expected to result in a reduction in OSF's annual pension expenses of \$4.1 million during the first year (fiscal 2014 pension expense was \$7 million) and increasing to approximately an \$11 million reduction in the third year. OSF plans to self-fund the taxable bond debt service with the savings from the reduced pension expenses. Assuming a 0.50% increase in the discount rate and the \$50 million contribution, the accrued benefit liability is projected to drop to \$266 million at the end of fiscal 2016 from \$410 million in fiscal 2014. As a result, the accrued pension funding status is forecast to improve to 70%. OSF's plan qualifies as a church plan under ERISA requirements, so its funding requirements enjoy some flexibility, which Fitch views favorably. Despite the recent challenges to other organizations' church plan status, OSF is confident that its plan remains qualified as a church plan.

After issuance of both series 2015 bond issues, OSF will have about \$1.06 billion of long-term debt outstanding. Of this amount, \$699 million, or 66% of its debt, will be traditional fixed rate. Of the \$361 million variable-rate bonds, \$234 million is synthetically fixed through four fixed-payer interest rate swaps that are insured by Assured Guaranty. Given the low level of long-term fixed interest rates, the four swaps had a negative mark to market of \$51.9 million as of June 30, 2015. However, no collateral posting is required as long as Assured Guaranty maintains its bond rating above certain levels.

OSF also has a basis swap for a notional amount of \$127.6 million. As of June 30, 2015, the swap had a very minor negative mark to market of \$807,608. There is a \$10-million threshold for collateral posting on the basis swap. Fitch views OSF's level of floating-rate debt and use of interest rate swaps as manageable, especially in light of its robust risk-based capital approach, conservative swap policy and healthy amount of unrestricted reserves versus floating-rate debt and swap exposure.

Financial Summary

(\$000, Audited Fiscal Years Ended Sept. 30)

	2011	2012	2013	2014	Nine Mos. Ended 6/30/15 ^a
Balance Sheet Data					
Unrestricted Cash and Investments	759,738	791,044	1,019,550	1,187,102	1,253,077
Restricted Cash and Investments	190,585	192,283	205,119	223,243	69,647
Trustee-Held Cash and Investments	68,412	51,845	2,827	3,420	176,440
Net Patient Accounts Receivable	351,210	467,891	369,698	398,852	413,781
Property, Plant and Equipment, Net	893,970	936,207	960,810	973,022	996,816
Total Assets	2,382,752	2,637,009	2,694,673	2,923,235	3,105,330
Short-Term Debt					
Current Liabilities	282,186	312,310	313,511	360,938	397,205
Total Debt (Including Current Portion)	884,573	896,644	890,173	920,914	950,938
Demand Debt	250,000	250,000	250,000	250,000	275,020
Unrestricted Net Assets	694,467	747,342	964,033	934,514	1,023,233
Income and Cash Flow Data					
Net Patient Revenue	1,695,545	1,817,000	1,910,851	1,998,011	1,633,819
Other Revenue	78,625	87,475	83,806	95,381	88,213
Total Revenues	1,774,170	1,904,475	1,994,657	2,093,392	1,722,032
Salaries, Wages, Fees and Benefits	947,802	1,046,186	1,140,414	1,154,034	939,956
Supplies and Drugs	651,037	685,490	735,627	745,619	578,912
Depreciation and Amortization	90,548	84,613	91,448	95,517	83,647
Interest Expense	45,237	36,539	35,726	36,185	27,572
Total Expenses	1,746,014	1,857,743	2,004,698	2,032,546	1,632,833
Income from Operations	28,156	46,732	(10,041)	60,846	89,199
Non-Operating Gains/(Losses)	33,319	(16,886)	42,736	12,165	26,631
Excess of Revenues over Expenses	61,475	29,846	32,695	73,011	115,830
EBITDA	197,260	150,998	159,869	204,713	227,049
Operating EBITDA	163,941	167,884	117,133	192,548	200,418
Net Unrealized Gains/(Losses)	(28,603)	48,838	15,519	18,001	7,594
Cash Flow from Operations	116,414	61,410	246,170	206,599	148,152
Net Capital Expenditures	82,244	93,990	116,705	91,674	53,018
Maximum Annual Debt Service (MADS)	67,800	67,800	67,800	67,800	67,800
Actual Annual Debt Service (AADS)	67,060	69,434	48,225	44,867	—
Liquidity Ratios					
Days Cash on Hand	167.5	162.8	194.5	223.7	221.4
Days in Accounts Receivable	75.6	94.0	70.6	72.9	69.3
Days in Current Liabilities	62.2	64.3	59.8	68.0	70.2
Cushion Ratio (x)	11.2	11.7	15.0	17.5	18.5
Cash/Debt (%)	85.9	88.2	114.5	128.9	131.8
Unrestricted Cash and Investments/Demand Debt (%)	303.9	316.4	407.8	474.8	455.6
Profitability and Operational Ratios (%)					
Operating Margin	1.6	2.5	(0.5)	2.9	5.2
Operating EBITDA Margin	9.2	8.8	5.9	9.2	11.6
Excess Margin	3.4	1.6	1.6	3.5	6.6
EBITDA Margin	10.9	8.0	7.9	9.7	13.0
Personnel Cost/Total Revenue	53.4	54.9	57.2	55.1	54.6
Supply Cost/Total Revenue	36.7	36.0	36.9	35.6	33.6
Bad Debt Provision/Patient Service Revenue	5.7	5.2	4.7	3.3	—
Capital Related Ratios					
MADS Coverage – EBITDA (x)	2.9	2.2	2.4	3.0	4.5
MADS Coverage – Operating EBITDA (x)	2.4	2.5	1.7	2.8	3.9
AADS Coverage – EBITDA (x)	2.9	2.2	3.3	4.6	—
MADS/Total Revenue (%)	3.8	3.6	3.4	3.2	3.0
Debt/EBITDA (x)	4.5	5.9	5.6	4.5	3.1
Debt/Capitalization (%)	56.0	54.5	48.0	49.6	48.2
Average Age of Plant (Years)	11.8	14.3	12.2	12.8	—
Capital Expenditures/Depreciation (%)	90.8	111.1	127.6	96.0	63.4

^aUnaudited. EBITDA – Earnings before interest, taxes, depreciation and amortization. N.A. – Not available. Note: Fitch may have reclassified certain financial statement items for analytical purposes. Sources: OSF Healthcare System (IL) and Fitch.

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