

E-018-14

**RECEIVED**

OCT 03 2014

HEALTH FACILITIES &  
SERVICES REVIEW BOARD

Change of Ownership Exemption  
Permit Application

to Affiliate

Mendota Community Hospital

Into the

OSF Healthcare System  
Peoria, Illinois

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Mendota Community Hospital and OSF Healthcare

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**ILLINOIS HEALTH FACILITIES AND SERVICES REVIEW BOARD  
APPLICATION FOR EXEMPTION FOR THE  
CHANGE OF OWNERSHIP FOR AN EXISTING HEALTH CARE FACILITY**

**1. INFORMATION FOR EXISTING FACILITY**

Current Facility Name Mendota Community Hospital  
Address 1401 East 12<sup>th</sup> Street  
City Mendota Zip Code 61342 County LaSalle  
Name of current licensed entity for the facility Mendota Community Hospital  
Does the current licensee: own this facility  OR lease this facility \_\_\_\_\_ (if leased, check if sublease )  
Type of ownership of the current licensed entity (check one of the following) \_\_\_\_\_ Sole Proprietorship  
 Not-for-Profit Corporation \_\_\_\_\_ For Profit Corporation \_\_\_\_\_ Partnership \_\_\_\_\_ Governmental  
\_\_\_\_\_ Limited Liability Company \_\_\_\_\_ Other, specify \_\_\_\_\_  
Illinois State Senator for the district where the facility is located: Sen. Sue Rezin  
State Senate District Number 38 Mailing address of the State Senator 103 Fifth Street, Peru, IL 61354 /  
309I Capital Building, Springfield, Illinois 62706  
Illinois State Representative for the district where the facility is located: Rep. Frank Mautino  
State Representative District Number 76 Mailing address of the State Representative 221 E. St. Paul Street,  
Spring Valley, IL 61362 / 300 State House, Springfield, IL 62706

**2. OUTSTANDING PERMITS.** Does the facility have any projects for which the State Board issued a permit that will not be completed (refer to 1130.140 "Completion or Project Completion" for a definition of project completion) by the time of the proposed ownership change? Yes  No . If yes, refer to Section 1130.520(f), and indicate the projects by Project # \_\_\_\_\_

**3. NAME OF APPLICANT** (complete this information for each co-applicant and insert after this page).

Exact Legal Name of Applicant Mendota Community Hospital  
Address 1401 East 12<sup>th</sup> Street  
City Mendota Zip Code 61342 County LaSalle  
Type of ownership of the current licensed entity (check one of the following) \_\_\_\_\_ Sole Proprietorship  
 Not-for-Profit Corporation \_\_\_\_\_ For Profit Corporation \_\_\_\_\_ Partnership \_\_\_\_\_ Governmental  
\_\_\_\_\_ Limited Liability Company \_\_\_\_\_ Other, specify \_\_\_\_\_

**4. NAME OF LEGAL ENTITY THAT WILL BE THE LICENSEE/OPERATING ENTITY OF THE FACILITY NAMED IN THE APPLICATION AS A RESULT OF THIS TRANSACTION.** Exact Legal Name of Entity to be Licensed Mendota Community Hospital (will be renamed as of closing date)

Address 1401 East 12<sup>th</sup> Street  
City, State & Zip Code Mendota, Illinois 61342  
Type of ownership of the current licensed entity (check one of the following:) \_\_\_\_\_ Sole Proprietorship  
 Not-for-Profit Corporation \_\_\_\_\_ For Profit Corporation \_\_\_\_\_ Partnership \_\_\_\_\_ Governmental  
\_\_\_\_\_ Limited Liability Company \_\_\_\_\_ Other, specify \_\_\_\_\_

**5. BUILDING/SITE OWNERSHIP. NAME OF LEGAL ENTITY THAT WILL OWN THE "BRICKS AND MORTAR" (BUILDING) OF THE FACILITY NAMED IN THIS APPLICATION IF DIFFERENT FROM THE OPERATING/LICENSED ENTITY**

Exact Legal Name of Entity That Will Own the Site Mendota Community Hospital  
Address 1401 East 12<sup>th</sup> Street  
City, State & Zip Code Mendota, Illinois 61342  
Type of ownership of the current licensed entity (check one of the following) \_\_\_\_\_ Sole Proprietorship  
 Not-for-Profit Corporation \_\_\_\_\_ For Profit Corporation \_\_\_\_\_ Partnership \_\_\_\_\_ Governmental  
\_\_\_\_\_ Limited Liability Company \_\_\_\_\_ Other, specify \_\_\_\_\_

**ILLINOIS HEALTH FACILITIES AND SERVICES REVIEW BOARD  
APPLICATION FOR EXEMPTION FOR THE  
CHANGE OF OWNERSHIP FOR AN EXISTING HEALTH CARE FACILITY**

**1. INFORMATION FOR EXISTING FACILITY**

Current Facility Name Not Applicable – Co-Applicant Information  
Address \_\_\_\_\_  
City \_\_\_\_\_ Zip Code \_\_\_\_\_ County \_\_\_\_\_  
Name of current licensed entity for the facility \_\_\_\_\_  
Does the current licensee: own this facility \_\_\_\_\_ OR lease this facility \_\_\_\_\_ (if leased, check if sublease )  
Type of ownership of the current licensed entity (check one of the following) \_\_\_\_\_ Sole Proprietorship  
\_\_\_\_\_ Not-for-Profit Corporation \_\_\_\_\_ For Profit Corporation \_\_\_\_\_ Partnership \_\_\_\_\_ Governmental  
\_\_\_\_\_ Limited Liability Company \_\_\_\_\_ Other, specify \_\_\_\_\_  
Illinois State Senator for the district where the facility is located: Sen. \_\_\_\_\_  
State Senate District Number \_\_\_\_\_ Mailing address of the State Senator \_\_\_\_\_  
Illinois State Representative for the district where the facility is located: Rep. \_\_\_\_\_  
State Representative District Number \_\_\_\_\_ Mailing address of the State Representative \_\_\_\_\_

**2. OUTSTANDING PERMITS.** Does the facility have any projects for which the State Board issued a permit that will not be completed (refer to 1130.140 "Completion or Project Completion" for a definition of project completion) by the time of the proposed ownership change? Yes  No . If yes, refer to Section 1130.520(f), and indicate the projects by Project # \_\_\_\_\_

**3. NAME OF APPLICANT** (complete this information for each co-applicant and insert after this page).

Exact Legal Name of Applicant OSF Healthcare System  
Address 800 N.E. Glen Oak Avenue  
City Peoria Zip Code 61603 County Peoria  
Type of ownership of the current licensed entity (check one of the following) \_\_\_\_\_ Sole Proprietorship  
 Not-for-Profit Corporation \_\_\_\_\_ For Profit Corporation \_\_\_\_\_ Partnership \_\_\_\_\_ Governmental  
\_\_\_\_\_ Limited Liability Company \_\_\_\_\_ Other, specify \_\_\_\_\_

**4. NAME OF LEGAL ENTITY THAT WILL BE THE LICENSEE/OPERATING ENTITY OF THE FACILITY NAMED IN THE APPLICATION AS A RESULT OF THIS TRANSACTION.** Exact Legal Name of Entity to be Licensed Mendota Community Hospital (will be renamed as of closing date)

Address 1401 East 12<sup>th</sup> Street  
City, State & Zip Code Mendota, Illinois 61342  
Type of ownership of the current licensed entity (check one of the following:) \_\_\_\_\_ Sole Proprietorship  
 Not-for-Profit Corporation \_\_\_\_\_ For Profit Corporation \_\_\_\_\_ Partnership \_\_\_\_\_ Governmental  
\_\_\_\_\_ Limited Liability Company \_\_\_\_\_ Other, specify \_\_\_\_\_

**5. BUILDING/SITE OWNERSHIP. NAME OF LEGAL ENTITY THAT WILL OWN THE "BRICKS AND MORTAR" (BUILDING) OF THE FACILITY NAMED IN THIS APPLICATION IF DIFFERENT FROM THE OPERATING/LICENSED ENTITY**

Exact Legal Name of Entity That Will Own the Site Mendota Community Hospital  
Address 1401 East 12<sup>th</sup> Street  
City, State & Zip Code Mendota, Illinois 61342  
Type of ownership of the current licensed entity (check one of the following) \_\_\_\_\_ Sole Proprietorship  
 Not-for-Profit Corporation \_\_\_\_\_ For Profit Corporation \_\_\_\_\_ Partnership \_\_\_\_\_ Governmental  
\_\_\_\_\_ Limited Liability Company \_\_\_\_\_ Other, specify \_\_\_\_\_

**6. TRANSACTION TYPE. CHECK THE FOLLOWING THAT APPLY TO THE TRANSACTION:**

- Purchase resulting in the issuance of a license to an entity different from current licensee;
- Lease resulting in the issuance of a license to an entity different from current licensee;
- Stock transfer resulting in the issuance of a license to a different entity from current licensee;
- Stock transfer resulting in no change from current licensee;
- Assignment or transfer of assets resulting in the issuance of a license to an entity different from the current licensee;
- Assignment or transfer of assets not resulting in the issuance of a license to an entity different from the current licensee;
- Change in membership or sponsorship of a not-for-profit corporation that is the licensed entity; (The proposed transaction is a change in membership per the affiliation agreement; Attachments 3 and 5)
- Change of 50% or more of the voting members of a not-for-profit corporation's board of directors that controls a health care facility's operations, license, certification or physical plant and assets;
- Change in the sponsorship or control of the person who is licensed, certified or owns the physical plant and assets of a governmental health care facility;
- Sale or transfer of the physical plant and related assets of a health care facility not resulting in a change of current licensee;
- Any other transaction that results in a person obtaining control of a health care facility's operation or physical plant and assets, and explain in "Attachment 3 Narrative Description"

7. APPLICATION FEE. Submit the application fee in the form of a check or money order for \$2,500 payable to the Illinois Department of Public Health and append as ATTACHMENT #1.

8. FUNDING. Indicate the type and source of funds which will be used to acquire the facility (e.g., mortgage through Health Facilities Authority; cash gift from parent company, etc.) and append as ATTACHMENT #2.

9. ANTICIPATED ACQUISITION PRICE: \$ 0.00

10. FAIR MARKET VALUE OF THE FACILITY: \$ 39,923M (See ATTACHMENT #3, Exhibit B)  
(to determine fair market value, refer to 77 IAC 1130.140)

11. DATE OF PROPOSED TRANSACTION: anticipated closing by June 30, 2015

12. NARRATIVE DESCRIPTION. Provide a narrative description explaining the transaction, and append it to the application as ATTACHMENT #3.

13. BACKGROUND OF APPLICANT (co-applicants must also provide this information). Corporations and Limited Liability Companies must provide a current Certificate of Good Standing from the Illinois Secretary of State. Limited Liability Companies and Partnerships must provide the name and address of each partner/ member and specify the percentage of ownership of each. Append this information to the application as ATTACHMENT #4.

14. TRANSACTION DOCUMENTS. Provide a copy of the complete transaction document(s) including schedules and exhibits which detail the terms and conditions of the proposed transaction (purchase, lease, stock transfer, etc.). Applicants should note that the document(s) submitted should reflect the applicant's (and co-applicant's, if applicable) involvement in the transaction. The document must be signed by both parties and contain language stating that the transaction is contingent upon approval of the Illinois Health Facilities and Services Review Board. Append this document(s) to the application as ATTACHMENT #5.

15. FINANCIAL STATEMENTS. (Co-applicants must also provide this information) Provide a copy of the applicants latest audited financial statements, and append it to this application as ATTACHMENT #6 (Attached). If the applicant is a newly formed entity and financial statements are not available, please indicate by checking YES     , and indicate the date the entity was formed      (Not Applicable; existing entity)

Attached Information: (ATTACHMENT #6)

1. OSF Healthcare System is an A-rated organization
2. Mendota Community Hospital financials attached

16. **PRIMARY CONTACT PERSON.** Individual representing the applicant to whom all correspondence and inquiries pertaining to this application are to be directed. (Note: other persons representing the applicant not named below will need written authorization from the applicant stating that such persons are also authorized to represent the applicant in relationship to this application).

OSF Healthcare System

Name: Mark Hohulin, Senior Vice President, Healthcare Analytics

Address: 800 NE Glen Oak Avenue

City, State & Zip Code: Peoria, Illinois 61603

Telephone (309) 624-2360 Ext. \_\_\_\_\_

16. **PRIMARY CONTACT PERSON.** Individual representing the applicant to whom all correspondence and inquiries pertaining to this application are to be directed. (Note: other persons representing the applicant not named below will need written authorization from the applicant stating that such persons are also authorized to represent the applicant in relationship to this application).

Mendota Community Hospital

Name: Judy A. Christiansen, Interim CEO

Address: 1401 East 12<sup>th</sup> Street City, State & Zip Code: Mendota, Illinois 61342

Telephone (815) 539-1464 Ext. \_\_\_\_\_

17. **ADDITIONAL CONTACT PERSON.** Consultant, attorney, other individual who is also authorized to discuss this application and act on behalf of the applicant.

OSF Healthcare System

Name: Mathew Hanley, Director of Strategic Affiliations

Address: 800 NE Glen Oak Avenue

City, State & Zip Code: Peoria, Illinois 61603

Telephone (309) 624-3910 Ext. \_\_\_\_\_

17. **ADDITIONAL CONTACT PERSON.** Consultant, attorney, other individual who is also authorized to discuss this application and act on behalf of the applicant.

OSF Healthcare System

Name: Michael Henderson, Corporate Attorney

Address: 530 NE Glen Oak Avenue

City, State & Zip Code: Peoria, Illinois 61637

Telephone (309) 655-2402 Ext. \_\_\_\_\_

17. **ADDITIONAL CONTACT PERSON.** Consultant, attorney, other individual who is also authorized to discuss this application and act on behalf of the applicant.

OSF Healthcare System

Name: Robert L. Brandfass, Senior Vice President, Legal Services

Address: 800 NE Glen Oak Avenue

City, State & Zip Code: Peoria, Illinois 61637

Telephone (309) 655-5741 Ext. \_\_\_\_\_

17. **ADDITIONAL CONTACT PERSON.** Consultant, attorney, other individual who is also authorized to discuss this application and act on behalf of the applicant.

Mendota Community Hospital

Name: Margo Gallagher Schmitz

Address: Post Office Box 247

City, State & Zip Code: Earlville, IL 60518

Telephone (815) 246-8291 Ext. \_\_\_\_\_

17. **ADDITIONAL CONTACT PERSON.** Consultant, attorney, other individual who is also authorized to discuss this application and act on behalf of the applicant.

Mendota Community Hospital

Name: Douglas B. Swill, Partner, Drinker Biddle & Reath, LLP

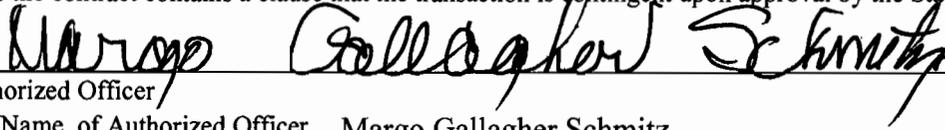
Address: 191 N. Wacker Dr., Ste. 3700

City, State & Zip Code: Chicago, IL 60606-1698

Telephone (312) 569-1270 Ext. \_\_\_\_\_

**18. CERTIFICATION Mendota Community Hospital**

I certify that the above information and all attached information are true and correct to the best of my knowledge and belief. I certify that the number of beds within the facility will not change as part of this transaction. I certify that no adverse action has been taken against the applicant(s) by the federal government, licensing or certifying bodies, or any other agency of the State of Illinois. I certify that I am fully aware that a change in ownership will void any permits for projects that have not been completed unless such projects will be completed or altered pursuant to the requirements in 77 IAC 1130.520(f) prior to the effective date of the proposed ownership change. I also certify that the applicant has not already acquired the facility named in this application or entered into an agreement to acquire the facility named in the application unless the contract contains a clause that the transaction is contingent upon approval by the State Board.



Signature of Authorized Officer

Typed or Printed Name of Authorized Officer Margo Gallagher Schmitz

Title of Authorized Officer: Board Chair

Address 1401 East 12<sup>th</sup> Street

City, State & Zip Code Mendota, IL 61342

Telephone (815) 246-8291

Date: SEPTEMBER 26, 2014

**NOTE: complete a separate signature page for each co-applicant and insert following this page.**

**18. CERTIFICATION OSF Healthcare System**

I certify that the above information and all attached information are true and correct to the best of my knowledge and belief. I certify that the number of beds within the facility will not change as part of this transaction. I certify that no adverse action has been taken against the applicant(s) by the federal government, licensing or certifying bodies, or any other agency of the State of Illinois. I certify that I am fully aware that a change in ownership will void any permits for projects that have not been completed unless such projects will be completed or altered pursuant to the requirements in 77 IAC 1130.520(f) prior to the effective date of the proposed ownership change. I also certify that the applicant has not already acquired the facility named in this application or entered into an agreement to acquire the facility named in the application unless the contract contains a clause that the transaction is contingent upon approval by the State Board.



Signature of Authorized Officer \_\_\_\_\_

Typed or Printed Name of Authorized Officer Kevin Schoeplein

Title of Authorized Officer: Chief Executive Officer, OSF Healthcare System

Address 800 NE Glen Oak Avenue

City, State & Zip Code Peoria, Illinois 61603

Telephone (309) 655-4982 Date: \_\_\_\_\_

**NOTE: complete a separate signature page for each co-applicant and insert following this page.**

**APPENDIX A**

**FACILITY BED AND DIALYSIS STATION CAPACITY AND CATEGORIES OF SERVICE**

Complete the following for the facility for which the change of ownership is requested. The facility's bed and dialysis station capacity must be consistent with the State Board's Inventory of Health Care Facilities.

FACILITY NAME Mendota Community Hospital CITY: Mendota

Indicate (by placing an "X") the type of facility for which the change of ownership is requested:

Hospital;     Long-term Care Facility;     Dialysis Facility;     Ambulatory Surgical Treatment Center.

Provide the bed capacity by category of service: (Provided, but not required by new forms)

SERVICE	# of Beds	SERVICE	# of Beds
Medical/Surgical	<u>21</u>	Nursing Care	<u>0</u>
Obstetrics	<u>0</u>	Shelter Care	<u>0</u>
Pediatrics	<u>0</u>	DD Adults*	<u>0</u>
Intensive Care	<u>4</u>	DD Children**	<u>0</u>
Acute Mental Illness	<u>0</u>	Chronic Mental Illness	<u>0</u>
Rehabilitation	<u>0</u>	Children's Medical Care	<u>0</u>
Neonatal Intensive Care	<u>0</u>	Children's Respite Care	<u>0</u>

\*Includes ICF/DD 16 and fewer bed facilities; \*\*Includes skilled pediatric 22 years and under

Chronic Renal Dialysis: Enter the number of ESRD stations: \_\_\_\_\_

Indicate (by placing an "X") those categories of service for which the facility is approved.

_____ Cardiac Catheterization	_____ Open Heart Surgery
_____ Subacute Care Hospital Model	_____ Kidney Transplantation
_____ Selected Organ Transplantation	_____ Postsurgical Recovery Care Center Model

**Non-Hospital Based Ambulatory Surgery and Ambulatory Surgical Treatment Centers**

Indicate (by placing an "X") if the facility is a  limited or  multi-specialty facility and indicate the surgical specialties provided.

_____ Cardiovascular	_____ Ophthalmology
_____ Dermatology	_____ Oral/Maxillofacial
_____ Gastroenterology	_____ Orthopedic
_____ General/Other (includes any procedure that is not included in the other specialties)	_____ Otolaryngology
_____ Neurological	_____ Plastic Surgery
_____ Obstetrics/Gynecology	_____ Podiatry
_____ _____	_____ Thoracic
_____ _____	_____ Urology

**APPENDIX A**

**FACILITY BED AND DIALYSIS STATION CAPACITY AND CATEGORIES OF SERVICE**

Complete the following for the facility for which the change of ownership is requested. The facility's bed and dialysis station capacity must be consistent with the State Board's Inventory of Health Care Facilities.

FACILITY NAME OSF Healthcare System (Parent Corporation) CITY: Peoria

Indicate (by placing an "X") the type of facility for which the change of ownership is requested:

Hospital;     Long-term Care Facility;     Dialysis Facility;     Ambulatory Surgical Treatment Center.

Provide the bed capacity by category of service: (See respective hospital information)

SERVICE	# of Beds	SERVICE	# of Beds
Medical/Surgical	_____	Nursing Care	_____
Obstetrics	_____	Shelter Care	_____
Pediatrics	_____	DD Adults*	_____
Intensive Care	_____	DD Children**	_____
Acute Mental Illness	_____	Chronic Mental Illness	_____
Rehabilitation	_____	Children's Medical Care	_____
Neonatal Intensive Care	_____	Children's Respite Care	_____

\*Includes ICF/DD 16 and fewer bed facilities;    \*\*Includes skilled pediatric 22 years and under

Chronic Renal Dialysis: Enter the number of ESRD stations: \_\_\_\_\_

Indicate (by placing an "X") those categories of service for which the facility is approved.

_____ Cardiac Catheterization	_____ Open Heart Surgery
_____ Subacute Care Hospital Model	_____ Kidney Transplantation
_____ Selected Organ Transplantation	_____ Postsurgical Recovery Care Center Model

**Non-Hospital Based Ambulatory Surgery and Ambulatory Surgical Treatment Centers**

Indicate (by placing an "X") if the facility is a  limited or  multi-specialty facility and indicate the surgical specialties provided.

_____ Cardiovascular	_____ Ophthalmology
_____ Dermatology	_____ Oral/Maxillofacial
_____ Gastroenterology	_____ Orthopedic
_____ General/Other (includes any procedure that is not included in the other specialties)	_____ Otolaryngology
_____ Neurological	_____ Plastic Surgery
_____ Obstetrics/Gynecology	_____ Podiatry
_____ _____	_____ Thoracic
_____ _____	_____ Urology

**Note: OSF Healthcare System is not a Hospital Facility by definition, but is the parent of several operating hospitals; thus, it does not, in and of itself, have beds or categories of services.**

**Application Processing Fee**

OSF HEALTHCARE SYSTEM

Check Date: 09/22/2014			Check No. 22476021		RE
Invoice Number	Invoice Date	Voucher ID	Gross Amount	Discount Available	Paid Amount
COE APP FEE-MENDOTA MENDOTA COMMUNITY HOSP COE FEE	09/22/2014	00122427	2,500.00	0.00	2,500.00
Vendor Number 000008019		Name IL DEPT OF PUBLIC HEALTH		Total Discounts \$0.00	
Check Number 22476021		Date 09/22/2014		Total Amount \$2,500.00	Total Paid Amount \$2,500.00

REMOVE DOCUMENT ALONG THIS PERFORATION

THIS DOCUMENT HAS A MICRO-PHYTEL BORDER AS OSF HEALTHCARE A COMMITMENT TO LIFE - CAN BE SEEN THROUGH MAGNIFICATION - VOID IF NOT PRESENT

OSF HEALTHCARE SYSTEM  
OSF HEALTHCARE SYSTEM  
PEORIA, IL 61603

JPMORGAN CHASE BANK NA  
CHICAGO, IL 60670

22476021

Date: 09/22/2014

Pay Amount \$2,500.00\*\*\*

Pay: \*\*\*\*TWO THOUSAND FIVE HUNDRED AND XX / 100 DOLLAR\*\*\*\*

To The Order Of: IL DEPT OF PUBLIC HEALTH  
IL HEALTH FACILITIES PLANNING BOARD  
525 WEST JEFFERSON 2ND FLOOR  
SPRINGFIELD, IL 62761

*Suzanne Judith Ann, OBT*  
Authorized Signature

THE BACK OF THIS DOCUMENT HAS OSF HEALTHCARE LOGO PRINTED IN WHITE INK IN MULTIPLE POSITIONS - HOLD AT AN ANGLE TO VIEW - VOID IF NOT PRESENT

⑈ 22476021⑈ ⑆ 071000013⑆ ⑆ 35763616⑆

**Funding**

- Funding Narrative
- OSF Bond Rating

## **Funding**

There is no acquisition price for this transaction, and therefore, no source of funding is necessary to acquire the facilities associated with Mendota Community Hospital. Please see the Narrative Description in Attachments Number 3 and 5 for details of the transaction, and Attachments 2 and 6 for information on OSF Healthcare System's "A" Bond rating from Standard & Poor's.

# RatingsDirect®

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## OSF Healthcare System; Joint Criteria; System

**Primary Credit Analyst:**

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

**Secondary Contact:**

Santo F Barretta, Chicago (1) 312-233-7068; santo.barretta@standardandpoors.com

### Table Of Contents

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Rationale

Outlook

Enterprise Profile

Financial Profile

Related Criteria And Research

# OSF Healthcare System; Joint Criteria; System

## Credit Profile

Illinois Fin Auth, Illinois

OSF Hlthcare Sys, Illinois

Series 2007A , 2009A, 2010A,2012

Long Term Rating

A/Stable

Affirmed

## Rationale

Standard & Poor's Ratings Services affirmed its 'A' long-term rating on the Illinois Finance Authority's (IFA) series 2007A, 2009A, 2010A, and 2012A fixed-rate bonds. At the same time, Standard & Poor's affirmed its 'A' underlying rating (SPUR) on the IFA's series 2007E, 2007F, 2009B, 2009C, and 2009D bonds. Finally, Standard & Poor's affirmed its 'AAA/A-1+' joint criteria rating on the IFA's series 2009C bonds and its 'AAA/A-1' joint criteria rating on the IFA's series 2007E, 2007F, 2009B, and 2009D bonds. All bonds have been 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) 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 stable.

The 'A' rating reflects our view of OSF's successful implementation to improve the organization's operations during the past year. OSF has been able to improve its balance sheet after the completion of major capital expenditures over a sustained period, 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 further reflects our assessment of OSF's:

- Improvement in unrestricted reserves, with solid days' cash on hand for the rating at 213 as of fiscal 2014 (unaudited nine-month interims through June 30, 2014);
- Operational improvements in fiscal 2014 year-to-date, with a 3.2% operating margin, compared with OSF's weak financial performance in fiscal 2013 (audited results through Sept. 30, 2013), which generated an operating margin of negative 0.5%;

- Dominant business position in the Peoria, Ill., market, where its flagship, Saint Francis Medical Center, is located, and generally good position in its markets despite challenges that include competition and a weak economic environment; 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 46% through fiscal 2014, and the expectation of some modest capital spending in the next one to two years.

The Peoria-based Sisters of the Third Order of Saint Francis sponsor OSF and operate nine hospitals and other health care-related entities. Eight of the hospitals are located in central and northern Illinois while one hospital 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.

## Outlook

The stable outlook reflects our expectation that OSF's improvement plan, which has clearly had operational results thus far in fiscal 2014, will continue for the two year outlook period. We could raise the rating with additional balance sheet accretion and consistent successful operations for a sustained period.

OSF has begun to generate additional flexibility at the current rating. While not expected 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 of cash on hand.

## Enterprise Profile

### Economic fundamentals

We consider Illinois' economy to be broad and diverse, and the state's income levels are well above average. In our view, economic recovery continues at a modest pace but will likely continue to lag the U.S. in the near and medium term as real estate and housing, manufacturing, and the government sector continue to drag on economic performance. The state's unemployment rate remains elevated relative to the U.S. rate but declined to 7.1% in June, which is the lowest rate recorded since October 2008. We expect unemployment rates to remain elevated compared with that of the U.S. based on relatively slow employment expansion. To date, Illinois has only regained about half of its pre-recession employment. Per capita personal income in 2013 was \$46,780, or 105% of the U.S. average, ranking Illinois 15th nationally and first among the Great Lakes states.

### Operating entities

*OSF Saint Francis Medical Center.* OSF Saint Francis Medical Center is a tertiary care, acute medical-surgical teaching hospital located near downtown Peoria. It provides a full range of primary, secondary, and tertiary services, as well as certain specialized services, including Level I (highest) trauma services, life flight helicopter transport services, adult and pediatric open heart surgery, pancreas and kidney transplantation services, neurosurgery and neurology, Level III

(highest) perinatal services, radiation oncology, and specialized services of the Children's Hospital of Illinois (operated as part of the Medical Center).

*OSF Saint Anthony Medical Center.* OSF Saint Anthony Medical Center is an acute care hospital located in a growing area of Rockford, Ill. Saint Anthony provides primary, secondary, and tertiary care, including open-heart surgery. It is also designated by Illinois as a Level I trauma center and as a regional burn unit.

*OSF St. Joseph Medical Center.* OSF St. Joseph Medical Center is an acute care hospital located in Bloomington, Ill. St. Joseph provides primary, secondary, and tertiary care, including open-heart surgery. In addition, OSF purchased certain assets of Carle Clinic Assn. P.C. (Carle Clinic) located in or related to its medical office building in Bloomington, and leased the medical office building.

In addition to OSF's three largest facilities (St. Francis Medical Center, St. Anthony Medical Center and St. Joseph Medical Center), OSF also has several smaller facilities in Illinois and one in Michigan. They include OSF St. Mary Medical Center, an acute care hospital located in Galesburg, Ill.; OSF Saint Elizabeth Medical Center, a 91-bed acute care hospital located in Ottawa, Ill.; OSF St. Francis Hospital, a critical access hospital located in Escanaba, Mich.; OSF St. Luke Medical Center, a critical access hospital located in Kewanee, Ill.; OSF Saint James-John W. Albrecht Medical Center, an acute care hospital facility located in Pontiac, Ill. Saint James is the only acute care hospital in Livingston County, with OSF Holy Family Medical Center's 23 acute care beds, which are also certified as swing beds. The facility has been designated as a critical access hospital by Centers for Medicare and Medicaid Services. Also, it operates a provider-based rural health clinic.

The OSF Medical Group consists of approximately 655 physicians and 290 advanced practitioners employed by OSF Healthcare, in approximately 70 office locations throughout Illinois and Michigan with approximately 1.4 million annual patient visits.

#### **Utilization**

The OSF system has seen growth in its admissions in fiscal 2013, increasing incrementally to 59,870 admissions in fiscal 2013 from 58,904 admissions in fiscal 2012. OSF is experiencing more of the national trend thus far in fiscal 2014 (nine months through June 30, 2014) with declines in inpatient admissions compared to the same time frame last year (a decline of 6.5%). Leadership is continuing to focus on improving the utilizations statistics through population capture, the maintenance of internal referrals, and also Mayo Clinic alignment. OSF is also well positioned with several key service lines, such as cardiovascular, children's services, neurosciences and oncology, as well as posting excellent quality metrics.

#### **Management**

OSF leadership has significantly improved operations over the short term while simultaneously preparing the larger system for the shift from a traditional fee-for-service system to one that is sustainable under population health. Management has clearly taken the lessons it has learned from its participation in the Pioneer Accountable Care Organization (ACO) demonstration and is implementing them to help with future long-term system improvements and population initiatives, including their participation in the Illinois Blue Cross ACO. The OSF system seems to be well prepared to make key transitions towards population management.

## Financial Profile

### Change in accounting for bad debt

In accordance with our report "New Bad Debt Accounting Rules Will Alter Some U.S. Not-for-Profit Health Care Ratios But Won't Affect Ratings," published Jan. 19, 2012 on RatingsDirect, we recorded OSF's 2014, 2013, and 2012 financial results including the adoption of Financial Accounting Standards Board Accounting Standards Update No. 2011-017 in 2012, but not in prior periods. The new accounting treatment means that OSF's fiscal 2012 and subsequent financial statistics are not directly comparable with the results for 2011 and prior years. For an explanation of how the change in accounting for bad debt affects each financial measure, including the direction and size of the change, please see the above report.

### Operations

OSF posted an operating margin of negative 0.5% in fiscal 2013 (audited results through Sept. 30, 2013), compared with just over a 2% operating margin in fiscal 2012. Since fiscal 2013, when management noticed the strain on operations, which appeared during the second and third quarters, leadership began to implement a revenue enhancement and cost-reduction plan. Year-to-date results thus far in fiscal 2014 (through the unaudited nine-month period through June 30, 2014), show that OSF has seen significantly improved operations and cash flow, with a year-to-date operating margin of 3.2%.

One of the key pieces of the plan is to manage referrals within the system. As OSF is better able to internally refer its patients, internal capture rates will improve, which in turn lead to improved operations and will help offset utilization declines stemming from population management. Another piece of the plan will be the education of its medical staff on population health management and the impact of new insurance contracts. This education is also occurring at other entities that we rate. The success of the two steps previously mentioned, coupled with the cost-cutting initiatives, should help continue to improve operations in fiscal years 2014 and 2015.

For the nine months ended June 30, OSF had improved MADS coverage to 4.3x.

### Balance sheet

Unrestricted reserves have grown significantly in recent years, providing OSF with some additional flexibility at the existing rating. As of fiscal 2014 year to date, unrestricted reserves stood at just over \$1.1 billion, equal to 213 days' cash on hand. Management reports that liquidity growth remains a part of the system strategy, especially because capital spending declined from recent high levels. Cash to long-term debt has improved to 121% since our last review while leverage declined to 46%, which, although improved, is still high for the current rating. Leadership plans to remain focused on the balance sheet. The leadership team is planning to move forward with a plan to spend no more than 50% of its operating cash flow for capital expenditures. To be allocated money for capital, the various regions will need to generate this cash flow.

There are some modest planned future capital expenditures, the largest piece of which includes an approximately \$55 million project under discussion for a potential new patient tower at the Rockford facility. In addition, OSF has letters of intent with St. Anthony Health System (in Alton, Ill.) and also with Mendota Community Hospital (in Mendota, Ill.), the structure of which would most likely result in OSF absorbing the two entities' debt. OSF's capital expenditure and

potential facility growth plans are manageable, in our view, at the existing rating level.

OSF Healthcare System And Subsidiaries	--Fiscal year ended Sept. 30,--			
	Nine-month interim ended June 30, 2014	2013	2012	2011
<b>Financial performance</b>				
Net patient revenue (\$000s)	1,471,048	1,910,851	1,817,000	1,787,360
Total operating revenue (\$000s)	1,553,329	1,994,993	1,895,976	1,865,985
Total operating expenses (\$000s)	1,504,042	2,004,367	1,857,743	1,845,357
Operating income (\$000s)	49,287	(9,374)	38,233	20,628
Operating margin (%)	3.17	(0.47)	2.02	1.11
Net non-operating income (\$000s)	31,335	39,121	45,982	37,542
Excess income (\$000s)	80,622	29,747	84,215	58,170
Excess margin (%)	5.09	1.46	4.34	3.06
EBIDA margin (%)	11.68	7.71	10.59	10.19
Net available for debt service (\$000s)	185,157	156,921	205,633	193,955
Maximum annual debt service (\$000s)	57,741	57,741	57,741	57,741
Maximum annual debt service coverage (x)	4.28	2.72	3.56	3.36
Operating lease-adjusted coverage (x)	N.A.	1.92	2.40	2.33
<b>Liquidity and financial flexibility</b>				
Unrestricted cash and investments (\$000s)	1,108,226	1,019,550	832,423	759,738
Unrestricted days' cash on hand	212.7	194.5	171.4	158.0
Unrestricted cash/total long-term debt (%)	121.2	115.7	93.9	89.1
Average age of plant (years)	N.A.	12.2	14.3	11.8
Capital expenditures/depreciation and amortization (%)	73.6	127.6	110.8	90.8
<b>Debt and liabilities</b>				
Total long-term debt (\$000s)	914,416	881,390	886,139	853,089
Long-term debt/capitalization (%)	45.7	47.8	54.2	55.1
Contingent liabilities (\$000s)	N.A.	293,320	294,070	280,945
Contingent liabilities/total long-term debt (%)	N.A.	33.3	33.2	32.9
Debt burden (%)	2.73	2.84	2.97	3.03
Defined benefit plan funded status (%)	N.A.	65.19	51.23	56.76

N.A.—Not available.

## Related Criteria And Research

### Related Criteria

- Criteria: Commercial Paper, VRDO, And Self-Liquidity, July 3, 2007
- USPF Criteria: Not-For-Profit Health Care, June 14, 2007
- USPF Criteria: Municipal Applications For Joint Support Criteria, June 25, 2007
- Criteria: Joint Support Criteria Update, April 22, 2009
- General Criteria: Methodology: Industry Risk, Nov. 20, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013

## Related Research

- Glossary: Not-For-Profit Health Care Ratios, Oct. 26, 2011
- The Outlook For U.S. Not-For-Profit Health Care Providers Is Negative From Increasing Pressures, Dec. 10, 2013
- U.S. Not-For-Profit Health Care System Ratios: Operating Performance Weakened In 2013, Aug. 13, 2014
- Health Care Providers And Insurers Pursue Value Initiatives Despite Reform Uncertainties, May 9, 2013
- Standard & Poor's Assigns Industry Risk Assessments To 38 Nonfinancial Corporate Industries, Nov. 20, 2013
- Health Care Organizations See Integration And Greater Transparency As Prescriptions For Success, May 19, 2014

## Ratings Detail (As Of August 14, 2014)

## 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-1	Affirmed
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<i>Unenhanced Rating</i>	A(SPUR)/Stable	Affirmed
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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-1	Affirmed
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<i>Unenhanced Rating</i>	A(SPUR)/Stable	Affirmed
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## Series 2009B

<i>Unenhanced Rating</i>	A(SPUR)/Stable	Affirmed
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<i>Long Term Rating</i>	AAA/A-1	Affirmed
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## Series 2009D

<i>Unenhanced Rating</i>	A(SPUR)/Stable	Affirmed
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<i>Long Term Rating</i>	AAA/A-1	Affirmed
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## Series2009C

<i>Unenhanced Rating</i>	A(SPUR)/Stable	Affirmed
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<i>Long Term Rating</i>	AAA/A-1+	Affirmed
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## **Attachment #3**

- Narrative/Attestation
  
- Exhibits
  - A. Pre- and Post-closing Organization Charts
  - B. Fair Market Value Statement
  - C. Attestation Letter

## Introduction

OSF Healthcare System (“OSF”) an Illinois not-for-profit corporation, based in Peoria, provides integrated healthcare services throughout Illinois in eight separate hospital facilities and through several affiliated entities. Mendota Community Hospital (“MCH”) an Illinois not-for-profit corporation, based in Mendota, has provided high quality healthcare services to the community since 1944. Both entities seek approval of this Certificate of Exemption (“COE”) to continue their historical missions and build on their longstanding clinical relationship centered on providing access to sustainable high quality healthcare services through the affiliation described herein.

Like many independent, small-rural hospitals, MCH faces a number of challenges including: ability to recruit physicians, develop an aligned medical staff, and increase access to specialty care; coordination and utilization of information technology systems for improving quality of care across the continuum; future financial uncertainty as a result of community economics and demographics and impact of changes in federal and state programs; and the depth of expertise required to address increasingly specialized skill sets to manage healthcare business (e.g. contracting, contract management, Information Technology support, recruitment, staff training, Compliance, Legal, Human Resources). MCH recognized that the future of health care requires more extensive and formal collaboration (e.g. clinical care coordination, quality measurement, payment reform models) with physicians, tertiary care providers, and others across the healthcare continuum. MCH analyzed the needs of the community and determined that without a tertiary partner it would be difficult, if not impossible to address those needs. After careful analysis and deliberation, MCH concluded that affiliating with a larger system partner was the best mechanism to provide long-term viability, collaboration and enhancement of services for the community it serves. This affiliation will support a more coordinated patient-centric delivery of high quality clinical care, including disease-based population management focusing on the health and wellness of the MCH communities. Also, this affiliation will honor and preserve the spirit of health and well-being provided to the citizens of the Mendota area. Simultaneously, OSF’s mission to serve persons with the greatest care and love will spread to these new communities, with the intention to continuously improve care delivery, provide systematic efficiencies to MCH, and help to improve the healthcare of the population in the region.

OSF will serve as the sole member of MCH and shall hold Reserved Powers with respect to the governance and operations of MCH. Both OSF and MCH have a long history of providing healthcare to the communities they serve. In short, this is a match of two existing healthcare institutions that have been on parallel paths to improving the lives of patients in Illinois. Consistent with our Affiliation Agreement, the affiliation is entered with the following goals:

- Preserve and enhance healthcare in the communities served by OSF and MCH;
- Respect the loyalty and values of OSF and MCH in the communities they serve by carrying out their respective historical missions and traditions;
- Promote greater access to, and improve coordination of, healthcare services to the communities served by OSF and MCH; and;
- Achieve excellence in clinical innovations, services, quality, cost, and outcomes through combined educational experience, best practices management and ministry-wide expense management.

#### Structure of Transaction

Assuming Review Board approval, upon closing MCH will affiliate with and OSF Healthcare System pursuant to a member substitution. OSF Healthcare System will become the sole member of MCH. The name of the facility will be modified to identify with OSF. (Attachment 3, Exhibit A, delineate pre-and post-closing organization charts.)

MCH will continue to be a licensed hospital and will, upon closing, begin operating under assumed names as outlined in the Transaction documents. The Fair Market Value (FMV) of the transaction has been determined to be \$39,923M, based on the documentation included in this COE Permit Application, Attachment 3, Exhibit B Alvarez & Marsal Valuation Services, LLC letter dated October 1, 2014. The transaction price is \$0.00, given that this is a membership substitution.

## Charity Care

In order to further OSF's mission in Mendota and surrounding communities, MCH's existing charity care policies will be supplemented prior to the Closing Date by the MCH Board adopting OSF's Charity Assistance Policy for Illinois Hospitals, which not only complies with, but exceeds the requirements of Illinois law, including the Illinois Hospital Uninsured Patient Discount Act. As certified in the verifications on Attachment 3, Exhibit C, MCH will not adopt a more restrictive charity care policy than was in effect one year prior to the Closing Date of the proposed transaction, and MCH's existing charity care policy, modified with OSF's more generous Charity Assistance Policy for Illinois Hospitals, will remain in effect for at least a two (2) year period following the Closing Date.

In general, the OSF Charity Assistance Policy for Illinois Hospitals, which the MCH Board will adopt upon the change in ownership, is the same or more generous than the current MCH Charity Care Program. For example, all OSF uninsured patients who are not otherwise eligible for free, discounted or catastrophic charity care receive a 20% discount on billed charges. In addition, OSF utilizes a presumptive charity procedure for patients who fail to provide financial information normally considered in making charity eligibility determinations. When OSF is able to obtain comparable information from independent sources such as public records, OSF applies the same charity discount it would have provided, if the patient had completed a Charity Application and submitted the required financial documents. OSF also offers catastrophic charity to patients unable to pay some of their medical bills because they exceed a certain percentage of their family income, even though they have income that otherwise exceeds the generally applicable eligibility requirements for free or discounted care under the OSF Charity Assistance Policy. OSF catastrophic charity reduces the amount due to 25% of family income, subject to further reduction if the limitation on charges required under Internal Revenue Code Section 501(r)(5) is applicable.

Finally, OSF Charity and Illinois Hospital Uninsured Patient Discount determinations are applied for a period of one year. In contrast, patients must reapply for charity care from Mendota Community Hospital every six months.

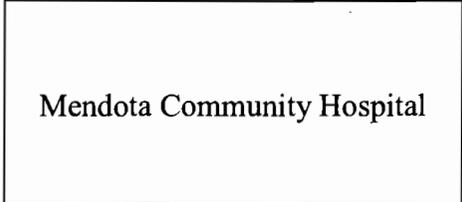
## Transaction Documents

Please see Attachment 5 for the final transaction documents.

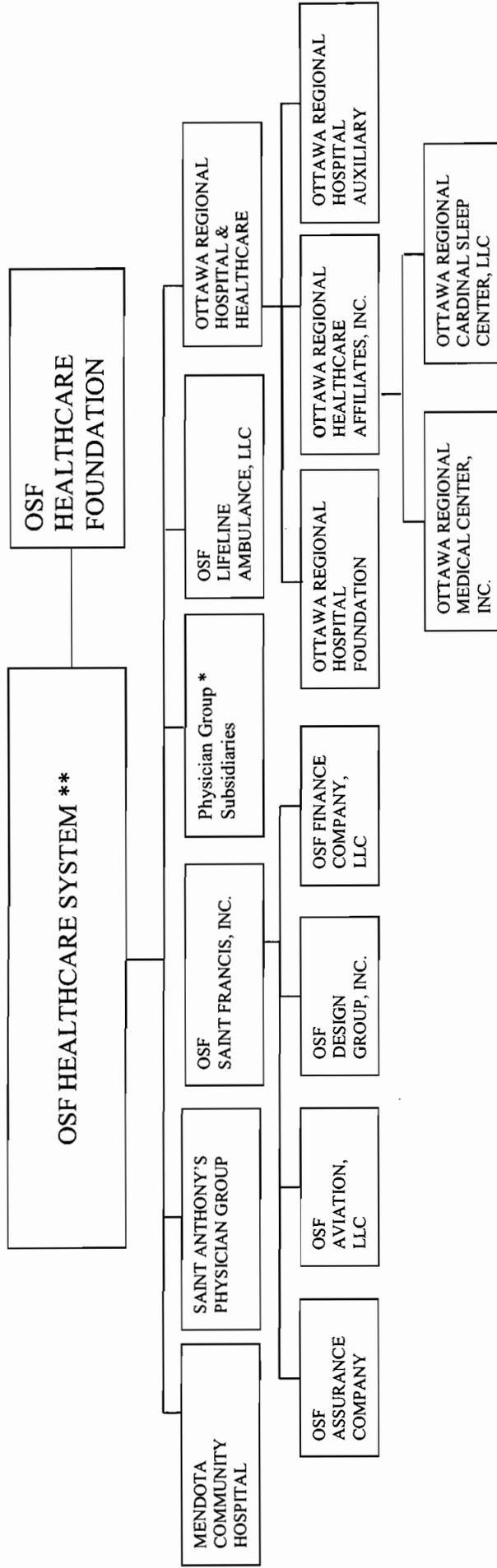
Attestation

Please see Attachment 3, Exhibit C, filed pursuant to Section 77, Ill. Admin. Code, 1130.520. Our Attestation Letter affirms the statutory commitments required by the Board and establishes that OSF Healthcare System's charity care policy, to be adopted by MCH, will not only meet, but will exceed the requirements under Illinois law. As required, closing of the transaction is subject to HFSRB approval of this COE application.

**PRE-AFFILIATION  
MENDOTA COMMUNITY HOSPITAL  
CORPORATE STRUCTURE**



**POST-AFFILIATION  
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  
(pending closing of affiliation)
- OSF Home Care Services
- OSF Medical Group
  - Cardiovascular Services
  - Neuroscience Services
  - Children's Services
  - Ambulatory Services

### Fair Market Value Description

In accordance with 77 Illinois Admin. Code 1130.140, the parties have established a fair market value of \$39,923M. The parties arrived at this value through the use of a certified third party appraiser, Alvarez & Marsal, which based on that firm's experience in valuing facilities and businesses similar to those of this transaction, utilized a blended methodology taking into account the market, income and cost approaches to the valuation of assets owned by Mendota Community Hospital. The appraised fair market value stated is as of August 31, 2014.

Because our transaction is structured between two not-for-profit corporations and is a membership situation, there is no "acquisition price" (as reflected in the Application, Question 9) as the OSF Healthcare System becomes the sole member of the MCH corporate entity, rather than through sale of assets or stock from one party to another.



October 1, 2014

Mr. Mathew S. Hanley  
Director of Strategic Affiliations  
OSF HealthCare System  
800 N.E. Glen Oak Avenue  
Peoria, Illinois 61603

Dear Mr. Hanley:

As requested, Alvarez & Marsal Valuation Services, LLC ("A&M VS") has performed a valuation of Mendota Community Hospital ("Mendota") and certain assets (the "Subject Assets") associated with Mendota as of August 31, 2014 (the "Valuation Date"). It is our understanding that OSF HealthCare System ("OSF") is contemplating a potential affiliation with Mendota (the "Transaction"). Management of OSF ("Management") has requested that A&M VS assist with an assessment of the fair market value<sup>1</sup> and fair value of:

- a. the business enterprise of Mendota, an Illinois not for profit corporation, on a going concern basis;
- b. the real property owned by Mendota located in Mendota, Illinois, including:
  - i. the hospital at 1401 East 12<sup>th</sup> Street,
  - ii. the old hospital property and medical office building located at 1315 Memorial Drive,
  - iii. a medical office building located at 1315 Meridan Street,
  - iv. a medical office building located at 1404 W. Washington Street, and
  - v. Approximately 96.5 acres of farm land identified as parcels 03-20-417-000 and 03-29-204-000;
- c. the personal property owned by Mendota at the owned and leased locations; and
- d. identified intangible assets associated with the operation of Mendota, if any.

It is our understanding that our work will be used for the purposes of reporting requirements with respect to financial and regulatory reporting regarding the Transaction. The scope of our work was limited to the analyses we deemed appropriate and necessary to prepare our assessment of the fair values ("Opinion") as stated herein.

<sup>1</sup> Fair Market Value is defined as: "The price at which the property would change hands between a willing buyer and a willing seller when the former is not under any compulsion to buy and the latter is not under any compulsion to sell, both parties having reasonable knowledge of relevant facts." (Treas. Reg. 20.2031-1(b); Rev. Ruling 59-60, 1959 C.B. 237).

Mr. Mathew S. Hanley  
OSF Healthcare Systems  
October 1, 2014

Our analyses and report are intended solely for your use as described in our engagement letter dated September 5, 2014. The report may be used only for the purposes described above. Neither the report nor its contents may be referred to or quoted in any registration statement, prospectus, loan or other agreement or document without prior written consent of A&M VS.

### **Executive Summary**

We have considered the prevailing economic and industry environments, the history and nature of Mendota and the expected performance of Mendota as reflected in the prospective financial information ("PFI") and described by Management.

### ***Scope of the Engagement***

The scope of our work consisted of the identification, analysis and valuation of the Mendota business enterprise and the Subject Assets which included the following:

- Real Property and Related Assets;
- Personal Property and Related Assets;
- Intangible Assets.

Assets and liabilities not identified above were excluded from the scope of our engagement.

### ***Sources of Information***

For the purpose of our analysis, the primary written documents and records provided by Management were as follows:

- Projected financial information;
- Audited and internally prepared historical financial information; and
- Other miscellaneous documents.

The information provided by Management has been assumed, without further independent verification, to correctly represent the results of the actual and/or estimated operations and the financial condition of Mendota.

Public information and industry and statistical information have been obtained from sources we believe to be reliable. However, we make no representation as to the accuracy or completeness of such information and have performed no procedures to corroborate the information.

The PFI was provided by Management and prepared by Mendota. Management utilized a third party healthcare industry consulting firm to assist them in identifying and making adjustments to



Mr. Mathew S. Hanley  
OSF Healthcare Systems  
October 1, 2014

the PFI provided by Mendota. A&M VS had discussions with Management regarding the PFI including discussions regarding the basis for expectations of future financial performance. The PFI was also compared to historical trends of Mendota and the performance of selected publicly-traded guideline companies and private guideline transactions.

We have made certain adjustments to the historical information and PFI provided by Management considering the standard of value, the nature of the business and discussions with Management. In particular, we included the payment of corporate income taxes despite the tax exempt status of OSF and Mendota as required by the standard of fair market value. Based on all of the above, we confirmed that the PFI reflects Management's best estimate of the assumptions a hypothetical buyer and seller would use in pricing Mendota and was appropriate for use in our analysis. Our work does not constitute an examination, compilation or an agreed-upon procedures assignment as described in the American Institute of Certified Public Accountants ("AICPA") Professional Standards, Attestation Standards Section 200, Financial Forecasts and Projections.

#### *Standard of Value*

*Fair value* is defined in FASB ASC Section 820-10-35 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 820 provides several key principles of fair value measurement:

- Fair value should reflect an exit price, the price that would be accepted to sell the asset.
- The hypothetical transaction is assumed to be an orderly transaction, not a forced sale.
- The asset (liability) is transferred in an exchange between market participants.
- Fair value should reflect the perspective of a market participant that holds the asset or owes the liability; thus, it would reflect its highest and best use.
- The hypothetical transaction is assumed to occur in the principal or most advantageous market.
- Fair value should not reflect any adjustment for transaction costs, but it may include transportation costs in certain circumstances.
- The highest and best use determines the premise of value, either in-use (in combination with other assets as installed or otherwise configured) or in-exchange (stand-alone).

*Fair market value* is defined by Internal Revenue Services as "the price at which the property would change hands between a willing buyer and a willing seller, neither being under compulsion to buy or to sell and both having reasonable knowledge of relevant facts." Many of



Mr. Mathew S. Hanley  
OSF Healthcare Systems  
October 1, 2014

the underlying concepts and principles of fair market value are similar to those of fair value but there can be differences under certain circumstances. The differences are usually insignificant and unless otherwise noted, our conclusions are the same under both standards herein and are referred to as fair values.

#### *Premise of Value*

Fair value is established based on premise of value and underlying analytical approaches appropriate to the facts and circumstances pertaining to the various classes of assets valued. Our valuation assumes that, unless identified otherwise in this report, the highest and best use of the assets will continue to be as a group in the ongoing hospital business. Therefore, we recognized the highest and best use of the assets to be as installed and as used, and we valued the assets under an in-use premise. In the case of the personal property assets, the premise of value in-use includes the additional value related to the freight, tax, installation and other costs that were incurred when the personal property assets were placed into service.

#### *Valuation Approaches*

In developing our opinions, we considered three approaches to value for Mendota and the Subject Assets and chose the most appropriate approach or approaches for each. Our conclusions rely on the approaches judged to be most appropriate for the purpose and scope of our analysis, as well as the nature and reliability of the available data. The three approaches to value are summarized as follows:

- **Income Approach**

The income approach is a way of developing a value indication for a business, tangible or intangible asset or liability using one or more methods that convert anticipated economic benefits or obligations into a present single amount.<sup>2</sup> The discounted cash flow method is a method whereby the present value of future expected net cash flows is calculated using a discount rate.<sup>3</sup>

- **Market Approach**

The market or sales comparison approach is a general way of estimating the value of a business, security, tangible, or intangible asset using one or more methods that compare the subject to similar investments or assets that have been sold or offered for sale.<sup>4</sup> Sales and offering prices for the comparable investments or assets are adjusted to reflect the difference

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<sup>2</sup> AICPA Statement on Standards for Valuation Services No. 1, *Appendix B: International Glossary of Business Valuation Terms*, 45.

<sup>3</sup> *Ibid.* 43.

<sup>4</sup> *International Glossary of Business Valuation Terms*, 45.



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between the investment or asset being valued and the comparable investments or assets, such as historical financial condition and performance, expected economic benefits, time and terms of sale, utility, and physical characteristics. The adjusted prices of the comparable assets provide an indication of value for the subject asset.

- **Cost Approach**

The cost or asset approach may be viewed as a general way of determining a value indication of an individual asset by quantifying the amount of money required to replace the future service capacity of that asset.<sup>5</sup>

### **Application and Methodology**

#### *Business Enterprise Value of Mendota*

Both income and market approaches were applied to determine the fair value of the Total Invested Capital ("TIC") Mendota. In particular, we used a discounted cash flow analysis ("DCF") and market-derived multiples of revenue, earnings before interest taxes depreciation and amortization ("EBITDA"). The discounted cash flow analysis was used to determine the enterprise value of Mendota based on the PFI. In addition to the PFI, the discounted cash flow method relies upon a discount rate and a long term growth rate. The discount rate is the rate used to convert the annual cash flows as represented in the PFI into a present value. The appropriate discount rate to estimate enterprise value is the weighted average cost of capital ("WACC") that reflects the required rates of return on debt and equity by the investors in the business.

Our market approach included derivation of market multiples from publicly-traded guideline companies in the hospital management business as well as market multiples observed in private transactions where individual hospitals were acquired. We further defined the observations from private transactions to include only critical access hospitals.

By adding the value of liabilities not considered to be components of invested capital, typically the liabilities being included in Net Working Capital, to our estimate of the Total Invested Capital, we arrive at an estimate of the aggregate fair value of the cumulative Total Assets.

#### *Real Property*

As of the date of this letter, three<sup>6</sup> of Mendota's owned assets were under contract for sale or were subject to a Letter of Intent to Purchase. Based on discussions with Mendota's real estate

<sup>5</sup> Ibid, 43.

<sup>6</sup> 1) 1,276+/- SF office building located at 1315 Meriden Street: Sales Contract dated 9/14/14 for \$70,500;  
2) 2.06+/- acres vacant land at 1315 Memorial Drive: LOI dated 7/1/2014 for \$300,000; and



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broker as well as our independent research, the contract prices were determined to be reflective of fair value. As such, the fair value of these assets has been recorded at their contract prices.

In order to estimate the value of land for the new hospital site located at 1401 East 12<sup>th</sup> Street, the remaining vacant land at the old hospital site located at 1315 Memorial Drive, and the land at 1404 Washington Street, we used the sales comparison approach by gathering recent sales transactions of land sales with similar characteristics as the subject land parcels. We then used adjustment grids to make qualitative and quantitative adjustments to arrive to our land value. Mendota was willed approximately 95.6 acres of farm land in 1968. The land is subject to a deed restriction whereby the Hospital cannot sell the land for 99 years and receives rental income in the interim. In order to estimate the value of the farm land we utilized the income approach. The estimated cash flow was projected over the remaining term of the restricted period and discounted back at a market-supported discount rate to estimate the present value of the land under its restricted use.

The cost approach was used to calculate the fair value for building and site improvements. The replacement cost new less depreciation ("RCN-LD") was determined by subtracting accrued depreciation resulting from physical depreciation, functional and external obsolescence from the replacement cost new. Building and site improvement estimates were based on information provided by Management, information acquired during site inspections, discussions with Mendota personnel, and estimates using GIS software. Our cost estimates are based on guidelines provided by *Marshall Valuation Service*. Due to the specialized nature of the subject property, the sales comparison and income approaches were not utilized in estimating the fair value of the subject buildings as vacant and site improvements.

#### *Personal Property and Related Assets*

We applied the cost and market approaches to value the personal property and related assets. The income approach was not considered due to the inefficiency of calculating an income stream to each individual personal property and related asset considered in the analysis. Within the cost approach analysis, several techniques are commonly used to facilitate the process of estimating the current replacement or reproduction cost new of the assets. The following methods of the cost approach have been applied within this analysis: trending and direct costing analysis. The historic costs were indexed (using trend factors) to determine the reproduction costs new of the assets. In some situations, additional procedures are appropriate to confirm or adjust the reproduction cost estimates to better reflect replacement costs. The direct replacement costs were researched and quantified by contacting Original Equipment Manufacturers ("OEM")

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3) 1.37+/- acres vacant land at 1315 Memorial Drive: Purchase and Sale Agreement dated 6/12/14 for \$300,000.



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and/or their representatives to determine the cost new today, and from standard pricing media and our data files.

Since the Subject Assets are currently in use and of various age, some deficiency, or loss in value, needs to be deducted in the form of accrued depreciation to arrive at their value. The elements of depreciation to be considered are Physical Deterioration, Functional Obsolescence, and Economic Obsolescence, when applicable. The three forms of depreciation are further described below:

- Physical is a form of depreciation where loss in value or usefulness of a property is due to the using up or expiration of its useful life caused by wear and tear, deterioration, exposure to various elements, physical stresses, and similar factors.
- Functional Obsolescence is a form of depreciation in which the loss in value or usefulness of a property is caused by inefficiencies or inadequacies of the property itself, when compared to a more efficient or less costly replacement property that new technology has developed. Symptoms suggesting the presence of functional obsolescence are excess operating cost, excess construction (excess capital cost), overcapacity, inadequacy, lack of utility, or similar conditions.
- Economic Obsolescence (sometimes called "external obsolescence") is a form of depreciation where the loss in value of a property is caused by factors external to the property. These may include such things as the economics of the industry, availability of financing, loss of material and/or labor sources, passage of new legislation, changes in ordinances, increased cost of raw materials, labor, or utilities (without an offsetting increase in product price); reduced demand for the product, increased competition; inflation or high interest rates; or similar factors.

#### Summary and Conclusions

Based upon the information provided, discussions with Management and our independent research, as well as the analyses performed and described herein, we have concluded that the fair market value and fair value of the Total Assets of Mendota as of the Valuation Date is approximately \$39.923 million.

The conclusions and opinions expressed herein are subject to the *Assumptions and Limiting Conditions* included in the full valuation report. Additional relevant information and analyses considered in our opinions will be retained in our work files and will be available for review upon request. The depth of discussion contained herein is specific to your needs as the client and

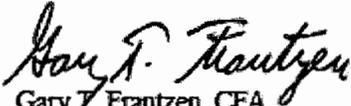


Mr. Mathew S. Hanley  
OSF Healthcare Systems  
October 1, 2014

for the intended use as stated.

If you have any questions regarding the results of the analysis, please contact me at (312) 288-4065.

Very truly yours,



Gary Z. Frantzen, CFA  
Managing Director  
Alvarez & Marsal Valuation Services, LLC



Assets	Unadjusted Asset Value	Adjustments	Adjusted Asset Value	Net Book Value
Working Capital, Net of Cash	\$ 2,833	\$ -	\$ 2,833	2,833
Property, Plant & Equipment				
Building	27,771	(6,068)	19,711	25,888
Land Improvements	2,060	(588)	1,472	3,688
Land	2,020	-	2,020	1,272
Total Real Property	31,851	(6,657)	3,462	31,145
Personal Property (1)	5,974	(1,734)	4,240	4,629
Total Property, Plant & Equipment	37,825	(10,390)	27,435	35,774
Intangible Assets	-	-	-	-
Non-Operating Assets				
Other Assets	688	-	688	688
Farm Land Limited As To Use	560	-	560	40
Assets Limited As To Use	3,271	-	3,271	3,271
Total Non-Operating Assets	4,519	-	4,519	4,010
Excess Cash	844	-	844	844
Total Invested Capital	48,631	(10,390)	38,241	43,661
Current Liabilities	4,652	-	4,652	4,652
Total Assets	50,313	(10,390)	39,923	47,742
Premiums Paid to Unadjusted Value	(10,391)			

Footnote:  
(1) Adjusted personal property value was based on fair value in exchange.



October 2, 2014

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

Re: Attestation Letter re Section 77, Ill Adm. Code 1130.520  
COE Permit Application  
Affiliation between OSF Healthcare System and Mendota Community Hospital

Dear Ms. Avery:

Pursuant to Section 77 Adm. Code 1130.520 and 1130.410, the operational rules of the Health Facilities and Services Review Board (“HFSRB Rules”), we are submitting this attestation letter in order to comply with HFSRB Rules as amended and effective June 1, 2013 and February 1, 2014, respectively. In this letter, we attest to the following with respect to the COE Permit Application (“Application”) filed for the transaction between OSF Healthcare System and Mendota Community Hospital, owner of Mendota Community Hospital in Mendota, Illinois, wherein Mendota Community Hospital would affiliate with OSF Healthcare System via a member substitution with OSF Healthcare System (hereinafter referred to as the “Transaction”).

**Section 1130.520 (b)(1) - No Changes in Services or Beds for at least 12 months**

Consistent with the requirements set forth in Sections 1130.520(b)(1) and 1110.240(b), OSF Healthcare System will not close, discontinue, or substantially reduce the number of beds or any categories of service (recognized by the State Agency) at Mendota Community Hospital for a period of at least twelve (12) months following the Closing Date of the Transaction and completion of the requisite permit, assuming HFSRB approval of our associated COE Permit Application.

**Section 1130.520 (b)(2) – Signed Transaction Documents Contingent on COE**

On October 2, 2014, OSF Healthcare System and Mendota Community Hospital executed an Affiliation Agreement regarding the proposed Transaction. The effectiveness of the final Transaction documents is expressly conditioned upon the issuance of a COE from the Board.

**Section 1130.520 (b)(3) – Qualified to Provide a Proper Standard of Health Service**

OSF Healthcare System has the qualifications, background and character to adequately serve as the sole member of Mendota Community Hospital, which will continue to provide a proper standard of healthcare service to the communities it serves. OSF Healthcare System has had no adverse actions taken against any facility owned or operated by OSF in Illinois during the three (3) years prior to the filing of this COE Application. In addition, Mendota Community Hospital has had no adverse actions taken against any facility owned or operated by Mendota Community Hospital in Illinois during the three (3) years prior to the filing of this COE Application. Neither organization has notice of any adverse action against them by federal, state, or accrediting, licensing, or certifying bodies. Please further see Attachment 4 of the COE Application for certificates of good standing and licensure documentation.

**Section 1130.502(b)(4) – Proof of funding to finance transaction; bond ratings**

OSF Healthcare System is an “A” rated organization according to Standard and Poor’s, August 14, 2014. Please see Application, Attachment 2 and 6 for OSF’s most recent ratings statement and the plan of finance for the Transaction. Please further see Attachment 6 (co-applicant financials).

**Section 1130.502 (b)(5) – Intent to maintain ownership and control at least three years**

OSF Healthcare System will maintain membership of Mendota Community Hospital for at least three (3) years following the closing of the Transaction set forth in this COE Permit Application and related transaction documents.

**Section 1130.520 (b)(6) – No Pending CON Projects**

OSF affirms by this letter that it has no pending Certificate of Need projects. In addition, Mendota Community Hospital does not have any pending Certificate of Need projects.

**Section 1130.520 (b)(7) – No more restrictive Charity Care Policy**

As set forth in the Application, the co-applicants charity care policy will be supplemented by OSF Healthcare System’s Charity Assistance Policy for Illinois Hospitals, which not only complies with, but exceeds the requirements of Illinois law. By this attestation letter, the applicants affirm that Mendota Community Hospital will not adopt a more restrictive charity care policy than was in effect one year prior to the closing date of the proposed Transaction. OSF further affirms that its compliant charity care policy will remain in effect for at least two (2) years following the closing of the Transaction.

**1130.520 (b)(8) – Project Completion**

The parties intend to close the Transaction set forth in our COE Permit Application prior to June 30, 2015. This date is long before the expiration of the two (2) year life span of an issued COE. The parties affirm their understanding that failure to complete the Transaction within two (2) years following a COE approval will invalidate the exemption, if so granted.

On behalf of OSF Healthcare System, I attest that the information herein, as supported by our underlying COE Permit Application, Affiliation Agreement and associated transaction documents, are true and correct to the best of my knowledge.

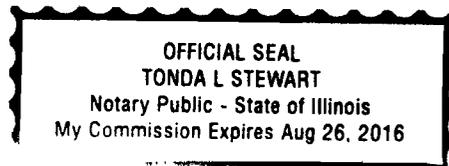
Respectfully submitted by:

Notarization:



Kevin D. Schoeplein  
Chief Executive Officer  
OSF Healthcare System

Subscribed and sworn to before me  
this 2nd day of October, 2014.  
Tonda L. Stewart  
Signature of Notary  
Seal



**Applicant Background**

- License – Mendota Community Hospital
- Certificates of Good Standing
  - A. Mendota Community Hospital
  - B. OSF Healthcare System



**State of Illinois 2154215**  
**Department of Public Health**

**LICENSE, PERMIT, CERTIFICATION, REGISTRATION**

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

Issued under the authority of  
 LA HAR HASBROUCK, MD, MPH, in the State of Illinois  
 DIRECTOR Department of Public Health

EXPIRATION DATE	CATEGORY	ID NUMBER
12/06/14	BGBD	0005819
<b>FULL LICENSE</b> <b>CRITICAL ACCESS HOSP</b> <b>EFFECTIVE: 12/07/13.</b>		

BUSINESS ADDRESS

MENDOTA COMMUNITY HOSPITAL  
 1401 EAST 12TH STREET

MENDOTA IL 61342

The face of this license has a colored background. Printed by Authority of the State of Illinois • 4/97 •

← DISPLAY THIS PART IN A  
 CONSPICUOUS PLACE

REMOVE THIS CARD TO CARRY AS AN  
 IDENTIFICATION

**State of Illinois 2154215**  
**Department of Public Health**

**LICENSE, PERMIT, CERTIFICATION, REGISTRATION**

**MENDOTA COMMUNITY HOSPITAL**

EXPIRATION DATE	CATEGORY	ID NUMBER
12/06/14	BGBD	0005819

**FULL LICENSE**

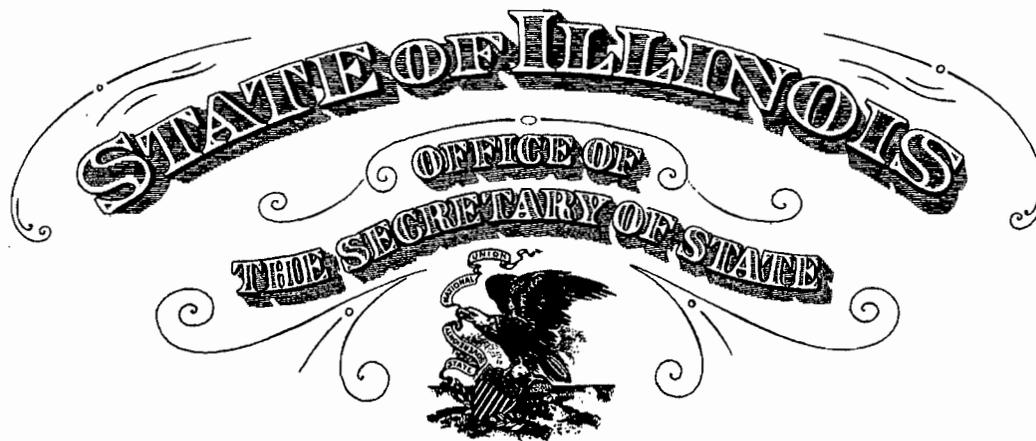
**CRITICAL ACCESS HOSP**

**EFFECTIVE: 12/07/13**

11/02/13

MENDOTA COMMUNITY HOSPITAL  
 1401 EAST 12TH STREET  
 1401 EAST 12TH ST  
 MENDOTA IL 61342 9216

FEE RECEIPT NO.



**To all to whom these Presents Shall Come, Greeting:**

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

MENDOTA COMMUNITY HOSPITAL, A DOMESTIC CORPORATION, INCORPORATED UNDER THE LAWS OF THIS STATE ON MARCH 24, 1944, APPEARS TO HAVE COMPLIED WITH ALL THE PROVISIONS OF THE GENERAL NOT FOR PROFIT CORPORATION ACT OF THIS STATE, AND AS OF THIS DATE, IS IN GOOD STANDING AS A DOMESTIC CORPORATION IN THE STATE OF ILLINOIS.



Authentication #: 1425402804  
Authenticate at: <http://www.cyberdriveillinois.com>

**In Testimony Whereof,** I hereto set  
*my hand and cause to be affixed the Great Seal of  
the State of Illinois, this 11TH  
day of SEPTEMBER A.D. 2014 .*

*Jesse White*

SECRETARY OF STATE



**To all to whom these Presents Shall Come, Greeting:**

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

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.



Authentication #: 1412200908

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

***In Testimony Whereof, I hereto set my hand and cause to be affixed the Great Seal of the State of Illinois, this 2ND day of MAY A.D. 2014 .***

*Jesse White*

SECRETARY OF STATE

Transaction Documents

- Affiliation Agreement

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**AFFILIATION AGREEMENT**  
**BETWEEN**  
**OSF HEALTHCARE SYSTEM**  
**AND**  
**MENDOTA COMMUNITY HOSPITAL**

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**October 1, 2014**

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**LIST OF EXHIBITS**

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## **AFFILIATION AGREEMENT**

THIS AFFILIATION AGREEMENT is made and entered into as of the Execution Date, by and between OSF HEALTHCARE SYSTEM, an Illinois not-for-profit corporation and MENDOTA COMMUNITY HOSPITAL, an Illinois not-for-profit corporation. ARTICLE XIII contains a glossary of all capitalized terms used in this Agreement.

### **RECITALS:**

OSF owns and operates several general acute care hospitals and institutions providing health care services in northern and central Illinois and in Michigan, and is the controlling member or shareholder of certain affiliated health care organizations and businesses;

MCH is the owner and operator of the Hospital;

The Parties have engaged in discussions to explore the possibility of MCH affiliating with and becoming a part of OSF to support and further their common and unifying health care missions and to better serve the communities served by OSF and MCH.

OSF and MCH consider it to be consistent with their purposes, including, where applicable, their charitable purposes, and in the best interests of the communities they serve, to become affiliated as described herein.

As a result of such discussions, OSF and MCH entered into a Letter of Intent, pursuant to which OSF and MCH set forth their preliminary understandings and agreements regarding the nature and terms of a potential Affiliation.

As contemplated by the Letter of Intent, the Parties wish to set forth the full and complete binding terms of their agreement with respect to the Affiliation between them and to related matters within this Agreement.

NOW, THEREFORE, for and in consideration of the premises, and the agreements, covenants, representations and warranties hereinafter set forth, and other good and valuable consideration, the receipt and adequacy of which are forever acknowledged and confessed, and in reliance upon the recitals set forth above, which are incorporated herein by reference, the Parties agree as follows:

### **ARTICLE I AFFILIATION GOALS AND OBJECTIVES**

1.1. Affiliation Goals and Objectives. Through the Affiliation the Parties intend to: (a) preserve and enhance healthcare in the communities served by OSF and MCH; (b) respect the loyalty and values of OSF and MCH in the communities they serve by carrying out their respective historical missions and traditions; (c) promote greater access to, and improve coordination of, healthcare services to the communities served by OSF and MCH; and (d) achieve excellence in clinical innovations, services, quality, cost and outcomes.

## ARTICLE II IMPLEMENTATION OF AFFILIATION

2.1.Reorganization of MCH. At and as of the Closing Date MCH will be reorganized to provide that OSF will become the sole member of MCH with the full rights and powers prescribed by Applicable Law and by the Amended and Restated MCH Organizational Documents (defined below). To accomplish the foregoing: (a) the MCH Board shall approve amended and restated articles of incorporation in form and substance reasonably satisfactory to OSF and MCH ("**Amended and Restated MCH Articles**"), and amended and restated bylaws in form and substance reasonably satisfactory to OSF and MCH ("**Amended and Restated MCH Bylaws**") (the Amended and Restated MCH Articles and Amended and Restated Bylaws are referred to herein as the "**Amended and Restated MCH Organizational Documents**"); and (b) MCH shall as of the Closing Date cause the Amended and Restated MCH Articles to be filed with the Secretary of State of the State of Illinois.

2.2.Name. As of the Closing Date, the facilities known as Mendota Community Hospital will be renamed by OSF in consultation with the MCH Board.

2.3.OSF Policies. After the Closing Date, at the discretion of OSF, the operations of the MCH Facilities and Services shall be subject to OSF ministry policies applicable to OSF Facilities in effect from time to time.

2.4.Medical Staff. The Closing shall not affect or change (a) the privileges held by members of the medical staff or allied health professional staff of the Hospital on the Closing Date, or (b) the medical staff bylaws, rules and regulations, allied health professional staff rules and regulations or credentialing procedures, of the Hospital in effect on the Closing Date, or (c) any agreements with members of the medical staff or the allied health professional staff, whether the physicians or allied health professionals be employed or contracted; provided, however, that the foregoing statement shall not be deemed to preclude OSF and the Hospital from establishing new procedures consistent with this Agreement and customary practices of other OSF hospitals and industry standards for medical staff approval and maintenance of medical staff privileges after the Closing Date. The consummation of the transactions contemplated herein shall not result in a need for any reapplications of current members of the Hospital's medical staff or allied health professional staff, except as otherwise required by the Hospital's medical staff bylaws or allied health professional staff rules and regulations with respect to expiration of medical staff or allied health professional staff appointments or credentials. Notwithstanding the foregoing, the medical staff and allied health professional staff bylaws, rules and regulations, and credentialing procedures of the Hospital in effect prior to the Closing Date shall be amended, effective as of the Closing Date, to include provisions satisfactory to OSF prohibiting the performance of any procedures and the provision of any service at the Hospital in violation of the Ethical and Religious Directives.

## ARTICLE III REPRESENTATIONS AND WARRANTIES OF MCH

MCH gives, as of the Execution Date, and shall give, as of the Closing Date, the following representations and warranties to OSF:

3.1. Organization; Good Standing; Power. MCH is duly formed as an Illinois not-for-profit corporation. MCH is validly existing and in good standing under the laws of the State of Illinois, and has the corporate power and authority to own, operate or hold under lease its properties and assets and to carry on its business and operations as presently conducted. MCH has registered with the proper governmental authorities all assumed names under which it operates its business and has continuously maintained all such filings in good standing.

3.2. Corporate Authorization.

3.2.1. MCH has the full corporate power and authority to enter into and to perform its obligations under this Agreement.

3.2.2. The execution, delivery and performance of this Agreement by MCH has been duly and properly authorized by all necessary corporate action in accordance with its Governing Documents and Applicable Law.

3.2.3. This Agreement constitutes the valid and legally binding obligation of MCH, enforceable against it in accordance with its terms, except as enforceability may be limited by: (a) general principles of equity, regardless of whether enforcement is sought in a proceeding in equity or at law; or (b) bankruptcy, insolvency, reorganization, moratorium or other similar laws of general application now or hereafter in effect relating to or affecting the enforcement of creditors' rights generally.

3.3. No Violation; Approvals.

3.3.1. Except as has been disclosed in writing by MCH to OSF, the execution, delivery and performance of this Agreement shall not result in the creation of any lien, charge, or encumbrance of any kind or the termination or acceleration of any indebtedness or other obligation of MCH, and is not prohibited by, does not violate or conflict with any provision of, and does not constitute a default under or breach of any Material Contract, any material permit, license, approval or other commitment to which MCH is a party or is subject or by which it is bound, or any Applicable Law.

3.3.2. Except as has been disclosed in writing by MCH to OSF, no approval, authorization, registration, consent, order, filing or other action that has not occurred or been obtained with or from any Person, including any court, administrative agency or other governmental authority, is required for the execution and delivery by MCH of this Agreement or the consummation by MCH of the transactions contemplated or required hereby, except for filings required pursuant to the Illinois Health Facilities Planning Act.

3.4. Financial Statements.

3.4.1. MCH has delivered to OSF true and correct copies of: (a) the MCH Audited Financial Statements; and (b) the MCH Unaudited Financial Statements. From the Execution Date to the Closing Date, by the fifteenth Business Day of the following month, MCH shall provide OSF with the MCH Interim Financial Statements.

3.4.2. The MCH Financial Statements: (a) present fairly in all material respects the financial position of MCH and the results of the operations of MCH at the dates and for the periods indicated; and (b) conform with GAAP, applied consistently for the periods specified, including the consistent use of assumptions, practices, procedures and terminology, except: (i) as has been disclosed in writing by MCH to OSF; and (ii) that the Unaudited Financial Statements and the Interim Financial Statements need not contain any of the footnotes or other year-end adjustments required to comply with GAAP.

3.4.3. Except as has been disclosed in writing by MCH to OSF, from and after March 31, 2014, MCH has not made any material changes to its accounting methods or practices, including methods or practices used to:

- a. Establish reserves on any patient, notes and accounts receivable;
- b. Establish estimates of any third-party settlements;
- c. Determine the value of any other accounts that require subjective determinations; or
- d. Establish malpractice, general liability or other self-insurance reserves, including claims incurred but not reported.

3.4.4. Except as has been disclosed in writing by MCH to OSF, MCH has no liabilities or obligations of any kind, whether contingent or absolute, direct or indirect, or matured or unmatured, required by GAAP to be shown or provided for in the MCH Financial Statements provided to OSF prior to the Execution Date, other than: (a) claims covered by insurance, or reserved by a specific or general reserve, and any individual liability or obligation of less than \$100,000, provided such liabilities and obligations in the aggregate do not exceed \$250,000; or (b) liabilities arising in the ordinary course of business that are reflected in the Interim MCH Financial Statements.

3.4.5. Except as has been disclosed in writing by MCH to OSF, none of the assets of MCH is subject to restrictions imposed by the donors of specific funds or other assets.

3.5. Interim Changes. Except for matters expressly permitted or authorized by this Agreement and except as has been disclosed in writing by MCH to OSF, there has not been, after the date of the most recent MCH Audited Financial Statements:

3.5.1. Any Material Adverse Change in MCH;

3.5.2. Any disposition by MCH of any property, rights or other assets owned by or employed by MCH, except for dispositions in the usual and ordinary course of business;

3.5.3. Any amendment or termination of any Material Contract that has had or could reasonably be expected to have, in the aggregate, a material and adverse effect on MCH; and

3.5.4. Any adoption or material amendment of any bonus, profit sharing, incentive or severance agreement or arrangement, or any MCH Benefit Plan, involving any officer, director or employee of MCH.

3.6. Tax Exempt Status. MCH is a Tax Exempt Organization. The IRS has not taken, or to the Knowledge of MCH, proposed to take, any action to revoke MCH's tax-exemption, and has not determined in writing or, to the Knowledge of MCH, proposed to announce, that MCH is a "private foundation" within the meaning of Section 509(a) of the Code. MCH has no Knowledge of any change in the organization or operation of MCH that could reasonably be expected to result in a loss of MCH's status as a Tax Exempt Organization.

3.7. Legal Proceedings. Except as has been disclosed in writing by MCH to OSF, MCH is not a defendant in, or, to the Knowledge of MCH, threatened with any action, suit, proceeding, complaint, charge, hearing or arbitration that could reasonably be expected to result in a Material Adverse Change in MCH, or materially and adversely affect MCH's ability to perform its obligations under this Agreement or any Material Contract. Except as has been disclosed in writing by MCH to OSF, MCH has not received notice of any investigation or, to the Knowledge of MCH, threatened investigation by any Federal, state or local governmental or regulatory agency, including those involving its business practices and policies, that could reasonably be expected to result in a Material Adverse Change in MCH.

3.8. Compliance with Law. Except as has been disclosed in writing by MCH to OSF, to the Knowledge of MCH, MCH is in compliance, in all material respects, with all Applicable Laws including, without limitation, all Health Care Laws.

3.9. Payment Programs. MCH has delivered to OSF a list of all of the Payment Programs in which MCH participates. Except as has been disclosed in writing by MCH to OSF:

3.9.1. MCH is not engaged in termination proceedings as to its participation in any Payment Program, nor has MCH received notice that its current participation in any Payment Program is subject to any contest, termination or suspension as a result of alleged violations or any noncompliance with participation requirements;

3.9.2. To the Knowledge of MCH, MCH has not taken or committed to any action, entered into any agreement, contract or undertaking, or taken or omitted to take any other action of any nature whatsoever that was or is in violation of any applicable Payment Program condition of participation, contract, standard, policy, rule, regulation, procedure or other requirement, that individually or in the aggregate could reasonably be expected to result in a Material Adverse Change in MCH;

3.9.3. To the Knowledge of MCH, all billing and collection practices of MCH and, of any billing and/or collection agent acting on behalf of MCH, have been in material compliance with all Health Care Laws and the conditions for participation, contracts, standards, policies, rules, regulations, manuals, procedures and requirements of all Payment Programs, except for noncompliance that could not be reasonably expected to result in a Material Adverse Change in MCH;

3.9.4. To the Knowledge of MCH, all cost reports and cost statements submitted by MCH to any Payment Program are true, accurate and complete in all material respects and have been prepared and submitted in accordance with cost and accounting principles consistently applied that comply with all applicable Payment Program conditions for participation, contracts, standards, policies, rules, regulations, manuals, procedures and requirements, including, without limitation, Payment Program interpretations and guidance;

3.9.5. Except as has been disclosed in writing by MCH to OSF, no cost reports or cost statements are open and unresolved;

3.9.6. Except as has been disclosed in writing by MCH to OSF, to the Knowledge of MCH, MCH has not taken any of the following actions, if any such action could reasonably be expected to result in a Material Adverse Change in MCH: submitted to any Payment Program any false, fraudulent, abusive or improper claim for payment, billed any Payment Program for any service not rendered or not rendered as claimed, or received and retained any payment or reimbursement from any Payment Program in excess of the proper amount allowed by Applicable Law and applicable contracts or agreements with the Payment Programs;

3.9.7. Except as has been disclosed in writing by MCH to OSF, there is no audit, investigation, adverse action, or civil, administrative, or criminal proceeding pending or, to the Knowledge of MCH, threatened relating to participation in any Payment Program by MCH; and, to the Knowledge of MCH, there is no basis for any such adverse action by the Payment Program against MCH;

3.9.8. No Payment Program has requested or, to the Knowledge of MCH, threatened any recoupment, refund, or set off from MCH, or imposed any fine, penalty or other sanction on MCH; and

3.9.9. MCH has complied, or will comply, in a timely manner with any notice, approval, application, submission, filing or other requirements of the Payment Programs with respect to the transactions contemplated by this Agreement, including, without limitation, any transfer or change of ownership requirements.

3.10. Compliance Program. MCH has delivered to OSF a copy of its current Compliance Program materials. Except as has been disclosed in writing by MCH to OSF, MCH: (a) is not a party to a Corporate Integrity Agreement with the Office of Inspector General of the United States Department of Health and Human Services; (b) has no reporting obligations pursuant to any settlement agreement entered into with any Federal, state or local government entity; (c) to the Knowledge of MCH, has not been the subject of any government payer program investigation conducted by any Federal or state enforcement agency within the past three (3) years; (d) has not been a defendant in any unsealed *qui tam*/False Claims Act litigation within the past three (3) years; (e) has not been served with or received, within the past three (3) years, any search warrant, subpoena, civil investigative demand, contact letter, or, to the Knowledge of MCH, telephone or personal contact by or from any Federal or state enforcement agency (except in connection with medical services provided to third parties who may be defendants or the

subject of investigation into conduct unrelated to the operation of the health care business conducted by MCH); and (f) has not received, to the Knowledge of MCH, any complaints within the past three (3) years from employees, independent contractors, vendors, physicians, or any other Person that resulted in a claim being filed with a Federal, state or local government entity alleging that MCH has violated any law or regulation.

3.11. Exclusion from Health Care Programs. MCH has a program in place to determine whether any of its employees, agents or independent contractors has been: (a) excluded from participating in any Federal Health Care Program (as defined in 42 U.S.C. § 1320a 7b(f)); (b) subject to sanction or been indicted or convicted of a crime, or pled *nolo contendere* or to sufficient facts, in connection with any allegation of violation of any Federal Health Care Program requirement or Health Care Law; or (c) debarred or suspended from any Federal or state procurement or nonprocurement program by any government agency.

3.12. No Material Omissions.

3.12.1. MCH has responded in all material respects to all requests for information and documentation made by OSF in connection with its due diligence review of the business, operations, assets and liabilities of MCH. MCH has not Knowingly omitted any material information relating to the businesses, operations, assets or liabilities of MCH in its responses to OSF's requests. Since the delivery of such responses to OSF, MCH has not received and not disclosed any information that would render untrue or misleading in any material respect any information previously disclosed to OSF in response to its requests for information.

3.12.2. The representations and warranties of MCH contained in this Agreement, and each Exhibit, disclosure, certificate or other document delivered at Closing by MCH pursuant to this Agreement, are accurate, correct and complete in all material respects, and do not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements and information contained therein not misleading.

3.13. Accounts Receivable. All accounts receivable of MCH represent and constitute *bona fide* indebtedness owing to MCH for services actually performed or for goods or supplies actually provided in the amounts indicated on the MCH Financial Statements with, to the Knowledge of MCH, no Known set-offs, deductions, compromises or reductions other than reasonable allowances for bad debts and contractual allowances in an amount consistent with historical policies and procedures of MCH and that are taken into consideration in the preparation of the MCH Financial Statements. MCH has made available to OSF an aging report of all such accounts receivable, in the form requested by OSF, and such report is accurate in all material respects.

3.14. Licenses and Permits.

3.14.1. MCH holds and is in compliance with all Licenses and Permits, the noncompliance with which could reasonably be expected to result in a Material Adverse Change in MCH. The Licenses and Permits are current, unrestricted and valid.

3.14.2. Except as has been disclosed in writing by MCH to OSF, no statement of deficiencies, survey report, inspection report, notice of audit, audit results, complaint or other notice of noncompliance with the requirements, standards or other conditions, or any revocation, termination, suspension or limitation of any of the Licenses and Permits has been received or, to the Knowledge of MCH, issued, proposed or threatened, for which any actual or potential payment or other obligation exists, nor does MCH have any Knowledge of any basis for any such action.

3.15. Owned Real Property and Other Assets.

3.15.1. MCH has delivered to OSF a written list of all Owned Real Property by common address and property identification number. Except as set forth on the list or as otherwise disclosed in writing by MCH to OSF, MCH is the sole and exclusive owner of all right, title and interest in and has good and marketable fee simple title to the Owned Real Property free and clear of all liens, mortgages, security interests, options, pledges, charges, covenants, conditions, restrictions and other encumbrances and claims of any kind or character whatsoever, other than Permitted Encumbrances. Except as set forth on the list, or as otherwise disclosed in writing by MCH to OSF, MCH has not assigned, transferred, conveyed, mortgaged, deeded in trust, or encumbered any interest in any leasehold or subleasehold under any lease or agreement to which MCH is a party and under which it is a lessee of any real property. The Owned Real Property is accurately described in the list and includes all real estate owned by MCH and used in connection with its current operations. Except described in the list or as otherwise disclosed in writing by MCH to OSF, MCH has not leased or otherwise granted to any Person the right to use any Owned Real Property or any portion thereof. Except described in the list or as otherwise disclosed in writing by MCH to OSF, there are no outstanding options, rights of first refusal or rights of first offer to purchase any Owned Real Property or any portion thereof or interest therein. Except described in the list or as otherwise disclosed in writing by MCH to OSF, with respect to the Owned Real Property:

a. During the past three (3) years, MCH has not received written notice of a violation of any Applicable Law that remains uncorrected or unresolved as of the Closing Date, and MCH has not received written notice of condemnation or assessment relating to any part of the Owned Real Property or the operation thereof;

b. There is no lien on any part of the Owned Real Property, other than Permitted Encumbrances;

c. There are no tenants or other Persons occupying any space in the Owned Real Property, or claiming any possession, adverse or not, to any portion of the Owned Real Property, other than pursuant to written tenant leases with MCH;

d. Each parcel of Owned Real Property is either: (i) exempt from real property or *ad valorem* taxation pursuant to Section 15-86 of the Property Tax Code (35 ILCS § 200/15-86), in which case MCH has furnished OSF with true

and complete copies of determinations of exempt status and annual certification thereafter for such Owned Real Property and MCH has not received written notice and has no Knowledge that the status of such Owned Real Property will change from exempt to taxable; or (ii) separately assessed for real estate tax purposes and is not combined with any land or real estate that is not a part of the Owned Real Property for real estate tax assessment purposes in which case, for each parcel of Owned Real Property that is not exempt from real property taxation, MCH has not received any written notice of change in assessed value that is not reflected in Owned Real Property tax bills furnished to OSF;

e. No Owned Real Property is located within a 100 year flood plain or an area identified by the Secretary of Housing and Urban Development as having "special flood hazards," as such term is used in the National Flood Insurance Act of 1968, as amended and supplemented by The Flood Disaster Protection Act of 1973, and in regulations, interpretations and rulings thereunder;

f. All permanent certificates of occupancy and all other licenses, permits, authorizations, consents, certificates and approvals relating to the Owned Real Property and required by all governmental authorities having jurisdiction and the requisite certificates of the local board of fire underwriters (or other body exercising similar functions), which, if not obtained, could reasonably be expected to result in a Material Adverse Change in MCH, have been issued for the Owned Real Property (and all individual items constituting the Owned Real Property), have been paid for, are in full force and effect, and, to the Knowledge of MCH, will not be invalidated, violated or otherwise adversely affected by the Affiliation;

g. MCH has made available to OSF complete copies of all engineering assessments and construction contracts that have been prepared by or at its direction within the last three (3) years relating to any of the Owned Real Property;

h. MCH has not received written notice of any existing, proposed or contemplated plans to modify or realign any street or highway or any existing, proposed or contemplated eminent domain proceeding that would result in the taking of all or any part of the Owned Real Property or that would adversely affect the current use of any part of the Owned Real Property;

i. Upon consummation of the transactions contemplated by this Agreement, MCH will be entitled to continue to use all Owned Real Property that is currently employed by MCH in the conduct of its operations as currently conducted; and

j. The Owned Real Property is subject to no easements, conditions, restrictions, ordinances, or other limitations that would make such property unusable for its current use or the title to such property unmarketable or materially restrict or impair the current use or operation of the business in a

manner consistent with the current use, or that would require the removal of any improvements, except for Permitted Encumbrances.

3.15.2. Except as has been disclosed in writing by MCH to OSF, to the Knowledge of MCH, the Owned Real Property is not in material violation of any Environmental Laws; MCH has not received any written notice within the past three (3) years alleging or asserting either a material violation of any Environmental Law or a legal obligation of MCH to investigate, assess, respond to, remove, or remediate a condition involving Hazardous Substances from any part or all of the Owned Real Property under or pursuant to any Environmental Law; MCH has not possessed, managed, processed, released, handled or disposed of or discharged Hazardous Substances at, on or from the Owned Real Property (including groundwater), except in material compliance with applicable Environmental Law and Licenses and Permits; MCH has no Knowledge that any prior owners, operators or occupants of the Owned Real Property have caused or allowed any Hazardous Substances to be discharged, possessed, managed, processed, released, or otherwise handled on the Owned Real Property in material violation of any applicable Environmental Law; MCH is complying and, for the previous three (3) years, has complied in all material respects with all applicable Environmental Laws; to the Knowledge of MCH, the Owned Real Property does not contain material amounts of Hazardous Substances in such form or condition for which investigation, assessment, abatement, repair, response, or removal is required by applicable Environmental Law; and there are no, nor to the Knowledge of MCH has there ever been any, dumps, pits, surface impoundments, or other areas located on the Owned Real Property which were or are maintained or utilized for the disposal or containment of Hazardous Substances. MCH shall promptly notify OSF should it obtain Knowledge, prior to the Closing Date, of any lien, written notice, litigation, or threat of litigation relating to any alleged or actual unauthorized release of any Hazardous Substance with respect to any part of the Owned Real Property. Except as has been disclosed in writing by MCH to OSF, MCH has not sent, arranged for disposal or treatment, arranged with a transporter for transport for disposal or treatment, transported, or accepted for transport any Hazardous Substances, to a facility, site or location, that, pursuant to CERCLA or any similar state or local law: (i) has been placed or has been publicly proposed by authorities having jurisdiction to be placed, on the National Priorities List or its state equivalent; or (ii) is subject to a claim, administrative order or other demand to take removal or remedial action by any Person having jurisdiction and authority in any such matter. Except as has been disclosed in writing by MCH to OSF, MCH has not received any written requests for information, potentially responsible party letters, general or special notices or violation notices alleging that it is or may be liable under CERCLA or any other Environmental Law(s). Without in any way limiting the generality of the foregoing: (y) all current or former underground storage tanks located on the Owned Real Property of which MCH has Knowledge and all information in MCH's possession relating to the capacity, uses, dates of installation and contents of such underground storage tanks located on the Owned Real Property are have been disclosed in writing by MCH to OSF; and (z) all existing underground storage tanks used by MCH to store Hazardous Substances are in compliance in all material respects with applicable Environmental Law.

3.16. Space Leased by MCH to Healthcare Providers. Except as has been disclosed in writing by MCH to OSF, MCH does not lease space to any physician, midlevel provider or other health care worker.

3.17. Title to Assets. Except as has been disclosed in writing by MCH to OSF, other than Owned Real Property that is provided for in Section 3.15, MCH has good and defensible title to, or has a contract, license or lease to use, all of its assets of every kind, character and description, whether personal, tangible or intangible, which are used in the operation of the businesses of MCH, free and clear of all liens, mortgages, security interests, options, pledges, charges, covenants, conditions, restrictions and other encumbrances and claims of any kind or character whatsoever, other than liens and encumbrances which are Permitted Encumbrances.

3.18. Affiliates and Subsidiaries. Except as has been disclosed in writing by MCH to OSF, there are no entities that, directly or indirectly, through one or more intermediaries, owns or Controls, or is Controlled by, or is under common Control with, MCH.

3.19. Insurance. MCH has delivered to OSF an accurate, correct and complete list (including the name of the insurer, coverage, premium and expiration date) of all Insurance Policies. Except as set forth on the list, the Insurance Policies are in full force and effect and shall remain in full force and effect through the Closing Date.

3.20. Taxes. MCH has filed, or shall file, all Returns for all periods ending on or before the Closing Date which are due on or before the Closing Date (after taking into account all applicable extensions). Except as has been disclosed in writing by MCH to OSF, as of the time of filing, such returns are or will be materially correct. MCH has timely paid all Taxes shown as due and payable on such Returns and has made or will make provision in the MCH Financial Statements for all Taxes not paid and relating to any period prior to the Closing Date.

3.21. Employee Benefits.

3.21.1. MCH has delivered to OSF an accurate, correct and complete list of all MCH Benefit Plans. Prior to the Execution Date, MCH has delivered to OSF the following for each MCH Benefit Plan established or maintained by it: (a) the text of each MCH Benefit Plan and any trust, insurance, or annuity contracts maintained in connection therewith, including all amendments thereto; (b) the most recently filed annual report (Form 5500), including all schedules and attachments and any financial statements required by Section 103(a)(3) of ERISA or, for each top-hat plan, a copy of all registration statements filed with the Department of Labor pursuant to 29 C.F.R. § 2520.104-23(b)(1); (c) the most recent actuarial valuation report, if any; (d) the most recent summary plan description and all modifications thereto; (e) the most recent determination letter or ruling letter issued by the IRS and any outstanding applications for a determination letter or request for ruling; (f) the most recent actuarial valuation, study, estimate of the obligations under any retiree medical benefits plans, supplemental retirement benefits plans, or executive deferred-compensation arrangements; and (g) the most recent financial or other report of assets held or set aside to provide funding for such MCH Benefit Plan.

3.21.2. Except as has been disclosed in writing by MCH to OSF, all benefits and contributions relating to each MCH Benefit Plan have been timely paid in accordance with the terms of such MCH Benefit Plan and Applicable Law.

3.21.3. All MCH Benefit Plans have been maintained and administered in material compliance with their terms and comply in all material respects, both as to form and operation, with the provisions of Applicable Law. To the extent that any MCH Benefit Plan is intended to be qualified under Section 401(a) of the Code, it has received a determination letter from the IRS or, with respect to a prototype plan, can rely on an opinion letter from the IRS to the effect that such MCH Benefit Plan is qualified and that the MCH Benefit Plan and the trust related thereto are exempt from Federal income taxes under Sections 401(a) and 501(a), respectively, of the Code. Except as set forth on the list, nothing has occurred that could reasonably be expected to cause the revocation of such determination letter or the unavailability of reliance on such opinion letter, as applicable, nor has such revocation or unavailability been threatened.

3.21.4. Except as has been disclosed in writing by MCH to OSF, all reports, returns and similar documents with respect to the MCH Benefit Plans required to be filed with any government agency have been duly and timely filed. To the Knowledge of MCH, there are no threatened or pending investigations by any governmental agency, termination proceedings or other claims (except claims for benefits payable in the normal operation of the MCH Benefit Plans), suits or proceedings against or involving any MCH Benefit Plan or asserting any rights or claims to benefits under any MCH Benefit Plan that could reasonably be expected to give rise to any material liability.

3.21.5. To the Knowledge of MCH, no "prohibited transaction" (as defined in Section 4975 of the Code or Section 406 of ERISA) has occurred that involves the assets of any MCH Benefit Plan and that could reasonably be expected to subject MCH or any of its employees to a tax or penalty on prohibited transactions imposed by Section 4975 of the Code or Section 502(i) of ERISA. No MCH Benefit Plan that has been terminated could reasonably be expected to cause material liability to MCH.

3.21.6. Except as has been disclosed in writing by MCH to OSF: (i)(A) neither MCH nor any ERISA Affiliate contributes to any "multiemployer plan" within the meaning of Section 3(37) of ERISA or has withdrawn from or has any outstanding withdrawal liability with respect to a multiemployer plan, (B) no event has occurred or circumstance exists that could result in any liability to MCH or any ERISA Affiliate with respect to a multiemployer plan, and (C) MCH has not engaged in any transaction within the scope of Section 4212(c) of ERISA; (ii) MCH neither provides nor has any liability for health or welfare benefits with respect to any retired or former employees of MCH, nor with respect to any active employees of MCH following such employee's retirement or termination of service, except as required under Applicable Law or in a manner similar to that which would be required under the continuation coverage requirements for group health plans under Part 6 of Subtitle B of Title I of ERISA and Section 4980B of the Code ("**COBRA**"), if COBRA applied to such MCH Benefit Plan; (iii) MCH does not sponsor, participate in or have any obligation to contribute to a "multiple employer welfare arrangement" within the meaning of Section 3(40) of ERISA; (iv) MCH neither

sponsors, maintains, or has any obligation to contribute to a “voluntary employees’ beneficiary association” within the meaning of Section 501(c)(9) of the Code; (v) neither MCH nor any ERISA Affiliate sponsors, maintains, or is a participating employer in any employee benefit plan that is subject to Title I, Subtitle B, Part 3 of ERISA or Section 412 of the Code; (vi) neither MCH nor any ERISA Affiliate sponsors, maintains, or is a participating employer in any employee benefit plan that is subject to Title IV of ERISA; (vii) there has been no amendment to any MCH Benefit Plan that either provides for a reduction in the rate of future benefit accrual or that eliminates or reduces an early retirement benefit or retirement-type subsidy and that would require a notice to participants in accordance with Section 204(h) of ERISA or Section 4980F(e) of the Code; (viii) MCH does not maintain any “nonqualified deferred compensation plans” within the meaning of Section 409A(d)(1) of the Code or any plan subject to the provisions of Section 457(f) of the Code; (ix) with respect to each MCH Benefit Plan, there has been duly and timely furnished, in compliance in all material respects with Applicable Laws, all notices required under Applicable Laws to be given to participants, beneficiaries, and alternate payees, or to any governmental authorities; (x) neither the execution and delivery of this Agreement nor the consummation of the Affiliation will accelerate vesting, increase any benefits otherwise payable, or result in any payment (whether of severance pay, change-of-control benefits, or otherwise) under any MCH Benefit Plan; (xi) except as prohibited under Applicable Law, MCH has the right under each MCH Benefit Plan to terminate each such MCH Benefit Plan or amend each such MCH Benefit Plan so as to reduce benefits not yet accrued, cease accruals, or increase employee cost-sharing; and (xii) each MCH Benefit Plan that is intended to satisfy the requirements of Section 403(b) of the Code satisfies all such requirements and all other applicable legal requirements in all material respects (including the requirement to adopt a written plan document by no later than December 31, 2009), and there is no provision or operation that could reasonably be expected to result in the disqualification of any such plan.

3.21.7. Except as has been disclosed in writing by MCH to OSF or as required under Applicable Law or the terms of the applicable MCH Benefit Plan, prior to the Closing Date, MCH has not taken, or caused or permitted to be taken, any action that would change the legal or beneficial ownership status of the accounts in which funds of or attributable to MCH Benefit Plans are invested or otherwise held.

3.22. Labor Relations. Except as has been disclosed in writing by MCH to OSF, MCH has, to the Knowledge of MCH, complied in all material respects with all Applicable Laws relating to the employment of its employees and independent contractors, including provisions relating to wages, hours, equal opportunity, collective bargaining, and the payment of Social Security and other Taxes, as applicable. MCH has not entered into any collective bargaining agreements or received notice that any of its employees are represented by, or notice of any claim that any of its employees is entitled to be represented by, a collective bargaining agent.

3.23. Critical Access Hospital Status. MCH is designated as a critical access hospital in accordance with Applicable Law and meets all Medicare conditions of participation for critical access hospitals set forth in 42 U.S.C 1820 and 42 C.F.R Section 485.601, et seq.

3.24. Accreditation. MCH has provided to OSF a list of MCH's current Accreditations. Except as has been disclosed in writing by MCH to OSF: (a) all of MCH's Accreditations have been duly obtained, are held by MCH, are current and valid, and are in full force and effect; (b) to the Knowledge of MCH, no event has occurred or other fact exists with respect to the Accreditations that allows, or after notice or lapse of time or both would allow, revocation, suspension, restriction, limitation or termination of any of the Accreditations or would result in any other impairment of the rights of the holder of any of the Accreditations that individually or in the aggregate would be material; (c) no notice from any accreditation organization in respect to the revocation, suspension, restriction, limitation or termination of any Accreditations has been issued, received or, to the Knowledge of MCH, proposed or threatened; and (d) no statement of deficiencies, survey report, inspection report, notice of audit, audit results, complaint or other notice of noncompliance with the requirements, standards or other conditions of any Accreditation has been issued, received or, to the Knowledge of MCH, proposed or threatened by any accreditation organization, for which any actual or potential payment or other obligation exists.

3.25. Contracts and Other Commitments. MCH has delivered to OSF copies of, or otherwise disclosed to OSF, all Material Contracts to which MCH is a party. Each Material Contract is a valid and binding obligation of MCH and, to the Knowledge of MCH, is a valid and binding obligation of the other party or parties thereto and enforceable in accordance with its terms (subject in each case to bankruptcy, insolvency, reorganization, moratorium and other laws affecting creditors' rights generally and except for limitations upon the availability of equitable remedies, including specific performance). Except as has been disclosed in writing by MCH to OSF, none of the transactions contemplated by this Agreement creates in any party to any such Material Contract the right to revise the terms of, to terminate, to accelerate any obligation of MCH, or otherwise to declare that such Material Contract has been breached. Except as has been disclosed in writing by MCH to OSF, MCH is not in breach or default in any material respect under any term or provision of any Material Contract or any related loan, tax, or swap agreement, as applicable.

3.26. Medical Staff Matters. MCH has delivered to OSF true, correct, and complete copies of the bylaws and rules and regulations of the medical staff of the Hospital, as well as a list of all current members of the medical staff. Except as has been disclosed in writing by MCH to OSF: (a) there are no adverse actions with respect to any medical staff members of MCH or any applicant thereto for which a medical staff member or applicant has requested a hearing that has not been scheduled or has been scheduled but has not been completed; (b) there are no pending or, to the Knowledge of MCH, threatened disputes with applicants, staff members, or allied health professionals, and MCH knows of no basis therefore; and (c) all appeal periods in respect of any medical staff member or applicant against whom an adverse action has been taken have expired. Notwithstanding the foregoing provisions of this Section, MCH shall not be required to disclose any information pursuant to this Section where such disclosure is prohibited by state law or where such disclosure would, in MCH's reasonable discretion, potentially jeopardize any applicable privilege that would protect the disclosure of such information to third parties.

3.27. Experimental Procedures. MCH has not performed or permitted the performance of any experimental or research procedures or studies involving patients of MCH not authorized and conducted in accordance with the procedures of the applicable Institutional Review Board.

3.28. Intellectual Property; Computer Software. No proceedings are pending or, to the Knowledge of MCH, threatened that challenge the validity of the ownership by MCH of any Intellectual Property. MCH has not licensed anyone to use such Intellectual Property or has any Knowledge of the use or the infringement of any such Intellectual Property by any other Person. MCH owns (or possesses adequate and enforceable licenses or other rights to use) all Intellectual Property and all computer software programs and similar systems used in the conduct of its business.

3.29. Hill-Burton Loan. MCH does not have any outstanding financial obligations to repay any loans, grants, or loan guarantees pursuant to the Hill-Burton Act (42 U.S.C. § 291a, *et seq.*).

#### **ARTICLE IV REPRESENTATIONS AND WARRANTIES OF OSF**

OSF hereby gives, as of the Execution Date, and shall give, as of the Closing Date, the following representations and warranties to MCH:

4.1.Organization; Good Standing; Power. OSF is duly formed as an Illinois not-for-profit corporation. OSF is validly existing and in good standing under the laws of the State of Illinois and has the corporate power and authority to own, operate or hold under lease its properties and assets and to carry on its business and operations as presently conducted.

4.2.Corporate Authorization.

4.2.1. OSF has the full corporate power and authority to enter into and to perform its obligations under this Agreement.

4.2.2. The execution, delivery and performance of this Agreement by OSF has been duly and properly authorized by all necessary corporate action in accordance with its Governing Documents and Applicable Law.

4.2.3. This Agreement constitutes the valid and legally binding obligation of OSF, enforceable against it in accordance with its terms, except as enforceability may be limited by: (a) general principles of equity, regardless of whether enforcement is sought in a proceeding in equity or at law; and (b) bankruptcy, insolvency, reorganization, moratorium or other similar laws of general application now or hereafter in effect relating to or affecting the enforcement of creditors' rights generally.

4.3.No Violation; Approvals.

4.3.1. Except as has been disclosed in writing by OSF to MCH, the execution, delivery and performance of this Agreement shall not result in the creation of any lien, charge, or encumbrance of any kind or the termination or acceleration of any

indebtedness or other obligation of OSF, and is not prohibited by, does not violate or conflict with any provision of, and does not constitute a default under or breach of any Material Contract, any material permit, license, approval or other commitment to which OSF is a party or is subject or by which it is bound, or any Applicable Law.

4.3.2. Except as has been disclosed in writing by OSF to MCH, no approval, authorization, registration, consent, order, filing or other action that has not occurred or been obtained with or from any Person, including any court, administrative agency or other governmental authority, is required for the execution and delivery by OSF of this Agreement or the consummation by OSF of the transactions contemplated or required hereby, except for the Canonical Approvals and the filings required pursuant to the Illinois Health Facilities Planning Act.

#### 4.4. Financial Statements.

4.4.1. OSF has delivered to MCH true and correct copies of: (a) the OSF Audited Financial Statements; and (b) the OSF Unaudited Financial Statements. From the Execution Date to the Closing Date, by the fifteenth Business Day of the following month, OSF shall provide MCH with the OSF Interim Financial Statements.

4.4.2. The OSF Financial Statements: (a) present fairly in all material respects and present fairly the financial position of OSF, and the results of the operations of OSF at the dates and for the periods indicated; and (b) conform with GAAP, applied consistently for the periods specified, including the consistent use of assumptions, practices, procedures and terminology, except: (1) as has been disclosed in writing by OSF to MCH; and (ii) that the OSF Unaudited Financial Statements and the OSF Interim Financial Statements need not contain any of the footnotes or other year-end adjustments required to comply with GAAP.

4.4.3. Except as has been disclosed in writing by OSF to MCH from and after October 1, 2013, OSF has not made any material changes to its accounting methods or practices, including methods or practices used to:

- a. Establish reserves on any patient, notes and accounts receivable;
- b. Establish estimates of any third-party settlements;
- c. Determine the value of any other accounts that require subjective determinations; or
- d. Establish malpractice, general liability or other self-insurance reserves, including claims incurred but not reported.

4.4.4. Except as has been disclosed in writing by OSF to MCH, OSF has no liabilities or obligations of any kind, whether contingent or absolute, direct or indirect, or matured or unmatured required by GAAP to be shown or provided for in the OSF Financial Statements provided to MCH prior to the Execution Date, other than: (a) claims covered by commercial insurance or self-insurance, or reserved by a specific or general

reserve and any individual liability or obligation of less than \$2,000,000, provided such liabilities and obligations in the aggregate do not exceed \$4,000,000; or (b) liabilities arising in the ordinary course of business that are reflected in the OSF Interim Financial Statements.

4.5.Interim Changes. Except for matters expressly permitted or authorized by this Agreement and except as has been disclosed in writing by OSF to MCH, there has not been, after the date of the most recent OSF Audited Financial Statements:

4.5.1. Any Material Adverse Change in OSF;

4.5.2. Any disposition by OSF of any property, rights or other assets owned by or employed by OSF, except for dispositions in the usual and ordinary course of business;

4.5.3. Any change in the chief executive officer of OSF; and

4.5.4. Any amendment or termination of any Material Contract that has had or could reasonably be expected to have, in the aggregate, a material and adverse effect on OSF.

4.6.Tax Exempt Status. OSF is a Tax Exempt Organization. The IRS has not taken, or, to the Knowledge of OSF, proposed to take, any action to revoke the tax-exemption of OSF, and has not determined in writing or, to the Knowledge of OSF, proposed to announce, that OSF is a “private foundation” within the meaning of Section 509(a) of the Code. OSF has no Knowledge of any change in the organization or operation of OSF that could reasonably be expected to result in a loss of OSF’s status as a Tax Exempt Organization.

4.7.Legal Proceedings. Except as has been disclosed in writing by OSF to MCH, OSF is not a defendant in, or, to the Knowledge of OSF, threatened with any action, suit, proceeding, complaint, charge, hearing or arbitration that could reasonably be expected to result in a Material Adverse Change in OSF, or materially and adversely affect OSF's ability to perform its obligations under this Agreement or any Material Contract. Except as has been disclosed in writing by OSF to MCH, OSF has not received notice of any investigation or, to the Knowledge of OSF, threatened investigation by any Federal, state or local governmental or regulatory agency, including those involving its business practices and policies, that could reasonably be expected to result in a Material Adverse Change in OSF.

4.8.Compliance with Law. To the Knowledge of OSF, OSF is in compliance, in all material respects, with all Applicable Laws including, without limitation, all Health Care Laws.

4.9.Payment Programs. Except as has been disclosed in writing by OSF to MCH:

4.9.1. OSF is not engaged in termination proceedings as to its participation in any Payment Program, nor has OSF received notice that its current participation in any Payment Program is subject to any contest, termination or suspension as a result of alleged violations or any noncompliance with participation requirements;

4.9.2. To the Knowledge of OSF, OSF has not taken or committed to any action, entered into any agreement, contract or undertaking, or taken or omitted to take any other action of any nature whatsoever that was or is in violation of any applicable Payment Program condition of participation, contract, standard, policy, rule, regulation, procedure or other requirement, that individually or in the aggregate could reasonably be expected to result in a Material Adverse Change in OSF;

4.9.3. To the Knowledge of OSF, all billing and collection practices of OSF and, of any billing and/or collection agent acting on behalf of OSF, have been in material compliance with all Health Care Laws and the conditions for participation, contracts, standards, policies, rules, regulations, manuals, procedures and requirements of all Payment Programs, except for noncompliance that could not reasonably be expected to result in a Material Adverse Change in OSF;

4.9.4. To the Knowledge of OSF, all cost reports and cost statements submitted by OSF to any Payment Program are true, accurate and complete in all material respects and have been prepared and submitted in accordance with cost and accounting principles consistently applied that comply with all applicable Payment Program conditions for participation, contracts, standards, policies, rules, regulations, manuals, procedures and requirements, including, without limitation, Payment Program interpretations and guidance;

4.9.5. Except as has been disclosed in writing by OSF to MCH, to the Knowledge of OSF, OSF has not taken any of the following actions, if any such action could reasonably be expected to result in a Material Adverse Change in OSF: submitted to any Payment Program any false, fraudulent, abusive or improper claim for payment, billed any Payment Program for any service not rendered or not rendered as claimed, or received and retained any payment or reimbursement from any Payment Program in excess of the proper amount allowed by Applicable Law and applicable contracts or agreements with the Payment Programs;

4.9.6. Except as has been disclosed in writing by OSF to MCH, there is no audit, investigation, adverse action, or civil, administrative, or criminal proceeding pending or, to the Knowledge of OSF, threatened relating to participation in any Payment Program by OSF; and, to the Knowledge of OSF, there is no basis for any such adverse action by the Payment Program against OSF;

4.9.7. No Payment Program has requested or, to the Knowledge of OSF, threatened any recoupment, refund, or set off from OSF, or imposed any fine, penalty or other sanction on OSF; and

4.9.8. OSF has complied, or will comply, in a timely manner with any notice, approval, application, submission, filing or other requirements of the Payment Programs with respect to the transactions contemplated by this Agreement, including, without limitation, any transfer or change of ownership requirements.

4.10. Compliance Program. OSF has delivered to MCH a copy of its current Compliance Program materials. Except as has been disclosed in writing by OSF to MCH, OSF: (a) is not a party to a Corporate Integrity Agreement with the Office of Inspector General of the United States Department of Health and Human Services; (b) has no reporting obligations pursuant to any settlement agreement entered into with any Federal, state or local government entity; (c) to the Knowledge of OSF, has not been the subject of any government payer program investigation conducted by any Federal or state enforcement agency within the past three (3) years; (d) has not been a defendant in any unsealed *qui tam*/False Claims Act litigation within the past three (3) years; (e) has not been served with or received, within the past three (3) years, any search warrant, subpoena, civil investigative demand, contact letter, or, to the Knowledge of OSF, telephone or personal contact by or from any Federal or state enforcement agency (except in connection with medical services provided to third parties who may be defendants or the subject of investigation into conduct unrelated to the operation of the health care business conducted by OSF); and (f) has not received, to the Knowledge of OSF, any complaints within the past three (3) years from employees, independent contractors, vendors, physicians, or any other Person that resulted in a claim being filed with a Federal, state or local government entity alleging that OSF has violated any law or regulation.

4.11. Exclusion from Health Care Programs. OSF has a program in place to determine whether any of its employees, agents or independent contractors has been: (a) excluded from participating in any Federal Health Care Program (as defined in 42 U.S.C. § 1320a 7b(f)); (b) subject to sanction or been indicted or convicted of a crime, or pled *nolo contendere* or to sufficient facts, in connection with any allegation of violation of any Federal Health Care Program requirement or Health Care Law; or (c) debarred or suspended from any Federal or state procurement or nonprocurement program by any government agency.

4.12. No Material Omissions.

4.12.1. OSF has responded in all material respects to all requests for information and documentation made by MCH in connection with its due diligence review of the business, operations, assets and liabilities of OSF. OSF has not knowingly omitted any material information relating to the businesses, operations, assets or liabilities of OSF in its responses to MCH' requests. Since the delivery of such responses to MCH, OSF has not received and not disclosed any information that would render untrue or misleading in any material respect any information previously disclosed to MCH in response to its requests for information.

4.12.2. The representations and warranties of OSF contained in this Agreement, and each Exhibit, disclosure, certificate or other document delivered at Closing by OSF pursuant to this Agreement, are accurate, correct and complete in all material respects, and do not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements and information contained therein not misleading.

**ARTICLE V**  
**PRE-CLOSING COVENANTS OF MCH**

MCH hereby agrees to keep, perform and fully discharge, or to cause to be kept, performed and fully discharged, as applicable, the following covenants and agreements, as applicable:

**5.1. Interim Conduct of Business.** From the Execution Date to the Closing Date:

5.1.1. MCH shall use commercially reasonable efforts to:

- a. Preserve, protect and maintain its business, properties and assets;
- b. Operate its business as a going concern, consistent with prior practices and not other than in the ordinary course of business;
- c. Preserve the goodwill of all individuals and entities having business or other relations with it, including, without limitation, physicians, employees, patients, customers and suppliers;
- d. Obtain all documents called for by this Agreement and required to facilitate the consummation of the transactions contemplated by this Agreement; and
- e. Cooperate with OSF to implement the Plan of Finance.

5.1.2. MCH shall provide OSF with the MCH Interim Financial Statements as set forth in Section 3.4.1.

5.1.3. Except as otherwise expressly provided for herein or except as has been disclosed in writing by OSF to MCH, may not do any of the following without the prior written consent of OSF, which consent shall not be unreasonably withheld or delayed, and, in any event, responses shall be provided by OSF within ten (10) business days of MCH's request:

- a. Make any changes, or permit any changes to be made, in the Governing Documents of MCH, except for changes expressly authorized by this Agreement;
- b. Enter into (or amend existing) agreements for employment, indemnity, retention, severance, change-in-control, employee lease, deferred compensation, or incentive compensation with, or agreements regarding loans or advances to, Key Management Personnel;
- c. Make any change in the chief executive officer of MCH or the board of directors of MCH other than in the ordinary course of business and with written notice to OSF;

- d. Enter into any Debt Transaction;
- e. Enter into any new or amend any existing Material Contract with a dollar value or liability greater than (or expected to be greater than) \$100,000, in the aggregate; provided that this provision shall not prohibit MCH from terminating or non-renewing any Material Contract in the ordinary course of business and consistent with past practice after giving OSF written notice; or
- f. Enter into any transaction or contractual obligation that could reasonably be expected to materially and adversely impact MCH's ability to perform its obligations under this Agreement.

5.2. Reasonable Efforts; Notices. From the Execution Date to the Closing Date:

5.2.1. MCH shall use commercially reasonable efforts to take, or cause to be taken, all actions, and to do, or cause to be done, all things necessary, proper or advisable (subject to any Applicable Laws) to consummate and make effective the transactions contemplated by this Agreement;

5.2.2. MCH shall promptly notify OSF of any lawsuits, claims, administrative actions or other proceedings asserted or commenced against MCH, or its officers or directors interfering in any material way its ability to consummate the transactions contemplated or required by this Agreement, or materially affecting MCH's business, properties or assets; and

5.2.3. MCH shall promptly notify OSF in writing of any facts or circumstances that come to its attention and that may reasonably be expected to cause, or through the passage of time may reasonably be expected to cause, any of the representations and warranties made by MCH and contained in this Agreement to be untrue or misleading at any time from the Execution Date to the Closing Date.

5.3. Access to Information and Employees.

5.3.1. From the Execution Date to the Closing Date, MCH shall give to OSF and to its representatives reasonable access, during normal business hours, to all properties, books, records and contracts and other materials pertaining to the businesses, properties and assets of MCH, as may be reasonably requested and appropriate in order for OSF to perform its obligations hereunder (and in accordance with Applicable Laws and guidelines approved by the Parties' antitrust counsel), subject to reasonable advance notice and provided that OSF shall not exercise such rights of access in such manner as would unduly interfere with the operations of MCH or the work of MCH's personnel or the activities of MCH's patients or guests.

5.3.2. MCH shall cooperate in keeping OSF fully informed and shall promptly notify OSF of any Material Adverse Change in the normal course of business or prospects of MCH.

5.4.Maintain Books and Accounting Practices. From the Execution Date to the Closing Date, MCH shall maintain its books of account in the usual, regular and ordinary manner in accordance with GAAP consistently applied and on a basis consistent with prior years, including, without limitation, the consistent use of assumptions, practices, procedures and terminology, and, except as otherwise required by GAAP, and MCH shall not make or cause to be made any material changes in its accounting methods or practices, including, without limitation, as applicable, methods or practices:

- 5.4.1. Establishing reserves on any patient, notes and accounts receivable;
- 5.4.2. Establishing reserves for all third-party settlements; and
- 5.4.3. Determining the value of any other accounts that are subjectively determined.

5.5.Compliance with Laws. From the Execution Date to the Closing Date, MCH shall:

- 5.5.1. Comply with all Applicable Laws affecting MCH; and
- 5.5.2. Keep, hold and maintain all certificates, certificates of need, certificates of exemption, accreditation, licenses and other permits necessary for its conduct and operation.

5.6.No Merger, Consolidation or Acquisition. From the Execution Date to the Closing Date, MCH may not merge or consolidate with any other entity, and MCH may not acquire any of the assets of any other corporation, business or Person except in the ordinary course of business.

5.7.Third-Party Authorizations. From the Execution Date to the Closing Date, MCH shall use commercially reasonable efforts to obtain all consents, approvals and authorizations of third parties, whether governmental or private, make all filings, and give all notices which may be necessary or appropriate under Applicable Laws and under all contracts, agreements and commitments to which MCH is a party or is bound, or to the extent necessary for the valid execution, delivery and performance of this Agreement by MCH.

5.8.Confidentiality of OSF's Information. The Confidentiality Agreement shall remain in full force and effect, except to the extent necessary to implement the provisions of this Agreement, including but not limited to the Plan of Finance.

5.9.Financial and Operational Performance. Promptly following execution of this Agreement MCH shall develop, adopt and implement prior to Closing, in consultation with and to OSF's reasonable satisfaction, a detailed written plan to bring about improved financial and operational performance of MCH prior to Closing, including a strategy for communicating key elements of the plan to appropriate internal and external constituencies. This plan shall supplement and enhance the plan of correction previously submitted by MCH to the U.S. Department of Housing and Urban Development.

**ARTICLE VI  
PRE-CLOSING COVENANTS OF OSF**

OSF hereby agrees to keep, perform and fully discharge the following covenants and agreements:

**6.1. Interim Conduct of Business.** From the Execution Date to the Closing Date:

6.1.1. OSF shall use commercially reasonable efforts to:

- a. Preserve, protect and maintain its business, properties and assets;
- b. Operate its businesses as a going concern, consistent with prior practices and not other than in the ordinary course of business;
- c. Preserve the goodwill of all individuals and entities having business or other relations with it, including, without limitation, physicians, employees, patients, customers and suppliers; and
- d. Obtain all documents called for by this Agreement and required to facilitate the consummation of the transactions contemplated by this Agreement.

6.1.2. OSF shall provide MCH with the OSF Interim Financial Statements as set forth in Section 4.4.1.

6.1.3. OSF shall not, without the prior written consent of MCH, which consent shall not be unreasonably withheld or delayed, enter into any transaction or contractual obligation that would materially adversely impact OSF's ability to perform its obligations under this Agreement.

**6.2. Reasonable Efforts; Notices.** From the Execution Date to the Closing Date:

6.2.1. OSF shall use commercially reasonable efforts to take, or cause to be taken, all actions, and to do, or cause to be done, all things necessary, proper or advisable (subject to any Applicable Laws) to consummate and make effective the transactions contemplated by this Agreement;

6.2.2. OSF shall promptly notify MCH of any lawsuits, claims, administrative actions or other proceedings asserted or commenced against OSF, or its officers, directors or member interfering in any material way its ability to consummate the transactions contemplated or required by this Agreement, or materially affecting OSF's business, properties or assets; and

6.2.3. OSF shall promptly notify MCH in writing of any facts or circumstances that come to its attention and that may reasonably be expected to cause, or through the passage of time may reasonably be expected to cause, any of the representations and warranties made by OSF and contained in this Agreement to be untrue or misleading at any time from the Execution Date to the Closing Date.

6.3.Access to Information. From the Execution Date to the Closing Date, OSF shall give MCH and its representatives reasonable access, during normal business hours, to all properties, books, records and contracts and other materials pertaining to the businesses, properties and assets of OSF, as may be reasonably requested (and in accordance with Applicable Laws and guidelines approved by the Parties' antitrust counsel), subject to reasonable advance notice and provided that MCH shall not exercise such rights of access in such manner as would unduly interfere with the operations of OSF or the work of OSF's personnel or the activities of OSF's patients or guests. OSF shall cooperate in keeping MCH fully informed and shall promptly notify MCH of any Material Adverse Change in the normal course of business or prospects of OSF that would impact the transaction contemplated herein.

6.4.Maintain Books and Accounting Practices. From the Execution Date to the Closing Date, OSF shall maintain the books of account of OSF in the usual, regular and ordinary manner in accordance with GAAP consistently applied and on a basis consistent with prior years, including, without limitation, the consistent use of assumptions, practices, procedures and terminology, and, except as otherwise required by GAAP, and OSF shall not make or cause to be made any material changes in the accounting methods or practices of OSF.

6.5.Compliance with Laws. From the Execution Date to the Closing Date, OSF shall:

6.5.1. Comply with all Applicable Laws affecting OSF; and

6.5.2. Keep, hold and maintain all certificates, certificates of need, certificates of exemption, accreditation, licenses and other permits necessary for the conduct and operation of OSF.

6.6.Third-Party Authorizations. From the Execution Date to the Closing Date, OSF shall use commercially reasonable efforts to obtain all consents, approvals and authorizations of third parties, whether governmental or private, make all filings, and give all notices which may be necessary or appropriate under Applicable Laws and under all contracts, agreements and commitments to which OSF is a party or is bound, or to the extent necessary for the valid execution, delivery and performance of this Agreement by OSF.

6.7.Confidentiality of MCH's Information. The Confidentiality Agreement shall remain in full force and effect, except to the extent necessary to implement the provisions of this Agreement, including but not limited to the Plan of Finance. Notwithstanding the foregoing, after the Closing Date, OSF shall no longer be bound by the confidentiality obligations set forth in the Confidentiality Agreement, with respect to any and all information which constitutes or pertains to confidential information of or regarding MCH, except as required to comply with Applicable Laws.

## **ARTICLE VII CONDITIONS PRECEDENT TO OBLIGATIONS OF MCH**

The obligations of MCH to consummate the transaction contemplated by this Agreement are, at the option of MCH, subject to the satisfaction by OSF, on or prior to the Closing Date, of the following conditions:

7.1.Regulatory Approvals. All regulatory consents and approvals required for the consummation of the transactions contemplated or required by this Agreement shall have been obtained on or before the Closing Date, including, without limitation any necessary certificates of exemption and/or certificates of need, as applicable, from the IHFSRB to consummate the Affiliation.

7.2.Canonical Approvals. OSF shall take all necessary steps prior to the Closing Date to obtain the approval of the Affiliation from all necessary authorities of the Roman Catholic Church (the "**Canonical Approvals**").

7.3.Accuracy of Warranties; Performance of Covenants. The representations and warranties of OSF contained in this Agreement shall be accurate in all material respects as if made on and as of the Closing Date, except to the extent of changes or developments contemplated by the terms of this Agreement or caused by the transactions contemplated hereby. OSF shall have performed in all material respects the obligations and complied in all material respects with the covenants, agreements and conditions required to be performed or complied with by it on or prior to the Closing Date, except to the extent of changes or developments contemplated by the terms of this Agreement or caused by the transactions contemplated hereby.

7.4.No Pending Action. No action or proceeding before any court or governmental body shall be pending or threatened wherein an unfavorable judgment, decree or order would prevent the carrying out of this Agreement or any of the transactions contemplated hereby, declare unlawful the transactions contemplated by this Agreement or cause such transactions to be rescinded.

7.5.No Bankruptcy. OSF shall not: (a) be in receivership or dissolution; (b) have made any assignment for the benefit of creditors; (c) have admitted in writing its inability to pay its debts as they mature; (d) have been adjudicated bankrupt; or (e) have filed a petition in voluntary bankruptcy, a petition or answer seeking reorganization or an arrangement with creditors under the Federal bankruptcy law or any other similar law or statute of the United States or any state, nor shall any such petition have been filed against OSF.

7.6.Material Consents. All Material Consents shall have been obtained on or before the Closing Date.

7.7.Exhibits and Disclosures. It is not a condition precedent for this Agreement to be binding upon the Parties that all Exhibits and disclosures required under this Agreement be attached in a final form (in the case of Exhibits) or delivered (in the case of disclosures) on the Execution Date. Notwithstanding the foregoing, all Exhibits and disclosures required under this Agreement shall be complete and otherwise in final form reasonably acceptable to the Parties and shall be attached to the Agreement (in the case of Exhibits) or delivered (in the case of disclosures) at Closing. OSF shall have cured any disapproved Exhibits and/or disclosures in accordance with the process described in Section 9.4.

7.8.Delivery of OSF Closing Documents. OSF shall have delivered, on or before the Closing Date, the OSF Closing Documents.

7.9. Treatment of Indebtedness. All Indebtedness that is outstanding on the Closing Date shall have been addressed in accordance with the Plan of Finance.

7.10. Community Board. The OSF Board shall have established a Community Board in accordance with the terms of the Letter of Intent, the initial members of which will be those persons named by the MCH Board and approved by OSF, which approval will not be unreasonably withheld.

7.11. Delivery of Other Agreements. OSF shall have executed and delivered all other agreements determined by the Parties to be necessary or appropriate to be entered into as of the Closing Date, related to the Affiliation.

## **ARTICLE VIII CONDITIONS PRECEDENT TO OBLIGATIONS OF OSF**

The obligations of OSF to consummate the transaction contemplated by this Agreement are, at the option of OSF, subject to the satisfaction by MCH, on or prior to the Closing Date, of the following conditions:

8.1. Regulatory Approvals. All regulatory consents and approvals required for the consummation of the transactions contemplated or required by this Agreement shall have been obtained on or before the Closing Date, including, without limitation, any necessary certificates of exemption and/or certificates of need, as applicable, from the IHFSRB to consummate the Affiliation.

8.2. HUD Approval. The written consent and approval of the Secretary of Housing and Urban Development for OSF to become the sole member of MCH with the full rights and powers prescribed by Applicable Law and by the Amended and Restated MCH Organizational Documents shall have been obtained on or before the Closing Date.

8.3. Accuracy of Warranties; Performance of Covenants. The representations and warranties of MCH contained in this Agreement shall be accurate in all material respects as if made on and as of the Closing Date. MCH shall have performed all of the obligations and complied with each of the covenants, agreements and conditions required to be performed or complied with on or prior to the Closing Date.

8.4. No Pending Action. No action or proceeding before any court or governmental body shall be pending or threatened wherein an unfavorable judgment, decree or order would prevent the carrying out of this Agreement or any of the transactions contemplated hereby, declare unlawful the transactions contemplated by this Agreement or cause such transactions to be rescinded.

8.5. No Bankruptcy. MCH shall not: (a) be in receivership or dissolution; (b) have made any assignment for the benefit of creditors; (c) have admitted in writing its inability to pay its debts as they mature; (d) have been adjudicated bankrupt; or (e) have filed a petition in voluntary bankruptcy, a petition or answer seeking reorganization or an arrangement with creditors under the Federal bankruptcy law or any other similar law or statute of the United States or any state; and nor shall any such petition have been filed against MCH.

8.6. Material Consents. All Material Consents shall have been obtained on or before the Closing Date.

8.7. Exhibits and Disclosures. It is not a condition precedent for this Agreement to be binding upon the Parties that all Exhibits and disclosures required under this Agreement be attached in a final form (in the case of Exhibits) or delivered (in the case of disclosures) on the Execution Date. Notwithstanding the foregoing, all Exhibits and disclosures required under this Agreement shall be complete and otherwise in final form reasonably acceptable to the Parties and shall be attached to the Agreement (in the case of Exhibits) or delivered (in the case of disclosures) at Closing. MCH shall have cured any disapproved Exhibits and/or disclosures in accordance with the process described in Section 9.4.

8.8. Treatment of Indebtedness. All Indebtedness that is outstanding on the Closing Date shall have been addressed in accordance with the Plan of Finance.

8.9. MCH Providers. As of the Closing, not less than four (4) physicians and two (2) midlevel providers who are employed by MCH as of the Execution Date shall remain employed by MCH, in good standing, and have not given notice of termination effective following the Closing, or given notice of breach of their respective employment agreements with MCH which remains uncured.

8.10. Amendment of Medical Staff Bylaws. Effective as of the Closing Date, the medical staff bylaws, rules and regulations, and credentialing procedures of the Hospital shall be amended to include provisions satisfactory to OSF prohibiting the performance of any procedures and the provision of any service at the Hospital or any other facility owned and/or operated by MCH in violation of the Ethical and Religious Directives.

8.11. Amendments to Leases. Effective as of the Closing Date, all existing lease agreements under which MCH leases space and/or equipment to physicians, mid-level providers and other health care workers shall be amended and/or restated by MCH in form and substance reasonably satisfactory to OSF to include, among other provisions, language prohibiting the use of the space and/or equipment in the delivery of items and services that contravene the Ethical and Religious Directives, in form and substance satisfactory to OSF.

8.12. Provider Employment and Independent Contractor Agreements. Effective as of the Closing Date, all existing employment agreements and independent contractor agreements with physicians, midlevel providers and other healthcare providers shall be amended and/or restated by MCH in form and substance reasonably satisfactory to OSF to include, among other provisions, language prohibiting such providers from performing any procedure or delivering any service in the scope of employment or pursuant to the independent contractor agreement that contravenes the Ethical and Religious Directives.

8.13. Community Health Needs Assessment. Prior to the Closing, MCH's Community Health Needs Assessment Report and Implementation Strategies shall be revised to OSF's reasonable satisfaction, the revised Community Health Needs Assessment shall be published on the MCH website, and the revised Implementation Strategies shall be adopted by the MCH Board.

8.14. Financial Assistance and Fair Billing Collection Policies. Prior to the Closing, MCH Board shall supplement MCH's existing charity care policies by adopting and implementing the OSF Financial Assistance Policy and OSF Fair Billing – Collection Policy.

8.15. MCH Employee Medical Plan. Effective as of the Closing Date, the Mendota Community Hospital Employee Medical Plan (the "Medical Plan") shall be modified on terms and conditions satisfactory to OSF, or the Medical Plan shall be terminated and MCH employees transitioned to the OSF Healthcare System Group Medical and Dental Plan on terms and conditions satisfactory to OSF.

8.16. Due Diligence. OSF shall have completed its due diligence investigation of MCH and the resulting information from such investigation shall have been acceptable to OSF in its sole discretion, and MCH shall have furnished to OSF and its representatives such information and access to such books and records and personnel as OSF may reasonably request for such purpose.

8.17. Delivery of MCH Closing Documents. MCH shall have delivered, on or before the Closing Date, the MCH Closing Documents.

8.18. Delivery of Other Agreements. MCH shall have executed and delivered all other agreements determined by the Parties to be necessary or appropriate to be entered into as of the Closing Date, relating to the Affiliation.

## **ARTICLE IX CLOSING**

9.1. Closing Date; Closing. The Parties shall close the Affiliation and the other transactions contemplated by the Agreement on the Closing Date. The Closing shall occur two (2) Business Days immediately prior to the Closing Date, at the offices of Hinshaw & Culbertson LLP, 222 North LaSalle Street, Chicago, Illinois or any other date or location agreed to by the Parties. All documents to be executed and actions to be taken, pursuant to this Agreement, at the Closing, shall be deemed to have been executed and to have been taken substantially concurrently, and no action shall be deemed to be complete until all are completed. On or before the Closing the MCH Board shall approve; (a) the Amended and Restated MCH Bylaws, effective as of the Closing Date; and (b) the Amended and Restated MCH Articles of Incorporation, which the Parties shall file with the Secretary of State on the Closing Date. Unless the Parties otherwise agree in writing, the Affiliation and other transactions contemplated herein shall become effective as of the Closing Date, in accordance with Section 13.1.15; provided that, as of the Closing Date, all of the Closing conditions (except for any Closing condition which has been waived in writing by the Party entitled to do so) set forth in ARTICLE VII and ARTICLE VIII have occurred, including the delivery by each Party of each of the Closing documents required to be delivered by such Party hereunder.

9.2. Pre-Closing Actions. Prior to the Closing, the Parties shall take and cause to be taken all actions necessary or appropriate on their respective parts to implement the transactions contemplated herein on the Closing Date, including the following:

9.2.1. Actions by OSF. Prior to the Closing Date, the OSF Board shall approve the execution on behalf of OSF of any and all agreements and other documents, and the taking of any and all other actions necessary or appropriate to consummate the transactions contemplated or required by this Agreement to be taken by OSF on or before the Closing Date.

9.2.2. Actions by MCH. Prior to the Closing Date, the MCH Board shall approve the execution on behalf of MCH of any and all agreements and other documents, and the taking of any and all other actions necessary or appropriate to consummate the transactions contemplated or required by this Agreement to be taken by MCH on or before the Closing Date.

9.3.Closing Document Deliveries. At the Closing, the Parties shall deliver the documents described below.

9.3.1. OSF Closing Documents. At the Closing, OSF shall deliver the OSF Closing Documents.

9.3.2. MCH Closing Documents. At the Closing, MCH shall deliver the MCH Closing Documents.

9.4.Modification of Exhibits and Disclosures. During the period from the Execution Date until the Closing, either OSF or MCH may amend any one or more of the Exhibits attached to the Agreement or disclosures delivered by it hereunder prior to the Execution Date by delivering an updated Exhibit or disclosure to the other Party. The Parties shall work together in good faith to ensure all Exhibits and disclosures are finalized and agreed to by the Parties prior to the Closing Date. Upon receipt of the updated document, the receiving Party shall promptly and in good faith review such document and either approve or disapprove it. If the receiving Party approves the updated document, such document shall become the final Exhibit or disclosure. If the receiving Party does not approve the amending Party's updated document(s) within five days of receipt of the updated document, the receiving Party shall provide written notice of disapproval to the amending Party specifying the reasons for disapproval and requesting the amending Party to cure the items of disagreement. If the amending Party fails or refuses to cure the items of disagreement, or the Parties are unable to agree upon an appropriate cure, or if the agreed-upon cure has not been completed by Closing, the receiving Party shall either: (a) close over the issue; or (b) if permitted by Section 11.1.5, terminate this Agreement by providing notice to the amending Party. If the receiving Party elects to close over the issue, the updated document shall be deemed a modification to the Exhibit attached to the Agreement or disclosure delivered by the amending Party prior to the Execution Date. All disclosures required by a Party shall be in a separate writing delivered to the other Parties that specifically makes reference to the applicable Section of the Agreement.

## **ARTICLE X POST-CLOSING COVENANTS OF OSF**

10.1. Catholic Teachings. From and after the Closing Date, the moral teachings of the Roman Catholic Church, including the Ethical and Religious Directives and Canon Law, shall

govern without exception the services provided by MCH and the conduct by MCH of its business and operations.

10.2. Physicians and Midlevel Providers.

10.2.1. Employed MCH Providers. The employment agreements of all physicians and midlevel providers presently employed by MCH ("**MCH Providers**") will be honored by MCH, provided the employment agreements are amended and/or restated as required under Section 8.12. Following the Closing Date, no MCH Provider will be permitted to perform any procedure or provide any service in the scope of employment which contravenes the Ethical and Religious Directives. The MCH Providers will participate in OSF quality programs and other OSF quality initiatives on the same basis as other physicians and midlevel providers aligned with OSF.

10.2.2. Independent Physicians. All agreements for professional and administrative services between independent physicians and MCH will be honored by MCH following the Closing Date, provided the agreements are amended and/or restated as required under Section 8.12.

10.2.3. Leases with Health Care Workers. All agreements for the lease of space and/or equipment between physicians, mid-level providers and other health care workers and MCH will be honored by MCH following the Closing Date, provided the agreements are amended and/or restated as required under Section 8.11.

10.3. Management; Employees.

10.3.1. Management. Following the Closing Date, the Hospital President will report to the Chief Executive Officer of OSF, or to an OSF System level executive who is his/her designee, and such reporting relationship will be consistent with the reporting relationship of Presidents/CEOs of other OSF hospitals.

10.3.2. Employees. All employees of MCH immediately prior to the Closing Date will remain employees of MCH as of the Closing Date in positions with benefits and compensation levels comparable to their current positions, benefits and compensation levels, subject to review and adjustment by MCH as of the Closing Date and from time to time thereafter in a manner consistent with OSF's staffing, benefits and compensation policies and practices. OSF shall retain for a period of ninety (90) days following the Closing Date such number of employees of MCH as shall be necessary to avoid any potential liability by MCH for a violation of the WARN Act, attendant to the failure of MCH to notify such employees of a "mass layoff" or "plant closing" (as such terms are defined in the WARN Act). OSF shall be liable and responsible for any notification required under the WARN Act (or under any similar state or local laws).

10.4. Use of Funds. All funds held by MCH as of the Closing Date and all funds donated to MCH following the Closing Date will be used solely for the support of MCH.

10.5. Donor Restrictions. All bequests, gifts and endowments restricted as to use or manner of investment as of the Closing Date shall continue to be so restricted following the

Closing Date, and OSF and OSF Affiliates then holding donor-restricted funds shall honor donative intent with respect thereto.

10.6. MCH Liabilities. Each liability of MCH outstanding immediately prior to the Closing Date shall remain the liability and obligation of MCH, from and after the Closing Date. From and after the Closing Date, OSF shall not be obligated to pay or assume, and none of their respective assets shall be or become liable for or subject to, any liability of MCH.

## **ARTICLE XI TERMINATION**

11.1. Termination Upon Certain Events. OSF or MCH may, at or prior to the time set for Closing, terminate this Agreement under any one of the following circumstances:

11.1.1. Mutual Consent. By mutual written consent of the Parties, through action of their respective Boards; or

11.1.2. Legal Proceeding. If at the time of Closing: (a) a *bona fide* action or proceeding shall be pending against either Party wherein an unfavorable judgment, decree or order would prevent or make unlawful the carrying out of the transactions contemplated by this Agreement; or (b) any governmental agency shall have notified a Party of its position that the consummation of the transactions contemplated herein would constitute a violation of Applicable Law and that it has commenced or intends to commence proceedings to restrain the consummation of the transactions contemplated herein, and such agency has not withdrawn such notice prior to such termination; or

11.1.3. Conditions Precedent to Closing. If the conditions of this Agreement to be complied with or performed by the other Party at or before the Closing shall not have been complied with or performed on or before the Closing Date or such later date upon which the Parties shall mutually agree, and such noncompliance or nonperformance shall have not been waived by the Party giving notice of termination; or

11.1.4. Material Adverse Change. If at any time prior to the Closing, there has been a Material Adverse Change in MCH or OSF, as applicable, and such change shall have not been waived by the Party giving notice of termination; or

11.1.5. Exhibits and Disclosures. A Party, in its reasonable discretion, determines that it should not consummate the transactions contemplated by this Agreement because of any information contained in a disclosure required under this Agreement that is delivered to such Party after the Execution Date (in accordance with Section 9.4) and that materially and adversely affects the benefits to be received by the Party pursuant to the transactions contemplated by this Agreement; or

11.1.6. Closing Date Deadline. If for any reason the Closing shall not have occurred on or before June 30, 2015 or such later date upon which the Parties shall mutually agree; provided, however, that the right to terminate this Agreement under this Section 11.1.6 shall not be available to any Party whose breach of any representation or warranty or whose failure to perform or observe in any material respect any covenant or

obligation contained in this Agreement has been the cause of or resulted in the failure of the Closing.

11.2. Notice of Termination. If either Party intends to terminate the Agreement pursuant to Section 11.1, such Party will give the other Party at least thirty (30) days' prior written notice of its intent and the specific reasons therefore. During such notice period, the Parties shall use their good faith best efforts to resolve the concerns of the Party giving notice of termination, including, but, not limited to, convening an in-person meeting of the respective Boards of the Parties. If the Parties are not able to resolve the concerns of the Party giving notice of termination, in the sole discretion of such Party, then the Agreement shall terminate upon the expiration of said thirty (30) day period or such later date upon which the Parties shall mutually agree.

11.3. Effect of Termination. If there has been a termination under Section 11.1 and notice has been provided in accordance with Section 11.2, this Agreement shall be deemed terminated, and all further obligations of the Parties hereunder shall terminate, except those obligations specifically identified in this Agreement as surviving termination. Any termination under Section 11.1 shall be without liability or obligation hereunder to the Parties or any of their respective Affiliates, except that the remedies of the Parties shall not be limited by this Agreement with respect to (a) any fraudulent acts of the Parties prior to termination; (b) a default by a Party in the observance or in the due and timely performance by such Party of any of the covenants herein contained; or (c) a breach by a Party of any of the warranties and representations herein contained. Nothing in this ARTICLE XI shall impair the right of any Party to compel specific performance by another Party of its obligations under this Agreement, or to seek injunctive relief against another Party. If the transactions contemplated by this Agreement are terminated as provided herein, except to the extent necessary to pursue or defend any claim, investigation, suit or other proceeding, (i) each Party shall return to the other Party all documents and copies and other materials received from or on behalf of such other Party relating to the transactions contemplated hereby, whether so obtained before or after the Execution Date, and (ii) all such information shall be treated in accordance with the Confidentiality Agreement, which shall remain in full force and effect notwithstanding the termination of this Agreement.

## **ARTICLE XII GENERAL PROVISIONS**

12.1. Survival. The representations and warranties of the Parties, and covenants of the Parties which require performance on or prior to the Closing Date, set forth in this Agreement or in any closing certificate delivered pursuant to this Agreement shall expire and terminate as of the close of business on the Closing Date. The covenants of the Parties which require performance on or after the Closing Date set forth in this Agreement shall survive the Closing Date indefinitely.

12.2. No Shop Clause. MCH agrees that, from and after the Execution Date of this Agreement until the earlier to occur of the Closing or the termination of this Agreement, MCH will not, without the prior consent of OSF, explore, meet, discuss, negotiate, directly or indirectly, or enter into an agreement with any third party for the purpose of discussing, organizing, formulating, designing, developing, investing in or implementing an arrangement

that could lead to a change in control, sale of equity, lease of assets, sale of assets, joint operating agreement/joint operating company, merger, consolidation, liquidation, academic affiliation or any other business relationship similar to the transactions contemplated by this Agreement. MCH shall promptly notify OSF by telephone and thereafter confirm in writing, if any such discussions or negotiations are sought to be initiated with MCH or any such proposal or possible proposal is received directly or indirectly by MCH. In the event MCH or any of its representatives receives an unsolicited offer relating to a type of transaction described above, MCH shall promptly inform the person or organization making such unsolicited offer of the existence of the restrictions of this Section 12.2, but not the other contents of this Agreement (including OSF's identity unless such disclosure has been previously made to the public by joint press releases or filing with a governmental agency), and MCH shall reject such offer.

12.3. Certain Disclosures. This Agreement references various written disclosures to be made by the Parties to one another in connection with this Agreement (the "Disclosures"). All Disclosures shall be delivered by the Parties to one another in a form and manner consistent with the protocol agreed upon by OSF and MCH. The inclusion of information in the Disclosures shall not be construed as or constitute an admission or agreement that a violation, right of termination, default, liability or other obligation of any kind exists with respect to any item, nor shall it be construed as or constitute an admission or agreement that such information is material to the Party making the Disclosure. In addition, matters reflected in the Disclosures are not necessarily limited to matters required by this Agreement. Any such additional matters are set forth for informational purposes only and do not necessarily include other matters of a similar nature. Neither the specifications of any dollar amount in any representation, warranty or covenant contained in this Agreement nor the inclusion of any specific item in the Disclosures is intended to imply that such amount, or higher or lower amounts, or the item so included or other items, are or are not material, and no Person other than a Party shall use the fact of the setting forth of any such amount or the inclusion of any such item in any dispute or controversy between the parties as to whether any obligation, item or matter not described herein or included in the Disclosures is or is not material for purposes of this Agreement.

12.4. Performance of Undertakings. The Parties agree that the standard that shall apply to the Parties' performance of all covenants and undertakings contained in this Agreement and in any and every document executed and delivered hereunder is a commercially reasonable standard, unless otherwise expressly set forth therein.

12.5. Consummation of Transactions. The Parties shall use, and cause their Affiliates to use, commercially reasonable efforts to consummate the transactions contemplated by this Agreement by March 31, 2015, and shall take no action which is inconsistent with its obligations hereunder or which could materially delay the consummation of the transactions contemplated hereby.

12.6. Notices. All notices, requests, demands and other communications under this Agreement shall be in writing and shall be deemed to have been duly given or made as follows: (a) if sent by registered or certified mail in the United States return receipt requested, upon receipt; (b) if sent designated for overnight delivery by nationally recognized overnight air courier (such as Federal Express, UPS or DHL), one (1) Business Day after mailing; (c) if sent by facsimile transmission or electronic mail before 5:00 p.m. (sender's time) and receipt is confirmed through a delivery report, upon delivery; (d) if sent by facsimile transmission or electronic mail after 5:00 p.m.

(sender's time) and receipt is confirmed through a delivery report, on the following Business Day; and (e) if otherwise actually personally delivered, when delivered, provided that such notices, requests, demands and other communications are delivered to the addresses set forth below, or to such other address as a Party shall provide by like notice to the other Party:

MCH: Ms. Margo Gallagher Schmitz  
President of the Board  
Mendota Community Hospital  
P.O. Box 247  
Earlville, IL 60518  
Fax: (815) 539-1461  
Email: [maegschmitz@aol.com](mailto:maegschmitz@aol.com)

with a simultaneous copy to: Douglas B. Swill  
Drinker Biddle & Reath, LLP  
191 N. Wacker Drive – Suite 3700  
Chicago, IL 60606-1698  
Fax: (312) 569-3270  
Email: [Douglas.Swill@dbr.com](mailto:Douglas.Swill@dbr.com)

OSF: Kevin D. Schoeplein  
Chief Executive Officer  
OSF Healthcare System  
800 N.E. Glen Oak Avenue  
Peoria, IL 61603  
Fax: (309) 655-6869  
Email: [kevin.d.schoeplein@osfhealthcare.org](mailto:kevin.d.schoeplein@osfhealthcare.org)

And Robert L. Brandfass  
Senior Vice President, Legal Services  
OSF Healthcare System  
800 N.E. Glen Oak Avenue  
Peoria, IL 61603  
Fax: (309) 655-6869  
Email: [robert.l.brandfass@osfhealthcare.org](mailto:robert.l.brandfass@osfhealthcare.org)

with a simultaneous copy to: Stephen T. Moore, Esq.  
Hinshaw & Culbertson LLP  
100 Park Avenue  
Rockford, IL 61101  
Fax: (815) 490-4901  
Email: [smoore@hinshawlaw.com](mailto:smoore@hinshawlaw.com)

12.7. Cost of Transaction. Each Party shall be responsible for and bear all of its own respective costs and expenses, including without limitation expenses of its legal counsel, accountants and other representatives, incurred at any time in connection with pursuing the Affiliation. OSF shall pay any fees associated with the certificate of exemption or certificate of need process with the IHFSRB, and any fees charged by any government agency in connection with notices or other filings as may be required under Applicable Law.

12.8. Reimbursement of Costs. If a Party brings an action for breach of the provisions of this Agreement, the prevailing party in such action, on trial or appeal, shall be entitled to its reasonable attorneys' fees to be paid by the losing party as fixed by the court.

12.9. No Brokerage. The Parties represent to each other that no broker has in any way been contacted in connection with the transactions herein contemplated. Each Party agrees to indemnify the other Party from and against all loss, cost, damage or expense arising out of claims for fees or commissions of brokers employed or alleged to have been employed by such indemnifying Party.

12.10. Non-Assignment. This Agreement shall be binding upon and inure to the benefit of the Parties and their respective successors, assigns and legal representatives, but neither Party may assign its rights in this Agreement or delegate its duties under this Agreement to a third party by any means without first obtaining the prior written consent of the other Party.

12.11. No Third-Party Beneficiaries. This Agreement shall not confer any rights or remedies upon any Person or other third party other than the Parties and their respective successors and permitted assigns.

12.12. Third Party Authorizations. From the Execution Date to the Closing Date, each of the Parties shall use commercially reasonable efforts to obtain expeditiously all consents, authorizations and other approvals of third parties necessary for the valid execution, delivery and performance of this Agreement by the Party.

12.13. Consents, Approvals and Discretion. Except as has been disclosed in writing by MCH to OSF no Material Contract contains any provision requiring consent, authorization or other approval of any Person required for Closing of the transactions contemplated by this Agreement. From the Execution Date to the Closing Date, each of the Parties shall use commercially reasonable efforts to obtain expeditiously all consents, authorizations and other approvals of third parties necessary for the valid execution, delivery and performance of this Agreement by such Party. Except as herein expressly provided to the contrary, whenever this Agreement requires any consent or approval to be given by a Party or a Party must or may exercise discretion, the Parties agree that such consent or approval shall not be unreasonably withheld or delayed and such discretion shall be reasonably exercised.

12.14. Additional Assurances. The provisions of this Agreement shall be self-operative and shall not require further agreement by the Parties except as may be herein specifically provided to the contrary; provided, however, at the request of a Party, the other Party shall execute such additional instruments and take such additional actions as the requesting Party may deem necessary to effectuate this Agreement. Additionally, each Party shall cooperate and use

commercially reasonable efforts to have its present directors, officers and employees cooperate with the other Party in furnishing information, evidence, testimony and other assistance in connection with any action, proceeding, arrangement or dispute of any nature with respect to matters pertaining to all periods prior to Closing in respect of the items subject to this Agreement; provided that each Party shall pay the reasonable out of pocket costs incurred by its respective directors, officers and employees.

12.15. Severability. In the event any provision of this Agreement is held to be invalid, illegal or unenforceable, in whole or in part, for any reason and in any respect, such invalidity, illegality, or unenforceability shall in no event affect, prejudice or disturb the validity of any remaining provision of this Agreement, which shall be and remain in full force and effect, and binding and enforceable in accordance with its terms.

12.16. Applicable Law. This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of Illinois; provided, however, that the conflicts of law principles of the State of Illinois shall not apply to the extent they would operate to apply the laws of another state. The Parties hereby consent to the jurisdiction of Illinois courts over all matters relating to this Agreement.

12.17. Headings; Cross References. Headings of Articles and Sections in this Agreement and the table of contents hereof are solely for convenience or reference, do not constitute a part hereof and shall not affect the meaning, construction or effect hereof. Unless indicated otherwise, references in this Agreement to Articles, Sections and Exhibits are to articles, sections, and exhibits of this Agreement.

12.18. Construction. Each Party has engaged separate independent legal counsel and independent advisors to provide advice and guidance to such Party. This Agreement and all documents or instruments delivered pursuant hereto shall be construed without regard to the identity of the person who drafted the various provisions of the same. Each and every provision of this Agreement and such other documents and instruments shall be construed as though the Parties participated equally in the drafting of the same. Consequently, the Parties acknowledge and agree that any rule of construction that a document is to be construed against the drafting Party shall not be applicable to this Agreement.

12.19. Waiver of Terms. The failure of a Party to insist, in any one or more instances, on performance of any of the terms, covenants and conditions of this Agreement shall not be construed as a waiver or relinquishment of any rights granted hereunder or thereunder or of the future performance of any such term, covenant or condition, but the obligations of the Parties with respect thereto shall continue in full force and effect. A waiver by one Party of the performance of any covenant, condition, representation or warranty of the other Party shall not invalidate this Agreement, nor shall such waiver be construed as a waiver of any other covenant, condition, representation or warranty. A waiver by a Party of the time for performing any act shall not constitute a waiver of the time for performing any other act or the time for performing an identical act required to be performed at a later time.

12.20. Representations. Except as otherwise expressly provided in ARTICLE III and ARTICLE IV, no representation or warranty contained herein shall be deemed to have been

waived, affected or impaired by any investigation made by or knowledge of a Party to this Agreement. All statements in any certificate or other instrument delivered at or in connection with the Closing shall constitute representations and warranties. Each agreement, covenant, representation, and warranty contained herein is independent of all other agreements, covenants, representations, and warranties contained herein (whether or not covering an identical or a related subject matter) and must be independently and separately complied with and satisfied. Exceptions or qualifications to any agreement, covenant, representation, or warranty contained herein shall not be construed as exceptions or qualifications to any other agreement, covenant, warranty, or representation.

12.21. Counterparts; Signatures. The Parties agree that this Agreement may be executed in multiple originals, each of which shall be considered an original for all purposes and, collectively, shall be considered to constitute this Agreement. The Parties further agree that signatures transmitted by facsimile or in Portable Document Format (pdf) may be considered an original for all purposes, including, without limitation, the execution of this Agreement and enforcement of this Agreement.

12.22. Time is of the Essence. Time is hereby expressly made of the essence with respect to each and every term and provision of this Agreement and any other agreements determined by the Parties to be necessary or appropriate to be entered into in connection with the transactions contemplated by this Agreement.

12.23. Access to Records and Information. If and to the extent applicable to this Agreement and to any agreement contemplated hereunder or entered into pursuant hereto between or among the Parties, the Parties agree to comply with the requirements of Public Law 96-499, Section 952 (Section 1861(v)(1)(1) of the Social Security Act) and regulations promulgated thereunder.

12.24. Cooperation. The Parties shall cooperate and use commercially reasonable efforts to obtain as promptly as possible all consents, approvals and agreements of, and to give and make as promptly as practicable all notices and filings with, any governmental and regulatory authorities necessary to authorize, approve, or permit the consummation of the transactions contemplated herein.

12.25. Communications. The Parties shall promptly advise the other Party of all material communications received by a Party pertaining to the transactions contemplated by this Agreement, including such communications which it receives from governmental agencies or authorities.

12.26. Publicity. Except as required by law, all press releases or other public communications of any sort regarding the transactions contemplated herein, and the method of the release for publication thereof, will be subject to the approval of both Parties, which approval shall not be unreasonably withheld.

12.27. Entire Agreement; Amendment. This Agreement, including all and Exhibits required hereunder, supersedes all previous agreements, oral or written, and constitutes the entire agreement between the Parties respecting the subject matter of this Agreement, and neither Party

shall be entitled to benefits other than those specified herein. Each Exhibit and disclosure referenced in this Agreement shall be considered a part hereof as if set forth herein in full. As between the Parties, oral statements or prior written materials which are not specifically incorporated herein shall not be of any force and effect. The Parties specifically acknowledge that in entering into and executing this Agreement, the Parties rely solely upon the representations and agreements contained in this Agreement and no others. This Agreement may be amended or modified only by an agreement in writing signed by the Parties.

### **ARTICLE XIII GLOSSARY**

13.1. Glossary. Set forth below is a glossary of defined terms used in this Agreement:

13.1.1. "**Act**" means the General Not For Profit Corporation Act of 1986, as amended, codified at 805 ILCS § 105 *et seq.*

13.1.2. "**Accreditation**" means accreditations by various accreditation organizations, including, without limitation, The Joint Commission.

13.1.3. "**Affiliate**" means any entity which is under the Control of, or which is under common Control with, the subject entity.

13.1.4. "**Affiliation**" means the corporate reorganization of MCH whereby MCH becomes part of OSF by amendment of MCH's articles of incorporation and bylaws to provide that OSF is its sole member, in order to create an integrated health care delivery system.

13.1.5. "**Agreement**" means this Affiliation Agreement between the Parties.

13.1.6. "**Amended and Restated MCH Articles**" shall have the meaning set forth in Section 2.1.

13.1.7. "**Amended and Restated MCH Bylaws**" shall have the meaning set forth in Section 2.1.

13.1.8. "**Amended and Restated MCH Organizational Documents**" shall have the meaning set forth in Section 2.1.

13.1.9. "**Applicable Law**" means all applicable Federal, state and local laws, statutes, ordinances, rules, regulations, codes and any judgment, decree, order, writ or injunction of any court or regulatory authority.

13.1.10. "**Business Day**" means any day excluding Saturday, Sunday and any day that is a legal holiday in the State of Illinois.

13.1.11. "**Canonical Approvals**" shall have the meaning set forth in Section 7.2.

- 13.1.12.        “**Canon Law**” means the Code of Canon Law of the Roman Catholic Church.
- 13.1.13.        “**CERCLA**” means the federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, 42 U.S.C. §§ 9691 *et. seq.*
- 13.1.14.        “**Closing**” means the delivery of the documents required to be delivered on the Closing Date by the respective Parties.
- 13.1.15.        “**Closing Date**” means (a) the Business Day established for closing of the financing transactions described in the Plan of Finance, following receipt of all Canonical Approvals, regulatory approvals and satisfaction of all conditions precedent to Closing set forth herein; or (b) such other date mutually agreed to by the Parties following the receipt of all Canonical Approvals, regulatory approvals and satisfaction of all conditions precedent to Closing set forth herein, with the transaction to be effective at 12:00:01 a.m., Central Standard Time or Central Daylight Time, as applicable, on such date.
- 13.1.16.        “**COBRA**” shall have the meaning set forth in Section 3.21.6.
- 13.1.17.        “**Code**” means the Internal Revenue Code of 1986, as amended.
- 13.1.18.        “**Community Board**” means the body established by, and whose affairs will be conducted in accordance with, the bylaws approved by the OSF Board in form and substance reasonably acceptable to MCH, as may be amended from time to time, comprised of key advisors to MCH and whose purpose is to provide input, advice, and guidance to the Hospital President on certain matters affecting the Hospital, such as management plans, strategic plans, annual capital and operating budgets, services, quality, safety, and community outreach.
- 13.1.19.        “**Compliance Program**” means provider programs of the type described in the compliance guidance published by the Office of Inspector General of the Department of Health and Human Services.
- 13.1.20.        “**Confidentiality Agreement**” means the Confidentiality Agreement by and between OSF and MCH, dated November 6, 2013, as amended, and agreed to by OSF and MCH in the Letter of Intent.
- 13.1.21.        “**Control**” means possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of an entity whether through ownership of voting securities or membership interests, by contract or otherwise.
- 13.1.22.        “**Debt Transaction**” shall have the meaning set forth in Section 13.1.55.1.
- 13.1.23.        “**Disclosures**” shall have the meaning set forth in Section 12.3.

13.1.24. **“Environmental Law”** means all Federal, state or local statutes and ordinances, and all rules and regulations promulgated thereunder, common law, orders, consent decrees, permits, and binding judicial and administrative interpretations thereof, pertaining or relating to: (a) natural resources and the environment; (b) public and worker health, safety and welfare relating to Hazardous Substances; and (c) the identification, assessment, reporting, generation, manufacture, processing, distribution, use, treatment, storage, disposal, emission, discharge, release, transport or other handling of any Hazardous Substances, including, without limitation, CERCLA and RCRA; and (d) conditions caused by such activities described in (c) relating to Hazardous Substances.

13.1.25. **“ERISA”** means the Employee Retirement Income Security Act of 1974, as amended.

13.1.26. **“ERISA Affiliate”** means any employer that is treated as a single employer with MCH under Section 414(b), (c), (m) or (o) of the Code.

13.1.27. **“Ethical and Religious Directives”** means the Ethical and Religious Directives for Catholic Health Care Services, as amended from time to time, promulgated by the United States Conference of Catholic Bishops, as interpreted and applied by OSF.

13.1.28. **“Execution Date”** means October 1, 2014.

13.1.29. **“Exhibit”** means an exhibit attached to this Agreement.

13.1.30. **“Fiscal Year”** means (i) with respect to OSF prior to the Closing Date, any twelve-month period beginning on October 1st of any calendar year and ending on September 30th of the following calendar year, and (ii) with respect to MCH prior to the Closing Date, any twelve-month period beginning on April 1<sup>st</sup> of any calendar year and ending on March 31<sup>st</sup> of the following calendar year.

13.1.31. **“GAAP”** means United States Generally Accepted Accounting Principles, consistently applied.

13.1.32. **“Governing Documents”** means the articles of incorporation, certificate of incorporation, bylaws, partnership agreement, operating agreement or other documents by and through which a business organization is formed and governed.

13.1.33. **“Guaranty or Guaranties”** means all obligations of a Person guaranteeing or, in effect, guaranteeing any Indebtedness, dividend or other obligations of any Primary Obligor in any manner, whether directly or indirectly, including but not limited to obligations incurred through an agreement, contingent or otherwise, by such Person: (1) to purchase such Indebtedness or obligation or any Property constituting security therefore; (2) to advance or supply funds: (i) for the purchase or payment of such Indebtedness or obligation, or (ii) to maintain working capital or other balance sheet condition; (3) to purchase securities or either Property or services primarily for the purpose of assuring the owner of such Indebtedness or obligation of the ability of the

Primary Obligor to make payment of the Indebtedness or obligation; or (4) otherwise to assure the owner of such Indebtedness or obligation against loss in respect thereof.

13.1.34. **“Hazardous Substances”** means petroleum or petroleum products, polychlorinated biphenyls, asbestos containing materials, lead-based paint, radon, radioactive materials, toxic mold or fungus of any kind or species or other microbial matter, medical wastes, and any other substances, materials, chemicals, pollutants, constituents, wastes or noxious substances regulated by any Environmental Law.

13.1.35. **“Health Care Laws”** means all Federal, state and local laws, statutes, rules, regulations, ordinances and codes applicable to health care providers and facilities; Federal and state health care program conditions of participation, standards, policies, rules, procedures and other requirements; and accreditation standards of any applicable accrediting organization. Health Care Laws include, without limitation, the following laws: the Federal (Title XIX of the Social Security Act) and state Medicaid programs and their implementing regulations, the Medicare Program (Title XVIII of the Social Security Act) and its implementing regulations, the Federal False Claims Act (31 U.S.C. §§3729 et seq.), the Federal Health Care Program Anti-Kickback Statute (42 U.S.C. §1320a-7b(b)), the Federal Physician Self-Referral Law (42 U.S.C. §1395nn), the Federal Administrative False Claims Law (42 U.S.C. §1320a-7b(a)), HIPAA and the HIPAA Privacy Rule, the HIPAA Security Rule, HIPAA Standards for Transactions and Code Sets, HIPAA Enforcement Rule and HIPAA Breach Notification Rule (42 U.S.C. 1320d through 1320d-9; 45 CFR Parts 160, 162 and 164), the Federal Confidentiality of Alcohol and Drug Abuse Patient Records Act (42 U.S.C. 290ee-3), Hart-Scott-Rodino Antitrust Improvements Act, the Rehabilitation Act, the Americans with Disabilities Act, the Occupational Safety and Health Administration statutes and regulations for blood borne pathogens and workplace risks, and any state and local laws that address the same or similar subject matter. Health Care Laws also include Federal, state and local laws applicable to health care provider and facilities, including, without limitation, laws related to: Federal and state health care program billing, cost reporting, revenue reporting, payment and reimbursement; Federal and state health care program fraud, abuse, theft or embezzlement; procurement of health care services, human and social services, and other health related services; employee background checks and credentialing of employees; credentialing and licensure of facilities or providers of such services; zoning, maintenance, safety and operations of group homes, residential facilities and day programs, and other building health and safety codes and ordinances; certificate of need laws; state law restrictions on the corporate practice of medicine (or the corporate practice of any other health related profession); eligibility for Federal and state health care program contracting, including any requirements limiting contracting to nonprofit or tax exempt entities; patient information and medical record confidentiality, including psychotherapy and mental health records; splitting of health care fees; patient brokering, patient solicitation, patient capping, and/or payment of inducements to recommend or refer, or to arrange for the recommendation or referral of, patients to health care providers or facilities; standards of care, quality assurance, risk management, utilization review, peer review, and/or mandated reporting of incidents, occurrences, diseases and events; advertising or marketing of health care services; and the enforceability of restrictive covenants on health care providers.

13.1.36. **“HIPAA”** means the Health Insurance Portability and Accountability Act of 1996, as amended.

13.1.37. **“Hospital”** means the licensed critical access hospital facilities located at 1401 East 12<sup>th</sup> Street in Mendota, Illinois, owned and operated by MCH as of the Execution Date.

13.1.38. **“Hospital President”** means the president of the Hospital who shall have the authority and responsibilities included in OSF’s job description of the Hospital/Medical Center President and in the employment agreement entered into between OSF and the president of the Hospital.

13.1.39. **“HUD Financing”** means the loan transaction between MCH and Lancaster Pollard Mortgage Company evidenced by a Note dated December 1, 2009 in the original amount of \$34,220,000 payable by MCH to Lancaster Pollard Mortgage Company, secured by a mortgage dated December 1, 2009 and insured by the U.S Department of Housing and Urban Development under Section 242 of the National Housing Act, the proceeds of which loan were used by MCH for the construction of a replacement hospital in Mendota, Illinois.

13.1.40. **“IHFSRB”** means the Illinois Health Facilities and Services Review Board.

13.1.41. **“Indebtedness”** means, for any Person, (a) all Guaranties of such Person, (b) all liabilities (exclusive of reserves such as those established for deferred Taxes) recorded or required to be recorded as such on the audited financial statements of such Person as of the end of the then most recent Fiscal Year for which financial statements reported upon by independent certified public accountants are available and (c) all obligations for payment of money incurred or assumed by such Person (i) due and payable in all events or (ii) if incurred or assumed primarily to assure the repayment of money borrowed or credit extended, due and payable upon the occurrence of a condition precedent or upon the performance of work, possession of Property as lessees, rendering of services by others or otherwise, and shall include, without limitation, Non-Recourse Indebtedness; provided that Indebtedness shall not include Indebtedness of one Member of the OSF Obligated Group to another Member of the OSF Obligated Group, any Guaranty by any Member of the OSF Obligated Group of Indebtedness of any other Member of the OSF Obligated Group, the joint and several liability of any Member of the OSF Obligated Group on Indebtedness issued by another Member of the OSF Obligated Group, Interest Rate Agreements or any obligation to repay moneys deposited by patients or others with a Member as security for or as prepayment of the cost of patient care or any rights of residents of life care, elderly housing or similar facilities to endowment or similar funds by or on behalf of such residents.

13.1.42. **“Institutional Review Board”** means a specially constituted review body established or designated by an entity to protect the welfare of human subjects recruited to participate in biomedical or behavioral research.

13.1.43. **“Insurance Policies”** means binders and policies of insurance maintained by MCH, under which MCH is a named insured or that otherwise insure assets used primarily in connection with the operation of MCH.

13.1.44. **“Intellectual Property”** means material trademarks, service marks, trade names, patents, copyrights, and applications therefore (whether registered or common law) currently owned or used by MCH.

13.1.45. **“Interest Rate Agreement”** means an interest rate exchange, hedge or similar agreement, expressly identified in an Officer’s Certificate of the Obligated Group Agent delivered to the Master Trustee as having been entered into in order to hedge the interest payable on all or a portion of any Indebtedness, which agreement may include, without limitation, an interest rate swap, a forward or futures contract or an option (e.g., a call, put, cap, floor or collar).

13.1.46. **“IRS”** means the Internal Revenue Service.

13.1.47. **“Key Management Personnel”** means: (a) with respect to MCH, the directors, chief executive officer, chief operating officer, chief financial officer, chief nursing officer, and department director level and above employees of MCH; or (b) with respect to OSF, directors and vice-president level and above employees of OSF.

13.1.48. **“Knowledge”, “Known”, “Knowingly”, “to the Knowledge”** or any variant thereof shall, when qualifying any representation, warranty or other statement in this Agreement, mean: (i) all information of which Key Management Personnel of a Party are actually aware; (ii) all information Key Management Personnel of a Party could be expected to discover or otherwise become aware of in the course of conducting a reasonably comprehensive investigation concerning the existence of such information; and (iii) all information that would with reasonable diligence in the ordinary course of the performance of their normal duties come to the attention of Key Management Personnel of a Party responsible for verifying the accuracy thereof for purposes of this Agreement.

13.1.49. **“Letter of Intent”** means the letter of intent between OSF and MCH dated May 8, 2014.

13.1.50. **“Licenses and Permits”** means governmental licenses, permits, certificates, consents, or approvals required by Applicable Law to own or operate the MCH Facilities and Services.

13.1.51. **“Management Agreement”** means the agreement between MCH and OSF entered into as of the Closing Date pursuant to which OSF will provide to MCH certain management services.

13.1.52. **“Master Trustee”** means Wells Fargo Bank, National Association, as successor master trustee in respect to the OSF Master Indenture or any successor master trustee hereafter appointed pursuant to the OSF Master Indenture.

13.1.53. **“Material Adverse Change”** means:

a. With respect to MCH or OSF any condition, change, event, violation, inaccuracy, circumstance or effect that:

(i) Has had or could reasonably be expected to have a material adverse effect on the business, financial condition or results of operations of MCH, or the OSF Entities taken as a whole, as applicable; or

(ii) Individually or in the aggregate could reasonably be expected to result in liabilities with respect to Applicable Laws including, without limitation, Health Care Laws and/or Payment Programs, in excess of \$4,000,000 in the aggregate in the case of the MCH, or in excess of \$40,000,000 in the aggregate in the case of the OSF Entities, as applicable; or

(iii) Could reasonably be expected to result in a change during any rolling twelve (12) month period that includes the Execution Date, in the assets, results of operation or the financial condition of MCH or the OSF Entities in the aggregate, as applicable:

(a) as to any reduction in the total assets of such Parties in an amount in the aggregate greater than eight percent (8%) of such Parties' aggregate total assets as reflected on the respective Parties' interim unaudited balance sheets for the initial month of the twelve (12) month period; or

(b) as to any change in the financial condition of such Parties, taken as a whole, has resulted in or is reasonably likely to result, on a normalized basis (i.e., after taking into account whether the effects of such change or event are reasonably likely to continue over such period), in a reduction in earnings before deductions for interest, Taxes, depreciation and amortization of such Parties, taken as a whole, over the twelve (12) month period ending in the month in which the change or event occurs, in an amount greater than eight percent (8%) of such Parties' aggregate total assets (as reflected on the respective Parties' interim unaudited balance sheets for the initial month of that twelve (12) month period); or

b. With respect to MCH or OSF, as applicable:

(i) The inability of MCH or OSF to maintain its Code Section 501(c)(3) status; or

(ii) The inability of any of MCH to continue to operate the Hospital; or

(iii) The debarment or exclusion of any of MCH or OSF from participation in the Medicare or Medicaid programs.

c. Any condition, change, event, violation, inaccuracy, circumstance or effect that prevents or materially impedes or delays the consummation of the transactions contemplated by this Agreement by MCH or OSF.

Notwithstanding anything to the contrary, "Material Adverse Change" shall not include:

- (i) changes in the financial or operating performance of MCH or OSF, as applicable, due to or caused by the announcement of the transactions contemplated by this Agreement or seasonal changes;
- (ii) changes or proposed changes to any Applicable Law, reimbursement rates or policies of governmental agencies or bodies that are generally applicable to hospitals or health care facilities;
- (iii) requirements, reimbursement rates, policies or procedures of third party payors or accreditation commissions or organizations that are generally applicable to hospitals or health care facilities;
- (iv) general business, industry or economic conditions, including such conditions related to the business of MCH or OSF, that do not disproportionately affect MCH or OSF, as applicable;
- (v) local, regional, national or international political or social conditions, including the engagement by the United States in hostilities, whether or not pursuant to the declaration of a national emergency or war, or the occurrence of any military or terrorist attack, that do not disproportionately affect MCH or OSF, as applicable;
- (vi) changes in financial, banking or securities markets (including any disruption thereof and any decline in the price of any security or any market index) that do not disproportionately affect MCH or OSF, as applicable;
- (vii) changes in GAAP;
- (viii) any action or omission of a Party taken with the prior consent of the other Party; or
- (ix) the payment or provision for payment of expenses incurred relating to this Agreement and the transactions contemplated thereby.

13.1.54. "Material Consents" means any consents, approvals or authorizations of third parties required for the consummation of the transactions contemplated or required by this Agreement and as otherwise set forth on Exhibit A.

13.1.55. "Material Contracts" means the following contracts, leases (capital and operating), and other agreements entered into by or on behalf of MCH which are in effect and involve the operations of MCH:

- a. any management contracts whereby MCH or any of its officers or employees provide management services to other hospitals, educational, or other healthcare institutions with (i) a dollar value or liability greater than (or expected to be greater than) \$250,000, in the aggregate after the Execution Date (unless such contract allows for termination upon 120 days or less notice without cause and without penalty); or (ii) a term of greater than one (1) year and payments in excess of \$100,000 annually;
- b. all management or consulting agreements with (i) a dollar value or liability greater than (or expected to be greater than) \$250,000, in the aggregate after the Execution Date (unless such contract allows for termination upon 120 days or less notice without cause and without penalty); or (ii) a term of greater than one (1) year and payments in excess of \$100,000 annually;
- c. all service contracts, shared service agreements, joint purchasing agreements, or similar agreements with (i) a dollar value or liability greater than (or expected to be greater than) \$250,000, in the aggregate after the Execution Date (unless such contract allows for termination upon 120 days or less notice without cause and without penalty); or (ii) a term of greater than one (1) year and payments in excess of \$100,000 annually;
- d. all leases of space and/or equipment with (i) a dollar value or liability greater than (or expected to be greater than) \$250,000, in the aggregate after the Execution Date (unless such contract allows for termination upon 120 days or less notice without cause and without penalty); or (ii) a term of greater than one (1) year and payments in excess of \$100,000 annually;
- e. all agreements for the sale or acquisition of capital assets involving assets of more than \$250,000 in the aggregate;
- f. all construction agreements with (i) a dollar value or liability greater than (or expected to be greater than) \$250,000, in the aggregate after the Execution Date (unless such contract allows for termination upon 120 days or less notice without cause and without penalty); or (ii) a term of greater than one (1) year and payments in excess of \$100,000 annually;
- g. all service agreements, maintenance agreements and warranties with respect to assets of MCH with (i) a dollar value or liability greater than (or expected to be greater than) \$250,000, in the aggregate after the Execution Date (unless such contract allows for termination upon 120 days or less notice without cause and without penalty); or (ii) a term of greater than one (1) year and payments in excess of \$100,000 annually;
- h. all installment payment agreements with (i) a dollar value or liability greater than (or expected to be greater than) \$250,000, in the aggregate after the Execution Date (unless such contract allows for termination upon 120

days or less notice without cause and without penalty); or (ii) a term of greater than one (1) year and payments in excess of \$100,000 annually;

i. all agreements with third party administrators with (i) a dollar value or liability greater than (or expected to be greater than) \$250,000, in the aggregate after the Execution Date (unless such contract allows for termination upon 120 days or less notice without cause and without penalty); or (ii) a term of greater than one (1) year and payments in excess of \$100,000 annually;

j. all supply agreements with (i) a dollar value or liability greater than (or expected to be greater than) \$250,000, in the aggregate after the Execution Date (unless such contract allows for termination upon 120 days or less notice without cause and without penalty); or (ii) a term of greater than one (1) year and payments in excess of \$100,000 annually;

k. all collection agency, brokers' or finders' agreements with (i) a dollar value or liability greater than (or expected to be greater than) \$250,000, in the aggregate after the Execution Date (unless such contract allows for termination upon 120 days or less notice without cause and without penalty); or (ii) a term of greater than one (1) year and payments in excess of \$100,000 annually;

l. all debt, bond, credit, mortgage, pledge, or other lien or encumbrance agreements and all documents evidencing negative pledges or other covenant or transfer restrictions on the assets of MCH, with (i) a dollar value or liability greater than (or expected to be greater than) \$1,000,000, in the aggregate; (ii) a term of greater than one (1) year and payments in excess of \$250,000 annually; or (iii) covenants in excess of those in the HUD Financing (a "**Debt Transaction**");

m. all leases of real property in which MCH is either a lessor or lessee, including, without limitation, all agreements pursuant to which any department of MCH is operated under a lease arrangement, with (i) a dollar value or liability greater than (or expected to be greater than) \$250,000, in the aggregate after the Execution Date (unless such contract allows for termination upon 120 days or less notice without cause and without penalty); or (ii) a term of greater than one (1) year and payments in excess of \$100,000 annually;

n. all joint venture agreements or shareholder agreements to which MCH is a party or involving MCH's program or operations;

o. all agreements with physicians or any source of patient referrals, including allied health professionals or other professional personnel (excluding any agreements entered into in the ordinary course of business with at-will employees), corporations or partnerships comprised of or owned by them or the relatives of any of them that cannot be terminated without cause or penalty upon one hundred twenty (120) or fewer days, including, without limitation, all

employment agreements, contracts to provide administrative or professional services, recruitment, retention, relocation or income guarantee agreements, loans and guarantees, and acquisitions of private professional practices or their assets (each a “**Physician Contract**”);

p. all agreements or commitments related to physician hospital organizations (PHOs), medical services organizations (MSOs), physician networks, community care networks, integrated delivery networks, or other health care delivery systems or networks;

q. all agreements (excluding any agreements entered into in the ordinary course of business with at-will employees) for employment, indemnity, retention, severance, change-in-control, employee lease, deferred compensation, or incentive compensation with, and agreements regarding loans or advances to, employees of MCH;

r. all Payment Program contracts with a term of greater than one (1) year and payments in excess of \$100,000 annually;

s. all Insurance Policies, trust agreements and other related agreements, including, without limitation, stop-loss and self-insurance arrangements, with (i) premium payments greater than (or expected to be greater than) \$250,000, in the aggregate; or (ii) a term of greater than one (1) year and payments in excess of \$100,000 annually (excluding renewals of existing policies at the normal renewal date and with the same or substantially similar terms);

t. license and sublicense agreements with respect to any computer software with (i) a dollar value or liability greater than (or expected to be greater than) \$250,000, in the aggregate after the Execution Date (unless such contract allows for termination upon 120 days or less notice without cause and without penalty); or (ii) a term of greater than one (1) year and payments in excess of \$100,000 annually; and

u. any other agreement not included in subparagraphs a. through t. above with (i) a dollar value or liability greater than (or expected to be greater than) \$250,000, in the aggregate after the Execution Date (unless such contract allows for termination upon 120 days or less notice without cause and without penalty); or (ii) a term of greater than one (1) year and payments in excess of \$100,000 annually.

13.1.56. “**MCH**” means Mendota Community Hospital, an Illinois not-for-profit corporation.

13.1.57. “**MCH Board**” means the Board of Directors of MCH.

13.1.58. “**MCH Audited Financial Statements**” means audited financial statements of MCH for the two (2) Fiscal Years ended immediately prior to the Execution Date, for which audited financial statements are available.

13.1.59. **“MCH Benefit Plans”** means “employee welfare benefit plans” (as defined in Section 3(1) of ERISA), “employee pension benefit plans” (as defined in Section 3(2) of ERISA), and all other employee benefit plan agreements and arrangements and employee benefit policies, whether funded or unfunded, qualified or nonqualified, subject to ERISA or not, maintained or contributed to (or required to be contributed to) by MCH and any ERISA Affiliate for the benefit of any of its officers, employees or other persons.

13.1.60. **“MCH Board”** means the Board of Directors of MCH.

13.1.61. **“MCH Closing Documents”** means:

a. A certificate of the President of MCH, dated as of the Closing Date, certifying as to the continued accuracy and completeness in all material respects of representations and warranties of MCH, and its performance in all material respects of the covenants and conditions precedent, set forth in this Agreement;

b. A certificate of the Chief Financial Officer of MCH, dated as of the Closing Date, certifying as of the date hereof, as to the accuracy in all material respects of the financial representations and warranties relating to MCH set forth at Section 3.4 and Section 3.5;

c. A certificate of the Secretary of MCH, dated as of the Closing Date, certifying as to the due adoption and continued effectiveness of, and attaching a copy of the resolutions of each MCH Board approving this Agreement and the actions and transactions required or contemplated by this Agreement, including but not limited to approval of the MCH Amended and Restated Governing Documents, and approval of the renaming of the facility known as “Mendota Community Hospital” to a name acceptable to OSF effective as of the Closing Date;

d. A copy of the MCH Amended and Restated Bylaws, as approved by the MCH Board, effective as of the Closing Date;

e. A copy of the MCH Amended and Restated Articles of Incorporation, as filed as of a recent date with the Secretary of State of Illinois, effective as of the Closing Date;

f. Evidence of the resignations of the officers, directors and committee members of the MCH Board;

g. Evidence of the amendment of lease agreements pursuant to Section 8.11, effective as of the Closing Date;

h. Evidence of the amendment of the MCH medical staff bylaws, rules and regulations, and credentialing procedures pursuant to Section 8.10, effective as of the Closing Date;

i. Evidence of the amendment of all physician and healthcare worker employment agreements, pursuant to Section 8.12 or adoption of a policy prohibiting the performance of any procedure or delivery of any service by an employed physician or other healthcare worker that contravenes the Ethical and Religious Directives, pursuant to Section 8.12, effective as of the Closing Date;

j. All documents required to be delivered by MCH for closing of the financing transactions described in the Plan of Finance;

k. An opinion from counsel to the MCH Parties, dated as of the Closing Date, in form and substance satisfactory to OSF, addressed to OSF and its counsel, to the effect that:

(i) MCH is duly incorporated, validly existing, and in good standing under the laws of the State of Illinois, and is duly licensed or qualified to transact business in the nature of the business transacted by it. MCH has the corporate power and authority to own and hold its properties and to carry on its business as conducted on the Closing Date. MCH has the corporate power and authority to execute, deliver, and perform its obligations under the Affiliation Agreement and all other agreements contemplated thereby to which it is a party;

(ii) The execution and delivery by MCH of the Affiliation Agreement and the performance of its obligations thereunder, has been duly authorized by all requisite action of the board of directors of MCH, and no further action is required on the part of MCH or its members or directors under the Governing Documents of MCH for the authorization and consummation of the transactions contemplated thereby;

(iii) The Affiliation Agreement has been duly executed and delivered by MCH and, assuming due authorization, execution and delivery by the OSF, constitutes the legal, valid, and binding obligation of MCH, enforceable in accordance with its terms (subject, as to enforcement of remedies, to the discretion of courts in awarding equitable relief and to applicable bankruptcy, reorganization, insolvency, moratorium, and similar laws affecting the rights of creditors generally);

(iv) The execution and delivery by MCH of the Affiliation Agreement, and the performance of its obligations thereunder, do not violate the Governing Documents of MCH or, to our knowledge, any material provision of United States or Illinois law. To our knowledge, except as disclosed in writing by MCH to OSF, the execution and delivery by MCH of the Affiliation Agreement do not (a) violate any order of any court or other agency or government, or (b) conflict with, result in a breach of or constitute (with due notice or the lapse of time or both) a default under any Material Contract;

(v) To our knowledge, except as disclosed in writing by MCH to OSF: (a) MCH is not a defendant in, or threatened with, any action, suit, proceeding, complaint, charge, hearing, arbitration or state or Federal governmental investigation that could reasonably be expected to materially and adversely affect its ability to perform its obligations under the Affiliation Agreement; and (b) MCH has not received notice of any investigation or threatened investigation by any Federal, state or local governmental or regulatory agency, including those involving its business practices and policies, that could result in a Material Adverse Change in the MCH Parties taken as a whole; and

(vi) MCH is an organization described in Section 501(c)(3) of the Code, exempt from federal income tax under Code Section 501(a) (except for any unrelated business income tax imposed pursuant to Code Sections 511-514), and other than a private foundation pursuant to Code Section 509(a);

1. Such other instruments and documents as may be mutually agreed upon by the Parties and reasonably necessary to carry out the transactions contemplated or required by this Agreement and to comply with the terms hereof.

13.1.62. **“MCH Facilities and Services”** means the healthcare programs and services which are provided by MCH on the Closing Date and the buildings in which such programs and services are provided.

13.1.63. **“MCH Financial Statements”** means the MCH Audited Financial Statements, the MCH Unaudited Financial Statements, and the MCH Interim Financial Statements, collectively.

13.1.64. **“MCH Interim Financial Statements”** means monthly unaudited financial statements and footnotes thereto of MCH for the immediately preceding month.

13.1.65. **“MCH Liability”** means all liabilities, indebtedness, commitments and other financial and operational obligations of MCH, whether Known or unknown, fixed or contingent, recorded or unrecorded, existing as of the Closing Date or thereafter arising or otherwise.

13.1.66. **“MCH Providers”** means all physicians and midlevel providers employed by MCH on the Closing Date.

13.1.67. **“MCH Unaudited Financial Statements”** means unaudited financial statements of MCH for the interim period from March 31, 2014, through the most recent month end date for which financial statements were available prior to the Execution Date.

13.1.68. **“Member”** or **“Members”** refers to the members of the OSF Obligated Group.

13.1.69. “**National Priorities List**” means the USEPA’s list of the most serious uncontrolled or abandoned hazardous waste sites identified for possible long-term remedial action under CERCLA, which is updated each year.

13.1.70. “**Non-Recourse Indebtedness**” means any Indebtedness the liability for which is effectively limited to Property, Plant and Equipment (other than the Owned Real Property) and the income therefrom not less than eighty percent (80%) of the cost of which Property, Plant and Equipment shall have been financed solely with the proceeds of such Indebtedness with no recourse, directly or indirectly, to any other Property of any Member.

13.1.71. “**Obligated Group Agent**” means OSF or such other Member of the OSF Obligated Group as is designated in a written notice delivered by all Members of the OSF Obligated Group to the Master Trustee.

13.1.72. “**Officer’s Certificate**” means a certificate signed, in the case of a certificate delivered by a corporation, by the President or any Vice-President (or such other officer of the corporation holding an office described in the corporate bylaws or other organizing documents of such corporation and having authority to bind the corporation) or, in the case of a certificate delivered by any other Person, the chief executive or chief financial officer of such other Person, in either case whose authority to execute such Certificate shall be evidenced to the satisfaction of the Master Trustee.

13.1.73. “**OSF**” means OSF Healthcare System, an Illinois not-for-profit corporation.

13.1.74. “**OSF Affiliate**” means an entity that controls, is controlled by, or is under common control with OSF.

13.1.75. “**OSF Audited Financial Statements**” means audited consolidated financial statements of OSF for the two (2) Fiscal Years ended immediately prior to the Execution Date, for which audited financial statements are available.

13.1.76. “**OSF Board**” means the board of directors of OSF.

13.1.77. “**OSF Closing Documents**” means:

a. A certificate of the President of OSF, dated as of the Closing Date, certifying as to the continued accuracy and completeness in all material respects of representations and warranties of OSF, and its performance in all material respects of the covenants and conditions precedent, set forth in this Agreement;

b. A certificate of the Chief Financial Officer of OSF, dated as of the Closing Date, certifying as of the date thereof, as to the accuracy in all material respects of the financial representations and warranties relating to OSF set forth at Section 4.4 and Section 4.5;

c. A certificate of the Secretary of OSF, dated as of the Closing Date, certifying as to the due adoption and continued effectiveness of, and attaching a copy of, the resolutions of the OSF Board approving this Agreement and the actions and transactions required or contemplated by this Agreement, including but not limited to the establishment of the Community Board;

d. All documents required to be delivered by OSF for closing of the financing transactions described in the Plan of Finance;

e. Evidence of adoption by the OSF Board of bylaws of the Community Board in form and substance reasonably acceptable to MCH and appointment of members of the Community Board reasonably acceptable to MCH;

f. An opinion from counsel to OSF, dated as of the Closing Date, in form and substance satisfactory to MCH, addressed to MCH and its counsel, to the effect that:

(i) OSF is duly incorporated, validly existing, and in good standing under the laws of the State of Illinois, and is duly licensed or qualified to transact business in the nature of the business transacted by it. OSF has the corporate power and authority to own and hold its properties and to carry on its business as conducted on the Closing Date. OSF has the corporate power and authority to execute, deliver, and perform its obligations under the Affiliation Agreement;

(ii) The execution and delivery by OSF of the Affiliation Agreement, and the performance of its obligations thereunder, have been duly authorized by all requisite action of the board of directors OSF and by its sole member The Sisters of the Third Order of St. Francis, an Illinois not for profit corporation, and no further action is required on the part of OSF or its members or directors under the Governing Documents of OSF for the authorization and consummation of the transactions contemplated thereby;

(iii) The Affiliation Agreement has have been duly executed and delivered by OSF and, assuming due authorization, execution and delivery by the other party(ies) to them, constitute the legal, valid, and binding obligations of OSF, enforceable in accordance with their terms (subject, as to enforcement of remedies, to the discretion of courts in awarding equitable relief and to applicable bankruptcy, reorganization, insolvency, moratorium, and similar laws affecting the rights of creditors generally);

(iv) The execution and delivery by OSF of the Affiliation Agreement, and the performance of its obligations thereunder, do not violate the Governing Documents of OSF or, to our knowledge, any

material provision of United States or Illinois law. To our knowledge, the execution and delivery by OSF of the Affiliation Agreement do not (a) violate any order of any court or other agency or government, or, (b) conflict with, result in a breach of or constitute (with due notice or the lapse of time or both) a default under any indenture, agreement or other instrument to which OSF is a party or by which its assets are bound;

(v) To our knowledge, except as disclosed in writing by OSF to MCH: (a) OSF is not a defendant in, or threatened with, any action, suit, proceeding, complaint, charge, hearing, arbitration or state or Federal governmental investigation that could reasonably be expected to materially and adversely affect its ability to perform its obligations under the Affiliation Agreement; and (b) OSF has not received notice of any investigation or threatened investigation by any Federal, state or local governmental or regulatory agency, including those involving its business practices and policies, that could reasonably be expected to result in a Material Adverse Change in OSF; and

(vi) OSF is an organization described in Section 501(c)(3) of the Code, exempt from federal income tax under Code Section 501(a) (except for any unrelated business income tax imposed pursuant to Code Sections 511-514), and other than a private foundation pursuant to Code Section 509(a).

g. Such other instruments and documents as may be mutually agreed upon by the Parties and reasonably necessary to carry out the transactions contemplated by this Agreement and to comply with the terms hereof.

13.1.78. **"OSF Facilities"** means the facilities owned, operated, or controlled by OSF or an OSF Affiliate in which healthcare programs and services are undertaken from time to time.

13.1.79. **"OSF Financial Statements"** means the OSF Audited Financial Statements, the OSF Unaudited Financial Statements, and the OSF Interim Financial Statements, collectively.

13.1.80. **"OSF Interim Financial Statements"** means monthly unaudited financial statements and footnotes thereto of OSF for the immediately preceding month.

13.1.81. **"OSF Master Indenture"** means that certain Amended and Restated Master Trust Indenture dated as of September 15, 1999 between OSF and Wells Fargo Bank, National Association, as successor master trustee, as heretofore or hereafter supplemented and amended.

13.1.82. **"OSF Obligated Group"** means OSF and any other Persons who become Members pursuant to the OSF Master Indenture.

13.1.83. **“OSF System”** means the integrated health care delivery system owned and operated by OSF, as of the Execution Date consisting of: nine (9) acute care facilities; two (2) colleges of nursing; a physician organization that employs more than six hundred (600) physicians and mid-level providers in over fifty (50) office locations; a home health network that provides hospice, home health, home medical equipment, home infusion pharmacy, physician house calls, private home care, a personal response system, and a diabetes supply program; other health care-related businesses; and a foundation to provide resources for community outreach; as may change from time to time.

13.1.84. **“OSF Unaudited Financial Statements”** means unaudited financial statements of OSF for the interim period from October 1, 2013, through the most recent month-end date for which financial statements were available prior to the Execution Date.

13.1.85. **“Owned Real Property”** means real property owned by MCH, together with all buildings, improvements and fixtures located thereon.

13.1.86. **“Party”** means OSF or MCH.

13.1.87. **“Parties”** means OSF and MCH.

13.1.88. **“Payment Programs”** means the private, commercial and governmental payment and procurement programs with which the applicable Party is a participating provider (including, without limitation, Medicare and Medicaid).

13.1.89. **“Permitted Encumbrances”** means encumbrances for Taxes not yet due and payable or being diligently contested in good faith and for which appropriate reserves have been established in accordance with GAAP (provided that Permitted Encumbrances shall not apply to omitted or reassessed Taxes imposed due to incorrect, false or misleading real estate tax exemption applications or annual exemption certifications filed); liens for inchoate mechanics’ and materialmen’s liens for construction in progress and workmen’s, repairmen’s, warehousemen’s and carriers’ liens arising in the ordinary course of business; easements, restrictive covenants, rights of way and other similar restrictions of record that do not impair in any material respect the value of the assets or the continued conduct of the business of MCH or its continued use of its assets in the manner currently used; zoning, building and other similar restrictions that do not impair in any material respect the value of the asset or the continued conduct of the business of MCH or its continued use of its assets in the manner currently used; encumbrances, encroachments and other imperfections of title, licenses or encumbrances, if any, of record that do not impair in any material respect the value of the asset or the continued conduct of the business of MCH or its continued use of its assets in the manner currently used; encumbrances arising under original purchase price conditional sales contracts and equipment leases with third parties entered into in the ordinary course of business; and in the case of leased property, all matters, whether or not of record, affecting the title of the lessor (and any underlying lessor) of the leased property do not impair in any material respect the value of its asset or the continued conduct of the business of MCH or its continued use of its assets in the manner currently used.

13.1.90. “**Person**” means any natural person, firm, joint venture, association, partnership, business trust, corporation, public body, agency or political subdivision thereof or any other similar entity.

13.1.91. “**Physician Contract**” shall have the meaning set forth in Section 13.1.55.o.

13.1.92. “**Plan of Finance**” means: (a) modification of the HUD Financing which requires (i) finalization of an Interest Rate Reduction Loan Modification to reflect modification in interest rate and prepayment provisions of the HUD Financing to OSF’s reasonable satisfaction, and (ii) preliminary approval from the U.S Department of Housing and Urban Development for an Application for Transfer of Physical Assets to permit OSF to become the sole member of MCH; and (b) HUD approval of the Management Agreement.

13.1.93. “**Primary Obligor**” means the Person who is primarily obligated on an obligation which is guaranteed by another Person.

13.1.94. “**Property**” means any and all rights, titles and interests in and to any and all property whether real or personal, tangible or intangible, and wherever situated, except where otherwise specifically provided.

13.1.95. “**Property, Plant and Equipment**” means all Property of MCH which is classified as property, plant and equipment under GAAP.

13.1.96. “**RCRA**” means the Resource Conservation and Recovery Act, as amended, 42 U.S.C. §§ 6901 *et. seq.*

13.1.97. “**Returns**” means returns, declarations, and reports and all information returns and statements required to be filed or sent with respect to all Taxes.

13.1.98. “**Tax Exempt Organization**” means an entity organized under the laws of the United States of America or any state thereof which is an organization described in Section 501(c)(3) of the Code, which is exempt from Federal income taxation under Section 501(a) of the Code, and, which is not a “private foundation” within the meaning of Section 509(a) of the Code, or corresponding provisions of Federal income tax laws from time to time in effect.

13.1.99. “**Taxes**” means all Federal, state, county, local and other taxes of every kind.

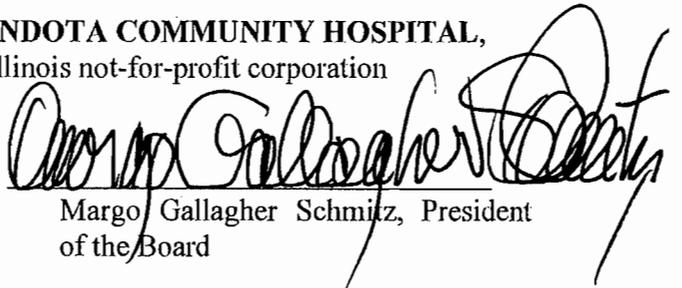
**[Remainder of page left intentionally blank]**

IN WITNESS WHEREOF, the Parties, acting through their duly authorized representatives, have executed this Affiliation Agreement as of the Execution Date.

**OSF HEALTHCARE SYSTEM,**  
an Illinois not-for-profit corporation

By:   
Kevin D. Schoeplein, C.E.O.

**MENDOTA COMMUNITY HOSPITAL,**  
an Illinois not-for-profit corporation

By:   
Margo Gallagher Schmitz, President  
of the Board

**EXHIBIT A**  
**Material Consents**  
**[TO FOLLOW]**

**Financial Statements**

- Standard and Poor's Rating – OSF Healthcare System
- OSF Healthcare System Statement
- Mendota Community Hospital Financial Statements

# RatingsDirect®

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## OSF Healthcare System; Joint Criteria; System

**Primary Credit Analyst:**

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

**Secondary Contact:**

Santo F Barretta, Chicago (1) 312-233-7068; santo.barretta@standardandpoors.com

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# OSF Healthcare System; Joint Criteria; System

## Credit Profile

Illinois Fin Auth, Illinois

OSF Hlthcare Sys, Illinois

Series 2007A , 2009A, 2010A,2012

Long Term Rating

A/Stable

Affirmed

## Rationale

Standard & Poor's Ratings Services affirmed its 'A' long-term rating on the Illinois Finance Authority's (IFA) series 2007A, 2009A, 2010A, and 2012A fixed-rate bonds. At the same time, Standard & Poor's affirmed its 'A' underlying rating (SPUR) on the IFA's series 2007E, 2007F, 2009B, 2009C, and 2009D bonds. Finally, Standard & Poor's affirmed its 'AAA/A-1+' joint criteria rating on the IFA's series 2009C bonds and its 'AAA/A-1' joint criteria rating on the IFA's series 2007E, 2007F, 2009B, and 2009D bonds. All bonds have been 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) 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 stable.

The 'A' rating reflects our view of OSF's successful implementation to improve the organization's operations during the past year. OSF has been able to improve its balance sheet after the completion of major capital expenditures over a sustained period, 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 further reflects our assessment of OSF's:

- Improvement in unrestricted reserves, with solid days' cash on hand for the rating at 213 as of fiscal 2014 (unaudited nine-month interims through June 30, 2014);
- Operational improvements in fiscal 2014 year-to-date, with a 3.2% operating margin, compared with OSF's weak financial performance in fiscal 2013 (audited results through Sept. 30, 2013), which generated an operating margin of negative 0.5%;

- Dominant business position in the Peoria, Ill., market, where its flagship, Saint Francis Medical Center, is located, and generally good position in its markets despite challenges that include competition and a weak economic environment; 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 46% through fiscal 2014, and the expectation of some modest capital spending in the next one to two years.

The Peoria-based Sisters of the Third Order of Saint Francis sponsor OSF and operate nine hospitals and other health care-related entities. Eight of the hospitals are located in central and northern Illinois while one hospital 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.

## Outlook

The stable outlook reflects our expectation that OSF's improvement plan, which has clearly had operational results thus far in fiscal 2014, will continue for the two year outlook period. We could raise the rating with additional balance sheet accretion and consistent successful operations for a sustained period.

OSF has begun to generate additional flexibility at the current rating. While not expected 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 of cash on hand.

## Enterprise Profile

### Economic fundamentals

We consider Illinois' economy to be broad and diverse, and the state's income levels are well above average. In our view, economic recovery continues at a modest pace but will likely continue to lag the U.S. in the near and medium term as real estate and housing, manufacturing, and the government sector continue to drag on economic performance. The state's unemployment rate remains elevated relative to the U.S. rate but declined to 7.1% in June, which is the lowest rate recorded since October 2008. We expect unemployment rates to remain elevated compared with that of the U.S. based on relatively slow employment expansion. To date, Illinois has only regained about half of its pre-recession employment. Per capita personal income in 2013 was \$46,780, or 105% of the U.S. average, ranking Illinois 15th nationally and first among the Great Lakes states.

### Operating entities

*OSF Saint Francis Medical Center:* OSF Saint Francis Medical Center is a tertiary care, acute medical-surgical teaching hospital located near downtown Peoria. It provides a full range of primary, secondary, and tertiary services, as well as certain specialized services, including Level I (highest) trauma services, life flight helicopter transport services, adult and pediatric open heart surgery, pancreas and kidney transplantation services, neurosurgery and neurology, Level III

(highest) perinatal services, radiation oncology, and specialized services of the Children's Hospital of Illinois (operated as part of the Medical Center).

**OSF Saint Anthony Medical Center.** OSF Saint Anthony Medical Center is an acute care hospital located in a growing area of Rockford, Ill. Saint Anthony provides primary, secondary, and tertiary care, including open-heart surgery. It is also designated by Illinois as a Level I trauma center and as a regional burn unit.

**OSF St. Joseph Medical Center.** OSF St. Joseph Medical Center is an acute care hospital located in Bloomington, Ill. St. Joseph provides primary, secondary, and tertiary care, including open-heart surgery. In addition, OSF purchased certain assets of Carle Clinic Assn. P.C. (Carle Clinic) located in or related to its medical office building in Bloomington, and leased the medical office building.

In addition to OSF's three largest facilities (St. Francis Medical Center, St. Anthony Medical Center and St. Joseph Medical Center), OSF also has several smaller facilities in Illinois and one in Michigan. They include OSF St. Mary Medical Center, an acute care hospital located in Galesburg, Ill.; OSF Saint Elizabeth Medical Center, a 91-bed acute care hospital located in Ottawa, Ill.; OSF St. Francis Hospital, a critical access hospital located in Escanaba, Mich.; OSF St. Luke Medical Center, a critical access hospital located in Kewanee, Ill.; OSF Saint James-John W. Albrecht Medical Center, an acute care hospital facility located in Pontiac, Ill. Saint James is the only acute care hospital in Livingston County, with OSF Holy Family Medical Center's 23 acute care beds, which are also certified as swing beds. The facility has been designated as a critical access hospital by Centers for Medicare and Medicaid Services. Also, it operates a provider-based rural health clinic.

The OSF Medical Group consists of approximately 655 physicians and 290 advanced practitioners employed by OSF Healthcare, in approximately 70 office locations throughout Illinois and Michigan with approximately 1.4 million annual patient visits.

#### Utilization

The OSF system has seen growth in its admissions in fiscal 2013, increasing incrementally to 59,870 admissions in fiscal 2013 from 58,904 admissions in fiscal 2012. OSF is experiencing more of the national trend thus far in fiscal 2014 (nine months through June 30, 2014) with declines in inpatient admissions compared to the same time frame last year (a decline of 6.5%). Leadership is continuing to focus on improving the utilizations statistics through population capture, the maintenance of internal referrals, and also Mayo Clinic alignment. OSF is also well positioned with several key service lines, such as cardiovascular, children's services, neurosciences and oncology, as well as posting excellent quality metrics.

#### Management

OSF leadership has significantly improved operations over the short term while simultaneously preparing the larger system for the shift from a traditional fee-for-service system to one that is sustainable under population health. Management has clearly taken the lessons it has learned from its participation in the Pioneer Accountable Care Organization (ACO) demonstration and is implementing them to help with future long-term system improvements and population initiatives, including their participation in the Illinois Blue Cross ACO. The OSF system seems to be well prepared to make key transitions towards population management.

## Financial Profile

### Change in accounting for bad debt

In accordance with our report "New Bad Debt Accounting Rules Will Alter Some U.S. Not-for-Profit Health Care Ratios But Won't Affect Ratings," published Jan. 19, 2012 on RatingsDirect, we recorded OSF's 2014, 2013, and 2012 financial results including the adoption of Financial Accounting Standards Board Accounting Standards Update No. 2011-017 in 2012, but not in prior periods. The new accounting treatment means that OSF's fiscal 2012 and subsequent financial statistics are not directly comparable with the results for 2011 and prior years. For an explanation of how the change in accounting for bad debt affects each financial measure, including the direction and size of the change, please see the above report.

### Operations

OSF posted an operating margin of negative 0.5% in fiscal 2013 (audited results through Sept. 30, 2013), compared with just over a 2% operating margin in fiscal 2012. Since fiscal 2013, when management noticed the strain on operations, which appeared during the second and third quarters, leadership began to implement a revenue enhancement and cost-reduction plan. Year-to-date results thus far in fiscal 2014 (through the unaudited nine-month period through June 30, 2014), show that OSF has seen significantly improved operations and cash flow, with a year-to-date operating margin of 3.2%.

One of the key pieces of the plan is to manage referrals within the system. As OSF is better able to internally refer its patients, internal capture rates will improve, which in turn lead to improved operations and will help offset utilization declines stemming from population management. Another piece of the plan will be the education of its medical staff on population health management and the impact of new insurance contracts. This education is also occurring at other entities that we rate. The success of the two steps previously mentioned, coupled with the cost-cutting initiatives, should help continue to improve operations in fiscal years 2014 and 2015.

For the nine months ended June 30, OSF had improved MADS coverage to 4.3x.

### Balance sheet

Unrestricted reserves have grown significantly in recent years, providing OSF with some additional flexibility at the existing rating. As of fiscal 2014 year to date, unrestricted reserves stood at just over \$1.1 billion, equal to 213 days' cash on hand. Management reports that liquidity growth remains a part of the system strategy, especially because capital spending declined from recent high levels. Cash to long-term debt has improved to 121% since our last review while leverage declined to 46%, which, although improved, is still high for the current rating. Leadership plans to remain focused on the balance sheet. The leadership team is planning to move forward with a plan to spend no more than 50% of its operating cash flow for capital expenditures. To be allocated money for capital, the various regions will need to generate this cash flow.

There are some modest planned future capital expenditures, the largest piece of which includes an approximately \$55 million project under discussion for a potential new patient tower at the Rockford facility. In addition, OSF has letters of intent with St. Anthony Health System (in Alton, Ill.) and also with Mendota Community Hospital (in Mendota, Ill.), the structure of which would most likely result in OSF absorbing the two entities' debt. OSF's capital expenditure and

potential facility growth plans are manageable, in our view, at the existing rating level.

OSF Healthcare System And Subsidiaries	--Fiscal year ended Sept. 30,--			
	Nine-month interim ended June 30, 2014	2013	2012	2011
<b>Financial performance</b>				
Net patient revenue (\$000s)	1,471,048	1,910,851	1,817,000	1,787,360
Total operating revenue (\$000s)	1,553,329	1,994,993	1,895,976	1,865,985
Total operating expenses (\$000s)	1,504,042	2,004,367	1,857,743	1,845,357
Operating income (\$000s)	49,287	(9,374)	38,233	20,628
Operating margin (%)	3.17	(0.47)	2.02	1.11
Net non-operating income (\$000s)	31,335	39,121	45,982	37,542
Excess income (\$000s)	80,622	29,747	84,215	58,170
Excess margin (%)	5.09	1.46	4.34	3.06
EBIDA margin (%)	11.68	7.71	10.59	10.19
Net available for debt service (\$000s)	185,157	156,921	205,633	193,955
Maximum annual debt service (\$000s)	57,741	57,741	57,741	57,741
Maximum annual debt service coverage (x)	4.28	2.72	3.56	3.36
Operating lease-adjusted coverage (x)	N.A.	1.92	2.40	2.33
<b>Liquidity and financial flexibility</b>				
Unrestricted cash and investments (\$000s)	1,108,226	1,019,550	832,423	759,738
Unrestricted days' cash on hand	212.7	194.5	171.4	158.0
Unrestricted cash/total long-term debt (%)	121.2	115.7	93.9	89.1
Average age of plant (years)	N.A.	12.2	14.3	11.8
Capital expenditures/depreciation and amortization (%)	73.6	127.6	110.8	90.8
<b>Debt and liabilities</b>				
Total long-term debt (\$000s)	914,416	881,390	886,139	853,089
Long-term debt/capitalization (%)	45.7	47.8	54.2	55.1
Contingent liabilities (\$000s)	N.A.	293,320	294,070	280,945
Contingent liabilities/total long-term debt (%)	N.A.	33.3	33.2	32.9
Debt burden (%)	2.73	2.84	2.97	3.03
Defined benefit plan funded status (%)	N.A.	65.19	51.23	56.76

N.A.—Not available.

## Related Criteria And Research

### Related Criteria

- Criteria: Commercial Paper, VRDO, And Self-Liquidity, July 3, 2007
- USPF Criteria: Not-For-Profit Health Care, June 14, 2007
- USPF Criteria: Municipal Applications For Joint Support Criteria, June 25, 2007
- Criteria: Joint Support Criteria Update, April 22, 2009
- General Criteria: Methodology: Industry Risk, Nov. 20, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013

**Related Research**

- Glossary: Not-For-Profit Health Care Ratios, Oct. 26, 2011
- The Outlook For U.S. Not-For-Profit Health Care Providers Is Negative From Increasing Pressures, Dec. 10, 2013
- U.S. Not-For-Profit Health Care System Ratios: Operating Performance Weakened In 2013, Aug. 13, 2014
- Health Care Providers And Insurers Pursue Value Initiatives Despite Reform Uncertainties, May 9, 2013
- Standard & Poor's Assigns Industry Risk Assessments To 38 Nonfinancial Corporate Industries, Nov. 20, 2013
- Health Care Organizations See Integration And Greater Transparency As Prescriptions For Success, May 19, 2014

**Ratings Detail (As Of August 14, 2014)**

**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-1	Affirmed
<i>Unenhanced Rating</i>	A(SPUR)/Stable	Affirmed

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-1	Affirmed
<i>Unenhanced Rating</i>	A(SPUR)/Stable	Affirmed

**Series 2009B**

<i>Unenhanced Rating</i>	A(SPUR)/Stable	Affirmed
<i>Long Term Rating</i>	AAA/A-1	Affirmed

**Series 2009D**

<i>Unenhanced Rating</i>	A(SPUR)/Stable	Affirmed
<i>Long Term Rating</i>	AAA/A-1	Affirmed

**Series 2009C**

<i>Unenhanced Rating</i>	A(SPUR)/Stable	Affirmed
<i>Long Term Rating</i>	AAA/A-1+	Affirmed

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## OSF Healthcare System Financials

- Not Applicable to this respective COE; there is no acquisition cost, by definition.
- A-Rated organization

**Mendota Community Hospital**

Auditor's Report and Financial Statements

March 31, 2014 and 2013

# Mendota Community Hospital

## March 31, 2014 and 2013

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**Independent Auditor's Report on Financial Statements and  
Supplementary and Other Information**

Board of Directors  
Mendota Community Hospital  
Mendota, Illinois

**Report on the Financial Statements**

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

***Management's Responsibility for the Financial Statements***

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

***Auditor's Responsibility***

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

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

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

***Opinion***

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

***Supplementary Information***

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information, the schedule of expenditures of federal awards required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

***Other Information***

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The other information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 18, 2014, on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

**BKD, LLP**

St. Louis, Missouri  
September 18, 2014

Firm Federal Identification Number: 44-0160260  
Lead Auditor: Fred Helfrich

**Mendota Community Hospital**  
**Balance Sheets**  
**March 31, 2014 and 2013**

**Assets**

	<u>2014</u>	<u>2013</u>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 1,173,503	\$ 544,005
Patient accounts receivable, net of allowance; 2014 - \$3,487,000, 2013 - \$3,476,000	3,611,590	4,698,778
Supplies	753,120	705,529
Prepaid expenses and other	<u>548,466</u>	<u>678,984</u>
Total current assets	<u>6,086,679</u>	<u>6,627,296</u>
<b>Assets Limited As To Use</b>		
Internally designated	1,566,250	1,889,145
Restricted under mortgage agreement	1,681,313	1,247,799
Externally restricted by donors	<u>661,003</u>	<u>660,959</u>
	<u>3,908,566</u>	<u>3,797,903</u>
<b>Property and Equipment, At Cost</b>		
Land and land improvements	6,249,225	6,249,225
Buildings and leasehold improvements	30,822,579	30,855,360
Equipment	<u>14,761,296</u>	<u>14,784,159</u>
	51,833,100	51,888,744
Less accumulated depreciation	<u>14,834,437</u>	<u>11,504,656</u>
	<u>36,998,663</u>	<u>40,384,088</u>
Total assets	<u>\$ 46,993,908</u>	<u>\$ 50,809,287</u>

## Liabilities and Net Assets

	<u>2014</u>	<u>2013</u>
<b>Current Liabilities</b>		
Current maturities of long-term debt	\$ 1,497,713	\$ 1,613,486
Line of credit	-	576,415
Accounts payable	1,074,006	661,772
Accrued expenses	1,936,690	2,151,168
Estimated amounts due to third-party payers	<u>290,000</u>	<u>460,000</u>
Total current liabilities	4,798,409	5,462,841
<b>Long-term Debt</b>	<u>33,145,121</u>	<u>34,649,449</u>
Total liabilities	<u>37,943,530</u>	<u>40,112,290</u>
<b>Net Assets</b>		
Unrestricted	8,389,375	10,036,038
Temporarily restricted	41,868	41,824
Permanently restricted	<u>619,135</u>	<u>619,135</u>
Total net assets	<u>9,050,378</u>	<u>10,696,997</u>
Total liabilities and net assets	<u>\$ 46,993,908</u>	<u>\$ 50,809,287</u>

**Mendota Community Hospital**  
**Statements of Operations**  
**Years Ended March 31, 2014 and 2013**

	<b>2014</b>	<b>2013</b>
<b>Unrestricted Revenues, Gains and Other Support</b>		
Patient service revenue (net of contractual discounts and allowances)	\$ 33,559,872	\$ 31,607,057
Provision for uncollectible accounts	(1,249,811)	(2,046,533)
Net patient service revenue less provision for uncollectible accounts	32,310,061	29,560,524
Other	949,758	1,127,976
Total unrestricted revenues, gains and other support	33,259,819	30,688,500
<b>Expenses</b>		
Salaries and wages	14,512,984	14,651,697
Employee benefits	3,232,555	3,440,356
Purchased services and professional fees	2,578,281	2,571,046
Depreciation	3,641,724	3,591,345
Interest	2,165,158	2,202,160
Supplies and other	9,025,359	8,183,649
	35,156,061	34,640,253
<b>Operating Loss</b>	<b>(1,896,242)</b>	<b>(3,951,753)</b>
<b>Other Income</b>		
Investment return	88,890	1,126,759
Contributions	95,700	148,460
	184,590	1,275,219
<b>Deficiency of Revenues Over Expenses</b>	<b>(1,711,652)</b>	<b>(2,676,534)</b>
Change in donor restriction	-	11,417
Investment return - change in unrealized gains and losses on other than trading securities	64,989	(956,383)
	64,989	(956,383)
<b>Decrease in Unrestricted Net Assets</b>	<b>\$ (1,646,663)</b>	<b>\$ (3,621,500)</b>

**Mendota Community Hospital**  
**Statements of Changes in Net Assets**  
**Years Ended March 31, 2014 and 2013**

	<b>2014</b>	<b>2013</b>
<b>Unrestricted Net Assets</b>		
Deficiency of revenues over expenses	\$ (1,711,652)	\$ (2,676,534)
Change in donor restriction	-	11,417
Investment return - change in unrealized gains and losses on other than trading securities	64,989	(956,383)
Decrease in unrestricted net assets	(1,646,663)	(3,621,500)
<b>Temporarily Restricted Net Assets</b>		
Investment return	544	545
Net assets released from restriction	(500)	(501)
Increase in temporarily restricted net assets	44	44
<b>Permanently Restricted Net Assets</b>		
Change in donor restriction	-	(11,417)
<b>Change in Net Assets</b>	(1,646,619)	(3,632,873)
<b>Net Assets, Beginning of Year</b>	10,696,997	14,329,870
<b>Net Assets, End of Year</b>	\$ 9,050,378	\$ 10,696,997

**Mendota Community Hospital**  
**Statements of Cash Flows**  
**Years Ended March 31, 2014 and 2013**

	<b>2014</b>	<b>2013</b>
<b>Operating Activities</b>		
Change in net assets	\$ (1,646,619)	\$ (3,632,873)
Items not requiring (providing) operating cash flow		
Depreciation	3,641,724	3,591,345
Loss on disposal of property and equipment	871	120
Unrealized loss (gain) on assets limited as to use	(64,989)	956,383
Changes in		
Patient accounts receivable, net	1,087,188	838,343
Estimated amounts due from/to third-party payers	(170,000)	360,000
Accounts payable and accrued expenses	197,756	(676,346)
Other current assets and liabilities	82,927	582,595
	<u>3,128,858</u>	<u>2,019,567</u>
Net cash provided by operating activities		
<b>Investing Activities</b>		
Net activity in assets limited as to use	(45,674)	(116,037)
Proceeds from sale of property and equipment	-	10,000
Purchase of property and equipment	(257,170)	(928,561)
	<u>(302,844)</u>	<u>(1,034,598)</u>
Net cash used in investing activities		
<b>Financing Activities</b>		
Principal payments on long-term debt	(638,251)	(600,335)
Net (payments) borrowings under line of credit agreement	(576,415)	376,415
Principal payments on capital lease	(981,850)	(965,515)
	<u>(2,196,516)</u>	<u>(1,189,435)</u>
Net cash used in financing activities		
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	<b>629,498</b>	<b>(204,466)</b>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<b>544,005</b>	<b>748,471</b>
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 1,173,503</b>	<b>\$ 544,005</b>
<b>Supplemental Cash Flows Information</b>		
Interest paid (net of amount capitalized)	\$ 2,166,993	\$ 2,056,700
Property and equipment acquired through issuance of long-term debt	\$ -	\$ 1,803,418

**Mendota Community Hospital**  
**Notes to Financial Statements**  
**March 31, 2014 and 2013**

**Note 1: Nature of Operations and Summary of Significant Accounting Policies**

***Nature of Operations***

Mendota Community Hospital (the "Hospital") primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in Mendota, Illinois and the surrounding area. It also operates a home health agency in the same geographic area.

***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

***Cash and Cash Equivalents***

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At March 31, 2014 and 2013, cash equivalents consisted primarily of certificates of deposit and money market accounts.

At March 31, 2014, the Hospital's cash accounts exceeded federally insured limits by approximately \$1,270,000.

***Investments, Investment Return and Assets Limited as to Use***

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. Other investments are valued at the lower of cost (or fair value at time of donation, if acquired by contribution) or fair value. Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments. Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets. Other investment return is reflected in the statements of operations and changes in net assets as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

Assets limited as to use consist of assets held by trustees, assets restricted by donors, and assets set aside by the board of directors for future capital improvements over which the board retains control and may at its discretion subsequently use for other purposes.

At March 31, 2014, a lien for approximately \$269,000 had been placed against the Hospital building. As a result, the Hospital has restricted funds for payment until arbitration of the dispute is concluded.

**Mendota Community Hospital**  
**Notes to Financial Statements**  
**March 31, 2014 and 2013**

***Patient Accounts Receivable***

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the Hospital analyzes its past history and identifies trends for each of its major payer sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for uncollectible accounts. Management regularly reviews data about these major payer 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, the Hospital analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for uncollectible accounts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payer has not yet paid, or for payers who are known to be having financial difficulties that make the realization of amounts due unlikely).

For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Hospital records a significant provision for uncollectible accounts 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 or provided by policy) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

The Hospital's allowance for doubtful accounts for self-pay patients increased from 74 percent of self-pay accounts receivable at March 31, 2013, to 86 percent of self-pay accounts receivable at March 31, 2014. In addition, the Hospital's write-offs increased approximately \$580,000 from approximately \$1,120,000 for the year ended March 31, 2013, to approximately \$1,700,000 for the year ended March 31, 2014. The increase in write-offs was the result of the discounted collections program coupled with continued worsening economic conditions in the Hospital's service area during the year ended March 31, 2014.

***Supplies***

Supply inventories are stated at the lower of cost, determined using the first-in, first-out method or market.

***Property and Equipment***

Property and equipment acquisitions are recorded at cost and are depreciated using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over their respective estimated useful lives.

**Mendota Community Hospital**  
**Notes to Financial Statements**  
**March 31, 2014 and 2013**

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Buildings and improvements	10 - 40 years
Leasehold improvements	7 - 10 years
Equipment	3 - 10 years

Donations of property and equipment are reported at fair value as an increase in unrestricted net assets unless use of the assets is restricted by the donor. Monetary gifts that must be used to acquire property and equipment are reported as restricted support. The expiration of such restrictions is reported as an increase in unrestricted net assets when the donated asset is placed in service.

***Long-lived Asset Impairment***

The Hospital evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimate future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the years ended March 31, 2014 and 2013.

***Temporarily and Permanently Restricted Net Assets***

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

***Net Patient Service Revenue***

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

***Charity Care***

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue. The Hospital's direct and indirect costs for services furnished under its charity care policy aggregated approximately \$711,000 and \$863,000 in 2014 and 2013, respectively. The cost of charity care is estimated by applying the ratio of cost to gross charges to the gross uncompensated charges.

**Mendota Community Hospital**  
**Notes to Financial Statements**  
**March 31, 2014 and 2013**

***Electronic Health Records Incentive Program***

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records technology (EHR). Critical access hospitals (CAHs) are eligible to receive incentive payments in the cost reporting period beginning in the federal fiscal year in which meaningful use criteria have been met. The Medicare incentive payment is for qualifying costs of the purchase of certified EHR technology multiplied by the Hospital's Medicare share fraction, which includes a 20 percent incentive. This payment is an acceleration of amounts that would have been received in future periods based on reimbursable costs incurred, including depreciation. If meaningful use criteria are not met in future periods, the Hospital is subject to penalties that would reduce future payments for services. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services. The final amount for any payment year under both programs is determined based upon an audit by the administrative contractor. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The Hospital has recognized the incentive payment revenue received for qualified Medicare EHR technology expenditures during 2014, which was the period during which management was reasonably assured meaningful use was achieved and the earnings process was complete. Management believes the incentive payments reflect a change in how "allowable costs" are determined in paying CAHs for providing services to Medicare beneficiaries. The Hospital recorded revenue of approximately \$738,000, related to Medicare EHR incentive payment revenue which is included in net patient service revenue in the statement of operations as of the year ended March 31, 2014. The Hospital also recorded revenue of approximately \$159,450 and \$126,000 for the years ended March 31, 2014 and 2013, respectively related to Medicaid EHR incentive payments, which is included in other revenue within operating revenues in the statement of operations.

***Professional Liability Claims***

The Hospital recognizes an accrual for claim liabilities based on estimated ultimate losses and costs associated with settling claims and a receivable to reflect the estimated insurance recoveries, if any. Professional liability claims are described more fully in Note 13.

***Employee Health Claims***

Substantially all of the Hospital's employees are eligible to participate in the Hospital's health insurance plan. The Hospital is self-insured for health claims of participating employees and dependents up to limits provided for in an agreement with its insurance plan administrator. A provision is accrued for self-insured employee health claims including both claims reported and claims incurred but not yet reported. The accrual is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims and other economic and social factors. It is reasonably possible that the Hospital's estimate will change by a material amount in the near term.

**Mendota Community Hospital**  
**Notes to Financial Statements**  
**March 31, 2014 and 2013**

**Contributions**

Gifts received with donor stipulations are reported as either temporarily or permanently restricted support. When a donor restriction expires, that is, when a time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified and reported as an increase in unrestricted net assets. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions. Conditional contributions are reported as liabilities until the condition is eliminated or the contributed assets are returned to the donor.

**Income Taxes**

The Hospital has been recognized as exempt from income taxes under Section 501 of the *Internal Revenue Code* and a similar provision of state law. However, the Hospital is subject to federal income tax on any unrelated business taxable income.

The Hospital files tax returns in the U.S. federal jurisdiction and the state of Illinois. With a few exceptions, the Hospital is no longer subject to U.S. federal examinations by tax authorities for years before 2011.

**Deficiency of Revenues Over Expenses**

The statements of operations include deficiency of revenues over expenses. Changes in unrestricted net assets which are excluded from deficiency of revenues over expenses, consistent with industry practice, include unrealized gains and losses on investments other than trading securities and assets limited as to use and contributions of long-lived assets.

**Affordable Care Act Compliance**

As part of the *Affordable Care Act*, hospitals exempt from the tax under Section 501(c)(3) of the *Internal Revenue Code* are required to comply with the new requirements under new Code Section 501(r). Code Section 501(r) requires exempt hospitals prepare and implement a community health needs assessment, implement a financial assistance policy, implement an emergency care policy, limit charges to individuals eligible for financial assistance and refrain from certain collection actions for patients that may qualify for financial assistance. Failure to comply with these requirements could result in a hospital not being recognized as exempt under Code Section 501(c)(3). The IRS has not issued guidance on how they intend to enforce the provisions related to Code Section 501(r). The Hospital believes it has taken reasonable steps to comply with Code Section 501(r) and has recorded no provision relative to the Hospital's compliance or non-compliance with Code Section 501(r). However, this could change materially in the near-term.

**Reclassifications**

Certain reclassifications have been made to the 2013 financial statements to conform to the 2014 financial statement presentation. These reclassifications had no effect on the change in net assets.

# Mendota Community Hospital

## Notes to Financial Statements

March 31, 2014 and 2013

### Note 2: Net Patient Service Revenue

The Hospital recognizes patient service revenue associated with services provided to patients who have third-party payer coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, the Hospital recognizes revenue on the basis of its standard rates for services provided. On the basis of historical experience, a significant portion of the Hospital's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Hospital records a significant provision for uncollectible accounts related to uninsured patients in the period the services are provided. This provision for uncollectible accounts is presented on the statement of operations as a component of net patient service revenue.

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. These payment arrangements include:

*Medicare* – The Hospital is designated as a critical access hospital. This designation provides for inpatient and outpatient services to be reimbursed on a cost basis methodology. Home health services are reimbursed on a prospective payment methodology. The Hospital is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare administrative contractor. The Hospital's Medicare cost reports have been audited by the Medicare administrative contractor through March 31, 2010.

*Medicaid* – Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under prospectively determined fee schedules.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance Hospitals and preferred provider Hospitals. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Patient service revenue, net of contractual allowances and discounts (but before the provision for uncollectible accounts), recognized in the years ended March 31, 2014 and 2013, was approximately:

	<u>2014</u>	<u>2013</u>
Medicare	\$ 17,048,262	\$ 16,158,682
Medicaid	1,797,957	996,943
Other third-party payers	13,990,864	14,246,654
Self-pay	<u>722,789</u>	<u>204,778</u>
Total	<u>\$ 33,559,872</u>	<u>\$ 31,607,057</u>

**Mendota Community Hospital**  
**Notes to Financial Statements**  
**March 31, 2014 and 2013**

***Illinois Hospital Medicaid Assessment Program***

The state of Illinois enacted legislation that provides for an assessment program intended to qualify for federal matching funds under the Illinois Medicaid program. Under the hospital assessment program, each hospital is assessed tax based on that hospital's adjusted gross hospital revenue. The legislation provides that none of the assessment funds are to be collected and no additional Medicaid payments are to be paid until the program receives the required federal government approval through the federal Centers for Medicare and Medicaid Services.

In October 2013, the U.S. Centers for Medicare and Medicaid Services notified the Illinois Department of Healthcare and Family Services of its approval of the Enhanced Hospital Assessment Program effective July 1, 2012, which is anticipated to generate an additional annual net benefit for Illinois hospitals under the Hospital Assessment Program. The annual net benefit to the Hospital due to the approval of this program is \$192,000.

The effects of these programs in the statements of operations and changes in net assets for the years ended March 31, 2014 and 2013, are as follows:

	<b>2014</b>	<b>2013</b>
Additional Medicaid payments included in net patient service revenue	\$ 1,376,000	\$ 556,000
Taxes assessed and included in supplies and other	\$ 680,500	\$ 207,000

The hospital assessment program contains a sunset provision effective June 30, 2018, and there is no assurance the program will not be discontinued or materially modified.

**Note 3: Concentration of Credit Risk**

The Hospital grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payer agreements. The mix of receivables from patients and third-party payers at March 31, 2014 and 2013, was:

	<b>2014</b>	<b>2013</b>
Medicare	34%	15%
Medicaid	10%	22%
Other third-party payers	40%	34%
Patients	16%	29%
	100%	100%

**Mendota Community Hospital**  
**Notes to Financial Statements**  
**March 31, 2014 and 2013**

**Note 4: Functional Expenses**

The Hospital provides general health care services to residents within its geographic location including pediatric care, intensive care and outpatient surgery. Expenses related to providing these services are as follows:

	<b>2014</b>	<b>2013</b>
Health care services	\$ 26,098,011	\$ 26,395,592
General and administrative	9,058,050	8,244,661
	\$ 35,156,061	\$ 34,640,253

**Note 5: Investments and Investment Return**

***Assets Limited as to Use***

Assets limited as to use include:

	<b>2014</b>	<b>2013</b>
Internally designated		
Cash and money market accounts	\$ 465,845	\$ 699,156
Certificate of deposit	19,987	300,000
Mutual fund - U.S. government obligations		
Other	-	33,327
Fixed income securities		
Exchange Traded Funds		
Intermediate term bond	106,016	248,279
High yield bond	109,668	55,300
Short term bond	102,873	47,029
Other	73,635	25,405
Corporate equity securities		
Consumer Staples	-	69,389
Basic Materials	186,601	163,877
Other industries	131,985	80,417
Exchange Traded Funds		
Large Cap	154,830	117,968
Foreign	71,694	-
Other	142,970	48,379
Corporate equity securities		
Interest receivable	146	619
	\$ 1,566,250	\$ 1,889,145

**Mendota Community Hospital**  
**Notes to Financial Statements**  
**March 31, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
Restricted under mortgage obligation - consisting of money market funds		
Mortgage reserve fund	\$ 1,188,381	\$ 666,119
Insurance, mortgage insurance premium and tax escrow funds	224,057	312,805
Construction escrow	<u>268,875</u>	<u>268,875</u>
	<u>\$ 1,681,313</u>	<u>\$ 1,247,799</u>
Restricted by donor		
Cash and money market accounts	\$ 620,525	\$ 620,481
Farmland, LaSalle County	<u>40,478</u>	<u>40,478</u>
	<u>\$ 661,003</u>	<u>\$ 660,959</u>

Total investment return is comprised of the following:

	<u>2014</u>	<u>2013</u>
Interest and dividend income	\$ 96,515	\$ 651,872
Realized gains (losses) on sales of securities	(7,081)	475,432
Unrealized gains (losses) on assets limited as to use	<u>64,989</u>	<u>(956,383)</u>
	<u>\$ 154,423</u>	<u>\$ 170,921</u>

Total investment return is reflected in the statements of operations and changes in net assets as follows:

	<u>2014</u>	<u>2013</u>
Unrestricted net assets		
Other nonoperating income	\$ 88,890	\$ 1,126,759
Change in unrealized gains and losses on other than trading securities	64,989	(956,383)
Temporarily restricted net assets	<u>544</u>	<u>545</u>
	<u>\$ 154,423</u>	<u>\$ 170,921</u>

**Note 6: Disclosures About Fair Value of Assets**

Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

**Level 1** Quoted prices in active markets for identical assets or liabilities

**Mendota Community Hospital**  
**Notes to Financial Statements**  
**March 31, 2014 and 2013**

- Level 2** 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** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

**Recurring Measurements**

The following tables present the fair value measurements of assets and liabilities recognized in the accompanying balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at March 31, 2014 or 2013.

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Others Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>March 31, 2014</b>				
Money Market Funds	\$ 2,147,158	\$ 2,147,158	\$ -	\$ -
Certificates of Deposit	\$ 19,987	\$ 19,987	\$ -	\$ -
Equity Securities				
Basic material	\$ 190,091	\$ 190,091	\$ -	\$ -
Other	\$ 145,617	\$ 145,617	\$ -	\$ -
Exchange Traded Funds				
Equity				
Large cap	\$ 267,806	\$ 267,806	\$ -	\$ -
Other	\$ 368,381	\$ 368,381	\$ -	\$ -
Fixed income				
Intermediate term bond	\$ 244,356	\$ 244,356	\$ -	\$ -
High yield bond	\$ 169,194	\$ 169,194	\$ -	\$ -
Short term bond	\$ 173,948	\$ 173,948	\$ -	\$ -
Other	\$ 141,550	\$ 141,550	\$ -	\$ -

**Mendota Community Hospital**  
**Notes to Financial Statements**  
**March 31, 2014 and 2013**

	Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Others Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>March 31, 2013</b>				
Money Market Funds	\$ 2,066,529	\$ 2,066,529	\$ -	\$ -
Certificates of Deposit	\$ 319,943	\$ -	\$ 319,943	\$ -
Equity Securities				
Basic material	\$ 167,367	\$ 167,367	\$ -	\$ -
Other	\$ 181,326	\$ 181,326	\$ -	\$ -
Mutual Fund	\$ 43,447	\$ 43,447	\$ -	\$ -
Exchange Traded Funds				
Equity				
Large cap	\$ 238,661	\$ 238,661	\$ -	\$ -
Other	\$ 275,306	\$ 275,306	\$ -	\$ -
Fixed income				
Intermediate term bond	\$ 292,327	\$ 292,327	\$ -	\$ -
High yield bond	\$ 68,404	\$ 68,404	\$ -	\$ -
World bond	\$ 67,910	\$ 67,910	\$ -	\$ -
Other	\$ 36,205	\$ 36,205	\$ -	\$ -

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended March 31, 2014.

**Investments**

Where quoted market prices are available in an active market, investments are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of investments with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, interest rates and volatilities. Such investments are classified in Level 2 of the valuation hierarchy.

**Mendota Community Hospital**  
**Notes to Financial Statements**  
**March 31, 2014 and 2013**

**Note 7: Temporarily and Permanently Restricted Net Assets**

Temporarily restricted net assets are available for the following purpose or periods:

	<b>2014</b>	<b>2013</b>
Employee awards	\$ 1,390	\$ 1,346
Land held for future use	40,478	40,478
	\$ 41,868	\$ 41,824

Permanently restricted net assets are restricted to:

	<b>2014</b>	<b>2013</b>
Investments to be held in perpetuity, the income is unrestricted	\$ 619,135	\$ 619,135
	\$ 619,135	\$ 619,135

During 2014 and 2013, net assets were released from donor restrictions by incurring expenses, satisfying the restricted purposes of the employee award provided in the approximate amount of \$500.

In 2013, it was determined that there was a change in donor restriction which released approximately \$11,400 of the permanent restriction on those net assets.

**Note 8: Endowment**

The Hospital's endowment consists of approximately four individual donor-restricted funds as reflected in Note 7. As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Hospital's board of directors has interpreted the State of Illinois Prudent Management of Institutional Funds Act (SPMIFA) as requiring preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Hospital classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of donor-restricted endowment funds is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Hospital in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Hospital considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. Duration and preservation of the fund
2. Purposes of the Hospital and the fund
3. General economic conditions

**Mendota Community Hospital**  
**Notes to Financial Statements**  
**March 31, 2014 and 2013**

4. Possible effect of inflation and deflation
5. Expected total return from investment income and appreciation or depreciation of investments
6. Other resources of the Hospital
7. Investment policies of the Hospital

The composition of net assets by type of endowment fund at March 31, 2014 and 2013, was:

	<b>2014</b>		
	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Donor-restricted endowment funds	\$ 1,390	\$ 619,135	\$ 620,525
	<b>2013</b>		
Donor-restricted endowment funds	\$ 1,346	\$ 619,135	\$ 620,481

Changes in endowment net assets for the years ended March 31, 2014 and 2013, were:

	<b>2014</b>		
	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment net assets, beginning of year	\$ 1,346	\$ 619,135	\$ 620,481
Investment return	544	-	544
	1,890	619,135	621,025
Change in donor restriction	-	-	-
Appropriation of endowment assets for expenditure	(500)	-	(500)
Endowment net assets, end of year	\$ 1,390	\$ 619,135	\$ 620,525
	<b>2013</b>		
Endowment net assets, beginning of year	\$ 1,302	\$ 630,552	\$ 631,854
Investment return	545	-	545
	1,847	630,552	632,399
Change in donor restriction	-	(11,417)	(11,417)
Appropriation of endowment assets for expenditure	(501)	-	(501)
Endowment net assets, end of year	\$ 1,346	\$ 619,135	\$ 620,481

**Mendota Community Hospital**  
**Notes to Financial Statements**  
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Amounts of donor-restricted endowment funds classified as permanently and temporarily restricted net assets at March 31, 2014 and 2013, consisted of:

	<b>2014</b>	<b>2013</b>
Permanently restricted net assets - portion of endowment funds required to be retained permanently by explicit donor stipulation	\$ 619,135	\$ 619,135
Temporarily restricted net assets		
Term endowment funds	1,390	1,346
	\$ 620,525	\$ 620,481

The Hospital has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and other items supported by its endowment while seeking to maintain the purchasing power of the endowment. Endowment assets include those assets of donor-restricted endowment funds the Hospital must hold in perpetuity or for donor-specified periods. Under the Hospital's policies, endowment assets are invested in a manner that is intended to produce results that exceed inflation while assuming a moderate level of investment risk. The Hospital expects its endowment funds to provide an average rate of return of approximately 6 percent annually over time. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate of return objectives, the Hospital relies on a total return strategy in which investment returns are achieved through both current yield (investment income such as dividends and interest) and capital appreciation (both realized and unrealized). The Hospital targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

**Note 9: Mortgage Payable**

The Hospital entered into a mortgage agreement dated December 1, 2009, for the construction of a replacement facility. The terms of the agreement allow for borrowings up to \$34,220,000 at a fixed interest rate of 6.14 percent. The balance outstanding as of March 31, 2014 and 2013, was \$32,533,388 and \$33,171,639, respectively. The mortgage is due in monthly installments of \$223,436 which began on January 1, 2012, and must be paid in full by December 2036. The mortgage is insured by HUD under Section 242 of the *National Housing Act*.

**Mendota Community Hospital**  
**Notes to Financial Statements**  
**March 31, 2014 and 2013**

**Note 10: Long-term Debt**

	<u>2014</u>	<u>2013</u>
Capital lease obligation, due September 2013, payable \$3,467 monthly, including imputed interest at 2.72%; collateralized by equipment	\$ -	\$ 20,638
Capital lease obligation, due July 2014, payable \$22,375 monthly, including imputed interest at 3.01%; collateralized by equipment	88,938	350,477
Capital lease obligation, due November 2016, payable \$18,150 monthly, including imputed interest at 4.96%; collateralized by equipment	542,976	728,808
Capital lease obligation, due November 2016, payable \$3,013 monthly, including imputed interest at 4.96%; collateralized by equipment	90,156	121,011
Capital lease obligation, due November 2016, payable \$24,701 monthly, including imputed interest at 4.96%; collateralized by equipment	738,944	988,386
Capital lease obligation, due October 2016, payable \$22,054 monthly, including imputed interest at 4.01%; collateralized by equipment	648,432	881,976
Mortgage payable - Note 9	<u>32,533,388</u>	<u>33,171,639</u>
	34,642,834	36,262,935
Less current maturities	<u>1,497,713</u>	<u>1,613,486</u>
	<u>\$ 33,145,121</u>	<u>\$ 34,649,449</u>

Property and equipment include the following property under capital lease:

	<u>2014</u>	<u>2013</u>
Equipment	\$ 4,425,030	\$ 4,619,780
Less accumulated depreciation	<u>2,390,611</u>	<u>1,578,060</u>
	<u>\$ 2,034,419</u>	<u>\$ 3,041,720</u>

**Mendota Community Hospital**  
**Notes to Financial Statements**  
**March 31, 2014 and 2013**

The annual maturity payments on mortgage payable and capital lease obligations at March 31, 2014, are as follows:

	<b>Mortgage Payable</b>	<b>Capital Lease Obligations</b>
2015	\$ 678,561	\$ 904,525
2016	721,418	815,025
2017	766,981	521,299
2018	815,421	-
2019	866,922	-
Thereafter	28,684,085	-
	<b>\$ 32,533,388</b>	<b>2,240,849</b>
Less amount representing interest		131,403
Present values of future minimum lease payments		2,109,446
Less current maturities		819,152
Noncurrent portion		<b>\$ 1,290,294</b>

**Note 11: Line of Credit**

The Hospital has a \$1,000,000 line of credit agreement expiring on May 1, 2015. At March 31, 2014 and 2013, there was \$0 and \$576,415 borrowed against the line. The line is collateralized by the Hospital's accounts receivable and deposit accounts. Interest is payable on demand at 4.25 percent or if no demand is made, at maturity of the line.

**Note 12: Pension Plan**

The Hospital has a defined-contribution pension plan covering substantially all employees. The board of directors annually determines the amount, if any, of the Hospital's contributions to the plan. Pension expense was \$227,540 and \$363,804 for 2014 and 2013, respectively.

**Mendota Community Hospital**  
**Notes to Financial Statements**  
**March 31, 2014 and 2013**

**Note 13: Risk Management and Professional Liability Claims**

The Hospital has joined together with other providers of health care services to form the Illinois Provider Trust and the Illinois Compensation Trust, two risk pools currently operating as a common risk management and insurance program for its members. The Hospital purchases medical malpractice insurance from the Pool under a claims-made policy. The Hospital pays annual premiums to the pools for its general liability torts, medical malpractice and employee injuries insurance coverage. The pool's governing agreement specifies that the pool will be self-sustaining through member premiums and will reinsure through commercial carriers for claims in excess of stop-loss amounts. It is reasonably possible that estimates made for the ultimate cost of malpractice claims could change materially in the near term.

**Note 14: Significant Estimates**

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates. Those matters include the following:

***Allowance for Net Patient Service Revenue***

Estimates of allowances for adjustments included in net patient service revenue are described in Note 2.

***Risk Management***

Estimates related to the accrual for medical malpractice claims are described in Notes 1 and 13. Estimates related to the accrual for self-insured employee health claims are described in Note 1.

***Investigation***

The Hospital is investigating a financial relationship that may be determined to be in violation of the *Ethics in Patient Referrals Act of 1989*. No provision has been made in the financial statements for any adverse outcome that might ultimately result from this matter, as the amount of any such loss is not reasonably estimable. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

***Current Economic Conditions***

The current protracted economic decline continues to present hospitals with difficult circumstances and challenges, which in some cases have resulted in large and unanticipated declines in the fair value of investments and other assets, large declines in contributions, constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the Hospital.

Current economic conditions, including the rising unemployment rate, have made it difficult for certain of our patients to pay for services rendered. As employers make adjustments to health insurance plans or more patients become unemployed, services provided to self-pay and other

**Mendota Community Hospital**  
**Notes to Financial Statements**  
**March 31, 2014 and 2013**

payers may significantly impact net patient service revenue, which could have an adverse impact on the Hospital's future operating results. Further, the effect of economic conditions on the state may have an adverse effect on cash flows related to the Medicaid program.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in investment values and allowances for accounts that could negatively impact the Hospital's ability to meet debt covenants or maintain sufficient liquidity.

**Note 15: Patient Protection and Affordable Care Act**

The *Patient Protection and Affordable Care Act* (PPACA) will substantially reform the United States health care system. The legislation impacts multiple aspects of the health care system, including many provisions that change payments from Medicare, Medicaid and insurance companies. Starting in 2014, the legislation requires the establishment of health insurance exchanges, which will provide individuals without employer-provided health care coverage the opportunity to purchase insurance. It is anticipated that some employers currently offering insurance to employees will opt to have employees seek insurance coverage through the insurance exchanges. It is possible the reimbursement rates paid by insurers participating in the insurance exchanges may be substantially different than rates paid under current health insurance products. Another significant component of the PPACA is the expansion of the Medicaid program to a wide range of newly eligible individuals. In anticipation of this expansion, payments under certain existing programs, such as Medicare disproportionate share, will be substantially decreased. Each state's participation in an expanded Medicaid program is optional.

The state of Illinois is participating in the Medicaid expansion program.

The PPACA is extremely complex and may be difficult for the federal government and each state to implement. While the overall impact of the PPACA cannot currently be estimated, it is possible that it will have a negative impact on the Hospital's net patient service revenue. In addition, it is possible the Hospital will experience payment delays and other operational challenges during PPACA's implementation.

**Note 16: Subsequent Events**

On May 8, 2014, the Hospital entered into a letter of intent with OSF Healthcare System with respect to a possible merger upon reaching an affiliation agreement based on proposed binding and nonbinding provisions. Terms of the agreement are set to expire at the earliest of the following: i) a full execution of an affiliation agreement; ii) termination by any party with 10 days prior to written notice; iii) failure of an affiliation agreement to be executed by October 1, 2014, unless mutually extended.

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the financial statements were available to be issued.

## **Supplementary Information**

**Mendota Community Hospital**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended March 31, 2014**

Cluster/Program	Federal Agency/ Pass-Through Entity	CFDA Number	Grant or Identifying Number	Amount
HUD Section 242 Mortgage Insurance - Hospitals	U.S. Department of Housing and Urban Development	14.128	072-13003	\$33,171,639

**Notes to Schedule**

1. This schedule includes the federal awards activity of Mendota Community Hospital and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the basic financial statements.
2. No federal awards were provided to subrecipients.

**Independent Auditor's Report on Internal Control Over  
Financial Reporting and on Compliance and Other Matters Based on an  
Audit of the Financial Statements Performed in Accordance with  
Government Auditing Standards**

Board of Directors  
Mendota Community Hospital  
Mendota, Illinois

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Mendota Community Hospital (the "Hospital"), which comprise the balance sheet as of March 31, 2014, and the related statements of operations, changes in net assets and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 18, 2014.

**Internal Control Over Financial Reporting**

Management of the Hospital is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit, we considered the Hospital's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Hospital's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses as defined above. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matter**

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to the Hospital's management in a separate letter dated September 18, 2014.

**Purpose of This Report**

The purpose of this communication is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Hospital's internal control or compliance. This communication is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

**BKD, LLP**

St. Louis, Missouri  
September 18, 2014

**Independent Auditor's Report on Compliance with Requirements that Could Have  
a Direct and Material Effect on the Major Program and on Internal Control Over  
Compliance in Accordance with OMB Circular A-133**

Board of Directors  
Mendota Community Hospital  
Mendota, Illinois

**Report on Compliance for the Major Federal Program**

We have audited the compliance of Mendota Community Hospital (the "Hospital") with the types of compliance requirements described in the OMB Circular A-133, *Compliance Supplement*, that could have a direct and material effect on its major federal program for the year ended March 31, 2014. The Hospital's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance of Hospital's major federal program based on our audit of the types of compliance requirements referred to above.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Hospital's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination on the Hospital's compliance with those requirements.

**Opinion on the Major Federal Program**

In our opinion, the Hospital complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended March 31, 2014.

**Report on Internal Control Over Compliance**

The management of the Hospital is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Hospital's internal control over compliance with the requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Board of Directors  
Mendota Community Hospital  
Page 3

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*BKD, LLP*

St. Louis, Missouri  
September 18, 2014



**Mendota Community Hospital**  
**Schedule of Findings and Questioned Costs (Continued)**  
**Year Ended March 31, 2014**

**Findings Required to be Reported by *Government Auditing Standards***

<b>Reference Number</b>	<b>Finding</b>	<b>Questioned Costs</b>
	No matters are reportable.	

**Findings Required to be Reported by OMB Circular A-133**

<b>Reference Number</b>	<b>Finding</b>	<b>Questioned Costs</b>
	No matters are reportable.	None

**Mendota Community Hospital**  
**Schedule of Prior Audit Findings**  
**Year Ended March 31, 2014**

<b>Reference Number</b>	<b>Summary of Finding</b>	<b>Status</b>
2013-01	The accuracy of the Hospital's financial statements is dependent upon the proper functioning of the internal control system and the proper valuation of self-pay patient accounts receivable.	Resolved
2013-02	The accuracy of the Hospital's financial statements is dependent upon the proper functioning of the internal control system and the proper valuation of physician commercial and governmental patient accounts receivable.	Resolved

**Mendota Community Hospital**  
**Summarized Statements of Operations**  
**For the Years Ended March 31, 2009 through 2014**  
**(Unaudited)**

	<u>2014</u>	<u>2013</u>	<u>2012</u>
<b>Unrestricted Revenues, Gains and Other Support</b>			
Patient service revenue (net of contractual discounts and allowances)	\$ 33,559,872	\$ 31,607,057	\$ 30,050,216
Provision for uncollectible accounts	<u>(1,249,811)</u>	<u>(2,046,533)</u>	<u>(1,214,427)</u>
Net patient service revenue less provision for uncollectible accounts	32,310,061	29,560,524	28,835,789
Other	<u>949,758</u>	<u>1,127,976</u>	<u>634,953</u>
	<u>33,259,819</u>	<u>30,688,500</u>	<u>29,470,742</u>
<b>Expenses</b>			
Patient and administrative services	31,514,337	31,048,908	30,360,476
Depreciation	<u>3,641,724</u>	<u>3,591,345</u>	<u>1,477,732</u>
	<u>35,156,061</u>	<u>34,640,253</u>	<u>31,838,208</u>
<b>Operating Income (Loss)</b>	(1,896,242)	(3,951,753)	(2,367,466)
<b>Other Income</b>	<u>184,590</u>	<u>1,275,219</u>	<u>517,019</u>
<b>Excess (Deficiency) of Revenues Over Expenses</b>	(1,711,652)	(2,676,534)	(1,850,447)
<b>Change in Donor Restriction</b>	-	11,417	-
<b>Investment Return - Change in Unrealized Gains and Losses on Other Than Trading Securities</b>	<u>64,989</u>	<u>(956,383)</u>	<u>54,326</u>
<b>Increase (Decrease) in Unrestricted Net Assets</b>	<u>\$ (1,646,663)</u>	<u>\$ (3,621,500)</u>	<u>\$ (1,796,121)</u>

<b>2011</b>	<b>2010</b>	<b>2009</b>
\$ 27,400,147 <u>(1,529,221)</u>	\$ 27,273,093 <u>(1,100,548)</u>	\$ 26,886,000 <u>(1,152,313)</u>
25,870,926 861,840 <u>          </u>	26,172,545 584,400 <u>          </u>	25,733,687 506,303 <u>          </u>
<u>26,732,766</u>	<u>26,756,945</u>	<u>26,239,990</u>
26,426,187 3,916,991 <u>          </u>	26,361,847 1,097,767 <u>          </u>	24,347,884 1,181,169 <u>          </u>
<u>30,343,178</u>	<u>27,459,614</u>	<u>25,529,053</u>
(3,610,412)	(702,669)	710,937
<u>273,346</u>	<u>496,138</u>	<u>652,770</u>
(3,337,066)	(206,531)	1,363,707
-	-	-
<u>75,441</u>	<u>342,717</u>	<u>(922,845)</u>
<u>\$ (3,261,625)</u>	<u>\$ 136,186</u>	<u>\$ 440,862</u>

**Mendota Community Hospital**  
**Patient Service Revenue (net of contractual discounts and allowances)**  
**Years Ended March 31, 2014 and 2013**  
**(Unaudited)**

	<b>2014</b>		
	<b>Inpatient</b>	<b>Outpatient</b>	<b>Total</b>
<b>Daily Patient Services</b>			
Acute care	\$ 3,528,333	\$ -	\$ 3,528,333
Intensive care unit	776,857	-	776,857
Swing bed unit	1,206,025	-	1,206,025
	<u>5,511,215</u>	<u>-</u>	<u>5,511,215</u>
<b>Other Nursing Services</b>			
Central supply	435,305	482,216	917,521
Recovery room	100,925	261,503	362,428
Surgical daycare	4,127	642,196	646,323
Other services	9,947	505,138	515,085
	<u>550,304</u>	<u>1,891,053</u>	<u>2,441,357</u>
<b>Other Professional Services</b>			
Anesthesiology	581,899	2,210,164	2,792,063
Surgery	1,997,561	3,659,572	5,657,133
Emergency room	95,778	6,590,575	6,686,353
Cardiopulmonary	2,326,766	640,241	2,967,007
Cardiac rehabilitation	207	115,813	116,020
Nuclear medicine	178,451	1,297,341	1,475,792
Radiology	786,637	11,921,491	12,708,128
Physical therapy	484,023	1,953,872	2,437,895
Occupational therapy	224,129	333,296	557,425
Blood transfusion	133,069	136,509	269,578
Ultrasound	345,047	1,760,166	2,105,213
EKG	141,220	1,873,264	2,014,484
Pharmacy	1,067,653	2,806,758	3,874,411
Laboratory	1,178,548	8,295,565	9,474,113
Physician's office	-	6,432,453	6,432,453
Home health agency	12,977	699,641	712,618
	<u>9,553,965</u>	<u>50,726,721</u>	<u>60,280,686</u>
<b>Service Revenue</b>	<u>\$ 15,615,484</u>	<u>\$ 52,617,774</u>	<u>68,233,258</u>
<b>Less Allowances</b>			
Medicare contractual allowances			18,676,236
Medicare electronic health records incentive payment revenue			(737,926)
Medicaid contractual allowances			5,134,117
Other allowances			10,220,411
Charity care			1,380,548
			<u>34,673,386</u>
<b>Patient Service Revenue (Net of Contractual Discounts and Allowances)</b>			<u>\$ 33,559,872</u>

2013		
Inpatient	Outpatient	Total
\$ 3,930,896	\$ -	\$ 3,930,896
864,603	-	864,603
<u>1,164,555</u>	<u>-</u>	<u>1,164,555</u>
5,960,054	-	5,960,054
350,077	551,789	901,866
88,188	290,827	379,015
350	584,388	584,738
<u>2,340</u>	<u>407,250</u>	<u>409,590</u>
<u>440,955</u>	<u>1,834,254</u>	<u>2,275,209</u>
551,757	2,292,753	2,844,510
1,330,462	3,515,643	4,846,105
149,711	6,462,338	6,612,049
2,549,897	604,222	3,154,119
-	159,564	159,564
100,260	1,214,942	1,315,202
892,963	10,316,390	11,209,353
391,273	1,676,703	2,067,976
185,044	370,667	555,711
195,703	144,388	340,091
311,846	1,442,907	1,754,753
178,405	1,585,413	1,763,818
1,223,252	2,641,234	3,864,486
1,347,923	7,975,569	9,323,492
-	5,426,451	5,426,451
<u>9,198</u>	<u>745,822</u>	<u>755,020</u>
<u>9,417,694</u>	<u>46,575,006</u>	<u>55,992,700</u>
<u>\$ 15,818,703</u>	<u>\$ 48,409,260</u>	<u>64,227,963</u>
		15,967,354
		-
		5,726,360
		9,324,174
		<u>1,603,018</u>
		<u>32,620,906</u>
		<u>\$ 31,607,057</u>

**Mendota Community Hospital**  
**Expenses**  
**Years Ended March 31, 2014 and 2013**  
**(Unaudited)**

	<b>2014</b>		
	<b>Salaries and Wages</b>	<b>Supplies and Expenses</b>	<b>Total</b>
<b>Nursing Services</b>			
Nursing services	\$ 1,795,869	\$ 228,458	\$ 2,024,327
Intensive care unit	597,826	80,586	678,412
Operating rooms	461,502	890,611	1,352,113
Recovery rooms	63,438	37,988	101,426
Central services and supply	61,161	108,774	169,935
Emergency room	843,188	2,066,325	2,909,513
	<u>3,822,984</u>	<u>3,412,742</u>	<u>7,235,726</u>
<b>Other Professional Services</b>			
Laboratory	711,481	796,090	1,507,571
Radiology	592,373	1,313,946	1,906,319
Electrocardiology	-	122,655	122,655
Cardiac rehab	30,416	2,232	32,648
Pharmacy	274,136	849,524	1,123,660
Physical therapy	423,238	70,630	493,868
Anesthesiology	655,209	85,977	741,186
Cardiopulmonary	535,331	56,526	591,857
Occupational therapy	144,488	42,116	186,604
Medical records	232,629	139,803	372,432
Surgical daycare	170,894	25,305	196,199
Social services	179,576	2,757	182,333
Clinic	335,014	238,116	573,130
Physician's offices	3,128,553	457,556	3,586,109
Home health	331,531	79,708	411,239
	<u>7,744,869</u>	<u>4,282,941</u>	<u>12,027,810</u>
<b>General Services</b>			
Dietary	295,482	170,251	465,733
Maintenance	480,074	577,550	1,057,624
Housekeeping	344,597	54,592	399,189
Laundry and linen	-	81,325	81,325
	<u>1,120,153</u>	<u>883,718</u>	<u>2,003,871</u>
<b>Administrative Services</b>			
Administrative and general	1,824,978	3,024,239	4,849,217
Employee benefits	-	3,232,555	3,232,555
	<u>1,824,978</u>	<u>6,256,794</u>	<u>8,081,772</u>
<b>Depreciation</b>	<u>-</u>	<u>3,641,724</u>	<u>3,641,724</u>
<b>Interest</b>	<u>-</u>	<u>2,165,158</u>	<u>2,165,158</u>
	<u>\$ 14,512,984</u>	<u>\$ 20,643,077</u>	<u>\$ 35,156,061</u>

<b>2013</b>		
<b>Salaries and Wages</b>	<b>Supplies and Expenses</b>	<b>Total</b>
\$ 1,865,014	\$ 282,223	\$ 2,147,237
653,874	123,053	776,927
470,883	641,117	1,112,000
61,895	44,539	106,434
62,475	118,758	181,233
839,708	2,013,168	2,852,876
<u>3,953,849</u>	<u>3,222,858</u>	<u>7,176,707</u>
744,238	824,926	1,569,164
604,894	1,003,437	1,608,331
-	137,275	137,275
38,113	8,737	46,850
277,144	872,607	1,149,751
354,477	73,027	427,504
669,400	122,870	792,270
525,607	64,451	590,058
101,142	79,987	181,129
248,317	121,312	369,629
170,638	22,636	193,274
204,289	5,201	209,490
385,998	368,287	754,285
3,153,022	439,503	3,592,525
347,657	82,775	430,432
<u>7,824,936</u>	<u>4,227,031</u>	<u>12,051,967</u>
303,124	174,869	477,993
431,667	639,500	1,071,167
364,188	62,304	426,492
-	88,113	88,113
<u>1,098,979</u>	<u>964,786</u>	<u>2,063,765</u>
1,773,933	2,340,020	4,113,953
-	3,440,356	3,440,356
<u>1,773,933</u>	<u>5,780,376</u>	<u>7,554,309</u>
-	3,591,345	3,591,345
-	2,202,160	2,202,160
<u>\$ 14,651,697</u>	<u>\$ 19,988,556</u>	<u>\$ 34,640,253</u>