

ORIGINAL

**ILLINOIS HEALTH FACILITIES AND SERVICES REVIEW BOARD
APPLICATION FOR PERMIT**

17-020

SECTION I. IDENTIFICATION, GENERAL INFORMATION, AND CERTIFICATION

RECEIVED

MAY 02 2017

This Section must be completed for all projects.

Facility/Project Identification

**HEALTH FACILITIES &
SERVICES REVIEW BOARD**

Facility Name:	AMITA Health Bartlett Medical Clinics Building		
Street Address:	1041 West Stearns Road		
City and Zip Code:	Bartlett, IL 60103		
County:	DuPage	Health Service Area:	VII
		Health Planning Area:	A-o5

Applicant(s) [Provide for each applicant (refer to Part 1130.220)]

Exact Legal Name:	Alexian Brothers-AHS Midwest Region Health Co. d/b/a AMITA Health
Street Address:	3040 West Salt Creek Road
City and Zip Code:	Arlington Heights, IL 60005
Name of Registered Agent:	C T Corporation System
Registered Agent Street Address:	208 S. La Salle Street, Suite 814
Registered Agent City and Zip Code:	Chicago, IL 60604
Name of Chief Executive Officer:	Mark A. Frey
CEO Street Address:	3040 West Salt Creek Road
CEO City and Zip Code:	Arlington Heights, IL 60005
CEO Telephone Number:	847/815-5100

Type of Ownership of Applicants

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

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

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

Primary Contact [Person to receive ALL correspondence or inquiries]

Name:	Jacob M. Axel
Title:	President
Company Name:	Axel & Associates, Inc.
Address:	675 North Court, Suite 210 Palatine, IL 60067
Telephone Number:	847/776-7101
E-mail Address:	jacobmaxel@msn.com
Fax Number:	847/776-7004

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

Name:	Ms. Peg Wendell
Title:	Sr. Vice President and General Counsel
Company Name:	AMITA Health
Address:	3040 West Salt Creek Road Arlington Heights, IL 60005
Telephone Number:	847/815-5100
E-mail Address:	peg.wendell@amitahealth.org
Fax Number:	

**ILLINOIS HEALTH FACILITIES AND SERVICES REVIEW BOARD
APPLICATION FOR PERMIT**

SECTION I. IDENTIFICATION, GENERAL INFORMATION, AND CERTIFICATION

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Facility/Project Identification

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Street Address: 1041 West Stearns Road			
City and Zip Code: Bartlett, IL 60103			
County: DuPage	Health Service Area: VII	Health Planning Area: A-o5	

Applicant(s) [Provide for each applicant (refer to Part 1130.220)]

Exact Legal Name:	Alexian Brothers Health System
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City and Zip Code:	Arlington Heights, IL 60005
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Registered Agent Street Address:	208 S. La Salle Street, Suite 814
Registered Agent City and Zip Code:	Chicago, IL 60604
Name of Chief Executive Officer:	Mark A. Frey
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Fax Number:	

**ILLINOIS HEALTH FACILITIES AND SERVICES REVIEW BOARD
APPLICATION FOR PERMIT**

SECTION I. IDENTIFICATION, GENERAL INFORMATION, AND CERTIFICATION

This Section must be completed for all projects.

Facility/Project Identification

Facility Name: AMITA Health Bartlett Medical Clinics Building			
Street Address: 1041 West Stearns Road			
City and Zip Code: Bartlett, IL 60103			
County: DuPage	Health Service Area: VII	Health Planning Area: A-o5	

Applicant(s) [Provide for each applicant (refer to Part 1130.220)]

Exact Legal Name:	Ascension Health
Street Address:	4600 Edmunson Road
City and Zip Code:	St. Louis, MO 63134
Name of Registered Agent:	Illinois Corporation Service C
Registered Agent Street Address:	801 Adlai Stevenson Drive
Registered Agent City and Zip Code:	Springfield, IL 62703
Name of Chief Executive Officer:	Anthony R. Tersigni, Ed.D, FACHE
CEO Street Address:	4600 Edmunson Road
CEO City and Zip Code:	St. Louis, MO 63134
CEO Telephone Number:	314/737-8000

Type of Ownership of Applicants

<input checked="" type="checkbox"/> Non-profit Corporation	<input type="checkbox"/> Partnership
<input type="checkbox"/> For-profit Corporation	<input type="checkbox"/> Governmental
<input type="checkbox"/> Limited Liability Company	<input type="checkbox"/> Sole Proprietorship
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Address:	3040 West Salt Creek Road Arlington Heights, IL 60005
Telephone Number:	847/815-5100
E-mail Address:	peg.wendell@amitahealth.org
Fax Number:	

Post Permit Contact

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

Name:	Ms. Peg Wendell
Title:	Sr. Vice President and General Counsel
Company Name:	AMITA Health
Address:	3040 West Salt Creek Road Arlington Heights, IL 60005
Telephone Number:	847/815-5100
E-mail Address:	peg.wendell@amitahealth.org
Fax Number:	

Site Ownership

[Provide this information for each applicable site]

Exact Legal Name of Site Owner:	Cole MT Bartlett IL, LLC
Address of Site Owner:	2325 East Camelback Road Suite 1100 Phoenix, AZ 85016
Street Address or Legal Description of the Site:	Proof of ownership or control of the site is to be provided as Attachment 2. Examples of proof of ownership are property tax statements, tax assessor's documentation, deed, notarized statement of the corporation attesting to ownership, an option to lease, a letter of intent to lease, or a lease.
APPEND DOCUMENTATION AS ATTACHMENT 2, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.	

Operating Identity/Licensee

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

Exact Legal Name:	AMITA Health	
Address:	3040 West Salt Creek Road Arlington Heights, IL 60005	
<input checked="" type="checkbox"/> Non-profit Corporation	<input type="checkbox"/> Partnership	
<input type="checkbox"/> For-profit Corporation	<input type="checkbox"/> Governmental	
<input type="checkbox"/> Limited Liability Company	<input type="checkbox"/> Sole Proprietorship	<input type="checkbox"/> Other
<ul style="list-style-type: none">o Corporations and limited liability companies must provide an Illinois Certificate of Good Standing.o Partnerships must provide the name of the state in which organized and the name and address of each partner specifying whether each is a general or limited partner.o Persons with 5 percent or greater interest in the licensee must be identified with the % of ownership.		
APPEND DOCUMENTATION AS ATTACHMENT 3, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.		

Organizational Relationships

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

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

Flood Plain Requirements

[Refer to application instructions.]

Provide documentation that the project complies with the requirements of Illinois Executive Order #2006-5 pertaining to construction activities in special flood hazard areas. As part of the flood plain requirements, please provide a map of the proposed project location showing any identified floodplain areas. Floodplain maps can be printed at www.FEMA.gov or www.illinoisfloodmaps.org. **This map must be in a readable format.** In addition, please provide a statement attesting that the project complies with the requirements of Illinois Executive Order #2006-5 (<http://www.hfsrb.illinois.gov>).

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

Historic Resources Preservation Act Requirements

[Refer to application instructions.]

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

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

DESCRIPTION OF PROJECT

1. Project Classification

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

Part 1110 Classification:

Substantive

X Non-substantive

2. Narrative Description

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

The applicants propose to develop a medical clinics building ("MCB") through the leasing and renovation of a former grocery store, located at 1014 West Stearns Road in Bartlett, Illinois. The MCB will include physicians' offices, an immediate care center, limited imaging services, a specimen collection area, and assorted public and support areas. It is anticipated that 16-18 physicians will initially be officed in the MCB, representing the following specialties: family medicine, occupational medicine, internal medicine, surgery, cardiology and gastroenterology.

The proposed project is reviewable due to the associated capital costs, and is classified as "non-substantive" because services will be provided only to outpatients, and no IDPH-designated "category of service" will be provided.

PROJECT COST AND SOURCES OF FUNDS

	Reviewable	Non-Reviewable	Total
Project Cost:			
Preplanning Costs	\$ 32,951	\$ 220,165	\$ 253,116
Site Survey and Soil Investigation			
Site Preparation	\$ 50,000	\$ 150,000	\$ 200,000
Off Site Work			
New Construction Contracts			
Modernization Contracts	\$ 2,383,260	\$ 7,810,785	\$ 10,194,045
Contingencies	\$ 145,860	\$ 510,270	\$ 656,130
Architectural/Engineering Fees	\$ 177,038	\$ 582,474	\$ 759,512
Consulting and Other Fees	\$ 350,000	\$ 150,000	\$ 500,000
Movable and Other Equipment (not in construction contracts)	\$ 4,913,897	\$ 1,123,892	\$ 6,037,789
Net Interest Expense During Construction Period			
Fair Market Value of Leased Space or Equipment	\$ 1,552,863	\$ 6,369,907	\$ 7,922,770
Other Costs to be Capitalized			
Acquisition of Building or Other Property			
TOTAL USES OF FUNDS	\$ 9,605,869	\$ 16,917,493	\$ 26,523,363
Sources of Funds:			
Cash and Securities	\$ 8,053,006	\$ 10,547,586	\$ 18,600,593
Pledges			
Gifts and Bequests			
Bond Issues (project related)			
Mortgages			
Leases (fair market value)	\$ 1,552,863	\$ 6,369,907	\$ 7,922,770
Governmental Appropriations			
Grants			
Other Funds and Sources			
TOTAL SOURCES OF FUNDS	\$ 9,605,869	\$ 16,917,493	\$ 26,523,363

Related Project Costs

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

Land acquisition is related to project <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Purchase Price: \$ _____
Fair Market Value: \$ _____
The project involves the establishment of a new facility or a new category of service <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
If yes, provide the dollar amount of all non-capitalized operating start-up costs (including operating deficits) through the first full fiscal year when the project achieves or exceeds the target utilization specified in Part 1100.
Estimated start-up costs and operating deficit cost is \$ _____.

Project Status and Completion Schedules

For facilities in which prior permits have been issued please provide the permit numbers.
Indicate the stage of the project's architectural drawings: <input type="checkbox"/> None or not applicable <input type="checkbox"/> Preliminary <input checked="" type="checkbox"/> Schematics <input type="checkbox"/> Final Working
Anticipated project completion date (refer to Part 1130.140): <u>January 31, 2019</u>
Indicate the following with respect to project expenditures or to financial commitments (refer to Part 1130.140): <input type="checkbox"/> Purchase orders, leases or contracts pertaining to the project have been executed. <input type="checkbox"/> Financial commitment is contingent upon permit issuance. Provide a copy of the contingent "certification of financial commitment" document, highlighting any language related to CON Contingencies <input checked="" type="checkbox"/> Financial Commitment will occur after permit issuance.
APPEND DOCUMENTATION AS ATTACHMENT 8, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

State Agency Submittals [Section 1130.620(c)]

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

8

Cost Space Requirements

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

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

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

Facility Bed Capacity and Utilization

not applicable

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

FACILITY NAME:		CITY:			
REPORTING PERIOD DATES:		From:	to:		
Category of Service	Authorized Beds	Admissions	Patient Days	Bed Changes	Proposed Beds
Medical/Surgical					
Obstetrics					
Pediatrics					
Intensive Care					
Comprehensive Physical Rehabilitation					
Acute/Chronic Mental Illness					
Neonatal Intensive Care					
General Long Term Care					
Specialized Long Term Care					
Long Term Acute Care					
Other ((identify)					
TOTALS:					

CERTIFICATION

The Application must be signed by the authorized representatives of the applicant entity. Authorized representatives are:

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

This Application is filed on the behalf of **Alexian Brothers-AHS Midwest Region Health Co. d/b/a AMITA Health** * in accordance with the requirements and procedures of the Illinois Health Facilities Planning Act. The undersigned certifies that he or she has the authority to execute and file this Application on behalf of the applicant entity. The undersigned further certifies that the data and information provided herein, and appended hereto, are complete and correct to the best of his or her knowledge and belief. The undersigned also certifies that the fee required for this application is sent herewith or will be paid upon request.

Mark A. Frey

 SIGNATURE

Mark A. Frey

 PRINTED NAME

President/CEO

 PRINTED TITLE

Paul E. Bester

 SIGNATURE

PAUL E BESTER

 PRINTED NAME

SVP/COO

 PRINTED TITLE

Notarization:
 Subscribed and sworn to before me
 this 18 day of April, 2017

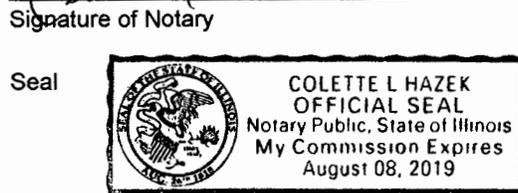
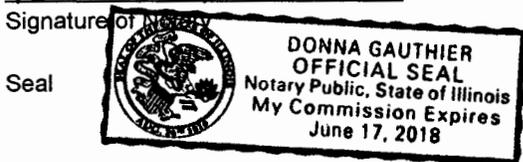
Notarization:
 Subscribed and sworn to before me
 this 18 day of April, 2017

Donna Gauthier

 Signature of Notary

Colette L. Hazeck

 Signature of Notary



*Insert the EXACT legal name of the applicant

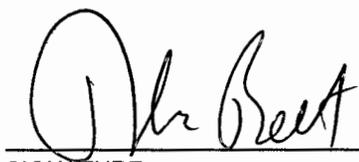
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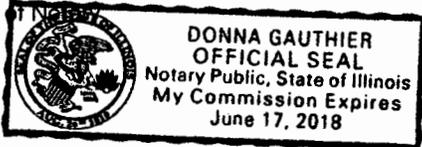
This Application is filed on the behalf of **Alexian Brothers Health System** ___* in accordance with the requirements and procedures of the Illinois Health Facilities Planning Act. The undersigned certifies that he or she has the authority to execute and file this Application on behalf of the applicant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

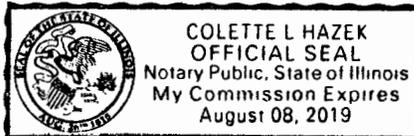

SIGNATURE
Mark A. Frey
PRINTED NAME
President/CEO
PRINTED TITLE


SIGNATURE
PAUL E BERTA
PRINTED NAME
SVP / CFO
PRINTED TITLE

Notarization:
Subscribed and sworn to before me
this 18 day of April

Notarization:
Subscribed and sworn to before me
this 18 day of April, 2017


Signature
Seal 


Signature of Notary
Seal 

*Insert the EXACT legal name of the applicant

CERTIFICATION

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- o in the case of a sole proprietor, the individual that is the proprietor.

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

[Signature]
SIGNATURE
Rhonda C. Anderson
PRINTED NAME
Sr VP / CFO
PRINTED TITLE

[Signature]
SIGNATURE
David B. Pryor
PRINTED NAME
EVA / Chief Clinical Officer
PRINTED TITLE

Notarization:
Subscribed and sworn to before me
this 27th day of April, 2017

Notarization:
Subscribed and sworn to before me
this 27th day of April, 2017

[Signature]
Signature of Notary
ELFRIEDE M. ROHE
Notary Public - Notary Seal
STATE OF MISSOURI
Comm. Number 01505902
St. Louis County
My Commission Expires: July 13, 2020

[Signature]
Signature of Notary
ELFRIEDE M. ROHE
Notary Public - Notary Seal
STATE OF MISSOURI
Comm. Number 01505902
St. Louis County
My Commission Expires: July 13, 2020

*Insert the EXACT legal name of the applicant

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

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

Background

READ THE REVIEW CRITERION and provide the following required information:

BACKGROUND OF APPLICANT

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

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

Criterion 1110.230 – Purpose of the Project, and Alternatives

PURPOSE OF PROJECT

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

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

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

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

ALTERNATIVES

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

Alternative options **must** include:

- A) Proposing a project of greater or lesser scope and cost;
 - B) Pursuing a joint venture or similar arrangement with one or more providers or entities to meet all or a portion of the project's intended purposes; developing alternative settings to meet all or a portion of the project's intended purposes;
 - C) Utilizing other health care resources that are available to serve all or a portion of the population proposed to be served by the project; and
 - D) Provide the reasons why the chosen alternative was selected.
- 2) Documentation shall consist of a comparison of the project to alternative options. The comparison shall address issues of total costs, patient access, quality and financial benefits in both the short-term (within one to three years after project completion) and long-term. This may vary by project or situation. **FOR EVERY ALTERNATIVE IDENTIFIED, THE TOTAL PROJECT COST AND THE REASONS WHY THE ALTERNATIVE WAS REJECTED MUST BE PROVIDED.**
- 3) The applicant shall provide empirical evidence, including quantified outcome data that verifies improved quality of care, as available.

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

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

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

READ THE REVIEW CRITERION and provide the following information:

SIZE OF PROJECT:

1. Document that the amount of physical space proposed for the proposed project is necessary and not excessive. **This must be a narrative and it shall include the basis used for determining the space and the methodology applied.**
2. If the gross square footage exceeds the BGSF/DGSF standards in Appendix B, justify the discrepancy by documenting one of the following:
 - a. Additional space is needed due to the scope of services provided, justified by clinical or operational needs, as supported by published data or studies and certified by the facility's Medical Director.
 - b. The existing facility's physical configuration has constraints or impediments and requires an architectural design that delineates the constraints or impediments.
 - c. The project involves the conversion of existing space that results in excess square footage.
 - d. Additional space is mandated by governmental or certification agency requirements that were not in existence when Appendix B standards were adopted.

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

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

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

PROJECT SERVICES UTILIZATION:

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

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

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

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

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

UNFINISHED OR SHELL SPACE:

not applicable, no shell space

Provide the following information:

1. Total gross square footage (GSF) of the proposed shell space.
2. The anticipated use of the shell space, specifying the proposed GSF to be allocated to each department, area or function.
3. Evidence that the shell space is being constructed due to:
 - a. Requirements of governmental or certification agencies; or
 - b. Experienced increases in the historical occupancy or utilization of those areas proposed to occupy the shell space.
4. Provide:
 - a. Historical utilization for the area for the latest five-year period for which data is available; and
 - b. Based upon the average annual percentage increase for that period, projections of future utilization of the area through the anticipated date when the shell space will be placed into operation.

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

ASSURANCES:

not applicable, no shell space

Submit the following:

1. Verification that the applicant will submit to HFSRB a CON application to develop and utilize the shell space, regardless of the capital thresholds in effect at the time or the categories of service involved.
2. The estimated date by which the subsequent CON application (to develop and utilize the subject shell space) will be submitted; and
3. The anticipated date when the shell space will be completed and placed into operation.

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

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

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

Service	# Existing Key Rooms	# Proposed Key Rooms
<input type="checkbox"/>		
<input type="checkbox"/>		
<input type="checkbox"/>		

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

Project Type	Required Review Criteria
New Services or Facility or Equipment	(c) – Need Determination – Establishment
Service Modernization	(d)(1) – Deteriorated Facilities
	AND/OR
	(d)(2) – Necessary Expansion
	PLUS
	(d)(3)(A) – Utilization – Major Medical Equipment
	OR
	(d)(3)(B) – Utilization – Service or Facility
<p>APPEND DOCUMENTATION AS <u>ATTACHMENT 31</u>, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.</p>	

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

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

VII. 1120.120 - AVAILABILITY OF FUNDS

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

\$18,609,540_	<p>a) Cash and Securities – statements (e.g., audited financial statements, letters from financial institutions, board resolutions) as to:</p> <ol style="list-style-type: none"> 1) the amount of cash and securities available for the project, including the identification of any security, its value and availability of such funds; and 2) interest to be earned on depreciation account funds or to be earned on any asset from the date of applicant's submission through project completion;
_____	<p>b) Pledges – for anticipated pledges, a summary of the anticipated pledges showing anticipated receipts and discounted value, estimated time table of gross receipts and related fundraising expenses, and a discussion of past fundraising experience.</p>
_____	<p>c) Gifts and Bequests – verification of the dollar amount, identification of any conditions of use, and the estimated time table of receipts;</p>
_____	<p>d) Debt – a statement of the estimated terms and conditions (including the debt time period, variable or permanent interest rates over the debt time period, and the anticipated repayment schedule) for any interim and for the permanent financing proposed to fund the project, including:</p> <ol style="list-style-type: none"> 1) For general obligation bonds, proof of passage of the required referendum or evidence that the governmental unit has the authority to issue the bonds and evidence of the dollar amount of the issue, including any discounting anticipated; 2) For revenue bonds, proof of the feasibility of securing the specified amount and interest rate; 3) For mortgages, a letter from the prospective lender attesting to the expectation of making the loan in the amount and time indicated, including the anticipated interest rate and any conditions associated with the mortgage, such as, but not limited to, adjustable interest rates, balloon payments, etc.; 4) For any lease, a copy of the lease, including all the terms and conditions, including any purchase options, any capital improvements to the property and provision of capital equipment; 5) For any option to lease, a copy of the option, including all terms and conditions.
_____	<p>e) Governmental Appropriations – a copy of the appropriation Act or ordinance accompanied by a statement of funding availability from an official of the governmental unit. If funds are to be made available from subsequent fiscal years, a copy of a resolution or other action of the governmental unit attesting to this intent;</p>

<p>_____</p> <p>\$7,922,770_</p>	<p>f) Grants - a letter from the granting agency as to the availability of funds in terms of the amount and time of receipt;</p> <p>g) All Other Funds and Sources - verification of the amount and type of any other funds that will be used for the project. FMV of leased space</p>
<p>\$26,532,310</p>	<p>TOTAL FUNDS AVAILABLE</p>

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

SECTION VIII. 1120.130 - FINANCIAL VIABILITY

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

Financial Viability Waiver

bond rating provided

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

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

See Section 1120.130 Financial Waiver for information to be provided

APPEND DOCUMENTATION AS ATTACHMENT 35, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

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

	Historical 3 Years			Projected
Enter Historical and/or Projected Years:				
Current Ratio				
Net Margin Percentage				
Percent Debt to Total Capitalization				
Projected Debt Service Coverage				
Days Cash on Hand				
Cushion Ratio				

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

Variance

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

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

SECTION IX. 1120.140 - ECONOMIC FEASIBILITY

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

A. Reasonableness of Financing Arrangements

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

- 1) That the total estimated project costs and related costs will be funded in total with cash and equivalents, including investment securities, unrestricted funds, received pledge receipts and funded depreciation; or
- 2) That the total estimated project costs and related costs will be funded in total or in part by borrowing because:
 - A) A portion or all of the cash and equivalents must be retained in the balance sheet asset accounts in order to maintain a current ratio of at least 2.0 times for hospitals and 1.5 times for all other facilities; or
 - B) Borrowing is less costly than the liquidation of existing investments, and the existing investments being retained may be converted to cash or used to retire debt within a 60-day period.

B. Conditions of Debt Financing

not applicable, no debt to be used

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

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

C. Reasonableness of Project and Related Costs

Read the criterion and provide the following:

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

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

* Include the percentage (%) of space for circulation

D. Projected Operating Costs

not applicable due to nature of project

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

E. Total Effect of the Project on Capital Costs

not applicable due to nature of project

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

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

SECTION X. SAFETY NET IMPACT STATEMENT

SAFETY NET IMPACT STATEMENT that describes all of the following must be submitted for ALL SUBSTANTIVE PROJECTS AND PROJECTS TO DISCONTINUE STATE-OWNED HEALTH CARE FACILITIES [20 ILCS 3960/5.4]:

1. The project's material impact, if any, on essential safety net services in the community, to the extent that it is feasible for an applicant to have such knowledge.
2. The project's impact on the ability of another provider or health care system to cross-subsidize safety net services, if reasonably known to the applicant.
3. How the discontinuation of a facility or service might impact the remaining safety net providers in a given community, if reasonably known by the applicant.

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

1. For the 3 fiscal years prior to the application, a certification describing the amount of charity care provided by the applicant. The amount calculated by hospital applicants shall be in accordance with the reporting requirements for charity care reporting in the Illinois Community Benefits Act. Non-hospital applicants shall report charity care, at cost, in accordance with an appropriate methodology specified by the Board.
2. For the 3 fiscal years prior to the application, a certification of the amount of care provided to Medicaid patients. Hospital and non-hospital applicants shall provide Medicaid information in a manner consistent with the information reported each year to the Illinois Department of Public Health regarding "Inpatients and Outpatients Served by Payor Source" and "Inpatient and Outpatient Net Revenue by Payor Source" as required by the Board under Section 13 of this Act and published in the Annual Hospital Profile.
3. Any information the applicant believes is directly relevant to safety net services, including information regarding teaching, research, and any other service.

A table in the following format must be provided as part of Attachment 40.

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

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

SECTION XI. CHARITY CARE INFORMATION

Charity Care information MUST be furnished for ALL projects [1120.20(c)].

1. All applicants and co-applicants shall indicate the amount of charity care for the latest three **audited** fiscal years, the cost of charity care and the ratio of that charity care cost to net patient revenue.
2. If the applicant owns or operates one or more facilities, the reporting shall be for each individual facility located in Illinois. If charity care costs are reported on a consolidated basis, the applicant shall provide documentation as to the cost of charity care; the ratio of that charity care to the net patient revenue for the consolidated financial statement; the allocation of charity care costs; and the ratio of charity care cost to net patient revenue for the facility under review.
3. If the applicant is not an existing facility, it shall submit the facility's projected patient mix by payer source, anticipated charity care expense and projected ratio of charity care to net patient revenue by the end of its second year of operation.

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

A table in the following format must be provided for all facilities as part of Attachment 41.

St. Alexius Medical Center

CHARITY CARE			
	2014	2015	2016
Net Patient Revenue	\$334,206,800	\$319,890,000	\$353,094,000
Amount of Charity Care (charges)*	\$50,669,454	\$27,143,649	\$30,717,841
Cost of Charity Care	\$10,551,000	\$5,444,000	\$5,569,686

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

Alexian Brothers Medical Center

CHARITY CARE			
	2014	2015	2016
Net Patient Revenue	\$430,346,881	\$437,427,000	\$457,480,000
Amount of Charity Care (charges)*	\$45,145,248	\$23,820,931	\$26,603,784
Cost of Charity Care	\$9,480,000	\$4,657,000	\$5,166,051

Alexian Brothers Behavioral Health Hospital

CHARITY CARE			
	2014	2015	2016
Net Patient Revenue	\$65,513,515	\$70,510,000	\$76,916,399
Amount of Charity Care (charges)*	\$1,021,287	\$1,977,048	\$1,804,729
Cost of Charity Care	\$363,750	\$716,000	\$646,317

Adventist Bolingbrook Hospital

CHARITY CARE			
	2014	2015	2016
Net Patient Revenue	\$122,770,019	\$127,514,483	\$139,118,131
Amount of Charity Care (charges)	\$10,804,017	\$8,285,425	\$7,158,798
Cost of Charity Care	\$2,314,070	\$1,666,539	\$1,483,641

Adventist GlenOaks Hospital

CHARITY CARE			
	2014	2015	2016
Net Patient Revenue	\$87,030,421	\$86,962,317	\$91,470,724
Amount of Charity Care (charges)	\$9,382,108	\$6,807,836	\$6,783,953
Cost of Charity Care	\$2,558,867	\$1,899,807	\$1,854,074

Adventist Hinsdale Hospital

CHARITY CARE			
	2014	2015	2016
Net Patient Revenue	\$294,213,713	\$289,729,872	\$300,654,866
Amount of Charity Care (charges)	\$6,544,128	\$6,365,048	\$6,288,869
Cost of Charity Care	\$1,483,318	\$1,124,380	\$1,042,632

Adventist La Grange Memorial Hospital

CHARITY CARE			
	2014	2015	2016
Net Patient Revenue	\$159,501,217	\$169,493,466	\$168,305,071
Amount of Charity Care (charges)	\$9,083,505	\$5,867,986	\$6,375,574
Cost of Charity Care	\$1,773,951	\$1,286,807	\$1,327,600

*YE June 30



To all to whom these Presents Shall Come, Greeting:

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

ALEXIAN BROTHERS-AHS MIDWEST REGION HEALTH CO., A DOMESTIC CORPORATION, INCORPORATED UNDER THE LAWS OF THIS STATE ON SEPTEMBER 26, 2014, ADOPTED THE ASSUMED NAME AMITA HEALTH ON APRIL 14, 2015, APPEARS TO HAVE COMPLIED WITH ALL THE PROVISIONS OF THE GENERAL NOT FOR PROFIT CORPORATION ACT OF THIS STATE, AND AS OF THIS DATE, IS IN GOOD STANDING AS A DOMESTIC CORPORATION IN THE STATE OF ILLINOIS.

In Testimony Whereof, I hereto set my hand and cause to be affixed the Great Seal of the State of Illinois, this 31ST day of MARCH A.D. 2017 .

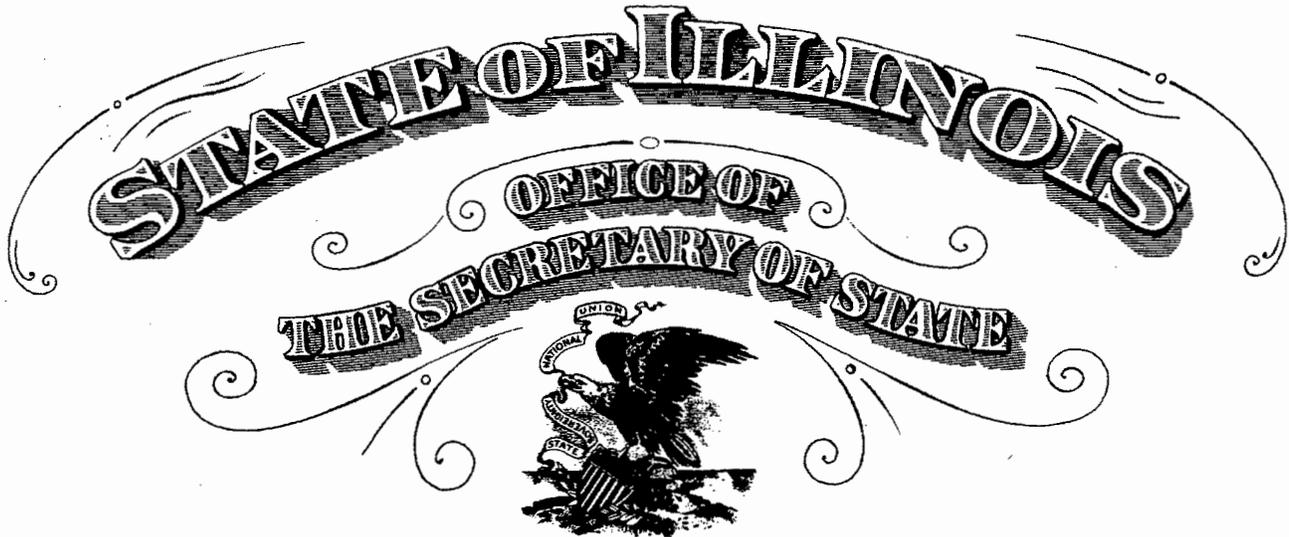


Authentication #: 1709001842 verifiable until 03/31/2018
Authenticate at: <http://www.cyberdriveillinois.com>

Jesse White

SECRETARY OF STATE

ATTACHMENT 1



To all to whom these Presents Shall Come, Greeting:

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

ALEXIAN BROTHERS HEALTH SYSTEM, A DOMESTIC CORPORATION, INCORPORATED UNDER THE LAWS OF THIS STATE ON OCTOBER 03, 1983, APPEARS TO HAVE COMPLIED WITH ALL THE PROVISIONS OF THE GENERAL NOT FOR PROFIT CORPORATION ACT OF THIS STATE, AND AS OF THIS DATE, IS IN GOOD STANDING AS A DOMESTIC CORPORATION IN THE STATE OF ILLINOIS.

In Testimony Whereof, I hereto set my hand and cause to be affixed the Great Seal of the State of Illinois, this 31ST day of MARCH A.D. 2017 .

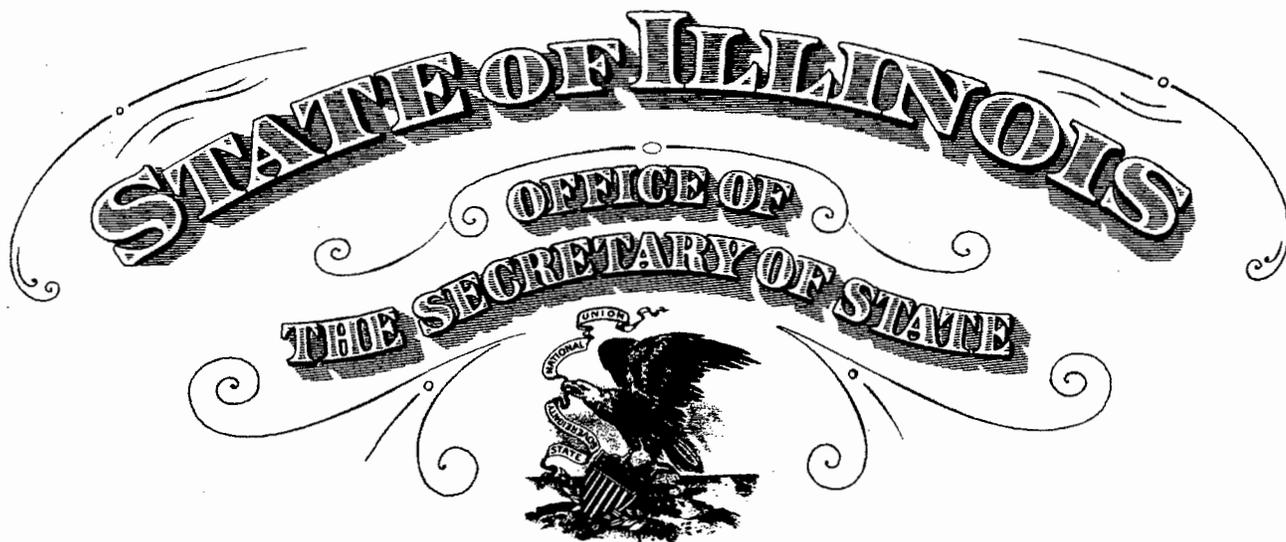


Jesse White

Authentication #: 1709001886 verifiable until 03/31/2018

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

SECRETARY OF STATE ATTACHMENT 1



To all to whom these Presents Shall Come, Greeting:

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

ASCENSION HEALTH, INCORPORATED IN MISSOURI AND LICENSED TO CONDUCT AFFAIRS IN THIS STATE ON JUNE 27, 2011, 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 A FOREIGN CORPORATION IN GOOD STANDING AND AUTHORIZED TO CONDUCT AFFAIRS IN THE STATE OF ILLINOIS.

In Testimony Whereof, I hereto set my hand and cause to be affixed the Great Seal of the State of Illinois, this 31ST day of MARCH A.D. 2017 .



Jesse White

Authentication #: 1709001850 verifiable until 03/31/2018

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

SECRETARY OF STATE ATTACHMENT 1



March 19, 2017

Ted Prillaman NGKF

**RE: Confidential National Client LI response 3-19-17
1041 West Stearns Road, Bartlett, IL – Letter of Intent – revised structure- BEST & FINAL**

Dear Ted:

Newmark Grubb Knight Frank Inc., on behalf of Savelli Properties, Inc. ("Tenant"), is pleased to submit this non-binding Letter of Intent ("LOI") to VEREIT, Inc., the Property Landlord ("Landlord"):

TENANT: Savelli Properties, Inc. ("Tenant") Landlord shall have the right to review and approve the Tenant's financial condition in its sole discretion upon agreement of the terms and conditions set forth herein.

GUARANTOR: Alexian Brothers Health System

PROPERTY: The building and accompanying property (which shall be further defined in the lease) at 1041 Stearns Road, Bartlett, IL located in Stearns Crossing Shopping Center (the "Property").

PREMISES: Anchor building position in Stearns Crossing - approximately 65,613 square feet ("SF") ("Premises"). All work is being performed by the Tenant to the Premises.

LEASE TERM: Ten (10) years: August 1, 2017 – July 31, 2027.

ESTIMATED POSSESSION DATE: Tenant requires possession on April 1, 2017. Landlord will use its best and diligent efforts to meet this date. Landlord shall be responsible for removing all of the existing FF&E and special use builds (i.e., walk in freezer) prior to delivery of possession of the premises. Subject to the foregoing, Tenant will accept the Premises in "as-is, where is" condition. Tenant will be responsible for all its utilities which are separately metered and will be delivered with the premises in "AS IS, WHERE IS" condition.

**BENEFICIAL OCCUPANCY/
RENTAL ABATEMENT:** Tenant shall have One hundred Twenty (120) days with gross rent abated from Possession prior to the Commencement Date, for purposes

of readying Premises for conducting business. No rent (including Property Tax, Common Area Maintenance, and Insurance Charges known as Triple Net Charges) shall be due during this One Hundred Twenty day beneficial occupancy period. Upon the 121st day which shall be known as the commencement date, Tenant shall commence payment of its Triple Net Charges and receive Rental Abatement (excluding Property Tax, Common Area Maintenance, and Insurance Charges known as Triple Net Charges) for an additional sixty (60) day period. No penalty shall be levied against Tenant should it not yet have completed its construction.

RENTAL RATE: \$11.50 per square foot (psf) NNN. Current estimates on additional triple net ("NNN") charges are \$5.86 psf.

RENTAL RATE ESCALATION: Rental Rate shall escalate at ten percent (10%) every five years for the initial Lease Term. Years 6-10 @ \$ 12.65 psf NNN.

LANDLORD COSTS: Landlord, at its sole cost shall provide the following Base Building items (listed below, herein) in good working condition, and Landlord shall be solely responsible for all repairs and upkeep of these items. Landlord agrees to deliver Premises to Tenant as follows:

- BASE BUILDING CONDITIONS:**
- The shopping center parking lot shall be newly seal-coated and striped in accordance with Landlord's maintenance schedule for the shopping center. The parking lot lighting fixtures shall be in existing locations fully lit, and in good condition. Landlord shall patch all existing potholes prior to Tenant's Commencement Date weather permitting;
 - All Property sidewalks, curbs, and landscaping shall be in existing good condition; and
 - The Property building housing the Premises (including the roof) ("Building") shall be delivered in AS IS, WHERE IS condition with the provision that Landlord is scheduled to replace the roof August 2017.

STRUCTURAL: Landlord, at its sole cost, shall be 100% responsible for repairs and replacement of any and all interior and exterior structural components, i.e. structure, roof, and foundation over the entire lease term and all renewal periods.

TENANT IMPROVEMENT ALLOWANCE: Landlord agrees to provide Tenant with a Tenant Improvement Allowance ("TIA") equal to twenty-eight and 50/100 Dollars (\$28.50) per square foot. Tenant shall be able to use TIA for all hard and soft costs

associated with its tenancy at the Property, and all unused TIA, if any, shall be applied to Tenant as a credit against rent first becoming due.

SIGNAGE RIGHTS:

Signage rights are extremely important to Tenant.

Landlord agrees to fully support Tenant in its pursuit of maximizing all Building exterior mounted and monument signage identity, at both the Stearns Road and Route 59 entrances, to the extent allowable by local ordinance but not to the detriment of the current tenants and their existing signage.

RIGHT OF FIRST REFUSAL:

Not applicable.

RENEWAL OPTIONS:

Tenant shall have two (2) consecutive five (5) years options to renew its lease at ninety-five (95%) of then market rental rate and concessions, provided Tenant provides at least six (6) months written notice prior to Landlord prior to the expiration of the current lease term.

**ASSIGNMENT/
SUBLETTING:**

Tenant shall require the following, throughout its tenancy at the Property:

- The right, without Landlord's approval, to sublet or assign its Premises (or any part thereof) to any successor of Tenant resulting for a merger, consolidation, sale or acquisition or to any entity affiliated with Tenant; in the case of assignment, such successor must have an equal or greater net worth of Tenant and Guarantor;
- To be further defined in the lease. The right to sublet or assign the Premises (or any part thereof) to a third party, with Landlord's prior consent, which consent shall not be unreasonably or arbitrarily withheld, denied, or delayed; and
- To be further defined in the lease. The right to retain one hundred percent (100%) of any profits resulting from a sublet or assignment within the Premises up to 15,000 square feet, over and above any profits resulting from a sublet shall be shared with landlord split 50/50. These terms will not apply to the Tenant's health care related affiliates.

**RESTORATION:
SECURITY DEPOSIT:**

All Expansion Options and Renewal Options shall remain with the lease upon a sublet or assignment.

Tenant shall not be required to restore the Premises to its original condition but shall remove its wiring/cabling and shall be required to

ENCUMBRANCES: remove its fixtures at the expiration or early termination of its sublease term(s). To be further detailed in the lease.

ADA / CODE COMPLIANCE: Pending Landlord's review and approval of Tenant's and Guarantor's financial information, Tenant shall not be required to provide a security deposit or prepaid rent.

ENVIRONMENTAL: Current tenant has leasehold rights to the Premises, which shall terminate upon Landlord's successful termination agreement with the current tenant, and the Landlord's recapture of the Premises.

ZONING: All costs associated with maintaining the Shopping Center Property in compliance with all ADA and other code compliance shall be that of the Landlord; all costs associated with bringing the Premises into full compliance with all ADA and other code compliances will be at the sole cost of Tenant. All work within the Premises is being performed by the Tenant.

GREEN INITIATIVES: To the best of Landlord's knowledge based upon the Phase I Environmental Report, there are no contaminants or environmental hazards on the Property or in the Building or Premises. All costs and liabilities associated with the remedy of any such Environmental condition shall be the sole cost of Landlord upon Landlord's thorough review, analysis and measures. To be further discussed in the lease.

BROKERAGE DISCLOSURE:

NON-DISTURBANCE: Conversations have been held with the Village of Bartlett that indicate they are favorable on the use conversion. Tenant shall have this responsibility as it gets further along to disclosure of identity.

Tenant may embark on any planned green initiatives such as energy management (Energy Star Rating), recycling programs, and LEED accreditation on Tenant's own behalf.

Landlord agrees to pay a brokerage commission in accordance with a separate agreement to its broker CBRE. CBRE shall cooperate with Tenant's Broker NGKF. The Commission agreement shall be written to allocate Three and 50/100 Dollars (\$3.50) per square foot to Tenant's broker NGKF based upon the leased premises and the amount as written to CBRE in accordance with the Exclusive Listing Agreement.

This provision documents the agreement between Landlord and Tenant and is not intended to create any third-party beneficiary rights for any broker or real estate agent.

Landlord will provide Tenant with an acceptable non-disturbance agreement from the existing lender of the Property. To be further discussed in the lease.

CONFIDENTIALITY:

This Letter of Intent and all discussions related thereto shall be held in confidence by Landlord and Tenant, and shall not be discussed with third parties. Concurrently with this response the prior submitted confidentiality agreement is being reviewed; provided, however, each party may share this Letter of Intent and any discussions related thereto its affiliates, legal counsel, accountants, financial advisors or consultants where the disclosure of information is necessary for such party's internal business purposes or in due course of consultation, representation or services provided by such third party.

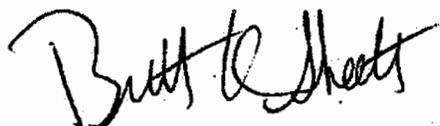
CONTINGENCY:

This outline of terms is completely contingent upon Landlord satisfactory negotiations to recapture the building in which the Premises is a part as well review and approval of the Tenant's financial information upon execution of the confidentiality agreement and approval within Landlord's committee process and Lender approval.

Please sign below if the terms described in this letter are acceptable to you. This proposal is non-binding, except with respect to the confidentiality provisions stated herein. It will be superseded by, and the parties will only be bound by, the terms of a written agreement, in form and substance satisfactory to both parties, which has been fully executed and delivered by the parties. This proposal shall automatically expire if not executed and returned to us on or before 5:00pm on March 21, 2017.

This proposal is intended solely as a preliminary expression of general intentions and is to be used for discussion purposes only. The parties intend that neither shall have any contractual obligations to the other with respect to the matters referred herein unless and until a definitive agreement has been fully executed and delivered by the parties. The parties agree that this proposal is not intended to create any agreement or obligation by either party to negotiate a definitive lease or other agreement and imposes no duty whatsoever on either party to continue negotiations, including without limitation any obligation to negotiate in good faith or in any way other than at arm's length. Prior to delivery of a definitive agreement, and without any liability to the other party, either party may: (1) propose different terms from those summarized herein; (2) enter into negotiations with other parties; and/or (3) unilaterally terminate all negotiations with the other party hereto.

Sincerely,



Mr. Brett K. Sheets
Senior Vice President of Leasing
VEREIT
2325 E. Camelback Rd., Suite 1100
Phoenix, AZ 85016

AGREED AND ACCEPTED TO THIS 19th DAY OF March 2017.

TENANT: Savelli Properties, Inc.

BY: Theodore Pillaman, Newmark Grubb Knight Frank

TITLE: Senior Managing Director

(as agent for Tenant)

AMENDMENT TO LETTER OF INTENT

This Amendment to the Letter of Intent is entered into this April 10, 2017 (the "Amendment") by and between Savelli Properties, Inc., an Illinois corporation ("Tenant") and Cole MT Bartlett IL, LLC, a Delaware limited liability company ("Landlord").

WHEREAS, due to an inadvertent error, VEREIT, Inc. was identified as the landlord in the Letter of Intent dated March 19, 2017 (the "Letter of Intent") relating to the potential lease of certain space by Tenant in the shopping center commonly known as Stearns Crossing in Bartlett, Illinois; and

WHEREAS, the parties desire to amend the Letter of Intent to correctly identify Cole MT Bartlett IL, LLC, the subsidiary of VEREIT, Inc. that actually owns the shopping center, as the landlord and further revise the Letter of Intent, as set forth herein.

NOW, THEREFORE, in consideration of the above-recitals, the mutual benefits to be derived by the parties, and other good and valuable consideration, the receipt and satisfaction of which are acknowledged, Tenant and Landlord agree to amend the Letter of Intent as follows:

1. Landlord Entity

All references to Landlord in the Letter of Intent, as amended herein, shall mean Cole MT Bartlett IL, LLC, a Delaware limited liability company.

2. Certificate of Need

Landlord and Tenant agree that any lease will be subject to the Illinois Health Facilities Planning Board's approval of a certificate of need for the Premises (the "CON") on or before October 1, 2017. In connection therewith, Landlord and Tenant agree that (i) the possession date will be the date that the CON is approved and (ii) the Lease will include corresponding revisions with respect to the lease term and rent commencement dates.

Except as set forth in this Amendment, the terms of the Letter of Intent shall remain in full force and effect; provided however, that in the event of a conflict between a term contained in this Amendment and a term contained in the Letter of Intent, the term contained in this Amendment shall prevail.

[Signature Page Follows]

IN WITNESS WHEREOF, the undersigned parties have caused this Amendment to the Letter of Intent to be executed by their duly authorized representatives as of the date first above written.

TENANT:



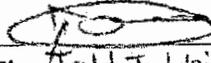
SAVELLI PROPERTIES, INC., an Illinois corporation

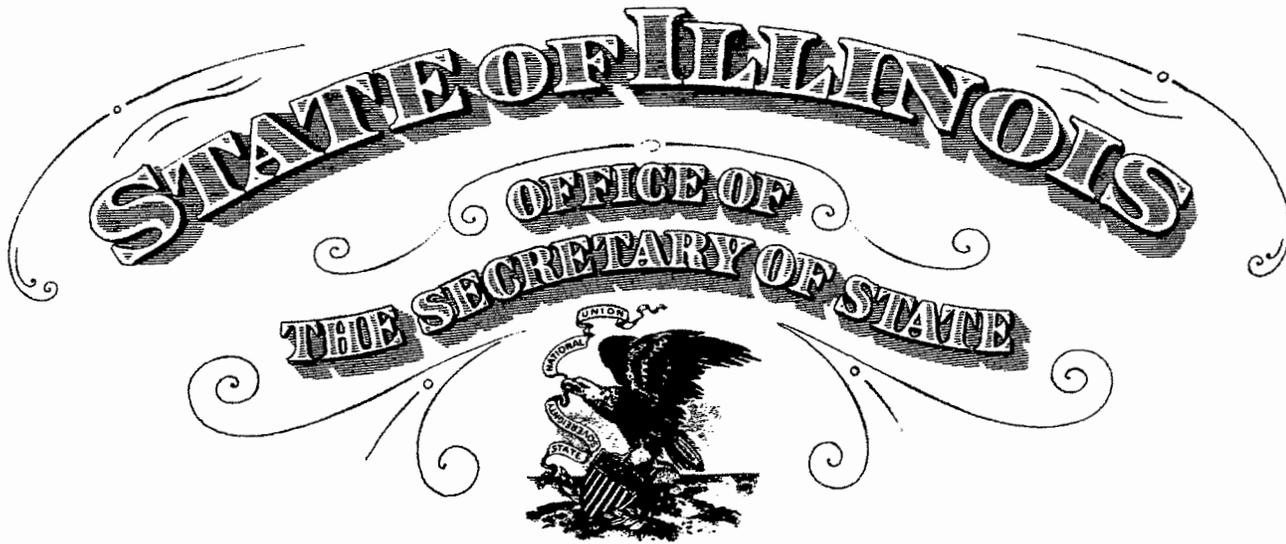
By: 
Name: Theodore S. Prillaman
Its: Senior Managing Director
Signature Date: 4/10/17

LANDLORD:

COLE MT BARTLETT II, LLC, 
a Delaware limited liability company

By: Cole REIT Advisors III, LLC,
a Delaware limited liability company
Its: Manager

By: 
Name: Todd J. Weiss
Its: General Counsel, Real Estate
Signature Date: 4-10-17



To all to whom these Presents Shall Come, Greeting:

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

ALEXIAN BROTHERS-AHS MIDWEST REGION HEALTH CO., A DOMESTIC CORPORATION, INCORPORATED UNDER THE LAWS OF THIS STATE ON SEPTEMBER 26, 2014, ADOPTED THE ASSUMED NAME AMITA HEALTH ON APRIL 14, 2015, APPEARS TO HAVE COMPLIED WITH ALL THE PROVISIONS OF THE GENERAL NOT FOR PROFIT CORPORATION ACT OF THIS STATE, AND AS OF THIS DATE, IS IN GOOD STANDING AS A DOMESTIC CORPORATION IN THE STATE OF ILLINOIS.

In Testimony Whereof, I hereto set my hand and cause to be affixed the Great Seal of the State of Illinois, this 31ST day of MARCH A.D. 2017 .



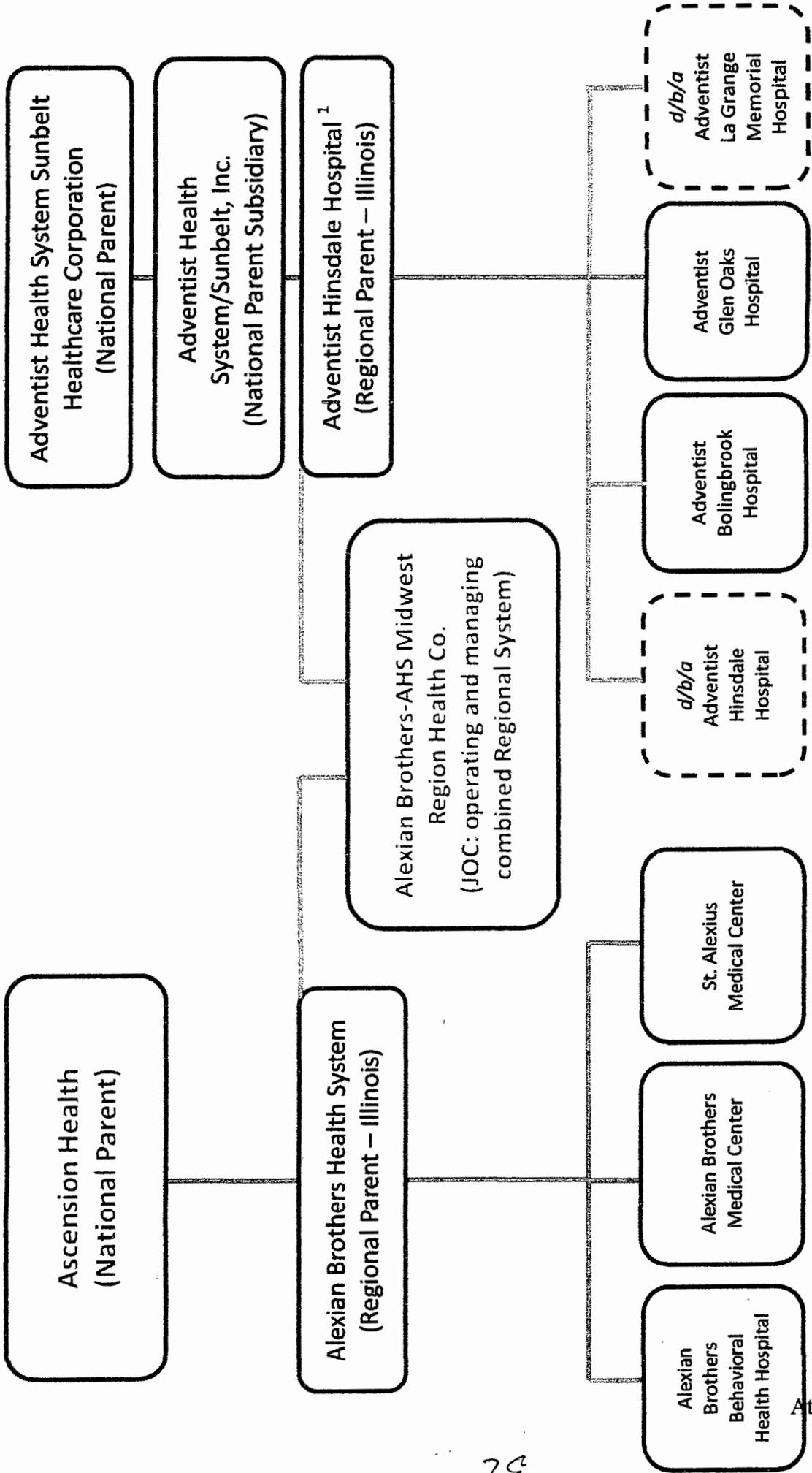
Authentication #: 1709001842 verifiable until 03/31/2018
Authenticate at: <http://www.cyberdriveillinois.com>

Jesse White

SECRETARY OF STATE

ATTACHMENT 3

Ascension - Adventist Joint Operating Company



= legal entity
 = operating division of legal entity

¹ Once regulatory approval is obtained, the legal entity "Adventist Hinsdale Hospital" will change its name to "Adventist Midwest Health" and will establish "Adventist Hinsdale Hospital" and "Adventist La Grange Memorial Hospital" as d/b/a's for the licensed health care facilities it operates.



Scale 0



LOMO



Help



Zoom Win Part

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1:1 MAX

Zoom In Zoom Out

Follow Instructions

1. Select page size

- Letter 8.5x11
- Legal 8.5x14
- Tabloid 11x17

2. Select & Print Area

- Print Area
- Scale and North Arrow
- Title Block

3. Create RIPM file

- Adobe PDF
- Image File

Map Information

Map Title: [Illegible]

Map Date: [Illegible]

Map Scale: [Illegible]

Map Projection: [Illegible]

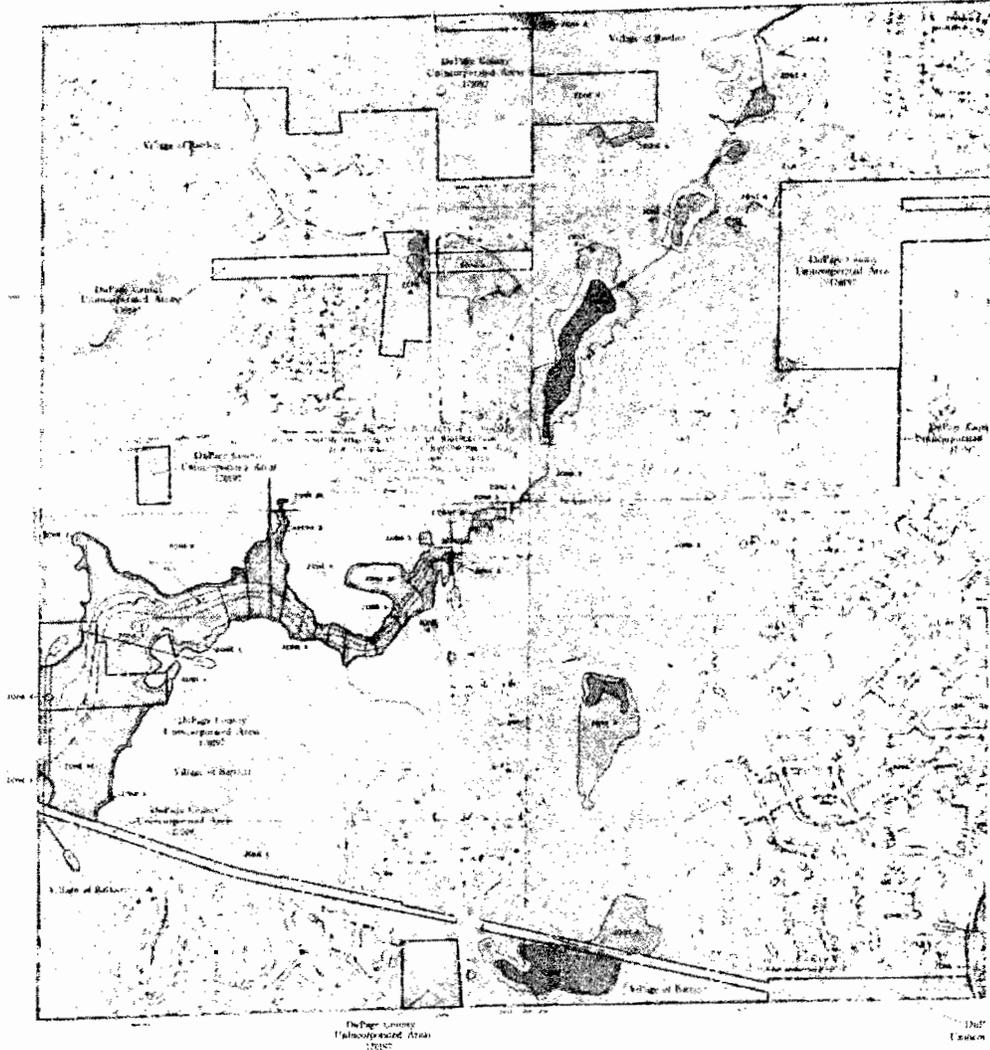
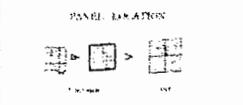
Map Author: [Illegible]

Map Contact: [Illegible]

Map Description: [Illegible]

CIP [Illegible]

[Illegible]



40

Illinois Health Facilities and
Services Review Board
Springfield, IL

To Whom It May Concern:

Please be advised that the site of the proposed medical clinics building to be developed by AMITA Health at 1041 West Stearns Road in Bartlett, Illinois is not located in a flood plain, and construction on that site is consistent with Illinois Executive Order #2005-5.

Sincerely,


Mark A. Frey
President and
Chief Executive Officer

Date: April 11, 2017

Notarized: 



Axel & Associates, Inc.

MANAGEMENT CONSULTANTS

April 5, 2017

Rachel Leibowitz, Ph.D.
Deputy State Historic Preservation Officer
Illinois Historic Preservation Agency
1 Old State Capitol Plaza
Springfield, IL 62701-1507

RE: AMITA Health Medical Clinics Building-Bartlett
1041 West Stearns Road
Bartlett, Illinois 60103

Dear Dr. Liebowitz:

I am in the process of developing a Certificate of Need application, to be filed with the Illinois Health Facilities Services and Review Board, and I am in need of a determination of applicability from your agency.

The project involves the development of a medical clinics building ("MCB") through the renovation of a former grocery store/super market, located within a shopping center that appears to have been developed during the 1980s.

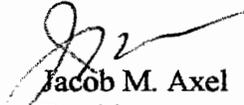
The location is in a generally residential suburban area, and I do not believe there to be any structures of historical significance in the vicinity.

I have enclosed maps of the site and photographs for your review.

A letter from your office, confirming that the Preservation Act is not applicable to this project would be greatly appreciated.

Should you have any questions, I may be reached at the phone number below.

Sincerely,


Jacob M. Axel
President

enclosures (photographs and maps)

ATTACHMENT 6

PROJECT COSTS AND SOURCES OF FUNDS

PROJECT COSTS

Pre-Planning Costs

Initial Programming	\$	75,000	
Market Analyses	\$	75,000	
Site Selection	\$	40,000	
Misc./Other	\$	63,116	
			\$ 253,116

Site Preparation

Landscaping	\$	60,000	
ADA-realted	\$	50,000	
Exterior Signage	\$	40,000	
Misc./Other	\$	50,000	
			\$ 200,000

Modernization/Renovation

Per ATTACHMENT 39C	\$	10,194,045	
--------------------	----	------------	--

Renovation Contingency

Per ATTACHMENT 39C	\$	656,130	
--------------------	----	---------	--

Architectural & Engineering

Preliminary Renderings	\$	20,000	
Design	\$	400,000	
Regulatory Agency Interation	\$	25,000	
Interior Design	\$	75,000	
Project Monitoring	\$	50,000	
Reimburseables	\$	50,000	
Misc./Other	\$	139,512	
			\$ 759,512

Consulting & Other Fees

Legal	\$	75,000	
Zoning-Related	\$	20,000	
CON-Realtd	\$	40,000	
Reg Approvals, Other	\$	40,000	
Project Management	\$	100,000	
Commissioning	\$	60,000	
Insurance	\$	70,000	
Equipment Planning	\$	45,000	
Misc./Other	\$	50,000	
			\$ 500,000

Moveable Equipment

See Attached Inventory	\$	6,037,789	
------------------------	----	-----------	--

FMV of Leased Space	\$	<u>7,922,770</u>	
---------------------	----	------------------	--

TOTAL PROJECT COST \$ **26,523,363**

SOURCES OF FUNDS

Cash and Securities	\$	18,600,593	
---------------------	----	------------	--

FMV of Leased Space	\$	<u>7,922,770</u>	
---------------------	----	------------------	--

TOTAL SOURCES OF FUNDS \$ **26,523,363**

EQUIPMENT BUDGET

AMITA Health-Bartlett	
Equipment Budget	
Date of Last Update:	4-Apr-17
MRI (1 EA)	\$1,200,000
CT (1 EA)	\$700,000
X-Ray (1 EA)	\$168,000
Mammo (1 EA)	\$187,600
Ultrasound (1 EA)	\$173,424
DEXA (1 EA)	\$55,000
Stress Echo (1 EA)	\$100,925
Exam Lights (9 EA)	\$15,300
Stress Echo Bed (1 EA)	\$11,227
Ultrasound Unetix (1 EA)	\$35,000
Medrad Injector (1 EA)	\$30,000
AV System	\$40,000
US Probe Cleaning	\$8,000
Scanning Cart	\$8,000
CD Burners	\$30,000
Stretchers (8 EA)	\$75,933
Crash cart (1 EA)	\$3,500
LifePak (1 EA)	\$24,000
Blood pressure/SPO2/ TEMP (3 EA)	\$7,500
Mounted Monitors (4 EA)	\$36,000
Blanket warmer (1 EA)	\$8,847
IV Cart (2 EA)	\$2,400
CV-190 Video processor (2 EA)	\$39,900
CLV - Light Source (2 EA)	\$22,950
GIF-H190 Exera III Gastroscope (4 EA)	\$128,700
CF-HQ190 Exera II Colonoscope (4 EA)	\$141,000
PCF-H190DL (Slim colonoscope) (2 EA)	\$70,500
HD Monitor LED (2 EA)	\$12,825
Standard cart with CO2 (2 EA)	\$13,455
LMD HD 19" monitor (2 EA)	\$8,160
UCR Endoscopic regulation unit (2 EA)	\$9,490
HD Olympus printer (2 EA)	\$14,610
OFP Flushing pump (2 EA)	\$3,000
Syringe pump (3 EA)	\$14,165
Electrosurgical Unit (2 EA)	\$39,520
Patient monitors (2 EA)	\$18,000
OER-PRO (2 EA)	\$48,750
OER Filter (2 EA)	\$5,340
MAJ-2022 (data capture) (2 EA)	\$4,200
Scope cabinets (2 EA)	\$8,000
Alt-Pro Leak Tester (1 EA)	\$12,000
Dirty scope cabinet (1 EA)	\$1,185

EQUIPMENT BUDGET

Analyzer (1 EA)	\$100,232
Coag Analyzer (1 EA)	\$20,500
Hemo Analyzer (1 EA)	\$75,768
Overhead Track System	\$25,000
TREADMILL: SCI Fit AC5000M	\$7,497
Power Tower Total Gym	\$6,729
Vectra Genesys Therapy System Combo with Cart	\$5,200
PARALLEL BARS- Performa power platform	\$5,034
Nustep T4r plus all accessories	\$4,680
Welch Allyn Spot vital signs	\$3,080
PERFORMA BAR-ASSIST 3-SECTION BOBATH TAB	\$9,000
Standing Frame	\$2,981
SportsArt C535R Recumbent Cycle	\$2,632
PERFORMA BAR-ASSIST 350 SERIES TABLE, IMPE	\$2,230
Hydrocollator	\$2,156
UBE SportsArt	\$4,395
Interpreter iPad- with stand	\$1,500
Splint Cart- Rolyan	\$1,194
Stairs- One sided Bariatric staircase	\$1,110
Personal Work Table with Tilt Top and Recess	\$1,005
Furniture	\$800,000
IT	\$1,319,460
Misc.	\$100,000
TOTAL	\$6,037,789

Cost Space Requirements

Dept./Area	Cost	Gross Square Feet		Amount of Proposed Total Square Feet				Vacated Space
		Existing	Proposed	New Const.	Modernized	As Is	That is:	
Reviewable								
Imaging	\$ 4,469,028		4,800		4,800			
Lab/Specimen Collection	\$ 651,733		1,122		1,122			
Immediate Care	\$ 2,420,723		3,500		3,500			
PT/OT	\$ 1,768,990		3,464		3,464			
	\$ 9,310,474		12,886		12,886			
Non-Reviewable								
Physicians' Offices	\$ 13,949,687		40,970		40,970			
Ancillary Support	\$ 688,873		1,917		1,917			
Public & Administrative	\$ 2,583,275		9,840		9,840			
	\$ 17,221,836		52,727		52,727			
PROJECT TOTAL	\$ 26,532,310		65,613		65,613			

BACKGROUND

The applicants own and operate the following licensed health care facilities in Illinois:

AMITA Health Adventist Medical Center Bolingbrook
500 Remmington Blvd.
Bolingbrook, IL 60440

AMITA Health Adventist Medical Center GlenOaks
701 N. Winthrop Avenue
Glendale Heights, IL 60139

AMITA Health Adventist Medical Center Hinsdale
120 North Oak Street
Hinsdale, IL 60521

AMITA Health Adventist Medical Center La Grange
5101 S. Willow Springs Road
La Grange, IL 60525

AMITA Health Alexian Brothers Medical Center Elk Grove Village
800 Biesterfield Road
Elk Grove Village, IL 60007

AMITA Health St. Alexius Medical Center Hoffman Estates
1555 Barrington Road
Hoffman Estates, IL 60169

AMITA Health Alexian Brothers Behavioral Health Hospital
1650 Moon Lake Blvd.
Hoffman Estates, IL 60169

Ms. Courtney Avery
Illinois Health Facilities
And Services review Board
525 West Jefferson
Springfield, IL 62761

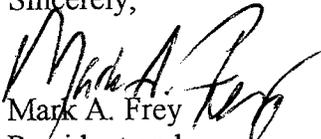
Dear Ms. Avery:

In accordance with Review Criterion 1110.230.b, Background of the Applicant, we are submitting this letter assuring the Illinois Health Facilities and Services Review Board that:

1. AMITA Health has not had any adverse actions against any facility owned and operated by the applicant during the three (3) year period prior to the filing of this application, and
2. AMITA Health authorizes the State Board and Agency access to information to verify documentation or information submitted in response to the requirements of Review Criterion 1110.230.b or to obtain any documentation or information which the State Board or Agency finds pertinent to this application.

If we can in any way provide assistance to your staff regarding these assurances or any other issue relative to this application, please do not hesitate to call me.

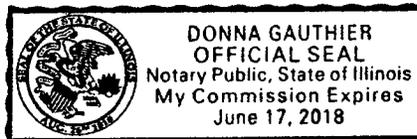
Sincerely,


Mark A. Frey
President and
Chief Executive Officer

Date: April 11, 2017



Notarized:



PURPOSE OF THE PROJECT

The primary purpose of the proposed project is to improve accessibility to physicians' services in general, and AMITA Health physicians in particular, for residents of the communities and neighborhoods in close proximity to the proposed medical clinics building ("MCB").

Bartlett has traditionally been a community served by AMITA Health's St. Alexius Medical Center ("SAMC"), approximately 8 miles away, for both inpatient and outpatient hospital-based services. With the increased reliance on outpatient care, physicians are moving from offices traditionally developed in close proximity to hospitals, to locations that provide great access to patients. This project responds to that trend. And, as a result, the well-being of the communities surrounding the proposed MCB will be improved as accessibility to physicians' offices is improved. In addition, and not unique to AMITA Health, as health systems develop larger system-directed medical groups, there is a desire to improve access to the medical group's physicians through the de-centralizing of offices and practices.

The market area for this project consists of Bartlett and the surrounding communities bordered by Irving Park Road on the north, Bloomingdale Road on the east, North Avenue on the south, and the Fox River on the west.

The success of this project will be measurable during the first year to two years following the opening of the MCB by a reduced reliance on physicians officed on the SAMC campus by residents of the geographic area described above, without a reduction in the use of SAMC for hospital-based outpatient services as well as inpatient services.

The space to be used for the proposed MCB will be delivered to the applicants in “white box” fashion by the owners, requiring a full build-out by the applicants.

ALTERNATIVES

Due to the limited nature of the proposed project and the applicant's need to improve access to AMITA Health physicians for residents of Bartlett and the surrounding communities, aside from the selection of an alternative site, other alternatives were not considered. Had a different site in the area been selected, the capital cost associated with the alternative project would likely be either higher or lower than that of the proposed project, the quality of care provided would be identical to that of the proposed project, and access and associated operating costs would have been similar to those associated with the proposed project.

SIZE

The proposed medical clinics building will be developed through the renovation of a former grocery store, consisting of a single story.

The only area in the MCB having an IHFSRB-identified space standard is the imaging area, which will provide one general x-ray unit, one CT unit, one MRI unit, one mammography unit, and one ultrasound unit. That area has been planned consistent with the IHFSRB space standard.

DEPARTMENT/SERVICE	PROPOSED DGSF	STATE STANDARD	DIFFERENCE	MET STANDARD?
General Radiology	1,230	1,300	-70	YES
CT	1,770	1,800	-30	YES
MRI	1,800	1,800	0	YES
Mammography	850	900	-50	YES
Ultrasound	850	900	-50	YES

PROJECT SERVICES UTILIZATION

The proposed project includes eight clinical services, all of which are typical to medical clinics buildings, and, with the exception of the Immediate Care Center, are provided in support of the physicians' practices located in the MCB. Those services are general radiology, CT, MRI, ultrasound, mammography, PT/OT and a laboratory/specimen collection area.

The IDPH does not have utilization standards for laboratories or Immediate Care Centers, and the applicant estimates that 1,100 specimens will be collected during the first year following the MCB's opening (2019), and that approximately 2,000 specimens will be collected during the following year. 400 patient sessions of PT/OT are projected during the facility's first year of operation, and 800 patient sessions are projected during the second year. In addition, 1,950 visits to the Immediate Care Center are projected during the first year following the project's completion, and 3,900 visits are projected during the second year. The utilization projections provided above are based on the applicant's experience with the operating of similar facilities.

Projected utilization of the imaging modalities are provided in the table on the following page, consistent with reporting requirements. As noted in ATTACHMENT 31, only one unit of each modality will be provided, and therefore, consistent with IHFSRB practices, the minimum utilization standards are not applicable.

Dept./ Service	Historical Utilization (Patient Days) (TREATMENTS)	PROJECTED UTILIZATION (examinations)		STATE STANDARD	MET STANDARD?
		YEAR 1	YEAR 2		
		general radiology	N/A		
CT	N/A	359	700	7,000	N/A
MRI	N/A	350	700	2,500	N/A
mammography	N/A	1,000	2,000	5,000	N/A
ultrasound	N/A	1,034	2,068	3,100	N/A

CLINICAL SERVICE AREAS OTHER THAN CATEGORIES OF SERVICE

The proposed medical clinics building ("MCA") will have five clinical areas that are not identifies as categories of service per the HFASB definition. Those areas, along with the proposed number of key rooms are identified in the table below.

[REDACTED]		
Gen'l Radiology	0	1
CT	0	1
MRI	0	1
Ultrasound	0	1
Mammography	0	1
Immediate Care	0	12
PT/OT	n/a	n/a
Specimen Coll./Lab	n/a	n/a

The imaging areas and specimen collection/lab area are being provided primarily to support the physicians' offices and immediate care center to be located in the MCB.

CONSOLIDATED FINANCIAL
STATEMENTS AND SUPPLEMENTARY
INFORMATION

Ascension Health Alliance
d/b/a Ascension
Years Ended June 30, 2016 and 2015
With Reports of Independent Auditors

Ascension
Consolidated Financial Statements
and Supplementary Information
Years Ended June 30, 2016 and 2015

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Ernst & Young LLP
The Plaza in Clayton
Suite 1300
190 Carondelet Plaza
St. Louis, MO 63105-3434

Tel: +1 314 290 1000
Fax: +1 314 290 1882
ey.com

Report of Independent Auditors

Board of Directors
Ascension Health Alliance d/b/a Ascension

We have audited the accompanying consolidated financial statements of Ascension Health Alliance d/b/a Ascension, which comprise the consolidated balance sheets as of June 30, 2016 and 2015, and the related consolidated statements of operations and changes in nets assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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



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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Ascension Health Alliance d/b/a Ascension at June 30, 2016 and 2015, and the consolidated results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

September 12, 2016

Ascension

Consolidated Balance Sheets
(Dollars in Thousands)

	June 30,	
	2016	2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 696,237	\$ 688,228
Short-term investments	122,545	146,822
Accounts receivable, less allowance for doubtful accounts (\$1,362,060 and \$1,280,568 at June 30, 2016 and 2015, respectively)	2,746,506	2,520,115
Inventories	349,077	324,423
Due from brokers (see Notes 4 and 5)	313,717	148,865
Estimated third-party payor settlements	186,354	226,122
Other (see Notes 4 and 5)	978,744	973,109
Total current assets	5,393,180	5,027,684
Long-term investments (see Notes 4 and 5)	15,069,123	14,990,505
Property and equipment, net	9,020,005	8,273,930
Other assets:		
Investment in unconsolidated entities	1,115,871	789,693
Capitalized software costs, net	926,710	790,881
Other (see Notes 4 and 5)	944,288	972,197
Total other assets	2,986,869	2,552,771
Total assets	\$ 32,469,177	\$ 30,844,890

	June 30,	
	2016	2015
Liabilities and net assets		
Current liabilities:		
Current portion of long-term debt	\$ 96,193	\$ 84,985
Long-term debt subject to short-term remarketing arrangements*	1,666,245	1,176,790
Accounts payable and accrued liabilities (see Notes 4 and 5)	2,500,748	2,314,922
Estimated third-party payor settlements	513,677	416,908
Due to brokers (see Notes 4 and 5)	105,660	131,061
Current portion of self-insurance liabilities	219,638	247,356
Other	292,044	367,130
Total current liabilities	<u>5,394,205</u>	<u>4,739,152</u>
Noncurrent liabilities:		
Long-term debt (senior and subordinated)	5,427,616	5,010,084
Self-insurance liabilities	513,985	513,856
Pension and other postretirement liabilities	1,298,653	564,342
Other (see Notes 4 and 5)	1,241,678	1,084,794
Total noncurrent liabilities	<u>8,481,932</u>	<u>7,173,076</u>
Total liabilities	<u>13,876,137</u>	<u>11,912,228</u>
Net assets:		
Unrestricted		
Controlling interest	16,498,086	16,749,357
Noncontrolling interests	1,429,444	1,572,608
Unrestricted net assets	<u>17,927,530</u>	<u>18,321,965</u>
Temporarily restricted		
Permanently restricted	467,994	417,909
	<u>197,516</u>	<u>192,788</u>
Total net assets	<u>18,593,040</u>	<u>18,932,662</u>
Total liabilities and net assets	<u>\$ 32,469,177</u>	<u>\$ 30,844,890</u>

*Consists of variable rate demand bonds with put options that may be exercised at the option of the bondholders, with stated repayment installments through 2047, as well as certain serial mode bonds with scheduled remarketing/mandatory tender dates occurring prior to June 30, 2017. In the event that bonds are not remarketed upon the exercise of put options or the scheduled mandatory tenders, management would utilize other sources to access the necessary liquidity. Potential sources include liquidating investments, a draw on the line of credit totaling \$1 billion, and issuing commercial paper. The commercial paper program is supported by \$500 million of the \$1 billion line of credit.

The accompanying notes are an integral part of the consolidated financial statements.

Ascension

Consolidated Statements of Operations
and Changes in Net Assets
(Dollars in Thousands)

	Year Ended June 30,	
	2016	2015
Operating revenue:		
Net patient service revenue	\$ 21,301,133	\$ 19,857,725
Less provision for doubtful accounts	1,142,289	1,101,118
Net patient service revenue, less provision for doubtful accounts	20,158,844	18,756,607
Other revenue	1,739,490	1,782,196
Total operating revenue	21,898,334	20,538,803
Operating expenses:		
Salaries and wages	9,043,625	8,518,165
Employee benefits	1,748,110	1,733,798
Purchased services	1,500,887	1,256,530
Professional fees	1,369,103	1,268,911
Supplies	3,114,261	2,903,487
Insurance	160,232	158,786
Interest	194,962	196,013
Depreciation and amortization	1,032,541	949,477
Other	2,737,244	2,707,929
Total operating expenses before impairment, restructuring and nonrecurring losses, net	20,900,965	19,693,096
Income from operations before self-insurance trust fund investment return and impairment, restructuring and nonrecurring losses, net	997,369	845,707
Self-insurance trust fund investment return	(16,334)	(15,137)
Impairment, restructuring and nonrecurring losses, net	(227,832)	(134,022)
Income from operations	753,203	696,548
Nonoperating gains (losses):		
Investment return	(358,297)	36,455
Loss on extinguishment of debt	(13,594)	(992)
Losses on interest rate swaps	(86,536)	(23,596)
(Loss) income from unconsolidated entities	(40,649)	5,210
Contributions from business combinations	304,961	-
Other	(81,339)	(75,852)
Total nonoperating losses, net	(275,454)	(58,775)
Excess of revenues and gains over expenses and losses	477,749	637,773
Less noncontrolling interests	16,365	75,177
Excess of revenues and gains over expenses and losses attributable to controlling interest	461,384	562,596

Continued on next page.

Ascension

Consolidated Statements of Operations and Changes in Net Assets (continued) *(Dollars in Thousands)*

	Year Ended June 30,	
	2016	2015
Unrestricted net assets, controlling interest:		
Excess of revenues and gains over expenses and losses	\$ 461,384	\$ 562,596
Transfers to sponsors and other affiliates, net	(8,654)	(14,877)
Net assets released from restrictions for property acquisitions	45,058	38,008
Pension and other postretirement liability adjustments	(729,197)	(513,220)
Change in unconsolidated entities' net assets	(6,976)	(15,874)
Other	3,344	592
(Decrease) increase in unrestricted net assets, controlling interest, before loss from discontinued operations	(235,041)	57,225
Loss from discontinued operations	(16,230)	(44,058)
(Decrease) increase in unrestricted net assets, controlling interest	(251,271)	13,167
Unrestricted net assets, noncontrolling interests:		
Excess of revenues and gains over expenses and losses	16,365	75,177
Distributions of capital	(254,788)	(195,794)
Contributions of capital	96,150	47,192
Membership interest changes, net	-	(5,824)
Other	(891)	(4,249)
Decrease in unrestricted net assets, noncontrolling interests	(143,164)	(83,498)
Temporarily restricted net assets, controlling interest:		
Contributions and grants	140,210	117,547
Investment return	(4,643)	6,491
Net assets released from restrictions	(97,392)	(98,959)
Contributions from business combinations	16,091	-
Other	(4,181)	1,604
Increase in temporarily restricted net assets, controlling interest	50,085	26,683
Permanently restricted net assets, controlling interest:		
Contributions	5,298	6,087
Investment return	(1,706)	1,278
Contributions from business combinations	2,363	-
Other	(1,227)	(6,192)
Increase in permanently restricted net assets, controlling interest	4,728	1,173
Decrease in net assets	(339,622)	(42,475)
Net assets, beginning of year	18,932,662	18,975,137
Net assets, end of year	\$18,593,040	\$ 18,932,662

The accompanying notes are an integral part of the consolidated financial statements.

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Ascension

Consolidated Statements of Cash Flows (Dollars in Thousands)

	Year Ended June 30,	
	2016	2015
Operating activities		
Decrease in net assets	\$ (339,622)	\$ (42,475)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,032,541	949,477
Amortization of bond premiums	(20,714)	(22,657)
Loss on extinguishment of debt	13,594	992
Provision for doubtful accounts	1,148,342	1,105,816
Pension and other postretirement liability adjustments	729,197	513,220
Contributions from business combinations	(323,415)	-
Unrealized losses on investments, net	493,528	457,096
Change in fair value of interest rate swaps	84,433	21,780
Gain on sale of assets, net	(192,042)	(38,167)
Impairment and nonrecurring expenses	21,271	27,968
Transfers to sponsor and other affiliates, net	8,654	14,877
Restricted contributions, investment return, and other	(165,458)	(129,843)
Other restricted activity	(61,162)	(20,087)
Distributions of noncontrolling interest, net	158,638	148,602
Other	(222)	(261)
Decrease (increase) in:		
Short-term investments	71,832	(43,877)
Accounts receivable	(1,190,839)	(1,230,601)
Inventories and other current assets	(64,525)	(57,801)
Due from brokers	(164,852)	(111,379)
Investments classified as trading	(516,524)	(436,686)
Other assets	108,461	42,581
Increase (decrease) in:		
Accounts payable and accrued liabilities	7,596	39,674
Estimated third-party payor settlements, net	128,440	(22,753)
Due to brokers	(25,401)	47,285
Other current liabilities	(89,934)	113,974
Self-insurance liabilities	(53,004)	(7,409)
Other noncurrent liabilities	(200,824)	(325,766)
Net cash provided by continuing operating activities	597,989	993,580
Net cash provided by and adjustments to reconcile change in net assets for discontinued operations	134,956	127,984
Net cash provided by operating activities	732,945	1,121,564

Ascension

Consolidated Statements of Cash Flows (continued)
(Dollars in Thousands)

	Year Ended June 30,	
	2016	2015
Investing activities		
Property, equipment, and capitalized software additions, net	(1,139,060)	(918,586)
Proceeds from sale of property and equipment	13,643	6,701
Issuance of note receivable for business combination	(637,109)	-
Net proceeds from sale/acquisition of other assets	296,071	40,516
Net cash used in investing activities	<u>(1,466,455)</u>	<u>(871,369)</u>
Financing activities		
Issuance of debt	5,154,869	753,371
Repayment of debt	(4,403,407)	(892,816)
Decrease in assets under bond indenture agreements	18,303	5,564
Transfers to sponsors and other affiliates, net	(12,867)	(27,745)
Restricted contributions, investment return, and other	143,259	129,843
Distributions of noncontrolling interest, net	(158,638)	(148,602)
Net cash provided by (used in) financing activities	<u>741,519</u>	<u>(180,385)</u>
Net increase in cash and cash equivalents	8,009	69,810
Cash and cash equivalents at beginning of year	688,228	618,418
Cash and cash equivalents at end of year	<u>\$ 696,237</u>	<u>\$ 688,228</u>

The accompanying notes are an integral part of the consolidated financial statements.

Ascension

Notes to Consolidated Financial Statements (Dollars in Thousands)

June 30, 2016

1. Organization and Mission

Organizational Structure

Ascension Health Alliance, d/b/a Ascension (Ascension), is a Missouri nonprofit corporation formed on September 13, 2011. Ascension is the sole corporate member and parent organization of Ascension Health, a Catholic national health system consisting primarily of nonprofit corporations that own and operate local healthcare facilities, or Ministry Markets, located in 24 states and the District of Columbia.

Ascension serves as the member or shareholder of various subsidiaries as listed below:

- Alpha Fund
- Ascension Care Management
- Ascension Global Mission
- Ascension Health
- Ascension Holdings
- Ascension Information Services
- Ascension Investment Management (AIM)
- Ascension Leadership Institute
- Ascension Ministry and Mission Fund
- Ascension Ministry Service Center
- Ascension Risk Services
- Ascension Ventures (AV)
- AV Holding Company
- The Resource Group
- Smart Health Solutions

Ascension and its member organizations are hereafter referred to collectively as the System.

Sponsorship

Ascension is sponsored by Ascension Sponsor, a Public Juridic Person. The Participating Entities of Ascension Sponsor are the Daughters of Charity of St. Vincent de Paul, St. Louise Province; the Congregation of St. Joseph; the Congregation of the Sisters of St. Joseph of Carondelet; the Congregation of Alexian Brothers of the Immaculate Conception Province, Inc. – American Province; and the Sisters of the Sorrowful Mother of the Third Order of St. Francis of Assisi – US/Caribbean Province.

Ascension

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

1. Organization and Mission (continued)

Mission

The System directs its governance and management activities toward strong, vibrant, Catholic Ministries united in service and healing, and dedicates its resources to spiritually centered care which sustains and improves the health of the individuals and communities it serves. In accordance with the System's mission of service to those persons living in poverty and other vulnerable persons, each Ministry Market accepts patients regardless of their ability to pay. The System uses four categories to identify the resources utilized for the care of persons living in poverty and community benefit programs:

- Traditional charity care includes the cost of services provided to persons who cannot afford healthcare because of inadequate resources and/or who are uninsured or underinsured.
- Unpaid cost of public programs, excluding Medicare, represents the unpaid cost of services provided to persons covered by public programs for persons living in poverty and other vulnerable persons.
- Cost of other programs for persons living in poverty and other vulnerable persons includes unreimbursed costs of programs intentionally designed to serve the persons living in poverty and other vulnerable persons of the community, including substance abusers, the homeless, victims of child abuse, and persons with acquired immune deficiency syndrome.
- Community benefit consists of the unreimbursed costs of community benefit programs and services for the general community, not solely for the persons living in poverty, including health promotion and education, health clinics and screenings, and medical research.

Discounts are provided to all uninsured and underinsured patients, including those with the means to pay. Discounts provided to those patients who did not qualify for financial assistance are not included in the cost of providing care of persons living in poverty and other community benefit programs. The cost of providing care to persons living in poverty and other community benefit programs is estimated by reducing charges forgone by a factor derived from the ratio of each entity's total operating expenses to the entity's billed charges for patient care. Certain costs such as graduate medical education and certain other activities are excluded from total operating expenses for purposes of this computation.

Ascension

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

1. Organization and Mission (continued)

The amount of traditional charity care provided, determined on the basis of cost, was \$495,863 and \$500,067 for the years ended June 30, 2016 and 2015, respectively. The amount of unpaid cost of public programs, cost of other programs for persons living in poverty and other vulnerable persons, and community benefit cost is reported in the accompanying supplementary information.

2. Significant Accounting Policies

Principles of Consolidation

All corporations and other entities for which operating control is exercised by the System or one of its member corporations are consolidated, and all significant inter-entity transactions have been eliminated in consolidation. Investments in entities where the System does not have operating control are recorded under the equity or cost method of accounting. Income (loss) from unconsolidated entities is included in consolidated excess of revenues and gains over expenses and losses in the accompanying Consolidated Statements of Operations and Changes in Net Assets as follows:

	Year Ended June 30,	
	2016	2015
Other revenue	\$ 114,085	\$ 64,792
Nonoperating (losses) gains	(40,649)	5,210

Use of Estimates

Management has made estimates and assumptions that affect the reported amounts of certain assets, liabilities, revenues, and expenses. Actual results could differ from those estimates.

Ascension

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

2. Significant Accounting Policies (continued)

Fair Value of Financial Instruments

Carrying values of financial instruments classified as current assets and current liabilities approximate fair value. The fair values of financial instruments measured at fair value are disclosed in the Fair Value Measurements note.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and interest-bearing deposits with original maturities of three months or less.

Short-Term Investments

Short-term investments consist of investments with original maturities exceeding three months and up to one year.

Inventories

Inventories, consisting primarily of medical supplies and pharmaceuticals, are stated at the lower of cost or market value using first-in, first-out (FIFO) or a methodology that closely approximates FIFO.

Long-Term Investments and Investment Return

Investments, excluding investments in unconsolidated entities, are measured at fair value, are classified as trading securities, and include pooled short-term investment funds; U.S. government, state, municipal and agency obligations; corporate and foreign fixed income securities; asset-backed securities; and equity securities. Investments also include alternative investments and other investments which are valued based on the net asset value of the investments, as further discussed in the Fair Value Measurements note. Investments also include derivatives held by the Alpha Fund, also measured at fair value, as discussed in the Pooled Investment Fund note.

Ascension

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

2. Significant Accounting Policies (continued)

Long-term investments include assets limited as to use of approximately \$1,284,000 and \$1,306,000, at June 30, 2016 and 2015, respectively, comprised primarily of investments placed in trust and held by captive insurance companies for the payment of self-insured claims and investments which are limited as to use, as designated by donors.

Purchases and sales of investments are accounted for on a trade-date basis. Investment returns consist of dividends, interest, and gains and losses. The cost of substantially all securities sold is based on the average cost method. Investment returns, excluding returns of self-insurance trust funds, are reported as nonoperating gains (losses) in the Consolidated Statements of Operations and Changes in Net Assets, unless the return is restricted by donor or law. Investment returns of self-insurance trust funds are reported as a separate component of income from operations in the Consolidated Statements of Operations and Changes in Net Assets.

Property and Equipment

Property and equipment are stated at cost or, if donated, at fair market value at the date of the gift. A summary of property and equipment at June 30, 2016 and 2015, is as follows:

	Year Ended June 30,	
	2016	2015
Land and improvements	\$ 935,542	\$ 882,702
Buildings and equipment	16,505,068	15,646,664
	17,440,610	16,529,366
Less accumulated depreciation	8,981,575	8,646,863
	8,459,035	7,882,503
Construction in progress	560,970	391,427
Total property and equipment, net	\$ 9,020,005	\$ 8,273,930

Depreciation is determined on a straight-line basis over the estimated useful lives of the related assets. Depreciation expense in 2016 and 2015 was \$825,681 and \$772,407, respectively.

Ascension

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

2. Significant Accounting Policies (continued)

Several capital projects have remaining construction and related equipment purchase commitments of approximately \$587,000 as of June 30, 2016.

Intangible Assets

Intangible assets primarily consist of goodwill and capitalized computer software costs, including internally developed software. Costs incurred in the development and installation of internal use software are expensed or capitalized depending on whether they are incurred in the preliminary project stage, application development stage, or post-implementation stage, and the nature of the costs. Intangible assets are included in the Consolidated Balance Sheets as presented in the table that follows. Capitalized software costs in the table below include software in progress of \$244,552 and \$180,427 at June 30, 2016 and 2015, respectively:

	Year Ended June 30,	
	2016	2015
Capitalized software costs	\$ 2,050,184	\$ 1,743,423
Less accumulated amortization	1,123,474	952,542
Capitalized software costs, net	926,710	790,881
Goodwill	210,320	206,563
Other, net	31,731	37,974
Intangible assets included in other assets	242,051	244,537
 Total intangible assets, net	\$ 1,168,761	\$ 1,035,418

Intangible assets whose lives are indefinite, primarily goodwill, are not amortized and are evaluated for impairment at least annually or when circumstances indicate a possible impairment may exist, while intangible assets with definite lives, primarily capitalized computer software costs, are amortized over their expected useful lives. Amortization expense for these intangible assets in 2016 and 2015 was \$206,860 and \$177,070, respectively.

Ascension

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

2. Significant Accounting Policies (continued)

The System is in the final phases of a significant multi-year, System-wide enterprise resource planning project, including information technology and process standardization (Symphony), which is expected to continue through fiscal year 2017. The project is facilitating a transition to a common software product for various finance, information technology, procurement, and human resources management processes, including standardization of those processes throughout the System. Capitalized costs of Symphony were approximately \$329,000 and \$323,000 at June 30, 2016 and 2015, respectively, and are being amortized on a straight-line basis over the expected useful life of the software. Certain costs of this project were also expensed. Accumulated amortization of Symphony was approximately \$120,000 and \$87,000 at June 30, 2016 and 2015, respectively. See the Impairment, Restructuring, and Nonrecurring Losses discussion below for additional information about costs associated with Symphony.

Noncontrolling Interests

The consolidated financial statements include all assets, liabilities, revenues, and expenses of entities that are controlled by the System and therefore consolidated. Noncontrolling interests in the Consolidated Balance Sheets represent the portion of net assets owned by entities outside the System, for those entities in which the System's ownership interest is less than 100%.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those assets whose use by the System has been limited by donors to a specific time period or purpose. Permanently restricted net assets consist of gifts with corpus values that have been restricted by donors to be maintained in perpetuity, which include endowment funds. Temporarily restricted net assets and earnings on permanently restricted net assets, including earnings on endowment funds, are used in accordance with the donors' wishes, primarily to purchase equipment and to provide charity care and other health and educational services. Contributions with donor-imposed restrictions that are met in the same reporting period are reported as unrestricted.

Temporarily and permanently restricted net assets consist solely of controlling interests of the System.

Ascension

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

2. Significant Accounting Policies (continued)

Performance Indicator

The performance indicator is the excess of revenues and gains over expenses and losses. Changes in unrestricted net assets that are excluded from the performance indicator primarily include pension and other postretirement liability adjustments, transfers to or from sponsors and other affiliates, net assets released from restrictions for property acquisitions, change in unconsolidated entities' net assets, discontinued operations, and contributions received of property and equipment.

Operating and Nonoperating Activities

The System's primary mission is to meet the healthcare needs in its market areas through a broad range of general and specialized healthcare services, including inpatient acute care, outpatient services, long-term care, and other healthcare services. Activities directly associated with the furtherance of this purpose are considered to be operating activities. Other activities that result in gains or losses peripheral to the System's primary mission are considered to be nonoperating.

Net Patient Service Revenue, Accounts Receivable, and Allowance for Doubtful Accounts

Net patient service revenue is reported at the estimated realizable amounts from patients, third-party payors, and others for services provided and includes estimated retroactive adjustments under reimbursement agreements with third-party payors. The System recognizes patient service revenue at the time services are rendered, even though the patient's ability to pay may not be completely assessed at that time. Revenue under certain third-party payor agreements is subject to audit, retroactive adjustments, and significant regulatory actions. Provisions for third-party payor settlements and adjustments are estimated in the period the related services are provided and adjusted in future periods as additional information becomes available and as final settlements are determined.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a possibility that recorded estimates will change by a material amount in the near term. Adjustments to revenue related to prior periods increased net patient service revenue by \$102,217 and \$100,950 for the years ended June 30, 2016 and 2015, respectively.

Ascension

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

2. Significant Accounting Policies (continued)

The percentage of net patient service revenue, less provision for doubtful accounts earned by payor for the years ended June 30, 2016 and 2015, is as follows:

	Year Ended June 30,	
	2016	2015
Medicare - traditional and managed	35 %	35 %
Medicaid - traditional and managed	12	11
Commercial and other managed care	49	50
Self-Pay and other	4	4
	100 %	100 %

The System grants credit without collateral to its patients, who are primarily local residents and are insured under third-party payor arrangements. Significant concentrations of accounts receivable, less allowance for doubtful accounts, at June 30, 2016 and 2015, are as follows:

	Year Ended June 30,	
	2016	2015
Medicare - traditional and managed	27 %	27 %
Medicaid - traditional and managed	9	9
Commercial and other managed care	42	43
Self-Pay and other	22	21
	100 %	100 %

Ascension

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

2. Significant Accounting Policies (continued)

The provision for doubtful accounts is based upon management's assessment of expected net collections considering historical experience, economic conditions, trends in healthcare coverage, and other collection indicators. Periodically throughout the year, management assesses the adequacy of the allowance for doubtful accounts based upon historical write-off experience by payor category, including those amounts not covered by insurance. The results of this review are then used to make any modifications to the provision for doubtful accounts to establish an appropriate allowance for doubtful accounts. After satisfaction of amounts due from insurance and reasonable efforts to collect from the patient have been exhausted, the System follows established guidelines for placing certain past-due patient balances with collection agencies, subject to the terms of certain restrictions on collection efforts as determined by the System. Accounts receivable are written off after collection efforts have been followed in accordance with the System's policies. The methodology for determining the allowance for doubtful accounts and related write-offs on uninsured patient accounts has remained consistent with the prior year.

Other Operating Revenue

Other operating revenue includes net gains on sales of assets, clinical engineering services, retail pharmacy revenue, income from unconsolidated entities, premium revenue, net assets released from restrictions for operating purposes, and other nonpatient service revenue. Net gains on sales of assets were \$201,330 and \$47,456 for the years ended June 30, 2016 and 2015, respectively. Assets sold during the years ended June 30, 2016 and 2015 include certain nonhospital operating entities and patient care equipment.

Impairment, Restructuring, and Nonrecurring Losses

Long-lived assets are reviewed for impairment whenever events or business conditions indicate the carrying amount of such assets may not be fully recoverable. Initial assessments of recoverability are based on estimates of undiscounted future net cash flows associated with an asset or group of assets. Where impairment is indicated, the carrying amount of these long-lived assets is reduced to fair value based on future discounted net cash flows or other estimates of fair value.

Ascension

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

2. Significant Accounting Policies (continued)

Nonrecurring expenses associated with Symphony include project management and process re-engineering costs, amortization expense for those Health Ministries not yet on Symphony, as well as costs to develop a business intelligence data warehouse. Costs associated with product deployment are recorded as nonrecurring losses, and costs associated with product support are recorded as recurring operating expenses.

During the year ended June 30, 2016, the System recorded total impairment, restructuring, and nonrecurring losses, net of \$227,832. This amount was comprised primarily of \$129,494 of nonrecurring expenses associated with Symphony, one-time termination benefits and other restructuring expenses of \$72,097, impairment expenses of \$14,064, and other nonrecurring expenses of \$12,177.

During the year ended June 30, 2015, the System recorded total impairment, restructuring, and nonrecurring losses, net of \$134,022. This amount was comprised primarily of \$100,541 of nonrecurring expenses associated with Symphony, one-time termination benefits and other restructuring expenses of \$11,304, impairment expenses of \$19,208, and other nonrecurring expenses of \$2,969.

Amortization

Bond issuance costs, discounts, and premiums are amortized over the term of the bonds using a method approximating the effective interest method.

Capitalized software, including internally developed software, is amortized on a straight-line basis over the expected useful life of the software.

Income Taxes

The member healthcare entities of the System are primarily tax-exempt organizations under Internal Revenue Code Section 501(c)(3) or Section 501(c)(2), and their related income is exempt from federal income tax under Section 501(a). The System accounts for uncertainty in income tax positions by applying a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The System has determined that no material unrecognized tax benefits or liabilities exist as of June 30, 2016.

Ascension

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

2. Significant Accounting Policies (continued)

The System had deferred tax assets of approximately \$378,000 and \$354,000 for federal and state income tax purposes primarily related to net operating loss carryforwards for the years ended June 30, 2016 and 2015, respectively. A valuation allowance of approximately \$377,000 and \$344,000 was recorded due to the uncertainty regarding use of the deferred tax assets for the years ended June 30, 2016 and 2015, respectively.

Regulatory Compliance

Various federal and state agencies have initiated investigations regarding reimbursement claimed by certain members of the System. The investigations are in various stages of discovery, and the ultimate resolution of these matters, including the liabilities, if any, cannot be readily determined; however, in the opinion of management, the results of the investigations will not have a material adverse impact on the consolidated financial statements of the System.

Reclassifications

Certain reclassifications were made to the 2015 accompanying consolidated financial statements to conform to the 2016 presentation.

Subsequent Events

The System evaluates the impact of subsequent events, which are events that occur after the Consolidated Balance Sheet date but before the consolidated financial statements are issued, for potential recognition or disclosure in the consolidated financial statements as of the Consolidated Balance Sheet date. For the year ended June 30, 2016, the System evaluated subsequent events through September 12, 2016, representing the date on which the accompanying audited consolidated financial statements were issued.

Ascension

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

3. Organizational Changes

Business Combinations

Crittenton Hospital Medical Center – Michigan

Effective October 1, 2015, Ascension Michigan became the sole corporate member of Crittenton Hospital Medical Center (Crittenton) under the terms of an agreement among Ascension Michigan, Crittenton and Ascension Health. The fair value of the unrestricted net assets totaling \$137,912 was recognized in the Consolidated Statements of Operations and Changes in Net Assets for the year ended June 30, 2016 as a nonoperating contribution from business combination.

Wheaton Franciscan Healthcare – Southeast Wisconsin, Inc.

Effective March 1, 2016, Ascension Health became the sole corporate member of Wheaton Franciscan Healthcare – Southeast Wisconsin, Inc. (Wheaton) under the terms of an agreement between Ascension Health and Wheaton Franciscan Services, Inc. The fair value of the unrestricted net assets totaling \$167,049 was recognized in the Consolidated Statements of Operations and Changes in Net Assets for the year ended June 30, 2016 as a nonoperating contribution from business combination.

The fair values of Crittenton and Wheaton’s net assets, by major type, that were recognized by the System during the year ended June 30, 2016 were as follows. The valuations of these net assets were substantially complete as of June 30, 2016.

	Crittenton	Wheaton	Total
Net working capital	\$ 80,335	\$ 312,129	\$ 392,464
Long-term investments	102,890	27,511	130,401
Property and equipment	193,174	645,299	838,473
Investments in unconsolidated entities	4,491	58,174	62,665
Intangible assets, including capitalized software costs	-	48,820	48,820
Other long-term assets	795	2,567	3,362
Long-term debt	(161,205)	(641,936)	(803,141)
Other long-term liabilities assumed	(79,177)	(270,452)	(349,629)
Fair value of total net assets	<u>\$ 141,303</u>	<u>\$ 182,112</u>	<u>\$ 323,415</u>

Ascension

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

3. Organizational Changes (continued)

The fair value of net assets of \$323,415 in the preceding table was recognized in the Consolidated Statement of Operations and Changes in Net Assets for the year ended June 30, 2016, as a nonoperating contribution from business combinations of \$304,961, and contributions of temporarily and permanently restricted net assets of \$16,091 and \$2,363, respectively.

During the year ended June 30, 2016, Ascension recognized revenues of Crittenton and Wheaton combined totaling \$611,100, and an excess of revenues and gains over expenses and losses totaling \$15,560, of which all was attributable to controlling interest. Ascension recognized a decrease in unrestricted net assets – controlling interests, excluding the excess of revenues and gains over expenses and losses of \$15,560 above, of \$10,003 and a decrease in temporarily restricted net assets of Crittenton and Wheaton of \$618 for the year ended June 30, 2016.

The following unaudited pro forma financial information presents the combined results of operations of Ascension, Crittenton and Wheaton for the years ended June 30, 2016 and 2015, respectively, as though the business combination transactions had occurred on July 1, 2014. This pro forma financial information is not necessarily indicative of the results of operations that would occur if these entities were consolidated into the System during those periods, nor is it necessarily indicative of future operating results.

	Year Ended June 30,	
	2016	2015
Total operating revenue	\$ 22,838,814	\$ 22,102,272
Excess of revenues and gains over expenses and losses attributable to controlling interest	118,977	838,856
(Decrease) increase in unrestricted net assets - controlling interest	(532,879)	266,808
Decrease in unrestricted net assets - noncontrolling interests	(143,164)	(83,498)
Increase in temporarily restricted net assets	36,226	43,487
Increase in permanently restricted net assets	2,636	3,900

Ascension

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

3. Organizational Changes (continued)

Divestitures

Discontinued Operations

During the year ended June 30, 2016, Ascension, including certain of its wholly owned subsidiaries, closed on the sale of, or undertook actions to sell or transfer ownership of, certain assets and liabilities, as follows:

- In February 2015, Carondelet Health, a wholly owned subsidiary of Ascension Health, sold certain assets and liabilities associated with the operations of Carondelet Health, including St. Joseph Medical Center in Kansas City, Missouri and St. Mary's Medical Center in Blue Springs, Missouri to Prime Healthcare Services (Prime). Operations and associated assets and liabilities of Carondelet Health's long-term care facilities and of two charitable foundations remain with Ascension.
- In June 2015, Ascension entered into two separate non-binding letters of intent with a third party to pursue the potential sale of certain Ascension assets and liabilities and related operations in the states of Washington and Idaho. Completion of these proposed transactions is subject to due diligence and execution of final definitive agreements, including obtaining all necessary regulatory approvals.
- On July 1, 2015, Catholic Health, Inc. (Catholic Health) became the sole corporate member of Mount St. Mary's Hospital in Lewiston, New York under the terms of an affiliation agreement between Ascension Health and Catholic Health.
- On September 1, 2015, Carondelet Health Network, a subsidiary of Ascension Health, sold certain assets, liabilities and related operations, excluding certain non-acute entities, in Tucson, Arizona to CHN Holdings, LLC, a joint venture in which Ascension holds a noncontrolling interest.

Ascension

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

3. Organizational Changes (continued)

Assets and liabilities associated with the aforementioned transactions were held for sale and qualified for discontinued operations as of June 30, 2016 and 2015, and are included in other current assets and other current liabilities, respectively, in the System's Consolidated Balance Sheets. Assets held for sale were \$144,490 and \$392,613 at June 30, 2016 and 2015, respectively, while liabilities held for sale were \$30,552 and \$112,923 at June 30, 2016 and 2015, respectively. Net losses of the entities, which include losses of Carondelet Health Network through the September 1, 2015 sale date and a \$14,520 loss on sale, are included in the loss from discontinued operations in the Consolidated Statements of Operations and Changes in Net Assets and were \$15,790 and \$47,916 for the years ended June 30, 2016 and 2015, respectively. Revenues of the entities were \$355,516 and \$1,020,288 for the years ended June 30, 2016 and 2015, respectively, which includes revenues of Carondelet Health through the sale date.

Assets Held for Sale

In March 2016, Ministry Health Care (Ministry), a subsidiary of Ascension Health, entered into a non-binding letter of intent with Marshfield Clinic Health Systems, Inc. (Marshfield Clinic) to pursue the potential sale of substantially all the assets of Saint Joseph's Hospital of Marshfield, Inc. (Marshfield), a wholly owned subsidiary of Ministry. In addition, the letter of intent also includes Ascension's acquisition of Marshfield Clinic's 50% membership interest in The Diagnostic & Treatment Center, LLC. Completion of the proposed transactions is subject to due diligence and execution of final definitive agreements, including obtaining all necessary regulatory approvals.

Assets and liabilities associated with the aforementioned transaction are designated as assets and liabilities held for sale, and included in other current assets and other current liabilities, respectively, in the System's Consolidated Balance Sheets. Assets and liabilities held for sale were \$161,058 and \$11,760 at June 30, 2016, respectively. Net income of Marshfield is included in the excess of revenues and gains over expenses and losses in the Consolidated Statements of Operations and Changes in Net Assets and is \$35,499 and \$54,207 for the years ended June 30, 2016 and 2015, respectively. Revenues of Marshfield total \$319,959 and \$374,539 for the years ended June 30, 2016 and 2015, respectively.

Ascension

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

3. Organizational Changes (continued)

Other

In addition to the transactions discussed above, effective November 1, 2014, Ministry Health Care, Inc. (Ministry), a subsidiary of Ascension Health, and Ministry's wholly owned subsidiary, Ministry Holdings, Inc., (MHI), sold a 50% membership interest in MHI to Froedtert Health, Inc. The sale resulted in a loss of control by Ministry over MHI, and as such, Ministry deconsolidated MHI as of that date. The 50% investment in MHI, which was renamed Network Health, Inc. in conjunction with the sale transaction, was reported at its fair value on the November 1, 2014 transaction date, subsequent to which this investment has been accounted for using the equity method of accounting. This transaction resulted in a gain, which is included in other operating revenue in the Consolidated Statements of Operations and Changes in Net Assets for the year ended June 30, 2015.

Effective February 1, 2015, Ascension Health and Adventist Health System entered into a joint operating agreement, which provides for an integrated health delivery system in Illinois, known as AMITA Health (AMITA). AMITA includes five hospitals of Alexian Brothers Health System (Alexian) a subsidiary of Ascension Health, and four hospitals of Adventist Midwest Health (Adventist), a subsidiary of Adventist Health System. The creation of AMITA Health did not result in a change in control of the hospitals of Alexian and Adventist. Both parties share the cash flows generated by AMITA based on an agreed upon split.

In May 2016, Ascension sold primarily all of the assets, liabilities and operations of its Medxcel, Inc. business to TMX Holdings, LLLP (TMX), a partnership in which Ascension maintains a 50% interest. As a result of the transaction, Ascension recognized a gain, which is included in other operating revenue in the Consolidated Statements of Operations and Changes in Net Assets for the year ended June 30, 2016, and the interest in TMX was recorded at its initial fair value. Subsequent to the transaction, Ascension is accounting for its interest in TMX under the equity method of accounting.

Ascension

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

4. Pooled Investment Fund

At June 30, 2016 and 2015, a significant portion of the System's investments consists of the System's interest in the Alpha Fund, a limited liability company organized in the state of Delaware. Certain System investments, including some held by the Health Ministries and their consolidated foundations, are managed outside of the Alpha Fund.

The Alpha Fund includes the investment interests of the System and other Alpha Fund members. AIM, a wholly owned subsidiary of the System, serves as the manager and primary investment advisor of the Alpha Fund, overseeing the investment strategies offered to the Alpha Fund's members. AIM provides expertise in the areas of asset allocation, selection and monitoring of outside investment managers, and risk management. The Alpha Fund is consolidated in the System's financial statements. The portion of the Alpha Fund's net assets representing interests held by entities other than the System are reflected in noncontrolling interests in the Consolidated Balance Sheets, which amount to \$1,256,666 and \$1,405,401 at June 30, 2016 and 2015, respectively.

The Alpha Fund invests in a diversified portfolio of investments including alternative investments, such as real asset funds, hedge funds, private equity funds, commodity funds, and private credit funds. Collectively, these funds have liquidity terms ranging from daily to annual with notice periods ranging from 1 to 120 days. Due to redemption restrictions, investments in certain of these funds, whose fair value was approximately \$1,981,000 at June 30, 2016, cannot currently be redeemed. However, the potential for the Alpha Fund to sell its interest in these funds in a secondary market prior to the end of the fund term does exist.

Ascension

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

4. Pooled Investment Fund (continued)

The Alpha Fund's investments in certain alternative investment funds also include contractual commitments to provide capital contributions during the investment period, which is typically five years and can extend to the end of the fund term. During these contractual periods, investment managers may require the Alpha Fund to invest in accordance with the terms of the agreement. Commitments not funded during the investment period will expire and remain unfunded. As of June 30, 2016, contractual agreements of the Alpha Fund expire between October 2016 and January 2022. The remaining unfunded capital commitments of the Alpha Fund total approximately \$1,590,000 for 141 individual funds as of June 30, 2016. Due to the uncertainty surrounding whether the contractual commitments will require funding during the contractual period, future minimum payments to meet these commitments cannot be reasonably estimated. These committed amounts are expected to be primarily satisfied by the liquidation of existing investments in the Alpha Fund.

In the normal course of operations and within established Alpha Fund guidelines, the Alpha Fund may enter into various exchange-traded and over-the-counter derivative contracts for trading purposes, including futures, options, and forward contracts as well as warrants and swaps. These instruments are used primarily to adjust the portfolio duration, restructure term structure exposure, change sector exposure, and arbitrage market inefficiencies. See the Fair Value Measurements note for a discussion of how fair value for the Alpha Fund's derivatives is determined.

At June 30, 2016 and 2015, the notional value of Alpha Fund derivatives outstanding was approximately \$4,540,000 and \$3,615,000, respectively. The fair value of Alpha Fund derivatives in an asset position was \$34,713 and \$15,826 at June 30, 2016 and 2015, respectively, while the fair value of Alpha Fund derivatives in a liability position was \$31,677 and \$33,595 at June 30, 2016 and 2015, respectively. These derivatives are included in long-term investments in the Consolidated Balance Sheets at June 30, 2016 and 2015.

Due from brokers and due to brokers on the Consolidated Balance Sheets at June 30, 2016 and 2015, represent the Alpha Fund's positions and amounts due from or to various brokers, primarily for security transactions not yet settled, and cash held by brokers for securities sold, not yet purchased.

Ascension

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

5. Cash and Investments

The System's cash and investments are reported in the Consolidated Balance Sheets as presented in the table that follows. Total cash and investments, net, includes both the System's membership interest in the Alpha Fund and the noncontrolling interests held by other Alpha Fund members. System unrestricted cash and investments, net, represent the System's cash and investments excluding the noncontrolling interests held by other Alpha Fund members and assets limited as to use.

	June 30,	
	2016	2015
Cash and cash equivalents	\$ 696,237	\$ 688,228
Short-term investments	122,545	146,822
Long-term investments	15,069,123	14,990,505
Subtotal	<u>15,887,905</u>	<u>15,825,555</u>
Other Alpha Fund assets and liabilities:		
In other current assets	27,768	28,356
In other long-term assets	2,335	2,491
In accounts payable and other accrued liabilities	(9,312)	(9,035)
In other noncurrent liabilities	(4,569)	(3,256)
Due from brokers, net	208,057	17,804
Total cash and investments, net	<u>16,112,184</u>	<u>15,861,915</u>
Less noncontrolling interests of Alpha Fund	<u>1,256,666</u>	<u>1,405,401</u>
System cash and investments, including assets limited as to use	14,855,518	14,456,514
Less assets limited as to use:		
Under bond indenture agreement	20,002	38,305
Self-insurance trust funds	676,375	713,174
Temporarily or permanently restricted	595,761	595,931
Total assets limited as to use	<u>1,292,138</u>	<u>1,347,410</u>
System unrestricted cash and investments, net	<u>\$ 13,563,380</u>	<u>\$ 13,109,104</u>

Ascension

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

5. Cash and Investments (continued)

At June 30, 2016 and 2015, the composition of cash and cash equivalents, short-term investments and long-term investments, which include certain assets limited as to use, is summarized as follows.

	June 30,	
	2016	2015
Cash and cash equivalents and short-term investments	\$ 935,026	\$ 942,760
Pooled short-term investment funds	471,099	413,223
U.S. government, state, municipal and agency obligations	3,064,411	2,749,101
Corporate and foreign fixed income securities	1,728,149	1,705,427
Asset-backed securities	771,971	874,440
Equity securities	2,996,662	3,218,447
Alternative investments and other investments:		
Private equity and real estate funds	1,648,545	1,436,158
Hedge funds	2,677,275	3,030,653
Commodities funds and other investments	1,594,767	1,455,346
Total alternative investments and other investments	5,920,587	5,922,157
Total cash and cash equivalents, short-term investments, and long-term investments	\$ 15,887,905	\$ 15,825,555

As of June 30, 2016 and 2015, the System's membership interest in the Alpha Fund totaled \$11,861,266 and \$11,974,700, respectively. As of June 30, 2016 and 2015, the noncontrolling interest (see Note 4) in the Alpha Fund, representing interests held by entities other than the System, totaled \$1,256,666 and \$1,405,401, respectively.

Investment return recognized by the System for the years ended June 30, 2016 and 2015, is summarized in the following table. Total investment return includes the System's return on certain investments held and managed outside the Alpha Fund and the investment return of the Alpha Fund. System investment return represents the System's total investment return, net of the investment return earned by the noncontrolling interests of other Alpha Fund members.

Ascension

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

5. Cash and Investments (continued)

	Year Ended June 30,	
	2016	2015
Interest and dividends	\$ 234,677	\$ 231,114
Net losses on investments reported at fair value	(609,308)	(209,796)
Restricted investment return and unrealized losses, net	(6,349)	7,769
Total investment return	(380,980)	29,087
Less return earned by noncontrolling interests of Alpha Fund	(42,756)	(9,563)
System investment return	\$ (338,224)	\$ 38,650

6. Fair Value Measurements

The System categorizes, for disclosure purposes, assets and liabilities measured at fair value in the consolidated financial statements based upon whether the inputs used to determine their fair values are observable or unobservable. Observable inputs are inputs that are based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about pricing the asset or liability, based on the best information available in the circumstances.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an asset's or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement of the asset or liability. The System's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

Ascension

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

6. Fair Value Measurements (continued)

The System follows the three-level fair value hierarchy to categorize these assets and liabilities recognized at fair value at each reporting period, which prioritizes the inputs used to measure such fair values. Level inputs are defined as follows:

Level 1 – Quoted prices (unadjusted) that are readily available in active markets or exchanges for identical assets or liabilities on the reporting date.

Level 2 – Inputs other than quoted market prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 pricing inputs include prices quoted for similar assets and liabilities in active markets or exchanges or prices quoted for identical or similar assets and liabilities in markets that are not active. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Significant pricing inputs that are unobservable for the asset or liability, including assets or liabilities for which there is little, if any, market activity for such asset or liability. Inputs to the determination of fair value for Level 3 assets and liabilities require management judgment and estimation.

Net Asset Value – Values are based on the calculated net asset value. The calculated net asset values for underlying investments are fair value estimates determined by an external fund manager based on quoted market prices, operating results, balance sheet stability, growth, and other business and market sector factors.

There were no significant transfers between Levels 1 and 2 during the years ended June 30, 2016 and 2015.

As of June 30, 2016 and 2015, the assets and liabilities listed in the fair value hierarchy tables below use the following valuation techniques and inputs:

Ascension

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

6. Fair Value Measurements (continued)

Cash and Cash Equivalents and Short-Term Investments

Cash and cash equivalents and certain short-term investments include certificates of deposit, whose fair value is based on cost plus accrued interest. Significant observable inputs include security cost, maturity, and relevant short-term interest rates. Other short-term investments designated as Level 2 investments primarily consist of commercial paper, whose fair value is based on the income approach. Significant observable inputs include security cost, maturity, credit rating, interest rate, and par value.

Pooled Short-term Investment Fund

The pooled short-term investment fund is a short term exchange traded money market fund primarily invested in treasury securities.

U.S. Government, State, Municipal, and Agency Obligations

The fair value of investments in U.S. government, state, municipal, and agency obligations is primarily determined using techniques consistent with the income approach. Significant observable inputs to the income approach include data points for benchmark constant maturity curves and spreads.

Corporate and Foreign Fixed Income Securities

The fair value of investments in U.S. and international corporate bonds, including commingled funds that invest primarily in such bonds, and foreign government bonds is primarily determined using techniques that are consistent with the market approach. Significant observable inputs include benchmark yields, reported trades, observable broker-dealer quotes, issuer spreads, and security specific characteristics, such as early redemption options.

Asset-backed Securities

The fair value of U.S. agency and corporate asset-backed securities is primarily determined using techniques consistent with the income approach. Significant observable inputs include prepayment speeds and spreads, benchmark yield curves, volatility measures, and quotes.

Ascension

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

6. Fair Value Measurements (continued)

Equity Securities

The fair value of investments in U.S. and international equity securities is primarily determined using techniques consistent with the market and income approaches. The values for underlying investments are fair value estimates determined by external fund managers based on quoted market prices, operating results, balance sheet stability, growth, dividend, dividend yield, and other business and market sector fundamentals.

Alternative Investments and Other Investments

Alternative investments consist of private equity, hedge funds, private equity funds, commodity funds, and real estate partnerships. The fair value of private equity is primarily determined using techniques consistent with both the market and income approaches, based on the System's estimates and assumptions in the absence of observable market data. The market approach considers comparable company, comparable transaction, and company-specific information, including but not limited to restrictions on disposition, subsequent purchases of the same or similar securities by other investors, pending mergers or acquisitions, and current financial position and operating results. The income approach considers the projected operating performance of the portfolio company.

The fair value of hedge funds, private equity funds, commodity funds, and real estate partnerships is primarily determined using net asset values, which approximate fair value, as determined by an external fund manager based on quoted market prices, operating results, balance sheet stability, growth, and other business and market sector fundamentals.

Other investments include derivative assets and derivative liabilities of the Alpha Fund, whose fair value is primarily determined using techniques consistent with the market approach. Significant observable inputs to valuation models include interest rates, Treasury yields, volatilities, credit spreads, maturity, and recovery rates.

Ascension

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

6. Fair Value Measurements (continued)

Benefit Plan Assets

The fair value of benefit plan assets is based on original investment into a guaranteed pooled fund, plus guaranteed, annuity contract-based interest rates. Significant unobservable inputs to the guaranteed rate include the fair value and average duration of the portfolio of investments underlying annuity contract, the contract value, and the annualized weighted-average yield to maturity of the underlying investment portfolio.

Interest Rate Swap Assets and Liabilities

The fair value of interest rate swaps is primarily determined using techniques consistent with the market approach. Significant observable inputs to valuation models include interest rates, Treasury yields, volatilities, credit spreads, maturity, and recovery rates.

Investments Sold, Not Yet Purchased

The fair value of investments sold, not yet purchased is primarily determined using techniques consistent with the income approach. Significant observable inputs to the income approach include data points for benchmark, constant maturity curves, and spreads.

Ascension

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

6. Fair Value Measurements (continued)

The following table summarizes fair value measurements, by level, at June 30, 2016, for all financial assets and liabilities measured at fair value on a recurring basis in the System's consolidated financial statements:

	Level 1	Level 2	Level 3	Total
June 30, 2016				
Cash equivalents	\$ 497,847	\$ 12,173	\$ -	\$ 510,020
Short-term investments	46,750	20,291	287	67,328
Pooled short-term investment funds	471,099	-	-	471,099
U.S. government, state, municipal and agency obligations	-	3,064,411	-	3,064,411
Corporate and foreign fixed income securities	-	1,604,725	29,545	1,634,270
Asset-backed securities	-	629,140	142,831	771,971
Equity securities	2,671,500	130,930	3,759	2,806,189
Alternative investments and other investments:				
Private equity and real estate funds	1,409	2,400	197,886	201,695
Commodities funds and other investments	13,420	5,183	4,464	23,067
Assets at net asset value:				
Corporate and foreign fixed income securities				93,879
Equity securities				190,473
Private equity and real estate funds				1,446,850
Hedge funds				2,677,275
Commodities funds and other investments				1,454,136
Cash and other assets not at fair value				475,242
Cash and investments				<u>\$ 15,887,905</u>
Benefit plan assets, in other noncurrent assets	\$ 336,434	\$ 33,055	\$ 56,070	\$ 425,559
Interest rate swaps, in other noncurrent assets	-	10,713	-	10,713
Investments sold, not yet purchased, in other noncurrent liabilities	-	4,569	-	4,569
Interest rate swaps, included in other noncurrent liabilities	-	236,702	-	236,702

Ascension

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

6. Fair Value Measurements (continued)

For the year ended June 30, 2016, the changes in the fair value of the assets and liabilities measured using significant unobservable inputs (Level 3) consisted of the following.

Year Ended	Short-term investments	Corporate and Foreign Fixed Income Securities	Asset-Backed Securities	Equity Securities	Private Equity and Real Estate Funds	Commodities Funds and Other Investments	Benefit Plan Assets
June 30, 2016							
Beginning balance	\$ 301	\$ 26,599	\$ 89,364	\$ 2,198	\$ 187,338	\$ (4,245)	\$ 35,256
Total realized and unrealized gains (losses):							
Included in nonoperating gains (losses)	(14)	(2,661)	(3,472)	(61)	17,014	(6,445)	(3)
Included in changes in net assets	-	-	-	-	-	(47)	-
Purchases	-	19,410	82,958	611	50,400	8,701	31,245
Sales	-	(10,790)	(40,064)	(2,222)	(55,697)	-	(19,892)
Transfers into Level 3	-	3,512	16,075	3,233	1	6,500	25,508
Transfers out of Level 3	-	(6,525)	(2,030)	-	(1,170)	-	(16,044)
Ending balance	<u>\$ 287</u>	<u>\$ 29,545</u>	<u>\$ 142,831</u>	<u>\$ 3,759</u>	<u>\$ 197,886</u>	<u>\$ 4,464</u>	<u>\$ 56,070</u>

The amount of total gains or losses for the period included in nonoperating gains (losses) attributable to the changes in unrealized gains or losses relating to assets still held at June 30, 2016

\$ -	\$ (1,625)	\$ (5,621)	\$ 494	\$ 4,153	\$ -	\$ -
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The basis for recognizing and valuing transfers into or out of Level 3, in the Level 3 rollforward, is as of the beginning of the period in which the transfers occur.

Ascension

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

6. Fair Value Measurements (continued)

The following table summarizes fair value measurements, by level, at June 30, 2015, for all financial assets and liabilities measured at fair value on a recurring basis in the System's consolidated financial statements:

	Level 1	Level 2	Level 3	Total
June 30, 2015				
Cash equivalents	\$ 523,021	\$ 12,050	\$ -	\$ 535,071
Short-term investments	63,107	42,523	301	105,931
Pooled short-term investment funds	413,223	-	-	413,223
U.S. government, state, municipal and agency obligations	-	2,749,101	-	2,749,101
Corporate and foreign fixed income securities	-	1,523,567	26,599	1,550,166
Asset-backed securities	-	785,076	89,364	874,440
Equity securities	3,040,776	41,380	2,198	3,084,354
Alternative investments and other investments:				
Private equity and real estate funds	19	5,901	187,338	193,258
Commodities funds and other investments	57,566	(6,217)	(4,245)	47,104
Assets at net asset value:				
Corporate and foreign fixed income securities				155,261
Equity securities				134,093
Private equity and real estate funds				1,242,900
Hedge funds				3,030,653
Commodities funds and other investments				1,309,726
Cash and other assets not at fair value				400,274
Cash and investments				<u>\$ 15,825,555</u>
Benefit plan assets, in other noncurrent assets	\$ 323,421	\$ 1,243	\$ 35,256	\$ 359,920
Interest rate swaps, in other noncurrent assets	-	46,495	-	46,495
Investments sold, not yet purchased, in other noncurrent liabilities	151	3,105	-	3,256
Interest rate swaps, included in other noncurrent liabilities	-	188,051	-	188,051

Ascension

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

6. Fair Value Measurements (continued)

For the year ended June 30, 2015, the changes in the fair value of the assets and liabilities measured using significant unobservable inputs (Level 3) consisted of the following. Level 3 investments of the Alpha Fund are included in transfers in the table below.

Year Ended	Short-term investments	Corporate and Foreign Fixed Income Securities	Asset-Backed Securities	Equity Securities	Private Equity and Real Estate Funds	Commodities Funds and Other Investments	Benefit Plan Assets
June 30, 2015							
Beginning balance	\$ 293	\$ 15,611	\$ 99,921	\$ 51,578	\$ 167,754	\$ 62,686	\$ 40,493
Total realized and unrealized gains (losses):							
Included in income from operations	-	(12)	1	(1,681)	-	(165)	-
Included in nonoperating gains (losses)	7	(241)	(1,411)	550	81,505	(85,737)	-
Included in changes in net assets	-	-	-	-	34	-	-
Purchases	1	18,939	62,740	749	48,858	75,174	11,580
Sales	-	(7,615)	(37,714)	(27,528)	(83,572)	(15,381)	(14,893)
Transfers into Level 3	-	2,447	10,268	-	132,964	4,648	3,518
Transfers out of Level 3	-	(2,530)	(44,441)	(21,470)	(160,205)	(45,470)	(5,442)
Ending balance	\$ 301	\$ 26,599	\$ 89,364	\$ 2,198	\$ 187,338	\$ (4,245)	\$ 35,256
The amount of total gains or losses for the period included in nonoperating gains (losses) attributable to the changes in unrealized gains or losses relating to assets still held at June 30, 2015	\$ -	\$ (275)	\$ (1,012)	\$ 407	\$ 3,058	\$ (81,115)	\$ -

The basis for recognizing and valuing transfers into or out of Level 3, in the Level 3 rollforward, is as of the beginning of the period in which the transfers occur.

Ascension

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

7. Long-Term Debt

Long-term debt at June 30, 2016 and 2015 is comprised of the following and is presented in accordance with the specific master trust indenture to which the debt relates. As further discussed below, certain portions of long-term debt are secured under the Alexian Brothers Health System Master Trust Indenture; the Mercy Regional Health Center, Inc. Master Trust Indenture; The Howard Young Medical Center, Inc. Master Trust Indenture; the St. John Health System Master Trust Indenture; and the Ministry Health Care Master Trust Indenture.

	June 30,	
	2016	2015
Tax-exempt hospital revenue bonds – secured under Ascension Health Alliance Senior Credit Group Master Trust Indenture:		
Variable rate demand bonds, subject to a put provision that provides for a cumulative 7-month notice and remarketing period, payable through November 2047; interest (0.68% at June 30, 2016) tied to a market index plus a spread	\$ 350,890	\$ 391,160
Variable rate demand bonds, subject to a 7-day put provision, payable through November 2047; interest (0.40% to 0.45% at June 30, 2016) set at prevailing market rates	254,170	189,285
Variable rate demand bonds, subject to a 7-day put provision, payable through November 2033; interest (0.40% to 0.45% at June 30, 2016) set at prevailing market rates	299,650	307,300
Indexed put bonds subject to weekly rate resets based on a taxable index, payable through November 2046; interest at 1.264% at June 30, 2016	153,800	153,800
Fixed rate put bonds (converted from an indexed put bond mode based on a taxable index in May 2009) payable through November 2046; interest at 4.10% at June 30, 2016	153,690	153,690
Fixed rate serial and term bonds payable in installments through November 2051; interest at 3.00% to 5.00%	2,392,360	1,168,765
Fixed rate serial and term bonds payable in installments through November 2039; interest at 5.00%	-	585,290
Fixed rate serial mode bonds payable through 2047 with purchase dates ranging from February 2017 through April 2022; interest at 0.95% to 5.00% through the purchase dates	1,120,680	1,140,045

Ascension

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

7. Long-Term Debt (continued)

	June 30,	
	2016	2015
Tax-exempt hospital revenue bonds – unsecured under Ascension Health Alliance Subordinate Master Trust Indenture:		
Variable rate demand bonds, subject to a 7-day put provision, payable through November 2026; interest (0.40% at June 30, 2016) set at prevailing market rates	\$ 42,985	\$ 54,180
Fixed rate serial mode bonds payable through 2027 with purchase dates through May 2020; interest at 1.15% to 5.00%	419,055	434,675
Taxable bonds – secured under Ascension Health Alliance Senior Credit Group Master Trust Indenture:		
Taxable fixed rate term bonds payable in installments through November 2053; interest at 3.945% and 4.847%	1,125,000	425,000
Total hospital revenue bonds under Senior Master Trust Indenture and Subordinate Master Trust Indenture	6,312,280	5,003,190
Tax-exempt hospital revenue bonds – secured under Alexian Brothers Health System Master Trust Indenture:		
Fixed rate serial and term bonds payable in installments through February 2038; interest at 4.25% to 5.50%	61,935	153,370
Total hospital revenue bonds under the Alexian Brothers Health System Master Trust Indenture	61,935	153,370
Tax-exempt hospital revenue bonds – secured under Mercy Regional Health Center, Inc. Master Trust Indenture:		
Fixed rate serial and term bonds payable in installments through November 2029; interest at 4.00% to 5.00%	21,915	22,995
Total hospital revenue bonds under the Mercy Regional Health Center, Inc. Master Trust Indenture	21,915	22,995
Tax-exempt hospital revenue bonds – secured under The Howard Young Medical Center, Inc. Master Trust Indenture:		
Fixed rate serial and term bonds payable in installments through August 2030; interest at 3.00% to 5.00%	-	18,310
Total hospital revenue bonds under The Howard Young Medical Center, Inc. Master Trust Indenture	-	18,310

Ascension

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

7. Long-Term Debt (continued)

	June 30,	
	2016	2015
Tax-exempt hospital revenue bonds – secured under St. John Health System Master Trust Indenture:		
Fixed rate serial and term bonds payable in installments through February 2042; interest at 4.00% to 5.00%	\$ 385,240	\$ 395,215
Total hospital revenue bonds under the St. John Health System Master Trust Indenture	<u>385,240</u>	<u>395,215</u>
Tax-exempt hospital revenue bonds – secured under Ministry Health Care Master Trust Indenture:		
Fixed rate serial and term bonds payable in installments through August 2035; interest at 3.00% to 5.50%	-	347,230
Total hospital revenue bonds under the Ministry Health Care Master Trust Indenture	-	<u>347,230</u>
Total hospital revenue bonds – all Master Trust Indentures	<u>6,781,370</u>	<u>5,940,310</u>
Other debt:		
Obligations under capital leases	24,987	27,572
Other	<u>111,923</u>	<u>116,586</u>
	6,918,280	6,084,468
Unamortized premium, net	271,774	187,391
Less current portion	(96,193)	(84,985)
Less long-term debt subject to short-term remarketing arrangements	<u>(1,666,245)</u>	<u>(1,176,790)</u>
Long-term debt, less current portion and long-term debt subject to short-term remarketing arrangements	<u>\$ 5,427,616</u>	<u>\$ 5,010,084</u>

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Ascension

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

7. Long-Term Debt (continued)

	June 30,	
	2016	2015
Ascension Health Alliance Senior Master Trust Indenture long-term debt obligations, including unamortized premium, net	\$ 4,388,376	\$ 3,403,592
Ascension Health Alliance Subordinate Master Trust Indenture long-term debt obligations, including unamortized premium, net	434,542	493,746
Alexian Brothers Health System Master Trust Indenture long-term debt obligations, including unamortized premium, net	50,296	152,220
Mercy Regional Health Center, Inc. Master Trust Indenture long-term debt obligations, including unamortized premium, net	22,627	24,072
The Howard Young Medical Center, Inc. Master Trust Indenture long-term debt obligations, including unamortized premium, net	-	18,900
St. John Health System Master Trust Indenture long-term debt obligations, including unamortized premium, net	403,132	415,212
Ministry Health Care Master Trust Indenture long-term debt obligations, including unamortized premium, net	-	367,008
Other	128,643	135,334
Long-term debt, less current portion, and long-term debt subject to short-term remarketing arrangements	<u>\$ 5,427,616</u>	<u>\$ 5,010,084</u>

Scheduled principal repayments of long-term debt, considering obligations subject to short-term remarketing as due according to their long-term amortization schedule, as of June 30, 2016, are as follows:

Year Ending June 30:	Ascension	Alexian	Mercy	St. John	Other Debt	Total
	Health Alliance MTIs	Brothers Health System MTI	Regional Health Center, Inc. MTI	Health System MTI		
2017	\$ 65,455	\$ 12,845	\$ 1,125	\$ 7,900	\$ 8,868	\$ 96,193
2018	68,530	15,355	1,175	6,810	9,140	101,010
2019	88,780	2,080	1,230	7,150	22,621	121,861
2020	91,880	2,495	1,285	7,510	21,251	124,421
2021	95,345	1,700	1,350	7,895	8,949	115,239
Thereafter	5,902,290	27,460	15,750	347,975	66,081	6,359,556
Total	<u>\$ 6,312,280</u>	<u>\$ 61,935</u>	<u>\$ 21,915</u>	<u>\$ 385,240</u>	<u>\$ 136,910</u>	<u>\$ 6,918,280</u>

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Ascension

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

7. Long-Term Debt (continued)

The carrying amounts of variable rate bonds and other notes payable approximate fair value. The fair values of the unsecured fixed rate serial and term bonds are obtained from independent public valuation services. The fair value of fixed rate serial and term bonds, including the component of variable rate demand bonds subject to long-term fixed interest rates, approximates carrying value at June 30, 2016 and 2015. During the years ended June 30, 2016 and 2015, interest paid was approximately \$203,000 and \$220,000, respectively. Capitalized interest was approximately \$3,700 and \$3,200 for the years ended June 30, 2016 and 2015, respectively.

Certain members of the System formed the Ascension Health Alliance Credit Group (Senior Credit Group). Each Senior Credit Group member is identified as either a senior obligated group member, a senior designated affiliate, or a senior limited designated affiliate. Senior obligated group members are jointly and severally liable under a Senior Master Trust Indenture (Senior MTI) to make all payments required with respect to obligations under the Senior MTI and may be entities not controlled directly or indirectly by the System. Senior designated affiliates and senior limited designated affiliates are not obligated to make debt service payments on the obligations under the Senior MTI. The System may cause each senior designated affiliate to transfer such amounts as are necessary to enable the obligated group to comply with the terms of the Senior MTI, including payment of the outstanding obligations. Additionally, each senior limited designated affiliate has an independent limited designated affiliate agreement and promissory note with the System with stipulated repayment terms and conditions, each subject to the governing law of the senior limited designated affiliate's state of incorporation.

Pursuant to a Supplemental Master Indenture dated February 1, 2005, senior obligated group members, which are operating entities, have pledged and assigned to the Master Trustee a security interest in all of their rights, title, and interest in their pledged revenues and proceeds thereof.

A Subordinate Credit Group, which is comprised of subordinate obligated group members, subordinate designated affiliates, and subordinate limited designated affiliates, was created under the Subordinate Master Trust Indenture (Subordinate MTI). The subordinate obligated group members are jointly and severally liable under the Subordinate MTI to make all payments required with respect to obligations under the Subordinate MTI and may be entities not controlled directly or indirectly by the System. Subordinate designated affiliates and subordinate limited designated affiliates are not obligated to make debt service payments on the obligations under the Subordinate MTI.

Ascension

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

7. Long-Term Debt (continued)

The System may cause each subordinate designated affiliate to transfer such amounts as are necessary to enable the obligated group members to comply with the terms of the Subordinate MTI, including payment of the outstanding obligations. Additionally, each subordinate limited designated affiliate has an independent subordinate limited designated affiliate agreement and promissory note with the System, with stipulated repayment terms and conditions, each subject to the governing law of the subordinate limited designated affiliate's state of incorporation.

The unsecured variable rate demand bonds of both the Senior and Subordinate Credit Groups, while subject to long-term amortization periods, may be put to the System at the option of the bondholders in connection with certain remarketing dates. To the extent that bondholders may, under the terms of the debt, put their bonds within 12 months after June 30, 2016, the principal amount of such bonds has been classified as a current liability in the accompanying Consolidated Balance Sheets. Management believes the likelihood of a material amount of bonds being put to the System to be remote. However, to address this possibility, management has taken steps to provide various sources of liquidity in the event any bonds would be put, including the line of credit, commercial paper program, and maintaining unrestricted assets as a source of self-liquidity.

On January 1, 2012, Alexian Brothers became part of the System. Subsequently, the System redeemed or refinanced a portion of Alexian Brothers' debt; however, a portion of the bonds previously issued for the benefit of Alexian Brothers remains outstanding (the Alexian Brothers' Bonds). The Alexian Brothers' Bonds continue to be secured by the Alexian Brothers Health System Master Trust Indenture (As Amended and Restated), dated October 1, 1992, between the Members of the Alexian Brothers Health System Obligated Group established under this document and the Alexian Brothers Health System Master Trustee.

On April 1, 2013, Marian Health System joined Ascension Health. Subsequently, the System redeemed or refinanced a portion of the debt of the Marian Systems; however, a portion of the bonds previously issued for the benefit of the Marian Systems remains outstanding. These bonds continue to be secured by the respective Master Trust Indentures, including the Amended and Restated Master Trust Indenture dated October 1, 1999, by and between St. John Health System and the St. John Health Master Trustee; and the Master Trust Indenture dated January 15, 2013, between Mercy Regional Health Center, Inc. and the Mercy Regional Health Center, Inc. Master Trustee.

Ascension

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

7. Long-Term Debt (continued)

In order to terminate the respective Master Trust Indentures of Crittenton and Wheaton, and the redemption or defeasance of all associated outstanding debt, Ascension issued taxable commercial paper of approximately \$161,000 and \$637,000, respectively, during the year ended June 30, 2016. Following the discharge of these Master Trust Indentures, certain Crittenton and Wheaton entities were added to the Senior and Subordinate Credit Groups.

In May 2016, Ascension issued \$2,046,250 of debt, consisting of \$1,346,250 tax-exempt bonds through issuing authorities in Wisconsin, Alabama and Michigan, and \$700,000 taxable bonds. The debt was issued to refund certain Ascension 2006 fixed rate bonds payable through 2039, to refund the commercial paper associated with the Crittenton and Wheaton transactions, to refund the remaining debt of Ministry Health Care, Inc. and Howard Young Health Care, Inc. and to reimburse the System for previous capital expenditures. Subsequent to the closing, both the Ministry Health Care Master Trust Indenture and The Howard Young Medical Center, Inc. Master Trust Indenture were terminated and certain Ministry Health Care, Inc. and Howard Young Health Care, Inc. entities were added to the Senior and Subordinate Credit Groups.

Due to aggregate financing activity during the fiscal years ended June 30, 2016 and 2015, losses on extinguishment of debt of \$13,594 and \$992, respectively, were recorded, which are included in nonoperating gains (losses) in the accompanying Consolidated Statements of Operations and Changes in Net Assets.

As of June 30, 2016, the Senior Credit Group has two lines of credit totaling \$1,000,000. The first line of credit totals \$500,000 which may be used as a source of funding for unremarketed variable debt (including commercial paper) or for general corporate purposes. The second line of credit totals \$500,000 which may be used for general corporate purposes. Both lines are committed to November 3, 2017 and as of June 30, 2016 and 2015, there were no borrowings under either line of credit.

Ascension

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

7. Long-Term Debt (continued)

As of June 30, 2016, the Senior Credit Group has a \$100,000 revolving line of credit related to its letters of credit program toward which a bank commitment of \$100,000 extends to November 24, 2016. The revolving line of credit may be accessed solely in the form of Letters of Credit issued by the bank for the benefit of the members of the Credit Groups. Of this \$100,000 revolving line of credit, letters of credit totaling \$78,892 have been issued as of June 30, 2016. No borrowings were outstanding under the letters of credit as of June 30, 2016 and 2015.

8. Derivative Instruments

The System uses interest rate swap agreements to manage interest rate risk associated with its outstanding debt. Interest rate swaps with varying characteristics are outstanding under the Master Trust Indentures of the System, Alexian Brothers, Ministry Health Care, and St. John Health. These swaps have historically been used to effectively convert interest rates on variable rate bonds to fixed rates and rates on fixed rate bonds to variable rates. At June 30, 2016 and 2015, the notional values of outstanding interest rate swaps were as follows:

	June 30,	
	2016	2015
Ascension Health Alliance MTI	\$ 2,146,107	\$ 2,128,757
Alexian Brothers Health System MTI	-	31,220
Ministry Health Care MTI	-	191,800
St. John Health System MTI	100,000	100,000
Total	<u>\$ 2,246,107</u>	<u>\$ 2,451,777</u>

Ascension

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

8. Derivative Instruments (continued)

The System recognizes the fair value of its interest rate swaps in the Consolidated Balance Sheets as assets, recorded in other noncurrent assets, or liabilities, recorded in other noncurrent liabilities, as appropriate. The respective fair values of interest rate swaps in an asset and liability position for the System, Alexian Brothers, Ministry Health Care and St. John Health were as follows:

	June 30, 2016		June 30, 2015	
	Asset	Liability	Asset	Liability
Ascension Health Alliance MTI	\$ 10,713	\$ 236,367	\$ 41,516	\$ 168,008
Alexian Brothers Health System MTI	-	-	-	1,170
Ministry Health Care MTI	-	-	4,708	18,873
St. John Health System MTI	-	335	271	-
Total	\$ 10,713	\$ 236,702	\$ 46,495	\$ 188,051

The System's interest rate swap agreements include collateral requirements for each counterparty under such agreements, based upon specific contractual criteria, subject to master netting arrangements. Collateral requirements are separately calculated for the System, Alexian Brothers, Ministry Health Care, and St. John Health based on the credit ratings of each. In the case of the System, the applicable credit rating is the Senior Credit Group long-term debt credit ratings (Senior Debt Credit Ratings), as obtained from each of two major credit rating agencies. Credit rating and the net liability position of total interest rate swap agreements outstanding with each counterparty determine the amount of collateral to be posted. No collateral was posted at June 30, 2016 and 2015.

The System does not account for any of its interest rate swaps as hedges, and accordingly, all changes in the fair value of interest rate swaps are recognized in nonoperating gains (losses) in the accompanying Consolidated Statements of Operations and Changes in Net Assets. The System does not offset fair value amounts recognized for derivative instruments.

Ascension

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

9. Retirement Plans

Defined-Benefit Plans

Certain System entities participate in defined-benefit pension plans (the System Plans), which are noncontributory, defined-benefit pension plans. Benefits are based on each participant's years of service and compensation. All of the System Plans' assets are invested in Trusts, which include the Master Pension Trust (the Trust) and other trusts (the Other Trusts). The System Plans' assets primarily consist of short-term investments, equity, fixed income, and alternative investments, consisting of various hedge funds, real estate funds, private equity funds, commodity funds, private credit funds, and certain other private funds. Contributions to the System Plans are based on actuarially determined amounts sufficient to meet the benefits to be paid to participants.

Most System defined benefit plans were frozen effective December 31, 2012. Four of the System Plans remain ongoing with \$25,467 of service cost recognized during the year ended June 30, 2016.

The assets of the System Plans are available to pay the benefits of eligible employees and retirees of all participating entities. In the event entities participating in the System Plans are unable to fulfill their financial obligations under the System Plans, the other participating entities are obligated to do so.

Ascension

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

9. Retirement Plans (continued)

The following table sets forth the combined benefit obligations and assets of the System Plans at June 30, 2016 and 2015, components of net periodic benefit costs for the years then ended, and a reconciliation of the amounts recognized in the accompanying consolidated financial statements.

	Year Ended June 30,	
	2016	2015
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	\$7,786,840	\$ 7,691,959
Service cost	25,467	35,558
Interest cost	352,212	323,991
Assumption change	583,125	102,950
Actuarial loss	41,378	43,967
Acquisitions	1,069,401	-
Curtailement	(12,206)	(19,613)
Benefits paid	(410,253)	(391,972)
Projected benefit obligation at end of year	<u>9,435,964</u>	<u>7,786,840</u>
Accumulated benefit obligation at end of year	9,386,710	7,763,448
Change in plan assets:		
Fair value of plan assets at beginning of year	7,305,030	7,465,115
Actual return on plan assets	482,083	190,859
Employer contributions	24,381	41,027
Acquisitions	798,138	-
Benefits paid	(410,253)	(391,971)
Fair value of plan assets at end of year	<u>8,199,379</u>	<u>7,305,030</u>
Net amount recognized at end of year and funded status	<u>\$ (1,236,585)</u>	<u>\$ (481,810)</u>

The System Plans' funded status as a percentage of the projected benefit obligation at June 30, 2016 and 2015, was 86.9% and 93.8%, respectively. The System Plans' funded status as a percentage of the accumulated benefit obligation at June 30, 2016 and 2015, was 87.4% and 94.1%, respectively.

Ascension

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

9. Retirement Plans (continued)

Included in unrestricted net assets at June 30, 2016 and 2015, are the following amounts that have not yet been recognized in net periodic pension cost for the System Plans:

	Year Ended June 30,	
	2016	2015
Unrecognized prior service credit	\$ (8,293)	\$ (12,071)
Unrecognized actuarial loss	1,546,707	833,066
	<u>\$ 1,538,414</u>	<u>\$ 820,995</u>

Changes in plan assets and benefit obligations recognized in unrestricted net assets for System Plans during 2016 and 2015 include:

	Year Ended June 30,	
	2016	2015
Current year actuarial loss	\$ 749,175	\$ 528,084
Amortization of actuarial loss	(35,534)	(25,956)
Amortization of prior service credit	3,778	5,277
	<u>\$ 717,419</u>	<u>\$ 507,405</u>

	Year Ended June 30,	
	2016	2015
Components of net periodic benefit cost		
Service cost	\$ 25,467	\$ 35,558
Interest cost	352,212	323,991
Expected return on plan assets	(618,961)	(591,639)
Amortization of prior service credit	(3,140)	(3,423)
Amortization of actuarial loss	34,985	27,360
Curtailement gain	(638)	(1,854)
Settlement gain	549	(1,404)
Net periodic benefit	<u>\$ (209,526)</u>	<u>\$ (211,411)</u>

Ascension

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

9. Retirement Plans (continued)

The prior service credit and actuarial loss included in unrestricted net assets and expected to be recognized in net periodic pension cost during the year ending June 30, 2017, are \$3,000 and \$64,811, respectively.

The assumptions used to determine the benefit obligation and net periodic benefit cost for the System Plans are set forth below:

	June 30,	
	2016	2015
Weighted-average discount rate	3.80%	4.48%
Weighted-average rate of compensation increase	4.00%	4.00%
Weighted-average expected long-term rate of return on plan assets	8.36%	8.30%

The expected long-term rate of return on the System Plans' assets is based on historical and projected rates of return for current and planned asset categories in the investment portfolio. Assumed projected rates of return for each asset category were selected after analyzing historical experience and future expectations of the returns and volatility for assets of that category using benchmark rates. Based on the target asset allocation among the asset categories, the overall expected rate of return for the portfolio was developed and adjusted for historical and expected experience of active portfolio management results compared to benchmark returns and for the effect of expenses paid from plan assets.

The System Plans' assets invested in the Trust are invested in a portfolio designed to protect principal and obtain competitive investment returns and long-term investment growth, consistent with actuarial assumptions, with a reasonable and prudent level of risk. Diversification is achieved by allocating to funds and managers that correlate to one of three economic strategies: growth, deflation, and inflation. Growth strategies include U.S. equity, emerging market equity, global equity, international equity, directional hedge funds, private equity, high yield, and private credit. Deflation strategies include core fixed income, absolute return hedge funds, and cash. Inflation strategies include inflation-linked bonds, commodity-related investments, and real assets. The System Plans use multiple investment managers with complementary styles, philosophies, and approaches. In accordance with the System Plans' objectives, derivatives may also be used to gain market exposure in an efficient and timely manner.

Ascension

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

9. Retirement Plans (continued)

In accordance with the System Plans' asset diversification targets, as presented in the table that follows, the Trust holds certain alternative investments, consisting of various hedge funds, real asset funds, private equity funds, commodity funds, private credit funds, and certain other private funds. These investments do not have observable market values. As such, each of these investments is valued at net asset value (NAV) as determined by each fund's investment manager, which approximates fair value. Management elected to use the NAV per share, or equivalent, for fair value. Collectively, these funds have liquidity terms ranging from daily to annual with notice periods ranging from 1 to 120 days. Due to redemption restrictions, investments of certain private funds, whose fair value was approximately \$1,981,000 at June 30, 2016, cannot currently be redeemed. However, the potential for the System Plans to sell their interest in real asset funds and private equity funds in a secondary market prior to the end of the fund term does exist.

The investments in these alternative investment funds may also include contractual commitments to provide capital contributions during the investment period, which is typically five years, and may extend to the end of the fund term. During these contractual periods, investment managers may require the System Plans to invest in accordance with the terms of the agreement. Commitments not funded during the investment period will expire and remain unfunded. As of June 30, 2016, investment periods expire between October 2016 and September 2018. The remaining unfunded capital commitments of the Trust total approximately \$238,000 for 59 individual contracts as of June 30, 2016.

The weighted-average asset allocation for the System Plans in the Trust at the end of fiscal 2016 and 2015 and the target allocation for fiscal 2017, by asset category, are as follows:

Asset Category	Target Allocation	Percentage of Plan Assets At Year-End	
	2017	2016	2015
Growth	57 %	46 %	53 %
Deflation	28	38	29
Inflation	15	16	18
Total	100 %	100 %	100 %

Ascension

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

9. Retirement Plans (continued)

The following tables summarize fair value measurements at June 30, 2016 and 2015, by asset class and by level, for the System Plans' assets and liabilities. As also discussed in the Fair Value Measurements note, the System follows the three-level fair value hierarchy to categorize plan assets and liabilities recognized at fair value, which prioritizes the inputs used to measure such fair values. The inputs and valuation techniques discussed in the Fair Value Measurements note also apply to the System Plans' assets and liabilities as presented in the following tables.

	Level 1	Level 2	Level 3	Total
June 30, 2016				
Short-term investments	\$ 1,235,230	\$ -	\$ -	\$ 1,235,230
Derivatives receivable	31,674	280,634	55,187	367,495
U.S. government, state, municipal and agency obligations	1,840	1,567,670	-	1,569,510
Corporate and foreign fixed income securities	-	617,395	7,870	625,265
Asset-backed securities	-	154,113	41,220	195,333
Equity securities	1,555,564	12,226	12,321	1,580,111
Assets at net asset value:				
Corporate and foreign fixed income securities				8,929
Equity securities				97,760
Private equity and real estate funds				908,403
Hedge funds				1,406,679
Commodities funds and other investments				349,516
Other receivables				241,603
Total				<u>8,585,834</u>
Derivatives payable	30,917	11,291	4,819	47,027
Other payables				339,428
Total				<u>386,455</u>
Fair value of plan assets				<u>\$ 8,199,379</u>

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Ascension

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

9. Retirement Plans (continued)

	Level 1	Level 2	Level 3	Total
June 30, 2015				
Short-term investments	\$ 388,255	\$ -	\$ -	\$ 388,255
Derivatives receivable	4	35,381	5,443	40,828
U.S. government, state, municipal and agency obligations	-	1,304,665	-	1,304,665
Corporate and foreign fixed income securities	-	707,838	3,372	711,210
Asset-backed securities	-	170,791	19,610	190,401
Equity securities	1,648,055	309,259	1,345	1,958,659
Assets at net asset value:				
Corporate and foreign fixed income securities				28,531
Equity securities				57,027
Private equity and real estate funds				966,266
Hedge funds				1,462,938
Commodities funds and other investments				350,788
Other receivables				74,703
Total				<u>7,534,271</u>
Derivatives payable	54	132,987	14,180	147,221
Investments sold, not yet purchased	2,146	-	-	2,146
Other payables				79,874
Total				<u>229,241</u>
Fair value of plan assets				<u>\$ 7,305,030</u>

Ascension

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

9. Retirement Plans (continued)

For the years ended June 30, 2016 and 2015, the changes in the fair value of the System Plans' assets measured using significant unobservable inputs (Level 3) consisted of the following:

	Net Derivatives	Corporate and Foreign Fixed Income Securities	Asset- Backed Securities	Equity Securities
June 30, 2016				
Beginning balance	\$ (8,737)	\$ 3,372	\$ 19,610	\$ 1,345
Acquisitions	-	-	-	8,190
Total actual return on assets	(3,649)	(1,200)	(73)	2,008
Purchases, issuances, and settlements	62,754	6,184	26,325	738
Transfers (out of) into Level 3	-	(486)	(4,642)	40
Ending balance	<u>\$ 50,368</u>	<u>\$ 7,870</u>	<u>\$ 41,220</u>	<u>\$ 12,321</u>
Actual return on plan assets relating to plan assets still held at June 30, 2016	<u>\$ 50,368</u>	<u>\$ (1,642)</u>	<u>\$ (446)</u>	<u>\$ (58)</u>

	Net Derivatives	Corporate and Foreign Fixed Income Securities	Asset- Backed Securities	Equity Securities
June 30, 2015				
Beginning balance	\$ 16,424	\$ 1,820	\$ 24,080	\$ 3,045
Total actual return on assets	(9,715)	(1,311)	(515)	(306)
Purchases, issuances, and settlements	(15,446)	7,716	898	(1,747)
Transfers (out of) into Level 3	-	(4,853)	(4,853)	353
Ending balance	<u>\$ (8,737)</u>	<u>\$ 3,372</u>	<u>\$ 19,610</u>	<u>\$ 1,345</u>
Actual return on plan assets relating to plan assets still held at June 30, 2015	<u>\$ (9,140)</u>	<u>\$ (1,269)</u>	<u>\$ (139)</u>	<u>\$ (553)</u>

Ascension

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

9. Retirement Plans (continued)

The Trust has entered into a series of swap agreements with a net notional amount of \$4,374,410. The combined targeted duration of these swaps and the Trust's fixed income investments approximates the duration of the liabilities of the Trust. Currently, 75% of the dollar duration of the liability is subject to this economic hedge. The purpose of this strategy is to economically hedge the change in the net funded status for a significant portion of the liability that can occur due to changes in interest rates.

Information about the expected cash flows for the System Plans follows:

Expected employer contributions 2017	\$ 30,042
Expected benefit payments:	
2017	625,090
2018	632,035
2019	596,819
2020	601,883
2021	599,422

The contribution amount above includes expected amounts paid to Trusts. The benefit payment amounts above reflect the total benefits expected to be paid from Trusts.

Ascension

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

9. Retirement Plans (continued)

Other Postretirement Benefit Plans

In addition to the retirement plan described above, certain Health Ministries sponsor postretirement benefit plans that provide healthcare benefits to qualified retirees who meet certain eligibility requirements. The total benefit obligation of these plans at June 30, 2016 and 2015 is \$36,044 and \$44,274, respectively. The net asset included in pension and other postretirement liabilities in the accompanying Consolidated Balance Sheets at June 30, 2016 and 2015 is \$7,954 and \$2,040, respectively. The change in the plans' assets and benefit obligations recognized in unrestricted net assets during the year ended June 30, 2016 and 2015, was a decrease of \$3,731 and \$3,633, respectively.

Defined-Contribution Plans

System entities participate in contributory and noncontributory defined-contribution plans covering all eligible associates. There are three primary types of contributions to these plans: employer automatic contributions, employee contributions, and employer matching contributions. Benefits for employer automatic contributions are determined as a percentage of a participant's salary and, for certain entities, increases over specified periods of employee service. These benefits are funded annually, and participants become fully vested over a period of time. Benefits for employer matching contributions are determined as a percentage of an eligible participant's contributions each payroll period. These benefits are funded each payroll period, and participants become fully vested in these employer contributions immediately. Expenses for the defined-contribution plans were \$326,881 and \$284,866 during 2016 and 2015, respectively.

Ascension

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

10. Self-Insurance Programs

Certain System hospitals and other entities participate in pooled risk programs to insure professional and general liability risks and workers' compensation risks to the extent of certain self-insured limits. In addition, various umbrella insurance policies have been purchased to provide coverage in excess of the self-insured limits. The System provides its self-insurance through various trust funds and captive insurance companies. Actuarially determined amounts, discounted at 6% for the System, are contributed to the trust funds and the captive insurance companies to provide for the estimated cost of claims. The loss reserves recorded for estimated self-insured professional, general liability, and workers' compensation claims include estimates of the ultimate costs for both reported claims and claims incurred but not reported, which are discounted at 6% in 2016 and 2015 for the System. Those entities not participating in the self-insured programs are insured under separate policies.

Professional and General Liability Programs

Professional and general liability coverage is provided on a claims-made or occurrence basis through a wholly owned onshore trust and through Ascension Health Insurance (AHIL), a direct subsidiary of Ascension Risk Services.

The wholly owned onshore revocable trust has a self-insured retention up to \$10,000 per occurrence with no aggregate. Excess coverage is provided through AHIL with limits up to \$205,000. AHIL retains \$5,000 per incident and in the aggregate for professional liability. AHIL also retains a 20% quota share of the first \$25,000 of umbrella excess. The remaining excess coverage is reinsured by commercial carriers.

Sunflower Assurance, Inc. (Sunflower) was acquired when Via Christi Health joined the System. Prior to acquisition, Sunflower provided excess coverage with limits up to \$75,000 above the primary coverage for Via Christi Health and retained 10% of the first reinsurance layer of \$10,000 on a quota share basis. The remaining excess coverage was reinsured by commercial carriers. As of October 1, 2013, Via Christi Health's primary and excess medical professional and general liability and employed physician programs were integrated into the System trust and AHIL. After January 1, 2014, the employer stop loss and employee life insurance coverage provided by Sunflower to Via Christi Health were not renewed and are in run off.

Ascension

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

10. Self-Insurance Programs (continued)

Effective July 1, 2014, the reinsurance of Ascension's independent physician professional liability program with ProAssurance Corporation (ProAssurance), the System's partner insurance company, was transferred from AHIL to Sunflower.

Employed physicians and certain entities in the states of Indiana, Kansas, Pennsylvania, and Wisconsin are provided coverage by ProAssurance on a fronted basis and are reinsured through AHIL. These entities and physicians are provided professional liability coverage with limits in compliance with participation in the Patient Compensation Funds. The Patient Compensation Funds apply to claims in excess of the primary self-insured limit, except the Fund in Kansas, which only covers claims up to the first \$1,000 and then the trust and AHIL cover amounts above \$1,000.

Beginning July 1, 2014, Sunflower offered physician professional liability coverage through insurance or reinsurance arrangements to nonemployed physicians practicing at the System's various facilities, primarily in Michigan, Indiana, Texas, Florida, Illinois and Alabama. Coverage is offered to physicians with limits ranging from \$100 per claim to \$1,000 per claim with various aggregate limits. Beginning July 1, 2014, AHIL offered similar coverage to employed physicians in the states of Indiana, Kansas, Pennsylvania and Wisconsin.

Included in operating expenses in the accompanying Consolidated Statements of Operations and Changes in Net Assets is professional and general liability expense of \$122,683 and \$105,037 for the years ended June 30, 2016 and 2015, respectively. Included in current and long-term self-insurance liabilities on the accompanying Consolidated Balance Sheets are professional and general liability loss reserves of \$552,656 and \$566,134 at June 30, 2016 and 2015, respectively.

Workers' Compensation

Workers' compensation coverage is provided on an occurrence basis through a grantor trust. The self-insured trust provides coverage up to \$1,500 per occurrence with no aggregate. The trust provides a mechanism for funding the workers' compensation obligations of its members. Prior to October 1, 2013, workers' compensation coverage for Via Christi Health, Ministry, and St. John Health System, a subsidiary of Ascension Health, (collectively the former Marian Health System) was self-insured or commercially insured up to various limits and excess insurance against catastrophic loss was obtained through commercial insurers.

Ascension

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

10. Self-Insurance Programs (continued)

Included in employee benefits in the accompanying Consolidated Statements of Operations and Changes in Net Assets is workers' compensation expense of \$41,777 and \$44,746 for the years ended June 30, 2016 and 2015, respectively. Included in current and long-term self-insurance liabilities on the accompanying Consolidated Balance Sheets are workers' compensation loss reserves of \$138,221 and \$137,239 at June 30, 2016 and 2015, respectively.

11. Lease Commitments

Certain System entities are lessees under operating lease agreements for the use of space in buildings owned by third parties, including medical office buildings (MOBs) and medical and information technology equipment. In addition, certain System entities have subleased space within buildings where the entity has a current operating lease commitment. Certain System entities are also lessors under operating lease agreements, primarily ground leases related to third-party-owned MOBs on land owned by the System entity.

The System's future minimum noncancelable payments associated with operating leases with terms of one year or more where a System entity is the lessee, as well as future minimum noncancelable receipts associated with operating leases where a System entity is the sublessor or lessor, are presented in the table that follows. Future minimum payments and receipts relate to noncancelable leases with terms of one year or more.

	Future Payments Where the System is Lessee	Future Receipts Where the System is Sublessor/ Lessor	Net Future Payments (Receipts)
Year ending June 30:			
2017	\$ 164,000	\$ 41,813	\$ 122,187
2018	145,992	35,371	110,621
2019	105,889	28,041	77,848
2020	76,478	22,119	54,359
2021	54,584	18,621	35,963
Thereafter	178,354	284,019	(105,665)
Total	\$ 725,297	\$ 429,984	\$ 295,313

Ascension

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

11. Lease Commitments (continued)

Rental expense under operating leases amounted to \$391,054 and \$383,752 in 2016 and 2015, respectively.

12. Contingencies and Commitments

The System is involved in litigation and regulatory investigations arising in the ordinary course of business. Regulatory investigations also occur from time to time. In the opinion of management, after consultation with legal counsel, these matters are expected to be resolved without material adverse effect on the System's Consolidated Balance Sheet.

In September 2010, Ascension Health received a letter from the U.S. Department of Justice (the DOJ) in connection with its nationwide review to determine whether, in certain cases, implantable cardioverter defibrillators (ICD) were provided to certain Medicare beneficiaries in accordance with national coverage criteria. The DOJ's investigation spans a time frame beginning in 2003. Effective June 26, 2015, the DOJ and Ascension Health entered into a Settlement Agreement, thereby settling all issues alleged as part of the investigation. The release in the Settlement Agreement extends through March 31, 2015 and includes all of Ascension Health's individual hospitals subject to the investigation.

In March 2013, Ascension and certain of its subsidiaries were named as defendants to litigation surrounding the Church Plan status of various System pension plans. On May 9, 2014, the United States District Court, Eastern District of Michigan, Southern Division, issued a Decision and Order Granting Defendants' Motion to Dismiss in favor of Ascension and the other defendants. On June 11, 2014, the plaintiff in the case filed a Notice of Appeal. On March 17, 2015, upon motion of the parties, the Sixth Circuit remanded the case to the District Court to consider approving a proposed settlement of the lawsuit by the parties. On September 17, 2015, the District Court issued its Order approving the proposed settlement, and the settlement became final on November 16, 2015.

Ascension

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

12. Contingencies and Commitments (continued)

The System enters into agreements with non-employed physicians that include minimum revenue guarantees. The terms of the guarantees vary. The carrying amounts of the liability for the System's obligation under these guarantees were \$21,152 and \$31,380 at June 30, 2016 and 2015, respectively, and are included in other current and noncurrent liabilities in the accompanying Consolidated Balance Sheets. The maximum amount of future payments that the System could be required to make under these guarantees is approximately \$65,589.

The System entered into Master Service Agreements for information technology services provided by third parties. The maximum amount of future payments that the System could be required to make under these agreements is approximately \$142,004.

Guarantees and other commitments represent contingent commitments issued by Ascension Health Alliance Senior and Subordinate Credit Groups, generally to guarantee the performance of an affiliate to a third party in borrowing arrangements such as commercial paper issuances, bond financing, and other transactions. The terms of guarantees are equal to the terms of the related debt, which can be as long as 25 years. The following represents the remaining guarantees and other commitments of the Senior and Subordinate Credit Groups at June 30, 2016:

Hospital de la Concepción 2000 Series A debt guarantee	\$	27,165
St. Vincent de Paul Series 2000 A debt guarantee		28,300
Other guarantees and commitments		26,798

Supplementary Information



Building a better
working world

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Report of Independent Auditors on Supplementary Information

The Board of Directors
Ascension Health Alliance d/b/a Ascension

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying Schedule of Net Cost of Providing Care of Persons Living in Poverty and Other Community Benefit Programs, Details of Consolidated Balance Sheet, Details of Consolidated Statement of Operations and Changes in Net Assets, and Details of Consolidated Statement of Cash Flows for Consolidated Alexian Brothers Health System Obligated Group is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Ernst + Young LLP

September 12, 2016

Ascension

Schedule of Net Cost of Providing Care of Persons
Living in Poverty and Other Community Benefit Programs
(Dollars in Thousands)

Years Ended June 30, 2016 and 2015

The net cost of providing care to persons living in poverty and other community benefit programs is as follows:

	Year Ended June 30,	
	2016	2015
Traditional charity care provided	\$ 495,863	\$ 500,067
Unpaid cost of public programs for persons living in poverty	804,361	857,283
Other programs for persons living in poverty and other vulnerable persons	151,177	142,843
Community benefit programs	365,800	410,169
Care of persons living in poverty and other community benefit programs	<u>\$ 1,817,201</u>	<u>\$ 1,910,362</u>

Ascension

Details of Consolidated Balance Sheet
(Dollars in Thousands)

June 30, 2016

	Consolidated Ascension	Consolidated Ascension less ABHSOG	Reclassification	Consolidated Alexian Brothers Health System Obligated Group (ABHSOG)	Alexian Brothers Health System	Alexian Brothers Hospital Network	Alexian Brothers Medical Center
Assets							
Current assets:							
Cash and cash equivalents	\$ 696,237	\$ 694,300	\$ -	\$ 1,937	\$ 1,866	\$ -	\$ 11
Short-term investments	122,545	122,545	-	-	-	-	-
Accounts receivable, less allowance for doubtful accounts	2,746,506	2,615,040	-	131,466	2	-	65,374
Inventories	349,077	335,057	-	14,020	-	483	8,480
Due from brokers	313,717	313,717	-	-	-	-	-
Estimated third-party payor settlements	186,354	184,106	-	2,248	-	-	896
Other	978,744	946,108	-	32,636	5,868	38,860	(826)
Total current assets	5,393,180	5,210,873	-	182,307	7,736	39,343	73,935
Long-term investments	15,069,123	14,626,338	420,524	22,261	20,881	-	-
Interest in investments held by Ascension	-	-	(420,524)	420,524	336,206	-	-
Property and equipment, net	9,020,005	8,369,796	-	650,209	10,751	17,285	205,987
Other assets:							
Investment in unconsolidated entities	1,115,871	1,114,573	-	1,298	-	53,942	-
Capitalized software costs, net	926,710	918,695	-	8,015	-	7,918	-
Other	944,288	929,861	-	14,427	13,542	-	-
Total other assets	2,986,869	2,963,129	-	23,740	13,542	61,860	-
Total assets	\$ 32,469,177	\$ 31,170,136	\$ -	\$ 1,299,041	\$ 389,116	\$ 118,488	\$ 279,922

St. Alexius Medical Center	Alexian Brothers Behavioral Health Hospital	Savelli Properties Inc.	Alexian Village of Milwaukee Inc.	Alexian Village of Tennessee	Alexian Brothers Landsdowne Village	Alexian Brothers Sherbrooke Village	Alexian Brothers Community Services	Alexian Brothers San Jose	Credit Group Eliminations
\$ 11	\$ 123	\$ (110)	\$ (232)	\$ 49	\$ 33	\$ 32	\$ 154	\$ -	\$ -
-	-	-	-	-	-	-	-	-	-
47,647	10,119	-	3,441	1,022	1,485	2,034	342	-	-
4,554	132	-	105	55	19	21	171	-	-
-	-	-	-	-	-	-	-	-	-
1,152	-	-	-	4	-	-	198	-	(2)
2	239	(5)	289	583	140	237	964	1,108	(14,823)
53,366	10,613	(115)	3,603	1,713	1,677	2,324	1,829	1,108	(14,825)
-	-	-	69	1,310	-	-	1	-	-
-	-	-	21,097	6,650	12,647	18,985	24,939	-	-
251,499	23,869	9,461	25,489	73,745	3,338	23,643	5,142	-	-
1,297	-	-	-	-	-	-	-	-	(53,941)
-	-	-	79	18	(66)	34	32	-	-
(720)	-	16	1,029	-	-	-	565	-	(5)
577	-	16	1,108	18	(66)	34	597	-	(53,946)
\$ 305,442	\$ 34,482	\$ 9,362	\$ 51,366	\$ 83,436	\$ 17,596	\$ 44,986	\$ 32,508	\$ 1,108	\$ (68,771)

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Ascension

Details of Consolidated Balance Sheet (continued)
(Dollars in Thousands)

June 30, 2016

	Consolidated Ascension	Consolidated Ascension less ABHSOG	Consolidated Alexian Brothers Health System Obligated Group (ABHSOG)	Alexian Brothers Health System	Alexian Brothers Hospital Network	Alexian Brothers Medical Center
Liabilities and net assets						
Current liabilities:						
Current portion of long-term debt	\$ 96,193	\$ 78,066	\$ 18,127	\$ 17,864	\$ -	\$ -
Long-term debt subject to short-term remarketing arrangements	1,666,245	1,666,245	-	-	-	-
Accounts payable and accrued liabilities	2,500,748	2,419,592	81,156	34,783	5,493	18,221
Estimated third-party payor settlements	513,677	406,701	106,976	-	-	53,681
Due to brokers	105,660	105,660	-	-	-	-
Current portion of self-insurance liabilities	219,638	212,183	7,455	1,334	-	3,290
Other	292,044	272,325	19,719	(27,799)	1,782	32,753
Total current liabilities	5,394,205	5,160,772	233,433	26,182	7,275	107,945
Noncurrent liabilities:						
Long-term debt (senior and subordinated)	5,427,616	4,979,681	447,935	428,111	-	-
Self-insurance liabilities	513,985	496,614	17,371	-	-	7,552
Pension and other postretirement liabilities	1,298,653	1,280,017	18,636	15,326	-	-
Other	1,241,678	1,196,157	45,521	371	-	3,230
Total noncurrent liabilities	8,481,932	7,952,469	529,463	443,808	-	10,782
Total liabilities	13,876,137	13,113,241	762,896	469,990	7,275	118,727
Net assets:						
Unrestricted						
Controlling interest	16,498,086	15,975,556	522,530	(92,608)	111,213	161,805
Noncontrolling interests	1,429,444	1,430,054	(610)	-	-	(610)
Unrestricted net assets	17,927,530	17,405,610	521,920	(92,608)	111,213	161,195
Temporarily restricted						
Temporarily restricted	467,994	454,518	13,476	11,492	-	-
Permanently restricted						
Permanently restricted	197,516	196,767	749	242	-	-
Total net assets	18,593,040	18,056,895	536,145	(80,874)	111,213	161,195
Total liabilities and net assets	\$ 32,469,177	\$ 31,170,136	\$ 1,299,041	\$ 389,116	\$ 118,488	\$ 279,922

St. Alexius Medical Center	Alexian Brothers Behavioral Health Hospital	Savelli Properties Inc.	Alexian Village of Milwaukee Inc.	Alexian Village of Tennessee	Alexian Brothers Landsdowne Village	Alexian Brothers Sherbrooke Village	Alexian Brothers Community Services	Alexian Brothers San Jose	Credit Group Eliminations
\$ -	\$ -	\$ -	\$ 96	\$ 167	\$ -	\$ -	\$ -	\$ -	\$ -
12,656	3,123	18	1,622	1,252	782	1,048	1,826	332	-
49,576	3,517	-	-	-	-	-	202	-	-
-	-	-	-	-	-	-	-	-	-
1,912	286	-	51	181	179	34	189	-	(1)
18,033	4,518	114	1,733	1,893	902	1,285	2,935	(3,604)	(14,826)
82,177	11,444	132	3,502	3,493	1,863	2,367	5,152	(3,272)	(14,827)
-	-	-	7,234	12,590	-	-	-	-	-
8,043	1,639	-	23	34	33	42	5	-	-
-	-	-	-	-	-	-	-	3,310	-
-	-	-	12,881	26,325	35	29	2,651	-	(1)
8,043	1,639	-	20,138	38,949	68	71	2,656	3,310	(1)
90,220	13,083	132	23,640	42,442	1,931	2,438	7,808	38	(14,828)
215,222	21,399	9,230	27,382	38,935	15,649	42,484	24,692	1,070	(53,943)
215,222	21,399	9,230	27,382	38,935	15,649	42,484	24,692	1,070	(53,943)
-	-	-	311	1,584	16	64	8	-	-
-	-	-	33	475	-	-	-	-	-
215,222	21,399	9,230	27,726	40,994	15,665	42,548	24,700	1,070	(53,943)
\$ 305,442	\$ 34,482	\$ 9,362	\$ 51,366	\$ 83,436	\$ 17,596	\$ 44,986	\$ 32,508	\$ 1,108	\$ (68,771)

Ascension

Details of Consolidated Statement of Operations and Changes in Net Assets
(Dollars in Thousands)

Year Ended June 30, 2016

	Consolidated Alexian Brothers Health System					
	Consolidated Ascension	Consolidated Ascension less ABHSOG	Obligated Group (ABHSOG)	Alexian Brothers Health System	Alexian Brothers Hospital Network	Alexian Brothers Medical Center
Operating revenue:						
Net patient service revenue	\$ 21,301,133	\$ 20,272,416	\$ 1,028,717	\$ -	\$ -	\$ 474,542
Less provision for doubtful accounts	1,142,289	1,103,935	38,354	-	1,275	16,089
Net patient service revenue, less provision for doubtful accounts	20,158,844	19,168,481	990,363	-	(1,275)	458,453
Other revenue	1,739,490	1,687,517	51,973	72,908	69,119	15,418
Total operating revenue	21,898,334	20,855,998	1,042,336	72,908	67,844	473,871
Operating expenses:						
Salaries and wages	9,043,625	8,681,494	362,131	21,911	19,118	143,548
Employee benefits	1,748,110	1,676,770	71,340	(1,815)	7,806	29,825
Purchased services	1,500,887	1,365,613	135,274	44,804	18,886	23,554
Professional fees	1,369,103	1,314,212	54,891	13,002	7,754	72,928
Supplies	3,114,261	2,973,729	140,532	107	857	80,695
Insurance	160,232	158,917	1,315	405	1	(1,171)
Interest	194,962	179,035	15,927	(2,038)	(1)	7,337
Depreciation and amortization	1,032,541	980,276	52,265	1,704	10,555	14,992
Other	2,737,244	2,638,176	99,068	8,237	2,122	43,160
Total operating expenses before impairment, restructuring and nonrecurring losses, net	20,900,965	19,968,222	932,743	86,317	67,098	414,868
Income (loss) from operations before self-insurance trust fund investment return and impairment, restructuring and nonrecurring losses, net	997,369	887,776	109,593	(13,409)	746	59,003
Self-insurance trust fund investment return	(16,334)	(16,334)	-	-	-	-
Impairment, restructuring and nonrecurring (losses) gains, net	(227,832)	(220,928)	(6,904)	(5,184)	380	(179)
Income (loss) from operations	753,203	650,514	102,689	(18,593)	1,126	58,824
Nonoperating gains (losses):						
Investment return	(358,297)	(348,500)	(9,797)	(8,047)	-	-
Loss on extinguishment of debt	(13,594)	(9,924)	(3,670)	(3,670)	-	-
Losses on interest rate swaps	(86,536)	(86,491)	(45)	(45)	-	-
Losses from unconsolidated entities	(40,649)	(40,649)	-	-	-	-
Contributions from business combination:	304,961	304,961	-	-	-	-
Other	(81,339)	(81,281)	(58)	1	-	(78)
Total nonoperating (losses) gains, net	(275,454)	(261,884)	(13,570)	(11,761)	-	(78)
Excess (deficit) of revenues and gains over expenses and losses	477,749	388,630	89,119	(30,354)	1,126	58,746
Less noncontrolling interests	16,365	16,365	-	-	-	-
Excess (deficit) of revenues and gains over expenses and losses attributable to controlling interest	461,384	372,265	89,119	(30,354)	1,126	58,746

St. Alexius Medical Center	Alexian Brothers Behavioral Health Hospital	Savelli Properties Inc.	Alexian Village of Milwaukee Inc.	Alexian Village of Tennessee	Alexian Brothers Landsdowne Village	Alexian Brothers Sherbrooke Village	Alexian Brothers Community Services	Alexian Brothers San Jose	Credit Group Eliminations
\$ 370,457	\$ 79,227	\$ -	\$ 21,644	\$ 20,757	\$ 10,265	\$ 15,475	\$ 37,687	\$ 1,108	\$ (2,445)
17,365	2,311	-	561	120	352	280	-	-	1
353,092	76,916	-	21,083	20,637	9,913	15,195	37,687	1,108	(2,446)
6,767	5,150	2,727	2,500	5,564	476	768	2,038	-	(131,462)
359,859	82,066	2,727	23,583	26,201	10,389	15,963	39,725	1,108	(133,908)
99,963	39,427	-	8,907	7,289	4,268	6,285	11,415	-	-
19,311	7,052	-	2,034	2,208	1,137	1,361	2,869	(448)	-
15,198	4,544	30	5,815	6,689	2,791	2,713	10,250	-	-
57,391	13,561	339	2,317	2,485	1,088	1,491	4,049	333	(121,847)
52,172	1,225	5	814	649	632	759	2,617	-	-
691	748	10	80	149	43	93	266	-	-
9,171	843	-	230	385	-	-	-	-	-
14,942	977	529	2,332	4,361	386	898	589	-	-
34,496	7,636	2,177	2,287	3,515	1,195	1,416	4,886	-	(12,059)
303,335	76,013	3,090	24,816	27,730	11,540	15,016	36,941	(115)	(133,906)
56,524	6,053	(363)	(1,233)	(1,529)	(1,151)	947	2,784	1,223	(2)
-	-	-	-	-	-	-	-	-	-
(637)	(60)	(107)	(96)	-	-	-	(1,021)	-	-
55,887	5,993	(470)	(1,329)	(1,529)	(1,151)	947	1,763	1,223	(2)
-	-	-	(622)	(282)	(382)	(512)	48	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
18	-	(2)	-	1	-	-	2	-	-
18	-	(2)	(622)	(281)	(382)	(512)	50	-	-
55,905	5,993	(472)	(1,951)	(1,810)	(1,533)	435	1,813	1,223	(2)
-	-	-	-	-	-	-	-	-	-
55,905	5,993	(472)	(1,951)	(1,810)	(1,533)	435	1,813	1,223	(2)

Ascension

Details of Consolidated Statement of Operations and Changes in Net Assets (continued)
(Dollars in Thousands)

Year Ended June 30, 2016

	Consolidated Ascension less Health Ministries Presented		Consolidated Alexian Brothers Health System Obligated Group (ABHSOG)		Alexian Brothers Hospital Network		Alexian Brothers Medical Center
	Consolidated Ascension	Ministries Presented	Consolidated Alexian Brothers Health System Obligated Group (ABHSOG)	Alexian Brothers Health System	Hospital Network	Alexian Brothers Medical Center	
Unrestricted net assets, controlling interest:							
Excess (deficit) of revenues and gains over expenses and losses	\$ 461,384	\$ 372,265	\$ 89,119	\$ (30,354)	\$ 1,126	\$ 58,746	
Transfer (to) from sponsors and other affiliates, net	(8,654)	115,083	(123,737)	(101,475)	120,655	(72,203)	
Net assets released from restrictions for property acquisitions	45,058	44,297	761	-	-	187	
Pension and other postretirement liability adjustments	(729,197)	(723,966)	(5,231)	(3,438)	(1)	-	
Change in unconsolidated entities' net assets	(6,976)	(6,976)	-	-	-	-	
Other	3,344	3,255	89	1	4	-	
(Decrease) increase in unrestricted net assets, controlling interest, before loss from discontinued operations	(235,041)	(196,042)	(38,999)	(135,266)	121,784	(13,270)	
Loss from discontinued operations	(16,230)	(16,230)	-	-	-	-	
(Decrease) increase in unrestricted net assets, controlling interest	(251,271)	(212,272)	(38,999)	(135,266)	121,784	(13,270)	
Unrestricted net assets, noncontrolling interest:							
Excess of revenues and gains over expenses and losses	16,365	16,365	-	-	-	-	
Distributions of capital	(254,788)	(254,788)	-	-	-	-	
Contributions of capital	96,150	96,150	-	-	-	-	
Other	(891)	(891)	-	-	-	-	
Decrease in unrestricted net assets, noncontrolling interest	(143,164)	(143,164)	-	-	-	-	
Temporarily restricted net assets, controlling interest:							
Contributions and grants	140,210	129,704	10,506	10,197	-	-	
Investment return	(4,643)	(4,611)	(32)	37	-	-	
Net assets released from restrictions	(97,392)	(92,412)	(4,980)	(4,203)	1	-	
Contributions from business combinations	16,091	16,091	-	-	-	-	
Other	(4,181)	(4,181)	-	-	-	-	
Increase (decrease) in temporarily restricted net assets, controlling interest	50,085	44,591	5,494	6,031	1	-	
Permanently restricted net assets, controlling interest:							
Contributions	5,298	5,298	-	-	-	-	
Investment return	(1,706)	(1,706)	-	-	-	-	
Contributions from business combinations	2,363	2,363	-	-	-	-	
Other	(1,227)	(1,243)	16	-	-	-	
Increase in permanently restricted net assets, controlling interest	4,728	4,712	16	-	-	-	
(Decrease) increase in net assets	(339,622)	(306,133)	(33,489)	(129,235)	121,785	(13,270)	
Net assets, beginning of year	18,932,662	18,363,028	569,634	48,361	(10,572)	174,465	
Net assets, end of year	\$ 18,593,040	\$ 18,056,895	\$ 536,145	\$ (80,874)	\$ 111,213	\$ 161,195	

St. Alexius Medical Center	Alexian Brothers Behavioral Health Hospital	Savelli Properties Inc.	Alexian Village of Milwaukee Inc.	Alexian Village of Tennessee	Alexian Brothers Landsdowne Village	Alexian Brothers Sherbrooke Village	Alexian Brothers Community Services	Alexian Brothers San Jose	Credit Group Eliminations
\$ 55,905	\$ 5,993	\$ (472)	\$ (1,951)	\$ (1,810)	\$ (1,533)	\$ 435	\$ 1,813	\$ 1,223	\$ (2)
(75,164)	(4,871)	107	690	(1,238)	232	391	2,218	6,920	1
182	-	-	-	392	-	-	-	-	-
-	-	-	-	-	-	-	-	(1,793)	1
-	-	-	-	-	-	-	-	-	-
(1)	-	1	(2)	35	48	(50)	55	-	(2)
(19,078)	1,122	(364)	(1,263)	(2,621)	(1,253)	776	4,086	6,350	(2)
-	-	-	-	-	-	-	-	-	-
(19,078)	1,122	(364)	(1,263)	(2,621)	(1,253)	776	4,086	6,350	(2)
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	96	178	16	16	3	-	-
-	-	-	(22)	(45)	-	-	(2)	-	-
-	-	-	(206)	(532)	(6)	(6)	(28)	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	(1)	-	-	1	-	-
-	-	-	(132)	(400)	10	10	(26)	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	16	-	-	-	-	-
-	-	-	-	16	-	-	-	-	-
(19,078)	1,122	(364)	(1,395)	(3,005)	(1,243)	786	4,060	6,350	(2)
234,300	20,277	9,594	29,121	43,999	16,908	41,762	20,640	(5,280)	(53,941)
\$ 215,222	\$ 21,399	\$ 9,230	\$ 27,726	\$ 40,994	\$ 15,665	\$ 42,548	\$ 24,700	\$ 1,070	\$ (53,943)

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Ascension

Details of Consolidated Statement of Cash Flows
(Dollars in Thousands)

Year Ended June 30, 2016

	Consolidated Ascension	Consolidated Ascension less ABHSOG	Consolidated Alexian Brothers Health System Obligated Group (ABHSOG)
Operating Activities			
Decrease in net assets	\$ (339,622)	\$ (306,133)	\$ (33,489)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:			
Depreciation and amortization	1,032,541	980,276	52,265
Amortization of bond premiums	(20,714)	(19,660)	(1,054)
Loss on extinguishment of debt	13,594	9,924	3,670
Provision for doubtful accounts	1,148,342	1,109,988	38,354
Pension and other postretirement liability adjustments	729,197	723,966	5,231
Contributions from business combinations	(323,415)	(323,415)	-
Unrealized losses on investments, net	493,528	481,357	12,171
Change in fair value of interest rate swaps	84,433	85,000	(567)
(Gain) loss on sale of assets, net	(192,042)	(193,148)	1,106
Impairment and nonrecurring expenses	21,271	21,271	-
Transfers to (from) sponsor and other affiliates, net	8,654	(115,083)	123,737
Restricted contributions, investment return, and other	(165,458)	(154,882)	(10,576)
Other restricted activity	(61,162)	(61,162)	-
Distributions of noncontrolling interest, net	158,638	158,638	-
Other	(222)	(222)	-
Decrease (increase) in:			
Short-term investments	71,832	71,832	-
Accounts receivable	(1,190,839)	(1,161,357)	(29,482)
Inventories and other current assets	(64,525)	(120,282)	55,757
Due from brokers	(164,852)	(164,852)	-
Investments classified as trading	(516,524)	(454,277)	(62,247)
Other assets	108,461	112,111	(3,650)
Increase (decrease) in:			
Accounts payable and accrued liabilities	7,596	21,029	(13,433)
Estimated third-party payor settlements, net	128,440	115,984	12,456
Due to brokers	(25,401)	(25,401)	-
Other current liabilities	(89,934)	(102,409)	12,475
Self-insurance liabilities	(53,004)	(53,084)	80
Other noncurrent liabilities	(200,824)	(200,957)	133
Net cash provided by continuing operating activities	597,989	435,052	162,937
Net cash provided by and adjustments to reconcile change in net assets for discontinued operations	134,956	134,956	-
Net cash provided by operating activities	732,945	570,008	162,937

Continued on next page.

ATTACHMENT 35

Ascension

Details of Consolidated Statement of Cash Flows (continued)
(Dollars in Thousands)

Year Ended June 30, 2016

	Consolidated Ascension	Consolidated Ascension less ABHSOG	Consolidated Alexian Brothers Health System Obligated Group (ABHSOG)
Investing activities			
Property, equipment, and capitalized software additions, net	\$ (1,139,060)	\$ (1,097,587)	\$ (41,473)
Proceeds from sale of property and equipment	13,643	13,643	-
Issuance of note receivable for business combination	(637,109)	(637,109)	-
Net proceeds from sale/acquisition of other assets	296,071	296,071	-
Net cash used in investing activities	<u>(1,466,455)</u>	<u>(1,424,982)</u>	<u>(41,473)</u>
Financing activities			
Issuance of debt	5,154,869	5,063,174	91,695
Repayment of debt	(4,403,407)	(4,300,308)	(103,099)
Decrease in assets under bond indenture agreements	18,303	17,179	1,124
Transfers to sponsors and other affiliates, net	(12,867)	110,870	(123,737)
Restricted contributions, investment return, and other	143,259	132,683	10,576
Distributions of noncontrolling interest, net	(158,638)	(158,638)	-
Net cash provided by (used in) financing activities	<u>741,519</u>	<u>864,960</u>	<u>(123,441)</u>
Net increase (decrease) in cash and cash equivalents	8,009	9,986	(1,977)
Cash and cash equivalents at beginning of year	688,228	684,314	3,914
Cash and cash equivalents at end of year	<u>\$ 696,237</u>	<u>\$ 694,300</u>	<u>\$ 1,937</u>

CREDIT OPINION

8 December 2016

Update

Rate this Research



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Alexian Brothers Health System, IL

Update - Moody's Affirms Alexian Brothers Health System's (IL) A2; Outlook Stable

Summary Rating Rationale

Moody's Investors Service affirms Alexian Brothers Health System's (ABHS) A2 rating, affecting approximately \$62 million of debt. The outlook is stable. Ascension ([Ascension Health Alliance](#) rated Aa2, stable) is the sole corporate member of ABHS, although not obligated on ABHS' debt. ABHS is also part of a Joint Operating Company (JOC), AMITA Health, with several hospitals part of Adventist Health System Sunbelt, Inc. (rated Aa2, stable), as discussed below.

The A2 affirmation reflects material financial and strategic benefits derived from ABHS' tight integration with Ascension and AMITA, good market position, manageable leverage and adequate margins. The rating also incorporates challenges related to moderate liquidity, a very competitive market, and costs and disruption from upcoming technology conversions.

Credit Strengths

- » High degree of integration and centralization with parent Ascension and AMITA Health, providing significant financial and management benefits
- » Sizable health system with good market position in favorable Chicago suburban service areas
- » Manageable leverage including limited unfunded pension obligation
- » Track record of adequate cashflow margins

Credit Challenges

- » Highly competitive and consolidating Chicagoland market
- » Although improved, liquidity is modest driving moderate cash-to-debt
- » Expected decline in margins in FY 2017 and potential disruptions from two large systems conversions

Rating Outlook

The stable outlook reflects our expectation that ABHS will return to adequate margins following expected decline in FY 2017 and minimize short-term disruptions to liquidity as the system implements large-scale systems conversions next year. The outlook anticipates no material new debt and ABHS will continue to benefit from its high integration with Ascension and AMITA.

Factors that Could Lead to an Upgrade

- » Improved and sustained operating margins
- » Growth in liquidity
- » Deleveraging of balance sheet and operations
- » Significant enterprise growth resulting in stronger market position

Factors that Could Lead to a Downgrade

- » Notable multi-year decline in margins
- » Dilutive acquisition or merger
- » Adverse change in relationship with Ascension or AMITA Health
- » Increase in leverage or material decline in liquidity

Key Indicators

Exhibit 1

Alexian Brothers Health System, IL

	2013	2014	2015	2016
Operating Revenue (\$'000)	993,567	1,047,561	1,018,932	1,042,336
Operating Cash Flow Margin (%)	10.6	10.2	14.2	13.8
PM: Medicare (%)	39.2	41.6	43.1	43.0
PM: Medicaid (%)	10.7	12.1	13.6	14.2
Days Cash on Hand	145	144	154	171
Unrestricted Cash and Investments to Total Debt (%)	73.3	78.8	78.9	91.9
Total Debt to Cash Flow (x)	3.9	3.7	2.9	2.8

Fiscal years 2013 and 2014 reflect Alexian Brothers Health System and Subsidiaries; fiscal years 2015 and 2016 reflect Alexian Brothers Health System Obligated Group; fiscal year end June 30.

Recurring transfers to Ascension for centralized services reallocated to operating expenses.

Investment returns normalized at 6% prior to FY 2015 and 5% in FY 2015 and beyond.

Source: Moody's Investors Service

Recent Developments

Recent developments are included under Detailed Rating Considerations.

Detailed Rating Considerations

Market Position: Good Market Position in Competitive Region

ABHS maintains a good market position in a very competitive market with over \$1 billion of revenue and 41,000 admissions. The JOC to form AMITA Health, which became operational February 2015, notably enhanced the system's market position. The JOC allows the hospitals to implement coordinated strategies to gain efficiencies and grow revenue, even though asset ownership and debt obligations remain separate. AMITA's primary strategies include expanding ambulatory locations for greater access as well as expanding the physician network, in part through employment.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

The greater Chicago region is becoming increasingly competitive with rapid consolidation and major investments in facilities and physicians. Top competitors include Advocate Health Care Network, Northwest Community Hospital and Cadence (now part of Northwestern Memorial HealthCare).

Operating Performance, Balance Sheet and Capital Plans: Adequate Margins, But Liquidity Moderate

ABHS has a track record of producing adequate cashflow margins, although FY 2017 is likely to decline when including the costs of two large systems conversions. Starting in FY 2015, ABHS reports obligated group performance only, excluding a related physician enterprise which is now consolidated with Ascension. Also, Moody's adjusts ABHS performance to reclassify recurring transfers to Ascension for centralized services to operating expenses. ABHS obligated group adjusted operating cashflow margins were very good at 14% in fiscal years 2015 and 2016; including the physician-related enterprise, cashflow margins approximate historical averages of 9-10%.

ABHS has benefited from the centralized services provided by AMITA and Ascension. AMITA has one management team over all functional areas and ABHS has benefitted from savings in supply chain and labor as well as other areas. Investment and debt management is consolidated with Ascension. ABHS will achieve another level of consolidation and savings under Ascension's enterprise resource management project, Symphony.

FY 2017 will be a challenging year for ABHS and margins are likely to decline including several large technology investments that are expected to be non-recurring. ABHS will be installing a clinical electronic medical record software at the hospitals by the first quarter of FY 2018. At the same time, the system will be migrating to Symphony, expected to be complete by March 2017. Both will require large expenses in FY 2017, most of which is expected to be non-recurring in FY 2018.

ABHS' capital plans are manageable and include investments in ambulatory locations. Capital projects are approved by the AMITA board and partly funded by the AMITA sponsors.

LIQUIDITY

While ABHS' liquidity grew in FY 2016, cash on hand for the obligated group is modest at 171 days; as discussed above, the obligated group does not include a related physician enterprise, which would depress relative liquidity if included. The majority of ABHS' investments are managed by Ascension and mirror the Ascension investment allocation.

Debt Structure and Legal Covenants: Manageable Leverage and Absence of Debt Structure Risks

ABHS' leverage is manageable at 45% debt-to-revenue for the obligated group. Cash-to-debt is moderate at 92%, reflecting modest liquidity. Debt-to-cashflow for the obligated group is good at 2.8 times; including related physician subsidies, debt-to-cashflow worsens but is still adequate. There are no plans for new debt to be issued under the ABHS MTI.

DEBT STRUCTURE

ABHS' public debt, totaling approximately \$62 million, is fixed rate. The remaining debt is an intercompany loan with Ascension.

DEBT-RELATED DERIVATIVES

There are no debt-related derivatives as of FYE 2016.

PENSIONS AND OPEB

ABHS' defined benefit pension plan was frozen in 2010. The system offers a defined contribution plan. At FYE 2016 the liability was a modest \$19 million.

Management and Governance

Since AMITA became operational in February 2015, one management team has been created for all functional areas in the JOC, allowing for fully consolidated and coordinated planning. The AMITA board is comprised of four members each appointed by Ascension and Adventist.

Legal Security

ABHS's bonds are secured by a pledge of the unrestricted receivables of the Obligated Group, which includes the ABHS parent, the Alexian Brothers Hospital Network (regional parent in Illinois), Alexian Brothers Medical Center, Saint Alexius Medical Center, Alexian Brothers Behavioral Health Hospital, Alexian Brothers of San Jose, the Alexian Village of Milwaukee, the Alexian Village of Tennessee,

Savelli Properties, Alexian Brothers Lansdowne Village, Alexian Brothers Sherbrooke Village, and Alexian Brothers Community Services. The Obligated Group does not include a related entity (part of Ascension Health) that employs or contracts with 260 physicians and mid-level providers in ABHS's service area. The bonds are supported by a mortgage pledge and a debt service reserve fund is included. Ascension is not obligated on ABHS' rated debt.

Use of Proceeds

Not applicable.

Obligor Profile

Alexian Brothers Health System operates two acute care hospitals, a psychiatric hospital, and a rehabilitation hospital in the Chicago region. ABHS also operates several long-term care sites.

Methodology

The principal methodology used in this rating was Not-For-Profit Healthcare Rating Methodology published in November 2015. Please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

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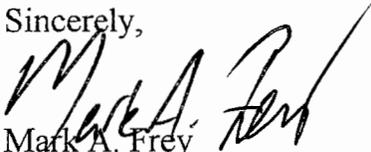
REPORT NUMBER 1052389

Illinois Health Facilities and
Services Review Board
Springfield, IL

To Whom It May Concern:

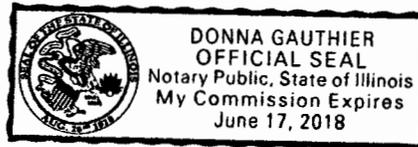
I hereby attest that the total estimated project costs associated with the development of a medical clinics building to be located at 1041 West Stearns Road in Bartlett, Illinois, and to be addressed by the Illinois Health Facilities and Services Review Board, will be funded through the use of cash and other liquid assets.

Sincerely,


Mark A. Frey
President and
Chief Executive Officer

Date: April 11, 2017

Notarized: 



COST AND GROSS SQUARE FEET BY DEPARTMENT OR SERVICE

	Cost/Sq. Ft.		DGSF		DGSF Mod.	Circ.	New Const. \$ (A x C)	Modernization \$ (B x E)	Total Costs (G + H)
	New	Mod.	New	Circ.					
Reviewable									
Imaging		\$ 180.00			6,500			\$ 1,170,000	\$ 1,170,000
Lab/Specimen Collect.		\$ 150.00			1,122			\$ 168,300	\$ 168,300
Immediate Care		\$ 160.00			3,500			\$ 560,000	\$ 560,000
PT/OT		\$ 140.00			3,464			\$ 484,960	\$ 484,960
contingency		\$ 10.00			14,586			\$ 145,860	\$ 145,860
		\$ 173.39						\$ 2,529,120	\$ 2,529,120
Non-Reviewable									
Physician's Offices		\$ 155.00			40,970			\$ 6,350,350	\$ 6,350,350
Ancillary Support		\$ 155.00			217			\$ 33,635	\$ 33,635
Public & Administrative		\$ 145.00			9,840			\$ 1,426,800	\$ 1,426,800
contingency		\$ 10.00			51,027			\$ 510,270	\$ 510,270
		\$ 165.37			65,613			\$ 8,321,055	\$ 8,321,055
								\$ 10,850,175	\$ 10,850,175

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After paginating the entire completed application indicate, in the chart below, the page numbers for the included attachments:

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Axel & Associates, Inc.

17-020 MANAGEMENT CONSULTANTS

by FedEx

April 28, 2017

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HEALTH FACILITIES &
SERVICES REVIEW BOARD

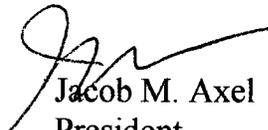
Ms. Courtney Avery
Administrator
Illinois Health Facilities and
Services Review Board
525 West Jefferson
Springfield, IL 62761

Dear Courtney:

Enclosed please find two copies of a Certificate of Need application addressing the establishment of a medical clinics building in Bartlett, Illinois. Also enclosed is a check, in the amount of \$2,500.00, as a filing fee.

Should any additional information be required, please do not hesitate to contact me.

Sincerely,


Jacob M. Axel
President

enclosures