[ORIGINAL]

18-041

ILLINOIS HEALTH FACILITIES AND SERVICES REVIEW BOARD APPLICATION FOR PERMIT

RECEIVED
OCT 19 2018
HEALTH FACILITIES & SERVICES REVIEW BOARD

SECTION I. IDENTIFICATION, GENERAL INFORMATION, AND CERTIFICATION

This Section must be completed for all projects.

Facility/Project Identification

Facility Name: Allied Agencies Building Program and Services Relocation		
Street Address: 320 E. Armstrong Avenue (current) / 1800 N. Knoxville Avenue (New)		
City and Zip Code: Peoria 61611 (Current); 61603 (New)		
County: Peoria	Health Service Area: 2	Health Planning Area: C-01

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

Exact Legal Name: OSF HealthCare System
Street Address: 800 NE Glen Oak Avenue
City and Zip Code: Peoria, IL 61603
Name of Registered Agent: Sister Theresa Ann Brazeau, OSF
Registered Agent Street Address: 1175 St. Francis Lane
Registered Agent City and Zip Code: East Peoria, IL 61611
Name of Chief Executive Officer: Robert C. Sehring
CEO Street Address: 800 NE Glen Oak Avenue
CEO City and Zip Code: Peoria, IL 61603
CEO Telephone Number: 309-655-2850

Type of Ownership of Applicants

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

- o Corporations and limited liability companies must provide an **Illinois certificate of good standing.**
- o Partnerships must provide the name of the state in which 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: Mark E. Hohulin
Title: Senior Vice President, Healthcare Analytics
Company Name: OSF HealthCare System
Address: 800 NE Glen Oak Avenue, Peoria, IL 61603
Telephone Number: 309-308-9656
E-mail Address: mark.e.hohulin@osfhealthcare.org
Fax Number: 309-308-0530

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

Name: Edwin W. Parkhurst, Jr.
Title: Managing Principal
Company Name: PRISM Healthcare Consulting
Address: 800 Roosevelt Road, Building E, Suite 110, Glen Ellyn, Illinois 60137
Telephone Number: 630-790-1265
E-mail Address: eparkhurst@consultprism.com
Fax Number: 630-790-2696

ILLINOIS HEALTH FACILITIES AND SERVICES REVIEW BOARD
APPLICATION FOR PERMIT

SECTION I. IDENTIFICATION, GENERAL INFORMATION, AND CERTIFICATION

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Exact Legal Name: OSF Multi-Specialty Group
Street Address: 800 NE Glen Oak Avenue (Primary)
City and Zip Code: Peoria, IL 61603
Name of Registered Agent: Sister Theresa Ann Brazeau, OSF
Registered Agent Street Address: 1175 St. Francis Lane
Registered Agent City and Zip Code: East Peoria, IL 61611
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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: Mark E. Hohulin
Title: Senior Vice President, Healthcare Analytics
Company Name: OSF HealthCare System
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Telephone Number: 309-308-9656
E-mail Address: mark.e.hohulin@osfhealthcare.org
Fax Number: 309-308-0530

Site Ownership

[Provide this information for each applicable site]

Exact Legal Name of Site Owner: OSF HealthCare System
Address of Site Owner: 800 NE Glen Oak Avenue, Peoria, IL 61603
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 * (Not Applicable; see comment below)

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

Exact Legal Name: (See Attestation Letter) Attachment 2 OSF HealthCare System
Address:

- [x] Non-profit Corporation
- [ ] For-profit Corporation
- [ ] Limited Liability Company
- [ ] Partnership
- [ ] Governmental
- [ ] Sole Proprietorship
- [ ] Other

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

*** (Not Applicable; the project is not a licensed healthcare facility, but a medical office building)**

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.

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Exact Legal Name: OSF Multi-Specialty Group

Address:

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Flood Plain Requirements (FEMA Flood Zone C, Minimal flood hazard, above the 500-year flood level)

[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 (* Not Applicable; see note below)

[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 1110.20 and Part 1120.20(b)]

Part 1110 Classification:

☐ Substantive

☒ Non-substantive

* This criterion is not applicable. The CUB Foods Building is a vacated retail establishment constructed in approximately 1994. The CUB food store opened in 1995 and closed in 2009 after operating for 14 years.

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.

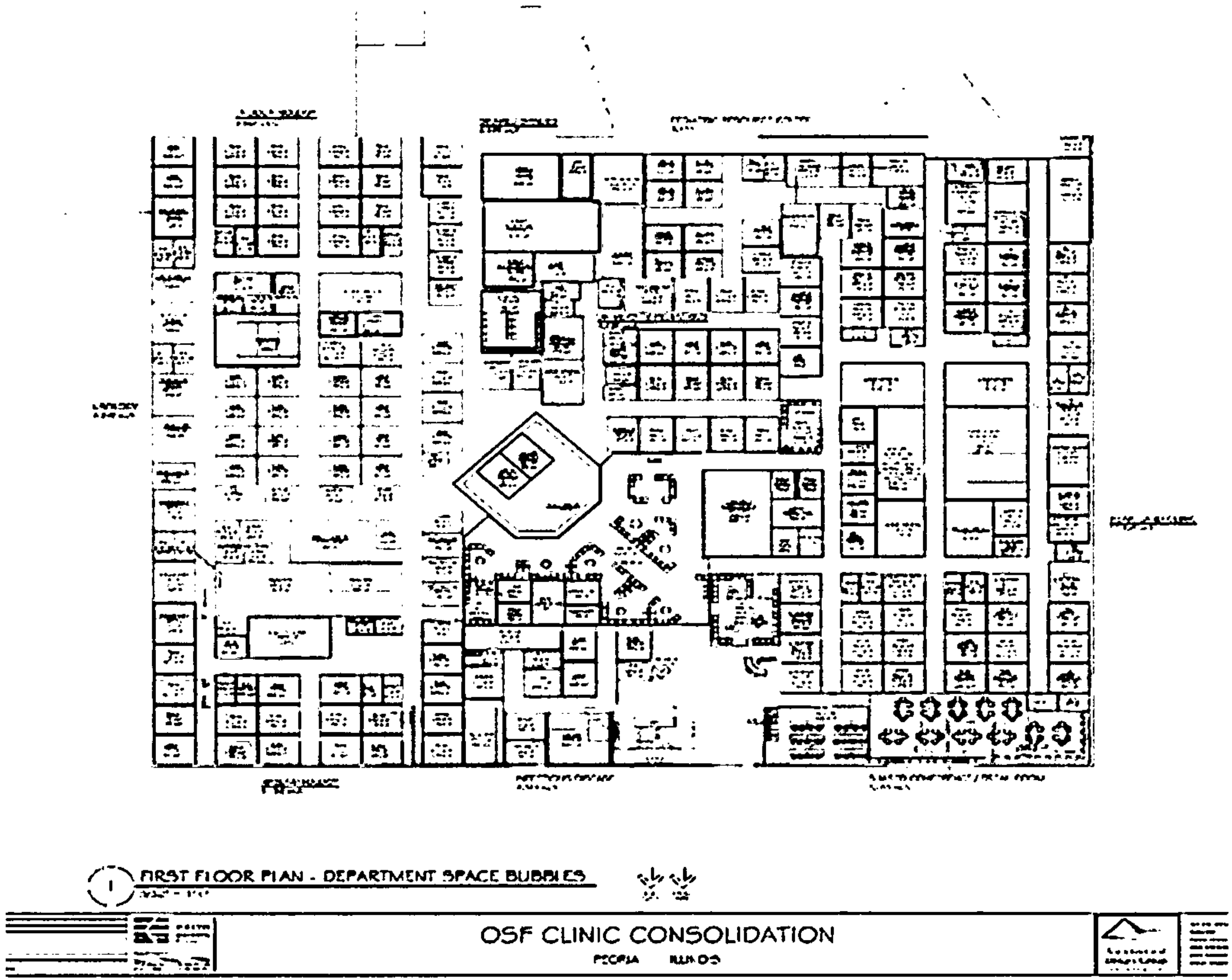
OSF HealthCare System, 800 NE Glen Oak Avenue, Peoria, Illinois 61637 and its subsidiary, OSF Multi-Specialty Group, propose to relocate the programs and services in the Allied Agencies Building, 320 E Armstrong Avenue, Peoria, to the vacant CUB Foods Building and its site, 1800 N Knoxville Avenue, Peoria. This site is approximately 0.7 miles away from the Allied Agencies Building location.

The relocated services include several physician offices and clinics as well as various clinics in collaboration with the University Of Illinois College of Medicine Peoria (UICOMP). Additionally, the Heartland Community Health Clinic, a Federally Qualified Health Clinic (FQHC), which is housed in the Allied Agencies Building, will relocate to the 1800 N Knoxville Avenue site. The relocated physician-office type clinics and associated services are not hospital-related programs. Hence, the entire project is non-clinical as defined by the Illinois Health Facilities and Services Review Board.

Once the Cub Foods Building and site are modernized, and the subject non-clinical relocations occur, the Allied Agencies Building will be vacated. OSF HealthCare System will undertake an analysis of the building, as well as the space vacated by the relocations, to determine its highest and best use. However, based on current conditions, the structure will most likely be demolished in the future.

The associated CON Permit Application submission is based on a July 2, 2018 Illinois Health Facilities and Services Review Board (IHFSRB), Staff Advisory Opinion indicating "... the proposed transaction is 'by or on behalf of a healthcare facility', and exceeds the capital expenditure minimum of $13,477,931". Hence, an approved CON Permit is required for the project.

By definition, this project is non-substantive in that it does not establish a new healthcare facility, clinical service area, or category of service, does not impact on bed capacity, nor discontinue beds or services (Section 1120.20 Classification of Projects).


FIRST FLOOR PLAN - DEPARTMENT SPACE BUBBLES
OSF CLINIC CONSOLIDATION

HEARTLAND HEALTH SERVICES

October 15, 2018

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

Dear Ms. Avery:

It is my pleasure to write this letter in support of OSF HealthCare and its re-development of the long-vacant Cub Foods store on Knoxville Avenue. The building has been vacant for over eight years which has had a negative impact on the East Bluff neighborhood.

OSF HealthCare is planning to relocate Heartland Community Health Clinic, University Of Illinois College Of Medicine clinics, and other multi-specialty clinics to the former Cub Foods location.

We share the belief of OSF HealthCare that this will greatly improve access to health care services for the people who live in this area and will enhance the neighborhood with a more modern and appealing building. The community has voiced its concerns about the vacant building for many years. This new opportunity to receive health care services in this location will make the voices of residents in the East Bluff heard. The endeavor will be a much needed step in the right direction to revitalize the neighborhood, and reinforce the concept of providing health care where people are. The new services will also provide job opportunities and economic development for that area.

As Interim CEO at Heartland Health Services, I look forward to this needed enhancement and its impact on the economic environment of our community. OSF HealthCare is a dedicated community citizen and we applaud your support.

Sincerely,

Susan C Wozniak

Susan C. Wozniak
Interim CEO

c: Mark Hohulin, Senior Vice President Healthcare Analytics
OSF HealthCare
800 NE Glen Oak Ave., Peoria, IL 61603

c: Mark Hohulin, Senior Vice President Healthcare Analytics
OSF HealthCare
800 NE Glen Oak Ave., Peoria, IL 61603

Project Costs and Sources of Funds

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

Project Costs and Sources of Funds			
USE OF FUNDS	**CLINICAL**	**NONCLINICAL**	**TOTAL**
Preplanning Costs		214,200	214,200
Site Survey and Soil Investigation			0
Site Preparation			0
Off Site Work			0
New Construction Contracts			0
Modernization Contracts		7,520,000	7,520,000
Contingencies @ 12%		902,400	902,400
Architectural/Engineering Fees @ 7.9%		665,370	665,370
Consulting and Other Fees Incl. CON Filing		159,820	159,820
Movable or Other Equipment (not in construction contracts)		3,495,169	3,495,169
Bond Issuance Expense (project related)		340,000	340,000
Net Interest Expense During Construction (project related)		1,530,000	1,530,000
Fair Market Value of Leased Space or Equipment			0
Other Costs To Be Capitalized		713,476	713,476
Acquisition of Building or Other Property (excluding land)		3,750,000	3,750,000
TOTAL USES OF FUNDS	0	19,290,435	19,290,435
SOURCE OF FUNDS	**CLINICAL**	**NONCLINICAL**	**TOTAL**
Cash and Securities	0	2,290,435	2,290,435
Pledges			0
Gifts and Bequests			0
Bond Issues (project related)	0	17,000,000	17,000,000
Mortgages			0
Leases (fair market value)			0
Governmental Appropriations			0
Grants			0
Other Funds and Sources			0
TOTAL SOURCES OF FUNDS	0	19,290,435	19,290,435
NOTE: ITEMIZATION OF EACH LINE ITEM MUST BE PROVIDED AT ATTACHMENT-7, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.			

Note: There are no clinical areas associated with the modernization project.

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

Land acquisition is related to project ☒ Yes ☐ No Purchase Price: $ 1,000,000.00 Fair Market Value: $
The project involves the establishment of a new facility or a new category of service ☐ Yes ☒ No If yes, provide the dollar amount of all **non-capitalized** operating start-up costs (including operating deficits) through the first full fiscal year when the project achieves or exceeds the target utilization specified in Part 1100. Estimated start-up costs and operating deficit cost is $ $102,000 .

Project Status and Completion Schedules

For facilities in which prior permits have been issued please provide the permit numbers.
Indicate the stage of the project's architectural drawings: ☐ None or not applicable ☒ Preliminary ☐ Schematics ☐ Final Working
Anticipated project completion date (refer to Part 1130.140): August 31, 2020
Indicate the following with respect to project expenditures or to financial commitments (refer to Part 1130.140): ☐ Purchase orders, leases or contracts pertaining to the project have been executed. ☐ 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 ☒ 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 Agencies Submittals [Section 1130.620(c)]

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

Cost Space Requirements

Provide in the following format, the **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.**

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

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

Facility Bed Capacity and Utilization * 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:					

* Not applicable in that this project relocates physician services / offices and clinics from one location in Peoria to another proximal location by modernizing a vacated retail food store (CUB Foods) into a medical office building type structure. By definition, the project does not involve a healthcare facility.

CERTIFICATION

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

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

This Application is filed on the behalf of OSF HealthCare 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.

Robert C. Sehring	
SIGNATURE	SIGNATURE
Robert C. Sehring	Mike A. Cruz, MD
PRINTED NAME	PRINTED NAME
Chief Executive Officer	Chief Clinical Officer, Central Region
PRINTED TITLE	PRINTED TITLE
Notarization: Subscribed and sworn to before me this 11th day of October 2018	Notarization: Subscribed and sworn to before me this 11th day of October 2018
Tonda L. Stewart	Tonda L. Stewart
Signature of Notary	Signature of Notary
Seal: OFFICIAL SEAL TONDA L. STEWART Notary Public - State of Illinois My Commission Expires 8/26/2020	Seal: OFFICIAL SEAL TONDA L. STEWART Notary Public - State of Illinois My Commission Expires 8/26/2020

*Insert the EXACT legal name of the applicant

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Robert C. Sehring
SIGNATURE

Robert C. Sehring
PRINTED NAME

Chief Executive Officer
PRINTED TITLE

Notarization:
Subscribed and sworn to before me
this 11th day of October 2018

Tonda L. Stewart
Signature of Notary

Seal

OFFICIAL SEAL
TONDA L. STEWART
Notary Public - State of Illinois
My Commission Expires 8/26/2020

Stephan E. Hippler MD
SIGNATURE

Stephan E. Hippler, MD
PRINTED NAME

Chief Clinical Officer
PRINTED TITLE

Notarization:
Subscribed and sworn to before me
this 10th day of October 2018

Tonda L. Stewart
Signature of Notary

Seal

OFFICIAL SEAL
TONDA L. STEWART
Notary Public - State of Illinois
My Commission Expires 8/26/2020

*Insert the EXACT legal name of the applicant

After paginating the entire completed application indicate, in the chart below, the page numbers for the included attachments: **Index to be updated prior to final submission**

INDEX OF ATTACHMENTS

Attachments

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CEO Telephone Number: 309-655-2850

File Number 0107-414-8

STATE OF ILLINOIS

OFFICE OF THE SECRETARY OF STATE

To all to whom these Presents Shall Come, Greeting:

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

OSF HEALTHCARE SYSTEM, A DOMESTIC CORPORATION, INCORPORATED UNDER THE LAWS OF THIS STATE ON JANUARY 02, 1880, APPEARS TO HAVE COMPLIED WITH ALL THE PROVISIONS OF THE GENERAL NOT FOR PROFIT CORPORATION ACT OF THIS STATE, AND AS OF THIS DATE, IS IN GOOD STANDING AS A DOMESTIC CORPORATION IN THE STATE OF ILLINOIS.

In Testimony Whereof, *I hereto set my hand and cause to be affixed the Great Seal of the State of Illinois, this* 25TH *day of* JUNE *A.D.* 2018 .

Authentication #: 1817601890 verifiable until 06/25/2019
Authenticate at: http://www.cyberdriveillinois.com

Jesse White

SECRETARY OF STATE

File Number 6789-485-5

STATE OF ILLINOIS
OFFICE OF THE SECRETARY OF STATE

To all to whom these Presents Shall Come, Greeting:

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

OSF MULTI-SPECIALTY GROUP, A DOMESTIC CORPORATION, INCORPORATED UNDER THE LAWS OF THIS STATE ON SEPTEMBER 08, 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 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* 6TH *day of* SEPTEMBER *A.D.* 2018 .

SEAL OF THE STATE OF ILLINOIS AUG. 26TH 1818

Authentication #: 1824902574 verifiable until 09/06/2019
Authenticate at: http://www.cyberdriveillinois.com

Jesse White
SECRETARY OF STATE

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OSF
HEALTHCARE SYSTEM

My name is Robert C. Sehring. As Chief Executive Officer, OSF HealthCare System, I certify and attest to the fact that the CUB Foods facility and site located at 1800 N. Knoxville Avenue, Peoria is in the process of being acquired and will be owned by OSF HealthCare System. Furthermore, this building will be modernized to accommodate the relocated programs and services from the Allied Agencies Building.

Attested by: Robert C. Sehring

Signature
Robert C. Sehring, Chief Executive Officer
OSF HealthCare System

Date: October 11, 2018

Notarization:

Subscribed and sworn to before me
this 11th day of October 2018
Tonda L Stewart
Signature of Notary

OFFICIAL SEAL
TONDA L. STEWART
Notary Public - State of Illinois
My Commission Expires 8/26/2020

800 N.E. Glen Oak Avenue, Peoria, Illinois 61603-3200 Phone (309) 655-2850 www.osfhealthcare.org
The Sisters of the Third Order of St. Francis

Operating Identity/Licensee* (Not Applicable; see comment below)
[Provide this information for each applicable facility and insert after this page.]

Exact Legal Name: OSF Healthcare System (Co-applicant) and OSF Multi-Specialty Group (Co-applicant)
Address: 800 NE Glen Oak Avenue, Peoria, 61603

- [x] Non-profit Corporation S
- [ ] For-profit Corporation
- [ ] Limited Liability Company
- [ ] Partnership
- [ ] Governmental
- [ ] Sole Proprietorship
- [ ] Other

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

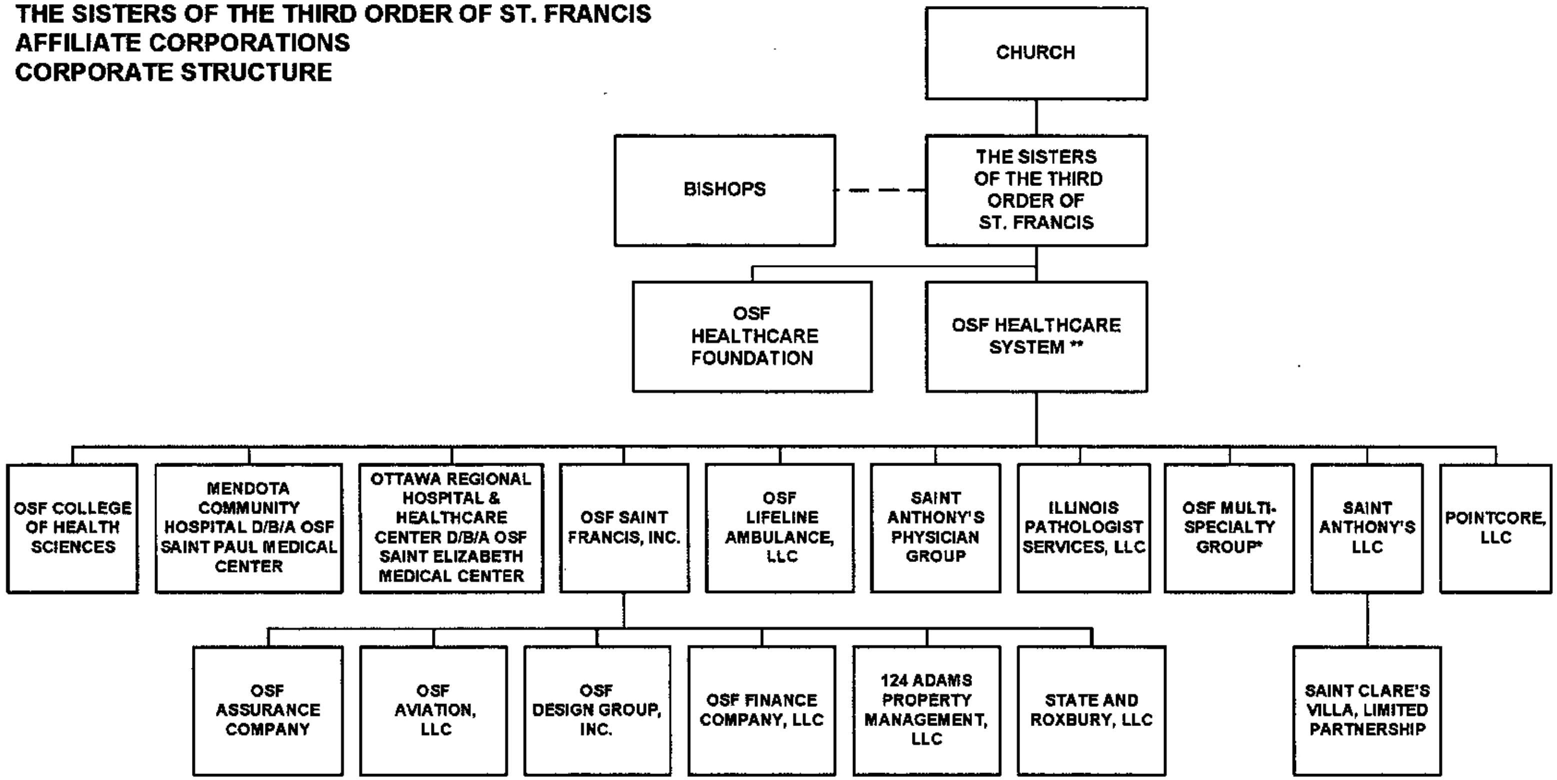
APPEND DOCUMENTATION AS ATTACHMENT 3, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

* **(Not Applicable; the project is not a licensed healthcare facility, but a medical office building)**

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 <u>ATTACHMENT 4,</u> IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

THE SISTERS OF THE THIRD ORDER OF ST. FRANCIS
AFFILIATE CORPORATIONS
CORPORATE STRUCTURE



** OSF Healthcare System

OSF St. Francis Hospital – Escanaba, Michigan
OSF Saint Anthony Medical Center – Rockford
OSF Saint James-John W. Albrecht Medical Center – Pontiac
OSF St. Joseph Medical Center – Bloomington
OSF Heart of Mary Medical Center - Urbana
OSF Sacred Heart Medical Center – Danville
OSF Saint Francis Medical Center - Peoria
OSF St. Mary Medical Center - Galesburg
OSF Holy Family Medical Center - Monmouth
OSF Saint Luke Medical Center - Kewanee
OSF Saint Anthony's Health Center - Alton
OSF Home Care Services

*OSF Multi-Specialty Group

OSF Medical Group
Cardiovascular Services
Neuroscience Services
Children's Services
Ambulatory Services

Legend:

——— Direct Responsibility

– – – – Advisory

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.

Flood Plain Requirements

The vacated CUB Food Building, 1800 N. Knoxville Avenue, Peoria, is in Flood Zone C. This zone is described by FEMA as a "500-year Floodplain, area of minimal flood hazard". Supporting documentation and the required attestation follows this page.

Thus, it complies with the requirements of Illinois Executive Order #2006-5.

My name is Robert C. Sehring. As Chief Executive Officer, OSF HealthCare System, I attest to the fact 1800 N. Knoxville Ave., Peoria, is in FEMA designated Flood Zone C, thereby complying with Executive Order #2006-5.

Attested by: Robert C. Sehring
Robert C. Sehring, Chief Executive Officer
OSF HealthCare System

Date: October 11, 2018

Notarization:

Subscribed and sworn to before me

this 11th day of October 2018

Tonda L. Stewart
Signature of Notary

Seal

OFFICIAL SEAL
TONDA L. STEWART
Notary Public - State of Illinois
My Commission Expires 8/26/2020

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The Sisters of the Third Order of St. Francis

FEMA

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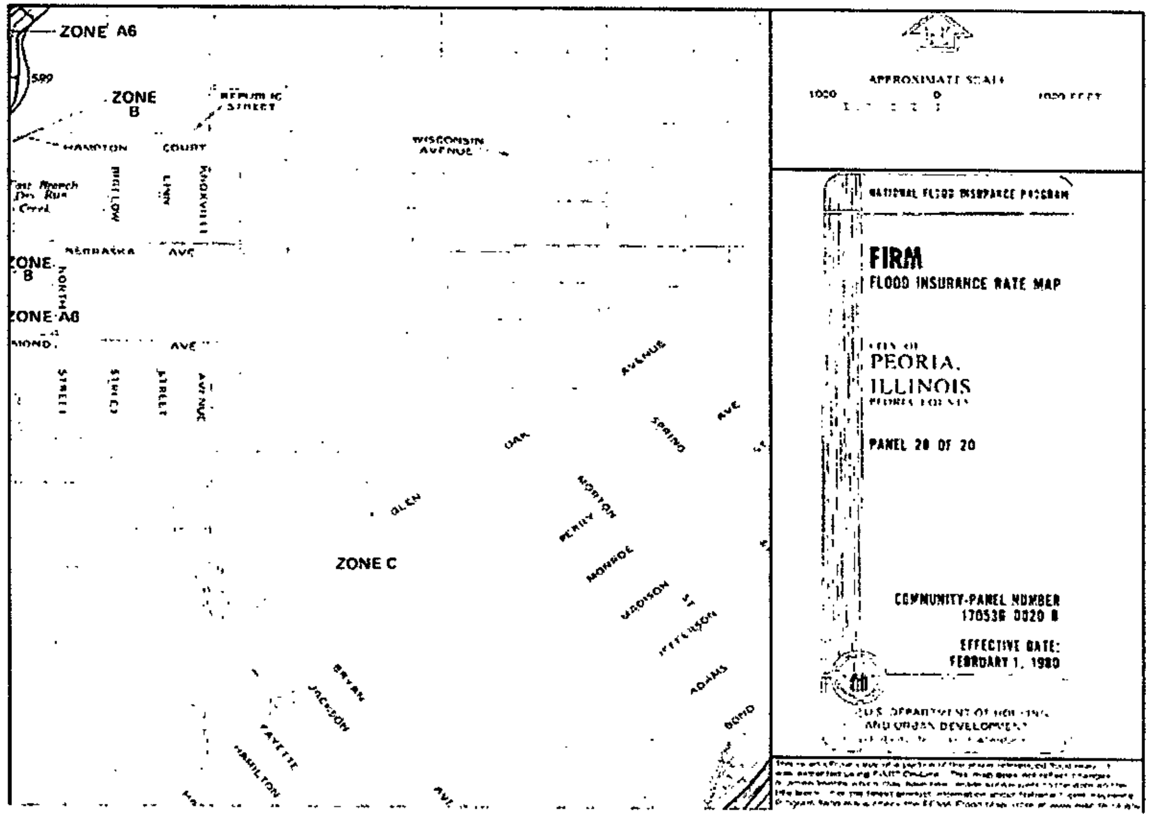
Back



Definitions of FEMA Flood Zone Designations

FEMA flood zones are geographic areas that the FEMA has defined according to varying levels of flood risk. A flood is any relatively high streamflow overtopping the natural or artificial banks in any reach of a stream. Each zone reflects the severity or type of flooding in the area.

FEMA Map Service Center: https://hazards.fema.gov/wps/portal/mapviewer
•Where available, a GIS shapefile has been placed in the NRCS service center's F:\geodata\hydrography folder.

Moderate to Low Risk Areas

ZONE	DESCRIPTION
B and X (shaded)	Between the limits of the 100-year and 500-year Floodplain, area with a 0.2% (or 1 in 500 chance) annual chance of flooding. This zone is also used to designate base floodplains of lesser hazards, such as areas protected by levees from 100-year flood, or shallow flooding areas with average depths of less than one foot or drainage areas less than 1 square mile.
C and X (unshaded)	500-year Floodplain, area of minimal flood hazard.

High Risk Areas

ZONE	DESCRIPTION
A	100-year Floodplain, areas with a 1% annual chance of flooding. Because detailed analyses are not performed for such areas; no depths or base flood elevations are shown within these zones.
AE A1-30 (old format)	100-year Floodplain. The base floodplain where base flood elevations are provided. AE Zones are now used on new format FIRMs instead of A1-A30 Zones.
AH	100-year Floodplain, areas with a 1% annual chance of shallow flooding, usually in the form of a pond, with an average depth ranging from 1 to 3 feet. flood elevations derived from detailed analyses are shown at selected intervals within these zones.
AO	100-year Floodplain, river or stream flood hazard areas, and areas with a 1% or greater chance of shallow flooding each year, usually in the form of sheet flow, with an average depth ranging from 1 to 3 feet. Average flood depths derived from detailed analyses are shown within these zones.
AR	Areas with a temporarily increased flood risk due to the building or restoration of a flood control system (such as a levee or a dam).
A99	100-year Floodplain, areas with a 1% annual chance of flooding that will be protected by a Federal flood control system where construction has reached specified legal requirements. No depths or base flood elevations are shown within these zones.

Undetermined Risk Areas

ZONE	DESCRIPTION
D	Areas with possible but undetermined flood hazards. No flood hazard analysis has been conducted. Flood insurance rates are commensurate with the uncertainty of the flood risk.

Data Provided by FEMA Map Service Center, P.O. Box 3617 Oakton, Virginia 22124-9617 Phone: (877) 336-2627.
Online at: https://msc.fema.gov/

Helping People Help the Land

An Equal Opportunity Provider and Employer

Historic Resources Preservation Act Requirements (* Not Applicable; see note below)
[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 1110.20 and Part 1120.20(b)]

Part 1110 Classification:

☐ Substantive

☒ Non-substantive

* This criterion is not applicable. The CUB Foods Building is a vacated retail establishment constructed in approximately 1994.

Project Costs and Sources of Funds

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

Project Costs and Sources of Funds			
USE OF FUNDS	**CLINICAL**	**NONCLINICAL**	**TOTAL**
Preplanning Costs		214,200	214,200
Site Survey and Soil Investigation			0
Site Preparation			0
Off Site Work			0
New Construction Contracts			0
Modernization Contracts		7,520,000	7,520,000
Contingencies @ 12%		902,400	902,400
Architectural/Engineering Fees @ 7.9%		665,370	665,370
Consulting and Other Fees Incl. CON Filing		159,820	159,820
Movable or Other Equipment (not in construction contracts)		3,495,169	3,495,169
Bond Issuance Expense (project related)		340,000	340,000
Net Interest Expense During Construction (project related)		1,530,000	1,530,000
Fair Market Value of Leased Space or Equipment			0
Other Costs To Be Capitalized		713,476	713,476
Acquisition of Building or Other Property (excluding land)		3,750,000	3,750,000
TOTAL USES OF FUNDS	0	19,290,435	19,290,435
SOURCE OF FUNDS	**CLINICAL**	**NONCLINICAL**	**TOTAL**
Cash and Securities	0	2,290,435	2,290,435
Pledges			0
Gifts and Bequests			0
Bond Issues (project related)	0	17,000,000	17,000,000
Mortgages			0
Leases (fair market value)			0
Governmental Appropriations			0
Grants			0
Other Funds and Sources			0
TOTAL SOURCES OF FUNDS	0	19,290,435	19,290,435
NOTE: ITEMIZATION OF EACH LINE ITEM MUST BE PROVIDED AT ATTACHMENT-7, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.			

Note: There are no clinical areas associated with the modernization project.

Project Status and Completion Schedules

For facilities in which prior permits have been issued please provide the permit numbers.
Indicate the stage of the project's architectural drawings: ☐ None or not applicable ☒ Preliminary ☐ Schematics ☐ Final Working
Anticipated project completion date (refer to Part 1130.140): August 31, 2020
Indicate the following with respect to project expenditures or to financial commitments (refer to Part 1130.140): ☐ Purchase orders, leases or contracts pertaining to the project have been executed. ☐ 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 ☒ Financial Commitment will occur after permit issuance.
APPEND DOCUMENTATION AS <u>ATTACHMENT 8</u>, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

OSF Healthcare System Open Projects

OSF Saint Anthony Medical Center, Major Modernization through Construction of a 4-story Bed Pavilion, Rockford
Project #: 15-021

OSF St. Mary Medical Center, Construction of New Space & Modernization of Existing Space, Galesburg
Project #: 16-010

OSF Healthcare System d/b/a Ottawa Regional Hospital & Health Center, OSF Center for Health-Streator, Streator
Project #: 17-008

OSF St. Joseph Medical Center, MOB, Bloomington
Project #: 17-050

OSF Saint Anthony Health Center – Cancer Treatment Center, Alton
Project #: 17-051

Certificate of Exemptions to be heard at the October 2018 Board meeting

OSF Saint Anthony Medical Center, Discontinuation of a Category of Service, Rockford
Project #: E-044-18

OSF Saint Anthony Health Center, Discontinuation of a Category of Service
Project #: E-047-18

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.**

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

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

Attachment 9 Cost Space Requirements

Cost / Space Requirements							
		Gross Square Feet		Amount of Proposed Total GSF That Is:			
Department	Project Cost	Existing	Proposed	New Construction	Remodeled	As Is	Vacated Space
Clinical							
There are no clinical areas in this							
modernization project							
Total Clinical / Not Applicable	$0	0	0	0	0	0	0
Nonclinical							
Heartland (FQHC)/UICOMP Clinics	$5,147,708	12,814	17,454	0	17,454	*	12,814
University Pediatrics Clinic	$1,307,720	4,625	4,434	0	4,434	*	4,625
University Pediatric Resource Center	$924,016	2,268	3,133	0	3,133	*	2,268
Multi-Specialty Clinics	$6,309,437	21,000	21,393	0	21,393	*	21,000
Shared non-clinical space	$575,600	3,044	2,155	0	2,155	*	3,044
Infectious Disease Clinic	$682,468	1,456	2,314	0	2,314	*	1,456
Shared waiting / lobby	$780,824	--	3,289	0	3,289	*	
Miscellaeous non-clinical programs and support							
Space, circulation, mechnical and							
Building structure	$3,562,662	12,526	10,828	0	10,828	*	12,526
		57,733	65,000	0	65,000	*	57,733
Total Project Non-clinical	$19,290,435	57,733	65,000	0	65,000	*	57,733

* The Allied Agencies Building will be vacated; hence, it will remain "as is"

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.

1110.110(a) – Background of the Applicant

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.

Section III, Background, Project Purpose, and Alternatives

Applicant Background (Criterion 1110.110 (a)

Criterion 1110.110 (a) (1) Owned HealthCare Facilities

See Exhibit 11-2, which follows

Criterion 1110.110 (a) (2)

See Exhibit 11-2, Attestation Letter, which follows

OSF HealthCare System List of Facilities in Illinois

OSF HealthCare Holy Family Medical Center
1000 W. Harlem Avenue
Monmouth, Illinois 61462
License #: 0005439, Expiration 4/11/19
JCAHO: 6/3/17, 36 months

OSF HealthCare Saint Francis Medical Center
530 NE Glen Oak Avenue
Peoria, IL 61637
License #: 0002394, Expiration 12/31/18
JCAHO: 4/8/17, 36 months

OSF HealthCare Saint Anthony's Health Center
One Saint Anthony's Way
Alton, Illinois 62002-0340
License #: 0005942, Expiration 10/31/19
JCAHO: 12/2/17, 36 months

OSF HealthCare Saint James-John W. Albrecht Medical Center
2500 W. Reynolds Street
Pontiac, Illinois 61764
License #: 0005264, Expiration 3/2/19/19
JCAHO: 3/9/17, 36 months

OSF HealthCare St. Joseph Medical Center
2200 E. Washington Street
Bloomington, Illinois 61701
License #: 0002535, Expiration 12/31/18
JCAHO: 3/17/17, 36 months

OSF HealthCare Saint Anthony Medical Center
5666 E. State Street
Rockford, IL 61108-2472
License #: 0002253, Expiration 12/31/18
JCAHO: 2/25/17, 36 months

OSF HealthCare Saint Luke Medical Center
1051 West South Street
Kewanee, IL 61443
License #: 0005926, Expiration 3/31/19
JCAHO: Critical Access Hospital-no JCAHO Certificate

OSF HealthCare Saint Elizabeth Medical Center
1100 E. Norris Drive
Ottawa, Illinois 61350
License #: 0005520, Expiration 5/14/19
JCAHO: 6/24/17, 36 months

OSF HealthCare St. Mary Medical Center
3333 N. Seminary Street
Galesburg, Illinois 61401
License #: 0002675, Expiration 12/31/18
JCAHO: 1/21/17, 36 months

OSF HealthCare Saint Paul Medical Center
1401 E. 12th Street
Mendota, Illinois 61342
License #: 0005819, Expiration 12/6/18
JCAHO: Critical Access Hospital-no JCAHO Certificate

OSF Healthcare Sacred Heart Medical Center
812 N. Logan Avenue
Danville, IL 61832
License #: 0006072, Expiration 2/1/19
JCAHO: 5/19/17, 36 months

OSF HealthCare Heart of Mary Medical Center
1400 W. Park Street
Urbana, IL 61801
License #: 0006080, Expiration 2/1/19
JCAHO: 6/3/17, 36 months

OSF Saint Elizabeth Medical Center Freestanding Emergency Center
111 Spring Street
Streator, Il 61364
JC License #: 22006, Expiration 8/8/19
AHO: 6/24/17, 36 months (included with Saint Elizabeth Medical Center)

OSF
HEALTHCARE SYSTEM

My name is Robert C. Sehring. As Chief Executive Officer, OSF HealthCare System, I certify and attest to the following relevant to the Allied Agencies Building Program and Services in response to the Illinois Health Facilities and Services Review Board, Criterion 1110.110 (a) (2) (3). More specifically:

1) There has not been any adverse action taken against any OSF HealthCare System facility during the three (3) years prior to filing this specific permit application.
2) OSF HealthCare System authorizes the Illinois Department of Public Health (IDPH) and the Illinois Health Facilities and Services Review Board to access any documents necessary to verify the information submitted, including, but not limited to official records of IDPH or other State Agencies; the licensing or certification records of other states, where applicable; and the records of nationally recognized accreditation organizations.

Attested by: Robert C. Sehring
Robert C. Sehring
Chief Executive Officer, OSF HealthCare System

Notarization:

Subscribed and sworn to before me

this 11th day of October 2018

Tonda L Stewart

Signature of Notary

Seal

OFFICIAL SEAL
TONDA L. STEWART
Notary Public - State of Illinois
My Commission Expires 8/26/2020

800 N.E. Glen Oak Avenue, Peoria, Illinois 61603-3200 Phone (309) 655-2850 www.osfhealthcare.org
The Sisters of the Third Order of St. Francis

Criterion 1110.110(b) & (d)

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 <u>ATTACHMENT 12,</u> IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM. EACH ITEM (1-6) MUST BE IDENTIFIED IN ATTACHMENT 12.

Section III Background, Project Purpose, and Alternatives

Project Purpose (Criterion 1110.110 (b) (D) (1-6)

1. This project relocates existing non-clinical programs and services in the Allied Agencies Building, 320 E. Armstrong Avenue to a vacant CUB Foods Building, 1800 N. Knoxville Avenue, Peoria, approximately 0.7 miles from the current site. There will be no changes in the currently provided services.
   The current services, in particular, Heartland Community Health Clinic, a Federally Qualified Health Clinic (FQHC) provides enhanced access to healthcare services. FQHC's provide comprehensive primary and preventative care to persons of all ages, regardless of their ability to pay. Hence, FQHC's are critical in providing healthcare safety net services.
2. No change in programs or services will occur with the relocation. The new site is proximal to the current site, so no change in the planning area or market area is expected.
3. The Allied Agencies Building is a three (3) level structure necessitating vertical movement between associated care programs which hinders an efficient care delivery model, due to patient and caregiver movement within the facility. Additionally, parking is constrained and building access is compromised.
   From a physical perspective, the building was not originally designed to provide physician office / clinic type programs, but has been remodeled over the years to accommodate the various programs and services although not generally in a functional manner. Issues include lack of space in select functional areas and non-functional agencies necessary for an efficient and effective care delivery model.
   Other deficiencies include an extensive and inefficient network of corridors, ramps, and stairs which poses significant challenges for efficient circulation and way-finding. As well, existing rooms are used for unintended functions; i.e. offices used for storage, locker rooms for furniture storage, and originally single purpose rooms used for multi-purpose activities.

4. Current Allied Agencies Building problems and issues have been internally documented and supported by external third-party analysis

   The proposed relocation to the Knoxville Avenue site will address and improve current issues by:

   a) Developing the relocated programs and services on a single-level allowing for appropriate traffic flow unhindered by current vertical transportation and way-finding issues.
   b) Developing modern physician offices and clinics which are functionally appropriate for the respective programs and services.
   c) Providing easier access to the new site with parking and easier access to the facility.
   d) Contemporary, accessible, well designed, and functionally appropriate facilities will facilitate an improved enhanced population health status and well-being.

5. In this case, current programs and services are being relocated to a new proximal site, so no new goals and objectives have been established.

Alternatives (Criterion 1110.110)

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.

1. Alternatives

Three viable alternatives were identified for the project

1.a Modernize the Allied Agencies Building to functionally accommodate its existing physician office / clinic programs and services.

1.b. Secure a new "green-field" site and develop a contemporary facility to house the physician office / clinic programs and services to be relocated.

1.c. Acquire and modernize the vacated CUB Foods building to accommodate the relocated Allied Agencies Building physician office / clinic type programs and services.

Two criteria identified in the CON permit application were not considered viable. These are:

1.B. Joint Venture

The respective programs and services are integral to the OSF HealthCare System and a joint venture is judged not to be appropriate. That said, two of the existing programs, the FQHC and University of Illinois at Peoria (UICOMP) work with both OSF Saint Francis Medical Center and Unity Point Health Methodist.
Each separate organization provides support for these important educational and care delivery programs.

1.C. Other Healthcare Resources

Similar to 1.B above, OSF HealthCare System is an integrated delivery system. Hence, if other healthcare resources were available, and considered as an alternative, the current integrated model would fragment which would not be in OSF's best interest.

2. Alternative Comparison

Alternative	Project Cost	Patient Access	Quality	Financial Benefit	
				Short-term	Long-term
1.a. Modernize Allied Agencies	$20,215,000	No change	Similar to current	Low-timeline extended and revenue lost	Similar to current
2.b.Green-Field Site	$26,975,000 (excluding land)	Compromised (distance*)	Lowest opportunity (distance*)	Low and Increased operating cost (distance*)	Low and Increased operating cost (distance*)
3.c. Modernize CUB Foods	$19,290,435	Enhanced	Best Opportunity	High	Highest

* Distance from the existing OSF Saint Francis Medical Center Campus.

Alternative 1.a.

Modernize Allied Agencies Building

Was rejected in that the Allied Agencies Building structural grid and building floor plan is not conducive to a modern / contemporary physician office / clinic facility. In addition, a modernization timeline would be extended due to replacing MEP infrastructure while maintaining operations; as well, there would be an increase in operating costs with associated revenue loss due to disrupting current operations.

Modernizing the MEP infrastructure would also require temporary utilities which increases construction costs.

Alternative 2.b.

Green Field Site

Was rejected due to the fact a site proximal to OSF Saint Francis Medical Center is not available. Any potential green-field site in the Peoria area would be several miles from the current site. Thus, the on-campus integrated care delivery model would be compromised; those utilizing the FQHC would encounter increased travel distance and potentially reduced healthcare access; and operating costs would increase due to the travel time between the current campus and the new building.

Alternative 3.c.

Modernize CUB Building

This alternative is consider the most feasible alternative because:

a. The vacated CUB building and site is proximal to the OSF Saint Francis Medical Center Campus.
b. The building can provide a single level with functional integration of similar programs and services.
c. Operating cost are judged the lowest of the three alternatives.
d. The site provides easier access to the relocated programs and services.

3. Alternative Comparison

On its face, an integrated care delivery model enhances care quality by providing collaboration between the various medical professionals. In this case, by developing a contemporary facility which houses existing physician office / clinic type space, on a single level, with functionally integrated spaces, the care delivery model will be enhanced due to more free-flowing patient, family and staff traffic in contrast to the vertical traffic patterns and way-finding as it exists, today, in the Allied Agencies Building.

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

Criterion 1110.120 - 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.

Note: The entire project is non-clinical and there are no applicable review criteria. However, the following page provides a diagram of the modernized non-clinical programs and services to be relocated.

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]:**

2,290,435	a) Cash and Securities – statements (e.g., audited financial statements, letters from financial institutions, board resolutions) as to: 1) the amount of cash and securities available for the project, including the identification of any security, its value and availability of such funds; and 2) interest to be earned on depreciation account funds or to be earned on any asset from the date of applicant's submission through project completion;
______	b) Pledges – for anticipated pledges, a summary of the anticipated pledges showing anticipated receipts and discounted value, estimated time table of gross receipts and related fundraising expenses, and a discussion of past fundraising experience.
______	c) Gifts and Bequests – verification of the dollar amount, identification of any conditions of use, and the estimated time table of receipts;
17,000,000	d) Debt – a statement of the estimated terms and conditions (including the debt time period, variable or permanent interest rates over the debt time period, and the anticipated repayment schedule) for any interim and for the permanent financing proposed to fund the project, including: 1) For general obligation bonds, proof of passage of the required referendum or evidence that the governmental unit has the authority to issue the bonds and evidence of the dollar amount of the issue, including any discounting anticipated; 2) For revenue bonds, proof of the feasibility of securing the specified amount and interest rate; 3) For mortgages, a letter from the prospective lender attesting to the expectation of making the loan in the amount and time indicated, including the anticipated interest rate and any conditions associated with the mortgage, such as, but not limited to, adjustable interest rates, balloon payments, etc.; 4) For any lease, a copy of the lease, including all the terms and conditions, including any purchase options, any capital improvements to the property and provision of capital equipment; 5) For any option to lease, a copy of the option, including all terms and conditions.
______	e) Governmental Appropriations – a copy of the appropriation Act or ordinance accompanied by a statement of funding availability from an official of the governmental unit. If funds are to be made available from subsequent fiscal years, a copy of a resolution or other action of the governmental unit attesting to this intent;
______	f) Grants – a letter from the granting agency as to the availability of funds in terms of the amount and time of receipt;
______	g) All Other Funds and Sources – verification of the amount and type of any other funds that will be used for the project.
$19,290,435	**TOTAL FUNDS AVAILABLE**

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

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.

OSF HealthCare System is an A-Rated organization so this criterion does not apply. See attached documentation

Appendix A provides the OSF HealthCare System and its subsidiaries consolidated financial statements for September 30, 2017 and 2016.

Appendix A follows this application on pages 69 to 131.

MOODY'S
INVESTORS SERVICE

CREDIT OPINION
25 September 2018

Rate this Research

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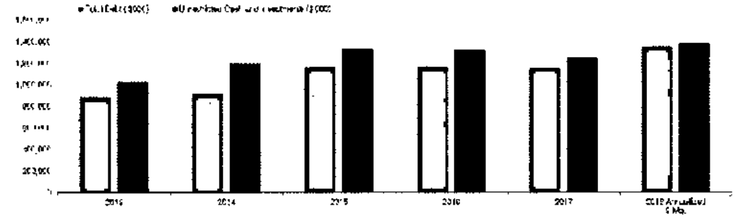
OSF Healthcare System, IL

Update to credit analysis

Summary

OSF Healthcare System (A2 negative) will continue to benefit from its presence as a relatively large multi-site system in northern, central, and southern Illinois, and its leading market positions in several markets including its key Peoria market. OSF will also maintain overall good volume trends, and a solid, albeit more moderate level of investments. Offsetting factors will include relatively high direct leverage, sizable indirect debt, strong competition in all markets and heavy reliance on its more profitable flagship facility. The recent acquisition of two Presence facilities will add some scale and potential upside opportunity, but will also hinder deleveraging and expose OSF to a market dominated by the Carle Foundation. Moderate operating performance will improve somewhat but will remain below peak levels achieved in the 2015 timeframe.

Exhibit 1
Cash Levels Begin to Recover Amid Rising Debt



Source: Moody's Investors Service

Credit strengths

» System will continue to enjoy relatively large scale and multi-sites in northern, central, and southern Illinois

» Peoria flagship location will benefit from its leading market position and regional referral draw

» Despite some dilution due to higher expenses associated with newly acquired facilities, relatively solid liquidity levels will be sustained, recently aided by state Medicaid payments

» Debt structure risk will be manageable with close to 300% monthly liquidity-to-demand debt

Credit challenges

» Direct leverage will remain high following the Presence acquisition and the potential for further capital investments; sizeable indirect debt will exacerbate this debt burden

» Challenges, including strong competition in specific markets, will make it tougher to reduce very high reliance on Peoria facility for operating income

» Despite recent improvement, operating cash flow margins will be sustained at moderate levels, below those seen in fiscal 2014 and 2015

» High Medicaid reliance will continue to add uncertainty despite a recent state payment and increase in rates

Rating outlook

The negative outlook reflects our concern that OSF would not be able to achieve and sustain stronger margins that would be sufficient to offset high leverage for the rating category. We believe ongoing capital investments would likely impede deleveraging over the coming years.

Factors that could lead to an upgrade

» Leverage, including pension obligation, would be reduced significantly

» Operating cashflow margin would be sustained at materially higher levels

» Market share trends would improve across various markets amid payor changes to provider networks

Factors that could lead to a downgrade

» Failure to further improve operating margins to offset higher leverage

» Ability to deleverage would be impeded by ongoing capital spending

» Liquidity levels do not improve as expected

Key indicators

Exhibit 2
OSF Healthcare System, IL

	2013	2014	2015	2016	2017	2018 Annualized 9 Mo.
Operating Revenue ($'000)	1,994,993	2,087,700	2,308,548	2,405,466	2,549,071	2,791,073
3 Year Operating Revenue CAGR (%)	7.6	5.6	7.0	6.4	6.9	6.5
Operating Cash Flow Margin (%)	5.8	8.9	10.0	7.3	7.7	8.3
PM: Medicare (%)	44.1	45.3	45.7	46.2	46.7	N/A
PM: Medicaid (%)	15.3	18.1	20.0	20.3	20.2	N/A
Days Cash on Hand	194	223	229	211	190	193
Unrestricted Cash and Investments to Total Debt (%)	115.6	130.0	114.9	113.2	108.5	102.5
Total Debt to Cash Flow (x)	4.6	3.4	3.8	4.6	4.3	4.5

Based on OSF Healthcare System and Subsidiaries, audit year ended September 30; fiscal year 2018 reflects annualized unaudited nine months ended June 30.
Investment returns normalized at 6% prior to FY 2015 and 5% in FY 2015 and beyond
Source: Moody's Investors Service

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.moodys.com for the most updated credit rating action information and rating history.

Profile

OSF Healthcare System operates thirteen acute care hospitals and a large multi-specialty physician group. Twelve of the system's hospitals are located in Illinois; OSF also owns a small critical access hospital in the Upper Peninsula of Michigan. The System's largest hospital, OSF Saint Francis Medical Center in Peoria, Illinois, is a 629-licensed bed tertiary care teaching hospital. OSF's newest hospitals, a 174 bed facility in Danville and a 210 bed facility in Urbana, were acquired from Presence Health in February 2018.

Detailed credit considerations

Market position: large multi-site system operating in competitive markets

OSF will continue to benefit from its multi-site presence in Illinois. Its Peoria flagship, tertiary teaching hospital, OSF Saint Francis Medical Center, will continue to enjoy a leading market share despite Blue Cross and Blue Shield of Illinois's (BC) decision to open up this market to OSF's key competitor, UnityPoint Methodist (part of UnityPoint Health, IA, rated A1 stable). BC also opened its Rockford and Galesburg networks to non-OSF providers beginning on January 1, 2018. As part of a resolution with BC that occurred in late 2017, OSF will receive some rate relief to compensate for these new open networks. In general, we believe this resolution will help to stabilize its performance in these markets, but also believe that this will result in some additional competitive pressures including some volume compression. That said, we anticipate that OSF will continue to see positive inpatient volume trends, particularly at its larger facilities. Recent year to date trends show improvement over softer year over year trends seen in fiscal 2017. Specifically, Peoria will benefit from the addition of 20 new acute care beds, which will alleviate capacity constraints while Rockford will benefit from the opening of its new bed tower.

Despite improved volume, OSF will face ongoing challenges in Rockford, which is its second largest market. Here, OSF competes with two providers with stronger market share. Both are part of systems that are investing in upgrading facilities; Mercyhealth IL (A3 stable) will be opening a new hospital in January 2019.

The system will continue to seek to diversify its statewide presence (outside of Chicago); this is highlighted by its February 2018 acquisition of two Presence Health hospitals (now part of Ascension Health), one in Urbana and one in Danville, IL for $185 million. However, these facilities will also face strong competition. This is especially true for the Urbana facility, which will compete with the market dominant Carle Foundation (which owns the Carle Physician Group and Health Alliance Medical Plans). OSF will seek to reverse declining volume trends by improving physician alignment and primary care access points.

In addition to diversifying geographically, the system will continue to make investments in facilities and physicians and specific service lines to help improve its regional and local positioning. This will include improving primary care access points, by investing in digital technology and new urgent care ("Urgo") sites.

OSF will benefit from consolidation and integration of clinical and support areas to reduce variation and costs, and improve quality and productivity. OSF will seek to develop population health management initiatives, aided by the completion of an installation of an electronic medical record (EMR) system several years ago. That said, OSF will have limited exposure to risk arrangements with payors over the coming year.

Operating performance, balance sheet and capital plans: modest margins, but solid liquidity

Despite some improvement since fiscal 2017, we believe OSF will maintain modest margins in the low 8% range in fiscal 2018 and fiscal 2019. OSF will continue to face headwinds that will limit its ability to achieve 10% margins (enjoyed in the 2015 timeframe). These will include payor pressures and higher expenses. Some portion of expenses will involve those related to strategic investments with longer term benefits. In addition, physician-related expenses will continue to contribute to operating losses at several facilities.

As a result of strong competition and rising expenses, several OSF facilities will continue to experience operating losses over the coming year. OSF's Peoria flagship, which will benefit from referrals and ambulatory services, will generate the bulk of operating income for the system, and will provide an offset to weak performance at other sites. In particular, Rockford and Alton (acquired in November 2014) will likely face sizable, albeit declining, losses over the next few years. OSF's Bloomington facility will be challenged by a shift away from a more profitable surgical patient mix and strong competition for outpatient services, particularly stemming from physician and for-profit joint ventures.

OSF will continue to engage in cost control initiatives. Management expects that it will have achieved about $185 million in savings over a four year period by fiscal year end 2018. Major initiatives include reimbursement opportunities, productivity improvement, and supplies.

Management expects it will continue to benefit from Illinois Medicaid expansion and the level of supplemental payments will improve by about $16 million annually beginning in fiscal 2018. OSF expects the timing of payments will remain generally steady following a state payment that reduced claims backlog in December 2017. That said, Medicaid will continue to present uncertainty as the state contends with budgetary constraints.

Annual capital spending will be around 1.2 times depreciation in fiscal 2019 (around $160 million). Management projects that capital spending will rise beyond fiscal 2019 to more elevated levels as it evaluates needs at its newly acquired Presence facilities and considers investments in other clinical services.

LIQUIDITY

OSF's liquidity (with days cash on hand of about 193 days based on nine month fiscal 2018 financials) will remain solid, but over the coming year, will likely be sustained somewhat below historical levels of over 200 days cash on hand. Although the state Medicaid payment will help to support fiscal 2018's days cash on hand, fiscal 2019's full year of Presence expenses will suppress this measure. That said, the ratings reflect our expectation that absolute cash levels will increase after remaining flat to down over the past several years; this would help strengthen relatively modest cash to debt metrics (see below).

OSF's asset allocation will be more aggressive than in the past as target allocations have moved from 70% fixed income and 30% equity to 50% fixed income/cash and 50% equity. As reported in its nine month fiscal 2018 financials, OSF was within its target allocations.

Debt structure and legal covenants: leveraged operation and balance sheet exacerbated by high pension liability

OSF's direct leverage will remain high and deleveraging opportunities will be impeded by the addition of $185 million of new debt in December 2017 to fund the Presence acquisition. Based on nine month annualized fiscal 2018 financials, debt-to-cash flow was high at about 4.5 times (compared to our A2 median of 2.9 times) and cash-to-debt was moderate at 103% (compared to our A2 median of 161%.)

DEBT STRUCTURE

Debt structure risks will be manageable with close to 300% monthly liquidity-to-demand debt. Demand debt, including bank provided letters of credit and private placements, are diversified among banks and commitment periods.

Over the coming year, OSF will have good room under its financial covenants. Its MTI contains a debt service coverage test (1.1 times with consultant call in provision). Other agreements have, in some cases, more restrictive covenants that can trigger a cross default. These include: debt service coverage of 1.1 times (automatic event of default under Assured Guaranty swap insurer agreement); 1.25 annual debt service coverage (measured quarterly under BAML); 75 days cash on hand (measured semi-annually under BAML); 65% debt to capitalization (under Assured Guaranty). There is a ratings trigger of below Baa2/BBB in the proposed LOC agreements with JPM and PNC. Several new springing amendments (requiring >51% bondholder approval) include provisions that would provide greater flexibility to the borrower. These include: allowing for substitution of notes, smoothing of investment gains, and increasing the payment period on short term debt for purposes of calculating debt service.

DEBT-RELATED DERIVATIVES

OSF will have significant exposure to swaps over the coming year. As of June 30, 2018, OSF's numerous interest rate swap agreements had a total notional amount of about $363 million, with a cumulative mark to market valuation of about negative $35 million. The fixed payer swaps are insured by Assured Guaranty. Collateral posting is not required unless Assured's rating falls below A3 or the equivalent by at least one rating agency; the system has not had to post collateral.

PENSIONS AND OPEB

Compared to other health systems, OSF carries a sizeable unfunded pension obligation that will add to its already high direct debt burden. OSF's pension plan is a Church plan and, therefore, not subject to ERISA requirements. The plan was frozen in March 2011. The system's philosophy has been to fund at pension expense levels. Its total unfunded pension obligation was $437 million at fiscal year end 2017 (62% funded). This, combined with operating leases, will result in adjusted debt measures that remain modest, cash-to-total adjusted debt was about 68% for fiscal 2017 (compared to our A2 median of about 126%).

In May 2016, litigation was filed challenging OSF's Church plan status, which has not been resolved and will continue to contribute to some uncertainty. In a similar case filed by Advocate, the US Supreme Court ruled in June 2017 that Advocate's plan was exempt from ERISA. In December 2017, OSF filed a motion for summary judgment; subsequently, plaintiffs filed a motion to conduct additional discovery before they respond to the motion for summary judgment. Given uncertainties regarding the outcome of this litigation, the rating does not incorporate any potential funding requirements.

Management and Governance

OSF will continue to benefit from its ongoing migration from a holding company model to a consolidated and integrated model; this will allow for more effective and timely execution of operating and strategic initiatives. OSF's relatively new CEO was previously the COO and has extensive payor experience. We believe the senior management team will institute greater financial discipline, as evidenced by the recent adoption of new long range performance targets and a financial plan by the board.

REPORT NUMBER 1139091

MOODY'S
INVESTORS SERVICE

FINANCIAL VIABILITY (* Not applicable)

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.

*** Not Applicable, OSF HealthCare System is an A-rated organization; see Attachment 35**

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

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

D. Projected Operating Costs

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

E. Total Effect of the Project on Capital Costs

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

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

OSF®
HEALTHCARE SYSTEM

My name is Michael Allen. As Chief Financial Officer, OSF HealthCare System, I attest to the fact the selected form of debt financing will be at the lowest cost available, or if not, it will be more advantageous due to other terms, such as pre-payment privileges, lack of security interest, loan timing, or other reasons.

Attested by: M. A.
Michael Allen
Chief Financial Officer, OSF HealthCare System

Notarization:

Subscribed and sworn to before me
this 11th day of October 2018
Tonda L. Stewart
Signature of Notary

Seal

OFFICIAL SEAL
TONDA L. STEWART
Notary Public - State of Illinois
My Commission Expires 8/26/2020

800 N.E. Glen Oak Avenue, Peoria, Illinois 61603-3200 Phone (309) 655-2850 www.osfhealthcare.org
The Sisters of the Third Order of St. Francis

Cost and Gross Square Feet by Department or Service

	A	B	C	D	E	F	G	H	Total Cost
	Cost / Square Foot		Gross Square Feet		Gross Square Feet		Const. Cost	Mod. Cost	
Department	New	Mod.	New	Circ. %	Mod.	Circ.	(AxC)	(BxE)	(G+H)
Clinical									
There are no clinical areas in this modernization project.									
Clinical / Average Cost / Sq. Ft.									
Clinical Contingency/ Sq. Ft.									
Clinical Subtotal									
Non-Clinical									
Heartland (FQHC)/UICOMP Clinics		113.40			17,454			1,979,284	1,979,284
University Pediatrics Clinic		113.40			4,434			502,816	502,816
University Pediatric Resource Center		113.40			3,133			355,282	355,282
Multi-Specialty Clinics		113.40			21,393			2,425,966	2,425,966
Shared non-clinical space		104.12			2,155			224,379	224,379
Shared waiting / lobby		92.55			3,289			304,697	304,697
Infectious Disease Clinic		113.40			2,314			262,408	262,408
Miscellaeous non-clinical programs									
and support space, circulation, mechnical									
Building structure		135.31			10,828			1,465,168	1,465,168
Non-Clinical Cost / Sq. Ft.		115.69			–			7,520,000	8,422,400
Non-Clinical Contingency / Sq. Ft.		13.88			–			902,400	902,400
Non-Clinical Average Cost / Sq. Ft.		129.57			–			8,422,400	8,422,400
Total with Contingency/Average Cost/Sq. Ft.		129.57			65,000			8,422,400	8,422,400

* There is a $350.00 difference beyween the unit costs / sq. ft. and the total onstruction and contingency due to rounding errors

D. Projected Operating Costs

This criterion does not apply in that the modernization project provides non-clinical physician office type space and there are no associated "equivalent patient days".

E. Total Effect of the Project on Capital Costs

This criterion does not apply because there are no required utilization criteria for such a program.

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 38.

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.

Safety Net Impact Statement

The proposed non-clinical programs and services relocations will not unfavorably impact on community safety net services in that no program changes are contemplated.

One project component is the relocation of the Heartland Community Health Clinic, an FQHC. This relocation will improve patient and family access so it is contemplated that safety net services will be enhanced.

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.

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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			

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 39.

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

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

The relocated Allied Agencies Building programs and services do not compile financial records, as noted in the criterion. That said, no changes in financial policies will occur due to the relocations.

OSF HEALTHCARE SYSTEM			
CHARITY CARE			
	2015	2016	2017
Net Patient Revenue	1,917,020,581	1,970,497,456	2,057,383,657
Amount of Charity Care (charges)	123,694,713	121,815,596	123,255,304
Cost of Charity Care	24,351,000	25,170,596	26,127,456

Appendix A

OSF Financials

Pages 69 – 131

KPMG

OSF HEALTHCARE SYSTEM AND SUBSIDIARIES

Consolidated Financial Statements

September 30, 2017 and 2016

(With Independent Auditors' Report Thereon)

OSF HEALTHCARE SYSTEM AND SUBSIDIARIES

Table of Contents

KPMG

KPMG LLP
Aon Center
Suite 5500
200 E. Randolph Street
Chicago, IL 60601-6436

Independent Auditors' Report

OSF Healthcare System
Peoria, Illinois:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of OSF Healthcare System and Subsidiaries (OSF), which comprise the consolidated balance sheets as of September 30, 2017 and 2016, and the related consolidated statements of operations and changes in unrestricted net assets, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

KPMG

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of OSF Healthcare System and Subsidiaries as of September 30, 2017 and 2016, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Chicago, Illinois
January 19, 2018

OSF HEALTHCARE SYSTEM AND SUBSIDIARIES

Consolidated Balance Sheets

September 30, 2017 and 2016

(In thousands)

Assets		2017	2016
Current assets:			
Cash and cash equivalents	$	195,990	157,568
Receivables:			
Patients' and residents' accounts receivable, net of allowance for doubtful accounts of approximately $188,709 in 2017 and $158,473 in 2016		565,929	469,611
Due from third party reimbursement programs		36,653	40,360
Other		17,772	18,579
Total receivables		620,354	528,550
Assets limited as to use		32,860	31,590
Inventory		39,717	34,683
Prepaid expense		16,698	13,817
Total current assets		905,619	766,208
Investments		1,049,555	1,159,621
Assets limited as to use, net of current portion		237,338	257,921
Property and equipment, net		1,185,164	1,117,437
Restricted assets		108,197	92,638
Goodwill		42,832	39,567
Other assets		51,434	46,439
Total assets	$	3,580,139	3,479,831
Liabilities and Net Assets			
Current liabilities:			
Current portion of long-term debt	$	24,419	24,875
Accounts payable and accrued expenses		307,589	326,713
Estimated third-party payor settlements		98,967	103,486
Estimated self-insurance liabilities		32,860	31,590
Total current liabilities		463,835	486,664
Long-term debt, net of current portion		1,152,745	1,168,967
Accrued benefit liability		437,196	510,322
Estimated self-insurance liabilities, net of current portion		163,876	156,339
Other liabilities		60,720	82,454
Total liabilities		2,278,372	2,404,746
Net assets:			
Unrestricted:			
Unrestricted net assets of OSF		1,182,830	971,481
Noncontrolling interests in subsidiaries		10,740	10,966
Total unrestricted net assets		1,193,570	982,447
Temporarily restricted		64,684	55,985
Permanently restricted		43,513	36,653
Total net assets		1,301,767	1,075,085
Total liabilities and net assets	$	3,580,139	3,479,831

See accompanying notes to consolidated financial statements.

OSF HEALTHCARE SYSTEM AND SUBSIDIARIES

Consolidated Statements of Operations and Changes in Unrestricted Net Assets

Years ended September 30, 2017 and 2016

(In thousands)

		2017	2016
Net patient service revenue, net of contractual allowances and discounts	$	2,554,396	2,412,462
Provision for uncollectible accounts		(87,259)	(67,912)
Net patient service revenues, less provision for uncollectible accounts		2,467,137	2,344,550
Other revenues:			
Contributions		2,915	7,899
Other		88,286	68,033
Net assets released from restrictions used for operations		3,057	2,398
Total revenues		2,561,395	2,422,880
Expenses:			
Salaries and benefits		1,418,777	1,347,321
Sisters' evaluated services		1,962	2,077
Supplies and other expenses		930,964	873,114
Depreciation and amortization		110,929	104,078
Impairment loss		822	—
Interest		38,890	39,656
Total expenses		2,502,344	2,366,246
Income from operations		59,051	56,634
Nonoperating gains (losses):			
Investment return		69,869	82,930
Income taxes		(1,809)	(7,648)
Net settlement of derivative instruments		(7,048)	(8,786)
Loss on early extinguishment of debt		—	(20,482)
Change in fair value of derivative instruments		22,380	(9,591)
Contribution of excess assets over liabilities		2,372	6,094
Total nonoperating gains, net		85,764	42,517
Net income		144,815	99,151
Other changes in unrestricted net assets:			
Net assets released from restrictions used for the purchase of property and equipment		1,500	1,084
Recognition of change in pension funded status		69,726	(108,889)
Net distributions made to noncontrolling shareholders		(4,918)	(4,144)
Change in unrestricted net assets	$	211,123	(12,798)

See accompanying notes to consolidated financial statements.

OSF HEALTHCARE SYSTEM AND SUBSIDIARIES

Consolidated Statements of Changes in Net Assets

Years ended September 30, 2017 and 2016

(In thousands)

		2017	2016
Unrestricted net assets:			
Net income	$	144,815	99,151
Other changes in unrestricted net assets:			
Net assets released from restrictions used for the purchase of property and equipment		1,500	1,084
Recognition of change in pension funded status		69,726	(108,889)
Net distributions made to noncontrolling shareholders		(4,918)	(4,144)
Change in unrestricted net assets		211,123	(12,798)
Temporarily restricted net assets:			
Contributions		7,535	15,107
Investment return		5,721	3,887
Net assets released from restrictions		(4,557)	(3,482)
Change in temporarily restricted net assets		8,699	15,512
Permanently restricted net assets:			
Contributions		6,794	7,779
Investment return		66	54
Change in permanently restricted net assets		6,860	7,833
Change in net assets		226,682	10,547
Net assets, beginning of year		1,075,085	1,064,538
Net assets, end of year	$	1,301,767	1,075,085

See accompanying notes to consolidated financial statements.

OSF HEALTHCARE SYSTEM AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended September 30, 2017 and 2016

(In thousands)

		2017	2016
Noncash transactions associated with acquisitions:			
Patient accounts receivable	$	817	1,440
Other receivables		—	172
Inventory		—	71
Investments		—	474
Property and equipment		4,453	12,314
Restricted assets		295	3
Other long-term assets		18	—
Accounts payable and accrued expenses		(53)	(2,450)
Long-term debt		(647)	(300)
Other liabilities		(1,071)	(2,413)

See accompanying notes to consolidated financial statements.

(1) Organization

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

OSF St. Francis Hospital, Escanaba, Michigan (SFH)
OSF Saint Anthony Medical Center, Rockford, Illinois (SAMC)
OSF Saint James-John W. Albrecht Medical Center, Pontiac, Illinois (SJJWAMC)
OSF St. Joseph Medical Center, Bloomington, Illinois (SJMC)
OSF Saint Francis Medical Center, Peoria, Illinois (SFMC)
OSF St. Mary Medical Center, Galesburg, Illinois (SMMC)
OSF Holy Family Medical Center, Monmouth, Illinois (HFMC)
OSF Home Care, Peoria, Illinois
OSF Saint Luke Medical Center, Kewanee, Illinois (SLMC)
OSF Saint Anthony Health Center, Alton, Illinois (SAHC)

In addition to the Providers, the consolidated financial statements include activities of the OSF Corporate Office and OSF's subsidiaries: Ottawa Regional Hospital & Healthcare Center and Subsidiaries, Mendota Community Hospital, OSF Saint Francis, Inc. and Subsidiaries (SFI), OSF Lifeline Ambulance, LLC, 2 wholly owned physician group subsidiaries, PointCore, LLC, Institute of Physical Medicine and Rehabilitation (IPMR), and OSF Multi-Specialty Group (OSF MSG).

On April 30, 2012, OSF became the sole corporate member of Ottawa Regional Hospital & Healthcare Center d/b/a OSF Saint Elizabeth Medical Center (SEMC), an Illinois not-for-profit corporation. SEMC owns all of the capital stock of Ottawa Regional Healthcare Affiliates, Inc. (ORHA) and Ottawa Regional Hospital Auxiliary. ORHA was dissolved on January 5, 2017. SEMC is the sole member of Ottawa Regional Hospital Foundation. As of September 30, 2017 and 2016, SEMC has a 100% ownership in Radiation Oncology of Northern Illinois, LLC (RONI). RONI has been consolidated by SEMC for 2017 and 2016. On June 30, 2016, SEMC purchased the additional 43% of RONI for $621, which created $733 of goodwill.

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

On October 1, 2015, OSF became the sole corporate member of IPMR, an Illinois not-for-profit corporation. IPMR offers various outpatient rehabilitation services at twenty service locations and eight outpatient clinics primary throughout central Illinois. IPMR's balance sheet at October 1, 2015 included total assets of $6,138, total liabilities of $2,628, and net assets of $3,510. Effective January 1, 2017, IPMR was merged into OSF and no longer exists as a separate corporation. The assets and activity are all now reflected as part of SFMC.

On January 4, 2016, OSF expanded operations in Streator, Illinois through the purchase of several medical office buildings and the receipt of a donated hospital facility. OSF paid $6,069 to an unaffiliated Catholic health system for the purchase of the medical office buildings and OSF's Foundation received a contribution of $2,757 as part of the agreement. OSF also recognized a contribution of $2,587 for the donated hospital facility that was received during the year ended September 30, 2016 in the accompanying consolidated statement of operations and changes in unrestricted net assets. This contribution represents the fair value of the building received, net of liabilities. The hospital facility was converted into an outpatient care facility and began operations as the OSF Center for Health – Streator, a division of SEMC.

On January 1, 2017, OSF became the sole member of Saint Anthony LLC, a Delaware limited liability company incorporated in April 2000 to operate as the general partner of Saint Clare's Villa. Saint Anthony LLC is considered a disregarded entity for income tax purposes. St. Clare Villa owns and operates a 64-unit assisted living apartment complex for low-income residents. St. Clare Villa's balance sheet at January 1, 2017 included total assets of $5,635, total liabilities of $1,771, and total net assets of $3,864.

SFI is an Illinois for-profit corporation incorporated in 1986 and is engaged in the following lines of business: medical practice management (through December 31, 2015), retail pharmacies, mobile medical systems, durable medical equipment, home therapeutics, real estate rental, and equipment technology services. SFI also participates in various health-related joint ventures and is the sole corporate member of OSF Aviation, Inc., OSF Design Group, Inc., OSF Assurance Company, and OSF Finance Company LLC (OSFFC), and as of February 29, 2016, SFI purchased State and Roxbury, LLC (SAR). OSF Aviation, Inc. is an Illinois limited liability corporation formed on January 28, 2002 for the purpose of acquiring and operating emergency medical equipped helicopters in support of the trauma services programs of SFMC and SAMC. OSF Design Group, Inc. is an Illinois limited liability corporation formed on October 1, 2004 to provide professional architectural services as a registered professional design firm to OSF and its subsidiaries. OSF Assurance Company is a Vermont general corporation incorporated on December 8, 2004 and organized for the purpose of writing insurance and reinsurance as a captive insurance company. OSFFC, an Illinois limited liability company, was organized in November 2007 to be a nominal issuer of taxable corporate notes or other debt instruments used to finance certain capital expenditures that would not be eligible for tax-exempt financing. OSF is not a borrower, obligor, or guarantor of any indebtedness issued by OSFFC. SAR was formed in 2009 to establish and operate a real estate management organization in Rockford, Illinois.

OSF Lifeline Ambulance, LLC is an Illinois limited liability corporation that commenced operations on October 1, 2003 to provide emergency ground transportation services.

OSF has 12 wholly owned physician group subsidiaries, which were formed or acquired to provide physician services and function as physician groups. On January 1, 2016, the medical practice management formerly provided by SFI and the operations of the wholly owned physician groups, except for Illinois Pathologist Services, LLC and Preferred Emergency Physicians of Illinois, LLC, were transferred to OSF MSG. Due to the nature of the transaction and common control, no gain or loss was recorded in connection with the transaction. On December 31, 2016, 10 of the wholly owned physician group subsidiary corporations were dissolved. As of September 30, 2017, the only two remaining physician group subsidiaries are Illinois Pathologists Services, LLC and Saint Anthony Physician Group.

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

The Center for Health Ambulatory Surgery Center, LLC (CHASC) was formed in 2007 to establish and operate a multispecialty ambulatory surgical center in Peoria, Illinois. SFMC has a 74.58% and 55.60% controlling interest in CHASC as of September 30, 2017 and 2016, respectively. On October 1, 2016, SFMC purchased an additional $19.08% of CHASC for $4,632, which created $3,265 of goodwill.

Fort Jesse Imaging Center, LLC (FJIC) was formed in 2002 to establish and operate a medical imaging center in Bloomington, Illinois. SJMC has a 50.17% and 50.19% controlling interest in FJIC as of September 30, 2017 and 2016, respectively.

Eastland Medical Plaza SurgiCenter, LLC (EMPS) was formed in 2000 to establish and operate an ambulatory surgery treatment center in Bloomington, Illinois. SJMC has a 52.43% and 51.84% controlling interest in EMPS as of September 30, 2017 and 2016, respectively.

Fox River Cancer Center (FRCC), an Illinois limited liability company, was formed in 2007 to establish and operate a cancer treatment center in Ottawa, Illinois. SEMC has a 66.67% controlling ownership as of September 30, 2017 and 2016. Goodwill of $429 was recognized as a result of the purchase of additional shares during 2016.

(In thousands)

The following represents a reconciliation of beginning and ending balances of OSF's interest and the noncontrolling interests for each class of net assets for which a noncontrolling interest exists during the years ended September 30, 2017 and 2016:

	Unrestricted net assets		
	Total	**Controlling interest**	**Noncontrolling interest**
Balance at September 30, 2015	$ 995,245	985,890	9,355
Net income	99,151	93,396	5,755
Net assets released from restrictions used for the purchase of property and equipment	1,084	1,084	—
Recognition of change in pension funded status	(108,889)	(108,889)	—
Net distributions made to noncontrolling shareholders	(4,144)	—	(4,144)
Balance at September 30, 2016	982,447	971,481	10,966
Net income	144,815	140,123	4,692
Net assets released from restrictions used for the purchase of property and equipment	1,500	1,500	—
Recognition of change in pension funded status	69,726	69,726	—
Net distributions made to noncontrolling shareholders	(4,918)	—	(4,918)
Balance at September 30, 2017	$ 1,193,570	1,182,830	10,740

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

(In thousands)

Summarized financial information of the Foundation for the years ended September 30, 2017 and 2016 is as follows:

		2017	2016
Cash, investments, pledges, and other	$	151,559	136,502
Accounts payable and due to affiliates		1,713	8,647
Unrestricted net assets		56,981	49,652
Temporarily restricted net assets		55,190	47,386
Permanently restricted net assets		37,676	30,817
Cash transfers to OSF during the year		7,412	4,964

The amount due from the Foundation recognized at September 30, 2017 and 2016 consists of $568 and $2,962, respectively, in other receivables, $56,593 and $49,936, respectively, in investments, and $92,866 and $78,203, respectively, in restricted assets in the accompanying consolidated balance sheets.

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

(2) Summary of Significant Accounting Policies

(a) Use of Estimates

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

(b) Cash and Cash Equivalents

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

(c) Investments and Investment Return

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

Investment return on funds held in trust for self-insurance purposes is included in other revenue. Investment return or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is reported as nonoperating gains or losses in the accompanying consolidated statements of operations and changes in unrestricted net assets, unless the income or loss is restricted by donor or law. Management considers all investments to be trading securities.

(d) Assets Limited as to Use

Assets limited as to use include amounts held by the bond trustee for payment of principal, interest, and acquisition and construction of equipment and facilities, as defined in the loan agreement, along with designated assets set aside for self-insurance of medical malpractice, unemployment compensation, and workers' compensation. Amounts required to meet current liabilities have been classified as current assets.

(e) Inventories

Inventories are stated at the lower of cost or market. Cost is determined on a first-in, first-out basis.

(f) Other Assets – Joint Ventures

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

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

(g) Property and Equipment

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

Gifts of long-lived assets such as land, building, or equipment are reported at fair market value at the time of the donation and are excluded from the excess of unrestricted revenues, gains, and other support and nonoperating gains, net over expenses. Gifts of long-lived assets and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

(h) Long-Lived Assets

OSF periodically assesses the recoverability of long-lived assets (including property, plant, and equipment) when indications of potential impairment, based on estimated, undiscounted future cash flows exist. Management considers such factors as current results, trends, and future prospects, in addition to other economic factors, in determining whether there is an impairment of the asset. An impairment of $822 was recorded in 2017 and is included in operating expenses within the consolidated statements of operations and changes in unrestricted net assets related to SAHC's

(j) Temporarily and Permanently Restricted Net Assets

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

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

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

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

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

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

(k) Net Income

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

(l) Net Patient Service Revenue

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

(m) Charity Care

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

(n) Donor-Restricted Gifts

Unconditional promises to give cash and other assets to OSF are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are pledges or are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations and changes in unrestricted net assets as net assets released from restrictions.

(o) Estimated Self-Insurance Liabilities

The provisions for estimated self-insured medical malpractice, workers' compensation, health and dental, and unemployment claims include estimates of the ultimate costs for both reported claims and claims incurred but not reported. OSF reports the amount predicted to settle within one year as the current portion of the estimated self-insurance liabilities with the corresponding investments held as current portion of assets limited as to use. The long-term portion is reported as estimated self-insurance liabilities with the corresponding investments held as assets limited as to use.

(p) Services Provided by the Religious Community

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

(q) Derivative Instruments

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

(r) Income Taxes

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

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

Under ASC Subtopic 740-10, *Accounting for Uncertainty in Income Taxes – An Interpretation of FASB Statement No. 109*, OSF and SFI must recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the consolidated financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. As of September 30, 2017 and 2016, OSF and SFI do not have any uncertain tax positions.

(s) Fair Value

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

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

In May 2015, the FASB issued ASU No. 2015-07, *Fair Value Measurement (Topic 820), Disclosures for Investment in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. ASU No. 2015-07 removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the NAV per share practical expedient. It also removes the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the NAV per share practical expedient. The requirements of the standard are effective for reporting periods in fiscal years that begin after December 15, 2016 with early adoption permitted. ASU No. 2015-07 is to be applied retrospectively. OSF has elected to early adopt ASU No. 2015-07 in 2016. The adoption resulted in the elimination of the disclosure noted above. There was no effect on OSF's consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities* (ASU No. 2016-01). ASU No. 2016-01 eliminates the requirement for not-for-profit organizations to disclose fair value information for financial instruments measured at medical office building. Other than this impairment, OSF does not believe that there are any factors or circumstances indicating impairment of its long-lived assets for the years ended September 30, 2017 and 2016.

(In thousands)

(i) Goodwill

Goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. Goodwill is reviewed for impairment at least annually. In September 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-08, *Testing Goodwill for Impairment*, which provides an entity the option to perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount prior to performing the two-step goodwill impairment test. If this is the case, the two-step goodwill impairment test is required. If it is more likely than not that the fair value of a reporting is greater than its carrying amount, the two-step goodwill impairment test is not required. OSF adopted this guidance in 2014.

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

OSF has determined the proper reporting unit for goodwill is the consolidated OSF entity unless the goodwill is related to a joint venture, in which case the reporting unit is the joint venture. OSF performs its annual impairment review of goodwill at September 30, and when a triggering event occurs between annual impairment tests. At September 30, 2017 and 2016, OSF performed a qualitative assessment of goodwill and determined that it is not more likely than not that the fair values of its reporting units are less than the carrying amounts. Accordingly, no impairment loss was recorded in 2017 and 2016.

The composition of goodwill at September 30, 2017 and 2016 is set forth in the following table:

		2017	2016
OSF	$	27,454	24,189
Joint ventures		15,378	15,378
	$	42,832	39,567

amortized cost (e.g., debt). OSF has elected to early adopt this part of ASU 2016-01. The remaining parts of the ASU are effective for the year ending September 30, 2020. There was no effect on OSF's consolidated financial statements.

(t) New Accounting Pronouncements

In April 2015, FASB issued ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs.* ASU 2015-03 required that cost related to a recognized debt liability be presented as a direct reduction of the debt liability in the balance sheet similar to premiums and discounts. ASU 2015-03 is effective for nonpublic business entities for annual reporting periods beginning after December 15, 2015 with retrospective application and disclosure. OSF adopted ASU No. 2015-03 in 2017 and applied the changes retrospectively.

In May 2014, FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). This ASU establishes principles for reporting useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts with customers. Particularly, that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The requirements of this statement are effective for OSF for the year ending September 30, 2019. OSF expects to record a decrease in net patient service revenue and a corresponding decrease in the provision for uncollectible accounts upon adoption of the standard.

In November 2016, FASB issued ASU 2016-18, *Restricted Cash*, a consensus of the FASB Emerging Issues Task Force. ASU 2016-18 requires an entity to include amounts generally described as restricted cash and restricted cash equivalents, along with cash and cash equivalents when reconciling beginning and ending balances on the statement of cash flows. ASU 2016-18 is effective for Nonpublic business entities for annual reporting periods beginning after December 15, 2018, with retrospective application and disclosure. Early adoption of ASU 2016-18 is permitted. The requirements of this statement are effective for OSF for the year ending September 30, 2020. OSF has not evaluated the impact of this statement.

In August 2016, FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities.* ASU 2016-14 represents phase 1 of FASB's Not-for-Profit financial reporting project and results reduces the number of net asset classes, requires expense presentation by functional and natural classification, requires quantitative and qualitative information in liquidity, retains the option to present the cash flow statement on a direct or indirect method as well as includes various other additional disclosure requirements. ASU 2016-14 is effective for annual reporting periods beginning after December 15, 2017 with retrospective application. Early adoption of ASU 2016-14 is permitted. The requirements of this statement are effective for OSF for the year ending September 30, 2019. OSF has not evaluated the impact of this statement.

In February 2016, FASB issues ASU 2016-02, *Leases.* ASU 2016-02 requires entities to recognize all leased assets as assets on the balance sheet with a corresponding liability resulting in a gross up of the balance sheet. Entities will also be required to present additional disclosures as to the nature and extent of leasing activities. ASU 2016-02 is effective for nonpublic business entities for the annual reporting period beginning after December 31, 2018. The requirements of this statement are effective for OSF for the year ending September 30, 2020. OSF has not evaluated the impact of this statement.

(u) Reclassifications

Certain 2016 amounts have been reclassified to conform to the 2017 consolidated financial statement presentation. OSF adopted ASU No. 2015-03 in 2017 and applied changes retrospectively to 2016. The adoption of ASU No. 2015-03 resulted in the reclass of $7,689 and $8,394 of debt issuance costs from other assets to long-term debt as of September 30, 2017 and 2016, respectively.

(3) Net Patient and Resident Service Revenue

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

(a) Medicare

Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient nonacute services and certain outpatient services are paid based upon a cost-reimbursement method, established fee screens, or a combination thereof. OSF is reimbursed for cost reimbursable items at a tentative rate, with final settlement determined after submission of annual cost reports by OSF and audits by the Medicare fiscal intermediary. Certain outpatient services are reimbursed at a prospectively determined rate per service based upon their ambulatory payment classification. As of September 30, 2017, Medicare cost reports have been audited and final settled through September 30, 2013 for all hospitals. Medicare cost reports have been audited and final settled through September 30, 2014 for the following hospitals: SFH, SJMC, SMMC, SLMC, HFMC, SEMC, and SPMC. Medicare cost reports have been audited and final settled through September 30, 2015 for HFMC. Various re-opening letters have been received for certain providers in the normal course of the intermediaries review.

OSF participates in various shared risk programs. OSF shares risk with the Centers for Medicare and Medicaid Services (CMS) for the cost of providers through the Next Generation Accountable Care Organization (ACO) and Medicare Shared Savings Program (MSSP) during 2017. OSF completed its last year of participation in the Next Generation ACO program at December 31, 2016. As of January 1, 2017, OSF transitioned from the Next Generation ACO program to the MSSP program, sponsored by the Centers for Medicare and Medicaid Innovation.

As of September 30, 2017, OSF has recorded a payable of $6,825 as a component of accounts payable and accrued expenses for outstanding risk contracts compared to a payable of $14,087 as of September 30, 2016.

(b) Medicaid

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

OSF participates in all State of Illinois Hospital Assessment programs. Assessment programs provide hospitals within the State additional Medicaid reimbursement based on funding formulas approved by CMS. OSF has included its reimbursement for the years ended September 30, 2017 and 2016 of $122,855 and $113,450, respectively, within net patient service revenue in the accompanying consolidated statements of operations and changes in unrestricted net assets.

OSF included its related assessment tax payments of $64,267 and $55,992 for the years ended September 30, 2017 and 2016, respectively, within other expense in the accompanying consolidated statements of operations and changes in unrestricted net assets.

(c) Other

OSF has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to OSF under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined per diem rates. OSF shares risk and receives bonuses for a portion of managed care payors.

Net patient service revenue for the years ended September 30, 2017 and 2016 includes approximately $1,773 and $3,268, respectively, of net favorable retroactively determined settlements from third-party payors relating to prior years exclusive of the amounts related to the aforementioned Medicaid program.

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

OSF's allowance for uncollectible accounts for self-pay patients, which includes uninsured patients and residual copayments and deductibles for which managed care has already paid, increased from 64.84% of self-pay accounts receivable at September 30, 2016 to 68.86% of self-pay accounts receivable at September 30, 2017. In addition, OSF's self-pay write-offs increased from $70,823 for fiscal year 2016 to $79,555 for fiscal year 2017. During fiscal year 2017, OSF revised the financial assistance and uninsured discount policies to reflect updates in Federal and State regulatory changes.

(In thousands)

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

		2017	2016
Medicare	$	780,535	680,646
Medicaid		425,701	396,887
Managed care/contracted payor		1,215,251	1,180,993
Self-pay		52,924	45,054
Other		79,985	108,882
Net patient service revenues	$	2,554,396	2,412,462

(4) Concentration of Credit Risk

OSF grants credit without collateral to its patients and residents, most of whom are local residents and are insured under third-party payor arrangements. The mix of receivables from patients, residents, and third-party payors at September 30, 2017 and 2016 was as follows:

	2017	2016
Medicare	15 %	20 %
Medicaid	48	39
Blue cross	7	7
Other third-party payors	24	27
Patients	6	7
	100 %	100 %

As of September 30, 2017 and 2016, Medicaid fee for service and Medicaid managed care net receivables aggregate to $169,389 and $110,861, respectively. OSF values these receivables using historical collection on enacted rates at the time of the estimate. OSF continues to monitor the State budget matters impacting the Medicaid program.

(5) Charity Care

OSF affirms and maintains its commitment to serve its communities in a manner consistent with the philosophy of OSF and the Parent. The philosophy is that adequate access to healthcare is a basic human right for all. OSF is committed to the promotion, preservation, protection, and restoration of wellness, whenever possible. OSF's services are provided to all persons with compassion and regardless of a patient's financial resources. To support this statement, the costs (determined using an estimated current year Medicare cost-to-charge ratio) incurred for services and supplies furnished under OSF's charity assistance policy aggregated $30,632 and $29,301 in 2017 and 2016, respectively. Not included in these amounts are benefits provided to the poor through the unpaid cost of Medicaid and other public programs. Additional other benefits provided are for the broader community that represents the unpaid cost of health education, research, and other community health services responding to a special need in the communities that OSF serves.

(In thousands)

(6) Investments

(a) Investments

The composition of investments, at fair value, at September 30, 2017 and 2016 is set forth in the following table:

	2017	2016
Cash and cash equivalents	$ 8,887	13,885
Domestic equities	196,640	195,602
U.S. Treasury obligations	131,775	225,321
U.S. government agencies	81,376	67,959
Municipal securities	2,551	5,240
Domestic corporate obligations	235,129	238,430
Domestic mutual funds – equities	27,566	25,891
Domestic mutual funds – bonds	145,556	166,723
Domestic commingled funds	57,011	79,293
Foreign equities	91,768	83,084
Foreign bonds	27,261	20,046
Foreign mutual funds – equities	524	252
Foreign mutual funds – bonds	164	250
Foreign securities – commingled	43,166	36,915
Other	181	730
	$ 1,049,555	1,159,621

(In thousands)

(b) Restricted Assets

The composition of restricted assets, at fair value, except other – farmland, at September 30, 2017 and 2016 is set forth in the following table:

		2017	2016
Cash and cash equivalents	$	730	855
Domestic equities		4,328	3,797
Domestic corporate obligations		74	309
Domestic mutual funds – equities		2,066	1,879
Domestic mutual funds – bonds		1,856	1,435
Foreign mutual funds – equities		1,072	957
Foreign mutual funds – bonds		342	314
Foreign equities		189	111
Foreign bonds		101	152
Other		99	99
Pledges receivable and other		26,787	21,449
Investments held at Foundation on behalf of OSF:			
Cash and cash equivalents		2,562	11,104
U.S. government agencies		30	11
Domestic equities		10,547	9,048
Domestic corporate obligations		128	90
Domestic mutual funds – equities		26,024	19,437
Domestic mutual funds – bonds		23,049	14,918
Foreign equities		524	—
Foreign bonds		—	1
Foreign mutual funds – equities		6,558	5,438
Foreign mutual funds – bonds		171	274
Other – Farmland		960	960
	$	108,197	92,638

(In thousands)

(c) *Assets Limited as to Use*

The composition of assets limited as to use at fair value at September 30, 2017 and 2016 is set forth in the following table:

		2017	2016
Held by trustee under indenture agreement:			
Cash and cash equivalents	$	17,177	8,120
U.S. Treasury obligations		5,916	20,719
U.S. government agencies		1,303	10,548
Municipal securities		3,058	8,540
Domestic corporate obligations		27,481	53,204
Domestic mutual funds – equities		798	696
Domestic mutual funds – bonds		1,011	1,038
Foreign mutual funds – equities		200	165
Domestic commingled funds		—	—
		56,944	103,030
Board-designated for self-insurance, including $32,860 and $31,590 designated as current portion of September 30, 2017 and 2016, respectively:			
Cash and cash equivalents	$	42,086	19,693
Domestic equities		9,573	7,939
U.S. Treasury obligations		36,483	43,685
U.S. government agencies		7,505	7,308
Domestic corporate obligations		50,092	48,281
Domestic mutual funds – equities		202	262
Domestic commingled funds		42,750	36,335
Foreign bonds		9,804	10,152
Foreign equities		369	520
Foreign commingled funds		14,390	12,306
		213,254	186,481
		270,198	289,511
Less current portion		(32,860)	(31,590)
	$	237,338	257,921

(In thousands)

The composition of OSF's investment return for the years ended September 30, 2017 and 2016 is as follows:

		2017	2016
Investment return:			
Interest and dividend income	$	29,313	26,558
Net realized gains		41,229	15,867
Change in net unrealized gains on trading securities		14,523	53,961
Total investment return	$	85,065	96,386

Investment returns included in the accompanying consolidated statements of operations and changes in unrestricted net assets and changes in net assets for the years ended September 30, 2017 and 2016 are as follows:

		2017	2016
Unrestricted revenue, gains, and other support:			
Other	$	9,409	9,515
Nonoperating gains:			
Investment return		69,869	82,930
Other changes in net assets:			
Temporarily restricted net assets:			
Investment return		5,721	3,887
Permanently restricted net assets:			
Investment return		66	54
Total investment return	$	85,065	96,386

(In thousands)

(7) Property and Equipment

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

		2017	2016
Land	$	37,661	36,601
Land improvements		31,850	31,137
Buildings		1,495,763	1,407,495
Equipment		971,385	933,360
		2,536,659	2,408,593
Less accumulated depreciation		1,448,970	1,380,536
		1,087,689	1,028,057
Construction in progress		97,475	89,380
Property and equipment, net	$	1,185,164	1,117,437

At September 30, 2017, the remaining contractual commitment on construction in progress approximated $84,180 and will be financed by operations and existing funds. OSF capitalized interest, net of interest income on project funds in the amount of $3,244 and $3,187 for the years ended September 30, 2017 and 2016, respectively.

(8) Other Assets

Included in other assets at September 30 are the following:

- Escrow deposits of $4,665 in 2017 and $3,749 in 2016 for the self-insured workers' compensation program and are comprised of cash and cash equivalents.
- Deferred tax assets of $12,298 and $15,215 at September 30, 2017 and 2016, respectively (note 15).
- Other miscellaneous assets of $3,603 and $5,430 at September 30, 2017 and 2016, respectively.
- Venture capital investments of $15,842 and $10,602 at cost at September 30, 2017 and 2016, respectively.
- The investments in joint ventures accounted for using the equity method of accounting totaled $15,026 and $11,443 at September 30, 2017 and 2016, respectively. The most significant of these investments include:
  - Community Cancer, LLC – 50.0% ownership interest
  - Renal Intervention Center, LLC – 34.0% ownership interest
  - SimNext, LLC – 50.0% ownership interest
  - River Plex Fitness Center, LLC – 50.0% ownership interest (in operating results only)

(In thousands)

- McLean Imaging Properties, LLC – 49.9% ownership interest
- Rockford Orthopedic Surgery Center, LLC (ROSC) – 25.0% ownership interest
- Gladstone MOB – 50.0% ownership interest
- Central Illinois Imaging, LLC – 47.0% ownership interest
- The tekMill, Inc. – 50.0% ownership interest

For the years ended September 30, 2017 and 2016, OSF recognized losses of $(117) and $(164) in investments in joint ventures, respectively, as a component of other revenue.

The following table summarizes the aggregated unaudited financial information of unconsolidated joint ventures of OSF as of September 30, 2017 and 2016:

		2017	2016
Total assets	$	44,369	31,416
Total liabilities		16,094	9,645
Total net assets	$	28,275	21,771
Total revenues	$	32,058	19,028
Operating expenses		28,487	18,915
Net income	$	3,571	113

(In thousands)

(9) Long-Term Debt

A summary of long-term debt at September 30, 2017 and 2016 is as follows:

		2017	2016
OSF Master Trust Indenture Obligations:			
Revenue Bonds (Illinois Finance Authority Bonds, Series 2016), payable in annual installments of varying amounts, commencing on May 15, 2021 at fixed interest rates between 3.125% and 5.00% depending on the date of maturity through May 15, 2039	$	114,375	114,375
Revenue Bonds (Illinois Finance Authority Bonds, Series 2015A), payable in annual installments of varying amounts, commencing on November 15, 2017 at fixed interest rates between 3.00% and 5.00% depending on the date of maturity through November 15, 2045		368,150	368,150
Taxable Revenue Bonds (Illinois Finance Authority Bonds, Series 2015B), payable in annual installments of varying amounts, commencing on November 1, 2024 through November 1, 2045. Interest is determined monthly based on current market conditions (2.16% at September 30, 2017 and 1.44% at September 30, 2016)		94,270	94,270
Revenue Refunding Bonds (Illinois Finance Authority Bonds, Series 2012A), payable in annual installments of varying amounts, commencing on May 15, 2013 at fixed interest rates between 4.00% and 5.00% depending on the date of maturity through May 15, 2041		171,845	173,345
Revenue Refunding Bonds (Illinois Finance Authority Bonds, Series 2010A), payable in annual installments of varying amounts, commencing on May 15, 2011 at a fixed interest rate of 6.00%. The bonds mature on May 15, 2039. Debt with maturities after May 15, 2020 was defeased in the amount of $100,710 on September 29, 2016		45,765	56,170
Revenue Bonds (Illinois Finance Authority Bonds, Series 2009B, Series 2009C, and Series 2009D), payable in annual installments of varying amounts, commencing November 15, 2021 through November 15, 2037. Interest is determined weekly based on current market conditions (0.95%, 0.92%, and 0.95%, respectively, as of September 30, 2017 and (0.86%, 0.73%, and 0.88%, respectively, as of September 30, 2016)		125,000	125,000

(In thousands)

		2017	2016
Revenue Bonds (Illinois Finance Authority Bonds, Series 2009G), payable in annual installments of varying amounts, commencing August 1, 2010 through August 1, 2029. Interest is determined monthly based on the current market conditions (1.43% as of September 30, 2017 and 1.02% as of September 30, 2016)	$	16,500	16,500
Revenue Bonds (Illinois Finance Authority Bonds, Series 2007E and Series 2007F) payable in annual installments of varying amounts commencing November 15, 2024 through November 15, 2037. Interest is determined weekly based on current market conditions (0.95% and 0.95%, respectively, as of September 30, 2017 and 0.88% and 0.88%, respectively, as of September 30, 2016)		125,000	125,000
Other debt:			
Mortgage note payable to Byron Bank, secured by an EMS training facility. The note bears interest at a rate of 2.91%. Principal and interest of $3 are payable monthly through October 30, 2017 with a balloon payment of $469 due on November 30, 2017		469	494
HUD insured mortgage under Section 242 of the *National Housing Act*. The mortgage bears interest at a rate of 4.425%. Principal and interest of $190 is due monthly through December 2036		29,550	30,502
Revenue Bonds (OSF Finance Company, LLC, Adjustable Rate Taxable Securities, Series 2007-A) payable in annual installments of varying amounts commencing on December 1, 2009 through December 1, 2037. Interest rate varies weekly based on current market conditions (1.18% as of September 30, 2017 and 0.87% as of September 30, 2016)		23,590	24,170
Mortgage note payable to Rockford Bank and Trust, secured by medical office building. The note bears an interest rate of 3.80% payable monthly. Principal and interest of $22 is payable monthly with a balloon payment of $2,906 on June 20, 2020		3,278	3,411
Mortgage note payable to Busey Bank, secured by a medical office building. The note bears an interest rate of 3.25% payable monthly. Principal and interest of $16 are due monthly through May 2024		1,089	1,233

(In thousands)

		2017	2016
Mortgage note payable to JP Morgan Chase Bank, N.A., secured by a medical office building. The interest rate varies monthly based on current market conditions (2.99% and 2.27% as of September 30, 2017 and 2016, respectively). Principal payment of $47 plus accrued interest is due monthly through January 2024	$	3,556	4,069
Mortgage note payable to Commerce Bank, secured by a medical office building. The note bears an interest rate of 3.32% payable monthly. Principal and interest of $31 are payable monthly through June 30, 2022 with a balloon payment of $1,087 due July 31, 2022		2,548	2,828
Mortgage note payable to Busey Bank, secured by an office building. The note bears an interest rate of 4.36% payable monthly. Principal and interest of $68 is payable monthly through March 2024 with a balloon payment of $6,641 due April 1, 2024		9,561	9,944
Mortgage note payable to Byron Bank, secured by a medical office building. The note bears an interest rate of 4.42% payable monthly. Principal and interest of $10 is payable monthly through August 2029		1,053	1,118
Mortgage note payable to Commerce Bank, secured by a medical office building. The note bears an interest rate of 3.32% payable monthly. Principal and interest of $15 are payable monthly through June 30, 2022 with a balloon payment of $513 due July 30, 2022		1,204	1,336
Mortgage note payable to Heartland Bank, secured by a medical office building. The note bears an interest rate of 4.24% payable monthly. Principal and interest of $32 are payable monthly through May 19, 2017 with a balloon payment of $3,174 due June 19, 2017		—	3,326
Note payable to Commerce Bank, secured by an aviation hangar. The note bears an interest rate of 3.57%. Principal and interest of $14 are payable monthly through May 1, 2024 with a balloon payment of $1,064 due June 1, 2024		1,028	1,149

(In thousands)

		2017	2016
Mortgage note payable to Commerce Bank, secured by a medical office building. The note bears an interest rate of 2.96% payable monthly. Principal and interest payments of $42 are payable monthly through October 1, 2022 with a balloon payment of $1,485 due November 1, 2022	$	3,644	4,033
Mortgage note payable to Busey Bank, secured by a medical office building. The note bears interest at a rate of 3.08%. Principal and interest of $6 are payable monthly through April 1, 2018 with a balloon payment of $804 due on May 21, 2018		826	867
Mortgage note payable to JP Morgan Chase, N.A. secured by a medical office building. The interest rate varies monthly based upon current market conditions (2.73% as of September 30, 2017). Principal payment of $26.5 plus accrued interest is due monthly through May 15, 2024 with a balloon payment of $985 due June 15, 2024, plus interest		3,105	—
Other miscellaneous notes payable and capital leases		2,207	2,014
		1,147,613	1,163,304
Plus original issue premium, net		37,240	38,932
Total debt		1,184,853	1,202,236
Less:			
Current installments		24,419	24,875
Debt issuance costs, net		7,689	8,394
Total long-term debt, excluding current installments	$	1,152,745	1,168,967

OSF's average interest rates for variable rate debt for the years ended September 30, 2017 and 2016 are as follows:

	2017	2016
Variable interest rate issues:		
2007E	0.76 %	0.25 %
2007F	0.76	0.25
2009B	0.75	0.25
2009C	0.73	0.23
2009D	0.76	0.25
2009G	1.27	0.96
2015B	1.84	1.44

(In thousands)

On September 29, 2015, OSF entered into a Second Amended and Restated Master Trust Indenture (MTI) dated September 1, 2015. The purpose of the MTI is to provide a mechanism for the efficient and economical advancement of funds to various operating divisions of OSF using the collective borrowing capacity and credit rating of OSF. OSF has pledged letters of credit as collateral on certain borrowings under the MTI. Under the terms of the MTI, OSF is also required to maintain certain deposits with a trustee. Such deposits are included with assets limited as to use. The MTI also places limits on the incurrence of additional borrowings and requires that OSF satisfy certain measures of financial performance as long as the notes are outstanding. As of September 30, 2017 and 2016, amounts outstanding under the MTI totaled $1,060,905 and $1,072,810, respectively.

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

In September 2016, OSF refinanced a portion of the Series 2010A bonds with the issuance of the Series 2016 bonds. The result of the refinancing was a loss on early extinguishment of debt of $20,482.

OSF has variable rate demand notes that have a put option available to the creditor. If the put option is exercised, the bonds are presented to the bank, which in turn draws on the underlying letter of credit or liquidity facility. The series and the underlying credit facility terms are described as follows as of September 30, 2017:

	Term
OSF Master Trust Indenture Obligations:	
2007E	Quarterly beginning 367 days after bank purchase date and ending on the fifth anniversary of the bank purchase date. The letter of credit expires September 25, 2019
2007F	Quarterly beginning 367 days after bank purchase date and ending on the fifth anniversary of the bank purchase date. The letter of credit expires September 25, 2019
2009B	Quarterly over three years beginning three months after 366 days elapsed since liquidity advance. The letter of credit expires September 15, 2021
2009C	Quarterly over three years beginning on the first day of the calendar quarter after 366 days elapsed since liquidity advance. The letter of credit expires October 2, 2018
2009D	Quarterly over two years beginning after 367 days elapsed since liquidity advance. The letter of credit expires October 2, 2019
Other debt:	
2007A	Quarterly over three years beginning after 366 days elapsed since liquidity advance. The letter of credit expires December 20, 2020

(In thousands)

Scheduled principal payments on OSF's long-term debt is as follows:

Year ending September 30:		
2018	$	24,419
2019		23,832
2020		27,773
2021		28,031
2022		30,462
Thereafter		1,050,336

Principal payments on long-term debt if (i) variable rate bonds are put and not remarketed resulting in draws on letters of credit, or (ii) certain SFI debt is not refinanced in the ordinary course is as follows:

Year ending September 30:		
2018	$	24,419
2019		103,725
2020		111,794
2021		99,505
2022		62,939
Thereafter		782,471

A summary of interest cost on borrowed funds held by the trustee under the MTI during the years ended September 30, 2017 and 2016 is as follows:

		2017	2016
Interest cost – charged to operations	$	32,776	33,034

(10) Derivative Instruments and Hedging Activities

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

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

(In thousands)

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

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

OSF is exposed to credit loss in the event of nonperformance by the counterparty to the interest rate swap agreements; however, this is not anticipated. During the years ended September 30, 2017 and 2016, neither OSF nor any counterparty to the interest rate swap agreements were required to post collateral.

A summary of outstanding positions under OSF's interest rate swap program at September 30, 2017 is as follows:

Notional amount	Maturity date	Rate received	Rate paid
$ 43,875	November 2, 2029	BMA Index	3.969 %
44,150	October 19, 2029	BMA Index	3.969
8,725	November 15, 2024	BMA Index	3.794
130,000	November 15, 2037	67% 1 Mo. Libor	3.651
125,440	May 15, 2041	79% 3 Mo. Libor	SIFMA

Net payments equal to the differential to be paid under all interest rate swap agreements are recognized within nonoperating gains (losses) as net settlement of derivative instruments and amounted to approximately $(7,048) and $(7,109) in 2017 and 2016, respectively.

In connection with the planned issuance of the Series 2016 Bonds, OSF entered into an interest rate swap to hedge the risk of rising interest rates. The swap was executed on June 21, 2016 in the notional amount of $100,380. The swap was terminated upon the issuance of the Series 2016 Bonds on September 29, 2016, resulting in cash payments totaling $(1,677), which is recognized within the nonoperating gains (losses) as net settlement of derivative instruments in the consolidated statements of operations and changes in unrestricted net assets.

The fair value of the swap agreements under ASC Subtopic 820-10 was $(46,258) and $(67,938) and is recorded as a component of other liabilities in the accompanying consolidated balance sheets at September 30, 2017 and 2016, respectively. For the years ended September 30, 2017 and 2016, OSF recognized an unrealized gain (loss) of $21,680 and $(9,813), respectively, as its change in the fair value of the interest rate swaps as a component of nonoperating gains (losses) – change in fair value of derivative instruments.

(In thousands)

The following is a summary of the swaps as of September 30, 2017:

Type of interest swap		Notional amount	Mark to market	Fair value
Floating-to-fixed	$	43,875	(7,147)	(6,890)
Floating-to-fixed		44,150	(7,160)	(6,904)
Floating-to-fixed		8,725	(738)	(722)
Floating-to-fixed		130,000	(32,618)	(30,712)
Floating-to-fixed		125,440	(1,275)	(1,030)
			$ (48,938)	(46,258)

The following is a summary of the swaps as of September 30, 2016:

Type of interest swap		Notional amount	Mark to market	Fair value
Floating-to-fixed	$	45,200	(10,543)	(10,300)
Floating-to-fixed		45,475	(10,570)	(10,327)
Floating-to-fixed		9,625	(1,156)	(1,140)
Floating-to-fixed		130,000	(46,168)	(44,535)
Floating-to-fixed		126,535	(1,755)	(1,636)
			$ (70,192)	(67,938)

A summary of outstanding positions under SFI's interest rate swap program at September 30, 2017 is as follows:

	Notional amount	Maturity date	Rate received	Rate paid
$	13,000	December 1, 2017	USD – LIBOR-BBA	4.353 %
	13,084	December 1, 2037	USD – LIBOR-BBA	2.887 %
	3,158	June 25, 2024	USD – LIBOR-BBA	2.150 %

Net payments equal to the differential to be received under the interest rate swap program are recognized as a component of interest expense and amounted to approximately $661 and $517 in 2017 and 2016, respectively.

The fair value of the SFI swap agreements was $3 and $(697) and is recorded as a component of other liabilities in the accompanying consolidated balance sheets as of September 30, 2017 and 2016, respectively. For the years ended September 30, 2017 and 2016, SFI recognized an unrealized gain of

(In thousands)

$700 and $222, respectively, as its change in the fair value of the interest rate swaps as a component of nonoperating gains (losses) – change in fair value of derivative instruments.

The following is a summary of SFI's swaps as of September 30, 2017:

Type of interest swap	Notional amount	Mark to market	Fair value
Fixed rate payor	$ 13,000	(70)	(70)
Fixed rate payor	13,084	113	104
Fixed rate payor	3,158	(31)	(31)
		$ 12	3

The following is a summary of SFI's swaps as of September 30, 2016:

Type of interest swap	Notional amount	Mark to market	Fair value
Fixed rate payor	$ 13,000	(551)	(697)
		$ (551)	(697)

(11) Investment Composition and Fair Value Measurements

(a) Overall Investment Objective

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

(b) Allocation of Investment Strategies

OSF maintains a percentage of assets in domestic and international stocks. To manage its risk exposure, the investment allocation of the portfolio is balanced with investments in fixed income an equity securities. Because of the inherent uncertainties for valuation of some holdings, the estimated fair values may differ from values that would have been used had a ready market existed.

(c) Basis of Reporting

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

(d) Fair Value of Financial Instruments

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

- The carrying amount reported in the consolidated balance sheets for the following approximates fair value because of the short maturities of these instruments: cash and cash equivalents, other assets, accounts payable and accrued expenses, and estimated third-party payor settlements.
- Fair values of OSF's investments held as investments, assets limited as to use, and restricted assets are estimated based on prices provided by its investment managers and its custodian bank. Fair value for cash and cash equivalents, equities, and foreign equities are measured using quoted market prices at the reporting date multiplied by the quantity held. U.S. Treasury obligations, U.S. government agencies, municipal securities, corporate obligations, mutual funds, and foreign securities are measured using other observable inputs. The carrying value equals fair value.
- Commingled funds and mutual funds that do not have a readily determinable fair value are valued using NAV as a practical expedient to measure fair value as allowed by ASU No. 2009-12.
- Fair value of interest rate swaps is determined using pricing models developed based on the LIBOR swap rate and other observable market data. The value was determined after considering the potential impact of collateralization and netting agreements, adjusted to reflect nonperformance risk of both the counterparty and OSF.

(e) Fair Value Hierarchy

OSF adopted ASC Subtopic 820-10 for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis. OSF did not elect to fair value any of its nonfinancial assets or liabilities as of September 30, 2017 and 2016. ASC Subtopic 820-10 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

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

(In thousands)

The following tables present OSF's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of September 30, 2017:

	Fair value	Level 1	Level 2	Level 3
Financial assets:				
Cash and cash equivalents	$ 195,990	195,990	—	—
Investments:				
Cash and cash equivalents	$ 8,887	5,489	3,398	—
Domestic equities	196,640	196,640	—	—
U.S. Treasury obligations	131,775	131,775	—	—
U.S. government agencies	81,376	—	81,376	—
Municipal securities	2,551	—	2,551	—
Domestic corporate obligations	235,121	—	235,121	—
Domestic mutual funds – equities	27,566	27,566	—	—
Domestic mutual funds – bonds	145,556	145,556	—	—
Domestic commingled funds	57,011	57,011	—	—
Foreign equities	91,768	91,768	—	—
Foreign bonds	27,261	—	27,261	—
Foreign mutual funds – equities	524	524	—	—
Foreign mutual funds – bonds	164	164	—	—
Subtotal	1,006,200	$ 656,493	349,707	—
Foreign securities – commingled	43,166			
Other	189			
Total investments	$ 1,049,555			
Restricted assets – excluding pledges and other of $26,787:				
Cash and cash equivalents	$ 730	730	—	—
Domestic equities	4,328	4,328	—	—
Domestic corporate obligations	74	—	74	—
Domestic mutual funds – equities	2,066	2,066	—	—
Domestic mutual funds – bonds	1,856	1,856	—	—
Foreign mutual funds – equities	1,072	1,072	—	—
Foreign mutual funds – bonds	342	342	—	—
Foreign equities	189	189	—	—
Foreign bonds	101	—	101	—
Other	3	—	3	—

OSF HEALTHCARE SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2017 and 2016

(In thousands)

	Fair value	Level 1	Level 2	Level 3
Investments held at foundation:				
Cash and cash equivalents	$ 2,562	2,191	371	—
U.S. government agencies	30	—	30	—
Domestic equities	10,547	10,547	—	—
Domestic corporate obligations	128	—	128	—
Domestic mutual funds – equities	26,024	26,024	—	—
Domestic mutual funds – bonds	23,049	23,049	—	—
Foreign bonds	524	524	—	—
Foreign mutual funds – equities	6,558	6,558	—	—
Foreign mutual funds – bonds	171	171	—	—
Subtotal	80,354	$ 79,647	707	—
Other – farmland	1,056			
Total restricted assets	$ 81,410			
Assets limited as to use:				
Cash and cash equivalents	$ 59,263	59,263	—	—
Domestic equities	9,573	9,573	—	—
U.S. Treasury obligations	42,399	42,399	—	—
U.S. government agencies	8,808	—	8,808	—
Municipal securities	3,058	—	3,058	—
Domestic corporate obligations	77,573	—	77,573	—
Domestic mutual funds – equities	1,000	1,000	—	—
Domestic mutual funds – bonds	1,011	1,011	—	—
Domestic commingled funds	42,750	42,750	—	—
Foreign equities	369	369	—	—
Foreign bonds	9,804	—	9,804	—
Foreign mutual funds – equities	200	200	—	—
Subtotal	255,808	156,565	99,243	—
Foreign commingled funds	14,390			
Total assets limited as to use	$ 270,198			

(In thousands)

		Fair value	Level 1	Level 2	Level 3
Financial liabilities:					
Fair value of swap agreements	$	(46,255)	—	(46,255)	—
Total financial liabilities	$	(46,255)	—	(46,255)	—

The following tables present OSF's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of September 30, 2016:

		Fair value		Level 1	Level 2	Level 3
Financial assets:						
Cash and cash equivalents	$	157,568		157,568	—	—
Investments:						
Cash and cash equivalents	$	13,885		6,378	7,507	—
Domestic equities		195,602		195,602	—	—
U.S. Treasury obligations		225,321		225,321	—	—
U.S. government agencies		67,959		—	67,959	—
Municipal securities		5,240		—	5,240	—
Domestic corporate obligations		238,430		—	238,430	—
Domestic mutual funds – equities		25,891		25,891	—	—
Domestic mutual funds – bonds		166,723		166,723	—	—
Domestic commingled funds		79,293		79,293	—	—
Foreign equities		83,084		83,084	—	—
Foreign bonds		20,046		—	20,046	—
Foreign mutual funds – equities		252		252	—	—
Foreign mutual funds – bonds		250		250	—	—
Other		520		—	520	—
Subtotal		1,122,496	$	782,794	339,702	—
Foreign securities – commingled		36,915				
Other		210				
Total investments	$	1,159,621				
Restricted assets – excluding pledges and other of $21,449:						
Cash and cash equivalents	$	855		855	—	—
Domestic equities		3,797		3,797	—	—
Domestic corporate obligations		309		—	309	—
Domestic mutual funds – equities		1,879		1,879	—	—
Domestic mutual funds – bonds		1,435		1,435	—	—
Foreign mutual funds – equities		957		957	—	—
Foreign mutual funds – bonds		314		314	—	—
Foreign equities		111		111	—	—
Foreign bonds		152		—	152	—
Other		3		—	3	—

OSF HEALTHCARE SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2017 and 2016

(In thousands)

		Fair value		Level 1	Level 2	Level 3
Investments held at foundation:						
Cash and cash equivalents	$	11,104		10,760	344	—
U.S. government agencies		11		—	11	—
Domestic equities		9,048		9,048	—	—
Domestic corporate obligations		90		—	90	—
Domestic mutual funds – equities		19,437		19,437	—	—
Domestic mutual funds – bonds		14,918		14,918	—	—
Foreign bonds		1		—	1	—
Foreign mutual funds – equities		5,438		5,438	—	—
Foreign mutual funds – bonds		274		274	—	—
Subtotal		70,133	$	69,223	910	—
Other – farmland		1,056				
Total restricted assets	$	71,189				
Assets limited as to use:						
Cash and cash equivalents	$	27,813		27,813	—	—
Domestic equities		7,939		7,939	—	—
U.S. Treasury obligations		64,404		64,404	—	—
U.S. government agencies		17,856		—	17,856	—
Municipal securities		8,540		—	8,540	
Domestic corporate obligations		101,485		—	101,485	—
Domestic mutual funds – equities		958		958	—	—
Domestic mutual funds – bonds		1,038		1,038	—	—
Domestic commingled funds		36,335		36,335	—	—
Foreign equities		520		520	—	—
Foreign bonds		10,152		—	10,152	—
Foreign mutual funds – equities		165		165	—	—
Subtotal		277,205	$	139,172	138,033	—
Foreign commingled funds		12,306				
Total assets limited as to use	$	289,511				

		Fair value	Level 1	Level 2	Level 3
Financial liabilities:					
Fair value of swap agreements	$	(68,635)	—	(68,635)	—
Total financial liabilities	$	(68,635)	—	(68,635)	—

OSF's accounting policy is to recognize transfers between levels of the fair value hierarchy on the date of the event or change in circumstances that caused the transfer. There were no transfers into or out of Level 1, Level 2, or Level 3 for the years ended September 30, 2017 and 2016.

(In thousands)

None of the assets, except those listed below, have any redemption restrictions so the redemption frequency is daily and would have a one-day notice for redemption:

		2017	2016	Redemption frequency	Days notice
Investments:					
Foreign securities – commingled	$	43,166	36,915	Monthly	10
Domestic commingled funds		57,011	79,293	Daily	2
Global hedge fund		181	198	Monthly	Specific date each month
Assets limited as to use:					
Foreign securities – commingled		14,390	12,306	Monthly	10
Domestic commingled funds		42,750	36,335	Daily	2

(12) Temporarily and Permanently Restricted Net Assets

OSF's temporarily restricted net assets of $64,684 and $55,985 at September 30, 2017 and 2016, respectively, are restricted for nursing education and various programs related to the provision of healthcare.

OSF's permanently restricted net assets of $43,513 and $36,653 at September 30, 2017 and 2016, respectively, consist of investments to be held in perpetuity, the majority of income of which is expendable to support healthcare services.

During 2017 and 2016, net assets were released from donor restrictions by purchasing equipment and incurring operating expenses, which satisfied the restricted purpose of healthcare and nursing education in the amount of $4,557 and $3,482, respectively.

(13) Self-Insurance

OSF has established a self-insurance program for professional and general liability, which provides for both self-insured limits and purchased coverage above such limits. Excess coverage is provided by OSF Assurance Company, who purchases reinsurance from a third-party carrier for professional and general liability that has a limit ranging from $35,000 to $55,000 for each claim and in the aggregate and is in excess of $7,000 for each and every occurrence depending on the year of the claim. There are known claims and incidents that may result in the assertion of additional claims, as well as claims from unknown incidents that may be asserted arising from services provided to patients. OSF has employed independent actuaries to estimate the ultimate costs, if any, of the settlement of such claims. Accrued professional and general liability losses are recorded on an undiscounted basis. In management's opinion, the accrued professional and general liability losses provide an adequate reserve for loss contingencies.

(In thousands)

OSF is self-insured for workers' compensation. OSF has employed independent actuaries to estimate the ultimate costs, if any, of the settlement of workers' compensation claims.

OSF is also self-insured for unemployment compensation benefits and health and dental claims. OSF has developed internal techniques for estimating the ultimate costs of these claims. Accrued losses are recorded on an undiscounted basis. In management's opinion, accrued losses provide an adequate reserve for loss contingencies. Due to the short-term nature of health and dental claims, estimated liabilities of $13,305 and $15,694 as of September 30, 2017 and 2016, respectively, have been reported as accrued expenses. The associated expense of $156,345 and $136,716 as of September 30, 2017 and 2016, respectively, is included in salaries and benefits in the accompanying consolidated statements of operations and changes in unrestricted net assets.

As of September 30, 2017 and 2016, estimated self-insurance liabilities are comprised of the following:

		2017	2016
Professional and general liability	$	179,548	166,519
Workers' compensation		14,968	18,863
Other		2,220	2,547
Total estimated self-insurance liabilities		196,736	187,929
Less current portion		32,860	31,590
Total estimated self-insurance liabilities, less current portion	$	163,876	156,339

OSF shares certain insurance risks it has underwritten through the use of reinsurance contracts. Amounts that can be claimed from OSF's reinsurers are valued by an independent actuary. Should OSF's reinsurers be unable to reimburse OSF for recoverable claims, OSF would still be liable to pay the claims; however, OSF contracts with various highly rated insurance carriers to mitigate this risk. As of September 30, 2017 and 2016, OSF has recorded no insurance receivables in the accompanying consolidated balance sheets.

Self-insurance expense is included in supplies and other expenses in the accompanying consolidated statements of operations and changes in unrestricted net assets. As of September 30, 2017 and 2016, self-insurance expense is comprised of the following:

		2017	2016
Professional and general liability	$	16,725	17,698
Workers' compensation		1,745	2,971
Total self-insurance expense	$	18,470	20,669

(In thousands)

(14) Retirement Benefits

OSF has a noncontributory defined benefit pension plan (the Plan) covering substantially all employees of the Providers and OSF Corporate Office. The Plan was changed to eliminate benefit accruals after March 5, 2011. Curtailment accounting occurred effective December 31, 2010. Prior to the Plan's change, the benefit was based on a career average benefit based on both pay and service earned at OSF. Contributions are made on a monthly basis to improve the Plan's funded status. The Plan is a "Church" plan and is not subject to Employee Retirement Income Security Act (ERISA).

The actuarial funding method used in the actuarial valuation for 2017 and 2016 is the projected unit credit cost method. The measurement date for plan liabilities and assets is September 30 for the years ended September 30, 2017 and 2016. The following tables set forth the Plan's funded status and amounts recognized in OSF's consolidated financial statements at September 30, 2017 and 2016:

		2017	2016
Change in benefit obligation:			
Benefit obligation at beginning of year	$	1,012,596	881,863
Interest cost		37,491	40,042
Actuarial loss (gain)		(22,875)	114,586
Benefits paid		(26,695)	(23,895)
Benefit obligation at end of year	$	1,000,517	1,012,596
Change in plan assets:			
Fair value of plan assets at beginning of year	$	565,904	533,025
Actual return on plan assets		71,015	52,188
Employer contributions		5,098	4,586
Benefits paid		(26,695)	(23,895)
Fair value of plan assets at end of year	$	615,322	565,904
Reconciliation of funded status:			
Funded status	$	(385,195)	(446,692)
Net amount recognized at year-end	$	(385,195)	(446,692)
Amounts recognized in the accompanying consolidated balance sheets:			
Accrued benefit liability	$	(385,195)	(446,692)

(In thousands)

		2017	2016
Amounts not yet reflected in net periodic benefit cost and included as an accumulated credit to unrestricted net assets:			
Net actuarial loss	$	(421,013)	(483,281)
Prior service cost		(6,851)	(7,085)
Net amounts recognized in the accompanying consolidated balance sheets	$	(427,864)	(490,366)

		2017	2016
Weighted average assumptions:			
Discount rate:			
Benefit obligation		3.90 %	3.75 %
Net periodic benefit cost		3.75	4.60
Rate of compensation increase:			
Benefit obligation		N/A	N/A
Net periodic benefit cost		N/A	N/A
Expected return on plan assets		7.50	8.00
Components of net periodic benefit cost:			
Interest cost	$	37,491	40,042
Expected return on plan assets		(42,979)	(43,841)
Amortization of prior service cost		234	234
Amortization of actuarial loss		11,357	8,151
Net periodic benefit cost	$	6,103	4,586

The accumulated benefit obligation for the Plan was $1,000,517 and $1,012,596 at September 30, 2017 and 2016, respectively. As of September 30, 2017, OSF adopted the RP-2014 Mortality Table with generational improvements using a modified projection scale MP-2017. As of September 30, 2016, OSF adopted the RP-2014 Mortality Table with generational improvements using a modified projection scale MP-2016.

Benefit costs are included in salaries and benefits in the accompanying consolidated financial statements.

The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based exclusively on historical returns, without adjustments.

OSF is expected to contribute approximately $5,193 to the Plan in 2018.

(In thousands)

The benefits expected to be paid in each year 2018 through 2022 are approximately $32,574, $36,323, $39,653, $42,827, and $45,800, respectively. The aggregate benefits expected to be paid in the five years from 2023 through 2027 are approximately $260,879. The expected benefits are based on the same assumptions used to measure OSF's benefit obligation at September 30, 2017.

The Plan has a statement of investment policy, which is reviewed and approved by the OSF Board of Directors. The policy establishes goals and objectives of the fund, asset allocations, allowable and prohibited investments, socially responsible guidelines, and asset classifications, as well as specific investment manager guidelines. The policy states that the rebalancing of these assets to the target allocations will be reviewed on a semiannual basis. Investments are managed by independent advisors. Management monitors the performance of these managers on a monthly basis.

The table below lists the target asset allocation and acceptable ranges and actual asset allocations as of September 30, 2017 and 2016:

Asset	Target allocation	Acceptable range	Actual allocation at September 30 2017	2016
Large cap equity	39 %	34% to 44%	41.3 %	41.3 %
Small cap equity	6	1 to 11	6.9	6.4
International equity	20	15 to 25	20.8	18.7
Fixed income	35	30 to 40	30.1	32.6
Cash	—	—	0.9	1.0

Fair Value of Financial Instruments

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at September 30, 2017 and 2016.

- Fair values of the Plan's assets are estimated based on prices provided by its investment managers and its custodian bank except for commingled funds. Fair value for cash and cash equivalents, equities, and foreign equities are measured using quoted market prices at the reporting date multiplied by the quantity held. U.S. Treasury obligations, U.S. government agencies, municipal securities, corporate obligations, and foreign securities are measured using other observable inputs. The carrying value equals fair value.
- Commingled funds and mutual funds that do not have a readily determinable fair value are valued using NAV as a practical expedient to measure fair value as allowed by ASU No. 2009-12.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

(In thousands)

Fair Value Hierarchy

The Plan adopted ASC Subtopic 715-20-50, *Compensation – Retirement Benefits*, on October 1, 2009 for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis. ASC Subtopic 715-20-50 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value.

The following table presents the Plan's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of September 30, 2017:

	Fair value	Level 1	Level 2	Level 3
Financial assets:				
Investments:				
Cash and cash equivalents	$ 22,226	22,226	—	—
Domestic equities	184,984	184,984	—	—
U.S. Treasury obligations	38,293	38,293	—	—
U.S. government agencies	18,837	—	18,837	—
Municipal securities	1,504	—	1,504	—
Domestic corporate obligations	61,478	—	61,478	—
Domestic mutual funds – equities	853	853	—	—
Domestic mutual funds – bonds	48,085	48,085	—	—
Domestic commingled funds	88,870	87,940	930	—
Foreign equities	66,990	66,990	—	—
Foreign bonds	9,581	—	9,581	—
Subtotal	541,701	$ 449,371	92,330	—
Foreign commingled funds	73,580			
Partnership	41			
Total financial assets	$ 615,322			

(In thousands)

The following table presents the Plan's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of September 30, 2016:

	Fair value	Level 1	Level 2	Level 3
Financial assets:				
Investments:				
Cash and cash equivalents	$ 13,513	13,513	—	—
Domestic equities	163,636	163,636	—	—
U.S. Treasury obligations	47,983	47,983	—	—
U.S. government agencies	22,865	—	22,865	—
Municipal securities	1,650	—	1,650	—
Domestic corporate obligations	51,389	—	51,389	—
Domestic mutual funds – equities	1,100	1,100	—	—
Domestic mutual funds – bonds	52,998	52,998	—	—
Domestic commingled funds	78,764	77,839	925	—
Foreign equities	66,053	66,053	—	—
Foreign bonds	4,636	—	4,636	—
Subtotal	504,587	$ 423,122	81,465	—
Foreign commingled funds	61,276			
Partnership	41			
Total financial assets	$ 565,904			

The Plan's accounting policy is to recognize transfers between levels of the fair value hierarchy on the date of the event or change in circumstances that caused the transfer. There were no transfers into or out of Level 1, Level 2, or Level 3 for the years ended September 30, 2017 and 2016.

None of the assets, except those listed below, have any redemption restrictions so the redemption frequency is daily and would have a one-day notice for redemption.

	2017	2016	Redemption frequency	Days notice
Foreign commingled funds	$ 73,580	61,276	Monthly	10
Domestic commingled funds	87,940	77,839	Daily	2
Partnership	41	41	At GP discretion	N/A

(In thousands)

In addition, OSF sponsors a retirement savings plan that includes a 401(k) feature. In conjunction with the change in the pension plan on March 5, 2011, OSF enhanced the retirement savings plan by increasing the match and adding an annual discretionary contribution. In 2016 and 2017, participants may deposit an amount from 1% to 90% of their eligible compensation up to the Internal Revenue Services (IRS) limit. OSF contributes 100% of the employee contribution up to 5% of eligible compensation. OSF may also make annual discretionary contributions based on a participant's age and years of service. OSF contributed $62,614 in 2017 and $61,657 in 2016 to the retirement savings plan, which has been expensed as salaries and benefits expense. OSF also accrued for an anticipated discretionary contribution of $17,681 in 2017 and $22,139 in 2016, which has been expensed as salaries and benefits expense.

SFI has a defined benefit pension plan (SFI Plan) covering substantially all of its employees. The plan was changed to eliminate benefit accruals after March 5, 2011. Curtailment accounting occurred effective December 31, 2010. Prior to the plan change, SFI Plan benefits were based on years of service and the employee's compensation during those years of service. SFI's funding policy is to contribute an amount not less than the minimum required contribution under the ERISA of 1974.

The actuarial funding method used in the actuarial valuation for 2017 and 2016 for the SFI Plan is the projected unit credit cost method. The measurement date for plan liabilities and assets is September 30. The following tables set forth the SFI Plan's funded status and amounts recognized in the consolidated financial statements at September 30, 2017:

		2017	2016
Change in benefit obligation:			
Benefit obligation at beginning of year	$	74,763	64,076
Interest cost		2,774	2,950
Actuarial loss (gain)		(4,193)	9,205
Benefits paid		(1,662)	(1,468)
Benefit obligation at end of year	$	71,682	74,763
Change in plan assets:			
Fair value of plan assets at beginning of year	$	49,969	46,303
Actual return on plan assets		6,829	4,634
Employer contributions		—	500
Benefits paid		(1,662)	(1,468)
Fair value of plan assets at end of year	$	55,136	49,969
Reconciliation of funded status:			
Funded status	$	(16,546)	(24,794)
Net amount recognized at year-end	$	(16,546)	(24,794)
Amounts recognized in the accompanying consolidated balance sheets:			
Accrued benefit liability	$	(16,546)	(24,794)

(In thousands)

		2017	2016
Amounts not yet reflected in net periodic benefit cost and included as an accumulated credit to stockholder's equity:			
Net actuarial loss	$	(24,463)	(32,464)
Prior service cost		(280)	(289)
Net amounts recognized in the accompanying consolidated balance sheets	$	(24,743)	(32,753)

		2017	2016
Weighted average assumptions:			
Discount rate:			
Benefit obligation		3.95 %	3.75 %
Net periodic benefit cost		3.75	4.65
Rate of compensation increase:			
Benefit obligation		N/A	N/A
Net periodic benefit cost		N/A	N/A
Expected return on plan assets		7.50	8.00
Components of net periodic benefit cost:			
Interest cost	$	2,774	2,950
Expected return on plan assets		(3,751)	(3,745)
Amortization of actuarial loss		730	499
Amortization of prior service cost		9	9
Net periodic benefit cost	$	(238)	(287)

The accumulated benefit obligation for the SFI Plan was $71,682 and $74,763 at September 30, 2017 and 2016, respectively. As of September 30, 2017, OSF adopted the RP-2014 Mortality Table with generational improvements using a modified projection scale MP-2017. As of September 30, 2016, OSF adopted the RP-2014 Mortality Table with generational improvements using a modified projection scale MP-2016.

The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based exclusively on historical returns, without adjustments.

SFI is expected to contribute approximately $350 to the SFI Plan in 2018.

The benefits expected to be paid in each year 2018 through 2022 for the SFI Plan are approximately $2,019, $2,260, $2,484, $2,714, and $2,945, respectively. The aggregate benefits expected to be paid in the five years from 2023 through 2027 are approximately $17,791.

(In thousands)

The SFI Plan has a statement of investment policy, which is reviewed and approved by the SFI Board of Directors. The policy establishes goals and objectives of the fund, asset allocations, allowable and prohibited investments, socially responsible guidelines, and asset classifications, as well as specific investment manager guidelines. The policy states that the rebalancing of these assets to the target allocations will be reviewed on a semiannual basis. Investments are managed by independent advisors. Management monitors the performance of these managers on a monthly basis.

The table below lists the target asset allocation and acceptable ranges and actual asset allocations for the SFI Plan as of September 30, 2017 and 2016:

Asset	Target allocation	Acceptable range	Actual allocation at September 30 2017	Actual allocation at September 30 2016
Large cap equity	39 %	34% to 44%	42.7 %	40.4 %
Small cap equity	6	1 to 11	5.7	6.6
International equity	20	15 to 25	18.6	18.0
Fixed income	35	30 to 40	32.1	34.2
Cash	—	—	0.9	0.8

The following table presents the SFI Plan's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of September 30, 2017:

	Fair value	Level 1	Level 2	Level 3
Financial assets:				
Investments:				
Cash and cash equivalents	$ 519	519	—	—
Domestic mutual funds – equities	3,160	3,160	—	—
Domestic mutual funds – bonds	17,673	17,673	—	—
Domestic commingled funds	23,520	23,520	—	—
Foreign securities	10,264	10,264	—	—
Total financial assets	$ 55,136	55,136	—	—

(In thousands)

The following table presents the SFI Plan's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of September 30, 2016:

		Fair value	Level 1	Level 2	Level 3
Financial assets:					
Investments:					
Cash and cash equivalents	$	377	377	—	—
Domestic mutual funds – equities		3,315	3,315	—	—
Domestic mutual funds – bonds		17,083	17,083	—	—
Domestic commingled funds		20,178	20,178	—	—
Foreign securities		9,016	9,016	—	—
Total financial assets	$	49,969	49,969	—	—

The SFI Plan's accounting policy is to recognize transfers between levels of the fair value hierarchy on the date of the event or change in circumstances that caused the transfer. There were no transfers into or out of Level 1, Level 2, or Level 3 for the years ended September 30, 2017 and 2016.

None of the assets, except those listed below, have any redemption restrictions so the redemption frequency is daily and would have a one-day notice for redemption:

		2017	2016	Redemption frequency	Days notice
Domestic commingled funds	$	23,520	20,178	Daily	2

In addition, SFI sponsors a retirement savings plan that includes a 401(k) feature. In 2016 and 2017, participants may deposit an amount from 1% to 90% of their eligible compensation up to the IRS limit. SFI may make matching contributions equal to a discretionary percentage of the participant's contributions. SFI may also make annual discretionary contributions based on a participant's age and years of service. SFI contributed $754 in 2017 and $3,834 in 2016 to the retirement savings plan, which has been expensed as salaries and benefits expense. SFI also accrued for an anticipated discretionary contribution of $211 in 2017 and $265 in 2016, which has been expensed as salaries and benefits expense.

SAHC has a noncontributory defined benefit pension plan (SAHC Plan) covering all employees who met the eligibility requirements. The SAHC Plan was changed to eliminate benefit accruals after February 29, 2012. Prior to the SAHC Plan's change, the benefit was based on a career average benefit based on both pay and service earned at SAHC. Contributions are made on a monthly basis to improve the SAHC Plan's funded status. The SAHC Plan is a "Church" plan and is not subject to ERISA. As discussed in note 1, OSF assumed SAHC's pension plan in 2015 in connection with the merger of SAHC.

(In thousands)

The actuarial funding method used in the actuarial valuation for 2017 and 2016 for the SAHC Plan is the projected unit credit cost method. The measurement date for plan liabilities and assets is September 30 for the years ended September 30, 2017 and 2016. The following tables set forth the SAHC Plan's funded status and amounts recognized in OSF's consolidated financial statements at September 30, 2017 and 2016:

		2017	2016
Change in benefit obligation:			
Benefit obligation at beginning of year	$	76,596	70,170
Interest cost		2,824	3,118
Actuarial loss (gain)		(1,684)	5,697
Benefits paid		(2,651)	(2,389)
Benefit obligation at end of year	$	75,085	76,596
Change in plan assets:			
Fair value of plan assets at beginning of year	$	38,710	37,728
Actual return on plan assets		3,434	2,162
Employer contributions		606	1,209
Benefits paid		(2,651)	(2,389)
Fair value of plan assets at end of year	$	40,099	38,710
Reconciliation of funded status:			
Funded status	$	(34,986)	(37,886)
Net amount recognized at year-end	$	(34,986)	(37,886)
Amounts recognized in the accompanying consolidated balance sheets:			
Accrued benefit liability	$	(34,986)	(37,886)
Amounts not yet reflected in net periodic benefit cost and included as an accumulated credit to unrestricted net assets:			
Net actuarial loss	$	(28,625)	(31,525)
Net amounts recognized in the accompanying consolidated balance sheets	$	(28,625)	(31,525)

(In thousands)

	2017	2016
Weighted average assumptions:		
Discount rate:		
Benefit obligation	3.90 %	3.75 %
Net periodic benefit cost	3.75	4.54
Rate of compensation increase:		
Benefit obligation	N/A	N/A
Net periodic benefit cost	N/A	N/A
Expected return on plan assets	7.50	7.50
Components of net periodic benefit cost:		
Interest cost	$ 2,824	3,118
Expected return on plan assets	(2,998)	(2,932)
Amortization of net loss	780	551
Net periodic benefit cost	$ 606	737

The accumulated benefit obligation for the SAHC Plan was $75,085 and $76,596 at September 30, 2017 and 2016, respectively. As of September 30, 2017, OSF adopted the RP-2014 Mortality Table with generational improvements using a modified projection scale MP-2017. As of September 30, 2016, OSF adopted the RP-2014 Mortality Table with generational improvements using a modified projection scale MP-2016.

The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based exclusively on historical returns, without adjustments.

SAHC expects to contribute $573 to the SAHC Plan in 2018.

The benefits expected to be paid in each year 2018 through 2022 for the SAHC Plan are approximately $3,053, $3,214, $3,423, $3,620, and $3,753, respectively. The aggregate benefits expected to be paid in the five years from 2023 through 2027 are approximately $21,009. The expected benefits are based on the same assumptions used to measure the SAHC Plan's benefit obligation at September 30, 2017.

The SAHC Plan has a statement of investment policy. The policy establishes goals and objectives of the fund, asset allocations, allowable and prohibited investments, socially responsible guidelines, and asset classifications, as well as specific investment manager guidelines. The policy states that the rebalancing of these assets to the target allocations will be reviewed on a semiannual basis. Investments are managed by independent advisors. Management monitors the performance of these managers on a monthly basis.

(In thousands)

The table below lists the target asset allocation and acceptable ranges and actual asset allocations for the SAHC Plan as of September 30, 2017 and 2016:

Asset	Target allocation	Acceptable range	September 30 2017	September 30 2016
Large cap equity	30 %	20% to 40%	26.8 %	22.9 %
Small cap equity	20	10 to 30	17.2	20.1
International equity	10	0 to 15	17.1	15.9
Real estate securities	5	0 to 10	4.9	6.5
Fixed income	25	20 to 35	20.3	19.8
Cash	—	0 to 10	5.0	5.1
Alternative investments	10	0 to 10	8.7	9.7

The following table presents the SAHC Plan's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of September 30, 2017:

	Fair value	Level 1	Level 2	Level 3
Financial assets:				
Investments:				
Cash and cash equivalents	$ 2,397	2,397	—	—
Domestic equities	14,898	14,898	—	—
U. S. Treasury obligations	3,596	3,596	—	—
U. S. government agencies	281	—	281	—
Domestic corporate obligations	3,131	—	3,131	—
Domestic mutual funds – equities	4,306	4,306	—	—
Domestic mutual funds - bonds	486	486	—	—
Foreign equities	2,672	2,672	—	—
Foreign bonds	566	—	566	—
Foreign mutual funds – equities	4,333	4,333	—	—
Subtotal	36,666	$ 32,688	3,978	—
Other – Global investment hedge fund	3,433			
Total financial assets	$ 40,099			

(In thousands)

The following table presents the SAHC Plan's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of September 30, 2016:

	Fair value	Level 1	Level 2	Level 3
Financial assets:				
Investments:				
Cash and cash equivalents	$ 1,974	1,974	—	—
Domestic equities	15,071	15,071	—	—
U. S. Treasury obligations	3,672	3,672	—	—
U. S. government agencies	384	—	384	—
Domestic corporate obligations	3,284	—	3,284	—
Domestic mutual funds – equities	5,938	5,938	—	—
Foreign equities	1,668	1,668	—	—
Foreign bonds	345	—	345	—
Foreign mutual funds – equities	2,623	2,623	—	—
Subtotal	34,959	$ 30,946	4,013	—
Other – Global investment hedge fund	3,751			
Total financial assets	$ 38,710			

The SAHC Plan's accounting policy is to recognize transfers between levels of the fair value hierarchy on the date of the event or change in circumstances that caused the transfer. There were no transfers into or out of Level 1, Level 2, or Level 3 for the years ended September 30, 2017 and 2016.

None of the assets, except those listed below, have any redemption restrictions so the redemption frequency is daily and would have a one-day notice for redemption:

	2017	2016	Redemption frequency	Days notice
Global investment hedge fund	$ 3,433	3,751	Monthly	Specific date each month

IPMR has a noncontributory defined benefit pension plan (IPMR Plan) covering all employees who met the eligibility requirements. The IPMR Plan was changed to eliminate benefit accruals after January 1, 2016. Curtailment accounting occurred effective January 1, 2016. Prior to the IPMR Plan's change, the benefit was based on a career average benefit based on both pay and service earned at IPMR.

(In thousands)

The actuarial funding method used in the actuarial valuation for 2017 and 2016 for the IPMR Plan is the projected unit credit cost method. The measurement date for plan liabilities and assets is September 30 for the year ended September 30, 2017 and 2016. The following table sets forth the IPMR Plan's funded status and amounts recognized in OSF's consolidated financial statements at September 30, 2017 and 2016:

		2017	2016
Benefit obligation at end of year	$	2,735	3,357
Fair value of plan assets at end of year - Level 1 investments		2,266	2,407
Reconciliation of funded status		—	—
Funded status - Accrued benefit liability	$	(469)	(950)
Amounts not yet reflected in net periodic benefit cost and included as an accumulated credit to unrestricted net assets:			
Net actuarial loss	$	832	1,357
Weighted average assumptions:			
Discount rate:			
Benefit obligation		3.75 %	3.50 %
Net periodic benefit cost		3.50	4.13
Rate of compensation increase:			
Benefit obligation		N/A	N/A
Net periodic benefit cost		N/A	2.00
Expected return on plan assets		7.50	8.00

The accumulated benefit obligation for the IPMR Plan was $2,735 and $3,357 at September 30, 2017 and 2016, respectively. Settlement accounting occurred September 30, 2017 due to the amount of lump sums paid from the plan during fiscal year 2017. As of September 30, 2017, OSF adopted the RP-2014 Mortality Table with generational improvements using a modified projection scale MP-2017. As of September 30, 2016, OSF adopted the RP-2014 Mortality Table with generational improvements using a modified projection scale MP-2016.

(15) Income Taxes

Income tax expense attributable from revenues, gains, and other support over expenses was $1,903 and $746 for the years ended September 30, 2017 and 2016, respectively.

Deferred income taxes on taxable entities are recognized for the tax consequences of "temporary differences" by applying enacted statutory tax rates applicable to future tax years to differences between the consolidated financial statement carrying amounts and the tax basis of existing assets and liabilities. As of September 30, 2017 and 2016, SFI has a deferred tax asset related to these timing differences of $12,298 and $15,215, respectively, which is recorded within other assets in the consolidated balance sheets. As of September 30, 2017 and 2016, no valuation allowance against the SFI deferred tax assets was considered necessary as management believed it was more likely than not that the results of future operations would generate sufficient taxable income to realize these deferred tax assets.

(In thousands)

OSF generates "unrelated business" income subject to federal and state income taxes (UBIT). During 2016, OSF was audited by the IRS. OSF had historical net operating losses (NOL) that were being used to offset current unrelated business income but as part of the audit, the NOL carryforwards were disallowed. The disallowance of the NOLs resulted in OSF owing tax for 2012 through 2016 related to UBIT. OSF recorded a UBIT receivable (liability) of $710 and $(3,377) for the years ended September 30, 2017 and 2016, respectively. UBIT (benefit) expense of $(94) and $6,902 was recorded for the years ended September 30, 2017 and 2016, respectively, and is included in income tax within the consolidated statement of operations and unrestricted changes in net assets.

(16) Commitments and Contingencies

(a) Operating Leases

OSF occupies space in certain facilities under long-term noncancelable operating lease arrangements. Total equipment rental, asset lease, and facility rental expenses in 2017 and 2016 were $63,351 and $63,105, respectively.

The following table is a schedule by year of future minimum lease payments to be made under operating leases as of September 30, 2017 that have initial or remaining lease terms in excess of one year:

		Amount
Year ending September 30:		
2018	$	40,305
2019		27,724
2020		20,571
2021		12,220
2022		8,120
Thereafter		46,983

(b) Litigation

OSF and its subsidiaries are involved in litigation arising in the ordinary course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on OSF and its subsidiaries' future financial position or results from operations.

On February 5, 2013, Methodist Health Services Corporation (Methodist) filed a complaint against OSF Healthcare System d/b/a Saint Francis Medical Center in the United States District Court for the Central District of Illinois, Peoria Division. Methodist's complaint alleges violations of Sections 1 and 2 of the Sherman Act, Illinois state antitrust laws, and the Illinois Consumer Fraud Act, as well as multiple common law claims of tortious interference with prospective economic advantage. The complaint seeks damages in excess of $100 million, treble damages, reasonable attorneys' fees and costs, punitive damages, and a permanent injunction against OSF from any further conduct calculated to prevent Methodist from participating in certain PPO networks.

Each side issued discovery requests and several third parties subpoenas. Fact and expert depositions were taken. Discovery was completed and OSF filed a Motion for Summary Judgment, which was granted on September 30, 2016 in its entirety. Methodist filed an appeal to the United States Court of Appeals for Seventh Circuit regarding the Summary Judgment ruling. On June 9, 2017 the United States Court of Appeals for Seventh Circuit issued its opinion, affirming the granting of the Motion for Summary Judgment. The time for Methodist to request a review of the Seventh Circuit opinion by the United States Supreme Court has expired. Accordingly, the matter is resolved in favor of OSF.

As disclosed in note 14, Retirement Benefits, OSF sponsors various types of employee benefit plans. On May 3, 2016, a lawsuit was filed in the U.S. District Court for the Central District of Illinois against OSF Healthcare System, on behalf of the participants of the Plan. On May 6, 2016, a similar lawsuit was filed in the U.S. District Court for the Southern District of Illinois against SAHC, on behalf of the participants of the SAHC Plan. The lawsuits challenge the eligibility of the Plan and the SAHC Plan to be treated as "Church Plans" because Church Plans are exempt from ERISA. OSF has vigorously defended the Plan and the SAHC Plan statuses as eligible Church Plans, consistent with long-standing positions of the U.S. Department of Treasury, including the IRS, the Department of Justice, the Pension Benefit Guaranty Corporation, and the U.S. Department of Labor.

On June 5, 2017, in a similar case against a Catholic healthcare system, the U.S. Supreme Court ruled unanimously that pension plans of church affiliated organizations qualify for Church Plan status and are exempt from ERISA requirements. Thereafter, the Plaintiffs in the Central District filed a motion to dismiss their case, and on September 28, 2017, the Central District Court granted Plaintiffs motion to dismiss. However, Plaintiffs in that case were added to the case pending in the Southern District. Therefore, there is only one case pending against OSF in the Southern District.

Thereafter, the Plaintiffs in the Southern District filed an Amended Complaint alleging new state law causes of action. OSF filed a motion to dismiss Plaintiffs' new claims and intends to file dispositive motions asking the Southern District to dismiss the entire case based on the U.S. Supreme Court ruling.

If in the future, a final, nonappealable ruling was made in OSF's case that was adverse to OSF's position such ruling could, under certain circumstances, have an adverse effect on the financial condition or operations of OSF, when taken as a whole, as a result of requirements to comply with ERISA funding obligations and to pay annual premiums to the Pension Benefit Guaranty Corporation.

(c) Legal, Regulatory, and Other Contingencies and Commitments

The laws and regulations governing the Medicare, Medicaid, and other government healthcare programs are extremely complex and subject to interpretation, making compliance an ongoing challenge for OSF and other healthcare organizations. Recently, the federal government has increased its enforcement activity, including audits and investigations related to billing practices, clinical documentation, and related matters. OSF maintains a compliance program designed to educate employees and to prevent, detect, and correct possible violations.

(d) The Patient Protection and Affordable Care Act

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

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

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

(e) Tax Exemption for Sales Tax and Property Tax

Effective June 14, 2012, Public Act 97-688 created a new method for granting state sales tax and property tax exemptions to not-for-profit hospitals in Illinois. The law established standards for the issuance of exemptions, such that a nonprofit hospital must certify annually that in the prior year it provided to low-income and underserved individuals qualified services with a value at least equal to the estimated tax liability of the hospital's tax-exempt property. This law applies only to those OSF properties for which OSF applied for new property tax exemption after the law's enactment. The primary facilities exempt under this law are HFMC, SAHC, SEMC, SLMC, and SPMC, along with several ancillary properties.

The law has been the subject of litigation challenging its constitutionality under the Illinois Constitution. On January 5, 2016, the Fourth District Appellate Court of Illinois ruled in The Carle Foundation v. Illinois Department of Revenue, et al. that Section 15-86 of the property tax code (which is the statute in which part of Public Act 97-688 was codified) was unconstitutional. On March 23, 2017, the Illinois Supreme Court vacated the appellate court's decision on the basis that the appellate court did not have jurisdiction to hear the appeal. Since the appellate court's decision was nullified, the Illinois Supreme Court did not address the question of the law's constitutionality. Meanwhile, in a different lawsuit (Oswald v. Hamer), the First District Appellate Court of Illinois ruled on December 22, 2016 that Section 15-86 was constitutional, upholding the trial court's decision in that case. The Illinois Supreme Court granted the plaintiff's petition for leave to appeal on September 27, 2017.

While the Illinois Supreme Court considers the constitutionality of Section 15-86 of the property tax code, OSF's property tax exemptions under the law remain in effect. OSF's other primary Illinois facilities, being SAMC, SFMC, SJJWAMC, SJMC, and SMMC, are exempt under a separate section of the property tax code that has not been the subject of constitutional challenge. OSF has not accrued any liability for property taxes and maintains the position that all of the facilities listed above are exempt for property taxes.

(f) Investment Risk and Uncertainties

OSF invests in various investment securities. Investment securities are exposed to various risks such as interest rate, credit, and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term, and that such changes could materially affect the amounts reported in the accompanying consolidated balance sheets.

(17) Subsequent Events

In connection with the preparation of the consolidated financial statements and in accordance with ASC Topic 855, *Subsequent Events*, OSF evaluated subsequent events after the consolidated balance sheet date of September 30, 2017 through January 19, 2018, which was the date the consolidated financial statements were issued.

In September 2017, OSF signed a definitive agreement with Presence Healthcare, a not-for-profit corporation located in Chicago, Illinois to purchase two hospitals for approximately $185,000. The hospital facilities are located in Urbana and Danville, Illinois. At this time, OSF is expecting to close the transaction effective February 1, 2018.

On December 20, 2017, OSF issued $235,000 of debt consisting of $80,000 of Series 2017A bonds, $80,000 of Series 2017B bonds, and $75,000 of Series 2017C bonds. The debt will be utilized for the purchase of the two Presence Healthcare hospital facilities and the extinguishment of the Series 2009G bonds and the HUD insured mortgage totaling approximately $47,400.

OSF
HEALTHCARE SYSTEM

October 17, 2018

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

Re: CON Permit Application Submittal
OSF HealthCare System
Allied Agencies Building Program and Services Relocation

Dear Ms. Avery:

This CON Permit Application is for the non-clinical program and services relocation from the OSF HealthCare System Allied Agencies Building. The programs and services will move to a vacant CUB Foods retail building proposed to be modernized. This respective building is approximately 0.7 miles from the OSF Saint Francis Medical Center Campus.

Enclosed is our check in the amount of $2,500.00 for the application processing fee.
If there are any questions, please contact me either by phone at my direct line 309-308-9656 or by email at mark.e.hohulin@osfhealthcare.org.

Sincerely,

Mark Hohulin

Mark E. Hohulin
Senior Vice President, Healthcare Analytics
OSF HealthCare System

c: Mike Constantino, Supervisor, Project Review Section
Edwin W. Parkhurst, PRISM Healthcare Consulting