E-050-17

ILLINOIS HEALTH FACILITIES AND SERVICES REVIEW BOARD
APPLICATION FOR EXEMPTION PERMIT

[CONFIDENTIAL]

SECTION I. IDENTIFICATION, GENERAL INFORMATION, AND CERTIFICATION

RECEIVED
NOV 17 2017
HEALTH FACILITIES & SERVICES REVIEW BOARD

This Section must be completed for all projects.

Facility/Project Identification

Facility Name:	Memorial Hospital				
Street Address:	4500 Memorial Drive				
City and Zip Code:	Belleville, IL 62226				
County:	St. Clair	Health Service Area	XI	Health Planning Area:	F-01

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

Exact Legal Name:	BJC Health System d/b/a BJC Healthcare
Street Address:	4901 Forest Park Avenue Suite 1200
City and Zip Code:	St. Louis, MO 63108
Name of Registered Agent:	CSC-Lawyers Incorporating Service Company
Registered Agent Street Address:	221 Bolivar Street
Registered Agent City and Zip Code:	Jefferson City, MO 65101
Name of Chief Executive Officer:	Steven H. Lipstein
CEO Street Address:	4901 Forest Park Avenue Suite 1200
CEO City and Zip Code:	St. Louis, MO 63108
CEO Telephone Number:	314/286-2030

Type of Ownership of Applicants

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

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

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

Primary Contact [Person to receive ALL correspondence or inquiries]

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

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

Name:	none
Title:	
Company Name:	
Address:	
Telephone Number:	
E-mail Address:	
Fax Number:	

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

Exact Legal Name:	Memorial Group, Inc.
Street Address:	4500 Memorial Drive
City and Zip Code:	Belleville, IL 62226
Name of Registered Agent:	Illinois Corporation Service Company
Registered Agent Street Address:	801 Adlai Stevenson Drive
Registered Agent City and Zip Code:	Springfield, IL 62703
Name of Chief Executive Officer:	Mark J. Turner
CEO Street Address:	4500 Memorial Drive
CEO City and Zip Code:	Belleville, IL 62226
CEO Telephone Number:	618/257-5642

Type of Ownership of Applicants

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

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

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Telephone Number:	847/776-7101
E-mail Address:	jacobmaxel@msn.com
Fax Number:	847/776-7004

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

Name:	none
Title:	
Company Name:	
Address:	
Telephone Number:	
E-mail Address:	
Fax Number:	

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

Exact Legal Name:	Memorial Regional Health Services, Inc.
Street Address:	4500 Memorial Drive
City and Zip Code:	Belleville, IL 62226
Name of Registered Agent:	Illinois Corporation Service Company
Registered Agent Street Address:	801 Adlai Stevenson Drive
Registered Agent City and Zip Code:	Springfield, IL 62703
Name of Chief Executive Officer:	Mark J. Turner
CEO Street Address:	4500 Memorial Drive
CEO City and Zip Code:	Belleville, IL 62226
CEO Telephone Number:	618/257-5642

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

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

Name:	none
Title:	
Company Name:	
Address:	
Telephone Number:	
E-mail Address:	
Fax Number:	

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

Exact Legal Name:	Protestant Memorial Medical Center, Inc. d/b/a Memorial Hospital
Street Address:	4500 Memorial Drive
City and Zip Code:	Belleville, IL 62226
Name of Registered Agent:	Illinois Corporation Service Company
Registered Agent Street Address:	801 Adlai Stevenson Drive
Registered Agent City and Zip Code:	Springfield, IL 62703
Name of Chief Executive Officer:	Mark J. Turner
CEO Street Address:	4500 Memorial Drive
CEO City and Zip Code:	Belleville, IL 62226
CEO Telephone Number:	618/257-5642

Type of Ownership of Applicants

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

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

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

Name:	none
Title:	
Company Name:	
Address:	
Telephone Number:	
E-mail Address:	
Fax Number:	

Post Exemption 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 J. Turner
Title:	President
Company Name:	Memorial Regional Health Services, Inc.
Address:	4500 Memorial Drive Belleville, IL 62226
Telephone Number:	618/257-5642
E-mail Address:	Mark.Turner@bjc.org
Fax Number:	618/257-5658

Site Ownership

[Provide this information for each applicable site]

Exact Legal Name of Site Owner:	Protestant Memorial Medical Center, Inc.
Address of Site Owner:	4500 Memorial Drive Belleville, IL 62226

Street Address or Legal Description of the Site: 1404 Cross Street Shiloh, IL 62269

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

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

Operating Identity/Licensee

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

Exact Legal Name:	Protestant Memorial Medical Center, Inc. d/b/a Memorial Hospital-East
Address:	4500 Memorial Drive Belleville, IL 62226

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

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

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

Organizational Relationships

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

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

Flood Plain Requirements

[Refer to application instructions.]

Provide documentation that the project complies with the requirements of Illinois Executive Order #2006-5 pertaining to construction activities in special flood hazard areas. As part of the flood plain requirements, please provide a map of the proposed project location showing any identified floodplain areas. Floodplain maps can be printed at **www.FEMA.gov** or **www.illinoisfloodmaps.org**. **This map must be in a readable format**. In addition, please provide a statement attesting that the project complies with the requirements of Illinois Executive Order #2006-5 (**http:**// www.illinois.gov/sites/hfsrb).
APPEND DOCUMENTATION AS ATTACHMENT 5, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

Historic Resources Preservation Act Requirements

[Refer to application instructions.]

Provide documentation regarding compliance with the requirements of the Historic Resources Preservation Act.
APPEND DOCUMENTATION AS ATTACHMENT 6, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

DESCRIPTION OF PROJECT

1. Project Classification

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

Part 1110 Classification:

X Change of Ownership

☐ Discontinuation of an Existing Health Care Facility or of a category of service

☐ Establishment or expansion of a neonatal intensive care or beds

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.

On August 25, 2015 the IHFSRB granted a Certificate of Exemption ("COE") for a strategic affiliation/change of ownership which changed the control of Protestant Memorial Medical Center, Inc. d/b/a Memorial Hospital ("Memorial"). Consistent with that COE, and effective January 1, 2016, Memorial Group, Inc. ("MGI") and BJC Healthcare ("BJC") became the two corporate members of Memorial Regional Health Services, Inc. ("MRHS"), the parent corporation of Memorial.

As a result of the transaction addressed in this COE application, BJC will become the sole corporate member of MRHS, effective January 1, 2018.

Project Costs and Sources of Funds (Neonatal Intensive Care Services only)

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			
Site Survey and Soil Investigation			
Site Preparation			
Off Site Work			
New Construction Contracts			
Modernization Contracts			
Contingencies			
Architectural/Engineering Fees			
Consulting and Other Fees			
Movable or Other Equipment (not in construction contracts)			
Bond Issuance Expense (project related)			
Net Interest Expense During Construction (project related)			
Fair Market Value of Leased Space or Equipment			
Other Costs To Be Capitalized			
Acquisition of Building or Other Property (excluding land)			
TOTAL USES OF FUNDS	**$0**	**$0**	**$0**
SOURCE OF FUNDS	**CLINICAL**	**NONCLINICAL**	**TOTAL**
Cash and Securities			
Pledges			
Gifts and Bequests			
Bond Issues (project related)			
Mortgages			
Leases (fair market value)			
Governmental Appropriations			
Grants			
Other Funds and Sources			
TOTAL SOURCES OF FUNDS	**$0**	**$0**	**$0**

NOTE: ITEMIZATION OF EACH LINE ITEM MUST BE PROVIDED AT ATTACHMENT 7, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

Related Project Costs

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

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

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

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

Estimated start-up costs and operating deficit cost is $ _____.

Project Status and Completion Schedules

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

Indicate the stage of the project's architectural drawings:

X None or not applicable ☐ Preliminary

☐ Schematics ☐ Final Working

Anticipated project completion date (refer to Part 1130.140): _____March 1, 2018_____

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

not applicable

☐ 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 Agency Submittals [Section 1130.620(c)]

Are the following submittals up to date as applicable:

X Cancer Registry
X APORS
X All formal document requests such as IDPH Questionnaires and Annual Bed Reports been submitted
X All reports regarding outstanding permits

Failure to be up to date with these requirements will result in the application for permit being deemed incomplete.

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 _BJC Health System d/b/a BJC Healthcare_* 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.

David R Applington
SIGNATURE

David K. Applington
PRINTED NAME

Sr. VP & General Counsel
PRINTED TITLE

Notarization:
Subscribed and sworn to before me
this 13 day of Nov, 2017

Daphne L. Wilcut
Signature of Notary

Seal

DAPHNE L. WILCUT
Notary Public - Notary Seal
State of Missouri
Commissioned for St. Louis City
My Commission Expires: February 21, 2019
Commission Number: 15146250

SIGNATURE

Steven Lipstein
PRINTED NAME

Chief Executive Officer
PRINTED TITLE

Notarization:
Subscribed and sworn to before me
this 13 day of Nov, 2017

Daphne L. Wilcut
Signature of Notary

Seal

DAPHNE L. WILCUT
Notary Public - Notary Seal
State of Missouri
Commissioned for St. Louis City
My Commission Expires: February 21, 2019
Commission Number: 15146250

*Insert the EXACT legal name of the applicant

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

SIGNATURE	SIGNATURE
Roland G. Thouvenot	Jeff Lutz
PRINTED NAME	PRINTED NAME
Board Chairman	Secretary
PRINTED TITLE	PRINTED TITLE
Notarization: Subscribed and sworn to before me this 14 day of November, 2017	Notarization: Subscribed and sworn to before me this 13th day of November
Signature of Notary	Signature of Notary
Seal PAMELA A RIDALL Official Seal Notary Public – State of Illinois My Commission Expires Aug 30, 2021	Seal Official Seal Dewayna C Mosley-Pitts Notary Public State of Illinois My Commission Expires 03/27/2019

*Insert the EXACT legal name of the applicant

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

Mark J Turner
SIGNATURE

MARK J TURNER
PRINTED NAME

PRESIDENT
PRINTED TITLE

Notarization:
Subscribed and sworn to before me
this 10th day of November, 2017

Carol A. Musser
Signature of Notary

Seal

"OFFICIAL SEAL"
CAROL A. MUSSER
NOTARY PUBLIC — STATE OF ILLINOIS
MY COMMISSION EXPIRES JULY 11, 2020

Jane K Gusmano
SIGNATURE

Jane K Gusmano
PRINTED NAME

Vice President - Finance
PRINTED TITLE

Notarization:
Subscribed and sworn to before me
this 13th day of November

Dewayna C. Mosley Pitts
Signature of Notary

Seal

Official Seal
Dewayna C Mosley-Pitts
Notary Public State of Illinois
My Commission Expires 03/27/2018

*Insert the EXACT legal name of the applicant

CERTIFICATION

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

SIGNATURE	SIGNATURE
PRINTED NAME	PRINTED NAME Joan Lipsten
PRINTED TITLE	PRINTED TITLE Chief Executive Officer
Notarization: Subscribed and sworn to before me this 1 day of _____	Notarization: Subscribed and sworn to before me this 13 day of Nov, 2017
Signature of Notary	Signature of Notary Daphne L. Wilcut
Seal	Seal DAPHNE L. WILCUT Notary Public - Notary Seal State of Missouri Commissioned for St. Louis City My Commission Expires: February 21, 2019 Commission Number: 15146250

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

Mark J Turner
SIGNATURE

MARK J TURNER
PRINTED NAME

PRESIDENT
PRINTED TITLE

Notarization:
Subscribed and sworn to before me
this 10th day of November, 2017

Carol A. Musser
Signature of Notary

Seal

"OFFICIAL SEAL"
CAROL A. MUSSER
NOTARY PUBLIC — STATE OF ILLINOIS
MY COMMISSION EXPIRES JULY 11, 2020

Janet K. Gusmano
SIGNATURE

Jane K. Gusmano
PRINTED NAME

Vice President - Finance
PRINTED TITLE

Notarization:
Subscribed and sworn to before me
this 13th day of November

Dewayna C. Mosley-Pitts
Signature of Notary

Seal

Official Seal
Dewayna C Mosley-Pitts
Notary Public State of Illinois
My Commission Expires 03/27/2018

*Insert the EXACT legal name of the applicant

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

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

Background

READ THE REVIEW CRITERION and provide the following required information:

BACKGROUND OF APPLICANT

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

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

Criterion 1110.230 – Purpose of the Project, and Alternatives (Not applicable to Change of Ownership)

Not Applicable

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

ALTERNATIVES

Not Applicable

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

Alternative options **must** include:

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

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

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

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

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

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

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

SECTION V. CHANGE OF OWNERSHIP (CHOW)

1130.520 Requirements for Exemptions Involving the Change of Ownership of a Health Care Facility

1. Prior to acquiring or entering into a contract to acquire an existing health care facility, a person shall submit an application for exemption to HFSRB, submit the required application-processing fee (see Section 1130.230) and receive approval from HFSRB.

2. If the transaction is not completed according to the key terms submitted in the exemption application, a new application is required.

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

APPLICABLE REVIEW CRITERIA	CHOW
1130.520(b)(1)(A) - Names of the parties	X
1130.520(b)(1)(B) - Background of the parties, which shall include proof that the applicant is fit, willing, able, and has the qualifications, background and character to adequately provide a proper standard of health service for the community by certifying that no adverse action has been taken against the applicant by the federal government, licensing or certifying bodies, or any other agency of the State of Illinois against any health care facility owned or operated by the applicant, directly or indirectly, within three years preceding the filing of the application.	X
1130.520(b)(1)(C) - Structure of the transaction	X
1130.520(b)(1)(D) - Name of the person who will be licensed or certified entity after the transaction	
1130.520(b)(1)(E) - List of the ownership or membership interests in such licensed or certified entity both prior to and after the transaction, including a description of the applicant's organizational structure with a listing of controlling or subsidiary persons.	X
1130.520(b)(1)(F) - Fair market value of assets to be transferred.	X
1130.520(b)(1)(G) - The purchase price or other forms of consideration to be provided for those assets. [20 ILCS 3960/8.5(a)]	X
1130.520(b)(2) - Affirmation that any projects for which permits have been issued have been completed or will be completed or altered in accordance with the provisions of this Section	X
1130.520(b)(2) - If the ownership change is for a hospital, affirmation that the facility will not adopt a more restrictive charity care policy than the policy that was in effect one year prior to the transaction. The hospital must provide affirmation that the compliant charity care policy will remain in effect for a two-year period following the change of ownership transaction	X
1130.520(b)(2) - A statement as to the anticipated benefits of the proposed changes in ownership to the community	X
1130.520(b)(2) - The anticipated or potential cost savings, if any, that will result for the community and the facility because of	X

the change in ownership;	
1130.520(b)(2) - A description of the facility's quality improvement program mechanism that will be utilized to assure quality control;	X
1130.520(b)(2) - A description of the selection process that the acquiring entity will use to select the facility's governing body;	X
1130.520(b)(2) - A statement that the applicant has prepared a written response addressing the review criteria contained in 77 Ill. Adm. Code 1110.240 and that the response is available for public review on the premises of the health care facility	X
1130.520(b)(2)- A description or summary of any proposed changes to the scope of services or levels of care currently provided at the facility that are anticipated to occur within 24 months after acquisition.	X

Application for Change of Ownership Among Related Persons

When *a change of ownership is among related persons, and there are no other changes being proposed at the health care facility that would otherwise require a permit or exemption under the Act, the applicant shall submit an application consisting of a standard notice in a form set forth by the Board briefly explaining the reasons for the proposed change of ownership.* [20 ILCS 3960/8.5(a)]

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

SECTION VII. 1120.130 - FINANCIAL VIABILITY

Not Applicable

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 17, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

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

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

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

2. Variance

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

APPEND DOCUMENTATION AS ATTACHMENT 18, IN NUMERICAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

SECTION VIII. 1120.140 - ECONOMIC FEASIBILITY

Not Applicable

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

A. Reasonableness of Financing Arrangements

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

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

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

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

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

B. Conditions of Debt Financing

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

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

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

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

C. Reasonableness of Project and Related Costs

Read the criterion and provide the following:

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

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

* Include the percentage (%) of space for circulation

D. Projected Operating Costs

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 19, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

SECTION IX. SAFETY NET IMPACT STATEMENT (DISCONTINUATION ONLY)

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

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

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

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

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

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

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

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

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

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

APPEND DOCUMENTATION AS ATTACHMENT 20, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

SECTION XI. CHARITY CARE INFORMATION

MEMORIAL HOSPITAL

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

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

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

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

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

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

CHARITY CARE			
	2014	2015	2016
Net Patient Revenue	**$244,867,328**	**$248,207,731**	**$234,886,125**
Amount of Charity Care (charges)	$18,065,196	$16,953,794	$45,352,244
Cost of Charity Care	$2,514,817	$1,547,666	$2,333,822

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

SECTION XI. CHARITY CARE INFORMATION

MEMORIAL HOSPITAL-EAST

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

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

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

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

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

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

CHARITY CARE			
	Pre-Opening	Pre-Opening	2016
Net Patient Revenue			**$33,449,105**
Amount of Charity Care (charges)			$9,620,729
Cost of Charity Care			$496,700

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

SECTION XI. CHARITY CARE INFORMATION

ALTON MEMORIAL HOSPITAL

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

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

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

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

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

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

CHARITY CARE			
	2014	2015	2016
Net Patient Revenue	**$126,730,148**	**$139,542,667**	**$143,292,327**
Amount of Charity Care (charges)	$2,998,202	$3,999,428	$4,748,519
Cost of Charity Care	$770,975	$996,722	$1,128,172

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

STATE OF MISSOURI

John R. Ashcroft
Secretary of State

CORPORATION DIVISION
CERTIFICATE OF GOOD STANDING

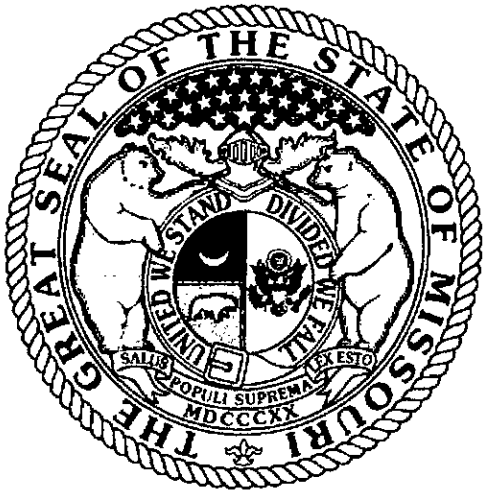
I, JOHN R. ASHCROFT, Secretary of State of the State of Missouri, do hereby certify that the records in my office and in my care and custody reveal that

BJC HEALTH SYSTEM
N00045883

was created under the laws of this State on the 11th day of May, 1992, and is in good standing, having fully complied with all requirements of this office.

IN TESTIMONY WHEREOF, I hereunto set my hand and cause to be affixed the GREAT SEAL of the State of Missouri. Done at the City of Jefferson, this 8th day of November, 2017.

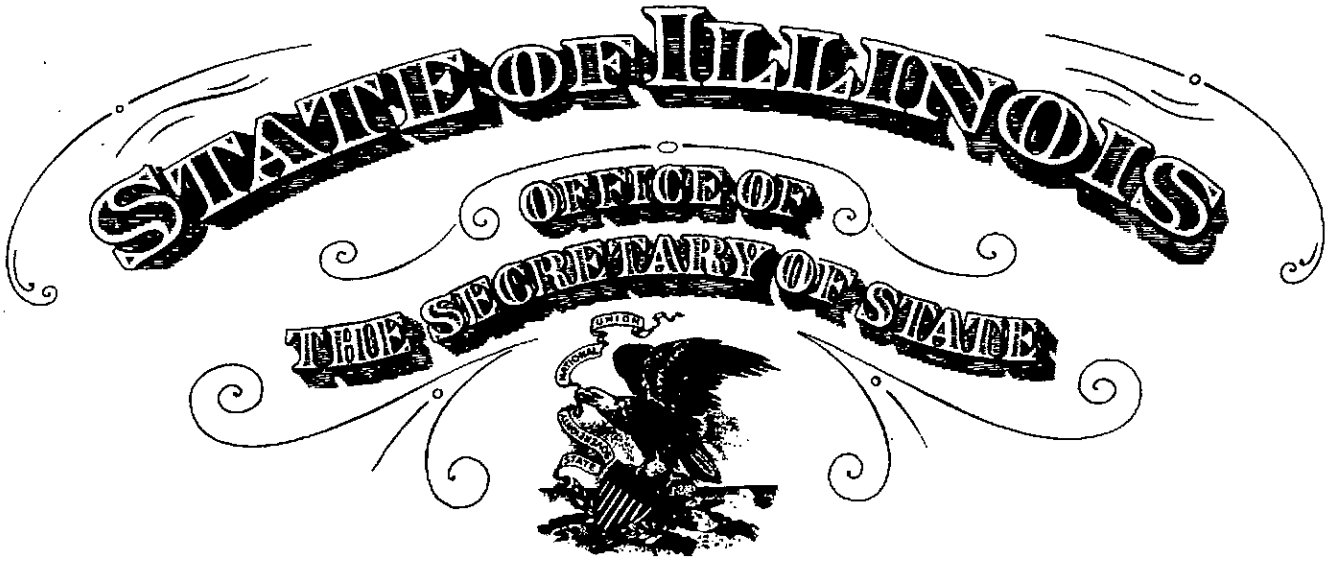
Secretary of State



Certification Number: CERT-11082017-0030

ATTACHMENT

File Number 5399-918-2



To all to whom these Presents Shall Come, Greeting:

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

MEMORIAL GROUP, INC., A DOMESTIC CORPORATION, INCORPORATED UNDER THE LAWS OF THIS STATE ON OCTOBER 08, 1985, 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.

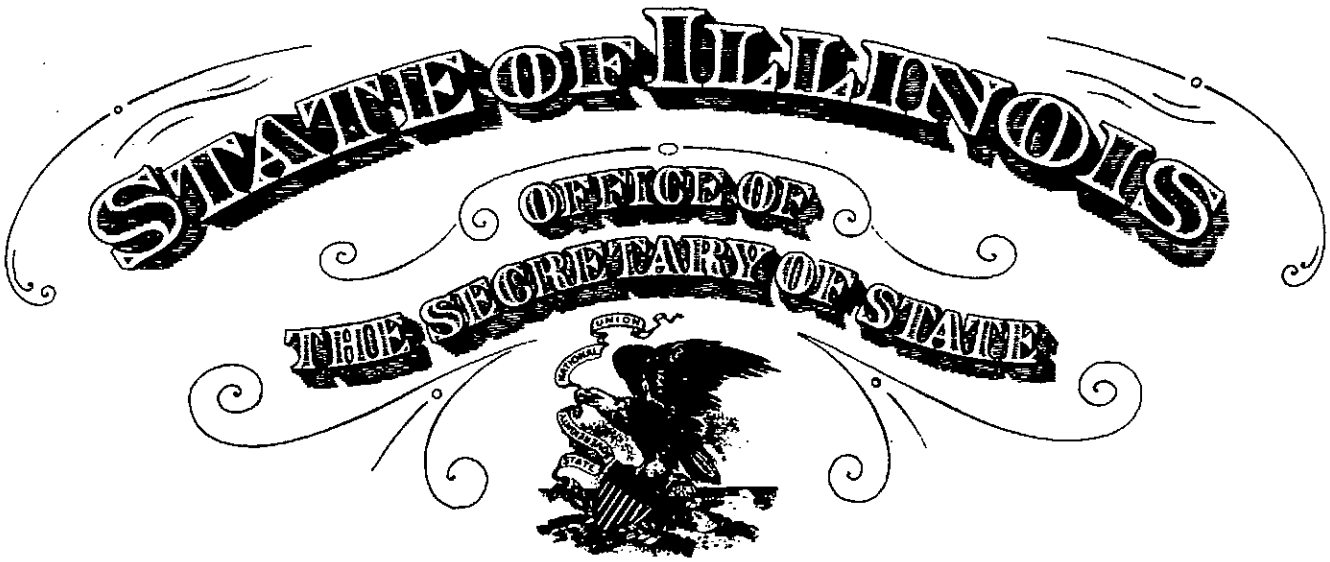
In Testimony Whereof, *I hereto set my hand and cause to be affixed the Great Seal of the State of Illinois, this* 26TH *day of* OCTOBER *A.D.* 2017 .

Authentication #: 1729902688 verifiable until 10/26/2018
Authenticate at: http://www.cyberdriveillinois.com

Jesse White
SECRETARY OF STATE

ATTACHMENT 1

File Number 6997-719-7



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

MEMORIAL REGIONAL HEALTH SERVICES, INC., A DOMESTIC CORPORATION, INCORPORATED UNDER THE LAWS OF THIS STATE ON MAY 14, 2015, APPEARS TO HAVE COMPLIED WITH ALL THE PROVISIONS OF THE GENERAL NOT FOR PROFIT CORPORATION ACT OF THIS STATE, AND AS OF THIS DATE, IS IN GOOD STANDING AS A DOMESTIC CORPORATION IN THE STATE OF ILLINOIS.

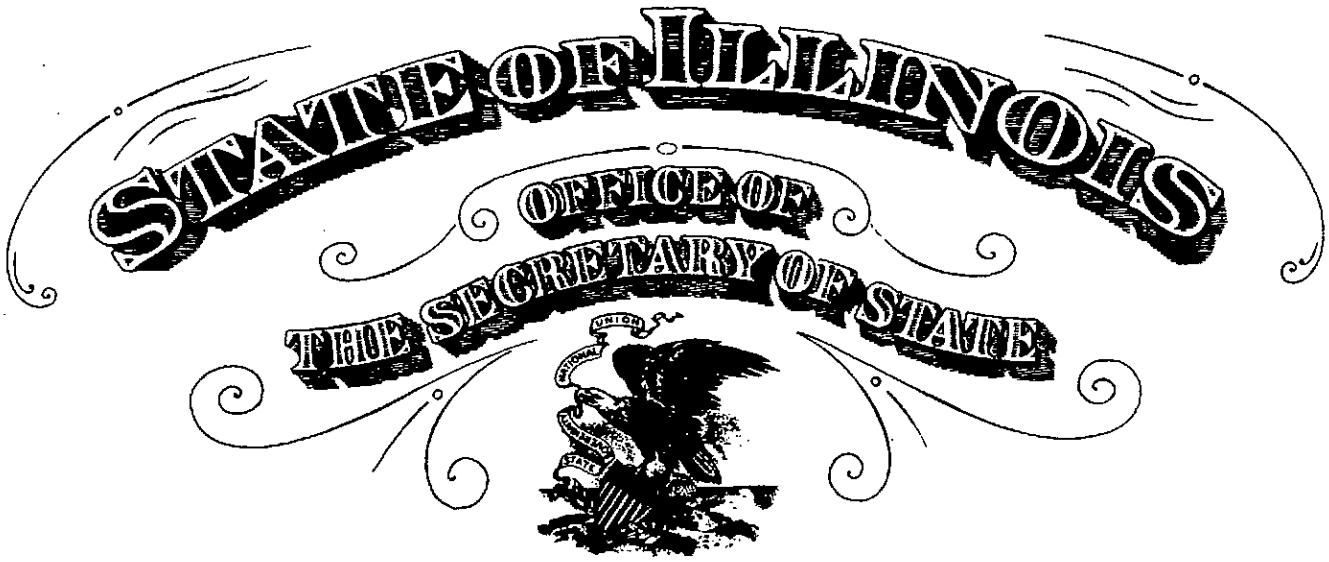
In Testimony Whereof, *I hereto set my hand and cause to be affixed the Great Seal of the State of Illinois, this* 26TH *day of* OCTOBER *A.D.* 2017 .

Authentication #: 1729902598 verifiable until 10/26/2018
Authenticate at: http://www.cyberdriveillinois.com

Jesse White
SECRETARY OF STATE

ATTACHMENT 1

File Number 2998-217-1



To all to whom these Presents Shall Come, Greeting:

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

PROTESTANT MEMORIAL MEDICAL CENTER, INC., A DOMESTIC CORPORATION, INCORPORATED UNDER THE LAWS OF THIS STATE ON AUGUST 04, 1947, 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* 27TH *day of* OCTOBER *A.D.* 2017 .

Authentication #: 1730001754 verifiable until 10/27/2018
Authenticate at: http://www.cyberdriveillinois.com

Jesse White
SECRETARY OF STATE

ATTACHMENT 1

30

SITE OWNERSHIP

Memorial Hospital's site is owned by Protestant Memorial Medical Center, Inc., and will remain under the ownership of Metro-East Services, Inc.

Mark J. Turner
President
Memorial Regional Health Services, Inc.

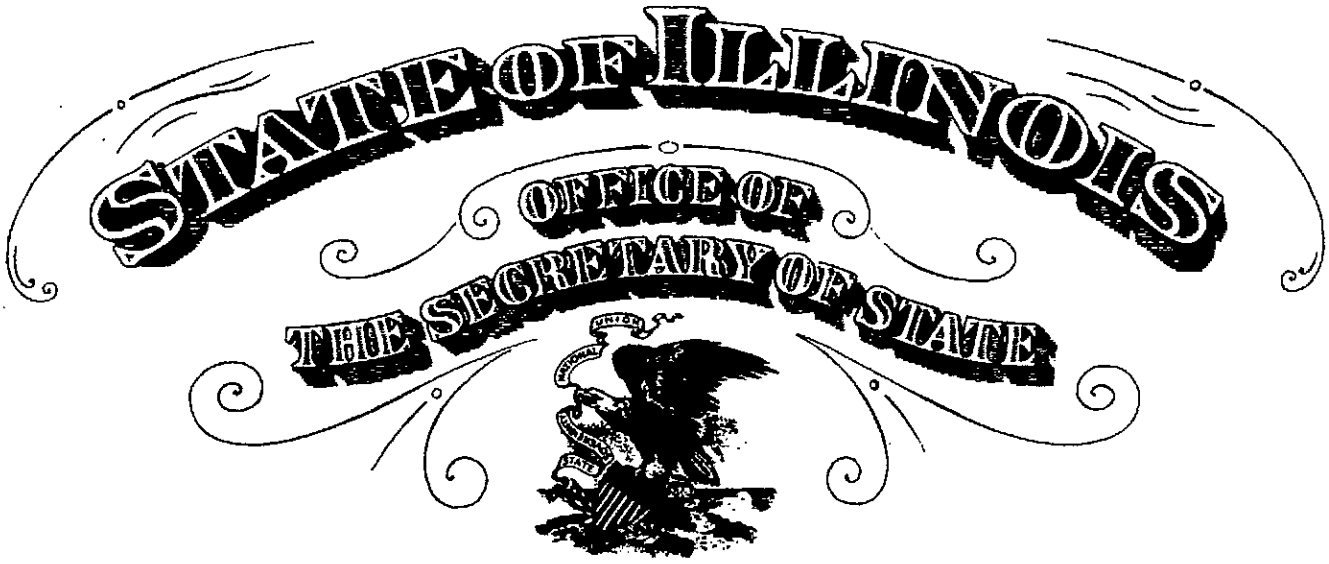
Subscribed and sworn to me
This 10th day of November, 2017

Carol A. Musser
Notary Public

"OFFICIAL SEAL"
CAROL A. MUSSER
NOTARY PUBLIC — STATE OF ILLINOIS
MY COMMISSION EXPIRES JULY 11, 2020

ATTACHMENT 2

File Number 2998-217-1



To all to whom these Presents Shall Come, Greeting:

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

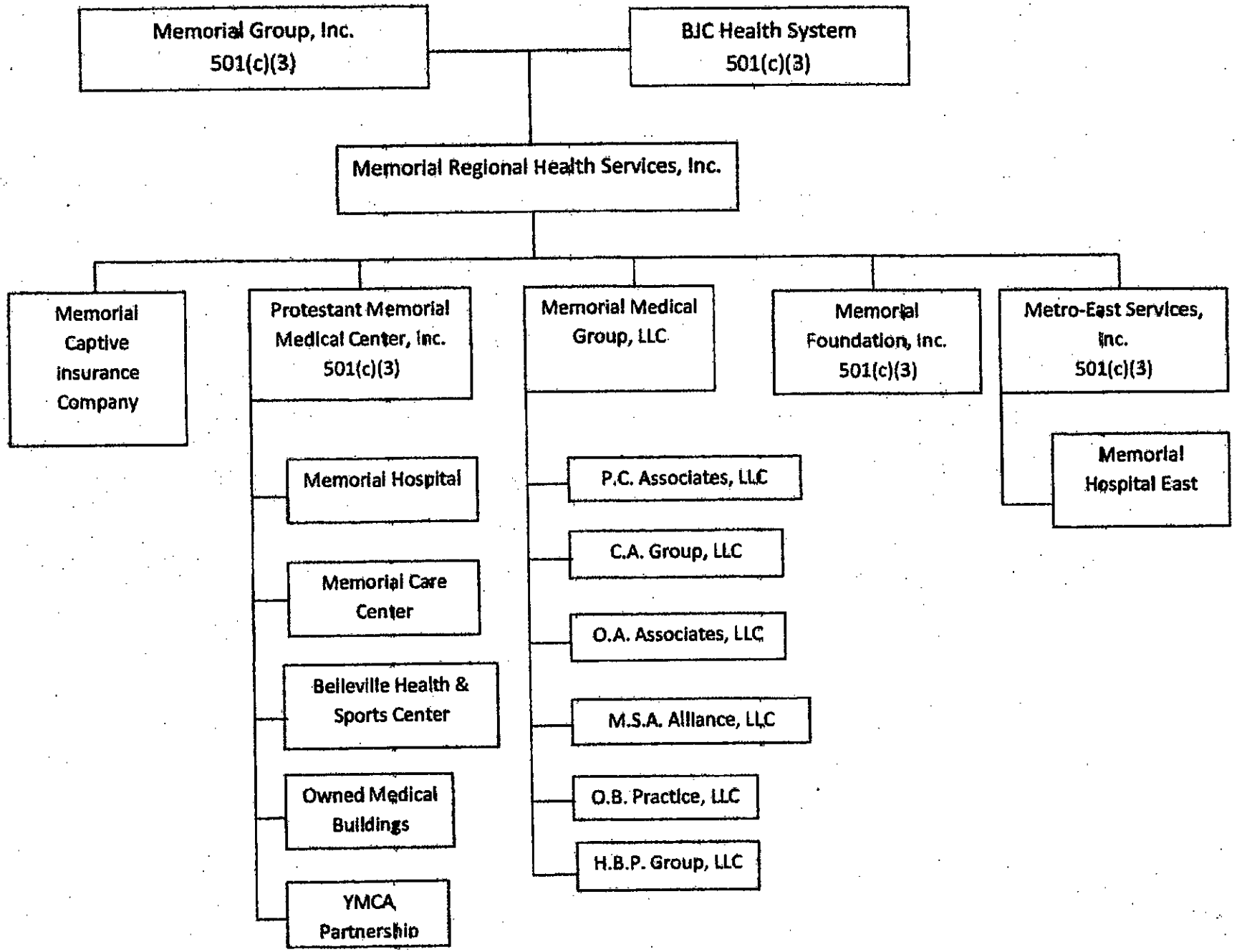
PROTESTANT MEMORIAL MEDICAL CENTER, INC., A DOMESTIC CORPORATION, INCORPORATED UNDER THE LAWS OF THIS STATE ON AUGUST 04, 1947, APPEARS TO HAVE COMPLIED WITH ALL THE PROVISIONS OF THE GENERAL NOT FOR PROFIT CORPORATION ACT OF THIS STATE, AND AS OF THIS DATE, IS IN GOOD STANDING AS A DOMESTIC CORPORATION 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* 27TH *day of* OCTOBER *A.D.* 2017 .

Authentication #: 1730001754 verifiable until 10/27/2018
Authenticate at: http://www.cyberdriveillinois.com

Jesse White
SECRETARY OF STATE

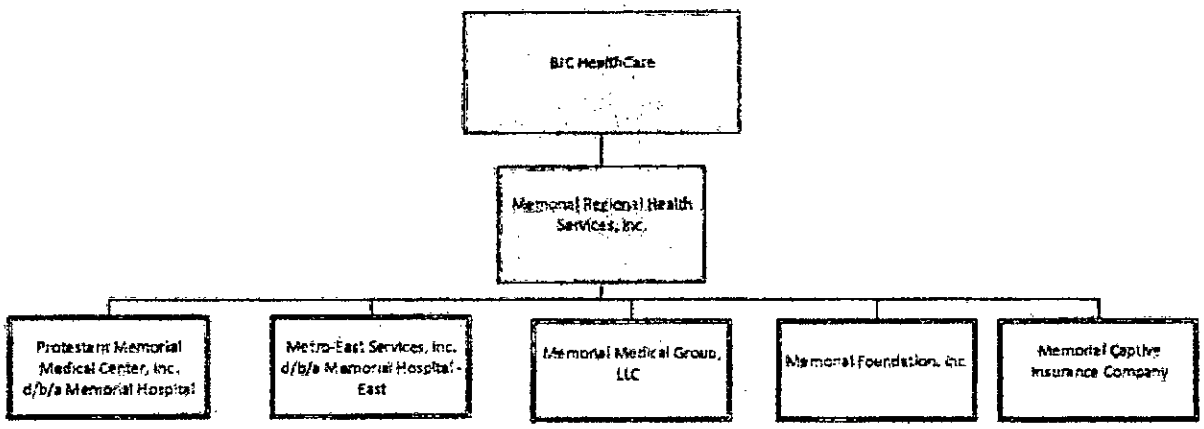
ATTACHMENT 3



33

ATTACHMENT 4

Proposed (2018)



ATTACHMENT 4

BACKGROUND

The applicants operate three licensed health care facilities in Illinois:

- Memorial Hospital, Belleville — IDPH License #0001461
- Memorial Hospital-East, Shiloh — IDPH License #0006049
- Alton Memorial Hospital, Alton — IDPH License #0000026

ATTACHMENT 11

DEPARTMENT OF HEALTH & HUMAN SERVICES
Centers for Medicare & Medicaid Services
Midwest Division of Survey and Certification
Chicago Regional Office
233 North Michigan Avenue, Suite 600
Chicago, IL 60601-5519

CMS Certification Number (CCN): 140307
National Provider Identifier (NPI): 1023494473

June 17, 2016
(Via Certified Mail)

Administrator
Metro-East Services, Inc.
1404 Cross Street
Shiloh, IL 62269

Dear Administrator:

The Centers for Medicare & Medicaid Services (CMS) has accepted your request for participation as a hospital in the Medicare program (Title XVIII of the Social Security Act). Based upon accreditation by the American Osteopathic Association, your effective date of participation is May 16, 2016. A copy of the completed agreement is enclosed for your records.

Your National Provider Identifier (NPI) is your primary identifier for all health insurance billing. The NPI should be entered on all forms and correspondence relating to the Medicare program. In addition, you have been assigned the CMS Certification Number (CCN) shown above; please provide it when contacting this office, when contacting the State agency, or any time it is requested. NGS has been authorized to process your Medicare claims.

When you make general inquiries to your fiscal intermediary (FI) and/or Medicare Administrative Contractor (MAC), you will be prompted to give either your provider transaction access number (PTAN) or CCN. These identification numbers are used as authentication elements when inquiring about beneficiary- and claim-specific information. When prompted for your PTAN, give your CCN.

This Medicare certification is contingent upon compliance with the Office for Civil Rights (OCR) requirements. If OCR approval is not obtained, reimbursement will be recouped as of the effective date of this provider agreement. You will be contacted again only if the necessary approval is not granted by OCR.

If you are dissatisfied with the effective date of Medicare participation indicated above, you may request that the determination of the effective date be reconsidered. The request must be submitted in writing to this office within 60 days of the date you receive this notice. The request for reconsideration must state the issues or the findings of fact with which you disagree and the reasons for disagreement.

Regulations at 42 CFR 489.18 require that providers notify CMS when there is a change of ownership. Therefore, you must notify this office promptly if there is a change in your legal status as owner of this facility. You should also report to the State agency any changes in staffing, services, or organization which might affect your certification status.

ATTACHMENT 11

We welcome your participation and look forward to working with you in the administration of the Medicare program. If you have any questions, please contact Pamela Williams, Certification Specialist, in the Chicago Office at (312) 886-2560.

Sincerely,

Pamela J. Para for

Maria Vergel De Dios
Principal Program Representative
Non-Long Term Care Certification & Enforcement Branch

Enclosure

cc: Illinois Department of Public Health
Illinois Department of Health Care & Family Services
National Government Services
American Osteopathic Association
KePRO

ATTACHMENT 11

Belleville, IL 62226

Sleep Disorders Center
310 North Seven Hills Road
O'Fallon, IL 62269

Memorial Transitional Care Clinic
4500 Memorial Drive, Suite 100
Belleville, IL 62226

Memorial Senior Care
4500 Memorial Drive
Belleville, IL 62226

Wound Clinic (Memorial Hospital)
4600 Memorial Drive
Belleville, IL 62226

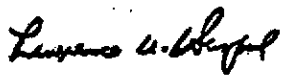
Condition Level Deficiencies: ☐ None
(Use crosswalk and CFR citiations, if applicable):
482.41

Any Condition Level Deficiency that was cited during the triennial survey was found to be in compliance at the focused resurvey.

Memorial Hospital does not have Swing Beds, a DPU Rehab Unit or a DPU Psych Unit and was not surveyed under those standards.

This accreditation decision was reached on July 13, 2016 by the BHFA's Executive Committee.

Sincerely,



Lawrence U. Haspel, D.O.
Chairman, Bureau of Healthcare Facilities Accreditation
The Healthcare Facilities Accreditation Program
LUH/CDC

c: Sherri Morgan-Johnson, RN, BSN, MHSA, Nurse Consultant
Region V, CMS

ATTACHMENT 11

AMERICAN OSTEOPATHIC ASSOCIATION

BUREAU OF HEALTHCARE FACILITIES ACCREDITATION
HEALTHCARE FACILITIES ACCREDITATION PROGRAM

142 E. Ontario Street, Chicago, IL 60611-2864 ph 312 202 8258 | 800- 621 -1773 X 8258

July 20, 2016

Mark Turner
Chief Executive Officer
Memorial Hospital
4500 Memorial Dr
Belleville, IL 62226

Dear Mr. Turner:

The American Osteopathic Association's Bureau of Healthcare Facilities Accreditation (BHFA) reviewed the triennial Deficiency Assessment Report for your Acute Care Hospital and granted Full Accreditation with resurvey within 3 years and does recommend that the Centers for Medicare and Medicaid Services Regional Office (CMS, RO) approve continued deemed status for:

Memorial Hospital
4500 Memorial Dr
Belleville, IL 62226

Program: Acute Care Hospital
CCN # 140185
HFAP ID: 156825
Triennial Survey Dates: 03/14/2016 – 03/17/2016
Focused Resurvey Dates: 05/23/2016 – 05/23/2016
Plan(s) of Correction Received: 05/03/2016
Effective Date of Accreditation: 05/27/2016 – 05/27/2019

Memorial Physical Therapy & Sports Rehab - O'Fallon
800 East Highway 50
O'Fallon, IL 62269

Memorial Healthcare Diagnostics
310 North Seven Hills Road
O'Fallon, IL 62269

Memorial Physical Therapy & Sports Rehab - East Belleville
1634 Carlyle Ave.
Belleville, IL 62221

Memorial Hand and Shoulder Therapy Center
4700 Memorial Drive, Suite 330
Belleville, IL 62226

Memorial Pain Center
4700 Memorial Drive, Suite 230
Belleville, IL 62226

Memorial Physical Rehabilitation Services
4700 Memorial Drive, Suite 150
Belleville, IL 62226

Memorial Radiology Testing CT/MRI
4700 Memorial Drive, Suite 100

ATTACHMENT 11

AMERICAN OSTEOPATHIC ASSOCIATION

BUREAU OF HEALTHCARE FACILITIES ACCREDITATION
HEALTHCARE FACILITIES ACCREDITATION PROGRAM

142 E. Ontario Street, Chicago, IL 60611-2864 ph 312 202 8258 | 800- 621 -1773 X 8258

May 27, 2016

Mark Turner
Chief Executive Officer
Memorial Hospital East
1404 Cross Street
Shiloh, IL 62269

Dear Mr. Turner:

The American Osteopathic Association's Bureau of Healthcare Facilities Accreditation (BHFA) reviewed the initial Deficiency Assessment Report for your Acute Care Hospital and granted Full Accreditation with resurvey within 3 years and does recommend that the Centers for Medicare and Medicaid Services Regional Office (CMS, RO) approve deemed status for:

Memorial Hospital East
1404 Cross Street
Shiloh, IL 62269

Program: Acute Care Hospital
CCN # Pending
HFAP ID: 378735
Initial Survey Dates: 05/09/2016 – 05/11/2016
Plan(s) of Correction Received: 05/16/2016
Effective Date of Accreditation: 05/16/2016 – 05/16/2019

Condition Level Deficiencies: ☒ None
(Use crosswalk and CFR citiations, if applicable):

Memorial Hospital East does not have Swing Beds, a DPU Rehab Unit or a DPU Psych Unit and was not surveyed under those standards.

This accreditation decision was reached on May 26, 2016 by the BHFA's Executive Committee.

Since you are seeking initial accreditation, the CMS Regional Office will be reviewing the survey findings as part of the Medicare certification process. Once all CMS requirements have been met, the CCN (CMS Certification Number) will be issued by the Regional Office.

Sincerely,

Stephen A. Martin, Jr., PhD, MPH
AAHHS/HFAP President and CEO

SAM/CDC
c: Sherri Morgan-Johnson, RN, BSN, MHSA, Nurse Consultant
Region V, CMS

ATTACHMENT 11

The Joint Commission

August 9, 2016

David A. Braasch
President
Alton Memorial Hospital
One Memorial Drive
Alton, IL 62002

Joint Commission ID #: 4286
Program: Behavioral Health Care Accreditation

Accreditation Activity: 60-day Evidence of Standards Compliance
Accreditation Activity Completed: 08/09/2016

Dear Mr. Braasch:

The Joint Commission is pleased to grant your organization an accreditation decision of Accredited for all services surveyed under the applicable manual(s) noted below:

- **Comprehensive Accreditation Manual for Behavioral Health Care**

This accreditation cycle is effective beginning June 02, 2016 and is customarily valid for up to 36 months. Please note, The Joint Commission reserves the right to shorten or lengthen the duration of the cycle.

Should you wish to promote your accreditation decision, please view the information listed under the 'Publicity Kit' link located on your secure extranet site, The Joint Commission Connect.

The Joint Commission will update your accreditation decision on Quality Check®.

Congratulations on your achievement.

Sincerely,

Mark Pelletier

Mark G.Pelletier, RN, MS
Chief Operating Officer
Division of Accreditation and Certification Operations

ATTACHMENT 11

The Joint Commission

August 9, 2016

David A. Braasch
President
Alton Memorial Hospital
One Memorial Drive
Alton, IL 62002

Joint Commission ID #: 4286
Program: Hospital Accreditation
Accreditation Activity: 60-day Evidence of Standards Compliance
Accreditation Activity Completed: 08/09/2016

Dear Mr. Braasch:

The Joint Commission is pleased to grant your organization an accreditation decision of Accredited for all services surveyed under the applicable manual(s) noted below:

- **Comprehensive Accreditation Manual for Hospitals**

This accreditation cycle is effective beginning June 04, 2016 and is customarily valid for up to 36 months. Please note, The Joint Commission reserves the right to shorten or lengthen the duration of the cycle.

Should you wish to promote your accreditation decision, please view the information listed under the 'Publicity Kit' link located on your secure extranet site, The Joint Commission Connect.

The Joint Commission will update your accreditation decision on Quality Check®.

Congratulations on your achievement.

Sincerely,

Mark Pelletier

Mark G.Pelletier, RN, MS
Chief Operating Officer
Division of Accreditation and Certification Operations

ATTACHMENT 11

The Joint Commission

Please be assured that The Joint Commission will keep the report confidential, except as required by law or court order. To ensure that The Joint Commission's information about your organization is always accurate and current, our policy requires that you inform us of any changes in the name or ownership of your organization or the health care services you provide.

Sincerely,

Mark Pelletier

Mark G. Pelletier, RN, MS
Chief Operating Officer
Division of Accreditation and Certification Operations

cc: CMS/Central Office/Survey & Certification Group/Division of Acute Care Services
CMS/Regional Office 5 /Survey and Certification Staff

The Joint Commission

August 9, 2016

Re: # 4286
CCN: #140002
Program: Hospital
Accreditation Expiration Date: June 04, 2019

David A. Braasch
President
Alton Memorial Hospital
One Memorial Drive
Alton, Illinois 62002

Dear Mr. Braasch:

This letter confirms that your June 01, 2016 - June 03, 2016 unannounced full resurvey was conducted for the purposes of assessing compliance with the Medicare conditions for hospitals through The Joint Commission's deemed status survey process.

Based upon the submission of your evidence of standards compliance on July 22, 2016 and August 04, 2016, The Joint Commission is granting your organization an accreditation decision of Accredited with an effective date of June 04, 2016.

The Joint Commission is also recommending your organization for continued Medicare certification effective June 04, 2016. Please note that the Centers for Medicare and Medicaid Services (CMS) Regional Office (RO) makes the final determination regarding your Medicare participation and the effective date of participation in accordance with the regulations at 42 CFR 489.13. Your organization is encouraged to share a copy of this Medicare recommendation letter with your State Survey Agency.

This recommendation applies to the following location(s):

Alton Memorial Hospital
One Memorial Drive, Alton, IL, 62002

Alton North Rehabilitation
226 Regional Drive, Alton, IL, 62002

BJC HealthCare

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

Dear Ms. Avery:

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

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

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

Sincerely,

Greg Bratcher
Director, Policy Analysis
BJC HealthCare

Date: Nov 10, 2017

Notarized: Daphne L. Wilcut

Daphne L. Wilcut

DAPHNE L. WILCUT
Notary Public - Notary Seal
State of Missouri
Commissioned for St. Louis City
My Commission Expires: February 21, 2019
Commission Number: 15146250

ATTACHMENT 11

SECTION V
CHANGE OF OWNERSHIP (CHOW)

Applicable Review Criteria

Criterion 1130.520(b)(1)(A) Names of the parties
The parties named as an applicant are:

1. Protestant Memorial Medical Center, Inc., (d/b/a Memorial Hospital) the entity that is and will remain the hospital's License Holder.
2. BJC Health System (d/b/a BJC HealthCare) an entity which currently meets the IDPH definition of "final control" found in Section 1130.140, and the entity that will maintain "final control" over the hospital.
3. Memorial Group, Inc., an entity which currently meets the IDPH definition of "final control" found in Section 1130.140.

Criterion 1130.520(b)(1)(B) Background of the parties
Provided in ATTACHMENT 1 are Certificates of Good Standing for each applicant identified above. Provided in ATTACHMENT 11 are:

1. Listings of Illinois Health Care Facilities owned by the applicants
2. A certification from the applicants that no adverse actions have been taken against any facility owned and/or operated in Illinois by the applicant during the past three years.
3. The applicants' authorization permitting HFSRB and IDPH access to documents necessary to verify the information submitted.

Criterion 1130.520(b)(1)(C) Structure of transaction
BJC HealthCare and Memorial Group, Inc. currently both have "final control" over Memorial Regional Health Services, Inc. per Section 1130.140. Through the proposed change of ownership and control, Memorial Group, Inc. will cede its control to BJC HealthCare, resulting in BJC HealthCare becoming the sole entity having "final control" over the Memorial Hospital.

Criterion 1130.520(h)(1)(D) Name of the person who will be licensed or certified entity after the transaction
The license holder, as identified in Section I of this Certificate of Exemption Permit application will not change following the transaction.

Criterion 1130.520(b)(1)(E) List of the ownership or membership interests in such licensed or certified entity both prior to and after the transaction, including a description of the applicant's organization structure with a listing of controlling or subsidiary persons.
Current and post-closing organizational charts are provided in ATACHMENT 4, identifying all applicable Illinois facilities. Memorial Regional Health Services, Inc. currently has two corporate members: Memorial Group, Inc. and BJC HealthCare. Upon the finalizing of the transaction, Memorial Regional Health Services, Inc. will have one member, which is BJC HealthCare.

ATTACHMENT 15

Criterion 1130.520(h)(1)(F) Fair market value of assets to be transferred
The health care facility's value, per its FY 2017 balance sheet is $149,242,665. This amount is identified as the hospital's fair market value for purposes of this Certificate of Exemption application, exclusively.

Criterion 1130.520(b)(1)(G) The purchase price or other forms of consideration to be provided for those assets
There will not be an exchange of money as a result of the proposed change of ownership and control, and therefore this criterion is not applicable.

Criterion 1130.520(b)(2) Affirmation that any projects for which Permits have been issued have been completed or will be completed or altered in accordance with the provisions of this Section.
As of the time of this Certificate of Exemption application filing, the applicants have one Certificate of Need Permit pending, with Memorial Group, Inc., BJC Health System, Memorial Regional Health Services, Inc. and Metro East Services, Inc. as Permit holders:

- CON Permit 16-018, for the establishment of a medical clinics building on the campus of Memorial Hospital-East. This Permit has a completion date of January 15, 2018.

By its respective signatures on the Certification Page of this Certificate of Exemption application, BJC HealthCare and Memorial Group, Inc. affirm that the Certificate of Need Permit identified above will be completed consistent with rules of the Illinois Health Facilities and Services Review Board.

Criterion 1130.520(b)(2) If the ownership change is for a hospital, affirmation that the facility will not adopt a more restrictive charity care policy than the charity care policy that was in effect one year prior to the transaction. The hospital must provide affirmation that the compliant charity care policy will remain in effect for a two-year period following the change of ownership transaction.
By its signature on the Certification Page of this Certificate of Exemption application, the applicants affirm that the hospital's charity care policy will not become more restrictive for a minimum of two years following the closing of the change of ownership transaction. A copy of BJC HealthCare's Financial Assistance Policy, under which the hospital currently operates, is attached.

Criterion 1130.520(b)(2) A statement as to the anticipated benefits of the proposed changes in ownership to the community
The purpose of the proposed change of ownership/control is to simplify the organizational structure, with this proposed change being anticipated during the planning of the strategic affiliation between BJC HealthCare and Memorial Group, Inc. It is not anticipated that the community will experience any material changes to manner in which services are provided, including diminished access to services.

Criterion 1130.520(b)(2) The anticipated or potential cost savings, if any, that will result for the community and facility because of the change in ownership.
Savings are anticipated to be incurred by both Memorial Hospital (Protestant Memorial Medical Center, Inc.) and Memorial Hospital-East (Metro-East Services, Inc.) as a result of the proposed transaction, which will in turn, be reflected in savings to the community. Neither amount has been quantified to date. However, and as a result of the "buying power" of BJC HealthCare and

Washington University, it is anticipated that Memorial Hospital and Memorial Hospital-East will realize savings in the cost of equipment and supplies. In addition, the hospitals will be in an improved negotiating position with third party payors.

Criterion 1130.520(b)(2) A description of the facility's quality improvement mechanism that will be utilized to ensure quality control

The applicants place great importance in quality control. With the initiation of the strategic affiliation, best practices models, peer review protocols, and other mechanisms designed to monitor and improve quality of care have been shared. That process will continue.

Criterion 1130.520(b)(2) A description of the selection process that the acquiring entity will use to select the facility's governing body

The Memorial Hospital (Protestant Memorial Medical Center, Inc.) and Memorial Hospital-East (Metro-East Services, Inc.) boards will nominate members from the communities they serve and/or individuals with skills or experience needed by the respective Board to BJC HealthCare for final review and approval. Each respective board may use a nominating committee comprised of current board members to identify individuals who meet the criteria for service on the board.

Criterion 1130.520(b)(2) A statement that the applicant has prepared a written response addressing the review criteria contained in 77 Ill. Adm Code. 1110.240 and the response is available for public review on the premises of the facility

The applicants have prepared a written response, which is available for public view at the facility.

Criterion 1130.520(b)(2) A description or summary of any proposed changes to the scope of services or levels of care currently provided at the facility that are anticipated to occur within 24 months after acquisition.

None are currently anticipated.

Financial Assistance Policy

BJC wants to help patients who do not have health insurance or who need help paying their hospital bills. As a nonprofit health care organization, BJC and our member hospitals and health service organizations care about the patients and communities we serve through better health and better health care.

Our staff can help you:

- Apply for health insurance through the new Marketplace
- Apply for Medicaid assistance
- Determine if you qualify for financial assistance from BJC

BJC Financial Assistance

First and foremost, your financial circumstances will not affect your care. All patients are treated with respect and fairness. Patients who meet certain income guidelines may qualify for BJC Financial Assistance, including reduced hospital charges and long-term, interest-free payment plans. Patients who are eligible for financial assistance will be billed less than the amounts generally billed to individuals who have insurance covering such care. Information regarding amounts generally billed and its calculation is available by calling 314-362-8400 or 855-362-8400 or at www.bjc.org.

If you are insured and have questions about your coverage or your level of benefits, please contact your insurance provider. Patients without insurance will automatically receive a 40 percent discount on the billed charges and will be considered for assistance. Depending on the type of service and level of financial assistance, a partial payment may be required. We can give you a Financial Assistance Policy Income and Discount chart that shows the payment amounts upon request.

Financial assistance approval will be in effect for 12 months from the date of approval. Patients who have services within this time period should inform us of the visit by calling 314-362-8400 or 855-362-8400 so that financial assistance may be applied.

Exceptions to the financial assistance qualification criteria will be considered on an individual basis.

Applying for Financial Assistance

You may apply for Financial Assistance at any time – before, during or after your care, up to 240 days after your initial bill. We will send information with your bill about how to apply for assistance. Applications are also available upon request at any BJC facility, on our websites and at www.bjc.org. The application requires proof of income such as an income tax return or paycheck stub. Examples of documents which may be used as proof of income can be found on the application form.

Patients who have been enrolled in Medicaid or who are deemed eligible for Gateway to Better Health in the last six months automatically qualify for Financial Assistance for medical services that are not covered by Medicaid. (The only exception is if the previous Medicaid enrollment was due to pregnancy. In that case, you can still apply for Financial Assistance.)

In addition, patients may be approved for financial assistance based on the use of a standard analytic approach which estimates the patient's financial and/or socio-economic position. Eligibility for this type of assistance does not automatically qualify the patient for assistance on future accounts.

Medical Qualifications for Financial Assistance

BJC hospitals will provide, without exception, care for emergency medical conditions to all patients seeking such care, regardless of ability to pay or to qualify for financial assistance, in accordance with the requirements of the Emergency Medical Treatment and Active Labor Act (EMTALA).

Financial assistance is available only for emergency and medically necessary services. It does not apply to elective procedures such as cosmetic surgery. It also does not apply to the portion of your services that have been paid for by a third party such as an insurance company or government program.

Financial Assistance is available to patients who live in Missouri and Illinois.

A listing of providers who are not included under BJC's financial policy is available by calling 314-362-8400 or 855-362-8400 or electronically at www.bjc.org.

Income Guidelines for Financial Assistance

The amount of financial assistance you receive is based on Federal Poverty Level information set by the U.S. government each year. To be eligible for a discount, your family income must not be more than three times the Federal Poverty Level (300 percent). We can give you a Financial Assistance Policy Income and Discount chart that shows these income levels upon request. In addition to your income, the discount will also take into account the size of your family. Patients with family income over $100,000 a year are not eligible for BJC Financial Assistance, regardless of family size. Uninsured Illinois residents receiving services at Alton Memorial Hospital may be eligible for additional discounts under the Illinois Hospital Uninsured Patient Discount Act.

Income Guidelines for Catastrophic Events

In the case of a catastrophic medical event, patients who may not ordinarily qualify for Financial Assistance will be granted aid. Under these special circumstances, patient payment responsibilities in a 12-month period will not be more than 25 percent of annual family income.

Learn more

You can get more information about the BJC Financial Assistance Policy and an application, or make a request to receive written notice or communication electronically by speaking with a Patient Services representative or by calling **314-362-8400 or toll free 855-362-8400.** Information and application forms are also available at **www.bjc.org.** Please feel free to ask about Financial Assistance. We are here to help.

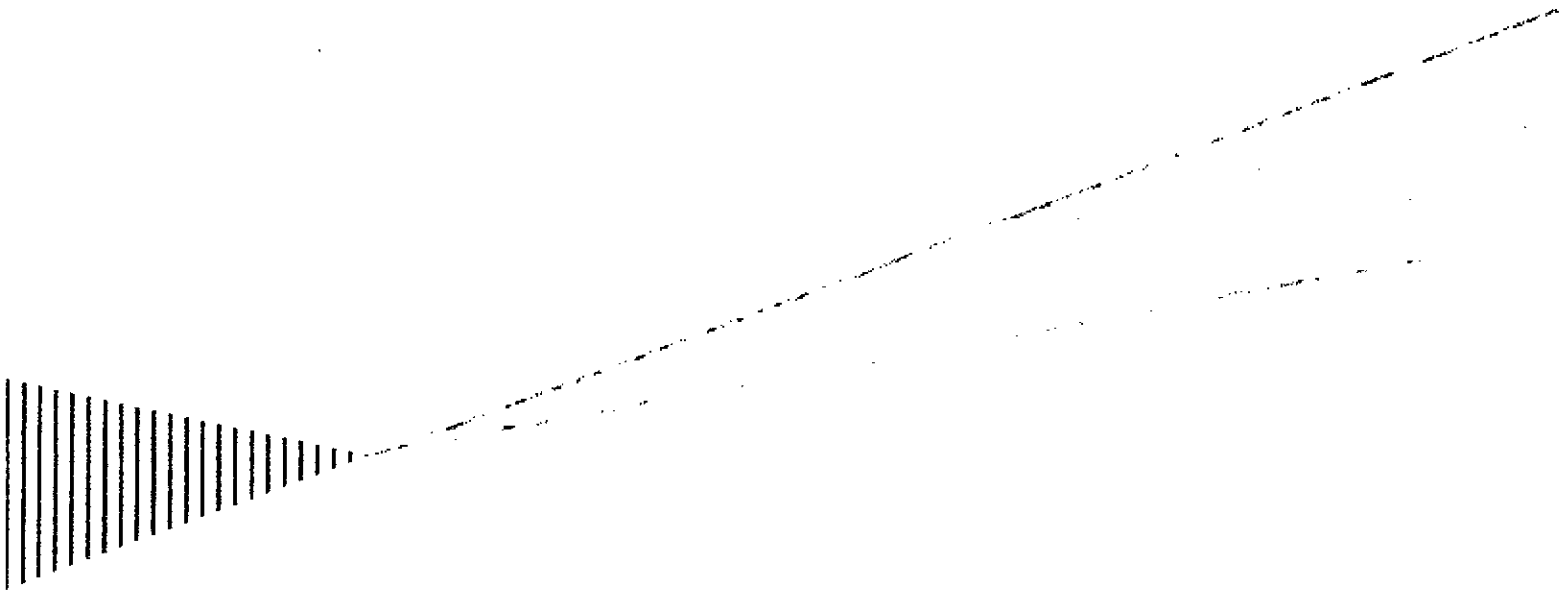
BJC HealthCare

ATTACHMENT 15

CONSOLIDATED FINANCIAL STATEMENTS

BJC HealthCare
Years Ended December 31, 2016 and 2015
With Report of Independent Auditors

Ernst & Young LLP



EY
Building a better working world

APPENDIX 1

BJC HealthCare

Consolidated Financial Statements

Years Ended December 31, 2016 and 2015

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Consolidated Financial Statements

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Consolidated Statements of Operations and Changes in Net Assets....4
Consolidated Statements of Cash Flows....6
Notes to Consolidated Financial Statements....7

APPENDIX 1

Building a better working world

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

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

Report of Independent Auditors

The Board of Directors
BJC HealthCare

We have audited the accompanying consolidated financial statements of BJC HealthCare (BJC), which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the related consolidated statements of operations and 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 financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

1701-2166472

A member firm of Ernst & Young Global Limited

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of BJC HealthCare at December 31, 2016 and 2015, and the consolidated results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst + Young LLP

February 28, 2017

A member firm of Ernst & Young Global Limited

BJC HealthCare

Consolidated Balance Sheets
(Dollars in Millions)

	December 31 2016	December 31 2015
Assets		
Current assets:		
Cash and cash equivalents	$ 54.9	$ 75.3
Accounts receivable:		
Patients (less allowances for uncollectible accounts – $96.2 in 2016 and $87.0 in 2015)	719.0	607.4
Other	55.9	43.9
Other current assets	229.6	199.4
Total current assets	1,059.4	926.0
Investments	5,080.5	5,086.5
Property and equipment, net	2,930.4	2,225.8
Other noncurrent assets	245.2	233.7
Total assets	$ 9,315.5	$ 8,472.0
Liabilities and net assets		
Current liabilities:		
Current maturities of long-term debt	$ 21.0	$ 15.4
Long-term debt subject to self-liquidity	431.2	534.7
Other current liabilities	921.7	705.6
Total current liabilities	1,373.9	1,255.7
Noncurrent liabilities:		
Long-term debt	1,368.8	1,023.6
Self-insurance liabilities	166.9	150.5
Pension/postretirement liabilities	467.9	572.5
Other noncurrent liabilities	310.1	270.3
Total noncurrent liabilities	2,313.7	2,016.9
Total liabilities	3,687.6	3,272.6
Net assets:		
Unrestricted	5,142.6	4,762.5
Noncontrolling interest in subsidiary	34.5	–
Total unrestricted	5,177.1	4,762.5
Temporarily restricted	251.0	246.7
Permanently restricted	199.8	190.2
Total net assets	5,627.9	5,199.4
Total liabilities and net assets	$ 9,315.5	$ 8,472.0

See accompanying notes.

1701-2166472

BJC HealthCare

Consolidated Statements of Operations and Changes in Net Assets

(Dollars in Millions)

	Year Ended December 31	
	2016	**2015**
Unrestricted revenues:		
Patient service revenue (net of allowances and discounts)	**$ 4,766.9**	$ 4,246.1
Provision for bad debts	**(181.0)**	(156.1)
Net patient service revenue	**4,585.9**	4,090.0
Other operating revenue	**177.4**	172.3
Total unrestricted revenues	**4,763.3**	4,262.3
Expenses:		
Salaries and benefits	**2,286.1**	1,989.1
Supplies and other	**2,011.6**	1,777.4
Depreciation and amortization	**281.6**	255.7
Interest	**42.2**	37.8
Total expenses	**4,621.5**	4,060.0
Operating income	**141.8**	202.3
Investment earnings (losses)	**214.6**	(3.7)
Unrealized gains (losses) on interest rate swap contracts, net	**11.1**	(4.8)
Inherent contribution of acquired entity	**73.8**	–
Other nonoperating expense, net	**(74.3)**	(100.2)
Excess of revenues over expenses	**367.0**	93.6
Net loss attributable to noncontrolling interest	**(20.1)**	–
Excess of revenues over expenses attributable to BJC HealthCare	**387.1**	93.6

BJC HealthCare

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

(Dollars in Millions)

	December 31, 2016			December 31, 2015		
	Total	Controlling	Noncontrolling	Total	Controlling	Noncontrolling
Unrestricted net assets:						
Excess (deficit) of revenues over expenses	$ 367.0	$ 387.1	$ (20.1)	$ 93.6	$ 93.6	$ –
Pension and other postretirement liability adjustment	(9.1)	(9.1)	–	42.4	42.4	–
Initial value of noncontrolling interest in net assets of acquired entities	54.6	–	54.6	–	–	–
Net assets released for property acquisitions	2.1	2.1	–	3.9	3.9	–
Increase in unrestricted net assets	414.6	380.1	34.5	139.9	139.9	–
Temporarily restricted net assets:						
Contributions, bequests, and grants	20.6	20.2	0.4	28.2	28.2	–
Investment (losses) earnings	16.5	16.5	–	(3.7)	(3.7)	–
Net assets released from restrictions	(34.1)	(34.1)	–	(26.0)	(26.0)	–
Other	1.3	1.3	–	3.3	3.3	–
Increase in temporarily restricted net assets	4.3	3.9	0.4	1.8	1.8	–
Permanently restricted net assets:						
Contributions and bequests	8.5	8.5	–	1.1	1.1	–
Investment earnings	0.1	0.1	–	–	–	–
Other	1.0	1.0	–	(3.9)	(3.9)	–
Increase (decrease) in permanently restricted net assets	9.6	9.6	–	(2.8)	(2.8)	–
Increase in net assets	428.5	393.6	34.9	138.9	138.9	–
Net assets at beginning of year	5,199.4	5,199.4	–	5,060.5	5,060.5	–
Net assets at end of year	$ 5,627.9	$ 5,593.0	$ 34.9	$ 5,199.4	$ 5,199.4	–

See accompanying notes.

BJC HealthCare

Consolidated Statements of Cash Flows

(Dollars in Millions)

	Year Ended December 31 2016	2015
Operating activities		
Increase in net assets	$ 428.5	$ 138.9
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Unrealized (gains) losses on interest rate swaps	(11.1)	4.8
Restricted contributions	(29.1)	(29.3)
Depreciation and amortization	281.6	255.7
Provision for bad debts	181.0	156.1
Pension and other postretirement liability adjustment	9.1	(42.4)
Fair value of net assets of acquired entities	(128.7)	–
Increase in patient accounts receivable, net	(258.0)	(193.0)
Increase in other current assets	(28.5)	(40.0)
Increase in other current liabilities	153.7	17.1
Investments classified as trading, net	0.1	(23.5)
Decrease (increase) in other assets	1.4	(15.9)
(Decrease) increase in self-insurance liabilities	(17.1)	5.0
(Decrease) increase in other noncurrent liabilities	(110.8)	11.2
Net cash provided by operating activities	472.1	244.7
Investing activities		
Purchases of property and equipment, net	(759.6)	(434.5)
Cash received from contribution of MRHS	27.2	–
Sales of interests in alternative investments	840.9	612.7
Purchases of interests in alternative investments	(714.6)	(495.2)
Net cash used in investing activities	(606.1)	(317.0)
Financing activities		
Payments of debt	(116.9)	(88.0)
Proceeds from issuance of debt	201.4	150.0
Restricted contributions	29.1	29.3
Proceeds from line of credit	67.9	–
Payments on line of credit	(67.9)	–
Net cash provided by financing activities	113.6	91.3
Net (decrease) increase in cash and cash equivalents	(20.4)	19.0
Cash and cash equivalents, beginning of year	75.3	56.3
Cash and cash equivalents, end of year	$ 54.9	$ 75.3

See accompanying notes.

BJC HealthCare

Notes to Consolidated Financial Statements
(Dollars in Millions)

December 31, 2016 and 2015

1. Organization and Summary of Significant Accounting Policies

Nature of Organization

BJC HealthCare (BJC or the System) is a regional healthcare delivery system operating in Missouri and southern Illinois. BJC is the sole corporate member of Barnes-Jewish Hospital (Barnes-Jewish), Christian Health Services Development Corporation (Christian), Missouri Baptist Medical Center (MBMC), St. Louis Children's Hospital (Children's), and Progress West Hospital (PWH) (collectively, the Institutions).

BJC is a Missouri not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and has received an Internal Revenue Service (IRS) determination letter stating that it is exempt from federal income taxes on its related income pursuant to Section 501(a) of the Code. The Institutions are also Missouri not-for-profit corporations as described in Section 501(c)(3) of the Code, and each has received IRS determination letters stating that they are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code.

CH Allied Services, Inc. (CHAS), an affiliate of Christian, leases and operates Boone Hospital Center (BHC) in Columbia, Missouri. The owner and lessor of BHC is the Board of Trustees of Boone County Hospital (BHC Lessor). The financial position and results of operations of BHC are included in BJC's consolidated financial statements. The lease agreement (the Lease) extends to December 31, 2020, with continuing five-year terms thereafter unless the Lease is terminated. Either party has the option to terminate the Lease during the current term or any successive five-year term by giving notice two years prior to the end of the then-current term. If the Lease is terminated, certain assets recorded in BJC's consolidated financial statements will revert to the BHC Lessor, and BJC will record a charge equal to the amount of BHC's unrestricted net assets due to a change in control over the assets. In 2016, the BHC Lessor issued a request for proposal to several organizations, including BJC, for operation of BHC subsequent to December 31, 2020. The BHC Lessor is in the process of evaluating these proposals. At December 31, 2016, unrestricted net assets of BHC included in the consolidated financial statements totaled $156.5.

Consolidation

The accompanying consolidated financial statements include the accounts of BJC and its controlled subsidiary. All significant intercompany transactions and account balances have been eliminated in the consolidated financial statements.

1. Organization and Summary of Significant Accounting Policies (continued)

Use of Estimates

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

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with original, short-term maturities of less than 90 days.

Investments and Investment Earnings

Investments include assets held by trustees under indenture, under the Lease, self-insurance agreements, foundation assets and unrestricted investments set aside by the Board of Directors (the Board) over which it retains control and may, at its discretion, subsequently use for other purposes. Investments in equity and debt securities are measured at fair value.

For purposes of recognizing investment earnings as a component of excess of revenues over expenses, all investments, except for alternative investments, are considered to be trading securities. Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is included in excess of revenues over expenses unless the income or loss is restricted by donor or law. Gains and losses with respect to disposition of marketable securities are based on the average cost method. Investment earnings related to temporarily and permanently restricted net assets are added to or deducted from the appropriate net asset balance based on donor intent.

Within established investment policy guidelines, BJC may enter into various exchange-traded and over-the-counter derivative contracts for economic hedging purposes, including futures, options, swaps, and forward contracts. BJC has not designated its derivatives related to marketable securities as hedges, and the change in fair value of these derivatives is recognized in excess of revenues over expenses.

1. Organization and Summary of Significant Accounting Policies (continued)

BJC invests in alternative investments (primarily hedge funds, private equity investments and credit funds), generally through limited liability corporations (LLCs) and limited liability partnerships (LLPs), which are reported using the equity method of accounting based on information provided by the respective LLCs and LLPs.

The values provided by the respective organizations are based on historical cost, appraisals, or other estimates that require varying degrees of judgment. Management has utilized the best available information for reported values, which in some instances are valuations as of an interim date not more than 90 days before year-end. Generally, the net asset value of BJC's holdings reflects net contributions to the organization and an allocated share of realized and unrealized investment income and expenses. Returns from equity method investments, whether realized or unrealized, are included in investment earnings in excess of revenues over expenses.

Investment securities purchased and sold are reported based on trade date. Due to the difference between the trade date and the settlement date, BJC reports receivables for securities sold but not settled and reports liabilities for securities purchased but not settled. These receivables and payables are settled from within the investment portfolio and are presented on a net basis within investments in the consolidated balance sheets.

Securities Lending Program

BJC participates in securities-lending transactions with its investment custodian whereby a portion of its securities are loaned to selected, established brokerage firms in return for securities from the brokers as collateral for the securities loaned, usually on a short-term basis of up to 60 days. Collateral provided by the brokerage firms generally approximates 103% of the fair value of the securities on loan and is adjusted for daily market fluctuations. BJC earns a rebate on the loaned securities. Neither BJC nor its investment custodian has the ability to pledge or sell securities received as collateral unless a borrower defaults.

BJC also participates in a securities lending arrangement in the investment portfolio of its sponsored defined benefit pension plan as more fully described in Note 11.

1. Organization and Summary of Significant Accounting Policies (continued)

Interest Rate Swaps

BJC uses interest rate swap contracts in managing its capital structure. BJC recognizes these derivative instruments as either assets or liabilities in the consolidated balance sheets at fair value. BJC does not account for any of its interest rate swap contracts as hedges, and accordingly, realized and unrealized gains and losses are reflected in excess of revenues over expenses in the accompanying consolidated statements of operations and changes in net assets. BJC also does not offset fair value amounts recognized for derivative instruments and fair value amounts recognized for cash collateral posted.

Inventory

Inventories, which consist principally of medical supplies and pharmaceuticals, are stated at lower of cost or market. Cost is generally determined using average cost.

Property and Equipment

Property and equipment are recorded at cost, if purchased, or at fair value at the date of donation, if donated. Depreciation is provided on a straight-line basis over the estimated useful lives of the property. BJC follows the American Hospital Association guidelines for assigning useful lives to property and equipment purchased. BJC capitalizes certain internally developed software costs in accordance with Financial Accounting Standards Board (FASB) ASC 350-44, *Internal-Use Software*. Interest cost incurred in connection with borrowings to finance major construction and facility expansion is capitalized during the construction period and subsequently amortized over the lives of the related assets.

BJC evaluates long-lived assets used in operations for impairment as events and changes in circumstances indicate that the carrying amount of such assets might not be recoverable. Assets are grouped at the lowest level for which there is identifiable cash flows that are largely independent of the cash flows of other groups of assets, which generally is at the hospital level.

Asset Impairment

BJC considers whether indicators of impairment are present and performs the necessary test to determine if the carrying value of an asset is appropriate. Impairment write-downs are recognized in operating income at the time the impairment is identified.

1. Organization and Summary of Significant Accounting Policies (continued)

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by BJC has been limited by donors for a specific time period or purpose, primarily for research and education, special programs, patient care, operations, and property and equipment. Permanently restricted net assets have been restricted by donors to be maintained in perpetuity; the income from these funds is used primarily for special programs, operations, research and education, and patient care or added back to the corpus in accordance with donor restrictions.

Net Patient Service Revenue and Patient Accounts Receivable

Patient service revenue is reported net of contractual allowances and discounts at estimated net realizable amounts from patients, third-party payors, and others for services rendered and includes estimated retroactive adjustments due to audits, reviews, investigations, and significant regulatory actions. Net patient service revenue is reported net of provision for bad debts. Provisions for third-party payor settlements and adjustments are estimated in the period the related services are provided and adjusted in future periods as additional information becomes available and as final settlements are determined.

The provision for bad debts is based upon management's judgmental assessment of historical and expected net collections considering business and general economic conditions in its service area, trends in healthcare coverage, and other collection indicators. Throughout the year, management assesses the adequacy of the allowance for uncollectible accounts based upon its review of accounts receivable payor composition and aging, taking into consideration recent write-off experience by payor category, payor agreement rate changes, and other factors. The results of these assessments are used to make modifications to the provision for bad debts and to establish an appropriate allowance for uncollectible accounts receivable. For third-party payors, the provision is determined by analyzing contractually due amounts from payors who are known to be having financial difficulties. For self-pay patients, the provision is based on an analysis of past experience related to patients unwilling to pay standard rates charged. The difference between the standard rate charged (less the negotiated discounted rate) and the amount actually collected after reasonable collection efforts have been exhausted are charged off against the allowances for uncollectible accounts. BJC follows established guidelines for placing certain past-due patient balances with external collection agencies.

1. Organization and Summary of Significant Accounting Policies (continued)

Contributions, Bequests, and Pledges

Unrestricted contributions and bequests are reported in other nonoperating expense, net when pledged. Restricted contributions and bequests are reported as additions to the appropriate restricted net asset balance. Restricted pledges are recorded at fair value in the year notification is received as an addition to the appropriate restricted net asset balance. Management believes these are Level 2 fair value measurements (as defined in Note 10) recorded on a nonrecurring basis. Pledges receivable totaling $28.2 and $26.0 are included in other current assets and other noncurrent assets at December 31, 2016 and 2015, respectively. These pledges are recorded at their net present value based on the expected timing of pledge fulfillment using an average credit adjusted discount rate of 3.8% in 2016 and 3.7% in 2015, which approximates fair value at the date the pledge is received. Management believes total pledges will be received as follows:

	2016	2015
Within one year	$ 6.3	$ 5.7
One to five years	8.5	5.5
After five years	24.7	25.6
	39.5	36.8
Less present value factor	(11.1)	(10.6)
Less allowance for uncollectible pledges	(0.2)	(0.2)
	$ 28.2	$ 26.0

Performance Indicator

BJC's performance indicator is excess of revenues over expenses, which includes all changes in unrestricted net assets other than contributions of property, pension and other postretirement liability adjustments, and the impacts of noncontrolling interest in a subsidiary.

1. Organization and Summary of Significant Accounting Policies (continued)

Operating and Nonoperating Income

BJC's primary mission is to meet the healthcare needs in its service areas through a broad range of general and specialized healthcare services, including inpatient acute care, outpatient services, physician services, and other healthcare services. Activities directly associated with the furtherance of this purpose are considered to be operating activities. Other activities that result in gains or losses peripheral to BJC's primary mission are considered to be nonoperating. All unrestricted activities of BJC's wholly-controlled affiliated Foundations (the Foundations), including contribution and grant activity, are recorded in other nonoperating expense, net.

Income Taxes

The authoritative guidance in ASC 740, *Income Taxes*, creates a single model to address uncertainty in tax positions and clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. Under the requirements of this guidance, tax-exempt organizations could be required to record an obligation as the result of a tax position they have historically taken on various tax exposure items. BJC has not recognized a liability for uncertain tax positions.

Functional Expenses

BJC's accounting policies conform to U.S. GAAP applicable to healthcare organizations. Substantially all expenses are related to providing healthcare services to the community.

New Accounting Standards Not Yet Adopted

In May 2014, the FASB and International Accounting Standards Board (IASB) issued *Revenue from Contracts with Customers*, which replaces all U.S. GAAP revenue requirements. BJC is currently evaluating the effects of the standard on its financial statements. The standard is effective for BJC beginning January 1, 2018, and interim periods within that year.

1. Organization and Summary of Significant Accounting Policies (continued)

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which will require lessees to put most leases on their balance sheets but recognize related expenses in their statements of operations and changes in net assets in a manner similar to existing accounting standards. This guidance also eliminates the current real estate specific provisions for all entities. The new standard is effective for BJC as of January 1, 2019. BJC is currently evaluating the effects of this standard on its financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.* This ASU will change certain financial statement requirements for not-for-profit (NFP) entities in an effort to make the information more meaningful and make reporting less complex. NFP entities will no longer be required to distinguish between resources with temporary and permanent restrictions on the face of their financial statements, meaning they will present two classes of net assets instead of three. The guidance also changes how NFP entities report certain expenses and provide information about their available resources and liquidity. In addition, NFP entities will be required to present expenses by their natural and functional classification and present investment returns net of external and direct investment expenses. The standard is effective for BJC in the year ended December 31, 2018. BJC is currently evaluating the effect of the standard on its financial statements.

New Accounting Standards Adopted

In August 2014, the FASB issued Accounting Standards Update (ASU) 2014-15, *Presentation of Financial Statements – Going Concern (Subtopic 205-40)*, that requires management to evaluate whether there are conditions and events that raise substantial doubt about an entity's ability to continue as a going concern. BJC adopted the guidance as of December 31, 2016, with no material impact to the financial statements.

In April 2015, the FASB issued ASU 2015-05, *Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement.* This ASU provides guidance on how to account for fees paid in cloud computing arrangements. Cloud computing arrangements include software as a service, platform as a service, infrastructure as a service, and other similar hosting arrangements. The ASU provides guidance about whether a cloud computing arrangement includes a software license or not. If a cloud computing arrangement includes a software license, then the software license element of the

1. Organization and Summary of Significant Accounting Policies (continued)

arrangement is accounted for consistent with other software licenses. If a cloud computing arrangement does not include a software license, the arrangement is accounted for as a service contract. BJC adopted the guidance as of December 31, 2016, with no material impact to the financial statements.

In May 2015, the FASB issued ASU 2015-07, *Fair Value Measurement (Topic 820) Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent).* The provisions of this ASU affect fair value measurement disclosures only. Investments for which fair value is measured at net asset value per share (or its equivalent) using the practical expedient provisions of ASC 820, *Fair Value Measurement,* are no longer required to be included within the fair value hierarchy leveling tables. BJC early adopted this guidance as of December 31, 2015. It had no material impact on the consolidated financial statements.

Reclassifications

Certain balances in the 2015 consolidated balance sheet and footnote disclosures have been reclassified to conform to current year presentation. The effect of such reclassifications did not change total net assets, unrestricted net assets, operating income, or excess of revenues over expense.

2. Acquisitions

BJC accounts for business combinations in accordance with Accounting Standards Codification Topic (ASC) 958-805, *Not-for-Profit Entities: Business Combinations*, under which the purchase price of an acquired business is allocated to its identifiable assets and liabilities based on estimated fair values. The excess of the consideration paid over the amount allocated to the assets and liabilities, if any, is recorded to goodwill. For acquisitions in which no consideration is paid, the fair value of the net assets acquired, net of non-controlling interests, is recorded as an inherent contribution in nonoperating income. BJC typically engages third party valuation specialists to assist in the fair value determination of certain assets and liabilities. The preliminary purchase price allocation is adjusted, as necessary, typically up to one year after the acquisition closing date as additional information is obtained regarding the valuations of assets acquired and liabilities assumed.

2. Acquisitions (continued)

Affiliation Agreement with Memorial Group, Inc.

Effective January 1, 2016, BJC finalized an affiliation agreement with Memorial Group, Inc. (MGI) of Belleville, IL. Under the Agreement, both BJC and MGI became members of Memorial Regional Health Services (MRHS), a newly formed Illinois not-for-profit corporation. As of January 1, 2016, MRHS replaced MGI as the sole member of MGI's affiliated not-for-profit corporations, including Protestant Memorial Medical Center, Inc., Metro-East Services, Inc., Memorial Foundation, Inc., and various other affiliated entities. The purpose of this affiliation is to provide BJC and its affiliates with greater presence in the St Louis metro area Illinois market, and promote better care and access to patients in that market. Additionally, the affiliation will provide MGI with access to both capital and BJC's specialty medical services.

Although BJC and MGI each hold 50% of the membership interests, pursuant to the terms of the affiliation agreement, BJC effectively controls MRHS and consolidated the net assets, operations and cash flows of MRHS effective January 1, 2016. No cash or other consideration was transferred, with the exception of BJC's guarantee of MRHS's outstanding conduit borrowings. After five years and upon achievement of certain conditions as outlined in the Agreement, BJC may unilaterally exercise its rights to obtain sole corporate membership of MRHS. BJC committed to certain capital funding to MRHS for equipment and construction, as well as expansion and improvement to its facilities over a specified period.

For accounting purposes, this transaction is considered an acquisition and a contribution was recognized equal to the net assets acquired, net of MGI's non-controlling interest in net assets. No goodwill was recorded as a result of this transaction.

2. Acquisitions (continued)

The acquisition-date fair value of identifiable assets and liabilities of MRHS at January 1, 2016, consisted of the following:

Fair value of identifiable net assets:		
Cash and cash equivalents	$	27.2
Accounts receivable		40.5
Other current assets		8.0
Investments		132.4
Property and equipment		226.7
Other noncurrent assets		3.7
Current liabilities		(51.3)
Long-term debt		(211.0)
Other long-term liabilities		(47.8)
Non-controlling interest in unrestricted net assets		(54.6)
Fair value of unrestricted net assets – controlling basis	$	73.8

The valuation of property and equipment, other current and long-term assets, and current and long-term liabilities has been completed in 2016. The fair value of working capital balances is generally equal to carrying value because of their short term nature. The fair value of property and equipment, long-term debt, and noncontrolling interest were determined by an independent third party valuation utilizing income-based, market-based, and cost-based valuation methods, which are generally Level 3 fair value measurements. The fair value of the long-term liabilities is primarily determined by an independent actuary and represents Level 3 fair value measurements.

2. Acquisitions (continued)

Following are the operating results and changes in net assets attributable to MRHS since the date of acquisition included in the accompanying consolidated statement of operations and changes in net assets for the year ended December 31, 2016, excluding the contribution income recognized upon acquisition:

Total operating revenue	$	312.8
Operating loss		(48.1)
Deficit of revenue over expenses attributable to controlling interest		(20.1)
Deficit of revenue over expenses attributable to noncontrolling interest		(20.1)
Change in unrestricted net assets – controlling interest		(20.1)
Change in unrestricted net assets – noncontrolling interest		(20.1)
Change in temporarily restricted net assets		0.9

Operating expenses for the year end December 31, 2016, include costs related to the integration of MRHS into BJC, transition costs of benefit plans, information technology, and other operating programs, as well as costs of valuation and integrated consulting.

Following is the unaudited proforma operating results of BJC as if the MRHS affiliation had occurred January 1, 2015:

	Year Ended December 31	
	2016	**2015**
Total operating revenue	**$ 4,763.3**	$ 4,567.4
Operating income	**141.8**	192.2
Excess of revenues over expenses attributable to controlling interest	**313.2**	90.4
Excess of revenues over expenses attributable to noncontrolling interest	**(20.1)**	(3.2)
Change in unrestricted net assets – controlling interest	**306.3**	136.6
Change in unrestricted net assets – noncontrolling interest	**(20.1)**	(3.2)
Change in temporarily restricted net assets	**4.3**	–

2. Acquisitions (continued)

The proforma information provided should not be construed to be indicative of BJC's results of operations had the acquisition occurred on January 1, 2015, nor is it necessarily indicative of future operating results.

Mineral Area Regional Medical Center

In May 2015, BJC acquired the operations and net assets of Mineral Area Regional Medical Center (MARMC) for approximately $28.5 in cash. The transaction was accounted for as an acquisition in accordance with Accounting Standards Codification (ASC) Topic 958-805, *Business Combinations – Not-for-Profit Entities*. Based on a valuation of the business, the purchase price was allocated to working capital ($2.9), property, plant and equipment ($14.1), and goodwill ($11.5). This represents a Level 3 fair value measurement. The excess of the purchase price over fair value of net assets acquired was recorded as goodwill. The goodwill can be attributed to benefits that BJC expects to realize from operating efficiencies and increased revenues. The operations and cash flows of MARMC are included in the consolidated financial statements from the date of acquisition. Effective January 19, 2016, BJC closed the MARMC facility and transferred operations to a nearby BJC facility. BJC is in the process of disposing of the MARMC facilities.

3. Net Patient Service Revenue and Uncompensated Care

BJC provides healthcare services through inpatient, outpatient, and ambulatory care facilities. Services provided to certain patients are covered by various governmental and third-party payment programs, including Medicare and Medicaid, at contractual rates generally below BJC's established rates. Revenue from Medicare and Medicaid programs accounted for approximately 44% and 43% of BJC's patient service revenue (net of contractual allowances and discounts) for the year ended December 31, 2016 and 2015, respectively. The composition of patient service revenue (net of contractual allowances and discounts) by third-party payor is as follows:

	2016	2015
Medicare	$ 1,474.8	$ 1,258.7
Medicaid	612.0	569.8
Managed Care	2,350.1	2,095.8
Self-pay	136.9	170.2
Other	193.1	151.6
	$ 4,766.9	$ 4,246.1

BJC grants credit to patients and generally does not require collateral or other security in extending credit to patients. However, BJC routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits payable under their health insurance programs, plans or policies (e.g., Medicare, Medicaid, managed care payors, and commercial insurance policies). As of December 31, 2016 and 2015, 34% and 32%, respectively, of patient accounts receivable, net, were collectible from governmental payors. The remaining 66% and 68% of patient accounts receivable, net, in 2016 and 2015, respectively, were collectible primarily from managed care and commercial insurance payors.

As of December 31, 2016 and 2015, BJC expects to collect approximately 14% and 19%, respectively, of all amounts due from self-pay patients (including patients without insurance and patients with deductibles and copayment balances due for which third-party coverage exists for part of the bill). In 2016, BJC's provision for bad debts increased $24.9 mainly due to an increase in the uninsured and underinsured population and to the acquisition of MRHS in 2016. BJC's allowance for uncollectible accounts increased from $87.0 as of December 31, 2015 to $96.2 as of December 31, 2016, primarily due to the acquisition of MRHS in 2016.

3. Net Patient Service Revenue and Uncompensated Care (continued)

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Noncompliance with Medicare and Medicaid laws and regulations can make BJC subject to significant regulatory action, including substantial fines and penalties, as well as exclusion from the Medicare and Medicaid programs. The 2016 and 2015 net patient service revenue increased by $5.6 and $14.2, respectively, due to changes in estimated payment related to third-party payors and certain historical cost report periods, excluding the Recovery Audit program. Operating income for 2016 and 2015 increased by $5.0 and $8.6, respectively, as a result of these changes in estimated payment.

Under Section 302 of the Tax Relief and Health Care Act of 2006, Congress required the Secretary of the Department of Health and Human Services to institute a permanent and national Recovery Audit program to recoup overpayments associated with services for which payment is made under part A or B of title XVIII of the Social Security Act. Under the Recovery Audit program, BJC, like other healthcare providers, experiences withholding of payments from the Medicare program for a variety of circumstances that result in uncertainty in the estimated realization of both current receivables and previously collected amounts. Accordingly, BJC estimates the impact, on a net basis, of amounts that may be withheld or recouped under the Recovery Audit program and amounts previously withheld or recouped inappropriately that are due to BJC. The 2016 and 2015 net patient service revenue increased by $6.3 and $7.8, respectively, due to changes in estimated recoveries under the Recovery Audit program. Operating income for 2016 and 2015 increased by $3.9 and $5.7, respectively, due to changes in estimated recoveries under the Recovery Audit program. In 2016, CMS made available to hospitals an administrative settlement process in which hospitals willing to withdraw their pending eligible appeals could receive timely partial payment (at 66% of the net allowable amount) for certain claims denied based on patient status with a date of service prior to October 1, 2013. The settlement is intended to alleviate the administrative burden for all parties involved. BJC elected to accept this settlement and is following the administrative process established by CMS. BJC recorded a receivable of $22.2 as the estimated settlement, which is expected to be received in 2017.

3. Net Patient Service Revenue and Uncompensated Care (continued)

Uncompensated Care

In support of its mission, BJC provides charity care to patients who lack financial resources and are deemed to be medically indigent. Policies have been established that define charity care and provide guidelines for assessing a patient's ability to pay. Evaluation procedures for charity care qualification have been established for those situations when previously unknown financial circumstances are revealed or when incurred charges are significant when compared to the individual patient's income and/or net assets. Charity care also includes services for which the patient may not participate in the charity care process, but are otherwise deemed to meet the System's financial assistance policy. Because BJC does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as net patient service revenue. In addition, BJC provides services to other medically indigent patients under various state Medicaid programs, which pay providers amounts that are less than the costs incurred for the services provided to the recipients.

The estimated cost of charity care was $130.6 and $133.4 in 2016 and 2015, respectively. Costs are estimated using the ratio of BJC's costs to its charges and applying to gross charity charges. These ratios are then used to determine the cost of each account that qualifies for charity care.

4. Affiliation Agreement with Washington University

BJC has an affiliation agreement with Washington University (the University) that expires on December 31, 2023, but which may be canceled upon one-year written notice by either party. Under the terms of the affiliation agreement, the University trains and supervises medical residents and manages certain clinical and research activities of BJC. The annual expense for these services provided by the University under the affiliation agreement is based on a fixed payment ($7.8 in 2016 and 2015) plus a payment based on the combined net operating income of Barnes-Jewish, Barnes-Jewish West County Hospital (one of Barnes-Jewish's wholly-controlled affiliates), and Children's. Amounts expensed as supplies and other and other nonoperating expense, net in the consolidated statements of operations and changes in net assets for these services under the affiliation agreement totaled $109.5 and $105.2 in 2016 and 2015, respectively. Payments to the University under the affiliation agreement are made on a semiannual basis.

4. Affiliation Agreement with Washington University (continued)

In addition to the affiliation agreement, BJC has supplemental agreements with the University whereby BJC pays the University for certain purchased services and leased facilities and equipment. These supplemental agreements have varying terms with fixed and variable payment arrangements. Amounts expensed as supplies and other for these services totaled $163.9 and $151.4 in 2016 and 2015, respectively.

In addition, BJC received $21.5 and $17.3 from the University in 2016 and 2015, respectively, for certain purchased services and leased facilities and equipment.

Through the Foundations, BJC provides support to the University through various grants. These expenses are included in other nonoperating expense, net and net assets released from restrictions and total $84.1 and $88.2 in 2016 and 2015, respectively. Grants payable are included in other current and other noncurrent liabilities totaling $234.4 and $189.3 at December 31, 2016 and 2015, respectively. Management believes total grants payable will be paid as follows:

	2016	2015
Within one year	$ 154.3	$ 102.8
One to five years	70.2	81.8
After five years	9.9	4.7
	$ 234.4	$ 189.3

As of December 31, 2016, BJC has unrecorded, conditional commitments to the University to fund two medical research and education initiatives in amounts up to $160.0, to be paid over the next eight to 10 years, if certain criteria are met.

5. Investments

The following is a summary of investments included in the consolidated balance sheets:

	2016	2015
Unrestricted investments	$ 3,833.7	$ 3,839.7
Securities on loan	62.1	91.3
Held at Foundations	1,047.5	936.5
Assets limited as to use:		
Under self-insurance arrangements	60.5	68.7
Under the Lease	52.5	58.4
Under indenture agreements	15.5	106.5
Under captive insurance agreement	26.2	–
	5,098.0	5,101.1
Less amounts included in other current assets	(17.5)	(14.6)
	$ 5,080.5	$ 5,086.5

5. Investments (continued)

The following is a summary of the composition of investments as of December 31:

	2016	2015
Cash and short-term investments	$ 46.2	$ 41.7
Income securities:		
U.S. government and agency obligations	614.7	546.4
Corporate debt securities	994.1	843.3
Asset-backed and securitized bonds and notes	465.3	406.8
Equity securities	419.4	520.8
Alternative investments:		
Hedge funds	609.0	899.2
Private equity and credit funds	1,242.2	970.7
Other investments:		
Fixed income – commingled funds	176.6	176.2
Equity – commingled funds	468.0	532.7
Common/collective trusts	90.4	96.8
Other	6.5	3.3
Accrued interest and dividends receivable	12.2	13.8
	5,144.6	5,051.7
Less amounts included in other current assets	(17.5)	(14.6)
	5,127.1	5,037.1
Amounts due to brokers	(68.9)	(29.2)
Amounts due from brokers	22.3	78.6
	$ 5,080.5	$ 5,086.5

BJC's investments are exposed to various kinds and levels of risk. Income securities expose BJC to interest rate risk, credit risk, and liquidity risk. As interest rates change, the value of many fixed-income securities with fixed interest rates is affected. Credit risk is the risk that the obligor of the security will not fulfill its obligation. Liquidity risk is affected by the willingness of market participants to buy and sell given securities.

5. Investments (continued)

Equity securities expose BJC to market risk, performance risk, and liquidity risk. Market risk is the risk associated with major movements of the equity markets, both domestic and international. Performance risk is the risk associated with a particular company's operating performance. Liquidity risk, as previously defined, tends to be higher for international and small domestic capitalization equity companies.

Alternative investments have similar risks as income and equity securities although there may be additional risks. These securities consist principally of non-controlling interests in limited liability partnerships (LLP) and limited liability corporations (LLC). Because these funds are invested through LLCs and LLPs, the underlying net asset value of the investments is based on valuations provided by the managers. Nearly all of the hedge fund manager valuations are independently priced or verified by third-party administrators. Certain hedge fund investments also have restrictions on the timing of withdrawals, up to two years from December 31, 2016, which may reduce liquidity. Private equity and credit investments have contractual commitments to provide capital contributions during the investment period, up to seven years from initial investment date, and restrictions on the timing of withdrawals, up to 11 years from initial investment date, which may reduce liquidity. BJC has unfunded commitments of $1,148.7 to private equity and credit funds as of December 31, 2016. Due to the uncertainty surrounding whether the contractual commitments will require funding during the contractual period, future minimum payments to meet these commitments cannot be reasonably estimated. These committed amounts are expected to be primarily satisfied by the liquidation of existing investments.

BJC holds options, swaps, currency forwards, and fixed income futures derivatives as part of its investment strategy. This economic hedging is based on investment portfolio exposure to long-only equities, foreign exchange, and fixed income. No leverage is utilized for this hedging activity. These contracts are subject to counterparty credit risk, the risk that contractual obligations of the counterparties (including BJC) will not be fulfilled. Counterparty credit risk is managed by requiring high credit standards for BJC's counterparties, as well as collateral posting requirements. The counterparties to these contracts are financial institutions that carry investment-grade credit ratings.

These contracts contain collateral provisions applicable to both parties that mitigate credit risk above a specified mark-to-market posting threshold that is based on a fixed dollar amount. Pursuant to the collateral posting requirements under the contracts at December 31, 2016 and 2015, counterparties posted $2.1 and BJC posted $1.2, respectively.

5. Investments (continued)

At December 31, 2016 and 2015, the notional value of derivatives was approximately $413.0 and $521.9, respectively. The fair value of derivatives in an asset position, included in investments in the consolidated balance sheet, was $2.6 and $3.3 at December 31, 2016 and 2015, respectively, while the fair value of derivatives in a liability position, included in other noncurrent liabilities in the consolidated balance sheet, was $1.2 and $2.4 at December 31, 2016 and 2015, respectively. BJC recognized a gain of $21.2 and a loss of $19.6 in 2016 and 2015, respectively, which are recorded in investment earnings within the consolidated statements of operations and changes in net assets.

At December 31, 2016 and 2015, investments include the fair value of securities on loan of $62.1 and $91.3, respectively. Posted collateral for these securities on loan at December 31, 2016 and 2015 totaled $63.5 and $93.3, respectively.

Investment earnings for the years ended December 31 is summarized as follows:

	2016	2015
Interest and dividends	$ **87.6**	$ 91.7
Net realized gains (losses)	**(4.8)**	126.8
Net unrealized gains (losses)	**148.3**	(225.9)
Total investment earnings	$ **231.1**	$ (7.4)
Included in investment earnings	$ **214.6**	$ (3.7)
Included in temporarily and permanently restricted net assets	**16.5**	(3.7)
Total investment earnings	$ **231.1**	$ (7.4)

6. Property and Equipment

A summary of property and equipment, net, as of December 31 is as follows:

	2016	2015
Land and land improvements	$ **205.9**	$ 166.8
Building and improvements	**2,095.7**	1,952.0
Equipment	**3,434.6**	3,152.1
	5,736.2	5,270.9
Less accumulated depreciation	**(3,617.3)**	(3,490.7)
	2,118.9	1,780.2
Construction-in-progress	**811.5**	445.6
	$ **2,930.4**	$ 2,225.8

At December 31, 2016, BJC had outstanding contracts totaling $1,198.9 for all construction-related activities, including architecture and engineering services. The estimated remaining cost to complete these contracts totals $241.2 as of December 31, 2016. Net interest capitalized in 2016 and 2015 totaled $15.0 and $5.6, respectively.

7. Other Current Assets and Liabilities

Other current assets consist of the following as of December 31:

	2016	2015
Inventory	$ **100.9**	$ 94.6
Due from third-party payors	**68.7**	49.5
Prepaid expenses	**42.5**	40.7
Current portion of self-insurance trust	**17.5**	14.6
	$ **229.6**	$ 199.4

7. Other Current Assets and Liabilities (continued)

Other current liabilities consist of the following as of December 31:

	2016	2015
Accounts payable	$ 126.5	$ 108.0
Accrued payroll and related liabilities	246.3	210.0
Accrued expenses and other	190.5	124.5
Due to third-party payors	33.4	14.4
Due to Washington University	299.5	234.1
Self-insurance liabilities	25.5	14.6
	$ 921.7	$ 705.6

8. Long-term Debt

Long-term debt consists of the following at December 31:

	2016	2015
Series 2011A-B, 2012A-E, 2013B, and 2016A-B, variable rate term bonds, privately placed, puttable starting in 2023 at which time bonds can be remarketed or redeemed, interest (rates from 0.92% to 1.42% at December 31, 2016) set at prevailing market rates, due through 2051	**$ 666.0**	$ 571.0
Series 2005B and Series 2008A-E variable rate demand bonds subject to self-liquidity, interest (rates from 0.68% to 0.71% at December 31, 2016) set at prevailing rates, due through 2038	**434.7**	438.1
Series 2013C variable rate demand bonds subject to self-liquidity and a put provision that provides for a seven-month notice and remarketing period, interest (0.21% at December 31, 2015) set at prevailing market rates, due through 2050	–	100.0
Series 2013 Memorial Group, Inc. fixed rate debt, interest rates from 5.25% to 7.63%, due through 2048	**161.6**	–
Series 2005A, Series 2013A, Series 2013C, Series 2014, and Series 2015A fixed rate debt, interest rates from 3.23% to 5.00%, due through 2045	**544.1**	450.0
Other	**14.6**	14.6
	1,821.0	1,573.7
Less current maturities of long-term debt	**(21.0)**	(15.4)
Less long-term debt subject to self-liquidity arrangements	**(431.2)**	(534.7)
	$ 1,368.8	$ 1,023.6

BJC maintains an Obligated Group structure under its Master Indenture agreement (the Master Indenture), dated as of April 4, 2006. The Obligated Group members are jointly and severally liable for all notes issued under the Master Indenture and represent those organizations that own or operate the principal healthcare facilities of BJC, excluding MRHS.

8. Long-term Debt (continued)

The Master Indenture permits BJC to issue Master Notes thereunder to evidence or secure additional indebtedness on behalf of the Obligated Group. The Obligated Group members are responsible for making all payments required with respect to obligations under the Master Indenture. The aggregate par amount of obligations outstanding under the Master Indenture (other than obligations that have been legally defeased and that are not considered to be outstanding) totaled $1,806.4 and $1,559.1 at December 31, 2016 and 2015, respectively. The Master Indenture imposes various covenants and conditions on BJC, including covenants related to debt service coverage, additional indebtedness, permitted liens, and the use and maintenance of facilities. Management believes BJC is in compliance with these covenants and conditions as of December 31, 2016.

At December 31, 2016 and 2015, BJC had $434.7 and $538.1, respectively, of variable rate demand bonds that are supported by self-liquidity. The variable rate demand bonds, while subject to long-term amortization periods, may be tendered to BJC at the option of bondholders subject to certain notice period requirements. If the variable rate demand bonds subject to self-liquidity are not remarketed upon the exercise of put options, management would utilize internal or external sources to provide the necessary liquidity. Such bonds, less current maturities, are included as long-term debt subject to self-liquidity in current liabilities in the consolidated balance sheets.

In May 2015, $150.0 of tax-exempt Series 2015A fixed rate bonds were issued by the Health and Educational Facilities Authority of the State of Missouri on behalf of BJC. The proceeds of these bonds will be used to reimburse BJC for the payment of certain capital expenditures. These bonds mature in 2045.

In May 2015, BJC exercised its right to call $84.5 of tax-exempt Series 2005A bonds for early redemption. A gain of $0.8 million was realized on the extinguishment of debt.

As part of BJC's strategic affiliation with MGI, BJC has provided a guaranty of the payment obligations relating to the outstanding Series 2013 Memorial Group, Inc. bonds. As part of this guaranty, the bonds assume the covenants and conditions of the BJC Master Indenture. At December 31, 2016, the Series 2013 Memorial Group, Inc. bonds had $161.6 outstanding. These bonds mature in 2048.

8. Long-term Debt (continued)

In September 2016, $75.0 of tax-exempt Series 2016A variable rate bonds were issued by the Health and Educational Facilities Authority of the State of Missouri on behalf of BJC. The proceeds of these bonds will be used to reimburse BJC for the payment of certain capital expenditures. In December 2016, $32.0 of tax-exempt Series 2016B variable rate bonds were issued by the Health and Educational Facilities Authority of the State of Missouri on behalf of BJC. The proceeds of these bonds will be used to reimburse BJC for the payment of certain capital expenditures. The Series 2016A and Series 2016B bonds mature in 2051. In 2016, the System incurred $0.2 in costs related to new issuances, which will be amortized over the life of the bonds.

In June 2016, BJC converted Series 2013C bonds from windows mode to long-term fixed rate mode, thereby reducing the amount of variable rate demand bonds subject to self-liquidity. The System incurred $0.5 in costs related to the conversion, which will be amortized over the life of the bonds.

At December 31, 2016, BJC has a general operating line of credit of $300.0. This facility has a five-year term expiring August 2020. In addition, BJC has a $100.0 hybrid dedicated bank line of credit also expiring in August 2020. The hybrid facility has the dual function of supporting general operating requirements and tenders associated with the variable rate demand bonds. No amounts are outstanding under the lines of credit at December 31, 2016 or 2015.

Scheduled principal payments on long-term debt, including obligations subject to short-term remarketing as due according to their long-term amortization schedule are as follows:

	Scheduled
Year ending December 31:	
2017	$ 21.0
2018	19.3
2019	16.6
2020	15.4
2021	15.9

The amount of interest paid, net of interest capitalized, totaled $28.2 and $17.9 in 2016 and 2015, respectively.

9. Interest Rate Swaps

BJC uses interest rate swap contracts to manage interest rate risk associated with its variable rate debt obligations. BJC is a party to multiple interest rate swap contracts that effectively convert various variable rate bonds to fixed rates. Interest rate swap contracts between BJC and third parties (counterparties) provide for the periodic exchange of payments between the parties based on changes in a defined index, typically 68% of the one-month or three-month LIBOR rate, and a fixed rate. These contracts are subject to counterparty credit risk, the risk that contractual obligations of the counterparties (including BJC) will not be fulfilled. Concentrations of credit risk relate to groups of counterparties that have similar economic or industry characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

Counterparty credit risk is managed by requiring high credit standards for BJC's counterparties and, in certain cases, collateral posting requirements. The counterparties to these contracts are financial institutions that carry investment-grade credit ratings.

Certain interest rate swap contracts contain collateral provisions applicable to both parties to mitigate credit risk above a specified mark-to-market posting threshold that is based on either a fixed dollar amount or on each counterparty's credit rating.

Pursuant to the collateral posting requirements under the swap contracts, at December 31, 2016 and 2015, BJC posted $35.4 and $41.2, respectively, as collateral, which is reported as other noncurrent assets in the consolidated balance sheets. BJC does not anticipate nonperformance by its counterparties.

At December 31, 2016 and 2015, the notional amount of BJC's outstanding interest rate swap contracts is $795.6 and $812.7, respectively.

The fair value of BJC's outstanding interest rate swaps at December 31 is as follows:

Derivatives Not Designated as Hedging Instruments	Balance Sheet Location	2016	2015
Interest rate swap contracts	Other noncurrent liabilities	$ (97.7)	$ (108.8)

9. Interest Rate Swaps (continued)

The effects of BJC's interest rate swaps in the consolidated statements of operations and changes in net assets for the years ended December 31 are as follows:

Derivatives Not Designated as Hedging Instruments	Location of (Loss) Gain on Derivatives Recognized in Excess of Revenues Over Expenses	Amount of (Loss) Gain on Derivatives Recognized in Excess of Revenues Over Expenses 2016	2015
Interest rate swap contracts	Unrealized gain (loss) on interest rate swap contracts	$ 11.1	$ (4.8)
Interest rate swap contracts	Interest	(13.1)	(17.9)

10. Fair Value Measurements

Fair value is 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. The Fair Value Measurements and Disclosures Topic of the FASB ASC establishes a fair value hierarchy that prioritizes the inputs 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 measurement) and the lowest priority to unobservable inputs (Level 3 measurement).

10. Fair Value Measurements (continued)

Certain of BJC's financial assets and financial liabilities are measured at fair value on a recurring basis, including money market, fixed income and equity instruments, and interest rate swap contracts. The three levels of the fair value hierarchy and a description of the valuation methodologies used for instruments measured at fair value are as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities as of the reporting date. Level 1 primarily consists of financial instruments, such as money market securities and listed equities.

Level 2 – Pricing inputs other than quoted prices included in Level 1 that are either directly observable or that can be derived or supported from observable data as of the reporting date. Instruments in this category include certain U.S. government agency and sponsored entity debt securities and interest rate swap contracts and derivatives.

Level 3 – Pricing inputs include those that are significant to the fair value of the financial asset or financial liability and are not observable from objective sources. In evaluating the significance of inputs, BJC generally classifies assets or liabilities as Level 3 when their fair value is determined using unobservable inputs that individually, or when aggregated with other unobservable inputs, represent more than 10% of the fair value of the assets or liabilities. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value.

10. Fair Value Measurements (continued)

The fair value of financial assets and liabilities measured at fair value on a recurring basis was determined using the following inputs at December 31, 2016:

		Fair Value Measurements Using		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Investments:				
Cash and short-term investments	$ 46.2	$ 46.2	$ –	$ –
Income securities:				
U.S. government and agency obligations	614.7	–	614.7	–
Corporate debt securities	994.1	–	994.1	–
Asset-backed and securitized bonds and notes	465.3	–	341.1	124.2
Equity securities	419.4	419.4	–	–
Other	6.5	–	6.5	–
Subtotal		465.6	1,956.4	124.2
Assets not at fair value:				
Hedge funds	609.0			
Private equity and credit funds	1,242.2			
Assets (fair value determined using NAV practical expedient):				
Fixed income – commingled funds	176.6			
Equity – commingled funds	468.0			
Common/collective trusts	90.4			
Accrued interest and dividends receivable	12.2			
Total investments	$ 5,144.6			
Deferred compensation agreements	$ 39.8	$ 39.8	$ –	$ –
Liabilities				
Derivatives in a liability position	$ 1.2	$ –	$ 1.2	$ –
Liability under interest rate swap contracts	97.7	–	97.7	–
	$ 98.9	$ –	$ 98.9	$ –

10. Fair Value Measurements (continued)

The fair value of financial assets and liabilities measured at fair value on a recurring basis was determined using the following inputs at December 31, 2015:

		Fair Value Measurements Using		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Investments:				
Cash and short-term investments	$ 41.7	$ 41.7	$ –	$ –
Income securities:				
U.S. government and agency obligations	546.4	–	546.4	–
Corporate debt securities	843.3	–	843.3	–
Asset-backed and securitized bonds and notes	406.8	–	394.0	12.8
Equity securities	520.8	520.8	–	–
Other	3.3	–	3.3	–
Subtotal		$ 562.5	$ 1,787.0	$ 12.8
Assets not at fair value:				
Hedge funds	899.2			
Private equity and credit funds	970.7			
Assets (fair value determined using NAV practical expedient):				
Fixed income – commingled funds	176.2			
Equity – commingled funds	532.7			
Common/collective trusts	96.8			
Accrued interest and dividends receivable	13.8			
Total investments	$ 5,051.7			
Deferred compensation agreements	$ 29.6	$ 29.6	$ –	$ –
Liabilities				
Derivatives in a liability position	$ 2.4	$ –	$ 2.4	$ –
Liability under interest rate swap contracts	108.8	–	108.8	–
	$ 111.2	$ –	$ 111.2	$ –

10. Fair Value Measurements (continued)

The following table is a roll forward of assets classified in Level 3 of the valuation hierarchy defined above:

	Asset-Backed and Securitized Bonds and Notes
Fair value at January 1, 2015	$ 10.0
Purchases	16.1
Settlements	(8.2)
Investment earnings	–
Transfers in and/or out of Level 3	(5.1)
Fair value at December 31, 2015	12.8
Purchases	**113.8**
Settlements	**(15.7)**
Investment earnings	**1.0**
Transfers in and/or out of Level 3	**12.3**
Fair value at December 31, 2016	**$ 124.2**

The fair values of the securities included in Level 1 were determined through quoted market prices. The fair values of Level 2 securities (primarily income securities) were determined through evaluated bid prices based on recent trading activity, and other relevant information, including market interest rate curves and referenced credit spreads, or estimated prepayment rates provided by third-party pricing services where quoted market values are not available. Any securities with fewer than two received broker quotes are categorized as Level 3 assets. With regards to the equity options, currency forwards, and fixed income futures derivatives, which are included in other Level 2 securities, observable market data is used to build an implied volatility figure which is input into a Black-Scholes model to determine fair value. The fair values for interest rate swap contracts were derived through observable market data obtained from a pricing vendor.

10. Fair Value Measurements (continued)

The fair values of the interest rate swap contracts are determined based on the present value of expected future cash flows using discount rates appropriate with the risks involved. The valuations reflect a credit spread adjustment to the LIBOR discount curve in order to reflect the credit value adjustment for nonperformance risk. The BJC credit spread adjustment is derived from other comparably rated entities' bonds priced in the market. Due to the volatility of the capital markets, there is a reasonable possibility of changes in fair value and additional gains (losses) in the near term subsequent to December 31, 2016.

Level 3 assets of $124.2 include certain asset-backed and securitized notes and bonds. These underlying securities trade less frequently than other fixed income instruments, which generate potential liquidity risk. In the event pricing cannot be obtained through quoted prices in active markets, these securities are priced using an option-adjusted discounted cash flow model.

BJC transfers assets in and/or out of Level 3 as significant inputs, including performance attributes, used for the fair value measurement become observable or unobservable. BJC transferred $12.3 of securitized notes and bonds from Level 2 to Level 3 in 2016 as fewer observable market inputs were obtained. BJC transferred $5.1 of securitized notes and bonds from Level 3 to Level 2 in 2015 by obtaining additional observable market inputs in the form of multiple corroborating broker quotes. BJC recognizes transfers as of the end of the reporting period. There were no transfers between Level 1 and Level 2 in 2016 or 2015.

The carrying value of cash and cash equivalents, accounts receivable, and other current assets and liabilities are reasonable estimates of their fair value due to the short-term nature of these financial instruments. The value of pledges receivable is estimated by management to approximate fair value as of the date the pledge is received. The fair value of BJC's fixed rate bonds is based on quoted market prices for the same or similar issues and approximates $764.0 and $473.8 as of December 31, 2016 and 2015, respectively, and represents a Level 2 measurement. The fair value of BJC's variable rate bonds approximates the carrying amount of $1,100.7 and $1,109.1 as of December 31, 2016 and 2015, respectively, and excludes the impact of third-party credit enhancements.

11. Postretirement Benefits

BJC sponsors the BJC Defined Contribution Plan, a 401(k) defined contribution plan that covers substantially all employees, excluding MRHS. Employer contributions to this plan are based on a percentage of participating employees' contributions to a related 403(b) plan. BJC contributed $24.0 and $20.5 to this plan during 2016 and 2015, respectively, which is included in salaries and benefits in the consolidated statements of operations and changes in net assets. MRHS sponsors a defined contribution money-purchase plan and contributed $3.1 to this plan during 2016.

BJC sponsors a defined-benefit pension plan (the Plan) covering substantially all full-time employees who have met certain age requirements and have completed one year of service. Benefits are based on years of service and employee earnings. BJC's minimum funding policy is to contribute annually amounts actuarially determined to fund the benefits of the plans. In 2016 and 2015, BJC had no minimum required pension contributions. During 2016, BJC offered a one-time lump sum buyout of future benefit payments to terminated vested plan participants under age 65. As a result of this offer, $110.3 was paid to approximately 2,800 participants in December 2016.

11. Postretirement Benefits (continued)

The following table sets forth the funded status of the Plan and accrued pension cost as of December 31 as actuarially determined:

	2016	2015
Change in projected benefit obligation		
Projected benefit obligation at beginning of year	$ **2,358.7**	$ 2,353.4
Service cost	**99.0**	109.6
Interest cost	**98.5**	102.5
Actuarial loss (gain)	**21.6**	(154.1)
Benefits paid	**(167.7)**	(52.7)
Projected benefit obligation at end of year	**2,410.1**	2,358.7
Change in plan assets		
Fair value of plan assets at beginning of year	**1,790.4**	1,742.8
Actual earnings (loss) on plan assets	**125.1**	(25.0)
Employer contributions	**198.6**	125.3
Benefits paid	**(167.7)**	(52.7)
Fair value of plan assets at end of year	**1,946.4**	1,790.4
Unfunded status	$ **(463.7)**	$ (568.3)
Accumulated benefit obligation at end of year	$ **2,159.7**	$ 2,091.3
Unfunded status (based on accumulated benefit obligation)	$ **(213.3)**	$ (300.9)

The unfunded status is included in pension/postretirement liabilities in the consolidated balance sheets. BJC has other postretirement plans with unfunded benefit obligations of $4.2 and $4.2 at December 31, 2016 and 2015, respectively.

11. Postretirement Benefits (continued)

Included in unrestricted net assets at December 31 are the following amounts that have not yet been recognized in net periodic pension cost:

	2016	2015
Unrecognized actuarial losses	$ **690.1**	$ 680.9
Unrecognized prior service cost	**0.2**	0.3
	$ **690.3**	$ 681.2

Changes in plan assets and benefit obligations recognized in unrestricted net assets for the year ended December 31 are as follows:

	2016	2015
Unrecognized actuarial losses	$ **40.8**	$ 8.5
Amortization of actuarial losses	**(31.6)**	(50.8)
Amortization of prior service cost	**(0.1)**	–
	$ **9.1**	$ (42.3)

The pension and other postretirement liability adjustment of $9.1 for the year ended December 31, 2016, on the consolidated statements of operations and changes in net assets includes ($0.1) related to the other postretirement plans.

The prior service cost and actuarial loss included in unrestricted net assets and expected to be recognized in net periodic pension cost during the year ending December 31, 2017, total $0.1 and $31.6, respectively. The impact of the change in discount rate on the projected benefit obligation of the Plan was an increase of approximately $78.4 at December 31, 2016.

11. Postretirement Benefits (continued)

No plan assets are expected to be returned to BJC during the year ending December 31, 2017.

	2016	2015
Weighted-average assumptions used to determine benefit obligations for the year ended December 31		
Discount rate	**4.57%**	4.78%
Rate of increase in compensation levels	**3.38**	3.50
Weighted-average assumptions used to determine expense for the year ended December 31		
Discount rate for benefit obligations	**4.78%**	4.40%
Discount rate for interest cost	**4.25**	4.40
Discount rate for service cost	**4.92**	4.40
Discount rate for interest on service cost	**4.70**	4.40
Rate of compensation increases	**3.50**	3.50
Expected long-term rate of return	**7.50**	7.75

As of December 31, 2015, BJC refined how it estimates the interest and service cost components of net periodic benefit costs to a spot discount rate approach for its defined benefit pension plan. Historically, BJC estimated the service and interest cost components using a single weighted-average discount rate derived from a yield curve used to measure the benefit obligation at the beginning of the period. Under the spot discount rate approach, service and interest cost is estimated by applying the specific spot rates along the yield curve used in the determination of the benefit obligation to the relevant projected cash flows. BJC made this change to improve the correlation between projected benefit cash flows and the corresponding yield curve spot rates and to provide a more precise measurement of service and interest costs. This change did not impact the projected benefit obligation or the net periodic benefit costs as of and for the year ended December 31, 2015. BJC accounted for this change as a change in accounting estimate and, accordingly, accounted for it prospectively starting with the year ended December 31, 2016. This change reduced the net periodic benefit costs for the year ended December 31, 2016 by approximately $15.2.

11. Postretirement Benefits (continued)

BJC determines the long-term rate of return for plan assets in consultation with its external investment advisor. BJC reviews historical market performance by investment asset class along with current economic outlooks for asset class performance in order to estimate its long-term rate of return assumption. Peer data and historical returns are reviewed to check for reasonableness of BJC's long-term rate of return assumption.

	2016	2015
Components of net periodic benefit cost:		
Service cost	$ 99.0	$ 109.6
Interest cost	98.5	102.5
Expected earnings on plan assets	(144.3)	(137.7)
Amortization of prior service cost	0.1	–
Recognized net actuarial loss	31.6	50.8
Net periodic benefit cost	$ 84.9	$ 125.2

BJC's goal is to maintain parity between the duration of assets and liabilities to meet the anticipated growth of plan liabilities. The plan's assets are invested in a portfolio designed to preserve principal and obtain competitive investment earnings and long-term investment growth, consistent with actuarial assumptions, with a reasonable and prudent level of risk. Diversification is achieved by allocating funds to various asset classes and investment styles and by retaining multiple investment managers with complementary philosophies, styles and approaches. Derivatives may be used to gain market exposure in an efficient and timely manner; however, derivatives may not be used to leverage the portfolio beyond the market value of the underlying investments. Plan assets may also be loaned to established brokerage firms in return for securities collateral. At December 31, 2016 and 2015, plan assets on loan included in the fair value of plan assets totaled $14.0 and $8.8, respectively. Posted collateral for these securities on loan at December 31, 2016 and 2015 totaled $14.4 and $9.2, respectively.

11. Postretirement Benefits (continued)

BJC's defined benefit pension plan asset allocation by asset category is as follows:

Asset Category	Target Asset Allocation	Plan Assets at December 31 2016	2015
Cash	–%	**0.2%**	0.2%
Growth	50.0	**39.1**	49.6
Income	25.0	**29.5**	23.5
Illiquid	25.0	**31.2**	26.7
Total	100.0%	**100.0%**	100.0%

The growth asset category consists of public equities and hedge funds. The income category includes fixed income funds and securities. Lastly, the illiquid asset category includes limited partnership investments in private equity funds, private credit funds and illiquid real asset funds.

11. Postretirement Benefits (continued)

The fair value of pension plan assets was determined using the following inputs at December 31, 2016:

		Fair Value Measurements Using		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Cash and short-term investments	$ 37.8	$ 37.8	$ –	$ –
Income securities:				
U.S. government and agency obligations	78.2	–	78.2	–
Corporate debt securities	312.1	–	312.1	–
Asset-backed and securitized bonds and notes	173.9	–	130.0	43.9
Equity securities	274.4	274.4	–	–
Other	1.9	–	1.9	–
Subtotal		$ 312.2	$ 522.2	$ 43.9
Assets (fair value determined using NAV practical expedient):				
Hedge funds	194.5			
Private equity and credit funds	631.5			
Equity – commingled funds	223.2			
Common/collective trusts	24.4			
Accrued interest and dividends receivable	4.4			
Amounts due (to) from brokers, net	(9.6)			
	$ 1,946.7			
Liabilities				
Derivatives in a liability position	$ 0.3	$ –	$ 0.3	$ –
Fair value of Plan Assets	$ 1,946.4	$ 312.2	$ 521.9	$ 43.9

11. Postretirement Benefits (continued)

The fair value of pension plan assets was determined using the following inputs at December 31, 2015:

		Fair Value Measurements Using		
	Total	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets				
Cash and short-term investments	$ 38.6	$ 38.6	$ –	$ –
Income securities:				
U.S. government and agency obligations	47.1	–	47.1	–
Corporate debt securities	321.8	–	321.8	–
Asset-backed and securitized bonds and notes	71.3	–	71.3	–
Equity securities	319.1	319.1	–	–
Subtotal		$ 357.7	$ 440.2	$ –
Assets (fair value determined using NAV practical expedient):				
Hedge funds	260.2			
Private equity and credit funds	467.9			
Equity – commingled funds	252.1			
Common/collective trusts	11.4			
Accrued interest and dividends receivable	4.5			
Amounts due (to) from brokers, net	(2.3)			
	$ 1,791.7			
Liabilities				
Derivatives in a liability position	$ 1.3	$ –	$ 1.3	$ –
Fair value of Plan Assets	$ 1,790.4	$ 357.7	$ 438.9	$ –

11. Postretirement Benefits (continued)

The following table is a roll forward of the pension plan assets classified in Level 3 of the valuation hierarchy defined above:

	Asset-Backed and Securitized Bonds and Notes
Fair value at January 1 , 2015	$ 9.9
Purchases, sales and settlements, net	(6.7)
Actual earnings on plan assets	0.1
Transfers in and/or out of Level 3	(3.3)
Fair value at December 31, 2015	–
Purchases, sales and settlements, net	**38.9**
Actual earnings on plan assets	**1.1**
Transfers in and/or out of Level 3	**3.9**
Fair value at December 31, 2016	**$ 43.9**

Fair value methodologies for Level 1 and Level 2 assets are consistent with the inputs described in Note 10. BJC transfers assets in and/or out of Level 3 as significant inputs, including performance attributes, used for the fair value measurement become observable or unobservable. BJC transferred $3.9 of securitized notes and bonds from Level 2 to Level 3 in 2016 as fewer observable market inputs were obtained. BJC transferred $3.3 of securitized notes and bonds from Level 3 to Level 2 and 2015 by obtaining additional observable market inputs in the form of multiple corroborating broker quotes. BJC recognizes transfers as of the end of the reporting period.

Private equity and credit investments have contractual commitments to provide capital contributions during the investment period, up to seven years from initial investment date, and restrictions on the timing of withdrawals, up to 11 years from initial investment date, which may reduce liquidity. Certain hedge fund investments also have restrictions on the timing of withdrawals, up to two years from December 31, 2016, which may reduce liquidity. These investments represent the Plan's ownership interest in the net asset value (NAV) of the respective partnership.

11. Postretirement Benefits (continued)

Management opted to use the NAV per share, or its equivalent, as a practical expedient for fair value of the Plan's interest in hedge funds, private equity and credit funds and commingled funds. Valuations provided by the respective fund's management consider variables, such as the financial performance of underlying investments, recent sales prices of underlying investments, and other pertinent information. At December 31, 2016, the Plan has unfunded commitments of $688.4 to private equity and credit funds. Due to the uncertainty surrounding whether the contractual commitments will require funding during the contractual period, future minimum payments to meet these commitments cannot be reasonably estimated. These committed amounts are expected to be primarily satisfied by the liquidation of existing investments from the Plan's assets.

A summary of expected cash flows for contributions and amounts to be paid to the Plan's participants and beneficiaries is as follows:

Expected employer contribution in 2017	$ 67.3
Expected benefit payments:	
2017	70.6
2018	78.4
2019	86.9
2020	95.5
2021	104.4
2022–2026	658.7

12. Professional and General Liability Insurance

BJC self-insures for professional and general liability claims to the extent of certain self-insured limits. Substantially all BJC services are covered under the BJC self-insurance program. Effective November 15, 2006, self-insured retentions were between $3.0 (for all hospitals except Barnes-Jewish, St. Louis Children's, and MRHS) and $8.0 (for Barnes-Jewish and Children's) per occurrence with no aggregate. In addition, various umbrella insurance policies have been purchased to provide coverage in excess of self-insured limits. Effective August 1, 2010, MRHS purchased various insurance policies to provide $15.0 excess coverage above its $5.0 self-insured limits.

12. Professional and General Liability Insurance (continued)

The estimated cost of claims is actuarially determined based upon past experience, and is discounted using a discount rate of 2.75% in 2016 and 3.25% in 2015. The reserve includes provisions for asserted and unasserted claims and incidents that have occurred but have not been reported. BJC has a revocable self-insurance trusts totaling $60.5 and $68.7 as of December 31, 2016 and 2015, respectively, which is used for the payment of professional and general liability claim settlements and expenses. During 2016 and 2015, $34.9 and $30.0, respectively, of professional and general liability expenses were included in supplies and other in the consolidated statements of operations and changes in net assets. In addition, at December 31, 2016 and 2015, BJC recorded net insurance receivables of $10.2 and $11.3, respectively, included in other noncurrent assets in the consolidated balance sheets.

13. Operating Leases

Lease expense for the years ended December 31, 2016 and 2015, totaled $72.6 and $70.0, respectively.

Future minimum lease payments under noncancelable operating leases with terms of one year or more are as follows:

Year ending December 31:		
2017	$	59.0
2018		55.6
2019		52.6
2020		27.6
2021		16.9
Thereafter		162.8
	$	374.5

14. Contingencies

The U.S. Department of Justice and other federal agencies are increasing resources dedicated to regulatory investigations and compliance audits of healthcare providers. BJC is not exempt from these regulatory efforts and has received correspondence from federal agencies with regard to such initiatives. In consultation with legal counsel, management estimates these matters will be resolved without material adverse effect on BJC's consolidated financial position or consolidated results of operations. BJC has an established formal corporate compliance function designed to monitor compliance with applicable laws and regulations.

BJC is involved as both plaintiff and defendant in litigation arising in the ordinary course of business. In the opinion of management, after consultation with legal counsel, these matters will be resolved without a material adverse effect on BJC's consolidated financial position, operating results or cash flows.

In October 2013, a petition was filed against BJC in the Circuit Court of the City of St. Louis, Missouri, alleging violations of wage and hour laws, breach of contract and unjust enrichment claims. The suit seeks to certify a class of former and current non-exempt (hourly) employees. The parties have exchanged written discovery. At this time, there have been no rulings and no class has been certified. Management believes it has substantial defenses and intends to contest the allegations of the Petition, but at this stage cannot predict the potential outcome of the case.

15. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at December 31:

	2016	2015
Healthcare services:		
Research and education	**$ 105.0**	$ 102.4
Special programs	**86.2**	83.5
Patient care	**31.8**	33.2
Operations	**25.2**	24.7
Property and equipment	**2.8**	2.9
	$ 251.0	$ 246.7

15. Temporarily and Permanently Restricted Net Assets (continued)

Permanently restricted net assets at December 31 are summarized below, the income from which is expendable to support the following:

	2016	2015
Healthcare services:		
Special programs	$ 86.1	$ 78.4
Operations	43.9	43.7
Research and education	45.2	44.5
Patient care	24.6	23.6
	$ 199.8	$ 190.2

16. Endowments

The Foundations' endowments consist of funds established for a variety of purposes. The Foundations' endowments include both donor-restricted endowment funds and funds designated by the Foundations' Boards of Directors to function as endowments. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions in accordance with U.S. GAAP.

The Foundations have interpreted Missouri's enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (the Missouri Statute) as requiring the preservation of the fair value of the original gift as of the gift date of a donor-restricted endowment fund, absent explicit donor stipulations to the contrary.

As a result of this interpretation, the Foundations classify as permanently restricted net assets: (a) the original value of gifts donated to a permanent endowment, (b) the original value of subsequent gifts to a permanent endowment and (c) accumulations to a permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the permanent endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundations in a manner consistent with the standards prescribed by the Missouri Statute.

16. Endowments (continued)

In accordance with the Missouri Statute, when investing, reinvesting, purchasing, acquiring, exchanging, selling, managing property, appropriating appreciation, developing and applying investment and spending policies and accumulating income, the Board of Directors of each affiliated foundation shall act with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in like capacity and familiar with these matters would use in the conduct of an enterprise of like character and with like aims to accomplish the purposes of the institution receiving the benefit of the institutional endowment fund.

In exercising such judgment, the Foundations' Boards of Directors shall consider the following factors in making a determination to appropriate or accumulate donor-restricted funds:

- The duration and preservation of the fund
- The purposes of the Foundation and the endowment fund
- General economic conditions
- The possible effects of inflation and deflation
- The expected total return from income and appreciation of investments
- Other resources of the Foundation
- The investment policies of the Foundation

At December 31, 2016, the endowment net asset composition by type of fund consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ –	$ 101.8	$ 149.4	$ 251.2
Board-designated endowment funds	150.0	–	–	150.0
Total funds	$ 150.0	$ 101.8	$ 149.4	$ 401.2

16. Endowments (continued)

At December 31, 2015, the endowment net asset composition by type of fund consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ –	$ 102.0	$ 145.1	$ 247.1
Board-designated endowment funds	130.5	–	–	130.5
Total funds	$ 130.5	$ 102.0	$ 145.1	$ 377.6

For the years ended December 31, 2016 and 2015, the changes in the endowment net assets are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, January 1, 2015	$ 132.9	$ 110.7	$ 144.4	$ 388.0
Investment return:	–	–	–	–
Investment income	1.5	2.3	–	3.8
Net appreciation	(2.9)	(4.8)	–	(7.7)
Total investment return	(1.4)	(2.5)	–	(3.9)
Contributions	–	–	0.8	0.8
Appropriations, net of recoveries	(4.6)	(6.2)	–	(10.8)
Other changes	3.6	–	(0.1)	3.5
Endowment net assets, December 31, 2015	130.5	102.0	145.1	377.6
Investment return:				
Investment income	**1.7**	**2.3**	–	**4.0**
Net appreciation	**5.8**	**8.7**	**0.1**	**14.6**
Total investment return	**7.5**	**11.0**	**0.1**	**18.6**
Contributions	–	–	**4.2**	**4.2**
Appropriations, net of recoveries	**(4.5)**	**(11.2)**	–	**(15.7)**
Other changes	**16.5**	–	–	**16.5**
Endowment net assets, December 31, 2016	**$ 150.0**	**$ 101.8**	**$ 149.4**	**$ 401.2**

16. Endowments (continued)

Return Objectives and Risk Parameters

The Foundations have adopted investment and spending policies for endowment assets that attempt to provide a stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period(s), as well as board-designated funds. Under this policy, as approved by the Foundations' Boards of Directors, the endowment net assets are invested in a manner that is intended to produce results that exceed the price and yield results of their relevant benchmarks while assuming a reasonable level of investment risk. The Foundations expect its endowment funds, over time, to generate a total annualized rate of return, net of fees, 5% greater than the rate of inflation, as measured by the Consumer Price Index (CPI), over a rolling five-year period. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy their long-term rate-of-return objectives, the Foundations rely on a total return strategy in which investment earnings are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends, net of fees).

Spending Policy

The Foundations have adopted a policy in which earnings are allocated annually for spending ranging from 4% to 5% of the 36-month rolling average market value of the endowment fund investment pool.

In establishing this policy, the Foundations consider the long-term expected return on the endowment whereby the current policy allows the endowment assets to grow at an average of CPI annually and to provide additional annual support for endowment administration of up to 1%.

17. Subsequent Events

BJC evaluated events and transactions occurring subsequent to December 31, 2016 through February 28, 2017, the date the consolidated financial statements were issued. During this period, there were no subsequent events that required recognition or disclosure in the consolidated financial statements.

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APPENDIX 1

Memorial Group, Inc. and Affiliates

Independent Auditor's Report and Consolidated Financial Statements

December 31, 2015 and 2014

APPENDIX 2

Memorial Group, Inc. and Affiliates
December 31, 2015 and 2014

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APPENDIX 2

BKD LLP
CPAs & Advisors

One Metropolitan Square // 211 N. Broadway, Suite 600 // St. Louis, MO 63102-2733
314 231 5614 // fax 314 231 9731 // bkd.com

Independent Auditor's Report

Board of Directors
Memorial Group, Inc. and Affiliates
Belleville, Illinois

We have audited the accompanying consolidated financial statements of Memorial Group, Inc. and Affiliates (the "Group") which comprise the balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of operations and 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 accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 auditor's 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 Group'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 Group'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.

Praxity
ALLIANCE OF ACCOUNTING FIRMS

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Memorial Group, Inc. and Affiliates as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BKD, LLP

St. Louis, Missouri
April 28, 2016

Memorial Group, Inc. and Affiliates

Consolidated Balance Sheets

December 31, 2015 and 2014

Assets	2015	2014
Current Assets		
Cash	$ 31,192,599	$ 36,770,496
Patient accounts and other receivables, net of allowance for uncollectible receivables of $8,300,814 in 2015 and $10,936,529 in 2014	65,125,773	48,439,546
Supplies	3,150,696	2,966,177
Prepaid expenses	4,818,103	5,581,854
Total current assets	104,287,171	93,758,073
Assets Limited As To Use	132,479,190	194,256,964
Property and Equipment, Net of Accumulated Depreciation	225,111,630	160,480,050
Other	7,430,208	7,321,947
Total assets	$ 469,308,199	455,817,034

Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	$ 24,905,040	$ 19,898,522
Current maturities of long-term debt	1,445,000	280,000
Accrued wages and related payroll taxes	24,069,610	24,434,584
Estimated amounts due to third-party payers	788,207	110,230
Estimated self-insurance costs, current	3,946,000	4,176,000
Total current liabilities	55,153,857	48,899,336
Estimated Self-insurance Costs, Net of Current Portion	44,383,803	46,964,916
Long-term Debt	154,905,563	155,942,719
Total liabilities	254,443,223	251,806,971
Net Assets – Unrestricted	214,864,976	204,010,063
Total liabilities and net assets	$ 469,308,199	$ 455,817,034

See Notes to Consolidated Financial Statements

Memorial Group, Inc. and Affiliates

Consolidated Statements of Operations and Changes in Net Assets

Years Ended December 31, 2015 and 2014

	2015	2014
Unrestricted Revenues and Other Support		
Patient service revenue (net of contractual discounts and allowances)	$ 322,370,162	$ 307,524,652
Provision for uncollectible accounts	(4,615,613)	(11,274,224)
Net patient service revenue less provision for uncollectible accounts	317,754,549	296,250,428
Other	5,943,721	6,947,771
	323,698,270	303,198,199
Expenses		
Salaries and wages	139,666,950	132,580,271
Employee benefits	36,685,386	41,862,557
Specialists' fees	12,649,511	11,048,242
Medical and other supplies	43,803,542	42,608,695
Utilities	3,301,456	3,219,194
Repairs and maintenance	8,353,720	8,130,779
Insurance	9,010,406	8,527,665
Other expense	40,800,078	35,606,381
Depreciation	16,730,014	17,798,161
Interest	2,475,997	2,390,399
	313,477,060	303,772,344
Operating Income (Loss)	10,221,210	(574,145)
Other Income (Expense)		
Investment return	(1,472,929)	2,660,566
Donations	2,106,632	1,013,400
	633,703	3,673,966
Excess of Revenues Over Expenses	10,854,913	3,099,821
Unrestricted Net Assets, Beginning of Year	204,010,063	200,910,242
Unrestricted Net Assets, End of Year	$ 214,864,976	$ 204,010,063

See Notes to Consolidated Financial Statements

Memorial Group, Inc. and Affiliates

Consolidated Statements of Cash Flows

Years Ended December 31, 2015 and 2014

	2015	2014
Operating Activities		
Change in unrestricted net assets	$ 10,854,913	$ 3,099,821
Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities		
Depreciation	16,730,014	17,798,161
Net change in investee partnerships	(108,261)	42,640
Net gains (losses) in assets limited as to use	3,994,646	(339,977)
Changes in assets and liabilities		
Patient accounts and other receivables, net	(16,686,227)	3,143,491
Estimated balance due from/due to third-party payers	-	565,696
Supplies	(184,519)	58,966
Prepaid expenses	763,751	157,268
Accounts payable and accrued expenses	6,200,089	1,807,937
Accrued wages and related payroll taxes	(364,974)	(998,351)
Estimated self-insurance costs	(2,811,113)	2,246,643
Net cash provided by operating activities	18,388,319	27,582,295
Investing Activities		
Net proceeds from assets limited as to use	57,783,128	34,550,969
Purchase of property and equipment	(81,877,188)	(42,258,976)
Net cash used in investing activities	(24,094,060)	(7,708,007)
Financing Activities		
Amortization of original issue discount	407,844	-
Principal payments on long-term debt	(280,000)	(490,000)
Net cash used in financing activities	127,844	(490,000)
Net Increase (Decrease) in Cash	(5,577,897)	19,384,288
Cash, Beginning of Year	36,770,496	17,386,208
Cash, End of Year	$ 31,192,599	$ 36,770,496
Supplemental Cash Flows Information		
Interest paid (net of amount capitalized)	$ 2,393,427	$ 1,378,619
Property and equipment in accounts payable and accrued expenses	$ 7,246,729	$ 7,762,323

See Notes to Consolidated Financial Statements

Memorial Group, Inc. and Affiliates

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

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

Nature of Operations

The consolidated financial statements are prepared on the accrual basis of accounting and include the accounts of Memorial Group, Inc. ("MGI") and the affiliated entities (the "Related Affiliates"), Protestant Memorial Medical Center, Inc., Memorial Foundation, Inc., Southwest Illinois Health Ventures, Inc., Memorial Captive Insurance Company-Arizona, Memorial Captive Insurance Company-Cayman, Memorial Medical Group, LLC and Metro-East Services, Inc. All entities are located in Belleville, Illinois except for Memorial Captive Insurance Company-Arizona which was domiciled in Phoenix, Arizona and Memorial Captive Insurance Company-Cayman which is domiciled in the Cayman Islands.

MGI is the parent corporation of the Related Affiliates. MGI is the sole corporate member of Protestant Memorial Medical Center, Inc., Memorial Foundation, Inc., Southwest Illinois Health Ventures, Inc., Memorial Medical Group, LLC and Metro-East Services, Inc. Memorial Captive Insurance Company-Arizona and Memorial Captive Insurance Company-Cayman are wholly-owned subsidiaries of MGI.

Protestant Memorial Medical Center, Inc. (the "Medical Center") includes the accounts of its two operating units, Memorial Hospital and Memorial Care Center, which provide health care services to residents of southwestern Illinois.

Memorial Foundation, Inc. ("MFI") is organized to support the health care services of the Medical Center through financial and fundraising assistance.

Southwest Illinois Health Ventures, Inc. ("SIHVI") owns and operates medical office buildings, is a partner in a partnership organized to operate a cancer treatment center and is a partner in a partnership organized to operate a YMCA fitness facility.

Memorial Captive Insurance Company-Arizona ("MCIC-Arizona") and Memorial Captive Insurance Company-Cayman ("MCIC-Cayman") ("Memorial Captive Insurance Companies") are captive insurance companies that insure a portion of the Medical Center's professional liability and re-insures the professional liability for participating physicians who are on the medical staff of the Medical Center. On December 31, 2012, MCIC-Arizona entered into an Assignment and Assumption Agreement and a Reinsurance Assignment and Reinsurance Assumption Agreement with the Medical Center, MCIC-Cayman and Lexington Insurance Company. Under both agreements, MCIC-Arizona transferred, assigned and delegated to MCIC-Cayman, and MCIC-Cayman assumed, on a novation basis, all of MCIC-Arizona's rights, interest, duties, obligations, responsibilities and liabilities as if MCIC-Cayman were originally the insurer or reinsurer. As of December 31, 2012, MCIC-Arizona is no longer writing or assuming any insurance risks and is considered dormant by the state of Arizona. Effective January 23, 2015, MCIC-Arizona was dissolved.

Memorial Medical Group, LLC ("MMG") is organized to employ physicians for the MGI integrated health care delivery system through a number of limited liability companies which MMG is the sole member.

Memorial Group, Inc. and Affiliates

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

Note 1: Nature of Operations and Summary of Significant Accounting Policies (Continued)

Metro-East Services, Inc. ("Metro-East") was formed in 2011 as an Illinois not-for-profit corporation and is expected to become the owner and operator of Memorial Hospital East ("MHE") a 94-bed acute care hospital under construction in Shiloh, Illinois. Metro-East currently has no operations.

Several members of the Board of Directors of MGI and the Related Affiliates serve in this capacity for more than one of these corporations.

The Medical Center, MGI, MFI, SIHVI, MMG and Metro-East comprise the Obligated Group listed in the 2011 and 2013 bond series trust indentures (see Note 6).

All significant interaffiliate accounts and transactions have been eliminated in the consolidation.

Use of Estimates

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

Cash

At December 31, 2015, MGI's cash accounts exceeded federally insured limits by approximately $28,832,000.

Patient Accounts Receivable

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the Medical Center and MMG analyzes past history and identifies trends for each of their major payer sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for uncollectible accounts. Management regularly reviews data about these major payer sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts.

For receivables associated with services provided to patients who have third-party coverage, the Medical Center and MMG estimates contractually due amounts. For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Medical Center records a provision for uncollectible accounts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated or provided by policy) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

Note 1: Nature of Operations and Summary of Significant Accounting Policies (Continued)

Patient Accounts Receivable (Continued)

The Medical Center and MMG allowance for doubtful accounts for self-pay patients increased from 82 percent of self-pay accounts receivable at December 31, 2014, to 84 percent of self-pay accounts receivable at December 31, 2015. In addition, the Medical Center and MMG write-offs decreased from approximately $18,888,000 for the year ended December 31, 2014, to approximately $9,316,000 for the year ended December 31, 2015. The decrease in write-offs are largely attributed to the state of Illinois participating in the Medicaid expansion program, coupled with efforts made at enrollment of self-pay and charity patients into either the Insurance Exchange or Medicaid program in 2014 and 2015.

The Medical Center and MMG grants credit without collateral to its patients. The percentage of receivables from patients and third-party payers at December 31, are:

	2015	2014
Medicare	26%	50%
Medicaid	9%	10%
Other third-party payers	58%	30%
Self-pay	7%	10%
	100%	100%

The increase in other third-party payers between years is attributable to the expansion of Medicare and Medicaid managed care plans that now provide coverage to patients instead of coverage through traditional Medicare and Medicaid coverage.

Supplies

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

Property and Equipment

Property and equipment are stated at cost. Depreciation is computed by the straight-line method over estimated useful lives. The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Land improvements	3 - 20 years
Buildings	10 - 40 years
Fixed equipment	3 - 25 years
Movable equipment	3 - 15 years

The Medical Center capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing specifically for the project. Total interest capitalized and incurred during the years ended December 31, 2015 and 2014, was $9,377,913 and $9,273,714, respectively.

Note 1: Nature of Operations and Summary of Significant Accounting Policies (Continued)

Net Patient Service Revenue

The Medical Center and MMG have agreements with third-party payers that provide for payments to the Medical Center and MMG at amounts different from their established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Investments and Investment Return

Investments include marketable equity and debt securities which are carried at fair value. Total investment return includes dividend, interest and other investment income and realized and unrealized gains and losses on investments. Net changes in unrealized gains and losses are recorded as increases or decreases in investment return included in unrestricted net assets.

Income Taxes

MGI and the Related Affiliates, except MCIC-Arizona, MCIC-Cayman and MMG, have been recognized as qualified not-for-profit, tax-exempt organizations under Section 501(c)(3) of the *Internal Revenue Code* and a similar provision of state law. However, the Medical Center is subject to federal income on any unrelated business taxable income. MCIC-Arizona and MCIC-Cayman are taxable corporations. MMG is an Illinois limited liability company that is a disregarded entity for federal income tax purposes.

MGI and the Related Affiliates file tax returns in the U.S. federal and state jurisdictions and are no longer subject to U.S. federal and state examinations by tax authorities for years before 2013 except for MCIC-Cayman. Tax years 2013 and forward are open and subject to examination for MCIC-Cayman.

Affordable Care Act Compliance

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

Note 2: Net Patient Service Revenue and Other Operating Revenue

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

The Medical Center and MMG have agreements with third-party payers that provide for payments at amounts different from their established rates. These payment arrangements include:

Medicare. Inpatient acute care services and substantially all outpatient 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.

The Medical Center is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Medical Center and audits thereof by the Medicare administrative contractor. The Medical Center's Medicare cost reports have been audited by the Medicare administrative contractor through December 31, 2013.

Medicaid. Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed at prospectively determined rates.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates may differ materially from those recorded at December 31, 2015.

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

Patient service revenue, net of contractual allowances and discounts (but before the provision for uncollectible accounts), recognized in the years ended December 31, 2015 and 2014, was:

	2015	2014
Medicare	$ 108,892,272	$ 100,980,506
Medicaid	27,020,536	30,421,633
Other third-party payers	178,624,152	169,672,311
Self-pay	7,985,045	6,450,202
Total	$ 322,522,005	$ 307,524,652

Note 2: Net Patient Service Revenue and Other Operating Revenue (Continued)

Charity Care

The Medical Center and MMG provide care without charge or at amounts less than its established rates to patients meeting certain criteria under their charity care policy. Because the Medical Center and MMG do not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue. The Medical Center and MMG's direct and indirect costs for services furnished under their charity care policy aggregated approximately $3,310,437 and $2,612,068 in 2015 and 2014, respectively. The cost of charity care provided is determined by multiplying the ratio of cost to gross charges (as computed in the most recent Medicare cost report) by total charges of patients that received at least some charity care to determine total cost for those patients. Then a ratio of each patient's charity charges to total charges is calculated and multiplied by the total cost to arrive at charity care cost.

Illinois Hospital Medicaid Assessment Program

The state of Illinois implemented a hospital assessment program beginning July 1, 2008, that qualified for federal matching funds through the Illinois Medicaid program. Under the program, each hospital is assessed taxes based on that hospital's adjusted gross hospital revenue. Under the provisions of the program, the Medical Center anticipates annual net patient service revenue of approximately $11,127,000, and annual assessment payments by the Medical Center of approximately $10,992,000. The hospital assessment program contains a sunset provision effective June 30, 2018, and there is no assurance that the program will not be discontinued or materially modified. In October 2013, the Centers for Medicare and Medicaid Services (CMS) approved the Enhanced Hospital Assessment Program effective July 1, 2012. The annual net benefit to the Medical Center for the assessment program decreased $439,000 due to the approval of the Enhanced Program.

In 2010, the state implemented regulations providing for outpatient assistance adjustment payments to hospitals meeting certain qualifying criteria. The adjustment payments are effective July 1, 2009 through June 30, 2018. In 2011, the state implemented further regulations providing for additional outpatient assistance adjustment payments effective July 1, 2011 to June 30, 2018. In October 2013, the Enhanced Assessment Program approved by CMS increased the Medical Center's outpatient assistance adjustment payments $558,000 annually effective July 1, 2012. In 2015 and 2014, the Medical Center recorded net patient service revenue of approximately $2,402,000 and $2,402,000, respectively, from these adjustment payments.

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

	2015	2014
Additional Medicaid payments included in net patient service revenue	$ 13,527,310	$ 13,529,031
Taxes assessed and included in other expense	$ 10,991,612	$ 10,163,979

APPENDIX 2

Note 2: Net Patient Service Revenue and Other Operating Revenue (Continued)

Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records technology. Payments under the Medicare and Medicaid programs are generally made for up to four years based on a statutory formula. Payment under both programs are contingent on the hospital continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year is determined based upon an audit by the administrative contractor. Audit findings could cause the final amounts to differ materially from the initial payments under the program.

The Medical Center and MMG recognize revenue during the reporting period at the point when management is reasonably assured it will meet all of the meaningful use objectives and any other specific grant requirements applicable for the reporting period. The Medical Center completed third year requirements under both the Medicare and Medicaid programs in 2014 and fourth year requirements in 2015 and recorded revenue of approximately $1,563,000 in 2014 and $1,072,000 in 2015 which is included in other revenue within operating revenues in the consolidated statements of operations and changes in net assets.

Affordable Care Act (ACA) Supplemental Payment

CMS approved supplemental payments to Illinois hospitals on January 9, 2015, with a program effective date of March 1, 2014. This program is federally funded and relates to the expansion of Medicaid coverage in Illinois. Payments to hospitals began in February 2015. In 2015 the Medical Center recorded net patient service revenue of approximately $5,287,000 from these payments.

Note 3: Assets Limited as to Use

Board-designated Assets

Board-designated assets represent funds set aside for the acquisition of depreciable assets and other capital-related purposes.

Self-Insurance Fund and Memorial Captive Insurance Companies

The Medical Center maintains a trust fund for the purpose of funding self-insured professional and general liability losses. Funding of the trust is based upon actuarial estimates of the potential liability and the lag time in the payment of claims. Investment income is retained by the trust and reinvested.

Note 3: Assets Limited as to Use (Continued)

Held by Trustee Under Bond Indenture

Investments held by trustee under bond indenture represent funds received from the issuance of the Series 2013 bonds that are restricted for use on qualifying project expenditures under the bond indenture agreement.

Auxiliary Fund

The Auxiliary Fund provides educational assistance to students pursuing health-related careers and is administered by the Auxiliary.

Memorial Medical Group

Memorial Medical Group's assets represent restricted funds for deferred compensation assets for employed physicians in MMG.

Assets Limited as to Use Include

	2015	2014
Board-designated Assets		
Money market accounts	$ 749,424	$ 263,054
U.S. government-sponsored enterprises	225,495	258,619
U.S. Treasury obligations	1,260,342	1,760,297
Corporate obligations	380,650	396,320
Fixed income mutual funds	27,922,033	28,758,398
Equity securities		
Mutual funds		
Large cap funds	15,749,956	15,918,850
International funds	21,038,694	21,519,637
Other mutual funds	362,798	376,439

Note 3: Assets Limited as to Use (Continued)

	2015	2014
Common stock		
Information technology	$ 66,902	$ 92,898
Industrials	125,393	90,791
Consumer staples	103,130	115,908
Health care	89,628	72,613
Consumer discretionary	13,472	16,497
Energy	77,724	78,422
Financials	163,427	189,945
Other	127,779	168,259
Other assets	112,067	112,067
Amortized premium/discount and accrued income receivable	5,454	3,180
	68,574,368	70,192,194
Self-insurance Fund		
Money market accounts	154,209	73,232
U.S. government-sponsored enterprises	597,848	283,018
Corporate obligations	866,346	1,011,424
Fixed income mutual funds	146,866	299,673
Equity securities		
Mutual funds		
International funds	139,582	158,336
Other mutual funds	443,423	524,849
Common stock		
Information technology	116,394	104,566
Industrials	30,941	47,062
Consumer staples	57,801	42,437
Health care	75,643	76,521
Energy	25,339	19,824
Financials	161,285	83,508
Other	155,030	229,730
Amortized premium/discount and accrued income receivable	(7,118)	(18,221)
	2,963,589	2,935,959

Memorial Group, Inc. and Affiliates

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

Note 3: Assets Limited as to Use (Continued)

	2015	2014
Held by Trustee Under Bond Indenture		
Money market accounts	$ 10,133,197	$ 8,978,466
U.S. government-sponsored enterprises	5,311,131	26,992,182
Corporate obligations	10,869,048	49,367,133
	26,313,376	85,337,781
Memorial Captive Insurance Companies		
Money market accounts	109,629	286,866
U.S. government-sponsored enterprises	2,894,139	926,333
U.S. Treasury obligations	2,662,068	3,610,160
Corporate obligations	6,519,601	5,970,247
Fixed income mutual funds	828,219	827,315
Equity securities		
Mutual funds		
Large cap funds	7,303,509	8,146,977
International funds	6,840,981	7,579,620
Amortized premium/discount and accrued income receivable	65,328	65,061
	27,223,474	27,412,579
Memorial Medical Group		
Money market accounts	791,392	275,428
Fixed income mutual funds	222,795	283,804
Equity securities		
Mutual funds		
Large cap funds	1,171,504	1,322,775
International funds	347,525	360,880
Retirement income funds	2,833,749	3,934,307
Other mutual funds	780,997	923,013
	6,147,962	7,100,207

Note 3: Assets Limited as to Use (Continued)

	2015	2014
Auxiliary Fund		
Money market accounts	$ 54,045	$ 55,200
Certificates of deposit	1,068,475	1,071,546
Other assets	133,901	151,498
	1,256,421	1,278,244
	$ 132,479,190	$ 194,256,964

Total investment return is comprised of the following:

	2015	2014
Interest and dividend income	$ 2,521,717	$ 2,320,589
Net realized gains and losses on sales of securities	117,855	352,349
Realized investment return	2,639,572	2,672,938
Net change in unrealized gains and losses	(4,112,501)	(12,372)
Total investment return	$ (1,472,929)	$ 2,660,566

Note 4: Disclosures About Fair Value of Assets and Liabilities

Fair value is 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. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

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

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

Note 4: Disclosures About Fair Value of Assets and Liabilities (Continued)

Recurring Measurements

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended December 31, 2015.

Investments

Where quoted market prices are available in an active market, investments are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of investments with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such investments are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, investments are classified within Level 3 of the hierarchy. There were no investments classified as Level 3 at December 31, 2015 or 2014.

The following tables present the fair value measurements of assets and liabilities recognized in the accompanying consolidated balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2015 and 2014, less accrued interest, bank deposits and other assets of the Auxiliary:

Memorial Group, Inc. and Affiliates

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

Note 4: Disclosures About Fair Value of Assets and Liabilities (Continued)

	Fair Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2015				
Money market accounts	$ 11,991,894	$ 11,991,894	$ -	$ -
U.S. Treasury obligations	$ 4,071,374	$ 4,071,374	$ -	$ -
U.S. government-sponsored enterprises	$ 8,879,648	$ -	$ 8,879,648	$ -
Corporate obligations	$ 18,635,646	$ -	$ 18,635,646	$ -
Fixed income mutual funds	$ 29,119,913	$ 29,119,913	$ -	$ -
Equity securities				
Mutual funds				
Large cap funds	$ 24,224,969	$ 24,224,969	$ -	$ -
International funds	$ 28,366,781	$ 28,366,781	$ -	$ -
Retirement income funds	$ 2,833,749	$ 2,833,749	$ -	$ -
Other funds	$ 1,587,218	$ 1,587,218	$ -	$ -
Common stock				
Information technology	$ 183,296	$ 183,296	$ -	$ -
Services	$ 202,071	$ 202,071	$ -	$ -
Consumer staples	$ 160,931	$ 160,931	$ -	$ -
Health care	$ 165,271	$ 165,271	$ -	$ -
Financials	$ 324,712	$ 324,712	$ -	$ -
Other	$ 353,607	$ 353,607	$ -	$ -
Certificates of deposit	$ 1,068,475	$ -	$ 1,068,475	$ -
December 31, 2014				
Money market accounts	$ 9,932,246	$ 9,932,246	$ -	$ -
U.S. Treasury obligations	$ 5,370,457	$ 5,370,457	$ -	$ -
U.S. government-sponsored enterprises	$ 28,460,150	$ -	$ 28,460,150	$ -
Corporate obligations	$ 56,745,123	$ -	$ 56,745,123	$ -
Fixed income mutual funds	$ 30,169,190	$ 30,169,190	$ -	$ -
Equity securities				
Mutual funds				
Large cap funds	$ 25,388,602	$ 25,388,602	$ -	$ -
International funds	$ 29,618,473	$ 29,618,473	$ -	$ -
Retirement income funds	$ 3,934,307	$ 3,934,307	$ -	$ -
Other funds	$ 1,824,301	$ 1,824,301	$ -	$ -
Common stock				
Information technology	$ 197,464	$ 197,464	$ -	$ -
Services	$ 270,603	$ 270,603	$ -	$ -
Consumer Staples	$ 158,345	$ 158,345		
Health care	$ 149,134	$ 149,134		
Financials	$ 273,453	$ 273,453	$ -	$ -
Other	$ 379,983	$ 379,983	$ -	$ -
Certificates of deposit	$ 1,071,546	$ -	$ 1,071,546	$ -

APPENDIX 2

Memorial Group, Inc. and Affiliates

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

Note 5: Property and Equipment

	2015	2014
Land	$ 10,294,225	$ 10,294,225
Land improvements	6,597,365	7,183,656
Buildings	99,094,534	105,042,973
Fixed equipment	57,174,320	71,665,670
Movable equipment	133,271,141	123,156,909
Alterations and projects in progress	115,980,838	50,261,764
	422,412,423	367,605,197
Less accumulated depreciation	197,300,793	207,125,147
	$ 225,111,630	$ 160,480,050

In December 2013, MGI began the construction of Memorial Hospital East, an approximately 207,000 square foot, 94-bed acute care hospital located in Shiloh, Illinois. MGI and Metro-East received Certificate of Need approval for the project from the Illinois Health Facilities and Services Review Board which provides for a total project cost of $124,560,931. Memorial Hospital East began operations in April 2016.

Note 6: Long-term Debt

	2015	2014
Revenue Bonds 2013	$ 163,080,000	$ 163,360,000
Less original issue discount	6,729,437	7,137,281
Less current maturities	1,445,000	280,000
	$ 154,905,563	$ 155,942,719

The 2013 Revenue Bonds (the "2013 Bonds") consist of Southwestern Illinois Development Authority (the "Authority") Hospital Facility Revenue Bonds issued to MGI in the original par amount of $163,850,000, dated December 6, 2013, and bear an average interest rate of 7.337 percent. Proceeds of $28,660,000 were used, in part, to refund the outstanding 2011 Revenue Bonds (the "2011 Bonds"). Of the total outstanding, $13,809,757 was allocated to the Medical Center with the remaining allocated to SIHVI.

The 2013 Bonds are payable in annual installments starting November 1, 2014 through November 1, 2048. The 2013 Bonds may be redeemed in future years subject to optional, mandatory and extraordinary redemption provisions. Of the total indebtedness, $15,586,237 was allocated to the Medical Center and $16,763,777 was allocated to SIHVI with the remaining amount allocated to MGI.

Note 6: Long-term Debt (Continued)

The 2013 Bonds are not an indebtedness or obligation of the Authority. The Bonds are secured solely by a security interest in the gross revenues of the Obligated Group as well as a mortgage and security interest in certain real estate of the Obligated Group.

The indenture agreement requires that certain funds be established with the Trustee. Accordingly, these funds are included in assets limited as to use restricted under bond indenture in the December 31, 2015 and 2014, consolidated balance sheet. The indenture agreement also requires the Obligated Group to comply with certain restrictive covenants.

The Authority issued the 2011 Bonds in the original amount of $30,000,000 on July 1, 2011. The 2011 Bonds bore interest at 2.7738 percent and were issued to MGI with annual installments payable in August of each year. The advance refunding of the 2011 Bonds resulted in an extinguishment of debt charge of $709,966 as the Obligated Group was released early from its obligation. Of this charge, $344,278 was allocated to the Medical Center with the remainder charged to SIHVI.

Aggregate annual maturities of long-term debt at December 31, 2015, are:

2016	$ 1,445,000
2017	1,520,000
2018	1,600,000
2019	1,695,000
2020	1,790,000
Thereafter	148,300,563
	$ 156,350,563

Note 7: Pension Plan

The Medical Center and MMG have pension plans covering full and part time employees who have completed one year of service, attained age 21 and have at least 1,000 hours of service within one year. The plans are defined-contribution money-purchase plans. The total pension expense was $4,065,414 and $4,185,429 for the years ended December 31, 2015 and 2014, respectively. It is the policy of the Medical Center and MMG to fund total pension expense incurred. Upon two years of credited service, the employee obtains a 20 percent vested interest; in each of the succeeding four years of credited service, the employee obtains an additional 20 percent vested interest.

Note 8: Professional and General Liability

The Medical Center maintains a self-insurance program to provide for losses related to professional and general liability claims. Memorial Captive Insurance Companies insure a portion of the Medical Center's professional liability and re-insure professional liability for some of MMG physicians and non-employed affiliated physicians and physician entities who utilize the Medical Center's health care facilities. A provision for expected losses is recorded based upon the Medical Center's and Memorial Captive Insurance Companies estimate of the potential liability for asserted and unasserted claims and unreported incidents. During 2015 and 2014, MGI and the Related Affiliates charged $6,059,691 and $1,621,570 to operations, respectively, as the Medical Center's estimated loss for all asserted and unasserted claims and unreported incidents. During 2015 and 2014, MMG charged $341,541 and $436,855, respectively, to operations for professional liability coverage provided by insurance companies other than Memorial Captive Insurance Companies. Additionally, during 2015 and 2014, Memorial Captive Insurance Companies charged $2,772,356 and $2,615,575 to operations, respectively, as the covered MMG physicians and non-employed physicians' estimated loss for all asserted and unasserted claims and unreported incidents. The ultimate resolution of these matters may result in amounts that differ materially from those recorded at December 31, 2015.

Note 9: Functional Expenses

MGI and the Related Affiliates' expenses as presented in the federal tax Form 990 are as follows:

	2015	2014
Program services	$ 269,939,401	$ 260,883,481
Management and general	43,408,469	42,706,557
Fundraising	129,190	182,306
	$ 313,477,060	$ 303,772,344

Note 10: Subsequent Events

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the consolidated financial statements were issued.

During this period, there were no subsequent events that required recognition or disclosure in the consolidated financial statements, except as follows.

On January 1, 2016, MGI finalized a strategic affiliation agreement ("Agreement") with BJC HealthCare (BJC). Under the Agreement, both BJC and MGI became members of Memorial Regional Health Services, Inc. (MRHS), a newly formed Illinois not-for-profit corporation. On January 1, 2016, MRHS replaced MGI as the sole member of MGI's affiliated corporations. BJC has committed to certain capital funding to MRHS for equipment and construction, expansion and improvement to its facilities over a specified period.

Although BJC and MGI each hold 50 percent of the membership interests, BJC effectively controls MRHS and will consolidate the nel assets, operations and cash flows of MRHS effective January 1, 2016. No cash or other consideration was transferred, with the exception of BJC's guarantee of MRHS's outstanding conduit borrowings. After five years and upon achievement of certain conditions as outlined in the Agreement, BJC may exercise its rights to obtain sole corporate membership of MRHS.

Supplementary Information

APPENDIX 2

BKD LLP
CPAs & Advisors

One Metropolitan Square // 211 N. Broadway, Suite 600 // St. Louis, MO 63102-2733
314 231.5544 // fax 314 231.9731 // bkd.com

Independent Auditor's Report on Supplementary Information

Board of Directors
Memorial Group, Inc. and Affiliates
Belleville, Illinois

Our 2015 audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying Consolidated Statements – With Consolidating Information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

BKD, LLP

St. Louis, Missouri
April 28, 2016

Praxity MEMBER ALLIANCE OF INDEPENDENT FIRMS

APPENDIX 2

Memorial Group, Inc. and Affiliates

Consolidated Balance Sheet – With Consolidating Information

December 31, 2015

Assets	Memorial Group, Inc.	Protestant Memorial Medical Center, Inc.	Memorial Foundation, Inc.	Southwest Illinois Health Ventures, Inc.	Memorial Medical Group, LLC	Metro East Services, Inc.	Eliminations	Obligated Group Total	Memorial Captive Insurance Company Cayman	Eliminations	Consolidated
Current Assets											
Cash	$ 4,022,000	$ 24,288,511	$ 272,074	$ -	$ 1,765,207	$ -	$ -	$ 30,267,792	$ 924,807	$ -	$ 31,192,599
Patient accounts and other receivables, net	-	60,909,750	-	-	4,214,612	-	-	65,124,362	1,411	-	65,125,773
Supplies	-	3,019,564	-	-	131,132	-	-	3,150,696	-	-	3,150,696
Prepaid expenses	-	2,602,423	-	217,857	205,669	1,770,154	-	4,796,103	22,000	-	4,818,103
Due from affiliates	-	1,404,317	-	-	-	455,145	(1,859,462)	-	-	-	-
Total current assets	4,022,000	92,144,565	272,074	217,857	6,316,620	2,225,299	(1,859,462)	103,338,953	948,218	-	104,287,171
Assets Limited As To Use	24,906,748	35,943,216	11,944,414	-	6,147,962	26,313,376	-	105,255,716	27,223,474	-	132,479,190
Interest in the Net Assets of Memorial Foundation, Inc.	-	11,456,470	-	-	-	-	(11,456,470)	-	-	-	-
Due from Insurance Affiliate	-	17,314,477	-	-	-	-	-	17,314,477	-	(17,314,477)	-
Property and Equipment, Net	9,682,395	61,403,123	-	37,972,400	1,221,089	114,832,623	-	225,111,630	-	-	225,111,630
Other	-	-	-	7,430,208	-	-	-	7,430,208	-	-	7,430,208
Total assets	$ 38,611,143	$ 218,261,851	$ 12,216,488	$ 45,620,465	$ 13,685,671	$ 143,371,298	$ (13,315,932)	$ 458,450,984	$ 28,171,692	$ (17,314,477)	$ 469,308,199

APPENDIX 2

See Independent Auditor's Report on Supplementary Information

Liabilities and Net Assets	Memorial Group, Inc.	Protestant Memorial Medical Center, Inc.	Memorial Foundation, Inc.	Southwest Illinois Health Ventures, Inc.	Memorial Medical Group, LLC	Metro East Services, Inc.	Eliminations	Obligated Group Total	Memorial Captive Insurance Company Cayman	Eliminations	Consolidated
Current Liabilities											
Accounts payable and accrued expenses	$ 2,361,402	$ 13,830,124	$ 4,091	$ 206,574	$ 1,290,583	$ 7,180,266	$ -	$ 24,873,040	$ 32,000	$ -	$ 24,905,040
Current maturities of long-term debt	-	295,000	-	-	-	1,150,000	-	1,445,000	-	-	1,445,000
Accrued wages and related payroll taxes	-	14,707,968	4,674	-	9,321,968	35,000	-	24,069,610	-	-	24,069,610
Balance due from third-party payors	-	788,207	-	-	-	-	-	788,207	-	-	788,207
Estimated self-insurance costs, current	-	3,946,000	-	-	-	-	-	3,946,000	-	-	3,946,000
Due to affiliates	-	-	751,253	-	624,575	-	(1,859,462)	(483,634)	483,634	-	-
Total current liabilities	2,361,402	33,567,299	760,018	206,574	11,237,126	8,365,266	(1,859,462)	54,638,223	515,634	-	55,153,857
Estimated Self-Insurance Costs, Net of Current Portion	-	17,886,372	-	-	-	-	-	17,886,372	26,497,431	-	44,383,883
Estimated Professional Liability Claims	-	17,314,477	-	-	-	-	-	17,314,477	-	(17,314,477)	-
Long-term Debt	-	14,960,033	-	16,407,551	-	123,537,979	-	154,905,563	-	-	154,905,563
Total liabilities	2,361,402	83,728,181	760,018	16,614,125	11,237,126	131,903,245	(1,859,462)	244,744,635	27,013,065	(17,314,477)	254,443,223
Net Assets											
Unrestricted	36,249,741	123,077,200	11,456,470	29,006,340	2,448,545	11,468,053	-	213,706,349	1,158,627	-	214,864,976
Temporarily restricted	-	11,456,470	-	-	-	-	(11,456,470)	-	-	-	-
Total net assets	36,249,741	134,533,670	11,456,470	29,006,340	2,448,545	11,468,053	(11,456,470)	213,706,349	1,158,627	-	214,864,976
Total liabilities and net assets	$ 38,611,143	$ 218,261,851	$ 12,216,488	$ 45,620,465	$ 13,685,671	$ 143,371,298	$ (13,315,932)	$ 458,458,984	$ 28,171,692	$ (17,314,477)	$ 469,308,199

APPENDIX 2

Memorial Group, Inc. and Affiliates

Consolidated Statement of Operations and Changes in Net Assets – With Consolidating Information

Year Ended December 31, 2015

	Memorial Group, Inc.	Protestant Memorial Medical Center, Inc.	Memorial Foundation, Inc.	Southwest Illinois Health Ventures, Inc.	Memorial Medical Group, LLC	Metro East Services, Inc.	Eliminations	Obligated Group Total	Memorial Captive Insurance Company Cayman	Eliminations	Consolidated
Unrestricted Revenue and Other Support											
Patient service revenue (net of contractual discounts and allowances)	$ -	$ 284,600,744	$ -	$ -	$ 37,792,838	$ -	$ (23,420)	$ 322,370,162	$ -	$ -	$ 322,370,162
Provision for uncollectible accounts	-	(3,831,447)	-	-	(784,166)	-	-	(4,615,613)	-	-	(4,615,613)
Net patient service revenue less provision for uncollectible accounts	-	280,769,297	-	-	37,008,672	-	(23,420)	317,754,549	-	-	317,754,549
Other	-	3,651,206	-	5,684,452	8,313	-	(3,818,921)	5,525,050	7,005,317	(6,586,646)	5,943,721
	-	284,420,503	-	5,684,452	37,016,985	-	(3,842,341)	323,279,599	7,005,317	(6,586,646)	323,698,270
Expenses											
Salaries and wages	636,598	100,020,822	105,390	531,641	37,040,754	950,820	267,075	139,553,100	-	113,850	139,666,950
Employee benefits	119,530	30,484,875	22,242	98,335	5,708,163	125,266	89,025	36,647,436	-	37,950	36,685,386
Specialists' fees	-	12,873,419	-	-	(200,488)	-	(23,420)	12,649,511	-	-	12,649,511
Medical and other supplies	-	41,693,852	-	-	2,066,323	43,367	-	43,803,542	-	-	43,803,542
Utilities	-	2,060,405	-	842,768	352,771	45,512	-	3,301,456	-	-	3,301,456
Repairs and maintenance	-	7,801,258	-	295,477	218,550	38,435	-	8,353,720	-	-	8,353,720
Insurance	176,778	6,161,264	2,700	75,342	2,327,218	78,550	-	8,821,852	6,775,200	(6,586,646)	9,010,406
Other expense	4,835,536	31,493,465	3,281,045	688,565	6,040,295	1,239,430	(7,434,145)	40,144,191	807,687	(151,800)	40,800,078
Depreciation	68,346	14,129,836	-	2,219,220	312,612	-	-	16,730,014	-	-	16,730,014
Interest	-	1,192,935	-	1,283,062	-	-	-	2,475,997	-	-	2,475,997
	5,836,788	247,912,131	3,411,377	6,034,410	53,866,198	2,521,380	(7,101,465)	312,480,819	7,582,887	(6,586,646)	313,477,060
Operating Income (Loss)	$ (5,836,788)	$ 36,508,372	$ (3,411,377)	$ (349,958)	$ (16,849,213)	$ (2,521,380)	$ 3,259,124	$ 10,798,780	$ (577,570)	$ -	$ 10,221,210

APPENDIX 2

See Independent Auditor's Report on Supplementary Information

	Memorial Group, Inc.	Protestant Memorial Medical Center, Inc.	Memorial Foundation, Inc.	Southwest Illinois Health Ventures, Inc.	Memorial Medical Group, LLC	Metro East Services, Inc.	Eliminations	Obligated Group Total	Memorial Captive Insurance Company Cayman	Eliminations	Consolidated
Other Income (Expense)											
Investment return	$ (485,558)	$ (661,514)	$ (398,263)	$ -	$ -	$ 168,839	$ (51,000)	$ (1,427,496)	$ (45,433)	$ -	$ (1,472,929)
Donations	-	81,967	2,135,030	-	-	3,097,759	13,208,124)	2,106,632	-	-	2,106,632
	(485,558)	(579,547)	1,736,767	-	-	3,266,598	(3,259,124)	679,136	(45,433)	-	633,703
Excess (Deficiency) of Revenues Over Expenses	(6,322,346)	35,928,825	(1,674,610)	(349,958)	(16,849,213)	745,218	-	11,477,916	(623,003)	-	10,854,913
Transfers from (to) affiliates, net	5,012,627	(41,317,637)	-	(4,849,065)	30 001,626	10,722,835	-	(429,614)	700,000	-	270,386
Increase (Decrease) in Unrestricted Net Assets	(1,309,719)	(5,388,812)	(1,674,610)	(5,199,023)	13,152,413	11,468,053	-	11,048,302	76,997	-	11,125,299
Temporarily Restricted Net Assets - Change in Interest in Net Assets of Memorial Foundation, Inc.	-	(1,674,610)	-	-	-	-	1,674,610	-	-	-	-
Change in Total Net Assets	(1,309,719)	(7,063,422)	(1,674,610)	(5,199,023)	13,152,413	11,468,053	1,674,610	11,048,302	76,997	-	11,125,299
Net Assets, Beginning of Year	37,559,460	141,597,092	13,131,080	34,205,363	(10,703,868)	-	(13,131,080)	202,658,047	1,081,630	-	203,739,677
Net Assets, End of Year	$ 36,249,741	$ 134,533,670	$ 11,456,470	$ 29,006,340	$ 2,448,545	$ 11,468,053	$ (11,456,478)	$ 213,706,349	$ 1,158,627	$ -	$ 214,864,976

APPENDIX 2

Memorial Group, Inc.
Financial Statements - September 30, 2017
Statement of Revenue and Expense

Current Month			Year to Date		Prior Year
Actual	Budget		Actual	Budget	Actual
-	-	Revenue	-	-	-
-	-	Total Revenue	-	-	-
-	-	Insurance	-	-	10,071
-	-	Professional Fees	36,605	-	2,608
-	-	Other Expenses	-	-	(31,110)
-	-	Total Expenses	36,605	-	(18,431)
-	-	Net Income (Loss)	(36,605)	-	18,431

Memorial Group, Inc.
Financial Statements - September 30, 2017
Balance Sheet

	Sep 2017	***Sep 2016***	***Dec 2016***
Cash	2,494,711	1,555,882	2,555,048
Due from Affiliates	23,733	-	-
TOTAL ASSETS	2,518,444	1,555,882	2,555,048
Accounts Payable and Accrued Expenses	-	-	-
Total Liabilities	-	-	-
Unrestricted Net Assets	2,518,444	1,555,882	2,555,048
TOTAL LIABILITES & UNRESTRICTED NET ASSETS	2,518,444	1,555,882	2,555,048

APPENDIX 2

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

INDEX OF ATTACHMENTS

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Axel & Associates, Inc.

MANAGEMENT CONSULTANTS

17-066
17-067

by FedEX

November 15, 2017

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

Dear Courtney:

Enclosed please find two copies of a Certificate of Exemption application addressing the change of ownership/control of Memorial Hospital in Belleville, Illinois. Also enclosed is a check, in the amount of $2,500.00, as a filing and review fee.

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

Sincerely,

Jacob M. Axel
President

enclosures

675 North Court, Suite 210
Palatine, Illinois 60067

Phone (847) 776-7101
Fax (847) 776-7004