E-010-14 ORIGINAL

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HEALTH FACILITIES & SERVICES REVIEW BOARD

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

1. **INFORMATION FOR EXISTING FACILITY**

Current Facility Name Saint Anthony's Health System (Non Healthcare Facility Parent of Saint Anthony's Health Center)
Address #1 Saint Anthony's Way
City Alton, IL Zip Code 62002 County Madison
Name of current licensed entity for the facility Saint Anthony's Health Center
Does the current licensee: own this facility X OR lease this facility ____ (if leased, check if sublease ☐)
Type of ownership of the current licensed entity (check one of the following) ____ Sole Proprietorship
X Not-for-Profit Corporation ____ For Profit Corporation ____ Partnership ____ Governmental
____ Limited Liability Company ____ Other, specify ____
Illinois State Senator for the district where the facility is located: Sen. William R. "Bill" Haine
State Senate District Number 56 Mailing address of the State Senator 307 Henry St., Suite 210, Alton, Illinois 62002 / 311C Capitol Building, Springfield, Illinois 62706
Illinois State Representative for the district where the facility is located: Rep. Daniel V. Beiser
State Representative District Number 111 Mailing address of the State Representative 528 Henry Street, Alton, Illinois 62002 / 269-S Stratton Office Building, Springfield, Illinois 62706

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

3. **NAME OF APPLICANT** (complete this information for each co-applicant and insert after this page).
Exact Legal Name of Applicant Saint Anthony's Health System (Non Healthcare Facility Parent of Saint Anthony's Health System)
Address #1 Saint Anthony's Way
City Alton Zip Code 62002 County Madison
Type of ownership of the current licensed entity (check one of the following) ____ Sole Proprietorship
X Not-for-Profit Corporation ____ For Profit Corporation ____ Partnership ____ Governmental
____ Limited Liability Company ____ Other, specify ____

4. **NAME OF LEGAL ENTITY THAT WILL BE THE LICENSEE/OPERATING ENTITY OF THE FACILITY NAMED IN THE APPLICATION AS A RESULT OF THIS TRANSACTION.** Exact Legal Name of Entity to be Licensed OSF Healthcare System dba OSF Saint Anthony's Health Center (See Affiliation Agreement)
Address 800 NE Glen Oak Avenue
City, State & Zip Code Peoria, Illinois 61603
Type of ownership of the current licensed entity (check one of the following:) ____ Sole Proprietorship
X Not-for-Profit Corporation ____ For Profit Corporation ____ Partnership ____ Governmental
____ Limited Liability Company ____ Other, specify ____

5. **BUILDING/SITE OWNERSHIP. NAME OF LEGAL ENTITY THAT WILL OWN THE "BRICKS AND** MORTAR" (BUILDING) OF THE FACILITY NAMED IN THIS APPLICATION IF DIFFERENT FROM THE OPERATING/LICENSED ENTITY
Exact Legal Name of Entity That Will Own the Site OSF Healthcare System
Address 800 NE Glen Oak Avenue
City, State & Zip Code Peoria, Illinois 61603
Type of ownership of the current licensed entity (check one of the following) ____ Sole Proprietorship
X Not-for-Profit Corporation ____ For Profit Corporation ____ Partnership ____ Governmental
____ Limited Liability Company ____ Other, specify ____

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

1. INFORMATION FOR EXISTING FACILITY

Current Facility Name Saint Anthony's Health System (Non Healthcare Facility Parent of Saint Anthony's Health Center)
Address #1 Saint Anthony's Way
City Alton, IL Zip Code 62002 County Madison
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Does the current licensee: own this facility X OR lease this facility_______(if leased, check if sublease □)
Type of ownership of the current licensed entity (check one of the following) ________ Sole Proprietorship
X Not-for-Profit Corporation ________ For Profit Corporation ________ Partnership ________ Governmental
________ Limited Liability Company ________ Other, specify ________
Illinois State Senator for the district where the facility is located: Sen. William R. "Bill" Haine
State Senate District Number 56 Mailing address of the State Senator 307 Henry St., Suite 210, Alton, Illinois 62002 / 311C Capitol Building, Springfield, Illinois 62706
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2. **OUTSTANDING PERMITS**. Does the facility have any projects for which the State Board issued a permit that will not be completed (refer to 1130.140 "Completion or Project Completion" for a definition of project completion) by the time of the proposed ownership change? Yes □ No ☒. If yes, refer to Section 1130.520(f), and indicate the projects by Project # ________

3. **NAME OF APPLICANT** (complete this information for each co-applicant and insert after this page).
Exact Legal Name of Applicant Saint Anthony's Health Center
Address #1 Saint Anthony's Way
City Alton Zip Code 62002 County Madison
Type of ownership of the current licensed entity (check one of the following) ________ Sole Proprietorship
X Not-for-Profit Corporation ________ For Profit Corporation ________ Partnership ________ Governmental ________ Limited Liability Company ________ Other, specify ________

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X Not-for-Profit Corporation ________ For Profit Corporation ________ Partnership ________ Governmental
________ Limited Liability Company ________ Other, specify ________

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Exact Legal Name of Entity That Will Own the Site OSF Healthcare System
Address 800 NE Glen Oak Avenue
City, State & Zip Code Peoria, Illinois 61603
Type of ownership of the current licensed entity (check one of the following) ________ Sole Proprietorship
X Not-for-Profit Corporation ________ For Profit Corporation ________ Partnership ________ Governmental
________ Limited Liability Company ________ Other, specify ________

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

1. INFORMATION FOR EXISTING FACILITY

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

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

3. NAME OF APPLICANT (complete this information for each co-applicant and insert after this page).
Exact Legal Name of Applicant OSF Healthcare System
Address 800 NE Glen Oak Avenue
City Peoria Zip Code 61603 County Peoria
Type of ownership of the current licensed entity (check one of the following) ______ Sole Proprietorship X Not-for-Profit Corporation ______ For Profit Corporation ______ Partnership ______ Governmental ______ Limited Liability Company ______ Other, specify ______

4. NAME OF LEGAL ENTITY THAT WILL BE THE LICENSEE/OPERATING ENTITY OF THE FACILITY NAMED IN THE APPLICATION AS A RESULT OF THIS TRANSACTION.
Licensed OSF Healthcare System dba OSF Saint Anthony's Health System and Saint Anthony's Health Center (See Affiliation Agreement)
Address 800 NE Glen Oak Avenue
City, State & Zip Code Peoria, Illinois 61603
Type of ownership of the current licensed entity (check one of the following:) ______ Sole Proprietorship X Not-for-Profit Corporation ______ For Profit Corporation ______ Partnership ______ Governmental ______ Limited Liability Company ______ Other, specify ______

5. BUILDING/SITE OWNERSHIP. NAME OF LEGAL ENTITY THAT WILL OWN THE "BRICKS AND MORTAR" (BUILDING) OF THE FACILITY NAMED IN THIS APPLICATION IF DIFFERENT FROM THE OPERATING/LICENSED ENTITY
Exact Legal Name of Entity That Will Own the Site OSF Healthcare System
Address 800 NE Glen Oak Avenue
City, State & Zip Code Peoria, Illinois 61603
Type of ownership of the current licensed entity (check one of the following) ______ Sole Proprietorship X Not-for-Profit Corporation ______ For Profit Corporation ______ Partnership ______ Governmental ______ Limited Liability Company ______ Other, specify ______

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

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

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

9. **ANTICIPATED ACQUISITION PRICE: $** 0

10. **FAIR MARKET VALUE OF THE FACILITY: $** $64,554M (See Attachment 3)
    (to determine fair market value, refer to 77 IAC 1130.140)

11. **DATE OF PROPOSED TRANSACTION:** Prior to December 31, 2014

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

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

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

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

    Attached Information: (Attachment 6)
    1. OSF Healthcare System is an A-rated organization
    2. Saint Anthony's Health System financials attached

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

OSF Healthcare System

Name: Mark Hohulin, Senior Vice President, Healthcare Analytics

Address: 800 NE Glen Oak Avenue

City, State & Zip Code: Peoria, Illinois 61603

Telephone (309) 624-2360 Ext.

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

Saint Anthony's Health System and Saint Anthony's Health Center

Name: Sister M. Mikela Meidl, FSGM, President

Address: #1 Saint Anthony's Way

City, State & Zip Code: Alton, Illinois 62002

Telephone(618) 474-6767 Ext.

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

OSF Healthcare System

Name: Ajay Pathak, Director of Strategic Business Development

Address: 800 NE Glen Oak Avenue

City, State & Zip Code: Peoria, Illinois 61603

Telephone (309) 624-3743 Ext

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

OSF Healthcare System

Name: Michael Henderson, Corporate Attorney

Address: 530 NE Glen Oak Avenue

City, State & Zip Code: Peoria, Illinois 61637

Telephone (309) 655-2402 Ext.

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

OSF Healthcare System

Name: Edwin W. Parkhurst, Jr. Managing Principal PRISM Healthcare Consulting

Address: 800 Roosevelt Road, Bldg. E., Suite 110

City, State & Zip Code: Glen Ellyn, Illinois 60137

Telephone (630) 790-5089 Ext.

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

OSF Healthcare System

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

Address 800 NE Glen Oak Avenue

City, State & Zip Code Peoria, Illinois 61637

Telephone (309) 655-5741 Ext.

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

Saint Anthony's Health System, Saint Anthony's Health Center

Name Evan Raskas Goldfarb, Partner

Address Thompson Coburn LLP One US Bank Plaza

City, State & Zip Code St. Louis, Missouri 63101

Telephone (314) 552-6198 Ext.

18. CERTIFICATION Saint Anthony's Health System

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

Sister M Mikela Meidl

Signature of Authorized Officer

Typed or Printed Name of Authorized Officer Sister M. Mikela Meidl, FSGM

Title of Authorized Officer: President, Saint Anthony's Health System

Address #1 Saint Anthony's Way

City, State & Zip Code Alton, Illinois 62002

Telephone (618) 474-6101 Date: 5/28/14

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

18. CERTIFICATION Saint Anthony's Health Center

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

Sr. M. Mikela Meidl

Signature of Authorized Officer

Typed or Printed Name of Authorized Officer Sister M. Mikela Meidl, FSGM

Title of Authorized Officer: President, Saint Anthony's Health System

Address #1 Saint Anthony's Way

City, State & Zip Code Alton, Illinois 62002

Telephone (618) 474-6101 Date: 5/28/14

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

18. CERTIFICATION Saint Anthony's Health Center

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

R. D. [signature]

Signature of Authorized Officer

Typed or Printed Name of Authorized Officer Sister M. Mikela Meidl, FSGM

Title of Authorized Officer: President, Saint Anthony's Health System

Address #1 Saint Anthony's Way

City, State & Zip Code Alton, Illinois 62002

Telephone (618) 474-6767 Date: 05/29/2014

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

18. CERTIFICATION OSF Healthcare System

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

Signature of Authorized Officer

Typed or Printed Name of Authorized Officer Kevin Schoeplein

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

Address 800 NE Glen Oak Avenue

City, State & Zip Code Peoria, Illinois 61603

Telephone (309) 655-4982 Date:

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

APPENDIX A

FACILITY BED AND DIALYSIS STATION CAPACITY AND CATEGORIES OF SERVICE

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

FACILITY NAME Saint Anthony's Health Center CITY: Alton

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

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

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

SERVICE	# of Beds	SERVICE	# of Beds
Medical/Surgical	101	Nursing Care	0
Obstetrics	20	Shelter Care	0
Pediatrics	5	DD Adults*	0
Intensive Care	19	DD Children**	0
Acute Mental Illness	0	Chronic Mental Illness	0
Rehabilitation	0	Children's Medical Care	0
Neonatal Intensive Care	0	Children's Respite Care	0

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

Chronic Renal Dialysis: Enter the number of ESRD stations: ______

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

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

Non-Hospital Based Ambulatory Surgery and Ambulatory Surgical Treatment Centers

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

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

APPENDIX A

FACILITY BED AND DIALYSIS STATION CAPACITY AND CATEGORIES OF SERVICE

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

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

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

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

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

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

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

Chronic Renal Dialysis: Enter the number of ESRD stations: ________

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

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

Non-Hospital Based Ambulatory Surgery and Ambulatory Surgical Treatment Centers

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

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

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

Attachment #1
Application Processing Fee

Attachment #2
Funding

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

STANDARD
& POOR'S
RATINGS SERVICES

RatingsDirect®

Illinois Finance Authority OSF Healthcare System; Joint Criteria; System

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

Secondary Contact:
Karl Propst, Dallas (1) 214-871-1427; karl.propst@standardandpoors.com

Table Of Contents

Illinois Finance Authority
OSF Healthcare System; Joint Criteria; System

Credit Profile		
Illinois Fin Auth, Illinois		
OSF Hlthcare Sys, Illinois		
Series 2007A , 2009A, 2010A,2012		
Long Term Rating	A/Stable	Affirmed

Rationale

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

The ratings on the series 2007E, 2007F, 2009B, 2009C, and 2009D bonds are based on the application of our joint criteria, whereby the long-term component of the rating is based on the 'A' SPUR on OSF and the letters of credit (LOC) provided by various banks. The ratings are based on our joint criteria with medium correlation for the series 2009B bonds and low correlation for the series 2007E, 2007F, 2009C, and 2009D bonds. Each series has the benefit of a separate LOC; Barclays Bank PLC (2007E and F), PNC Bank National Assn., Wells Fargo Bank N.A., and JPMorgan Chase Bank N.A. issued LOCs to back the series 2007E, 2007F, 2009B, 2009C, and 2009D bonds, respectively. The obligation of OSF, as well as the banks' obligations established by the LOCs, to make debt service payments support the joint ratings. The short-term component of the ratings is based solely on the bank ratings.

The 'A' rating reflects our view of OSF's leadership's plan to improve the entity's operations during the next two years. OSF has been able to improve its balance sheet after the completion of major capital expenditures over a sustained period, and leadership is now challenged with improving its operations at a time when health care reform is being implemented. The solid balance sheet, coupled with leadership's historical ability to implement successful improvement plans, supports the rating. However, if operations continue to trend negatively and further affect debt service coverage, we could lower the rating.

The 'A' rating further reflects our assessment of OSF's:

- Generally stable cash position, with good liquidity for the rating;
- Dominant business position in the Peoria, Ill., market, where its flagship, Saint Francis Medical Center, is located, and generally good position in its markets despite challenges that include competition and a weak economic environment; and
- Breadth of facilities and services, enhanced by its systemwide strategic priorities focused on specific business line

development, growth in ambulatory care, and enhanced physician alignment.

Partly offsetting the above strengths, in our view, are OSF's:

- Challenged operations in the Peoria market;
- Moderately high leverage, with debt to capitalization of 53% at June 30, 2013, although this increased leverage is partially due to a decline in pension funded status;
- Defined benefit pension plan that was only 64% funded as of Sept. 30, 2013. The plan is a church plan that is not subject to Employee Retirement Income Security Act funding requirements and was frozen in March 2011.

The Peoria-based Sisters of the Third Order of Saint Francis sponsor OSF, which operates eight hospitals and other health-care-related entities. Seven of the hospitals are located in central and northern Illinois, while one hospital is located in Michigan. The flagship hospital, Saint Francis Medical Center, is a 609-licensed-bed (approximately 609-staffed-bed), tertiary acute care teaching hospital. The obligated group's unrestricted receivables secure all obligations. Our analysis takes into account the consolidated system results, and all figures and ratios in this report reflect the consolidated system unless otherwise stated.

Outlook

The stable outlook reflects our anticipation that OSF's improvement plan will begin to have an impact in fiscal 2014. However, OSF continues to have little flexibility at the current rating, and we could lower the rating if OSF does not improve its operations to levels equal to the fiscal 2014 budget, which calls for a 1.7% operating margin and maximum annual debt service (MADS) coverage closer to 3x. Also, if the balance sheet declines and liquidity drops to less than 175 days, we could lower the rating. We do not anticipate raising the rating during the two-year outlook period.

Market Profile

Operating entities

OSF Saint Francis Medical Center. OSF Saint Francis Medical Center is a tertiary acute care teaching hospital located near downtown Peoria. Founded in 1877, Saint Francis Medical Center was the first hospital established by OSF. It provides a full range of primary, secondary, and tertiary services as well as certain specialized services, including Level I (highest) trauma services, life flight helicopter transport services, adult and pediatric open heart surgery, pancreas and kidney transplantation services, neurosurgery and neurology, Level III (highest) perinatal services, radiation oncology, and specialized services of the Children's Hospital of Illinois (operated as part of the Medical Center).

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

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

St. Mary Medical Center. St. Mary Medical Center is an acute care hospital located in Galesburg, Ill.

OSF Saint Elizabeth Medical Center. St. Elizabeth Medical Center is a 91-bed acute care hospital located in Ottawa, Ill. St. Elizabeth (formerly known as Ottawa Regional) joined the system in April 2012.

St. Francis Hospital. St. Francis Hospital is an acute care critical access hospital located in Escanaba, Mich. St. Francis Hospital operates 25 beds, including 10 Medicare-approved swing beds.

OSF Saint James-John W. Albrecht Medical Center. OSF Saint James-John W. Albrecht Medical Center is an acute care hospital facility located in Pontiac, Ill. Saint James is the only acute care hospital in Livingston County.

OSF Holy Family Medical Center. OSF Healthcare System acquired OSF Holy Family Medical Center, formerly known as Community Medical Center of Western Illinois, in May 2007. The acquisition, initiated by Community Medical Center, complements the system's strategy to maintain and potentially increase its market share in western Illinois. The facility operates 23 acute care beds that are also certified as swing beds. The facility has been designated as a critical access hospital by Centers for Medicare and Medicaid Services. Also, it operates a provider-based rural health clinic.

OSF Medical Group and other employed physicians. This grouping consists of approximately 740 physicians and midlevel providers employed by OSF Healthcare, in approximately 68 office locations throughout Illinois and Michigan. These providers bring together different medical disciplines to create an integrated system of patient-centered care. OSF considers nurse practitioners and physician assistants an integral part of its system because they enable physicians to continue a personal approach to patient care while increasing the number of patients served.

Utilization

OSF's overall utilization had been stable in recent years. However, after the addition of OSF Saint Elizabeth Medical Center, the system has seen growth in its admissions for the first nine months of fiscal 2013: a 3.4% rise compared with the prior-year period. However, when admissions for all entities except for OSF Saint Elizabeth Medical Center are compared, OSF's admissions were relatively flat. Leadership is continuing to focus on improving the utilizations stats, by aligning itself with Mayo Clinic and focusing on referral management to counter what it terms as internal leakage. Internal leakage is when patients that are seen by OSF-related physicians are referred to entities that are not part of the OSF system. Leadership believes that this could be a big help in managing population health and maintaining solid utilization stats in an era of anticipated declined utilization resulting from continued implementation of health care reform and the rise of high-deductible health plans.

Table 1

OSF Healthcare System and Subsidiaries' Utilization

	--Nine-month interim ended June 30--	--Fiscal year ended Sept. 30--		
	2013	2012	2011	2010
Inpatient admissions	45,171	58,904	56,820	56,490
Patient days	207,373	271,545	265,406	261,422
Observation days	N.A.	13,841	14,040	14,868
Emergency room visits	174,168	207,850	206,490	197,752
Outpatient visits	994,745	1,216,880	1,136,890	1,150,748
Inpatient surgeries	N.A.	25,130	24,499	27,706
Outpatient surgeries	N.A.	50,937	48,072	51,276
Births	N.A.	5,198	4,634	9,676

Table 1

OSF Healthcare System and Subsidiaries' Utilization (cont.)

N.A.--Not available.

Management

Leadership of OSF forges ahead with plans to improve the system. The system has taken the lessons it has learned from its participation in the Pioneer accountable care organization (ACO) demonstration, and is implementing them to help with future improvements: For instance, it will focus on referral management within the system. This focus will be key to helping with the transition to population management, as leadership plans to replace any decline in utilization with the internal referrals.

Also, OSF is in the process of acquiring Kewanee Hospital, a critical access hospital located in Kewanee, Ill. Leadership believes that this will be a good fit for the system, as Kewanee has a relatively new facility with complementary services and positive financial performance. OSF is receiving the majority of Kewanee's tertiary referrals and anticipates that Kewanee will add to operations. OSF has not made any decision on how it will handle the approximately $28 million of debt that Kewanee carries on its balance sheet. Finally, OSF and Proctor Hospital have broken off merger talks and Proctor has decided to pursue an affiliation with UnityPoint Health.

Financial Profile

Operations

OSF posted an operating margin of negative 1.4% for the first nine months of fiscal 2013 ended June 30 compared with 2.3% for the prior-year period. Leadership reports that although fiscal 2013 started smoothly, OSF began to see challenges in the second and third quarter. One of the challenges that affected OSF was that some service lines went off line for various timedurations during a six-month period in its Peoria market. Peoria is the location of its largest facility. OSF reports that its linear accelerators, sleep lab, some MRIs, and the neurology service line's going live on Epic were affected. Also during fiscal 2013, OSF suffered because of the effect of high-deductible health plans on patients' utilization of health care. One example of this is OSF's hospital in the Bloomington market. In this market, the main employer, State Farm Insurance, shifted its employees to the aforementioned plan. Management reports that it started to see some improvement in patients' access to health care in September and October. This is a trend that we have been noticing across the nation: Patients with high-deductible plans are using health care in the latter part of the year once they have met their deductible. For the nine months ended June 30, OSF had its biggest challenges at its Peoria and Escanaba facilities. The Escanaba facility is now a critical access facility, and management anticipates that it will operate at a break-even level in the near future.

To help offset the challenged operations of the Peoria market, leadership is implementing a $30 million revenue enhancement and $56 million cost reduction plan. It aims to help improve operations and cash flow during the next two years as the system transitions into health care reform. One of the key pieces of the plan is to manage referrals within the system. As OSF is better able to internally refer its patients, internal leakage will decline and is anticipated to improve operations and help offset utilization decline stemming from population management. Another piece of the plan will be the education of its medical staff on population health management and the impact of new insurance contracts. This education is also occurring at other entities that we rate. The success of the two steps previously mentioned, coupled with the cost cutting initiatives, should help improve operations in fiscal years 2014 and 2015.

For the nine months ended June 30, OSF had adequate MADS coverage, at 3.4x.

Balance sheet

Unrestricted reserves, as measured by cash on hand, has seen some growth and totaled 177 days as of June 30, 2013. Management reports that liquidity growth remains a part of the system strategy, especially because capital spending declined from recent high levels. Cash to long-term debt has improved to 102% since out last review, while leverage equated to 53%, which is slightly higher than during our previous review period.

Leadership plans to remain focused on the balance sheet. The leadership team is planning to move forward with a plan to spend no more than 50% of its operating cash flow for capital expenditures. To be allocated money for capital, the various regions will need to generate this cash flow. With this plan in place, leadership anticipates that cash on hand will grow to 195 days in the next year or two.

Table 2

OSF Healthcare System and Subsidiaries Financial Summary

	--Nine-month interim ended June 30--	--Fiscal year ended Sept. 30--		
	2013*	**2012***	**2011**	**2010**
Financial performance				
Net patient revenue ($000s)	1,371,313	1,817,000	1,787,360	1,632,595
Total operating revenue ($000s)	1,437,364	1,895,976	1,865,985	1,694,782
Total operating expenses ($000s)	1,457,443	1,857,743	1,845,357	1,727,038
Operating income ($000s)	(20,079)	38,233	20,628	(32,256)
Operating margin (%)	(1.40)	2.02	1.11	(1.90)
Net non-operating income ($000s)	26,382	45,982	37,542	34,297
Excess income ($000s)	6,303	84,215	58,170	2,041
Excess margin (%)	0.43	4.34	3.06	0.12
Operating EBIDA margin (%)	5.36	8.42	8.38	5.11
EBIDA margin (%)	7.07	10.59	10.19	6.99
Net available for debt service ($000s)	103,429	205,633	193,955	120,857
Maximum annual debt service (MADS; $000s)	58,034	58,034	58,034	58,034
MADS coverage (x)	2.38	3.54	3.34	2.08
Operating lease-adjusted coverage (x)	N.A.	2.40	2.33	1.72
Liquidity and financial flexibility				
Unrestricted cash and investments ($000s)	897,760	832,423	759,738	733,024
Unrestricted days' cash on hand	177.2	171.4	158.0	163.0
Unrestricted cash/total long-term debt (%)	102.4	93.9	89.1	88.6
Average age of plant (years)	N.A.	14.3	11.8	11.8
Capital expenditures/Depreciation and amortization (%)	133.7	110.8	90.8	216.1
Debt and liabilities				
Total long-term debt ($000s)	876,633	886,139	853,089	826,957

Table 2

OSF Healthcare System and Subsidiaries Financial Summary (cont.)				
Long-term debt/capitalization (%)	53.2	54.2	55.1	55.1
Contingent liabilities ($000s)	294,070	294,070	280,945	285,235
Contingent liabilities/total long-term debt (%)	33.5	33.2	32.9	34.5
Debt burden (%)	2.97	2.99	3.05	3.36
Defined benefit plan funded status (%)	N.A.	51.23	56.76	56.94

*FASB 2011-07 adopted related to the treatment of bad debt. Standard & Poor's recorded bad debt expense as if FASB 2011-07 were adopted related to the treatment of bad debt beginning in fiscal 2012. N.A.--Not available.

Related Criteria And Research

- USPF Criteria: Not-For-Profit Health Care, June 14, 2007
- USPF Criteria: Municipal Swaps, June 27, 2007
- USPF Criteria: Contingent Liquidity Risks, March 5, 2012
- Criteria: Methodology And Assumptions: Approach To Evaluating Letter Of Credit-Supported Debt, July 6, 2009
- USPF Criteria: Municipal Applications For Joint Support Criteria, June 25, 2007
- USPF Criteria: Bank Liquidity Facilities, June 22, 2007
- Glossary: Not-For-Profit Health Care Ratios, Oct. 26, 2011
- U.S. Not-For-Profit Health Care Sector Outlook: Providers Prove Adaptable But Face A Test In 2013 As Reform Looms, Jan. 4, 2013
- U.S. Not-For-Profit Health Care System Ratios: Metrics Remain Steady As Providers Navigate An Evolving Environment, Aug. 8, 2013
- Health Care Providers And Insurers Pursue Value Initiatives Despite Reform Uncertainties, May 9, 2013

Ratings Detail (As Of November 12, 2013)		
Illinois Fin Auth, Illinois		
OSF Hlthcare Sys, Illinois		
Illinois Fin Auth (OSF Hlthcare Sys) hlth rfdg rev bnds (Osf Hlthcare Sys) ser 2004 dtd 04/15/2004 due 11/15/2004-2016 2021-2023		
Long Term Rating	NR	Current
Illinois Fin Auth (OSF Hlthcare Sys) hosp ins VRDB rev bnds (OSF Hlthcare Sys) ser 2007E RMKTD 09/06/2013 due 09/30/2038		
Long Term Rating	AAA/A-1	Affirmed
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Illinois Fin Auth (OSF Hlthcare Sys) hosp ins VRDB rev bnds (OSF Hlthcare Sys) ser 2007F RMKTD 09/26/2013 due 09/30/2038		
Long Term Rating	AAA/A-1	Affirmed
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Series 2009B		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Long Term Rating	AAA/A-1	Affirmed
Series 2009D		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Long Term Rating	AAA/A-1	Affirmed

Ratings Detail (As Of November 12, 2013) (cont.)		
Series2009C		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Long Term Rating	AAA/A-1+	Affirmed

Attachment #3
Narrative Description

Introduction

OSF Healthcare System, based in Peoria, Illinois, provides integrated healthcare services throughout Illinois in eight separate hospital facilities and through several affiliated entities. Saint Anthony's Health System, based in Alton, Illinois, has provided Catholic healthcare services similar to OSF, including charitable care consistent with OSF's mission, since 1925 in Alton, Illinois. The parties share common historical roots and charism through their founding organizations.

This affiliation transaction will honor and preserve intact the spirit of service and charity brought to the Alton area by the Sisters of St. Francis of the Martyr St. George (FSGM). Simultaneously, OSF's mission to serve persons with the greatest care and love will spread to these new communities, with the intention to continuously improve care delivery, provide systematic efficiencies to these two hospitals, and help to improve the healthcare of the population in the region.

Saint Anthony's Health System will merge with OSF Healthcare System. Both OSF Healthcare System and Saint Anthony's Health System have more than a century of experience in providing healthcare to the communities they serve. In short, this is a divine match of two existing charitable institutions that have been on parallel paths to improving the lives of patients in Illinois. Consistent with our Letter of Intent, the merger is entered with the following goals:

1. Promote greater access to, and improve coordination of, healthcare services to the communities served by OSF Healthcare System and Saint Anthony's Health System;.
2. Achieve excellence in clinical innovations, services, quality, cost, and outcomes through combined educational experience, best practices management and ministry-wide expense management;
3. Preserve and enhance the existing Catholic healthcare in the communities served by OSF Healthcare System and Saint Anthony's Health System;
4. Expand the presence of Sisters in the communities served by the Sisters of the Third Order of St. Francis, the sponsor of OSF Healthcare System, and the Sisters of St. Francis of the Martyr St. George, the sponsor of SAHS; and
5. Respect the loyalty and values of OSF Healthcare System, FGSM, and Saint Anthony's Health System in the communities served by carrying out their respective charisms, historical missions, and traditions.

Structure of Transaction

The parties intend to affiliate through a statutory merger pursuant to the Illinois Not For Profit Corporation Act. Once merged, Saint Anthony's Health System will become a part of OSF Healthcare System, with both Saint Anthony's Health Center and Saint Clare's Hospital remaining licensed facilities in Alton, Illinois. It is the intent of the parties to seek a single hospital-multiple location license for these facilities, as permitted under the Illinois Hospital Licensing Act, Section 4.5. All licensure matters in connection with of the transaction will be arranged in compliance with Illinois law and the rules of the Illinois Department of Public Health, with whom the parties have already had discussion and sought advice (see Attachment 3, Exhibit 1). The names of all facilities will be modified to identify with the OSF Healthcare System. For instance, Saint Anthony's Health Center will likely operate under the name "OSF Saint Anthony's Health Center."

Upon closing, and assuming Review Board approval, Saint Anthony's Health System will merge with and into the OSF Healthcare System pursuant to a statutory merger. The OSF Board of Directors (OSF Board) will become the fiduciary governing body for the OSF Saint Anthony's Health System. Additionally, a Community Board will be established to provide input, advice, and guidance to the President of Saint Anthony's Health System on specific matters such as management plans, strategic plans, annual capital and operating budgets, services, quality and safety. The President of the OSF Saint Anthony's Health System will report to the Chief Executive Officer of OSF. (Attachment 3, Exhibits 2a and 2b, delineate pre-and post-closing organization charts.) The Community Board will operate under bylaws approved by the parties (see Transaction Agreement, Attachment 5).

Saint Anthony's Health Center and Saint Clare's Hospital will continue to be licensed hospitals and operated as a division of OSF and will, upon closing, begin operating under assumed names as outlined in the Transaction documents. The Fair Market Value (FMV) of the transaction has been determined to be $64,554M, based on the documentation included in this COE Permit Application, Attachment 3 Alvarez & Marsal Valuation Services, LLC letter dated May, 2014. The transaction acquisition price is $0.00.

The employment agreements of all physicians and physician extenders presently employed by Saint Anthony's Health System and its affiliates will be honored by OSF Healthcare System and its affiliates, as will agreements for professional and other services between independent physicians or groups and other vendors.

Charity Care

In order to further OSF's mission in Alton and surrounding communities, Saint Anthony's Health System's existing charity care policies will be supplemented prior to the Closing Date by OSF's Charity Assistance Policy for Illinois Hospitals, which not only complies with, but exceeds the requirements of Illinois law, including the Illinois Hospital Uninsured Patient Discount Act. As certified in the verifications on Attachment 3, Exhibit 4, OSF and Saint Anthony's Health System will not adopt a more restrictive charity care policy than was in effect one year prior to the Closing Date of the proposed transaction, and Saint Anthony's Health System's compliant charity care policy, modified with OSF's more generous Charity Assistance Policy for Illinois Hospitals, will remain in effect for at least a two (2) year period following the Closing Date.

In general, the OSF Charity Assistance Policy for Illinois Hospitals is the same or more generous than the current Saint Anthony's Health System Charity Care Program. For example, all OSF uninsured patients who are not otherwise eligible for free, discounted or catastrophic charity care receive a 20% discount on billed charges. After an account is sent to collections, if a patient wants to apply for OSF Charity Assistance, the entity billing the patient must give the patient 30 days after the account was placed in collections to apply for assistance. In addition, OSF utilizes a presumptive charity procedure for patients who fail to provide financial information normally considered in making charity eligibility determinations. When OSF is able to obtain comparable information from independent sources such as public records, OSF applies the same charity discount it would have provided, if the patient had completed a Charity Application and submitted the required financial documents.

Finally, a patient may appeal OSF Charity and Illinois Uninsured Patient Discount determinations. The appeal procedures are contained within the OSF Charity/Illinois Uninsured Discount Procedures.

Transaction Documents

Please see Attachment Number 5 for the underlying Letter of Intent (attached herein) and the final transaction documents to be filed under separate cover no less than 30 days prior to the respective HFSRB meeting where this respective COE and its related COE will be considered (Saint Anthony's Health System, Saint Anthony's Health Center, and Saint Clare's Hospital).

Attestation

Please see Attachment 3, Exhibit 4, filed pursuant to Section 77, Ill. Admin. Code, 1130.520. Our Attestation Letter affirms the statutory commitments required by the Board and establishes that OSF Healthcare System's charity care policy will not only meet, but will exceed the requirements under Illinois law. As required, closing of the transaction is subject to HFSRB approval of this COE application.

Attachment #3
Exhibits

Attachment Number 3 Exhibits

1. IDPH Licensing Correspondence
2. Pre- and Post-closing Organization Charts
3. Fair Market Value Statement
4. Attestation Letter

OSF
HEALTHCARE SYSTEM

800 N.E. Glen Oak Avenue, Peoria, Illinois 61603-3200 Phone (309) 655-2850

Via Electronic Mail

May 22, 2014

Ms. Karen Senger
Supervisor of Central Office Operations
Division of Health Care Facilities and Programs
Illinois Department of Public Health

Re: OSF Affiliation with Saint Anthony's Health System

Dear Ms. Senger,

Thank you for speaking with me May 2, 2014 regarding our OSF Healthcare System's upcoming affiliation with Saint Anthony's Health System in Alton, Illinois. As discussed on that day, we anticipate applying for a single hospital license with multiple locations upon closing of our transaction later this year, pending HFSRB approval of our COE application. This single license would comply with Section 4.5 of the Illinois Hospital Licensing Act and would combine Saint Anthony's Health Center and Saint Clare's Hospital (both in Alton, Illinois) under one hospital license.

On your advice, our plan will be to submit the standard licensure application to IDPH with addenda showing services at each campus and our future plans for the same, plus written verification of our compliance with each required element of the single licensure section of the Hospital Licensing Act. Based on the timeline of our project, we anticipate this application will be filed later this summer. We hope that we will be able to close our transaction within 2014, and will aim for a September or October closing date.

If you or the Department has any questions or concerns regarding our plans, please do not hesitate to contact me. Otherwise, we will proceed as discussed and you can anticipate our application in the coming weeks. Thank you again for your time.

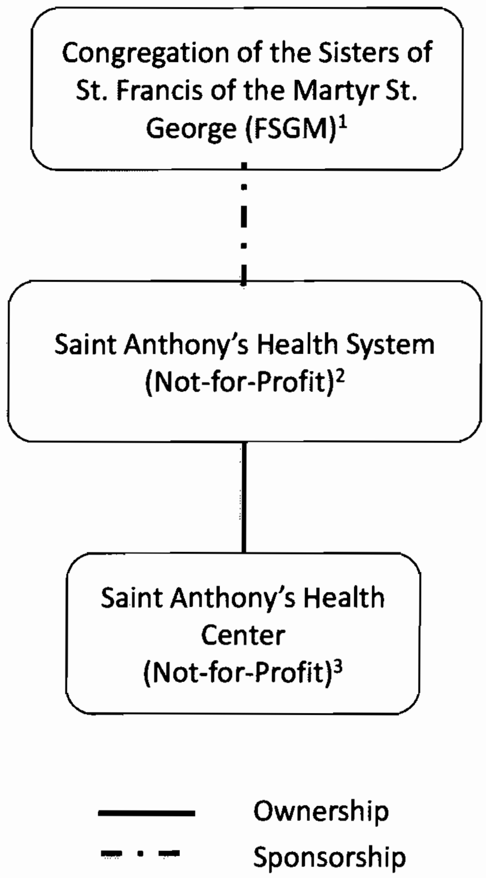
Sincerely,

Michael Henderson
Corporate Attorney
OSF Healthcare System
309-655-2402
michael.henderson@osfhealthcare.org

OSF Saint Anthony Medical Center · Rockford, IL
OSF Saint James-John W. Albrecht Medical Center · Pontiac, IL
OSF St. Joseph Medical Center · Bloomington, IL
OSF Saint Francis Medical Center · Peoria, IL
OSF Medical Group
OSF St. Mary Medical Center · Galesburg, IL
OSF Saint Clare Home · Peoria Heights, IL
OSF Holy Family Medical Center · Monmouth, IL
OSF St. Francis Hospital · Escanaba, MI
OSF Home Care

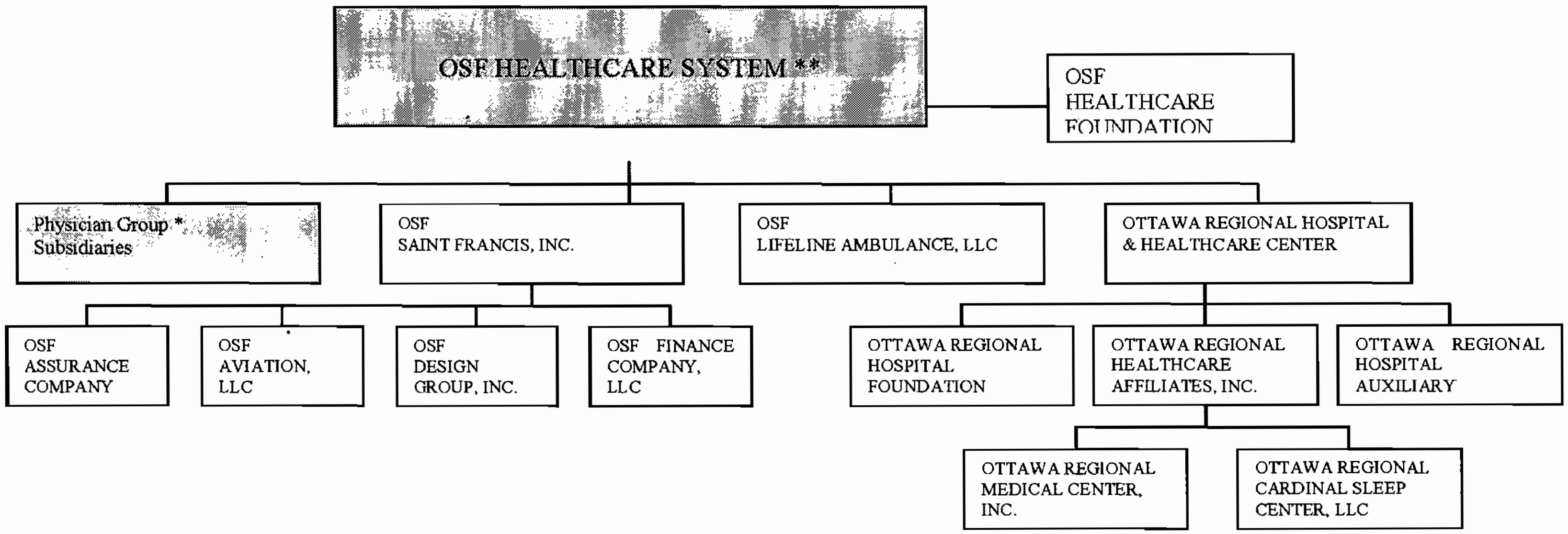
The Sisters of the Third Order of St. Francis

Pre-Affiliation:
Corporate Structure
Saint Anthony's Health System



Notes:
1. Direct sponsorship by American Province of the Sisters of St. Francis of the Martyr St. George
2. Includes Saint Anthony's Physician Group and Saint Anthony's Foundation
3. Includes the licensed healthcare facilities of Saint Anthony's Health Center and Saint Clare's Hospital as well as Saint Anthony's LLC

POST-AFFILIATION
OSF HEALTHCARE SYSTEM AND RELATED CORPORATIONS
CORPORATE STRUCTURE



***Physician Group Subsidiaries**

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

****OSF Healthcare System**

OSF Saint Francis Medical Center
OSF Saint Anthony Medical Center
OSF St. Joseph Medical Center
OSF Saint James-John W. Albrecht Medical Center
OSF St. Mary Medical Center
OSF Holy Family Medical Center
OSF St. Francis Hospital
OSF Saint Luke Medical Center
OSF Saint Anthony's Health Center
(including Saint Clare's Hospital under one license)

OSF Home Care Services
OSF Medical Group
- Cardiovascular Services
- Neuroscience Services
- Children's Services
- Ambulatory Services

Fair Market Value Description

In accordance with 77 Illinois Admin. Code 1130.140, the parties have established a fair market value of $64,554M. The parties arrived at this value through the use of a certified third party appraiser, Alvarez & Marsal, which based on that firm's experience in valuing facilities and businesses similar to those of this transaction, utilized a blended methodology taking into account the market, income and cost approaches to the valuation of assets owned by Saint Anthony's Health System. The appraised fair market value stated is as of May, 2014.

Because our transaction is structured between two not-for-profit corporations and is a statutory merger, there is no "acquisition price" (as reflected in the Application, Question 11) as the parties merge Saint Anthony's Health System into the OSF Healthcare System, rather than through sale of assets or stock from one party to another.

OSF
HEALTHCARE SYSTEM

May 29, 2014

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

Re: Attestation Letter re Section 77, Ill Adm. Code 1130.520
COE Permit Application
Affiliation between OSF Healthcare System and Saint Anthony's Health System, Saint Anthony's Health Center and Saint Clare's Hospital

Dear Ms. Avery:

Pursuant to Section 77 Adm. Code 1130.520 and 1130.410, the operational rules of the Health Facilities and Services Review Board ("HFSRB Rules"), we are submitting this attestation letter in order to comply with HFSRB Rules as amended and effective June 1, 2013 and February 1, 2014, respectively. In this letter, we attest to the following with respect to the COE Permit Application ("Application") filed for the transaction between OSF Healthcare System and Saint Anthony's Health System, owner of Saint Anthony's Health Center and Saint Clare's Hospital in Alton, Illinois, wherein Saint Anthony's Health System (and its hospitals) would become part of OSF Healthcare System via a statutory merger with OSF Healthcare System (hereinafter referred to as the "Transaction").

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

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

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

Section 1130.410 of the HFSRB Rules and 210 ILCS 85/4.5 of the Illinois Hospital Licensing Act, we intend to seek a single hospital-multiple locations license. We are in communication with the Illinois Department of Public Health regarding the licensure application process.

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

On March 10, 2014, OSF Healthcare System, The Sisters of St. Francis of the Martyr St. George and Saint Anthony's Health System executed a Letter of Intent regarding the proposed Transaction. A copy of the final signed Transaction documents will be submitted to the HFSRB staff under separate cover, and within thirty (30) days of the hearing for which we are scheduled to appear. The effectiveness of the final Transaction documents is expressly conditioned upon the issuance of a COE from the Board.

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

OSF Healthcare System has the qualifications, background and character to adequately provide a proper standard of healthcare service to the communities served by the Saint Anthony Health System. OSF Healthcare System has had no adverse actions taken against any facility owned or operated by OSF in Illinois during the three (3) years prior to the filing of this COE Application. In addition, the Saint Anthony's Health System has had no adverse actions taken against any facility owned or operated by the Saint Anthony's Health System in Illinois during the three (3) years prior to the filing of this COE Application. Neither organization has notice of any adverse action against them by federal, state, or accrediting, licensing, or certifying bodies. Please further see Attachment 4 of the COE Application for certificates of good standing and licensure documentation.

<u>Section 1130.502(b)(4)</u> – Proof of funding to finance transaction; bond ratings

OSF Healthcare is an "A" rated organization according to Standard and Poors, November 12, 2013. Please see Application, Attachment 2 and 6 for OSF's most recent ratings statement and the plan of finance for the Transaction. Please further see Attachment 6 (co-applicant financials).

<u>Section 1130.502 (b)(5)</u> – Intent to maintain ownership and control at least three years

OSF Healthcare System will maintain ownership and control of Saint Anthony's Health System and its licensed hospitals (Saint Anthony's Health Center and Saint Clare's Hospital) for at least three years following the closing of the Transaction set forth in this COE Permit Application and related transaction documents. As previously mentioned, OSF Healthcare System intends to seek a single license for the two hospitals pursuant to the Hospital Licensing Act, 210 ILCS 85/4.5.

<u>Section 1130.520 (b)(6)</u> – No Pending CON Projects

OSF affirms by this letter that it has no pending Certificate of Need projects. In addition, neither Saint Anthony's Health Center nor Saint Clare's Hospital have pending Certificate of Need projects.

<u>Section 1130.520 (b)(7)</u> – No more restrictive Charity Care Policy

As set forth in the Application, the co-applicants charity care policy will be supplemented by OSF Healthcare System's Charity Assistance Policy for Illinois Hospitals, which not only complies with, but exceeds the requirements of Illinois law. By this attestation letter, the applicants affirm that neither Saint Anthony's Health Center nor Saint Clare's Hospital will adopt a more restrictive charity care policy than was in effect one year prior to the closing date of the proposed Transaction. OSF further affirms that its compliant charity care policy will remain in effect for at least two (2) years following the closing of the Transaction.

<u>1130.520 (b)(8)</u> – Project Completion

The parties intend to close the Transaction set forth in our COE Permit Application prior to December 31, 2014. This date is long before the expiration of the two (2) year life span of an issued COE. The parties affirm their understanding that failure to complete the Transaction within two (2) years following a COE approval will invalidate the exemption, if so granted.

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

Respectfully submitted by:

K. D. Schoeplein

Kevin D. Schoeplein
Chief Executive Officer
OSF Healthcare System

Notarization:

Subscribed and sworn to before me
this 29th day of May, 2014
Tonda L. Stewart
Signature of Notary
Seal

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

Attachment #4
Applicant Background

1. License – Saint Anthony's Health Center

2. JCAHO Accreditations

3. Certificates of Good Standing

    a. Saint Anthony's Health System

    b. Saint Anthony's Health Center

    c. OSF Healthcare System

State of Illinois 2132856

Department of Public Health

LICENSE, PERMIT, CERTIFICATION, REGISTRATION

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

LA MAR HASBROUCK, MD, MPH
DIRECTOR

Issued under the authority of the State of Illinois Department of Public Health

Expiration Date	Category	I.D. Number
06/30/14	BGBD	0002287

FULL LICENSE

GENERAL HOSPITAL

EFFECTIVE: 07/01/13

BUSINESS ADDRESS

SAINT ANTHONY'S HEALTH CENTER
ONE SAINT ANTHONY'S WAY
ALTON IL 62002

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

DISPLAY THIS PART IN A CONSPICUOUS PLACE

REMOVE THIS CARD TO CARRY AS AN IDENTIFICATION

State of Illinois 2132856

Department of Public Health

LICENSE, PERMIT, CERTIFICATION, REGISTRATION

SAINT ANTHONY'S HEALTH CENTER

Expiration Date	Category	I.D. Number
06/30/14	BGBD	0002287

FULL LICENSE

GENERAL HOSPITAL

EFFECTIVE: 07/01/13

05/04/13

SAINT ANTHONY'S HEALTH CENTER
SAINT ANTHONY'S WAY
ALTON IL 62002

FEE RECEIPT NO.

Saint Anthony's Health Center

Alton, IL

has been Accredited by

The Joint Commission

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

Hospital Accreditation Program

January 21, 2012

Accreditation is customarily valid for up to 36 months.

Isabel V. Hoverman, MD, MACP
Chair, Board of Commissioners

Organization ID #: 7237
Print/Reprint Date: 04/30/12

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

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

This reproduction of the original accreditation certificate has been issued for use in regulatory/payer agency verification of accreditation by The Joint Commission. Please consult Quality Check on The Joint Commission's website to confirm the organization's current accreditation status and for a listing of the organization's locations of care.

Saint Anthony's Health Center

Alton, IL

has been Accredited by

The Joint Commission

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

Home Care Accreditation Program

January 21, 2012

Accreditation is customarily valid for up to 36 months.

Isabel V. Hoverman, MD, MACP
Chair, Board of Commissioners

Organization ID #: 7237
Print/Reprint Date: 04/30/12

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

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

AMA AMERICAN MEDICAL ASSOCIATION

This reproduction of the original accreditation certificate has been issued for use in regulatory/payer agency verification of accreditation by The Joint Commission. Please consult Quality Check on The Joint Commission's website to confirm the organization's current accreditation status and for a listing of the organization's locations of care.

File Number 5552-603-6

STATE OF ILLINOIS
OFFICE OF THE SECRETARY OF STATE

To all to whom these Presents Shall Come, Greeting:

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

SAINT ANTHONY'S HEALTH SYSTEM., A DOMESTIC CORPORATION. INCORPORATED UNDER THE LAWS OF THIS STATE ON MAY 19, 1989, 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* 2ND *day of* MAY *A.D.* 2014 .

SEAL OF THE STATE OF ILLINOIS AUG. 26TH 1818

Authentication #: 1412200716

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

Jesse White

SECRETARY OF STATE

File Number 1808-530-5

STATE OF ILLINOIS
OFFICE OF THE SECRETARY OF STATE

To all to whom these Presents Shall Come, Greeting:

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

SAINT ANTHONY'S HEALTH CENTER, A DOMESTIC CORPORATION, INCORPORATED UNDER THE LAWS OF THIS STATE ON MAY 06, 1925, 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* 2ND *day of* MAY *A.D.* 2014 .

SEAL OF THE STATE OF ILLINOIS AUG. 26TH 1818

Authentication #: 1412200650

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

Jesse White

SECRETARY OF STATE

File Number 0107-414-8

STATE OF ILLINOIS
OFFICE OF THE SECRETARY OF STATE

To all to whom these Presents Shall Come, Greeting:

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

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

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

SEAL OF THE STATE OF ILLINOIS AUG. 26TH 1818

Authentication #: 1412200908

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

Jesse White

SECRETARY OF STATE

Attachment 5
Transaction Documents

1. March 10, 2014 LOI is included
2. The final transaction documents will be filed with State Board 30 days prior to the applicable Board meeting which is anticipated to be August 27, 2014.

LETTER OF INTENT

March 10, 2014

Mother M. Regina Pacis Coury, FSGM
Chairperson
Saint Anthony's Health System
#1 Saint Anthony's Way
Alton, IL 62002

Mother M. Regina Pacis Coury, FSGM
Provincial Superior
Sisters of St. Francis of the Martyr St. George, Province St. Elizabeth
One Franciscan Way
Alton, IL 62002

Dear Mother Regina Pacis,

The purpose of this letter (**"Letter"**) is to set forth certain nonbinding understandings and certain binding agreements among Sisters of St. Francis of the Martyr St. George, Province St. Elizabeth, an Illinois not-for-profit corporation (**"FSGM"**), Saint Anthony's Health System, an Illinois not-for-profit corporation (**"SAHS"**) sponsored by FSGM, and OSF Healthcare System, an Illinois not-for-profit corporation (**"OSF"**), with respect to the possible affiliation of SAHS with OSF upon reaching an affiliation agreement among the parties based upon the terms and objectives proposed below. FSGM, SAHS and OSF may be referred to herein individually as a **"Party"** and collectively as the **"Parties."**

NONBINDING PROVISIONS

Sections 1 and 2 of this Letter (collectively, the **"Nonbinding Provisions"**) reflect the understanding of the Parties regarding the matters described in them and each Party acknowledges that (a) the Nonbinding Provisions do not constitute legally binding or enforceable obligations on the part of any Party, and (b) no Party shall have any liability to any other Party or to any other entity with respect to the Nonbinding Provisions unless and until an affiliation agreement ("Affiliation Agreement") is prepared, authorized, executed and delivered by and among the Parties. If the Affiliation Agreement is not prepared, authorized, executed and delivered for any reason, no Party to this Letter shall have any liability to the other Parties to this Letter based upon, arising from, or relating to the Nonbinding Provisions.

Section 1. **Basic Transaction**. On the terms and subject to the provisions set forth in any Affiliation Agreement, SAHS would become affiliated with OSF through a transaction in which (a) SAHS and Saint Anthony's Health Center, an Illinois not-for-profit corporation

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

("**SAHC**") would merge with and into OSF pursuant to a statutory merger, (b) Saint Anthony's Foundation, an Illinois not-for-profit corporation ("**SAF**") would merge with and into OSF Healthcare Foundation, an Illinois not-for-profit corporation ("**OSF Foundation**") pursuant to a statutory merger, and (c) Saint Anthony's Physician Group ("**SAPG**") would merge with and into OSF, or another entity controlled by or under common control with OSF ("**OSF Affiliate**"), pursuant to a statutory merger (such transactions and the other transactions referred to herein as the "**Affiliation**"). SAHC, SAF and SAPG may be collectively referred to herein as "**SAHS Affiliates.**" SAHS and the SAHS Affiliates may be collectively referred to herein as "**SAHS Parties.**"

Section 1.1 Purpose of Affiliation. The purpose of the Affiliation would be:

(a) To preserve and enhance Catholic healthcare in the communities served by OSF and SAHS;

(b) To expand a Sister presence in the communities served by The Sisters of the Third Order of St. Francis, the sponsor of OSF, and FSGM;

(c) To respect the loyalty and values of OSF and FSGM in the communities they serve by carrying out their respective charisms, historical missions and traditions;

(d) To promote greater access to, and improve coordination of, healthcare services to the communities served by OSF and SAHS; and

(e) To achieve excellence in clinical innovations, services, quality, cost and outcomes.

Section 1.2 Charism. Consistent with OSF's history, mission, vision and values, OSF would honor the healthcare charism of FSGM, and the facilities in which the healthcare programs and services of the SAHS Parties are currently undertaken ("**SAHS Facilities**") would continue to portray and reflect the history, traditions, culture and values of FSGM. Certain religious/historical items and artifacts owned by FSGM and located at the SAHS Facilities would (a) be identified in the Affiliation Agreement, (b) remain at the SAHS Facilities following the Closing (defined in Section 3.2), and (c) be returned to FSGM (i) at any time upon the request of FSGM, (ii) at the discretion of OSF, or (iii) upon the occurrence of any event identified in the Affiliation Agreement.

Section 1.3 Sister Agreements. Pursuant to the terms of Sister Agreements between OSF and certain individual Sisters from the community of FSGM (each a '**Sister Agreement**") to be agreed upon and executed at Closing, Sisters from the community of FSGM would, following the Closing, serve within the current healthcare facilities, services and programs of the SAHS Parties ("**SAHS Facilities and Services**"), and within other OSF facilities, services, and programs, as desired by FSGM, when positions are available for which they are qualified. Each Sister Agreement would describe the terms of engagement, performance requirements, and compensation due to FSGM for the services rendered by the FSGM Sister, based on salary and benefit amounts comparable to similarly situated employees of OSF (with future increases in compensation governed by the same principles). The Parties anticipate entering into Sister Agreements for service by FSGM Sisters in senior management and pastoral care positions related to the SAHS Facilities and Services, subject to availability and qualification, and other available positions related to the SAHS Facilities and Services and OSF facilities for which an FSGM Sister might apply and qualify. OSF and FSGM also anticipate entering into an agreement designed to support FSGM in the continued formation of its community and to compensate FSGM for the other services and support provided by FSGM to the SAHS Facilities and Services and to OSF facilities, services, and programs.

Section 1.4 Future Health Care Services. The Affiliation Agreement would include covenants that FSGM would not provide (a) any health care service that competes with services provided by OSF, or (b) any new health care service unless FSGM has first offered OSF the opportunity to provide the service and OSF has declined the opportunity, in each case subject to time limitations related to OSF's presence in the Alton, Illinois area, geographic limitations, and certain agreed upon permitted activities as set forth in the Affiliation Agreement.

Section 1.5 Plan of Finance. The Affiliation Agreement would set forth a Plan of Finance which would address payment, discharge, defeasance and/or assumption of the debt of the SAHS Parties outstanding as of the Closing.

Section 1.6 Closing Conditions. As a condition of Closing:

(a) Name. The facilities known as Saint Anthony's Health Center would operate under the name "OSF Saint Anthony's Health Center" following the Closing. The facilities known as Saint Clare's Hospital would initially operate under the name "OSF Saint Clare's Hospital" following the Closing. The programs and services at OSF Saint Anthony's Health Center and OSF Saint Clare's Hospital would be referred to within OSF as OSF Saint Anthony's Health Center.

(b) OSF Board Membership. OSF would amend its Bylaws to provide that the OSF Board of Directors (**"OSF Board"**) would include one Sister nominated by FSGM and approved by the OSF Board.

(c) Community Board. As of the Closing, a community board of key advisors to SAHS would be established by the OSF Board (**"Community Board"**) to provide input, advice and guidance to the President/CEO of OSF Saint Anthony's Health Center on specific matters such as management plans, strategic plans, annual capital and operating budgets, services, quality, safety and community outreach. The Community Board would operate under bylaws approved by the Parties and attached as an exhibit to the Affiliation Agreement. The Parties would agree upon and the Affiliation Agreement would name the initial members of the Community Board who would be appointed by the OSF

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Board, provided, however, at least one-third of the initial members of the Community Board would be FSGM Sisters identified by FSGM. Future members of the Community Board would be nominated by the Community Board and appointed by the OSF Board, provided, however, at least one-third of the members of the Community Board would continue to be FSGM Sisters to the extent FSGM approves the appointment of such FSGM Sisters to the Community Board.

(d) Key Personnel. SAHS and OSF recognize the importance of assuring continued employment of key management personnel following public announcement of the proposed Affiliation and the value of retention and employment agreements in assuring such employment. Accordingly, following execution of this Letter, the SAHS Parties shall have the right to enter into (and amend existing) retention and employment agreements with key management personnel, but the SAHS Parties shall first consult with OSF before executing such agreements.

Section 2. Post-Closing Commitments.

Section 2.1 Catholic Teachings. Following Closing, the moral teachings of the Roman Catholic Church, including the Ethical and Religious Directives for Catholic Health Care Services, as amended from time to time, promulgated by the United States Conference of Catholic Bishops, as interpreted and applied by OSF in consultation with FSGM ("**Ethical and Religious Directives**"), and the Code of Canon Law of the Roman Catholic Church ("**Canon Law**") would govern without exception the operation and ownership by the OSF Affiliates of the SAHS Facilities and Services.

Section 2.2 Physicians and Midlevel Providers.

(a) Employed Physicians and Midlevel Providers. The employment agreements of all physicians and midlevel providers presently employed by the SAHS Parties ("**SAHS Providers**") would be honored by OSF and the OSF Affiliates following Closing, provided no employed physician or midlevel provider would be permitted to perform any procedure or provide any service in the scope of employment which contravenes the Ethical and Religious Directives. OSF and/or one of the OSF Affiliates would employ the SAHS Providers following Closing. The SAHS Providers would participate in OSF quality programs and other OSF quality initiatives on the same basis as other physicians and midlevel providers aligned with OSF.

(b) Independent Physicians. All agreements for professional and administrative services between independent physicians and SAHS would be honored by OSF and the OSF Affiliates after Closing, provided no services provided under any such agreement would be permitted to contravene the Ethical and Religious Directives.

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Section 2.3 Management; Employees; Key Personnel.

(a) Management. Following Closing, the President/CEO of OSF Saint Anthony's Health Center and OSF Saint Clare's Hospital would report to the Chief Executive Officer of OSF, or to an OSF system-level executive who is his/her designee, and such reporting relationship would be consistent with the reporting relationship of Presidents/CEOs of other OSF hospitals.

(b) Employees. All employees of the SAHS Parties which merge with and into OSF as of the Closing would (i) immediately upon Closing be retained as employees of OSF in positions and at compensation levels at least comparable to their current positions and compensation, subject to review and adjustment by OSF from time to time in a manner consistent with OSF's staffing and compensation policies and practices, (ii) be subject to the same benefits and human resource policies that are applicable to similarly situated OSF employees, and (iii) be eligible to participate in OSF employee benefit arrangements to the same extent and in the same manner as similarly situated OSF employees. In addition, all employees of the SAHS Parties who become OSF employees would receive credit for service with the SAHS Parties, as if such service were with OSF, for purposes of determining the rate of accrual of paid time off and severance benefits under the applicable policies of OSF. OSF would recognize and provide credit for periods of service with the SAHS Parties prior to the Closing, as if such service were with OSF, for eligibility and vesting purposes under its employee benefit arrangements. Notwithstanding the foregoing, (i) employees of the SAHS Parties would not become entitled to any benefits under the OSF frozen defined benefit pension plans, (ii) the service of employees of the SAHS Parties prior to the Closing would not be counted in determining such employees' entitlement to share in the discretionary employer contribution made to OSF's defined contribution retirement plans, and (iii) the service of employees of the SAHS Parties prior to the Closing would not be counted in determining such employees' entitlement to early retiree continuation coverage offered by OSF.

Section 2.4 Use of Funds. All funds held by the SAHS Parties as of the Closing would be used solely for the support of the SAHS Facilities and Services.

Section 2.5 Clinical Service Line and Capital Commitments. Prior to Closing, OSF and SAHS would agree on (a) developing, enhancing and/or realigning certain clinical service lines of the SAHS Facilities and Services, post-Closing, and (b) minimum capital commitments to be made post-Closing by OSF for the benefit of the SAHS Facilities and Services.

Section 2.6 Maintenance of Hospital. OSF would continue to operate the acute care hospital now known as Saint Anthony's Health Center, located at 1 Saint Anthony's Way in Alton, Illinois, for a minimum of five years following the Closing.

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BINDING PROVISIONS

Upon execution of this Letter by the Parties, Section 3 through 12 of this Letter (collectively, the "**Binding Provisions**") shall constitute the legally binding and enforceable agreement of the Parties, in recognition of the significant costs to be borne by the Parties in pursuing this proposed Affiliation and in further consideration of their mutual undertakings as to the matters described herein.

Section 3. Conditions.

Section 3.1 Nonbinding Provisions Not Enforceable. Except for the Binding Provisions, which shall be binding on the Parties during and following the Term (as defined in Section 4), this Letter constitutes a summary of the possible terms of a proposed Affiliation and the various discussions among the Parties to the date hereof and not a binding agreement of any of the terms and conditions of the Affiliation contemplated herein. A Party's signature below shall indicate that it agrees in principle to the contents of this Letter and intends to proceed promptly and in good faith subject to the terms of this Letter and the Confidentiality Agreement. Except as otherwise stated herein, any legal rights and obligations of a Party shall accrue only upon: (a) successful completion of each Party's due diligence review, (b) execution of the Affiliation Agreement, which agreement shall contain, among other things, such covenants, conditions, representations and warranties, indemnifications (including without limitation an indemnification of FSGM by OSF from any liability resulting from the operations of OSF and the OSF Affiliates following the Closing), ancillary agreements thereto and other provisions customarily found in such an agreement, (c) each Party obtaining all required approvals of the Affiliation Agreement by its governing body and other third parties required to consummate the transactions described therein, including but not limited to the issuance of an *indult* under Canon Law authorizing the alienations referred to in the Affiliation Agreement, and (d) the Parties' obtaining any and all required regulatory approvals of the transactions, including but not limited to the issuance of a Certificate of Exemption by the Illinois Health Facilities and Services Review Board permitting a change of ownership of the SAHS Facilities and Services to OSF. The definitive terms and conditions of the Affiliation shall be as set forth in the Affiliation Agreement, into which this Letter and all prior discussions shall merge. This Letter, except for the Binding Provisions, is not a contract and no Party shall be entitled to any recourse, in the form of damages or otherwise, for expenses incurred or benefits conferred or lost before or after the date of this Letter in the event that there is a failure, for any reason, of the Parties to enter into the Affiliation Agreement.

Section 3.2 Closing. The closing of the proposed Affiliation ("**Closing**") shall be conditioned on (a) each Party having complied with all covenants and agreements set forth in the Affiliation Agreement to be performed by it, and (b) all closing conditions set forth in the Affiliation Agreement having been satisfied, at or prior to the Closing.

Section 4. Term; Termination of Letter. The term of this Letter shall (a) commence on the last date signed by authorized representatives of each Party, and (b) end on the earliest to occur of the following (**"Term"**): (i) termination at any time by any Party upon no less than ten days prior written notice to the other Parties, (ii) full execution of the Affiliation Agreement, and (iii) failure of an Affiliation Agreement to be executed by December 31, 2014 (unless such date shall have been extended mutually by the Parties). In any event, the termination of this Letter shall not affect the liability of a Party for breach of any of the Binding Provisions. Upon termination of this Letter, the Parties shall have no further obligations hereunder, except as stated in Sections 3 to 4 and Sections 7 to 12.

Section 5. **Access to Information; Due Diligence**. Upon execution of this Letter, and during the Term, each of OSF and SAHS shall grant to the other of them and its representatives (attorneys, auditors, agents, consultants and bankers) full and complete access to, and the right to inspect and evaluate the business prospects of any Affiliation. Furthermore, each of OSF and SAHS shall disclose or make available to the other of them and its representatives all books, agreements, papers and records reasonably requested by the other of them and its representatives, related to that Party and the ownership and operation of its business. In this regard, OSF's and SAHS's right of access and inspection shall be exercised in such a manner as not to interfere unreasonably with the operation of the business and shall be subject to the confidentiality provisions set forth in Section 7.

Section 6. **Publicity and Public Relations**.

Section 6.1 Publicity. Except as required by law, all press releases or other public communications of any sort relating to this Letter, and the method of the release for publication thereof, and all communications with SAHS medical staffs and employees of any sort relating to this Letter, shall be subject to the approval of the Parties, which approval shall not be unreasonably withheld by any Party. The Parties shall agree on a mutual date for disclosure of the existence of this Letter to the OSF and SAHS medical staffs and employees.

Section 6.2 Public Relations. The Parties shall cooperate regarding public relations efforts in connection with the negotiation and implementation of any Affiliation. To that end, the respective public relations teams of the Parties shall work in a coordinated and cooperative fashion in order to effectively present the proposed Affiliation to communities served by SAHS and OSF, and to public interest groups and governmental bodies and officials.

Section 7. **Confidentiality Agreement**. OSF and SAHS previously entered into that certain Confidentiality Agreement, as amended, attached hereto as Exhibit A (the **"Confidentiality Agreement"**). The Confidentiality Agreement shall remain in full force and effect and shall apply to any Confidential Information (as such term is defined therein) shared pursuant to this Letter. Notwithstanding any provision to the contrary in the Confidentiality Agreement, any Party may release Confidential Information deemed necessary by such Party to comply with applicable securities laws and/or other legal requirements in connection with any offering of securities, such as the nature of the Affiliation and its potential impact on such Party provided such Party shall have first notified the other Parties in writing prior to making such disclosure. If the Parties do not sign the Affiliation Agreement by December 31, 2014, or either

Party terminates this Letter for any reason, each Party shall promptly destroy or return to the other Party any confidential and proprietary information received during the negotiations of the proposed Affiliation pursuant to the Confidentiality Agreement.

Section 8. **Assignability**. This Letter is not assignable by any Party without the prior written consent of the other Parties, nor shall any Party delegate any of its rights, obligations or duties under this Letter to another entity.

Section 9. **Legal Challenge/Costs**. Each Party shall be responsible for and bear all of its own respective costs and expenses, including without limitation expenses of its legal counsel, accountants and other representatives, incurred at any time in connection with conducting due diligence and pursuing or consummating the Affiliation Agreement, the proposed Affiliation or the violation of a term or provision of this Letter.

Section 10. **Governing Law**. This Letter shall be governed by the laws of the State of Illinois without regard to its conflicts of laws principles. Any action or proceeding arising directly or indirectly in connection with, out of, or related to this Letter may be commenced and maintained only in courts located in Peoria County, Illinois. The Parties, by their execution of this Letter, consent and submit to the jurisdiction of any State or Federal court located within Peoria County, Illinois. Each Party waives any right that it may otherwise have to transfer or change the venue of any action or proceeding brought against it by any other Party and arising directly or indirectly in connection with, out of or related to this Letter.

Section 11. **Notice**. Any notice, demand or communication required, permitted or desired to be given hereunder shall be deemed effectively given when personally delivered, when received by overnight courier, or three days after being deposited in the United States mail, with postage prepaid thereon, certified or registered mail, return receipt required, addressed as follows:

FSGM:	Mother M. Regina Pacis Coury, FSGM Provincial Superior Sisters of St. Francis of the Martyr St. George, Province St. Elizabeth One Franciscan Way Alton, IL 62002
with a simultaneous copy to:	Evan Raskas Goldfarb Thompson Coburn LLP One US Bank Plaza St. Louis, MO 63101
SAHS:	Mother M. Regina Pacis Coury, FSGM Chairperson Saint Anthony's Health System #1 Saint Anthony's Way Alton, IL 62002

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with a simultaneous copy to: Evan Raskas Goldfarb
Thompson Coburn LLP
One US Bank Plaza
St. Louis, MO 63101

OSF: Kevin D. Schoeplein
Chief Executive Officer
OSF Healthcare System
800 N.E. Glen Oak Avenue
Peoria, IL 61603

with a simultaneous copy to: Robert L. Brandfass
Senior Vice President, Legal Services
OSF Healthcare System
800 N.E. Glen Oak Ave.
Peoria, IL. 61603

Section 12. **<u>Counterparts; Facsimile Signatures</u>**. The Parties agree that this Letter may be executed in multiple counterparts, each of which shall be considered an original for all purposes. The Parties further agree that facsimile or portable document format (pdf) signatures shall be considered an original for all purposes, including, but not limited to, execution and enforcement of this Letter.

Please indicate your agreement in principle to the terms and conditions of this Letter of Intent and your good faith intention to enter into the negotiations contemplated hereby by executing it in the spaces provided below and returning one executed copy to OSF. We look forward to a successful and mutually rewarding relationship in respect of the transactions set forth herein.

Very truly yours,

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

By: Sister Judith Ann Duvall, OSF
Sister Judith Ann Duvall, O.S.F., OSF
Chairperson

Agreed to and accepted this 11th day of March, 2014

SISTERS OF ST. FRANCIS OF THE MARTYR ST. GEORGE, PROVINCE ST. ELIZABETH, an Illinois not-for-profit corporation

By: Mother M. Regina Pacis Coury, FSGM
Mother M. Regina Pacis Coury, FSGM,
Provincial Superior

SAINT ANTHONY'S HEALTH SYSTEM, an Illinois not-for-profit corporation

By: Mother M. Regina Pacis Coury, FSGM
Mother M. Regina Pacis Coury, FSGM,
Chairperson

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Attachment 6
Financial Statements

1. Standard and Poors Rating – OSF Healthcare System

2. OSF Healthcare System Statement

3. Saint Anthony's Health System Financial Statements

STANDARD
&POOR'S
RATINGS SERVICES

RatingsDirect®

Illinois Finance Authority
OSF Healthcare System; Joint Criteria; System

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

Secondary Contact:
Karl Propst, Dallas (1) 214-871-1427; karl.propst@standardandpoors.com

Table Of Contents

Illinois Finance Authority
OSF Healthcare System; Joint Criteria; System

Credit Profile		
Illinois Fin Auth, Illinois		
OSF Hlthcare Sys, Illinois		
Series 2007A , 2009A, 2010A,2012		
Long Term Rating	A/Stable	Affirmed

Rationale

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

The ratings on the series 2007E, 2007F, 2009B, 2009C, and 2009D bonds are based on the application of our joint criteria, whereby the long-term component of the rating is based on the 'A' SPUR on OSF and the letters of credit (LOC) provided by various banks. The ratings are based on our joint criteria with medium correlation for the series 2009B bonds and low correlation for the series 2007E, 2007F, 2009C, and 2009D bonds. Each series has the benefit of a separate LOC; Barclays Bank PLC (2007E and F), PNC Bank National Assn., Wells Fargo Bank N.A., and JPMorgan Chase Bank N.A. issued LOCs to back the series 2007E, 2007F, 2009B, 2009C, and 2009D bonds, respectively. The obligation of OSF, as well as the banks' obligations established by the LOCs, to make debt service payments support the joint ratings. The short-term component of the ratings is based solely on the bank ratings.

The 'A' rating reflects our view of OSF's leadership's plan to improve the entity's operations during the next two years. OSF has been able to improve its balance sheet after the completion of major capital expenditures over a sustained period, and leadership is now challenged with improving its operations at a time when health care reform is being implemented. The solid balance sheet, coupled with leadership's historical ability to implement successful improvement plans, supports the rating. However, if operations continue to trend negatively and further affect debt service coverage, we could lower the rating.

The 'A' rating further reflects our assessment of OSF's:

- Generally stable cash position, with good liquidity for the rating;
- Dominant business position in the Peoria, Ill., market, where its flagship, Saint Francis Medical Center, is located, and generally good position in its markets despite challenges that include competition and a weak economic environment; and
- Breadth of facilities and services, enhanced by its systemwide strategic priorities focused on specific business line

development, growth in ambulatory care, and enhanced physician alignment.

Partly offsetting the above strengths, in our view, are OSF's:

- Challenged operations in the Peoria market;
- Moderately high leverage, with debt to capitalization of 53% at June 30, 2013, although this increased leverage is partially due to a decline in pension funded status;
- Defined benefit pension plan that was only 64% funded as of Sept. 30, 2013. The plan is a church plan that is not subject to Employee Retirement Income Security Act funding requirements and was frozen in March 2011.

The Peoria-based Sisters of the Third Order of Saint Francis sponsor OSF, which operates eight hospitals and other health-care-related entities. Seven of the hospitals are located in central and northern Illinois, while one hospital is located in Michigan. The flagship hospital, Saint Francis Medical Center, is a 609-licensed-bed (approximately 609-staffed-bed), tertiary acute care teaching hospital. The obligated group's unrestricted receivables secure all obligations. Our analysis takes into account the consolidated system results, and all figures and ratios in this report reflect the consolidated system unless otherwise stated.

Outlook

The stable outlook reflects our anticipation that OSF's improvement plan will begin to have an impact in fiscal 2014. However, OSF continues to have little flexibility at the current rating, and we could lower the rating if OSF does not improve its operations to levels equal to the fiscal 2014 budget, which calls for a 1.7% operating margin and maximum annual debt service (MADS) coverage closer to 3x. Also, if the balance sheet declines and liquidity drops to less than 175 days, we could lower the rating. We do not anticipate raising the rating during the two-year outlook period.

Market Profile

Operating entities

OSF Saint Francis Medical Center. OSF Saint Francis Medical Center is a tertiary acute care teaching hospital located near downtown Peoria. Founded in 1877, Saint Francis Medical Center was the first hospital established by OSF. It provides a full range of primary, secondary, and tertiary services as well as certain specialized services, including Level I (highest) trauma services, life flight helicopter transport services, adult and pediatric open heart surgery, pancreas and kidney transplantation services, neurosurgery and neurology, Level III (highest) perinatal services, radiation oncology, and specialized services of the Children's Hospital of Illinois (operated as part of the Medical Center).

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

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

St. Mary Medical Center. St. Mary Medical Center is an acute care hospital located in Galesburg, Ill.

OSF Saint Elizabeth Medical Center. St. Elizabeth Medical Center is a 91-bed acute care hospital located in Ottawa, Ill. St. Elizabeth (formerly known as Ottawa Regional) joined the system in April 2012.

St. Francis Hospital. St. Francis Hospital is an acute care critical access hospital located in Escanaba, Mich. St. Francis Hospital operates 25 beds, including 10 Medicare-approved swing beds.

OSF Saint James-John W. Albrecht Medical Center. OSF Saint James-John W. Albrecht Medical Center is an acute care hospital facility located in Pontiac, Ill. Saint James is the only acute care hospital in Livingston County.

OSF Holy Family Medical Center. OSF Healthcare System acquired OSF Holy Family Medical Center, formerly known as Community Medical Center of Western Illinois, in May 2007. The acquisition, initiated by Community Medical Center, complements the system's strategy to maintain and potentially increase its market share in western Illinois. The facility operates 23 acute care beds that are also certified as swing beds. The facility has been designated as a critical access hospital by Centers for Medicare and Medicaid Services. Also, it operates a provider-based rural health clinic.

OSF Medical Group and other employed physicians. This grouping consists of approximately 740 physicians and midlevel providers employed by OSF Healthcare, in approximately 68 office locations throughout Illinois and Michigan. These providers bring together different medical disciplines to create an integrated system of patient-centered care. OSF considers nurse practitioners and physician assistants an integral part of its system because they enable physicians to continue a personal approach to patient care while increasing the number of patients served.

Utilization

OSF's overall utilization had been stable in recent years. However, after the addition of OSF Saint Elizabeth Medical Center, the system has seen growth in its admissions for the first nine months of fiscal 2013: a 3.4% rise compared with the prior-year period. However, when admissions for all entities except for OSF Saint Elizabeth Medical Center are compared, OSF's admissions were relatively flat. Leadership is continuing to focus on improving the utilizations stats, by aligning itself with Mayo Clinic and focusing on referral management to counter what it terms as internal leakage. Internal leakage is when patients that are seen by OSF-related physicians are referred to entities that are not part of the OSF system. Leadership believes that this could be a big help in managing population health and maintaining solid utilization stats in an era of anticipated declined utilization resulting from continued implementation of health care reform and the rise of high-deductible health plans.

Table 1

OSF Healthcare System and Subsidiaries' Utilization

	--Nine-month interim ended June 30--	--Fiscal year ended Sept. 30--		
	2013	2012	2011	2010
Inpatient admissions	45,171	58,904	56,820	56,490
Patient days	207,373	271,545	265,406	261,422
Observation days	N.A.	13,841	14,040	14,868
Emergency room visits	174,168	207,850	206,490	197,752
Outpatient visits	994,745	1,216,880	1,136,890	1,150,748
Inpatient surgeries	N.A.	25,130	24,499	27,706
Outpatient surgeries	N.A.	50,937	48,072	51,276
Births	N.A.	5,198	4,634	9,676

Table 1

OSF Healthcare System and Subsidiaries' Utilization (cont.)

N.A.–Not available.

Management

Leadership of OSF forges ahead with plans to improve the system. The system has taken the lessons it has learned from its participation in the Pioneer accountable care organization (ACO) demonstration, and is implementing them to help with future improvements: For instance, it will focus on referral management within the system. This focus will be key to helping with the transition to population management, as leadership plans to replace any decline in utilization with the internal referrals.

Also, OSF is in the process of acquiring Kewanee Hospital, a critical access hospital located in Kewanee, Ill. Leadership believes that this will be a good fit for the system, as Kewanee has a relatively new facility with complementary services and positive financial performance. OSF is receiving the majority of Kewanee's tertiary referrals and anticipates that Kewanee will add to operations. OSF has not made any decision on how it will handle the approximately $28 million of debt that Kewanee carries on its balance sheet. Finally, OSF and Proctor Hospital have broken off merger talks and Proctor has decided to pursue an affiliation with UnityPoint Health.

Financial Profile

Operations

OSF posted an operating margin of negative 1.4% for the first nine months of fiscal 2013 ended June 30 compared with 2.3% for the prior-year period. Leadership reports that although fiscal 2013 started smoothly, OSF began to see challenges in the second and third quarter. One of the challenges that affected OSF was that some service lines went off line for various timedurations during a six-month period in its Peoria market. Peoria is the location of its largest facility. OSF reports that its linear accelerators, sleep lab, some MRIs, and the neurology service line's going live on Epic were affected. Also during fiscal 2013, OSF suffered because of the effect of high-deductible health plans on patients' utilization of health care. One example of this is OSF's hospital in the Bloomington market. In this market, the main employer, State Farm Insurance, shifted its employees to the aforementioned plan. Management reports that it started to see some improvement in patients' access to health care in September and October. This is a trend that we have been noticing across the nation: Patients with high-deductible plans are using health care in the latter part of the year once they have met their deductible. For the nine months ended June 30, OSF had its biggest challenges at its Peoria and Escanaba facilities. The Escanaba facility is now a critical access facility, and management anticipates that it will operate at a break-even level in the near future.

To help offset the challenged operations of the Peoria market, leadership is implementing a $30 million revenue enhancement and $56 million cost reduction plan. It aims to help improve operations and cash flow during the next two years as the system transitions into health care reform. One of the key pieces of the plan is to manage referrals within the system. As OSF is better able to internally refer its patients, internal leakage will decline and is anticipated to improve operations and help offset utilization decline stemming from population management. Another piece of the plan will be the education of its medical staff on population health management and the impact of new insurance contracts. This education is also occurring at other entities that we rate. The success of the two steps previously mentioned, coupled with the cost cutting initiatives, should help improve operations in fiscal years 2014 and 2015.

For the nine months ended June 30, OSF had adequate MADS coverage, at 3.4x.

Balance sheet

Unrestricted reserves, as measured by cash on hand, has seen some growth and totaled 177 days as of June 30, 2013. Management reports that liquidity growth remains a part of the system strategy, especially because capital spending declined from recent high levels. Cash to long-term debt has improved to 102% since out last review, while leverage equated to 53%, which is slightly higher than during our previous review period.

Leadership plans to remain focused on the balance sheet. The leadership team is planning to move forward with a plan to spend no more than 50% of its operating cash flow for capital expenditures. To be allocated money for capital, the various regions will need to generate this cash flow. With this plan in place, leadership anticipates that cash on hand will grow to 195 days in the next year or two.

Table 2

OSF Healthcare System and Subsidiaries Financial Summary

	--Nine-month interim ended June 30--	--Fiscal year ended Sept. 30--		
	2013*	**2012***	**2011**	**2010**
Financial performance				
Net patient revenue ($000s)	1,371,313	1,817,000	1,787,360	1,632,595
Total operating revenue ($000s)	1,437,364	1,895,976	1,865,985	1,694,782
Total operating expenses ($000s)	1,457,443	1,857,743	1,845,357	1,727,038
Operating income ($000s)	(20,079)	38,233	20,628	(32,256)
Operating margin (%)	(1.40)	2.02	1.11	(1.90)
Net non-operating income ($000s)	26,382	45,982	37,542	34,297
Excess income ($000s)	6,303	84,215	58,170	2,041
Excess margin (%)	0.43	4.34	3.06	0.12
Operating EBIDA margin (%)	5.36	8.42	8.38	5.11
EBIDA margin (%)	7.07	10.59	10.19	6.99
Net available for debt service ($000s)	103,429	205,633	193,955	120,857
Maximum annual debt service (MADS; $000s)	58,034	58,034	58,034	58,034
MADS coverage (x)	2.38	3.54	3.34	2.08
Operating lease-adjusted coverage (x)	N.A.	2.40	2.33	1.72
Liquidity and financial flexibility				
Unrestricted cash and investments ($000s)	897,760	832,423	759,738	733,024
Unrestricted days' cash on hand	177.2	171.4	158.0	163.0
Unrestricted cash/total long-term debt (%)	102.4	93.9	89.1	88.6
Average age of plant (years)	N.A.	14.3	11.8	11.8
Capital expenditures/Depreciation and amortization (%)	133.7	110.8	90.8	216.1
Debt and liabilities				
Total long-term debt ($000s)	876,633	886,139	853,089	826,957

Table 2

OSF Healthcare System and Subsidiaries Financial Summary (cont.)				
Long-term debt/capitalization (%)	53.2	54.2	55.1	55.1
Contingent liabilities ($000s)	294,070	294,070	280,945	285,235
Contingent liabilities/total long-term debt (%)	33.5	33.2	32.9	34.5
Debt burden (%)	2.97	2.99	3.05	3.36
Defined benefit plan funded status (%)	N.A.	51.23	56.76	56.94

*FASB 2011-07 adopted related to the treatment of bad debt. Standard & Poor's recorded bad debt expense as if FASB 2011-07 were adopted related to the treatment of bad debt beginning in fiscal 2012. N.A.--Not available.

Related Criteria And Research

- USPF Criteria: Not-For-Profit Health Care, June 14, 2007
- USPF Criteria: Municipal Swaps, June 27, 2007
- USPF Criteria: Contingent Liquidity Risks, March 5, 2012
- Criteria: Methodology And Assumptions: Approach To Evaluating Letter Of Credit-Supported Debt, July 6, 2009
- USPF Criteria: Municipal Applications For Joint Support Criteria, June 25, 2007
- USPF Criteria: Bank Liquidity Facilities, June 22, 2007
- Glossary: Not-For-Profit Health Care Ratios, Oct. 26, 2011
- U.S. Not-For-Profit Health Care Sector Outlook: Providers Prove Adaptable But Face A Test In 2013 As Reform Looms, Jan. 4, 2013
- U.S. Not-For-Profit Health Care System Ratios: Metrics Remain Steady As Providers Navigate An Evolving Environment, Aug. 8, 2013
- Health Care Providers And Insurers Pursue Value Initiatives Despite Reform Uncertainties, May 9, 2013

Ratings Detail (As Of November 12, 2013)		
Illinois Fin Auth, Illinois		
OSF Hlthcare Sys, Illinois		
Illinois Fin Auth (OSF Hlthcare Sys) hlth rfdg rev bnds (Osf Hlthcare Sys) ser 2004 dtd 04/15/2004 due 11/15/2004-2016 2021-2023		
Long Term Rating	NR	Current
Illinois Fin Auth (OSF Hlthcare Sys) hosp ins VRDB rev bnds (OSF Hlthcare Sys) ser 2007E RMKTD 09/06/2013 due 09/30/2038		
Long Term Rating	AAA/A-1	Affirmed
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Illinois Fin Auth (OSF Hlthcare Sys) hosp ins VRDB rev bnds (OSF Hlthcare Sys) ser 2007F RMKTD 09/26/2013 due 09/30/2038		
Long Term Rating	AAA/A-1	Affirmed
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Series 2009B		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Long Term Rating	AAA/A-1	Affirmed
Series 2009D		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Long Term Rating	AAA/A-1	Affirmed

Ratings Detail (As Of November 12, 2013) (cont.)		
Series2009C		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Long Term Rating	AAA/A-1+	Affirmed

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

Saint Anthony's Health System

Auditor's Report and Consolidated Financial Statements

December 31, 2013 and 2012

Saint Anthony's Health System
December 31, 2013 and 2012

Contents

BKD LLP
CPAs & Advisors

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Independent Auditor's Report

Board of Directors
Saint Anthony's Health System
Alton, Illinois

We have audited the accompanying consolidated financial statements of Saint Anthony's Health System (the "System"), which comprise the consolidated balance sheets as of December 31, 2013 and 2012, and the related consolidated statements of operations, 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 System'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 System's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Saint Anthony's Health System as of December 31, 2013 and 2012, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

BKD, LLP

St. Louis, Missouri
May 1, 2014

Saint Anthony's Health System

Consolidated Balance Sheets

December 31, 2013 and 2012

Assets

	2013	2012
Current Assets		
Cash and cash equivalents	$ 7,221,305	$ 7,370,566
Short-term investments	4,138,972	3,569,306
Assets limited as to use - current	-	1,338,000
Patient accounts receivable, net of allowance; 2013 - $1,661,000, 2012 - $4,051,000	10,421,299	12,815,964
Supplies	1,802,080	1,697,388
Prepaid expenses and other current assets	428,314	855,332
Total current assets	24,011,970	27,646,556
Assets Limited As To Use		
Internally designated	60,667	66,856
Under indenture agreements held by trustee	-	2,731,413
	60,667	2,798,269
Less amount required to meet current obligations	-	1,338,000
	60,667	1,460,269
Property and Equipment, At Cost		
Land and land improvements	13,920,454	13,704,806
Buildings and leasehold improvements	50,809,502	51,465,789
Equipment	40,685,873	39,570,892
Construction in progress	1,127,024	1,207,717
	106,542,853	105,949,204
Less accumulated depreciation	80,904,614	78,771,534
	25,638,239	27,177,670
Other Assets		
Due from affiliates, net of allowance	672,080	481,905
Deferred financing costs	37,863	70,432
Investment in Saint Clare's Villa	1,492,197	1,492,231
Other	1,801,826	1,536,452
	4,003,966	3,581,020
Total assets	$ 53,714,842	$ 59,865,515

Liabilities and Net Assets

	2013	2012
Current Liabilities		
Current maturities of long-term debt	$ 2,595,009	$ 4,051,965
Accounts payable and accrued expenses and deferred income	3,778,512	4,892,327
Accrued employee compensation	3,790,583	3,854,482
Estimated amounts due to third-party payers	3,069,610	4,562,534
Total current liabilities	13,233,714	17,361,308
Long-term Debt	5,749,829	9,574,319
Pension Liability	20,163,052	29,965,232
Other Long-term Liabilities	2,098,434	2,051,317
Total liabilities	41,245,029	58,952,176
Net Assets		
Unrestricted	11,082,937	(456,195)
Temporarily restricted	1,386,876	1,369,534
Total net assets	12,469,813	913,339
Total liabilities and net assets	$ 53,714,842	$ 59,865,515

Saint Anthony's Health System

Consolidated Statements of Operations

Years Ended December 31, 2013 and 2012

	2013	2012
Unrestricted Revenues, Gains and Other Support		
Patient service revenue (net of contractual discounts and allowances)	$ 83,720,732	$ 90,158,484
Provision for uncollectible accounts	(976,222)	(7,706,002)
Net patient service revenue less provision for uncollectible accounts	82,744,510	82,452,482
Contributions	842,413	2,843,318
Electronic health records incentive payment	2,090,653	402,070
Other	2,196,901	2,614,467
Total unrestricted revenues, gains and other support	87,874,477	88,312,337
Expenses		
Salaries and wages	30,688,328	32,088,272
Employee benefits	6,680,049	7,100,736
Physician fees	8,120,651	7,087,303
Supplies	13,414,810	14,056,686
Contract services	12,767,723	11,323,709
Utilities	1,352,470	1,298,412
Insurance	1,918,471	2,248,811
Depreciation and amortization	4,004,754	3,980,847
Interest	655,896	924,719
Other	8,307,856	5,738,755
Total expenses	87,911,008	85,848,250
Operating Income (Loss)	(36,531)	2,464,087
Other Income (Expense)		
Investment return	758,952	238,330
Net gain on sale of durable medical equipment operations	1,384,365	-
Change in investment of unconsolidated organizations	(34)	(44)
Total other income	2,143,283	238,286
Excess of Revenues Over Expenses	2,106,752	2,702,373
Change in defined benefit pension plan gains and losses and net periodic benefit cost	9,432,380	(5,073,756)
Increase (Decrease) in Unrestricted Net Assets	$ 11,539,132	$ (2,371,383)

Saint Anthony's Health System

Consolidated Statements of Changes in Net Assets

Years Ended December 31, 2013 and 2012

	2013	2012
Unrestricted Net Assets		
Excess of revenues over expenses	$ 2,106,752	$ 2,702,373
Change in defined benefit pension plan gains and losses and net periodic benefit cost	9,432,380	(5,073,756)
Increase (decrease) in unrestricted net assets	11,539,132	(2,371,383)
Temporarily Restricted Net Assets		
Change in temporarily restricted net assets	17,342	160,810
Increase in temporarily restricted net assets	17,342	160,810
Change in Net Assets	11,556,474	(2,210,573)
Net Assets, Beginning of Year	913,339	3,123,912
Net Assets, End of Year	$ 12,469,813	$ 913,339

See Notes to Consolidated Financial Statements

Saint Anthony's Health System
Consolidated Statements of Cash Flows
Years Ended December 31, 2013 and 2012

	2013	2012
Operating Activities		
Change in net assets	$ 11,556,474	$ (2,210,573)
Items not requiring (providing) operating cash flow		
Depreciation and amortization	4,004,754	3,980,847
Change in unrealized gains and losses on investments	(326,886)	(125,172)
Net gain on sale of durable medical equipment operations	(1,384,365)	-
Loss on sale and disposition of property and equipment	58,972	218
Change in defined benefit pension obligation	(9,802,180)	4,971,652
Changes in		
Patient accounts receivable, net	2,394,665	981,513
Estimated amounts due from and to third-party payers	(1,492,924)	1,420,785
Supplies, prepaids and other assets	56,952	852,176
Accounts payable and accrued expenses	(1,122,082)	(1,634,789)
Accrued employee compensation	(63,899)	(219,856)
Net cash provided by operating activities	3,879,481	8,016,801
Investing Activities		
Purchase of property and equipment	(2,333,282)	(1,730,575)
Proceeds from sale of equipment	55,583	-
Net purchases and sales of short-term investments and assets limited as to use	2,494,822	1,058,882
Net gain on sale of durable medical equipment operations	1,384,365	-
Decrease in due from affiliates	(190,141)	(2,833)
Net cash provided by (used in) investing activities	1,411,347	(674,526)
Financing Activities		
Principal payments on long-term debt	(5,447,206)	(3,709,508)
Decrease (increase) in other long-term liabilities	7,117	(235,946)
Net cash used in financing activities	(5,440,089)	(3,945,454)
Increase (Decrease) in Cash and Cash Equivalents	(149,261)	3,396,821
Cash and Cash Equivalents, Beginning of Year	7,370,566	3,973,745
Cash and Cash Equivalents, End of Year	$ 7,221,305	$ 7,370,566
Supplemental Cash Flows Information		
Interest paid	$ 710,290	$ 949,555
Capital lease obligation incurred for equipment	$ 165,760	$ 948,926
Property and equipment included in accounts payable	$ 1,330	$ 555,724

See Notes to Consolidated Financial Statements

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

Nature of Operations

Saint Anthony's Health Center (the "Health Center") is a not-for-profit, 199-bed, dual-campus, acute care facility located in Alton, Illinois. The Health Center was incorporated in 1925 under the laws of Illinois. The sole member of the Health Center is Saint Anthony's Health System ("SAHS"), an Illinois not-for-profit corporation. Both SAHS and the Health Center are operated by the Sisters of St. Francis of the Martyr St. George, 12 of whom are employees of the Health Center.

The Health Center is the sole member of Saint Anthony's L.L.C. (the "L.L.C."), a Delaware limited liability company incorporated in April 2000 to operate as the general partner of Saint Clare's Villa (the "Villa"), an Illinois limited partnership (the "Partnership"). The Partnership was created to own and operate a 64-unit assisted living apartment complex for low-income residents (the "Project").

SAHS is the sole corporate member of Saint Anthony's Physician Group ("SAPG"), a not-for-profit medical services entity and Saint Anthony's Foundation, a not-for-profit entity.

The Health Center provides general health services to residents within its geographic community, including acute inpatient and rehabilitation services, ambulatory, long-term and home care, as well as related general and administrative services. Substantially all expenses are related to providing health care services to the local community.

Principles of Consolidation

The consolidated financial statements include the accounts of the SAHS, Health Center, SAPG, Saint Anthony's Foundation and the L.L.C. (the "System"). The L.L.C. accounts for its general partnership interest in the Partnership under the equity basis of accounting. All inter-company transactions have been eliminated in consolidation. The accounting policies of the System and the methods of applying these policies conform to general practice within the health care industry.

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 Equivalents

The System considers all liquid investments, other than those limited as to use, with original maturities of three months or less to be cash equivalents. Included within the System's cash and cash equivalents is $66,000 and $122,000 in restricted cash at December 31, 2013 and 2012, respectively.

At December 31, 2013, the System's cash accounts exceeded federally insured limits by approximately $7,365,000.

Investments, Investment Return and Assets Limited as to Use

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

Assets limited as to use include assets held by trustees and assets set aside by the board of directors for future capital improvements, future retirement plan contributions, and other uses over which the board retains control and may at its discretion subsequently use for other purposes. In 2012, the Health Center lifted the restriction on assets limited as to use. Assets held by trustees under indenture agreements are required to be invested and spent in accordance with the indenture agreements. Amounts classified as current under assets limited as to use under indenture agreements represent funds available to pay current principal and interest obligations on the 1996 revenue bonds and to acquire certain capital assets under the Series 2010 financing.

As of December 31, 2013, the 1996 revenue bonds were paid in full and the assets held for the Series 2010 designated funds have been used to purchase capital assets.

Patient Accounts Receivable

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

For receivables associated with services provided to patients who have third-party coverage, the System analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for uncollectible accounts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payer has not yet paid, or for payers who are known to be having financial difficulties that make the realization of amounts due unlikely).

For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the System records a significant allowance 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 provision for doubtful accounts.

The System's allowance for doubtful accounts for self-pay patients decreased from 95 percent to 90 percent of self-pay accounts receivable at December 31, 2012 and 2013, respectively. At the end of December 31, 2012, the System had a substantial amount estimated in provision for uncollectible accounts related to receivables held from Illinois Medicaid. The majority of these receivables were settled during the year. The settlement of the Illinois Medicaid receivables and policy changes related to charity care impacted the change to provision for uncollectible accounts at the end of December 31, 2013.

Supplies

The System states supply inventories at the lower of cost, determined using the first-in, first-out method or market.

Property and Equipment

Property and equipment are depreciated on a straight-line basis over the following estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over their estimated useful lives.

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

Land improvements	5 to 25 years
Buildings and leasehold improvements	5 to 40 years
Equipment	3 to 20 years

Construction in progress includes the cost of design services to upgrade current facilities. These improvement projects have varying completion dates.

Long-lived Asset Impairment

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

No asset impairment was recognized during the years ended December 31, 2013 and 2012.

Deferred Financing Costs

Deferred financing costs represent costs incurred in connection with the issuance of long-term debt. Such costs are being amortized over the period the obligation is outstanding using the bonds outstanding method.

Other Long-term Liabilities

Other long-term liabilities include an asset retirement obligation (ARO) associated with the retirement of a tangible long-lived asset to be recognized as a liability in the period in which it is incurred or becomes determinable (as defined by the standard) even when the timing and/or method of settlement may be conditional on a future event. The System's conditional AROs primarily relate to asbestos contained in buildings that the System owns. Environmental regulations require the System to handle and dispose of asbestos in a special manner if a building undergoes major renovations or is demolished. The System increases the liability by recording accretion expenses during the year which is contributed to the change in each of the past two years ended December 31, 2013 and 2012, respectively. Accretion expense was recorded in depreciation and amortization on the consolidated statements of operations.

Temporarily Restricted Net Assets

Temporarily restricted net assets are those whose use by the System has been limited by donors to a specific time period or purpose.

Net Patient Service Revenue

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

Charity Care

The System provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the System does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue. The System's direct and indirect costs for services furnished under its charity care policy aggregated approximately $3,371,000 and $4,090,000 in 2013 and 2012, respectively. The cost of charity care is estimated by applying the ratio of cost (total operating expenses) to gross charges and then multiplying that ratio by the gross uncompensated charges associated with providing care to charity patients.

Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records technology (EHR). Payments under the Medicare program are generally made for up to four years based on a statutory formula. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services. 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 fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The System recognizes revenue ratably over the reporting period starting 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.

In 2013 and 2012, the System has recorded revenue of approximately $2,091,000 and $402,000, respectively, which is included in other revenue within operating revenues in the statement of operations.

Contributions

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

Employee Health Claims

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

Professional Liability Claims

The System recognizes an accrual for claim liabilities based on estimated ultimate losses and costs associated with settling claims and a receivable to reflect the estimated insurance recoveries, if any. The insurance recoveries are included in other assets and other long-term liabilities on the consolidated balance sheets for the years ended December 31, 2013 and 2012, respectively. Professional liability claims are described more fully in Note 8.

Excess of Revenues Over Expenses

The statements of operations include excess of revenues over expenses. Changes in unrestricted net assets which are excluded from excess of revenues over expenses, consistent with industry practice, include the change in pension liability, permanent transfers to and from affiliates for other than goods and services and contributions of long-lived assets including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets.

Income Taxes

The Health Center, SAHS, SAPG and the Foundation have been recognized as exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the System is subject to federal income tax on any unrelated business taxable income.

The System incurred an insignificant liability related to unrelated business taxable income for the sale of its durable medical equipment business line at the end of December 31, 2013. The liability was recorded to accounts payable, accrued expenses and deferred payments on the consolidated balance sheets and net gain on sale of durable medical equipment operations on the consolidated statements of operations.

The System files tax returns in the U.S. federal and state of Illinois jurisdictions. The System is no longer subject to U.S. federal and state examinations by tax authorities for years before 2010.

Affordable Care Act Compliance

As part of the *Affordable Care Act*, hospitals exempt from the tax under Code Section 501(c)(3) of the Internal Revenue Code are required to comply with the new requirements under new Code Section 501(r). Code Section 501(r) requires exempt hospitals prepare and implement a community health needs assessment, implement a financial assistance policy, implement an emergency care policy, limit charges to individuals eligible for financial assistance and refrain from certain collection actions for patients that may qualify for financial assistance. Failure to comply with these requirements could result in a hospital not being recognized as exempt under Code Section 501(c)(3). The IRS has not issued guidance on how they intend to enforce the provisions related to Code Section 501(r). The System believes it has taken reasonable steps to comply with Code Section 501(r).

Reclassifications

Certain reclassifications have been made to the 2012 consolidated financial statements to conform to the 2013 financial statement presentation. These reclassifications had no effect on the change in net assets.

Note 2: Net Patient Service Revenue

The System 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 System recognizes revenue on the basis of its standard rates for services provided. On the basis of historical experience, a significant portion of the System's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the System records a significant allowance for uncollectible accounts related to uninsured patients in the period the services are provided. The provision for uncollectible accounts, which includes charge offs and changes to the allowance, is presented on the statement of operations as a component of net patient service revenue.

The System has agreements with third-party payers that provide for payments to the System at amounts different from its 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. Inpatient skilled nursing services are paid at prospectively determined per diem rates that are based on the patients' acuity. The System is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the System and audits thereof by the Medicare administrative contractor. The System's Medicare cost reports have been audited by the Medicare administrative contractor through December 31, 2008.

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 will change materially in the near term.

The System has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the System 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, 2013 and 2012, was approximately:

	2013	2012
Medicare	$ 40,370,000	$ 42,281,000
Medicaid	12,770,000	9,383,000
Other third-party payers	28,701,000	33,437,000
Self-pay	1,880,000	5,057,000
	$ 83,721,000	$ 90,158,000

Illinois Hospital Medicaid Assessment Program

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

In October 2013, the U.S. Centers for Medicare and Medicaid Services notified the Illinois Department of Healthcare and Family Services of its approval of the Enhanced Hospital Assessment Program effective July 1, 2012, which is anticipated to generate an additional annual net benefit for Illinois hospitals under the Hospital Assessment Program. The annual net benefit to the System due to the approval of this program is approximately $557,000.

The effects of these programs in the statements of operations and changes in net assets for the years ended December 31, 2013 and 2012, are as follows:

	2013	2012
Additional Medicaid payments included in net patient service revenue	$ 8,108,000	$ 4,846,000
Taxes assessed included in other operating expenses	$ 5,256,000	$ 2,500,000

The hospital assessment program contains a sunset provision effective December 31, 2014, and there is no assurance the program will be continued.

Note 3: Concentration of Credit Risk

The System grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payer agreements. The mix of net receivables from patients and third-party payers at December 31, 2013 and 2012, is:

	2013	**2012**
Medicare	43%	36%
Medicaid	8%	16%
Other third-party payers	30%	27%
Self-pay	19%	21%
	100%	100%

Note 4: Functional Expenses

The System provides health care services to residents within its geographic area including acute, skilled nursing, rehabilitative and home care. Expenses related to providing these services are as follows:

	2013	**2012**
Health care services		
Salaries and wages	$ 23,811,078	$ 25,272,726
Employee benefits	5,345,614	5,755,367
Other	32,888,151	32,255,400
Total health care services	62,044,843	63,283,493
General and administrative		
Salaries and wages	6,877,250	6,815,546
Employee benefits	1,334,435	1,345,369
Other	16,998,584	13,479,123
Interest	655,896	924,719
Total general and administrative	25,866,165	22,564,757
	$ 87,911,008	$ 85,848,250

Note 5: Investments and Investment Return

Short-term Investments

	2013	2012
Cash equivalents	$ 152,850	$ 160,404
Marketable equity securities	2,757,694	2,177,806
Fixed income		
U.S. government agency obligations	181,232	187,769
U.S. Treasury agency obligations	444,688	391,343
Corporate debt securities	470,061	532,712
Global investment hedge fund	132,447	119,272
	$ 4,138,972	$ 3,569,306

Marketable equity securities industry classifications are disclosed in Note 7.

Assets Limited as to Use

Assets limited as to use include:

	2013	2012
Internally designated		
Cash equivalents	$ -	$ 12,279
Global investment hedge fund	60,667	54,577
	$ 60,667	$ 66,856
Held by trustee under indenture agreements		
Cash equivalents	$ -	$ 1,286,331
Corporate debt securities	-	1,445,082
	$ -	$ 2,731,413

Total investment return is comprised of the following:

	2013	2012
Interest and dividend income and realized gains on sales of investments	$ 432,066	$ 113,158
Net change in unrealized gains on trading securities	326,886	125,172
Total investment return	$ 758,952	$ 238,330

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

	2013	2012
Unrestricted net assets		
Other nonoperating income	$ 758,952	$ 238,330

Note 6: Investment in and Advances to Equity Investee

The Health Center is the sole member of the L.L.C., a Delaware limited liability company incorporated in April 2000 to operate as the general and managing partner of the Villa, an Illinois limited partnership. The L.L.C. accounts for its general partnership interest in the Partnership under the equity method of accounting. The Partnership was created to own and operate a 64-unit assisted living apartment complex for low-income residents (the "Project"). During 2000, the Health Center executed a Declaration of Equity and Interest to transfer all ownership rights and responsibilities, except title, to the top four floors of the Saint Clare's Hospital building, representing approximately 29 percent of the building and a net book value of $1,493,000, to the L.L.C., which, in turn, contributed the equitable interest to the Partnership in exchange for its general partnership interest. Effective July 2001, National Development Corporation (NDC) and the L.L.C. executed an agreement, assigning a 99.99 percent limited partnership interest to NDC. Prior to NDC's investment, the Partnership was fully controlled by the L.L.C. NDC will receive federal tax credits based on its $7.2 million contribution to the Villa over a 15-year period. At the end of 15 years, the L.L.C. has the first option to acquire the Villa for the balance of any outstanding debt.

The Partnership obtained necessary government approvals to establish and operate the assisted living facility, including agreement with the Internal Revenue Service in order to comply with laws governing the conversion of property, purchased with proceeds of tax-exempt Health Center revenue bonds, from a Health Center to a low- and moderate-income multifamily residential housing use. Funding for the Partnership was provided primarily by investment from the limited partner and low-interest loans from the state of Illinois and Madison County to the Partnership. The loans from the state of Illinois and Madison County to the Villa totaled $869,833 and $886,800 at December 31, 2013 and 2012, respectively, and are collateralized by the Villa's real estate held for lease and an assignment of rents and leases. The Villa began accepting residents in April 2002 and was approximately 78 percent and 73 percent occupied as of December 31, 2013 and 2012, respectively. The L.L.C. is obligated under the partnership agreement to provide funds for any development or operating deficits. The partners' agreement states that profits and losses will be allocated to the general and limited partner in proportion to their respective percentage interest. Further, if the general partner ever has a positive capital account while the limited partner has a negative capital account, more expense, other than depreciation, will be allocated to the general partner until its capital account is reduced to zero. The L.L.C. has guaranteed annual tax losses to the limited partner in the amount of $324,000 commencing with the construction completion date. No amounts were incurred or are payable under this agreement as of December 31, 2013 or 2012.

At December 31, 2013 and 2012, due from affiliates includes amounts due from the Villa of $995,823 and $800,726, respectively. The Health Center charged the Villa $1,419,209 and $1,557,454 for services in 2013 and 2012, respectively, and such amounts are included in other revenue in the consolidated statements of operations.

Financial position and results of operations of the investee are summarized below:

	2013	2012
Current assets	$ 343,019	$ 202,207
Property and other long-term assets, net	5,827,293	6,109,923
Total assets	6,170,312	6,312,130
Current liabilities	86,422	65,445
Advances payable to Saint Anthony's Health Center	995,823	800,726
Long-term liabilities	852,696	869,833
Total liabilities	1,934,941	1,736,004
Partners' equity	$ 4,235,371	$ 4,576,126
Revenues	$ 1,541,350	$ 1,599,603
Deficiency of revenues over expenses	$ (340,755)	$ (448,549)

Note 7: Disclosures About Fair Value of Assets

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

Level 1 Quoted prices in active markets for identical assets

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets; 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

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

Recurring Measurements

The following table presents the fair value measurements of assets 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, 2013 and 2012:

		Fair Value Measurements Using		
As of December 31, 2013	**Fair Value**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Cash equivalents	$ 152,850	$ 152,850	$ -	$ -
Equity securities				
Financials	$ 760,095	$ 760,095	$ -	$ -
Technology	$ 423,917	$ 423,917	$ -	$ -
Consumer services	$ 243,361	$ 243,361	$ -	$ -
Health care	$ 336,744	$ 336,744	$ -	$ -
Industrials	$ 279,960	$ 279,960	$ -	$ -
Oil and gas	$ 126,817	$ 126,817	$ -	$ -
Consumer goods	$ 373,512	$ 373,512	$ -	$ -
Basic materials	$ 133,430	$ 133,430	$ -	$ -
Other	$ 79,858	$ 79,858	$ -	$ -
Debt securities				
U.S. Treasury agency obligations	$ 444,688	$ 444,688	$ -	$ -
U.S. government agency obligations	$ 181,232	$ -	$ 181,232	$ -
Corporate debt securities	$ 470,061	$ -	$ 470,061	$ -
Global investment hedge fund	$ 193,114	$ -	$ -	$ 193,114
Beneficial interest in trust	$ 1,259,785	$ -	$ 1,259,785	$ -
As of December 31, 2012				
Cash equivalents	$ 1,459,014	$ 1,459,014	$ -	$ -
Equity securities				
Financials	$ 578,046	$ 578,046	$ -	$ -
Technology	$ 343,636	$ 343,636	$ -	$ -
Consumer services	$ 255,545	$ 255,545	$ -	$ -
Health care	$ 225,480	$ 225,480	$ -	$ -
Industrials	$ 200,278	$ 200,278	$ -	$ -
Oil and gas	$ 157,118	$ 157,118	$ -	$ -
Consumer goods	$ 209,341	$ 209,341	$ -	$ -
Basic materials	$ 129,832	$ 129,832	$ -	$ -
Other	$ 78,530	$ 78,530	$ -	$ -
Debt securities				
U.S. Treasury agency obligations	$ 391,343	$ 391,343	$ -	$ -
U.S. government agency obligations	$ 187,769	$ -	$ 187,769	$ -
Corporate debt securities	$ 1,977,794	$ -	$ 1,977,794	$ -
Global investment hedge fund	$ 173,849	$ -	$ -	$ 173,849
Beneficial interest in trust	$ 1,180,748	$ -	$ 1,180,748	$ -

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended December 31, 2013. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

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. See the table below for inputs and valuation techniques used for Level 3 investments.

The value of certain investments, such as hedge funds, is determined using net asset value as a practical expedient. Investments for which the System expects to have the ability to redeem its investments with the investee within 12 months after the reporting date are categorized as Level 2. Investments for which the System does not expect to be able to redeem its investments with the investee within 12 months after the reporting date are categorized as Level 3.

Fair value determinations for Level 3 measurements of investments are the responsibility of the System. The System contracts with a pricing specialist to generate fair value estimates on a monthly basis. The System challenges the reasonableness of the assumptions used and reviews the methodology to ensure the estimated fair values complies with accounting standards generally accepted in the United States.

Beneficial Interest in Trusts

Fair value is estimated at the present value of the future distributions expected to be received over the term of the agreement. Due to the nature of the valuation inputs, the interest is classified within Level 2 of the hierarchy.

Level 3 Reconciliation

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying consolidated balance sheets using significant unobservable (Level 3) inputs:

	Global Investment Hedge Fund
Balance, January 1, 2012	$ 163,522
Purchases	9,271
Unrealized gains	1,056
Balance, December 31, 2012	173,849
Purchases	-
Unrealized gains	19,265
Balance, December 31, 2013	$ 193,114

	2013	2012
Total gains for the period included in change in net assets attributable to the change in unrealized gains related to assets still held at the reporting date	$ 19,265	$ 1,056

Unrealized gains for items reflected in the table above are included in investment return in the statement of operations.

Unobservable (Level 3) Inputs

The following table presents information about unobservable inputs in recurring Level 3 fair value measurements:

	Fair Value at December 31, 2013	Valuation Technique	Unobservable Inputs
Global investment hedge fund	$ 193,114	Net asset value	Net asset value

Note 8: Professional Liability Claims

The System has joined together with other providers of health care services to form the Illinois Provider Trust and the Illinois Compensation Trust, two risk pools currently operating as common risk management and insurance programs for their members. The System pays annual premiums to the pools for its general liability torts, medical malpractice and employee injuries insurance coverage. The pools' governing agreements specify that the pools will be self-sustaining through member premiums and will reinsure through commercial carriers for claims in excess of specified stop-loss amounts. It is reasonably possible that the System's estimate of loss will change by a material amount in the near term.

Note 9: Long-term Debt

	2013	2012
1996 Revenue bonds (A)	$ -	$ 2,650,000
Program revenue note payable, due December 2014; payable in monthly installments of $57,404 January 2010 through December 2011; and $23,361 January 2012 through December 2014 plus interest at 5.12% (B)	272,489	531,019
Note payable, bank (C)	58,202	394,584
2010 revenue bonds (D)	5,949,890	7,464,943
Promissory note payable (E)	764,722	1,000,000
Capital lease obligations (F)	1,299,535	1,585,738
	8,344,838	13,626,284
Less current maturities	2,595,009	4,051,965
	$ 5,749,829	$ 9,574,319

(A) During 1996, the city of Alton, Illinois, sold on behalf of the Health Center, $22,640,000 in Illinois Hospital Facility Revenue Refunding Bonds (the "Bonds"). The proceeds were then loaned to the Health Center and, together with certain funds held under the 1989 and 1985 bond indentures, were used to advance refund the 1989 Revenue Bonds and the 1985 Revenue Refunding Bonds. As of December 31, 2013, none of the in-substance defeased bonds, which are considered extinguished for financial statement reporting purposes, remain outstanding.

The Bonds bear interest at 6 percent and are payable in annual installments through September 1, 2014.

Pursuant to a Master Trust Indenture dated as of February 1, 1996, the Health Center issued to the city a Direct Obligation Note, Series 1996 in a principal amount equal to the aggregate principal amount of the 1996 Revenue Refunding Bonds. The obligation of the Health Center is secured by

Unrestricted Receivables, as defined, of the Health Center and requires the Health Center to meet certain restrictive loan covenant requirements with respect to financial performance. The provisions of the loan agreement contain restrictive covenants pertaining to financial and operational requirements of the Health Center. The Health Center currently is the sole member of an Obligated Group created under the Master Trust Indenture. These 1996 Revenue Refunding Bonds were paid in full in 2013.

(B) In 2004, the Illinois Finance Authority issued a Master Financing Agreement to General Electric Capital Corporation (GECC) for $4,975,000. The proceeds of the notes were loaned to the Health Center to purchase certain equipment. Under the terms of the agreements, the Health Center granted to the GECC a security interest in the related equipment. The agreements also require the Health Center to meet certain restrictive loan covenant requirements.

(C) In February 2009, a note payable was extended to February 2014, payable $29,342 monthly including interest at 6.50 percent. The borrowing is unsecured. The Health Center paid the outstanding liability in full in February 2014.

(D) On March 26, 2010, the Health Center issued $10,000,000 in debt through the Illinois Finance Authority with three investors. The proceeds were used to pay the costs of radiology, hospital and other medical and non-medical equipment, information systems hardware and software and various hospital renovations and improvements.

Series 2010A Revenue Bonds were issued for $3,000,000 to GE Government Finance, Inc. and loaned to the Health Center in a Loan Agreement dated March 1, 2010. The borrowing is payable in monthly installments beginning on May 1, 2010 through April 1, 2018, at a fixed interest rate of 5.76 percent. The borrowing is secured by the Health Center's unrestricted receivables. A loan covenant requires that the Health Center to maintain a maximum debt to capital ratio. During 2012 the loan agreement was amended to modify the debt to capital ratio.

Series 2010B Revenue Bonds were issued for $5,000,000 to Key Government Finance, Inc. and loaned to the Health Center in a Loan Agreement dated March 1, 2010. The borrowing is payable in monthly installments beginning on April 1, 2010 through March 1, 2017, at a fixed interest rate of 5.61 percent. The borrowing is secured by all equipment financed with the proceeds of the borrowing.

Series 2010C Revenue Bonds were issued for $2,000,000 to Commerce Bank N.A. and loaned to the Health Center in a Loan Agreement dated March 1, 2010. The borrowing is payable in monthly installments beginning on April 1, 2010 through March 1, 2017, at a fixed interest rate of 5.59 percent. The borrowing is secured by all equipment financed with the proceeds of the borrowing. A loan covenant requires that the Health Center maintain a maximum debt to capital ratio. During 2012 the loan agreement was amended to affix certain property as additional collateral to the 2010C bond issuance and was amended to modify the maximum debt to capital ratio.

(E) In November 2011, the Health Center obtained a $1,000,000 promissory note from OSF Healthcare System for operational needs. The note has a fixed interest rate of 4.00 percent, with interest only payable during the first year. The borrowing is payable in quarterly installments beginning March 1, 2012 through November 30, 2016.

(F) At varying rates of imputed interest from 5.30 percent to 10.50 percent, due through 2018; collateralized by equipment. Property and equipment includes the following property under capital leases:

	2013	2012
Equipment	$ 2,706,705	$ 2,610,645
Less accumulated depreciation	1,184,957	758,082
	$ 1,521,748	$ 1,852,563

Aggregate annual maturities of long-term debt and payments on capital lease obligations at December 31, 2013, are:

	Long-term Debt (Excluding Capital Lease Obligations)	Capital Lease Obligations
2014	$ 2,178,613	$ 474,671
2015	1,951,013	421,672
2016	2,059,854	382,896
2017	726,622	110,895
2018	129,201	25,298
	$ 7,045,303	1,415,432
Less amount representing interest		115,897
Present value of future minimum lease payments		1,299,535
Less current maturities		416,396
Noncurrent portion		$ 883,139

Note 10: Temporarily Restricted Net Assets

The System is an income beneficiary of two trusts controlled by unrelated third-party trustees. The beneficial interests in the assets of these trusts are classified in the System's consolidated financial statements as temporarily restricted net assets. Income is distributed in accordance with the individual trust documents and is included in investment return. Trust income distributed to the System for the years ended December 31, 2013 and 2012, was $60,330 and $35,937, respectively.

Note 11: Pension Plans

The Health Center had a noncontributory defined benefit pension plan covering all employees who met the eligibility requirements. The Health Center froze the defined benefit plan during February 2012. This defined benefit plan has been replaced with a defined contribution plan which covers employees who meet certain eligibility requirements. The Health Center has not determined when the defined benefit plan will be terminated.

The Health Center's funding policy is to make contributions to the defined benefit plan within the limits prescribed by the Standards defined by the Internal Revenue Code, plus such amounts as the Health Center may determine to be appropriate from time to time. The Health Center expects to contribute $1,000,000 to the defined benefit plan in 2014.

The Health Center uses a December 31, measurement date for the defined benefit plan. Information about the plan's funded status follows:

	2013	2012
Benefit obligation	$(58,801,950)	$(64,162,866)
Fair value of plan assets	38,638,898	34,197,634
Funded status	$(20,163,052)	$(29,965,232)

Assets and liabilities recognized in the consolidated balance sheets:

	2013	2012
Noncurrent liability	$ 20,163,052	$ 29,965,232

Amounts recognized in unrestricted net assets not yet recognized as components of net periodic benefit cost consist of:

	2013	2012
Net loss	$ 12,413,575	$ 21,845,955

The accumulated benefit obligation was $58,801,950 and $64,162,866 at December 31, 2013 and 2012, respectively.

Other significant balances and costs are:

	2013	2012
Employer contributions	$ 1,001,853	$ 774,066
Benefits paid	$ 1,982,331	$ 1,740,263
Benefit costs	$ 632,053	$ 671,962

Saint Anthony's Health System
Notes to Consolidated Financial Statements
December 31, 2013 and 2012

The following amounts have been recognized in the consolidated statement of operations for the years ended December 31, 2013 and 2012:

	2013	2012
Amounts arising during the period		
Net gain (loss)	$ 8,940,670	$ (5,325,200)
Amounts reclassified as components of net periodic benefit cost of the period		
Net gain	$ 491,710	$ 251,444

The estimated prior service cost for the defined benefit pension plan that will be amortized from unrestricted net assets into net periodic benefit cost over the next fiscal year is $274,054.

Significant assumptions include:

Weighted-average assumptions used to determine benefit obligations at the end of the year:

	2013	2012
Discount rate	5.12%	4.35%
Rate of compensation increase	3.00%	3.00%

Weighted-average assumptions used to determine benefit costs at the beginning of the year:

	2013	2012
Discount rate	4.35%	5.11%
Expected return on plan assets	7.50%	8.00%
Rate of compensation increase	3.00%	3.00%

The Health Center has estimated the long-term rate of return on plan assets based primarily on historical returns on plan assets, adjusted for changes in target portfolio allocations and recent changes in long-term interest rates based on publicly available information.

The following benefit payments are expected to be paid as of December 31, 2013:

2014	$ 2,153,000
2015	$ 2,310,000
2016	$ 2,497,000
2017	$ 2,702,000
2018	$ 2,883,000
2018-2023	$ 17,534,000

The defined benefit plan's assets are invested in funds consisting of cash, equity securities, fixed income funds and alternative investments.

Asset allocation is primarily based on a strategy to provide stable earnings while still permitting the plan to recognize potentially higher returns through a limited investment in equity securities. The target asset allocation percentages for 2013 and 2012 are as follows:

	2013	2012
Equity securities	50 - 70%	50 - 70%
Fixed income investments	20 - 45%	20 - 45%
Alternatives	0 - 10%	0 - 10%

Plan assets are re-balanced quarterly. At December 31, 2013 and 2012, plan assets by category are as follows:

	2013	2012
Cash and equivalents	5%	4%
Equity securities	65%	61%
Fixed income investments	20%	25%
Alternatives	10%	10%
	100%	100%

Defined Benefit Pension Plan Assets

Following is a description of the valuation methodologies and inputs used for pension plan assets measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of pension plan assets pursuant to the valuation hierarchy.

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

Significant inputs and valuation techniques used in measuring Level 3 fair values include alternative investments in hedge funds. Alternative investments are based on the net asset value reported by the investment managers.

Fair value determinations for Level 3 measurements of investments are the responsibility of the System. The System contracts with a pricing specialist to generate fair value estimates on a monthly basis. The System challenges the reasonableness of the assumptions used and reviews the methodology to ensure the estimated fair values complies with accounting standards generally accepted in the United States.

The fair values of the System's pension plan assets at December 31, 2013 and 2012, by asset category are as follows:

		Fair Value Measurements Using		
	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, 2013				
Cash equivalents	$ 1,487,128	$ 1,487,128	$ -	$ -
Equity securities				
Financials	$ 6,965,153	$ 6,965,153	$ -	$ -
Technology	$ 4,217,231	$ 4,217,231	$ -	$ -
Consumer goods and services	$ 5,005,530	$ 5,005,530	$ -	$ -
Health care	$ 3,216,099	$ 3,216,099	$ -	$ -
Industrials	$ 2,743,981	$ 2,743,981	$ -	$ -
Energy	$ 1,052,535	$ 1,052,535	$ -	$ -
Basic materials	$ 1,341,502	$ 1,341,502	$ -	$ -
Other	$ 887,474	$ 887,474	$ -	$ -
Debt securities				
U.S. Treasury obligations	$ 3,474,701	$ 3,474,701	$ -	$ -
U.S. government agency obligations	$ 1,202,543	$ -	$ 1,202,543	$ -
Corporate debt securities	$ 2,881,249	$ -	$ 2,881,249	$ -
Foreign bonds	$ 504,881	$ -	$ 504,881	$ -
Global investment hedge fund	$ 3,658,891	$ -	$ -	$ 3,658,891

Saint Anthony's Health System
Notes to Consolidated Financial Statements
December 31, 2013 and 2012

		Fair Value Measurements Using		
	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, 2012				
Cash equivalents	$ 1,517,269	$ 1,517,269	$ -	$ -
Equity securities				
Financials	$ 5,719,741	$ 5,719,741	$ -	$ -
Technology	$ 3,447,607	$ 3,447,607	$ -	$ -
Consumer services	$ 2,150,686	$ 2,150,686	$ -	$ -
Health care	$ 2,222,946	$ 2,222,946	$ -	$ -
Industrials	$ 2,035,273	$ 2,035,273	$ -	$ -
Oil and gas	$ 1,301,518	$ 1,301,518	$ -	$ -
Basic materials	$ 1,348,945	$ 1,348,945	$ -	$ -
Consumer goods	$ 1,781,964	$ 1,781,964	$ -	$ -
Other	$ 767,467	$ 767,467	$ -	$ -
Debt securities	$ -			
U.S. Treasury obligations	$ 3,013,934	$ 3,013,934	$ -	$ -
U.S. government agency obligations	$ 1,370,060	$ -	$ 1,370,060	$ -
Corporate debt securities	$ 4,226,356	$ -	$ 4,226,356	$ -
Global investment hedge fund	$ 3,293,868	$ -	$ -	$ 3,293,868

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying consolidated balance sheets using significant unobservable (Level 3) inputs:

	Global Investment Hedge Fund
Balance, January 1, 2012	$ 3,121,730
Purchases	150,000
Unrealized gains	22,138
Balance, December 31, 2012	3,293,868
Purchases	-
Unrealized gains	365,023
Balance, December 31, 2013	$ 3,658,891

Note 12: Related Party Transactions

During 2013 and 2012, the Health Center made capital contributions to the System in the amount of $4,223,000 and $2,975,000, respectively, primarily to fund the operations of certain entities sponsored by the System.

At December 31, 2013 and 2012, amounts due to the Health Center from affiliates include $1,573,893 and $1,630,498 due from SAHS, respectively, and $995,823 and $800,726 due from the Villa, respectively, less a $340,000 allowance for each year, and $16,257 and $200,169 due from Saint Anthony's Foundation and others, respectively.

Note 13: Significant Estimates

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates. Those matters include the following:

Allowance for Net Patient Service Revenue Adjustments

Estimates of allowances for adjustments included in net patient service revenue are described in Notes 1 and 2.

Professional Liability Claims

Estimates related to the accrual for professional liability claims are described in Note 8.

Litigation

In the normal course of business, the System is, from time to time, subject to allegations that may or do result in litigation. Although the outcome of these allegations cannot be predicted with certainty, management believes the ultimate disposition of such matters will not have a material effect on the System's financial condition or operations. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Note 14: Patient Protection and Affordable Care Act

The *Patient Protection and Affordable Care Act* (PPACA) will substantially reform the United States health care system. The legislation impacts multiple aspects of the health care system, including many provisions that change payments from Medicare, Medicaid and insurance companies. Starting in 2014, the legislation requires the establishment of health insurance exchanges, which will provide individuals without employer provided health care coverage the opportunity to purchase insurance. It is anticipated that some employers currently offering insurance to employees will opt to have employees seek insurance coverage through the insurance exchanges. It is possible that the reimbursement rates paid by insurers participating in the insurance exchanges may be substantially different than rates paid under current health insurance products. Another significant component of the PPACA is the expansion of the Medicaid program to a wide range of newly eligible individuals. In anticipation of this expansion, payments under certain existing programs, such as Medicare disproportionate share, will be substantially decreased. Each state's participation in an expanded Medicaid program is optional.

The state of Illinois is participating in the Medicaid expansion program.

The PPACA is extremely complex and may be difficult for the federal government and each state to implement. While the overall impact of the PPACA cannot currently be estimated, it is possible that it will have a negative impact on the System's net patient service revenue. Additionally, it is possible the System will experience payment delays and other operational challenges during PPACA's implementation.

Note 15: Subsequent Events

On March 10, 2014, the System entered into a letter of intent with OSF Healthcare System with respect to a possible merger upon reaching an affiliation agreement based on proposed binding and nonbinding provisions. Terms of the agreement are set to expire at the earliest of the following: i) a full execution of an affiliation agreement; ii) termination by any party with 10 days prior to written notice; iii) failure of an affiliation agreement to be executed by December 31, 2014, unless mutually extended.

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

Supplementary Information

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Independent Auditor's Report on Supplementary Information

Board of Directors
Saint Anthony's Health System
Alton, Illinois

Our 2013 audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary consolidated 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
May 1, 2014

Saint Anthony's Health System

Consolidated Balance Sheet – With Consolidating Information

December 31, 2013

Assets

	Health Center	SAHS
Current Assets		
Cash and cash equivalents	$ 7,166,453	$ 125
Short-term investments	4,138,972	-
Assets limited as to use - current	-	-
Patient accounts receivable, net of allowance; 2013 - $1,661,000, 2012 - $4,051,000	9,709,428	-
Supplies	1,802,080	-
Prepaid expenses and other current assets	373,350	-
Total current assets	23,190,283	125
Assets Limited As To Use		
Internally designated	-	-
Under indenture agreements held by trustee	-	-
	-	-
Less amount required to meet current obligations	-	-
	-	-
Property and Equipment, At Cost		
Land and land improvements	13,920,454	-
Buildings and leasehold improvements	48,886,695	1,922,807
Equipment	40,088,952	335,648
Construction in progress	1,127,024	-
	104,023,125	2,258,455
Less accumulated depreciation	79,110,427	1,579,067
	24,912,698	679,388
Other Assets		
Due from affiliates, net of allowance	2,245,973	-
Deferred financing costs	37,863	-
Investment in Saint Clare's Villa	1,492,197	-
Other	1,797,557	-
	5,573,590	-
Total assets	$ 53,676,571	$ 679,513

SAPG	Saint Anthony's Foundation	Eliminations	Consolidated
$ 26,387	$ 28,340	$ -	$ 7,221,305
-	-	-	4,138,972
-	-	-	-
711,871	-	-	10,421,299
-	-	-	1,802,080
54,964	-	-	428,314
793,222	28,340	-	24,011,970
-	60,667	-	60,667
-	-	-	-
-	60,667	-	60,667
-	-	-	-
-	60,667	-	60,667
-	-	-	13,920,454
-	-	-	50,809,502
261,273	-	-	40,685,873
-	-	-	1,127,024
261,273	-	-	106,542,853
215,120	-	-	80,904,614
46,153	-	-	25,638,239
-	-	(1,573,893)	672,080
-	-	-	37,863
-	-	-	1,492,197
4,269	-	-	1,801,826
4,269	-	(1,573,893)	4,003,966
$ 843,644	$ 89,007	$ (1,573,893)	$ 53,714,842

Saint Anthony's Health System

Consolidated Balance Sheet – With Consolidating Information (Continued)

December 31, 2013

Liabilities and Net Assets

	Health Center	SAHS
Current Liabilities		
Current maturities of long-term debt	$ 2,595,009	$ -
Accounts payable, accrued expenses and deferred income	3,606,929	-
Accrued employee compensation	3,169,687	101,271
Estimated amounts due to third-party payers	3,069,610	-
Total current liabilities	12,441,235	101,271
Due to (from) Affiliates	-	1,573,893
Long-term Debt	5,749,829	-
Pension Liability	20,163,052	-
Other Long-term Liabilities	1,972,654	81,008
Total liabilities	40,326,770	1,756,172
Net Assets		
Unrestricted	12,023,592	(1,076,659)
Temporarily restricted	1,326,209	-
Total net assets	13,349,801	(1,076,659)
Total liabilities and net assets	$ 53,676,571	$ 679,513

SAPG	Saint Anthony's Foundation	Eliminations	Consolidated
$ -	$ -	$ -	$ 2,595,009
171,583	-	-	3,778,512
519,625	-	-	3,790,583
-	-	-	3,069,610
691,208	-	-	13,233,714
-	-	(1,573,893)	-
-	-	-	5,749,829
-	-	-	20,163,052
44,772	-	-	2,098,434
735,980	-	(1,573,893)	41,245,029
107,664	28,340	-	11,082,937
-	60,667	-	1,386,876
107,664	89,007	-	12,469,813
$ 843,644	$ 89,007	$ (1,573,893)	$ 53,714,842

Saint Anthony's Health System

Consolidated Schedules of Operations – With Consolidating Information

December 31, 2013

	Health Center	SAHS
Unrestricted Revenues, Gains and Other Support		
Patient service revenue (net of contractual discounts and allowances	$ 75,832,354	$ -
Provision for uncollectible accounts	(976,222)	-
Net patient service revenue less provision for uncollectible accounts	74,856,132	-
Contributions	734,401	-
Electronic health records incentive payment	2,090,653	-
Other	2,799,045	125,720
Total unrestricted revenues, gains and other support	80,480,231	125,720
Expenses		
Salaries and wages	28,574,203	-
Employee benefits	5,826,912	-
Physician fees	1,722,714	-
Supplies	13,083,834	-
Contract services	11,719,463	-
Utilities	1,352,470	-
Insurance	1,501,409	6,198
Depreciation and amortization	3,851,297	125,720
Interest	655,896	-
Other	8,140,056	60
Total expenses	76,428,254	131,978
Operating Income (Loss)	4,051,977	(6,258)
Other Income (Expense)		
Investment return	758,919	-
Net gain on sale of durable medical equipment operations	1,384,365	-
Change in investment of unconsolidated organizations	(34)	-
Total other income (expense)	2,143,250	-
Excess (Deficiency) of Revenues Over Expenses	6,195,227	(6,258)
Change in defined benefit pension plan gains and losses and net periodic benefit cost	9,432,380	-
Transfers To (From) Affiliates	(4,223,000)	-
Increase (Decrease) in Unrestricted Net Assets	$ 11,404,607	$ (6,258)

SAPG	Saint Anthony's Foundation	Eliminations	Consolidated
$ 7,889,432	$ -	$ (1,054)	$ 83,720,732
-	-	-	(976,222)
7,889,432	-	(1,054)	82,744,510
-	108,012	-	842,413
-	-	-	2,090,653
17,201	-	(745,065)	2,196,901
7,906,633	108,012	(746,119)	87,874,477
2,063,925	50,200	-	30,688,328
853,137	-	-	6,680,049
6,397,937	-	-	8,120,651
284,045	47,985	(1,054)	13,414,810
1,056,714	1,600	(10,054)	12,767,723
-	-	-	1,352,470
410,864	-	-	1,918,471
27,737	-	-	4,004,754
-	-	-	655,896
900,661	2,090	(735,011)	8,307,856
11,995,020	101,875	(746,119)	87,911,008
(4,088,387)	6,137	-	(36,531)
-	33	-	758,952
-	-	-	1,384,365
-	-	-	(34)
-	33	-	2,143,283
(4,088,387)	6,170	-	2,106,752
-	-	-	9,432,380
4,223,000	-	-	-
$ 134,613	$ 6,170	$ -	$ 11,539,132

Change of Ownership Exemption
Permit Application

to Affiliate

Saint Anthony's Health System
and
Saint Anthony's Health Center
Alton, Illinois

Into the

OSF Healthcare System
Peoria, Illinois
Co-applicants

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