

ILLINOIS HEALTH FACILITIES AND SERVICES REVIEW BOARD  
APPLICATION FOR PERMIT

15-038

SECTION I. IDENTIFICATION, GENERAL INFORMATION, AND CERTIFICATION

RECEIVED

This Section must be completed for all projects.

ORIGINAL

AUG 18 2015

Facility/Project Identification

HEALTH FACILITIES &  
SERVICES REVIEW BOARD

|                    |                                                  |                     |                              |
|--------------------|--------------------------------------------------|---------------------|------------------------------|
| Facility Name:     | Rockford Memorial Hospital-Rockton Avenue Campus |                     |                              |
| Street Address:    | 2400 North Rockton Avenue Rockford, IL 61103     |                     |                              |
| City and Zip Code: | Rockford, IL                                     |                     |                              |
| County:            | Winnebago                                        | Health Service Area | I Health Planning Area: B-01 |

Applicant /Co-Applicant Identification

[Provide for each co-applicant [refer to Part 1130.220].

|                                  |                                                             |
|----------------------------------|-------------------------------------------------------------|
| Exact Legal Name:                | Interstate Alliance, Inc. d/b/a MercyRockford Health System |
| Address:                         | 2400 N. Rockton Avenue Rockford, IL 61103                   |
| Name of Registered Agent:        |                                                             |
| Name of Chief Executive Officer: | Javon R. Bea                                                |
| CEO Address:                     | 2400 N. Rockton Avenue Rockford, IL 61103                   |
| Telephone Number:                | 815/971-5000                                                |

Type of Ownership of Applicant/Co-Applicant

- |                                                            |                                              |
|------------------------------------------------------------|----------------------------------------------|
| <input checked="" type="checkbox"/> Non-profit Corporation | <input type="checkbox"/> Partnership         |
| <input type="checkbox"/> For-profit Corporation            | <input type="checkbox"/> Governmental        |
| <input type="checkbox"/> Limited Liability Company         | <input type="checkbox"/> Sole Proprietorship |
|                                                            | <input type="checkbox"/> Other               |
- Corporations and limited liability companies must provide an **Illinois certificate of good standing**.
  - Partnerships must provide the name of the state in which organized and the name and address of each partner specifying whether each is a general or limited partner.

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

Primary Contact

[Person to receive ALL correspondence or inquiries]

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

Additional Contact

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

|                   |                                           |
|-------------------|-------------------------------------------|
| Name:             | James P. Evans                            |
| Title:            | Vice President and General Counsel        |
| Company Name:     | Rockford Health System                    |
| Address:          | 2350 N. Rockton Avenue Rockford, IL 61103 |
| Telephone Number: | 815/971-5000                              |
| E-mail Address:   | jpevans@rhsnet.org                        |
| Fax Number:       | 815/961-1449                              |

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

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| County:            | Winnebago                                        | Health Service Area | I Health Planning Area: B-01 |

**Applicant /Co-Applicant Identification**

**[Provide for each co-applicant [refer to Part 1130.220].**

|                                  |                                           |
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| Address:                         | 2400 N. Rockton Avenue Rockford, IL 61103 |
| Name of Registered Agent:        |                                           |
| Name of Chief Executive Officer: | Javon R. Bea                              |
| CEO Address:                     | 2400 N. Rockton Avenue Rockford, IL 61103 |
| Telephone Number:                | 815/971-5000                              |

**Type of Ownership of Applicant/Co-Applicant**

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

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

**Additional Contact**

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

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| Telephone Number: | 815/971-5000                              |
| E-mail Address:   | jpevans@rhsnet.org                        |
| Fax Number:       | 815/961-1449                              |

**ILLINOIS HEALTH FACILITIES AND SERVICES REVIEW BOARD  
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| County:            | Winnebago                                        | Health Service Area   | I    |
|                    |                                                  | Health Planning Area: | B-01 |

**Applicant /Co-Applicant Identification**

**[Provide for each co-applicant [refer to Part 1130.220].**

|                                  |                                           |
|----------------------------------|-------------------------------------------|
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| Name of Chief Executive Officer: | Javon R. Bea                              |
| CEO Address:                     | 2400 N. Rockton Avenue Rockford, IL 61103 |
| Telephone Number:                | 815/971-5000                              |

**Type of Ownership of Applicant/Co-Applicant**

- |                                                                   |                                              |
|-------------------------------------------------------------------|----------------------------------------------|
| <input checked="checked" type="checkbox"/> Non-profit Corporation | <input type="checkbox"/> Partnership         |
| <input type="checkbox"/> For-profit Corporation                   | <input type="checkbox"/> Governmental        |
| <input type="checkbox"/> Limited Liability Company                | <input type="checkbox"/> Sole Proprietorship |
| <input type="checkbox"/> Other                                    |                                              |
- Corporations and limited liability companies must provide an **Illinois certificate of good standing**.
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| Telephone Number: | 815/971-5000                              |
| E-mail Address:   | jpevans@rhsnet.org                        |
| Fax Number:       | 815/961-1449                              |

### Post Permit Contact

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

|                   |                                           |
|-------------------|-------------------------------------------|
| Name:             | James P. Evans                            |
| Title:            | Vice President and General Counsel        |
| Company Name:     | Rockford Health System                    |
| Address:          | 2350 N. Rockton Avenue Rockford, IL 61103 |
| Telephone Number: | 815/971-5000                              |
| E-mail Address:   | jpevans@rhsnet.org                        |
| Fax Number:       | 815/961-1449                              |

### Site Ownership

[Provide this information for each applicable site]

|                                                                                                                                                                                                                                                                                                        |                                           |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------|
| Exact Legal Name of Site Owner:                                                                                                                                                                                                                                                                        | Rockford Memorial Hospital                |
| Address of Site Owner:                                                                                                                                                                                                                                                                                 | 2400 N. Rockton Avenue Rockford, IL 61103 |
| Street Address or Legal Description of Site:                                                                                                                                                                                                                                                           | legal description provided                |
| Proof of ownership or control of the site is to be provided as Attachment 2. Examples of proof of ownership are property tax statement, tax assessor's documentation, deed, notarized statement of the corporation attesting to ownership, an option to lease, a letter of intent to lease or a lease. |                                           |
| APPEND DOCUMENTATION AS ATTACHMENT-2, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.                                                                                                                                                                                         |                                           |

### Operating Identity/Licensee

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

|                                                                                                                                                                                                                                                                                                                                                                                                                                                 |                           |                                                     |                     |                          |       |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------|-----------------------------------------------------|---------------------|--------------------------|-------|
| Exact Legal Name:                                                                                                                                                                                                                                                                                                                                                                                                                               |                           | Rockford Memorial Hospital                          |                     |                          |       |
| Address:                                                                                                                                                                                                                                                                                                                                                                                                                                        |                           | 2400 N. Rockton Avenue Rockford, IL 61103 (current) |                     |                          |       |
| <input checked="" type="checkbox"/>                                                                                                                                                                                                                                                                                                                                                                                                             | Non-profit Corporation    | <input type="checkbox"/>                            | Partnership         |                          |       |
| <input type="checkbox"/>                                                                                                                                                                                                                                                                                                                                                                                                                        | For-profit Corporation    | <input type="checkbox"/>                            | Governmental        |                          |       |
| <input type="checkbox"/>                                                                                                                                                                                                                                                                                                                                                                                                                        | Limited Liability Company | <input type="checkbox"/>                            | Sole Proprietorship | <input type="checkbox"/> | Other |
| <ul style="list-style-type: none"><li>Corporations and limited liability companies must provide an Illinois Certificate of Good Standing.</li><li>Partnerships must provide the name of the state in which organized and the name and address of each partner specifying whether each is a general or limited partner.</li><li>Persons with 5 percent or greater interest in the licensee must be identified with the % of ownership.</li></ul> |                           |                                                     |                     |                          |       |
| APPEND DOCUMENTATION AS ATTACHMENT-3, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.                                                                                                                                                                                                                                                                                                                                  |                           |                                                     |                     |                          |       |

### Organizational Relationships

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

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

## Flood Plain Requirements

[Refer to application instructions.]

Provide documentation that the project complies with the requirements of Illinois Executive Order #2005-5 pertaining to construction activities in special flood hazard areas. As part of the flood plain requirements please provide a map of the proposed project location showing any identified floodplain areas. Floodplain maps can be printed at [www.FEMA.gov](http://www.FEMA.gov) or [www.illinoisfloodmaps.org](http://www.illinoisfloodmaps.org). **This map must be in a readable format.** In addition please provide a statement attesting that the project complies with the requirements of Illinois Executive Order #2005-5 (<http://www.hfsrb.illinois.gov>).

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

## Historic Resources Preservation Act Requirements

[Refer to application instructions.]

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

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

## DESCRIPTION OF PROJECT

### 1. Project Classification

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

Part 1110 Classification:

☒ Substantive

☐ Non-substantive

## 2. Narrative Description

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

The applicants are submitting three CON applications, addressing three projects that are inter-related and dependent on one another. One project addresses a reconfiguration of the existing Rockford Memorial Hospital (RMH) facility, through the repurposing of a portion of the hospital's existing space for a variety of uses, including hospital services and the housing of community-based not-for-profit agencies. This application addresses this project, and for purposes of this application, RMH's existing location will be referred to as the Rockford Memorial Hospital-Rockton Avenue Campus, or RMH-Rockton Avenue.

The existing hospital is located at 2400 North Rockton Avenue in Rockford, Illinois.

RMH-Rockton Avenue will retain its current IDPH license to operate as a hospital, and among the clinical services that will continue to be provided at RMH-Rockton Avenue, are:

- 70 Medical/Surgical beds (three units)
- 20 Acute Mental Illness (psychiatry) beds (one unit)
- 4 ICU beds
- 16 observation beds (one unit)
- an Emergency Department
- a Convenient Care Center
- surgical suite
- physicians' offices
- surgery and surgical recovery
- a pain management center
- a wound care center
- outpatient clinics
- cardiac and pulmonary rehabilitation
- radiation oncology
- oncology infusion
- diagnostic imaging
- sleep lab
- physical and occupational therapy
- respiratory therapy
- clinical laboratory
- pharmacy

The project cost identified in the following section of this application includes only those costs that are directly associated with the project. On a routine basis, and in order to maintain RMH, the applicants annually invest \$6-7M on facility renovations and \$9-10M on equipment upgrades and replacement. These spending levels are anticipated to continue through the duration of the projects.

The Rockford Memorial Hospital campus consists of five primary buildings:

1. The main hospital building consists of a number of components constructed between 1954 and 2002. This building contains all of the hospital's inpatient services and many of the outpatient services. The primary purpose of this building will not change with the proposed project.
2. The Rockford Medical Group Building is immediately to the south of and connected to the hospital building. This building primarily houses physicians' office space and administrative space. These functions will continue to be provided in this building.
3. The Clinic Building consists of approximately 207,000 square feet, was built between 1951 and 1991, and contains physicians' offices, a convenient care center, and hospital and system administrative functions. This building will be vacated, with physicians' offices and selective administrative functions relocating to the Rockford Medical Group Building and the remainder of the administrative functions relocating to the hospital building. The convenient care center will be re-located to the hospital. The Clinic Building will be made available to area not-for-profit groups and agencies, and primarily those with a health care/wellness mission.
4. The North Office Building was constructed in 1957, contains primarily administrative and physicians' offices, and will be vacated through the proposed project. The potential exists to demolish this building following the completion of the proposed project.
5. The Ingersoll Building is located on the west side of the hospital campus, separated from the other buildings by a large parking lot. This building was constructed in 1954 as a nurses' dormitory, currently houses administrative offices, sleep rooms and physicians' offices, and will be demolished.

The following clinical areas will either be re-located within the existing hospital facility, re-located to the proposed new hospital, and/or down-sized through the proposed project:

- RMH currently has 13 nursing units used for M/S, pediatrics, obstetrics and acute mental illness. Upon the project's completion, three of the units will house M/S beds, one unit will house AMI, and one unit will operate as an observation unit. The remaining units will be re-purposed for administrative functions.
- The current 12-bed surgical intensive care unit will become a 4-bed general ICU.
- The surgical suite, which currently has 14 operating rooms will become a 4-OR suite.
- The emergency department will be down-sized from 31 to 17 treatment stations.
- The convenient care center currently located in the Clinic Building (located to the south of the hospital) will be re-located to vacated space in the emergency department
- The laboratory functions currently located in the Clinic Building will be incorporated into the hospital's main laboratory.

- The wound care center currently located in the Clinic Building will be re-located to the first floor of the hospital, in space currently occupied by the sleep lab.
- The GI lab will be re-located to the RMH-Riverside campus.
- The imaging department will retain its current location, and will provide four procedure rooms.
- The cardiac catheterization lab will be re-located to the Riverside campus.

A second project, which is addressed in a separate application, addresses the establishment of a second hospital facility and campus, which will include Medical/Surgical, Obstetrics, Pediatrics, and ICU beds, a regional NICU, observation beds, an Emergency Department, an urgent care center, a wide scope of outpatient services, physicians' offices, and hospital support services. This hospital facility will be referred to as Rockford Memorial Hospital-Riverside Boulevard Campus, or RMH-Riverside.

RMH-Rockton Avenue and RMH-Riverside will operate with a common licensee, a common Board of Directors, and a common Medical Staff.

A summary of the clinical services to be provided on the two campuses is attached.

A third project, which is also addressed in a separate application, addresses the development of a medical clinics building adjacent and connected to RMH-Riverside.

At the conclusion of the three projects, the bed inventory will be reduced by 109 beds, 69 of which will be Medical/Surgical beds.

This application, addressing Rockford Memorial Hospital's existing campus, is a substantive application since it addresses the discontinuation of certain IDPH-designated categories of service at RMH-Rockton Avenue.

## DISTRIBUTION OF CLINICAL SERVICES

| <b>Service</b>                  | <b>Rockton Ave.<br/>Campus</b> | <b>Riverside<br/>Campus</b> |
|---------------------------------|--------------------------------|-----------------------------|
| Medical/Surgical Units          | X                              | X                           |
| Adult ICU                       | X                              | X                           |
| Pediatric ICU                   |                                | X                           |
| Pediatrics Unit                 |                                | X                           |
| Psychiatry Unit                 | X                              |                             |
| Obstetrics Unit                 |                                | X                           |
| Neonatal Intensive Care Unit    |                                | X                           |
| Emergency Department            | X                              | X                           |
| Convenient Care Center          | X                              | X                           |
| Radiology/Imaging Department    | X                              | X                           |
| Inpatient Surgery               | X                              | X                           |
| Outpatient Surgery              | X                              | X                           |
| Cardiac Cath/Open Heart Surgery |                                | X                           |
| Outpatient Diagnostics          | X                              | X                           |
| Inpatient Diagnostics           | X                              | X                           |
| Cancer Center                   | X                              |                             |
| Cardiopulmonary Rehab.          | X                              |                             |
| Infusion Therapy Center         | X                              | X                           |
| Wound Care Center               | X                              |                             |
| Physical Therapy                | X                              | X                           |
| Occupational & Speech Therapy   | X                              | X                           |
| Laboratory                      | X                              | X                           |
| Physicians' Offices             | X                              | X                           |



## OFFICE OF THE GOVERNOR

207 STATE HOUSE  
SPRINGFIELD, ILLINOIS 62706

**BRUCE RAUNER**  
GOVERNOR

August 13, 2015

MercyRockford Health System  
Rockford, Illinois 61101

Congratulations!

As Governor of the State of Illinois, I am pleased to welcome everyone gathered for the MercyRockford Health System announcement to build a brand new hospital in Rockford, Illinois.

I would like to take this opportunity to commend the organizers and volunteers of today's event. This is an opportune moment to rejoice in the fact that MercyRockford Health Systems chose to move their corporate headquarters to Rockford. Located off of I-90, this \$350 million healthcare facility is one of the largest and most significant projects in Rockford. By expanding upon the current neonatal region program, this hospital will become the most state-of-the-art health center. Furthermore, this project will expand services, strengthen patient care, enhance access, and bring jobs and economic growth to the region while helping Rockford become a healthcare destination.

On behalf of the people of Illinois, I offer my best wishes for a memorable event and many years of success.

Sincerely,

A handwritten signature in black ink that reads "Bruce Rauner".

Bruce Rauner  
Governor, State of Illinois



# Scott H. Christiansen

County Board Chairman

## County of Winnebago

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

July 29, 2015

Dear Ms. Avery:

I have been honored to serve as Chairman of the Winnebago County Board since 2004. Over that time period, the county has engaged with many health care providers as they make plans to provide or expand services in Winnebago County.

Like other government officials, we at the county have been concerned about the long-term impact of these plans on access to care, jobs, and outmigration. And, because Winnebago County borders Wisconsin, we have also been concerned with the county's ability to attract and retain services, knowing that the continued existence of those services is critical to the wellbeing of our citizens and our communities.

Because our primary focus has been economic development, coupled with providing the best possible services for our residents, we were exceptionally honored and grateful to learn that MercyRockford has chosen to locate its corporate offices in Illinois. Their investment of dollars and resources into expanded health services in the Winnebago County region, strengthens our entire health care industry statewide.

MercyRockford's choice to develop an innovative "one hospital, two campus" plan will insure the vitality and accessibility of services at both the existing Westside Rockton Avenue campus, as well as at the new Riverside campus. This decision, I believe, reflects MercyRockford's commitment to our entire region.

We are very aware that these dollars might have been invested elsewhere. MercyRockford's development on its Riverside campus will inject significant new capital dollars into Winnebago County and the State of Illinois. This project will have a major impact on the region, both from a health care perspective, as well as an economic one.

Best Regards,

Scott H. Christiansen, Chairman  
Winnebago County Board

404 Elm Street • Room 533 • Rockford, IL 61101

Phone (815) 319-4225 • Fax (815) 319-4226

E-mail: [countyboardchairmansoffice@wincoil.us](mailto:countyboardchairmansoffice@wincoil.us)

Website: [www.wincoil.us](http://www.wincoil.us)

It is our mission to provide high quality services and promote a safe community for all people in Winnebago County.

10A



Lawrence J. Morrissey  
Mayor  
Office of the Mayor

August 11, 2015

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

Dear Ms. Avery:

This letter is submitted in support of MercyRockford's applications to your agency.

As Mayor of the City of Rockford since 2005, I am directly involved in the operations and oversight of the City's Fire Department EMS system. I work closely with our local medical systems. I am also involved in assessing the current and future health care needs of our community. Our community's medical systems support our quality of life and core economic activity. Consequently, I have been engaged with MercyRockford about their recent merger of Mercy Alliance, Inc. and Rockford Health System. I believe that this merger can bring economic vitality and opportunity while improving the quality of care to the residents of my community.

I am optimistic that the specific projects before you, including the construction of a new East Side Rockford Campus, can help achieve these important goals. The City of Rockford is committed to working with MercyRockford on the implementation of these projects to ensure that the long-standing commitment of MercyRockford to the residents of the west side of Rockford is fulfilled, while seeking to expand access to critical services through the development of its East Side Riverside/I-90 campus.

#### **Ensuring Quality Care to Rockford's West Side Residents**

Of critical importance to me is to ensure that the entire Rockford community, particularly those sections of our community that are the most vulnerable as it relates to poverty and poor health outcomes, receive equal and quality access to healthcare. MercyRockford has assured me that they will continue to provide vital healthcare services to Rockford's west side through its commitment to the Rockton Avenue campus. Specifically, MercyRockford will continue to operate 94 inpatient beds, an emergency department, a surgical suite, and a wide range of inpatient and outpatient support services at its Rockton Avenue campus on the west side.

Although part of the MercyRockford plan includes the closure of a large medical building on the Rockton Avenue Campus, MercyRockford has committed to work with the City of Rockford and our economic development partners to create a binding operating partnership for that building that will help us grow new high-quality jobs for our community. In fact, we believe that this generous partnership can result in a significant opportunity to market that building as a hub for technology and healthcare-related jobs anchored by the significant broadband fiber optic backbone integrated into the Rockton Avenue Campus.

#### **Expanding Care & Specialty Pediatric Services through the New Campus**

MercyRockford's plans to add pediatric specialty care services at its Riverside/I-90 campus in addition to emergency and adult hospital beds will also greatly improve healthcare access for the entire Rockford community. Currently, many of these critical services for our citizens must be accessed by traveling long distances to Chicago or State of Wisconsin medical facilities. We



Lawrence J. Morrissey  
Mayor  
Office of the Mayor

have a great opportunity to expand those services so that we will capture additional revenue and jobs for Illinois and avoid outmigration of those services outside the State of Illinois.

The City of Rockford will also be working with MercyRockford through our discussions regarding a final Annexation Agreement to ensure that the roadways and public infrastructure for the East Side Campus meets the needs of our community in a manner that is financially responsible and respectful to the taxpayers of our community. The City of Rockford Fire Department is the largest provider of EMS ambulance services for our community, and we are working with MercyRockford to ensure that we can meet basic EMS and Level 1 trauma needs under the proposed MercyRockford service configuration. While there are several details that need to be worked out to our mutual satisfaction, the citizens of our community will retain important controls over those elements through the binding Annexation Agreement and Development Agreement we will execute prior to the commencement of construction.

**Supporting the Healthy Rockford Initiative**

The City of Rockford is committed to the long-term health and wellness needs of our community. Our Police and Fire Department first responders are vital partners in these efforts. We are also committed to grow our efforts to integrate mobile health and community paramedic health to more closely integrate our work with our local hospital systems and community healthcare providers. The City of Rockford is working with partners like the University of Illinois College of Medicine, local healthcare providers, and employers to create a coordinated long-term, data-driven community health project known currently as the *Healthy Rockford Initiative*. I am excited that MercyRockford is committed to partnering with us to support this effort to help us drive better health and prosperity for our entire community.

I was born and raised in Rockford. My parents live in the northeast side of the City in the 4th Ward where the new campus will be built. I currently live with my wife and four children in the northwest side of the City, which has been historically anchored by the Rockton Campus. Our vision for the City of Rockford is *Excellence Everywhere for Everyone*. To that end, I support MercyRockford's proposed projects for both the immediate and long-term positive economic impact and the expanded healthcare services that they will provide. I trust the historic commitment that the MercyRockford partnership brings to our community and the development tools that will bind that commitment with us in a manner that will help ensure balanced growth and mutual prosperity for all parts of our community.

Very truly yours,

A handwritten signature in black ink, appearing to be "LJM", written over a circular stamp or seal.

Lawrence J. Morrissey  
Mayor, City of Rockford, Illinois

LJM/ss



Ann Thompson-Kelly  
7<sup>th</sup> Ward Alderman  
Rockford City Council

August 6, 2015

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

Dear Ms. Avery:

I am an Alderman for the City of Rockford, representing the 7<sup>th</sup> Ward, and I am submitting this letter to record my strong support for MercyRockford's Certificate of Need applications. My ward includes the area where the current Rockford Memorial Hospital campus on North Rockton Avenue is located.

MercyRockford has briefed me about their plans and I am an enthusiastic supporter. Like other elected Rockford officials, I have been concerned about changes in health care that might erode access to care for those residents who rely on Medicaid services. MercyRockford's "one hospital on two campuses" plan insures that Rockford residents that have long relied on services provided at the North Rockton Avenue campus can continue to rely on those services, as inpatient beds, emergency services, and in- and out-patient services will continue to be provided there.

I am also pleased that MercyRockford is looking to partner with the community to repurpose high quality facilities on North Rockton Avenue to support local agencies, program development and jobs growth. I know that MercyRockford could have put forward plans that might have materially disabled the North Rockton Avenue campus from providing necessary services, and I commend them for their commitment to the west side of Rockford.

Very truly yours,

Ms. Ann Thompson-Kelly  
7<sup>th</sup> Ward Alderman  
City of Rockford

August 10, 2015

Javon R. Bea  
President and CEO  
MercyRockford Health System  
1000 Mineral Point Avenue  
Janesville, WI 53548

Dear Mr. Bea:

Thank you for sharing your plans with me regarding your future plans for construction and modernization of the MercyRockford Hospital and the concept of "one hospital, two campuses."

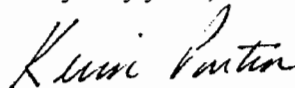
As you know, our Health System has enjoyed a long standing working relationship with Rockford Memorial Hospital. That relationship has enabled us to better coordinate care on behalf of the patients we serve. In addition, that relationship has insured access to high quality tertiary care, especially for neonatal and perinatal services for the residents of DeKalb County.

Rockford Memorial has served as our State designated Regional Perinatal Center for years. Of critical importance to our communities are the neonatal intensive care and perinatal services offered by Rockford Memorial Hospital and their highly qualified staff. Access to critical obstetrical, pediatric critical care and specialty services will be enhanced by the planned relocation of these services to MercyRockford's Riverside campus. Given the high percentage of Illinois Medicaid recipients who are children, we believe that this improved access will materially and significantly benefit children who rely on Medicaid for their health care.

MercyRockford's thoughtful plan for "one hospital, two campuses" will improve access to health care services for the residents of the communities surrounding Rockford. KishHealth System supports the efforts of existing quality providers to both modernize their facilities to meet the growing needs and demands of its patients and the communities they serve.

I wish you success with your application process and look forward to a strong relationship with you in your updated facilities.

Very truly yours,



Kevin Poorten  
President and CEO  
KishHealth System

By The Editorial Board

Rockford Register Star

August 13, 2015 12:57PM

## Our View: MercyRockford Health System expansion makes us a regional health destination

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For years we've talked about Rockford becoming a regional destination for top-level specialty medical care. Now, the Forest City is about to become one.

The announcement by MercyRockford Health System that the \$2 billion nonprofit corporation will put both its corporate headquarters and a new, state-of-the-art hospital campus southeast of the junction of Riverside Boulevard and Interstate 90 will make us a regional health care destination. MercyRockford is the result of the combination of Janesville, Wisconsin-based Mercy Health System and Rockford Health System. The 263-acre Riverside property, bought by the old Rockford Health System about 20 years ago, has a preannexation agreement with Rockford.

MercyRockford is seeking no tax rebates from the city, nor are any cash incentives from local or state governments involved. The land is not in a tax increment financing district.

The \$400 million building project doesn't mean the health care system is forsaking its 60-year-old campus on North Rockton Avenue. Far from it. MercyRockford has just installed a \$7 million linear accelerator in its cancer center. MercyRockford President and CEO Javon Bea, who grew up on the city's west side, said the health care system will continue to invest no less than \$8 million a year at the Rockton Avenue campus, ensuring its long-term future.

Bea said it is not possible to build the new, large hospital buildings on the North Rockton Avenue campus because "we're landlocked there."

Without the addition of the new campus, however, it's likely that the Rockton Avenue location would have slowly faded away. Not now. High-quality health care will continue to be delivered on the city's west side.

The new Riverside campus will centralize intensive care services and become a regional health care destination for patients from a 15-county area of northern Illinois and southern Wisconsin. With its convenient location next to I-90, the new facility will contain a women's and children's hospital, a neonatal intensive care unit, pediatric intensive care unit, high-risk maternity care services, a Level One trauma center and more.

Just think of it. Instead of patients from around the region being referred to Madison, Wisconsin, many will be referred here instead.

We are really excited, too, by the community-wide advantages this medical supercenter will give the Rockford region. The project will provide hundreds of construction jobs. Its presence here will greatly boost economic development efforts in the area. It will help companies in our growing aerospace sector attract engineers and other professionals to move here. It will be a great sales tool for the real estate business.

The Riverside campus will encourage retail growth nearby as well as on the huge site. A new hotel will be needed to handle the health care system's needs and the crowds coming to the Rockford Park District's expanding Sports Core 2 across Riverside Boulevard. MercyRockford pledges to make a "substantial contribution" to the Sports Core 2 expansion, said Dave Syverson, a Mercy Rockford board member. He's also a Republican state senator from Rockford.

The health sector here already was humming, and we think the MercyRockford development will be a boon to the other health care systems in the city, UW Swedish American and OSF St. Anthony, which is also building a new hospital on its sprawling East State Street campus. As we develop higher levels of excellent health care here, all systems will get stronger.

And adding to the momentum is the University of Illinois College of Medicine, which is developing plans for five new residency programs that will help keep a supply of young physicians in the pipeline. As we develop higher levels of excellent health care here, all systems will get stronger.

We're sure that everybody will be totally pumped about this confidence boost to the northern Illinois and southern Wisconsin region.

It's a great day for the Forest City.

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<http://www.rrstar.com/article/20150813/OPINION/150819744>

# PROJECT COST AND SOURCES OF FUNDS

|                                                             | Reviewable          | Non-Reviewable      | TOTAL               |
|-------------------------------------------------------------|---------------------|---------------------|---------------------|
| <b>Project Cost:</b>                                        |                     |                     |                     |
| Preplanning Costs                                           | \$ 80,000           | \$ 70,000           | \$ 150,000          |
| Site Survey and Soil Investigation                          |                     |                     |                     |
| Site Preparation                                            |                     |                     |                     |
| Off Site Work                                               |                     |                     |                     |
| New Construction Contracts                                  |                     |                     |                     |
| Modernization Contracts                                     | 2,546,685           | 2,793,785           | 5,340,470           |
| Contingencies                                               | 169,780             | 620,022             | 789,802             |
| Architectural/Engineering Fees                              | 271,647             | 341,381             | 613,027             |
| Consulting and Other Fees                                   | 55,000              | 45,000              | 100,000             |
| Movable and Other Equipment (not in construction contracts) | 2,500,000           | 500,000             | 3,000,000           |
| Bond Issuance Expense (project related)                     |                     |                     |                     |
| Net Interest Expense During Construction Period             |                     |                     |                     |
| Fair Market Value of Leased Space or Equipment              |                     |                     |                     |
| Other Costs to be Capitalized                               |                     |                     |                     |
| Acquisition of Building or Other Property                   |                     |                     |                     |
| <b>TOTAL USES OF FUNDS</b>                                  | <b>\$ 5,623,112</b> | <b>\$ 4,370,188</b> | <b>\$ 9,993,299</b> |
| <b>Sources of Funds:</b>                                    |                     |                     |                     |
| Cash and Securities                                         | \$ 5,623,112        | \$ 4,370,188        | \$ 9,993,299        |
| Pledges                                                     |                     |                     |                     |
| Gifts and Bequests                                          |                     |                     |                     |
| Bond Issues (project related)                               |                     |                     |                     |
| Mortgages                                                   |                     |                     |                     |
| Leases (fair market value)                                  |                     |                     |                     |
| Governmental Appropriations                                 |                     |                     |                     |
| Grants                                                      |                     |                     |                     |
| Other Funds and Sources                                     |                     |                     |                     |
| <b>TOTAL SOURCES OF FUNDS</b>                               | <b>\$ 5,623,112</b> | <b>\$ 4,370,188</b> | <b>\$ 9,993,299</b> |

## Cost Space Requirements

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

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

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

### Related Project Costs

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

Land acquisition is related to project ☐ Yes ☒ No

Purchase Price: \$ \_\_\_\_\_

Fair Market Value: \$ \_\_\_\_\_

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

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

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

### Project Status and Completion Schedules

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

Indicate the stage of the project's architectural drawings:

☐ None or not applicable

☐ Preliminary

☒ Schematics

☐ Final Working

Anticipated project completion date (refer to Part 1130.140): \_\_\_\_\_ June 30, 2020 \_\_\_\_\_

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

- ☐ Purchase orders, leases or contracts pertaining to the project have been executed. ☐ Project obligation is contingent upon permit issuance. Provide a copy of the contingent "certification of obligation" document, highlighting any language related to CON Contingencies
- ☒ Project obligation will occur after permit issuance.

APPEND DOCUMENTATION AS ATTACHMENT-8, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

### State Agency Submittals

Are the following submittals up to date as applicable:

☒ Cancer Registry

☒ APORS

☒ All formal document requests such as IDPH Questionnaires and Annual Bed Reports been submitted

☒ All reports regarding outstanding permits

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

14

## Facility Bed Capacity and Utilization

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

PLEASE SEE FOLLOWING PAGE

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

## Facility Bed Capacity and Utilization

Facility Name: Rockford Memorial Hospital

City: Rockford

Reporting Dates

From: January 1, 2014

To: December 31, 2014

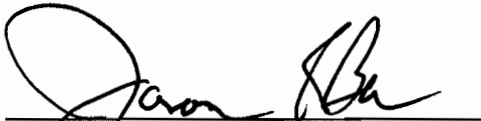
| Category of Service     | Authorized<br>Beds | Admissions | Patient<br>Days | Proposed Beds<br>Riverside | Proposed Beds<br>Rockton Ave. | Proposed<br>Total Beds | Bed<br>Changes |
|-------------------------|--------------------|------------|-----------------|----------------------------|-------------------------------|------------------------|----------------|
| Medical/Surgical        | 223                | 7,579      | 37,199          | 84                         | 70                            | 154                    | (69)           |
| Obstetrics              | 35                 | 1,684      | 5,069           | 20                         | 0                             | 20                     | (15)           |
| Pediatrics              | 35                 | 991        | 2,733           | 12                         | 0                             | 12                     | (23)           |
| Intensive Care          | 32                 | 2,014      | 6,211           | 26                         | 4                             | 30                     | (2)            |
| Acute Mental Illness    | 20                 | 681        | 4,120           | 0                          | 20                            | 20                     | ---            |
| Neonatal Intensive Care | <u>46</u>          | <u>413</u> | <u>11,956</u>   | <u>46</u>                  | <u>0</u>                      | <u>46</u>              | ---            |
| Totals:                 | 391                | 13,362     | 67,288          | 188                        | 94                            | 282                    | (109)          |

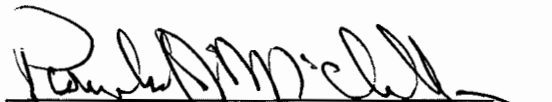
## CERTIFICATION

The application must be signed by the authorized representative(s) of the applicant entity. The authorized representative(s) are:

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

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

  
Jayon R. Bea  
President & Chief Executive Officer

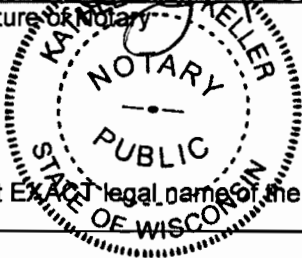
  
Rowland J. McClellan  
Chairman

Notarization:  
Subscribed and sworn to before me this  
this 14<sup>th</sup> day of August, 2015

Notarization:  
Subscribed and sworn to before me this  
14<sup>th</sup> day of August, 2015

  
Signature of Notary

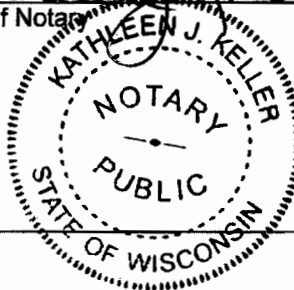
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\*Insert EXACT legal name of the applicant

  
Signature of Notary

Seal

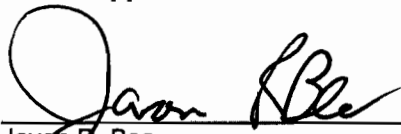


## CERTIFICATION

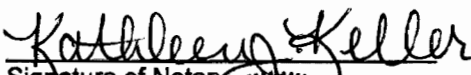
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- in the case of estates and trusts, two of its beneficiaries (or the sole beneficiary when two or more beneficiaries do not exist); and
- in the case of a sole proprietor, the individual that is the proprietor.

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

  
Jayon R. Bea  
President and Chief Executive Officer

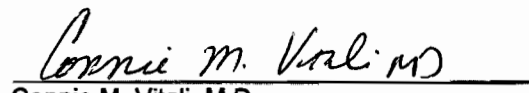
Notarization:  
Subscribed and sworn to before me this  
14<sup>th</sup> day of August, 2015

  
Signature of Notary

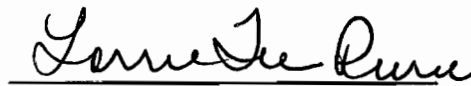
Seal



\*Insert EXACT legal name of the applicant

  
Connie M. Vitali, M.D.  
Chairman

Notarization:  
Subscribed and sworn to before me this  
14<sup>th</sup> day of August, 2015

  
Signature of Notary

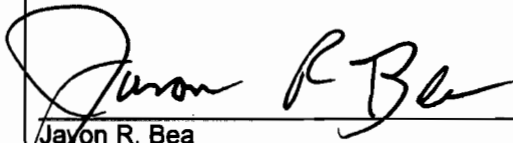
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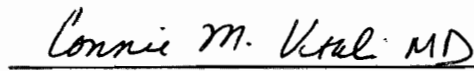


CERTIFICATION

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

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

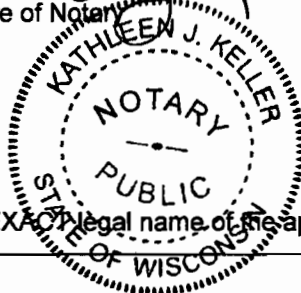
  
 Jayon R. Bea  
 President & Chief Executive Officer

  
 Connie M Vitali, M.D.  
 Chairman

Notarization:  
 Subscribed and sworn to before me this  
 14<sup>th</sup> day of August, 2015

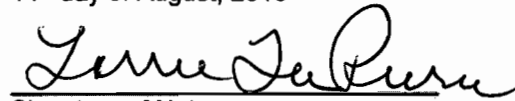
  
 Signature of Notary

Seal

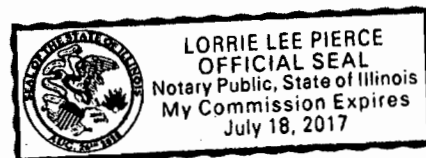


\*Insert EXACT legal name of the applicant

Notarization:  
 Subscribed and sworn to before met his  
 14<sup>th</sup> day of August, 2015

  
 Signature of Notary

Seal



## SECTION II. DISCONTINUATION

This Section is applicable to any project that involves discontinuation of a health care facility or a category of service. **NOTE:** If the project is solely for discontinuation and if there is no project cost, the remaining Sections of the application are not applicable.

### Criterion 1110.130 - Discontinuation

READ THE REVIEW CRITERION and provide the following information:

#### GENERAL INFORMATION REQUIREMENTS

1. Identify the categories of service and the number of beds, if any that is to be discontinued.
2. Identify all of the other clinical services that are to be discontinued.
3. Provide the anticipated date of discontinuation for each identified service or for the entire facility.
4. Provide the anticipated use of the physical plant and equipment after the discontinuation occurs.
5. Provide the anticipated disposition and location of all medical records pertaining to the services being discontinued, and the length of time the records will be maintained.
6. For applications involving the discontinuation of an entire facility, certification by an authorized representative that all questionnaires and data required by HFSRB or DPH (e.g., annual questionnaires, capital expenditures surveys, etc.) will be provided through the date of discontinuation, and that the required information will be submitted no later than 60 days following the date of discontinuation.

#### REASONS FOR DISCONTINUATION

The applicant shall state the reasons for discontinuation and provide data that verifies the need for the proposed action. See criterion 1110.130(b) for examples.

#### IMPACT ON ACCESS

1. Document that the discontinuation of each service or of the entire facility will not have an adverse effect upon access to care for residents of the facility's market area.
2. Document that a written request for an impact statement was received by all existing or approved health care facilities (that provide the same services as those being discontinued) located within 45 minutes travel time of the applicant facility.
3. Provide copies of impact statements received from other resources or health care facilities located within 45 minutes travel time, that indicate the extent to which the applicant's workload will be absorbed without conditions, limitations or discrimination.

APPEND DOCUMENTATION AS ATTACHMENT-10, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

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

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

#### Criterion 1110.230 – Background, Purpose of the Project, and Alternatives

READ THE REVIEW CRITERION and provide the following required information:

##### BACKGROUND OF APPLICANT

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

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

##### PURPOSE OF PROJECT

1. Document that the project will provide health services that improve the health care or well-being of the market area population to be served.
2. Define the planning area or market area, or other, per the applicant's definition.
3. Identify the existing problems or issues that need to be addressed, as applicable and appropriate for the project. [See 1110.230(b) for examples of documentation.]
4. Cite the sources of the information provided as documentation.
5. Detail how the project will address or improve the previously referenced issues, as well as the population's health status and well-being.
6. Provide goals with quantified and measurable objectives, with specific timeframes that relate to achieving the stated goals **as appropriate**.

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

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

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

## ALTERNATIVES

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

Alternative options **must** include:

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

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

## SECTION IV - PROJECT SCOPE, UTILIZATION, AND UNFINISHED/SHELL SPACE

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

READ THE REVIEW CRITERION and provide the following information:

#### SIZE OF PROJECT:

1. Document that the amount of physical space proposed for the proposed project is necessary and not excessive. **This must be a narrative.**
2. If the gross square footage exceeds the BGSF/DGSF standards in Appendix B, justify the discrepancy by documenting one of the following:
  - a. Additional space is needed due to the scope of services provided, justified by clinical or operational needs, as supported by published data or studies;
  - b. The existing facility's physical configuration has constraints or impediments and requires an architectural design that results in a size exceeding the standards of Appendix B;
  - c. The project involves the conversion of existing space that results in excess square footage.

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

| SIZE OF PROJECT    |                       |                |            |                  |
|--------------------|-----------------------|----------------|------------|------------------|
| DEPARTMENT/SERVICE | PROPOSED<br>BGSF/DGSF | STATE STANDARD | DIFFERENCE | MET<br>STANDARD? |
|                    |                       |                |            |                  |

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

#### PROJECT SERVICES UTILIZATION:

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

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

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

| UTILIZATION |                   |                                                                     |                          |                   |                  |
|-------------|-------------------|---------------------------------------------------------------------|--------------------------|-------------------|------------------|
|             | DEPT./<br>SERVICE | HISTORICAL<br>UTILIZATION<br>(PATIENT DAYS)<br>(TREATMENTS)<br>ETC. | PROJECTED<br>UTILIZATION | STATE<br>STANDARD | MET<br>STANDARD? |
| YEAR 1      |                   |                                                                     |                          |                   |                  |
| YEAR 2      |                   |                                                                     |                          |                   |                  |

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

**UNFINISHED OR SHELL SPACE:****NO SHELL SPACE**

Provide the following information:

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

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

**ASSURANCES:**

Submit the following:

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

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

## SECTION VII - SERVICE SPECIFIC REVIEW CRITERIA

After identifying the applicable review criteria for each category of service involved, read the criteria and provide the required information, AS APPLICABLE TO THE CRITERIA THAT MUST BE ADDRESSED:

### A. Criterion 1110.530 - Medical/Surgical, Obstetric, Pediatric and Intensive Care

1. Applicants proposing to establish, expand and/or modernize Medical/Surgical, Obstetric, Pediatric and/or Intensive Care categories of service must submit the following information:
2. Indicate bed capacity changes by Service:                      Indicate # of beds changed by action(s):

| Category of Service | # Existing Beds | # Proposed Beds |
|---------------------|-----------------|-----------------|
| X Medical/Surgical  | 223             | 70              |
| X Obstetric         | 35              | 0               |
| X Pediatric         | 35              | 0               |
| X Intensive Care    | 32              | 4               |

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

| APPLICABLE REVIEW CRITERIA                                                                       | Establish | Expand | Modernize |
|--------------------------------------------------------------------------------------------------|-----------|--------|-----------|
| 1110.530(b)(1) - Planning Area Need - 77 Ill. Adm. Code 1100 (formula calculation)               | X         |        |           |
| 1110.530(b)(2) - Planning Area Need - Service to Planning Area Residents                         | X         | X      |           |
| 1110.530(b)(3) - Planning Area Need - Service Demand - Establishment of Category of Service      | X         |        |           |
| 1110.530(b)(4) - Planning Area Need - Service Demand - Expansion of Existing Category of Service |           | X      |           |
| 1110.530(b)(5) - Planning Area Need - Service Accessibility                                      | X         |        |           |
| 1110.530(c)(1) - Unnecessary Duplication of Services                                             | X         |        |           |
| 1110.530(c)(2) - Maldistribution                                                                 | X         | X      |           |
| 1110.530(c)(3) - Impact of Project on Other Area Providers                                       | X         |        |           |
| 1110.530(d)(1) - Deteriorated Facilities                                                         |           |        | X         |
| 1110.530(d)(2) - Documentation                                                                   |           |        | X         |
| 1110.530(d)(3) - Documentation Related to Cited Problems                                         |           |        | X         |

| <b>APPLICABLE REVIEW CRITERIA</b>                                                                                             | <b>Establish</b> | <b>Expand</b> | <b>Modernize</b> |
|-------------------------------------------------------------------------------------------------------------------------------|------------------|---------------|------------------|
| 1110.530(d)(3) - Documentation Related to Cited Problems                                                                      |                  |               | X                |
| 1110.530(d)(4) - Occupancy                                                                                                    |                  |               | X                |
| 110.530(e) - Staffing Availability                                                                                            | X                | X             |                  |
| 1110.530(f) - Performance Requirements                                                                                        | X                | X             | X                |
| 1110.530(g) - Assurances                                                                                                      | X                | X             | X                |
| <b>APPEND DOCUMENTATION AS <u>ATTACHMENT-20</u>, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.</b> |                  |               |                  |

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

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

#### VIII. - 1120.120 - Availability of Funds

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

|                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
|--------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| \$9,993,299        | a) Cash and Securities – statements (e.g., audited financial statements, letters from financial institutions, board resolutions) as to: <ol style="list-style-type: none"> <li>1) the amount of cash and securities available for the project, including the identification of any security, its value and availability of such funds; and</li> <li>2) interest to be earned on depreciation account funds or to be earned on any asset from the date of applicant's submission through project completion;</li> </ol>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| _____              | b) Pledges – for anticipated pledges, a summary of the anticipated pledges showing anticipated receipts and discounted value, estimated time table of gross receipts and related fundraising expenses, and a discussion of past fundraising experience.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| _____              | c) Gifts and Bequests – verification of the dollar amount, identification of any conditions of use, and the estimated time table of receipts;                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| _____              | d) Debt – a statement of the estimated terms and conditions (including the debt time period, variable or permanent interest rates over the debt time period, and the anticipated repayment schedule) for any interim and for the permanent financing proposed to fund the project, including: <ol style="list-style-type: none"> <li>1) For general obligation bonds, proof of passage of the required referendum or evidence that the governmental unit has the authority to issue the bonds and evidence of the dollar amount of the issue, including any discounting anticipated;</li> <li>2) For revenue bonds, proof of the feasibility of securing the specified amount and interest rate;</li> <li>3) For mortgages, a letter from the prospective lender attesting to the expectation of making the loan in the amount and time indicated, including the anticipated interest rate and any conditions associated with the mortgage, such as, but not limited to, adjustable interest rates, balloon payments, etc.;</li> <li>4) For any lease, a copy of the lease, including all the terms and conditions, including any purchase options, any capital improvements to the property and provision of capital equipment;</li> <li>5) For any option to lease, a copy of the option, including all terms and conditions.</li> </ol> |
| _____              | e) Governmental Appropriations – a copy of the appropriation Act or ordinance accompanied by a statement of funding availability from an official of the governmental unit. If funds are to be made available from subsequent fiscal years, a copy of a resolution or other action of the governmental unit attesting to this intent;                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| _____              | f) Grants – a letter from the granting agency as to the availability of funds in terms of the amount and time of receipt;                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| _____              | g) All Other Funds and Sources – verification of the amount and type of any other funds that will be used for the project.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| <b>\$9,993,299</b> | <b>TOTAL FUNDS AVAILABLE</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |

**APPEND DOCUMENTATION AS ATTACHMENT-36, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.**

IX. 1120.130 - Financial Viability

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

Financial Viability Waiver

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

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

See Section 1120.130 Financial Waiver for information to be provided

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

NOT APPLICABLE, A BOND RATING

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

| Provide Data for Projects Classified as: | Category A or Category B (last three years) |  |  | Category B (Projected) |
|------------------------------------------|---------------------------------------------|--|--|------------------------|
| Enter Historical and/or Projected Years: |                                             |  |  |                        |
| Current Ratio                            |                                             |  |  |                        |
| Net Margin Percentage                    |                                             |  |  |                        |
| Percent Debt to Total Capitalization     |                                             |  |  |                        |
| Projected Debt Service Coverage          |                                             |  |  |                        |
| Days Cash on Hand                        |                                             |  |  |                        |
| Cushion Ratio                            |                                             |  |  |                        |

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

2. Variance

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

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

## **X. 1120.140 - Economic Feasibility**

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

### **A. Reasonableness of Financing Arrangements**

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

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

### **B. Conditions of Debt Financing**

**NOT APPLICABLE, DEBT WILL NOT BE USED**

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

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

### **C. Reasonableness of Project and Related Costs**

Read the criterion and provide the following:

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

| <b>COST AND GROSS SQUARE FEET BY DEPARTMENT OR SERVICE</b> |                         |      |                      |        |                       |        |                      |                    |                          |
|------------------------------------------------------------|-------------------------|------|----------------------|--------|-----------------------|--------|----------------------|--------------------|--------------------------|
| Department<br>(list below)                                 | A                       | B    | C                    | D      | E                     | F      | G                    | H                  | Total<br>Cost<br>(G + H) |
|                                                            | Cost/Square Foot<br>New | Mod. | Gross Sq. Ft.<br>New | Circ.* | Gross Sq. Ft.<br>Mod. | Circ.* | Const. \$<br>(A x C) | Mod. \$<br>(B x E) |                          |
|                                                            |                         |      |                      |        |                       |        |                      |                    |                          |
| Contingency                                                |                         |      |                      |        |                       |        |                      |                    |                          |
| TOTALS                                                     |                         |      |                      |        |                       |        |                      |                    |                          |
| * Include the percentage (%) of space for circulation      |                         |      |                      |        |                       |        |                      |                    |                          |

**D. Projected Operating Costs**

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

**E. Total Effect of the Project on Capital Costs**

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

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

## **XI. Safety Net Impact Statement**

**SAFETY NET IMPACT STATEMENT** that describes all of the following must be submitted for **ALL SUBSTANTIVE AND DISCONTINUATION PROJECTS**:

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

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

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

**A table in the following format must be provided as part of Attachment 43.**

| Safety Net Information per PA 96-0031 |                     |                     |                     |
|---------------------------------------|---------------------|---------------------|---------------------|
| CHARITY CARE                          |                     |                     |                     |
| Charity (# of patients)               | 2012                | 2013                | 2014                |
| Inpatient                             | 882                 | 973                 | 955                 |
| Outpatient                            | 3,287               | 4,013               | 5,686               |
| <b>Total</b>                          | <b>4,169</b>        | <b>4,986</b>        | <b>6,641</b>        |
| Charity (cost in dollars)             |                     |                     |                     |
| Inpatient                             | \$6,268,048         | \$7,462,976         | \$2,456,931         |
| Outpatient                            | \$2,695,492         | \$3,307,849         | \$2,323,022         |
| <b>Total</b>                          | <b>\$8,963,540</b>  | <b>\$10,770,825</b> | <b>\$4,779,953</b>  |
| MEDICAID                              |                     |                     |                     |
| Medicaid (# of patients)              | 2012                | 2013                | 2014                |
| Inpatient                             | 2,980               | 3,130               | 3,986               |
| Outpatient                            | 29,389              | 26,658              | 37,749              |
| <b>Total</b>                          | <b>32,369</b>       | <b>29,788</b>       | <b>41,735</b>       |
| Medicaid (revenue)                    |                     |                     |                     |
| Inpatient                             | \$48,892,458        | \$52,797,975        | \$63,083,993        |
| Outpatient                            | \$10,703,084        | \$11,050,751        | \$20,629,507        |
| <b>Total</b>                          | <b>\$59,595,542</b> | <b>\$63,848,726</b> | <b>\$83,713,500</b> |

**APPEND DOCUMENTATION AS ATTACHMENT-40, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.**

## **XII. Charity Care Information**

Charity Care information **MUST** be furnished for **ALL** projects.

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

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

A table in the following format must be provided for all facilities as part of Attachment 44.

| CHARITY CARE                     |               |               |               |
|----------------------------------|---------------|---------------|---------------|
|                                  | 2012          | 2013          | 2014          |
| Net Patient Revenue              | \$314,128,727 | \$314,090,683 | \$323,042,795 |
| Amount of Charity Care (charges) | \$28,075,442  | \$33,923,122  | \$15,219,396  |
| Cost of Charity Care             | \$8,963,540   | \$10,770,825  | \$4,779,953   |

**APPEND DOCUMENTATION AS ATTACHMENT-41, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.**

Note: 2014 reduction in charity care is off-set by increased Medicaid, and is a result of the Implementation of the Affordable Care Act.



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

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

ROCKFORD MEMORIAL HOSPITAL, A DOMESTIC CORPORATION, INCORPORATED UNDER THE LAWS OF THIS STATE ON DECEMBER 15, 1883, APPEARS TO HAVE COMPLIED WITH ALL THE PROVISIONS OF THE GENERAL NOT FOR PROFIT CORPORATION ACT OF THIS STATE, AND AS OF THIS DATE, IS IN GOOD STANDING AS A DOMESTIC CORPORATION IN THE STATE OF ILLINOIS.



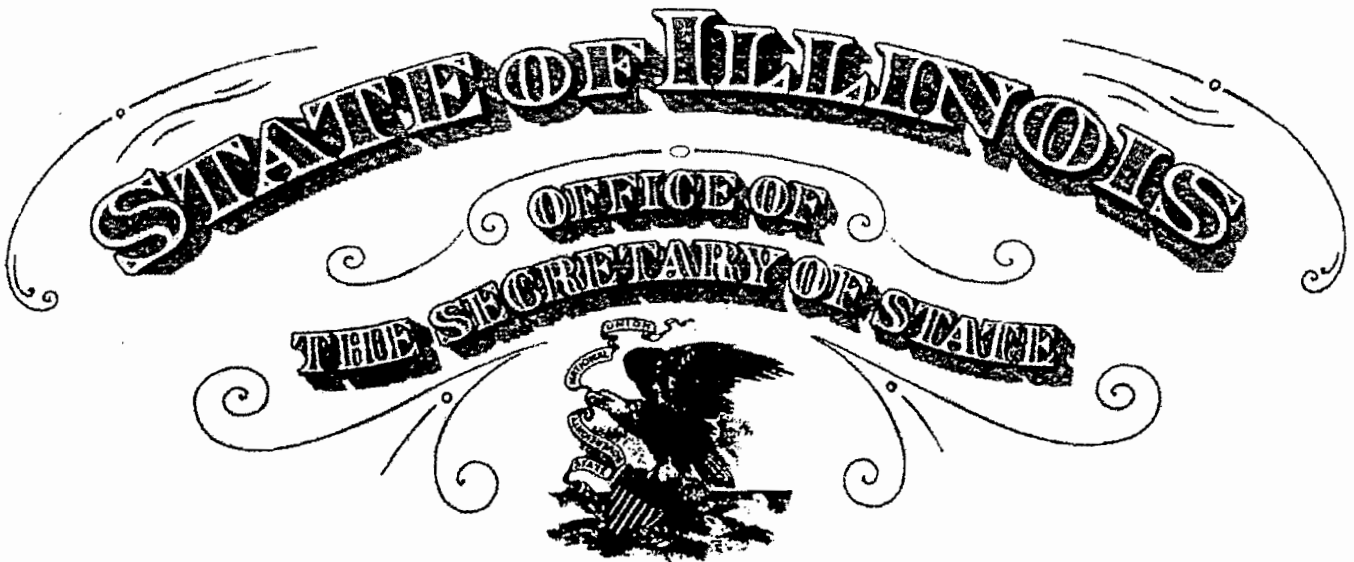
Authentication #: 1513201692

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

***In Testimony Whereof,*** I hereto set  
my hand and cause to be affixed the Great Seal of  
the State of Illinois, this 12TH  
day of MAY A.D. 2015 .

*Jesse White*

SECRETARY OF ATTACHMENT 1



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

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

INTERSTATE ALLIANCE, INC., A DOMESTIC CORPORATION, INCORPORATED UNDER THE LAWS OF THIS STATE ON OCTOBER 24, 2014, 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 12TH day of MAY A.D. 2015 .*

*Jesse White*

SECRETARY OF. ATTACHMENT 1

Authentication #: 1513201738

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



## OFFICE OF THE SECRETARY OF STATE

JESSE WHITE • Secretary of State

APRIL 22, 2015

6975-235-7

JAVON R BEA  
2400 N ROCKTON AVE  
ROCKFORD, IL 61103

RE INTERSTATE ALLIANCE, INC.

DEAR SIR OR MADAM:

APPLICATION TO ADOPT AN ASSUMED NAME HAS BEEN PLACED ON FILE AND THE CORPORATION CREDITED WITH THE REQUIRED FEE.

THE DUPLICATE COPY IS ENCLOSED.

SINCERELY,

JESSE WHITE  
SECRETARY OF STATE  
DEPARTMENT OF BUSINESS SERVICES  
CORPORATION DIVISION  
TELEPHONE (217) 782-6961

JW:CD

ATTACHMENT 1



CD0151111

Form NFP 104.15/20 (Rev. Aug. 2014)  
**APPLICATION TO ADOPT, CHANGE OR CANCEL  
 an ASSUMED CORPORATE NAME**  
 General Not For Profit Corporation Act

Secretary of State  
 Department of Business Services  
 501 S. Second St., Rm. 350  
 Springfield, IL 62758  
 217-782-9520  
 217-782-6981  
 www.cyberdriveillinois.com

Filed: 4/22/2015 Jesse White Secretary of State

MJE

Payment must be made by check or money order  
 payable to Secretary of State.

Filing fee \$ 150.00 File # 109352357 Approved: \_\_\_\_\_

----- Submit in duplicate ----- Type or Print clearly in black ink ----- Do not write above this line -----

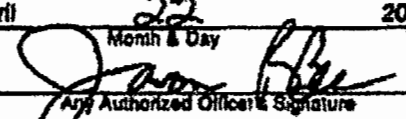
1. Corporate Name: Interstate Alliance, Inc.
2. State or Country of Incorporation: Illinois
3. Date Incorporated (if an Illinois corporation) or Date Authorized to Transact Business in Illinois (if a foreign corporation):  
October 24, 2014  
Month & Day Year

Complete No. 4 and No. 5 if adopting or changing an assumed corporate name.

4. Corporation intends to adopt and to transact business under the assumed corporate name of:  
Mercy/Rockford Health System
5. The right to use the assumed corporate name shall be effective from the date this application is filed by the Secretary of State until October 1, 2015 the first day of the corporation's anniversary  
Month & Day Year  
 month in the next year evenly divisible by five.

Complete No. 6 if changing or cancelling an assumed corporate name.

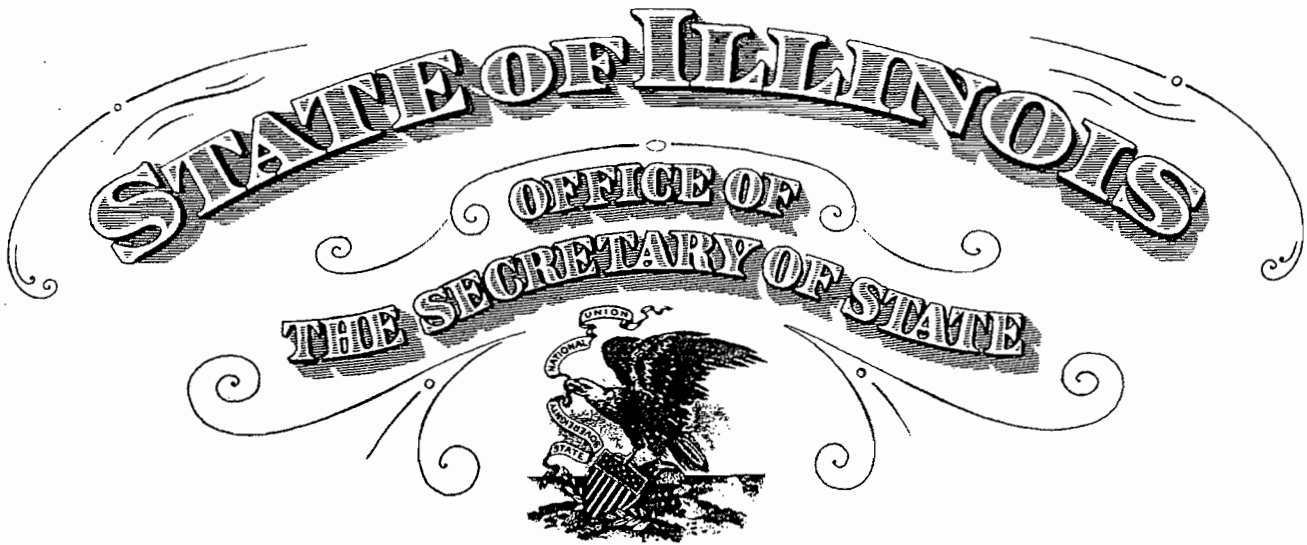
6. Corporation intends to cease transacting business under the assumed corporate name of:  
 \_\_\_\_\_
7. The undersigned corporation has caused this statement to be signed by a duly authorized officer who affirms, under penalties of perjury, that the facts stated herein are true and correct.

Dated April 22 2015 Interstate Alliance, Inc.  
Month & Day Year Exact Name of Corporation  
  
Any Authorized Officer's Signature  
Javon Bos, Chief Executive Officer  
Name and Title (type or print)

**NOTE:** The filing fee to adopt an assumed corporate name is \$150 if the current year ends with a 0 or 5; \$120 if the current year ends with a 1 or 6; \$90 if the current year ends with a 2 or 7; \$60 if the current year ends with a 3 or 8; or \$30 if the current year ends with a 4 or 9.

The fee for cancelling an assumed corporate name is \$5.

The fee to change an assumed name is \$5.



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

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

ROCKFORD HEALTH SYSTEM, A DOMESTIC CORPORATION, INCORPORATED UNDER THE LAWS OF THIS STATE ON JULY 29, 1982, 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 28TH  
day of JULY A.D. 2015 .***

*Jesse White*

SECRETARY OF STATE ATTACHMENT 1



ROCKFORD HEALTH  
*system*

August 14, 2015

Illinois Health Facilities  
and Services Review Board  
525 West Jefferson  
Springfield, IL 62761

**Re: RMH Project Property Ownership**

To Whom It May Concern:

Please be advised that the current site of Rockford Memorial Hospital, located at 2400 North Rockton Avenue, Rockford, Illinois, and the proposed Rockford Memorial Hospital-Riverside Boulevard campus, located to the southeast of the intersection of I-90/39 and East Riverside Boulevard in Rockford Township, Winnebago County, Illinois, are owned by Rockford Memorial Hospital.

Sincerely,

Dan Parod  
Senior Vice President  
Hospital and Administrative Affairs

ATTACHMENT 2

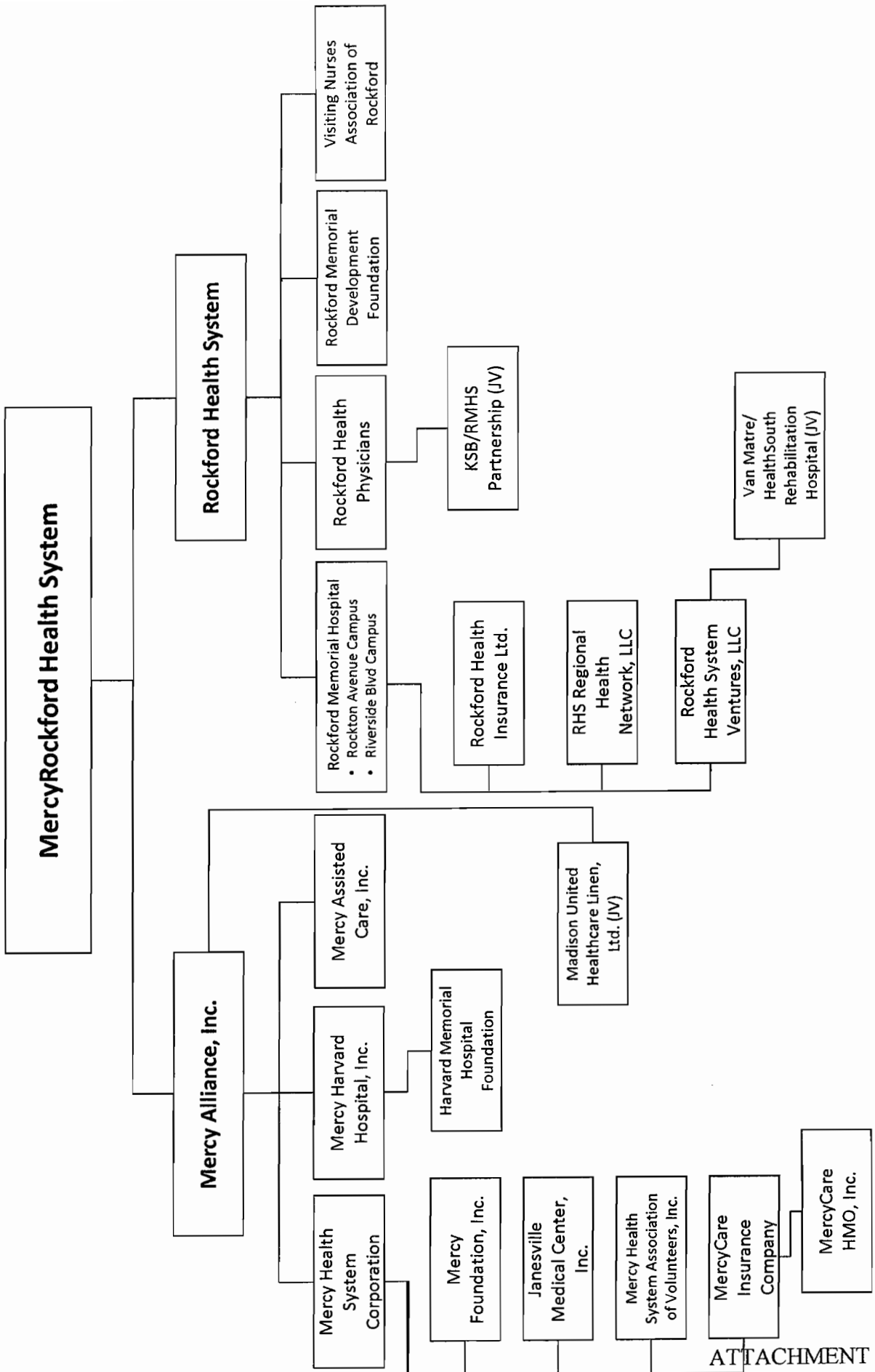
Rockford Memorial  
Hospital  
2400 N. Rockton Ave.  
Rockford, IL 61103  
(815) 971-5000

Rockford Health  
Physicians  
2300 N. Rockton Ave.  
Rockford, IL 61103  
(815) 971-2000

Van Matre HealthSouth  
Rehabilitation Hospital  
950 S. Mulford Rd.  
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Visiting Nurses  
Association  
4223 E. State St.  
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(815) 971-3550

Rockford Memorial  
Development Foundation  
2400 N. Rockton Ave.  
Rockford, IL 61103  
(815) 971-4141



ATTACHMENT 4

August 14, 2015

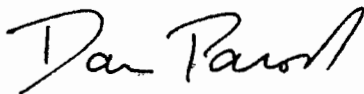
Illinois Health Facilities  
and Services Review Board  
525 West Jefferson  
Springfield, IL 62761

**Re: Illinois Executive Order #2005-5**

To Whom It May Concern:

Please be advised that neither the current site of Rockford Memorial Hospital, located at 2400 North Rockton Avenue, Rockford, Illinois, or the proposed Rockford Memorial Hospital-Riverside Boulevard campus, located to the southeast of the intersection of I-90/39 and East Riverside Boulevard in Rockford Township, Winnebago County, Illinois, are located within a special flood hazard area. Further, the projects proposed for these sites, and submitted to the Illinois Health Facilities and Services Review Board for approval, are in compliance with the requirements of Illinois Executive Order #2005-5.

Sincerely,



Dan Parod  
Senior Vice President  
Hospital and Administrative Affairs

ATTACHMENT 5



# Illinois Historic Preservation Agency

1 Old State Capitol Plaza, Springfield, IL 62701-1512

FAX (217) 524-7525

[www.illinoishistory.gov](http://www.illinoishistory.gov)

Winnebago County

Rockford

CON - Hospital Renovations, Rockford Memorial Hospital

2400 N. Rockton Ave.

IHPA Log #036051315

May 29, 2015

Jacob Axel

Axel & Associates, Inc.

675 North Court, Suite 210

Palatine, IL 60067

Dear Mr. Axel:

This letter is to inform you that we have reviewed the information provided concerning the referenced project.

Our review of the records indicates that no historic, architectural or archaeological sites exist within the project area.

Please retain this letter in your files as evidence of compliance with Section 4 of the Illinois State Agency Historic Resources Preservation Act (20 ILCS 3420/1 et. seq.). This clearance remains in effect for two years from date of issuance. It does not pertain to any discovery during construction, nor is it a clearance for purposes of the Illinois Human Skeletal Remains Protection Act (20 ILCS 3440).

If you have any further questions, please contact me at 217/785-5031.

Sincerely,

Rachel Leibowitz, Ph.D.

Deputy State Historic

Preservation Officer

ATTACHMENT 6

## PROJECT COSTS AND SOURCES OF FUNDS

### **Project Costs:**

|                                   |             |             |
|-----------------------------------|-------------|-------------|
| Preplanning Costs                 |             | \$150,000   |
| evaluation of campus alternatives | \$150,000   |             |
| Modernization Contracts           |             | \$5,340,470 |
| Renovation, per ATTACHMENT 39C*   | \$5,340,470 |             |
| Contingencies                     |             | \$789,802   |
| renovation-related contingency    | \$789,802   |             |
| Architectural/Engineering Fees    |             | \$613,027   |
| assessments of alternatives       | \$80,000    |             |
| design services                   | \$400,000   |             |
| governmental agency interaction   | \$40,000    |             |
| inspections/supervision           | \$50,000    |             |
| misc./other                       | \$43,027    |             |
| Consulting and Other Fees         |             | \$100,000   |
| CON and permit-related            | \$80,000    |             |
| interiors/furniture selection     | \$10,000    |             |
| misc./other                       | \$10,000    |             |
| Movable and Other Equipment       |             | \$3,000,000 |
| IT-related                        | \$2,500,000 |             |
| Miscellaneous equipment, non-IT   | \$500,000   |             |

### **Sources of Funds:**

All funding for this project will be in the form of cash derived from operations.

\*Note: Renovation costs related to Not-for-Profit agencies is limited to the vacating of space, and does not include subsequent "build-out".

# Cost Space Requirements

| Dept./Area              | Cost         | Gross Square Feet |          | Amount of Proposed Total Square Feet |            |        |               |
|-------------------------|--------------|-------------------|----------|--------------------------------------|------------|--------|---------------|
|                         |              | Existing          | Proposed | New Const.                           | Modernized | As Is  | Vacated Space |
| Reviewable              |              |                   |          |                                      |            |        |               |
| Med/Surg                | \$ 1,799,396 | 75,166            | 44,016   |                                      | 44,016     |        | 31,150        |
| Observation             | \$ 224,924   |                   | 5,637    |                                      | 5,637      |        |               |
| Surgery                 | \$ 1,237,085 | 21,670            | 21,670   |                                      | 5,500      | 16,170 |               |
| PACU/Prep/Recovery      |              | 7,995             | 7,995    |                                      |            | 7,995  |               |
| Obstetrics              |              | 22,883            |          |                                      |            |        | 22,883        |
| Convenient Care Ctr.    | \$ 393,618   | 3,560             | 5,012    |                                      | 5,012      |        | 3,560         |
| PT/OT                   | \$ 56,231    | 1,430             | 2,604    |                                      | 2,604      |        |               |
| Emergency Department    | \$ 1,349,547 | 20,012            | 15,000   |                                      | 15,000     |        | 5,012         |
| Imaging                 |              | 23,774            | 23,774   |                                      |            | 23,774 | 6,248         |
| Lab                     |              | 16,217            | 14,873   |                                      |            | 14,873 | 1,344         |
| Resp. Therapy           |              | 3,480             | 3,480    |                                      |            | 3,480  |               |
| Sleep lab               |              | 4,835             |          |                                      |            |        | 4,835         |
| Labor & Delivery        |              | 13,318            |          |                                      |            |        | 13,318        |
| Cardiac Catheterization |              | 4,893             |          |                                      |            |        | 4,893         |
| ICU-Adult               | \$ 449,849   | 9,800             | 5,586    |                                      | 5,586      |        | 4,214         |
| PICU                    |              | 3,520             |          |                                      |            |        | 3,520         |
| Pediatrics Unit         |              | 16,040            |          |                                      |            |        | 16,040        |
| Cardiac Cath            |              | 4,893             |          |                                      |            |        | 4,893         |
| Endoscopy               |              | 7,901             |          |                                      |            |        | 7,901         |
| NICU (LIII)             |              | 13,817            |          |                                      |            |        | 13,817        |
| Inpatient Dialysis      |              | 1,699             |          |                                      |            |        | 1,699         |
| Pharmacy                |              | 7,031             | 7,031    |                                      |            | 7,031  |               |
| Wound Care              | \$ 112,462   | 3,591             | 1,535    |                                      | 1,535      |        |               |
|                         |              |                   |          |                                      |            |        |               |
| Total                   | \$ 5,623,112 | 287,525           | 158,213  |                                      | 84,890     | 73,323 | 145,327       |

# Cost Space Requirements

|  |                         | Gross Square Feet |          | Amount of Proposed Total Square Feet That is: |            |         |               |         |
|--|-------------------------|-------------------|----------|-----------------------------------------------|------------|---------|---------------|---------|
|  |                         | Existing          | Proposed | New Const.                                    | Modernized | As Is   | Vacated Space |         |
|  | Dept./Area              | Cost              |          |                                               |            |         |               |         |
|  | Non-Reviewable          |                   |          |                                               |            |         |               |         |
|  | Physicians' Offices     | \$ 1,354,758      | 64,138   |                                               |            | 43,400  |               | 64,138  |
|  | Not-for-Profit Agencies | \$ 1,200,000      |          |                                               |            | 207,000 |               |         |
|  | Administrative          | \$ 917,737        | 41,363   |                                               |            | 34,668  |               | 41,363  |
|  | IT                      | \$ 698,397        | 9,759    | 7,342                                         |            | 7,342   |               | 9,759   |
|  | Education               | \$ 43,702         | 4,316    | 3,800                                         |            | 3,800   |               | 4,316   |
|  | Med. Records Storage    |                   | 9,488    |                                               |            |         |               | 9,488   |
|  | Optical Shop            | \$ 30,591         | 383      | 400                                           |            | 400     |               | 383     |
|  | School of Radiology     |                   | 2,280    |                                               |            |         |               | 2,280   |
|  | Hospitalists            | \$ 6,000          | 2,143    | 1,000                                         |            | 1,000   |               | 2,143   |
|  | Pastoral Care           | \$ 15,000         | 1,019    | 1,000                                         |            | 1,000   |               | 1,019   |
|  | Guest Rooms-NICU        | \$ 35,000         | 2,956    | 3,000                                         |            | 3,000   |               | 2,956   |
|  | On-call rooms           | \$ 9,000          | 3,745    |                                               |            | 1,500   |               | 3,745   |
|  | LT Nurses travel rooms  | \$ 6,000          | 2,044    | 1,000                                         |            | 1,000   |               | 2,044   |
|  | Case Management         | \$ 10,000         | 2,120    | 800                                           |            | 800     |               | 2,120   |
|  | Volunteers              | \$ 20,000         | 1,325    | 1,500                                         |            | 1,500   |               | 1,325   |
|  | Corporate Offices       | \$ 24,000         | 3,601    | 3,601                                         |            | 3,601   |               | 3,601   |
|  |                         |                   |          |                                               |            |         |               |         |
|  |                         | \$ 4,370,188      | 150,680  | 23,443                                        |            | 310,011 | -             | 150,680 |
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## DISCONTINUATION

Through this Certificate of Need application and the accompanying application addressing the establishment of a second hospital campus at the intersection of I-90/39 and East Riverside Boulevard (RMH-Riverside) the following categories of service are proposed to be relocated from Rockford Memorial Hospital to RMH-Riverside, and therefore are classified as “discontinued” categories of service:

- Obstetrics Beds
- Pediatrics Beds
- NICU
- Open Heart Surgery
- Cardiac Catheterization

In addition, PET services will be discontinued. Since each of the services proposed to be discontinued will be relocated to RMH-Riverside, there will be no impact on existing providers.

The proposed discontinuations are a component of a program designed to ensure that Rockford Memorial Hospital’s traditional patient population will be able to access services in a contemporary setting.

Each of the services identified above are anticipated to be discontinued upon the opening of RMH-Riverside.

The re-use of the space used by these services will be finalized as the discontinuation date nears. ATTACHMENT 9 identifies the amount of space planned to be used, and a summary of the anticipated re-location of clinical services is included in this application’s Narrative Description. As discussed elsewhere in this application, it is the intent of the applicants to make The RMH Clinic Building (approximately 207,000 square feet) available to not-for-profit community agencies.

The proposed project involves no new construction.

Rockford Memorial Hospital-Rockton Avenue will continue to operate as an IDPH-licensed acute care hospital, and all medical records in the possession of the hospital at the time of the discontinuation of the above-identified services will be maintained by the RMH, consistent with all applicable records management requirements.

Each of the services proposed to be discontinued are being discontinued in a manner to minimize any unnecessary duplication of those services. Each of the services proposed for discontinuation will be provided at Rockford Memorial Hospital-Riverside. The discontinuation of the services identified above will not occur without the issuance of a CON Permit to establish the proposed second hospital campus, as discussed in the *Narrative Description* section of this application; and no discontinuation will occur until RMH-Riverside is operational.

Each of the services to be discontinued will be replaced by a similar service at RMH-Riverside. The table below identifies which area hospitals provide the categories of service proposed to be discontinued. As demonstrated in the table, with the exception of NICU services, each of the categories of service to be discontinued are provided at other hospitals.

|                             | M/S | OB | Peds. | ICU | NICU | OH Surg | Cardiac Cath |
|-----------------------------|-----|----|-------|-----|------|---------|--------------|
| Swedish American Hospital   | X   | X  | X     | X   |      | X       | X            |
| OSF St. Anthony Med. Ctr.   | X   | X  | X     | X   |      | X       | X            |
| Swedish American-Belevidere | X   |    |       |     |      |         |              |
| FHN Memorial Hospital       | X   | X  |       | X   |      |         | X            |
| Rochelle Community Hospital | X   |    |       | X   |      |         |              |
| Mercy Harvard Hospital      | X   |    |       | X   |      |         |              |

In total, upon the opening of the second hospital campus, 109 approved beds will be eliminated from the IDPH Inventory, which identifies an excess number of beds in each category, with the exception of ICU.

Requests for impact statements, consistent with the requirements of Section 1110.130, have been sent to each of the hospitals identified in the table above. Responses not sent directly to IHFSRB staff will be forwarded.



July 13, 2015

**VIA CERTIFIED MAIL**  
**RETURN RECEIPT REQUESTED**

William R. Gorski, M.D., President & CEO  
SwedishAmerican Medical Center/Belvidere  
1625 South State Street  
Belvidere, IL, 61008-0000

**Re: Proposed Discontinuation of Selected IDPH-Designated Services at Rockford Memorial Hospital  
and Re-Establishment of these Services at a Second Hospital Campus on the Corner of I-90 and  
Riverside Blvd (Winnebago County, IL)**

Dear William:

Rockford Memorial Hospital is evaluating the establishment of a second hospital campus on the east side of Rockford. A number of services would remain at the Rockton Avenue campus. Additionally, Rockford Memorial Hospital is considering the discontinuation of selected IDPH-designated "categories of services" on its Rockton Avenue campus in Rockford and relocating them to the second hospital campus. Those services and the volumes at which they were provided during the past two years at Rockford Memorial Hospital are:

- Obstetrics (9,674 patient days)
- Pediatrics (5,897 patient days)
- Level III nursery (23,501 patient days)
- Open Heart Surgery (197 cases)
- Cardiac Catheterization (4,077 procedures)

A Certificate of Need Permit is required to discontinue/relocate the above-identified services, which are anticipated to be discontinued/relocated in late 2018 or early 2019.

This letter is being sent, consistent with requirements of Section 1110.130, which directs applicants for projects involving the discontinuation of "categories of services" to invite area providers of those services to provide, within 15 days, a statement of impact, indicating whether the facility has or will have available capacity to accommodate a portion or all of the applicant's experienced caseload, and whether any restrictions or limitations preclude providing service to residents of the applicant's market area.

Sincerely,

Dan Parod  
Senior Vice President  
Hospital & Administrative Affairs

Rockford Memorial  
Hospital  
2400 N. Rockton Ave.  
Rockford, IL 61103  
(815) 971-5000

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Physicians  
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Rockford Memorial  
Development Foundation  
2400 N. Rockton Ave.  
Rockford, IL 61103  
(815) 971-4141

ATTACHMENT 10

48



ROCKFORD HEALTH  
system

July 13, 2015

**VIA CERTIFIED MAIL**  
**RETURN RECEIPT REQUESTED**

Paula Carynski, President  
OSF Saint Anthony Medical Center  
5666 East State Street  
Rockford, IL, 61108-2425

**Re: Proposed Discontinuation of Selected IDPH-Designated Services at Rockford Memorial Hospital and Re-Establishment of these Services at a Second Hospital Campus on the Corner of I-90 and Riverside Blvd (Winnebago County, IL)**

Dear Paula:

Rockford Memorial Hospital is evaluating the establishment of a second hospital campus on the east side of Rockford. A number of services would remain at the Rockton Avenue campus. Additionally, Rockford Memorial Hospital is considering the discontinuation of selected IDPH-designated "categories of services" on its Rockton Avenue campus in Rockford and relocating them to the second hospital campus. Those services and the volumes at which they were provided during the past two years at Rockford Memorial Hospital are:

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4223 E. State St.  
Rockford, IL 61108  
(815) 971-3550

Rockford Memorial  
Development Foundation  
2400 N. Rockton Ave.  
Rockford, IL 61103  
(815) 971-4141

ATTACHMENT 19

49



July 13, 2015

**VIA CERTIFIED MAIL**  
**RETURN RECEIPT REQUESTED**

William R. Gorski, M.D., President & CEO  
Swedish American Hospital  
1400 Charles Street  
Rockford, IL, 61104-0000

**Re: Proposed Discontinuation of Selected IDPH-Designated Services at Rockford Memorial Hospital  
and Re-Establishment of these Services at a Second Hospital Campus on the Corner of I-90 and  
Riverside Blvd (Winnebago County, IL)**

Dear William:

Rockford Memorial Hospital is evaluating the establishment of a second hospital campus on the east side of Rockford. A number of services would remain at the Rockton Avenue campus. Additionally, Rockford Memorial Hospital is considering the discontinuation of selected IDPH-designated "categories of services" on its Rockton Avenue campus in Rockford and relocating them to the second hospital campus. Those services and the volumes at which they were provided during the past two years at Rockford Memorial Hospital are:

- Obstetrics (9,674 patient days)
- Pediatrics (5,897 patient days)
- Level III nursery (23,501 patient days)
- Open Heart Surgery (197 cases)
- Cardiac Catheterization (4,077 procedures)

A Certificate of Need Permit is required to discontinue/relocate the above-identified services, which are anticipated to be discontinued/relocated in late 2018 or early 2019.

This letter is being sent, consistent with requirements of Section 1110.130, which directs applicants for projects involving the discontinuation of "categories of services" to invite area providers of those services to provide, within 15 days, a statement of impact, indicating whether the facility has or will have available capacity to accommodate a portion or all of the applicant's experienced caseload, and whether any restrictions or limitations preclude providing service to residents of the applicant's market area.

Sincerely,

Dan Parod  
Senior Vice President  
Hospital & Administrative Affairs

Rockford Memorial  
Hospital  
2400 N. Rockton Ave.  
Rockford, IL 61103  
(815) 971-5000

Rockford Health  
Physicians  
2300 N. Rockton Ave  
Rockford, IL 61103  
(815) 971-2000

Van Matre HealthSouth  
Rehabilitation Hospital  
950 S. Mulford Rd.  
Rockford, IL 61108  
(815) 381-8500

Visiting Nurses  
Association  
4223 E. State St.  
Rockford, IL 61108  
(815) 971-3550

Rockford Memorial  
Development Foundation  
2400 N. Rockton Ave  
Rockford, IL 61103  
(815) 971-4141

ATTACHMENT 80



July 13, 2015

**VIA CERTIFIED MAIL**  
**RETURN RECEIPT REQUESTED**

Mark J. Batty, CEO  
Rochelle Community Hospital  
900 North 2nd Street  
Rochelle, IL, 61068-0000

**Re: Proposed Discontinuation of Selected IDPH-Designated Services at Rockford Memorial Hospital and Re-Establishment of these Services at a Second Hospital Campus on the Corner of I-90 and Riverside Blvd (Winnebago County, IL)**

Dear Mark:

Rockford Memorial Hospital is evaluating the establishment of a second hospital campus on the east side of Rockford. A number of services would remain at the Rockton Avenue campus. Additionally, Rockford Memorial Hospital is considering the discontinuation of selected IDPH-designated "categories of services" on its Rockton Avenue campus in Rockford and relocating them to the second hospital campus. Those services and the volumes at which they were provided during the past two years at Rockford Memorial Hospital are:

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This letter is being sent, consistent with requirements of Section 1110.130, which directs applicants for projects involving the discontinuation of "categories of services" to invite area providers of those services to provide, within 15 days, a statement of impact, indicating whether the facility has or will have available capacity to accommodate a portion or all of the applicant's experienced caseload, and whether any restrictions or limitations preclude providing service to residents of the applicant's market area.

Sincerely,

Dan Parod  
Senior Vice President  
Hospital & Administrative Affairs



July 28, 2015

**VIA HAND DELIVERY**

Mr. Dan Parod  
Rockford Memorial Hospital  
2400 North Rockton Avenue  
Rockford, IL 61103

**Re: Response of SwedishAmerican Medical Center/Belvidere to Impact Letter Request of Rockford Memorial Hospital**

Dear Mr. Parod:

This letter responds to your letter to Dr. William Gorski dated July 13, 2015 and received on July 15, 2015 advising that Rockford Memorial Hospital ("RMH") intends to establish a second general hospital in Rockford in addition to the existing RMH general hospital located at 2400 North Rockton Avenue. The letter indicates that RMH is considering the relocation of service from RMH's existing facility to the proposed second facility, including obstetrics, pediatrics, open heart surgery, cardiac catheterization and Level III nursery. SwedishAmerican Medical Center/Belvidere ("SAMC/Belvidere"), located at 1625 South State Street in Belvidere, currently provides medical/surgical and emergency department services.

SAMC/Belvidere is located just east of the City of Rockford and the location of the proposed new hospital on the east side of Rockford would place it closer to SAMC/Belvidere. Due to the limited information provided in your letter, it is impossible to determine the impact the proposed project would have on SAMC/Belvidere. We are concerned that the establishment of a fourth hospital in Rockford by RMH, even with the discontinuation of some services at RMH's existing facility, would adversely impact utilization at existing facilities. Among other concerns, it appears that the new hospital would require inclusion of an emergency department but your letter does not mention such a department or its size and number of stations. Also, we question whether RMH's current patient base could support the establishment and operation of a second, new RMH hospital in the Rockford region and this also raises concerns as to the impact of the proposed project on SAMC/Belvidere.

As your impact July 13th letter does not provide sufficient information for us to fully assess the impact of the proposed project, we must await further details concerning the project to assess the full impact of the proposed project on SAMC/Belvidere.

Sincerely,

Don Daniels  
Executive Vice President & Chief Operating Officer



July 28, 2015

**VIA HAND DELIVERY**

Mr. Dan Parod  
Senior Vice President  
Rockford Memorial Hospital  
2400 North Rockton Avenue  
Rockford, IL 61103

**Re: Response of SwedishAmerican Hospital to Impact Letter Request of Rockford Memorial Hospital**

Dear Mr. Parod:

This letter responds to your letter to Dr. William Gorski dated July 13, 2015 and received on July 15, 2015 advising that Rockford Memorial Hospital ("RMH") intends to establish a second general hospital in Rockford in addition to the existing RMH general hospital located at 2400 North Rockton Avenue. The letter indicates that RMH is considering the relocation of services from RMH's existing facility to the proposed second facility including obstetrics, pediatrics, open heart surgery, cardiac catheterization and Level III Nursery. SwedishAmerican Hospital, located at 1401 East State Street in Rockford, currently provides, among other services, obstetrics, pediatrics, open heart surgery, cardiac catheterization and Level II+ nursery.

SwedishAmerican Hospital is located within four miles of RMH's existing hospital and, while your letter does not provide an address for the proposed project, the referenced location "on the east side of Rockford" would place the new facility in very close proximity to SwedishAmerican. Due to the limited information provided in your letter, it is impossible to determine the impact the proposed project would have on SwedishAmerican Hospital. For example, your letter does not advise whether the same number of beds, stations and cath labs are proposed to be established or whether a greater or lesser number will be proposed.

We are concerned that the establishment of a fourth hospital in Rockford by RMH, even with the discontinuation of some services at the existing facility, would adversely impact utilization of existing facilities. Among other concerns, it appears that the new hospital would require inclusion of, at the least, an intensive care unit for the cardiac patients and an emergency department. Also, we question whether RMH's current patient base could support the establishment and operation of a second, new RMH hospital in Rockford and this also raises concerns as to the impact of the proposed project on SwedishAmerican Hospital.

As your July 13th letter of the proposed project does not provide sufficient information for us to fully assess the impact of the proposed project, we must await further details concerning the project to assess the full impact of the proposed project on SwedishAmerican Hospital.

Sincerely,

Don Daniels  
Executive Vice President & Chief Operating Officer



## SAINT ANTHONY MEDICAL CENTER

July 27, 2015

(Sent via FedEx 8718 0369 2025)

Dan Parod, Senior Vice President  
Hospital & Administrative Affairs  
Rockford Health System  
2400 N. Rockton Avenue  
Rockford, IL 61103

RE: Proposed Discontinuation of Selected IDPH-Designated Services at Rockford Memorial Hospital and Re-Establishment of Services at a Second Hospital Campus

Dear Mr. Parod:

Thank you for your letter of July 13, 2015 (a copy of which is attached for your convenience) providing us an opportunity, per 77 IAC 1110.130, to address the impact your proposed project may have on OSF Saint Anthony Medical Center. We believe the overall project(s) your letter references may have a negative impact, but would like to note that the impact of discontinuing the services alone would have no negative impact because we have capacity at our hospital to absorb the volume in obstetrics, pediatrics, cardiac catheterization and open heart surgery. Parenthetically, while we do not offer Level III nursery services, discontinuing that service, without replacing it, may have a negative impact on our community served.

While discontinuing the services referenced above will not have a negative impact on Saint Anthony's we are concerned about the impact of the replacement campus you propose, which is per your correspondence integral to the discontinuation of services your letter references. The replacement hospital will necessarily have to be a fully licensed hospital per the Illinois Hospital Licensing Act. As such, it would be required to operate an emergency department and presumably will offer laboratory, pharmacy, imaging and pathology services all of which would be duplicative of services offered at your main campus, Saint Anthony's and other area providers. We also have a number of questions that are unanswered. It appears you plan to discontinue catheterization services at your existing hospital. Does this mean that you would be unable to provide care to someone who is seen at your emergency department who might require catheterization for diagnostic or interventional purposes? Would the EMS System be required to take all patients suffering a possible cardiac event to either Saint Anthony's or Swedish American or would your second campus become the primary emergency department among your proposed two hospitals?

In summary, we believe the overall project may have a negative impact on our services, and most likely will duplicate existing services. It is difficult to fully understand the extent of the impact

Page 2  
July 27, 2015

given the information in your July 13 letter. We look forward to reviewing the Certificate of Need applications to discontinue your existing hospital services and establish a fourth hospital in Rockford, Illinois.

Sincerely,



Paula A. Carynski, MS, RN, NEA-BC, FACHE  
President

pj

cc: David A. Schertz, CEO/OSF HealthCare Northern Region  
Courtney Avery, Illinois Health Facilities & Services Review Board, Springfield, IL

## BACKGROUND

MercyRockford Health System includes four hospitals, two in Illinois and two in Wisconsin:

- Rockford Memorial Hospital  
Rockford, IL  
IDPH License # 2048
- Mercy Harvard Hospital  
Harvard, IL  
IDPH License # 0004911
- Mercy Hospital and Trauma Center  
Janesville, WI
- Mercy Walworth Hospital and Medical Center  
Lake Geneva, WI

August 14, 2015

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

**Re: MRHS Adverse Actions and Board Access to Information**

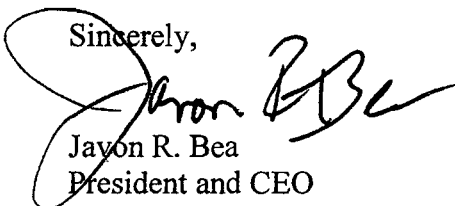
Dear Ms. Avery:

In accordance with Review Criterion 1110.230.b, Background of the Applicant, this letter is being submitted to assure the Illinois Health Facilities and Services Review Board that:

1. Interstate Alliance, Inc. d/b/a MercyRockford Health System does not have any adverse actions against any facility owned and operated by the applicant during the three (3) year period prior to the filing of this application, and
2. Interstate Alliance, Inc. d/b/a MercyRockford Health System authorizes the State Board and Agency access to information to verify documentation or information submitted in response to the requirements of Review Criterion 1110.230.b or to obtain any documentation or information which the State Board or Agency finds pertinent to this application.

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

Sincerely,



Jayon R. Bea  
President and CEO

ATTACHMENT 11

July 28, 2015

Dan Perod  
SVP, Hospital and Administrative Affairs  
Rockford Health System  
2400 North Rockton Avenue  
Rockford, IL 61103

Dear Mr. Perod;

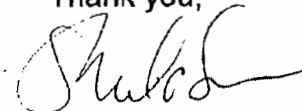
We received your letter dated July 13, 2015 asking us to assess the impact of your proposal to discontinue the open heart and cardiac catheterization category of service at Rockford Memorial Hospital and to re-establish the services at a second hospital campus at corner of I-90 and Riverside Blvd to Centegra Hospital – Woodstock.

Centegra Hospital – Woodstock does not provide open heart or cardiac catheterization services.

Your letter does not provide sufficient information to assess the impact of the other clinical services to be provided at the proposed project on our facility. I respectfully request that you provide us with additional information:

- Projected geographic service area and other clinical services to be provided at the new second hospital campus.
- The street address of the new facility.

Thank you,



Sheila Senn, PsyD  
SVP and COO, Centegra Hospitals – Woodstock and Huntley

cc: Courtney Avery, Administrator, Illinois Health Facilities and Services Review Board  
Michael S. Eesley, CEO, Centegra Health System  
Jason Sciarro, President and COO, Centegra Health System

← DISPLAY THIS PART IN A CONSPICUOUS PLACE

**Illinois Department of  
PUBLIC HEALTH**

HF107109

**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.

**LaMar Hasbrouck, MD, MPH**

**Acting Director**

Issued under the authority of  
the Illinois Department of  
Public Health

ED NUMBER

12/31/2015

0002048

Exp. Date 12/31/2015

Lic Number

0002048

**General Hospital**

**Effective: 01/01/2015**

**Rockford Memorial Hospital  
2400 N. Rockton Avenue  
Rockford, IL 61103**

**Rockford Memorial Hospital**

**2400 N. Rockton Avenue  
Rockford, IL 61103**

This form of this license has a colored background. Printed by Authority of the State of Illinois • P.O. #4012320 10M 3/12

FEE RECEIPT NO.



April 20, 2015

Gary E. Kaatz  
President and CEO  
Rockford Memorial Hospital  
2400 North Rockton Avenue  
Rockford, IL 61103

Joint Commission ID #: 7418  
Program: Hospital Accreditation  
Accreditation Activity: 60-day Evidence of  
Standards Compliance  
Accreditation Activity Completed: 04/14/2015

Dear Mr. Kaatz:

The Joint Commission would like to thank your organization for participating in the accreditation process. This process is designed to help your organization continuously provide safe, high-quality care, treatment, and services by identifying opportunities for improvement in your processes and helping you follow through on and implement these improvements. We encourage you to use the accreditation process as a continuous standards compliance and operational improvement tool.

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

- Comprehensive Accreditation Manual for Hospitals

This accreditation cycle is effective beginning January 11, 2014. The Joint Commission reserves the right to shorten or lengthen the duration of the cycle; however, the certificate and cycle are customarily valid for up to 36 months.

Please visit [Quality Check®](#) on The Joint Commission web site for updated information related to your accreditation decision.

We encourage you to share this accreditation decision with your organization's appropriate staff, leadership, and governing body. You may also want to inform the Centers for Medicare and Medicaid Services (CMS), state or regional regulatory services, and the public you serve of your organization's accreditation decision.

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

Sincerely,

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

## PURPOSE OF PROJECT

The purpose of the three inter-dependent projects addressed in this Certificate of Need application and the accompanying applications, is to provide for the continued delivery of needed health care services to the residents of the communities traditionally served by Rockford Memorial Hospital ("RMH"), and to support this goal through the operating of contemporary facilities. By doing so, the applicants will be providing health services that improve the health care and well-being of the market area population to be served. Through the projects, the applicants will be addressing the facility-related shortcomings of RMH, caused primarily by the facility's age.

The table on the following page provides a patient origin analysis of all patients (excluding admissions to the Level I nursery) admitted to RMH in 2014, identifying each ZIP Code contributing a minimum of 0.5% of the hospital's admissions during that period.

| <b>ZIP</b>  |                  | <b>% of</b> | <b>Cum.</b> |
|-------------|------------------|-------------|-------------|
| <b>Code</b> | <b>Community</b> | <b>Adm</b>  | <b>%</b>    |
| 61103       | Rockford         | 13.3%       | 13.3%       |
| 61101       | Rockford         | 11.8%       | 25.1%       |
| 61102       | Rockford         | 6.5%        | 31.5%       |
| 61115       | Machesney Park   | 6.1%        | 37.6%       |
| 61111       | Loves Park       | 5.1%        | 42.7%       |
| 61107       | Rockford         | 4.7%        | 47.4%       |
| 61104       | Rockford         | 4.1%        | 51.5%       |
| 61109       | Rockford         | 4.0%        | 55.5%       |
| 61108       | Rockford         | 3.7%        | 59.2%       |
| 61073       | Roscoe           | 3.4%        | 62.6%       |
| 61114       | Rockford         | 3.2%        | 65.8%       |
| 61032       | Freeport         | 2.8%        | 68.6%       |
| 61008       | Belvidere        | 2.4%        | 71.1%       |
| 61072       | Rockton          | 2.1%        | 73.2%       |
| 61088       | Winnebago        | 1.8%        | 74.9%       |
| 61080       | South Beloit     | 1.7%        | 76.6%       |
| 61065       | Poplar Grove     | 1.2%        | 77.8%       |
| 61063       | Pecatonica       | 1.1%        | 78.9%       |
| 61010       | Byron            | 1.1%        | 80.0%       |
| 61024       | Durand           | 1.0%        | 80.9%       |
| 61081       | Sterling         | 1.0%        | 81.9%       |
| 61021       | Dixon            | 0.9%        | 82.8%       |
| 61068       | Rochelle         | 0.8%        | 83.6%       |
| 61061       | Oregon           | 0.8%        | 84.5%       |
| 61342       | Mendota          | 0.8%        | 85.3%       |
| 61054       | Mount Morris     | 0.6%        | 85.9%       |
| 61019       | Davis            | 0.6%        | 86.5%       |
| 61071       | Rock Falls       | 0.6%        | 87.1%       |
| 53511       | Beloit, Wis.     | 0.5%        | 87.6%       |
|             | other, <0.5%     | 12.4%       | 100.0%      |

As discussed in other sections of this application, the three inter-dependent projects propose a redistribution of inpatient and outpatient services between RMH-Riverside and RMH-Rockton Avenue campuses to ensure access to services, while limiting unnecessary duplication. Due to the close proximity of the two sites, and because of the “split” of services, the communities served by each hospital campus is anticipated to vary only slightly. When combined, however, the patient origin following the completion of the projects is anticipated to remain very similar to the 2014 patient origin, with one exception.

One of the goals for the 2015 formation of MercyRockford Health System was to centralize specialty services. These specialty services are intended to be located at RMH-Riverside, because of its location on I-90/39, which links the traditional service areas of Rockford Health System and Mercy Alliance, Inc. As a result, it is anticipated that selected patients, who have traditionally been referred from Mercy’s Wisconsin service area to Madison or Milwaukee, will be referred to RMH-Riverside due to its convenient location. As noted in the table above, few patients from Wisconsin have traditionally been admitted to RMH.

Among the goals of the projects are improved patient satisfaction with the facilities and increased access to MercyRockford Health System services for patients from Wisconsin. The achievement of these goals will be measurable during the first year following the projects’ completion.

## ALTERNATIVES

The applicants have concurrently submitted three inter-dependent Certificate of Need applications, addressing two sites, but with a common purpose. The primary purpose of the projects is to provide high quality health care services to the patient population that has traditionally looked to Rockford Memorial Hospital ("RMH") for such services, and to do so in a contemporary setting.

Effective January 1, 2015, Rockford Health System, the parent of RMH, joined MercyRockford Health System to establish a four-hospital system, with two hospitals in Illinois and two in southern Wisconsin. Two important objectives for the new system are the centralization of specialized services, such as perinatology and neonatology, on one campus, and to continue to serve those patient populations that the respective hospitals have been privileged to serve for many years. These goals are incorporated into the evaluation of alternatives.

A number of alternatives, all focusing on the age of RMH's physical plant and the capacity to continue to provide services consistent with industry standards on its current campus were evaluated, including:

1. the construction of a new hospital on the current RMH campus
2. the total renovation of RMH's existing facility
3. the abandonment of the existing RMH campus, and the relocation of all services to another Rockford-area site
4. the construction of a hospital in southern Wisconsin
5. the continued use of certain parts of the existing hospital, coupled with the relocating of selected services to a second site in the Rockford area.

#### Alternative 1, Construct a New Hospital on the Current Rockford Memorial Hospital Site

The applicants commissioned AECOM, a firm with all required expertise, to evaluate the current RMH site, to determine if a new hospital could be constructed on the site, concurrent to the continued operation of the existing hospital. The determination was made that this alternative could not be accomplished in a reasonable fashion. Construction would require a phased program, involving demolition as well as construction, over a 6-8 year period, and with significant disruption to ongoing operations. The estimated project cost of replacing RMH on-site is \$625-\$675M. The quality of care associated with this alternative would be similar to that of the proposed project, the operating costs would be slightly less, and overall access in RMH's service area would be compromised with the operation of a single Emergency Department.

#### Alternative 2, Total Renovation of Rockford Memorial Hospital

An architectural and engineering evaluation of the current physical plant was conducted, and the determination was made that while some of the hospital's newer buildings could be renovated for continued use, given the ages of the buildings and the associated cost of doing so, this alternative did not appropriately address the purpose of the project.

Due primarily to the age of the hospital and the design and construction standards that were in place at the time of construction (generally 1954-1975), even with extensive renovation, many contemporary standards could not be met. Examples of such include: ADA/ANSI standards that cannot be met, room heights that limit the installation of equipment, undersized elevators, and double-loaded corridors on nursing units that result in an inability to re-design units in an efficient and contemporary fashion.

The project costs associated with this alternative are estimated to be \$425-\$475M, with the acknowledgement that numerous facility deficiencies, as discussed above, cannot be corrected. The operating costs associated with this project are anticipated to be similar to those of the proposed project, given that the mechanical systems associated with a renovated building would continue to be less efficient than those of a new building, and that the staffing costs would be slightly lower, due to eliminated duplication. The quality of care to be provided in conjunction with this alternative was anticipated to be virtually identical to that of the proposed

project, and access to care was also viewed as being similar to that of the proposed project, given the existing site's proximity (14 minutes) to the proposed site on I-90/39 and Riverside Boulevard.

#### Alternative 3, Relocating Entire Hospital

The total relocation of RMH to another site in the Rockford area was dismissed for two primary reasons. First, the applicants believe that the retaining of selective inpatient and outpatient services, and particularly a comprehensive Emergency Department, on the current RMH site would benefit the residents of the West Side of Rockford, which is core to the hospital's mission. Second, portions of the existing physical plant can continue to be used, with renovation, for inpatient and outpatient services. This alternative would add approximately \$40M in capital costs to the proposed project. These costs would be minimally offset by the staffing costs associated with the operating of two hospital facilities, as is being proposed. This alternative would compromise access to services, and particularly emergency services, if it were selected, and would result in the same level of quality of care as is anticipated under the proposed project.

#### Alternative 4, Relocating to Southern Wisconsin

The construction of a new hospital could be accomplished on land owned by Mercy Health System (a member of MercyRockford Health System) adjacent to I-90/39 in southern Wisconsin. The benefit of doing so is the speed at which construction could be initiated, since Wisconsin does not require a CON-type review for such projects. While, and as discussed above, one of the purposes of the project is to centralize specialty services, which could be accomplished at a Wisconsin site, accessibility for Rockford residents (and traditional RMH patients residing to the south and west of Rockford) would be compromised. Although this is the most expeditious approach, it is not preferred since it does not meet all of the applicants' objectives. Depending on the scope of the project, the capital and operating costs would be similar to either the proposed project or Alternative 4, above. The quality of services to be provided would be identical to that of the proposed project and other alternatives.

Alternative 5, Continued Use of RMH and the Relocating of Selected Services to a  
Second Site in the Rockford Area

This alternative represents the proposed project, and was selected for a variety of reasons: 1) it ensures the provision of high quality services in a contemporary setting, 2) it's dual-site approach maximizes accessibility to services, and particularly those of an urgent nature through the operation of two Emergency Departments, 3) it allows for the continued use of newer parts of RMH for traditional hospital services, 4) it provides space to be made available to not-for-profit agencies and organizations, 5) it minimizes unnecessary duplication, and 6) it is a cost-effective approach to addressing the need to provide high quality accessible services to RMH's entire service area in a contemporary setting.

## SIZE

Through the proposed project, the scope of clinical services at RMH-Rockton Avenue will be significantly reduced. A goal of the facility planning process is to have functions remain in their current locations, to the extent practical. In some instances, such as the hospital's 20-bed AML unit, no capital costs/renovation are required to continue the units' operation, and the entirety of their current space will be used. In other instances, such as imaging and pharmacy, the amount of future space required for these departments to support anticipated service volumes will be smaller than the space currently required. In most such cases, the decision has been made to retain their current location in the hospital, rather than to incur the capital costs associated with the relocating of a department, simply for purposes of downsizing to IHFSRB standards.

Departments/services that will continue in operation, but will not be incurring any capital costs associated with this project or changes to the approved number of beds, are not addressed in this application.

The hospital's current physical plant is approximately 1,000,000 square feet in size. Upon the completion of the project, approximately 700,000 square feet will continue to be used for hospital functions, approximately 207,000 square feet will be re-purposed for use by not-for-profit community agencies and organizations, and approximately 76,000 square feet will be sealed off, with determinations related to re-purposing being made at a later time. Preliminary conversations have been held with a number of community agencies and organizations about relocating to vacated space, and an interest in doing so has been identified. Those discussions will continue.

The demolition of hospital buildings is not being contemplated at this time.

As a result of the space-use plan discussed above, and particularly the applicants' decision to not relocate functions simply to align with IHFSRB standards, the allocated space is reasonable and not excessive.

| <b>DEPARTMENT/SERVICE</b> | <b>PROPOSED<br/>DGSF</b> | <b>STATE<br/>STANDARD</b> | <b>DIFFERENCE</b> | <b>MET<br/>STANDARD?</b> |
|---------------------------|--------------------------|---------------------------|-------------------|--------------------------|
| Medical/Surgical          | 44,016                   | 46,200                    | (2,184)           | YES                      |
| ICU                       | 5,586                    | 2,740                     | 2,846             | NO                       |
| Surgery                   | 21,670                   | 11,000                    | 10,670            | NO                       |
| PACU/Recovery             | 7,995                    | 4,600                     | 3,395             | NO                       |
| Emergency Department      | 15,000                   | 15,300                    | (300)             | YES                      |
| Imaging                   | 23,774                   | 5,800                     | 17,974            | NO                       |

## PROJECT SERVICES UTILIZATION

Anticipated utilization is generally based on the historical utilization of Rockford Memorial Hospital (RMH), recognizing that the required facilities/equipment for some services (such as pediatrics, obstetrics-related services, NICU, cardiac catheterization, and open heart surgery) will be provided only at RMH-Riverside, while the other services will be provided at both RMH-Rockton Avenue and RMH-Riverside. Utilization impacted by the distribution of Medical/Surgical beds and ICU beds, such as general surgery is based on the proposed bed distribution and the anticipated location of medical and surgical specialties and specialists' offices. Please see ATTACHMENTS 20 and 34 for additional discussion of the rationale supporting the projections.

The proposed project includes eight clinical services for which the IHFSRB has adopted utilization standards, and the project, as proposed, meets each of those standards.

The required table, identifying historical utilization (RMH) and projected utilization (RMH-Rockton Avenue) is provided at the end of this ATTACHMENT.

### Medical/Surgical Beds

Rockford Memorial Hospital is approved to operate 223 Medical/Surgical beds and is proposing to reduce that number to 154, with 84 beds to be located at RMH-Riverside and 70 beds to be maintained at RMH-Rockton Avenue. Bed utilization during the past year confirms that the demand for the proposed number of beds exists, and service area demographics suggest that demand will increase as a result of an aging service area population. Further, the 120

Medical/Surgical beds that would result from a simple application of the 85% occupancy rate target, to the 2014 inpatient Medical/Surgical days, is clearly inadequate to meet the hospital's historical demand for Medical/Surgical beds. This is supported by a number of factors:

- 1) In 2013-2014, Rockford Memorial Hospital provided an average of 38,042 Medical/Surgical inpatient days of care (midnight census), yielding an average daily census (ADC) of 104.2 patients, and a "need" for 123 beds, based on the 85% target occupancy rate. However, in addition to the inpatients, an average of 6.7 observation patients per day occupied beds on a Medical/Surgical unit in 2014, resulting in a combined ADC of 110.9 patients, which would support a "need" for 131 Medical/Surgical beds ( $110.9 \div .85$ ).
- 2) During 2014, on 113 days, the midnight census exceeded the number of Medical/Surgical beds (131) that would be justified by the 110.9 average daily census, primarily due to day-of-the-week and seasonal fluctuations. Operating without any available Medical/Surgical beds 31% of the time is unacceptable, and a disservice to the community. Had only the proposed 154 Medical/Surgical beds been available at RMH in 2014, the hospital would have been at 100% occupancy 15 days.
- 3) Surgical patients are now, in most instances, admitted to the hospital on the morning of surgery, rather than the day before. As a result, midnight census---a measure that has been used for decades---is no longer a reasonable basis on which to gauge actual bed utilization. In fact, mid-day census typically exceeds midnight census by approximately 20%. As a result, while the midnight ADC of 107.9 patients would "justify" 127 Medical/Surgical beds based on the 85% target utilization level, true bed need, based on actual usage, is approximately 20% higher---in the 150-160 range. As identified above, the applicants are proposing to provide a combined total of 154 Medical/Surgical beds at its two hospital sites. This approach adheres to the IHFSRB's methodology, while addressing bed need in a reasonable fashion.

- 4) Unlike some hospitals, a separate observation unit will not be developed at RMH-Riverside, since under this project observation patients will continue to occupy Medical/Surgical beds. A small (16 bed) observation unit will be developed at RMH-Rockton Avenue, with the primary purpose of that unit being to hold and observe patients, while awaiting a decision on whether to transfer the patient to RMH-Riverside for services not provided at RMH-Rockton Avenue.

Based on the above analysis provided above, the applicants believe that the proposed 154 beds represents a conservative approach, given historical demand and the patient population to be served. The hospital's service area, and particularly Winnebago County, is aging, which will lead to higher admission rates and longer lengths of stay, resulting in an increased demand for beds. Although, for the period 2013-2023, the population of Winnebago County is anticipated to remain relatively constant (a projected decrease of 0.5%), the 65+ population of the county is projected to increase by 9.4%. The impact that the "aging" of Winnebago County's population will have on the demand for Medical/Surgical services is documented in the IHFSRB's *Inventory of Health Care Facilities and Need Determinations*, which identifies Health Planning Area B-01's Medical/Surgical use rate for the 75+ age group as 2.0488 and that of the 65-74 age group as 1.0278, both significantly higher than the 0.4174 use rate of the 45-64 population.

#### ICU Beds

A 4-bed ICU, intended to primarily support the RMH-Rockton Avenue Emergency Department, will be provided. The proposed ICU represents the minimum-sized unit in order to meet review criterion 1110.330.g; and, in the view of the applicants, is required to appropriately support a comprehensive Emergency Department.

### Emergency Department

RMH-Rockton Avenue will operate a comprehensive Emergency Department (ED), consisting of 17 treatment stations. Six of the treatment rooms will be equipped as trauma rooms. In 2014, Rockford Memorial Hospital treated 54,338 ED patients from throughout its service area. Based on the origin of RMH's ED patients and an assessment of the diagnoses treated in the ED, it is anticipated that approximately 32,600 patients will seek services in the RMH-Rockton Avenue ED during the second year following the proposed project's completion.

### Surgery

RMH-Rockton Avenue will operate a 4-operating room surgical suite, using four of the hospital's twelve existing operating rooms. Each of the operating rooms will function as a general operating room, available for all specialties, with the exception of cardiovascular surgery and urological surgery, which will not be performed at the hospital. Currently, approximately 64% of the cases performed at RMH are performed on an outpatient basis. This percentage is anticipated to increase slightly at RMH-Rockton Avenue, to approximately 70%. The amount of surgery performed at RMH-Rockton Avenue and RMH-Riverside, combined, is not anticipated to change appreciably from the 20,607 hours experienced in 2014. It is anticipated that approximately 4,500 hours of OR time at RMH-Rockton Avenue will be utilized (including room "turnover") during the first year following the project's completion, and that approximately 5,000 hours will be used the following year.

### Other Services

The remaining services identified in the table below, general radiology, CT, MRI and ultrasound are all basic imaging modalities appropriate to a hospital having the anticipated number of both ED visits and inpatient admissions projected for RMH-Rockton Avenue. Consistent with IHFSRB practices, since only one piece of equipment is being proposed for each of the modalities, the minimum utilization standards are not applicable.

| Dept./<br>Service                                                                   | 2014<br>Historical<br>Utilization*<br>(Patient Days)<br>(TREATMENTS) | PROJECTED<br>UTILIZATION*<br>(patient days) |        | STATE<br>STANDARD | MET<br>STANDARD? |
|-------------------------------------------------------------------------------------|----------------------------------------------------------------------|---------------------------------------------|--------|-------------------|------------------|
|                                                                                     |                                                                      | YEAR 1                                      | YEAR 2 |                   |                  |
| M/S (days)                                                                          | 37,199                                                               | 16,500                                      | 16,500 | 13,414            | YES              |
| ICU (days)                                                                          | 6,211                                                                | 850                                         | 850    | 658               | YES              |
| Emergency<br>Dept.                                                                  | 54,338                                                               | 32,000                                      | 32,600 | 32,001            | YES              |
| Surgery (hrs)                                                                       | 20,607                                                               | 4,500                                       | 5,000  | 4,501             | YES              |
| General R & F                                                                       | 43,792                                                               | 8,800                                       | 8,800  | NA                | NA               |
| CT                                                                                  | 17,861                                                               | 2,900                                       | 2,900  | NA                | NA               |
| MRI                                                                                 | 7,142                                                                | 1,650                                       | 1,650  | NA                | NA               |
| Ultrasound                                                                          | 10,227                                                               | 700                                         | 700    | NA                | NA               |
| *Historical utilization for RMH and projected utilization for Rockton Avenue Campus |                                                                      |                                             |        |                   |                  |

## CATEGORY OF SERVICE MODERNIZATION-MEDICAL/SURGICAL BEDS

As a component of the proposed project, three of the newest Medical/Surgical units at RMH-Rockton Avenue will be renovated, primarily to address the units' being "dated" due to their age. These three units are designated as B-4, D2 and D3, and upon the completion of the project, will house 70 Medical/Surgical beds, located in private rooms.

It is anticipated that the Medical/Surgical Beds will operate at or above the target occupancy rate.

## CATEGORY OF SERVICE MODERNIZATION-ICU BEDS

As a component of the proposed project, the existing 12-bed surgical ICU located on the first floor of the hospital will be renovated, and converted to and operated as a 4-bed medical/surgical ICU.

It is anticipated that the ICU will operate at or above the target occupancy rate.

## PERFORMANCE REQUIREMENTS

Upon the completion of the proposed project, RMH-Rockton Avenue will operate 70 Medical/Surgical beds, and an additional 84 Medical/Surgical beds will be located at RMH-Riverside. In addition, four ICU beds will be maintained at RMH-Rockton Avenue, and 26 ICU beds will be located at RMH-Riverside. The two campuses will operate under the same licensed entity, Rockford Memorial Hospital.



ROCKFORD HEALTH  
system

August 14, 2015

Illinois Health Facilities  
and Services Review Board  
525 West Jefferson  
Springfield, IL 62761

**Re: Compliance with IHFSRB's Second Year Target Utilization Rate**

To Whom It May Concern:

This letter is being written for inclusion in the Certificate of Need applications addressing the establishment of a new hospital on Rockford Memorial Hospital's property located at the intersection of I-90/39 and East Riverside Boulevard in Rockford Township, Winnebago County, Illinois, and the modernization of Rockford Memorial Hospital's current campus, located at 2400 North Rockton Avenue, in Rockford, Illinois. Please be advised that it is my expectation and understanding that by the second year following the projects' completion, each of the IDPH-designated categories of service addressed in the filed Certificate of Need applications will be operating at the IHFSRB's target utilization rate, and that they will, at minimum, maintain this level of utilization thereafter.

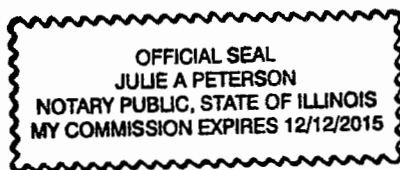
Sincerely,

Dan Parod  
Senior Vice President  
Hospital and Administrative Affairs

STATE OF ILLINOIS

COUNTY OF WINNEBAGO

BE IT KNOWN, that, on the 14<sup>th</sup> day of August, 2015, before me personally came Dan Parod, SVP, Hospital and Administrative Affairs, who executed the foregoing instrument, and he acknowledged to me that he executed the same.

  
Notary Public

Rockford Memorial  
Hospital  
2400 N. Rockton Ave.  
Rockford, IL 61103  
(815) 971-5000

Rockford Health  
Physicians  
2300 N. Rockton Ave.  
Rockford, IL 61103  
(815) 971-2000

Van Matre HealthSouth  
Rehabilitation Hospital  
950 S. Mulford Rd.  
Rockford, IL 61103  
(815) 381-8200

Visiting Nurses  
Association  
4223 E. State St.  
Rockford, IL 61108  
(815) 971-3550

ATTACHMENT 2-B  
Rockford Memorial  
Development Foundation  
2400 N. Rockton Ave.  
Rockford, IL 61103  
(815) 971-4141

## CLINICAL AREAS OTHER THAN CATEGORIES OF SERVICE

Rockford Memorial Hospital-Rockton Avenue will provide a broad variety of clinical services that are not identified by IDPH as categories of service, but have target utilization levels identified in Section 1110, APPENDIX B. These clinical areas, as identified in the required table below, are consistent with the mission of the hospital and the anticipated utilization of the services.

| <b>Service</b>  | <b># Existing<br/>Key Room</b> | <b># Proposed<br/>Key Rooms</b> |
|-----------------|--------------------------------|---------------------------------|
| Emergency Dept. | 31                             | 17                              |
| Convenient Care | 10                             | 8                               |
| Surgery         | 12                             | 4                               |
| General R & F   | 5                              | 1                               |
| CT              | 3                              | 1                               |
| MRI             | 3                              | 1                               |
| Ultrasound      | 3                              | 1                               |

The primary purpose of the services in the table above, as is the case with RMH-Rockton Avenue, in general, is to provide needed services to the residents of the hospital's service area, as identified in ATTACHMENT 12.

The physical size and historical and projected utilization for each of the clinical areas are provided in ATTACHMENTS 14 and 15, respectively. In nearly every case, the area currently assigned to the clinical service will continue to be used, though in many cases, the size of the area exceeds the standard. The decision to do so is reasonable, and is being done to reduce renovation costs. For example, RMH's existing imaging department consists of 17,526 square feet and 23 rooms. Upon the completion of the proposed project, four of the seven current

imaging modalities will be provided in a total of four rooms. The imaging department will, however, continue to occupy its current 17,526 square foot location.

#### Emergency Department

The Emergency Department will consist of 17 stations, and the department will be classified as a “comprehensive” Emergency Department. Ten additional stations will be located in the Emergency Department at RMH-Riverside.

In 2014, 54,338 patients were treated in RMH’s ED, supporting a “need” for 28 stations. For planning purposes, utilization at the two departments, combined, is projected to remain at the current 54,300 patient level. It is estimated that approximately 32,600 of those patients will seek services at the RMH-Rockton Avenue ED during each of the second year following the project’s completion. The proposed 17 stations are supported by the projected utilization.

#### Convenient Care Center

The Convenient Care Center, which operates as a “walk-in” clinic, will be re-located from the clinic building to the hospital, occupying a portion of the current Emergency Department. During 2014, 14,248 patients were treated in the Convenient Care Center, and utilization is anticipated to remain at that level. Eight stations will be provided.

#### Surgery

The surgical suite will be reduced from twelve to four operating rooms, consistent with the patient population anticipated to be treated at RMH-Rockton Avenue. All four of the ORs will function as general operating rooms. In addition, a ten-OR suite will be provided at RMH-Riverside, including one room, each, designated for cardiovascular and urological procedures.

The amount of surgery performed at RMH-Rockton Avenue and RMH-Riverside, combined, is not anticipated to change appreciably from the 20,607 hours experienced in 2014. It is anticipated that approximately 4,500 hours of OR time at RMH-Rockton Avenue will be utilized during the first year following the project’s completion, and that approximately 5,000 hours will be utilized the following year.

### Diagnostic Imaging

The diagnostic imaging department will consist of the four modalities identified in the table presented earlier in this ATTACHMENT, and is intended to serve RMH-Rockton Avenue's inpatients, outpatients and patients of the physicians and agencies that will be located on the RMH-Rockton Avenue campus.

One room will be provided for each of the modalities, with the following anticipated utilization in the second year following the project's completion:

- General Radiology and Fluoroscopy: 8,800 procedures
- CT: 2,900
- MRI: 1,650
- Ultrasound: 700

# **Rockford Health System and Affiliated Corporations**

**Consolidated Financial Statements and  
Supplemental Consolidating Information  
December 31, 2014 and 2013**

# Rockford Health System and Affiliated Corporations

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December 31, 2014 and 2013

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## Independent Auditor's Report

To the Board of Directors of  
Rockford Health System:

We have audited the accompanying consolidated financial statements of Rockford Health System and Affiliated Corporations (the "System"), which comprise the consolidated balance sheets as of December 31, 2014 and December 31, 2013, and the results of their operations, of changes in net assets and of cash flows for the years then ended.

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

Management is responsible for the preparation and fair presentation of the 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 the 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 our 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, we consider 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 Rockford Health System and Affiliated Corporations at December 31, 2014 and December 31, 2013, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*PricewaterhouseCoopers LLP*

March 27, 2015

**Rockford Health System and Affiliated Corporations**  
**Consolidated Balance Sheets**  
**December 31, 2014 and 2013**  
(in thousands of dollars)

|                                                                                                              | 2014       | 2013       |
|--------------------------------------------------------------------------------------------------------------|------------|------------|
| <b>Assets</b>                                                                                                |            |            |
| Current assets                                                                                               |            |            |
| Cash and cash equivalents                                                                                    | \$ 45,085  | \$ 46,244  |
| Short term investments                                                                                       | 23,214     | 23,281     |
| Patient accounts receivable, less allowance for doubtful<br>accounts for 2014 - \$14,069 and 2013 - \$22,772 | 64,971     | 66,020     |
| Other receivables                                                                                            | 5,686      | 6,636      |
| Current portion of assets limited as to use                                                                  | 11,304     | 11,390     |
| Inventories                                                                                                  | 8,770      | 8,265      |
| Prepaid expense and other current assets                                                                     | 3,945      | 3,737      |
| Total current assets                                                                                         | 162,975    | 165,573    |
| Assets limited as to use, non-current                                                                        |            |            |
| Board-designated and trustee held investments                                                                | 193,873    | 194,556    |
| Donor-restricted and endowment funds                                                                         | 3,808      | 3,751      |
| Total assets limited as to use, non-current                                                                  | 197,681    | 198,307    |
| Property, plant and equipment, net                                                                           | 145,155    | 141,426    |
| Investments in joint ventures                                                                                | 10,225     | 9,258      |
| Other assets                                                                                                 | 31,807     | 28,166     |
| Total assets                                                                                                 | \$ 547,843 | \$ 542,730 |
| <b>Liabilities and Net Assets</b>                                                                            |            |            |
| Current liabilities                                                                                          |            |            |
| Current portion of long-term debt                                                                            | \$ 3,626   | \$ 3,200   |
| Accounts payable                                                                                             | 13,460     | 15,354     |
| Accrued expenses                                                                                             | 51,387     | 45,595     |
| Deferred revenues                                                                                            | 248        | 320        |
| Due to third-party payors                                                                                    | 14,530     | 13,249     |
| Total current liabilities                                                                                    | 83,251     | 77,718     |
| Other liabilities                                                                                            |            |            |
| Long-term debt, net of current portion                                                                       | 85,691     | 88,071     |
| Accrued liabilities under self-insurance program                                                             | 51,219     | 51,944     |
| Accrued pension                                                                                              | 18,175     | 2,844      |
| Accrued postretirement medical benefits                                                                      | 7,277      | 7,363      |
| Other liabilities                                                                                            | 12,116     | 11,013     |
| Total liabilities                                                                                            | 257,729    | 238,953    |
| Net assets                                                                                                   |            |            |
| Unrestricted                                                                                                 | 267,816    | 281,934    |
| Temporarily restricted                                                                                       | 13,866     | 13,545     |
| Permanently restricted                                                                                       | 8,432      | 8,298      |
| Total net assets                                                                                             | 290,114    | 303,777    |
| Total liabilities and net assets                                                                             | \$ 547,843 | \$ 542,730 |

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

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**Rockford Health System and Affiliated Corporations**  
**Consolidated Statements of Operations**  
**Years Ended December 31, 2014 and 2013**  
(in thousands of dollars)

|                                                                    | 2014       | 2013       |
|--------------------------------------------------------------------|------------|------------|
| <b>Revenues</b>                                                    |            |            |
| Net patient service revenue                                        | \$ 398,753 | \$ 383,175 |
| Provision for doubtful patient accounts                            | (13,210)   | (25,082)   |
| Total net patient service revenue                                  | 385,543    | 358,093    |
| Provider tax and other provider payments                           | 27,858     | 25,160     |
| Other operating revenues and net assets released from restrictions | 28,412     | 45,660     |
| Total revenue                                                      | 441,813    | 428,913    |
| <b>Expenses</b>                                                    |            |            |
| Salaries and wages                                                 | 211,380    | 198,618    |
| Employee benefits                                                  | 37,291     | 41,799     |
| Supplies                                                           | 63,844     | 63,286     |
| Purchased services and professional fees                           | 72,505     | 69,585     |
| Depreciation and amortization                                      | 23,546     | 22,565     |
| Provision for doubtful accounts                                    | 141        | 131        |
| Insurance                                                          | 12,902     | 9,834      |
| Provider tax assessment                                            | 12,096     | 12,254     |
| Interest                                                           | 2,193      | 2,272      |
| Other                                                              | 7,746      | 7,906      |
| Total expenses                                                     | 443,644    | 428,250    |
| <b>Operating income</b>                                            | (1,831)    | 663        |
| <b>Nonoperating gains (losses)</b>                                 |            |            |
| Investment income                                                  | 5,659      | 15,938     |
| Change in fair market value of swap                                | (38)       | 1,764      |
| Other, net                                                         | 723        | 800        |
| Excess of revenues over expenses                                   | \$ 4,513   | \$ 19,165  |

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

**Rockford Health System and Affiliated Corporations**  
**Consolidated Statements of Changes in Net Assets**  
**Years Ended December 31, 2014 and 2013**  
(in thousands of dollars)

|                                                  | 2014       | 2013       |
|--------------------------------------------------|------------|------------|
| <b>Unrestricted net assets</b>                   |            |            |
| Excess of revenues over expenses                 | \$ 4,513   | \$ 19,165  |
| Pension adjustment                               | (19,325)   | 21,745     |
| Postretirement medical benefit adjustment        | 575        | 1,381      |
| Net assets released from restriction for capital | 119        | 20         |
| (Decrease) increase in unrestricted net assets   | (14,118)   | 42,311     |
| <b>Temporarily restricted net assets</b>         |            |            |
| Contributions                                    | 781        | 858        |
| Unrealized gains on investments, net             | 310        | 442        |
| Net change in beneficial interest in trusts      | (18)       | 677        |
| Net assets released from restriction             | (752)      | (555)      |
| Increase in temporarily restricted net assets    | 321        | 1,422      |
| <b>Permanently restricted net assets</b>         |            |            |
| Net change in beneficial interest in trusts      | 134        | 470        |
| Increase in temporarily restricted net assets    | 134        | 470        |
| (Decrease) increase in net assets                | (13,663)   | 44,203     |
| Net assets at beginning of year                  | 303,777    | 259,574    |
| Net assets at end of year                        | \$ 290,114 | \$ 303,777 |

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

**Rockford Health System and Affiliated Corporations**  
**Consolidated Statements of Cash Flows**  
**Years Ended December 31, 2014 and 2013**  
(in thousands of dollars)

|                                                                                                                 | 2014             | 2013             |
|-----------------------------------------------------------------------------------------------------------------|------------------|------------------|
| <b>Cash flows from operating activities</b>                                                                     |                  |                  |
| (Decrease) increase in net assets                                                                               | \$ (13,663)      | \$ 44,203        |
| Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities |                  |                  |
| Net realized and unrealized gains on investments                                                                | (5,782)          | (28,664)         |
| Equity gains in joint ventures                                                                                  | (3,265)          | (3,344)          |
| Unrealized (gain) loss on interest rate swap                                                                    | 38               | (1,764)          |
| Net pension and postretirement medical benefit adjustment                                                       | 18,750           | (23,126)         |
| Depreciation and amortization                                                                                   | 23,546           | 22,565           |
| Provision for doubtful accounts                                                                                 | 13,351           | 25,213           |
| Loss on disposal of assets                                                                                      | 641              | 266              |
| Changes in assets and liabilities                                                                               |                  |                  |
| Increase in patient accounts receivable, net                                                                    | (12,302)         | (20,708)         |
| Increase (decrease) in accounts payable and accrued expenses                                                    | 4,112            | (6,651)          |
| Decrease in deferred revenues                                                                                   | (72)             | (126)            |
| Increase (decrease) in due to third-party payors                                                                | 1,281            | (246)            |
| Decrease in accrued liabilities under self-insurance program                                                    | (725)            | (3,465)          |
| Net change in other assets and liabilities                                                                      | (530)            | 5,403            |
| Net cash provided by operating activities                                                                       | <u>25,380</u>    | <u>9,556</u>     |
| <b>Cash flows from investing activities</b>                                                                     |                  |                  |
| Purchases of property and equipment                                                                             | (27,527)         | (16,451)         |
| Purchases of investments                                                                                        | (233,043)        | (351,943)        |
| Proceeds from sales of investments                                                                              | 239,340          | 355,063          |
| Acquisition of business                                                                                         | (2,000)          | -                |
| Net cash (used in) investing activities                                                                         | <u>(23,230)</u>  | <u>(13,331)</u>  |
| <b>Cash flows from financing activities</b>                                                                     |                  |                  |
| Principal payments on long-term debt                                                                            | (3,309)          | (3,368)          |
| Net cash used in financing activities                                                                           | <u>(3,309)</u>   | <u>(3,368)</u>   |
| Net decrease in cash and cash equivalents                                                                       | (1,159)          | (7,143)          |
| <b>Cash and cash equivalents</b>                                                                                |                  |                  |
| Beginning of year                                                                                               | <u>46,244</u>    | <u>53,387</u>    |
| End of year                                                                                                     | <u>\$ 45,085</u> | <u>\$ 46,244</u> |
| <b>Supplemental disclosure of cash flow information</b>                                                         |                  |                  |
| Cash paid for interest                                                                                          | \$ 2,140         | \$ 2,247         |
| Property and equipment purchases accrued at year-end                                                            | \$ 501           | \$ 287           |
| Property and equipment purchases through capital lease                                                          | \$ 1,380         | \$ -             |

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

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**Rockford Health System and Affiliated Corporations**  
**Notes to Consolidated Financial Statements**  
**December 31, 2014 and 2013**  
**(in thousands of dollars)**

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**1. Organization and Nature of Operations**

Rockford Health System (RHS) consists of affiliated corporations, which include Rockford Memorial Hospital (the "Hospital"), Rockford Health Physicians (RHPH), Visiting Nurses Association of the Rockford Area (VNA), Rockford Memorial Development Foundation (RMDF), Rockford Health System Ventures, LLC (RHSV), and Rockford Health Insurance Ltd. (RHIL) (collectively the "System").

RHS is the sole corporate member of the Hospital, RHPH, and VNA, all of which are Illinois not-for-profit corporations previously determined by the Internal Revenue Service to be exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, and the sole shareholder of RMDF, an Illinois not-for-profit corporation previously determined by the Internal Revenue Service to be exempt from federal income taxes under Section 509(a)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes related to these entities has been made. RHS and its affiliated corporations operate in northern Illinois.

The Hospital provides inpatient, outpatient, and emergency care services to area residents. RHPH provides physician and ambulatory care services at several sites. VNA provides home health nursing services and rents medical equipment to area residents. RMDF is organized to promote education and scientific and charitable health care activities. RHSV is a wholly owned subsidiary of the Hospital and was created to manage the organization's investments in joint ventures. RHIL is a wholly owned subsidiary of the Hospital and is incorporated under the laws of Bermuda. RHIL provides the affiliated corporations with excess professional and general liability insurance.

Effective January 1, 2015, the System completed a merger with Mercy Health System of Janesville, Wisconsin. The Boards of Directors of the two organizations approved the creation of the new, yet unnamed health system on October 23, 2014. The merger was granted approval by the Illinois Health Facilities and Services Review Board on December 16, 2014.

The new combined system operates five hospitals, employs more than 550 physicians, with approximately 7,500 employees and provides outpatient service in more than 80 centers of care. It continues to operate as a not-for-profit organization with a charitable mission to provide excellent health care services.

Operations of the new system will be guided by a nine-member board with four representatives each from Mercy Health System and Rockford Health System as well as the current CEO of Mercy Health System.

The assets of the charitable foundations of the two organizations will remain separate, to be used to support the facilities and operations where the gifts were made.

**2. Summary of Significant Accounting Policies**

**Basis of Accounting and Principles of Consolidation**

The accompanying consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("generally accepted accounting principles"). The consolidated financial statements include the accounts of all of the entities outlined above. All intercompany transactions and balances have been eliminated.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and

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expenses during the reporting period. Actual results could differ from those estimates. The most significant estimates are made in the areas of patient accounts receivable, investments, accruals for settlements with third-party payors, reserves for losses and expenses related to health care professional and general liabilities, and risks and assumptions for measurement of pension and postretirement medical liabilities.

**Risks and Uncertainties**

Investment securities are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is possible that changes in risks in the near term would materially affect the amounts reported in the consolidated balance sheets and the consolidated statements of operations.

**Cash and Cash Equivalents**

Cash equivalents consist of short-term, highly liquid investments, including repurchase obligations, which have maturities at the time of purchase of three months or less. The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents approximate their fair value.

**Inventory**

Inventory is valued at lower of cost or market, with cost determined using average cost method.

**Investments**

Short-term investments include bank deposits, money markets, and fixed-income securities, and are held for short-term cash management purposes and will mature within one year. The carrying amounts reported in the consolidated balance sheets for short-term investments approximate their fair value.

**Assets Limited as to Use**

Assets limited as to use include investments or other assets held by trustees under indenture agreements and professional liability programs and designated assets set aside by the Board of Directors (the "Board"). The Board-designated assets have been set aside for future capital improvements. The Board retains control of these assets and may, at its discretion, use them for other purposes. In addition, assets limited as to use include the temporarily restricted and donor-restricted endowment funds, except for the interest in beneficial trusts. Amounts required to meet current liabilities of the System that can be paid by assets limited as to use have been reflected as current assets in the consolidated balance sheets at December 31, 2014 and 2013.

**Fair Value**

Fair value is defined as the exchange price that would be received for an asset in the principal or most advantageous market for the asset in an orderly transaction between market participants on the measurement date. Fair value is estimated based on quoted market prices, except for alternative investments for which quoted market prices are not available. The System has adopted a hierarchy of valuation inputs based on the extent to which observable inputs are available. Observable inputs reflect market data and unobservable inputs reflect the System's own assumptions about how market participants would value an asset based on the best information available. Cash and cash equivalents are carried at cost, which approximates fair value. Investment income or loss (including realized gains and losses on investments, investments determined to be other than temporarily impaired, interest, dividends and unrealized gains and losses on trading securities) is included in the excess of revenues over expenses unless the income or loss is restricted by donor or law. Investment income restricted for specific purposes by donor or legal requirements is recorded as temporarily or permanently restricted on the consolidated statements of changes in net assets.

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**Property, Plant and Equipment**

Property, plant and equipment are reported on the basis of cost less accumulated depreciation and amortization. Donated items are recorded at fair market value at the date of contribution. Cost incurred in the development and installation of internal-use software are expensed or capitalized depending on whether they are incurred in the preliminary project stage, application development stage, or post implementation stage. The carrying value of property, plant and equipment is reviewed if the facts and circumstances suggest that it may be impaired. Depreciation of property, plant and equipment is calculated by use of the straight-line, half-year method at rates intended to depreciate the cost of assets over their estimated useful lives, which generally range from three to forty years.

**Long-Lived Assets**

Management continually reviews its long-lived assets for potential impairment in accordance with authoritative guidance on impairment or disposal of long-lived assets.

**Accrued Expenses**

Accrued expense includes the liability for incurred items which are anticipated to be paid within a year. This primarily includes accruals for payroll, payroll taxes and withholdings, employee benefits, incentive compensation, real estate taxes as well as the current portion of workers compensation, malpractice and debt financing activities.

**Deferred Revenues**

Deferred revenue includes payments received in advance for the Visiting Nurses Association's Home Health program and a rebate incentive program.

**Deferred Financing Costs**

Financing costs incurred in connection with the issuance of long-term debt are amortized over the life of the debt based on the interest method.

**Derivative Instruments**

Derivative instruments are recorded in the consolidated balance sheet at their fair value in accordance with authoritative guidance on derivative instruments. In connection with the issuance of certain indebtedness, the Obligated Group entered into an interest rate swap agreement (see Note 10). The change in fair value of the swap agreement is recorded within non-operating gains (losses) in the consolidated statement of operations.

**Temporarily and Permanently Restricted Net Assets**

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

**Donor-Restricted Contributions**

Donor-restricted contributions are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When donor-restricted contributions are expended for operating purposes or capital improvements, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations as other revenue or in the consolidated statements of changes in net assets as net assets released from restrictions, respectively. Permanently restricted support is maintained in perpetuity, with income generated reflected as increases in temporarily restricted net assets until such time as the restrictions for use of the income are met. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying consolidated financial statements.

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RMDF recognizes its interest in trustee-held funds at various financial institutions for which RMDF has a beneficial interest. Periodically, the financial institutions distribute a portion of the income earned on these funds to RMDF.

**Excess of Revenues over Expenses**

The consolidated statements of operations and changes in net assets 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 net unrealized investment gains and losses on non-trading investments, permanent transfers of assets to and from affiliates for other than goods and services, contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets), and the change in pension liability.

**Net Patient Service Revenue**

Net patient service revenue is reported at estimated net realizable amounts from patients, third-party payors, and others for services rendered. Contractual adjustments represent the difference between established rates for services and amounts paid by third-party payors. Payments under these agreements and programs are based on either a specific amount per case; costs, as defined, of rendering services to program beneficiaries; or contracted price. Amounts for uncollectible accounts are also included as reductions to net patient service revenue. Contractual adjustments and bad debts are accrued on an estimated basis in the period the related services are rendered, and are adjusted in future periods as final settlements are determined.

Revenue from managed care payors accounted for 48% and 46% of the System's net patient service revenue excluding bad debts in 2014 and 2013, respectively. Revenue from Medicare and Medicaid programs accounted for approximately 49% and 45% of net patient service revenue excluding bad debts in 2014 and 2013, respectively.

Due to the complexity and subjectivity of interpreting the Medicare and Medicaid programs, there is a reasonable possibility that recorded estimates will change by a material amount in the near term. The impact of any change in estimates is recorded in the year the change is determined. Changes in prior-year estimated amounts due to third parties impacted net patient service revenue by (\$118) and (\$35) in 2014 and 2013, respectively.

Presented below is the System's patient service revenue and contractual allowance activity for the years ended December 31, 2014 and 2013, not including the Illinois Provider Assessment Program revenues:

|                                                  | 2014              | 2013              |
|--------------------------------------------------|-------------------|-------------------|
| Gross patient service revenue:                   |                   |                   |
| Inpatient hospital services                      | \$ 573,298        | \$ 541,767        |
| Outpatient hospital services                     | 390,478           | 346,145           |
| Physician and other                              | 196,486           | 179,952           |
|                                                  | <u>1,160,262</u>  | <u>1,067,864</u>  |
| Less contractual allowances and charity care     | <u>(743,254)</u>  | <u>(669,994)</u>  |
| Net patient service revenue--before eliminations | 417,008           | 397,870           |
| Consolidation eliminations                       | <u>(18,255)</u>   | <u>(14,695)</u>   |
| Net patient service revenue                      | <u>\$ 398,753</u> | <u>\$ 383,175</u> |

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**Charity Care**

The System provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the System does not pursue collection of amounts determined to qualify as charity care, they are not reflected as net patient service revenue (Note 4).

**Other Operating Revenue**

Other operating revenue consists of cafeteria and other sales to patients, employees, and visitors; grants; income or loss from joint ventures; investment income derived from RMDF's activities; unrestricted donations, auxiliary services, electronic medical record incentives, Medicaid interest, and other miscellaneous income.

Presented below is a table of other operating revenue for the years ended December 31, 2013 and 2012:

|                                                                    | 2014             | 2013             |
|--------------------------------------------------------------------|------------------|------------------|
| Grants                                                             | \$ 4,407         | \$ 6,301         |
| Investment income                                                  | 4,092            | 15,070           |
| Electronic medical record incentive                                | 4,050            | 5,446            |
| Medical lab                                                        | 4,525            | 3,842            |
| Joint ventures                                                     | 3,264            | 3,343            |
| Cafeteria                                                          | 1,800            | 1,788            |
| Daycare center                                                     | 1,426            | 1,542            |
| Donations and contributions                                        | 1,190            | 1,458            |
| Lease and rental                                                   | 493              | 760              |
| Medicaid prompt-pay interest                                       | 109              | 3,083            |
| Other                                                              | 3,056            | 3,027            |
| Other operating revenues and net assets released from restrictions | <u>\$ 28,412</u> | <u>\$ 45,660</u> |

**New Accounting Pronouncements**

The Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") is the sole source of authoritative non-governmental U.S. generally accepted accounting principles.

In May 2014, the FASB issued an update to the ASC to improve the consistency of revenue recognition practices across industries for economically similar transactions. The core principle is that an entity recognizes revenue for goods or services to customers in an amount that reflects the consideration it expects to receive in return. The guidance is effective for periods beginning after December 15, 2016. RHS is currently evaluating the impact that this guidance will have on its consolidated financial statements.

**Subsequent Events**

The System has evaluated subsequent events through March 27, 2015, which coincides with the release of the financial statements. No significant events were identified.

**3. Third-Party Reimbursement Programs**

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from their established rates. A summary of the payment arrangements with major third-party payors follows:

- *Medicare* — Inpatient acute care services provided to Medicare program beneficiaries are paid based on Medicare's Prospective Payment System (PPS). These rates vary according

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to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient rehabilitation services are paid based on Medicare's PPS for rehabilitation facilities. These rates vary based on clinical and other factors, similar to PPS. Inpatient psychiatric services are paid on a prospective per diem rate based on diagnostic related group assignments and other factors. Most outpatient services are paid under Medicare's Outpatient Prospective Payment System (OPPS) based on Ambulatory Payment Classification groups. Those outpatient services excluded from OPPS continue to be paid based on fee schedules or cost-based methodologies. The Hospital is reimbursed for cost-reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports. The Hospital's Medicare cost reports have been audited and settled by the Medicare fiscal intermediary through the year ended December 31, 2011.

- *Medicaid* — Reimbursement for services rendered to Medicaid program beneficiaries includes prospectively determined rates per discharge, per diem payments, discounts from established charges, and fee schedules.
- *Illinois Provider Reimbursements* — In December 2004, the Centers for Medicare and Medicaid Services (CMS) approved the Illinois Hospital Assessment Program (the "Program") to improve Medicaid reimbursement for Illinois hospitals. The Program requires the hospitals to pay a tax which is determined based on certain factors including bed numbers and various hospital utilization factors. The funds raised through the tax are matched by the federal government and then a distribution is made to the hospitals based on certain factors including Medicaid inpatient and outpatient utilization, trauma status, and other measures. The program is effective through June 30, 2018.

The Hospital's tax assessment for the years ended December 31, 2014 and 2013 was \$12,096 and \$12,254, respectively. The amount distributed to the Hospital was \$24,955 and \$25,160 for 2014 and 2013, respectively. No amounts were due to or from the Hospital under the program at December 31, 2014 and 2013.

Beginning July 2014, a new Medicaid reimbursement system was implemented which resulted in decreased payments to the Hospital. In order to compensate for these lower payments, the Illinois Department of Healthcare and Family Services initiated a 2-year transition payment program. A total of \$2,903 was received from this program in 2014. These payments are included in provider tax and other provider payments in the consolidated statements of operations.

- *Other* — Reimbursement for services to certain patients is received from commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for reimbursement includes prospectively determined rates per discharge, per diem payments, and discounts from established charges.
- *Regulatory Environment Including Fraud and Abuse Matters* — The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity continues with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the System is in compliance

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with fraud and abuse, as well as other applicable government laws and regulations. However, compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

**4. Charity, Uncompensated Care and Community Benefits**

The System's policy is to provide medically necessary health care services regardless of the patient's ability to pay for such care. The System maintains records to identify and monitor the level of charity, uncompensated care and community benefit it provides. These records include the costs for services and supplies furnished under its policy as well as the estimated difference between the cost of services provided to Medicaid patients and the reimbursement received from the state for this care. The costs of service are estimated using the annual cost-to-charge ratio.

During the years ended December 31, 2014 and 2013, the following levels of charity care and community service, including services for which the System received no reimbursement or was reimbursed below cost, were provided:

|                                                                      | (unaudited)<br>2014 | (unaudited)<br>2013 |
|----------------------------------------------------------------------|---------------------|---------------------|
| Estimated costs and expenses incurred for charity care               | \$ 6,057            | \$ 12,631           |
| Estimated costs over reimbursement for Medicaid patient's care       | 22,365              | 16,624              |
| Cost of other community service, research and education              | 5,143               | 5,162               |
| Total Charity Care and Community Benefits                            | \$ 33,565           | \$ 34,417           |
| Estimated cost over reimbursement for Medicare patient's care        | 54,447              | 53,625              |
| Estimated costs for bad debt                                         | 5,777               | 11,052              |
| Total Cost of Charity, Uncompensated Care & Other Community Benefits | \$ 93,789           | \$ 99,094           |

The System actively sponsors community benefits that respond to community needs. These programs focus on the underserved with the intention of improving the overall health of the entire community. Examples of this outreach include mobile clinics, partnering with local schools and employers to provide health screenings, support and health education; providing social services, such as multi-faith ministry, interpreters and support groups; providing emergency medical training to other providers across the region; and serving as the region's emergency disaster response center. The System's 24 hour emergency room, mental health services, and multiple convenient care locations provide for various and timely health care needs throughout the region.

**5. Concentration of Credit Risk**

The System grants credit without collateral from its patients, most of who are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors as of and for the years ended December 31, 2014 and 2013 was as follows:

|                    | 2014         | 2013         |
|--------------------|--------------|--------------|
| Medicare           | 16 %         | 13 %         |
| Medicaid           | 35           | 31           |
| Managed care       | 34           | 32           |
| Commercial         | 6            | 8            |
| Self-pay and other | 9            | 16           |
|                    | <u>100 %</u> | <u>100 %</u> |

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**6. Fair Value Measurements**

Authoritative guidance on fair value establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Observable inputs reflect market data obtained from sources independent of the System and unobservable inputs reflect management's own assumptions about how market participants would value an asset or liability based on the best information available. Valuation techniques used to measure fair value under the authoritative guidance must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value.

The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used by the System for financial instruments measured at fair value on a recurring basis. The three levels of inputs are as follows:

- *Level 1* – Quoted prices in active markets for identical assets
- *Level 2* – Inputs other than Level 1 that are observable, either directly or indirectly, 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 same term of the assets.
- *Level 3* – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The following is a description of the valuation methodologies used for assets at fair value:

- *Marketable equity securities:* Valued at the closing price reported in the active market in which the individual securities are traded.
- *Corporate bonds:* Certain corporate bonds are valued at the closing price reported in the active market in which the bond is traded. Other corporate bonds traded in the over-the-counter market and listed securities for which no sale was reported on the last business day of the fiscal year are valued at the average of the last reported bid and asked prices. For certain corporate bonds that do not have an established fair value, a fair value is established based on yields currently available on comparable securities of issuers with similar credit ratings.
- *U.S. treasury and government obligations:* Certain securities are valued at the closing price reported in the active market in which the individual security is traded. For certain securities that do not have an established fair value, a fair value is established based on yields currently available on comparable securities.
- *Mutual funds:* Valued at the published net asset value (NAV) of shares held by the System at year end.
- *Interests held in trusts:* Valued at the percentage of the System's interests at year end based upon current market value of the underlying assets. Trusts which may distribute their principal following specified time restrictions or other criteria are classified as temporarily restricted net assets on the consolidated balance sheets. Trusts which are held in perpetuity are classified as permanently restricted net assets.

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

The following table presents the financial instruments reported or disclosed at fair value as of December 31, 2014 and 2013, by category on the statement of financial position in accordance with the valuation hierarchy defined above:

|                                                              | Quoted<br>Prices in<br>Active<br>Markets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Total<br>Fair Value |
|--------------------------------------------------------------|-------------------------------------------------------|-----------------------------------------------------------|----------------------------------------------------|---------------------|
| <b>2014 Assets</b>                                           |                                                       |                                                           |                                                    |                     |
| Cash and equivalents                                         | \$ 6,318                                              | \$ -                                                      | \$ -                                               | \$ 6,318            |
| U.S. Treasury and<br>government obligations                  | 17,130                                                | 20,936                                                    | -                                                  | 38,066              |
| Corporate bonds                                              | -                                                     | 31,224                                                    | -                                                  | 31,224              |
| Mutual funds                                                 | 109,051                                               | -                                                         | -                                                  | 109,051             |
| Marketable equity securities                                 | 47,163                                                | -                                                         | -                                                  | 47,163              |
| Other                                                        | 375                                                   | -                                                         | -                                                  | 375                 |
| Total short-term investments<br>and assets limited as to use | 180,037                                               | 52,160                                                    | -                                                  | 232,197             |
| Beneficial interests in trust                                | -                                                     | 11,647                                                    | -                                                  | 11,647              |
| Total assets at fair value                                   | \$ 180,037                                            | \$ 63,807                                                 | \$ -                                               | \$ 243,844          |
| <b>2014 Liabilities</b>                                      |                                                       |                                                           |                                                    |                     |
| Long term debt                                               | \$ -                                                  | \$ 89,419                                                 | \$ -                                               | \$ 89,419           |
| Interest rate swap                                           | -                                                     | 1,992                                                     | -                                                  | 1,992               |
| Total liabilities at fair value                              | \$ -                                                  | \$ 91,411                                                 | \$ -                                               | \$ 91,411           |
| <b>2013 Assets</b>                                           |                                                       |                                                           |                                                    |                     |
| Cash and equivalents                                         | \$ 6,010                                              | \$ -                                                      | \$ -                                               | \$ 6,010            |
| U.S. Treasury and<br>government obligations                  | 13,957                                                | 18,161                                                    | -                                                  | 32,118              |
| Corporate bonds                                              | -                                                     | 37,767                                                    | -                                                  | 37,767              |
| Mutual funds                                                 | 109,738                                               | -                                                         | -                                                  | 109,738             |
| Marketable equity securities                                 | 46,842                                                | -                                                         | -                                                  | 46,842              |
| Other                                                        | 472                                                   | -                                                         | -                                                  | 472                 |
| Total short-term investments<br>and assets limited as to use | 177,019                                               | 55,928                                                    | -                                                  | 232,947             |
| Beneficial interests in trust                                | -                                                     | 11,563                                                    | -                                                  | 11,563              |
| Total assets at fair value                                   | \$ 177,019                                            | \$ 67,491                                                 | \$ -                                               | \$ 244,510          |
| <b>2013 Liabilities</b>                                      |                                                       |                                                           |                                                    |                     |
| Long term debt                                               | \$ -                                                  | \$ 91,380                                                 | \$ -                                               | \$ 91,380           |
| Interest rate swap                                           | -                                                     | 1,954                                                     | -                                                  | 1,954               |
| Total liabilities at fair value                              | \$ -                                                  | \$ 93,334                                                 | \$ -                                               | \$ 93,334           |

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**7. Assets Limited as to Use**

The composition of assets limited as to use at December 31, 2014 and 2013, is set forth in the following table. All investments are stated at fair value.

|                                                                                           | 2014              | 2013              |
|-------------------------------------------------------------------------------------------|-------------------|-------------------|
| Board-designated investments and trustee held:                                            |                   |                   |
| Cash and cash equivalents                                                                 | \$ 5,202          | \$ 4,924          |
| Corporate bonds                                                                           | 22,455            | 26,709            |
| U.S. government securities                                                                | 24,889            | 21,179            |
| Mutual funds                                                                              | 104,286           | 104,991           |
| Equity securities                                                                         | 45,043            | 44,754            |
| Total board-designated and trustee held investments                                       | <u>201,875</u>    | <u>202,557</u>    |
| Donor-restricted and endowment funds:                                                     |                   |                   |
| Cash and cash equivalents                                                                 | 1,015             | 1,020             |
| Corporate bonds                                                                           | 629               | 751               |
| U.S. government securities                                                                | 725               | 627               |
| Mutual funds                                                                              | 3,280             | 3,291             |
| Equity securities                                                                         | 1,461             | 1,451             |
| Total donor-restricted and endowment funds                                                | <u>7,110</u>      | <u>7,140</u>      |
| Total assets limited as to use                                                            | <u>\$ 208,985</u> | <u>\$ 209,697</u> |
| Total assets limited to use are classified as follows in the consolidated balance sheets: |                   |                   |
| Current                                                                                   | \$ 11,304         | \$ 11,390         |
| Noncurrent                                                                                | 197,681           | 198,307           |
| Total                                                                                     | <u>\$ 208,985</u> | <u>\$ 209,697</u> |

Investment income (loss) for the years ended December 31, 2014 and 2013 consisted of the following:

|                                            | 2014            | 2013             |
|--------------------------------------------|-----------------|------------------|
| Interest and dividends                     | \$ 4,081        | \$ 3,490         |
| Gains on sale of investments, net          | 12,935          | 10,601           |
| Gains (losses) on market appreciation, net | (7,265)         | 16,917           |
| Total                                      | <u>\$ 9,751</u> | <u>\$ 31,008</u> |
| Reported as:                               |                 |                  |
| Other operating revenue                    | \$ 4,092        | \$ 15,070        |
| Nonoperating investment income             | 5,659           | 15,938           |
| Total                                      | <u>\$ 9,751</u> | <u>\$ 31,008</u> |

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**8. Property, Plant and Equipment**

The components of property, plant and equipment as of December 31 are as follows:

|                                          | 2014              | 2013              |
|------------------------------------------|-------------------|-------------------|
| Land and improvements                    | \$ 15,941         | \$ 15,774         |
| Buildings                                | 119,247           | 118,357           |
| Equipment                                | 292,631           | 315,525           |
| Construction in progress                 | 8,970             | 3,867             |
|                                          | <u>436,789</u>    | <u>453,523</u>    |
| Less accumulated depreciation            | <u>(291,634)</u>  | <u>(312,097)</u>  |
| Total property, plant and equipment, net | <u>\$ 145,155</u> | <u>\$ 141,426</u> |

Approximately \$32,346 has been spent through 2014 on development of an electronic medical records (EMR) system. The first phase of the EMR went live in 2011 while the second phase was placed in use in April 2013. Depreciation expense for the EMR totaled \$5,074 and \$4,105 in 2014 and 2013, respectively.

**9. Investments in Joint Ventures**

The System's investments in joint ventures are recorded on an equity basis. The related income or loss is included in the consolidated statements of operations as other revenue. The investments in joint ventures consist of the following: a 27% ownership interest in KSB/RMHSC Partnership (KSB), which owns and leases a medical office building; a 50% ownership interest in VanMatre HealthSouth Rehabilitation Hospital (VanMatre), which provides inpatient and outpatient rehabilitation services; and a 11.1% interest in Illinois Partnership for Health, an Accountable Care Entity organized to provide a managed care option to Medicaid enrollees through the Affordable Care Act. The recorded investment at December 31, 2014 and 2013, as well as the related income or loss reported for the years then ended is as follows:

|          | Joint Venture<br>Investment<br>as of December 31 |                 | Joint Venture<br>Income (Loss)<br>for the years ended<br>December 31 |                 |
|----------|--------------------------------------------------|-----------------|----------------------------------------------------------------------|-----------------|
|          | 2014                                             | 2013            | 2014                                                                 | 2013            |
| KSB      | \$ 277                                           | \$ 289          | \$ 28                                                                | \$ 28           |
| IPH      | 250                                              | -               | -                                                                    | -               |
| VanMatre | 9,698                                            | 8,969           | 3,237                                                                | 3,316           |
| Total    | <u>\$ 10,225</u>                                 | <u>\$ 9,258</u> | <u>\$ 3,265</u>                                                      | <u>\$ 3,344</u> |

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**10. Long-Term Debt**

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

|                                                                                                                                                                          | 2014      | 2013      |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|-----------|
| Illinois Health Facilities Authority Bonds                                                                                                                               |           |           |
| Revenue bonds, Series 2012 fixed rates,<br>maturing at varying amounts through 2021, collateralized by<br>certain receivables and other assets of the Obligated Group    | \$ 27,380 | \$ 30,580 |
| Revenue bonds, Series 2008 variable rates,<br>maturing at varying amounts through 2040, collateralized by<br>certain receivables and other assets of the Obligated Group | 60,800    | 60,800    |
| Capitalized lease of DaVinci surgery robot, 60-month term<br>through June 2019                                                                                           | 1,239     | -         |
| Total long-term debt                                                                                                                                                     | 89,419    | 91,380    |
| Less current maturities                                                                                                                                                  | (3,626)   | (3,200)   |
| Less unamortized discount                                                                                                                                                | (102)     | (109)     |
| Total long-term debt, net of current maturities                                                                                                                          | \$ 85,691 | \$ 88,071 |

The fair value of debt is based on the pricing of fixed-rate bonds of market participants, including assumptions about the present value of current market interest rates, and bonds of comparable quality and maturity. The fair-value of long-term debt would be a level 2 hierarchy.

Under the terms of a Master Trust Indenture, the Obligated Group (consisting of RMH, RHPH and RMDF) has issued general obligation bonds through the Illinois Health Facilities Authority. All outstanding debt under the Indenture is the general, joint, and several obligations of the members of the Obligated Group.

On May 2, 2012, the Obligated Group issued \$35,075 of fixed rate bonds to refund the Series 1997 revenue bonds. The bonds were issued through a direct purchase (private placement) with a fixed rate of 2.79%. Principal payments are due annually with final payment due in August 2021. An additional covenant calculation for days cash on hand is required with this agreement.

During 2008, the Obligated Group refunded (through a legal defeasance) the Series 1994 revenue bonds through the issuance of \$60,800 Series 2008 variable rate demand revenue bonds. These bonds accrue interest at variable rates which reset weekly. The variable rates ranged from 0.747% to 0.837% in 2014 and 0.767% to 0.957% in 2013. The Series 2008 bonds are collateralized by a letter of credit with an expiration date of January 2, 2016. The Series 2008 bonds also have a put option that allows the holders to redeem the bonds prior to maturity. The Obligated Group has an agreement with a remarketing agent to remarket any bonds redeemed as a result of the exercise of the put options. If the bonds cannot be remarketed, a bank will purchase the bonds under the letter of credit. The Obligated Group has an obligation to make payments on the letter of credit for unremarketed bonds over a period of three years from the date of a draw on the letter of credit with no principal due in the first year.

In March 2009, the Obligated Group entered into an interest rate swap agreement to hedge, or offset, future fluctuations in interest rates relative to the variable rate debt relative to the Series 2008 bonds. The notional value of the swap is \$36,500 and is scheduled to terminate in August 2019. Under the terms of the swap agreement, the Obligated Group makes fixed interest

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payments of 2.435% to a counterparty and receives a variable rate based on a percentage of LIBOR. Under this agreement, the System may be exposed to loss in the event of nonperformance by the counterparty to the interest rate swap agreement.

At December 31, 2014 and 2013, the fair value of the interest rate swap agreement was a liability of \$1,992 and \$1,954, respectively, and is included in other liabilities in the accompanying consolidated balance sheets. Net interest paid under the terms of the swap agreement totaled \$829 and \$823 in 2014 and 2013, respectively, and is included in interest expense in the consolidated statement of operations.

In connection with previous Series 1994 bonds, the Obligated Group entered into an interest rate swap agreement to hedge, or offset, future fluctuations in interest rates relative to its variable rate debt. The notional value of the swap (the amount on which settlement calculations were based) was \$33,650 until terminated in 2008. Under the terms of the swap agreement, the Obligated Group made fixed interest rate payments of 5.95% to a counterparty, and received a variable rate as determined consistent with the variable rate of interest on a portion of the 1994 Bonds. At December 11, 2008, the Obligated Group gave notice to the counterparty to terminate the swap and subsequently made a payment to the counterparty. At December 31, 2012, an accrued liability of \$2,825 remained in the consolidated balance sheet pending final settlement of the swap termination. In February 2013, a final settlement was reached for \$2,825 with payment made in March 2013.

In 2014, the System entered into a capitalized lease agreement for a da Vinci surgery robot. Under the terms of the agreement, 60 monthly payments of \$24 will be required through June 2019.

In December 2014, the System entered into a \$10,000 lease line of credit agreement for medical equipment. The credit line may be accessed for a period of one year with rental factors determined at the time of each equipment acquisition. As of December 31, 2014, no amounts were outstanding as the line of credit had not been accessed.

Future maturities of long-term debt at December 31, 2014, are as follows:

|            |    |               |
|------------|----|---------------|
| 2015       | \$ | 3,626         |
| 2016       |    | 3,801         |
| 2017       |    | 3,987         |
| 2018       |    | 4,177         |
| 2019       |    | 4,233         |
| Thereafter |    | 69,595        |
|            | \$ | <u>89,419</u> |

Under the Indenture and related loan agreements, the Obligated Group is subject to certain covenants related to transfers of assets, mergers and consolidations, restrictions on additional indebtedness, and the maintenance of certain financial ratios. Management believes that the Obligated Group was in compliance with the debt covenants for the years ended December 31, 2014 and 2013.

Effective May 10, 2012, the System entered into a line of credit agreement for \$20,000 with expiration on March 29, 2013. An extension of the \$20,000 line of credit agreement was completed in March 2013 with an expiration date of March 31, 2014. No credit line was used in 2013 or 2014. An additional extension was completed in February 2014 with an expiration date of March 31, 2015.

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The System has a letter of credit for \$825 which matures on October 31, 2015. The letter of credit is a requirement by the State of Illinois Industrial Commission in order to be a self-insured employer under the Workers' Compensation program. At December 31, 2014 and 2013, no amounts were outstanding.

**11. Pension and Postretirement Plans**

**Defined Benefit Pension Plan**

The System sponsors a noncontributory defined benefit pension plan which covered substantially all full-time employees and regular part-time employees until frozen in 2003. At that time, employees elected to stay within the defined benefit pension plan or opt into the defined contribution plan. No new participants were allowed to join the plan after this time. Effective March 19, 2012, the plan's benefits were frozen and benefits ceased to accrue for plan participants resulting in a curtailment at December 31, 2011. Pension benefits are determined based upon employee earnings, social security benefits, covered compensation, and years of service. The funding policy is to contribute annually the amount required to be funded under provisions of the Employee Retirement Income Security Act of 1974 (ERISA), as determined by an actuary. The System contributed \$4,000 and \$2,900 for the defined benefit pension plan during 2014 and 2013, respectively. The System expects to incur expense of \$82 in 2015.

In 2014 and 2013, the change in the liability not yet recognized within pension expenses was \$(19,325) and \$21,745. This is included as a component of the consolidated statement of changes in unrestricted net assets. The measurement date is December 31 of each fiscal year.

During 2014 and 2013, lump-sum benefit payments from the plan were \$5,618 and \$6,055, respectively, and exceeded the interest cost for the fiscal years. As a result, settlement accounting was triggered resulting in a re-measurement of plan assets and pension obligation as well as accelerating the recognition of prior service costs. As such, the Plan recognized \$1,232 and \$610 as settlement charges in 2014 and 2013, respectively. For 2015, settlement accounting will be triggered if lump-sum payouts exceed the interest cost of \$3,929.

**Defined Contribution Plans**

The System contributes 3.3% of compensation for the benefit of any participant in either the Rockford Health System Fixed Contribution Plan (the "Fixed Contribution Plan"), or the Rockford Clinic Retirement Plan (the "Clinic Retirement Plan"), that is employed as of December 31 each year. Employees are eligible to participate in one of the two defined contribution plans after service and age requirements are met, as long as they do not participate in the defined benefit pension plan. At December 31, 2014 and 2013, the System's liability to the Fixed Contribution Plan was \$3,527 and \$3,786, respectively. The cash contribution to the Fixed Contribution Plan for the prior-year liability in 2014 and 2013 was \$3,567 and \$3,527, respectively. At December 31, 2014 and 2013, the System's liability to the Clinic Retirement Plan was \$553 and \$561, respectively. Cash contributions made to the Clinic Retirement Plan for the prior-year liability in 2014 and 2013 were \$541 and \$547, respectively.

**Voluntary Contribution Retirement Plan**

The System also participates in a voluntary defined contribution pension plan. Participants can contribute gross compensation per the plan's agreement and federal guidelines and the System makes matching contributions that are limited to an amount specified in the plan and per federal guidelines. The System's contribution expense for this plan for the years ended December 31, 2014 and 2013 amounted to \$5,847 and \$5,757, respectively.

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**Salary Deferral Retirement Plan**

The System offers a 457(b) retirement plan for highly compensated individuals. This voluntary salary deferral is recorded as a long-term asset and liability to the System of \$7,448 and \$6,480 at December 31, 2014 and 2013, respectively. These amounts are included in other assets and other liabilities in the accompanying consolidated balance sheets.

**Defined Benefit Postretirement Medical Plan**

The System sponsors a postretirement medical plan with plan changes effective January 1, 2004. The defined benefit postretirement medical plan provides medical benefits for salaried and non-salaried employees hired before January 1, 2004. The retiree medical plan is noncontributory and is unfunded, other than amounts resulting from the timing of deposits to pay benefits. The System recognizes the expected cost of these postretirement benefits during the years the employees render service. Postretirement benefit expense is allocated among the participating entities as determined by an actuary. The expected expense for the System in 2015 is \$644 for this plan. In 2014 and 2013, the change in the liability not yet recognized within postretirement expenses was \$575 and \$1,381. This is included as a component within changes as unrestricted net assets apart from expenses, as the initially recognized amounts. The measurement date is December 31 of each fiscal year.

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Information regarding the benefit obligations and assets of the pension and postretirement medical benefit plans for RHS as of and for the years ended December 31, 2014 and 2013 are as follows:

|                                                           | <b>Pension Benefits</b> |                   | <b>Postretirement Medical Benefits</b> |                   |
|-----------------------------------------------------------|-------------------------|-------------------|----------------------------------------|-------------------|
|                                                           | <b>2014</b>             | <b>2013</b>       | <b>2014</b>                            | <b>2013</b>       |
| Change in benefit obligation:                             |                         |                   |                                        |                   |
| Benefit obligation — beginning of year                    | \$ 76,504               | \$ 92,177         | \$ 7,860                               | \$ 8,275          |
| Service cost                                              | -                       | -                 | 659                                    | 800               |
| Interest cost                                             | 3,806                   | 3,754             | 310                                    | 284               |
| Actuarial (gains) losses                                  | 17,534                  | (12,838)          | (238)                                  | (1,394)           |
| Settlements                                               | (5,618)                 | (6,055)           | -                                      | -                 |
| Participant Contributions                                 | -                       | -                 | 187                                    | 124               |
| Plan changes                                              | -                       | -                 | (703)                                  | -                 |
| Benefits paid                                             | (643)                   | (534)             | (282)                                  | (229)             |
| Benefit obligation — end of year                          | <u>\$ 91,583</u>        | <u>\$ 76,504</u>  | <u>\$ 7,793</u>                        | <u>\$ 7,860</u>   |
| Change in plan assets:                                    |                         |                   |                                        |                   |
| Fair value of plan assets — beginning of year             | \$ 73,660               | \$ 64,863         | \$ -                                   | \$ -              |
| Actual return on plan assets                              | 2,009                   | 12,486            | -                                      | -                 |
| Employer contributions                                    | 4,000                   | 2,900             | 95                                     | 105               |
| Settlements                                               | (5,618)                 | (6,055)           | -                                      | -                 |
| Participant Contributions                                 | -                       | -                 | 187                                    | 124               |
| Benefits paid                                             | (643)                   | (534)             | (282)                                  | (229)             |
| Fair value of plan assets — end of year                   | <u>73,408</u>           | <u>73,660</u>     | <u>-</u>                               | <u>-</u>          |
| Funded status of the plan                                 | <u>\$ (18,175)</u>      | <u>\$ (2,844)</u> | <u>\$ (7,793)</u>                      | <u>\$ (7,860)</u> |
| Amounts recognized in the statement of financial position |                         |                   |                                        |                   |
| Group balance sheet:                                      |                         |                   |                                        |                   |
| Current liabilities                                       | -                       | -                 | (516)                                  | (497)             |
| Noncurrent liabilities                                    | (18,175)                | (2,844)           | (7,277)                                | (7,363)           |
| Net amount recognized                                     | <u>\$ (18,175)</u>      | <u>\$ (2,844)</u> | <u>\$ (7,793)</u>                      | <u>\$ (7,860)</u> |

Pension and postretirement medical changes, other than periodic pension expense, that have been included within changes in unrestricted net assets consist of:

|                                                                            | <b>Pension Benefits</b> |                    | <b>Postretirement Medical Benefits</b> |                   |
|----------------------------------------------------------------------------|-------------------------|--------------------|----------------------------------------|-------------------|
|                                                                            | <b>2014</b>             | <b>2013</b>        | <b>2014</b>                            | <b>2013</b>       |
| Prior service credit arising during the period                             | \$ -                    | \$ -               | \$ (703)                               | \$ -              |
| Actuarial loss (gain) arising during the period                            | 20,624                  | (20,717)           | (238)                                  | (1,394)           |
| Reclassification adjustment for recognition of prior service (cost) credit | -                       | -                  | 152                                    | 13                |
| Amortization of actuarial (gain) loss                                      | -                       | -                  | 214                                    | -                 |
| Recognition due to settlements                                             | (1,232)                 | (610)              | -                                      | -                 |
| Reclassification adjustment for recognition of actuarial loss (gain)       | (66)                    | (418)              | -                                      | -                 |
| Total recognized as a separate adjustment to net assets                    | <u>\$ 19,326</u>        | <u>\$ (21,745)</u> | <u>\$ (575)</u>                        | <u>\$ (1,381)</u> |

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The pension plan and postretirement medical plan items not yet recognized as a component of periodic pension and postretirement medical plan expense, but included within unrestricted net assets, are as follows:

|                                          | <b>Pension Benefits</b> |                 | <b>Postretirement Medical Benefits</b> |                   |
|------------------------------------------|-------------------------|-----------------|----------------------------------------|-------------------|
|                                          | <b>2014</b>             | <b>2013</b>     | <b>2014</b>                            | <b>2013</b>       |
| Unrecognized actuarial loss (gain)       | \$ 24,564               | \$ 5,239        | \$ (2,175)                             | \$ (2,151)        |
| Unrecognized prior service cost (credit) | -                       | -               | (567)                                  | (16)              |
| Net amount unrecognized                  | <u>\$ 24,564</u>        | <u>\$ 5,239</u> | <u>\$ (2,742)</u>                      | <u>\$ (2,167)</u> |

An estimated \$433 in net actuarial loss will be included as a component of period pension expense in 2015. An estimated \$146 in prior service credit will be included as components of period postretirement medical plan expense in 2015.

|                                       | <b>Pension Benefits</b> |             | <b>Postretirement Medical Benefits</b> |             |
|---------------------------------------|-------------------------|-------------|----------------------------------------|-------------|
|                                       | <b>2014</b>             | <b>2013</b> | <b>2014</b>                            | <b>2013</b> |
| Assumptions:                          |                         |             |                                        |             |
| Discount rate-benefit obligation      | 4.37 %                  | 5.12 %      | 3.47 %                                 | 4.08 %      |
| Discount rate-benefit cost            | 5.12%/4.45%             | 4.1%/5.06%  | 4.08 %                                 | 3.21 %      |
| Rate of compensation increase         | N/A                     | N/A         | N/A                                    | N/A         |
| Assumed rate of return on plan assets | 7.00 %                  | 7.00 %      | N/A                                    | N/A         |

For the pension plan, the discount rate was selected with consideration of the plan's characteristics and reference to a hypothetical bond portfolio. The discount rate on the postretirement plan was selected with consideration of the plan's characteristics and reference to the Citigroup Above Median Pension Discount Curve.

For postretirement medical benefit obligation measurement purposes, 7.0% and 7.5% annual rate of increase in the per capita cost of covered healthcare benefits was assumed for 2014 and 2013, respectively. The rate was assumed to decrease gradually to 5.0% for 2018 and remain at that level thereafter. A 1% change in the assumed health care cost trend rates would have the following effects:

|                                                                  | <b>1% increase</b> | <b>1% decrease</b> |
|------------------------------------------------------------------|--------------------|--------------------|
| Effect on total of service and interest cost components for 2014 | \$ 46              | \$ (43)            |
| Effect on December 31, 2014 postretirement benefit obligation    | 115                | (109)              |

The components of accumulated postretirement medical benefit obligation as of December 31, 2014 and 2013, for the System are as follows:

|                                                | <b>2014</b>     | <b>2013</b>     |
|------------------------------------------------|-----------------|-----------------|
| Accumulated postretirement benefit obligation: |                 |                 |
| Retirees                                       | \$ 456          | \$ 380          |
| Fully eligible plan participants               | 3,019           | 3,028           |
| Other active plan participants                 | 4,318           | 4,452           |
| Total                                          | <u>\$ 7,793</u> | <u>\$ 7,860</u> |

The accumulated benefit obligation for the defined benefit pension plan was \$91,583 and \$76,504 as of December 31, 2014 and 2013. The System contributed \$4,000 to the defined benefit plan in 2014 and expects to contribute \$4,000 during the 2015 plan year.

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The components of the RHS net periodic benefit cost for the years ended December 31, 2014 and 2013 are as follows:

|                                              | <b>Pension Benefits</b> |             | <b>Postretirement Medical Benefits</b> |             |
|----------------------------------------------|-------------------------|-------------|----------------------------------------|-------------|
|                                              | <b>2014</b>             | <b>2013</b> | <b>2014</b>                            | <b>2013</b> |
| Service cost                                 | \$ -                    | \$ -        | \$ 659                                 | \$ 800      |
| Interest cost                                | 3,806                   | 3,754       | 310                                    | 284         |
| Expected return on plan assets               | (5,098)                 | (4,608)     | -                                      | -           |
| Amortization of prior service cost (credit)  | -                       | -           | (152)                                  | (13)        |
| Amortization of unrecognized net loss (gain) | 66                      | 418         | (214)                                  | -           |
| Net Periodic Pension Cost/(Income)           | (1,226)                 | (436)       |                                        |             |
| Settlement Charges                           | 1,232                   | 610         |                                        |             |
| Benefit cost                                 | \$ 6                    | \$ 174      | \$ 603                                 | \$ 1,071    |

Expected future benefit payments for the years ended December 31, are as follows:

|           | <b>Pension</b> | <b>Postretirement Medical</b> |
|-----------|----------------|-------------------------------|
| 2015      | \$ 3,336       | \$ 516                        |
| 2016      | 5,011          | 544                           |
| 2017      | 5,809          | 565                           |
| 2018      | 4,545          | 720                           |
| 2019      | 5,816          | 843                           |
| 2020-2024 | 31,977         | 4,161                         |

**Plan Assets**

The System's investment goals are to achieve returns in excess of the defined benefit plan's actuarial assumptions, commensurate with the plan's risk posture and long-term investment horizon; to invest in a prudent manner in accordance with fiduciary requirements of ERISA; and to ensure that plan assets will meet the obligations of the plan as they come due.

Investment management of the defined benefit pension plan is delegated to professional investment management firms that must adhere to policy guidelines and objectives, which are approved by the investment committee. The investment policy includes specific guidelines for quality, asset concentration, asset mix, asset allocations, and performance expectations. The pension fund investment allocations are periodically reviewed for compliance with the pension investment policy by the investment committee. An independent investment consultant is used to measure and report on investment performance; to perform asset/liability modeling studies and recommend changes to objectives, guidelines, manager, or asset class structure; and to keep the System informed of current investment trends and issues.

The expected long-term rate of return on plan assets assumptions is based on modeling studies completed with the assistance of the System's actuaries and investment consultants. The models take into account inflation, asset class returns, and bond yields for both domestic and foreign markets. They are also calibrated to take into consideration historical experience, including a random variable to reflect real-life uncertainty of the future and to project a large number of future economic scenarios. The consequences of adopting various investment policies on the future financial health of the defined benefit pension plan under each of the scenarios are then evaluated. These studies, along with the history of returns for the plan, indicated that expected future returns, weighted by asset allocation, support an expected long-term asset return assumption of 5.71% and 7.00% for 2014 and 2013, respectively.

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The fair values of the System's pension plan assets at December 31, 2014 and 2013 by asset category are as follows:

| Asset category                              | Total            | Fair Value Measurement at<br>December 31, 2014        |                                                           |                                                    |
|---------------------------------------------|------------------|-------------------------------------------------------|-----------------------------------------------------------|----------------------------------------------------|
|                                             |                  | Quoted<br>Prices<br>in Active<br>Markets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| Cash                                        | \$ 8,913         | \$ 8,913                                              | \$ -                                                      | \$ -                                               |
| Equity securities                           |                  |                                                       |                                                           |                                                    |
| U.S. companies                              | 11,392           | 11,392                                                |                                                           |                                                    |
| Mutual funds                                |                  |                                                       |                                                           |                                                    |
| U.S. companies                              | 12,775           | 12,775                                                |                                                           |                                                    |
| International companies                     | 6,538            | 6,538                                                 |                                                           |                                                    |
| Fixed Income securities                     |                  |                                                       |                                                           |                                                    |
| U.S. Treasury and<br>government obligations | 7,832            | 5,034                                                 | 2,798                                                     |                                                    |
| Corporate Bonds                             | 6,336            |                                                       | 6,336                                                     |                                                    |
| Mutual funds                                |                  |                                                       |                                                           |                                                    |
| Unconstrained fixed income                  | 6,170            | 6,170                                                 | -                                                         |                                                    |
| U.S. Mortgage backed<br>securities          | 3,430            | 3,430                                                 |                                                           |                                                    |
| Comingled                                   |                  |                                                       |                                                           |                                                    |
| Short-term fund                             | 10,022           |                                                       | 10,022                                                    |                                                    |
| Total                                       | <u>\$ 73,408</u> | <u>\$ 54,252</u>                                      | <u>\$ 19,156</u>                                          | <u>\$ -</u>                                        |

| Asset category                              | Total            | Fair Value Measurement at<br>December 31, 2013        |                                                           |                                                    |
|---------------------------------------------|------------------|-------------------------------------------------------|-----------------------------------------------------------|----------------------------------------------------|
|                                             |                  | Quoted<br>Prices<br>in Active<br>Markets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| Cash                                        | \$ 1,701         | \$ 1,701                                              | \$ -                                                      | \$ -                                               |
| Equity securities                           |                  |                                                       |                                                           |                                                    |
| U.S. companies                              | 19,722           | 19,722                                                |                                                           |                                                    |
| Mutual funds                                |                  |                                                       |                                                           |                                                    |
| U.S. companies                              | 20,191           | 20,191                                                |                                                           |                                                    |
| International companies                     | 11,289           | 11,289                                                |                                                           |                                                    |
| Fixed Income securities                     |                  |                                                       |                                                           |                                                    |
| U.S. Treasury and<br>government obligations | 5,302            | 2,870                                                 | 2,432                                                     |                                                    |
| Corporate Bonds                             | 7,218            |                                                       | 7,218                                                     |                                                    |
| Mutual funds                                |                  |                                                       |                                                           |                                                    |
| Unconstrained fixed income                  | 5,329            | 5,329                                                 |                                                           |                                                    |
| U.S. Mortgage backed<br>securities          | 2,908            | 2,908                                                 |                                                           |                                                    |
| Total                                       | <u>\$ 73,660</u> | <u>\$ 64,010</u>                                      | <u>\$ 9,650</u>                                           | <u>\$ -</u>                                        |

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The Company's target allocations for plan assets have been changed to ranges due to the potential termination of the closed pension plan. Asset allocation ranges starting in 2014 are Cash & Equivalents 0.0% to 100.0%, Equity and Fixed Income are both 0.0% to 50.0%. Equity securities primarily include investments in large-cap and small-cap companies primarily located in the United States of America. Fixed income securities include corporate bonds of companies from diversified industries, mortgage-backed securities and U.S. Treasuries.

The target and actual allocations for plan assets as of December 31, 2014 and 2013 are as follows:

|                           | 2014         |              | 2013         |              |
|---------------------------|--------------|--------------|--------------|--------------|
|                           | Target Range | Actual       | Target Range | Actual       |
| Equity securities         | 0-50 %       | 42 %         | 55-75 %      | 70 %         |
| Fixed income              | 0-50         | 46           | 22-42        | 28           |
| Cash and cash equivalents | 0-100        | 12           | 0-6          | 2            |
|                           |              | <u>100 %</u> |              | <u>100 %</u> |

**12. Restricted Net Assets and Endowment**

Temporarily restricted net assets are those whose use by the System has been limited by donors to a specific time period or purpose. Temporarily restricted net assets as of December 31, 2014 and 2013 are available for the following purposes:

|                       | 2014             | 2013             |
|-----------------------|------------------|------------------|
| Care for the indigent | \$ 1,162         | \$ 1,079         |
| Capital purchases     | 9                | 9                |
| Other purposes        | <u>12,695</u>    | <u>12,457</u>    |
| Total                 | <u>\$ 13,866</u> | <u>\$ 13,545</u> |

Permanently restricted net assets have been restricted by donors to be maintained by the System in perpetuity. Permanently restricted net assets as of December 31, 2014 and 2013 are invested for the following purposes:

|                       | 2014            | 2013            |
|-----------------------|-----------------|-----------------|
| Care for the indigent | \$ 3,089        | \$ 2,967        |
| Educational programs  | 890             | 882             |
| General services      | <u>4,453</u>    | <u>4,449</u>    |
| Total                 | <u>\$ 8,432</u> | <u>\$ 8,298</u> |

Effective June 30, 2009, Illinois passed "Uniform Prudent Management of Institutional Funds Act" (UPMIFA). The Board of Directors of the System has interpreted UPMIFA as sustaining the preservation of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the System classifies as permanently restricted net assets, (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the System in a manner consistent with the standard of prudence prescribed by UPMIFA.

**Rockford Health System and Affiliated Corporations**  
**Notes to Consolidated Financial Statements**  
**December 31, 2014 and 2013**  
(in thousands of dollars)

The Board of Directors has determined that donor-restricted endowment funds will be governed by specific policies, which assure that the original gift shall be protected to perpetuity as the endowed corpus and distribution shall not be made if it were to bring the value below that threshold; which explain the calculation used to determine funds available for expenditure, and which govern the process for expenditure of funds, in accordance with donor restrictions.

The System has the following donor-restricted and Board-designated endowment activities during the years ended December 31, 2014 and 2013 delineated by net asset class:

|                                                   | Unrestricted  | Temporarily Restricted | Permanently Restricted | Total           |
|---------------------------------------------------|---------------|------------------------|------------------------|-----------------|
| Endowment net assets, beginning of 2014           | \$ 391        | \$ 3,932               | \$ 3,814               | \$ 8,137        |
| Investment return                                 |               |                        |                        |                 |
| Investment income                                 | 6             | 13                     | 55                     | 74              |
| Net appreciation (realized and unrealized)        | 10            | 13                     | 56                     | 79              |
| Total investment return                           | 16            | 26                     | 111                    | 153             |
| Contributions                                     | -             | 57                     | -                      | 57              |
| Appropriation of endowment assets for expenditure | (35)          | -                      | -                      | (35)            |
| Reclassification for UPMIFA                       | -             | 371                    | -                      | 371             |
| Endowment net assets, end of 2014                 | <u>\$ 372</u> | <u>\$ 4,386</u>        | <u>\$ 3,925</u>        | <u>\$ 8,683</u> |
|                                                   | Unrestricted  | Temporarily Restricted | Permanently Restricted | Total           |
| Endowment net assets, beginning of 2013           | \$ 377        | \$ 3,374               | \$ 3,363               | \$ 7,114        |
| Investment return                                 |               |                        |                        |                 |
| Investment income                                 | 6             | 11                     | 53                     | 70              |
| Net appreciation (realized and unrealized)        | 42            | 86                     | 398                    | 526             |
| Total investment return                           | 48            | 97                     | 451                    | 596             |
| Contributions                                     | -             | 149                    | -                      | 149             |
| Appropriation of endowment assets for expenditure | (34)          | -                      | -                      | (34)            |
| Reclassification for UPMIFA                       | -             | 312                    | -                      | 312             |
| Endowment net assets, end of 2013                 | <u>\$ 391</u> | <u>\$ 3,932</u>        | <u>\$ 3,814</u>        | <u>\$ 8,137</u> |

**Rockford Health System and Affiliated Corporations**  
**Notes to Consolidated Financial Statements**  
**December 31, 2014 and 2013**  
(in thousands of dollars)

Endowment net asset composition by type of fund as of December 31, 2014 and 2013 is as follows:

|                                  | Unrestricted  | Temporarily Restricted | Permanently Restricted | Total           |
|----------------------------------|---------------|------------------------|------------------------|-----------------|
| <b>As of December 31, 2014</b>   |               |                        |                        |                 |
| Donor-restricted endowment funds | \$ -          | \$ 4,386               | \$ 3,925               | \$ 8,311        |
| Board-designated endowment funds | 372           | -                      | -                      | 372             |
| Total funds                      | <u>\$ 372</u> | <u>\$ 4,386</u>        | <u>\$ 3,925</u>        | <u>\$ 8,683</u> |
| <b>As of December 31, 2013</b>   |               |                        |                        |                 |
| Donor-restricted endowment funds | \$ -          | \$ 3,932               | \$ 3,814               | \$ 7,746        |
| Board-designated endowment funds | 391           | -                      | -                      | 391             |
| Total funds                      | <u>\$ 391</u> | <u>\$ 3,932</u>        | <u>\$ 3,814</u>        | <u>\$ 8,137</u> |

**Investment and Spending Policies**

The System has adopted endowment investment and spending policies that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of endowment assets. The System expects its endowment funds over time to exceed inflation by 2 to 3 basis points annually. To achieve its long-term rate of return objectives, the System relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized gains) and current yield (interest and dividends). Actual returns in any given year may vary from this amount.

**13. Functional Expenses**

The System provides general health care services to residents within its service area. Expenses related to providing these services for the years ended December 31, 2014 and 2013 are as follows:

|                            | 2014              | 2013              |
|----------------------------|-------------------|-------------------|
| Health care services       | \$ 363,598        | \$ 344,731        |
| General and administrative | 80,046            | 83,519            |
| Total                      | <u>\$ 443,644</u> | <u>\$ 428,250</u> |

**14. Commitments and Contingencies**

**Operating Leases**

RHS has entered into leases for surgical equipment and office space. The operating leases contain a renewal option, non-cancellable terms, and escalation clauses. Future minimum rental commitments at December 31, 2014, for these operating leases are as follows:

|            |                 |
|------------|-----------------|
| 2015       | \$ 525          |
| 2016       | 475             |
| 2017       | 478             |
| 2018       | 316             |
| 2019       | 143             |
| Thereafter | -               |
|            | <u>\$ 1,937</u> |

**Rockford Health System and Affiliated Corporations**  
**Notes to Consolidated Financial Statements**  
**December 31, 2014 and 2013**  
**(in thousands of dollars)**

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**Contingencies**

The Hospital, RHPH, and VNA are defending various claims and lawsuits alleging malpractice and other related lawsuits through the normal course of business. Although the outcome of claims cannot be predicted with certainty, in management's opinion, their ultimate disposition will not have a material adverse effect on the financial position of the System.

**15. Insurance**

The Hospital, RHPH, and VNA have established a self-insurance program on an occurrence basis for professional liability, which provides for both self-insured limits and purchased coverage above such limits. Insurance coverage in excess of the self-insured limits is carried on a claims-made basis. Excess general liability coverage is provided by RHIL, who purchases reinsurance coverage from multiple third-party carriers. At both December 31, 2014 and 2013, there were no receivables for claims paid in excess of self-insured limits.

The Hospital, RHPH, and VNA had self-insurance reserves of \$59,219 and \$59,944 at December 31, 2014 and 2013, respectively, both discounted at 3.0%. The undiscounted reserves at December 31, 2014 and 2013 were \$65,211 and \$65,633, respectively. As of December 31, 2014 and 2013, investments trustee-held for RHS's professional liability program were \$63,613 and \$70,652, respectively.

## SUPPLEMENTAL CONSOLIDATING INFORMATION

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**Report of Independent Auditors  
on Supplemental Consolidating Information**

To the Board of Directors of  
Rockford Health System:

We have audited the consolidated financial statements of Rockford Health System and Affiliated Corporations (the "System") as of December 31, 2014 and for the year then ended and our report thereon appears on page 1 of this document. That audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating 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 consolidating information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual companies and is not a required part of the consolidated financial statements. Accordingly, we do not express an opinion on the financial position and results of operations of the individual companies.

*PricewaterhouseCoopers LLP*

March 27, 2015

**Rockford Health System and Affiliated Corporations**  
**Supplemental Schedule -- Consolidating Balance Sheet**  
**For the year ended December 31, 2014**  
(in thousands of dollars)

|                                                          | Rockford<br>Memorial<br>Hospital | Rockford<br>Health<br>Physicians | Rockford<br>Memorial<br>Development<br>Foundation | Eliminations | Obligated<br>Group<br>Subtotal | Rockford<br>Health<br>System | Visiting<br>Nurses<br>Association | Eliminations | 2014<br>Consolidated | 2013<br>Consolidated |
|----------------------------------------------------------|----------------------------------|----------------------------------|---------------------------------------------------|--------------|--------------------------------|------------------------------|-----------------------------------|--------------|----------------------|----------------------|
| <b>Assets</b>                                            |                                  |                                  |                                                   |              |                                |                              |                                   |              |                      |                      |
| Current assets                                           | \$ 40,078                        | \$ 1,007                         | \$ 612                                            | \$ -         | \$ 41,697                      | \$ 2,344                     | \$ 1,044                          | \$ -         | \$ 45,085            | \$ 46,244            |
| Cash and cash equivalents                                | 5,160                            | -                                | 18,054                                            | -            | 23,214                         | -                            | -                                 | -            | 23,214               | 23,281               |
| Short term investments                                   | -                                | -                                | -                                                 | -            | -                              | -                            | -                                 | -            | -                    | -                    |
| Patient accounts receivable, less allowance for doubtful | 54,330                           | 8,918                            | -                                                 | (1,502)      | 61,746                         | -                            | 3,328                             | (103)        | 64,971               | 66,020               |
| accounts for 2014 - \$14,069 and 2013 - \$22,772         | 3,741                            | 1,170                            | 120                                               | (655)        | 4,376                          | 590                          | 720                               | -            | 5,686                | 6,636                |
| Other receivables                                        | 539                              | 15                               | 38                                                | (37)         | 555                            | 404                          | -                                 | (959)        | -                    | -                    |
| Due from affiliates                                      | 8,000                            | -                                | 3,304                                             | -            | 11,304                         | -                            | -                                 | -            | 11,304               | 11,390               |
| Current portion of investments limited to use            | 7,844                            | 758                              | -                                                 | -            | 8,602                          | -                            | 168                               | -            | 8,770                | 8,265                |
| Inventories                                              | 1,463                            | 382                              | 10                                                | -            | 1,855                          | 1,942                        | 148                               | -            | 3,945                | 3,737                |
| Prepaid expense and other current assets                 | 121,155                          | 12,250                           | 22,138                                            | (2,194)      | 153,349                        | 5,280                        | 5,408                             | (1,062)      | 162,975              | 165,573              |
| Total current assets                                     | 100,472                          | -                                | 93,401                                            | -            | 193,873                        | -                            | -                                 | -            | 193,873              | 194,556              |
| Assets limited as to use                                 | 2,280                            | -                                | 1,528                                             | -            | 3,808                          | -                            | -                                 | -            | 3,808                | 3,751                |
| Board-designated and trustee held investments            | 102,752                          | -                                | 94,929                                            | -            | 197,681                        | -                            | -                                 | -            | 197,681              | 198,307              |
| Donor-restricted and endowment funds                     | 103,905                          | 32,154                           | -                                                 | -            | 136,059                        | 7,623                        | 1,473                             | -            | 145,155              | 141,426              |
| Property, plant and equipment, net                       | 9,698                            | 277                              | -                                                 | -            | 9,975                          | 250                          | -                                 | -            | 10,225               | 9,258                |
| Investments in joint ventures                            | 13,861                           | 9,530                            | 11,834                                            | (4,250)      | 30,975                         | 778                          | 2,803                             | (2,749)      | 31,807               | 28,166               |
| Other assets, net                                        | \$ 351,371                       | \$ 54,211                        | \$ 128,901                                        | \$ (6,444)   | \$ 528,039                     | \$ 13,931                    | \$ 9,684                          | \$ (3,811)   | \$ 547,843           | \$ 542,730           |
| Total assets                                             |                                  |                                  |                                                   |              |                                |                              |                                   |              |                      |                      |
| <b>Liabilities and Net Assets</b>                        |                                  |                                  |                                                   |              |                                |                              |                                   |              |                      |                      |
| Current liabilities                                      |                                  |                                  |                                                   |              |                                |                              |                                   |              |                      |                      |
| Current portion of long-term debt                        | \$ 3,626                         | \$ -                             | \$ -                                              | \$ -         | \$ 3,626                       | \$ -                         | \$ -                              | \$ -         | \$ 3,626             | \$ 3,200             |
| Accounts payable                                         | 5,531                            | 2,655                            | 742                                               | (655)        | 8,273                          | 4,813                        | 391                               | (17)         | 13,460               | 15,354               |
| Accrued expenses                                         | 26,604                           | 21,635                           | 23                                                | (1,502)      | 46,760                         | 3,745                        | 968                               | (86)         | 51,387               | 45,595               |
| Deferred revenues                                        | 5                                | -                                | -                                                 | -            | 5                              | 100                          | 143                               | -            | 248                  | 320                  |
| Due to third-party payors                                | 14,530                           | -                                | -                                                 | -            | 14,530                         | -                            | -                                 | -            | 14,530               | 13,249               |
| Due to affiliates                                        | 19                               | 18                               | 22                                                | (37)         | 22                             | -                            | 937                               | (959)        | -                    | -                    |
| Total current liabilities                                | 50,315                           | 24,308                           | 787                                               | (2,194)      | 73,216                         | 8,658                        | 2,439                             | (1,062)      | 83,251               | 77,718               |
| Other liabilities                                        |                                  |                                  |                                                   |              |                                |                              |                                   |              |                      |                      |
| Long-term debt, net of current portion                   | 57,724                           | 27,967                           | -                                                 | -            | 85,691                         | -                            | -                                 | -            | 85,691               | 88,071               |
| Accrued liabilities under self-insurance program         | 34,584                           | 16,424                           | -                                                 | -            | 51,008                         | -                            | 211                               | -            | 51,219               | 51,944               |
| Accrued pension                                          | 16,471                           | 1,244                            | -                                                 | -            | 17,715                         | -                            | 460                               | -            | 18,175               | 2,844                |
| Accrued postretirement medical benefits                  | 5,864                            | 1,139                            | -                                                 | -            | 7,003                          | -                            | 274                               | -            | 7,277                | 7,363                |
| Other liabilities, net                                   | 5,588                            | 5,525                            | 88                                                | -            | 11,201                         | 762                          | 153                               | -            | 12,116               | 11,013               |
| Total liabilities                                        | 170,546                          | 76,607                           | 875                                               | (2,194)      | 245,834                        | 9,420                        | 3,537                             | (1,062)      | 257,729              | 238,953              |
| Net assets                                               |                                  |                                  |                                                   |              |                                |                              |                                   |              |                      |                      |
| Unrestricted                                             | 170,815                          | (22,396)                         | 111,489                                           | -            | 259,908                        | 4,511                        | 5,262                             | (1,865)      | 267,816              | 281,934              |
| Temporarily restricted                                   | 7,385                            | -                                | 10,385                                            | (3,905)      | 13,865                         | -                            | 392                               | (391)        | 13,866               | 13,545               |
| Permanently restricted                                   | 2,625                            | -                                | 6,152                                             | (345)        | 8,432                          | -                            | 493                               | (493)        | 8,432                | 8,298                |
| Total net assets                                         | 180,825                          | (22,396)                         | 128,026                                           | (4,250)      | 282,205                        | 4,511                        | 6,147                             | (2,749)      | 290,114              | 303,777              |
| Total liabilities and net assets                         | \$ 351,371                       | \$ 54,211                        | \$ 128,901                                        | \$ (6,444)   | \$ 528,039                     | \$ 13,931                    | \$ 9,684                          | \$ (3,811)   | \$ 547,843           | \$ 542,730           |

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**Rockford Health System and Affiliated Corporations**  
**Supplemental Schedule -- Consolidating Statement of Operations and Changes in Unrestricted Net Assets**  
**For the year ended December 31, 2014**  
(in thousands of dollars)

|                                                                                                   | Rockford<br>Memorial<br>Hospital | Rockford<br>Health<br>Physicians | Rockford<br>Memorial<br>Development<br>Foundation | Eliminations | Obligated<br>Group<br>Subtotal | Rockford<br>Health<br>System | Visiting<br>Nurses<br>Association | Eliminations | 2014<br>Consolidated | 2013<br>Consolidated |
|---------------------------------------------------------------------------------------------------|----------------------------------|----------------------------------|---------------------------------------------------|--------------|--------------------------------|------------------------------|-----------------------------------|--------------|----------------------|----------------------|
| <b>Revenues</b>                                                                                   |                                  |                                  |                                                   |              |                                |                              |                                   |              |                      |                      |
| Net patient service revenue                                                                       | \$ 316,146                       | \$ 89,293                        | \$ -                                              | \$ (17,642)  | \$ 387,797                     | \$ -                         | \$ 11,568                         | \$ (613)     | \$ 398,753           | \$ 383,175           |
| Provision for doubtful patient accounts                                                           | (7,944)                          | (4,285)                          | -                                                 | -            | (12,229)                       | -                            | (981)                             | -            | (13,210)             | (25,082)             |
| Total net patient service revenue                                                                 | 308,202                          | 85,008                           | -                                                 | (17,642)     | 375,568                        | -                            | 10,588                            | (613)        | 385,543              | 358,093              |
| Provider tax revenue                                                                              | 27,858                           | -                                | -                                                 | -            | 27,858                         | -                            | -                                 | -            | 27,858               | 25,160               |
| Other operating revenues and net assets released from restrictions                                | 32,452                           | 32,477                           | 4,971                                             | (43,930)     | 25,970                         | 15,841                       | 2,537                             | (15,936)     | 28,412               | 45,660               |
| Total revenue                                                                                     | 368,512                          | 117,485                          | 4,971                                             | (61,572)     | 429,396                        | 15,841                       | 13,125                            | (16,549)     | 441,813              | 428,913              |
| <b>Expenses</b>                                                                                   |                                  |                                  |                                                   |              |                                |                              |                                   |              |                      |                      |
| Salaries and wages                                                                                | 108,566                          | 88,258                           | 265                                               | 3,581        | 200,670                        | 3,559                        | 7,151                             | -            | 211,380              | 198,618              |
| Employee benefits                                                                                 | 37,199                           | 15,490                           | 89                                                | (18,023)     | 34,755                         | 723                          | 2,298                             | (485)        | 37,291               | 41,799               |
| Supplies                                                                                          | 55,361                           | 6,399                            | 49                                                | -            | 61,809                         | 30                           | 2,095                             | (90)         | 63,844               | 63,286               |
| Purchased services and professional fees                                                          | 88,469                           | 24,640                           | 185                                               | (40,109)     | 73,185                         | 13,891                       | 1,318                             | (15,889)     | 72,505               | 69,585               |
| Depreciation and amortization                                                                     | 17,132                           | 5,931                            | -                                                 | -            | 23,063                         | 49                           | 434                               | -            | 23,546               | 22,565               |
| Provision for doubtful accounts                                                                   | 141                              | -                                | -                                                 | -            | 141                            | -                            | -                                 | -            | 141                  | 131                  |
| Insurance                                                                                         | 8,711                            | 4,029                            | -                                                 | (4)          | 12,736                         | 66                           | 100                               | -            | 12,902               | 9,834                |
| Provider tax assessment                                                                           | 12,096                           | -                                | -                                                 | -            | 12,096                         | -                            | -                                 | -            | 12,096               | 12,254               |
| Interest                                                                                          | 1,265                            | 928                              | -                                                 | -            | 2,193                          | -                            | -                                 | -            | 2,193                | 2,272                |
| Other                                                                                             | 3,796                            | 2,107                            | 7,761                                             | (7,017)      | 6,647                          | 492                          | 692                               | (85)         | 7,746                | 7,906                |
| Total expenses                                                                                    | 332,736                          | 147,782                          | 8,349                                             | (61,572)     | 427,295                        | 18,810                       | 14,088                            | (16,549)     | 443,644              | 428,250              |
| Operating income (loss)                                                                           | 35,776                           | (30,297)                         | (3,378)                                           | -            | 2,101                          | (2,969)                      | (963)                             | -            | (1,831)              | 663                  |
| <b>Nonoperating gains (losses)</b>                                                                |                                  |                                  |                                                   |              |                                |                              |                                   |              |                      |                      |
| Investment income (loss)                                                                          | 5,618                            | 41                               | -                                                 | -            | 5,659                          | -                            | -                                 | -            | 5,659                | 15,938               |
| Change in fair market value of swap                                                               | (38)                             | -                                | -                                                 | -            | (38)                           | -                            | -                                 | -            | (38)                 | 1,764                |
| Other, net                                                                                        | 742                              | (1)                              | -                                                 | -            | 741                            | (12)                         | (6)                               | -            | 723                  | 800                  |
| Excess (deficit) of revenues over expenses                                                        | 42,098                           | (30,257)                         | (3,378)                                           | -            | 8,463                          | (2,981)                      | (969)                             | -            | 4,513                | 19,165               |
| <b>Unrealized gains (losses) on investments</b>                                                   |                                  |                                  |                                                   |              |                                |                              |                                   |              |                      |                      |
| Pension-related changes other than net periodic pension cost                                      | -                                | -                                | -                                                 | -            | -                              | -                            | -                                 | -            | -                    | -                    |
| Postretirement medical benefit-related changes other than net postretirement medical benefit cost | (16,458)                         | (2,313)                          | -                                                 | -            | (18,771)                       | -                            | (554)                             | -            | (19,325)             | 21,745               |
| Net change in beneficial interest in trust                                                        | 467                              | 116                              | -                                                 | -            | 583                            | -                            | (8)                               | -            | 575                  | 1,381                |
| Net assets released from restrictions used for capital transfers (to) from affiliates             | 90                               | -                                | -                                                 | -            | 90                             | -                            | 29                                | (129)        | -                    | -                    |
| Increase (decrease) in unrestricted net assets                                                    | (28,174)                         | 27,817                           | -                                                 | -            | (357)                          | 357                          | -                                 | -            | -                    | 20                   |
|                                                                                                   | \$ (1,977)                       | \$ (4,637)                       | \$ (3,378)                                        | \$ -         | \$ (9,992)                     | \$ (2,624)                   | \$ (1,373)                        | \$ (129)     | \$ (14,118)          | \$ 42,311            |

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ROCKFORD HEALTH  
system

August 14, 2015

Illinois Health Facilities  
and Services Review Board  
525 West Jefferson  
Springfield, IL 62761

**Re: Project Funding**

To Whom It May Concern:

I hereby attest that the total estimated project costs associated with modernization of Rockford Memorial Hospital's Rockton Avenue campus, and as described in the Certificate of Need application filed with the Illinois Health Facilities and Services Review Board, will be addressed through the use of cash and other liquid assets.

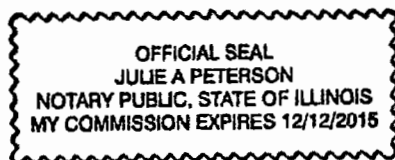
Sincerely,

Henry Seybold  
Senior Vice President  
Finance & CFO

STATE OF ILLINOIS

COUNTY OF WINNEBAGO

BE IT KNOWN, that, on the 14<sup>th</sup> day of August, 2015, before me personally came Henry Seybold, SVP, Finance & CFO, who executed the foregoing instrument, and he acknowledged to me that he executed the same.

  
Notary Public

ATTACHMENT 39A

Rockford Memorial  
Hospital  
2400 N. Rockton Ave.  
Rockford, IL 61103  
(815) 971-5000

Rockford Health  
Physicians  
2300 N. Rockton Ave.  
Rockford, IL 61103  
(815) 971-2000

Van Matre HealthSouth  
Rehabilitation Hospital  
950 S. Mulford Rd.  
Rockford, IL 61108  
(815) 381-8500  
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Visiting Nurses  
Association  
4223 E. State St.  
Rockford, IL 61108  
(815) 971-3550

Rockford Memorial  
Development Foundation  
2400 N. Rockton Ave.  
Rockford, IL 61103  
(815) 971-4141

COST AND GROSS SQUARE FEET BY DEPARTMENT OR SERVICE

|                         | A            | B         | C    | D     | E       | F     | G             | H                | Total        |
|-------------------------|--------------|-----------|------|-------|---------|-------|---------------|------------------|--------------|
|                         | Cost/Sq. Ft. |           | DGSF |       | DGSF    |       | New Const. \$ | Modernization \$ | Costs        |
|                         | New          | Mod.      | New  | Circ. | Mod.    | Circ. | (A x C)       | (B x E)          | (G + H)      |
| Reviewable              |              |           |      |       |         |       |               |                  |              |
| Med/Surg                |              | \$ 20.00  |      |       | 44,016  |       |               | \$ 880,320       | \$ 880,320   |
| Observation             |              | \$ 20.00  |      |       | 5,637   |       |               | \$ 112,740       | \$ 112,740   |
| Surgery                 |              | \$ 100.00 |      |       | 5,500   |       |               | \$ 550,000       | \$ 550,000   |
| Convenient Care Ctr.    |              | \$ 35.00  |      |       | 5,012   |       |               | \$ 175,420       | \$ 175,420   |
| PT/OT                   |              | \$ 10.00  |      |       | 2,604   |       |               | \$ 26,040        | \$ 26,040    |
| Emergency Department    |              | \$ 35.00  |      |       | 15,000  |       |               | \$ 525,000       | \$ 525,000   |
| ICU-Adult               |              | \$ 40.00  |      |       | 5,586   |       |               | \$ 223,440       | \$ 223,440   |
| Wound Care              |              | \$ 35.00  |      |       | 1,535   |       |               | \$ 53,725        | \$ 53,725    |
|                         |              | \$ 30.00  |      |       | 84,890  |       |               | \$ 2,546,685     | \$ 2,546,685 |
| Contingency             |              | \$ 2.00   |      |       |         |       |               | \$ 169,780       | \$ 169,780   |
|                         |              | \$ 32.00  |      |       |         |       |               | \$ 2,716,465     | \$ 2,716,465 |
| Non-Reviewable          |              |           |      |       |         |       |               |                  |              |
| Physicians' Offices     |              | \$ 20.00  |      |       | 43,400  |       |               | \$ 868,000       | \$ 868,000   |
| Not-for-Profit Agencies |              | \$ 5.00   |      |       | 207,000 |       |               | \$ 1,035,000     | \$ 1,035,000 |
| Administrative          |              | \$ 15.00  |      |       | 34,668  |       |               | \$ 520,020       | \$ 520,020   |
| IT                      |              | \$ 30.00  |      |       | 7,342   |       |               | \$ 220,260       | \$ 220,260   |
| Education               |              | \$ 10.00  |      |       | 3,800   |       |               | \$ 38,000        | \$ 38,000    |
| Optical Shop            |              | \$ 35.00  |      |       | 400     |       |               | \$ 14,000        | \$ 14,000    |
| Hospitalists            |              | \$ 5.00   |      |       | 1,000   |       |               | \$ 5,000         | \$ 5,000     |
| Pastoral Care           |              | \$ 10.00  |      |       | 1,000   |       |               | \$ 10,000        | \$ 10,000    |
| Guest Rooms-NICU        |              | \$ 10.00  |      |       | 3,000   |       |               | \$ 30,000        | \$ 30,000    |
| On-call rooms           |              | \$ 5.00   |      |       | 1,500   |       |               | \$ 7,500         | \$ 7,500     |
| LT Nurses travel rooms  |              | \$ 5.00   |      |       | 1,000   |       |               | \$ 5,000         | \$ 5,000     |
| Case Management         |              | \$ 10.00  |      |       | 800     |       |               | \$ 8,000         | \$ 8,000     |
| Volunteers              |              | \$ 10.00  |      |       | 1,500   |       |               | \$ 15,000        | \$ 15,000    |
| Corporate Offices       |              | \$ 5.00   |      |       | 3,601   |       |               | \$ 18,005        | \$ 18,005    |
|                         |              | \$ 9.01   |      |       | 310,011 |       |               | \$ 2,793,785     | \$ 2,793,785 |
| Contingency             |              | \$ 2.00   |      |       |         |       |               | \$ 620,022       | \$ 620,022   |
|                         |              | \$ 11.01  |      |       |         |       |               | \$ 3,413,807     | \$ 3,413,807 |
| PROJECT TOTAL           |              | \$ 15.52  |      |       | 394,901 |       |               | \$ 6,130,272     | \$ 6,130,272 |

PROJECTED OPERATING COST and  
TOTAL EFFECT of the PROJECT on CAPITAL COSTS

Rockton Avenue Campus

Year 2

Adjusted Patient Days: 16,325

Operating Costs per Adjusted Patient Day:

|                           |    |            |    |           |    |           |    |            |
|---------------------------|----|------------|----|-----------|----|-----------|----|------------|
| Salaries:                 | \$ | 55,836,844 | \$ | 1,687,680 | \$ | 1,550,323 | \$ | 33,618,567 |
| Benefits:                 | \$ | 2,051,512  | \$ | 593,180   | \$ | 544,902   | \$ | 11,816,130 |
| Medical Supplies:         | \$ | 401,881    | \$ | 180,701   | \$ | 7,023     | \$ | 11,322,102 |
|                           | \$ | 58,290,237 | \$ | 2,461,561 | \$ | 2,102,248 | \$ | 56,756,799 |
| per Adjusted Patient Day: | \$ | 3,570.68   | \$ | 150.79    | \$ | 128.78    | \$ | 3,476.74   |

Capital Costs per Adjusted Patient Day:

|                                           |    |            |
|-------------------------------------------|----|------------|
| Interest, Depreciation, and Amortization: | \$ | 23,687,283 |
| per Adjusted Patient Day:                 | \$ | 1,451.01   |

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## SAFETY NET STATEMENT

RMH (RMH") is a regional provider of safety net services, and through the proposed projects, to maintain services at RMH-Rockton Avenue while initiating services at RMH-Riverside, the ability to provide these services will be expanded. As examples of this expanded ability to provide safety net services, and among the programmatic offerings that RMH has committed to through this and the accompanying CON applications, are:

- to maintain inpatient services at RMH-Rockton Avenue
- to continue to operate a fully-staffed Emergency Department at RMH-Rockton Avenue
- to continue to operate one of the region's two Level I Trauma Centers, with the program relocating to RMH-Riverside
- to continue to operate the area'
- to make space available on the RMH-Rockton Avenue campus for not-for-profit and community-based agencies that focus on the health care needs of the underserved or financially disadvantaged
- to continue to operate the region's only NICU
- to continue to operate with compliant and liberal financial assistance policies
- to maintain its commitment to caring for the uninsured and Medicaid recipients.

RMH is the area's largest provider of inpatient charity care services (Source: 2013 IDPH *Hospital Profiles*), both in terms the number of patients admitted and percentage of admissions. In addition, during 2013, RMH's charity care as a percentage of net revenue was 3.4%.

Because of RMH's commitment to continue to operate all of its current inpatient and outpatient services, either at RMH-Riverside, or RMH-Rockton Avenue, or in its many outpatient centers located throughout the service area, the proposed projects will not adversely

impact access to safety net services. Rather, through the development of the RMH-Riverside site, overall access will be improved.

After paginating the entire, completed application, indicate in the chart below, the page numbers for the attachments included as part of the project's application for permit:

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