ORIGINAL

16-005

ILLINOIS HEALTH FACILITIES AND SERVICES REVIEW BOARD
APPLICATION FOR PERMIT

RECEIVED

JAN 11 2016

HEALTH FACILITIES & SERVICES REVIEW BOARD

SECTION I. IDENTIFICATION, GENERAL INFORMATION, AND CERTIFICATION

This Section must be completed for all projects.

Facility/Project Identification

Facility Name:	Franciscan St. James Health – Olympia Fields				
Street Address:	20201 South Crawford Avenue				
City and Zip Code:	Olympia Fields, IL 60461				
County: Cook	Health Service Area	VII	Health Planning Area:	A-04	

Applicant /Co-Applicant Identification
[Provide for each co-applicant [refer to Part 1130.220].

Exact Legal Name:	Franciscan Alliance, Inc.
Address:	1515 Dragoon Trail Mishawaka, IN 46544
Name of Registered Agent:	
Name of Chief Executive Officer:	Kevin Leahy
CEO Address:	1515 Dragoon Trail Mishawaka, IN 46544
Telephone Number:	574/273-3844

Type of Ownership of Applicant/Co-Applicant

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

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

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

ILLINOIS HEALTH FACILITIES AND SERVICES REVIEW BOARD
APPLICATION FOR PERMIT

SECTION I. IDENTIFICATION, GENERAL INFORMATION, AND CERTIFICATION

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Facility/Project Identification

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City and Zip Code:	Olympia Fields, IL 60461				
County: Cook	Health Service Area	VII	Health Planning Area:	A-04	

Applicant /Co-Applicant Identification
[Provide for each co-applicant [refer to Part 1130.220].

Exact Legal Name:	Franciscan Alliance, Inc. d/b/a Franciscan St. James Health-Olympia Fields
Address:	1515 Dragoon Trail Mishawaka, IN 46544
Name of Registered Agent:	Sister M. Petra Nielsen OSF
Name of Chief Executive Officer:	Kevin Leahy
CEO Address:	1515 Dragoon Trail Mishawaka, IN 46544
Telephone Number:	574/273-3844

Type of Ownership of Applicant/Co-Applicant

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☐ For-profit Corporation
☐ Limited Liability Company
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☐ Other

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

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

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

Post Permit Contact

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

Name:	Arnold Kimmel
Title:	CEO
Company Name:	Franciscan St. James Health
Address:	1423 Chicago Road Chicago Heights, IL 60411
Telephone Number:	708/756-1000
E-mail Address:	arnie.kimmel@franciscanalliance.org
Fax Number:	708/756-6869

Site Ownership

[Provide this information for each applicable site]

Exact Legal Name of Site Owner: Franciscan Alliance, Inc.
Address of Site Owner: 1515 Dragoon Trail Mishawaka, IN 46544
Street Address or Legal Description of Site: 20201 South Crawford Avenue Olympia Fields, IL 60461 **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: Franciscan Alliance, Inc. d/b/a Franciscan St. James Health-Olympia Fields

Address: 1515 Dragoon Trail Mishawaka, IN 46544

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

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

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

Organizational Relationships

Provide (for each 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 or www.illinoisfloodmaps.org. **This map must be in a readable format**. In addition please provide a statement attesting that the project complies with the requirements of Illinois Executive Order #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:

X 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.

Applicant Franciscan Alliance, Inc. operates two hospitals in Illinois: Franciscan St. James Health-Chicago Heights and Franciscan St. James Health-Olympia Fields. The hospitals are located approximately 4 ½ miles (10 minutes) apart, in Chicago's far southern suburbs.

During the 4-year period ending December 31, 2014, the two Illinois hospitals experienced a combined operating loss of $66.5M. In late 2013 Franciscan Alliance initiated a program to streamline the operations of the two Illinois hospitals, with a goal of consolidating inpatient medical/surgical, obstetrics and ICU services on the Olympia Fields campus, and operating the Chicago Heights hospital as primarily an outpatient campus. The initial phase, which did not involve the consolidation of inpatient services, was completed in 2014, and provided time for in-depth analyses of the hospitals' future, and how best to maintain services for the populations that have historically looked to the two hospitals for care.

During 2015, Franciscan Alliance engaged Tonn & Blank to evaluate the facilities on the Chicago Heights campus to determine the feasibility of continued use as a hospital, given the 105 year old age of some of its buildings. Tonn & Blank concluded that major portions of the Chicago Heights hospital's physical plant had reached the end of their useful life, and that needed renovations to bring the hospital to contemporary standards were cost-prohibitive.

Concurrent to the Tonn & Blank analysis, the consulting firm of Kaufman Hall was hired to help develop a program plan that would allow Franciscan Alliance, Inc. to maintain its mission to provide health care services to the residents of Chicago Heights, Ford Heights, Olympia Fields, and the surrounding communities.

As a result of the Tonn & Blank and Kaufman Hall analyses, Franciscan Alliance concluded that: 1) all Illinois inpatient services need to be consolidated on the (35 year old) Olympia Fields campus, 2) outpatient services should continue to be provided and expanded in scope in Chicago Heights, and 3) that the outpatient services to be provided in Chicago Heights can more efficiently be provided in a free-standing facility, and without compromising accessibility.

Two inter-related Certificate of Exemption (COE) and Certificate of Need (CON) applications are being simultaneously submitted by the applicants. The ability to proceed with the projects addressed through the two applications, including maintaining accessibility, requires approval of both applications.

The Certificate of Exemption application addresses the discontinuation of St. James Health-Chicago Heights, consistent with the provisions of Public Act 99-0154.

The Certificate of Need application addresses the modernization and expansion of Franciscan St. James Health-Olympia Fields required to accommodate much of Franciscan St. James-Chicago Heights' traditional inpatient activity, and, to a lesser extent, its traditional outpatient activity. The two hospitals operate with a common medical staff, Board, and management, and as a result, it is believed by the applicants that difficulties typically associated with consolidations will be minimized.

In total, 248 beds will be removed from the IDPH's *Inventory* upon the completion of these projects.

The Certificate of Need application is classified as "substantive" because it includes the establishment of obstetrics and a comprehensive physical rehabilitation categories of service. These two services are currently provided at Franciscan St. James-Chicago Heights.

In addition to the projects addressed through the COE and CON applications, Franciscan Alliance's freestanding outpatient center, located at 211 Dixie Highway in Chicago Heights (4 minutes to the northwest of Franciscan St. James Health-Chicago Heights) will be expanded to accommodate much of Franciscan St. James Health-Chicago Heights' current outpatient volume. Among the services to be provided at the freestanding outpatient center are a 24-hour 7 day-a-week physician-staffed urgent care center, outpatient mental health programs and services, imaging, laboratory, physical therapy and occupational therapy. The expanding of the outpatient center does not quality for IHFSRB review.

Project Costs and Sources of Funds

	Clinical/ Reviewable	Non-Clinical/ Non-Reviewable	Total
Project Costs:			
Preplanning Costs	$ 1,200,000	$ 390,000	$ 1,590,000
Site Survey and Soil Investigation	$ 18,250	$ 6,750	$ 25,000
Site Preparation	$ 1,200,000	$ 600,000	$ 1,800,000
Off Site Work	$ 2,044,000	$ 756,000	$ 2,800,000
New Construction Contracts	$ 25,217,026	$ 12,677,942	$ 37,894,968
Modernization Contracts	$ 35,896,553	$ 7,819,436	$ 43,715,989
Contingencies	$ 1,818,050	$ 1,166,280	$ 2,984,330
Architectural/Engineering Fees	$ 4,000,000	$ 1,590,000	$ 5,590,000
Consulting and Other Fees	$ 730,000	$ 270,000	$ 1,000,000
Movable and Other Equipment	$ 13,841,710	$ 1,560,562	$ 15,402,272
Bond Issuance Expense	$ 109,500	$ 40,500	$ 150,000
Net Interest Expense During Construction	$ 1,204,500	$ 445,500	$ 1,650,000
Fair Mkt Value of Leased Space or Equip			
Other Costs to be Capitalized			
Acqusition of Building or Other Property			
TOTAL COSTS	**$87,279,589**	**$27,322,970**	**$114,602,559**
Sources of Funds:			
Cash and Securities	$ 76,329,589	$ 23,272,970	$ 99,602,559
Pledges			
Gifts and Bequests			
Bond Issues	$ 10,950,000	$ 4,050,000	$ 15,000,000
Mortgages			
Leases (fair market value)			
Government Appropriations			
Grants			
Other Funds and Sources			
TOTAL FUNDS	**$87,279,589**	**$27,322,970**	**$114,602,559**

Related Project Costs

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

Land acquisition is related to project ☐ Yes X No Purchase Price: $________________ Fair Market Value: $________________
The project involves the establishment of a new facility or a new category of service X Yes ☐ No If yes, provide the dollar amount of all **non-capitalized** operating start-up costs (includir operating deficits) through the first full fiscal year when the project achieves or exceeds the targ utilization specified in Part 1100. Estimated start-up costs and operating deficit cost is $ 200,000 .

Project Status and Completion Schedules

For facilities in which prior permits have been issued please provide the permit numbers.
Indicate the stage of the project's architectural drawings: ☐ None or not applicable ☐ Preliminary X Schematics ☐ Final Working
Anticipated project completion date (refer to Part 1130.140): October 31, 2018
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 X 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: X Cancer Registry X APORS X All formal document requests such as IDPH Questionnaires and Annual Bed Reports been submitted X All reports regarding outstanding permits **Failure to be up to date with these requirements will result in the application for permit being deemed incomplete.**

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.**

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

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

Facility Bed Capacity and Utilization

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**.

FACILITY NAME: Franciscan St. James Health			**CITY: Olympia Fields**		
REPORTING PERIOD DATES:	**From: January 1, 2014**		**to: December 31, 2014**		
Category of Service	**Authorized Beds**	**Admissions**	**Patient Days**	**Bed Changes**	**Proposed Beds**
Medical/Surgical	133	5,835	26,029	+24	157
Obstetrics	0	0	0	+12	12
Pediatrics					
Intensive Care	25	835	4,393	+6	31
Comprehensive Physical Rehabilitation	0	0	0	+14	14
Acute/Chronic Mental Illness					
Neonatal Intensive Care					
General Long Term Care					
Specialized Long Term Care					
Long Term Acute Care					
Other ((identify)					
TOTALS:	158	6,670	30,422	+56	214

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 manger 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 _Franciscan 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.

Kevin D. Leahy
SIGNATURE

Kevin D. Leahy
PRINTED NAME

President/CEO
PRINTED TITLE

Notarization:
Subscribed and sworn to before me
this 21st day of December

Alison M Orozco
Signature of Notary

Seal

ALISON M OROZCO
NOTARY PUBLIC
SEAL
ST. JOSEPH COUNTY, STATE OF INDIANA
COMMISSION NO. 632583
MY COMMISSION EXPIRES 01/23/2020

Sister Lethia Marie Leveille OSF
SIGNATURE

Sister Lethia Marie Leveille O.S.F
PRINTED NAME

Secretary, Franciscan Alliance Inc.
PRINTED TITLE

Notarization:
Subscribed and sworn to before me
this 21st day of December

Alison Orozco
Signature of Notary

Seal

ALISON M OROZCO
NOTARY PUBLIC
SEAL
ST. JOSEPH COUNTY, STATE OF INDIANA
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*Insert EXACT legal name of the applicant

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Kevin D. Leahy
SIGNATURE

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PRINTED NAME

President/CEO
PRINTED TITLE

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Alison M. Orozco
Signature of Notary

Seal

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ST. JOSEPH COUNTY, STATE OF INDIANA
COMMISSION NO. 632583
MY COMMISSION EXPIRES 01/23/2020

Sister Lethia Marie Leveille OSF
SIGNATURE

Sister Lethia Marie Leveille O.S.F
PRINTED NAME

Secretary, Franciscan Alliance Inc.
PRINTED TITLE

Notarization:
Subscribed and sworn to before me
this 21st day of December

Alison M. Orozco
Signature of Notary

Seal

ALISON M OROZCO
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*Insert EXACT legal name of the applicant

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

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

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 BGSF/DGSF	STATE STANDARD	DIFFERENCE	MET STANDARD?

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

PROJECT SERVICES UTILIZATION:

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

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

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

UTILIZATION					
	DEPT./ SERVICE	HISTORICAL UTILIZATION (PATIENT DAYS) (TREATMENTS) ETC.	PROJECTED UTILIZATION	STATE STANDARD	MET 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:

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	**133**	**157**
X Obstetric	**0**	**12**
☐ **Pediatric**		
X Intensive Care	**25**	**31**

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

APPLICABLE REVIEW CRITERIA		Establish	Expand	Modernize
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

APPEND DOCUMENTATION AS <u>ATTACHMENT-20,</u> IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

B. Criterion 1110.630 - Comprehensive Physical Rehabilitation

1. Applicants proposing to establish, expand and/or modernize Comprehensive Physical Rehabilitation category 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 Comprehensive Physical Rehabilitation	**0**	**14**

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

APPLICABLE REVIEW CRITERIA	Establish	Expand	Modernize
1110.630(b)(1) - Planning Area Need - 77 Ill. Adm. Code 1100 (formula calculation)	X		
1110.630(b)(2) - Planning Area Need - Service to Planning Area Residents	X	X	
1110.630(b)(3) - Planning Area Need - Service Demand - Establishment of Category of Service	X		
1110.630(b)(4) - Planning Area Need - Service Demand - Expansion of Existing Category of Service		X	
1110.630(b)(5) - Planning Area Need - Service Accessibility	X		
1110.630(c)(1) - Unnecessary Duplication of Services	X		
1110.630(c)(2) - Maldistribution	X		
1110.630(c)(3) - Impact of Project on Other Area Providers	X		
1110.630(d)(1) - Deteriorated Facilities			X
1110.630(d)(2) - Documentation			X
1110.630(d)(3) - Documentation Related to Cited Problems			X
1110.630(d)(4) - Occupancy			X
1110.630(e(1) and (2) - Staffing	X	X	
1110.630(e)(2) - Personnel Qualifications	X		
1110.630(f) - Performance Requirements	X	X	X
1110.630(g) - Assurances	X	X	X

APPEND DOCUMENTATION AS ATTACHMENT-21, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

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

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

Service	# Existing Key Rooms	# Proposed Key Rooms
☐		
☐		
☐		

PLEASE SEE FOLLOWING PAGE

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

PROJECT TYPE	REQUIRED REVIEW CRITERIA	
New Services or Facility or Equipment	(b) –	Need Determination – Establishment
Service Modernization	(c)(1) –	Deteriorated Facilities
		and/or
	(c)(2) –	Necessary Expansion
		PLUS
	(c)(3)(A) –	Utilization – Major Medical Equipment
		Or
	(c)(3)(B) –	Utilization – Service or Facility

APPEND DOCUMENTATION AS <u>ATTACHMENT-34,</u> IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

SERVICE	# Existing Key Rooms	# Proposed Key Rooms
ED Stations	22	32
LDRs	0	3
C-Section Rooms	0	2
ORs-General	7	7
ORs-Open Heart	2	1
ORs-Urological	0	1
Endoscopy Rooms	3	2
General R & F Rooms	5	5
CT Rooms	2	3
MRI Rooms	2	3
Ultrasound Rooms	4	7

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:**

$99,602,559_	a)	Cash and Securities – statements (e.g., audited financial statements, letters from financial institutions, board resolutions) as to: 1) the amount of cash and securities available for the project, including the identification of any security, its value and availability of such funds; and 2) interest to be earned on depreciation account funds or to be earned on any asset from the date of applicant's submission through project completion;
_______	b)	Pledges – for anticipated pledges, a summary of the anticipated pledges showing anticipated receipts and discounted value, estimated time table of gross receipts and related fundraising expenses, and a discussion of past fundraising experience.
_______	c)	Gifts and Bequests – verification of the dollar amount, identification of any conditions of use, and the estimated time table of receipts;
_$15,000,000_	d)	Debt – a statement of the estimated terms and conditions (including the debt time period, variable or permanent interest rates over the debt time period, and the anticipated repayment schedule) for any interim and for the permanent financing proposed to fund the project, including: 1) For general obligation bonds, proof of passage of the required referendum or evidence that the governmental unit has the authority to issue the bonds and evidence of the dollar amount of the issue, including any discounting anticipated; 2) For revenue bonds, proof of the feasibility of securing the specified amount and interest rate; 3) For mortgages, a letter from the prospective lender attesting to the expectation of making the loan in the amount and time indicated, including the anticipated interest rate and any conditions associated with the mortgage, such as, but not limited to, adjustable interest rates, balloon payments, etc.; 4) For any lease, a copy of the lease, including all the terms and conditions, including any purchase options, any capital improvements to the property and provision of capital equipment; 5) For any option to lease, a copy of the option, including all terms and conditions.
_______	e)	Governmental Appropriations – a copy of the appropriation Act or ordinance accompanied by a statement of funding availability from an official of the governmental unit. If funds are to be made available from subsequent fiscal years, a copy of a resolution or other action of the governmental unit attesting to this intent;
_______	f)	Grants – a letter from the granting agency as to the availability of funds in terms of the amount and time of receipt;
_______	g)	All Other Funds and Sources – verification of the amount and type of any other funds that will be used for the project.
$114,602,559	**TOTAL FUNDS AVAILABLE**	

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. Proof of "Aa3" Bond rating provided.

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

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

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

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

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

C. Reasonableness of Project and Related Costs

Read the criterion and provide the following:

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

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

D. Projected Operating Costs

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

E. Total Effect of the Project on Capital Costs

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

APPEND DOCUMENTATION AS ATTACHMENT -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.

FRANCISCAN ST. JAMES HEALTH

Safety Net Information per PA 96-0031			
CHARITY CARE			
Charity (# of patients)	2012	2013	2014
Inpatient	3,318	1,296	1,582
Outpatient	17,976	10,757	14,190
Total	**21,294**	**12,053**	**15,772**
Charity (cost In dollars)			
Inpatient	$3,597,608	$6,165,780	$8,786,258
Outpatient	$4,018,443	$8,016,617	$10,249,538
Total	**$7,616,051**	**$14,182,329**	**$19,035,796**
MEDICAID			
Medicaid (# of patients)	2012	2013	2014
Inpatient	1,787	1,571	2,132
Outpatient	32,200	17,424	25,882
Total	33,987	18,995	28,014
Medicaid (revenue)			
Inpatient	$7,442,170	$12,426,923	$10,394,352
Outpatient	$4,474,901	$5,974,701	$17,327,847
Total	$11,917,071	$18,401,624	$27,722,199

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	**$240,017,303**	**$267,782,124**	**$269,415,801**
Amount of Charity Care (charges)	$20,141,722	$68,289,947	$57,508,961
Cost of Charity Care	$7,616,051	$14,182,329	$19,035,796

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

File Number 5053-312-3

STATE OF ILLINOIS

OFFICE OF THE SECRETARY OF STATE

To all to whom these Presents Shall Come, Greeting:

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

FRANCISCAN ALLIANCE, INC., INCORPORATED IN INDIANA AND LICENSED TO CONDUCT AFFAIRS IN THIS STATE ON OCTOBER 15, 1974, APPEARS TO HAVE COMPLIED WITH ALL THE PROVISIONS OF THE GENERAL NOT FOR PROFIT CORPORATION ACT OF THIS STATE, AND AS OF THIS DATE, IS A FOREIGN CORPORATION IN GOOD STANDING AND AUTHORIZED TO CONDUCT AFFAIRS IN THE STATE OF ILLINOIS.

In Testimony Whereof, *I hereto set my hand and cause to be affixed the Great Seal of the State of Illinois, this* 24TH *day of* NOVEMBER *A.D.* 2015 .

Authentication #: 1532801766 verifiable until 11/24/2016
Authenticate at: http://www.cyberdriveillinois.com

Jesse White
SECRETARY OF STATE

ATTACHMENT 1

File Number 5053-312-3

STATE OF ILLINOIS

OFFICE OF THE SECRETARY OF STATE

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In Testimony Whereof, *I hereto set my hand and cause to be affixed the Great Seal of the State of Illinois, this* 24TH *day of* NOVEMBER *A.D.* 2015 .

SEAL OF THE STATE OF ILLINOIS AUG. 26TH 1818

Authentication #: 1532801766 verifiable until 11/24/2016
Authenticate at: http://www.cyberdriveillinois.com

Jesse White
SECRETARY OF STATE

ATTACHMENT 1

ACORD®

CERTIFICATE OF LIABILITY INSURANCE

DATE (MM/DD/YYYY) 02/06/2012

THIS CERTIFICATE IS ISSUED AS A MATTER OF INFORMATION ONLY AND CONFERS NO RIGHTS UPON THE CERTIFICATE HOLDER. THIS CERTIFICATE DOES NOT AFFIRMATIVELY OR NEGATIVELY AMEND, EXTEND OR ALTER THE COVERAGE AFFORDED BY THE POLICIES BELOW. THIS CERTIFICATE OF INSURANCE DOES NOT CONSTITUTE A CONTRACT BETWEEN THE ISSUING INSURER(S), AUTHORIZED REPRESENTATIVE OR PRODUCER, AND THE CERTIFICATE HOLDER.

IMPORTANT: If the certificate holder is an ADDITIONAL INSURED, the policy(ies) must be endorsed. If SUBROGATION IS WAIVED, subject to the terms and conditions of the policy, certain policies may require an endorsement. A statement on this certificate does not confer rights to the certificate holder in lieu of such endorsement(s).

PRODUCER	CONTACT NAME:	
St. Francis Insurance Services, LLC	PHONE (A/C, No, Ext):	FAX (A/C, No):
Franciscan Alliance - RM Department	E-MAIL ADDRESS:	
3510 Park Place West, Suite 200	INSURER(S) AFFORDING COVERAGE	NAIC #
Mishawaka IN 46545	INSURER A: Hills Insurance Company, Inc.	
INSURED	INSURER B:	
Franciscan Alliance, Inc.	INSURER C:	
Franciscan St. James Health	INSURER D:	
20201 South Crawford Avenue	INSURER E:	
Olympia Fields IL 60461	INSURER F:	

COVERAGES **CERTIFICATE NUMBER:** **REVISION NUMBER:**

THIS IS TO CERTIFY THAT THE POLICIES OF INSURANCE LISTED BELOW HAVE BEEN ISSUED TO THE INSURED NAMED ABOVE FOR THE POLICY PERIOD INDICATED. NOTWITHSTANDING ANY REQUIREMENT, TERM OR CONDITION OF ANY CONTRACT OR OTHER DOCUMENT WITH RESPECT TO WHICH THIS CERTIFICATE MAY BE ISSUED OR MAY PERTAIN, THE INSURANCE AFFORDED BY THE POLICIES DESCRIBED HEREIN IS SUBJECT TO ALL THE TERMS, EXCLUSIONS AND CONDITIONS OF SUCH POLICIES. LIMITS SHOWN MAY HAVE BEEN REDUCED BY PAID CLAIMS.

INSR LTR	TYPE OF INSURANCE	ADDL INSR	SUBR WVD	POLICY NUMBER	POLICY EFF (MM/DD/YYYY)	POLICY EXP (MM/DD/YYYY)	LIMITS	
A	GENERAL LIABILITY X COMMERCIAL GENERAL LIABILITY CLAIMS-MADE X OCCUR GEN'L AGGREGATE LIMIT APPLIES PER: X POLICY PRO-JECT LOC			HLL-1033-12-IL	01/01/2012	01/01/2013	EACH OCCURRENCE	$ 1,000,000
							DAMAGE TO RENTED PREMISES (Ea occurrence)	$
							MED EXP (Any one person)	$
							PERSONAL & ADV INJURY	$
							GENERAL AGGREGATE	$ 3,000,000
							PRODUCTS - COMP/OP AGG	$
								$
	AUTOMOBILE LIABILITY ANY AUTO ALL OWNED AUTOS SCHEDULED AUTOS HIRED AUTOS NON-OWNED AUTOS						COMBINED SINGLE LIMIT (Ea accident)	$
							BODILY INJURY (Per person)	$
							BODILY INJURY (Per accident)	$
							PROPERTY DAMAGE (Per accident)	$
								$
	UMBRELLA LIAB OCCUR EXCESS LIAB CLAIMS-MADE DED RETENTION $						EACH OCCURRENCE	$
							AGGREGATE	$
								$
	WORKERS COMPENSATION AND EMPLOYERS' LIABILITY Y/N ANY PROPRIETOR/PARTNER/EXECUTIVE OFFICER/MEMBER EXCLUDED? (Mandatory in NH) If yes, describe under DESCRIPTION OF OPERATIONS below	N/A					WC STATU-TORY LIMITS OTH-ER	
							E.L. EACH ACCIDENT	$
							E.L. DISEASE - EA EMPLOYEE	$
							E.L. DISEASE - POLICY LIMIT	$
A	Medical Malpractice			HLL-1033-12	01/01/2012	01/01/2013	Per Occurrence $1,000,000 Aggregate $3,000,000	

DESCRIPTION OF OPERATIONS / LOCATIONS / VEHICLES (Attach ACORD 101, Additional Remarks Schedule, if more space is required)

It is hereby agreed and understood that Franciscan St. James Health - Olympia Fields is an insured under the Hills Insurance Company, Inc.

CERTIFICATE HOLDER	CANCELLATION
Franciscan Alliance, Inc. Franciscan St. James Health 20201 South Crawford Avenue Olympia Fields IL 60461	SHOULD ANY OF THE ABOVE DESCRIBED POLICIES BE CANCELLED BEFORE THE EXPIRATION DATE THEREOF, NOTICE WILL BE DELIVERED IN ACCORDANCE WITH THE POLICY PROVISIONS. AUTHORIZED REPRESENTATIVE Robert Kaunay

ACORD 25 (2010/05)

ATTACHMENT 2

File Number 5053-312-3

STATE OF ILLINOIS
OFFICE OF THE SECRETARY OF STATE

To all to whom these Presents Shall Come, Greeting:

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

FRANCISCAN ALLIANCE, INC., INCORPORATED IN INDIANA AND LICENSED TO CONDUCT AFFAIRS IN THIS STATE ON OCTOBER 15, 1974, APPEARS TO HAVE COMPLIED WITH ALL THE PROVISIONS OF THE GENERAL NOT FOR PROFIT CORPORATION ACT OF THIS STATE, AND AS OF THIS DATE, IS A FOREIGN CORPORATION IN GOOD STANDING AND AUTHORIZED TO CONDUCT AFFAIRS IN THE STATE OF ILLINOIS.

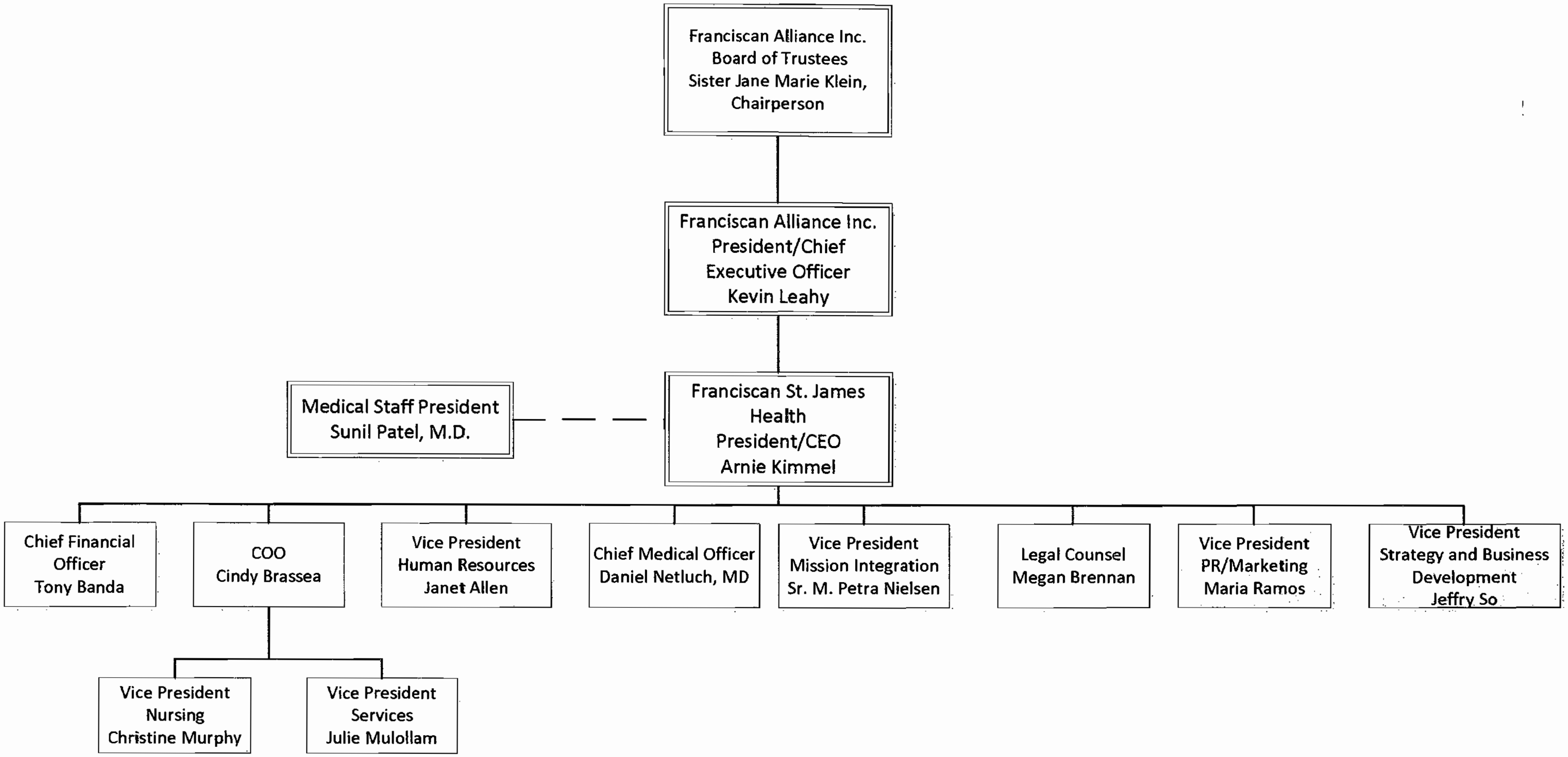
In Testimony Whereof, *I hereto set my hand and cause to be affixed the Great Seal of the State of Illinois, this* 24TH *day of* NOVEMBER *A.D.* 2015 .

SEAL OF THE STATE OF ILLINOIS AUG. 26TH 1818

Authentication #: 1532801766 verifiable until 11/24/2016
Authenticate at: http://www.cyberdriveillinois.com

Jesse White
SECRETARY OF STATE

ATTACHMENT 3



ATTACHMENT 4

Franciscan St. James Health
Reporting Organization Chart
12/21/15

Franciscan
ST. JAMES HEALTH

January 6, 2016

CHICAGO HEIGHTS
1423 Chicago Road
Chicago Heights, IL 60411
PH: 708 756 1000

OLYMPIA FIELDS
20201 South Crawford Avenue
Olympia Fields, IL 60461
PH: 708 747 4000

Illinois Health Facilities and
Services Review Board
Springfield, Illinois

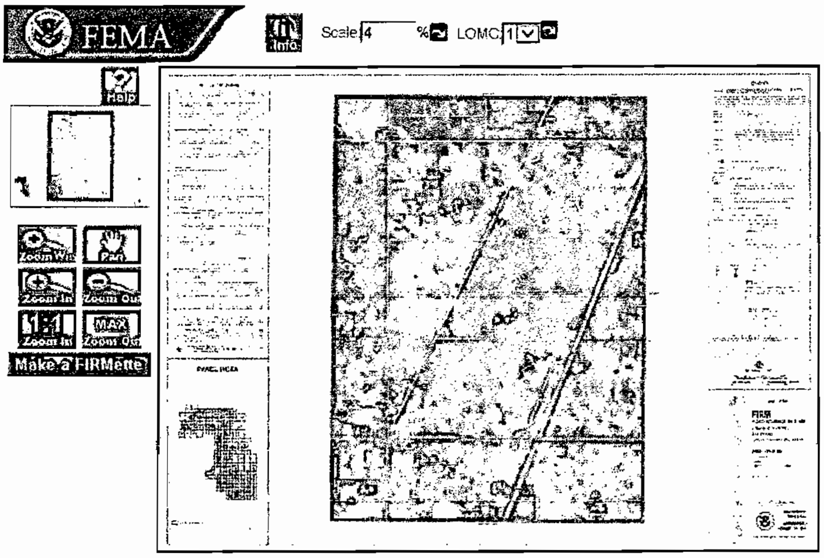
To Whom it May Concern:

I hereby certify that the Franciscan St. James Health-Olympia Fields is not located within a special flood hazard area, and that the project will be developed consistent with the requirements of Illinois Executive Order #2005-5.

Sincerely,

Arnold Kimmel

Arnold Kimmel
CEO



ATTACHMENT 5

34

Illinois Historic
Preservation Agency

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

FAX (217) 524-7525
www.illinoishistory.gov

Cook County
Olympia Fields
CON - New Additions and Rehabilitation, Franciscan St. James Health - Olympia Fields
20201 Crawford Ave.
IHPA Log #019113015

December 9, 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

USES OF FUNDS		
Preplanning Costs		
evaluation of alternatives	$400,000	
financial feasibility assessments	$200,000	
cost estimating	$450,000	
equipment planning	$200,000	
facility assessment	$90,000	
misc/other	$250,000	
		$1,590,000
Site Survey & Soil Investigation		
soil investigation/load testing	$15,000	
surveys	$10,000	
		$25,000
Site Preparation		
ambuance and OB drop-off	$700,000	
exterior signage/lighting	$400,000	
landscaping	$80,000	
site demo and parking prep	$520,000	
other/misc.	$100,000	
		$1,800,000
Off-Site Work		
pkg/walk-way/roadway paving	$2,300,000	
Crawford Ave. expansion	$300,000	
other/misc.	$200,000	
		$2,800,000
New Construction Contracts		
per ATTACHMENT 39C	$37,894,968	
		$37,894,968
Modernization Contracts		
per ATTACHMENT 39C	$ 43,715,989	
		$ 43,715,989
Contingency		
$10.00 per sf	$2,984,330	
		$2,984,330
Architectural/Engineering Fees		
design	$5,000,000	
document preparation	$150,000	
interface with agencies	$50,000	
project monitoring	$100,000	
other	$290,000	
		$5,590,000

Project Costs and
Sources of Funds

Consulting and Other Fees		
interior design	$150,000	
IT planning and consulting	$50,000	
CON application fee	$100,000	
legal	$50,000	
community relations	$100,000	
medical equipment planning	$150,000	
commissioning	$100,000	
re-location related	$200,000	
	$100,000	
		$1,000,000
Movable and Other Equipment		
please see attached itemization	$15,402,272	
		$15,402,272
Bond Issuance Expense		$150,000
Net Construction Period Interest		$1,650,000
		$ 114,602,559
SOURCES OF FUNDS		
cash and liquid assets		$99,602,559
bond issuance		$15,000,000
		$114,602,559

SJH-OF Projected Equipment Budget				
Medical Equipment				
	Beds-M/S	53	$ 15,006	$ 795,318
	Beds-ICU	7	$ 15,004	$ 105,028
	Beds-LDR	3	$ 33,000	$ 99,000
	Beds-OB	16	$ 13,000	$ 208,000
	Beds-OB Triage	3	$ 8,000	$ 24,000
	Misc. Nurs. Unit Furniture			$ 750,000
	Bassinettes	21	$ 8,333	$ 175,000
	Comp. Rehab. Unit	14	$ 12,857	$ 180,000
	Monitoring-M/S	28	$ 10,000	$ 280,000
	Monitoring-ICU	7	$ 30,000	$ 210,000
	Monitoring-Nursery	7	$ 25,000	$ 175,000
	Monitoring-LDR	3	$ 20,000	$ 60,000
	Monitoring-OB	6	$ 15,000	$ 90,000
	Monitoring-OB Triage	3	$ 20,000	$ 60,000
	Monitoring-C-Section	2	$ 15,000	$ 30,000
	Monitoring-ED	18	$ 15,833	$ 285,000
	Monitoring-CDU	17	$ 15,000	$ 255,000
	Monitoring-Misc.	1	$ 60,800	$ 60,800
	C-Sect Prep Rms	2	$ 18,000	$ 36,000
	C-Section lights	2	$ 1,000	$ 2,000
	Anesthesia Boom	2	$ 15,000	$ 30,000
	C-Section-Misc.	2	$ 10,000	$ 20,000
	Pre-Op Rooms	14	$ 10,000	$ 140,000
	OR Head Lights	2	$ 10,000	$ 20,000
	Equipment Boom	1	$ 30,000	$ 30,000
	Anesthesia Boom	1	$ 15,000	$ 15,000
	Storage Unit	1	$ 10,000	$ 10,000
	Sterilization-Instruments	1	$ 5,000	$ 5,000
	Ultrasound-Table Top	1	$ 999	$ 999
	Sterilizer-Steam, Large	1	$ 7,500	$ 7,500
	Sterilizer-Low Temp	1	$ 40,000	$ 40,000
	Cart Washer	1	$ 75,000	$ 75,000
	Storage Shelving Units	4	$ 5,000	$ 20,000
	ED-Triage	2	$ 5,000	$ 10,000
	ED Exam Rooms	32	$ 10,238	$ 327,600
	ED-Trauma	3	$ 40,000	$ 120,000
	CDU	6	$ 5,000	$ 30,000
	Imaging-PET CT	1	$ 1,520,000	$ 1,520,000
	MRI-Unit Upgrade	1	$ 650,000	$ 650,000
	MRI-New	1	$ 1,500,000	$ 1,500,000
	General X-Ray Upgrade	1	$ 110,000	$ 110,000
	Ultrasound	2	$ 125,000	$ 250,000
	Ultrasound-Relocation	5	$ 1,000	$ 5,000
	IT- Data Network		$ 278,266	$ 278,266

	IT-Voice Network		$ 281,719	$ 281,719
	IT-Uninterrupted Power		$ 93,695	$ 93,695
	IT-WIFI Equipment		$ 251,117	$ 251,117
	IT-Computers/Printers		$ 733,097	$ 733,097
	IT-PACS Monitor Ssyt.		$ 100,000	$ 100,000
	IT-Nurse Call System		$ 963,000	$ 963,000
	IT-MATV-CCTV		$ 351,552	$ 351,552
	IT-Paging Systems		$ 247,069	$ 247,069
	IT-Misc./Other		$ 160,378	$ 160,378
	Food Service Equip.		$ 630,649	$ 630,649
	Security		$ 397,752	$ 397,752
	Misc., Non-Clinical		$ 1,500,000	$ 1,500,000
				$ 14,804,539
	Escalation @ 1.5%			$ 222,068
				$ 15,026,607
	Delivery & Setup @2.5%			$ 375,665
				$ 15,402,272

COST/SPACE REQUIREMENTS

		Gross Square Feet		Amount of Proposed Total Square Feet That is:			
Dept./Area	Cost	Existing	Proposed	New Const.	Modernized	As Is	Vacated Space
Reviewable							
M/S Units	$ 39,403,579	63,871	89,836		66,185	23,651	
Inpatient PT/OT	$ 1,810,474	3,000	7,788	2,581	2,207	3,000	
ICU	$ 515,176	21,726	21,061		2,165	18,896	
Obstetrics	$ 4,724,897	0	7,952	7,952			
C-Section	$ 2,796,668	0	4,087	4,087			
Labor & Delivery	$ 2,929,142	-	4,760	4,760			
Rehabilitation Unit	$ 6,402,898	-	10,760	10,760			
Critical Decisions Unit	$ 1,604,404	-	7,552		7,552		
Surgery	$ 2,090,141	17,071	17,732		8,588	9,144	
Pre-Op & Recovery	$ 1,059,790	3,800	8,193		4,800	3,393	
Emergency Department	$ 12,452,532	19,156	22,122	19,088	3,034		16,122
Imaging (Gen/CT/MRI/US)	$ 2,517,001	16,292	18,966		10,303	8,663	
Pharmacy	$ 809,562	2,240	4,265		4,265		-
Ancillary Clinical Areas	$ 4,564,456		12,018	8,637	3,381		
Lab	$ 771,292	11,900	11,900		3,500	8,400	
Respiratory Therapy	$ 191,351	1,095	1,095		986	109	
Body Holding	$ 142,777	1,497	370		370		1,127
EEG	$ 292,914	2,746	1,520		1,520		2,746
Preadmission Testing	$ 390,062	966	2,028		2,028		-
Nursery (LI & LII+)	$ 1,810,474		3,056	3,056			
Total	$ 87,279,589	165,360	257,061	60,921	120,884	75,256	19,995

ATTACHMENT 9

COST/SPACE REQUIREMENTS

		Gross Square Feet		Amount of Proposed Total Square Feet That is:			
Dept./Area	Cost	Existing	Proposed	New Const.	Modernized	As Is	Vacated Space
Non-Reviewable							
Admin. & Nurs. Admin.	$ 1,506,444	5,280	8,513	1,691	6,822		
Foundation	$ 129,824	808	1,000		1,000		808
Quality Assurance	$ 331,908	1,435	2,545		2,545		1,435
Risk Management	$ 291,491	-	2,238		2,238		
Case Management	$ 701,782	550	5,376		5,376		550
Credit Union	$ 64,912	305	500		500		-
Guest Relations/Vols.	$ 219,230	509	1,682		1,682		509
Human Resoirces	$ 339,256	1,022	2,600		2,600		1,022
Medical Staff Offices	$ 500,923	1,690	3,843		3,843		1,690
Pastoral Care	$ 95,531	331	736		736		331
Registration/Outpt. Lab.	$ 876,922	1,544	5,586		5,586		1,544
Facilities Mgt/Hskpg	$ 7,942,510	27,333	29,657	21,116	1,683	6,858	-
Food Service	$ 798,538	13,937	13,937		6,717	7,220	
IT	$ 727,502	3,010	5,209	201	5,008		-
Materials Mgt/Receiving	$ 2,335,600	26,112	31,586	5,474	4,302	21,810	
Security	$ 101,654	741	786		786		
Gift Shop	$ 173,915	999	1,113		1,113		999
Grad. Medical Ed.	$ 993,273	4,799	7,611		7,611		-
Public Areas	$ 1,931,432	3,500	6,604	3,104	3,500		
Chapel	$ 1,457,454	1,670	3,316	3,316			1,670
General Storage	$ 2,242,519	7,200	14,259	6,546	513	7,200	
Education	$ 101,654	6,884	782		782		6,102
DGSF>>BGSF	$ 3,458,697		10,237	10,237			
	$ 27,322,970	109,659	159,716	51,685	64,943	43,088	16,660
PROJECT TOTAL	$ 114,602,559	275,019	416,777	112,606	185,827	118,344	36,655

ATTACHMENT 9

BACKGROUND OF APPLICANT

Franciscan Alliance, Inc. owns and operates the following licensed health care facilities:

- Franciscan St. Anthony Health-Crown Point; Crown Point, Indiana
- Franciscan St. Anthony Health-Michigan City; Michigan City, Indiana
- Franciscan St. Elizabeth Health-Lafayette Central; Lafayette, Indiana
- Franciscan St. Elizabeth Health-Lafayette East; Lafayette, Indiana
- Franciscan St. Elizabeth Health-Crawfordsville; Crawfordsville, Indiana
- Franciscan St. Francis Health-Carmel; Carmel, Indiana
- Franciscan St. Francis Health-Indianapolis; Indianapolis, Indiana
- Franciscan St. Francis Health-Mooresville; Mooresville, Indiana
- Franciscan St. James Health-Chicago Heights; Chicago Heights, Illinois
- Franciscan St. James Health-Olympia Fields; Olympia Fields, Illinois
- Franciscan St. Margaret Health-Dyer; Dyer, Indiana
- Franciscan St. Margaret Health-Hammond; Hammond, Indiana
- Franciscan Healthcare-Munster; Munster, Indiana

ATTACHMENT 11

Franciscan
ST. JAMES HEALTH

January 6, 2016

CHICAGO HEIGHTS
1423 Chicago Road
Chicago Heights, IL 60411
PH: 708 756 1000

OLYMPIA FIELDS
20201 South Crawford Avenue
Olympia Fields, IL 60461
PH: 708 747 4000

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

To Whom It May Concern:

In accordance with Review Criterion 1130.520.b.3, Background of the Applicant, we are submitting this letter assuring the Illinois Health Facilities and Services Review Board that:

Franciscan Alliance, Inc. owns and Franciscan St. James Health operates IDPH-licensed hospitals in Chicago Heights and Olympia Fields, Illinois. Franciscan St. James Health has not had any adverse actions against any Illinois health care facility owned or operated by it during the three (3) year period prior to the filing of this application.

Franciscan St. James Health authorizes the State Board and Agency access to information to verify documentation or information submitted in response to the requirements of Review Criterion 1130.520.b.3 or to obtain any documentation or information which the State Board or Agency finds pertinent to this CON/COE 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,

Arnold Kimmel

Arnold Kimmel
CEO
Franciscan St. James Health

HF108287

Illinois Department of PUBLIC HEALTH

LICENSE, PERMIT, CERTIFICATION, REGISTRATION

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

Nirav D. Shah, M.D.,J.D.
Director

Issued under the authority of the Illinois Department of Public Health

EXPIRATION DATE	CATEGORY	I.D NUMBER
06/30/2016		0002436

General Hospital

Effective: 07/01/2015

Franciscan Alliance, Inc.
dba Franciscan St. James Health-Chicago Heights
1423 Chicago Road
Chicago Heights, IL 60411

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

DISPLAY THIS PART IN A CONSPICUOUS PLACE

Exp. Date 06/30/2016

Lic Number 0002436

Date Printed 05/12/2015

Franciscan Alliance, Inc.
dba Franciscan St. James Health-Chic
1423 Chicago Road
Chicago Heights, IL 60411

FEE RECEIPT NO.

ATTACHMENT 11

Illinois Department of PUBLIC HEALTH HF107397

DISPLAY THIS PART IN A CONSPICUOUS PLACE

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

EXPIRATION DATE	CATEGORY	I.D. NUMBER
01/07/2016		0005074

General Hospital

Effective: 01/08/2015

Franciscan Alliance, Inc.
dba Franciscan St. James Health-Olympia Fields
20201 South Crawford Avenue
Olympia Fields, IL 60461

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

Exp. Date 01/07/2016
Lic Number 0005074

Date Printed 01/12/2015

Franciscan Alliance, Inc.
dba Franciscan St. James Health-Oly
20201 South Crawford Avenue
Olympia Fields, IL 60461

FEE RECEIPT NO.

ATTACHMENT 11

PURPOSE

This Certificate of Need application addresses the renovation, expansion, and construction necessary at Franciscan St. James Health-Olympia Fields to accommodate many of the patients that have traditionally relied upon Franciscan St. James health-Chicago Heights for their hospital services. The purpose of this project, together with the outpatient center referenced in this application's Narrative Description is to ensure that inpatient and outpatient services remain easily accessible to Franciscan St. James Health-Chicago Heights' traditional patient base, following the proposed discontinuation of Franciscan St. James Health-Chicago Heights.

The health care and well-being of the communities traditionally served by Franciscan St. James Health-Chicago Heights will be improved in two substantial ways. First, the outpatient center will include a 24 hour-a-day urgent care center to increase accessibility to many of the services currently provided in Franciscan St. James Health-Chicago Heights' Emergency Department. In addition, primary care physicians and selected specialists will be recruited by Franciscan Alliance, Inc., with those physicians to be officed in the outpatient center building and in a medical office building on the Franciscan St. James Health-Chicago Heights campus, also improving accessibility to the most commonly-needed services. Second, Franciscan St. James Health-Chicago Heights' physical plant dates back 105 years, compared to Franciscan St. James Health-Olympia Fields' physical plant, the oldest portions of which are only 35 years old. As a result, services will be provided in a much more contemporary setting and transfers will be minimized (cardiology and cardiovascular services have been consolidated at Franciscan St. James Health-Olympia Fields) as a result of this project.

The proposed modernization of Franciscan St. James Health-Olympia Fields as presented in this application addresses the inability of Franciscan St. James Health to continue to operate two, largely redundant hospitals 4½ miles apart, and the fiscal impracticality of modernizing Franciscan St. James Health-Chicago Heights. Primarily as a result of operating two nearby hospitals providing largely redundant services, an operating loss of $66.5M was experienced between 2011 and 2014. Losses of this magnitude, exacerbated by reimbursement-driven requirements to reduce operating costs, and coupled with the capital costs associated with the improvements needed to Franciscan St. James Health-Chicago Heights' physical plant, render the financial viability of the two-hospital model unsustainable.

The service area of Franciscan St. James Health-Olympia Fields following the service consolidation proposed through this project will consist of those ZIP Code areas that have traditionally provided a minimum of 2.0% of the inpatients to Franciscan Alliance's Illinois hospitals. Those ZIP Code areas are identified on the table below.

ZIP Code	Primary Community	%	Cum. %
60411	Chicago Heights	27.0%	27.0%
60466	Park Forest	11.5%	38.5%
60443	Matteson	8.0%	46.5%
60471	Richton Park	6.2%	52.7%
60417	Crete	5.3%	58.0%
60475	Steger	4.2%	62.2%
60430	Homewood	3.6%	65.8%
60425	Glenwood	3.0%	68.8%
60461	Olympia Fields	3.0%	71.7%
60478	Country Club Hills	2.7%	74.4%
60401	Beecher	2.4%	76.8%
60449	Bedford Park	2.3%	79.1%
60484	University Park	2.0%	81.1%
	other, <2.0%	18.9%	100.0%

The primary goal of the project addressed in this application is the providing of a contemporary hospital setting for all patients desiring to be admitted to or receive outpatient services at Franciscan St. James Health-Olympia Fields. This goal will be met through the modernization and expanding of Franciscan St. James Health-Olympia Fields, and it is anticipated that this goal will be reached upon the completion of the project, and confirmed through subsequent patient satisfaction instruments. The scope of the hospital's expansion, through the addition of beds and capacity in selected ancillary areas, is based on the hospital's historical utilization and the anticipation that a portion (please see discussions in ATTACHMENT 15) of those patients currently receiving care at Franciscan St. James Health-Chicago Heights will seek care at the Olympia Fields hospital.

ALTERNATIVES

The applicants are proposing three projects that are inter-related and dependent on one another. The first project, which is addressed through a Certificate of Exemption application, proposes the discontinuation of Franciscan St. James Health-Chicago Heights (SJH-CH). The second project, which is addressed through this Certificate of Need application, addresses the modernization of Franciscan St. James Health-Olympia Fields (SJH-OF), to accommodate a major portion of the inpatient and outpatient caseloads historically provided at SJH-CH. The third project, which, per technical assistance guidance provided by HFSRB staff, does not qualify for State Agency review, addresses the expanding of services provided at Franciscan Alliance Inc.'s Chicago Heights freestanding outpatient center, as well as the expanding of the capacity of the services historically provided through that facility.

As discussed below, a number of alternatives were evaluated, and all were found to be inferior to the proposed project.

It is anticipated that the quality of services provided, regardless of the alternative selected, would be comparable.

Alternative 1. Discontinuation of FSJ-CH and Modernization of FSJ-OF

This alternative includes the hospital-related components of the proposed project, but does not include the expanding of the Chicago Heights freestanding outpatient center. Had this alternative been selected, the capital cost would be reduced by the estimated capital cost associated with the expanding of the freestanding outpatient center (approximately $7M); and overall operating costs would be reduced by $1.75-$2.0M per year, as a result of not adding staff to the freestanding outpatient center. Access to outpatient services, primarily for Chicago Heights area residents, would be diminished.

Alternative 2. Limit the Project to the Discontinuation of FSH-CH

This alternative could be accomplished without the filing of a Certificate of Need, and could be accomplished without any community or regulatory agency input. Compared to the proposed project, the capital costs to be incurred by Franciscan Alliance, Inc. would be less than $5M, and operating costs would be minimal (limited to utilities required to maintain the building). Accessibility, however, would be significantly reduced. FSJ-OF has the capacity to increase its Medical/Surgical average daily census by approximately 25 patients a day, and its ICU average daily census by approximately 4 patients a day, without any expansion. Incremental inpatients now admitted to FSJ-CH would either experience delayed admissions or require admission to another hospital. Because the Franciscan St. James Hospitals operate with a common medical staff, the applicants are confident that, to the extent beds are available at FSJ-OF, those beds would be fully utilized. Obstetrics services and comprehensive physical rehabilitation services are not provided at FSJ-OF (and are proposed to be established through the project addressed in this application), and therefore, access to those services through Franciscan St. James Health would be eliminated. Last, access to 24 hour-a-day urgent care services and increased access to outpatient services through the increasing of capacity at FSJ-OF and the expanding of Franciscan Alliance's Chicago Heights outpatient center would be eliminated if this alternative were selected.

Alternative 3. Renovate FSJH-CH, and Continue to Operate as a Hospital.

This alternative was dismissed for a variety of reasons, including the impracticality of renovating a facility that is over 100 years old, the disruption to on-going hospital operations that would result, and the service redundancies that can no longer be financially tolerated. An evaluation of the facility and a conceptual estimate of the cost associated with renovation revealed that, primarily due to the age of the facility, many "systems" issues simply could not be resolved, and that shortcomings that could be addressed would cost $60-70M, with the result continuing to be a 100 year old building. The operating costs associated with this alternative exceed that of the proposed project by $35-40M per year. Because of the manner in which patient care units and ancillary services, ranging from the kitchen to the surgical suite are distributed throughout the facility, the sub-alternative of renovating and continuing to use a portion of the hospital was immediately dismissed. In addition, this alternative would not allow the proposed discontinuation of 248 beds.

Access to services would not be impacted with this alternative. However, the fact that FSJ-OF is located only ten minutes from the FSJ-CH campus, and the reality that many Illinois residents, including many in the metropolitan Chicago area, live more than ten minutes from the nearest hospital, suggests that access to inpatient services will not be significantly diminished. In addition, Health Planning Area A-04 is grossly over-bedded in terms of acute care beds, with the most recent IDPH calculations identifying an excess of 639 Medical/Surgical/Pediatrics beds, 74 obstetrics beds, and 20 ICU beds.

Alternative 4. Replace FSJH-CH

This alternative, which would not involve the modernization of SJH-OF or the expanding of the freestanding outpatient center, was dismissed because unnecessary duplication (impact on access, as discussed above) would not be eliminated, and because of the cost. The same issues associated with area over-bedding discussed with Alternative 3 would apply to this alternative. The capital cost associated with the construction of a 140-145 bed hospital on the existing site would approximate $275M. Operating costs would exceed those of the proposed project by approximately $35M per year. Impact on access to services would be identical to those discussed in association with Alternative 3.

SIZE OF PROJECT

The applicants have undertaken a detailed space planning process, which involved an evaluation of the current department and function-specific space allocation, as well as the identification of space requirements and how best to provide the required space. That process was led by a team of experienced health care architects, and involved hospital staff representatives, physicians, and hospital management. The resulting plan involves approximately 112,600 square feet of new construction and approximately 185,800 square feet of renovation, as identified in ATTACHMENTS 9 and 39C.

The project includes eleven departments or functional areas having HFSRB-adopted space standards, and as noted in the table below, the proposed project is consistent with nine of the eleven standards.

DEPARTMENT/SERVICE	PROPOSED DGSF	STATE STANDARD	DIFFERENCE	MET STANDARD?
Medical/Surgical Unit	89,836	103,620	-13,784	YES
Obstetrics Unit	7,891	7,920	-29	YES
ICU	21,061	21,235	-174	YES
Comprehensive Rehab.	10,760	9,240	1,520	NO
Level I & Level II+ Nursery	3,056	1,920	1,136	NO
Labor & Delivery	4,760	4,800	-40	YES
C-Section Suite	4,087	4,150	-63	YES
Imaging	18,966	23,600	4,634	YES
Emergency Department	22,122	28,800	-6,678	YES
Surgery	17,732	24,750	-7,018	YES
Recovery	12,420	12,420	-	YES

The new construction/renovation plan being proposed is believed by the applicants to be reasonable, necessary and not excessive; and as discussed below, the variances from the two standards are justified by the operational needs of the nurseries and rehabilitation unit as documented through IDPH licensure requirements.

The applicants' inability to meet the comprehensive physical rehabilitation unit size standard (660 DGSF per bed) is a direct result on the number of beds being proposed for this category of service. As discussed in other portions of the application, the number of beds being proposed, fourteen, is supported exclusively on the historical utilization of Franciscan St. James Health-Chicago Heights' (FSJ-CH) rehabilitation service. The bed complement of the proposed unit is small, but regardless of the number of beds, certain "support" areas, such as a nurses' station, clean utility room, soiled utility room, medications room, etc. are required to be provided by licensure. Those "support" areas are essentially the same size, regardless of the number of beds on the unit. As a result, in the case of a unit with lower number of beds, the support space is allocated over fewer beds, causing the ration of DGSF:bed to increase. In the case of the proposed comprehensive physical rehabilitation unit, those "support" spaces account for 201 DGSF per bed.

Similarly, the nursery standard of 160 DGSF per <u>obstetrics</u> bed is unattainable because of the small size (12 beds) of the proposed obstetrics unit. As is the case with the rehabilitation unit, because the amount of support space required by a nursery is similar, regardless of the number of obstetrics beds operated by a hospital, that space, on a per bed basis, increases as the number of obstetrics beds declines. In the case of a 12-bed obstetrics unit, the impact, in terms of DGSF per bed is twice that of a typically-sized 24-bed obstetrics unit.

Franciscan St. James Health-Olympia Fields consists of one below-grade level and two above grade levels. Among the major components of the project:

- An addition will be built to the south, which will house the comprehensive physical rehabilitation unit and associated space, a chapel, and public space on the first floor; obstetrics-related services will be located on the second floor; and facilities management, general storage, and materials management space will be provided on the lower level.

- An addition will be built to the east to house a major portion of the expanded ED.

- Portions of the first floor of the hospital will be renovated to provide a new outpatient registration area, expansion of the Graduate Medical Education program's facilities, surgical and related services, the Critical Decisions Unit, and a variety of administrative functions.

- Portions of the second floor will be renovated to allow expansion of the ICU and Medical/Surgical units.

UTILIZATION

Dept./ Service	2013/14 Historical Utilization (Patient Days) (TREATMENTS)	PROJECTED UTILIZATION (patient days) YEAR 1	YEAR 2	STATE STANDARD	MET STANDARD?
Med/Surg	27,804	50,334	50,334	50,107+	YES
ICU	4,363	6,731	6,731	6,571+	YES
Obstetrics	0	3,015	3,015	3,011+	YES
Comp Phys Rehab	0	4,154	4,154	4,033+	YES
OR's-General	9,807	9,807	9,807	9,001+	YES
OR's-Open Heart	1,198	1,198	1,198	N/A	N/A
ORs-Urology	669	669	669	N/A	N/A
ED	64,031	64,031	64,031	64,001+	YES
LDRs	0	835	835	801+	YES
C-Section	0	835	835	801+	YES
General Imaging	35,925	55,966	55,966	32,001+	YES
CT	14,612	22,151	22,151	14,001+	YES
MRI	5,229	6,688	6,688	5,001+	YES
Ultrasound	9,637	19,308	19,308	18,601+	YES
Phase I Recovery	Stations:	9	9	9	YES
Phase 2 Recovery	Stations:	27	27	27	YES

The table above identifies the historical (average of 2013 and 2014) and projected utilization of each clinical service included in the proposed project, having a HFSRB-adopted utilization target.

As documented in the table above, the proposed project is being developed consistent with every applicable standard. It should also be noted, and as discussed in the remainder of this ATTACHMENT, <u>projected utilization is based exclusively on Franciscan St. James' historical</u>

utilization, and in many instances incorporates the accommodating of a portion of Franciscan St. James-Chicago Heights historical caseload. Becauseof the anticipated discontinuation of FSJ-CH, a minimal "ramp-up" period is anticipated, resulting in all target utilization rates being reached during the first year following the project's completion.

Medical/Surgical Beds

Franciscan St. James Health-Olympia Fields is currently approved to operate 133 Medical/Surgical beds, and through this Application for Permit the applicants are seeking approval to increase to 157 Medical/Surgical beds to accommodate a portion of the current patient volume at Franciscan St. James Health-Chicago Heights (which will discontinue 230 Medical/Surgical beds). Specifically, during the two-year period ending December 31, 2014, 55,607 Medical/Surgical patient days of care were provided at FSJ-OF, resulting in an ADC of 76.17 patients. During the same period, 53,015 Medical/Surgical patient days of care were provided at FSJ-CH, resulting in an ADC of 72.62 patients. For planning purposes, the applicants are anticipating that 85% of the FSJ-CH volume, or 22,531 (53,015 ÷ 2 X 85%) patient days will be accommodated at FSJ-OF, an ADC of 61.73 patients. As a result, a Medical/Surgical ADC of 137.90 patients (76.17 + 61.73) is anticipated following the discontinuation of FSJ-CH, requiring 157 beds at an 88% target occupancy level.

ICU Beds

Franciscan St. James Health-Olympia Fields is currently approved to operate 25 ICU beds, and through this Application for Permit the applicants are seeking approval to increase to 31 ICU beds to accommodate a portion of the current patient volume at Franciscan St. James Health-Chicago Heights (which will discontinue 20 ICU beds). Specifically, during the two-year period ending December 31, 2014, 8,725 ICU patient days of care were provided at FSJ-OF, resulting in an ADC of 11.95 patients. During the same period, 5,918 ICU patient days of care were provided at FSJ-CH, resulting in an ADC of 8.11 patients. For planning purposes, the applicants are anticipating that 80% of the FSJ-CH volume, or 2,367 (5,918 ÷ 2 X 80%) patient days will be accommodated at FSJ-OF, an ADC of 6.49 patients. As a result, an ICU ADC of 18.44 ICU patients (11.95 + 6.49) is anticipated following the discontinuation of FSJ-CH, requiring 31 beds at a 60% target occupancy level.

Obstetrics Beds

The applicants are proposing the establishment of a 10-bed Obstetrics unit, concurrent to the discontinuation of the 30-bed unit at Franciscan St. James Health-Chicago Heights (FSJ-CH). During the two-year period ending December 31, 2014, 7,544 patient days of obstetrics care (including observation days) were provided at FSJ-CH, resulting in an average daily census (ADC) of 10.33 patients. For planning purposes, the applicants are anticipating 80% of FSJ-CH's obstetrics volume, or 3,015 annual patient days of care (7,544 ÷ 2 X 80%) to be accommodated at FSJ-OF, resulting in an ADC of 8.26 and a need for 12 beds, as proposed.

Comprehensive Physical Rehabilitation Beds

Projected rehabilitation unit utilization, as discussed below is based completely on the historical utilization at Franciscan St. James Health-Chicago Heights' rehabilitation unit, and for planning purposes it is assumed that FSJ-CH's entire caseload will be accommodated at FSJ-OF. As a result, the patient origin of the proposed rehabilitation unit is expected to be very similar to that of the combined service area of FSJ-CH and FSJ-OF.

During the two year period ending December 31, 2014 an average of 4,154 patient days of care were provided on the SJH-CH rehabilitation unit, resulting in an average daily census of 11.38 patients. As noted above, projected utilization of the proposed SJH-OF rehabilitation unit is based exclusively on the historical utilization of the FSJ-CH rehabilitation unit. The HFSRB-adopted occupancy target rate of 85% was applied to the historical average daily census to identify a need for the proposed 14 beds.

Surgery (Operating Rooms)

Following modernization, FSJ-OF's surgical suite will consist of nine operating rooms. One OR will be designated and reserved for open heart surgery, and one will be used for urological procedures, exclusively. Because these two single rooms are specialty-specific, and consistent with past HFSRB practices, the utilization standard does not apply to these operating rooms. The remaining seven operating rooms will be designated as "general" ORs, and used for all other surgical specialties.

During the two-year period ending December 31, 2014, 6,578 hours were used in the FSJ-OF surgical suite for non-open heart or urological procedures (including room turn-over), an average of 3,289 hours per year. During the same period, 16,294 hours were used in the FSJ-CH surgical suite for non-urological procedures (open heart surgery is not performed at FSJ-CH), an average of 8,147 hours. For planning purposes, and based on discussions with appropriate personnel, it is anticipated that 80% of the FSJ-CH caseload, or 6,518 annual hours of OR time will be accommodated at FSJ-OF, resulting in 9,807 projected hours of general OR usage (3,289 + 6,518 = 9,807). Using the HFSRB standard of 1,500 hours per OR, a need for seven general operating rooms was identified.

Pre-Op & Recovery

Fourteen pre-op, nine Phase I recovery and 27 Phase II recovery stations will be located contiguous to the surgical suite to maximize ease of patient movement, and particularly the movement of surgical outpatients. The HFSRB does not have a standard for pre-op stations, and the proposed project is being planned consistent with the standard of four recovery stations per operating room.

Emergency Department

FSJ-OF's Emergency Department will be modernized to accommodate 32 treatment bays, consistent with historical utilization.

During the two-year period ending December 31, 2014 FSJ-OF averaged 35,264 ED patients, annually. Based on discussions with ED personnel, and the current EMS practice of transporting patients with chest pain to FSJ-OF (cardiology services were consolidated at FSJ-OF approximately 15 years ago), it is anticipated that approximately 70% of the current FSJ-CH caseload will be accommodated at FSJ-OF upon the discontinuation of FSJ-CH. During the two-year period ending December 31, 2014 FSJ-CH averaged 41,095 ED patients, annually. It is anticipated that approximately 28,750 patients (70%) that would have utilized the ED at FSJ-CH in the past will seek care at FSJ-OF, resulting in a projected caseload of approximately 64,000 annual visits (35,264 + 28,750 = 64,014), supporting a need for 32 stations.

LDRs and C-Section Rooms

Through this Certificate of Need application, the applicants propose the establishment of an obstetrics program at FSJ-OF upon the discontinuation of the obstetrics program at FSJ-CH. For planning purposes, and based on discussions with appropriate personnel, it is anticipated that approximately 80% of FSJ-CH's obstetrics caseload will be accommodated at FSJ-OF, and projected utilization at FSJ-OF is based on those patients, exclusively. During the two-year period ending December 31, 2014, a total of 1,937 births occurred at FSJ-CH, an average of 968 births a year. Accordingly, and consistent with HFSRB standards, three LDRs and two C-Section rooms will be provided.

Imaging

The imaging department will undergo modernization and expansion to selected diagnostic modalities. No changes are being made to mammography, nuclear medicine and diagnostic angiography, and consistent with a technical assistance conference with HFSRB staff, those modalities are not addressed in this application.

1. General Radiography and Fluoroscopy

Following the completion of the proposed project, five general radiography/fluoroscopy units will be located at FSJ-OF. During the two year period ending December 31, 2015, an average of 35,925 procedures per year were performed at FSJ-OF. For planning purposes, it is anticipated that 85% (11,272) of the average annual inpatient procedures and 50% (9,432) of the annual average outpatient procedures performed during that period at FSJ-CH will be accommodated at FSJ-OF. The projected annual volume of 56,629 (35,925 + 11,272 + 9,432) procedures following the completion of the proposed project will support the five proposed units, based on the HFSRB's standard of 8,000 procedures per room.

2. CT

Following the completion of the proposed project, three CT units will be located at FSJ-OF, one of which will be a PET/CT.

PET/CT scans are currently provided by an outside vendor through a mobile (trailer) unit. Through the proposed project, one of the hospital's existing CT units will be replaced with a PET/CT unit, at which time the contract with the outsider vendor will be terminated. It is anticipated that in excess of 95% of the procedures performed on the PET/CT unit will be CT, rather than PET/CT scans.

During the two year period ending December 31, 2015, an average of 14,612 procedures per year were performed at FSJ-OF. For planning purposes, it is anticipated that 80% (2,813) of the average annual inpatient procedures and 70% (4,727) of the annual average outpatient procedures performed during that period at FSJ-CH will be accommodated at FSJ-OF. The projected annual volume of 21,401 (14,612 + 2,813 + 4,727) procedures following the completion of the proposed project will support the three proposed units, based on the HFSRB's standard of 7,000 procedures per unit.

3. MRI

Following the completion of the proposed project, three MRI units will be located at FSJ-OF. During the two year period ending December 31, 2015, an average of 5,229 procedures per year were performed at FSJ-OF. For planning purposes, it is anticipated that 80% (645) of the average annual inpatient procedures and 70% (814) of the annual average outpatient procedures performed during that period at FSJ-CH will be accommodated at FSJ-OF. The projected annual volume of 6,688 (5,229 + 645 + 814) procedures following the completion of the proposed project will support the three proposed units, based on the HFSRB's standard of 2,500 procedures per room.

4. Ultrasound

Following the completion of the proposed project, seven ultrasound units will be located at FSJ-OF. During the two year period ending December 31, 2015, an average of 9,637procedures per year were performed at FSJ-OF. For planning purposes, it is anticipated that 80% (4,199) of the average annual inpatient procedures and 70% (5,473) of the annual average outpatient procedures performed during that period at FSJ-CH will be accommodated at FSJ-OF. The projected annual volume of 19,308 (9,637 + 4,199 + 5,473) procedures following the completion of the proposed project will support the seven proposed units, based on the HFSRB's standard of 3,100 procedures per unit.

PLANNING AREA NEED

The proposed project includes the establishment of an obstetrics category of service and the expansion of Medical/Surgical and ICU services. Through the proposed project and the accompanying Certificate of Exemption application addressing the discontinuation of Franciscan St. James Health-Chicago Heights, <u>Planning Area A-04's Medical/Surgical bed inventory will be reduced by 206 beds, its ICU inventory will be reduced by 14 beds, and its Obstetrics bed inventory will be reduced by 10 beds</u>. Combined, these three categories of service will be reduced by 230 beds.

All three of the categories of service are intended to primarily serve residents of the service area identified in ATTACHMENT 20d.

Projected obstetrics utilization, as discussed below is dependent exclusively on a portion of the existing obstetrics utilization at Franciscan St. James Health-Chicago Heights. Projected utilization of the Medical/Surgical and ICU categories of service are exclusively dependent upon historical utilization at Franciscan St. James Health-Olympia Fields and a portion of the historical utilization at Franciscan St. James Health-Chicago Heights. No assumption that patients will be "attracted from" other hospitals is incorporated into the bed need projections presented below. As a result, the patient origin of each of the three categories of service is expected to be very similar to that of the combined service area of FSJ-CH and FSJ-OF.

The table on the following page identifies each ZIP Code area contributing 2.0%+ of the admissions to the two hospitals during 2014. Of note is the fact that 10 of the 13 identified ZIP Code areas are included in the service area identified in ATTACHMENT 20d, and that those 10 ZIP Code areas accounted for 73.1% of the admissions.

ZIP Code	Primary Community	%	Cum. %
60411*	Chicago Heights	27.0%	27.0%
60466*	Park Forest	11.5%	38.5%
60443*	Matteson	8.0%	46.5%
60471*	Richton Park	6.2%	52.7%
60417*	Crete	5.3%	58.0%
60475*	Steger	4.2%	62.2%
60430*	Homewood	3.6%	65.8%
60425	Glenwood	3.0%	68.8%
60461	Olympia Fields	3.0%	71.7%
60478*	Country Club Hills	2.7%	74.4%
60401*	Beecher	2.4%	76.8%
60449*	Bedford Park	2.3%	79.1%
60484	University Park	2.0%	81.1%
	other, <2.0%	18.9%	100.0%

*in service area identified in ATTACHMENT 20d

Obstetrics

The applicants are proposing the establishment of a 12-bed Obstetrics unit, concurrent to the discontinuation of the 22-bed unit at Franciscan St. James Health-Chicago Heights (FSJ-CH). During the two-year period ending December 31, 2014, 7,544 patient days of obstetrics care (including observation days) were provided at FSJ-CH, resulting in an average daily census (ADC) of 10.33 patients. For planning purposes, the applicants are anticipating 80% of FSJ-CH's obstetrics volume, or 3,015 annual patient days of care (7,544 ÷ 2 X 80%) to be accommodated at FSJ-OF, resulting in an ADC of 8.26 and a need for 12 beds, as proposed.

Medical/Surgical

Franciscan St. James Health-Olympia Fields is currently approved to operate 133 Medical/Surgical beds, and through this Application for Permit the applicants are seeking approval to increase to 157 Medical/Surgical beds to accommodate a portion of the current patient volume at Franciscan St. James Health-Chicago Heights. Specifically, during the two-year period ending December 31, 2014, 55,607 Medical/Surgical patient days of care were provided at FSJ-OF, resulting in an ADC of 76.17 patients. During the same period, 53,015 Medical/Surgical patient days of care were provided at FSJ-CH, resulting in an ADC of 72.62 patients. For planning purposes, the applicants are anticipating that 85% of the FSJ-CH volume, or 22,531 (53,015 ÷ 2 X 85%) patient days will be accommodated at FSJ-OF, an ADC of 61.73 patients. As a result, a Medical/Surgical ADC of 137.90 patients (76.17 + 61.73) is anticipated following the discontinuation of FSJ-CH, requiring 157 beds at an 88% target occupancy level.

ICU

Franciscan St. James Health-Olympia Fields is currently approved to operate 25 ICU beds, and through this Application for Permit the applicants are seeking approval to increase to 31 ICU beds to accommodate a portion of the current patient volume at Franciscan St. James Health-Chicago Heights. Specifically, during the two-year period ending December 31, 2014, 8,725 ICU patient days of care were provided at FSJ-OF, resulting in an ADC of 11.95 patients. During the same period, 5,918 ICU patient days of care were provided at FSJ-CH, resulting in an ADC of 8.11 patients. For planning purposes, the applicants are anticipating that 80% of the FSJ-CH volume, or 2,367 (5,918 ÷ 2 X 80%) patient days will be accommodated at FSJ-OF, an ADC of 6.49 patients. As a result, an ICU ADC of 18.44 ICU patients (11.95 + 6.49) is anticipated following the discontinuation of FSJ-CH, requiring 31 beds at a 60% target occupancy level.

UNNECESSARY DUPLICATION/MAL-DISTRIBUTION

A total of thirty-three ZIP Code areas are located partially or entirely within a 30-minute drive (MapQuest) of Franciscan St. James Health-Olympia Fields (FSJ-OF). Those ZIP Codes are identified in the table below.

60401	60430	60466
60406	60432	60468
60409	60433	60471
60411	60438	60473
60417	60441	60475
60419	60442	60476
60422	60443	60477
60423	60448	60478
60426	60449	60633
60428	60451	60658
60429	60452	60827

The combined 2015 population of the 33 ZIP Code areas is 813,613(GeoLytics, Inc.).

There are five hospitals located within a 30-minute drive (MapQuest, adjusted, 11/12/15 11AM) that provide Medical/Surgical, ICU, and Obstetrics services. They are:

Advocate South Suburban Hospital Hazel Crest	10 min.	4.2 miles
St. James Health-Chicago Heights* Chicago Heights	14 min.	4.5 miles

ATTACHMENT 20d

Ingalls Memorial Hospital		
Harvey	17 min.	7.7 miles
MetroSouth Medical Center		
Blue Island	20 min.	12.4 miles
Silver Cross Hospital		
New Lenox	26 min.	19.2 miles

*COE filed to discontinue service

Mal-Distribution of Obstetrics Services-(to be established)

The hospitals above (excluding St. James-Chicago Heights) are approved to operate a total of 97 obstetrics beds, resulting in a ratio of one bed per 8,388 area residents. State-wide, there are 2,689 approved obstetrics beds to serve a population of approximately 12.88M, resulting in a ratio of one bed per 4,790 residents. As a result, the area located within 30 minutes of St. James-Olympia Fields suffers from a mal-distribution (lack of) of obstetrics beds.

As a provider of community hospital services in the Southland region, it is appropriate for Franciscan Alliance, Inc. to provide obstetrics services. Historically, Franciscan Alliance, Inc. has provided those services through Franciscan St. James Health -Chicago Heights (FSJ-CH). The FSJ-CH 22-bed obstetrics unit will be discontinued upon the establishment and opening of the proposed unit at FSJ-OF. The proposed unit will provide approximately half the number of beds as the unit proposed to be discontinued.

Mal-Distribution of Medical/Surgical Services (to be expanded)

The hospitals above (excluding St. James-Chicago Heights, but including St. James-Olympia Fields) are approved to operate a total of 1,055 Medical/Surgical beds, resulting in a ratio of one bed per 771 area residents. State-wide, there are 20,522 approved Medical/Surgical beds to serve a population of approximately 12.88M, resulting in a ratio of one bed per 628 residents.

Mal-Distribution of ICU Services (to be expanded)

The hospitals above (excluding St. James-Chicago Heights, but including St. James-Olympia Fields) are approved to operate a total of 126 ICU beds, resulting in a ratio of one bed per 6,457 area residents. State-wide, there are 3,510 approved ICU beds to serve a population of approximately 12.88M, resulting in a ratio of one bed per 3,670 residents. As a result, the area located within 30 minutes of St. James-Olympia Fields suffers from a mal-distribution (lack of) of ICU beds.

Because it is anticipated that many of the patients that would have otherwise used the Chicago Heights ICU, Medical/Surgical and Obstetrics units will be admitted to the Olympia Fields hospital (please see ATTACHMENT 15), it is not anticipated that the proposed establishment will cause any area hospitals to experience a substantial decreases in utilization.

STAFFING

All relevant clinical and professional staffing for the proposed Medical/Surgical, ICU and Obstetrics beds will be provided. As discussed elsewhere in this document, Franciscan Alliance, Inc. will discontinue Franciscan St. James Health-Chicago Heights, including its inpatient units.

FSJ-CH currently staffs approximately 117 of its Medical/Surgical beds, and its full complement of 20 and 22 ICU and Obstetrics beds, respectively. While the number of approved Medical/Surgical beds at FSJ-OF will increase by only 24 beds, the number of staffed Medical/Surgical beds will increase by 69, from approximately 88 to 157. Management believes that upon the completion of the proposed project, normal attrition that will occur during the project, and the associated discontinuation of FSJ-CH, virtually all FSJ-CH personnel assigned to the Medical/Surgical units, the Obstetrics unit, and the ICU will be offered comparable positions at FSJ-OF. As a result, difficulties in staffing these units at FSJ-OF are not anticipated. Should any positions on the proposed unit go unfilled by existing employees, normal means of recruitment, including advertising in newspapers and professional journals will be used to attract highly-qualified personnel.

PERFORMANCE REQUIREMENTS

The proposed project is in compliance with the performance requirements for Medical/Surgical and ICU beds. The performance requirement for an obstetrics unit located in a MSA is a minimum of twenty beds. Fewer than twenty beds are being proposed, consistent with anticipated utilization. Had twenty obstetrics beds been included in the project, documentation of an ability to operate those beds at the 75% target occupancy rate could not be provided.

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January 6, 2016

Illinois Health Facilities
and Services Review Board
Springfield, IL

To Whom It May Concern:

Please be advised that it is the anticipation of the applicants that the obstetrics unit proposed to be established and the Medical/Surgical units and the ICU to be modernized at Franciscan St. James Health-Olympia Fields will operate at or above the IHFSRB's target utilization rate by the second year of operation, following the opening of the unit.

Sincerely,

Arnold Kimmel

Arnold Kimmel
CEO

Notarized:

OFFICIAL SEAL
MARGARET L HARRIS
NOTARY PUBLIC - STATE OF ILLINOIS
MY COMMISSION EXPIRES:05/20/18

Margaret L. Harris
January 6, 2016

ATTACHMENT 20h

PLANNING AREA NEED

The applicants propose the establishment of a 14-bed comprehensive physical rehabilitation unit (rehabilitation unit) at Franciscan St. James Health-Olympia Fields (FSJ-OF). Upon the opening of that unit, the 30-bed rehabilitation unit located at Franciscan St. James Health-Chicago Heights (FSJH-CH) will cease operation, consistent with the Certificate of Exemption application filed concurrent to the filing of this Certificate of Need application. As a result, the planning area's comprehensive physical rehabilitation inventory will be reduced by 16 beds.

The primary purpose for the establishment of the proposed rehabilitation unit is to provide a necessary service to residents of the service area and the communities that have traditionally looked to FSJ-CH for comprehensive physical rehabilitation services. The table on the following page identifies each ZIP Code area contributing 2.0%+ of the admissions to the two hospitals during 2014. Of note is the fact that 10 of the 13 identified ZIP Code areas are located within 30 minutes of FSJ-OF, and that those 10 ZIP Code areas accounted for 73.1% of the admissions.

ZIP Code	Primary Community	%	Cum. %
60411*	Chicago Heights	27.0%	27.0%
60466*	Park Forest	11.5%	38.5%
60443*	Matteson	8.0%	46.5%
60471*	Richton Park	6.2%	52.7%
60417*	Crete	5.3%	58.0%
60475*	Steger	4.2%	62.2%
60430*	Homewood	3.6%	65.8%
60425	Glenwood	3.0%	68.8%
60461	Olympia Fields	3.0%	71.7%
60478*	Country Club Hills	2.7%	74.4%
60401*	Beecher	2.4%	76.8%
~~60449*~~	~~Bedford Park~~	2.3%	79.1%
60484	University Park	2.0%	81.1%
	other, <2.0%	18.9%	100.0%

*in service area identified in ATTACHMENT 12

Projected rehabilitation unit utilization, as discussed below is based completely on the historical utilization at Franciscan St. James Health-Chicago Heights' rehabilitation unit, and for planning purposes it is assumed that FSJ-CH's entire caseload will be accommodated at FSJ-OF. Historically, the vast majority of FSJ-OF's patients in need of comprehensive physical rehabilitation services have been referred or transferred to FSJ-CH. No assumption that patients will be "attracted from" other hospitals is incorporated into the bed need projection. As a result, the patient origin of the proposed rehabilitation unit is expected to be very similar to that of the combined service area of FSJ-CH and FSJ-OF.

During the two year period ending December 31, 2014 an average of 4,154 patient days of care were provided on the SJH-CH rehabilitation unit, resulting in an average daily census of 11.38 patients. As noted above, projected utilization of the proposed SJH-OF rehabilitation unit is based exclusively on the historical utilization of the FSJ-CH rehabilitation unit. The HFSRB-adopted occupancy target rate of 85% was applied to the historical average daily census to identify a need for the proposed 14 beds.

UNNECESSARY DUPLICATION/MALDISTRIBUTION

A total of thirty-three ZIP Code areas are located partially or entirely located within a 30-minute drive (MapQuest) of Franciscan St. James Health-Olympia Fields. Those ZIP Codes are identified in the table below.

60401	60430	60466
60406	60432	60468
60409	60433	60471
60411	60438	60473
60417	60441	60475
60419	60442	60476
60422	60443	60477
60423	60448	60478
60426	60449	60633
60428	60451	60658
60429	60452	60827

The combined 2015 population of the 33 ZIP Code areas is 813,613(GeoLytics, Inc.).

There are two hospitals located within a 30-minute drive (MapQuest, adjusted, 11/12/15 11AM) that provide comprehensive rehabilitation services. They are:

St. James Health-Chicago Heights*		
Chicago Heights	14 min.	4.5 miles
Ingalls Memorial Hospital		
Harvey	17 min.	7.7 miles

*COE filed to discontinue service

Ingalls Memorial Hospital is approved to provide 46 comprehensive physical rehabilitation beds. As a result, within the area identified above, upon the discontinuation of the category of service at Franciscan St. James Health-Chicago Heights, beds will be provided at the rate of 1 bed per 17,687 residents. State-wide, there are 1,734 approved comprehensive physical rehabilitation beds to serve a population of approximately 12.88M, resulting in a ratio of one bed per 7,428 residents. As a result, the area located within 30 minutes of St. James Health-Olympia Fields will suffer from a mal-distribution (lack of) of comprehensive physical beds upon the discontinuation of the service at Franciscan St. James-Chicago Heights.

Further, and because projected utilization of the proposed 14-bed unit is based solely on the historical utilization of the Franciscan St. James Health-Chicago Heights unit that will be discontinued, the proposed establishment of the service will not lower the utilization rate of other area providers below the HFSRB's occupancy standard, nor will it lower the utilization of other area hospitals.

STAFFING

All relevant clinical and professional staffing for the proposed comprehensive physical rehabilitation unit will be provided. As discussed elsewhere in this document, Franciscan Alliance, Inc. will discontinue Franciscan St. James Health-Chicago Heights, including its rehabilitation unit. It is anticipated that all, or nearly all staff of the FSJ-CH rehabilitation unit will be offered comparable positions on the proposed rehabilitation unit; and it is further anticipated that all, or nearly all of the FSJ-CH unit's staff will accept positions at FSJ-OF. Should any positions on the proposed unit go unfilled by existing employees, normal means of recruitment, including advertising in newspapers and professional journals will be used to attract highly-qualified personnel.

Personnel possessing the professional qualifications identified in Section 1110.630.f)2 support the rehabilitation unit at FSJ-CH, and as noted above, it is anticipated that in virtually all instances, personnel staffing the FSJ-CH unit will staff the proposed FSJ-OF unit.

ATTACHMENT 21f

PERFORMANCE REQUIREMENTS

The proposed project involves the establishment of 14-bed comprehensive physical rehabilitation unit. The associated performance requirement is 16 beds. A 14-bed unit is being proposed to be absolutely consistent with the historical utilization of the service at Franciscan St. James Health-Chicago Heights, which will be discontinued.

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January 6, 2016

Illinois Health Facilities
and Services Review Board
Springfield, IL

To Whom It May Concern:

Please be advised that it is the anticipation of the applicants that the comprehensive physical rehabilitation unit proposed to be established at Franciscan St. James Health-Olympia Fields will operate at or above the IHFSRB's target utilization rate by the second year of operation, following the opening of the unit.

Sincerely,

Arnold Kimmel

Arnold Kimmel
CEO

Notarized:

OFFICIAL SEAL
MARGARET L HARRIS
NOTARY PUBLIC - STATE OF ILLINOIS
MY COMMISSION EXPIRES:05/20/18

Margaret L. Harris
January 6, 2016

ATTACHMENT 21h

CLINICAL SERVICE AREAS OTHER THAN CATEGORIES OF SERVICE

SERVICE	# Existing Key Rooms	# Proposed Key Rooms
ED Stations	22	32
LDRs	0	3
C-Section Rooms	0	2
ORs-General	7	7
ORs-Open Heart	2	1
ORs-Urological	0	1
Pre-Op Stations	14	14
Phase 1 Recovery	12	18
Phase 2 Recovery	9	27
General R & F Rooms	5	5
CT Rooms	2	3
MRI Rooms	2	3
Ultrasound Rooms	4	7
Critical Decisions (CDU)	0	18

The proposed project includes the modernization of eleven clinical areas for which the HFSRB has adopted utilization targets. In all instances, services are being modernized consistent with the applicable utilization standard.

The remainder of this ATTACHMENT identifies the manner in which utilization is projected for each of the services identified in the table above. Please note that projected utilization is based on historical utilization, exclusively, and in most cases assumes a portion of Franciscan St. James Health-Chicago Heights historical utilization to be accommodated by Franciscan St. James Health-Olympia Fields.

Emergency Department

FSJ-OF's Emergency Department will be modernized to accommodate 32 treatment bays, consistent with historical utilization.

During the two-year period ending December 31, 2014 FSJ-OF averaged 35,264 ED patients, annually. Based on discussions with ED personnel, and the current EMS practice of transporting patients with chest pain to FSJ-OF (cardiology services were consolidated at FSJ-OF approximately 15 years ago), it is anticipated that approximately 70% of the current FSJ-CH caseload will be accommodated at FSJ-OF upon the discontinuation of FSJ-CH. During the two-year period ending December 31, 2014 FSJ-CH averaged 41,095 ED patients, annually. It is anticipated that approximately 28,750 patients (70%) that would have utilized the ED at FSJ-CH in the past will seek care at FSJ-OF, resulting in a projected caseload of approximately 64,000 annual visits (35,264 + 28,750 = 64,014), supporting a need for 32 stations.

Critical Decisions Unit (CDU)

FSJ-OF will operate without an observation unit proximate to the inpatient units. Rather, a Critical Decisions Unit (CDU) will be developed adjacent to the ED for non-obstetrics patients that have traditionally occupied inpatient beds at FSJ-OF and FSJ-CH, and classified as "observation" patients. During the two year period ending December 31, 2015, there were 9,541 such patients at FSJ-CH and 12,137 at FSJ-OF. For planning purposes, the following assumptions were made:

- 70% of FSJ-CH's patients would utilize the service at FSJ-OF
- the number of traditional FSJ-OF patients would remain constant
- the average length of stay for CDU patients will be 14 hours
- an 85% occupancy target would be appropriate for this service

Using the assumptions identified above, a need for eighteen CDU stations was identified:

annual FSJ-CH observation patients X .70:	3,339
annual FSJ-OF observation patients:	6,068
	9,407
14 hour average length of stay:	131,698
hours of required care per day:	361
÷ 24 hours = station need at 100% occ.	15.04
station need at 85% occupancy:	18

Surgery

Following modernization, FSJ-OF's surgical suite will consist of nine operating rooms. One OR will be designated and reserved for open heart surgery, and one will be used for urological procedures, exclusively. The remaining seven operating rooms will be designated as "general" ORs, and used for all other surgical specialties.

During the two-year period ending December 31, 2014, 6,578 hours were used in the FSJ-OF surgical suite for non-open heart or urological procedures (including room turn-over), an average of 3,289 hours per year. During the same period, 16,294 hours were used in the FSJ-CH surgical suite for non-urological procedures (open heart surgery is not performed at FSJ-CH), an average of 8,147 hours. For planning purposes, and based on discussions with appropriate personnel, it is anticipated that 80% of the FSJ-CH caseload, or 6,518 annual hours of OR time will be accommodated at FSJ-OF, resulting in 9,807 projected hours of general OR usage (3,289 + 6,518 = 9,807). Using the HFSRB standard of 1,500 hours per OR, a need for seven general operating rooms was identified.

Pre-Op & Recovery

Fourteen pre-op, nine Phase I recovery and 27 Phase II recovery stations will be located contiguous to the surgical suite to maximize ease of patient movement, and particularly the movement of surgical outpatients. The HFSRB does not have a standard for pre-op stations, and the proposed project is being planned consistent with the standard of four recovery stations per operating room.

Imaging

The imaging department will undergo modernization and expansion to selected diagnostic modalities. No changes are being made to mammography, nuclear medicine and diagnostic angiography, and consistent with a technical assistance conference with HFSRB staff, those modalities are not addressed in this application.

1. General Radiography and Fluoroscopy

Following the completion of the proposed project, five general radiography/fluoroscopy units will be located at FSJ-OF. During the two year period ending December 31, 2015, an average of 35,925 procedures per year were performed at FSJ-OF. For planning purposes, it is anticipated that 85% (11,272) of the average annual inpatient procedures and 50% (9,432) of the annual average outpatient procedures performed during that period at FSJ-CH will be accommodated at FSJ-OF. The projected annual volume of 55,966 (35,925 + 11,272 + 9,432) procedures following the completion of the proposed project will support the five proposed units, based on the HFSRB's standard of 8,000 procedures per room.

2. CT

Following the completion of the proposed project, three CT units will be located at FSJ-OF, one of which will be a PET/CT.

PET/CT scans are currently provided by an outside vendor through a mobile (trailer) unit. Through the proposed project, one of the hospital's existing CT units will be replaced with a PET/CT unit, at which time the contract with the outsider vendor will be terminated. It is anticipated that in excess of 95% of the procedures performed on the PET/CT unit will be CT, rather than PET/CT scans.

During the two year period ending December 31, 2015, an average of 14,612 procedures per year were performed at FSJ-OF. For planning purposes, it is anticipated that 80% (2,813) of the average annual inpatient procedures and 70% (4,727) of the annual average outpatient procedures performed during that period at FSJ-CH will be accommodated at FSJ-OF. The projected annual volume of 21,401 (14,612 + 2,813 + 4,727) procedures following the completion of the proposed project will support the three proposed units, based on the HFSRB's standard of 7,000 procedures per unit.

3. MRI

Following the completion of the proposed project, three MRI units will be located at FSJ-OF. During the two year period ending December 31, 2015, an average of 5,229 procedures per year were performed at FSJ-OF. For planning purposes, it is anticipated that 80% (645) of the average annual inpatient procedures and 70% (814) of the annual average outpatient procedures performed during that period at FSJ-CH will be accommodated at FSJ-OF. The projected annual volume of 6,688 (5,229 + 645 + 814) procedures following the completion of the proposed project will support the three proposed units, based on the HFSRB's standard of 2,500 procedures per room.

4. Ultrasound

Following the completion of the proposed project, seven ultrasound units will be located at FSJ-OF. During the two year period ending December 31, 2015, an average of 9,637procedures per year were performed at FSJ-OF. For planning purposes, it is anticipated that 80% (4,199) of the average annual inpatient procedures and 70% (5,473) of the annual average outpatient procedures performed during that period at FSJ-CH will be accommodated at FSJ-OF. The projected annual volume of 19,308(9,637 + 4,199 + 5,473) procedures following the completion of the proposed project will support the seven proposed units, based on the HFSRB's standard of 3,100 procedures per unit.

LDRs and C-Section Rooms

Through this Certificate of Need application, the applicants propose the establishment of an obstetrics program at FSJ-OF upon the discontinuation of the obstetrics program at FSJ-CH. For planning purposes, and based on discussions with appropriate personnel, it is anticipated that approximately 85% of FSJ-CH's obstetrics caseload will be accommodated at FSJ-OF, and projected utilization at FSJ-OF is based on those patients, exclusively. During the two-year period ending December 31, 2014, a total of 1,937 births occurred at FSJ-CH, an average of 968 births a year. Accordingly, and consistent with HFSRB standards, three LDRs and two C-Section rooms will be provided.

MOODY'S
INVESTORS SERVICE

Rating Action: Moody's revises Franciscan Alliance (f.k.a Sisters of St. Francis Health Services) (IN) outlook to stable; Aa3 affirmed

Global Credit Research - 26 Mar 2015

$966.2M affected

New York, March 26, 2015 -- Moody's Investors Service affirms the Aa3 ratings assigned to Franciscan Alliance's (f.k.a Sisters of St. Francis Health Services) bonds issued through the Indiana Finance Authority. The rating outlook has been revised to stable from negative. Our action affects $966.2 million of rated debt.

SUMMARY RATING RATIONALE

The revision of the rating outlook to stable from negative reflects a strong rebound of all operating metrics, which translated into a notable strengthening of the balance sheet. The affirmation of the Aa3 rating is based on Franciscan Alliance's (Franciscan) broad geographic diversity and generally well positioned individual hospitals with leading market share in key markets, healthy investment portfolio and well established leadership with centralized business functions. The System's challenges include higher-than-average indirect debt, expectations that capital spending will remain high, and tangible competition in most markets.

OUTLOOK

The revision of the rating outlook to stable from negative reflects the significant improvement in financial performance and cash flow Franciscan demonstrated in FY 2014, with sound performance expected to continue in coming years.

WHAT COULD MAKE THE RATING GO UP

• Sustained improvement in operating and operating cash flow margins

• Reduction of indirect liabilities or growth of balance sheet resources that provide for a healthier cushion of comprehensive liabilities more consistent with Aa2 medians

WHAT COULD MAKE THE RATING GO DOWN

• Reversal of current margins that leads to marked narrowing of all operating metrics

• Material weakening of balance sheet resources

• Significant additional debt which is not supported by additional cash and cashflow

• Dilutive acquisition

• Material reduction or abatement of the Medicaid provider fee program that is not quickly absorbed

OBLIGOR PROFILE

Franciscan Alliance is a 13 hospital integrated health system, with a sizeable employed physician practice (667 physicians and 115 advanced practice providers) and a significant infrastructure of ambulatory settings and information systems that provide a platform for population health management. The System serves a large region, with four contiguous provider markets spanning the footprint between Indianapolis IN and southern tier of Chicago, IL.

LEGAL SECURITY

Bonds are secured under a "corporate parent" legal structure whereby the security for the bonds is a revenue pledge of the parent corporation only. However, the parent corporation includes the vast majority of the System's revenues (93%) and assets (97%). The parent also has the power to cause Designated Group Affiliates to upstream assets necessary to make debt service payments. Currently there are no Designated Group Affiliates.

In addition, the documents provide the System significant flexibility to remove entities as Designated Group Affiliates without triggering a default. In addition, under the restricted affiliate structure, the potential for future dilution of the Credit Group is possible, increasing risk to bondholders.

USE OF PROCEEDS

Not applicable

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was Not-for-Profit Healthcare Rating Methodology published in March 2012. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

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MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

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FITCH AFFIRMS FRANCISCAN ALLIANCE, IN REVS AT 'AA'; OUTLOOK STABLE

Fitch Ratings-Chicago-20 March 2015: Fitch Ratings has affirmed the 'AA' rating on the following revenue bonds issued on behalf of Franciscan Alliance (Franciscan):

--$213,010,000 Indiana Finance Authority health system revenue bonds series 2009A;
--$154,345,000 Indiana Finance Authority health system revenue bonds series 2008F-H;
--$500,315,000 Indiana Finance Authority health system revenue refunding bonds series 2008A-C/I/J;
--$84,675,000 Indiana Health and Educational Facility Financing Authority health system revenue refunding bonds series 2006E.

The Rating Outlook is Stable.

SECURITY

Bond payments are secured by a pledge of the unrestricted receivables of the obligated group (OG).

KEY RATING DRIVERS

STRONG PROFITABILITY: Operating profitability rebounded strongly in fiscal 2014 with operating margin increasing to 7.8% in fiscal 2014 from 1.4% in fiscal 2013. Prior to the compression in fiscal 2013, profitability had been historically solid with operating margin averaging 4.8% between fiscal 2009 and 2012.

MODERATE DEBT BURDEN: Franciscan's debt burden remains moderate with MADS equal to 2.4% of fiscal 2014 operating revenue. The moderate debt burden combined with strong operating profitability produced robust 7.2x MADS coverage by EBITDA in fiscal 2014.

SOLID LIQUIDITY: Liquidity metrics are solid with 341.5 days cash on hand, 33.9x cushion ratio and 199.7% cash to debt, exceeding Fitch's 'AA' category medians of 277.1 days, 26.5x and 178.5%, respectively.

LEADING MARKET SHARE: All four operating regions maintain leading market positions, however operating regions remain competitive.

RATING SENSITIVITIES

MAINTAINED CREDIT PROFILE: Fitch expects that Franciscan will maintain its strong credit profile, including liquidity, profitability and coverage metrics that are consistent with the 'AA' category.

CREDIT PROFILE

Franciscan, headquartered in Mishawaka, IN, operates 13 hospitals in four distinct regional markets along the I-65 corridor between Chicago and Indianapolis. Total consolidated operating revenues equaled $2.7 billion in fiscal 2014. Fitch's analysis is based upon Franciscan's consolidated financial statements. The OG and obligated affiliates comprise over 90% of consolidated total assets and consolidated operating revenues. Audited financial statements were not yet available for fiscal 2014,

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and therefore Fitch's fiscal 2014 analysis is based upon the system's consolidated unaudited financial statements.

STRONG PROFITABILITY

After a compression in fiscal 2013, operating profitability rebounded in fiscal 2014 with operating and operating EBITDA margins increasing to a robust 7.8% and 14.8%, respectively, from 1.4% and 8.2% in fiscal 2013. Prior to fiscal 2013, operating profitability had been consistently strong with operating and operating EBITDA margins averaging 4.8% and 11.7% between fiscal years 2009 and 2012. The improvement in fiscal 2014 was primarily due to a performance improvement plan initiated in fiscal 2013 including labor productivity, revenue cycle, supply chain, clinical documentation and physician practice improvement initiatives which more than offset declining volume trends.

Fiscal 2014 profitability was bolstered by the resumption of Indiana's hospital assessment fee (HAF) program in fiscal 2014. The HAF program was first enacted in 2012 through July 1, 2013 and was renewed in 2014 retroactive back to July 2013. Franciscan received $37.2 million of HAF revenue in fiscal 2014, including $11.7 million related to fiscal 2013. Excluding the revenue related to fiscal 2013, operating profitability remained solid in fiscal 2014 with operating and operating EBITDA margins of 7.4% and 14.4%, exceeding Fitch's 'AA' category medians of 3.9% and 11%. Including the HAF revenue received in fiscal 2014 attributable to fiscal 2013 increases operating and operating EBITDA margins to 1.8% and 8.6% in fiscal 2013. Management is budgeting for operating and operating EBITDA margins of 4% and 12.3% in fiscal 2015 which Fitch views as reasonable.

MODERATE DEBT BURDEN

Franciscan's debt burden is relatively light with MADS equal to 2.4% of operating revenues in fiscal 2014 relative to Fitch's 'AA' category median of 2.6%. The moderate debt burden and strong cash flow generation produced solid debt service coverage with MADS coverage by EBITDA and operating EBITDA equal to 7.2x and 6.2x, respectively, in fiscal 2014, easily exceeding Fitch's 'AA' category medians of 5.4x and 4.4x.

SOLID LIQUIDITY

Liquidity metrics are solid relative to both operating expenses and debt burden. Unrestricted cash and investments increased 26% since fiscal 2012 to $2.2 billion at Dec. 31, 2014. This equates to 341.5 days cash on hand, 33.9x cushion ratio and 199.7% cash to debt, exceeding Fitch's 'AA' category medians of 277.1 days, 26.5x and 178.5%.

LEADING MARKET SHARE

Franciscan holds leading market share positions in each of its four regional markets. However, the regional markets remain competitive. The four regional markets include Central Indiana (CIR), Northern Indiana (NIR), Western Indiana (WIR) and South Suburban Chicago (SSCR). SSCR has historically been dilutive to consolidated performance, but management initiated a turnaround program that materially increased SSCR's profitability in fiscal 2014. Two of the operating regions, CIR and NIR, accounted for 71.3% of net patient revenue and 73.5% of operating EBITDA in fiscal 2014.

DEBT PROFILE

Franciscan had $1.1 billion of total debt outstanding at Dec. 31, 2014. The debt portfolio is comprised of 51% underlying fixed rate bonds, 37% variable rate demand bonds and 12% direct placement floating rate notes. The system is counterparty to four fixed payor swaps with a total notional amount of $406 million, effectively converting 39% of its bonds to synthetic fixed rate. Franciscan had $31 million of collateral posted at Dec. 31, 2014 related to the swaps.

DISCLOSURE

Franciscan covenants to provide annual disclosure within 120 days of fiscal year-end and quarterly disclosure within 45 days of fiscal quarter end. Disclosure is posted to the Municipal Securities Rulemaking Board's EMMA website.

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Additional information is available at 'www.fitchratings.com'.

Applicable Criteria and Related Research:
--'Revenue Supported Rating Criteria' (June 16, 2014);
--'Nonprofit Hospitals and Health Systems Rating Criteria' (May 30, 2014).

Applicable Criteria and Related Research:
Revenue-Supported Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=750012
Not-for-Profit Hospitals and Health Systems Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=779548

PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

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Franciscan Alliance, Inc. and Affiliates

Consolidated Financial Statements
December 31, 2014 and 2013

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Franciscan Alliance, Inc. and Affiliates
Index
December 31, 2014 and 2013

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Independent Auditor's Report

Board of Trustees
Franciscan Alliance, Inc.
Mishawaka, Indiana

We have audited the accompanying consolidated financial statements of Franciscan Alliance, Inc. and Affiliates (collectively referred to as the "Corporation"), which comprise the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of operations and 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 Corporation'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 Corporation'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 the Corporation at December 31, 2014 and 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

April 24, 2015

PricewaterhouseCoopers LLP, One North Wacker, Chicago, IL 60606
T: (312) 298 2000, F: (312) 298 2001, www.pwc.com/us

Franciscan Alliance, Inc. and Affiliates
Consolidated Balance Sheets
December 31, 2014 and 2013
(In thousands)

	2014	2013
Assets		
Current assets		
Cash and cash equivalents	$ 55,757	$ 42,371
Short-term investments	129,674	222,535
Patient accounts receivable, net of allowance for doubtful accounts of $27,878 in 2014 and $42,994 in 2013	298,524	312,109
Inventories of supplies	43,238	37,936
Other current assets	97,258	74,866
Total current assets	624,451	689,817
Board designated and other investments	2,246,231	1,872,509
Property, plant, and equipment, net	1,557,201	1,587,214
Investments in unconsolidated affiliates	18,522	23,355
Goodwill	24,541	24,541
Intangible assets, net of accumulated amortization of $16,230 in 2014 and $16,412 in 2013	6,608	11,661
Other assets	112,527	105,238
Total assets	$ 4,590,081	$ 4,314,335

	2014	2013
Liabilities and Net Assets		
Current liabilities		
Current portion of long-term debt	$ 23,693	$ 22,029
Accounts payable and accrued expenses	244,547	193,706
Accrued payroll and related expenses	113,497	116,456
Estimated third-party payor settlements	25,172	29,043
Total current liabilities	406,909	361,234
Long-term debt, net of current portion	1,077,544	1,097,229
Fair value of interest rate swap contracts	84,986	58,491
Accrued pension liability	374,176	107,269
Estimated insurance liabilities	135,838	130,293
Other liabilities	49,635	46,580
Total liabilities	2,129,088	1,801,096
Net assets		
Unrestricted	2,392,237	2,445,725
Noncontrolling interests in consolidated affiliates	35,231	30,791
Total unrestricted net assets	2,427,468	2,476,516
Temporarily restricted	16,474	19,415
Permanently restricted	17,051	17,308
Total net assets	2,460,993	2,513,239
Total liabilities and net assets	$ 4,590,081	$ 4,314,335

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

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Franciscan Alliance, Inc. and Affiliates
Consolidated Statements of Operations and Changes in Net Assets
Years Ended December 31, 2014 and 2013
(In thousands)

	2014	2013
Unrestricted revenues, gains, and other support		
Patient service revenue, net of contractual allowances and discounts	$ 2,510,108	$ 2,425,218
Provision for doubtful accounts	(84,799)	(103,921)
Net patient service revenue	2,425,309	2,321,297
Capitation and premium revenue	109,029	118,670
Other operating revenue	182,781	152,211
Equity in (losses) earnings of investments in unconsolidated affiliates	(1,223)	6,254
Net unrealized investment gains	2,260	8,408
Net assets released from restrictions used for operations	103	1,709
Total unrestricted revenues, gains, and other support	2,718,259	2,608,549
Operating expenses		
Salaries	972,967	1,018,658
Employee benefits	224,597	316,765
Physicians' fees	52,232	56,237
Utilities	45,202	43,158
Repairs and maintenance	44,452	39,949
Drugs and pharmaceuticals	128,482	122,252
Medical supplies	186,527	195,546
Insurance	32,564	29,220
Purchased services	257,361	259,997
Other supplies and expenses	368,266	313,000
Interest	35,726	36,793
Depreciation and amortization	154,154	140,287
Total operating expenses	2,502,530	2,571,862
Operating income	215,729	36,687
Other income (expense)		
Investment income	64,169	67,203
Net unrealized investment gains on trading securities	9,354	117,126
Net unrealized (losses) gains and periodic settlements on interest rate swap contracts	(40,397)	29,486
Gain on sale/disposal of assets	460	2,504
Net assets released from restrictions	3,351	2,680
Contributions	3,695	1,160
Other, net	(4,655)	(12,807)
Total other income (expense), net	35,977	207,352
Excess of revenues over expenses	$ 251,706	$ 244,039

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

Franciscan Alliance, Inc. and Affiliates
Consolidated Statements of Operations and Changes in Net Assets (continued)
Years Ended December 31, 2014 and 2013
(In thousands)

	2014	2013
Unrestricted net assets, controlling interest		
Excess of revenues over expenses	$ 234,914	$ 224,305
Change in pension and postretirement benefits other than net periodic pension costs included in accrued pension liability	(293,541)	319,727
Other, net	(1)	(4,612)
Contributions of property, plant, and equipment	250	74
Net assets released from restrictions used for purchase of property, plant, and equipment	4,890	1,859
(Decrease) increase in unrestricted net assets, controlling interest	(53,488)	541,353
Unrestricted net assets, noncontrolling interest		
Excess of revenues over expenses	16,792	19,734
Distributions	(12,352)	(17,319)
Increase in unrestricted net assets, noncontrolling interest	4,440	2,415
Temporarily restricted net assets, controlling interest		
Contributions	5,446	5,154
Investment income	132	194
Net assets released from restrictions	(3,454)	(4,389)
Net assets released from restrictions used for purchase of property, plant, and equipment	(4,890)	(1,859)
Net unrealized investment (losses) gains	(7)	93
Other, net	(168)	2,663
(Decrease) increase in temporarily restricted net assets, controlling interest	(2,941)	1,856
Permanently restricted net assets, controlling interest		
Contributions	115	16
Investment income	288	175
Net unrealized investment gains	1	247
Other, net	(661)	5,008
(Decrease) increase in permanently restricted net assets, controlling interest	(257)	5,446
(Decrease) increase in net assets	(52,246)	551,070
Net assets, beginning of the year	2,513,239	1,962,169
Net assets, end of the year	$ 2,460,993	$ 2,513,239

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

Franciscan Alliance, Inc. and Affiliates
Consolidated Statements of Cash Flows
Years Ended December 31, 2014 and 2013
(In thousands)

	2014	2013
Cash flows from operating activities		
(Decrease) increase in net assets	$ (52,246)	$ 551,070
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation of plant, property, and equipment	148,465	133,767
Amortization of bond discounts, deferred financing costs, and other intangible assets	5,689	6,520
Provision for doubtful accounts	84,799	103,921
Gain on sale of investments in unconsolidated affiliates	(16,638)	-
Loss (gain) on sale/disposal of assets	16,179	(2,504)
Net investment gains	(75,783)	(192,737)
Net unrealized losses (gains) on interest rate swap contracts	26,495	(43,717)
Distributions to noncontrolling interests in consolidated affiliates, net of contributions	12,352	17,319
Distributions from unconsolidated affiliates	5,769	6,481
Equity in losses (earnings) of investments in unconsolidated affiliates	1,223	(6,254)
Restricted contributions and investment income	(5,981)	(5,539)
Change in pension and postretirement benefits other than net periodic pension costs included in accrued pension liability	293,541	(319,727)
Changes in operating assets and liabilities:		
Patient accounts receivable	(71,215)	(79,788)
Inventories of supplies	(5,302)	2,102
Other assets	(29,371)	39,105
Accounts payable and accrued expenses	35,157	(37,994)
Accrued payroll and related expenses	(2,959)	5,716
Estimated third-party payor settlements	(3,871)	(5,377)
Estimated insurance liabilities	5,545	161
Accrued pension liability	(26,634)	367
Other liabilities	3,055	(11,364)
Total adjustments	400,515	(389,542)
Net cash provided by operating activities	348,269	161,528
Cash flows from investing activities		
Purchases of investments	(5,927,429)	(6,079,108)
Proceeds from sale of investments	5,722,352	6,095,595
Purchases of property, plant, and equipment	(115,025)	(146,877)
Proceeds from sale of property, plant, and equipment	192	5,394
Acquisition of physician practices and other healthcare service organizations	(109)	(2,522)
Proceeds from sale of investments in unconsolidated affiliates	16,764	-
Capital contributions to investment in unconsolidated affiliates	(2,285)	(2,108)
Net cash used by investing activities	(305,540)	(129,626)
Cash flows from financing activities		
Proceeds from issuance of long-term debt	50,000	-
Redemption of long-term debt	(50,000)	-
Principal payments on long-term debt	(22,972)	(22,377)
Distributions to noncontrolling interests in consolidated affiliates, net of contributions	(12,352)	(17,319)
Restricted contributions and investment income	5,981	5,539
Net cash used by financing activities	(29,343)	(34,157)
Net increase (decrease) in cash and cash equivalents	13,386	(2,255)
Cash and cash equivalents, beginning of year	42,371	44,626
Cash and cash equivalents, end of year	$ 55,757	$ 42,371

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

1. Description of Organization and Mission

Organization

Franciscan Alliance, Inc. and Affiliates (collectively referred to as the "Corporation"), under the sponsorship of the Sisters of St. Francis of Perpetual Adoration, Inc., is an Indiana non-profit, Catholic health care system. The Corporation is dedicated to providing comprehensive health care services, including emergency, medical, surgical, behavioral, rehabilitative, and other health services in inpatient and outpatient settings; home health care services; and primary and specialty physician services to communities within four geographic regions in Indiana and Illinois (the "Health Centers"). Additionally, the Corporation has various accountable care organizations and physician hospital managed care networks, a non-profit foundation, and a number of support related divisions and affiliates including a corporate office, a consolidated information technology services division, various back office/management support organizations, a construction company, and a captive insurance company. The Corporation also has various investments in consolidated and unconsolidated affiliates (Note 10). The Corporation is incorporated as a not-for-profit corporation under the laws of Indiana and is a tax-exempt organization as described in Section 501(c)(3) of the Internal Revenue Code (the "Code").

Mission

The Corporation's mission statement is as follows:

Continuing Christ's Ministry in Our Franciscan Tradition

Consistent with its mission, the Corporation provides medical care to all patients regardless of their ability to pay and continually works to enhance the health status of the communities in which it operates. As illustrated in the following summary of quantifiable community benefits, which has been prepared in accordance with the Catholic Health Association of the United States' policy document, the Corporation commits significant resources to provide services intended to benefit the poor and underserved with benefits measured at the total cost net of any offsetting revenues, donations, or other funds used to defray such costs.

	(Unaudited)	
	2014	**2013**
	(in thousands)	
Benefits for the poor and underserved		
Unreimbursed costs of Medicaid and other indigent care programs	$ 89,926	$ 109,995
Cost of charity care provided	91,268	93,614
Other benefits for the poor and underserved	5,434	4,327
Total benefits for the poor and underserved	186,628	207,936
Benefits for the broader community		
Subsidized health services	27,813	41,594
Health professions education	12,414	12,850
Community health improvement services	3,251	3,667
Financial and in-kind contributions	888	923
Research	1,384	1,349
Community building activities	913	1,074
Community benefit operations	226	190
Total benefits for the broader community	46,889	61,647
Total quantifiable community benefits	233,517	269,583
Unreimbursed costs of Medicare	237,326	272,730
Total quantifiable community benefits including unreimbursed costs of Medicare	$ 470,843	$ 542,313

Total quantifiable community benefits including unreimbursed costs of Medicare were approximately 19% and 21% of total operating expenses for the years ended December 31, 2014 and 2013, respectively.

The Corporation also provides a significant amount of uncompensated care to patients which is reported as provision for doubtful accounts in the consolidated statements of operations and changes in net assets and is not reported in the summary of quantifiable community benefits. During the years ended December 31, 2014 and 2013, the Corporation reported approximately $84.8 million and $103.9 million, respectively, as provision for doubtful accounts based on accumulated charges.

Benefits for the poor and underserved include the cost of providing programs and services to persons who are economically poor or are medically indigent and cannot afford to pay for health care services because they have inadequate resources and/or are uninsured or underinsured.

Benefits for the broader community include the costs of providing programs and services aimed at persons and groups for reasons other than poverty. These persons and groups may include needy populations that may not qualify as poor but need special services and support or broader populations who benefit from healthy community initiatives. These programs and services are not intended to be financially self-supporting.

Unreimbursed costs of Medicaid and other indigent care programs represent the cost (determined using a cost to charge ratio) of providing services to beneficiaries of public programs including State Medicaid and indigent care programs in excess of any payments received.

Charity care represents the cost (determined using a cost to charge ratio) of health care services, provided in accordance with the Corporation's charity care and uninsured patient discount policy, for which no or partial reimbursement will be received because of the recipient's inability to pay for those services, as further described in Note 2.

Subsidized health services are net costs for billed services that are subsidized by the Corporation. These include services offered despite a financial loss because they are needed in the community and either other providers are unwilling to provide the services or the services would otherwise not be available in sufficient amount. Examples of services include emergency services, free standing community clinics, hospice care, behavioral health services, prenatal services, women's and children's services, palliative care, and parish nurse programs.

Health professions education includes the unreimbursed cost of training health professionals such as medical residents, nursing students, technicians, and students in allied health professions.

Community health improvement services are activities and services for which no patient bill exists. These services are not expected to be financially self-supporting, although some may be supported by outside grants or funding, which is netted against any amounts reported. Some examples include health education, health fairs, free or low cost health screening, immunization services, prescription medication assistance programs, and other various community outreach programs. The Corporation actively collaborates with community groups and agencies to assist those in need in providing such services.

Financial and in-kind contributions are made by the Corporation on behalf of the poor and underserved to various community agencies. These amounts include funds used for charitable activities as well as resources contributed directly to programs, organizations, and foundations for efforts on behalf of the poor and underserved. In-kind services include hours donated by staff to the community while on work time, overhead expenses of space donated to community groups, and donations of food, equipment, supplies, and other direct costs.

Research includes the unreimbursed cost of clinical and community health research and studies on health care delivery.

Community building activities include the costs of programs that improve the physical environment, promote economic development, enhance other community support systems, provide leadership development skills training, and build community coalitions.

Community benefit operations include costs associated with dedicated staff, community health needs and/or asset assessments, and other costs associated with community benefit strategy and operations.

Unreimbursed costs of Medicare represent the cost (determined using a cost to charge ratio) of providing services primarily to elderly beneficiaries of the Medicare program in excess of any payments received.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Corporation and all wholly owned, majority-owned, and controlled organizations with all significant transactions and accounts between affiliates eliminated in consolidation. Investments in affiliates where the Corporation owns less than or equal to 50% and does not have operational control are recorded under the equity method of accounting unless the Corporation's control or investment percentage is insignificant in which case the Corporation uses the cost method.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management of the Corporation to make assumptions, estimates, and judgments that affect the amounts reported in the consolidated financial statements, including the notes thereto, and related disclosures of commitments and contingencies, if any. The Corporation considers critical accounting policies to be those that require more significant judgments and estimates in the preparation of its consolidated financial statements, including the following: recognition of net patient service revenue, which includes contractual allowances and a provision for doubtful accounts; recorded values of investments and goodwill; reserves for employee health costs and losses and expenses related to professional and general liabilities; and risks and assumptions for measurement of the pension liabilities. Management relies on historical experience and other assumptions believed to be reasonable in making its judgments and estimates. Actual results could differ materially from those estimates.

Cash and Cash Equivalents
Cash and cash equivalents primarily consist of cash, treasuries, and other liquid marketable securities including interest bearing securities with original maturities of three months or less. Funds whose use is limited by Board designation or other restrictions are excluded. The carrying amount of cash and cash equivalents approximates fair value because of the short maturities of these instruments.

Short-Term Investments
Short-term investments primarily consist of certificates of deposit, treasuries, and other highly liquid interest bearing securities with original maturities extending longer than three months. Adequate liquidity is maintained within short-term investments to satisfy daily cash flow needs.

Inventories of Supplies
Inventories, consisting primarily of medical/surgical supplies and pharmaceuticals, are stated at the lower of cost (first-in, first out method) or market value.

Board Designated, Other Investments, and Investment Income
Board designated investments represents investments set aside by the Corporation primarily for future purposes including capital expenditures, acquisitions, improvements, and amounts held for mission programs. The Corporation's Board of Trustees retains control of these investments and may, at its discretion and in certain circumstances, use them for other purposes. Assets limited as to use include assets under bond indenture and swap agreements, investments maintained for the payment of estimated insurance liabilities, and amounts contributed by donors with stipulated restrictions.

Substantially all of the Corporation's board designated and other investments are invested and managed by professional managers in accordance with agreed-upon investment and socially responsible investing guidelines and are held in custody with a financial institution.

Board designated and other investments are measured at fair value, classified as trading securities, and consist of: cash and cash equivalents; U.S. government, state, municipal, and agency obligations; other fixed income securities; equity securities; asset backed securities; index funds, exchange traded funds, and mutual funds; unregistered mutual funds; real estate investment trusts. Board designated and other investments also include alternative investments, consisting of investments in hedge funds, private credit and private equity investments, and real assets, which are generally measured based on their net asset value as a practical expedient for fair value that is further described in Note 4.

Investment earnings consist of dividends, interest, and realized gains and losses. In accordance with industry practice, investment earnings and unrealized gains and losses on assets limited as to use under bond indenture and swap agreements and estimated insurance liability funds are included in other operating revenue in the consolidated statements of operations and changes in net assets. Investment earnings and unrealized gains and losses from all other unrestricted investments and board designated funds are included in other income (expense) in the consolidated statements of operations and changes in net assets. Investment earnings and any associated unrealized gains and losses restricted for specified purposes by donor or legal requirements are recorded as temporarily or permanently restricted in the consolidated statements of operations and changes in net assets.

Board designated and other investments are exposed to various risks such as interest rate, market, liquidity, performance, and credit risk. 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 at least reasonably possible that changes in risks in the near term may affect the amounts reported in the consolidated balance sheets and the consolidated statements of operations and changes in net assets.

Securities Lending Program

The Corporation participates in a securities lending program through its custodian whereby the Corporation lends a portion of its investments to various brokers in exchange for collateral for securities loaned, mostly on a short-term basis. Collateral provided by these brokers consists of cash and is maintained at levels approximating 102-105% of the fair value of the securities on loan, adjusted for any market fluctuations. The Corporation maintains effective control of loaned securities through its custodian during the term of the agreement so that the securities may be recalled at any time. Under the terms of the agreement, the borrower must return the same, or substantially the same, investments that were borrowed. At both December 31, 2014 and 2013, the fair value of collateral for loaned securities provided on behalf of the Corporation was approximately $5.1 million while the liability associated with the obligation to repay such collateral was approximately $5.2 million with the net amount reported in board designated and other investments.

Fair Value Measurement

The Corporation's consolidated financial statements reflect certain assets and liabilities recorded at fair value. Assets measured at fair value on a recurring basis in the Corporation's consolidated balance sheets include: cash and cash equivalents; U.S. government, state, municipal, and agency obligations; other fixed income securities; asset backed securities; index funds, exchange traded funds, and mutual funds; corporate and foreign income securities; various types of equity securities and mutual funds; hedge funds; private credit and private equity investments; real assets; and benefit plan assets.

Fair value measurements reflected in the consolidated financial statements conceptually represent the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Generally accepted accounting principles establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs.

The three levels of fair value hierarchy and a description of the valuation methodologies used for instruments measured at fair value are as follows:

Level 1 Valuation is based upon quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 Valuation is based upon quoted prices for similar assets and liabilities in active markets or other inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial asset or liability.

Level 3 Valuation is based upon other unobservable inputs that are significant to the fair value measurement.

The categorization of fair value measurements by hierarchy level is based upon the lowest level input that is significant to the overall fair value measurement for a given asset or liability.

The Corporation applies the guidance in Accounting Standards Codification 820-10-15-4, *Fair Value Measurements of Investments in Certain Entities that Calculate Net Asset Value per Share (or its Equivalent)*. Under this guidance, the Corporation is permitted, as a practical expedient, to estimate the fair value of certain portfolio investments on the basis of the net asset value per share. In the normal course of business, the Corporation holds certain investments that qualify for the usage of this practical expedient. Fair value measurements of certain investment assets for which the measurement was based on net asset value ("NAV") or its equivalent as provided by an external manager are categorized within Level 2 or 3.

In the event that changes in the inputs used in the fair value measurements of an asset or liability results in a transfer of the fair value measurement to a different categorization (e.g., from Level 3 to Level 2), such transfers between fair value categories are recognized at the end of the reporting period.

Property, Plant, and Equipment
Property, plant, and equipment (including internal-use software) are recorded at cost if purchased or at fair value at the date of donation, if donated. Expenditures that materially increase values, change capacities, or extend useful lives are capitalized. Routine maintenance, repairs, and minor equipment replacement costs are charged to expense when incurred. 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. Upon sale or retirement of property, plant, and equipment, the cost and related accumulated depreciation are eliminated from the respective accounts, and the resulting gain or loss is included in the consolidated statements of operations and changes in net assets. Interest costs incurred during the period of construction or development of capital assets are capitalized as a component of the cost of acquiring those assets. Depreciation is provided over the estimated useful lives of the assets utilizing the straight-line method with a useful life range of between 3 to 60 years. Assets under capital lease obligations are amortized utilizing the straight-line method over the shorter of the lease term or estimated useful life of the asset. Amounts capitalized for internal-use software are amortized over the useful life of the developed asset following project completion.

A conditional asset retirement obligation is recorded for any legal obligation associated with the retirement of long-lived assets resulting from the acquisition, construction, development, and/or normal use of the underlying assets. The associated asset retirement costs are capitalized as part of the carrying amount of the underlying asset and depreciated over the asset's estimated useful life. The liability is accreted through charges to operating expense. If the conditional asset retirement obligation is settled for other than the carrying amount of the liability, a gain or loss on sale/disposal of assets is recognized. As of December 31, 2014 and 2013, conditional asset retirement obligations of approximately $22.1 million and $19.2 million, respectively, are included within accounts payable and accrued expenses and other liabilities in the consolidated balance sheets.

Goodwill and Intangible Assets
Goodwill and intangible assets have been primarily generated from the acquisition of certain health care related businesses including physician practices. Goodwill is not amortized but is subject to an annual impairment test as well as more frequent reviews whenever circumstances indicate a possible impairment may exist. Impairment testing of goodwill is a two-step process and is performed at the reporting unit level. Step one compares the carrying value of each reporting unit with its fair value. If step one indicates the fair value is less than the carrying value, then step two is required. Step two compares the implied fair value of the reporting unit's goodwill with the carrying value of the reporting unit's goodwill. If the carrying value of goodwill is impaired, the Corporation reduces the carrying amount to fair value. Estimates of fair value are based on appraisals, internal estimates of future net cash flows on a discounted basis, as well as other generally accepted valuation methodologies.

Intangible assets are comprised primarily of covenants not to compete, which are amortized on a straight-line basis over periods ranging from 2 to 5 years.

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

Deferred Financing Costs
Deferred financing costs incurred with the Hospital and Health System Revenue Bonds and Refunding Bonds are amortized using the bonds outstanding method. Costs associated with securing the direct pay letters of credit to support its variable rate demand bonds are amortized over the term of the associated liquidity facility. Costs associated with the issuance of direct placement bonds are amortized over the associated direct placement period. Deferred financing costs are included in other assets in the consolidated balance sheets.

Estimated Insurance Liabilities
The provision for estimated insurance liabilities includes actuarial estimates of the ultimate costs for both reported claims and claims incurred but not reported for professional liability, general liability, long-term disability insurance, excess workers' compensation, and amounts self-insured for allocated loss adjustment expenses.

Net Assets
Temporarily restricted net assets are those whose use by the Corporation 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 Corporation in perpetuity.

Unconditional promises to give cash and other assets to the Corporation are reported at fair value at the date the promise is received. Gifts 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 a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the consolidated financial statements.

During 2014 and 2013, net assets of $8.3 million and $6.2 million, respectively, were released from donor restrictions by incurring expenses or capital expenditures satisfying the restricted purposes or by the passage of time.

Performance Indicator
The performance indicator is excess of revenues over expenses, which includes all changes in unrestricted net assets except for the change in pension and postretirement benefits other than net periodic pension costs which is included in accrued pension liability; contributions and distributions to noncontrolling interests in consolidated affiliates; and 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).

Operating and Nonoperating Activities
The Corporation's primary mission is to meet the health care needs in the communities it is privileged to operate through a broad range of general and specialized health care services, including emergency, medical, surgical, behavioral, rehabilitative, and other health services in inpatient and outpatient settings; home health care services; and primary and specialty physician services. Additionally, the Corporation has various accountable care organizations and physician hospital managed care networks. Activities directly associated with the furtherance of this purpose are considered to be operating activities. Other activities that result in gains or losses peripheral to the Corporation's primary mission are considered to be nonoperating activities.

Patient Accounts Receivable, Estimated Third-Party Payor Settlements, and Net Patient Service Revenue
The Corporation has agreements with third-party payors that provide for payments at amounts different from its established rates. Patient accounts receivable and net patient service revenue are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered net of the provision for doubtful accounts and includes estimated retroactive revenue adjustments under reimbursement agreements with third-party payors and amounts received under various state Medicaid Hospital Assessment and Disproportionate Share Programs. Revenue under certain third-party payor agreements is subject to audit, retroactive adjustments, and significant regulatory actions. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as additional information becomes available and as final settlements are determined.

Allowance for Doubtful Accounts
The collection of outstanding patient accounts receivable from government, managed care, and other third party payors and patients is the Corporation's primary source of cash. The Corporation's main collection risk relates to uninsured patient accounts and to patient accounts for which the third party payor has paid amounts in accordance with the applicable agreement, however the patient's responsibility, usually in the form of deductibles, copayments, and coinsurance payments, remains outstanding ("self-pay accounts"). The Corporation's patient accounts receivable is reduced by an allowance for amounts, primarily self-pay accounts, which could become uncollectible in the future. Throughout the year, the Corporation estimates this allowance based on the aging of its patient accounts receivable, historical collection experience, and other relevant factors. These factors include changes in the economy and unemployment rates, which have an impact on the number of uninsured and underinsured patients, as well as trends in health care coverage, such as the increased burden of deductibles, copayments, and coinsurance amounts to be paid by patients with insurance. After satisfaction of amounts due from insurance and reasonable efforts to collect from the patient have been exhausted, the Corporation follows established procedures for placing certain past due patient balances with collection agencies, subject to the terms and certain restrictions on collection efforts as determined by the Corporation. Uncollectible patient accounts receivable are written off against the allowance for doubtful accounts with any subsequent recoveries being recorded against the provision for doubtful accounts.

Charity Care
As an integral part of its mission, the Corporation provides care to patients who meet certain criteria under its charity care and uninsured patient discount policy without charge or at amounts less than its established rates. The cost of charity care is determined based on each Health Center's total cost as a percentage of total charges and that ratio is applied to the charges incurred by patients qualifying for charity care under the Corporation's policy and is not included in net patient service revenue in the consolidated statements of operations and changes in net assets.

The estimated cost of charity care provided approximated $91.3 million and $93.6 million for the years ended December 31, 2014 and 2013, respectively. For both the years ended December 31, 2014 and 2013, no gifts or grants were received to offset or subsidize charity care services provided. The Corporation maintains records to identify and monitor the level of charity it provides.

Capitation and Premium Revenue
The Corporation has certain Health Centers that arrange for the delivery of health care services to enrollees through various contracts with providers and common provider entities. Enrollee contracts are negotiated on an annual basis. Premiums are due monthly and are recognized as revenue during the period in which the Corporation is obligated to provide services to enrollees.

Certain of the Corporation's Health Centers have entered into capitation agreements whereby they accept the risk for the provision of certain health care services to health plan members. Under these agreements, the Corporation's Health Centers are financially responsible for services provided to health plan members by other health care providers. Capitation revenue is recognized during the period for which the Health Centers are obligated to provide services to health plan enrollees under capitation contracts.

Reserves for incurred but not reported claims have been established to cover the unpaid costs of health care services under capitation and premium arrangements. Capitation and premium arrangement reserves are classified within accounts payable and accrued expenses in the consolidated balance sheets. The liability is estimated based on actuarial studies, historical reporting, and payment trends. Actual claims experience may differ from estimated liabilities due to variances in estimated and actual utilization of health care services, charge amounts, and other factors. As settlements are made and estimates revised, any differences are reflected in current operations. The Corporation limits a portion of its liabilities through stop-loss reinsurance.

Accountable Care Organizations
The Corporation was selected as a participant in the Medicare Pioneer Accountable Care Organization initiative ("Pioneer ACO") for a three year period effective January 1, 2012 with early termination allowed. The Pioneer ACO is a shared savings model in which participating organizations are eligible to receive additional payments from the Centers of Medicare and Medicaid Services ("CMS") if they are able to achieve medical cost savings as compared to certain benchmarks while providing high-quality, coordinated patient care for an assigned group of Medicare beneficiaries. Participants also share partial risk with CMS for any increase in medical costs above a predetermined benchmark, and will be required to pay CMS for a portion of any cost increase over those benchmarks. During 2013, the Corporation received a gain sharing payment of $6.7 million for its 2012 participation in the Pioneer ACO initiative of which $5.6 million was recorded in other operating revenue in the consolidated statements of operations and changes in net assets for the year ended December 31, 2013 and the remaining balance was paid to other participating providers.

While the Corporation was able to attain improved quality measures, the Pioneer ACO program did not generate shared savings in the second or third years, and the Corporation recorded a liability of $6.8 million for its estimated shared loss for those years. The Corporation determined that participating in the CMS Medicare Shared Savings Program ("MSSP") was a better alternative than the Pioneer ACO as there is no downside risk for savings that do not meet established benchmarks. As such, the Corporation terminated its Pioneer ACO contract with CMS effective September 26, 2014 and migrated to the CMS MSSP program effective January 1, 2015.

In addition, the Corporation also participates in other CMS MSSP reimbursement programs with unrelated health care providers. For those CMS MSSP contracts that were effective during the Corporation's years ended December 31, 2014 and 2013, the savings generated did not exceed the established benchmark and as such no shared savings were recorded in the consolidated statements of operations and changes in net assets.

In 2014, the Corporation entered into two commercial ACO reimbursement programs that are designed to enhance care coordination, improve clinical outcomes, and lower overall health care costs for the commercial payors' non-Medicare patient population. Under these commercial ACO reimbursement contracts, the Corporation is paid a care coordination fee per ACO participant and there is a partial gain/loss sharing component available to the Corporation with its performance compared to established quality and efficiency benchmarks. The Corporation has not received the complete year of claims information from these commercial ACO payors to be able to determine a receivable or any gain sharing revenue under the program and it was not subject to downside risk in the first reporting period and as such, the Corporation has not recorded any gain for the year ended December 31, 2014.

Electronic Health Record Incentive Payments

Medicare and state Medicaid programs are providing incentive payments to eligible hospitals and professionals as they adopt, implement, upgrade, or demonstrate meaningful use of certified electronic health care ("EHR") technology in the first year of participation and demonstrate meaningful use for up to five remaining participation years. The Corporation recognizes income related to these incentive payments using a grant accounting model that is based upon when the Corporation has reasonable assurance that it will comply with any designated conditions set forth by Medicare and Medicaid and that the dollars will be received. For the years ended December 31, 2014 and 2013, approximately $16.6 million and $24.1 million, respectively, of EHR incentive income was recognized and is included in other operating revenue in the consolidated statements of operations and changes in net assets. The Corporation's attestation of compliance with the meaningful use criteria is subject to audit by the federal government or its designee. Additionally, Medicare EHR incentive payments are subject to retrospective adjustment upon final settlement of the applicable cost report from which payments were initially calculated. The Corporation has incurred and will continue to incur both capital expenditures and operating expenses in order to implement certified EHR technology and to meet meaningful use requirements. The timing of expense recognition to implement the Corporation's certified EHR technology may not correlate with the receipt of incentive payments and recognition of EHR incentive revenue.

Income Taxes

The Corporation has established its status as an organization exempt from income taxes under Code Section 501(c)(3) and the laws of the states in which it operates. Certain divisions and affiliates are subject to federal and state income taxes; however, such amounts are not material to the consolidated financial statements.

Derivative Financial Instruments

Derivative financial instruments consist of interest rate swap contracts that are measured at fair value. The Corporation accounts for any changes in the fair value of derivative financial instruments in other income (expense) in the consolidated statements of operations and changes in net assets. The Corporation has reflected the fair value of its interest rate swap contracts as a long-term liability on the consolidated balance sheets (Note 7).

Consolidated Statements of Cash Flows

Supplemental disclosure of cash flow information and noncash investing and financing activities are summarized as follows:

Cash paid for interest, net of amounts capitalized, amounted to $35.9 million and $38.1 million for the years ended December 31, 2014 and 2013, respectively.

Cash paid for income taxes approximated $210,000 and $455,000 for the years ended December 31, 2014 and 2013, respectively.

Included in accounts payable and accrued expenses and other liabilities at December 31, 2014 and 2013 are approximately $31.1 million and $20.0 million, respectively, of costs related to construction in progress and for the acquisition of property, plant, and equipment (including internal-use software).

Forthcoming Accounting Pronouncements
In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update 2014-09, "Revenue From Contracts With Customers." This guidance outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. Currently the guidance is effective beginning January 1, 2017; however the FASB recently issued a proposal to defer the effective date of this guidance until January 1, 2018. The Corporation is evaluating the impact this accounting guidance may have on its consolidated financial statements.

3. Net Patient Service Revenue, Patient Accounts Receivable, and Concentration of Credit Risk

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

Medicare – Acute inpatient and outpatient services rendered to Medicare program beneficiaries are paid primarily at prospectively determined rates per discharge or procedure. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Certain services are reimbursed at a tentative rate with final settlement determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediaries. Professional services rendered by physicians are paid based on the Medicare allowable fee schedule.

Medicaid – Reimbursement for services rendered to Medicaid program beneficiaries includes prospectively determined rates per discharge, per diem payments, and fee schedules.

Certain of the Corporation's Health Centers qualify as State of Indiana Medicaid Acute Disproportionate Share and Medicaid Safety Net Hospitals ("DSH"). These Health Centers qualified as DSH providers under Indiana code 12-15-16-1, and, as such, are eligible to receive DSH payments linked to the State's fiscal year, which differs from the Corporation's fiscal year. The amount of these additional DSH funds is dependent on regulatory approval by agencies of the federal and state governments, and is determined by the level, extent, and cost of uncompensated care (as defined) and various other factors. The Corporation records such amounts as revenue when payments are received or based upon data from the State of Indiana that payments are determinable and probable of receipt. For the years ended December 31, 2014 and 2013, the Corporation recognized unrestricted revenue of approximately $14.5 million and $23.1 million, respectively, related to the DSH program in the consolidated statements of operations and changes in net assets.

In 2012, the State of Indiana implemented a Hospital Assessment Fee ("HAF") which is a supplemental reimbursement program to providers to offset a portion of the cost of providing care to Medicaid and indigent patients. The HAF program is designed with input from CMS and is funded by a combination of federal and state resources and fees levied on the hospital providers. The HAF program was initially effective until June 30, 2013, and was subsequently renewed on March 21, 2014 to continue through June 30, 2017 with a retroactive effective date of July 1, 2013. For the years ended December 31, 2014 and 2013, the Corporation's Indiana Health Centers recognized supplemental HAF reimbursement of $119.9 million (approximately $42.0 million related to the year ended December 31, 2013) and $45.1 million, respectively, which is a component of net patient service revenue in the consolidated statements of operations and changes in net assets. For the years ended December 31, 2014 and 2013, the Corporation's Indiana Health Centers recognized HAF fees of $82.9 million (approximately $30.3 million related to the year ended December 31, 2013) and $33.5 million, respectively, which is a component of other supplies and expenses in the consolidated statement of operations and changes in net assets.

The Corporation's Illinois Health Centers are obligated under Illinois Public Act 95-859 to participate in the State of Illinois' Hospital Assessment Program ("HAP") that assists in the financing of the State's Medicaid Program. This supplemental reimbursement program has been renewed by the State and CMS since its inception in 2004 with the most recent renewal, which only required the State's approval, to extend the program through June 30, 2018. For the years ended December 31, 2014 and 2013, the Corporation's Illinois Health Centers recognized supplemental HAP reimbursement of $21.3 million and $23.7 million, respectively, which is a component of net patient service revenue in the consolidated statements of operations and changes in net assets. For the years ended December 31, 2014 and 2013, the Corporation's Illinois Health Centers recognized HAP fees of $13.0 million and $14.6 million, respectively, which is a component of other supplies and expenses in the consolidated statement of operations and changes in net assets.

On January 9, 2015, CMS approved an additional Illinois Medicaid supplemental hospital payment program for services provided to individuals who qualify as a Medicaid beneficiary under the Affordable Care Act. The program is retroactive to March 1, 2014 and expires on June 30, 2018. Subsequent to year end, the Corporation received $3.2 million related to this new program which is not included in net patient service revenue in the consolidated statements of operation and changes in net assets for the year ended December 31, 2014, given the timing of CMS' approval of the program.

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, discounts from established charges, prospectively determined per diem rates, and fee schedules.

Provisions have been made in the consolidated financial statements for estimated contractual adjustments, representing the difference between the established charges for services and estimated total payments to be received from third-party payors.

A summary of gross patient service revenue, by payor, for the years ended December 31, 2014 and 2013, is as follows:

	2014	**2013**
Medicare	37 %	38 %
Medicare managed care	8	6
Medicaid	8	9
Medicaid managed care	5	4
Other third-party payors	37	37
Self-pay	4	5
Other	1	1
	100 %	100 %

The Corporation grants credit without collateral to its patients, most of who are insured under third-party payor agreements. The mix of net receivables from patients and third-party payors at December 31, 2014 and 2013, is as follows:

	2014	2013
Medicare	21 %	20 %
Medicare managed care	5	4
Medicaid	10	13
Medicaid managed care	2	2
Other third-party payors	48	46
Self-pay	12	13
Other	2	2
	100 %	100 %

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory action including fines, penalties, and/or exclusion from the Medicare and Medicaid programs. As a result, there is at least a reasonable possibility that recorded estimates may change in the near term. Net patient service revenue increased by approximately $2.0 million and $2.5 million for the years ended December 31, 2014 and 2013, respectively, due to changes in estimates related to prior-year settlements with third party payors.

4. Short-Term, Board Designated, and Other Investments

Short-term investments represent highly liquid investments with maturities extending longer than three months. Adequate liquidity is maintained within short-term investments to satisfy daily cash flow needs.

Board designated investments represents investments set aside by policy of the Corporation primarily for future purposes including capital expenditures, acquisitions, improvements and amounts held for mission programs. Assets limited as to use include assets under bond indenture and swap agreements, investments maintained for the payment of estimated insurance liabilities, and amounts contributed by donors with stipulated restrictions.

The composition of short-term, board designated, and other investments, at December 31, 2014 and 2013, is as follows:

	2014	2013
	(in thousands)	
Short-term investments	$ 129,674	$ 222,535
Board designated investments		
Funded depreciation and other Board projects	$ 2,012,310	$ 1,652,405
Other designated investments	1,751	1,691
	2,014,061	1,654,096
Assets limited as to use		
Estimated insurance liability funds	170,363	163,983
Assets under bond indenture and swap agreements	30,505	19,410
Other restricted investments	31,302	35,020
	232,170	218,413
Short-term, board designated and other investments	2,375,905	2,095,044
Less short-term investments	129,674	222,535
Board designated and other investments, classified as noncurrent	$ 2,246,231	$ 1,872,509

Short-term, board designated, and other investments at December 31, 2014 and 2013, consist of the following:

	2014	2013
	(in thousands)	
Cash and cash equivalents	$ 142,151	$ 50,929
U.S. government, state, municipal, and agency obligations	324,113	420,173
Other fixed income securities	251,596	188,802
Equity securities	472,269	459,840
Asset-backed securities	188,709	134,758
Index funds, exchange traded funds, and mutual funds	6,402	761
Unregistered mutual funds	487,055	350,022
Real estate investment trusts	1,926	12,580
Hedge funds	297,228	286,227
Private credit	24,441	23,669
Private equity	85,709	88,040
Real assets	94,306	79,243
	$ 2,375,905	$ 2,095,044

The following tables present the fair value hierarchy of the valuation techniques utilized to determine the fair value of the Corporation's short-term, board designated, and other investments as of December 31, 2014 and 2013:

	Balance as of December 31, 2014	Level 1 (in thousands)	Level 2	Level 3
Investments				
Cash and cash equivalents	$ 142,151	$ 142,151	$ -	$ -
U.S. government, state, municipal, and agency obligations	324,113	266,922	57,191	-
Other fixed income securities	251,596	-	251,596	-
Equity securities	472,269	472,269		-
Asset-backed securities	188,709	-	188,709	-
Index funds, exchange traded funds, and mutual funds	6,402	6,402	-	-
Unregistered mutual funds	487,055	-	487,055	-
Real estate investment trusts	1,926	1,926	-	-
Hedge funds	297,228	-	-	297,228
Private credit	24,441	-	-	24,441
Private equity	85,709	-	-	85,709
Real assets	94,306	-	-	94,306
	$ 2,375,905	$ 889,670	$ 984,551	$ 501,684

	Balance as of December 31, 2013	Level 1 (in thousands)	Level 2	Level 3
Investments				
Cash and cash equivalents	$ 50,929	$ 50,929	$ -	$ -
U.S. government, state, municipal, and agency obligations	420,173	296,143	124,030	-
Other fixed income securities	188,802	-	188,802	-
Equity securities	459,840	459,840	-	-
Asset-backed securities	134,758	-	134,758	-
Index funds, exchange traded funds, and mutual funds	761	761	-	-
Unregistered mutual funds	350,022	-	350,022	-
Real estate investment trusts	12,580	12,580	-	-
Hedge funds	286,227	-	-	286,227
Private credit	23,669	-	-	23,669
Private equity	88,040	-	-	88,040
Real assets	79,243	-	-	79,243
	$ 2,095,044	$ 820,253	$ 797,612	$ 477,179

Certain investments categorized within Level 2 are not traded in active markets but are measured using pricing sources such as broker quotes or using models with externally verifiable inputs, such as relevant interest or exchange rates.

Changes in Level 3 hierarchy assets measured at fair value for the Corporation's board designated and other investments at December 31, 2014 and 2013 are as follows:

	Balances as of December 31, 2013	Net Unrealized Gain (Loss)	Net Realized Gain (Loss) (in thousands)	Purchases	Sales	Transfers Out	Balances as of December 31, 2014
Hedge funds	$ 286,227	$ 11,189	$ (3,511)	$ 44,333	$ (41,010)	$ -	$ 297,228
Private credit	23,669	1,270	381	2,869	(3,748)	-	24,441
Private equity	88,040	3,240	1,338	9,465	(16,374)	-	85,709
Real assets	79,243	6,326	572	16,176	(8,011)	-	94,306
	$ 477,179	$ 22,025	$ (1,220)	$ 72,843	$ (69,143)	$ -	$ 501,684

	Balances as of December 31, 2012	Net Unrealized Gain (Loss)	Net Realized Gain (Loss) (in thousands)	Purchases	Sales	Transfers Out	Balances as of December 31, 2013
U.S. government, state, municipal, and agency obligations	$ 1,283	$ (89)	$ 131	$ -	$ (1,325)	$ -	$ -
Other fixed income securities	3,218	(71)	(191)	7,746	(9,713)	(989)	-
Asset-backed securities	290	(22)	81	-	(349)	-	-
Hedge funds	247,699	30,580	321	25,373	(17,746)	-	286,227
Private credit	23,664	1,102	(221)	4,786	(5,662)	-	23,669
Private equity	79,238	1,394	281	13,138	(6,011)	-	88,040
Real assets	61,784	3,276	545	22,228	(8,590)	-	79,243
	$ 417,176	$ 36,170	$ 947	$ 73,271	$ (49,396)	$ (989)	$ 477,179

There were no significant transfers to or from Levels 1 and 2 during the years ended December 31, 2014 and 2013.

The following table summarizes the Corporation's investments calculated on a NAV per share basis (or its equivalent), the unfunded commitments, and the associated redemption provisions:

	Fair Value (in thousands)	Unfunded Commitments (in thousands)	Redemption Frequency	Redemption Notice Period
Unregistered mutual funds	$ 487,055	$ -	Monthly	1 day
Hedge funds	297,228	-	Monthly, quarterly, annually	5 - 180 days
Private credit	24,441	9,840	Not currently redeemable	
Private equity	85,709	22,276	Not currently redeemable	
Real assets	94,306	42,234	Monthly, quarterly, not currently redeemable	45 days
	$ 988,739	$ 74,350		

Unregistered mutual funds include funds that primarily invest in domestic and international equities and short-term government, investment grade, high yield, and mortgage-related fixed income securities. The fair values of the investments in this class have been estimated using the NAV per share of the investments.

Hedge funds include absolute return and directional hedge funds. Absolute return hedge funds pursue multiple strategies to diversify risks and reduce volatility while directional hedge funds utilize market movement, trends, and inconsistencies when selecting securities across a variety of markets. Directional hedge funds are usually less exposed to the overall market and are likely to include long equity positions hedged with short positions to cancel out short-term uncertainty. The fair values of the investments in this class have been estimated using the NAV per share of the investments.

Private credit includes investments that are secured by high quality assets or backed by a senior claim on stable cash flows. Investments in this asset class will be made opportunistically during periods of broad market or security specific distress. The fair values of the investments in this class have been estimated using the NAV of the Corporation's ownership interest in the partners' capital. Investments within these funds cannot be currently redeemed. After the expiration of the investment period, distributions from each fund will be received as the underlying investments of the funds are liquidated. It is estimated that the underlying assets of the funds will be liquidated over the next 3 to 7 years. However, the individual investments that will be sold have not yet been determined.

Private equity includes funds that invest globally using strategies that include leveraged buyouts, venture capital, growth capital, distressed investments, and mezzanine capital. The fair values of the investments in this class have been estimated using the NAV of the Corporation's ownership interest in the partners' capital. Investments within these funds cannot be currently redeemed. After the expiration of the investment period, distributions from each fund will be received as the underlying investments of the funds are liquidated. It is estimated that the underlying assets of the funds will be liquidated over the next 1 to 6 years. However, the individual investments that will be sold have not yet been determined.

Real assets include energy and energy-related investments and private real estate funds that invest in both U.S. and international commercial real estate. Energy and energy-related investments exposure mainly relate to oil and gas properties which include exploration, production, processing, servicing, or transportation of oil, natural gas, and other hydrocarbon fuels. Private real estate investment strategies include core, value-add, and opportunistic real estate which typically seek to earn a return over inflation. The fair values of the investments in this class have been estimated using the NAV of the Corporation's ownership interest in the partners' capital. Investments representing approximately 85% of the value of the investments in this class cannot be redeemed because the investments include redemption restrictions that range from 1 to 15 years after acquisition. After the expiration of the investment period, distributions from each fund will be received as the underlying investments of the funds are liquidated. It is estimated that the underlying assets of the funds will be liquidated over the next 1 to 5 years. However, the individual investments that will be sold have not yet been determined.

Investment returns including net unrealized gains (losses) included in the consolidated statements of operations and changes in net assets for the years ended December 31, 2014 and 2013, are as follows:

	2014	2013
	(in thousands)	
Unrestricted revenues, gains, and other support		
Investment income in other operating revenue	$ 4,234	$ 4,004
Net unrealized investment gains	2,260	8,408
	6,494	12,412
Other income (expense)		
Investment income	64,169	67,203
Net unrealized investment gains on trading securities	9,354	117,126
	73,523	184,329
Temporarily restricted net assets, controlling interest		
Investment income	132	194
Net unrealized investment (losses) gains	(7)	93
	125	287
Permanently restricted net assets, controlling interest		
Investment income	288	175
Net unrealized investment gains	1	247
	289	422
	$ 80,431	$ 197,450

5. Property, Plant, and Equipment

A summary of property, plant, and equipment at December 31, 2014 and 2013, is as follows:

	2014	2013
	(in thousands)	
Land and land improvements	$ 140,208	$ 136,807
Buildings and building equipment	1,332,154	1,354,290
Departmental equipment	1,272,898	1,328,285
Construction in progress	65,358	68,380
	2,810,618	2,887,762
Less accumulated depreciation	1,253,417	1,300,548
	$ 1,557,201	$ 1,587,214

Certain leases for facilities and medical equipment are accounted for as capital leases. These leases expire in various years through 2024 and are included in property, plant, and equipment on the consolidated balance sheets. The amortization of assets under capital leases is included in depreciation and amortization expense in the consolidated statements of operations and changes in net assets.

6. Long-Term Debt

Long-term debt at December 31, 2014 and 2013, consists of the following:

	Year of Final Maturity	Interest Rate Range over Life of Bonds		2014 (in thousands)	2013
Tax Exempt Hospital and Health System Revenue and Refunding Bonds					
Fixed rate term and serial bonds					
Series 2009	2039	4.000% - 5.375%		$ 213,010	$ 215,645
Series 2008C	2032	5.000% - 5.375%		258,085	269,050
Series 2006E, insured	2041	5.125% - 5.250%		84,675	84,675
Less: bond discounts and premiums, net				(3,225)	(3,439)
Total fixed rate term and serial bonds				$ 552,545	$ 565,931
		Interest Rate Range 2014	Interest Rate Range 2013		
Variable rate direct placement bonds					
Series 2012A	2048	0.96% - 0.97%	0.97% - 1.00%	$ 75,000	$ 75,000
Series 2012B	2015	0.81% - 0.82%	0.82% - 0.85%	2,050	4,000
Series 2014A	2048	0.88% - 0.89%	-	50,000	-
Total variable rate direct placement bonds				$ 127,050	$ 79,000
Variable rate demand bonds, subject to seven-day put provision supported by direct pay bank letters of credit					
Series 2008A	2041	0.03% - 0.13%	0.03% - 0.24%	$ 80,895	$ 80,895
Series 2008B	2041	0.04% - 0.13%	0.06% - 0.26%	80,790	80,790
Series 2008E	2048	0.03% - 0.12%	0.04% - 0.24%	-	50,000
Series 2008F	2048	0.01% - 0.12%	0.04% - 0.22%	45,200	45,200
Series 2008G	2048	0.01% - 0.12%	0.04% - 0.22%	45,250	45,250
Series 2008H	2048	0.03% - 0.14%	0.04% - 0.25%	63,895	63,895
Series 2008I	2037	0.03% - 0.13%	0.05% - 0.24%	40,270	40,390
Series 2008J	2037	0.01% - 0.12%	0.04% - 0.22%	40,275	40,385
Total variable rate demand bonds				$ 396,575	$ 446,805
Other debt					
Capital lease obligations (excluding imputed interest of $3,700 and $4,552 at December 31, 2014 and 2013, respectively)				$ 21,720	$ 21,322
Other				3,347	6,200
Total other debt				$ 25,067	$ 27,522
Total long-term debt				$ 1,101,237	$ 1,119,258
Less current portion of long-term debt				(23,693)	(22,029)
Long-term debt, net of current portion				$ 1,077,544	$ 1,097,229

Scheduled principal payments on long-term debt are as follows:

Years ended December 31	Fixed and Variable Rate Bonds	Capital Lease Obligations (in thousands)	Other	Total
2015	$ 16,585	$ 6,228	$ 880	$ 23,693
2016	17,370	5,447	1,050	23,867
2017	18,165	3,598	1,317	23,080
2018	18,990	1,805	100	20,895
2019	19,905	397	-	20,302
Thereafter	988,380	4,245	-	992,625
	$ 1,079,395	$ 21,720	$ 3,347	$ 1,104,462

Total interest costs incurred on the long-term debt less capitalized interest are as follows:

	2014	2013
	(in thousands)	
Interest costs incurred	$ 36,455	$ 37,496
Less capitalized interest	729	703
Interest expense included in operating income	$ 35,726	$ 36,793

The fair value of the Corporation's long-term debt at December 31, 2014 and 2013 approximates $1.166 billion and $1.154 billion, respectively. The fair values of the Corporation's underlying tax exempt Hospital and Health System Revenue Bonds and Refunding Bonds are based on current traded values for similar types of borrowings which are considered Level 2 inputs as described in Note 2.

Obligated Group and Designated Group Affiliates and Other Requirements - The Corporation has long-term debt outstanding under a Master Trust Indenture dated November 1, 1997, as amended and supplemented ("AMTI"). The AMTI permits the Corporation to issue obligations to finance certain activities. Obligations issued under the AMTI are general, direct obligations of the Corporation and any future members of the Franciscan Alliance, Inc. Obligated Group ("Obligated Group"). All members of the Obligated Group are jointly and severally liable with respect to the payment of each obligation issued under the AMTI. In addition, the AMTI provides that certain affiliates of the Corporation may be designated as Designated Group Affiliates from time to time and the Corporation covenants to cause each of its Designated Group Affiliates to pay, loan, or otherwise transfer to the Obligated Group such amounts necessary to pay the obligations issued under the AMTI. The Designated Group Affiliates are not members of the Obligated Group and are not directly liable for payments on the obligations. The Corporation has granted a security interest in its unrestricted receivables, among others, for the benefit of the owners of the obligations. The AMTI includes covenants which require the Corporation to maintain a minimum debt service coverage ratio of 1.10 and limit the Corporation's ability to encumber certain of its assets. In determining whether the Corporation has satisfied such covenants, the AMTI requires the Corporation to include the Obligated Group and Designated Group Affiliates together in calculating the related ratios and in testing for compliance even though the Designated Group Affiliates are not directly obligated on the long-term debt issued under the AMTI. As of December 31, 2014 and 2013, the Corporation was in compliance with the terms of the AMTI and there were no other Obligated Group members nor any Designated Group Affiliates.

Redemption of Long-Term Debt – In June 2014, the Corporation fully redeemed its Series 2008E variable rate demand bonds of $50 million and issued in the same amount its Series 2014A variable rate direct placement bonds.

Variable Rate Demand Bonds– Included in the Corporation's debt is approximately $396.6 million of variable rate demand bonds, Series 2008A, Series 2008B, and Series 2008F through Series 2008J. The Corporation has entered into irrevocable letters of credit with multiple financial institutions to secure bond repayment and interest obligations associated with its variable rate demand bonds, which amount to $402.2 million. These liquidity facilities are available to the Corporation should the obligations be presented for redemption and not remarketed. There were no draws made on the letters of credit as of December 31, 2014. Additionally, these facilities (if utilized) generally have repayment terms for bonds held by the letter of credit banks that amortize ratably over 3 to 5 years, depending on the facility used. Termination dates for the various liquidity facility agreements have expiration dates extending from October 2017 through October 2018. Since the liquidity facilities expire beyond one year from the Corporation's balance sheet date and the Corporation has the intent to continually renew these liquidity facilities, the variable rate demand bonds are classified as long-term debt and are disclosed in accordance with the stated maturities.

7. Other Liabilities and Commitments

Interest Rate Swap Contracts – The Corporation utilizes interest rate swaps to manage interest rate risk associated with its variable rate bonds. Cash payments on the interest rate swap contracts totaled $13.9 million and $14.2 million for the years ended December 31, 2014 and 2013, respectively. At December 31, 2014 and 2013, the interest rate swap contracts were in a liability position with a fair value of approximately $85.0 million and $58.5 million, respectively. The fair value of the Corporation's interest rate swap contracts are based on observable inputs, such as interest rates and credit risk spreads, that fall within Level 2 of the hierarchy of fair value inputs as described in Note 2. Certain of the Corporation's interest rate swap agreements include collateral funding requirements based on the market value of these contracts. At December 31, 2014 and 2013, the Corporation had posted $30.5 million and $19.4 million, respectively, to satisfy its collateral funding obligations on these contracts which are included in assets under bond indenture and swap agreements within board designated and other investments on the consolidated balance sheets.

Operating Leases – The Corporation leases various facilities, equipment, and software. Total rental expense under operating leases approximated $39.7 million and $42.7 million for the years ended December 31, 2014 and 2013, respectively. Future minimum lease payments under operating leases as of December 31, 2014 that have initial or remaining lease terms in excess of one year are as follows:

	(in thousands)
Years ended December 31	
2015	$ 38,196
2016	36,515
2017	35,370
2018	32,820
2019	32,011
Thereafter	68,207
	$ 243,119

8. Pension and Other Benefit Plans

Prior to 2014, the Corporation had various retirement programs due to acquisitions over the years. Effective January 1, 2014, all employees (except for those from two of its Health Centers and its construction company) will be covered by one comprehensive retirement program that administers retirement benefits under two different programs. Under the first program, future employer-provided benefits will be provided entirely through the defined benefit plan with no employer contributions provided through the defined contribution plan. Under the second program, future employer-provided benefits will be provided through both the defined benefit plan and an employer contribution provided through the defined contribution plan. Both programs include similar benefit levels even though they are being delivered through different retirement plan types.

Noncontributory Defined Benefit Pension Plans - The Corporation has a qualified, noncontributory defined benefit pension plan covering all eligible employees of certain of the Corporation's entities. The plan provides defined benefits based on years of service and final average salary. Certain nonqualified, supplemental plan arrangements also provide retirement benefits to specified groups of participants. Because the noncontributory defined benefit pension plan has church plan status as defined in the Employee Retirement Income Security Act of 1974 ("ERISA"), funding in accordance with ERISA is not required. The Corporation's funding policy for the qualified plan, which is reviewed annually and may be adjusted as needed, is to fund the normal service cost based on the accumulated benefit obligation for the plan's year and amortize any under or over funding over a ten year period. The retirement program redesign and associated defined benefit plan amendment resulted in a decrease in the projected benefit obligation in 2013 and is included in accrued pension liability in the consolidated balance sheets. The Corporation also terminated a defined benefit pension plan related to a discontinued Health Center which resulted in a plan settlement charge in 2013.

In 2014, the Corporation offered a voluntary lump sum payout to certain eligible participants to receive a full distribution of their pension benefits as a lump sum during the program window. To be eligible a participant must have terminated employment and had a benefit value less than $25,000. As a result of this program the plan's projected benefit obligation decreased by $28.0 million for the paid benefits and the Corporation recognized a settlement loss of $0.9 million in the consolidated statement of operations and changes in net assets.

The Corporation's measurement date for all pension calculations is December 31.

The change in projected benefit obligation, change in plan assets, and funded status of the Corporation's pension plans as of December 31, 2014 and 2013, are as follows:

	2014	2013
	(in thousands)	
Change in benefit obligation		
Benefit obligation, beginning of year	$ 1,218,238	$ 1,403,158
Service cost	35,388	52,638
Interest cost	63,569	56,930
Plan amendment	(1,198)	(18,419)
Plan settlements	(3,297)	(16,270)
Actuarial loss (gain)	323,950	(229,395)
Benefits paid	(59,272)	(30,404)
Benefit obligation, end of year	1,577,378	1,218,238
Change in plan assets		
Fair value of plan assets, beginning of year	1,102,282	975,017
Actual gain on plan assets	106,170	104,769
Employer contributions	53,226	69,170
Plan settlements	(3,297)	(16,270)
Benefits paid	(59,272)	(30,404)
Fair value of plan assets, end of year	1,199,109	1,102,282
Funded status	$ (378,269)	$ (115,956)
Amounts recognized in the consolidated balance sheets		
Noncurrent assets	$ -	$ 390
Current liabilities	(4,093)	(9,077)
Noncurrent liabilities	(374,176)	(107,269)
Total amount recognized	$ (378,269)	$ (115,956)

The amounts in unrestricted net assets, including amounts arising during the year and amounts reclassified into net periodic benefit cost, are as follows:

	Net Gain (Loss)	Prior Service Cost	Total
		(in thousands)	
December 31, 2012	$ (437,999)	$ (2,463)	$ (440,462)
Amounts reclassified into net periodic benefit cost	39,676	18,904	58,580
Amounts arising during the year	261,147	-	261,147
December 31, 2013	$ (137,176)	$ 16,441	$ (120,735)

	Net Gain (Loss)	Prior Service Cost	Total
		(in thousands)	
December 31, 2013	$ (137,176)	$ 16,441	$ (120,735)
Amounts reclassified into net periodic benefit cost	4,768	(825)	3,943
Amounts arising during the year	(297,484)	-	(297,484)
December 31, 2014	$ (429,892)	$ 15,616	$ (414,276)

The following are estimated amounts to be amortized from unrestricted net assets into net periodic pension cost in the next fiscal year. Unrecognized prior service cost/credit is amortized on a straight line basis over the average remaining service period of participants who are expected to receive a benefit and are active at the date of the plan amendment.

	(in thousands)
Unrecognized prior service cost	$ 2,190
Unrecognized loss	(31,066)
Total amount expected to be amortized from unrestricted net assets in 2015	$ (28,876)

The accumulated benefit obligation ("ABO") at December 31, 2014 and 2013 was $1.467 billion and $1.139 billion, respectively. The following information is provided for plans with an ABO in excess of plan assets at December 31, 2014 and 2013:

	2014	2013
	(in thousands)	
Projected benefit obligation	$ 1,577,378	$ 1,214,063
ABO	1,467,380	1,135,254
Fair value of plan assets	1,199,109	1,097,717

Components of net periodic pension cost for the years ended December 31, 2014 and 2013, are as follows:

	2014	2013
	(in thousands)	
Service cost	$ 35,388	$ 52,638
Interest cost	63,569	56,930
Expected return on plan assets	(79,704)	(73,017)
Amortization of prior service cost	(2,024)	485
Amortization of net loss	3,908	29,996
Net periodic pension cost included in operating expenses	21,137	67,032
Plan settlement loss recognized in other income (expense)	861	9,679
Net periodic pension cost	$ 21,998	$ 76,711

The following weighted-average assumptions were used to determine the Corporation's benefit obligations and net periodic pension cost for the years ended December 31:

	2014	2013
Benefit obligation		
Discount rate	4.19 %	5.25 %
Rate of compensation increase	4.50 %	4.70 %
Net periodic pension cost		
Discount rate	5.25 %	4.25 %
Expected rate of return on plan assets	7.15 %	7.33 %
Rate of compensation increase	4.70 %	4.50 %

In developing the expected rate of return on plan assets assumption, the Corporation considered the historical returns and the expectation for future returns on each asset class, as well as the target asset allocation of the pension investment portfolio. The rate of return on plan assets assumption also considers investment and administrative expenses.

The discount rate assumption reflects the yield of a portfolio of high quality bonds matched against the timing and amount of projected future benefit payments as of the measurement date.

As of December 31, 2014, the Corporation adopted the Society of Actuaries RP-2014 Mortality Tables. The new actuarial tables update longevity expectations related to the pension plans.

The Corporation's pension investment policy considers the long-term nature of the asset pool as well as the liabilities it is designated to fund. In 2014, the Corporation modified its pension investment policy to utilize a liability driven investment strategy to better hedge against interest rate risk on investments and volatility of the pension liability given changes in the discount rate. The Corporation considers the risk and return characteristics of the various asset classes available to institutional investors and seeks guidance from outside investment advisors. The Corporation has established the following targeted asset allocation that categorizes assets into de-risking assets (cash and core fixed income assets) and return seeking/growth assets (equity securities and multi-strategy hedge fund of funds) given different levels of the pension plans' funded status.

Pension Plan Funded Status	De-Risking Assets	Return Seeking/ Growth Assets
85%-90%	46%	54%
90%-95%	61%	39%
95%-100%	77%	23%
100%+	95%	5%

For the years ended December 31, 2014 and 2013, the funded status of the Corporation's pension plans were 76% and 90%, respectively, when measured on a projected benefit obligation basis. The Corporation's asset allocation as of December 31, 2014 and 2013 was as follows:

	Percentage of Plan Assets	
	2014	2013
De-Risking Portfolio	47%	32%
Return Seeking/Growth Portfolio	53%	68%
	100%	100%

Assets are invested to achieve a rate of return consistent with the policy allocation targets which significantly contributes to meeting the current and future obligation of the plans and helps to ensure solvency of the plans over time. It is expected that this objective can be achieved through a well-diversified asset portfolio and an emphasis on long-term capital appreciation as a primary source of return. The plans utilize a multi-manager structure of complementary investment styles and classes with manager performance judged over an investment market cycle which is generally 3 to 5 years. Plan assets are exposed to risk and fluctuations in market value from year to year. To minimize risk, each manager is required to maintain adequate portfolio diversification to insulate the plan assets from substantial loss in any single security or market sector. Asset allocation is reviewed every quarter and rebalanced as necessary.

Cash Flows

During 2015, the Corporation anticipates making contributions of approximately $29.1 million to fund the normal service cost in accordance with its standard funding policy and an additional $50 million to fund the final year of a four year, $200 million total supplemental pension funding commitment approved by the Corporation's Board.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows:

	(in thousands)
2015	$ 47,570
2016	51,756
2017	53,848
2018	67,240
2019	67,163
Years 2020-2024	412,571

The following tables summarize the Corporation's pension and other benefit plans' assets, measured at fair value as of December 31, 2014 and 2013, respectively.

Asset category	**Balance as of December 31, 2014**	**Level 1**	**Level 2**	**Level 3**
		(in thousands)		
Cash and cash equivalents	$ 64,810	$ 64,810	$ -	$ -
U.S. government, state, municipal, and agency obligations	133,778	89,565	44,213	-
Other fixed income securities	384,913	-	384,913	-
Equity securities	439,601	439,601	-	-
Asset-backed securities	1,853	-	1,853	-
Unregistered mutual funds	90,336	-	90,336	-
Real estate investment trusts	7,880	7,880	-	-
Hedge funds	75,938	-	-	75,938
Total	$ 1,199,109	$ 601,856	$ 521,315	$ 75,938

Asset category	**Balance as of December 31, 2013**	**Level 1**	**Level 2**	**Level 3**
		(in thousands)		
Cash and cash equivalents	$ 105,437	$ 105,437	$ -	$ -
U.S. government, state, municipal, and agency obligations	268,276	267,920	356	-
Other fixed income securities	22,216	-	22,216	-
Equity securities	556,171	556,171	-	-
Asset-backed securities	1,426	-	1,426	-
Unregistered mutual funds	98,134	-	98,134	-
Real estate investment trusts	6,548	6,548	-	-
Hedge funds	44,074	-	-	44,074
Total	$ 1,102,282	$ 936,076	$ 122,132	$ 44,074

There were no significant transfers to or from Levels 1 and 2 during the years ended December 31, 2014 and 2013.

Changes in Level 3 hierarchy assets measured at fair value for the Corporation's pension and other benefit plans are as follows:

	(in thousands)
Beginning balance, December 31, 2012	$ 41,821
Net unrealized investment gains	2,529
Investment gains	11
Purchases of investments	174
Sales of investments	(461)
Ending balance, December 31, 2013	$ 44,074
Beginning balance, December 31, 2013	$ 44,074
Net unrealized investment gains	1,875
Purchases of investments	30,083
Sales of investments	(94)
Ending balance, December 31, 2014	$ 75,938

Defined Contribution Benefits - The Corporation sponsors various defined contribution benefit plans covering eligible employees. These employees may contribute a portion of their pre-tax and/or after-tax compensation to the plans, in accordance with specified guidelines. In addition to any discretionary contributions, these plans provide for established contribution percentages up to certain limits for eligible employees. Contribution expense for the years ended December 31, 2014 and 2013 aggregated $12.4 million and $16.7 million, respectively.

9. Estimated Insurance Liabilities

Hills Insurance Company, Inc. ("Hills Inc."), the wholly owned captive insurance subsidiary of the Corporation, provides certain professional and general liability coverage for the Health Centers and other corporate entities. The Corporation, through Hills Inc., has limited its liability by purchasing reinsurance and excess insurance coverage from several commercial insurance companies. In the unlikely event that any or all of the insurance or reinsurance companies might be unable to meet their obligations under the existing agreements, the Corporation, through Hills Inc., would be liable for such defaulted amounts. In addition, the Corporation is self-insured for its employee health, long-term disability, and workers' compensation employee benefit programs.

The estimated insurance liabilities provide for reported losses and for losses incurred but not reported based on projections by independent actuaries using information provided by the Corporation's management. The estimated insurance liabilities, which consist of professional liability, general liability, long-term disability insurance, workers' compensation, and amounts self-insured for allocated loss adjustment expenses, approximated $135.8 million and $130.3 million on an undiscounted basis at December 31, 2014 and 2013, respectively.

Claims arising from provisions of health care and other operating activities have been asserted against the Corporation by various claimants. These claims are in various stages of processing and some may ultimately be brought to trial. Counsel is unable to conclude as to the ultimate outcome of the actions. There are known incidents occurring through December 31, 2014 that may result in the assertion of additional claims and other claims may be asserted arising from services provided to patients in the past. While it is possible that settlement of asserted claims and claims which may be asserted in the future could result in liabilities in excess of amounts provided by the Corporation, management believes that the excess liability, if any, would not materially affect the consolidated financial position of the Corporation at December 31, 2014.

10. Noncontrolling Interests in Consolidated Affiliates and Investments in Unconsolidated Affiliates

The Corporation is involved in various health service entity joint ventures that support the Corporation's mission whose operations have been included in the consolidated financial statements.

Noncontrolling Interests in Consolidated Affiliates
The Corporation's consolidated financial statements include all assets, liabilities, revenues, and expenses of less than 100% owned entities that it controls. Accordingly, the Corporation has recorded the noncontrolling interests in the earnings and equities of such entities in its consolidated financial statements.

Investments in Unconsolidated Affiliates
The Corporation has investments in entities that are recorded under the cost or equity method of accounting. At December 31, 2014, the Corporation maintained investments in unconsolidated affiliates that support the Corporation's mission having noncontrolling ownership interests ranging from 8% to 50%.

At December 31, 2014 and 2013, the Corporation had a 33%, economic interest in Alverno Clinical Laboratories, LLC ("ACL, LLC"), an Indiana limited liability company created to direct, operate, maintain, and manage a centralized clinical laboratory in Hammond, Indiana supporting the Corporation and Presence Health ("Presence"). The Corporation is also an owner of Alverno Provena Hospital Laboratories, LLC ("APHL"), a non-profit cooperative corporation created to direct, operate, maintain, and manage the on-site laboratories of the Corporation's and Presence's health centers. Governance of ACL, LLC and APHL (collectively referred to as the "Laboratories") is shared between the health system members. The Corporation accounts for its investment in ACL, LLC under the equity method, which approximated $4.3 million and $4.2 million at December 31, 2014 and 2013, respectively. The Corporation's capital account in APHL approximates $50,000 at both December 31, 2014 and 2013.

The Corporation had a 7%, economic interest in Preferred Professional Insurance Corporation ("PPIC") which provided professional liability insurance and other related services to physicians and other health care providers associated with its owners. The owners of PPIC elected to sell the organization in 2014 which resulted in a $16.6 million gain on sale of investment in this unconsolidated affiliate which is recorded in other income in the consolidated statements of operations and changes in net assets.

The Corporation's share of the equity in (losses) earnings of investments in unconsolidated affiliates accounted for on the equity method is approximately ($1.2) million and $6.3 million for the years ended December 31, 2014 and 2013, respectively, which is included in total unrestricted revenues, gains, and other support in the consolidated statements of operations and changes in net assets.

The unaudited summarized financial position and results of operations for the entities accounted for under the equity method as of and for the periods ended December 31 is as follows:

	2014	2013
	(in thousands)	
Total assets	$ 157,873	$ 162,859
Total liabilities	95,393	102,488
Net assets	62,480	60,371
Total unrestricted revenues, gains, and other support	740,219	708,055
Excess of revenues over expenses	(1,002)	19,027

11. Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at December 31, 2014 and 2013:

	2014	2013
	(in thousands)	
Capital expenditures	$ 3,059	$ 5,957
Medical education programs	4,473	4,572
Health care programs	5,148	4,330
Other restrictions	3,794	4,556
	$ 16,474	$ 19,415

Capital expenditures relate to assets held by the Corporation, its Health Centers, and its foundation which are restricted by donors or grantors to be used specifically for equipment, capital projects, or other capital needs.

Medical education programs relate to assets held by the Corporation, its Health Centers, and its foundation which are restricted by donors or grantors to be used in specific education programs or for staff education.

Health care programs relate mainly to assets held by the Corporation's Health Centers and its foundation which are restricted by donors or grantors to be used in specific health care programs for medical and patient services.

Other restrictions relate to assets held by the Corporation's foundation which are restricted by donors or grantors to be used for programs such as spiritual care, mission related activities, or employee emergencies.

Permanently restricted net assets of approximately $17.1 million and $17.3 million at December 31, 2014 and 2013, respectively, are restricted to investments to be held in perpetuity with the income expendable to support the Corporation's mission.

12. Related Party Transactions

The Corporation's Health Centers incurred clinical laboratory charges from the Laboratories of approximately $65.0 million and $64.6 million for the years ended December 31, 2014 and 2013, respectively, which is included in purchased services in the consolidated statements of operations and changes in net assets. The Corporation provides information technology services, central procurement and disbursement services, and rents the core lab facilities to the Laboratories for which the Corporation has recorded approximately $3.7 million and $2.6 million for the years ended December 31, 2014 and 2013, respectively, as other operating revenue on the consolidated statements of operations and changes in net assets.

13. Functional Expenses

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

	2014	2013
	(in thousands)	
Health care services	$ 1,980,525	$ 2,046,228
General, administrative, and other nonhealth care services	522,005	525,634
Total operating expenses	$ 2,502,530	$ 2,571,862

14. Subsequent Events

Management has evaluated events and transactions through April 24, 2015, the date the consolidated financial statements were issued, and noted no material subsequent events requiring recording or disclosure.

Franciscan
ST. JAMES HEALTH

January 6, 2016

CHICAGO HEIGHTS
1423 Chicago Road
Chicago Heights, IL 60411
PH: 708 756 1000

OLYMPIA FIELDS
20201 South Crawford Avenue
Olympia Fields, IL 60461
PH: 708 747 4000

Illinois Health Facilities and
Services review Board
Springfield, Illinois

To Whom It May Concern:

This letter is provided as a response to Section 1120.140.b, and as an affirmation that, in the opinion of the applicants, the conditions of debt proposed to partially finance the proposed modernization program at Franciscan St. James Health-Olympia Fields are reasonable.

As of the filing of the required Certificate of Need applications, it is anticipated that approximately $15,000,000 of the project's cost will be funded through a bond issuance, with the remainder of the project's cost to be funded through the use of cash and readily available securities.

It is the applicants' opinion that the combination of debt and equity financing identified in the CON application represents the lowest net cost reasonably available to Franciscan Alliance, Inc. at this time, and the most advantageous funding scenario available.

Sincerely,

Arnold Kimmel

Arnold Kimmel
CEO

COST AND GROSS SQUARE FEET BY DEPARTMENT OR SERVICE

	Cost/Sq. Ft.		DGSF		DGSF		New Const. $	Modernization $	Total Costs
	New	Mod.	New	Circ.	Mod.	Circ.	(A x C)	(B x E)	(G + H)
Reviewable									
M/S Units		$ 300.00			66,185			$ 19,855,500	$ 19,855,500
Inpatient PT/OT	$ 374.09	$ 130.95	2,581		2,207		$ 965,526	$ 289,007	$ 1,254,533
ICU		$ 300.00			2,165			$ 649,500	$ 649,500
Obstetrics	$ 411.99		7,952				$ 3,276,144		$ 3,276,144
C-Section	$ 472.47		4,087				$ 1,930,985		$ 1,930,985
Labor & Delivery	$ 427.11		4,760				$ 2,033,044		$ 2,033,044
Rehabilitation Unit	$ 411.99		10,760				$ 4,433,012		$ 4,433,012
Critical Decisions Unit		$ 425.00			7,552			$ 3,209,600	$ 3,209,600
Surgery		$ 300.00			8,588			$ 2,576,400	$ 2,576,400
Pre-Op & Recovery		$ 300.00			4,800			$ 1,440,000	$ 1,440,000
Emergency Department	$ 427.11	$ 440.00	19,088		3,034		$ 8,152,676	$ 1,334,960	$ 9,487,636
Imaging (Gen/CT/MRI/US)		$ 345.00			10,303			$ 3,554,535	$ 3,554,535
Pharmacy		$ 130.95			4,265			$ 558,502	$ 558,502
Ancillary Clinical Areas*	$ 366.63	$ 290.00	8,637		3,381		$ 3,166,597	$ 980,490	$ 4,147,087
Lab		$ 230.00			3,500			$ 805,000	$ 805,000
Respiratory Therapy		$ 130.95			986			$ 129,117	$ 129,117
Body Holding		$ 128.25			370			$ 47,453	$ 47,453
EEG		$ 132.00			1,520			$ 200,924	$ 200,924
Preadmission Testing		$ 130.95			2,028			$ 265,567	$ 265,567
Nursery (LI & LII+)	$ 411.99		3,056				$ 1,259,041		$ 1,259,041
			60,921		120,884		$ 25,217,026	$ 35,896,553	$ 61,113,579
Contingency	$ 10.00	$ 10.00					$ 609,210	$ 1,208,840	$ 1,818,050
Reviewable Total	$ 423.93	$ 306.95					$ 25,826,236	$ 37,105,393	$ 62,931,629

*functional areas not required by IDPH licensure, but consistent with contemporary practices

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ATTACHMENT 39C

COST AND GROSS SQUARE FEET BY DEPARTMENT OR SERVICE

	Cost/Sq. Ft.		DGSF		DGSF		New Const. $	Modernization $	Costs
	New	Mod.	New	Circ.	Mod.	Circ.	(A x C)	(B x E)	(G + H)
Non-Reviewable									
Admin.Nursing Admin	$ 298.62	$ 106.65	1,691		6,822		$ 504,966	$ 727,566	$ 1,232,533
Foundation		$ 106.65			1,000			$ 106,650	$ 106,650
Quality Assurance		$ 106.65			2,545			$ 271,424	$ 271,424
Risk Management		$ 106.65			2,238			$ 238,683	$ 238,683
Case Management		$ 106.65			5,376			$ 573,350	$ 573,350
Credit Union		$ 106.65			500			$ 53,325	$ 53,325
Guest Relations/Vols.		$ 106.65			1,682			$ 179,385	$ 179,385
Human Resourcs		$ 106.65			2,600			$ 277,290	$ 277,290
Medical Staff Offices		$ 106.65			3,843			$ 409,856	$ 409,856
Pastoral Care		$ 106.65			736			$ 78,494	$ 78,494
Registration/Outpt. Lab.		$ 128.25			5,586			$ 716,405	$ 716,405
Facilities Mgt./Hskpg	$ 176.71	$ 106.65	21,116		1,683		$ 3,731,370	$ 179,492	$ 3,910,862
Food Service		$ 97.20			6,717			$ 652,892	$ 652,892
IT	$ 298.62	$ 106.65	201		5,008		$ 60,023	$ 534,103	$ 594,126
Materials Mgt/Receiving	$ 272.16	$ 97.20	5,474		4,302		$ 1,489,804	$ 418,154	$ 1,907,958
Security		$ 106.65			786			$ 83,827	$ 83,827
Gift Shop		$ 128.25			1,113			$ 142,742	$ 142,742
Grad. Medical Ed.		$ 110.00			7,611			$ 837,210	$ 837,210
Public Areas	$ 359.10	$ 345.00	3,104		3,500		$ 1,114,646	$ 1,205,322	$ 2,319,968
Chapel	$ 359.10		3,316				$ 1,190,776		$ 1,190,776
General Storage	$ 272.16	$ 97.20	6,546		513		$ 1,781,559	$ 49,864	$ 1,831,423
Education		$ 106.65			782			$ 83,400	$ 83,400
DGSF>>BGSF	$ 273.99		10,237				$ 2,804,798		$ 2,804,798
			51,685		64,943		$ 12,677,942	$ 7,819,436	$ 20,497,378
Contingency	$ 10.00	$ 10.00					$ 516,850	$ 649,430	$ 1,166,280
Non-Reviewable Total	$ 255.29	$ 130.40					$ 13,194,792	$ 8,468,866	$ 21,663,658
PROJECT TOTAL	$ 346.53	$ 245.25	112,606		185,827		$ 39,021,028	$ 45,574,259	$ 84,595,287

ATTACHMENT 39C

PROJECCTED OPERATING COST and
TOTAL EFFECT OF PROJECT on CAPITAL COSTS

St. James Health-Olympia Fields							
Year 2							
Adjusted Patient Days:	**76,959**						
Operating Cost per Adjusted Patient Day:		**M/S**	**ICU**	**OB**	**Rehab**	**Open Heart**	**Total Hospital**
Salaries:		$ 9,593,902	$ 4,978,929	$ 3,469,060	$ 1,752,311	$ 3,159,211	$ 88,697,000
Benefits:		$ 2,686,292	$ 1,394,100	$ 758,857	$ 381,985	$ 884,579	$ 23,922,000
Medical Supplies:		$ 1,026,576	$ 535,276	$ 189,473	$ 51,221	$ 5,769,424	$ 24,463,391
Total		$ 13,306,770	$ 6,908,305	$ 4,417,390	$ 2,185,517	$ 9,813,214	$ 137,082,391
per Adjusted Patient Day:		$ 172.91	$ 89.77	$ 57.40	$ 28.40	$ 127.51	$ 1,781.25
Capital Cost per Adjuested Patient Day:							**Total Hospital**
Depreciation & Amortization:							$ 13,969,000
Interest							$ 5,877,000
Total							$ 19,846,000
per Adjusted Patient Day:							$ 257.88

ATTACHMENT 39D and 39E

SAFETY NET STATEMENT

Franciscan St. James Health is one of the largest providers of safety net services in the southern suburbs. In 2014 in excess of $19M (cost) in charity care was provided through the two hospitals, representing a 150% increase over 2012. Similarly, $27.7M in Medicaid services were provided in 2014, representing a 130% increase over 2012.

Care to the financially-disadvantaged segments of the community are provided consistent with a 100 year history of doing so, and remaining true to the mission of "Continuing Christ's ministry in the Franciscan tradition," reflecting values of respect for life, compassionate concern, and joyful service.

Every three years, Franciscan St. James Health, in cooperation with other community resources, leads a community needs assessment that provides a framework for community-based health care programming. Franciscan St. James is currently working under a needs assessment conducted in late 2012/early 2013, and which identified three areas of focus: diabetes health and awareness, cardiovascular disease awareness and education, and access to care. Addressing these issues, during 2014:

- Approximately 580 individuals with previously undiagnosed diabetes were identified and referred to the St. James Diabetes Center or to another provider for education, nutritional counseling, and follow-up care.
- A process for identifying patients suffering from Chronic Obstructive Pulmonary Disease (COPD) or Chronic Heart Failure (CHF), and at risk of being readmitted was developed. A multi-disciplinary team was established to develop plans of care and discharge plans, and to transition patients to appropriate treatment settings.

- The Franciscan Primary Care Clinic was established to provide post-discharge care and immediate follow-up visits to patients without a primary care provider. This clinic, which provides services at a reduced cost, is designed to serve as a bridge between hospitalization and the establishment of a relationship with a primary care provider. Approximately 3,400 patients benefited from this program last year. In addition, Franciscan St. James developed a program to link area residents needing transportation to health care services with providers, and also developed a program to transport area residents to its hospitals, without any cost to the patient.

Of a more general nature, Franciscan St. James is a sponsor of and participant in numerous community-based health fairs throughout the region, and provides direct monetary support to 45-50 not-for-profit agencies and groups annually. Those groups and agencies provide improved education, housing, social support, and health care services to the communities in the south suburbs.

The proposed project will improve access to those services most often used by area residents, including urgent care services, imaging, outpatient mental health services, and laboratory services through Franciscan Health's Chicago Heights outpatient center. Through the proposed expansion of the outpatient center, as well as through the expansion of Franciscan St. James Health-Olympia Fields, access to all services, including safety net services will be maintained and expanded.

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:

INDEX OF ATTACHMENTS