

17-001

**ORIGINAL****ILLINOIS HEALTH FACILITIES AND SERVICES REVIEW BOARD  
APPLICATION FOR PERMIT****RECEIVED****SECTION I. IDENTIFICATION, GENERAL INFORMATION, AND CERTIFICATION**

JAN 25 2017

**This Section must be completed for all projects.****HEALTH FACILITIES &  
SERVICES REVIEW BOARD****Facility/Project Identification**

Facility Name: Mercy Health Hospital and Medical Center Crystal Lake - Medical Office Building		
Street Address: SE Corner of State Rte 31 & Three Oaks Road		
City and Zip Code: Crystal Lake, IL 60014		
County: McHenry	Health Service Area: 8	Health Planning Area: A-10

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

Exact Legal Name: Mercy Crystal Lake Hospital and Medical Center, Inc.	
Address: 2400 North Rockton Avenue, Rockford, Illinois 61103	
Name of Registered Agent: Paul Van Den Heuvel	
Name of Chief Executive Officer: Javon R. Bea	
CEO Address: 2400 North Rockton Avenue, Rockford, Illinois 61103	
Telephone Number: 608-756-6112	

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

<input checked="" type="checkbox"/> Non-profit Corporation	<input type="checkbox"/> Partnership
<input type="checkbox"/> For-profit Corporation	<input type="checkbox"/> Governmental
<input type="checkbox"/> Limited Liability Company	<input type="checkbox"/> Sole Proprietorship
<input type="checkbox"/> Other	
<ul style="list-style-type: none"><li>Corporations and limited liability companies must provide an <b>Illinois certificate of good standing</b>.</li><li>Partnerships must provide the name of the state in which organized and the name and address of each partner specifying whether each is a general or limited partner.</li></ul>	
<b>APPEND DOCUMENTATION AS ATTACHMENT-1 IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.</b>	

**Primary Contact****[Person to receive ALL correspondence or inquiries]**

Name: Tracey L. Klein
Title: Shareholder
Company Name: Reinhart Boerner Van Deuren, s.c.
Address: 1000 North Water Street, Suite 1700, Milwaukee, Wisconsin 53202
Telephone Number: 414-298-8156
E-mail Address: tklein@reinhartlaw.com
Fax Number: 414-298-8097

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

Name: Paul Van Den Heuvel
Title: Vice President and General Counsel
Company Name: Mercy Health Corporation
Address: 2400 North Rockton Avenue, Rockford, Illinois 61103
Telephone Number: 608-756-6148
E-mail Address: pvandenheuvel@mhemail.org
Fax Number: 608-756-6236

**ILLINOIS HEALTH FACILITIES AND SERVICES REVIEW BOARD  
APPLICATION FOR PERMIT****SECTION I. IDENTIFICATION, GENERAL INFORMATION, AND CERTIFICATION**

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Fax Number: 608-756-6236

**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: Paul Van Den Heuvel
Title: Vice President and General Counsel
Company Name: Mercy Health Corporation
Address: 2400 North Rockton Avenue, Rockford, Illinois 61103
Telephone Number: 608-756-6148
E-mail Address: pvandenheuvel@mhemail.org
Fax Number: 608-756-6236

**Site Ownership**

[Provide this information for each applicable site]

Exact Legal Name of Site Owner: Mercy Health System Corporation
Address of Site Owner: 1000 Mineral Point Avenue, Janesville, Wisconsin 53548
Street Address or Legal Description of Site: The North 1464.54 feet of the West 580.14 feet of the Southeast 1/4 of Section 10 (excepting therefrom that part taken for State Route 31 and Three Oaks Road); all in Township 43, Range 8 East of the Third Principal Meridian, in McHenry County, Illinois. <b>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.</b>
<b>APPEND DOCUMENTATION AS ATTACHMENT-2, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.</b>

**Operating Identity/Licensee**

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

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

**Organizational Relationships**

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

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

**Flood Plain Requirements**

[Refer to application instructions.]

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

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

**Historic Resources Preservation Act Requirements**

[Refer to application instructions.]

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

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

**DESCRIPTION OF PROJECT****1. Project Classification**

[Check those applicable - refer to Part 1110.40]

Part 1110 Classification:

- ☐ Substantive
- ☒ Non-substantive

## 2. Narrative Description

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

Mercy Health Corporation and Mercy Crystal Lake Hospital and Medical Center, Inc. (jointly referred to herein as "Mercyhealth") propose to establish a new Medical Office Building ("MOB") in Crystal Lake. The MOB will have 37 examination rooms, accommodating 15 physicians, most of whom will be specialists. Clinical services at the MOB will include physical therapy, occupation therapy, and infusion therapy (chemotherapy).

The project involves the construction of a 36,222 square foot facility. The total project cost is \$23,789,685.

In a separate but related permit application, the co-applicants propose construction of a 13 bed micro hospital, physically and programmatically connected to the MOB.

Completion date of the MOB project is November 30, 2020.

This project does not involve acute care beds, nor will it establish any facilities for overnight patients. Therefore, the project is non-substantive.

**Project Costs and Sources of Funds**

<b>Project Costs and Sources of Funds</b>			
<b>USE OF FUNDS</b>	<b>CLINICAL</b>	<b>NONCLINICAL</b>	<b>TOTAL</b>
Preplanning Costs			
Site Survey and Soil Investigation			
Site Preparation			
Off Site Work			
New Construction Contracts			
Modernization Contracts			
Contingencies			
Architectural/Engineering Fees			
Consulting and Other Fees			
Movable or Other Equipment (not in construction contracts)			
Bond Issuance Expense (project related)			
Net Interest Expense During Construction (project related)			
Fair Market Value of Leased Space or Equipment			
Other Costs To Be Capitalized			
Acquisition of Building or Other Property (excluding land)			
<b>TOTAL USES OF FUNDS</b>			
<b>SOURCE OF FUNDS</b>	<b>CLINICAL</b>	<b>NONCLINICAL</b>	<b>TOTAL</b>
Cash and Securities			
Pledges			
Gifts and Bequests			
Bond Issues (project related)			
Mortgages			
Leases (fair market value)			
Governmental Appropriations			
Grants			
Other Funds and Sources			
<b>TOTAL SOURCES OF FUNDS</b>			
<b>NOTE: ITEMIZATION OF EACH LINE ITEM MUST BE PROVIDED AT <u>ATTACHMENT-7</u>, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.</b>			

**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	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Purchase Price: \$	_____	
Fair Market Value: \$	_____	
The project involves the establishment of a new facility or a new category of service <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No		
If yes, provide the dollar amount of all <b>non-capitalized</b> operating start-up costs (including operating deficits) through the first full fiscal year when the project achieves or exceeds the target utilization specified in Part 1100.		
Estimated start-up costs and operating deficit cost is \$ <u>12,692,684.</u>		

**Project Status and Completion Schedules**

**For facilities in which there are active permits please provide the permit numbers.**

Indicate the stage of the project's architectural drawings:

- |                                                 |                                        |
|-------------------------------------------------|----------------------------------------|
| <input type="checkbox"/> None or not applicable | <input type="checkbox"/> Preliminary   |
| <input checked="" type="checkbox"/> Schematics  | <input type="checkbox"/> Final Working |

Anticipated project completion date (refer to Part 1130.140): November 30, 2020

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

- |                                                                                                                                                                                                                 |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <input type="checkbox"/> Purchase orders, leases or contracts pertaining to the project have been executed.                                                                                                     |
| <input type="checkbox"/> Project obligation is contingent upon permit issuance. Provide a copy of the contingent "certification of obligation" document, highlighting any language related to CON Contingencies |
| <input checked="" type="checkbox"/> 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:

- |                                                                                                                                    |
|------------------------------------------------------------------------------------------------------------------------------------|
| <input checked="" type="checkbox"/> Cancer Registry                                                                                |
| <input checked="" type="checkbox"/> APORS                                                                                          |
| <input checked="" type="checkbox"/> All formal document requests such as IDPH Questionnaires and Annual Bed Reports been submitted |
| <input checked="" type="checkbox"/> All reports regarding outstanding permits                                                      |
| <b>Failure to be up to date with these requirements will result in the application for permit being deemed incomplete.</b>         |

**Cost Space Requirements**

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

Dept. / Area	Cost	Gross Square Feet		Amount of Proposed Total Gross Square Feet That Is:			
		Existing	Proposed	New Const.	Modernized	As Is	Vacated Space
<b>REVIEWABLE</b>							
Medical Surgical							
Intensive Care							
Diagnostic Radiology							
MRI							
Total Clinical							
<b>NON REVIEWABLE</b>							
Administrative							
Parking							
Gift Shop							
Total Non-clinical							
<b>TOTAL</b>							
APPEND DOCUMENTATION AS <u>ATTACHMENT-9</u> , 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**.

<b>FACILITY NAME:</b> Mercy Health Hospital and Medical Center Crystal Lake - Medical Office Building		<b>CITY:</b> Crystal Lake, Illinois			
<b>REPORTING PERIOD DATES:</b> From: N/A to: N/A					
Category of Service	Authorized Beds	Admissions	Patient Days	Bed Changes	Proposed Beds
Medical/Surgical					
Obstetrics					
Pediatrics					
Intensive Care					
Comprehensive Physical Rehabilitation					
Acute/Chronic Mental Illness					
Neonatal Intensive Care					
General Long Term Care					
Specialized Long Term Care					
Long Term Acute Care					
Other (identify)					
<b>TOTALS:</b>					


**NOTE:** Hospital related data are reported in a separate permit application.


**CERTIFICATION**

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

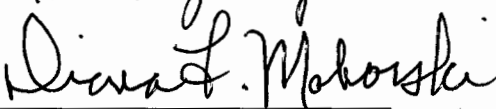
- in the case of a corporation, any two of its officers or members of its Board of Directors;
- in the case of a limited liability company, any two of its managers or members (or the sole manager or member when two or more managers or members do not exist);
- in the case of a partnership, two of its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

This Application for Permit is filed on the behalf of Mercy Crystal Lake Hospital and Medical Center, Inc. in accordance with the requirements and procedures of the Illinois Health Facilities Planning Act. The undersigned certifies that he or she has the authority to execute and file this application 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 for all services in which the Illinois Health Facilities and Services Review Board has target occupancy standards that these services will reach target occupancy by the second year after project completion and will maintain that standard going forward. The undersigned also certifies that the permit application fee required for this application is sent herewith or will be paid upon request.

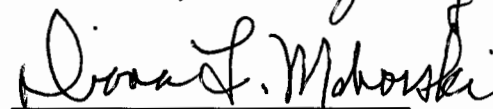
  
 SIGNATURE  
 Javon R. Bea  
 PRINTED NAME  
 President/CEO  
 PRINTED TITLE

  
 SIGNATURE  
 Rowland J. McClellan  
 PRINTED NAME  
 Chairman  
 PRINTED TITLE

Notarization:  
 Subscribed and sworn to before me  
 this 18<sup>th</sup> day of January, 2017

  
 Signature of Notary  
 OFFICIAL SEAL  
 DIANA L. MAHORSKI  
 NOTARY PUBLIC, STATE OF ILLINOIS  
 My Commission Expires Feb. 17, 2017

Notarization:  
 Subscribed and sworn to before me  
 this 18<sup>th</sup> day of January, 2017

  
 Signature of Notary  
 OFFICIAL SEAL  
 DIANA L. MAHORSKI  
 NOTARY PUBLIC, STATE OF ILLINOIS  
 My Commission Expires Feb. 17, 2017


\*Insert EXACT legal name of the applicant


**CERTIFICATION**

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

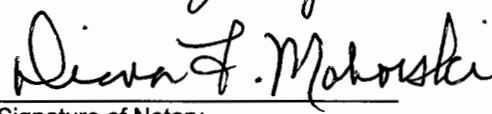
- in the case of a corporation, any two of its officers or members of its Board of Directors;
- in the case of a limited liability company, any two of its managers or members (or the sole manager or member when two or more managers or members do not exist);
- in the case of a partnership, two of its general partners (or the sole general partner, when two or more general partners do not exist);
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SIGNATURE  
Javon R. Bea  
PRINTED NAME  
President/CEO  
PRINTED TITLE

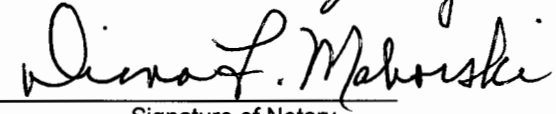
  
SIGNATURE  
Rowland J. McClellan  
PRINTED NAME  
Chairman  
PRINTED TITLE

Notarization:  
Subscribed and sworn to before me  
this 18<sup>th</sup> day of January 2017

  
Signature of Notary  
Seal  
OFFICIAL SEAL  
DIANA L. MAHORSKI  
NOTARY PUBLIC, STATE OF ILLINOIS  
My Commission Expires Feb. 17, 2017

\*Insert EXACT legal name of the applicant

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this 18<sup>th</sup> day of January 2017

  
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**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:** Not applicable. No shell space will be used in this project.

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:** Not applicable. No shell space will be used in this project.

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.

**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
Clinical Exam	0	37
Infusion therapy	0	10
PT/OT	0	4

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
	(OMB) -	Utilization - Service or Facility
APPEND DOCUMENTATION AS <u>ATTACHMENT-34</u> , IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM		



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)

## SECTION 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:**

\$14,323,811	a) Cash and Securities – statements (e.g., audited financial statements, letters from financial institutions, board resolutions) as to: <ol style="list-style-type: none"> <li>1) the amount of cash and securities available for the project, including the identification of any security, its value and availability of such funds; and</li> <li>2) interest to be earned on depreciation account funds or to be earned on any asset from the date of applicant's submission through project completion;</li> </ol>
_____	b) Pledges – for anticipated pledges, a summary of the anticipated pledges showing anticipated receipts and discounted value, estimated time table of gross receipts and related fundraising expenses, and a discussion of past fundraising experience.
_____	c) Gifts and Bequests – verification of the dollar amount, identification of any conditions of use, and the estimated time table of receipts;
\$9,465,874	d) Debt – a statement of the estimated terms and conditions (including the debt time period, variable or permanent interest rates over the debt time period, and the anticipated repayment schedule) for any interim and for the permanent financing proposed to fund the project, including: <ol style="list-style-type: none"> <li>1) For general obligation bonds, proof of passage of the required referendum or evidence that the governmental unit has the authority to issue the bonds and evidence of the dollar amount of the issue, including any discounting anticipated;</li> <li>2) For revenue bonds, proof of the feasibility of securing the specified amount and interest rate;</li> <li>3) For mortgages, a letter from the prospective lender attesting to the expectation of making the loan in the amount and time indicated, including the anticipated interest rate and any conditions associated with the mortgage, such as, but not limited to, adjustable interest rates, balloon payments, etc.;</li> <li>4) For any lease, a copy of the lease, including all the terms and conditions, including any purchase options, any capital improvements to the property and provision of capital equipment;</li> <li>5) For any option to lease, a copy of the option, including all terms and conditions.</li> </ol>
_____	e) Governmental Appropriations – a copy of the appropriation Act or ordinance accompanied by a statement of funding availability from an official of the governmental unit. If funds are to be made available from subsequent fiscal years, a copy of a resolution or other action of the governmental unit attesting to this intent;
_____	f) Grants – a letter from the granting agency as to the availability of funds in terms of the amount and time of receipt;
_____	g) All Other Funds and Sources – verification of the amount and type of any other funds that will be used for the project.
23,789,685	<b>TOTAL FUNDS AVAILABLE</b>

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

**SECTION 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.

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 NUMERIC ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

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

**D. Projected Operating Costs**

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

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

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

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

**Section 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 40.**

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

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

**SECTION XI. 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			
	Year	Year	Year
Net Patient Revenue			
Amount of Charity Care (charges)			
Cost of Charity Care			

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

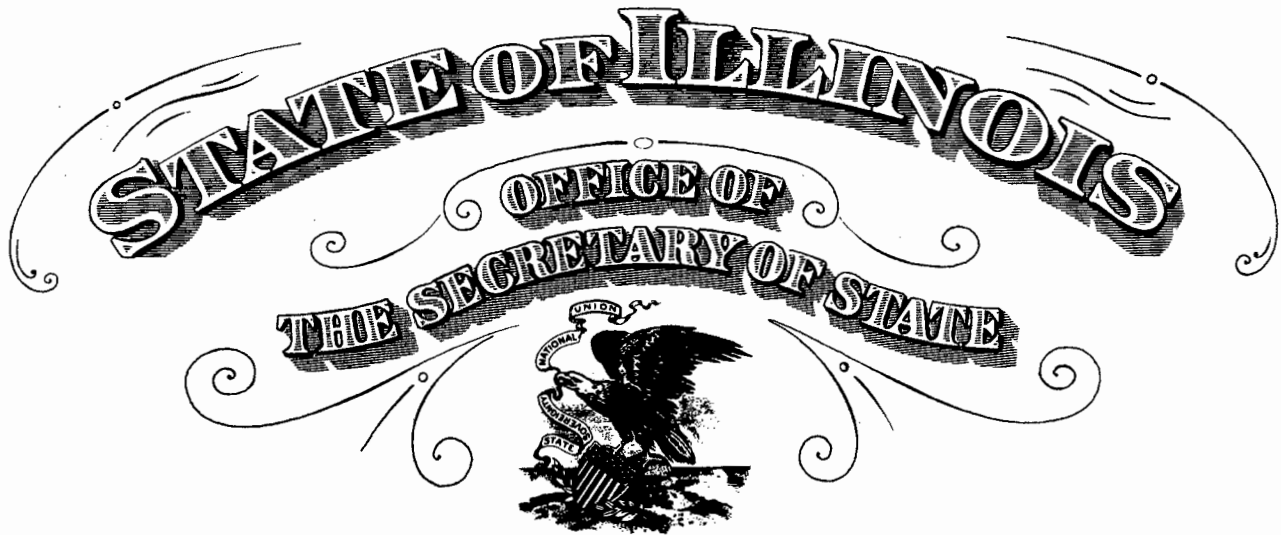
After paginating the entire, completed application, indicate in the chart below, the page numbers for the attachments included as part of the project's application for permit:

INDEX OF ATTACHMENTS		
ATTACHMENT NO.		PAGES
1	Applicant/Coapplicant Identification including Certificate of Good Standing	24-26
2	Site Ownership	27-29
3	Persons with 5 percent or greater interest in the licensee must be identified with the % of ownership.	30
4	Organizational Relationships (Organizational Chart) Certificate of Good Standing Etc.	31-32
5	Flood Plain Requirements	33-36
6	Historic Preservation Act Requirements	37-38
7	Project and Sources of Funds Itemization	39-41
8	Obligation Document if required	N/A
9	Cost Space Requirements	42
10	Discontinuation	N/A
11	Background of the Applicant	43-57
12	Purpose of the Project	58-64
13	Alternatives to the Project	65
14	Size of the Project	66
15	Project Service Utilization	67-68
16	Unfinished or Shell Space	N/A
17	Assurances for Unfinished/Shell Space	N/A
18	Master Design Project	N/A
19	Mergers, Consolidations and Acquisitions	N/A
	<b>Service Specific:</b>	N/A
20	Medical Surgical Pediatrics, Obstetrics, ICU	N/A
21	Comprehensive Physical Rehabilitation	N/A
22	Acute Mental Illness	N/A
23	Neonatal Intensive Care	N/A
24	Open Heart Surgery	N/A
25	Cardiac Catheterization	N/A
26	In-Center Hemodialysis	N/A
27	Non-Hospital Based Ambulatory Surgery	N/A
28	Selected Organ Transplantation	N/A
29	Kidney Transplantation	N/A
30	Subacute Care Hospital Model	N/A
31	Children's Community-Based Health Care Center	N/A
32	Community-Based Residential Rehabilitation Center	N/A
33	Long Term Acute Care Hospital	N/A
34	Clinical Service Areas Other than Categories of Service	69-71
35	Freestanding Emergency Center Medical Services	N/A
	<b>Financial and Economic Feasibility:</b>	
36	Availability of Funds	72-109
37	Financial Waiver	110-115
38	Financial Viability	116
39	Economic Feasibility	117-123
40	Safety Net Impact Statement	124
41	Charity Care Information	125

## CERTIFICATES OF GOOD STANDING

Illinois Certificates of Good Standing for Mercy Crystal Lake Hospital and Medical Center, Inc. and Mercy Health Corporation are attached. Mercy Crystal Lake Hospital and Medical Center, Inc., an Illinois not-for-profit corporation, will be the operating entity of the proposed medical office building. As the person with final control over Mercy Crystal Lake Hospital and Medical Center, Inc., Mercy Health Corporation, an Illinois not-for-profit corporation, is named as a co-applicant on this certificate of need application.





***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***

MERCY CRYSTAL LAKE HOSPITAL AND MEDICAL CENTER, INC., A DOMESTIC CORPORATION, INCORPORATED UNDER THE LAWS OF THIS STATE ON JUNE 27, 2003, APPEARS TO HAVE COMPLIED WITH ALL THE PROVISIONS OF THE GENERAL NOT FOR PROFIT CORPORATION ACT OF THIS STATE, AND AS OF THIS DATE, IS IN GOOD STANDING AS A DOMESTIC CORPORATION IN THE STATE OF ILLINOIS.



***In Testimony Whereof, I hereto set my hand and cause to be affixed the Great Seal of the State of Illinois, this 5TH day of DECEMBER A.D. 2016 .***

*Jesse White*

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***

MERCY HEALTH CORPORATION, A DOMESTIC CORPORATION, INCORPORATED UNDER THE LAWS OF THIS STATE ON OCTOBER 24, 2014, APPEARS TO HAVE COMPLIED WITH ALL THE PROVISIONS OF THE GENERAL NOT FOR PROFIT CORPORATION ACT OF THIS STATE, AND AS OF THIS DATE, IS IN GOOD STANDING AS A DOMESTIC CORPORATION IN THE STATE OF ILLINOIS.



***In Testimony Whereof, I hereto set my hand and cause to be affixed the Great Seal of the State of Illinois, this 5TH day of DECEMBER A.D. 2016 .***

*Jesse White*

SECRETARY OF STATE

## PROOF OF OWNERSHIP OR CONTROL OF SITE

Proof of ownership for the site is attached.

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

## TRUSTEE'S DEED

235258 CT-T

Grantees Address: 1000 Mineral Point Avenue,  
Janesville, WI 53549

This Instrument Prepared by: Mark S. Saladin

MILITELLO, ZANCK & COEN, P.C.,

40 Brink St., Crystal Lake, IL 60014

Send Future Tax Bills To: MERCY HEALTH SYSTEM CORPORATION

1000 Mineral Point Avenue, Janesville, WI 53549

STATE OF ILLINOIS

NOV.-9.00

MC HENRY COUNTY

MC HENRY COUNTY RECORDER  
PHYLLIS K. WALTERS

2000R0061541

11-09-2000 10:20 AM

RECORDING FEE 18.00  
PAGES 4  
COUNTY STAMP FEE 1484.00  
STATE STAMP FEE 2968.00

REAL ESTATE  
TRANSFER TAX

0445200

FP351004

For Recorders Use Only

Know All Men by These Presents, THAT THE GRANTOR, HOME  
STATE BANK/NATIONAL ASSOCIATION, a duly organized Trust  
Company, organized and existing under the laws of the State of Illinois, as  
Trustee under the provisions of a Trust Agreement  
dated November 30, 1984, and

known as Trust No. 3005 and having its principal business office  
in the City of Crystal Lake, County of McHenry and State of Illinois, for the  
consideration of Ten and no/100-----(\$10.00)----- DOLLARS

Conveys to MERCY HEALTH SYSTEM CORPORATION

of the City of Janesville County of Rock and State of  
Wisconsin ~~not in tenancy in common but in joint tenancy with right of survivorship~~ all interest in the following  
described premises, to-wit:

The North 1464.54 feet of the West 580.14 feet of the Southeast 1/4 of Section 10, (excepting  
therefrom that part taken for State Route 31 and Three Oaks Road), all in Township 43, Range  
8 East of the Third Principal Meridian, in McHenry County, Illinois.

SUBJECT TO: Real estate taxes for 2000 and subsequent years; covenants, conditions,  
restrictions and easements of record; rights of the public, the State and  
the municipality to any land taken for road purposes; drainage ditches,  
tiles, feeders and laterals; order establishing freeway; rebate for special  
service area to City of Crystal Lake, Illinois; terms of Annexation Agreement  
with City of Crystal Lake, Illinois, dated August 15, 2000.

MAIL TO MARY FERTL  
QUARLES + BRADY  
411 E. WISCONSIN AVE.  
MILWAUKEE, WI 53202

0031-9081

SECTION III - BACKGROUND, PURPOSE OF THE PROJECT, AND ALTERNATIVES

Subject to restrictions appearing of re.  
Permanent Index Number 19-10-400-010-0000

This conveyance is executed pursuant to the power and authority given to the Trustee in said Trust Agreement and every other power and authority it hereunto enabling.

In Testimony Whereof, the said Home State Bank / National Association, a duly organized Trust Company, of Crystal Lake, Illinois as Trustee as aforesaid hath hereunto caused its corporate seal to be affixed, and these presents to be signed by

James J. Zambon, its SR. Vice Pres. & Tr. Off  
and attested by Charles J. Feck, JR.  
its Vice President this 30th day of  
October A.D. ~~19~~ 2000

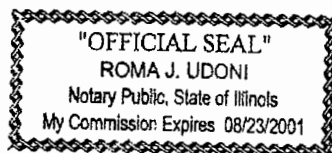


HOME STATE BANK / NATIONAL ASSOCIATION  
AS TRUSTEE AS AFORESAID

By [Signature]  
Sr. Vice President & Trust Officer  
Attest [Signature]  
Vice President

STATE OF ILLINOIS, } S.S.  
McHENRY COUNTY }

I, the undersigned, Roma J. Udoni  
a Notary Public in and for and residing in the said County in the State aforesaid, Do Hereby Certify that James J. Zambon, personally known to me to be the Sr. Vice Pres. & Trust Officer of the Home State Bank / National Association, Crystal Lake, Illinois and Charles J. Feck, Jr., personally known to me to be the Vice President of said Corporation, whose names are subscribed to the foregoing instrument, appeared before me this day in person and severally acknowledged that as such Sr. Vice Pres. & Trust Officer and Vice President they signed and delivered the said instrument of writing as Sr. Vice President & Trust Officer and Vice President of said Corporation, and caused the seal of said Corporation to be affixed thereto pursuant to authority given by the Board of Directors of said Corporation as their free and voluntary act, and as the free and voluntary act and deed of said Corporation for the uses and purposes therein set forth.  
Given under my hand and notarial seal, this 30 th day of October A.D. ~~19~~ 2000



[Signature]

Notary Public

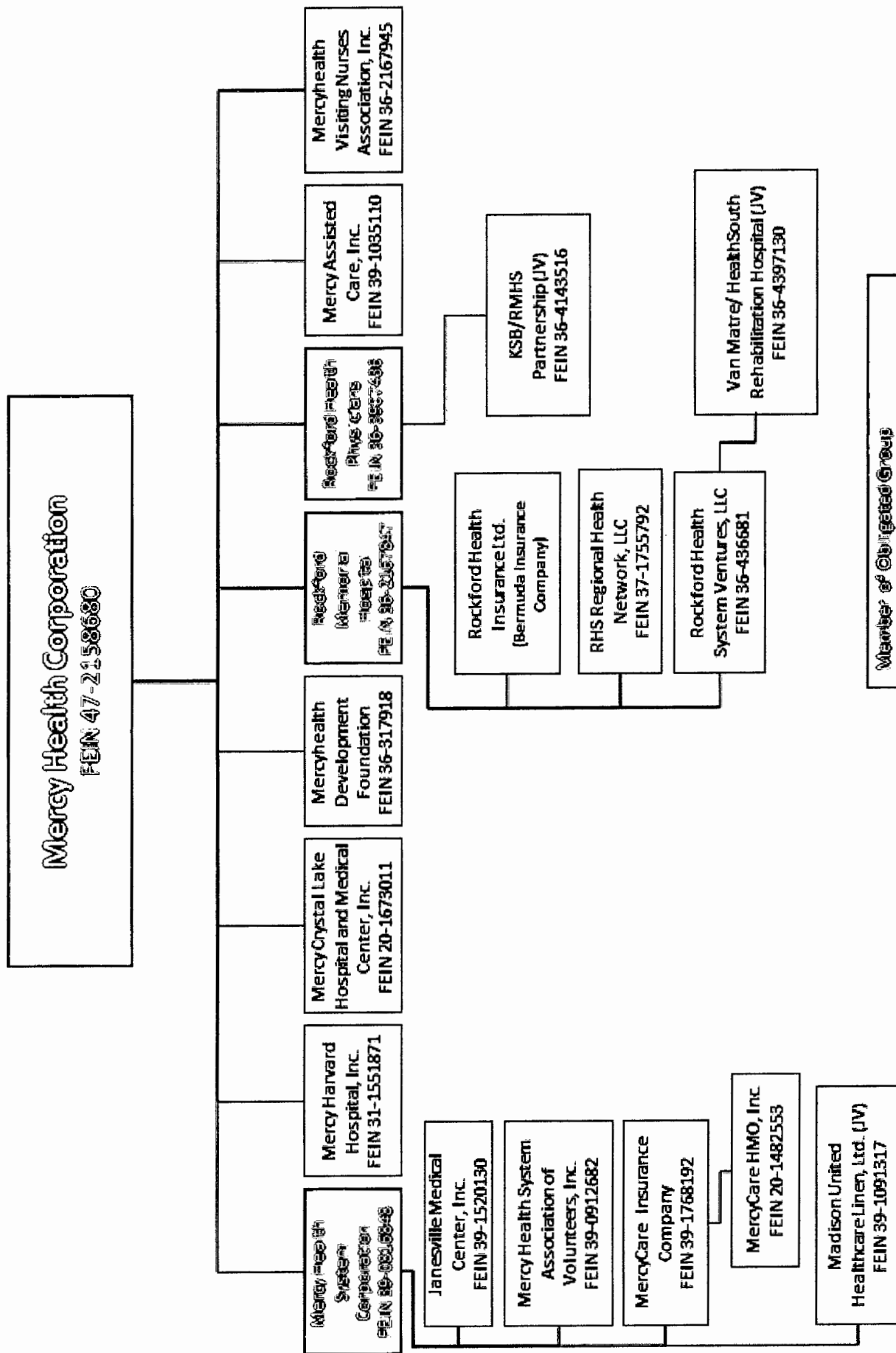
00E31-9082

## OPERATING ENTITY/LICENSEE

Mercy Crystal Lake Hospital and Medical Center, Inc. will be the licensee and operating entity of the proposed medical office building. The Illinois Certificates of Good Standing for this entity is included in Attachment 1. No partnerships are involved.

## ORGANIZATIONAL RELATIONSHIPS

An organizational chart is attached.



Member of Obligated Group

Effective 10/1/2016



## FLOOD PLAIN REQUIREMENTS

A flood plain map from FEMA is attached. The map shows that the site of the project is an area of minimal flood hazard. Also attached is a Special Flood Hazard Area Determination from the University of Illinois at Urbana-Champaign, which indicates that the site is not located in a Special Flood Hazard Area of a shaded Zone X floodzone

UNIVERSITY OF ILLINOIS  
AT URBANA-CHAMPAIGN

Institute of Natural Resource Sustainability

Illinois State Water Survey  
2204 Griffith Drive  
Champaign, IL 61820



Special Flood Hazard Area Determination  
pursuant to Governor's Executive Order 5 (2006)  
(supersedes Governor's Executive Order 4 (1979))

Requester: Paul Amendt, Administrative Fellow, Mercy Health Systems  
Address: 1000 Mineral Point Ave., P.O. Box 5003  
City, state, zip: Janesville, WI 53547-5003 Telephone: (608) 757-4020

Site description of determination:

Site address: SE corner IL 31 & Three Oaks Road  
City, state, zip: Crystal Lake, IL  
County: McHenry Sec 1/4: W 1/2 of SE 1/4 Section: 10 T. 43 N. R. 8 E. PM: 3rd  
Subject area: The N 1464.54 ft of the W 580.14 feet of the SE 1/4 Sec. 10, T. 43 N., R. 8 E., 3rd P.M., McHenry  
County (excepting road ROW).

The property described above IS NOT located in a Special Flood Hazard Area or a shaded Zone X floodzone.  
Floodway mapped: N/A Floodway on property: No  
Sources used: FEMA Flood Insurance Rate Map (FIRM, copy attached); City of Crystal Lake Zoning Map (1/2008).  
Community name: City of Crystal Lake, IL Community number: 170476  
Panel/map number: 17111C0335J Effective Date: November 16, 2006  
Flood zone: X [unshaded] Base flood elevation: N/A ft NGVD 1929

- N/A a. The community does not currently participate in the National Flood Insurance Program (NFIP).  
NFIP flood insurance is not available; certain State and Federal assistance may not be available.  
N/A b. Panel not printed: no Special Flood Hazard Area on the panel (panel designated all Zone C or unshaded X).  
N/A c. No map panels printed: no Special Flood Hazard Areas within the community (NSFHA).

The primary structure on the property:

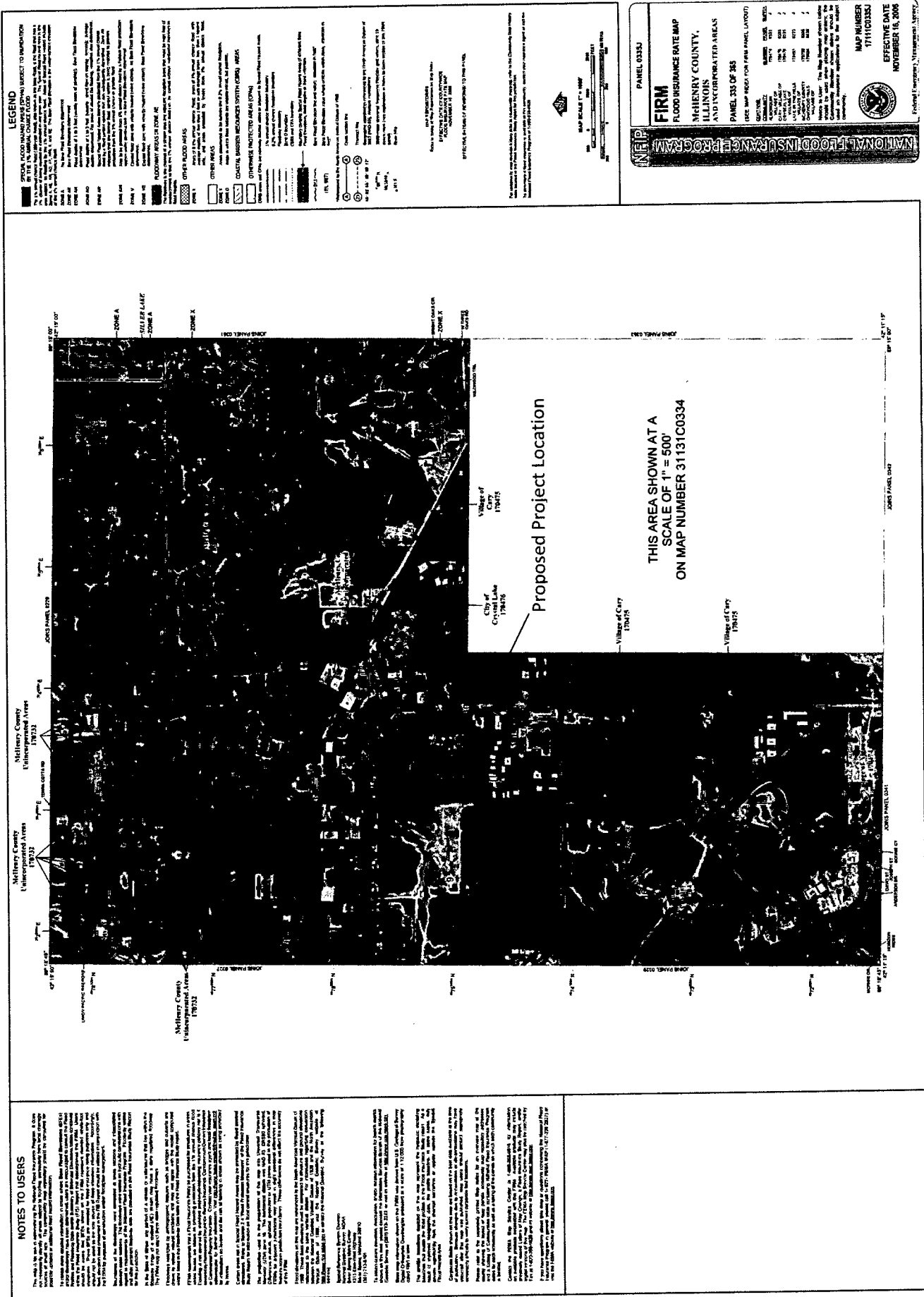
- N/A d. Is located in a Special Flood Hazard Area. Any activity on the property must meet State, Federal, and local floodplain development regulations. Federal law requires that a flood insurance policy be obtained as a condition of a federally-backed mortgage or loan that is secured by the building.  
N/A e. Is located in shaded Zone X or B (500-yr floodplain). Conditions may apply for local permits or Federal funding.  
X f. Is not located in a Special Flood Hazard Area or 500-year floodplain area shown on the effective FEMA map.  
N/A g. A determination of the building's exact location cannot be made on the current FEMA flood hazard map.  
N/A h. Exact structure location is not available or was not provided for this determination.

Note: This determination is based on the effective Federal Emergency Management Agency (FEMA) flood hazard reference for the subject area. This letter does not imply that the referenced property will be free from water damage. Property not in a Special Flood Hazard Area may be damaged by a flood greater than that illustrated on the FEMA map, by local drainage problems or runoff not illustrated on the source map, or by failure of flood control structures. This letter does not create liability on the part of the Illinois State Water Survey or employee thereof for any damage that results from reliance on this determination. This letter does not exempt the project from local stormwater management regulations.

Questions concerning this determination may be directed to Bill Saylor (217/333-0447) at the Illinois State Water Survey. Questions concerning requirements of Governor's Executive Order 5 (2006), or State floodplain regulations, may be directed to John Lentz (847/608-3100 x2022) at the Illinois Department of Natural Resources' Office of Water Resources.

William Saylor  
William Saylor, CFM IL-01-00107, Illinois State Water Survey

Title: ISWS Floodplain Information Specialist Date: 10/10/2008



## McHenry County Map Panels

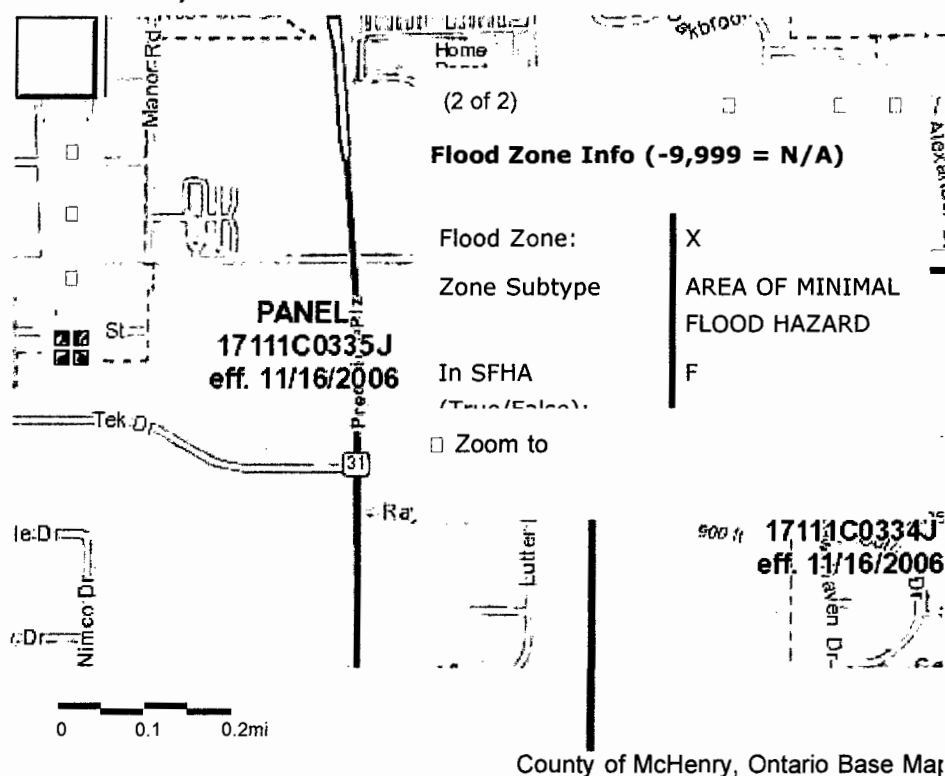
Effective Flood Insurance Rate Maps for McHenry County may be viewed and/or downloaded at the FEMA Flood Map Service Center

### ... even more!

Below are links to resources pertaining to McHenry County

- Upper Fox Watershed Discovery
- Unmapped Special Flood Hazard Areas (SFHA) (pdf)
- Destined for DFIRMs - stream studies becoming flood maps

**NFHL Viewer (more detailed flood data displays when zoomed in)**



**Launch full screen NFHL Viewer**

### What is a DFIRM?

The DFIRM Database is a digital version of the FEMA flood insurance rate map that is designed for use with digital mapping and analysis software.



A sample DFIRM showing areas of greater flood risk in blue

The DFIRM is designed to provide the user with the ability to determine the flood zone, base flood elevation and the floodway status for a particular location. It also has NFIP community information, map panel information, cross section and hydraulic structure information, and base map information like road, stream, and public land survey data.

LETTER FROM THE ILLINOIS HISTORIC PRESERVATION AGENCY

A letter from the Illinois Historic Preservation Agency indicating the project complies with the requirements of the Historic Preservation Act is attached.



# Illinois Historic Preservation Agency

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

FAX 217/524-7525

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

McHenry County  
Crystal Lake  
SE of IL 31 & Three Oaks Road  
IHFSRB  
New construction/CON - Mercy Crystal Lake Hospital & Medical Center

PLEASE REFER TO: IHPA LOG #006122216

January 18, 2017

Nicole Dermer  
Reinhart Attorneys at Law  
100 North Water Street, Suite 1700  
Milwaukee, WI 53202-3197

Dear Ms. Dermer:

The Illinois Historic Preservation Agency is required by the Illinois State Agency Historic Resources Preservation Act (20 ILCS 3420, as amended, 17 IAC 4180) to review all state funded, permitted or licensed undertakings for their effect on cultural resources. Pursuant to this, we have received information regarding the referenced project for our comment.

Our staff has reviewed the specifications under the state law and assessed the impact of the project as submitted by your office. We have determined, based on the available information, that no significant historic, architectural or archaeological resources are located within the proposed project area.

According to the information you have provided concerning your proposed project, apparently there is no federal involvement in your project. However, please note that the state law is less restrictive than the federal cultural resource laws concerning archaeology. If your project will use federal loans or grants, need federal agency permits, use federal property, or involve assistance from a federal agency, then your project must be reviewed under the National Historic Preservation Act of 1966, as amended. Please notify us immediately if such is the case.

This clearance remains in effect for two (2) years from date of issuance. It does not pertain to any discovery during construction, nor is it a clearance for purposes of the IL Human Skeletal Remains Protection Act (20 ILCS 3440).

Please retain this letter in your files as evidence of compliance with the Illinois State Agency Historic Resources Preservation Act.

Sincerely,

Rachel Leibowitz, Ph.D.  
Deputy State Historic  
Preservation Officer

# PROJECT COSTS AND SOURCES OF FUNDS

Project Costs and Sources of Funds			
USE OF FUNDS	CLINICAL	NONCLINICAL	TOTAL
Preplanning Costs			
Site Survey and Soil Investigation			
Site Preparation	150,000	803,000	953,000
Off Site Work	8,000	54,500	62,500
New Construction Contracts	3,025,000	11,280,000	14,305,000
Modernization Contracts			
Contingencies	145,000	573,000	718,000
Architectural/Engineering Fees	405,000	1,345,000	1,750,000
Consulting and Other Fees	88,000	262,000	350,000
Movable or Other Equipment (not in construction contracts)	890,122	2,248,563	3,138,685
Bond Issuance Expense (project related)	45,000	80,000	125,000
Net Interest Expense During Construction (project related)			
Fair Market Value of Leased Space or Equipment			
IT/low voltage	285,000	840,000	1,125,000
Furniture, artwork	300,000	900,000	1,200,000
Moving	14,000	48,500	62,500
Other Costs To Be Capitalized			
Acquisition of Building or Other Property (excluding land)			
<b>TOTAL USES OF FUNDS</b>	<b>5,355,122</b>	<b>18,434,563</b>	<b>23,189,685</b>
SOURCE OF FUNDS	CLINICAL	NONCLINICAL	TOTAL
Cash and Securities	3,231,074	11,092,737	14,323,811
Pledges			
Gifts and Bequests			
Bond Issues (project related)	2,124,048	7,341,826	9,465,874
Mortgages			
Leases (fair market value)			
Governmental Appropriations			
Grants			
Other Funds and Sources			
<b>TOTAL SOURCES OF FUNDS</b>	<b>5,355,122</b>	<b>18,434,563</b>	<b>23,789,685</b>

## **Descriptions of Line Items**

### **In Support of Table Project Costs and Sources of Funds**

These costs represent an allocation of capital costs for the development of the proposed new hospital and the associated medical office building. The costs in this report are associated exclusively with the medical office building.

#### **Site Preparation - \$953,000**

Soil borings, site excavation and grading, drainage and retention, roadway construction, erosion barriers construction, landscaping, utility connections.

#### **Off-site work - \$62,500**

This line item includes parking lot construction and surfacing.

#### **New construction contracts - \$14,305,000**

Construction activities include: excavating and removal of material; foundations; vertical & floor/roof structural; exterior cladding; roofing; interior partitions, doors and glazing; floor, wall and ceiling finishes; fixed equipment including code compliance signage, fire systems and loading dock equipment; stairs and vertical transportation, plumbing, HVAC, electrical system, fire protection system. Included are all core and shell costs, general requirements, general conditions, subguard, general liability insurance and contractor's overhead, profit and fee.

Clinical component: \$3,025,000; non-clinical: \$11,280,000.

#### **Contingencies - \$718,000**

Contingencies not exceeding 5% are included for unforeseen circumstances related to construction.

Clinical contingency: \$145,000; non-clinical: \$573,000.

Construction + contingency for the project is \$15,023,000 ( $= \$14,305,000 + \$718,000$ ). For a 36,322 sq ft project, cost per sq ft is \$413.61.

Construction + contingency for the clinical component is \$3,170,000 ( $= \$3,025,000 + 145,000$ ). For the 6,785 sq ft of clinical space, cost per sq ft for the clinical component is \$467.21. This amount is a larger number than the average for the medical office building because of the concentration of higher cost PT/OT space and infusion therapy in the clinical services category. The physician offices and exam rooms are non-reviewable/non-clinical and less expensive space.

#### **Architectural/Engineering Fees - \$1,750,000**

A/E services include site planning, preliminary design, schematic design, design development, bid document preparation, interface with public agencies, project monitoring.



**Consulting and Other Fees - \$700,000**

Services include interior design, IT planning and consulting, CON application fee and CON legal/consultant, legal, medical equipment planning, security systems planning, signage/graphics design, project management and commissioning.

**Movable and Medical Equipment - \$3,138,685**

The cost estimates by for equipment as follows:

Infusion therapy	\$624,535
Outpatient clinic	\$2,113,065
PT/OT	\$265,587
Clinic support	\$135,498

**Bond Issuance Expense (project related) - \$125,000.**

\$45,000 is allocated to this project's clinical component; \$80,000 is allocated to non-clinical.

**Other costs to be Capitalized - \$2,387,500**

These costs include: IT/low voltage, furniture and artwork and capitalized moving costs, as itemized in the table of Project Costs and Sources of Funds.

## COST SPACE REQUIREMENTS

### COST SPACE REQUIREMENTS

		Gross Square Feet		Amount of Proposed Total Gross Square Ft.			
Dept./Area	Cost	Existing	Proposed	New Const.	Modernized	As Is	Vacated
<b>Reviewable</b>							
PT/OT	\$ 1,391,730.00		3,406	3,406			
Infusion Therapy	\$ 1,633,270.00		3,379	3,379			
<b>Subtotal Reviewable:</b>	<b>\$ 3,025,000.00</b>		<b>6,785</b>	<b>6,785</b>			
<b>Non-Reviewable</b>							
Exam Rooms, Offices	\$ 8,699,875.00		23,369	23,369			
Support	\$ 2,580,125.00		6,168	6,168			
<b>Subtotal Non-Clinical:</b>	<b>\$ 11,280,000.00</b>		<b>29,537</b>	<b>29,537</b>			
<b>Other Project Costs</b>							
Preplanning Costs							
Site survey and Soil Investigation							
Site Preparation	\$ 953,000.00						
Off Site work	\$ 62,500.00						
Modernization Contracts							
Contingencies	\$ 718,000.00						
Architectural/Engineering Fees	\$ 1,750,000.00						
Consulting and Other Fees	\$ 350,000.00						
Moveable or Other Equipment (not in construction contracts)	\$ 3,138,685.00						
Bond Issuance Expense (project related)	\$ 125,000.00						
Net Interest Expense During Construction (project related)							
Fair Market Value of Leased Space or Equipment							
Other Costs To Be Capitalized							
IT/low voltage	\$ 1,125,000.00						
Furniture, artwork	\$ 1,200,000.00						
Moving	\$ 62,500.00						
Acquisition of Building or Other Property (excluding land)							
<b>Subtotal Other Project Costs</b>	<b>\$ 9,359,685.00</b>						
<b>TOTAL PROJECT COSTS</b>	<b>\$ 23,789,685.00</b>						

## BACKGROUND OF APPLICANT

**1. A listing of all health care facilities owned or operated by the applicant, including licensing, and certification if applicable.**

Mercy Health Corporation ("Mercyhealth") operates four hospitals, two in Illinois and two in Wisconsin:

Rockford Memorial Hospital  
2400 N. Rockton Avenue  
Rockford, IL 61103  
IDPH License #0002048

Mercy Harvard Hospital  
901 Grant Street  
Harvard, IL 60033  
IDPH License #0004911

Mercy Hospital and Trauma Center - Janesville  
1000 Mineral Point Ave.  
Janesville, WI 53548  
License #162

Mercy Walworth Hospital and Medical Center  
N2950 State Road 67  
Lake Geneva, WI 53147  
Permit ID #MEBH-8M6RAH

Copies of licenses for these facilities are included on subsequent pages. In addition, Mercyhealth operates 70 other non-hospital, patient care delivery sites in northern Illinois and southern Wisconsin.

The following details the certifications and accreditations held by Mercyhealth hospitals, ambulatory medical centers/clinics, and ancillary services:

- Rockford Memorial Hospital is accredited by the Joint Commission (organization number 7418), effective 1/11/14 (valid for up to 36 months). *Joint Commission letter included below.*
- Mercy Health System Corporation ("MHSC"), a subsidiary of Mercy Health Corporation, includes Mercy Hospital and Trauma Center - Janesville, Mercy Walworth Hospital and Medical Center, and all MHSC ambulatory medical centers/clinics. These entities are accredited by the Joint Commission (organization number 7644), effective 11/5/14 (valid for up to 36 months). *Joint Commission letters (2) included below.*

- Mercy Harvard Hospital is accredited by the Joint Commission (organization number 4672), effective 9/27/14 (valid for up to 36 months). *Joint Commission letter included below.*

The Joint Commission letter dated March 21, 2014 currently shows an accreditation expiration date of January 11, 2017. Mercyhealth has been in communication with The Joint Commission regarding this issue and has been informed that the required survey did not occur due to unforeseen emergency circumstances. However, the Joint Commission has assured Mercyhealth that the survey is scheduled and will take place before the 39 month deadline set forth in The Joint Commissions deeming agreement with CMS.



**Illinois Department of  
PUBLIC HEALTH**

HF112023

**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	ID NUMBER
12/31/2017		0002048
<b>General Hospital</b>		
<b>Effective: 01/01/2017</b>		

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

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 12/31/2017**

**Lic Number 0002048**

**Date Printed 10/26/2016**

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

**FEE RECEIPT NO.**



**HF111993**

## 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	LIC. NUMBER
12/31/2017	Critical Access Hospital	0004911
Effective: 01/01/2017		

**Mercy Harvard Hospital, Inc.**  
 P. O. Box 850  
 901 South Grant Street  
 Harvard, IL 60033

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 12/31/2017  
 Lic Number 0004911  
 Date Printed 10/26/2016

**Mercy Harvard Hospital, Inc.**  
 P. O. Box 850  
 901 South Grant Street  
 Harvard, IL 60033

**FEE RECEIPT NO.**



# The State of Wisconsin

Department of Health Services  
Division of Quality Assurance

## CERTIFICATE OF APPROVAL

This is to certify that **MERCY HEALTH SYSTEM CORPORATION**  
doing business as **MERCY HEALTH SYSTEM CORP**  
at the location **1000 MINERAL POINT AVE**  
**JANESVILLE, WI 53548**

License Number: 162  
Effective Date: 05/27/1999  
Initial Date: 01/02/1966

is licensed to operate a **GENERAL ACUTE HOSPITAL** in **ROCK COUNTY, WISCONSIN**

License Type: **REGULAR**

This license is granted for a maximum capacity of **240 total beds.**

General beds: 180	Alcohol beds: 12
Psychiatric beds: 28	Rehab beds: 20

The Facility Profile/Biennial Report is available at this facility for inspection upon request.

This license will remain in effect unless expired, suspended, revoked or voluntarily surrendered. Any and all exceptions, stipulations, or conditions to this license shall be posted next to the license certificate.

*M.K. Rhoades*

Kitty Rhoades, Secretary DHS

This license is not transferrable or assignable  
Post in a conspicuous place on premises



DEPARTMENT OF AGRICULTURE,  
TRADE AND CONSUMER PROTECTION

License, Permit or Registration

The person, firm, or corporation shown below has complied with the Wisconsin statutes and is authorized to engage in the activity indicated.

ACTIVITY <b>Hospital - High Complexity</b>	EXPIRATION DATE 30-Jun-2017	I.D. NUMBER MEBH-8M6RAH
LICENSEE MAILING ADDRESS MERCY HEALTH SYSTEM CORPORATION N2950 STATE RD 67 LAKE GENEVA WI 53147	NOT TRANSFERABLE	BUSINESS / ESTABLISHMENT ADDRESS MERCY WALWORTH HOSPITAL & MEDICAL CTR. N2950 STATE RD 67 LAKE GENEVA WI 53147

All Permits expire on June 30th; it is the responsibility of the licensee to make sure all applicable fees are received by the department before July 1st or a late payment fee will be assessed.

To view the FSRL Newsletter, please visit this web address  
<https://www.dhs.wisconsin.gov/fsrl/news.htm>

If you do not receive a renewal form prior to June 30th from your licensing authority, you should send in your payment for renewing your permit to the following address:

DIV OF PUBLIC HEALTH-LICENSE RENEWAL  
DRAWER 296  
MILWAUKEE, WI 53293-0296  
(608)224-4720

\* Include the name of your facility and the ID number.

F-fd-123





March 21, 2014

Re: # 7418  
CCN: #140239  
Program: Hospital  
Accreditation Expiration Date: January 11, 2017

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

Dear Mr. Kaatz:

This letter confirms that your January 07, 2014 - January 10, 2014 unannounced full resurvey was conducted for the purposes of assessing compliance with the Medicare conditions for hospitals through The Joint Commission's deemed status survey process.

Based upon the submission of your evidence of standards compliance on March 07, 2014 and March 11, 2014, The Joint Commission is granting your organization an accreditation decision of Accredited with an effective date of January 11, 2014.

The Joint Commission is also recommending your organization for continued Medicare certification effective January 11, 2014. Please note that the Centers for Medicare and Medicaid Services (CMS) Regional Office (RO) makes the final determination regarding your Medicare participation and the effective date of participation in accordance with the regulations at 42 CFR 489.13. Your organization is encouraged to share a copy of this Medicare recommendation letter with your State Survey Agency.

This recommendation applies to the following location(s):

Perryville Cardiac Services  
3401 N. Perryville Road, Rockford, IL, 61114

Perryville MRI/CT  
3401 North Perryville Road, Rockford, IL, 61107

Perryville Sleep Lab  
3401 Perryville Road, Rockford, IL, 61107

Rockford Medical Building Cardiac Services  
2350 N. Rockton Road, Rockford, IL, 61103

Rockford Memorial Hospital

[www.jointcommission.org](http://www.jointcommission.org)

Headquarters  
One Renaissance Boulevard  
Oakbrook Terrace, IL 60181  
630 792 5000 Voice

Attachment 11



**The Joint Commission**

2400 North Rockton Avenue, Rockford, IL, 61103

Wound Care Center  
2300 North Rockton Avenue, Rockford, IL, 61103

We direct your attention to some important Joint Commission policies. First, your Medicare report is publicly accessible as required by the Joint Commission's agreement with the Centers for Medicare and Medicaid Services. Second, Joint Commission policy requires that you inform us of any changes in the name or ownership of your organization, or health care services you provide.

Sincerely,

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

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



December 15, 2014

Jeni Hallatt  
Vice President  
Mercy Harvard Hospital, Inc.  
901 Grant Street  
Harvard, IL 60033

Joint Commission ID #: 4672  
Program: Critical Access Hospital  
Accreditation  
Accreditation Activity: 60-day Evidence of  
Standards Compliance  
Accreditation Activity Completed: 12/12/2014

Dear Ms. Hallatt:

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

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

- Accreditation Manual for Critical Access Hospitals

This accreditation cycle is effective beginning September 27, 2014. The Joint Commission reserves the right to shorten or lengthen the duration of the cycle; however, the certificate and cycle are customarily valid for up to 36 months.

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

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

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

Sincerely,

Mark G. Pelletier, RN, MS

Chief Operating Officer

Division of Accreditation and Certification Operations



January 21, 2015

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

Joint Commission ID #: 7644  
Program: Hospital Accreditation  
Accreditation Activity: 60-day Evidence of  
Standards Compliance  
Accreditation Activity Completed: 01/20/2015

Dear Mr. Bea:

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

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

- Comprehensive Accreditation Manual for Hospitals

This accreditation cycle is effective beginning November 08, 2014. The Joint Commission reserves the right to shorten or lengthen the duration of the cycle; however, the certificate and cycle are customarily valid for up to 36 months.

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

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

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

Sincerely,

Mark G. Pelletier, RN, MS

Chief Operating Officer

Division of Accreditation and Certification Operations



January 21, 2015

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

Joint Commission ID #: 7644  
Program: Critical Access Hospital  
Accreditation  
Accreditation Activity: 60-day Evidence of  
Standards Compliance  
Accreditation Activity Completed: 01/20/2015

Dear Mr. Bea:

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

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

Accreditation Manual for Critical Access Hospitals

This accreditation cycle is effective beginning November 05, 2014. The Joint Commission reserves the right to shorten or lengthen the duration of the cycle; however, the certificate and cycle are customarily valid for up to 36 months.

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

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

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

Sincerely,

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

2. A certified listing of any adverse actions taken against any facility owned and/or operated by the applicant during the three years prior to the filing of the application.

A letter addressing adverse actions is attached.

CONFIRMATION OF NO ADVERSE ACTIONS

There have been no adverse actions taken against any facility owned or operated by Mercy Crystal Lake Hospital and Medical Center, Inc. or Mercy Health Corporation (the "Applicants") during the three years prior to filing the application.

Date this 18<sup>th</sup> day of January, 2017.

**Mercy Crystal Lake Hospital and Medical Center, Inc.**

By: \_\_\_\_\_

Javon R. Bea, President and CEO

**Mercy Health Corporation**

By: \_\_\_\_\_

Javon R. Bea, President and CEO

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.**

An authorization is attached.



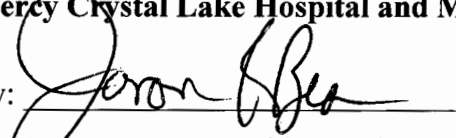
## AUTHORIZATION TO ACCESS DOCUMENTS

This document is an authorization submitted by Mercy Crystal Lake Hospital and Medical Center, Inc. and Mercy Health Corporation (together referred to as the "Applicants") to allow the Illinois Health Services Review Board and the Illinois Department of Public Health ("DPH") to have access to any documents necessary to verify information submitted in connections with the Applicant's application for a Certificate of Need to build a hospital and attached medical office building in Crystal Lake, Illinois. The authorization includes, but is 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. This authorization is submitted pursuant to Title 77, section 1110.230 of the Illinois Administrative Code.

Date this 18<sup>th</sup> day of January, 2017.

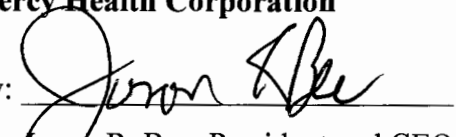
**Mercy Crystal Lake Hospital and Medical Center, Inc.**

By:

  
Javon R. Bea, President and CEO

**Mercy Health Corporation**

By:

  
Javon R. Bea, President and CEO

## PURPOSE OF THE PROJECT

Mercy Health Corporation and Mercy Crystal Lake Hospital and Medical Center, Inc. (jointly referred to herein as "Mercyhealth") propose to establish a new Medical Office Building ("MOB") in Crystal Lake. The proposed MOB will have 37 examination rooms, accommodating 15 physicians, most of whom will be specialists. Clinical services at the proposed MOB will include physical therapy, occupation therapy, and infusion therapy (chemotherapy).

Mercyhealth enumerated a number of reasons for the project in its separate CON application for a new hospital adjacent to the proposed MOB. Additional purposes of the project are set forth herein.

1. Document that the Project will provide health services that improve health care or wellbeing of the market area population to be served. The location of the proposed MOB is centrally accessible to the planning area, adjacent to a new hospital proposed by separate CON application. Locating the MOB adjacent to the proposed new hospital is convenient for emergency care as specialists will be available in an adjacent building. Additionally, adjacency to the hospital allows for easy access to diagnostic imaging for outpatients visiting the MOB. Finally, there are efficiencies in space and administrative services.
2. Define the area or marketing area. The planning/market area for this Project is approximately a 30-minute drive time radius from the proposed project site in Crystal Lake, IL as shown on the attached map. Approximately 82% of the population to be served by the proposed MOB resides in the planning area.
3. Identify the existing problems or issues that need to be addressed. The purpose of this project is to (1) address a shortage of primary care physicians and select specialists in McHenry County; and (2) take advantage of opportunities for efficiencies by consolidating offices for some of the 78 Mercyhealth W-2 partner physicians working in McHenry County. Specifically:
  - Physician Shortage. As more fully described in the attached Physician Need Analysis, according to physician manpower ratios from Thomson Reuters, McHenry County has a deficit of physicians as of 2016.<sup>1</sup> This includes a significant shortage in family medicine and internal medicine physicians, as well as a shortage in specialty care (including a 4.1 FTE in gastroenterology, 11.4 FTE in general surgery and 9.1 FTE in hematology/oncology).<sup>2</sup> Further, McHenry County has a high ratio of residents to primary care physicians, performing poorer than the state average.<sup>3</sup> The American Medical Association predicts that the current physician shortage in the U.S. will worsen over the next several years.<sup>4</sup> Without an adequate physician supply, McHenry County residents must seek care from physicians in other locations. In fact, only 35% of health care received by McHenry County residents is provided in McHenry County.<sup>5</sup> There is a need in McHenry County for additional oncology services.

Analysis of EPIC data for patients in the office practices of MercyHealth physicians shows that there are approximately 1200 patients with cancer. Mercyhealth lacks an oncologist in the area, and does not offer chemotherapy services.

<sup>1</sup> Thomson Reuters Healthcare – MarketPlanner Plus, Market Expert physician demand ratios.

<sup>2</sup> Thomson Reuters Healthcare – MarketPlanner Plus, Market Expert physician demand ratios.

<sup>3</sup> Mercyhealth's 2014 McHenry County Community Health Needs Assessment.

<sup>4</sup> American Medical Association, Physician Shortage and Projections, The 2016 Update: Complexities of Physician Supply and Demand: Projections from 2014 to 2025.

<sup>5</sup> Mercyhealth's 2014 McHenry County Community Health Needs Assessment.

- Efficiencies. Mercyhealth currently employs 20 W-2 partner physicians that work in four clinics in Crystal Lake and one clinic in Lake in the Hills, in some capacity. Mercyhealth leases various office buildings around McHenry County for these physicians to provide services. By doing so, Mercyhealth is unable to take advantage of efficiencies of operating a single MOB (e.g., shared reception, waiting room, records, storage and support staff areas).

4. Sources of Information.

Thomson Reuters Healthcare – MarketPlanner Plus, Market Expert physician demand ratios.

Mercyhealth's 2014 McHenry County Community Health Needs Assessment.

McHenry County Healthy Community Study, May 21, 2014

American Medical Association, Physician Shortage and Projections, The 2016 Update: Complexities of Physician Supply and Demand: Projections from 2014 to 2025.

Nielsen Claritas, Inc. New York, N.Y.; U.S. 2000 Census reports

Claritas – MarketPlanner Plus and Market Expert physician demand ratios

CompDATA, Illinois Hospital Association

5. Detail how the project will address or improve the previously referenced issues, as well as the population's health status and wellbeing. Mercyhealth believes that the shortage of specialty physicians is one of the primary reasons that residents of McHenry County are leaving the county in order to seek medical care. Leveraging its full integration model and W-2 Physician Partnership model, Mercyhealth intends to address this access problem by engaging in a physician recruitment strategy for McHenry County that is anticipated to include a general surgeon, a hematologist/oncologist, a gastroenterologist, a pain management physician, and primary care physicians. This is part of the rationale for the proposed MOB adjoining the hospital facility in the Project, along with re-locating current Mercyhealth physicians practicing in Crystal Lake from five separate clinic sites to a unified multi-specialty location.

The proposed MOB will have offices for 15 physicians and 37 exam rooms, allowing for the consolidation of five small office sites, ranging in size from two to nine physicians. In total, 20 physicians are currently officed in these practices. They generated 44,594 visits in FY 2015 and 42,905 visits in FY 2016. These physician practices will all be established in the proposed MOB.

The purpose of the consolidation of practices is to achieve operational efficiencies and enhance coordination of care delivery. There will be economies of scale due to shared facility space (reception and waiting, records, storage, staff support areas), enhanced collaboration by having multiple specialties under one roof, and, due to adjacency to the hospital, easy access for patients to lab testing, radiology, and pharmacy.

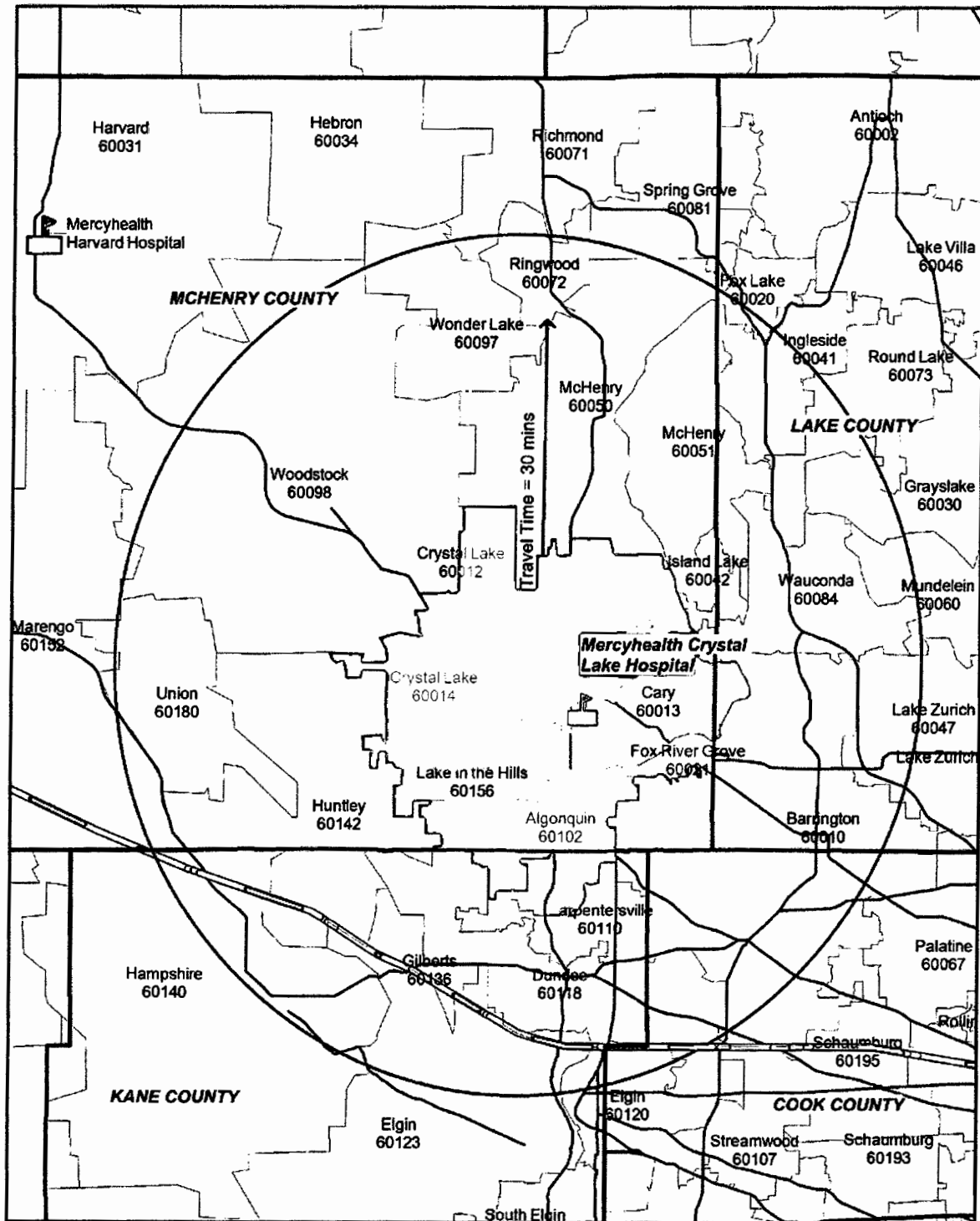
In addition, additional practitioners in primary care, general surgery, gastroenterology, pain management and oncology are being recruited. These are expected to add 30,000 patient visits, in addition to approximately 43,000 visits to current primary care physicians in year 2022, two years after project completion.

A projected 73,000 total annual visits are planned for Year 2022. The project plans for 37 exam rooms, consistent with the State standard of 2000 visits per exam room.

The project includes physical therapy and occupational therapy. It also includes an infusion therapy program to accommodate patients of Mercyhealth physicians who have cancer and would benefit from chemotherapy. Ten treatment stations are planned to be located in the proposed MOB.

6. Provide goals with quantified and measurable objectives. Mercyhealth has identified the following goals and measures:
  - A. Design and implement a physician recruitment plan to reduce the shortage of primary care physicians, general surgeons, gastroenterologists, pain management physicians and hematologists/oncologists in McHenry County.
  - B. Open the new MOB for service by November 30, 2020.
  - C. Accommodate 73,000 physician office visits by 2022, two years after project completion.
  - D. Provide 6,000 chemotherapy treatment sessions per year for patients of Mercyhealth physicians.
  - E. Provide 6,000 outpatient PT/OT visits for patients of Mercyhealth physicians in 2022.

APPROXIMATE 30 MINUTE TRAVEL TIME, MODIFIED BY PRECISE  
TIMES IN ATTACHED TABLE



**PATIENT ORIGIN OF PATIENT PANELS, BY RESIDENCE**  
 3 Mercyhealth Primary Care Physicians who will be officed in the Medical Office Building.

CITY	Zip Code	LOCMAN, MAURIA SENECAATNE, KESCHANATHO SHEH, EMILY M				Percentage	Cumulative Percentage
		Total					
		5	4	4	13		
Located Inside the Planning Area							
CRYSTAL LAKE	60014	439	708	689	1836	23.21%	23.00%
WOODSTOCK	60098	580	213	401	1194	15.10%	38.31%
MCHENRY	60050	173	253	356	782	9.89%	48.20%
CARY	60013	101	294	219	614	7.76%	55.96%
LAKE IN THE HILLS	60156	86	153	185	424	5.36%	61.32%
CRYSTAL LAKE	60012	67	108	135	310	3.92%	65.24%
WONDER LAKE	60097	61	72	139	292	3.69%	68.93%
MCHENRY	60051	38	59	99	196	2.48%	71.41%
ALGONQUIN	60102	27	75	83	185	2.35%	73.76%
HUNTLEY	60142	44	71	66	181	2.29%	76.05%
ISLAND LAKE	60042	17	33	42	92	1.16%	77.22%
CARPENTERSVILLE	60110	23	17	23	63	0.80%	78.01%
FOX RIVER GROVE	60021	11	29	12	52	0.66%	78.67%
VILLAGE OF LAKEWOOD	60014	12	10	15	37	0.47%	79.14%
UNION	60180	21	2	6	29	0.37%	94.40%
CRYSTAL LAKE	60039	4	9	11	24	0.30%	79.81%
OAKWOOD HILLS	60013	4	7	13	24	0.30%	80.11%
WAUCONDA	60084	2	12	10	24	0.30%	80.41%
BARRINGTON	60010	8	3	11	22	0.28%	80.69%
LAKE BARRINGTON	60010	5	6	9	20	0.25%	80.95%
ROUND LAKE	60073	3	7	5	15	0.19%	81.14%
WEST DUNDEE	60118		5	10	15	0.19%	95.39%
ELGIN	60123	4	2	7	13	0.16%	81.49%
PRAIRIE GROVE	60012	3	3	6	12	0.15%	81.64%
ELGIN	60120	3	1	7	11	0.14%	81.78%
RINGWOOD	60072	2	3	5	10	0.13%	81.91%
INGLESIDE	60041	4	2	3	9	0.11%	82.02%
PALATINE	60067		1	6	7	0.09%	82.11%
PALATINE	60074	3		3	6	0.08%	82.18%
GILBERTS	60136		1	4	5	0.06%	82.25%
Subtotal					6505		
Located Outside the Planning Area							
HARVARD	60033	249	32	87	368	4.65%	86.90%
MARENGO	60152	106	24	68	198	2.50%	89.40%
JOHNSBURG	60051	23	30	43	96	1.21%	90.62%
LAKEMOOR	60051	18	21	28	67	0.85%	91.47%
SPRING GROVE	60081	12	13	33	58	0.73%	92.20%
HEBRON	60034	37	5	13	55	0.70%	92.89%
RICHMOND	60071	7	15	28	50	0.63%	93.53%
CAPRON	61012	22	6	10	38	0.48%	94.01%
CHICAGO		12	2	17	31	0.39%	94.40%
TWIN LAKES	53181	6	2	15	23	0.29%	94.69%
FOX LAKE	60020	3	4	13	20	0.25%	94.94%
HAMPSHIRE	60140	4	11	3	18	0.23%	95.17%
PINGREE GROVE	60140	4	4	9	17	0.21%	95.39%
BELVIDERE	61008	5	2	6	13	0.16%	95.55%
MCCULLOM LAKE	60050	3	2	8	13	0.16%	95.71%
ROCKFORD		7	2	4	13	0.16%	95.88%
GENOA CITY	53128	8		2	10	0.13%	96.00%
LAKE GENEVA	53147	6	1	3	10	0.13%	96.13%
POPLAR GROVE	61065	4	2	2	8	0.10%	96.23%
BULL VALLEY	60098	2		4	6	0.08%	96.31%
BULL VALLEY	60050	3		3	6	0.08%	96.38%
LAKE VILLA	60046	1		5	6	0.08%	96.46%
ANTIOCH	60002	4		1	5	0.06%	96.52%
SCHAUMBURG	60193	3	2		5	0.06%	96.59%
Subtotal					1134		
All Other Zip Codes w/ Total Panel <25							
		89	81	100	270	3.41%	100.00%
Grand Total		2403	2421	3035	7909		

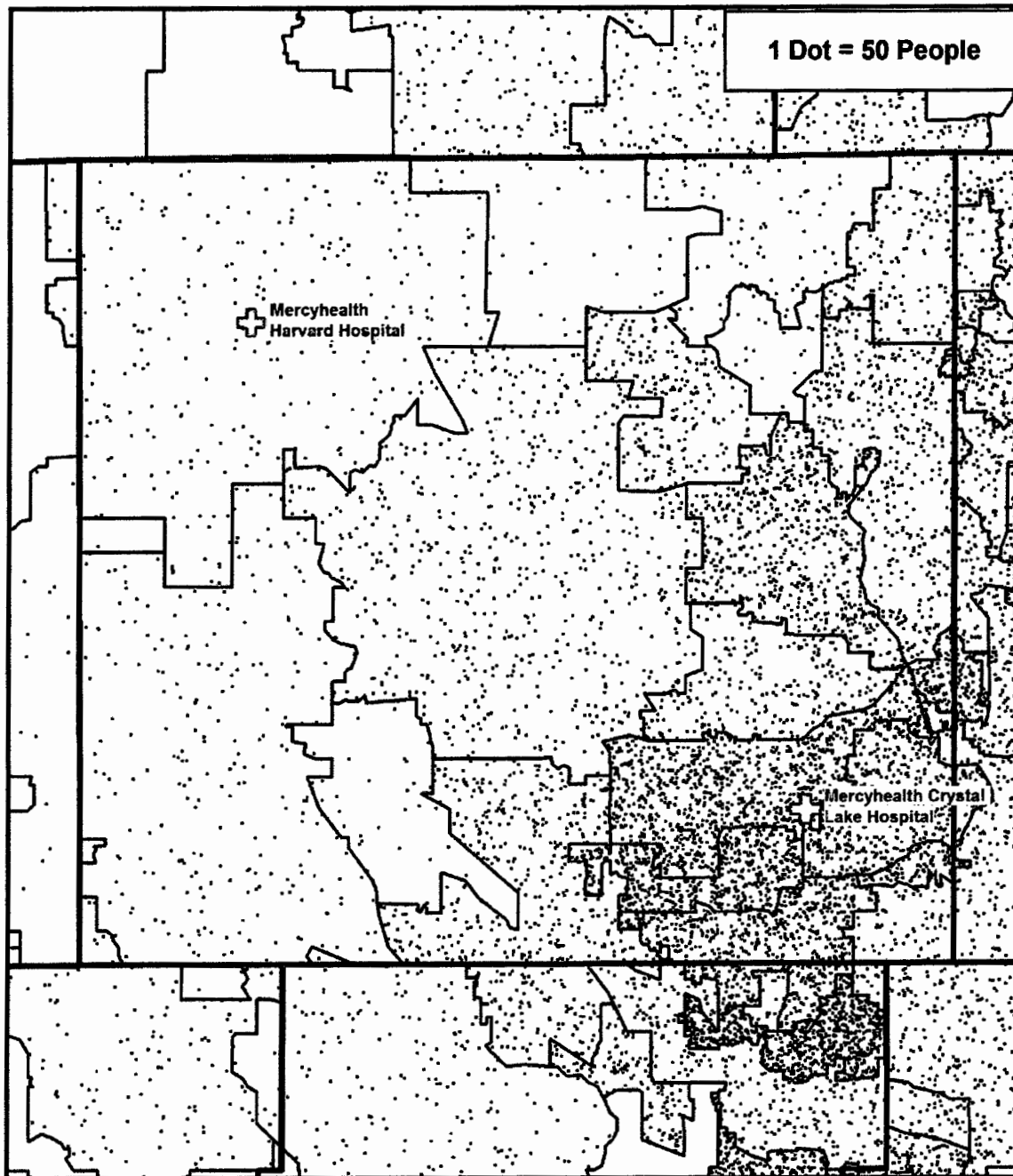
PHYSICIAN NEED ANALYSIS BY SPECIALTY  
JULY 2016

*Physician Surplus/(Deficit)*

<b>Specialty</b>	<b>McHenry County</b>
<b>Primary Care:</b>	
Family Medicine	(64.7)
Internal Medicine	(18.9)
Obstetrics and Gynecology	(10.9)
Pediatrics	4.4
<b>PRIMARY CARE TOTAL</b>	<b>(90.1)</b>
<b>Specialty Care:</b>	
Allergy/Immunology	(2.0)
Cardiology	(1.2)
Cardiac/Thoracic Surgery	3.3
Colorectal Surgery	(0.5)
Dermatology	(6.2)
Endocrinology	0.9
Gastroenterology	(4.1)
General Surgery	(11.4)
Hematology/Oncology	(9.1)
Infectious Disease	(0.7)
Nephrology	(2.7)
Neurology	(0.7)
Neurosurgery	(3.0)
Ophthalmology	(6.2)
Orthopedic Surgery	(0.6)
Otolaryngology	(4.4)
Physical Med and Rehab	(2.0)
Plastic Surgery	(4.1)
Psychiatry	(8.1)
Pulmonology	(1.7)
Rheumatology	0.5
Urology	(4.5)
Vascular Surgery	(0.9)
<b>SPECIALTY CARE TOTAL</b>	<b>(69.3)</b>
<b>SURPLUS/(DEFICIT) TOTAL</b>	<b>(159.4)</b>

Sources: Truven Health Analytics (demand)--MarketPlanner Plus ratios 2016 (75% productivity model); Mercyhealth Planning Department (supply)

**Population Density in McHenry County  
2015 Population Estimate**



Source: U.S. Census Bureau, 2011-2015 American Community Survey 5-Year Estimates  
Note: Dots are randomly placed within geographies.



## ALTERNATIVES

The proposed project is the construction of a 36,322 square foot medical office building functionally and programmatically connected to the proposed new hospital in Crystal Lake that is addressed by a separate Certificate of Need permit application. The medical office building will have offices for 15 physicians, mostly specialists, and 37 exam rooms. Also included is a 10 station infusion therapy program and PT/OT space. Cost of the project is \$23,789,685.

Before deciding to undertake the proposed project, several other options were considered:

1. Construct a larger Medical Office Building, with offices for 50 physicians. One option considered was a project to construct a much larger Medical Office Building in Crystal Lake with office space for 50 physicians. This option would be considerably more expensive, as the Medical Office Building itself would need to be substantially larger. The total project cost for this option is \$67 million.
2. Construct a Medical Office Building with an Ambulatory Surgical Treatment Center. Another option considered was constructing an Ambulatory Surgical Treatment Center and Medical Office Building in Crystal Lake with acute care beds. This option is not needed because surgeries will be accommodated in the proposed adjacent hospital. The total project cost for this option is \$69 million.
3. Construct the Medical Office Building in another location. Consideration was given to constructing the Medical Office Building in another location. The proposed location is property currently owned by a subsidiary of Mercy Health Corporation. The location is centrally accessible to the planning area, adjacent to the proposed new hospital. Locating the Medical Office Building adjacent to the proposed new hospital is convenient for emergency care as specialists will be available in an adjacent building. Additionally, adjacency to the hospital allows for easy access to diagnostic imaging for outpatients visiting the Medical Office Building. The total project cost for this option is \$35 million.

## SIZE OF THE PROJECT

The project is the construction of a medical office building on vacant land in Crystal Lake. The medical office building is physically and programmatically connected to a proposed new hospital on the site that is addressed in a separate Certificate of Need permit application. Total square feet for the medical office building is 36,322 square feet. Of the total 36,322 square feet, 6,785 dgsf is clinical, 29,537 is non-clinical.

Space is allocated as follows:

Functional Areas	Proposed dgsf	State Standard	Difference	Met Standard?
<i>Clinical services other than Categories of Service</i>				
PT/OT	3,406	None	N/A	N/A
Infusion Therapy	3,379	None	N/A	N/A
<b>Subtotal Clinical</b>	<b>6,875</b>			
<i>Non-Clinical Areas</i>				
Offices, 37 exam rooms	23,369	29,600	6,231	Yes
Non-Clinical Support	675	None	N/A	N/A
<b>Subtotal Non-Clinical</b>	<b>29,537</b>			
<b>Total</b>	<b>36,322</b>			

The total amount of space needed for the project is appropriate, based on (1) consistency with State utilization standards and (2) consistency with size standards for relevant clinical services.

Consistency with State utilization standards is relevant only to the exam area of the project. The State has a standard of 2,000 visits per year for ambulatory care rooms. A proposed 73,000 visits are projected, which justifies 36.5 rooms, or 37, rounded. The methodology for the projection of 73,000 visits is built around the consolidation of five existing Mercyhealth Clinics in McHenry County and the recruitment of additional specialists. The methodology is presented in Project Services Utilization, Attachment 15 of this permit application.

There are no space or utilization standards for PT/OT and infusion therapy. Methodologies for volume projections for those services are included in Attachment 15.

## PROJECT SERVICES UTILIZATION

This section describes how projections were developed for the following areas:

Clinical service areas Other than Categories of Service  
PT/OT  
Infusion Therapy  
Non-clinical areas  
Clinic Exam Rooms

Projected utilization for each of the above services for years 2021 and 2022 (two years after project completion in November, 2020) are shown in the tables below.

### PT/OT

Four physical therapy treatment rooms, a gym and an occupational therapy treatment room are planned.

A review of therapy orders by Mercyhealth physicians officed in the Crystal Lake, Algonquin, Cary, Fox River Grove and Lake in the Hills, determined that 750 to 800 patients are referred annually for PT/OT sessions. Each patient receives an average of 8 sessions.  $750 \text{ PT/OT orders} \times 8 \text{ sessions/order} = 6,000 \text{ visits}$

It is projected that there will be a total of 6,000 outpatient therapy visits at the PT/OT facility in the medical office building.

Comparison to State Standards			
Category of Service	Volume	State Standard	Met Standard?
PT/OT			
Year 2021	6,000	none	N/A
Year 2022	6,000	none	N/A

### Infusion Therapy

The project plans for ten infusion therapy treatment stations. That is based on an estimated 5,700 annual treatments.

The medical manpower needs assessment identified a need for increased oncology services in McHenry County. In an effort to meet the community needs, Mercyhealth plans to hire an oncologist and provide infusion services at the Crystal Lake facility. Based on an analysis of the EPIC information system for patients of Mercyhealth physicians, there are at present 1,200 patients with incidence of cancer. Many of these would benefit from infusion therapy provided in the Mercyhealth system. A typical course of chemotherapy treatment is 6 visits. It is estimated that 950 patients (5,700 treatments) will utilize the service.

If the service is provided 6 days per week (310 days per year), a volume of 18.4 patients per day is anticipated. At 4 hours per session, this volume of patients generates 73.5 hours per day. Two four hour shifts is 8 hours of service.  $73.5 \div 8 = 9.2$  stations, rounded to 10.

Comparison to State Standards			
Category of Service	Volume	State Standard	Met Standard?
Infusion Therapy			
Year 2021	5,700	none	N/A
Year 2022	5,700	none	N/A

### Clinic Exam Rooms

The Medical Office Building ("MOB") will have offices for 15 physicians and 37 exam rooms.

The MOB accomplishes the consolidation of 5 small office sites, ranging in size from 2 to 9 physicians. In total, 20 physicians are currently officed in these practices. They generated 44,594 visits in FY 2015 and 42,905 visits in FY 2016. They will all be scheduled for rotations in the proposed new medical office building.

Clinic Visits		
	2015	2016
Mercy Crystal Lake Medical Center South	12,732	14,966
Mercy Crystal Lake Medical Center East	11,629	13,062
Mercy Crystal Lake OB/GYN	6,014	6,712
Mercy Northwest Women's Group	2,275	2,298
Mercy Crystal Lake Chiropractic and Rehabilitation Center	3,657	3,504
Mercy Crystal Lake West	8,287	2,363
<b>Total</b>	<b>44,594</b>	<b>42,905</b>

Note: Crystal Lake Medical Center West closed in 2016. One physician retired. Each of the other four physicians at West relocated to one of the other Mercyhealth clinics.

The purpose of the consolidation of practices is to achieve operational efficiencies and enhance coordination of care delivery. There will be economies of scale due to shared facility space (reception and waiting, records, storage, staff support areas), enhanced collaboration by having multiple specialties under one roof, and, due to adjacency to the hospital, easy access for patients to lab testing, radiology, and pharmacy.

Additional practitioners in primary care, general surgery, gastroenterology, pain management and oncology are being recruited. These are expected to provide an additional 30,000 visits in year 2022, two years after project completion

A projected 73,000 total annual visits are planned for Year 2022. The project plans for 37 exam rooms, consistent with the State standard of 2,000 visits per exam room.

Comparison to State Standards			
Category of Service	Volume	State Standard	Met Standard?
Clinical Exam Room			
Year 2021	73,000 visits	2,000 visits/room	N/A
Year 2022	73,000 visits	2,000 visits/room	N/A

## CLINICAL SERVICE AREAS OTHER THAN CATEGORIES OF SERVICE

### 1110.3030 (b) (1) and (3) Background of the Applicant

This information is provided in Attachments 1, 3, 4 and 11.

### 1110.3030 (c) Need Determination – Establishment

The Clinical Service Areas that are not categories of service are:

PT/OT  
Infusion Therapy

1. Service to Planning Area Residents. The utilization of outpatient services (clinic services, physical therapy and occupational therapy and infusion therapy) is related to the practices of physicians who will be officed in the medical office building. The residential distribution of these patients is more concentrated than for inpatient admissions. The planning area is defined as 30 zip codes within 30 minute travel time from the site of the proposed hospital and medical office building. For patients of physicians in the medical office building, and for PT/OT and infusion therapy patients, the Planning Area is the source of 82% of outpatient visits.

As presented in the Project Services Utilization section, the medical office building will consolidate four clinics now in Crystal Lake and one in nearby Lake in the Hills that accommodated 42,905 office visits in 2016. Additional primary care physicians and specialists in gastroenterology, general surgery, oncology, pain management and pain management will be recruited based on the needs analysis.

The methodology for determining a service area for these patients utilizes data from patient panels of three primary care physicians (all Family Practice). These physicians currently practice one of the five clinics to be consolidated into the medical office building. Dr. Mabria Loqman (2,423 patients), Dr. Krishanthi Senevirante (2,426 patients) and Dr. Emily Shen (3,102 patients) have practices with collective patient volumes of almost 8,000 individuals. Analysis of the distribution of their patient panels by zip code of residence is shown on the table on the next page. 6,505 (82%) of their patients reside in the Planning Area. The office practice information of the other physicians in the five offices being consolidated is comparable to the patient origin data for these three physicians.

The panel exercise is relevant to the determination that the new medical office building and the PT/OT and infusion therapy services located within it will serve primarily residents of the 30 zip code Planning Area.

PATIENT ORIGIN OF PATIENT PANELS, BY RESIDENCE

3 Mercyhealth Primary Care Physicians who will be office'd in the Medical Office Building.

CITY	Zip Code	LOOMAN, MABRIA	SENEARATNE, KRISHANTHO	SHEN, EMILY H	Total	Percentage	Cumulative Percentage
		5	4	4	13		
Located Inside the Planning Area							
CRYSTAL LAKE	60014	439	708	689	1836	23.21%	23.00%
WOODSTOCK	60098	580	213	401	1194	15.10%	38.31%
MCHENRY	60050	173	253	356	782	9.89%	48.20%
CARY	60013	101	294	219	614	7.76%	55.96%
LAKE IN THE HILLS	60156	86	153	185	424	5.36%	61.32%
CRYSTAL LAKE	60012	67	108	135	310	3.92%	65.24%
WONDER LAKE	60097	81	72	139	292	3.69%	68.93%
MCHENRY	60051	38	59	99	196	2.48%	71.41%
ALGONQUIN	60102	27	76	83	186	2.35%	73.76%
HUNTLEY	60142	44	71	66	181	2.29%	76.05%
ISLAND LAKE	60042	17	33	42	92	1.16%	77.22%
CARPENTERSVILLE	60110	23	17	23	63	0.80%	78.01%
FOX RIVER GROVE	60021	11	29	12	52	0.66%	78.67%
VILLAGE OF LAKEWOOD	60014	12	10	15	37	0.47%	79.14%
UNION	60180	21	2	6	29	0.37%	94.40%
CRYSTAL LAKE	60039	4	9	11	24	0.30%	79.81%
OAKWOOD HILLS	60013	4	7	13	24	0.30%	80.11%
WAUWATONIA	60084	2	12	10	24	0.30%	80.41%
BARRINGTON	60010	8	3	11	22	0.28%	80.69%
LAKE BARRINGTON	60010	5	6	9	20	0.25%	80.95%
ROUND LAKE	60073	3	7	5	15	0.19%	81.14%
WEST DUNDEE	60118	5	10	15	15	0.19%	95.39%
ELGIN	60123	4	2	7	13	0.16%	81.49%
PRAIRIE GROVE	60012	3	3	6	12	0.15%	81.64%
ELGIN	60120	3	1	7	11	0.14%	81.78%
RINGWOOD	60072	2	3	5	10	0.13%	81.91%
INGLESIDE	60041	4	2	3	9	0.11%	82.02%
PALATINE	60067	1	6	7	7	0.09%	82.11%
PALATINE	60074	3	3	6	6	0.08%	82.18%
GILBERTS	60136	1	4	5	5	0.06%	82.25%
Subtotal					6505		
Located Outside the Planning Area							
HARVARD	60033	249	32	87	368	4.65%	86.90%
MARENGO	60152	106	24	68	198	2.50%	89.40%
JOHNSBURG	60051	23	30	43	96	1.21%	90.62%
LAKEMOOR	60051	18	21	28	67	0.85%	91.47%
SPRING GROVE	60081	12	13	33	58	0.73%	92.20%
HEBRON	60034	37	5	13	55	0.70%	92.89%
RICHMOND	60071	7	15	28	50	0.63%	93.53%
CAPRON	61012	22	6	10	38	0.48%	94.01%
CHICAGO		12	2	17	31	0.39%	94.40%
TWIN LAKES	53181	6	2	15	23	0.29%	94.69%
FOX LAKE	60020	3	4	13	20	0.25%	94.94%
HAMPSHIRE	60140	4	11	3	18	0.23%	95.17%
PENGREE GROVE	60140	4	4	9	17	0.21%	95.39%
BELVIDERE	61008	5	2	6	13	0.16%	95.55%
MCCULLOM LAKE	60050	3	2	8	13	0.16%	95.71%
ROCKFORD		7	2	4	13	0.16%	95.88%
GENOA CITY	53128	8		2	10	0.13%	96.00%
LAKE GENEVA	53147	6	1	3	10	0.13%	96.13%
POPLAR GROVE	61065	4	2	2	8	0.10%	96.23%
BULL VALLEY	60098	2		4	6	0.08%	96.31%
BULL VALLEY	60050	3		3	6	0.08%	96.38%
LAKE VILLA	60046	1		5	6	0.08%	96.46%
ANTIOCH	60002	4		1	5	0.06%	96.52%
SCHAUMBURG	60193	3	2		5	0.06%	96.59%
Subtotal					1134		
All Other Zip Codes w/ Total Panel <25		89	81	100	270	3.41%	100.00%
Grand Total		2403	2421	3025	7909		

2. Service Demand. PT/OT visits are based on an anticipated 6,000 outpatient PT/OT visits are based on an expected 750 patients affiliated with Mercyhealth physicians, who receive on average 8 visits each. This results in a total of 6,000 visits to the 4 room therapy center in the proposed medical office building. There is no State standard for PT/OT visits.

5,700 infusion therapy visits are planned for 2021 and 2022, two years after project completion. As described in the Project Services Utilization section, there are about 1200 patients with cancer in Mercyhealth physician primary care practices, based on the EPIC medical information system. Assuming that 950 of these patients would receive chemotherapy in the infusion center at the new medical office building, and on average have 6 treatments each, a total of 5,700 treatments are projected for 2021 and 2022.

The clinic exam offices are not a clinical service area. The volume of 73,000 visits for the offices and exam rooms is based on the consolidation of 5 Mercyhealth clinics in McHenry County and the recruitment of specialty physicians. The methodology for this projection is also included in Attachment 15.

3. Impact of the Proposed Project on Other Area Providers. The scale of operations at the proposed office building is modest. As a result, the impact on other service providers or clinics due to a shift in service is minimal.
4. Utilization. There are no utilization standards for the PT/OT and infusion therapy services. The 73,000 outpatient visits to physician offices justifies the 37 exam rooms planned.

## AVAILABILITY OF FUNDS

Audited financial statements of Mercy Health Corporation are attached.



# Mercy Health Corporation

Rockford, Illinois

Consolidated Financial Statements and  
Supplementary Information

Year ended June 30, 2016



**WIPFLi**<sup>LLP</sup>  
CPAs and Consultants



## **Independent Auditor's Report**

Board of Directors  
Mercy Health Corporation  
Rockford, Illinois

We have audited the accompanying consolidated financial statements of Mercy Health Corporation, which comprise the consolidated balance sheet as of June 30, 2016, and the related consolidated statements of operations, changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

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

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

### **Auditor's Responsibility**

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

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

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

### **Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Mercy Health Corporation as of June 30, 2016, and the results of its operations, changes in net assets, and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States.

*Wipfli LLP*

Wipfli LLP

August 16, 2016  
Milwaukee, Wisconsin

# Mercy Health Corporation

## Consolidated Balance Sheet

June 30, 2016

Assets	(In Thousands)
Current assets:	
Cash and cash equivalents	\$ 119,609
Patient accounts receivable - Net	162,574
Supplies	24,447
Prepaid expenses	12,599
Current portion of assets limited as to use	13,421
Other receivables	14,872
Total current assets	347,522
Assets limited as to use, less current portion	959,111
Property and equipment - Net	445,498
Other assets:	
Investment in joint ventures	12,141
Other	16,902
Total other assets	29,043
<b>TOTAL ASSETS</b>	<b>\$ 1,781,174</b>

<b>Liabilities and Net Assets</b>		<b>(In Thousands)</b>
<b>Current liabilities:</b>		
Current maturities of long-term debt	\$	7,155
Accounts payable		25,979
Due to third-party payors		19,103
Accrued salaries, wages, and payroll taxes		63,887
Other accrued expenses		43,038
<b>Total current liabilities</b>		<b>159,162</b>
<b>Long-term liabilities:</b>		
Long-term debt, less current maturities		722,495
Accrued liabilities under self-insurance program		80,243
Deferred compensation		15,428
Pension obligations		63,579
Accrued post retirement medical benefits		6,657
Other liabilities		2,276
<b>Total long-term liabilities</b>		<b>890,678</b>
<b>Total liabilities</b>		<b>1,049,840</b>
<b>Net assets:</b>		
Unrestricted		709,822
Temporarily restricted		13,263
Permanently restricted		8,249
<b>Total net assets</b>		<b>731,334</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$</b>	<b>1,781,174</b>

See accompanying notes to consolidated financial statements.

# Mercy Health Corporation

## Consolidated Statement of Operations

Year Ended June 30, 2016

	(In Thousands)
Revenue:	
Patient service revenue (net of contractual allowances and discounts)	\$ 973,880
Provision for bad debts	(42,574)
Net patient service revenue less provision for bad debts	931,306
Premium revenue	84,064
Other operating revenue	26,590
Total revenue	1,041,960
Expenses:	
Salaries and wages	497,760
Employee benefits	79,633
Professional fees and purchased services	103,395
Medical claims and capitation payments	18,166
Medical supplies, other supplies, and drugs	165,308
Insurance	14,552
Provider tax assessment	20,825
Other	26,518
Depreciation and amortization	51,722
Interest	11,645
Total expenses	989,524
Income from operations	52,436
Nonoperating income (expense):	
Loss on early retirement of debt	(3,077)
Other nonoperating income	184
Investment loss - Net	(2,395)
Total nonoperating expense - Net	(5,288)
Excess of revenue over expenses	47,148
Other changes in unrestricted net assets:	
Changes in pension obligation other than pension expense and post retirement medical benefit adjustment	(36,647)
Other	419
Increase in unrestricted net assets	\$ 10,920

See accompanying notes to consolidated financial statements.

# Mercy Health Corporation

## Consolidated Statement of Changes in Net Assets

Year Ended June 30, 2016

	(In Thousands)
Unrestricted net assets:	
Excess of revenue over expenses	\$ 47,148
Changes in pension obligation other than pension expense and post retirement medical benefit adjustment	(36,647)
Other	419
Increase in unrestricted net assets	10,920
Temporarily restricted net assets:	
Contributions	618
Investment income - Net	237
Net change in beneficial interest in trusts	(659)
Net assets released from restriction	(995)
Decrease in temporarily restricted net assets	(799)
Decrease in permanently restricted net assets - Net change in beneficial interest in trusts	(159)
Change in net assets	9,962
Net assets at beginning	721,372
Net assets at end	\$ 731,334

See accompanying notes to consolidated financial statements.

# Mercy Health Corporation

## Consolidated Statement of Cash Flows

Year Ended June 30, 2016

	(In Thousands)
Increase (decrease) in cash and cash equivalents:	
Cash flows from operating activities:	
Change in net assets	\$ 9,962
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Provision for bad debt	42,574
Equity gains in joint ventures	(4,782)
Changes in pension obligation other than pension expense and post retirement medical benefit adjustment	36,647
Net realized and unrealized gains and losses on investments	8,444
Depreciation and amortization	51,368
Loss on sale of property and equipment	239
Loss on early retirement of debt	3,077
Changes in operating assets and liabilities:	
Patient accounts receivable	(49,321)
Supplies and other assets	1,426
Accounts payable	(251)
Accrued liabilities and other	131
Due to/from third-party payors	518
<b>Net cash provided by operating activities</b>	<b>100,032</b>
Cash flows from investing activities:	
Increase in assets limited as to use	(452,370)
Purchases of property and equipment	(54,478)
Proceeds from sale of property and equipment	24
Proceeds received from joint ventures	4,710
<b>Net cash used in investing activities</b>	<b>(502,114)</b>
Cash flows from financing activities:	
Principal payments on long-term debt	(109,414)
Proceeds from issuance of long-term debt	541,752
Loss on early retirement of debt	(2,702)
Payments of deferred financing fees	(3,824)
<b>Net cash provided by financing activities</b>	<b>425,812</b>
<b>Net increase in cash and cash equivalents</b>	<b>23,730</b>
<b>Cash and cash equivalents at beginning</b>	<b>95,879</b>
<b>Cash and cash equivalents at end</b>	<b>\$ 119,609</b>
<b>Supplemental cash flow information:</b>	
Cash paid for interest	\$ 10,589

See accompanying notes to consolidated financial statements.

# Mercy Health Corporation

## Notes to Consolidated Financial Statements (In Thousands)

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### **Note 1: Summary of Significant Accounting Policies**

#### **Principles of Consolidation**

Mercy Health Corporation (MHC) is a not-for-profit entity that serves as the parent corporation and supports the operations of the health system with the goal of providing integrated primary, secondary, and advanced tertiary medical and surgical services for the benefits of the residents of the combined service area.

Mercy Health Corporation consists of the following affiliated entities:

- Mercy Health System Corporation (MHSC), which operates a 240-bed hospital in Janesville, Wisconsin, and approximately 43 physician clinics in southern Wisconsin and northern Illinois; a skilled nursing facility (SNF) that operates as a subacute care unit of the hospital; and Mercy Walworth Hospital and Medical Center (MWH), which operates a 25-bed hospital facility in Walworth County, Wisconsin; Mercy Foundation, Inc. (MFI), whose primary activity is fund-raising for MHSC and its programs in accordance with its by-laws; and MercyCare Insurance Company (MCIC), which is an indemnity insurance company that contracts with local employers. MCIC has a wholly owned subsidiary, MercyCare HMO, which operates as a health maintenance organization (HMO) under Wisconsin statutes. MCIC and MercyCare HMO contract for services with affiliates and other providers.
- Mercy Assisted Care, Inc. (MAC) operates Mercy Homecare, a supplier of durable medical equipment and coordinates home care and hospice services through nurses, physical therapists, and speech therapists.
- Mercy Harvard Hospital, Inc. (MHH) operates a hospital with 25 acute and 45 long-term care beds located in Harvard, Illinois; and MHH also has a controlled affiliate, Harvard Memorial Hospital Foundation, whose purpose is to support the programs of MHH.
- Rockford Memorial Hospital (RMH) provides inpatient, outpatient, and emergency care services to residents of Rockford, Illinois and the surrounding communities. Rockford Health System Ventures, LLC (RHSV) is a wholly owned subsidiary of RMH and was created to manage the RMH's investments in joint ventures. RHS Regional Health Network (RRHN) is an accountable care organization. Rockford Health Insurance Ltd. (RHIL) is a wholly owned subsidiary of RMH, is incorporated under the laws of Bermuda, and provides the affiliated entities with excess professional and general liability insurance.
- Rockford Health Physicians (RHPH) provides physician and ambulatory care services at several sites.
- Rockford Memorial Development Foundation (RMDF) is organized to promote education and scientific and charitable health care activities.
- Visiting Nurses Association of Rockford (VNA) provides home health nursing services and rents medical equipment to residents of Rockford, Illinois and the surrounding communities.



# Mercy Health Corporation

## Notes to Consolidated Financial Statements (In Thousands)

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### **Note 1: Summary of Significant Accounting Policies (Continued)**

#### **Principles of Consolidation (Continued)**

The consolidated financial statements include the accounts and operations of Mercy Health Corporation, including MHSC, MAC, MHH, RMH, RHPH, RMDF, VNA, and their wholly owned subsidiaries (collectively the "Corporation"). All significant intercompany accounts and transactions have been eliminated in consolidation. The Corporation eliminates patient service revenue generated from employees participating in the self-insured health plan.

#### **Financial Statement Presentation**

The Corporation follows accounting standards set by the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). The ASC is the single source of authoritative accounting principles generally accepted in the United States (GAAP) to be applied to nongovernmental entities in the preparation of financial statements in conformity with GAAP.

#### **Use of Estimates in Preparation of Financial Statements**

The preparation of the accompanying consolidated financial statements in conformity with GAAP requires management to make certain estimates and assumptions that directly affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results may differ from these estimates.

The Corporation considers critical accounting estimates to be those that require more significant judgments which include the valuation of accounts receivable (including contractual allowances and allowance for doubtful accounts), estimated third-party settlements, reserves for losses and expenses related to self-insurance for employee health care claims and malpractice claims, valuation of the pension liability and postretirement medical benefits, and reserves for unpaid claims for participants in MCIC and MercyCare HMO insurance programs.

#### **Cash Equivalents**

Highly liquid debt instruments with an original maturity of three months or less are considered to be cash equivalents, excluding amounts limited as to use and amounts held by pension plans. Highly-liquid debt instruments with an original maturity of three months or less are considered to be cash equivalents, excluding amounts limited as to use.

# Mercy Health Corporation

## Notes to Consolidated Financial Statements (In Thousands)

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### **Note 1: Summary of Significant Accounting Policies (Continued)**

#### **Patient Accounts Receivable and Credit Policy**

Patient accounts receivable are uncollateralized patient obligations that are stated at the amount management expects to collect from outstanding balances. These obligations are primarily from local residents, most of whom are insured under third-party payor agreements. The Corporation bills third-party payors on the patients' behalf, or if a patient is uninsured, that patient is billed directly. Once claims are settled with the primary payor, any secondary insurance is billed, and patients are billed for copay and deductible amounts that are the patients' responsibility. Payments on accounts receivable are applied to the specific claim identified on the remittance advice or statement. The Corporation does not have a policy to charge interest on past due accounts.

Patient accounts receivable are recorded in the accompanying consolidated balance sheet net of contractual adjustments and discounts and an allowance for doubtful accounts which reflects management's best estimate of the amounts that will not be collected. Management provides for contractual adjustments under terms of third-party reimbursement agreements and uninsured patient discounts through a reduction of gross revenue and a credit to patient accounts receivable. In evaluating the collectibility of patient accounts receivable, the Corporation analyzes historical loss experience on revenue from all payors. Using the loss experience rate, the Corporation estimates the appropriate allowance for doubtful accounts and provision for bad debts. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged against the allowance for doubtful accounts.

#### **Supplies**

Supplies are valued at the lower of cost, or market.

#### **Investments, Assets Limited as to Use and Investment Income**

Investments, including assets limited as to use, are measured at fair value in the accompanying consolidated balance sheet. Investments have been designated as trading securities. Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is included in nonoperating income unless the income is restricted by donor or law. Realized gains and losses are determined by specific identification.

Assets limited as to use include assets the Board of Directors has designated for future capital improvements and expansion over which the Board retains control and may at its discretion subsequently use for other purposes, amounts set aside for compensation agreements and for professional liability programs, amounts set aside for regulatory requirements and compliance, assets held by a trustee under bond indenture agreements, and temporarily restricted and donor restricted endowment funds, except interests in beneficial trusts, which are recorded in other assets. Amounts required to meet current liabilities have been classified as current assets.

# Mercy Health Corporation

## Notes to Consolidated Financial Statements (In Thousands)

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### **Note 1: Summary of Significant Accounting Policies (Continued)**

#### **Fair Value Measurements**

GAAP specifies a three-tier fair value hierarchy, which prioritizes the inputs used in estimating fair value. These tiers include Level 1, defined as observable inputs such as quoted market prices in active markets; Level 2, defined as inputs other than quoted market prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore, requiring an entity to develop its own assumptions.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs.

In May 2015, the FASB issued ASU No. 2015-07, *Fair Value Measurement*. This ASU amends Accounting Standards Codification (ASC) Topic 820 and removes the requirements to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value (NAV) per share practical expedient. This ASU also removes the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the NAV per share practical expedient. Rather, those disclosures are limited to investments for which the entity has elected to measure the fair value using that practical expedient. The guidance in this ASU is effective for the Corporation's year ending June 30, 2017; however, the Corporation chose to early adopt this new guidance for the year ended June 30, 2016.

#### **Property, Equipment and Depreciation**

Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Leasehold improvements are amortized over the shorter period of the estimated useful life or the remaining term of the lease. Estimated useful lives range from 2 to 20 years for land improvements, 5 to 20 years for leasehold improvements, 5 to 25 years for building and improvements, and 3 to 20 years for major moveable equipment.

#### **Unamortized Debt Issuance Costs and Bond Premiums**

Bond issuance costs and original issue premiums related to the issuance of long-term debt are amortized over the life of the related debt using the effective interest method and are included with interest expense in the accompanying consolidated statement of operations.

# Mercy Health Corporation

## Notes to Consolidated Financial Statements (In Thousands)

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### **Note 1: Summary of Significant Accounting Policies (Continued)**

#### **Asset Retirement Obligation**

ASC Topic 410-20, *Accounting for Conditional Asset Retirement Obligation*, clarifies when an entity is required to recognize a liability for a conditional asset retirement obligation. Management has considered ASC Topic 410-20, specifically as it relates to its legal obligation to perform asset retirement activities, such as asbestos removal, on its existing properties. Management believes that there is an indeterminate settlement date for the asset retirement obligations because the range of time over which the Corporation may settle the obligation is unknown and cannot be estimated. As a result, management cannot reasonably estimate the liability related to these asset retirement activities as of June 30, 2016.

#### **Long-Lived Assets**

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If an impairment has occurred, a loss will be recognized. No impairment losses were recognized in 2016.

#### **Net Assets**

Unrestricted net assets are neither temporarily nor permanently restricted by donor-imposed stipulations. 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.

#### **Self-Insurance**

Accrued liabilities under self-insurance programs include estimates of the ultimate cost for known claims as well as incurred but not reported claims as of the consolidated balance sheet date.

# Mercy Health Corporation

## Notes to Consolidated Financial Statements (In Thousands)

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### **Note 1: Summary of Significant Accounting Policies (Continued)**

#### **Patient Service Revenue**

The Corporation recognizes patient service revenue associated with services provided to patients who have third-party payor coverage primarily on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, the Corporation recognizes revenue on the basis of discounted rates established under the Corporation's uninsured patient policy. The provision for contractual allowances (that is, the difference between established rates and expected third-party payor payments) and the discounts (that is, the difference between established rates and the amount billable) are recognized on the accrual basis. These amounts are deducted from gross patient service revenue to determine patient service revenue (net of contractual allowances and discounts). Based on the historical experience of the Corporation, a significant portion of uninsured patients will be unwilling or unable to pay for services provided. Thus, the Corporation records a provision for bad debts related to uninsured patients in the period the services are provided. The provision for bad debts is based on historical loss experience and is deducted from patient service revenue (net of contractual allowances and discounts) to determine net patient service revenue less provision for bad debts. The Corporation also accrues retroactive adjustments under reimbursement agreements with third-party payors on an estimated basis in the period the related services are provided. Estimates are adjusted in future periods as final settlements are determined.

#### **Premium Revenue and Claims Payable**

Premiums are billed monthly for coverage in the following month and are recognized as revenue in the month for which insurance protection is provided. Claims payable, included in other accrued expenses in the accompanying consolidated balance sheet, are determined using statistical analyses and represent estimates of the ultimate net cost of all reported and unreported claims that are unpaid at the end of each accounting period. Although it is not possible to measure the degree of variability inherent in such estimates, management believes that the liabilities for claims are adequate. The estimates are reviewed periodically, and as adjustments to these liabilities become necessary, such adjustments are reflected in current operations. The Corporation has recorded a provision of \$8,474 at June 30, 2016 for claims payable.

#### **Hospital Assessments**

Wisconsin state regulations require eligible hospitals to pay the state an annual assessment. The assessment period is the state's fiscal year, which runs from July 1 to June 30. The assessment is based on each hospital's gross revenues, as defined. The revenue generated from the assessment is to be used, in part, to increase overall reimbursement under the Wisconsin Medicaid program.

The state of Illinois has a hospital assessment program to improve Medicaid reimbursement for Illinois hospitals and access to hospital services for qualifying patients. The program requires hospitals to pay an assessment based on inpatient and outpatient utilization factors, primarily on occupied bed days and revenue, respectively. The funds raised from the assessments are matched by the federal government and distributions are made to hospitals based on certain factors, including Medicaid inpatient and outpatient utilization. The assessment program is currently effective through June 30, 2018.

# Mercy Health Corporation

## Notes to Consolidated Financial Statements (In Thousands)

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### **Note 1: Summary of Significant Accounting Policies (Continued)**

#### **Hospital Assessments (Continued)**

Provider tax assessments and payments are recognized in the period to which they apply and are included in the accompanying consolidated statement of operations.

#### **Excess of Revenue Over Expenses**

The accompanying consolidated statements of operations and changes in net assets include excess of revenue over expenses, which is considered the operating indicator. Changes in unrestricted net assets which are excluded from the operating indicator include unrealized gains and losses on investments other than trading securities, changes in pension obligation other than pension expense, post retirement medical benefits adjustments, permanent transfer of assets to and from affiliates for other than goods and services, and contributions of long-lived assets.

#### **Charity Care**

The Corporation provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because collection is not pursued on amounts determined to qualify as charity care, these amounts are not included in net patient service revenue less provision for bad debts in the accompanying consolidated statement of operations.

The estimated cost of providing care to patients under the Corporation's charity care policy is calculated by multiplying the ratio of cost to gross charges by the gross uncompensated charity care charges. The cost to provide Corporation's charity care was approximately \$4,442 in 2016.

#### **Promise to Give**

Contributions are considered to be available for unrestricted uses unless specifically restricted by the donor.

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is deemed unconditional. The gifts are reported as either temporarily restricted or permanently restricted support if they are received with donor stipulations that limit the use of donated assets. Donor-imposed contributions whose restrictions are met within the same year as received are reflected as unrestricted contributions in the accompanying consolidated financial statements.

#### **Advertising Costs**

Advertising costs are expensed as incurred.

# **Mercy Health Corporation**

## **Notes to Consolidated Financial Statements (In Thousands)**

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### **Note 1: Summary of Significant Accounting Policies (Continued)**

#### **Income Taxes**

The Corporation is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code (the "Code") and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. The Corporation is also exempt from state income taxes on related income.

Federal and state income taxes are paid on nonexempt unrelated business income in accordance with the Code.

MCIC and MercyCare HMO are taxable entities for both federal and Wisconsin income tax purposes and file returns on a calendar year basis. Deferred income taxes have been provided under the asset and liability method. Deferred tax assets and liabilities are determined based upon the difference between the financial statement and tax bases of assets and liabilities, as measured by the enacted tax rates which are to be in effect when these differences are expected to reverse. Income tax expense is not significant in relation to the consolidated financial statements.

#### **Subsequent Events**

Subsequent events have been evaluated through August 16, 2016, which is the date the consolidated financial statements were issued.

### **Note 2: Reimbursement Arrangements With Third-Party Payors**

Agreements are maintained with third-party payors that provide for reimbursement at amounts which vary from its established rates. A summary of the basis of reimbursement with major third-party payors follows:

#### **Government Payors**

##### **Prospective Payment**

Medicare - Inpatient hospital acute care services are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Outpatient, clinic, home health, and subacute care services are reimbursed primarily on a prospective payment methodology based upon a patient classification system or fixed fee schedules.

Medicaid - Inpatient and outpatient services are reimbursed primarily based upon prospectively determined rates. Clinic services are reimbursed primarily on a fixed fee schedule.

# Mercy Health Corporation

## Notes to Consolidated Financial Statements (In Thousands)

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### **Note 2: Reimbursement Arrangements With Third-Party Payors (Continued)**

#### **Cost-Reimbursed**

MHH and MWH are critical access hospitals (CAH). Under the CAH designation, inpatient and outpatient hospital services rendered to Medicare and Wisconsin Medicaid beneficiaries are paid based upon a cost-reimbursement methodology. Hospital services rendered to Illinois Medicaid beneficiaries are paid at prospectively determined rates based on a patient classification system. Clinic services are reimbursed primarily on a fixed fee schedule.

#### **Other Payors**

The Corporation has entered into payment agreements with commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment under these agreements includes prospectively determined rates per discharge, discounts from established charges, fee schedules, and prospectively determined daily rates.

#### **Accounting for Contractual Arrangements**

Certain Medicare and Medicaid charges are reimbursed at tentative rates, with final settlements determined after audit of the related annual cost reports. The cost reports have been audited by the Medicare and Medicaid fiscal intermediaries through December 31, 2012.

#### **Compliance**

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, particularly those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Allegations concerning possible violations by health care providers of regulations could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenue from patient services. Management believes the Corporation is in substantial compliance with current laws and regulations.

The Centers for Medicare and Medicaid Services (CMS) uses Recovery Audit Contractors (RACs) as part of its efforts to ensure accurate payments under the Medicare program. RACs search for potentially inaccurate Medicare payments that may have been made to health care providers and that were not detected through existing CMS program integrity efforts. Once a RAC identifies a claim it believes is inaccurate, the RAC makes a deduction from or addition to the provider's Medicare reimbursement in an amount estimated to equal the overpayment or underpayment. The provider will then have the opportunity to appeal the adjustment before final settlement of the claim is made. As of June 30, 2016, the Corporation has received notices from the RAC of certain claims identified by the RAC as inaccurate. The Corporation is appealing a number of these adjustments and management believes any reimbursement adjustments related to these claims will not be significant.



# Mercy Health Corporation

## Notes to Consolidated Financial Statements (In Thousands)

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### **Note 2: Reimbursement Arrangements With Third-Party Payors (Continued)**

#### **Electronic Health Record Payments**

The Corporation recognizes revenue for electronic health records (EHR) incentive payments issued under the American Recovery and Reinvestment Act of 2009 when there is reasonable assurance that the conditions of the program will be met, primarily demonstrating meaningful use of certified EHR technology for the applicable period. The demonstration of meaningful use is based on meeting a series of objectives. Meeting the series of objectives in order to demonstrate meaningful use becomes progressively more stringent as its implementation is phased in through stages as outlined by CMS. Amounts recognized under the Medicare and Medicaid EHR incentive programs for non-CAH providers are based on management's best estimates which are based in part on cost report data that is subject to audit by fiscal intermediaries; accordingly, amounts recognized are subject to change. Incentive payments to CAH providers are based on the cost of the EHR technology for which the CAH has demonstrated meaningful use. In addition, the Corporation's compliance with the meaningful use criteria is subject to audit by the federal government or its designee.

The Corporation recorded approximately \$3,516 in EHR incentive revenue from the Medicare and Medicaid programs in 2016, which is recorded in other operating revenue in the accompanying consolidated statement of operations.

### **Note 3: Patient Accounts Receivable**

Patient accounts receivable consisted of the following at June 30, 2016:

Patient accounts receivable	\$ 437,758
Less:	
Contractual adjustments and discounts	223,715
Allowance for doubtful accounts	51,469
<hr/>	
Patient accounts receivable - Net	\$ 162,574

# Mercy Health Corporation

## Notes to Consolidated Financial Statements (In Thousands)

### Note 4: Assets Limited as to Use

The composition of assets limited as to use was as follows at June 30, 2016:

Held by trustee under bond indenture agreements	\$ 458,415
Held by Treasurer of State of Wisconsin for regulatory requirements	4,912
Donor-restricted and endowment funds	9,921
Internally designated:	
Deferred compensation	15,388
Expansion and capital improvements	395,560
Professional liability	64,739
Regulatory compliance	23,597
<b>Total assets limited as to use</b>	<b>972,532</b>
<b>Less: Current portion</b>	<b>13,421</b>
<b>Assets limited as to use, less current portion</b>	<b>\$ 959,111</b>

Investment income (loss) was comprised of the following in 2016:

Interest and dividends	\$ 6,049
Realized gain on sale of investments	34,796
Change in net unrealized gains and losses on investments	(43,240)
<b>Investment loss - Net</b>	<b>\$ (2,395)</b>

Investments, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of certain investments will occur in the near term and that such changes could materially affect the amounts reported in the consolidated financial statements.

### Note 5: Fair Value Measurements

The following is a description of the valuation methodologies used for assets measured at fair value, including assets held in the Corporation's defined benefit retirement plan (Note 9).

Cash equivalents: Valued at cost which approximates fair value.

Money market funds: Valued using a NAV of \$1.

Marketable equity securities: Valued at the closing price reported in the active market in which the individual securities are traded.

# Mercy Health Corporation

## Notes to Consolidated Financial Statements (In Thousands)

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### **Note 5: Fair Value Measurements (Continued)**

Mutual funds: Valued at the daily closing price as reported by the fund. Mutual funds held by the Corporation are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily NAV and to transact at that price. The mutual funds held are deemed to be actively traded.

U.S. government and agency obligations, municipal obligations, corporate obligations, and foreign obligations: Valued using the closing price reported in the active market in which the individual security is traded, or using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings.

Short-term fund (Note 9): Valued using NAV as a practical expedient. There are no commitments or redemption notice periods.

Common trust funds (Note 9): Accounts invested in a single mutual fund are valued at the daily closing price as reported by the mutual fund. Other accounts are valued at the NAV of units of the separate account or fund. The NAV, as provided by the issuer/trustee, is used as a practical expedient in estimating fair value. The NAV is based on the fair value of the underlying investments held by the fund less its liabilities. There were no funding commitments associated with the common trust funds, and the common trust funds can be redeemed continuously with a 15-day or less notice period.

Limited partnerships: Valued based on the fair value of the underlying assets within the partnership as provided by the investment issuer. The values are then independently assessed by a third party. There were no funding commitments associated with the partnerships, and partnership units can be redeemed continuously with a 15-day notice period.

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

# Mercy Health Corporation

## Notes to Consolidated Financial Statements (In Thousands)

### Note 5: Fair Value Measurements (Continued)

The following table sets forth by level, within the fair value hierarchy, the Corporation's assets at fair value as of June 30, 2016:

	Level 1	Level 2	Level 3	Total
<b>Assets limited as to use:</b>				
Cash equivalents and money market funds	\$ -	\$ 73,765	\$ -	\$ 73,765
U.S. Government and agency obligations	-	52,998	-	52,998
Corporate obligations	-	344,302	-	344,302
Municipal obligations	-	3,699	-	3,699
Foreign obligations	-	82,229	-	82,229
<b>Mutual funds:</b>				
Fixed income	71,914	-	-	71,914
U.S. equities	69,434	-	-	69,434
Foreign and emerging market funds	27,356	-	-	27,356
Marketable equity securities	48,526	-	-	48,526
Limited partnerships - fixed income	-	58,483	-	58,483
<b>Common trust funds using NAV as an expedient:</b>				
Domestic equity (a)	-	-	-	139,826
<b>Total assets limited as to use</b>	<b>\$ 217,230</b>	<b>\$ 615,476</b>	<b>\$ -</b>	<b>\$ 972,532</b>

- (a) Invests primarily in stock or shares of ownership of U.S. companies. The objective is to replicate, over an extended period of time, broad measures of the United States large and small-capitalization index markets.

# Mercy Health Corporation

## Notes to Consolidated Financial Statements (In Thousands)

### Note 6: Property and Equipment

Property and equipment consisted of the following at June 30, 2016:

Land	\$ 39,737
Land improvements	17,631
Leasehold improvements	5,181
Buildings and improvements	464,787
Equipment	549,145
<hr/>	
Total property and equipment	1,076,481
Less - Accumulated depreciation	650,755
<hr/>	
Net depreciated value	425,726
Construction in progress	19,772
<hr/>	
Total	\$ 445,498

Amounts in construction in progress at June 30, 2016, relate to routine capital projects for renovating and updating the Corporation's facilities and computer software. During 2016, the Corporation's signed a construction agreement with a contractor for approximately \$16,000 to build a 188-bed hospital and ambulatory care building and medical office building in Rockford, Illinois. The project is estimated to cost \$475,000 and is expected to be completed in 2019.

### Note 7: Investment in Joint Ventures

The Corporation's investment in joint ventures is recorded on an equity basis. The related income or loss is included in the consolidated statement of operations as other operating revenue. The investment in joint ventures consisted of: a 27% ownership interest in KSB/RMHSC Partnership (KSB), which owns and leases a medical office building, a 50% ownership interest in VanMatre HealthSouth Rehabilitation Hospital (VanMatre), which provides inpatient and outpatient rehabilitation services and a 15% ownership interest in Madison Health Linen, which provides laundry services to medical facilities. The recorded investments at June 30, 2016, as well as the related income or loss reported in 2016 was as follows:

	Joint Venture Investment at June 30, 2016	Joint Venture Income 2016
KSB	\$ 265	\$ 34
VanMatre	10,570	4,743
Madison Health Linen	1,306	5
<hr/>		
Total	\$ 12,141	\$ 4,782

# Mercy Health Corporation

## Notes to Consolidated Financial Statements (In Thousands)

### Note 8: Long-Term Debt

Long-term debt consisted of the following at June 30, 2016:

Illinois Finance Authority (IFA) Revenue Bonds, Series 2016, fixed rates, maturing at varying amounts beginning 2021 continuing through 2047	\$ 475,020
Wisconsin Health and Educational Facilities Authority (WHEFA) Revenue Bonds, Series 2012, fixed rates, maturing at varying amounts beginning 2018 continuing through 2039	169,475
WHEFA Revenue Bonds, Series 2010A, fixed rates, maturing at varying amounts through 2020	9,186
Equipment loans and other	5,900
<b>Totals</b>	<b>659,581</b>
Plus - Unamortized bond premiums	75,788
Less - Current maturities	(7,155)
Less - Unamortized debt issuance costs	(5,719)
<b>Long-term portion</b>	<b>\$ 722,495</b>

Prior to May 2016, the Corporation functioned with two distinct obligated groups: 1) Mercy Health System Obligated Group, which included Mercy Alliance, Inc., whose balances were transferred to MHC in 2016, MAC, MHSC, and MHH and 2) Rockford Health System Obligated Group, which included RMH, RHPH, and RMDF. In May 2016, the two obligated groups were replaced with the Mercy Health Corporation Obligated Group (the "Obligated Group"), which includes MHC, MHSC, RMH, and RHPH. Under the terms of the Mercy Health Corporation Obligated Group Master Trust Indenture, all outstanding debt under the Indenture, including debt issued under the previous obligated groups, is the general, joint, and several obligations of the members of the Obligated Group.

In May 2016, the Obligated Group issued its IFA Series 2016 Revenue Bonds with a total principal value of \$475,020, and a net premium of \$66,566. The IFA Series 2016 Revenue Bonds were issued with fixed rates that range from 1.50% to 5.00% at June 30, 2016. Principal payments are due annually with final payment due in December 2046. The proceeds from the IFA Series 2016 Revenue Bonds were used to fully refund the IFA Series 2008, IFA Series 2012, and advance refund \$13,880 of the WHEFA Series 2010A, and finance costs of acquiring, constructing, renovating, and equipping its facilities, including a 188-bed hospital and ambulatory care building in Rockford, Illinois (Note 6). The IFA Series 2016 Bonds were issued pursuant to a Bond Trust Indenture by and between IFA and U.S. Bank National Association ("U.S. Bank"), as bond trustee, with the proceeds loaned to the Obligated Group pursuant to a Loan Agreement by and between the Obligated Group and IFA. The IFA Series 2016 Bonds were also issued pursuant to a Master Trust Indenture between the Obligated Group and U.S. Bank as Master Trustee. The Obligated Group is liable for all obligations under the Loan Agreement.

# Mercy Health Corporation

## Notes to Consolidated Financial Statements (In Thousands)

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### **Note 8: Long-Term Debt (Continued)**

In conjunction with the refinancing of the IFA Series 2008, IFA Series 2012, and a portion of the WHEFA Series 2010A bonds, the Corporation expensed \$3,077 of unamortized debt issuance costs, unamortized bond discounts and premiums, and prepayment penalties during 2016, which are included in non-operating income in the accompanying consolidated statement of operations.

The bond indenture agreements require the creation of funds to be held by a trustee for payment of construction costs and bond principal and interest. These funds, which are not available for general purposes, are classified as assets limited as to use in the accompanying consolidated balance sheet. In addition, the bond agreements require maintenance of certain debt service coverage ratios, limit additional borrowings, and require compliance with various other restrictive covenants. Management believes the Corporation is in compliance with all such covenants.

In May 2012, the Obligated Group issued its WHEFA Series 2012 Revenue Bonds with a total principal value of \$169,475 and a net premium of \$11,030. The proceeds from the WHEFA Series 2012 Revenue Bonds were used to refund previous bonds, and finance costs of acquiring, constructing, renovating, and equipping its facilities. The WHEFA Series 2012 Revenue Bonds were issued with fixed rates that range from 4.38% to 5.00% at June 30, 2016. Principal payments are due semi-annually with final payment due in June 2039.

In May 2012, the Obligated Group issued its IFA Series 2012 Revenue Bonds with a total principal value of \$35,075. The IFA Series 2012 Bonds were used to refund previous bonds. The bonds were issued through a direct purchase (private placement) with a fixed rate of 2.79%. Principal payments were due annually with final payment due in August 2021; however, the IFA Series 2012 Bonds were fully refunded with the IFA Series 2016 Bonds in May 2016.

In June 2010, the Obligated Group issued its WHEFA Series 2010A Revenue Bonds with a total principal value of \$48,445. The Series 2010A Revenue Bonds were issued with fixed rates that range from 5.00% to 5.50% at June 30, 2016. Principal payments are due annually with final payment due in June 2020. Proceeds of \$13,880 from the issuance of the WHEFA Series 2016 Bonds were used to defease a portion of the outstanding principal of the WHEFA Series 2010A Bonds in May 2016.

During 2008, the Obligated Group issued its IFA Series 2008 Variable Rate Demand Revenue Bonds with a total principal value of \$60,800. The variable rate demand revenue bonds accrued interest at variable rates which reset weekly. The Series 2008 bonds were fully refunded with the IFA Series 2016 Bonds in May 2016. In 2009, the Rockford Health System Obligated Group entered into an interest rate swap agreement to hedge, or offset, future fluctuations in interest rates relative to the variable rate debt associated with the IFA Series 2008 bonds. The notional value of the swap was \$36,500 and was scheduled to terminate in August 2019. Under the terms of the swap agreement, the Rockford Health System Obligated Group made fixed interest payments of 2.435% to a counterparty and received a variable rate based on a percentage of LIBOR. The interest rate swap agreement was terminated prior to its expiration date as part of the issuance of the IFA Series 2016 Bonds. The Corporation settled the amount with the counter party for \$2,013. The loss recognized in 2016 for change in fair value of the interest rate swap was \$94, which is included in nonoperating income (loss) in the accompanying consolidated statement of operations.

# Mercy Health Corporation

## Notes to Consolidated Financial Statements (In Thousands)

### Note 8: Long-Term Debt (Continued)

In December 2014, the Corporation entered into a \$10,000 lease line of credit agreement for medical equipment. The credit line may be accessed for a period of one year with rental factors determined at the time of each equipment acquisition. As of June 30, 2016, the Corporation has \$978 outstanding on this line of credit which bears interest at 2.26%. Monthly principal and interest installments of \$33 will be required through January 2019.

Scheduled payments of principal on long-term debt at June 30, 2016, including current maturities, are summarized as follows:

2017	\$ 7,155
2018	7,849
2019	5,657
2020	3,067
2021	3,590
Thereafter	632,263
<hr/>	
Total	\$ 659,581

### Note 9: Retirement Plans

The Corporation has a defined benefit noncontributory retirement plan (Mercy Pension) which covers employees of MHSC, MAC, and MHH who work more than 1,000 hours annually, in addition to meeting certain eligibility requirements as specified in the plan document. All assets of the plan, principally marketable securities, are held in a separate bank-administered trust. The funding policy is to contribute amounts sufficient to meet the minimum funding requirements set forth in the Employee Retirement Income Security Act of 1974 (ERISA), as amended.

The Corporation also sponsors a noncontributory defined benefit pension plan (Rockford Pension) which covered substantially all full-time employees and regular part-time employees of RMH, RFPH, RMDF and VNA until the plan was frozen in 2003. At that time, employees either elected to stay within the defined benefit pension plan or opt into the defined contribution plan. No new participants were allowed to join the plan after 2003. Effective March 19, 2012, the plan's benefits were frozen and benefits ceased to accrue for plan participants resulting in a curtailment at December 31, 2011. Pension benefits are determined based upon employee earnings, social security benefits, covered compensation, and years of service. The funding policy is to contribute annually the amount required to be funded under provisions of ERISA, as determined by an actuary. The Corporation contributed \$4,000 for the defined benefit pension plan in 2016. The Corporation expects to incur expense of \$218 for fiscal year 2017.

During 2016, lump-sum benefit payments from the Rockford Pension were \$4,137, and exceeded the interest cost for the period. As a result, settlement accounting was triggered resulting in a re-measurement of plan assets and pension obligation, as well as accelerating the recognition of prior service costs. As such, the Rockford Pension recognized \$1,741 as settlement charges in 2016. For fiscal year 2017, settlement accounting will be



# Mercy Health Corporation

## Notes to Consolidated Financial Statements (In Thousands)

### Note 9: Retirement Plans (Continued)

triggered if lump-sum payouts exceed the interest cost of \$3,232.

#### Defined Benefit Postretirement Medical Plan

The Corporation sponsors a postretirement medical plan with plan changes that were effective January 1, 2004. The defined benefit postretirement medical plan provides medical benefits for salaried and non-salaried employees of RMH and RHPH hired before January 1, 2004. The postretirement medical plan is noncontributory and is unfunded, other than amounts resulting from the timing of deposits to pay benefits. The Corporation recognizes the expected cost of these postretirement benefits during the years the employees render service. Postretirement benefit expense is allocated among the participating entities as determined by an actuary. The expected expense in fiscal year 2017 is \$189 for this plan.

The following table provides further information about the plans as of and for the year ended June 30, 2016:

	Mercy Pension	Rockford Pension	Post Retirement Medical
Change in benefit obligation:			
Benefit obligation at beginning of period	\$ 128,064	\$ 87,981	\$ 6,824
Service cost	7,926	-	505
Interest cost	5,208	3,834	268
Settlements	-	(4,137)	-
Participant contributions	-	-	172
Benefits paid	(10,031)	(854)	(385)
Actuarial (gains) losses	8,108	20,831	(253)
Benefit obligation at end of period	139,275	107,655	7,131
Change in assets:			
Fair value of assets at beginning of period	106,306	76,221	-
Actual return on assets	1,665	(1,019)	-
Employer contributions	11,200	4,000	213
Settlements	-	(4,137)	-
Participant contributions	-	-	172
Benefits paid	(10,031)	(854)	(385)
Fair value of assets at end of period	109,140	74,211	-
Funded status	\$ (30,135)	\$ (33,444)	\$ (7,131)
Accumulated benefit obligation	\$ 139,275	\$ 107,655	\$ 7,131

# Mercy Health Corporation

## Notes to Consolidated Financial Statements (In Thousands)

### Note 9: Retirement Plans (Continued)

Amounts recognized in the accompanying consolidated balance sheet at June 30, 2016, consisted of the following:

	Mercy Pension	Rockford Pension	Post Retirement Medical
Current liability - Other accrued expenses	\$ -	\$ -	474
Long-term liability - Pension obligations	30,135	33,444	6,657
<b>Total</b>	<b>\$ 30,135</b>	<b>\$ 33,444</b>	<b>\$ 7,131</b>
<b>Total net assets - Unrestricted:</b>			
Prior service cost	\$ 199	\$ -	351
Net actuarial loss	37,069	45,304	3,250
<b>Total amount recognized in net assets</b>	<b>\$ 37,268</b>	<b>\$ 45,304</b>	<b>\$ 3,601</b>

Pension expense for 2016 was comprised of the following:

	Mercy Pension	Rockford Pension	Post Retirement Medical
<b>Pension expense:</b>			
Service cost	\$ 7,926	\$ -	505
Interest cost	5,208	3,835	268
Expected return on assets	(7,106)	(4,177)	-
Amortization of prior service cost	101	-	(143)
Amortization of unrecognized actuarial loss	1,077	359	(459)
Settlement charges	-	1,741	-
<b>Total pension expense</b>	<b>7,206</b>	<b>1,758</b>	<b>171</b>
<b>Other changes in assets and benefit obligations recognized in other changes in net assets:</b>			
Net actuarial loss	13,549	26,027	(253)
Amortization of actuarial loss	(1,077)	(359)	459
Recognition due to settlements	-	(1,741)	-
Amortization of prior service cost	(101)	-	143
<b>Total recognized in other changes in net assets</b>	<b>12,371</b>	<b>23,927</b>	<b>349</b>
<b>Total recognized as pension expense and other changes in net assets</b>	<b>\$ 19,577</b>	<b>\$ 25,685</b>	<b>\$ 520</b>

# Mercy Health Corporation

## Notes to Consolidated Financial Statements (In Thousands)

### Note 9: Retirement Plans (Continued)

The estimated prior service cost and actuarial loss that will be amortized from net assets into pension expense in 2017 will be \$2,869.

Weighted average assumptions used at June 30, 2016, the measurement date, in developing the projected benefit obligation are as follows:

	Mercy Pension	Rockford Pension	Post Retirement Medical
Discount rate for obligation	3.40 %	3.15 %	3.05 %
Discount rate for net periodic cost	4.20 %	4.57 %	3.79 %
Expected long-term return on plan assets	6.50 %	5.71 %	N/A

To develop the expected long-term rate of return on assets assumptions, the Corporation considered the historical returns and future expectations for returns in each asset class, as well as targeted allocation percentages within the plans' portfolio.

The Corporation intends to provide an appropriate range of investment options that span the risk/return spectrum. The investment options allow for an investment portfolio consistent with the plans' circumstances, goals, time horizons, and tolerance for risk.

The pension plans' asset allocations are as follows at June 30, 2016:

	Mercy Pension	Rockford Pension
Asset category:		
Cash equivalents	1 %	7 %
Equity securities and equity mutual funds	-	38 %
Fixed income, fixed income mutual funds, and short-term funds	-	55 %
Common trust funds:	-	-
Fixed income	57 %	-
Domestic equity	18 %	-
International equity	18 %	-
International real estate	6 %	-
<b>Total</b>	<b>100 %</b>	<b>100 %</b>

# Mercy Health Corporation

## Notes to Consolidated Financial Statements (In Thousands)

### Note 9: Retirement Plans (Continued)

The following table sets forth by level, within the fair value hierarchy, the Corporation's plan assets at fair value as of June 30, 2016:

	Level 1	Level2	Level 3	Total
Cash equivalents	\$ -	\$ 6,219	\$ -	\$ 6,219
Equity securities	11,394	-	-	11,394
Mutual funds:				
Equity	16,670	-	-	16,670
Fixed income	8,722	-	-	8,722
U.S government and agency obligations	-	11,179	-	11,179
Corporate obligations	-	10,636	-	10,636
Short-term fund using NAV as an expedient (e)	-	-	-	10,311
Common trust funds using NAV as an expedient:				
Fixed income (a)	-	-	-	62,646
Domestic equity (b)	-	-	-	20,032
International equity (c)	-	-	-	19,766
International real estate (d)	-	-	-	5,776
<b>Total</b>	<b>\$ 36,786</b>	<b>\$ 28,034</b>	<b>\$ -</b>	<b>\$ 183,351</b>

- (a) Invests primarily in high yield, high-risk debt securities. The objective is to achieve a high level of current income by investing in a diversified portfolio of debt securities.
- (b) See Note 5
- (c) Invests in the SSgA Daily MSCI ACWI ex USA Index Non-Lending Fund, which directly or indirectly invests in securities of foreign companies included in the MSCI ACWI Ex-U.S. Index. The objective is to replicate the total return of the MSCI ACWI Ex-U.S. Index.
- (d) Invests primarily in companies engaged in the real estate industry. The objective is to outperform, over an extended period of time, broad measures of the global real estate securities market.
- (e) Invests in a variety of short term bonds or asset-backed securities.

The Corporation expects to contribute \$15,200 to the pension plans and \$474 to the post retirement medical benefit plan in fiscal 2017.

# Mercy Health Corporation

## Notes to Consolidated Financial Statements (In Thousands)

### Note 9: Retirement Plans (Continued)

Benefit payments are expected to be paid as follows:

	Mercy Pension	Rockford Pension	Post Retirement Medical
2017	\$ 9,095	\$ 10,096	\$ 474
2018	9,331	7,933	571
2019	9,873	7,824	696
2020	10,628	7,872	716
2021	12,185	7,652	680
Years 2022 through 2026	68,526	32,576	3,284

The Corporation also participates in various defined contribution plans covering substantially all employees. The Corporation recognized expense of \$9,688 in 2016 related to these plans.

The Corporation also sponsors deferred compensation programs covering certain physicians, officers, and other highly compensated individuals. Investments designated for deferred compensation and corresponding liabilities totaled approximately \$15,400 at June 30, 2016, and are included in the accompanying consolidated balance sheet as assets limited as to use and deferred compensation liability.

### Note 10: Patient Service Revenue (Net of Contractual Allowances and Discounts)

The following table sets forth the detail of patient service revenue (net of contractual allowances and discounts) for 2016:

Gross patient service revenue	\$ 2,460,434
Deductions - Contractual allowances and discounts	
Medicare	709,074
Medicaid	393,408
Managed care and commercial and other	354,604
Uninsured patients	29,468
<b>Patient service revenue (net of contractual allowances and discounts)</b>	<b>\$ 973,880</b>

# Mercy Health Corporation

## Notes to Consolidated Financial Statements (In Thousands)

### **Note 10: Patient Service Revenue (Net of Contractual Allowances and Discounts)**

(Continued)

Patient service revenue (net of contractual allowances and discounts) recognized in 2016, from major payor sources is as follows:

Medicare and Medicaid	\$ 446,223
Managed care, and commercial and other	504,628
Uninsured patients	23,029
<b>Patient service revenue (net of contractual allowances and discounts)</b>	<b>\$ 973,880</b>

### **Note 11: Insurance**

MHSC, MHH, and MAC manage a self-insurance program for its professional liability on a claims-made basis. The entities retain the first \$1,000 per occurrence and \$3,000 per year for Wisconsin claims. Coverage against losses in excess of these amounts is maintained through mandatory participation in the Patients' Compensation Fund of the State of Wisconsin. For Illinois claims, the entities generally retain the first \$2,000 of loss per claim and has purchased an umbrella policy that provides excess coverage.

RMH, RPH and VNA have established a self-insurance program on an occurrence basis for professional liability, which provides for both self-insured limits and purchased coverage above such limits. Insurance coverage in excess of the self-insured limits is carried on a claims-made basis. Excess general liability coverage is provided by RHIL, who purchases reinsurance coverage from multiple third-party carriers. At June 30, 2016, there were no receivables for claims paid in excess of self-insured limits.

The Corporation has provided reserves for potential professional liability claims for services provided to patients through June 30, 2016, which have not yet been asserted.

At June 30, 2016, the internally designated investments and self-insurance reserves recorded in the accompanying consolidated balance sheet were as follows:

**Assets:**

Current portion of assets limited as to use	\$ 8,000
Internally designated assets limited as to use	56,739
<b>Total</b>	<b>64,739</b>

**Liabilities:**

Other accrued expenses	8,000
Accrued liabilities under self-insurance program	80,243
<b>Total</b>	<b>\$ 88,243</b>

# Mercy Health Corporation

## Notes to Consolidated Financial Statements (In Thousands)

### Note 11: Insurance (Continued)

The Corporation has self-funded health benefit plans covering substantially all of its employees and their dependents. A liability of \$6,641 for estimated claims, including claims incurred but not yet reported, has been recorded in other accrued expenses in the accompanying consolidated balance sheet as of June 30, 2016.

### Note 12: Restricted Net Assets

Temporarily restricted net assets as of June 30, 2016 were available for the following purposes:

Care for the indigent	\$ 1,160
Other purposes	12,103
<b>Total</b>	<b>\$ 13,263</b>

Permanently restricted net assets as of June 30, 2016 were invested for the following purposes:

Care for the indigent	\$ 2,932
Educational programs	964
General services	4,353
<b>Total</b>	<b>\$ 8,249</b>

### Note 13: Concentration of Credit Risk

Financial instruments that potentially subject the Corporation to credit risk consist principally of accounts receivable and cash deposits in excess of insured limits in financial institutions.

The mix of receivables from patients and third-party payors is as follows at June 30, 2016:

Medicare	26 %
Medicaid	22 %
Other third-party payors	36 %
Patients	16 %
<b>Total</b>	<b>100 %</b>

The Corporation maintains depository relationships with area financial institutions that exceeded federally insured limits at June 30, 2016. The System regularly monitors cash balances along with the financial condition of the financial institutions to minimize this potential risk.

# Mercy Health Corporation

## Notes to Consolidated Financial Statements (In Thousands)

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### Note 14: Functional Expenses

The Corporation provides general health care services to residents within its geographic location. Expenses related to providing these services in 2016 are as follows:

Health care services	\$ 768,119
General and administrative	221,405
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Total expenses	\$ 989,524
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## Independent Auditor's Report on Supplementary Information

Board of Directors  
Mercy Health Corporation  
Rockford, Illinois

We have audited the consolidated financial statements of Mercy Health Corporation ("the Corporation") as of and for the year ended June 30, 2016, and our report thereon dated August 16, 2016, which expressed an unmodified opinion on those financial statements, appears on page 1. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary consolidating balance sheet, statement of operations and changes in net assets are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

*Wipfli LLP*

Wipfli LLP

August 16, 2016  
Milwaukee, Wisconsin

# Mercy Health Corporation

## Consolidating Balance Sheet (In Thousands)

June 30, 2016

Assets	Mercy Health Corporation		Mercy Health System Corporation	Rockford Memorial Hospital	Rockford Health Physicians	Elimination	Obligated Group	Non-Obligated Group	Elimination	Consolidated				
Current assets:														
Cash and cash equivalents	\$	1,238	\$	64,973	\$	46,082	\$	99	\$	112,392	\$	7,217	\$	119,609
Patient accounts receivable - Net	-	-	-	91,187	-	55,784	-	12,583	-	(1,859)	-	7,604	-	162,574
Supplies	-	-	-	12,609	-	9,553	-	800	-	-	-	1,485	-	24,447
Prepaid expenses	-	-	-	3,304	-	4,310	-	221	-	-	-	7,835	-	12,599
Current portion of assets limited as to use	-	-	-	-	-	8,000	-	-	-	-	-	5,421	-	13,421
Other receivables	-	-	-	3,996	-	5,913	-	146	-	-	-	5,567	-	14,872
Due from related party	2,822	-	-	6,708	-	1,643	-	294	-	(5,365)	-	6,102	-	14,872
														-
Total current assets		4,060		182,777		131,285		14,143		(7,224)		33,330		347,522
Assets limited as to use, less current portion		331,765		17,180		564,241		5,732		-		40,193		959,111
Property and equipment - Net		-		270,180		116,939		42,869		-		15,510		445,498
Other assets:														
Due from related parties, less current portion		731,595		-		-		-		(720,103)		11,492		-
Investment in joint ventures		-		1,306		10,570		265		-		-		12,141
Other		-		16,722		5,999		3,237		-		25,958		16,902
Total other assets		731,595		18,028		16,569		3,502		(720,103)		49,591		29,043
TOTAL ASSETS	\$	1,067,420	\$	488,165	\$	829,034	\$	66,246	\$	(727,327)	\$	1,723,538	\$	1,781,174

# Mercy Health Corporation

## Consolidating Balance Sheet (In Thousands) (Continued)

June 30, 2016

Liabilities and Net Assets	Mercy Health Corporation	Mercy Health System Corporation	Rockford Memorial Hospital	Rockford Health Physicians	Elimination	Obligated Group	Non-Obligated Group	Elimination	Consolidated
<b>Current liabilities:</b>									
Current maturities of long-term debt	\$ 4,795	\$ 1,714	\$ 646	\$ -	\$ -	\$ 7,155	\$ -	\$ -	\$ 7,155
Accounts payable	74	9,838	12,510	2,552	-	24,974	1,781	(776)	25,979
Due to third-party payors	-	1,040	16,245	-	-	17,285	1,818	-	19,103
Accrued salaries, wages, and payroll taxes	-	29,081	16,838	15,930	-	61,849	2,038	-	63,887
Other accrued expenses	2,625	10,867	14,057	4,342	(1,859)	30,032	17,880	(4,874)	43,038
Due to related parties	917	-	3,828	620	(5,365)	-	5,199	(5,199)	-
<b>Total current liabilities</b>	<b>8,411</b>	<b>52,540</b>	<b>64,124</b>	<b>23,444</b>	<b>(7,224)</b>	<b>141,295</b>	<b>28,716</b>	<b>(10,849)</b>	<b>159,162</b>
<b>Long-term liabilities:</b>									
Long-term debt, less current maturities	724,673	527	(2,620)	-	-	722,580	(85)	-	722,495
Accrued liabilities under self-insurance program	-	21,784	36,433	21,836	-	80,053	190	-	80,243
Deferred compensation	-	7,375	2,280	5,773	-	15,428	-	-	15,428
Pension obligations	-	30,135	30,231	2,308	-	62,674	905	-	63,579
Accrued post retirement medical benefits	-	-	5,404	1,026	-	6,430	227	-	6,657
Other liabilities	-	-	1,782	244	-	2,026	250	-	2,276
Due to related parties, less current portion	-	195,379	524,724	-	(720,103)	-	11,492	(11,492)	-
<b>Total long-term liabilities</b>	<b>724,673</b>	<b>255,200</b>	<b>598,234</b>	<b>31,187</b>	<b>(720,103)</b>	<b>889,191</b>	<b>12,979</b>	<b>(11,492)</b>	<b>890,678</b>
<b>Total liabilities</b>	<b>733,084</b>	<b>307,740</b>	<b>662,358</b>	<b>54,631</b>	<b>(727,327)</b>	<b>1,030,486</b>	<b>41,695</b>	<b>(22,341)</b>	<b>1,049,840</b>
<b>Net assets:</b>									
Unrestricted	334,336	180,425	156,748	11,615	-	683,124	44,113	(17,415)	709,822
Temporarily restricted	-	-	7,303	-	-	7,303	9,516	(3,556)	13,263
Permanently restricted	-	-	2,625	-	-	2,625	5,969	(345)	8,249
<b>Total net assets</b>	<b>334,336</b>	<b>180,425</b>	<b>166,676</b>	<b>11,615</b>	<b>-</b>	<b>693,052</b>	<b>59,598</b>	<b>(21,316)</b>	<b>731,334</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 1,067,420</b>	<b>\$ 488,165</b>	<b>\$ 829,034</b>	<b>\$ 66,246</b>	<b>\$ (727,327)</b>	<b>\$ 1,723,538</b>	<b>\$ 101,293</b>	<b>\$ (43,657)</b>	<b>\$ 1,781,174</b>

See Independent Auditor's Report on Supplementary Information.

# Mercy Health Corporation

## Consolidating Statement of Operations (In Thousands)

Year Ended June 30, 2016

	Mercy Health Corporation	Mercy Health System Corporation	Rockford Memorial Hospital	Rockford Health Physicians	Elimination	Obligated Group	Non-Obligated Group	Elimination	Consolidated
Revenue:									
Patient service revenue (net of contractual allowances and discounts)	\$ -	\$ 547,847	\$ 381,172	\$ 93,693	\$ (36,848)	\$ 985,864	\$ 48,136	\$ (60,120)	\$ 973,880
Provision for bad debts	-	(21,253)	(15,155)	(3,977)	-	(40,385)	(2,189)	-	(42,574)
Net patient service revenue less provision for bad debts	-	526,594	366,017	89,716	(36,848)	945,479	45,947	(60,120)	931,306
Premium revenue	-	-	-	-	-	-	84,064	-	84,064
Other operating revenue	2,270	1,286	31,602	37,238	(48,954)	23,442	4,029	(881)	26,590
Total revenue	2,270	527,880	397,619	126,954	(85,802)	968,921	134,040	(61,001)	1,041,960
Expenses:									
Salaries and wages	1	263,233	114,962	95,902	3,532	477,630	20,130	-	497,760
Employee benefits	2,636	54,860	35,826	18,576	(37,265)	74,633	5,828	(828)	79,633
Professional fees and purchased services	452	36,147	86,589	25,046	(52,363)	95,871	7,666	(142)	103,395
Medical claims and capitation payments	-	-	-	-	-	-	77,454	(59,288)	18,166
Medical supplies, other supplies, and drugs	20	91,674	60,260	6,986	-	158,940	6,371	(3)	165,308
Insurance	-	6,748	4,301	3,422	-	14,471	81	-	14,552
Provider tax assessment	-	8,219	12,082	-	-	20,301	524	-	20,825
Other	242	9,489	3,975	1,992	294	15,992	10,990	(464)	26,518
Depreciation and amortization	-	26,452	17,870	4,832	-	49,154	2,568	-	51,722
Interest	10	9,083	1,351	773	-	11,217	704	(276)	11,645
Total expenses	3,361	505,905	337,216	157,529	(85,802)	918,209	132,316	(61,001)	989,524
Income (loss) from operations	(1,091)	21,975	60,403	(30,575)	-	50,712	1,724	-	52,436
Nonoperating income (expense):									
Loss on early retirement of debt	-	(1,892)	(663)	(303)	-	(2,858)	(219)	-	(3,077)
Other nonoperating income (expense)	-	(850)	231	(225)	-	(844)	18	1,010	184
Investment income (loss)	(1,174)	3	(518)	34	-	(1,655)	(740)	-	(2,395)
Total nonoperating income (expense)	(1,174)	(2,739)	(950)	(494)	-	(5,357)	(941)	1,010	(5,288)
Excess (deficiency) of revenue over expenses	(2,265)	19,236	59,453	(31,069)	-	45,355	783	1,010	47,148
Other changes in unrestricted net assets:									
Changes in pension obligation other than pension expense and post retirement medical benefit adjustment	-	(12,371)	(21,967)	(1,683)	-	(36,021)	(626)	-	(36,647)
Transfers (to) from affiliates	132,895	(32,895)	(65,198)	65,198	-	100,000	(100,000)	-	-
Other	-	-	472	3	-	475	2	(58)	419
Increase (decrease) in unrestricted net assets	\$ 130,630	\$ (26,030)	\$ (27,240)	\$ 32,449	\$ -	\$ 109,809	\$ (99,841)	\$ 952	\$ 10,970

See Independent Auditor's Report on Supplementary Information.

# Mercy Health Corporation

## Consolidating Statement of Changes in Net Assets (in Thousands)

Year Ended June 30, 2016

	Mercy Health Corporation	Mercy Health System Corporation	Rockford Memorial Hospital	Rockford Health Physicians	Elimination	Obligated Group	Non-Obligated Group	Elimination	Consolidated
Unrestricted net assets:									
Excess (deficiency) of revenue over expenses	\$ (2,265)	\$ 19,236	\$ 59,453	\$ (31,069)	\$ -	\$ 45,355	\$ 783	\$ 1,010	\$ 47,148
Changes in pension obligation other than pension expense and post retirement medical benefit adjustment	-	(12,372)	(21,967)	(1,682)	-	(36,021)	(626)	-	(36,647)
Transfers (to) from affiliates	132,895	(32,895)	(65,198)	65,198	-	100,000	(100,000)	-	-
Other	-	-	472	3	-	475	2	(58)	419
Increase (decrease) in unrestricted net assets	130,630	(26,031)	(27,240)	32,450	-	109,809	(99,841)	952	10,920
Temporarily restricted net assets:									
Contributions	-	-	-	-	-	-	618	-	618
Investment income - Net	-	-	231	-	-	231	6	-	237
Net change in beneficial interest in trusts	-	-	(380)	-	-	(380)	(659)	380	(659)
Net assets released from restriction	-	-	-	-	-	-	(995)	-	(995)
Decrease in temporarily restricted net assets	-	-	(149)	-	-	(149)	(1,030)	380	(799)
Decrease in permanently restricted net assets - Net change in beneficial interest in trusts	-	-	-	-	-	-	(159)	-	(159)
Change in net assets	130,630	(26,031)	(27,389)	32,450	-	109,660	(101,030)	1,332	9,962
Net assets (deficiencies) at beginning	203,706	206,456	194,065	(20,835)	-	583,392	160,628	(22,648)	721,372
Net assets at end	\$ 334,336	\$ 180,425	\$ 166,676	\$ 11,615	\$ -	\$ 693,052	\$ 59,598	\$ (21,316)	\$ 731,334

See Independent Auditor's Report on Supplementary Information.

## FINANCIAL VIABILITY

**The following reports are attached:**

- Moody's Investor Service 2016 report indicating that Mercy Health Corporation has a rating of A3.
- Fitch's 2016 report indicating that Mercy Health Corporation has a rating of A-.

# MOODY'S

## INVESTORS SERVICE

7 World Trade Center  
250 Greenwich Street  
New York, NY 10007  
[www.moody's.com](http://www.moody's.com)

April 14, 2016

Mr. John Cook  
Senior Vice President Chief Financial Officer  
MercyRockford Health System  
3401 North Perryville Road, Suite 303  
Rockford, IL 61114

Dear Mr. Cook:

We wish to inform you that on April 14, 2016, Moody's Investors Service assigns an A3 to MercyRockford Health System's Series 2016 bonds to be issued through the Illinois Finance Authority. Concurrently, Moody's affirms the A3 issuer rating on MercyRockford Health System and downgrades the legacy entity Mercy Alliance Inc., W1 to A3 from A2. The rating outlook is stable.

Credit ratings issued by Moody's Investors Service, Inc. and its affiliates ("Moody's") are Moody's current opinions of the relative future credit risk of entities, credit commitments, or debt or debt-like securities and are not statements of current or historical fact. Moody's credit ratings address credit risk only and do not address any other risk, including but not limited to: liquidity risk, market value risk, or price volatility.

This letter uses capitalized terms and rating symbols that are defined or referenced either in *Moody's Definitions and Symbols Guide* or *MIS Code of Professional Conduct* as of the date of this letter, both published on [www.moody's.com](http://www.moody's.com). The Credit Ratings will be publicly disseminated by Moody's through normal print and electronic media as well as in response to verbal requests to Moody's Rating Desk. Moody's related research and analyses will also be published on [www.moody's.com](http://www.moody's.com) and may be further distributed as otherwise agreed in writing with us.

Moody's Credit Ratings or any corresponding outlook, if assigned, will be subject to revision, suspension or withdrawal, or may be placed on review, by Moody's at any time, without notice, in the sole discretion of Moody's. For the most current Credit Rating, please visit [www.moody's.com](http://www.moody's.com).

Moody's has not consented and will not consent to being named as an expert under applicable securities laws, such as section 7 of the Securities Act of 1933. The assignment of a rating does not create a fiduciary relationship between Moody's and you or between Moody's and other recipients of a Credit Rating. Moody's Credit Ratings are not and do not provide investment advice or recommendations to purchase, sell or hold particular securities. Moody's issues Credit Ratings with the expectation and understanding that each investor will make its own evaluation of each security that is under consideration for purchase, sale or holding.

Moody's adopts all necessary measures so that the information it uses in assigning a Credit Rating is of sufficient quality and from sources Moody's considers to be reliable including, when appropriate, independent third-party sources. However, Moody's is not an auditor and cannot in every instance independently validate or verify information received in the rating process. Moody's expects and is relying upon you possessing all legal rights and required consents to disclose the information to Moody's, and that such information is not subject to any restrictions that would prevent use by Moody's for its ratings process.

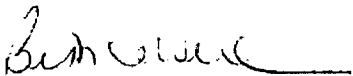
In assigning the Credit Ratings, Moody's has relied upon the truth, accuracy, and completeness of the information supplied by you or on your behalf to Moody's. Moody's expects that you will, and is relying upon you to, on an ongoing basis, promptly provide Moody's with all information necessary in order for Moody's to accurately and timely monitor the Credit Ratings, including current financial and statistical information.

Under no circumstances shall Moody's have any liability (whether in contract, tort or otherwise) to any person or entity for any loss, injury or damage or cost caused by, resulting from, or relating to, in whole or in part, directly or indirectly, any action or error (negligent or otherwise) on the part of, or other circumstance or contingency within or outside the control of, Moody's or any of its or its affiliates' directors, officers, employees or agents in connection with the Credit Ratings. **ALL INFORMATION, INCLUDING THE CREDIT RATING, ANY FEEDBACK OR OTHER COMMUNICATION RELATING THERETO IS PROVIDED "AS IS" WITHOUT REPRESENTATION OR WARRANTY OF ANY KIND. MOODY'S MAKES NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH INFORMATION.**

Any non-public information discussed with or revealed to you must be kept confidential and only disclosed either (i) to your legal counsel acting in their capacity as such; (ii) to your other authorized agents acting in their capacity as such with a need to know that have entered into non-disclosure agreements with Moody's in the form provided by Moody's and (iii) as required by applicable law or regulation. You agree to cause your employees, affiliates, agents and advisors to keep non-public information confidential. If there is a conflict between the terms of this rating letter and any related Moody's rating application, the terms of the executed rating application will govern and supercede this rating letter.

Should you have any questions regarding the above, please do not hesitate to contact me.

Sincerely,



Beth I. Wexler  
Vice President/Senior Credit Officer  
Phone: 212-553-1384  
Fax: 212-298-7155  
Email: beth.wexler@moodys.com

BIW:rl



# Fitch Ratings

33 Whitehall Street  
New York, NY 10004

T 212 908 0500 / 800 75 FITCH  
[www.fitchratings.com](http://www.fitchratings.com)

May 3, 2016

Mr. John Cook  
Chief Financial Officer  
Mercy Health Corporation  
3401 N. Perryville Road  
Suite 303  
Rockford, IL 61114

Dear Mr. Cook:

Fitch Ratings has assigned one or more ratings and/or otherwise taken rating action(s), as detailed in the attached Notice of Rating Action.

In issuing and maintaining its ratings, Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction.

The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors.

Users of Fitch's ratings should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings can be affected by future events or conditions that were not anticipated at the time a rating was issued or affirmed.

Fitch seeks to continuously improve its ratings criteria and methodologies, and periodically updates the descriptions on its website of its criteria and methodologies for securities of a given type. The criteria and methodology used to determine a rating action are those in effect at the time the rating action is taken, which for public ratings is the date of the related rating action commentary. Each rating action commentary provides information about the criteria and methodology used to arrive at the stated rating, which may differ from the general criteria and methodology for the applicable security type posted on the website at a given time. For this reason, you should always consult the applicable rating action commentary for the most accurate information on the basis of any given public rating.

Ratings are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only.

Ratings are not a recommendation or suggestion, directly or indirectly, to you or any other person, to buy, sell, make or hold any investment, loan or security or to undertake any investment strategy with respect to any investment, loan or security or any issuer. Ratings do not comment on the adequacy of market price, the suitability of any investment, loan or security for a particular investor (including without limitation, any accounting and/or regulatory treatment), or the tax-exempt nature or taxability of payments made in respect of any investment, loan or security. Fitch is not your advisor, nor is Fitch providing to you or any other party any financial advice, or any legal, auditing, accounting, appraisal, valuation or actuarial services. A rating should not be viewed as a replacement for such advice or services.

The assignment of a rating by Fitch does not constitute consent by Fitch to the use of its name as an expert in connection with any registration statement or other filings under US, UK or any other relevant securities laws. Fitch does not consent to the inclusion of its ratings in any offering document in any instance in which US, UK or any other relevant securities laws requires such consent. Fitch does not consent to the inclusion of any written letter communicating its rating action in any offering document. You understand that Fitch has not consented to, and will not consent to, being named as an "expert" in connection with any registration statement or other filings under US, UK or any other relevant securities laws, including but not limited to Section 7 of the U.S. Securities Act of 1933. Fitch is not an "underwriter" or "seller" as those terms are defined under applicable securities laws or other regulatory guidance, rules or recommendations, including without limitation Sections 11 and 12(a)(2) of the U.S. Securities Act of 1933, nor has Fitch performed the roles or tasks associated with an "underwriter" or "seller" under this engagement.

It is important that you promptly provide us with all information that may be material to the ratings so that our ratings continue to be appropriate. Ratings may be raised, lowered, withdrawn, or placed on Rating Watch due to changes in, additions to, accuracy of or the inadequacy of information or for any other reason Fitch deems sufficient.

Nothing in this letter is intended to or should be construed as creating a fiduciary relationship between Fitch and you or between us and any user of the ratings.

In this letter, "Fitch" means Fitch Ratings, Inc. and any successor in interest.

We are pleased to have had the opportunity to be of service to you. If we can be of further assistance, please feel free to contact us at any time.

Jeff Schaub  
Managing Director, Operations  
U.S. Public Finance /  
Global Infrastructure & Project Finance

JS/mb

Enc: Notice of Rating Action  
(Doc ID: 201435)

## Notice of Rating Action

<u>Bond Description</u>	<u>Rating Type</u>	<u>Action</u>	<u>Rating</u>	<u>Outlook/ Watch</u>	<u>Eff Date</u>	<u>Notes</u>
Illinois Finance Authority (IL) (Mercy Health Corporation) rev bonds ser 2016	Long Term	New Rating	A-	RO:Sta	02-May-2016	
Wisconsin Health & Educational Facilities Authority (WI) (Mercy Alliance, Inc.) rev bonds ser 2010A	Long Term	New Rating	A-	RO:Sta	02-May-2016	
Wisconsin Health & Educational Facilities Authority (WI) (Mercy Alliance, Inc.) rev bonds ser 2012	Long Term	New Rating	A-	RO:Sta	02-May-2016	

Key: RO: Rating Outlook, RW: Rating Watch; Pos: Positive, Neg: Negative, Sta: Stable, Evo: Evolving

## FINANCIAL VIABILITY WAIVER

Mercy Health Corporation is not required to submit financial viability ratios because it has a bond rating of A3 from Moody's and A- from Fitch's, which both equal the minimum rating of A3 from Moody's and A- from Fitch's to waive the requirement for financial viability ratios. The bond rating was issued within the latest 18 month period. Copies of the most recent rating agency reports are provided in Attachment 37.

## ECONOMIC FEASIBILITY

A. Reasonableness of Financing Arrangements

A letter addressing the reasonableness of financing arrangements and the conditions of debt financing is attached.

B. Conditions of Debt Financing

A letter addressing the reasonableness of financing arrangements and the conditions of debt financing is attached.

C. Reasonableness of Project and Related Costs

See tables and supporting narratives on the next pages.

**REASONABLENESS OF PROJECT AND RELATED COSTS**

Department	Cost and Square Ft. By Department									
	A	B	C	D	E	F	G	H	I	
	Cost/SF		New Const. DGSF		Modernization DGSF		New Const. \$ (A x C)	Mod \$ (B x E)	Total Cost (G + H)	
	New	Mod	New Const. DGSF	Circ%	New Const. DGSF	Circ%				
Clinical										
PT/OT	\$ 408.61		3,406	20%			\$ 1,391,730.00		\$ 1,391,730.00	
Infusion Therapy	\$ 483.36		3,379	20%			\$ 1,633,270.00		\$ 1,633,270.00	
Subtotal Clinical:	\$ 445.84		6,785	20%			\$ 3,025,000.00		\$ 3,025,000.00	
Clinical Contingency	\$ 21.37						\$ 145,000.00		\$ 145,000.00	
Clinical + Clinical Contingency	\$ 467.21						\$ 3,170,000.00		\$ 3,170,000.00	
Non-Clinical										
Exam Rooms, Offices	\$ 372.28		23,369	20%			\$ 8,699,875.00		\$ 8,699,875.00	
Support	\$ 418.31		6,168	20%			\$ 2,580,125.00		\$ 2,580,125.00	
Subtotal Non-Clinical:	\$ 381.89		29,537	20%			\$ 11,280,000.00		\$ 11,280,000.00	
Non-Clinical Contingency	\$ 19.40						\$ 573,000.00		\$ 573,000.00	
Non-Clinical + Non-Clinical Contingency	\$ 401.29						\$ 11,853,000.00		\$ 11,853,000.00	
Total Clinical, Non-Clinical & Contingency	\$ 413.61		36,222				\$ 15,976,000.00		\$ 15,976,000.00	

## Project Costs and Sources of Funds

Project Costs and Sources of Funds			
USE OF FUNDS	CLINICAL	NONCLINICAL	TOTAL
Preplanning Costs			
Site Survey and Soil Investigation			
Site Preparation	150,000	803,000	953,000
Off Site Work	8,000	54,500	62,500
New Construction Contracts	3,025,000	11,280,000	14,305,000
Modernization Contracts			
Contingencies	145,000	573,000	718,000
Architectural/Engineering Fees	405,000	1,345,000	1,750,000
Consulting and Other Fees	88,000	262,000	350,000
Movable or Other Equipment (not in construction contracts)	890,122	2,248,563	3,138,685
Bond Issuance Expense (project related)	45,000	80,000	125,000
Net Interest Expense During Construction (project related)			
Fair Market Value of Leased Space or Equipment			
IT/low voltage	285,000	840,000	1,125,000
Furniture, artwork	300,000	900,000	1,200,000
Moving	14,000	48,500	62,500
Other Costs To Be Capitalized			
Acquisition of Building or Other Property (excluding land)			
<b>TOTAL USES OF FUNDS</b>	<b>5,355,122</b>	<b>18,434,563</b>	<b>23,189,685</b>
SOURCE OF FUNDS	CLINICAL	NONCLINICAL	TOTAL
Cash and Securities	3,231,074	11,092,737	14,323,811
Pledges			
Gifts and Bequests			
Bond Issues (project related)	2,124,048	7,341,826	9,465,874
Mortgages			
Leases (fair market value)			
Governmental Appropriations			
Grants			
Other Funds and Sources			
<b>TOTAL SOURCES OF FUNDS</b>	<b>5,355,122</b>	<b>18,434,563</b>	<b>23,789,685</b>

## **Descriptions of Line Items**

### **In Support of Table Project Costs and Sources of Funds**

These costs represent an allocation of capital costs for the development of the proposed new hospital and the associated medical office building. The costs in this report are associated exclusively with the medical office building.

#### **Site Preparation - \$953,000**

Soil borings, site excavation and grading, drainage and retention, roadway construction, erosion barriers construction, landscaping, utility connections.

#### **Off-site work - \$62,500**

This line item includes parking lot construction and surfacing.

#### **New construction contracts - \$14,305,000**

Construction activities include: excavating and removal of material; foundations; vertical & floor/roof structural; exterior cladding; roofing; interior partitions, doors and glazing; floor, wall and ceiling finishes; fixed equipment including code compliance signage, fire systems and loading dock equipment; stairs and vertical transportation, plumbing, HVAC, electrical system, fire protection system. Included are all core and shell costs, general requirements, general conditions, subguard, general liability insurance and contractor's overhead, profit and fee.

Clinical component: \$3,025,000; non-clinical: \$11,280,000.

#### **Contingencies - \$718,000**

Contingencies not exceeding 5% are included for unforeseen circumstances related to construction.

Clinical contingency: \$145,000; non-clinical: \$573,000.

Construction + contingency for the project is \$15,023,000 ( $= \$14,305,000 + \$718,000$ ). For a 36,322 sq ft project, cost per sq ft is \$413.61.

Construction + contingency for the clinical component is \$3,170,000 ( $= \$3,025,000 + 145,000$ ). For the 6,785 sq ft of clinical space, cost per sq ft for the clinical component is \$467.21. This amount is a larger number than the average for the medical office building because of the concentration of higher cost PT/OT space and infusion therapy in the clinical services category. The physician offices and exam rooms are non-reviewable/non-clinical and less expensive space.

#### **Architectural/Engineering Fees - \$1,750,000**

A/E services include site planning, preliminary design, schematic design, design development, bid document preparation, interface with public agencies, project monitoring.



**Consulting and Other Fees - \$700,000**

Services include interior design, IT planning and consulting, CON application fee and CON legal/consultant, legal, medical equipment planning, security systems planning, signage/graphics design, project management and commissioning.

**Movable and Medical Equipment - \$3,138,685**

The cost estimates by for equipment as follows:

Infusion therapy	\$624,535
Outpatient clinic	\$2,113,065
PT/OT	\$265,587
Clinic support	\$135,498

**Bond Issuance Expense (project related) - \$125,000.**

\$45,000 is allocated to the project's clinical components; \$80,000 is allocated to non-clinical.

**Other costs to be Capitalized - \$2,387,500**

These costs include: IT/low voltage, furniture and artwork and capitalized moving costs, as itemized in the table of Project Costs and Sources of Funds.

D. Projected Operating Costs

Project Direct Operating Expenses - for the first full year of operation

	Project
Total Operating Costs	\$12,692,684
Equivalent Patient Days	N/A
Direct Cost per Equivalent Patient Days	N/A

E. Total Effect of the Project on Capital Costs (for first full year of operation)

Total Effect of the Project on Capital Costs (for first full year of operation)

	Project	Entire Mercyhealth (IL)
Equivalent Patient Days	N/A	174,045
Total Project Cost (Capital)	\$23,789,685	-----
Useful Life	29.43	-----
Total Annual Depreciation	\$742,896	\$31,127,502
Depreciation Cost per Equivalent Patient Day	N/A	\$178.85

**Note:** N/A-Information is not provided for the MOB project because equivalent patient days cannot be calculated.  
 Equivalent patient days is calculated as follows: inpatient days /% of inpatient revenue to total revenue.  
 Since no patient days exist in the MOB, equivalent patient days cannot be calculated.

January 12, 2017

Ms. Kathryn J. Olson  
Chairperson  
Illinois Health Facilities  
and Services Review Board  
525 West Jefferson Street, 2nd Floor  
Springfield, IL 62761

Dear Ms. Olson:

RE: Criterion 1120.140(a) and (b) -  
Reasonableness of Financing Arrangements and  
Conditions of Debt Financing

Mercy Crystal Lake Hospital and Medical Center, Inc., and Mercy Health Corporation (collectively, "Mercyhealth") plan to fund the capital cost of the proposed hospital and medical office building in Crystal Lake with cash, securities and tax-exempt bonds. This strategy recognizes that the market is remarkably favorable for issuing bonds with low rates.

Terms and conditions of financing have not yet been determined. I hereby certify that the selected form of debt financing will be at the lowest net cost available.

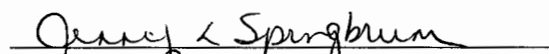
If you have any questions, please contact me at 608-756-6642.

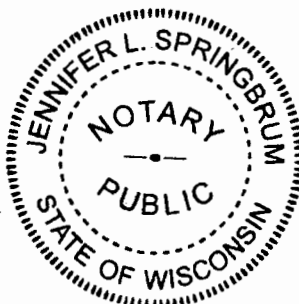
Sincerely,



John Cook  
Senior Vice President & Chief Financial Officer

Subscribed and sworn to before me this  
12 day of January, 2017.

  
Signature of Notary Public



# SAFETY NET IMPACT STATEMENT

Safety Net Information - Mercy Harvard Hospital, Inc.			
CHARITY CARE			
Charity (# of patients)	FY2013	FY2014	FY2015
Inpatient	8	7	3
Outpatient	34	32	10
<b>Total</b>	<b>42</b>	<b>39</b>	<b>13</b>
Charity (cost in dollars)			
Inpatient	73,060	31,838	20,523
Outpatient	77,859	26,138	20,267
<b>Total</b>	<b>150,919</b>	<b>57,976</b>	<b>40,790</b>
Medicaid (# of patients)	FY2013	FY2014	FY2015
Inpatient	21	29	51
Outpatient	4,052	4,260	4,020
<b>Total</b>	<b>4,073</b>	<b>4,289</b>	<b>4,071</b>
Medicaid (revenue)			
Inpatient	471,174	275,953	436,511
Outpatient	1,017,490	1,581,004	1,490,502
<b>Total</b>	<b>1,488,664</b>	<b>1,856,957</b>	<b>1,927,013</b>

Safety Net Information - Rockford Memorial Hospital			
CHARITY CARE			
Charity (# of patients)	FY2013	FY2014	FY2015
Inpatient	973	955	353
Outpatient	4,013	5,686	1,660
<b>Total</b>	<b>4,986</b>	<b>6,641</b>	<b>2,013</b>
Charity (cost in dollars)			
Inpatient	7,462,976	2,456,931	954,060
Outpatient	3,307,849	2,323,022	893,858
<b>Total</b>	<b>10,770,825</b>	<b>4,779,953</b>	<b>1,847,918</b>
Medicaid (# of patients)	FY2013	FY2014	FY2015
Inpatient	3,130	3,986	4,093
Outpatient	26,658	37,749	41,257
<b>Total</b>	<b>29,788</b>	<b>41,735</b>	<b>45,350</b>
Medicaid (revenue)			
Inpatient	52,797,975	63,083,993	61,385,905
Outpatient	11,050,751	20,629,507	7,690,969
<b>Total</b>	<b>63,848,726</b>	<b>83,713,500</b>	<b>69,076,874</b>

## CHARITY CARE INFORMATION

It is the policy of Mercy Health Corporation ("Mercyhealth") to provide exceptional health care services to people in the communities it serves, regardless of ability to pay. Mercyhealth extends a variety of financial assistance measures for patients with limited or no ability to pay.

<b>MERCY HARVARD HOSPITAL, INC. CHARITY CARE</b>			
	<b>FY2013</b>	<b>FY2014</b>	<b>FY2015</b>
<b>Net Patient Revenue</b>	471,174	275,953	436,511
<b>Amount of Charity Care (charges)</b>	1,017,490	1,581,004	1,490,502
<b>Cost of Charity Care</b>	150,919	57,976	40,790

<b>ROCKFORD MEMORIAL HOSPITAL CHARITY CARE</b>			
	<b>FY2013</b>	<b>FY2014</b>	<b>FY2015</b>
<b>Net Patient Revenue</b>	314,090,683	323,042,795	348,114,412
<b>Amount of Charity Care (charges)</b>	33,923,122	15,219,396	5,330,236
<b>Cost of Charity Care</b>	10,770,825	4,779,953	1,847,918

<b>PROJECTED PATIENT MIX BY PAYOR SOURCE</b>	
	<b>Outpatient</b>
<b>Medicare</b>	69.1%
<b>Medicaid</b>	8.8%
<b>Blue Cross</b>	13.3%
<b>Managed Care/Commercial</b>	7.7%
<b>Other</b>	0.7%
<b>Self Pay</b>	0.4%