NEW ISSUE- BOOK ENTRY ONLY

[†]RATINGS: Moody's: A3
Fitch: A-
See "*RATINGS*" herein

Subject to compliance by the Illinois Finance Authority, certain Members of the Obligated Group and MAC (as defined herein) with certain covenants, in the opinion of Chapman and Cutler LLP, Bond Counsel, under present law, interest on the Series 2016 Bonds is excludable from gross income of the owners thereof for federal income tax purposes and is not included as an item of tax preference in computing the alternative minimum tax for individuals and corporations. Interest on the Series 2016 Bonds is not exempt from present Illinois income taxes. For a more detailed discussion of some of the tax consequences of Series 2016 Bond ownership, see "TAX EXEMPTION" herein.

Mercyhealth™
A passion for making lives better.

$475,020,000
ILLINOIS FINANCE AUTHORITY
REVENUE BONDS, SERIES 2016
(Mercy Health Corporation)

DATED..... Date of Delivery.

ISSUANCE..... The Illinois Finance Authority (the "*Authority*") will issue the Series 2016 Bonds through a book-entry system of The Depository Trust Company, New York, New York ("*DTC*") under a Bond Trust Indenture dated as of May 1, 2016 (the "*Bond Indenture*") between the Authority and U.S. Bank National Association, as Bond Trustee. No physical delivery of the Series 2016 Bonds will be made to beneficial owners, except as described herein. Payments with respect to the Series 2016 Bonds shall be made through the DTC system. See "*BOOK-ENTRY ONLY SYSTEM*" herein.

PRICING AND PAYMENT TERMS.... Maturities, interest rates, prices and yields and certain other information is set forth on the inside front cover.

INTEREST PAYMENT DATES..... Interest on the Series 2016 Bonds is payable on June 1 and December 1 of each year, beginning June 1, 2016.

REDEMPTION..... The Series 2016 Bonds are subject to mandatory sinking fund redemption, extraordinary redemption, optional redemption and purchase in lieu of redemption prior to maturity under certain circumstances. See "*THE SERIES 2016 BONDS – Redemption and Purchase*" herein.

BOOK ENTRY ONLY..... The Series 2016 Bonds will be in fully registered form and will be registered in the name of Cede & Co., as nominee of DTC. DTC will act as securities depository for the Series 2016 Bonds. Purchases of interests in the Series 2016 Bonds will be made only in book entry form and purchasers will not receive certificates representing their interests in the Series 2016 Bonds. So long as Cede & Co. is the registered owner, as nominee of DTC, references herein to the Bondholders or registered owners shall mean Cede & Co., as aforesaid, and shall not mean the beneficial owners of the Series 2016 Bonds.

DENOMINATIONS..... The Series 2016 Bonds will be issued in authorized denominations of $5,000 or any integral multiple thereof.

USE OF PROCEEDS..... The Authority will lend the proceeds from the sale of the Series 2016 Bonds to Mercy Health Corporation (the "*Corporation*") which, together with certain other available funds, will be used to (i) finance, refinance, or reimburse the Corporation, Rockford Memorial Hospital, an Illinois not for profit corporation ("*Rockford Memorial*"), or Rockford Health Physicians, an Illinois not for profit corporation ("*Rockford Physicians*"), for a portion of the costs, including capitalized interest, if any, of the planning, design, acquisition, construction, renovation, improvement, expansion and equipping of certain of their health care facilities, including without limitation a new 188 bed hospital and ambulatory care building (together, the "*Project*"), (ii) refund all outstanding Illinois Finance Authority Variable Rate Demand Revenue Bonds, Series 2008 (Rockford Memorial Hospital Obligated Group) issued in the original principal amount of $60,800,000 (the "*Rockford Series 2008 Bonds*") and all outstanding Illinois Finance Authority Revenue Refunding Bonds, Series 2012 (Rockford Health System Obligated Group) issued in the original principal amount of $35,075,000 (the "*Rockford Series 2012 Bonds*" and, together with the Rockford Series 2008 Bonds, the "*Rockford Prior Bonds*"), the proceeds of which were loaned to Rockford Memorial for the financing or refinancing of the costs of acquiring, constructing and equipping certain health care facilities of Rockford Memorial and related corporate affiliates, (iii) advance refund $13,880,000 in aggregate principal amount of the Wisconsin Health and Educational Facilities Authority Revenue Bonds, Series 2010A (Mercy Alliance, Inc.) (the "*Series 2010A Bonds*" and, collectively with the Rockford Prior Bonds, the "*Prior Bonds*"), issued in the original aggregate principal amount of $48,445,000 and outstanding in the aggregate principal amount of $27,640,000, the proceeds of which were loaned to a predecessor of the Corporation, for the financing or refinancing of the costs of acquiring, constructing and equipping certain health care facilities of such entity and related corporate affiliates, (iv) pay certain obligations in connection with the termination of (a) an interest rate exchange agreement related to the Rockford Series 2008 Bonds and (b) an additional covenant agreement related to the Rockford Series 2012 Bonds and (v) pay certain costs relating to the issuance of the Series 2016 Bonds and the refunding of the Prior Bonds, all as permitted under the Illinois Finance Authority Act, 20 ILCS 3501/801-1 et seq., as supplemented and amended (the "*Act*"). See "*PLAN OF FINANCING*" herein.

LIMITED OBLIGATION..... **THE AUTHORITY IS OBLIGATED TO PAY THE PRINCIPAL OF AND INTEREST ON THE SERIES 2016 BONDS AND OTHER COSTS INCIDENTAL THERETO ONLY FROM THE SOURCES SPECIFIED IN THE BOND INDENTURE, AND EXCEPT TO SUCH LIMITED EXTENT, THE SERIES 2016 BONDS AND THE INTEREST THEREON DO NOT CONSTITUTE AN INDEBTEDNESS OR AN OBLIGATION, GENERAL OR MORAL, OR A PLEDGE OF THE FULL FAITH OR A LOAN OF CREDIT OF THE AUTHORITY, THE STATE OF ILLINOIS OR ANY POLITICAL SUBDIVISION THEREOF, WITHIN THE PURVIEW OF ANY CONSTITUTIONAL OR STATUTORY LIMITATION OR PROVISION. THE SERIES 2016 BONDS AND THE INTEREST THEREON ARE SPECIAL, LIMITED OBLIGATIONS OF THE AUTHORITY PAYABLE SOLELY OUT OF THE RECEIPTS, REVENUES AND INCOME SPECIFIED IN THE BOND INDENTURE. NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWERS OF THE STATE OF ILLINOIS OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, AND INTEREST ON THE SERIES 2016 BONDS OR OTHER COSTS INCIDENTAL THERETO. NO OWNER OF ANY SERIES 2016 BOND SHALL HAVE THE RIGHT TO COMPEL THE TAXING POWER, IF ANY, OF THE STATE OF ILLINOIS OR ANY POLITICAL SUBDIVISION THEREOF TO PAY THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE SERIES 2016 BONDS. THE AUTHORITY DOES NOT HAVE THE POWER TO LEVY TAXES FOR ANY PURPOSES WHATSOEVER.**

UNDERWRITING..... The Series 2016 Bonds are offered when, as and if issued and received by the Underwriter, subject to prior sale, to withdrawal or modifications of the offer without any notice, and to the approval of legality of the Series 2016 Bonds by Chapman and Cutler LLP, Bond Counsel. Certain legal matters with respect to the Series 2016 Bonds will be passed upon for the Authority by its special counsel Quarles & Brady LLP, for the Members of the Obligated Group by their special counsel, Hall Render Killian Heath & Lyman, P.C., and for the Underwriter by its counsel, Peck, Shaffer & Williams, A Division of Dinsmore & Shohl LLP. Subject to prevailing market conditions, the Underwriter intends, but is not obligated, to make a market in the Series 2016 Bonds. No assurance can be given that a secondary market will develop for the Series 2016 Bonds. For details of the Underwriter's compensation, see "*UNDERWRITING*" herein. It is expected that the Series 2016 Bonds in definitive form will be available for delivery to the Bond Trustee on behalf of DTC by Fast Automated Securities Transfer on or about on or about May 18, 2016.

USE OF OFFICIAL STATEMENT..... This cover page contains certain information for each of reference only. It does not constitute a summary of the Series 2016 Bonds or the security therefor. Potential investors must read this entire Official Statement, including the Appendices hereto, to obtain information essential to the making of an informed investment decision.

Ziegler

J.P.Morgan

The date of this Official Statement is May 5, 2016

[†] For an explanation of the Rating, *see "RATINGS" herein.*


MercyRockford Main Hospital

$475,020,000
ILLINOIS FINANCE AUTHORITY
REVENUE BONDS, SERIES 2016
(Mercy Health Corporation)

Pricing and Payment Terms

$163,580,000 Series 2016 Bonds - Serial Bonds

Maturity Date (December 1)	Principal Amount	Interest Rate	Yield	Price	CUSIP Number†
2020	$ 395,000	1.500%	1.500%	100.000	45204EBE7
2021	9,225,000	5.000	1.480	118.643	45204EBF4
2022	8,400,000	5.000	1.630	120.812	45204EBG2
2023	8,760,000	5.000	1.810	122.377	45204EBH0
2024	7,870,000	5.000	1.980	123.610	45204EBJ6
2025	11,460,000	5.000	2.190	124.064	45204EBK3
2026	8,440,000	5.000	2.320	123.871[C]	45204EBL1
2027	8,875,000	5.000	2.540	121.671[C]	45204EBM9
2028	9,280,000	4.000	2.930	109.244[C]	45204EBN7
2029	9,710,000	5.000	2.700	120.100[C]	45204EBP2
2030	10,155,000	4.000	3.040	108.249[C]	45204EBQ0
2031	10,570,000	4.000	3.100	107.710[C]	45204EBR8
2032	11,000,000	4.000	3.160	107.175[C]	45204EBS6
2033	11,510,000	5.000	2.900	118.171[C]	45204EBT4
2034	12,100,000	5.000	2.960	117.599[C]	45204EBU1
2035	12,655,000	4.000	3.370	105.325[C]	45204EBV9
2036	13,175,000	4.000	3.410	104.977[C]	45204EBZ0

$311,440,000 Series 2016 Bonds - Term Bonds

Maturity Date (December 1)	Principal Amount	Interest Rate	Yield	Price	CUSIP Number†
2040	$76,475,000	5.000%	3.220%	115.160[C]	45204EBW7
2040	12,500,000	4.000	3.560	103.684[C]	45204EBY3
2046	200,055,000	5.000	3.290	114.514[C]	45204EBX5
2046	22,410,000	4.000	3.630	103.087[C]	45204ECA4

C = priced to first optional redemption date of June 1, 2026.

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REGARDING USE OF THIS OFFICIAL STATEMENT

No dealer, broker, sales representative or other person has been authorized by the Authority, the Corporation or B.C. Ziegler and Company or J.P. Morgan Securities LLC (collectively, the "*Underwriter*") to give information or to make any representations with respect to the Series 2016 Bonds except as expressly set forth in this Official Statement, and, if given or made, any such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, and there shall not be any sale of the Series 2016 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. Certain information contained herein has been obtained from the Corporation, DTC and other sources which are believed to be reliable, but is not guaranteed as to adequacy, accuracy or completeness by, and is not to be construed to be the representations of, the Authority or the Underwriter. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change since the date hereof in the business affairs or financial condition of the parties referred to herein.

The information set forth herein relating to the Authority under the headings "THE AUTHORITY" and "LITIGATION – The Authority" has been obtained from the Authority. All other information herein has been obtained by the Underwriter from the Corporation and other sources deemed by the Underwriter to be reliable, and is not to be construed as a representation by the Authority or Underwriter. The Authority has not reviewed or approved any information in this Official Statement except information relating to the Authority under the headings "THE AUTHORITY" and "LITIGATION – The Authority." The information herein is subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create any implication that there has been no change in the affairs of the Authority or the Members of the Obligated Group since the date hereof.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy of or the completeness of such information.

The Series 2016 Bonds have not been registered under the Securities Act of 1933, as amended, and neither the Bond Indenture nor the Master Indenture (both as defined herein) have been qualified under the Trust Indenture Act of 1939, as amended, in reliance upon certain exemptions contained in such federal laws. In making an investment decision, investors must rely upon their own examination of the Series 2016 Bonds and the security therefor, including an analysis of the risks involved. The Series 2016 Bonds have not been recommended by any federal or state securities commission or regulatory authority. The registration, qualification or exemption of the Series 2016 Bonds in accordance with applicable provisions of securities laws of the various jurisdictions in which the Series 2016 Bonds have been registered, qualified or exempted cannot be regarded as a recommendation thereof. Neither such jurisdictions nor any of their agencies have passed upon the merits of the Series 2016 Bonds or the adequacy, accuracy or completeness of this Official Statement. Any representation to the contrary may be a criminal offense.

CUSIP numbers will be included in the Official Statement for the convenience of the owners of the Series 2016 Bonds. No assurance can be given that the CUSIP numbers for the Series 2016 Bonds will remain the same after the date of issuance and delivery of the Series 2016 Bonds. None of the Authority, the Underwriter nor the Obligated Group is responsible for the selection of CUSIP numbers and none makes any representation as to their correctness on the Series 2016 Bonds or as set forth on the inside cover to this Official Statement.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2016 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING STATEMENTS IN THIS OFFICIAL STATEMENT

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements." Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget" or similar words. Such forward-looking statements include, among others, information under the caption "*BONDHOLDERS' RISKS*" in the forepart of this Official Statement, information under the caption "*MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL PERFORMANCE*" in *APPENDIX A* to this Official Statement and information contained in *APPENDIX C* – "*FEASIBILITY STUDY*" to this Official Statement. The Feasibility Study should be read in its entirety, including management's notes and assumptions set forth therein.

The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Neither the Obligated Group nor the Authority plans to issue any updates or revisions to those forward-looking statements if or when changes to their expectations, events, conditions or circumstances on which such statements are based, occur.

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$475,020,000
ILLINOIS FINANCE AUTHORITY
REVENUE BONDS, SERIES 2016
(Mercy Health Corporation)

INTRODUCTION

Purpose of Official Statement

This Official Statement, including the cover pages and Appendices, is furnished in connection with the offering of $475,020,000 in aggregate principal amount of Revenue Bonds, Series 2016 (Mercy Health Corporation) (the "*Series 2016 Bonds*") of the Illinois Finance Authority (the "*Authority*"). The Series 2016 Bonds are being issued by the Authority in accordance with the Illinois Finance Authority Act, 20 ILCS 3501/801-1 et seq., as supplemented and amended (the "*Act*"). The Series 2016 Bonds will be issued pursuant to the terms of a Bond Trust Indenture dated as of May 1, 2016 (the "*Bond Indenture*") between the Authority and U.S. Bank National Association, as bond trustee (the "*Bond Trustee*").

Capitalized terms used and not defined herein are defined in *APPENDIX D* or *APPENDIX E* to this Official Statement. The descriptions and summaries of various documents hereinafter set forth do not purport to be comprehensive or definitive and reference is made to each such document for the complete details of its terms and conditions. All statements herein relating to such documents are qualified in their entirety by reference to each such document. Copies of such documents will be available for inspection at the designated corporate trust office of the hereinafter described Bond Trustee.

The System

Mercy Health Corporation (the "*Corporation*") is an Illinois not for profit corporation exempt from federal taxes pursuant to Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "*Code*"), based in Rockford, Illinois. In May, 2016, the Corporation, which was formerly known as MercyRockford Health System Corporation, changed its name to Mercy Health Corporation. The Corporation is the successor by merger to Mercy Alliance, Inc. of Janesville, Wisconsin and Rockford Health System of Rockford, Illinois. Together with its affiliates, the Corporation owns and operates an integrated healthcare system (the "*System*") including four separately licensed hospitals (two of which are critical access hospitals) that provide both primary and specialty physician services, outpatient centers, a free standing emergency room, two home health programs, and hospice care throughout multiple counties in southern Wisconsin and northern Illinois. *See APPENDIX A for a more detailed description of the history, organization and financial condition of the Corporation and the System.*

The Obligated Group

Rockford Memorial Hospital ("*Rockford Memorial*"), Rockford Health Physicians ("*Rockford Physicians*"), and Rockford Memorial Development Foundation ("*Rockford Foundation*") are members of an obligated group (the "*Rockford Memorial Hospital Obligated Group*"), existing pursuant to the Amended and Restated Master Trust Indenture dated as of December 1, 2008, as supplemented and amended (the "*Rockford Master Indenture*"), among Rockford Memorial, Rockford Physicians and Rockford Foundation and U.S. Bank National Association, as master trustee. In connection with the issuance of the Rockford Series 2008 Bonds, the Rockford Memorial Hospital Obligated Group issued its Direct Note Obligation, Series 2008. In connection with the issuance of the Rockford Series 2012 Bonds, the Rockford Memorial Hospital Obligated Group issued its Rockford Memorial Hospital Direct Note Obligation, Series 2012A (Illinois Finance Authority) and its Rockford Memorial Hospital Direct Note Obligation, Series 2012B (BMO Harris Bank N.A.).

The Corporation (as successor to Mercy Alliance, Inc.), Mercy Health System Corporation, a Wisconsin nonstock nonprofit corporation ("*MHSC*"), Mercy Harvard Hospital, Inc., an Illinois not for profit corporation ("*MHH*"), and Mercy Assisted Care, Inc., a Wisconsin nonstock, nonprofit corporation ("*MAC*") are members of an obligated group (the "*Mercy Alliance Obligated Group*"), existing pursuant to the Amended and Restated Master Trust Indenture dated as of May 1, 2012, as previously supplemented and amended (the "*Existing Mercy Alliance Master Indenture*"), among the Corporation, MHSC, MHH and MAC and U.S. Bank National Association, as master trustee. In connection with the issuance of the Series 2010A Bonds, the Mercy Alliance Obligated Group issued its Promissory Note, Series 2010A (the "*Series 2010A Note*"). In connection with the issuance of the

$169,475,000 original principal amount Wisconsin Health and Educational Facilities Authority Revenue Bonds, Series 2012 (Mercy Alliance, Inc.) (the "Mercy Alliance *Series 2012 Bonds*"), the Obligated Group issued its Promissory Note, Series 2012 (the "*Series 2012 Note*").

In order to provide further security for the repayment of the Series 2016 Bonds, the Corporation, on behalf of itself and as the Mercy Alliance Obligated Group Representative, Rockford Memorial and Rockford Physicians will, concurrently with the delivery of the Bond Indenture, enter into a Second Supplemental Master Trust Indenture dated as of May 1, 2016 (the "*Second Supplement*") with U.S. Bank National Association, as master trustee (the "*Master Trustee*"). Pursuant to the Second Supplement, (i) MHH and MAC will withdraw from the Mercy Alliance Obligated Group; (ii) Rockford Memorial and Rockford Physicians will join the Mercy Alliance Obligated Group; and (iii) the Existing Mercy Alliance Master Indenture will be amended and restated in its entirety, as described below. Pursuant to the plan of financing, all master notes of the Rockford Memorial Hospital Obligated Group will be retired and the Rockford Master Indenture will be released.

The Existing Mercy Alliance Master Indenture provides that the Obligated Issuers (as hereinafter defined) and the Master Trustee may, with the consent of the Holders of not less than 60% in aggregate principal amount of Notes then Outstanding, enter into a Supplemental Master Indenture for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of the Existing Mercy Alliance Master Indenture. Pursuant to the Second Supplement, and with the deemed consent of the purchasers of the Series 2016 Bonds as Holders of the Promissory Note, Series 2016 (the "*Series 2016 Note*"), which will constitute not less than 60% in aggregate principal amount of Notes Outstanding at the time of the issuance of the Series 2016 Bonds, the Obligated Issuers and the Master Trustee are providing for the amendment and restatement of the Existing Mercy Alliance Master Indenture by the Second Amended and Restated Master Trust Indenture, dated as of May 1, 2016 (as it may from time to time be amended or supplemented in accordance with its terms, the "*Master Indenture*") among the Corporation, MHSC, Rockford Memorial and Rockford Physicians (the "*Obligated Group*" or collectively, the "*Obligated Issuers*" or "*Members*" and individually, each an "*Obligated Issuer*" or a "*Member*") and the Master Trustee. Thus, it is expected that the Master Indenture shall become effective upon issuance of the Series 2016 Note. *See APPENDIX D for a summary of certain provisions of the Master Indenture.*

Purposes of the Series 2016 Bonds

The proceeds of the Series 2016 Bonds, together with certain other available funds, will be used to: (i) finance, refinance, or reimburse the Corporation, Rockford Memorial or Rockford Physicians for a portion of the costs, including capitalized interest, if any, of the planning, design, acquisition, construction, renovation, improvement, expansion and equipping of certain of their health care facilities, including without limitation a new 188 bed hospital and a separate, approximately 81,000 square foot ambulatory care building (together, the "*Project*"), (ii) refund all outstanding Rockford Prior Bonds, the proceeds of which were loaned to Rockford Memorial for the financing or refinancing of the costs of acquiring, constructing and equipping certain health care facilities of Rockford Memorial and related corporate affiliates, (iii) advance refund $13,880,000 in aggregate principal amount of the Series 2010A Bonds currently outstanding in the aggregate principal amount of $27,640,000, the proceeds of which were loaned to Mercy Alliance, Inc., a predecessor of the Corporation, for the financing or refinancing of the costs of acquiring, constructing and equipping certain health care facilities of such entity and related corporate affiliates, (iv) pay certain obligations in connection with the termination of (a) an interest rate exchange agreement related to the Rockford Series 2008 Bonds and (b) an additional covenant agreement related to the Rockford Series 2012 Bonds and (v) pay certain costs relating to the issuance of the Series 2016 Bonds and the refunding of the Prior Bonds, all as permitted under the Act. See "*PLAN OF FINANCING*" and "*ESTIMATED SOURCES AND USES OF FUNDS*" herein.

Security for the Series 2016 Bonds

The proceeds from the sale of the Series 2016 Bonds will be loaned by the Authority to the Corporation, pursuant to a Loan Agreement between the Authority and the Corporation dated as of May 1, 2016 (the "*Loan Agreement*"). To evidence its obligation to repay the loan under the Loan Agreement, the Corporation will issue its Series 2016 Note payable to the Authority, the terms of which will require payments by the Corporation that are sufficient to provide for the timely payment of the principal of, premium, if any, and interest on the Series 2016 Bonds. The Authority will pledge and assign the Series 2016 Note and certain of its rights under the Loan Agreement to the Bond Trustee as security for the Series 2016 Bonds. The Series 2016 Note will entitle the Bond

Trustee, as the holder thereof, to the protection of the covenants, restrictions and other obligations imposed by the Master Indenture upon the Corporation and any current or future Members of the Obligated Group.

The Series 2016 Note will be issued in the same principal amount as the Series 2016 Bonds pursuant to the Existing Mercy Alliance Master Indenture and the Second Supplement. Pursuant to the Second Supplement, and with the deemed consent of the purchasers of the Series 2016 Bonds as Holders of the Series 2016 Note, which constitutes not less than 60% in aggregate principal amount of Notes now Outstanding, the Obligated Issuers and the Master Trustee are providing for the amendment and restatement of the Existing Mercy Alliance Master Indenture by the Master Indenture. **The purchasers of the Series 2016 Bonds, as Holders of the Series 2016 Note, will be deemed to have consented to the Master Indenture upon the delivery and acceptance of the Series 2016 Bonds on the issue date. The purchasers of the Series 2016 Bonds from the Underwriter, by their purchase thereof, will be deemed to have consented to the amendment and restatement of the Existing Mercy Alliance Master Indenture by the Master Indenture. The Master Indenture will be effective on the date of issuance of the Series 2016 Bonds.**

Subject to the conditions set forth in the Master Indenture, promissory notes may be issued under the Master Indenture from time to time by the Corporation or any current or future Member of the Obligated Group (such notes, together with the Series 2016 Note, are referred to herein as the "*Master Notes*"). *See* "*SUMMARY OF MASTER INDENTURE AND MORTGAGES – SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE*" *in APPENDIX D.* The Master Indenture permits additional entities to become Members of the Obligated Group under certain circumstances and also permits certain entities to withdraw from the Obligated Group under certain circumstances. *See* "*SUMMARY OF MASTER INDENTURE AND MORTGAGES – SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE — The Obligated Group*" *in APPENDIX D.* Subsequent to the issuance of the Series 2016 Note and assuming that the Corporation makes each of the scheduled principal payments due on June 1, 2016 on the outstanding Master Notes, the Obligated Group will have Master Notes outstanding in a par amount equal to $653,680,000.

Notwithstanding uncertainties as to enforceability of the covenants of each Member of the Obligated Group in the Master Indenture to be jointly and severally liable on each Master Note issued under the Master Indenture (as described under "*BONDHOLDERS RISKS — Certain Matters Related to Security for the Series 2016 Bonds - Enforceability of the Master Indenture, the Loan Agreement and the Series 2016 Note*," the accounts of the Corporation and the other Members of the Obligated Group will be combined for financial reporting purposes and will be used in determining whether various covenants and tests contained in the Master Indenture (including tests relating to the incurrence of Additional Indebtedness) are met. While the consolidated subsidiaries are included in the financial statements of the Corporation and the Obligated Group for determining compliance with various tests contained in the Master Indenture, certain subsidiaries are not Members of the Obligated Group and are not liable for the Master Notes issued under the Master Indenture.

The Series 2016 Note will be a full and unlimited obligation of the Members of the Obligated Group secured on a parity with all other Master Notes issued under the Master Indenture. The obligations of each Member of the Obligated Group in respect of the Master Notes will be secured by a security interest in the Pledged Revenues of such Member (as defined in *APPENDIX D*, the "*Pledged Revenues*"). In addition, the Obligated Group's obligations under the Master Indenture will be secured by the Amended and Restated Mortgage, Security Agreement and Fixture Filing by MHSC to U.S. Bank National Association, as master trustee, dated as of May 1, 2016 (the "*MHSC Mortgage*") and by the Mortgage, Security Agreement and Fixture Filing by Rockford Memorial to U.S. Bank National Association, as master trustee, dated as of May 1, 2016 (the "*Rockford Mortgage*," and together with the MHSC Mortgage, the "*Mortgages*"). *For further information concerning the security for the Series 2016 Bonds, see* "*SECURITY FOR THE SERIES 2016 BONDS*" *herein. See also* "*BONDHOLDERS' RISKS — Certain Matters Related to Security for the Series 2016 Bonds - Enforceability of the Master Indenture, the Loan Agreement and the Series 2016 Note*" *herein.*

The Master Trustee will receive title insurance policies in the aggregate amount of $10,000,000 covering the Mortgaged Property. There is no assurance that the amount of any title insurance proceeds would cover the losses from impairment of title. Any proceeds from title insurance would likely be insufficient to cover the outstanding principal amount of the Master Notes issued under the Master Indenture, including the Series 2016 Note.

Feasibility Study

Wipfli LLP has issued an independent accountants' report on management's financial forecast in the Forecasted Consolidated Financial Statements dated April 13, 2016 (the "*Feasibility Study*"), which is included as *APPENDIX C* to this Official Statement. The Feasibility Study includes the financial forecast of management of the Obligated Group for the years ending June 30, 2016 through 2021. As stated in the Feasibility Study, there will usually be differences between the forecasted data and actual results because events and circumstances frequently do not occur as expected, and those differences may be material. The Feasibility Study should be read in its entirety, including management's notes and assumptions set forth therein. *See APPENDIX C - "FEASIBILITY STUDY."*

Continuing Disclosure

The Corporation, as Obligated Group Representative on behalf of the Obligated Group, will enter into an undertaking for the benefit of the Bondholders to provide certain information annually and, with respect to certain financial information, quarterly, and to provide notice of certain events to certain information repositories. *See the information under the caption "CONTINUING DISCLOSURE."*

THE AUTHORITY

Description of the Authority

The Illinois Finance Authority (the "*Authority*") is a body politic and corporate of the State of Illinois (the "*State*"). The Authority was created under the Illinois Finance Authority Act, 20 ILCS 3501/801-1, as supplemented and amended from time to time (the "*Act*"), which consolidated seven of the State's previously existing financing authorities (the "*Predecessor Authorities*"). All bonds, notes or other evidences of indebtedness of the Predecessor Authorities were assumed by the Authority effective January 1, 2004. Under the Act, the Authority may not have outstanding at any one time bonds for any of its corporate purposes in an aggregate principal amount exceeding $28,150,000,000 (subject to change, from time to time, by acts of the State Legislature), excluding bonds issued to refund the bonds of the Authority or bonds of the Predecessor Authorities. Pursuant to the Act, the Authority is governed by a 15-member board appointed by the Governor of the State with the advice and consent of the State Senate. The members receive no compensation for the performance of their duties but are entitled to reimbursement for all necessary expenses incurred in connection with the performance of such duties.

Bonds of the Authority

The Authority may from time to time issue bonds as provided in the Act for the purposes set forth in the Act. The Series 2016 Bonds of the Authority as described herein are special, limited obligations of the Authority payable solely from the specific sources and revenues of the Authority specified in the final bond resolution and Bond Indenture authorizing the issuance of such Series 2016 Bonds. Any bonds issued by the Authority (and any premium thereon and the interest thereon) do not constitute indebtedness or an obligation, general or moral, or a pledge of the full faith or a loan of credit of the State or any political subdivision thereof, within the purview of any constitutional or statutory limitation or provision. No Owner of any Series 2016 Bond shall have the right to compel any taxing power of the State or any political subdivision thereof to pay the principal of, premium, if any, or interest on the Series 2016 Bonds. The Authority has no taxing power.

The Authority makes no warranty or representation, whether express or implied, with respect to the Project or the use thereof. Further, the Authority has not prepared any material for inclusion in this Official Statement, except that material under the headings "*THE AUTHORITY*" and "*LITIGATION – The Authority.*" The distribution of this Official Statement has been duly approved and authorized by the Authority. Such approval and authorization does not, however, constitute a representation or approval by the Authority of the accuracy or sufficiency of any information contained herein except to the extent of the material under the headings referenced in this paragraph.

The offices of the Authority are located at 160 North LaSalle Street, Suite S-1000, Chicago, Illinois 60601, and its telephone number is (312) 651-1300.

PLAN OF FINANCING

The Series 2016 Bond proceeds, together with certain other available funds, including investment earnings on the Project Fund, will be used, among other things, to: (i) finance, refinance or reimburse all or a portion of the costs of the Project, (ii) refund all outstanding Rockford Series 2008 Bonds and all outstanding Rockford Series 2012 Bonds, (iii) advance refund $13,880,000 in aggregate principal amount of the Series 2010A Bonds, (iv) pay certain obligations in connection with the termination of (a) an interest rate exchange agreement related to the Rockford Series 2008 Bonds and (b) an additional covenant agreement related to the Rockford Series 2012 Bonds and (v) pay certain costs relating to the issuance of the Series 2016 Bonds and the refunding of the Prior Bonds, all as permitted under the Act.

Refunding of the Rockford Prior Bonds

The Rockford Series 2008 Bonds were issued by the Authority in the original principal amount of $60,800,000 and the proceeds were loaned to Rockford Memorial to (i) refund the outstanding principal amount of Revenue Bonds, Series 1994 (Rockford Memorial Hospital Obligated Group) Select Auction Variable Rate Securities (SAVRS) (the "*Rockford Series 1994 Bonds*") issued by the Illinois Health Facilities Authority, (ii) fund a swap termination payment and (iii) pay certain expenses incurred in connection with the issuance of the Rockford Series 2008 Bonds and the refunding of the Rockford Series 1994 Bonds, including but not limited to, certain fees for the irrevocable transferable direct pay letter of credit. As of the date of this Official Statement, there is currently $60,800,000 in principal amount Outstanding of the Rockford Series 2008 Bonds.

The Rockford Series 2012 Bonds were issued by the Authority in the original principal amount of $35,075,000 and the proceeds were loaned to Rockford Memorial to (i) currently refund the outstanding principal amount of the Illinois Health Facilities Authority Revenue Refunding Bonds, Series 1997 (Rockford Health System Obligated Group) and (ii) pay certain expenses incurred in connection therewith. As of the date of this Official Statement, there is currently $24,020,000 in principal amount Outstanding of the Rockford Series 2012 Bonds.

It is expected that the Rockford Prior Bonds will be refunded and retired on or about the Closing Date.

Advance Refunding a Portion of the Series 2010A Bonds

The Series 2010A Bonds were issued by the Wisconsin Health and Educational Facilities Authority (the "*Wisconsin Authority*") in the original principal amount of $48,445,000 and the proceeds were loaned to the Mercy Alliance Obligated Group to (i) currently refund the Wisconsin Authority's Adjustable Rate Put Option Revenue Bonds, Series 2003C (Mercy Health System Corporation) and the Wisconsin Authority's Adjustable Rate Refunding Revenue Bonds, Series 2007 (Mercy Alliance, Inc.), (ii) fund the acquisition, construction, renovation, and equipping of healthcare facilities, including (a) the expansion of Mercy Clinic East, (b) the construction, renovation, and equipping of a new sports medicine and rehabilitation center, and (c) the renovation of the Mercy Janesville Hospital elevator systems, (iii) establish a debt service reserve fund with respect to the Series 2010A Bonds and (iv) pay certain costs associated with the issuance of the Series 2010A Bonds. As of the date of this Official Statement, there is currently $27,640,000 in aggregate principal amount Outstanding of the Series 2010A Bonds.

In order to advance refund a portion of the Series 2010A Bonds (consisting of the two term bonds maturing on June 1, 2026), a portion of the proceeds of the Series 2016 Bonds will be delivered to U.S. Bank National Association, as bond trustee for the Series 2010A Bonds (the "*Series 2010A Bond Trustee*") pursuant to an Escrow Deposit Agreement dated as of May 1, 2016 (the "*Escrow Agreement*") among the Wisconsin Health and Educational Facilities Authority, as Issuer of the Series 2010A Bonds, the Corporation and the Series 2010A Bond Trustee. The Series 2010A Bond Trustee will invest a portion of the funds deposited with the Series 2010A Bond Trustee in Defeasance Obligations (as defined in the bond indenture relating to the Series 2010A Bonds).

The Arbitrage Group Inc., the verification agent, will issue its report ("*Verification Report*") that the amount of the escrow deposit, when invested in the Defeasance Obligations specified in the Verification Report, will be sufficient to (i) pay interest on the portion of the Series 2010A Bonds to be advance refunded, when due, on and prior to June 1, 2020, and (ii) to redeem on June 1, 2020 the portion of the Series 2010A Bonds to be advance refunded at a redemption price equal to 100% of the principal amount thereof, plus accrued interest to the redemption date. *See* "*VERIFICATION OF MATHEMATICAL ACCURACY*" *herein.*

The Project

Proceeds of the Series 2016 Bonds in the amount of approximately $403,712,645 will be used to finance the construction of a second campus for Rockford Memorial Hospital (the "*Riverside Campus*"). The Riverside Campus will be located in the City of Rockford, County of Winnebago, Illinois and will include a new 188 inpatient bed hospital with extensive outpatient services and an ambulatory services building. The Project will also include renovations to the existing Rockford Memorial Hospital Rockton Avenue Campus. *For a more detailed description of the Project, see material under the caption "RIVERSIDE CAMPUS" in APPENDIX A.*

ESTIMATED SOURCES AND USES OF FUNDS

Set forth below is a summary of the estimated sources and uses of proceeds of the Series 2016 Bonds and other available funds:

Sources:	
Principal Amount of Series 2016 Bonds	$475,020,000
Original Issue Premium	66,565,990
Equity Contribution	18,710,000
Total Sources	$560,295,990
Uses:	
Refunding of Prior Bonds	$101,227,477
Payment of swap termination fees/other loan termination fees	2,187,950
Deposit to the Project Fund	403,712,646
Funded Interest	49,234,892
Issuance Expenses*	3,933,025
Total Uses	$560,295,990

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* Included in this amount are the estimated fees and expenses of the Underwriter, Underwriter's Counsel, Bond Counsel, Counsel to the Corporation and the Obligated Group, the Authority, the Bond Trustee, the Master Trustee, the cost of printing the Preliminary Official Statement and the Official Statement and other miscellaneous costs incurred in connection with issuing the Series 2016 Bonds and the refunding of the Prior Bonds.

ANNUAL DEBT SERVICE REQUIREMENTS

The amounts required in each fiscal year ending June 30 for the payment of principal and interest on the Series 2016 Note and all other outstanding long-term indebtedness, including the Mercy Alliance Series 2012 Bonds and the non-refunded portion of the Series 2010A Bonds, but excluding the refunded portions of the Prior Bonds, are set forth in the following table.

	Series 2016 Note			
Fiscal Year Ending June 30	Principal	Interest	Other Indebtedness*	Aggregate Debt Service
2016	--	$ 820,435	$13,926,931	$ 14,747,366
2017	--	22,719,725	14,262,181	36,981,906
2018	--	22,719,725	14,107,431	36,827,156
2019	--	22,719,725	13,946,038	36,665,763
2020	--	22,719,725	13,643,488	36,363,213
2021	$ 395,000	22,716,763	11,092,031	34,203,794
2022	9,225,000	22,483,175	11,082,281	42,790,456
2023	8,400,000	22,042,550	12,350,031	42,792,581
2024	8,760,000	21,613,550	12,421,031	42,794,581
2025	7,870,000	21,197,800	13,726,531	42,794,331
2026	11,460,000	20,714,550	10,619,031	42,793,581
2027	8,440,000	20,217,050	14,135,281	42,792,331
2028	8,875,000	19,784,175	14,136,031	42,795,206
2029	9,280,000	19,376,700	14,137,781	42,794,481
2030	9,710,000	18,948,350	14,134,531	42,792,881
2031	10,155,000	18,502,500	14,135,531	42,793,031
2032	10,570,000	18,088,000	14,134,531	42,792,531
2033	11,000,000	17,656,600	14,135,531	42,792,131
2034	11,510,000	17,148,850	14,132,781	42,791,631
2035	12,100,000	16,558,600	14,135,813	42,794,413
2036	12,655,000	16,003,000	14,133,094	42,791,094
2037	13,175,000	15,486,400	14,133,625	42,795,025
2038	13,760,000	14,894,525	14,135,906	42,790,431
2039	14,440,000	14,220,775	14,133,438	42,794,213
2040	29,645,000	13,149,900	--	42,794,900
2041	31,130,000	11,661,775	--	42,791,775
2042	32,690,000	10,100,575	--	42,790,575
2043	34,330,000	8,462,425	--	42,792,425
2044	36,050,000	6,740,275	--	42,790,275
2045	37,865,000	4,929,750	--	42,794,750
2046	39,765,000	3,026,350	--	42,791,350
2047	41,765,000	1,025,450	--	42,790,450
TOTAL	$475,020,000	$508,449,747	$324,930,883	$1,308,400,630

* Includes the Mercy Alliance Series 2012 Bonds, the non-refunded portion of the Series 2010A Bonds and capital leases

BOOK-ENTRY ONLY SYSTEM

Information concerning The Depository Trust Company ("*DTC*"), New York, NY, and the Book-Entry System has been obtained from DTC and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Authority, the Underwriter, the Bond Trustee or the Corporation.

Bonds in Book-Entry Form

Beneficial ownership in the Series 2016 Bonds will be available to Beneficial Owners (as described below) only by or through DTC Participants via a book-entry system (the "*Book-Entry System*") maintained by DTC. If the Series 2016 Bonds are taken out of the Book-Entry System and delivered to owners in physical form, as contemplated hereinafter under "Discontinuance of DTC Services," the following discussion will not apply to the Series 2016 Bonds.

DTC and its Participants

DTC will act as securities depository for the Series 2016 Bonds. The Series 2016 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Series 2016 Bond certificate will be issued for each maturity of the Series 2016 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("*Direct Participants*") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("*DTCC*"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("*Indirect Participants*"). DTC has a Standard & Poor's rating of: AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Series 2016 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2016 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2016 Bond ("*Beneficial Owner*") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2016 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2016 Bonds, except in the event that use of the book-entry system for the Series 2016 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2016 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2016 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2016 Bonds; DTC's records reflect only the identity of the Direct

Participants to whose accounts such Series 2016 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Series 2016 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2016 Bonds, such as redemptions, defaults, and proposed amendments to the Bond Indenture. For example, Beneficial Owners of the Series 2016 Bonds may wish to ascertain that the nominee holding the Series 2016 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Bond Trustee and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 2016 Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2016 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the Record Date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2016 Bonds are credited on the Record Date (identified in a listing attached to the Omnibus Proxy).

Principal, premium and interest payments on the Series 2016 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Bond Trustee on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Bond Trustee or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Bond Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Series 2016 Bonds at any time by giving reasonable notice to the Issuer or the Bond Trustee. Under such circumstances, in the event that a successor depository is not obtained, Series 2016 Bond certificates are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Series 2016 Bond certificates will be printed and delivered to DTC.

The information in this subcaption concerning DTC and DTC's book-entry system has been obtained from sources that the Authority, the Corporation and the Underwriter believe to be reliable, but the Authority, the Corporation and the Underwriter take no responsibility for the accuracy thereof.

Discontinuance of DTC Services

In the event that the book-entry system for the Series 2016 Bonds is discontinued, the Bond Trustee would provide for the registration of the Series 2016 Bonds in the name of the Beneficial Owners thereof. The Authority and the Bond Trustee would treat the person in whose name any Series 2016 Bond is registered as the absolute owner of such Series 2016 Bond for the purposes of making and receiving payment debt service charges thereon, and for all other purposes, and neither the Authority nor the Bond Trustee would be bound by any notice or knowledge to the contrary.

Each Series 2016 Bond would be transferable or exchangeable only upon the presentation and surrender thereof at the corporate trust office of the Bond Trustee, duly endorsed for transfer or exchange, or accompanied by a written assignment duly executed by the owner or its authorized representative in form satisfactory to the Bond Trustee. Upon due presentation of any Series 2016 Bonds for transfer or exchange, the Bond Trustee would authenticate and deliver in exchange therefor, within a reasonable time after such presentation, a new Series 2016 Bond or Series 2016 Bonds, registered in the name of the transferee or transferees (in the case of a transfer), or the owner (in the case of an exchange), in authorized denominations and of the same maturity and aggregate principal amount and bearing interest at the same rate as the Series 2016 Bond or Series 2016 Bonds so presented. The Authority or the Bond Trustee would require the owner of any Series 2016 Bonds to pay a sum sufficient to cover any tax, fee or other governmental charge required to be paid in connection with the transfer or exchange of such Series 2016 Bonds.

Use of Certain Terms in Other Sections of the Official Statement

In reviewing this Official Statement it should be understood that while the Series 2016 Bonds are in the Book-Entry System, reference in other sections of this Official Statement to owners of such Series 2016 Bonds should be read to include any person for whom a Participant acquires an interest in Series 2016 Bonds, but (i) all rights of ownership, as described herein, must be exercised through DTC and the Book-Entry System and (ii) notices that are to be given to registered owners by the Bond Trustee will be given only to DTC. DTC is required to forward (or cause to be forwarded) the notices to the Participants by its usual procedures so that such Participants may forward (or cause to be forwarded) such notices to the Beneficial Owners.

Disclaimer

None of the Authority, the Corporation nor the Bond Trustee have any responsibility or obligation to any DTC Participant, Indirect Participant or any Beneficial Owner or any other person with respect to: (i) the accuracy of any records maintained by DTC or any DTC Participant or Indirect Participant, (ii) the payment by DTC or any DTC Participant or Indirect Participant of any amount due to any Beneficial Owner in respect of the principal or redemption price of or interest on the Series 2016 Bonds, (iii) the delivery by DTC or any DTC Participant or Indirect Participant of any notice to any Beneficial Owner which is required or permitted under the terms of the applicable Bond Indenture to be given to Holders of Series 2016 Bonds, (iv) the selection of the Beneficial Owners to receive payment in the event of any partial redemption of the Series 2016 Bonds, or (v) any consent given or other action taken by DTC as a Holder of the Series 2016 Bonds.

The Authority, the Corporation and the Bond Trustee cannot and do not give any assurances that DTC, the DTC Participants or the Indirect Participants will distribute to the Beneficial Owners of the Series 2016 Bonds (i) payments of principal or redemption price of or interest on the Series 2016 Bonds, (ii) certificates representing an ownership interest or other confirmation of Beneficial Ownership interests in Series 2016 Bonds, or (iii) redemption or other notices sent to DTC or Cede & Co., its nominee, as the Registered Owner of the Series 2016 Bonds, or that they will do so on a timely basis or that DTC, DTC Participants or Indirect Participants will serve and act in the manner described in this Official Statement. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission, and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.

THE SERIES 2016 BONDS

The following is a summary of certain provisions of the Series 2016 Bonds. Reference is made to the Series 2016 Bonds and to the Bond Indenture for a more detailed description of such provisions. Reference is also made to *APPENDIX D* and *APPENDIX E* to this Official Statement for the definitions of certain terms used, but not defined herein. The discussion herein is qualified in all respects by such references.

General

The Series 2016 Bonds will be issued as fully registered bonds and will be dated the date of their initial delivery. The Series 2016 Bonds will be issued in Authorized Denominations of $5,000 and any integral multiple of $5,000 in excess thereof. The Series 2016 Bonds will bear interest at the rates indicated on the inside front cover of this Official Statement.

The Series 2016 Bonds will be subject to mandatory, optional and extraordinary optional redemption, and purchase in lieu of redemption, prior to maturity as described under "*THE SERIES 2016 BONDS – Redemption and Purchase.*"

The Series 2016 Bonds will be made available to Beneficial Owners in book-entry form only, in Authorized Denominations. Beneficial Owners of the Series 2016 Bonds will not receive certificates representing their interests in the Series 2016 Bonds, except as described below. So long as Cede & Co. is the registered owner of the Series 2016 Bonds, the principal of, and the interest on, the Series 2016 Bonds are payable by wire transfer by the Bond Trustee to Cede & Co., as nominee for DTC which, in turn, will remit such amounts to DTC Participants for subsequent disbursement to the Beneficial Owners. So long as all records of ownership of the Series 2016 Bonds are maintained through the book-entry only system, all payments to the Beneficial Owners of the Series 2016 Bonds will be made in accordance with the procedures described herein under the caption "*BOOK-ENTRY ONLY SYSTEM*."

The principal of, premium, if any, and interest on the Series 2016 Bonds will be payable in any currency of the United States which, at the respective dates of payment thereof, is legal tender for the payment of public and private debts, and such principal, and premium, if any, shall be payable at the designated corporate trust office of the Bond Trustee, or its successor as Bond Trustee, or at the office of any alternate Paying Agent, if any, named in any such Series 2016 Bond. Payment of the interest on any Series 2016 Bond will be made to the person appearing on the Bond Register as the Owner thereof as of the close of business of the Bond Trustee on the Record Date for such interest payment and shall be paid by (i) check or draft of the Bond Trustee mailed on the applicable Interest Payment Date to the Owner at such Owner's address as it appears on the Bond Register or at such other address furnished in writing to the Bond Trustee by such Owner, or (ii) in the case of an interest payment to any Owner of $1,000,000 or more in aggregate principal amount of Series 2016 Bonds as of the close of business of the Bond Trustee on the Record Date for a particular Interest Payment Date, by wire transfer to such Owner upon written request from such Owner, which written request shall contain the wire transfer address (which shall be in the continental United States) to which such Owner wishes to have such wire directed and which written request is received not less than 15 days prior to such Record Date (it being understood that such request may refer to multiple interest payments).

Interest on the Series 2016 Bonds will be calculated as described below and will be payable on each Interest Payment Date in an amount equal to all interest which has accrued during the period from (and including) the last such Interest Payment Date to (but not including) such current Interest Payment Date.

Maturity

The Series 2016 Bonds mature on December 1 in the years indicated on the inside cover of the Official Statement.

Interest

Interest on the Series 2016 Bonds shall be calculated on a 360-day year of twelve 30-day months. Interest accrued on the Series 2016 Bonds will be payable on each June 1 and December 1, beginning June 1, 2016.

Redemption and Purchase

Optional Redemption. The Series 2016 Bonds maturing on or after December 1, 2026 are subject to redemption on and after June 1, 2026, at the option of the Authority, upon the Written Request of the Corporation pursuant to the Bond Indenture, out of amounts prepaid on the Series 2016 Note and deposited in the Optional Redemption Fund, in whole or in part at any time (and if in part, then in Authorized Denominations and by maturities or portions thereof (including mandatory sinking fund redemption installments) designated by the Corporation or, if not so specified by the Corporation, then in the inverse order of their maturities and within a maturity randomly in such manner as is determined by the Bond Trustee to be fair and equitable), at a redemption price equal to 100% of the principal amount of the Series 2016 Bonds then being redeemed plus accrued interest to the date of redemption.

Extraordinary Optional Redemption. The Series 2016 Bonds are subject to redemption prior to maturity at the option of the Authority, upon the Written Request of the Corporation pursuant to the terms contained in the Bond Indenture, in whole or in part at any time, and if in part in Authorized Denominations and in such maturities as

are specified by the Corporation and within a maturity randomly in such manner as is determined by the Bond Trustee to be fair and equitable, at a redemption price equal to 100% of the principal amount thereof plus accrued interest thereon, if any, to the redemption date, without premium, in the event of damage to or destruction of the Facilities or any part thereof of any Obligated Issuer or condemnation or sale consummated under threat of condemnation of the Facilities or any part thereof of any Obligated Issuer, if, and to the extent that, the net proceeds of any insurance or condemnation award resulting from damage, destruction or condemnation of the Facilities of any Obligated Issuer exceed the cost of any repairs or replacements to the Facilities of such Obligated Issuer which the Corporation elects to make with such proceeds, if the Corporation exercises its option to prepay the Series 2016 Note in an amount sufficient to redeem all or a portion of the Series 2016 Bonds then outstanding.

Bond Sinking Fund Deposits—Mandatory Deposits. With respect to the payment of Series 2016 Bonds by maturity or mandatory sinking fund redemption through the Bond Sinking Fund, the Authority will have on deposit in the Bond Sinking Fund moneys in the amounts and on the dates as follows:

Serial Bonds

December 1 of the Year	Principal Amount ($)
2020	$ 395,000
2021	9,225,000
2022	8,400,000
2023	8,760,000
2024	7,870,000
2025	11,460,000
2026	8,440,000
2027	8,875,000
2028	9,280,000
2029	9,710,000
2030	10,155,000
2031	10,570,000
2032	11,000,000
2033	11,510,000
2034	12,100,000
2035	12,655,000
2036	13,175,000

2040 Term Bond – 5.00%

December 1 of the Year	Principal Amount ($)
2037	$10,635,000
2038	11,315,000
2039	26,520,000
2040*	28,005,000

* *Final Maturity*

2040 Term Bond – 4.00%

December 1 of the Year	Principal Amount ($)
2037	$3,125,000
2038	3,125,000
2039	3,125,000
2040*	3,125,000

* *Final Maturity*

2046 Term Bond – 5.00%

December 1 of the Year	Principal Amount ($)
2041	$28,955,000
2042	30,595,000
2043	32,315,000
2044	34,130,000
2045	36,030,000
2046*	38,030,000

* *Final Maturity*

2046 Term Bond – 4.00%

December 1 of the Year	Principal Amount ($)
2041	$3,735,000
2042	3,735,000
2043	3,735,000
2044	3,735,000
2045	3,735,000
2046*	3,735,000

* *Final Maturity*

provided that the amount of the Bond Sinking Fund requirements for a Series 2016 Bond will be reduced (a) by the principal amount of such Series 2016 Bond acquired and delivered in accordance with the provisions under the heading "*THE SERIES 2016 BONDS – Redemption and Purchase – Purchase of Series 2016 Bonds in Lieu of Optional Redemption*" in satisfaction of such Bond Sinking Fund requirements and (b) in connection with a partial redemption of such Series 2016 Bond, if the Corporation elects to reduce the principal amount of such Bond Sinking Fund requirements for such Series 2016 Bond in the manner provided in the last paragraph of this subcaption.

Moneys on deposit on the Bond Sinking Fund on December 1 of each of the years 2020 through 2036 will be applied by the Bond Trustee to the payment of the Series 2016 Bonds maturing serially on such dates, respectively. Moneys on deposit in the Bond Sinking Fund on December 1 of each of the years 2037 through 2039 will be applied to the payment of Series 2016 Bonds maturing on December 1, 2040 and bearing interest at 5.00% per annum in such random manner as the Bond Trustee may deem appropriate, upon the notice and in the manner provided in the Bond Indenture; and moneys on deposit in the Bond Sinking Fund on December 1, 2040 shall be applied to the payment of the Series 2016 Bonds maturing on such date and bearing interest at 5.00% per annum. Moneys on deposit in the Bond Sinking Fund on December 1 of each of the years 2037 through 2039 shall be applied to the payment of the Series 2016 Bonds maturing on December 1, 2040 and bearing interest at 4.00% per annum in such random manner as the Bond Trustee may deem appropriate, upon the notice and in the manner provided in the Bond Indenture; and moneys on deposit in the Bond Sinking Fund on December 1, 2040 shall be applied to the payment of the Series 2016 Bonds maturing on such date and bearing interest at 4.00% per annum. Moneys on deposit in the Bond Sinking Fund on December 1 of each of the years 2041 through 2045 will be applied to the payment of the Series 2016 Bonds maturing on December 1, 2046 and bearing interest at 5.00% per annum in such random manner as the Bond Trustee may deem appropriate, upon the notice and in the manner provided in the Bond Indenture; and moneys on deposit in the Bond Sinking Fund on December 1, 2046 will be applied to the

payment of the Series 2016 Bonds maturing on such date and bearing interest at 5.00% per annum. Moneys on deposit in the Bond Sinking Fund on December 1 of each of the years 2041 through 2045 shall be applied to the payment of Series 2016 Bonds maturing on December 1, 2046 and bearing interest at 4.00% per annum in such random manner as the Bond Trustee may deem appropriate, upon the notice and in the manner provided in the Bond Indenture; and moneys on deposit in the Bond Sinking Fund on December 1, 2046 shall be applied to the payment of the Series 2016 Bonds maturing on such date and bearing interest at 4.00% per annum. Payment or redemption of the Series 2016 Bonds through the Bond Sinking Fund will be without premium. In the event that moneys are on deposit in the Bond Sinking Fund on December 1 of any of the years 2037 through 2045 and the principal amount of the Series 2016 Bonds subject to mandatory sinking fund redemption in the tables set forth above has been reduced in accordance with the following paragraph or the provisions under the heading "*THE SERIES 2016 BONDS – Redemption and Purchase – Purchase of Series 2016 Bonds in Lieu of Optional Redemption*," such moneys in excess of such reduced principal amount will be applied to the payment of Series 2016 Bonds maturing or subject to redemption pursuant to the provisions of the Bond Indenture summarized under this caption on the next succeeding December 1 in the order set forth above. The Series 2016 Bonds will be redeemed by the Bond Trustee pursuant to the provisions of this paragraph without any notice from or direction by the Authority or the Corporation.

The amount of the Bond Sinking Fund requirements for a Series 2016 Bond will be reduced by the principal amount of such Series 2016 Bond which is redeemed pursuant to the provisions set forth in the Bond Indenture and which has not previously been applied as a credit against the Bond Sinking Fund requirements for such Series 2016 Bond, in such order of the Bond Sinking Fund installments for such Series 2016 Bond as the Corporation designates or, if the Corporation does not so designate, in such order of the Bond Sinking Fund installments for such Series 2016 Bond as may be determined by the Bond Trustee to be fair and equitable.

Notice of Redemption. Notice of the call for any such redemption identifying the Series 2016 Bonds to be redeemed will be given by mailing a copy of such notice of redemption by first class mail, postage prepaid, to the Owners of the Series 2016 Bonds to be redeemed not less than 20 or more than 60 days prior to the redemption date to the address shown on the Bond Register; *provided, however*, that failure to give such notice by mailing or a defect in the notice or the mailing as to any Series 2016 Bond will not affect the validity of any proceedings for redemption as to any other Series 2016 Bond with respect to which notice is adequately given; and *provided further* that, as long as DTC or its nominee is the Owner of the Series 2016 Bonds, the Bond Trustee may give such notice of redemption by e-mail, facsimile transmission or other electronic delivery method so long as such delivery method is authorized under the Letter of Representations and receipt of such notice is confirmed by DTC. The Bond Trustee will also file such notice of redemption with the MSRB in electronic format, accompanied by such identifying information as is prescribed by the MSRB, in a timely manner but not later than 10 Business Days after the redemption date.

Prior to the date that the redemption notice is first given, funds will be deposited with the Bond Trustee to pay such Series 2016 Bonds on the related redemption date, including any premium thereon and accrued interest thereon to such redemption date, or such notice will state that any redemption is conditional upon such funds being deposited with the Bond Trustee on or prior to such redemption date and that failure so to deposit such funds shall not constitute an Event of Default under the Bond Indenture; provided, however, that the provisions of this paragraph will not apply to the mandatory sinking fund redemption of Series 2016 Bonds. The Bond Trustee will immediately notify the applicable Owners of the Series 2016 Bonds of the failure to satisfy any such condition and of the resulting cancellation of any such redemption.

Purchase of Series 2016 Bonds in Lieu of Optional Redemption. The Authority and, by their acceptance of the Series 2016 Bonds, the Bondholders, irrevocably grant to the Corporation and any assignees of the Corporation with respect to this right, the option to purchase, at any time and from time to time, any Series 2016 Bond which is redeemable pursuant to the provisions under the heading "*THE SERIES 2016 BONDS – Redemption and Purchase – Optional Redemption*" at a purchase price equal to the redemption price of the Series 2016 Bonds. To exercise such option, the Corporation will give the Bond Trustee a Written Request exercising such option within the time period specified in the Bond Indenture as though such Written Request were a written request of the Authority for redemption, and the Bond Trustee will thereupon give the holders of the Series 2016 Bonds to be purchased notice of such purchase in the manner specified under the heading "*THE SERIES 2016 BONDS – Redemption and Purchase – Notice of Redemption*," as though such purchase were a redemption and the purchase of such Series 2016 Bonds will be mandatory and enforceable against the holders. On the date fixed for purchase pursuant to any exercise of such option, the Corporation will pay the purchase price of the Series 2016 Bonds then being purchased to the Bond Trustee in immediately available funds, and the Bond Trustee will pay the same to the sellers of such

Series 2016 Bonds against delivery thereof. Following such purchase, the Bond Trustee will cause such Series 2016 Bonds to be registered in the name of the Corporation or its assignees and will deliver them to the Corporation or its assignee. In the case of the purchase of less than all of the Series 2016 Bonds, the particular Series 2016 Bonds to be purchased will be selected in accordance with the provisions under the heading "*THE SERIES 2016 BONDS – Redemption and Purchase – Optional Redemption*." No purchase of the Series 2016 Bonds pursuant to this paragraph will operate to extinguish the indebtedness of the Authority evidenced thereby (subject to all the terms and limitations contained in the Bond Indenture). Notwithstanding the foregoing, no purchase will be made pursuant to this paragraph unless the Corporation has delivered to the Bond Trustee and the Authority concurrently therewith an unqualified opinion of Bond Counsel to the effect that the purchase of the Series 2016 Bonds will not, in and of itself, adversely affect the validity or enforceability of the Series 2016 Bonds or result in the inclusion of interest on the Series 2016 Bonds in gross income for federal income tax purposes, to the extent not already so included with respect to such purchase.

Purchase and Cancellation of Series 2016 Bonds; Credits. In lieu of redeeming Series 2016 Bonds pursuant to the Bond Indenture, the Bond Trustee may, at the request of the Corporation, use funds otherwise available under the Bond Indenture for the redemption of Series 2016 Bonds to purchase Series 2016 Bonds in the open market at a price not exceeding the then applicable redemption price. In the case of any such purchase, the Authority shall receive credit against its required Bond Sinking Fund deposits with respect to the Series 2016 Bonds bearing the same interest rate so purchased in such order of the Bond Sinking Fund installments for such Series 2016 Bond as the Corporation shall designate or, if the Corporation does not so designate, in such order of Bond Sinking Fund installments for such Series 2016 Bond as may be determined by the Bond Trustee to be fair and equitable.

Registration, Transfer and Exchange

For a description of the procedure to transfer ownership of a Series 2016 Bond while in the book-entry only system, see "*BOOK-ENTRY ONLY SYSTEM*" above. Upon surrender for transfer of any Series 2016 Bond at the designated corporate trust office of the Bond Trustee, the Authority shall execute and the Bond Trustee shall authenticate and deliver in the name of the transferee or transferees a new fully registered Series 2016 Bond or Bonds of the same maturity and of an Authorized Denomination for the aggregate principal amount which the Owner is entitled to receive. Any Series 2016 Bond or Bonds may be exchanged at said office of the Bond Trustee for a Series 2016 Bond or Bonds of the same maturity of other Authorized Denominations and in a like aggregate principal amount. The execution by the Authority of any Series 2016 Bond shall constitute full and due authorization of such Series 2016 Bond, and the Bond Trustee shall thereby be authorized to authenticate, date and deliver such Series 2016 Bond.

All Series 2016 Bonds presented for transfer or exchange shall be accompanied by a written instrument or instruments of transfer or authorization for exchange, in form and with guaranty of signature satisfactory to the Bond Trustee, duly executed by the Owner or by such Owner's duly authorized attorney.

No service charge shall be imposed for any exchange or transfer of Series 2016 Bonds. The Authority and the Bond Trustee may, however, require payment by the person requesting an exchange or transfer of Series 2016 Bonds of a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto, except in the case of the issuance of a Series 2016 Bond or Bonds for the unredeemed portion of a Series 2016 Bond surrendered for redemption.

The Authority and the Bond Trustee shall not be required to register the transfer of or to exchange any Series 2016 Bond after notice calling such Series 2016 Bond or portion thereof for redemption has been mailed or during the 15-day period next preceding the mailing of a notice of redemption of any Series 2016 Bonds of the same maturity.

Defeasance and Retained Call Rights

The Bond Indenture provides that the Series 2016 Bonds may be defeased prior to payment or redemption by the deposit of cash or noncallable Defeasance Obligations, or a combination thereof, sufficient to provide for the payment of all principal of and interest on the Series 2016 Bonds through maturity or the date upon which the Series 2016 Bonds will be redeemed pursuant to the Bond Indenture. Series 2016 Bonds that are defeased will no longer be entitled to any security under the Bond Indenture or the Master Indenture, except for the right to payment from

such cash and noncallable Defeasance Obligations. The term "*Defeasance Obligations*" is defined in *APPENDIX E* under the caption "*Definition of Certain Terms - Defeasance Obligations*."

All or a portion of the Series 2016 Bonds may, in the future, be refunded or defeased to any redemption date or maturity date for the applicable Series 2016 Bonds. In connection with the issuance of the Series 2016 Bonds, the Authority, the Bond Trustee and the Corporation have reserved all of the call rights pertaining thereto unless, in connection with making a deposit pursuant to the Bond Indenture, the Authority, at the direction of the Corporation, shall have irrevocably elected to waive any future right to call such Series 2016 Bonds or portions thereof for redemption prior to maturity. Therefore, subject to certain requirements in the Bond Indenture, subsequent to the date that cash and/or noncallable Defeasance Obligations are deposited with the Bond Trustee to provide for the payment of all or any portion of the applicable Series 2016 Bonds at the respective maturity dates therefor or any redemption date therefor, the Authority may, if directed by the Corporation, elect to call such Series 2016 Bonds (or any portions thereof) on any earlier redemption date applicable to such Series 2016 Bonds. Subsequent to the date that cash and/or noncallable Defeasance Obligations are deposited with the Bond Trustee to provide for the payment of all or any portion of the Series 2016 Bonds at any redemption date or dates applicable to such Series 2016 Bonds (but prior to the giving of any notice of redemption with respect to such Series 2016 Bonds pursuant to the Bond Indenture), the Authority may, if directed by the Corporation, elect to pay such Series 2016 Bonds (or any portion thereof) at the respective maturity dates therefor. *See* "*SUMMARY OF THE BOND INDENTURE AND THE LOAN AGREEMENT – Summary of the Bond Indenture - Defeasance of Series 2016 Bonds*," "*– Provision for Payment of a Portion of the Series 2016 Bonds*" *and* "*– Redemption After Satisfaction of Bond Indenture*" *in APPENDIX E.*

SECURITY FOR THE SERIES 2016 BONDS

General

The Series 2016 Bonds authorized under the Bond Indenture and all payments to be made by the Authority on the Series 2016 Bonds and into the various funds established under the Bond Indenture are not general obligations of the Authority but are limited obligations payable solely from (i) payments or prepayments upon the Series 2016 Note, (ii) payments under the Loan Agreement (other than the Unassigned Rights, as defined in the Bond Indenture), (iii) certain moneys held by the Bond Trustee under the Bond Indenture and (iv) certain income from investments of any of the foregoing.

Certain investment earnings on moneys held by the Bond Trustee under the Bond Indenture may be transferred to a Rebate Fund established pursuant to the Tax Exemption Agreement for the Series 2016 Bonds (the "*Tax Exemption Agreement*") among the Authority, the Bond Trustee and the Corporation. Amounts held in such Rebate Fund will not be part of the "trust estate" pledged to secure the Series 2016 Bonds, and consequently will not be available to make payments on such Series 2016 Bonds.

Loan Agreement

The Loan Agreement will provide that the Corporation shall make designated payments to the Bond Trustee in amounts sufficient to pay the principal of, premium, if any, and interest on the Series 2016 Bonds when due. The Obligated Group's obligation to make payments on the Series 2016 Note shall be satisfied to the extent payments are made by the Corporation under the Loan Agreement, and the Corporation will receive similar credit under the Loan Agreement for payments made by any other Obligated Issuer on the Series 2016 Note. The Loan Agreement also imposes certain restrictions on the actions of the Corporation for the benefit of the Authority and the owners of the Series 2016 Bonds. The Use Agreement dated as of May 1, 2016 (the "*Use Agreement*") among the Corporation, Rockford Memorial, Rockford Physicians, MHSC and MAC (collectively, the "*Users*") also imposes certain restrictions on the actions of the Users with respect to the use of the bond financed property. *See* "*SUMMARY OF THE BOND INDENTURE AND THE LOAN AGREEMENT – Summary of the Loan Agreement*" *in APPENDIX E hereto*.

The rights of the Authority in and to the Series 2016 Note and the amounts payable thereon, the amounts payable to the Authority under the Loan Agreement (other than Unassigned Rights) and the rights of the Authority in the Use Agreement have been assigned to the Bond Trustee under the Bond Indenture to provide for and to secure the payment of principal of, premium, if any, and interest on the Series 2016 Bonds. The Corporation agrees under

the Loan Agreement to make its payments on the Series 2016 Note pledged under the Bond Indenture directly to the Bond Trustee.

Series 2016 Master Note; Master Trust Indenture; Mortgages

The Master Indenture, as described in this Official Statement, amends and restates the Existing Mercy Alliance Master Indenture. The purchasers of the Series 2016 Bonds from the Underwriter, by their purchase thereof, will be deemed to have consented to the amendment and restatement of the Existing Mercy Alliance Master Indenture by the Master Indenture. The Master Indenture will be effective on the date of issuance of the Series 2016 Bonds.

The Series 2016 Note and each other Master Note issued under the Master Indenture is a general obligation of the Corporation, MHSC, Rockford Memorial, Rockford Physicians and any future Obligated Issuers. Any person may become or cease being an Obligated Issuer in accordance with the provisions of the Master Indenture (*see* "*SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – Acceptance as an Obligated Issuer*" *and "– Withdrawal of Obligated Issuers*" in *APPENDIX D hereto*), resulting in an obligated group which is financially and operationally different from the Obligated Group. The Master Indenture provides that payments on any Master Notes issued and outstanding thereunder, including the Series 2016 Note, are the joint and several obligation of each Obligated Issuer. Notwithstanding uncertainties as to enforceability of the covenant of each Obligated Issuer in the Master Indenture to be jointly and severally liable for each Master Note (as described under "*BONDHOLDERS' RISKS – Enforceability of the Master Indenture, the Loan Agreement and the Series 2016 Note*" herein), the accounts of the Obligated Issuers will be combined for financial reporting purposes and will be used in determining whether various covenants and tests contained in the Master Indenture (including tests relating to the incurrence of Additional Indebtedness) are met. The Master Indenture permits the Obligated Group to (i) issue additional Master Notes, which may be secured or unsecured, (ii) issue other secured or unsecured Indebtedness and (iii) enter into guaranties, all upon the terms and conditions specified therein. *See APPENDIX D hereto for a description of terms thereof, including certain restrictions imposed on the Obligated Group's actions for the benefit of all holders of Master Notes issued thereunder*. Such terms include, among others, restrictions on the incurrence of Additional Indebtedness, limitations on Liens and provisions governing the transfer of the Obligated Group's Property.

The Series 2016 Note will be a full and unlimited obligation of the Obligated Issuers secured on a parity with all other Master Notes issued under the Master Indenture. The obligations of each Member of the Obligated Group in respect of the Master Notes are secured by a security interest in the Pledged Revenues of such Member. In addition, the Obligated Group's obligations under the Master Indenture are secured by the MHSC Mortgage and the Rockford Mortgage. The MHSC Mortgage amends and restates the Mortgage and Security Agreement dated September 1, 1992, and recorded on August 10, 1999 by MHSC to U.S. Bank National Association, as master trustee. The property subject to the lien of the MHSC Mortgage includes the main MHSC hospital campus owned by MHSC located in Janesville, Wisconsin (the "*MHSC Mortgaged Property*"). The Property subject to the lien of the Rockford Mortgage includes the existing Rockford Memorial hospital facility and approximately 97 acres of land owned by Rockford Memorial located in the City of Rockford, Illinois, near Interstate 90/39 and East Riverside Boulevard, upon which a new hospital facility and ambulatory care building will be built (the "*Rockford Mortgaged Property*" and together with the MHSC Mortgaged Property, the "*Mortgaged Property*"). *See* "*BONDHOLDERS' RISKS — Certain Matters Relating to Security for the Series 2016 Bonds - Enforceability of the Master Indenture, the Loan Agreement and the Series 2016 Note*" *herein.* The mortgagees have covenanted not to sell, lease or otherwise dispose of the Mortgaged Property; however, if no event of default shall have occurred and then be continuing, at the request of MHSC and/or Rockford Memorial and without the approval or consent of the holders of the Master Notes, the Mortgages may be amended to release therefrom any Property that constitutes Mortgaged Property in accordance with the Master Indenture. *See* "*SUMMARY OF MASTER INDENTURE AND MORTGAGES – SUMMARY OF CERTAIN PROVISIONS OF THE MASTER MORTGAGE – Sale, Lease or Other Disposition of Property*" *in APPENDIX D. See also* "*BONDHOLDERS' RISKS – Certain Matters Relating to Security for the Series 2016 Bonds*" *herein.*

There has been no comprehensive appraisal of the real estate, buildings and equipment subject to the lien and security of the Mortgages. It is not known whether the value of such collateral equals or exceeds the aggregate indebtedness evidenced or to be evidenced by the Notes. *See* "*BONDHOLDERS' RISKS – Certain Matters Relating to Security for the Series 2016 Bonds*" *herein.*

Pursuant to the provisions of the Master Indenture, the Obligated Group has covenanted and agreed to maintain a Debt Service Coverage Ratio of not less than 1.10:1 at the end of each Fiscal Year. If Debt Service Coverage Ratio is less than 1.10:1, the Obligated Group is required to retain an Independent Consultant to make recommendations to increase such ratio to at least 1.10:1 by the succeeding Fiscal Year. See "*SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE AND THE MORTGAGES – Summary of Certain Provisions of the Master Indenture – Debt Service Coverage Ratio*" *in APPENDIX D*. So long as the Corporation shall retain an Independent Consultant at the end of each Fiscal Year in which the Debt Service Coverage Ratio of the Obligated Group is below 1.10 and each Obligated Issuer shall follow such Independent Consultant's recommendations for the subsequent Fiscal Year to the extent feasible, and so long as the Debt Service Coverage Ratio of the Obligated Group is not less than 1.00 for each of the subsequent two Fiscal Years, the Obligated Group shall be deemed to have complied with the covenant for such subsequent Fiscal Year even if the Debt Service Coverage Ratio is below 1.10, and those circumstances will not constitute an Event of Default under the Master Indenture.

The Master Indenture contains a definition of Excluded Property. Under the Master Indenture, Excluded Property is not subject to various restrictions imposed by the Master Indenture on other Property of the Obligated Group including, without limitation, the restrictions contained therein on transfers of Property and imposition of Liens. The Obligated Group may designate Property as Excluded Property if it is not used or needed in any significant respect at the time of determination in connection with the operation of revenue producing facilities or activities of an Obligated Issuer.

Upon the terms and conditions specified therein, the Master Indenture permits any Obligated Issuer to incur Additional Indebtedness (including Guarantees) which may, but need not, be evidenced or secured by an Additional Master Note issued under the Master Indenture. *See* "*SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE AND THE MORTGAGES – Summary of Certain Provisions of the Master Indenture – Restriction as to Incurrence of Additional Indebtedness*" *in APPENDIX D hereto*. Additional Master Notes issued under the Master Indenture may be issued to the Authority or to Persons other than the Authority. Additional Master Notes need not be pledged under the Bond Indenture but will rank equally and ratably (except as described herein) with the Series 2016 Note pledged under the Bond Indenture. Pursuant to the provisions of the Master Indenture, the Obligated Group may incur Additional Indebtedness, without satisfying certain tests set forth in the Master Indenture, provided at the time of incurrence of such Additional Indebtedness the aggregate principal amount of all Outstanding Additional Indebtedness incurred pursuant to such provision of the Master Indenture does not exceed 20% of Unrestricted Revenues of the Obligated Group for the most recent Fiscal Year for which audited financial statements are available. *See* "*SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE AND THE MORTGAGES – Summary of Certain Provisions of the Master Indenture – Restriction as to Incurrence of Additional Indebtedness*" *in APPENDIX D hereto*.

In determining compliance with a number of provisions of the Master Indenture, including the provisions governing the incurrence of Additional Indebtedness, the Members of the Obligated Group may assume that certain types of variable rate Indebtedness that may not be payable over an extended term on a level annual debt service basis will in fact bear interest over time at interest rates approximating current or recent long term fixed rates, will remain outstanding for a long term and will be amortized on a level debt service basis. The actual interest rates and payments on such Indebtedness will, in all likelihood, vary from such assumptions, and such variance may be material. *See* "*SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE AND THE MORTGAGES – Summary of Certain Provisions of the Master Indenture – Restriction as to Incurrence of Additional Indebtedness*" *and* "*– Calculation of Debt Service and Debt Service Coverage*" *in APPENDIX D hereto for a description of certain of such assumptions*.

The Master Indenture permits Additional Indebtedness (including Additional Master Notes) to be secured by security in addition to that generally provided for all Master Notes (including, without limitation, letters or lines of credit, insurance, Liens on Property or security interests in depreciation reserve, debt service or interest reserve, debt service or similar funds), which additional security need not be extended to secure any other Indebtedness or any other Master Notes (including the Series 2016 Note).

Additional Master Notes may also be issued to secure the obligations of the Obligated Group under Interest Rate Agreements. Such obligations, other than termination payments, are secured on a parity basis with principal and interest payments on Master Notes. Amounts payable under an Interest Rate Agreement are not considered

Indebtedness, however, and, as a consequence, the Obligated Group is not required to meet any financial test prior to issuing the related Master Note.

Pursuant to the terms of the Master Indenture, the Obligated Group covenants not to create or permit Liens on its Property which are not Permitted Encumbrances. In addition to those Permitted Encumbrances which are not subject to an aggregate limitation, the Master Indenture permits the Obligated Group to (i) create Liens on Property to secure purchase money security interests as long as the aggregate amount of annual rental and debt service payments for such financings in any Fiscal Year does not exceed 25% of Unrestricted Revenues and (ii) create Liens on Property to secure Indebtedness or Interest Rate Agreements if the Book Value or, at the option of the Corporation, the Market Value, of the Property subject to the Lien does not exceed 10% of the Book Value or, at the option of the Corporation, the Market Value of the Unencumbered Net Plant, Property and Equipment of the Obligated Issuers. *See* "*SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE AND THE MORTGAGES – Summary of Certain Provisions of the Master Indenture – Restriction as to Creation of Liens*" *in APPENDIX D hereto*.

The Master Indenture also imposes certain other restrictions on the Obligated Group's actions for the benefit of all holders of Master Notes issued under the Master Indenture. Such terms include, among others, provisions governing the transfer of the Obligated Group's Property. Pursuant to the provisions of the Master Indenture, the Obligated Group may sell, lease or otherwise dispose of Property, if the aggregate Book Value of the Property sold, leased or otherwise disposed of in any Fiscal Year does not exceed 10% of the total assets of the Obligated Group as of the beginning of that Fiscal Year. *See* "*SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE AND THE MORTGAGES – Summary of Certain Provisions of the Master Indenture – Sale, Lease or Other Disposition of Property*" *in APPENDIX D hereto*.

Exchange of Master Note

In order to permit the members of the Obligated Group and any future members of the Obligated Group to join with one or more other entities to create a new obligated group under a different master trust indenture, the Bond Indenture contains provisions directing the Bond Trustee to surrender the Series 2016 Note in exchange for certain other obligations.

Under the circumstances described in the Bond Indenture, the Series 2016 Note may be exchanged for the obligations of a different obligated group. This could, under certain circumstances, lead to the substitution of different security in the form of an obligation backed by an obligated group that is financially and operationally different from the current Obligated Group. Such new obligated group could have substantial debt outstanding that would rank on a parity with the substitute obligations. In order to exchange the Series 2016 Note, the Obligated Group must meet certain requirements, as described in *APPENDIX E* hereto under the caption "*SUMMARY OF THE BOND INDENTURE AND THE LOAN AGREEMENT – Summary of the Bond Indenture – Release and Substitution of Obligations upon Delivery of Replacement Master Indenture*."

Amendments to Certain Documents Securing the Series 2016 Bonds

Certain amendments to the Bond Indenture and the Loan Agreement may be made with the consent of the holders of not less than a majority of the aggregate principal amount of the Series 2016 Bonds then outstanding under the Bond Indenture. *See* "*SUMMARY OF THE BOND INDENTURE AND THE LOAN AGREEMENT – Summary of the Bond Indenture – Supplemental Bond Indentures*" *and* "*– Amendments to Loan Agreement*" *in APPENDIX E hereto*.

Certain amendments to the Master Indenture may be made with the consent of the holders of not less than 60% of the aggregate principal amount of then Outstanding Master Notes and certain amendments to the Mortgages may be made with the consent of the holders of not less than a majority in aggregate principal amount of Master Notes then Outstanding. Such amendments may adversely affect the security of the Series 2016 Bondholders and the holders of the requisite percentage of Outstanding Master Notes may be composed wholly or partially of the holders of the Series 2010A Note, the Series 2012 Note and the holders of Additional Master Notes. *See* "S*UMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE AND THE MORTGAGES – Summary of Certain Provisions of the Master Indenture – Supplemental Master Indentures with Consent of Noteholders*" *and* "S*UMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE AND THE MORTGAGES – Summary of*

Certain Provisions of the Mortgages – Supplements and Amendments with Consent of Noteholders" *in APPENDIX D hereto.*

State of Illinois Not Liable on the Series 2016 Bonds

The Authority is obligated to pay the principal of, premium, if any, and interest on the Series 2016 Bonds and other costs incidental thereto only from the sources specified in the Bond Indenture. The Series 2016 Bonds and the interest thereon constitute special, limited obligations of the Authority and, except to such limited extent, do not constitute indebtedness or an obligation, general or moral, or a pledge of the full faith or a loan of credit of the Authority, the State of Illinois or any political subdivision thereof, within the purview of any constitutional or statutory limitation or provision. Neither the full faith and credit nor the taxing power of the State of Illinois or any political subdivision thereof is pledged to the payment of the principal of, premium, if any, and interest on the Series 2016 Bonds or other costs incidental thereto. No owner of any Series 2016 Bond shall have the right to compel the taxing power of the State of Illinois or any political subdivision thereof to pay the principal of, premium if any, or interest on the Series 2016 Bonds. The Authority does not have the power to levy taxes for any purposes whatsoever.

The Act provides that the State pledges to, and agrees with, owners of any obligations issued under the Act that it will not limit or restrict the rights vested in the Authority by the Act until such obligations, together with the interest thereon, are fully met and discharged, provided nothing in the Act precludes such limitation or alteration if and when adequate provision is made by law for the protection of the owners of such obligations.

BONDHOLDERS' RISKS

The discussion herein of risks to the owners of the Series 2016 Bonds is not intended as dispositive, comprehensive or definitive, but rather is to summarize certain matters which could affect payment on the Series 2016 Bonds. Other sections of this Official Statement, as cited herein, should be referred to for a more detailed description of risks described in this section, which descriptions are qualified by reference to any documents discussed therein. Copies of all such documents are available for inspection at the designated corporate trust office of the Bond Trustee.

General

The Series 2016 Bonds authorized under the Bond Indenture and all payments to be made by the Authority on the Series 2016 Bonds and into the various funds established under the Bond Indenture are not general obligations of the Authority but are limited obligations payable solely from (i) payments or prepayments upon the Series 2016 Note, (ii) payments under the Loan Agreement (other than the Unassigned Rights, as defined in the Bond Indenture), (iii) certain moneys held by the Bond Trustee under the Bond Indenture and (iv) certain income from investments of any of the foregoing.

No representation or assurance can be made that revenues will be realized by the Corporation or the other Members of the Obligated Group in amounts sufficient to pay the principal and redemption price of, premium, if any, and interest on the Series 2016 Note and the Series 2016 Bonds. The realization of future revenues and the expenses of the Corporation and the other Members of the Obligated Group are dependent upon, among other things, the capabilities of the management of the Corporation and the other Members of the Obligated Group ("*Management*") and future economic and other conditions which are unpredictable and which may affect revenues and, in turn, the ability to pay such principal and redemption price, premium, if any, and interest. The Corporation cannot assure that the revenues of the Corporation or the other Members of the Obligated Group or the utilization of the facilities of the Members of the Obligated Group will not decrease.

None of the provisions of the Master Indenture or the Loan Agreement that have been heretofore described nor any other provisions, covenants, terms and conditions of the Master Indenture or the Loan Agreement will afford the Master Trustee any assurance that the principal and interest owing under the Series 2016 Note will be paid as and when due, if the financial condition of the Corporation or the other Members of the Obligated Group deteriorates to a point where the Members of the Obligated Group are unable to pay their debts as they come due or they otherwise become insolvent.

The practical realization of any rights upon any default under the Loan Agreement, the Mortgages and the Master Indenture will depend upon the exercise of various remedies specified in these instruments, as restricted by federal and state laws. The federal bankruptcy laws may have an adverse effect on the ability of the Bond Trustee, the Owners of the Series 2016 Bonds and the Master Trustee to enforce their respective claims under the Loan Agreement, the Mortgages and the Master Indenture.

The operations of the health care industry and the ownership and organization of health care facilities and services, including those of the Members of the Obligated Group, have been subject to increasing scrutiny by federal, state and local governmental agencies. In response to perceived abuses and actual violations of the terms of existing federal, state and local health care payment programs, these agencies have increased their audit and enforcement activities, and federal and state legislation has been considered or enacted providing for or expanding existing civil and criminal penalties against certain activities. In addition, federal, state and local agencies have increased their scrutiny of transactions involving not-for-profit, tax-exempt organizations and are focusing in particular upon limitations on the use of charitable assets and revenues.

The Master Indenture contains few limitations or conditions upon transactions involving the Members of the Obligated Group. A governmental agency may determine that a transaction may have violated applicable laws and may proceed to enjoin the transaction or impose civil or criminal penalties, notwithstanding the fact that the transaction may have been permitted, or not prohibited, by the Master Indenture. Violations of these laws may have a material adverse effect on the operations and financial condition of the Obligated Group.

The following is a discussion of certain risks that could affect payments to be made with respect to the Series 2016 Bonds. This discussion is not exhaustive, should be read in conjunction with all other parts of this Official Statement and should not be considered as a complete description of all risks that could affect such payments. Prospective purchasers of the Series 2016 Bonds should analyze carefully the information contained in this Official Statement, including the Appendices hereto, and additional information in the form of the complete documents summarized herein, copies of which are available as described in this Official Statement.

Impact of Market Turmoil

The disruption of the credit and financial markets of the late 2000s and early 2010s resulted in volatility in the securities markets, significant losses in investment portfolios and increased business failures and consumer and business bankruptcies. The consequences of these developments generally included, among other things, realized and unrealized investment portfolio losses, increased borrowing costs and periodic disruption of access to the capital markets.

In response to this disruption of the markets, in 2010 Congress enacted and the President approved the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "*Dodd-Frank Act*"). Additional legislation is under active consideration by Congress and regulatory action is being considered by various federal agencies, the Federal Reserve Board and foreign governments which legislation is intended to increase the regulation of financial institutions and domestic and global credit and securities markets. The effects of these legislative, regulatory and other governmental actions, including the Dodd-Frank Act, upon the Corporation and the other Members of the Obligated Group, and in particular upon their access to capital markets and their investment portfolios, cannot be predicted.

The economic recession adversely affected the operations of the Members of the Obligated Group. Patient service revenues and inpatient volumes have not increased as historic trends would otherwise indicate. Reduced employment and personal income have resulted in increases in self-pay admissions, increased levels of bad debt and uncompensated care, reduced demand for elective procedures, and reduced availability and affordability of health insurance. The recession has also increased stresses on the budgets of states in which the Members of the Obligated Group are located, which could potentially result in reductions in Medicaid payment rates or Medicaid eligibility standards, and delays of payment of amounts due under Medicaid and other state or local payment programs.

Nonprofit Health Care Environment

Economic and Business Conditions. The health of the economy has a direct impact on the financial condition and performance of the Obligated Group. Higher unemployment and reduced personal income expectations have tended historically to result in, among other consequences, (i) lower patient volumes as patients

defer elective health care services; (ii) rising charity care and bad debt expense; (iii) budget pressure on federal and state governments that intensify scrutiny of Medicare and Medicaid reimbursement rates; (iv) adverse shifts in payor mix away from commercial payors; (v) decreasing membership in health care plans, contributing to lower commercial rate increases for hospitals; and (vi) increased difficulty attracting philanthropy.

The Great Recession introduced domestic and international financial crises that had a direct impact on health care providers, including a scarcity of credit, lack of confidence in the financial sector, extreme volatility in the financial markets, increase in interest rates, reduced business activity, increased consumer bankruptcies and increased business failures and bankruptcies. The Federal Reserve Board and other agencies of the federal government and foreign governments took action designed to enhance liquidity, improve the performance and efficiency of credit markets and generally stabilize securities markets. These crises, together with regulatory reform, caused many banks and other financial institutions to seek additional capital, to merge, and in some cases, to fail, and reduced the availability of credit and liquidity to health care providers. These crises and general economic conditions also resulted in volatile fluctuations in the value of investments. The Members of the Obligated Group have significant holdings in a broad range of investments, and market fluctuations can have a material impact on the Obligated Group's financial performance.

For many years, health care providers have been under increasing economic pressure from various third-party payors, both governmental (particularly Medicare and Medicaid) and private (e.g., health insurance companies). These payors have limited the payment rates for hospital stays and procedures creating incentives that reduce hospital inpatient utilization and increase the use of outpatient services and out-of-hospital care. Shifts in third-party payor policies and the need for providers to adapt to changing and complex payment arrangements have had, and will continue to have, a significant impact upon the financial performance of the Members of the Obligated Group. The financial condition and performance of Members of the Obligated Group also could be adversely and materially by increased inflation; increased pressure on the federal government to decrease Medicare funding, on the federal and state governments to decrease Medicaid funding and on employers to reduce healthcare coverage and increase deductibles; increases in unemployment, uncompensated care and bad debts; and decreases in return on investments.

Recent Legislation. The financial condition of health care providers, including the Obligated Group Members, has been and will continue to be dependent to a large degree on federal and state laws, regulations and policies affecting health care and related industries. Several pieces of recent federal legislation have been enacted or proposed that will have a significant impact on the health care and insurance industries, including Members of the Obligated Group, brief descriptions of which follow.

Budget Control Act of 2011. In August 2011, President Obama signed the Budget Control Act of 2011 (the "*Budget Control Act*"). The Budget Control Act limited the federal government's discretionary spending caps at levels necessary to reduce expenditures by $917 billion from the federal budget baseline for federal fiscal years 2011 and 2012. Medicare, Social Security, Medicaid and other entitlement programs were not affected by the limit on discretionary spending caps.

The Budget Control Act also created a bipartisan joint congressional committee to identify additional deficit reductions. Because the committee failed to propose a plan to cut the deficit by an additional $1.2 trillion for fiscal years 2013 through 2022, the Budget Control Act mandated drastic across the board spending cuts ("*sequestration*") to most discretionary programs beginning on January 2, 2013.

On January 2, 2013, President Obama signed the American Taxpayer Relief Act of 2012 (the "*Taxpayer Relief Act*"). The Taxpayer Relief Act delayed the sequestration created by the Budget Control Act for two months, to allow for additional negotiations on deficit reduction. However, no overarching agreement was reached and the sequestration process created by the Budget Control Act went into effect March 1, 2013. The Bipartisan Budget Act of 2013 was signed into law on December 26, 2013. It eliminated some of the spending cuts required by sequestration, but extended the sequestration caps to 2022 and 2023.

The Budget Control Act had provided for a 24% reduction in Medicare's sustainable growth rate (SGR) formula for physician reimbursement, which would have become effective in 2013. The Taxpayer Relief Act suspended those reductions for one year and Congress further extended the suspension of the reductions until March

31, 2014. On April 1, 2014, President Obama signed the Protecting Access to Medicare Act of 2014 (the "*Medicare Act of 2014*"). The Medicare Act of 2014 includes several extensions of expiring Medicare provisions including a further delay of the SGR cuts until March 31, 2015. On April 16, 2015, President Obama signed the Medicare Access and CHIP Reauthorization Act of 2015 ("MACRA"), which repealed the SGR. MACRA replaces the SGR with a new payment methodology that builds on value-based reimbursement models and incentivizes the adoption of novel payment mechanisms, which is aligned with a recent announcement by the Secretary of Health and Human Services ("HHS") to tie 30% of fee-for-service Medicare payments to quality or value through these new payment mechanisms by the end of 2016, and 50% by 2018.

Because Congress may make changes to the budget in the future, it is impossible to predict the impact any spending cuts that are approved may have upon the Obligated Group. Similarly, it is impossible to predict whether any automatic reductions to Medicare may be triggered in lieu of other spending cuts that may be proposed by Congress. Reduction of Medicare or Medicaid spending under either scenario could have a material adverse effect upon the financial condition and performance of the Obligated Group.

American Recovery and Reinvestment Act of 2009. The American Recovery and Reinvestment Act of 2009 ("ARRA") included several provisions that were intended to provide financial relief to the health care sector, including a requirement that states promptly reimburse health care providers. ARRA also established a framework for the implementation of a nationally-based health information technology program, including incentive payments to eligible health care providers to encourage implementation of health information technology and an electronic health record. The incentive payments will be payable annually for a period of up to four years to eligible providers that demonstrate "meaningful use" of electronic health records. Commencing in 2015, Medicare eligible providers that do not demonstrate meaningful use of electronic health records will receive a downward adjustment in federal reimbursement.

The Corporation has implemented an electronic health record system for the System. The Corporation has already achieved Stage 1 meaningful use requirements for its facilities and the largest of the corresponding years one and two incentive payments have been realized. A handful of the Obligated Group's facilities have also successfully achieved Stage 2 meaningful use requirements. The intent of the management of the Obligated Group is to continue meeting the demands of meaningful use requirements for Stages 2 and 3 for its core facilities. While the regulations are continually being refined, management does not anticipate any significant negative reimbursement impact as a result of its plans to remain in alignment with Stage 2 and 3 meaningful use requirements.

Health Care Reform Act. The Patient Protection and Affordable Care Act (the "*ACA*") and The Health Care and Education Affordability Reconciliation Act of 2010 (collectively, the "Health Care Reform Act") were signed by President Obama on March 23, 2010 and March 30, 2010, respectively. Some of the provisions of the Health Care Reform Act took effect immediately, while others have been and are being phased in over time, ranging from a few months following approval to ten years in certain cases. Because of the complexity of the Health Care Reform Act generally, additional legislation is likely to be considered and enacted over time. The Health Care Reform Act will also require the promulgation of varied regulations with potentially significant effects on the health care industry and third-party payors. In response, third-party payors and suppliers and vendors of goods and services to health care providers have imposed new and additional contractual terms and conditions. Thus, the health care industry has become, and will continue to be, for a substantial period of time, subject to significant new statutory and regulatory requirements and contractual terms and conditions, and consequently to structural and operational changes and challenges.

Since passage, certain political leaders have sought to enact legislation to repeal or amend provisions of the Health Care Reform Act. Management of the Obligated Group continues to monitor and analyze the Health Care Reform Act and its implementation, in order to assess the effects of the legislation and evolving regulations on current and projected operations, and financial condition and performance of the Obligated Group. Due to the complexity and extended phase-in of the Health Care Reform Act, and uncertainty as to its potential future modification by legislators and as to the manner and timing of its implementation by regulators, management of the Obligated Group cannot predict with absolute certainty or reliability the interim or ultimate impact of the Health Care Reform Act**.**

A significant component of the Health Care Reform Act is reformation of the sources and methods by which consumers will pay for health care for themselves and their families and by which employers will procure health insurance for their employees and dependents and, as a consequence, expansion of the base of consumers of health care services. A primary objective of the Health Care Reform Act was to make available, or subsidize the premium costs of, health care insurance for some of the millions of currently uninsured (or underinsured) consumers who fall below certain income levels, thereby lessening the impact and incidence of uncompensated charity care on the health care system. However, as discussed below, that objective may not be achieved in many states without action by the state, which may not occur. The Health Care Reform Act proposes to accomplish that objective through various provisions, summarized as follows:

(i) The creation of active markets (referred to as exchanges) in which individuals and small employers can purchase health care insurance for themselves and their families or their employees and dependents. Neither the State of Illinois nor the State of Wisconsin has set up a health insurance exchange. If a state does not establish an exchange, the federal government will establish one for that state's citizens.

(ii) Provision of subsidies for premium costs to individuals and families based upon their income relative to federal poverty levels.

(iii) Mandating that American citizens who meet certain income levels, obtain, and certain employers provide, a minimum level of health care insurance, and providing for penalties or taxes on individuals and employers that do not comply with these mandates.

(iv) Establishment of insurance reforms that expand coverage generally through such provisions as prohibitions on denials of coverage for preexisting conditions and elimination of lifetime and annual cost caps.

(v) Expansion of access to primary care by increasing payments to providers of such care.

(vi) Expansion of preventive health services such as cancer screenings, by eliminating patient cost-sharing under both governmental and private plans.

(vii) Expansion of existing public programs including expansion of the Medicaid program to a broader population with incomes up to 138% of federal poverty levels. The State of Illinois has adopted the Medicaid expansion, but the State of Wisconsin has not.

(viii) Expansion of the federal "340B" drug discount programs for patients receiving hospital outpatient services to include a wider range of hospital types and other health facilities, including certain cancer hospitals, children's hospitals, Critical Access Hospitals, Sole Community Hospitals and Rural Referral Centers. (The 340B program previously applied only to a fairly narrow range of hospitals and health facility types. Most types of hospital facilities must serve a defined "disproportionate share" percentage of medically indigent persons in order to qualify to enroll as 340B entities. A number of the Obligated Group Members are already enrolled or now qualify for 340B program participation.

To the extent all or any of those provisions produce the expected result, an increase in utilization of healthcare services by those who are currently avoiding or rationing their healthcare is possible and bad debt expenses may be reduced. Increased utilization will increase variable and fixed costs of providing healthcare services, which may or may not be offset by increased revenues.

Many of the Health Care Reform Act's key elements are designed to provide financial incentives to health care providers that can demonstrate they are moving toward a new delivery model that satisfies six key requirements:

1. Compliance with evidence-based utilization protocols (which may be developed locally);

2. Coordination of care in all settings by a primary care practitioner;

3. Avoidance of adverse outcomes (e.g., hospital-acquired infections);

4. Active management of chronic illness;

5. Preventive care and wellness incentives to both patients and providers; and

6. High value of care rendered in comparison to peer providers.

Some of the provisions of the Health Care Reform Act that may affect operations, financial performance or financial conditions of the Obligated Group Members, are described below. This listing is not intended to be comprehensive. The Health Care Reform Act is complex and comprehensive, and includes a myriad of new programs and initiatives and changes to existing programs, policies, practices and laws. The demographics of the markets in which individual Obligated Group Members provide services, the mix of services that any Obligated Group Member provides to its community and other factors that are unique to each Obligated Group Member will affect individual outcomes. Moreover, the Health Care Reform Act remains subject to amendment, repeal, lack of implementation, failure to fund and judicial interpretation.

- Through September 30, 2019, the annual Medicare market basket updates for hospitals will be reduced and subject to productivity adjustments. The reductions in market basket updates and the productivity adjustments will have a disproportionately negative effect upon those providers that are relatively more dependent upon Medicare than other providers. Additionally, the reductions in market basket updates will be effective prior to the periods during which insurance coverage and the insured consumer base will expand, which may have an interim negative effect on revenues and operating income. The combination of reductions to the market basket updates and the imposition of the productivity adjustments may, in some cases and in some years, result in reductions in Medicare payments per discharge on a year-to-year basis.

- Also, through September 30, 2019, payments under the "Medicare Advantage" programs (Medicare managed care) have been and will continue to be restructured, which may result in increased premiums or out-of-pocket costs to Medicare beneficiaries enrolled in Medicare Advantage plans. Those beneficiaries may terminate their participation in those plans and opt for the traditional Medicare fee-for-service program. The reduction in payments to Medicare Advantage programs may also lead to decreased payments to providers by managed care companies operating Medicare Advantage programs. All or any of these outcomes will have a disproportionately negative effect upon those providers with relatively high dependence upon Medicare managed care revenues.

- Commencing October 1, 2012, a value-based purchasing program was established under the Medicare program that is designed to provide incentive payments to hospitals based on performance, quality and efficiency measures. These incentive payments are being funded through a pool of money collected from all hospital providers. Depending on its performance, the Obligated Group's revenues could decrease under a value-based purchasing program.

- Commencing October 1, 2013, Medicare disproportionate share hospital ("*DSH*") payments were reduced initially by 75%. DSH payments will be increased thereafter to account for the national rate of consumers who do not have health care insurance and are provided uncompensated care. Between 2015 and 2020, Medicaid DSH payments will be reduced by several billion dollars based on a complicated methodology.

- Commencing October 1, 2012, Medicare payments that would otherwise be made to hospitals that have a high rate of potentially preventable readmissions of Medicare patients for certain clinical conditions were reduced by specified percentages to account for those excess and "preventable" hospital readmissions.

- Commencing October 1, 2014, Medicare payments to certain hospitals for hospital-acquired conditions were reduced by 1%. Pursuant to the Health Care Reform Act, federal payments to states for Medicaid services related to health care-acquired conditions are prohibited.

- Under the Health Care Reform Act, health care insurers are required to include quality improvement covenants in their contracts with hospital providers, and are required to report their progress on such actions to the Secretary of HHS. Health care insurers will not be allowed to participate in the health insurance exchanges; unless, its contracting providers have implemented programs designed to ensure patient safety and enhance quality of care. The effect of these provisions upon the process of negotiating contracts with insurers or the costs of implementing such programs cannot be predicted.

- With varying effective dates, the Health Care Reform Act enhances the ability to detect and reduce waste, fraud, and abuse in public programs through provider enrollment screening, enhanced oversight periods for new providers and suppliers, and enrollment moratoria in areas identified as being at elevated risk of fraud in all public programs, and by requiring Medicare and Medicaid program providers and suppliers to establish compliance programs. The Health Care Reform Act requires the development of a database to capture and share health care provider data across federal health care programs and provides for increased penalties for fraud and abuse violations, and increased funding for anti-fraud activities.

- Under the Health Care Reform Act, additional requirements for tax-exemption are imposed upon tax-exempt hospitals, including obligations to adopt and publicize a financial assistance policy; limit charges to patients who qualify for financial assistance to the lowest amount charged to insured patients; and control the billing and collection processes. Additionally, tax-exempt hospitals must now conduct a community needs assessment and adopt an implementation strategy to meet those identified needs. Failure to satisfy these conditions may result in the imposition of fines and the loss of tax-exempt status.

- The Health Care Reform Act provides for the establishment of an Independent Payment Advisory Board (the "*Board*") to develop proposals to improve the quality of care and limitations on cost increases. Beginning January 15, 2019, if the Medicare growth rate exceeds the target, the Board is required to develop proposals to reduce the growth rate and require the Secretary of HHS to implement those proposals, unless Congress enacts legislation related to the proposals.

The Health Care Reform Act created a Center for Medicare and Medicaid Innovation to test innovative payment and service delivery models and to implement various demonstration programs and pilot projects to test, evaluate, encourage and expand new payment structures and methodologies to reduce health care expenditures while maintaining or improving quality of care, including bundled payments under Medicare and Medicaid, and comparative effectiveness research programs that compare the clinical effectiveness of medical treatments and develop recommendations concerning practice guidelines and coverage determinations. Other provisions encourage the creation of new health care delivery programs, such as accountable care organizations or combinations of provider organizations that voluntarily meet quality thresholds to share in the cost savings they achieve for the Medicare program. The outcomes of these projects and programs, including their effect on payments to providers and financial performance, cannot be predicted.

On June 28, 2012, the United States Supreme Court upheld the constitutionality of the Health Care Reform Act generally, but struck down certain provisions that would have permitted federal Medicaid funding to be entirely eliminated for states that do not comply with the expanded Medicaid coverage required under the Health Care Reform Act. On June 25, 2015, the Supreme Court affirmed the Federal District Court's findings in King v. Burwell, a challenge to a component of the Health Care Reform Act that provides tax credits to individuals who purchase health insurance on the exchanges. Since the Supreme Court's decisions were handed down, certain political leaders have announced their intention to proceed with legislation to repeal or amend provisions of the Health Care Reform Act. Attempts to repeal provisions of the Health Care Reform Act are pending in Congress while the constitutionality of the Health Care Reform Act continues to be challenged in the courts. The ultimate outcome of legislative attempts to repeal or amend the Health Care Reform Act and of legal challenges to the Health Care Reform Act and the financial implications for Members of the Obligated Group cannot be predicted.

Additional Requirements for Federal Tax Exemption pursuant to the Health Care Reform Act. The Affordable Care Act added new Section 501(r) to the Code, which provides additional requirements that must be met by each tax-exempt hospital facility operated by a tax-exempt hospital organization (in addition to those

required under Section 501(c)(3) of the Code), in order for the organization to maintain its tax-exempt status under Section 501(c)(3) of the Code. The requirements are related to community needs assessments, written policies regarding financial assistance and emergency medical care, limits on charges for care provided to patients eligible for financial assistance, and procedures related to billing and collections.

Effective for tax years commencing after March 23, 2010, additional requirements were authorized to be imposed upon tax-exempt hospitals (such as those operated by Members of the Obligated Group) as a condition of maintaining their tax-exempt status. These requirements include, without limitation, the need to adopt and publicize a financial assistance policy; to limit charges to patients who qualify for financial assistance to the lowest amount charged to insured patients; and to control the billing and collection processes (the "*Financial Rules*"). Additionally, effective for tax years commencing after March 23, 2012, tax-exempt hospitals (such as those operated by Members of the Obligated Group) must conduct a community needs assessment and adopt an implementation strategy to meet those identified needs at least once every three years (the "*Needs Rules*"). Noncompliance with the Needs Rules may result in the levy of an excise tax. On June 26, 2012, the Treasury Department released proposed regulations (the "*2012 Proposed Regulations*") concerning the Financial Rules and on April 5, 2013, the Treasury Department released proposed regulations (the "*2013 Proposed Regulations*") concerning the Needs Rules and the excise tax that may be levied on hospitals that fail to comply with the Needs Rules. Tax-exempt hospitals may rely on the 2012 Proposed Regulations and the 2013 Proposed Regulations or they may rely on the Final Regulations (as defined herein) for satisfying the Financial Rules and the Needs Rules for tax years that begin on or prior to December 29, 2015.

On December 29, 2014, the Treasury Department released final regulations (the "*Final Regulations*"), effective for tax years beginning after December 29, 2015, regarding the Financial Rules and the Needs Rules. The Final Regulations provide that certain minor, inadvertent noncompliance with the Financial Rules and the Needs Rules due to reasonable cause will not result in the loss of the tax-exempt status of hospitals, while certain noncompliance that is neither willful nor egregious will not lead to the loss of tax-exempt status of the hospital if such non-compliance is publicly disclosed and corrected. The Final Regulations also provide that certain failures with respect to the Needs Rules will not result in an excise tax if such failure is minor and either inadvertent or due to reasonable cause; otherwise failure to comply with the Needs Rules will result in an excise tax. Other failures to satisfy the Financial Rules and the Needs Rules may result in the imposition of fines and the loss of the tax-exempt status of the hospital. The loss by the Corporation or the other Members of the Obligated Group of their tax-exempt status could cause the loss of the tax-exemption of the interest on the Series 2016 Bonds.

The Final Regulations provide that the Financial Rules and the Needs Rules must be satisfied with respect to each individual hospital facility operated by a tax-exempt hospital organization. The Final Regulations provide that while a tax-exempt hospital organization will not lose its tax-exempt status solely because one of the hospital facilities it operates does not comply with the Financial Rules and the Needs Rules, the tax-exempt hospital organization will have to pay a facility-level tax with respect to any of its income derived from its non-compliant hospital facility. Additionally, the Final Regulations provide that the application of a facility-level tax to a noncompliant hospital facility will not, by itself, affect the tax-exempt status of bonds issued to finance such noncompliant hospital facility.

Management of the Obligated Group has taken appropriate measures to ensure that each Member of the Obligated Group is in compliance with the Financial Rules and the Needs Rules.

Uncertainty of Revenues

As noted elsewhere, except to the extent that the holders of the Series 2016 Bonds are secured by proceeds of insurance, sale or condemnation awards, the Series 2016 Bonds will be payable solely from payments or prepayments to be made by the Corporation under the Loan Agreement and by the Obligated Group Members on the Series 2016 Note. The ability of the Corporation to make payments under the Loan Agreement and by the Obligated Group Members to pay debt service on the Series 2016 Note is dependent upon the generation by the Obligated Group Members of revenues in the amounts necessary for the Obligated Group to make payments of debt service on the Series 2016 Bonds, as well as other operating and capital expenses. The realization of future revenues and expenses is subject to, among other things, the managerial capability of the Corporation's management, government regulation and future economic and other conditions that are unpredictable and may affect revenues and the payment

of debt service on the Series 2016 Bonds. No representation can be made or assurance can be provided that revenues will be realized by the Obligated Group at times or in amounts sufficient to make the required payments of debt service on the Series 2016 Bonds.

Risks Related to Tax-Exempt Status

Each Member of the Obligated Group is a nonprofit corporation, exempt from federal income taxation as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "*Code*"). At the same time, each Member of the Obligated Group conducts complex business transactions and is a major employer in the geographic area in which it operates. There can often be a tension between the rules designed to regulate a wide range of charitable organizations and the day-to-day operations of a complex health care system.

The tax-exempt status of the Series 2016 Bonds depends upon maintenance by each Member of the Obligated Group or affiliate that receives or benefits from the proceeds of the Series 2016 Bonds (the "*Benefiting Member*"), of its status as an organization described in section 501(c)(3) of the Code. The maintenance of such status is contingent on compliance with general rules promulgated in the Code and related regulations regarding the organization and operation of tax-exempt entities, including their operation for charitable and other permissible purposes and their avoidance of transactions that may cause their earnings or assets to inure to the benefit of private individuals. As these general principles were developed primarily for public charities that do not conduct large-scale technical operations and business activities, they often do not adequately address the myriad of operations and transactions entered into by a modern health care organization. Although traditional activities of health care providers, such as medical office building leases, have been the subject of interpretations by the IRS, many activities or categories of activities have not been fully addressed in any official opinion, interpretation or policy of the IRS.

The Benefitting Members participate in a variety of joint ventures and transactions with physicians either directly or indirectly. Management of the Corporation believes that the joint ventures and transactions to which the Benefitting Members are a party are consistent with the requirements of the Code as to tax-exempt status, but, as noted above, there is uncertainty as to the state of the law.

The IRS has periodically conducted audit and other enforcement activity regarding tax-exempt health care organizations. The IRS conducts special audits of large tax-exempt health care organizations with at least $500 million in assets or $1 billion in gross receipts. Such audits are conducted by teams of revenue agents, often take years to complete and require the expenditure of significant staff time by both the IRS and taxpayers. These audits examine a wide range of possible issues, including tax-exempt bond financing of partnerships and joint ventures, retirement plans and employee benefits, employment taxes, political contributions and other matters.

If the IRS were to find that a Benefitting Member had participated in activities in violation of certain regulations or rulings, the tax-exempt status of such entity could be in jeopardy. Although the IRS has not frequently revoked the 501(c)(3) tax-exempt status of nonprofit health care corporations, it could do so in the future. Loss of tax-exempt status by even one Benefiting Member potentially could result in loss of tax exemption of the Series 2016 Bonds and of other tax-exempt debt benefiting Members of the Obligated Group, defaults in covenants regarding the Series 2016 Bonds and other related tax-exempt debt, and the triggering of other obligations, including substantial tax liabilities on income of the Member of the Obligated Group. For these reasons, loss of tax-exempt status of any Benefiting Member could have a material adverse effect on the financial condition and performance of the Obligated Group.

In some cases, the IRS has imposed substantial monetary penalties on tax-exempt hospitals in lieu of revoking their tax-exempt status. In those cases, the IRS and exempt hospitals entered into settlement agreements requiring the hospital to make substantial payments to the IRS. Given the size of the Obligated Group, the wide range of complex transactions entered into by the Members, and potential exemption risks, Members could be at risk for incurring monetary and other liabilities imposed by the IRS.

In addition, the IRS has asserted that tax-exempt hospitals that are in violation of Medicare and Medicaid regulations regarding inducement for referrals may also be subject to revocation of their tax-exempt status. Because a wide variety of hospital-physician transactions potentially violate these broadly stated prohibitions on inducement for referrals, the IRS has broadened the range of activities that may directly affect tax exemption, without defining

specifically how those rules will be applied. As a result, tax-exempt hospitals, particularly those that have extensive transactions with physicians, are currently subject to an increased degree of scrutiny and potential enforcement by the IRS. The IRS's policy position is not necessarily indicative of a judicial adjudication of the applicable issues.

Increasingly, the operations and practices of health care providers have been challenged or questioned to determine if they are consistent with the regulatory requirements for not-for-profit, tax-exempt organizations. These challenges, in some cases, are broader than concerns about compliance with federal and state statutes and regulations, such as Medicare and Medicaid compliance, and instead in many cases are examinations of core business practices of the health care organizations. Areas that have come under examination include pricing practices, billing and collection practices, charitable care, executive compensation, exemption of property from real property taxation and entitlement to sales tax exemption, and others. These challenges and questions have come from a variety of sources, including state attorneys general, the IRS, labor unions, Congress, state legislatures, and patients, class action plaintiffs' attorneys, and in a variety of forums, including hearings, audits and litigation. These challenges or examinations include the following, among others:

Section 4958 of the Code imposes excise taxes on "excess benefit transactions" between "disqualified persons" and tax-exempt organizations such as the Members of the Obligated Group. According to the legislative history and regulations associated with Section 4958, these excise taxes may be imposed by the IRS either in lieu of or in addition to revocation of exemption. These intermediate sanctions may be imposed in situations in which a "disqualified person" (such as an "insider") engages in "excess benefit transactions" such as (i) a transaction with a tax-exempt organization on other than a fair market value basis, (ii) receipt of unreasonable compensation from a tax-exempt organization or (iii) receipt of payment in an arrangement that violates the prohibition against private inurement. A disqualified person who benefits from an excess benefit transaction will be subject to an excise tax equal to 25% of the amount of the excess benefit. Organizational managers who participate in the excess benefit transaction knowing it to be improper are subject to an excise tax equal to 10% of the amount of the excess benefit, subject to a maximum penalty of $20,000 per transaction. A second penalty, in the amount of 200% of the excess benefit, may be imposed on the disqualified person (but not upon the organizational manager) if the excess benefit is not corrected within a specified period of time. Fair market value and reasonable compensation for tax purposes typically reflect a range rather than a specific dollar amount, and the IRS does not rule in advance on whether a transaction results in more than fair market value payment or more than reasonable compensation to a disqualified person. Although it is not possible to predict what enforcement action, if any, the IRS might take related to potential excess benefit transactions, consistent with the legislative history of Section 4958, regulations issued by the IRS in March 2008 indicate that not all excess benefit transactions jeopardize exempt status. Rather, the IRS will consider all relevant facts and circumstances including: the size and scope of the organization's activities that further exempt purposes; the size, scope and frequency of any excess benefit transactions; whether the organization has implemented appropriate safeguards reasonably designed to prevent future excess benefit; and whether the organization has made good faith efforts to correct any excess benefit such as by obtaining repayment of the amount of any excess benefit.

The legislation is potentially favorable to taxpayers because it provides the IRS with a punitive option short of revoking tax-exempt status to deal with incidents of private inurement. However, the standards for tax exemption have not been changed, including the requirement that no part of the net earnings of an exempt entity inure to the benefit of any private individual. Consequently, although the IRS has only infrequently revoked the tax exemption of non-profit health care corporations in the past, risk of revocation remains and there can be no assurance that the IRS will not direct enforcement activities against Obligated Group Members.

In certain cases, the IRS has imposed substantial monetary penalties and future charity care or public benefit obligations on tax-exempt hospitals in lieu of revoking their tax-exempt status, as well as requiring that certain transactions be altered, terminated or avoided in the future and/or requiring governance or management changes. These penalties and obligations are typically imposed on the tax-exempt hospital pursuant to a "closing agreement" with respect to the hospital's alleged violation of Section 501(c)(3) exemption requirements. Given the uncertainty regarding how tax-exemption requirements may be applied by the IRS, the Obligated Group Members are, and will be, at risk for incurring monetary and other liabilities imposed by the IRS through this "closing agreement" or similar process. Like certain of the other business and legal risks described herein that apply to large multi-hospital systems, these types of situations could arise and liability could be substantial and have a material adverse effect on the financial condition and performance of the Obligated Group.

The Health Care Reform Act places additional requirements on tax-exempt hospitals for them to receive and maintain their Section 501(c)(3) federal tax-exempt status. One significant new requirement is that tax-exempt hospitals must perform a community health needs assessment every three years and develop an implementation strategy to meet the identified needs. Requirements relating to community health needs assessments are effective for taxable years beginning after March 23, 2012. Any tax-exempt hospital that fails to satisfy the community health needs assessment requirement for any taxable year will be subject to an excise tax penalty of $50,000. Furthermore, the United States Secretary of the Treasury or that individual's delegate is to review the community benefit activities of each tax-exempt hospital at least every three years. Another major element of the Health Care Reform Act relating to the tax-exempt status of hospitals involves charges. A hospital must limit the amounts charged for emergency room or other medically necessary care provided to patients eligible for assistance under the hospital's financial assistance policy to no more than the amounts generally billed to patients who have insurance covering such care. In other words, hospitals cannot charge persons eligible for financial assistance higher rates than the amounts charged to patients who have insurance covering such care. The Health Care Reform Act also requires that tax-exempt hospitals have a written financial assistance policy in place. Finally, the Health Care Reform Act prohibits a hospital from engaging in extraordinary collection actions (which may include, among other things, a restriction on filing suit) before it has made reasonable efforts to determine whether the subject individual is eligible for financial assistance.

The Tax Exempt and Governmental Entities Division of the IRS is responsible for the Team Examination Program (referred to as "*TEP*") of the IRS and conducts audits of exempt organizations using teams of revenue agents. The TEP audit teams consider a wide range of possible issues, including the community benefit standard, private inurement and private benefit, partnerships and joint ventures, retirement plans and employee benefits, employment taxes, tax-exempt bond financing, political contributions and unrelated business income. In addition, the IRS conducts compliance checks and correspondence audits that focus initially on limited issues, such as executive compensation, unrelated business income or community benefit. Such limited scope reviews can be expanded in certain circumstances to include a variety of other issues in a TEP audit.

One or more of the Obligated Group Members could be audited by the IRS. Management of the Corporation believes that Obligated Group Members have properly complied with the tax laws. Nevertheless, because of the complexity of the tax laws and the presence of issues about which reasonable persons can differ, a TEP or other audit could result in additional taxes, interest and penalties. A TEP or other audit could also potentially affect the tax-exempt status of any of the Obligated Group Members.

In addition, as a result of the increased scrutiny of community benefit activity by the IRS, tax-exempt hospitals may be required to increase resources spent on qualifying activities. On February 12, 2009, the IRS released its Final Report containing the results of a two-year study focusing on community benefit reporting practices and executive compensation practices of tax-exempt hospitals. The results are based on a compliance check survey the IRS sent to 500 hospitals in May 2006 and builds on the analysis of results first released by the IRS in its Interim Report in July 2007 and the results of a 2004 compliance check on executive compensation arrangements of 501(c)(3) tax-exempt organizations generally. The Final Report, however, does not reach specific conclusions concerning whether the existing community benefit standard is appropriate and whether tax-exempt hospital executives are being compensated appropriately.

As described herein under the caption "*TAX EXEMPTION*," failure to comply with certain legal requirements may cause the interest on the Series 2016 Bonds to become included in gross income of the recipients thereof for federal income tax purposes. The Bond Indenture does not provide for the payment of any additional interest or penalty in the event the interest on the Series 2016 Bonds is determined to be includible in gross income for federal income tax purposes.

Internal Revenue Service Form 990. IRS Form 990 is used by 501(c)(3) not-for-profit organizations to submit information required by the federal government to maintain tax-exemption. Form 990 requires detailed public disclosure of compensation practices, corporate governance, loans to management and others, joint ventures and other types of transactions, political campaign activities and other areas the IRS deems to be compliance risk areas. Form 990 also requires the reporting of detailed community benefit information on Schedule H to the Form 990 and establishes uniform standards for the reporting of charity care. Form 990 also contains a separate schedule requiring detailed reporting of information relating to tax-exempt bonds, including compliance with the arbitrage

rules and rules limiting private use of bond-financed facilities, including compliance with the safe harbor guidance in connection with management contracts and research contracts. Form 990 allows for enhanced transparency as to the operations of exempt organizations. It is likely to result in enhanced enforcement, as Form 990 makes available a wealth of detailed information on compliance risk areas to the IRS and other stakeholders, including state attorneys general, unions, plaintiff's class action attorneys, public watchdog groups and others. The Health Care Reform Act amended the Code to require tax-exempt hospitals to include in their Form 990 a report describing how they are addressing the needs identified in each community health needs assessment conducted and their audited financial statements (or the consolidated financial statements in which they are included).

Charity Care and Tax-Exempt Status. Hospitals are permitted to obtain tax-exempt status under the Code because the provision of health care historically has been treated as a "charitable" enterprise. This treatment arose before most Americans had health insurance, when charitable donations were required to fund the health care provided to the sick and disabled. Some commentators and others have taken the position that, with the onset of employer health insurance and governmental reimbursement programs, there is no longer any justification for special tax treatment for the health care industry, and the availability of tax-exempt status should be eliminated. Federal and state tax authorities are also beginning to demand that tax-exempt hospitals justify their tax-exempt status by documenting their charitable care and other community benefits.

As described above under the subheading, "*Health Care Reform Act,*" the Health Care Reform Act imposes additional requirements for tax-exemption upon tax-exempt hospitals, including obligations to adopt and publicize a financial assistance policy; limit charges to patients who qualify for financial assistance to the amounts generally billed to insured patients; and control the billing and collection processes. Additionally, effective for tax years that commenced after March 23, 2012, tax-exempt hospitals are required to conduct a community health needs assessment every three years and adopt an implementation strategy to meet those identified needs. Failure to complete a community health needs assessment in any applicable three-year period can result in a penalty on the organization of up to $50,000, in addition to possible revocation of status as a section 501(c)(3) organization.

The Health Care Reform Act also imposes new reporting and disclosure requirements on hospital organizations. The IRS is required to review information about a hospital's community benefit activities at least once every three years. The Health Care Reform Act requires the Secretary of the Treasury, in consultation with the Secretary of HHS, to submit annually a report to Congress with information regarding the levels of charity care, bad debt expenses, unreimbursed costs of government programs, as well as costs incurred by tax-exempt hospitals for community benefit activities. The Secretary of the Treasury, in consultation with the Secretary of HHS, must conduct a study of the trends in these amounts, and submit a report on such study to Congress not later than five years after the date of enactment of the Health Care Reform Act. These statutorily mandated requirements for periodic review and submission of reports relating to community benefit provided by section 501(c)(3) hospital organizations may increase the likelihood that Congress will consider additional requirements for section 501(c)(3) hospital organizations in the future and may increase IRS scrutiny of particular 501(c)(3) hospital organizations.

Challenges to Real Property and Sales Tax Exemptions. Recently, the real property and sales tax exemptions afforded to certain nonprofit health care providers by state and local taxing authorities have been challenged on the grounds that a portion of its property was not being used to further the charitable purposes of the institutions or that the institutions did not provide sufficient care to indigent persons so as to warrant exemption from taxation as a charitable institution. These challenges have been based on a variety of grounds, including allegations of aggressive billing and collection practices and excessive financial margins.

The status of real property and sales tax exemptions for not for profit health care providers has been under scrutiny in the State of Illinois for a number of years. As a result, in June 2012, the State of Illinois enacted legislation (the "*Illinois Property and Sales Tax Act*") creating standards for real property and sales tax exemptions for health care providers operating in the State.

The Illinois Property and Sales Tax Act provides that a hospital owner or hospital affiliate satisfies the conditions for an exemption from real property taxation if the value of "qualified services or activities" for the hospital year equals or exceeds the relevant hospital entity's estimated property tax liability for the calendar year in which exemption or renewal of exemption is sought. Not for profit hospitals that satisfy this test will also be exempt from the State's sales and use tax. The Illinois Property and Sales Tax Act includes a list of the items that are

included within the definition of "qualified services and activities," including charity care (free or discounted services pursuant to the hospital's financial assistance policy, measured at cost); health services to low-income or underserved individuals (including, without limitation, financial or in-kind support relating to the care and treatment of low-income or underserved individuals); subsidies provided to State or local governments for programs related to health care for low-income or underserved individuals; support for State health care programs for low income individuals; and the portion of unreimbursed costs attributed to providing, paying for, or subsidizing goods, activities or services that relieve the burden of government relating to health care for low income individuals, including, without limitation, the provision of medical education and training of health care professionals as well as the provision of emergency, trauma, burn, neonatal, psychiatric, rehabilitation or other special services.

An appeal to the Illinois Supreme Court involving a lawsuit against the Illinois Department of Revenue is pending, challenging the constitutionality of the Illinois Property and Sales Tax Act. The Fourth District Appellate Court held that Illinois' 2012 state law determining how nonprofit hospitals get a break from paying property taxes is unconstitutional. Obligated Group management cannot predict the outcome of the appeal. Obligated Group management cannot predict whether the Illinois Property and Sales Tax Act will have a material impact on the results of operations and financial condition of the Obligated Group in regards to future property or sales tax exemption applications if the Illinois Supreme Court affirms the Fourth District Appellate Court's ruling.

Tax-Exempt Status of Series 2016 Bonds. The Code imposes a number of requirements that must be satisfied for interest on state and local obligations, such as the Series 2016 Bonds, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of bond proceeds and facilities financed with bond proceeds, limitations on the investment earnings of bond proceeds prior to expenditure, a requirement that certain investment earnings on bond proceeds be paid periodically to the United States, and a requirement that the issuers file an information report with the IRS. The Corporation has agreed that it will comply with such requirements. Failure to comply with the requirements stated in the Code and related regulations, rulings and policies may result in the treatment of the interest on the Series 2016 Bonds as taxable. Such adverse treatment may be retroactive to the date of issuance. *See also* "*TAX EXEMPTION*" *herein.*

Certain Matters Relating to Security for the Series 2016 Bonds

Amendments. Certain amendments to the Master Indenture may be made with the consent of the Holders of not less than 60% of in aggregate principal amount of Outstanding Notes. *See* "*SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – Supplemental Master Indentures with Consent of Noteholders*" *in APPENDIX D attached hereto*. These amendments may adversely affect the security of the Holders of the Series 2016 Bonds, and a majority may be composed wholly or partially of the Holders of Notes other than the Series 2016 Note. Certain amendments to the Bond Indenture and the Loan Agreement may be made with the prior written consent of the holders of not less than a majority of the outstanding principal amount of the Series 2016 Bonds outstanding under the Bond Indenture. *S*ee "*SUMMARY OF THE BOND INDENTURE AND THE LOAN AGREEMENT - Summary of the Bond Indenture – Supplemental Bond Indentures*" *in APPENDIX E attached hereto*. Such amendments may adversely affect the security of the Holders of the Series 2016 Bonds. Certain amendments to the Mortgages may be made with the consent of the holders of not less than a majority in aggregate principal amount of Master Notes Outstanding. *See* "*SUMMARY OF CERTAIN PROVISIONS OF THE MORTGAGES – Supplements and Amendments with Consent of Noteholders*" in *APPENDIX D attached hereto*. These amendments may adversely affect the security of the Holders of the Series 2016 Bonds.

Enforceability of the Master Indenture, the Loan Agreement and the Series 2016 Note. The legal right and practical ability of the Bond Trustee to enforce rights and remedies under the Loan Agreement and of the Master Trustee to enforce its rights and remedies under the Master Indenture and the Series 2016 Note may be limited by laws relating to bankruptcy, insolvency, reorganization, fraudulent transfer or moratorium and by other similar laws affecting creditors' rights. The state of fraudulent transfer and bankruptcy laws relating to the enforceability of guaranties or obligations issued by one corporation in favor of another corporation's creditors (such as a Member of the Obligated Group's obligation to make debt service payments on behalf of another Member of the Obligated Group) is unsettled. In particular, such obligations may be voidable under the Federal Bankruptcy Code or applicable state fraudulent transfer laws if (1) the obligation is incurred without "fair" and/or "fairly equivalent" consideration to the obligor and (2) the obligor is insolvent or rendered insolvent by the incurrence of the obligation. The standards for determining the fairness of consideration and the manner of determining

insolvency are somewhat subjective and may vary under cases interpreting the Federal Bankruptcy Code and the various state fraudulent transfer statutes. Consequently, the Bond Trustee's and the Master Trustee's ability to enforce the rights and remedies under the Loan Agreement, the Master Indenture and the Series 2016 Note against any Member of the Obligated Group that would be rendered insolvent thereby could be subject to challenge. In addition, enforcement of such rights and remedies will depend upon the exercise of various remedies specified by such documents, which, in many instances, may require judicial actions that are subject to discretion and delay, that otherwise may not be readily available or that may be limited by certain legal principles, including fraudulent transfer or moratorium and other similar laws.

The joint and several obligation described herein of each Member of the Obligated Group to pay debt service on the Series 2016 Note may not be enforceable against a Member under any of the following circumstances:

(i) to the extent payments on the Series 2016 Note are requested to be made from assets of such Member which are donor-restricted or which are subject to a direct, express or charitable trust that does not permit the use of such assets for such payments;

(ii) if the purpose of the debt created and evidenced by the Series 2016 Note is not consistent with the charitable purposes of such Member, or if the debt was incurred or issued for the benefit of an entity other than a nonprofit corporation that is exempt from federal income taxes under sections 501(a) and 501(c)(3) of the Code and is not a "private foundation" as defined in section 509(a) of the Code;

(iii) to the extent payments on the Series 2016 Note would result in the cessation or discontinuation of any material portion of the health care or related services previously provided by such Member; or

(iv) if and to the extent payments are requested to be made pursuant to any loan violating applicable usury laws.

These limitations on the enforceability of the joint and several obligations of the Members of the Obligated Group on the Series 2016 Note also apply to their obligations on all Notes. If the obligation of a particular Member of the Obligated Group to make payment on a Note is not enforceable and payment is not made on such Note when due in full, then Events of Default will arise under the Master Indenture.

There exists common law authority and authority under certain statutes for the ability of the courts to terminate the existence of a nonprofit corporation or undertake supervision of its affairs on various grounds, including a finding that such corporation has insufficient assets to carry out its stated charitable purposes. Such court action may arise on the court's own motion or pursuant to a petition of the state Attorney General or such other persons who have interests different from those of the general public, pursuant to the common law and statutory power to enforce charitable trusts and to see to the application of their funds to their intended charitable uses.

The various legal opinions delivered concurrently with the issuance of the Series 2016 Bonds are qualified as to the enforceability of the various legal instruments by limitations imposed by state and federal laws, rulings, policy and decisions affecting remedies and by bankruptcy, reorganization or other laws of general application affecting the enforcement of creditors' rights or the enforceability of certain remedies or document provisions.

Certain Matters Relating to Enforceability of Security Interest in Pledged Revenues

The enforceability of the security interest in Pledged Revenues created under the Master Indenture may be limited by a number of factors, including: (i) provisions prohibiting the direct payment of amounts due to health care providers from Medicaid and Medicare programs to persons other than such providers; (ii) the absence of an express provision permitting assignment of receivables due under the contracts between the Obligated Issuers and third-party payors, and present or future legal prohibitions against such assignment; (iii) certain judicial decisions which cast doubt on the right of the Master Trustee, in the event of the bankruptcy of an Obligated Issuer, to collect and retain accounts receivable from Medicare, Medicaid and other governmental programs; (iv) commingling of proceeds of accounts receivable with other moneys of the Obligated Issuers not so pledged under the Master

Indenture; (v) statutory liens; (vi) rights arising in favor of the United States of America or any agency thereof; (vii) constructive trusts or equitable or other rights impressed or conferred thereon by a federal or state court in the exercise of its equitable jurisdiction; (viii) federal bankruptcy laws which may affect the enforceability of the Master Indenture or the security interest in the Pledged Revenues which are earned by the Obligated Issuer within 90 days preceding the commencement of bankruptcy proceedings by or against the Obligated Issuer and during the pendency of such proceedings; (ix) rights of third parties in Pledged Revenues converted to cash and not in the possession of the Master Trustee; and (x) claims that might arise if appropriate financing or continuation statements are not filed in accordance with the Uniform Commercial Code, as from time to time in effect.

Certain Matters Relating to the Mortgages

The facilities of MHSC covered by the MHSC Mortgage held by the Master Trustee and the facilities of Rockford Memorial covered by the Rockford Mortgage held by the Master Trustee (collectively, the "*Mortgaged Facilities*") are not comprised of general purpose buildings for industrial or commercial use. In the event of default, the entities which would purchase or lease the Mortgaged Facilities would be limited, thereby affecting the amount which the Master Trustee could realize from recourse to the Mortgaged Facilities as collateral under the Mortgages. There has been no comprehensive appraisal of the real estate, buildings and equipment subject to the lien and security of the Mortgages. It is not known whether the value of such collateral equals or exceeds the aggregate indebtedness evidenced or to be evidenced by the Notes. The Master Trustee will receive title insurance policies in the aggregate amount of $10,000,000 covering the Mortgaged Property. There is no assurance that the amount of any title insurance proceeds would cover the losses from impairment of title. Any proceeds from title insurance would likely be insufficient to cover the outstanding principal amount of the Master Notes issued under the Master Indenture, including the Series 2016 Note. Therefore, Bondholders should not rely on the title insurance policies for payment of the Series 2016 Bonds.

Additional Debt; Dilution

The Master Indenture permits the issuance of additional Notes on a parity with the Series 2016 Note, and also permits the incurrence of other indebtedness and guarantees of indebtedness by the Members of the Obligated Group. *See* "*SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE — Restrictions as to the Incurrence of Additional Indebtedness*" *in APPENDIX D.* The incurrence of additional indebtedness and guarantees would increase debt service requirements and could materially and adversely affect debt service coverage on the Series 2016 Bonds, and, in the case of the issuance of additional Notes, could dilute the collateral security and voting rights of the applicable Bondowners under the Master Indenture.

Additions to the Obligated Group; Dilution

Simultaneously with the issuance of the Series 2016 Bonds, (i) all debt of the Rockford Memorial Hospital Obligated Group is being paid and the Rockford Master Indenture is being released; (ii) MHH and MAC are withdrawing from the Mercy Alliance Obligated Group; (iii) Rockford Memorial and Rockford Physicians are joining the Mercy Alliance Obligated Group; and (iv) the Corporation and the other Obligated Group Members are entering into the Second Supplement, providing for the amendment and restatement of the Existing Mercy Alliance Master Indenture by the Master Indenture. The Corporation may add additional Members to the Obligated Group at any time provided that it satisfies the conditions set forth in the Master Indenture. *See* "*SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE — The Obligated Group*" *in APPENDIX D.* The accounts of the Members of the Obligated Group will be combined for financial reporting purposes, and the combined accounts will be used in determining whether various covenants and financial tests contained in the Master Indenture have been met (including financial tests which must be met as conditions to transactions such as the incurrence of additional debt, the consummation of a merger or the transfer of assets to third parties). It is possible, therefore, that the addition of Members to the Obligated Group could weaken the financial condition of the Obligated Group and diminish the financial performance of the Obligated Group to the minimum levels permitted by the Master Indenture.

Availability of Remedies

The remedies available to the Bond Trustee, the Master Trustee, the Authority and the holders of the Series 2016 Bonds upon an event of default under the Bond Indenture, the Master Indenture, the Loan Agreement and the Series 2016 Note are in many respects dependent upon judicial actions which are often subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, including, specifically, the United

States Bankruptcy Code, the remedies provided in the Bond Indenture, the Master Indenture, the Loan Agreement and the Series 2016 Note may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the delivery of the Series 2016 Bonds will be qualified as to the enforceability of the various legal instruments by limitations imposed by general principles of equity and by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors' generally and laws relating to fraudulent conveyances.

Bankruptcy

In the event of the bankruptcy of a Member of the Obligated Group, the rights and remedies of the Bondholders are subject to various provisions of the Federal Bankruptcy Code. If a Member of the Obligated Group were to become a debtor in a bankruptcy case, payments made by that Obligated Group Member during the 90-day (or perhaps one-year) period immediately preceding the filing of the case may be avoidable as preferential transfers to the extent, among other requirements, that such payments allow the recipients thereof to receive more than they would have received in the event of the Obligated Group Member's liquidation. Security interests and other liens granted to the Bond Trustee or the Master Trustee and perfected during such preference period also may be avoided as preferential transfers to the extent, among other requirements, that such security interest or other lien secures obligations that arose prior to the date of such perfection.

A bankruptcy filing would operate as an automatic stay of various creditor actions to enforce, maintain or enhance the rights of the Bond Trustee and the Master Trustee. Such actions would include (i) the commencement or continuation of any judicial or other proceeding against the Member of the Obligated Group and its property, including all or some funds held under the Bond Indenture for the payment of debt service on the Series 2016 Bonds, and (ii) any act or proceeding to enforce a lien upon or to otherwise exercise control over property of the Obligated Group Member. If the bankruptcy court so ordered, the property of the Obligated Group Member, including all or some funds held under the Bond Indenture for the payment of debt service on the Series 2016 Bonds, could be used for the financial rehabilitation of such Member despite any security interest of the Bond Trustee or the Master Trustee in the property. The rights of the Bond Trustee and the Master Trustee to enforce their respective security interests and other liens could be delayed during the pendency of the rehabilitation proceeding.

An Obligated Group Member could file a plan for the adjustment of its debts in any bankruptcy case, which plan could include provisions modifying or altering the rights of its secured or unsecured creditors. The plan, if confirmed by the court, binds all creditors and, with certain limited exceptions, discharges all claims against the debtor to the extent provided for in the plan. No plan may be confirmed unless certain conditions are met, among which are conditions that the plan be feasible and that it shall have been accepted by each class of claims impaired thereunder. The plan will be accepted by an impaired class if holders of at least two-thirds in dollar amount and more than one-half in number of claims in the class cast votes in its favor. Even if the plan is not so accepted, it may be confirmed if the court finds that the plan meets the other requirements for confirmation and determines that the plan is fair and equitable with respect to each class of non-accepting creditors impaired thereunder and does not discriminate among such creditors unfairly.

In the event of the bankruptcy of an Obligated Group Member, there is no assurance that certain covenants, including tax covenants, contained in the Loan Agreement or certain other documents would survive. Accordingly, a bankruptcy trustee could take action that would adversely affect the exclusion of interest on the Series 2016 Bonds from gross income of the Bondholders for federal income tax purposes.

The bankruptcy of any affiliate that is not a Member of the Obligated Group (the "*Non-Obligated Affiliate*") would not trigger an event of default under the Master Indenture, the Bond Indenture or the Loan Agreement, but the bankruptcy of a Non-Obligated Affiliate could have a material adverse effect on the Corporation and the Obligated Group. If a Non-Obligated Affiliate were to file for bankruptcy and had no contractual obligation to make payments to the Corporation, neither the Corporation nor the Master Trustee would be able to file a claim in a bankruptcy proceeding involving the Non-Obligated Affiliate for the payment of any amounts due on the Notes.

Under the provisions of the amendments to the United States Bankruptcy Code, a bankruptcy court could appoint a patient advocate, the cost of which would be an administrative expense of the estate and certain reimbursements from federal agencies could be discontinued.

In addition, the bankruptcy of a health plan or physician group that is a party to a significant managed care arrangement with one or more of the other Members of the Obligated Group could have material adverse effects on the other Members of the Obligated Group.

Control of Other Members of the Obligated Group

To the extent that the Corporation does not have the unilateral right to appoint and remove the Governing Body of another Obligated Issuer, with or without cause, the remedies of the Corporation with respect to an Obligated Issuer that is not controlled by the Corporation (a "*Non-Controlled Obligated Issuer*") that refuses to comply with the provisions of the Master Indenture applicable to it may be limited to litigation to specifically enforce the agreements between the Corporation and the Non-Controlled Obligated Issuer. Non-Controlled Obligated Issuers may have certain defenses to such litigation. As of the date of this Official Statement there are currently no Non-Controlled Obligated Issuers.

Payment for Health Care Services

Patient Service Revenues. Net patient revenues realized by the Members of the Obligated Group are derived from a variety of sources and will vary among the individual facilities owned and operated by the Members of the Obligated Group and also among the various market areas and regions in which the facilities are located. Certain facilities and regions may realize substantially more revenues from private payment programs, such as managed care organizations, than do others.

A substantial portion of the net patient service revenues of the Members of the Obligated Group is derived from third-party payors which pay for the services provided to patients covered by third parties for services. These third-party payors include the federal Medicare program, state Medicaid programs and private health plans and insurers, including health maintenance organizations ("*HMOs*") and preferred provider organizations ("*PPOs*"). Many of those programs make payments to Members of the Obligated Group at rates other than the direct charges of such Obligated Group Members. Rates may be determined on a basis of other than actual costs incurred in providing services and items to such patients. Accordingly, there cannot be any assurance that payments made under these programs will be adequate to cover the Obligated Group's actual costs of furnishing health care services and items. In addition, the financial condition and performance of the Obligated Group could be adversely affected by the insolvency of, or other delay in receipt of payments from, third-party payors.

The financial performance of the Obligated Group has been and could be in the future adversely affected by the financial position or the insolvency or bankruptcy of or other delay in receipt of payments from third-party payors that provide coverage for services to their patients.

Medicare and Medicaid Programs; General. Medicare and Medicaid are the commonly used names for reimbursement or payment programs governed by certain provisions of the federal Social Security Act. Medicare is an exclusively federal program and Medicaid is jointly funded by federal and state government and governed by federal and state laws. Medicare provides certain health care benefits to beneficiaries who are 65 years of age or older or disabled, or qualify for the End Stage Renal Disease Program. Medicaid is designed to pay providers for care given to the medically indigent, is funded by federal and state appropriations, and is administered by the individual states. Benefits are available under each participating state's Medicaid program, within prescribed limits, to persons meeting certain income or other eligibility requirements including children, the aged, the blind and/or disabled. Health care providers have been and will be affected significantly by changes in the last several years in federal and state health care laws and regulations, particularly those pertaining to Medicare and Medicaid. The purpose of much of the recent statutory and regulatory activity has been to reduce the rate of increase in health care costs, particularly costs paid under the Medicare and Medicaid programs.

Medicare. Medicare is a federal governmental health insurance system under which physicians, hospitals and other health care providers are reimbursed or paid directly for services provided to eligible elderly and disabled persons. Medicare is administered by the Centers for Medicare and Medicaid Services ("*CMS*") of HHS. In order to achieve and maintain Medicare certification, a health care provider must meet CMS's "Conditions of Participation" on an ongoing basis, as verified by the state in which the provider is located and/or one of the accreditation organizations having CMS deemed status, e.g. The Joint Commission, the Healthcare Facilities Accreditation Program, or DNV Healthcare Inc.

For the fiscal years ended June 30, 2015 and June 30, 2014, Medicare payments represented a significant portion of the Obligated Group's gross patient service revenue. *See* "*SOURCES OF PATIENT REVENUES*" *in APPENDIX A*. As a consequence, changes in the Medicare program may have a material effect on the Obligated Group. The cost of providing a unit of care may potentially exceed the compensation realized from Medicare for providing that service. Additionally, the aggregate costs to a provider of providing care to Medicare beneficiaries may potentially exceed aggregate Medicare payments received during the relevant fiscal year period. Reductions in Medicare reimbursement, or increases in Medicare reimbursement in amounts less than increases in the costs of providing care, may have a material adverse financial effect on the Obligated Group.

Under the Medicare hospital inpatient prospective payment system ("*IPPS*"), the amount paid to the provider for an episode of care is established by federal regulation and is not related to the provider's charges or costs of providing that care. Presently, hospital inpatient and outpatient services, skilled nursing care, and home health care are paid on the basis of a prospective payment system ("PPS"). Under the hospital IPPS, fixed payment amounts per inpatient discharge are established based on the patient's assigned diagnosis related group, or DRG. DRGs classify treatments for illnesses according to the estimated intensity of hospital resources necessary to furnish care for each principal diagnosis.

The Secretary of HHS is required to review annually the DRG categories to take into account any new procedures, reclassify DRGs and recalibrate the DRG relative weights that reflect the relative resources used by hospitals with respect to discharges classified within a given DRG category. There is no assurance that the Obligated Group will be paid amounts that will reflect adequately changes in the cost of providing health care or in the cost of health care technology being made available to patients. CMS may only adjust DRG weights on a budget neutral basis.

IPPS-exempt hospitals and units (inpatient psychiatric, rehabilitation and long-term hospital services) are currently reimbursed under prospective payment systems separate from the IPPS/DRG system used for general acute care hospitals and units. However, these exempt hospital/unit IPPS payment methodologies are similar in that they utilize nationally determined payment rates (per discharge for rehabilitation and long-term care, per diem for psychiatric). The national rates for IPPS and IPPS-exempt hospitals and units are then generally subject to patient and/or facility specific adjustments for such factors as: case mix, regional wage or cost differences, medical education, disproportionate share, and outliers. The types of adjustments vary for each of the exempt and non-exempt PPS programs.

From time to time, the factors used in calculating the prospective payments for units of service are modified by CMS, which may change revenues for particular services. Additionally, as part of the federal budgetary process, Congress has regularly amended the Medicare law to reduce increases in payments that are otherwise scheduled to occur, or to provide for reductions in payments for particular services. Similarly, federal legislation is regularly passed that affects payments made under the IPPS. For example, such legislation may add or eliminate categories of funding. These actions could adversely affect the revenues of the Obligated Group.

Hospital outpatient services, including hospital operating and capital costs, are reimbursed under an outpatient prospective payment system ("*OPPS*") basis. Several services are specifically excluded from this rule, including certain physician and non-physician practitioner services, ambulance, clinical diagnostic laboratory services and non-implantable orthotics and prosthetics, physical and occupational therapy, and speech pathology services. Under the OPPS, predetermined amounts are paid for designated services furnished to Medicare beneficiaries. CMS classifies outpatient services and procedures that are comparable clinically and in terms of resource use into APC groups. Using hospital outpatient claims data from the most recent available hospital cost reports, CMS determines the geometric mean costs for the services and procedures in each APC group. Subsequently, a payment rate is established for each APC. Depending on the services provided, a hospital may be paid for more than one APC for a patient visit.

OPPS rates are adjusted annually (on a calendar year schedule) based on the hospital inpatient market basket percentage increase. In the final 2015 OPPS rule, CMS authorized a 2.2% increase in payment rates, reflecting a market basket increase of 2.9%, a 0.5% offset for multifactor productivity, and an additional reduction of 0.2% required by the Health Care Reform Act. Hospitals that fail to report data related to numerous required quality measures will have their market basket percentage increase reduced by 2.0%, resulting in a negative adjustment of 0.9% for calendar year 2015. There cannot be any assurance that the hospital OPPS rate, which bases

payment on APC groups rather than on individual services, will be sufficient to cover the actual costs of the Obligated Group allocable to patient care.

In addition to the APC rate, there is a predetermined beneficiary coinsurance amount for each APC group. CMS projects the overall beneficiary coinsurance for OPPS services to be 20.1% in 2015. There cannot be any assurance that the beneficiary will pay this amount.

Various additional payments may be made to individual providers. Hospitals that treat a disproportionately large number of low-income patients (Medicaid and Medicare patients eligible to receive supplemental Social Security income) currently receive additional payments in the form of disproportionate share payments. See the discussion on DSH payments above. Additional payments are made to hospitals that treat patients who are costlier to treat than the average patient; these additional payments are referred to as "outlier payments." Eligible hospitals are paid for a portion of their direct and indirect medical education costs. Providers may also apply for certain additional payments relating to new technology. Any and all additional payments described herein are subject to reductions and modifications or other changes.

Provider-Based Standards. Healthcare entities that bill Medicare as "provider-based" often receive enhanced reimbursement. CMS made significant changes to the provider-based regulation included in the final OPPS rulemaking for federal fiscal year 2003. Generally, CMS eliminated a few requirements for on-site provider-based facilities and clarified some of the provisions of the prior provider-based rules. CMS clarified that prior approval of provider-based status by CMS is not required for an entity to bill as provider-based. Rather, a provider may provide an optional attestation of its status as a provider-based entity. Although such attestation is not required to bill as a provider-based entity, it may provide some overpayment protection in the event that CMS subsequently makes a determination that an entity is not provider-based, assuming accurate representation by the provider to CMS. As a result of changes by Congress in 2015, new facilities will not be able to bill as "provider-based" beginning in January of 2017. Management of the Corporation believes that all of the Obligated Group's current facilities that bill for services as provider-based entities qualify as "provider-based" under the current Medicare regulations. Any reclassification by CMS may adversely affect the entity's reimbursement under the Medicare program.

Medicare Advantage. Medicare beneficiaries may obtain Medicare coverage through a managed care Medicare Advantage plan (formerly known as a "*Medicare+Choice*" plan). A Medicare Advantage plan may be offered by a coordinated care plan (such as an HMO or PPO), a provider sponsored organization ("*PSO*") (a network operated by health care providers rather than an insurance company), a private fee-for-service plan, or a combination of a medical savings account ("*MSA*") and contributions to a Medicare Advantage plan. Each Medicare Advantage plan, except an MSA plan, is required to provide benefits approved by the Secretary of HHS. A Medicare Advantage plan will receive a monthly capitated payment from HHS for each Medicare beneficiary who has elected coverage under the plan. Health care providers such as some of the Members of the Obligated Group must contract with Medicare Advantage plans to treat Medicare Advantage enrollees at agreed upon rates or may form a PSO to contract directly with HHS as a Medicare Advantage plan. Covered inpatient and emergency services rendered to a Medicare Advantage beneficiary by a hospital that is an out-of-plan provider (i.e., that has not entered into a contract with a Medicare Advantage plan) will be paid at Medicare fee-for-service payment rates as payment in full. However, the plan may provide incentives to patients to use in-plan providers. *For further information regarding the Health Care Reform Act and its effect in Medicare Advantage Plans, see the subheading "Recent Legislation" herein.*

Medicare Audits. Hospitals participating in Medicare are subject to audits and retroactive audit adjustments with respect to reimbursement claimed under the Medicare program. The Obligated Group Members receive payments for various services provided to Medicare patients based upon charges or other reimbursement methodologies that are then reconciled annually based upon the preparation and submission of annual cost reports. Estimates for the annual cost reports are reflected as amounts due to/from third-party payors and represent several years of open cost reports due to time delays in the fiscal intermediaries audits and the basic complexity of billing and reimbursement regulations. These estimates are adjusted periodically based upon correspondence received from the fiscal intermediary. Medicare regulations also provide for withholding Medicare payment in certain circumstances if it is determined that an overpayment of Medicare funds has been made. In addition, under certain circumstances, payments may be determined to have been made as a consequence of improper claims subject to the Federal False Claims Act or other federal statutes, subjecting the Obligated Group Members to civil or criminal

sanctions. Management of the Obligated Group is not aware of any situation in which the withholding of a Medicare payment from any Obligated Group Member would have a material adverse effect on the financial condition or performance of the Obligated Group.

Management of the Obligated Group does not anticipate that Medicare audits or cost report settlements for the Medicare program will materially adversely affect the financial condition or performance of the Obligated Group; however, in light of the complexity of the regulations relating to the Medicare program, and the threat of ongoing investigations as described above, there cannot be any assurance that significant difficulties will not develop in the future.

The Health Care Reform Act amended certain provisions of the Federal False Claims Act and added provisions regarding the timing of the obligation to reimburse overpayments. The effect of these changes on existing programs and systems of the Members of the Obligated Group cannot be predicted, although management of the Corporation does not believe that the effect on the financial condition or performance of the Obligated Group will be materially adverse.

RAC Reviews. The federal Recovery Audit Contractor ("*RAC*") program seeks to identify and recover overpayments made by Medicare to medical providers, including hospitals. Under the RAC program, reviews look for Medicare overpayments to hospitals and require immediate repayment to Medicare. Since their inception, the audits have advanced to include reviews of medical necessity. Under the Health Care Reform Act, recovery audits were expanded to include Medicaid by requiring states to contract with RACs to conduct such audits.

Management of the Obligated Group is not aware of a situation in which a Recovery Audit, if conducted and resulting in a payment to be made by the Obligated Group, would materially adversely affect the financial condition or performance of the Obligated Group. However, in light of the complexity of the regulations relating to the Medicare program and the ongoing threat of audits, there cannot be any assurance that an audit would not materially adversely affect the financial condition or performance of the Obligated Group.

Physician Payment. Physicians may elect to "participate" or enroll in the Medicare program as a provider. Medicare Part B provides reimbursement for physician services, including employed and provider-based physicians, based upon a national fee schedule called the Resource-Based Relative Value Scale ("*RBRVS*"). Under the RBRVS system, payments for services are determined by the "resource costs" necessary to provide such services. Payments also are adjusted for geographical differences. The costs have three components: physician work, practice expense and professional liability insurance. Payments are calculated by multiplying the combined costs of a service by a conversion factor. The conversion factor is a monetary amount that currently is determined by CMS's Sustainable Growth Rate ("*SGR*") system. The SGR system annually takes into account changes in the Medicare fee-for-services enrollment, input prices, spending due to law and regulation and gross domestic product over a 10-year period, effectively changing the RBRVS on an annual basis.

The RBRVS system encourages a shift towards greater reimbursement for the provision of primary care, and a reduction of technology-based diagnostic procedures and surgical procedures. This continued shift in payment emphasis may affect the relationship between the Obligated Group Members and their medical staff and may increase pressure on the Obligated Group Members to enter into bundled or global payment models, risk-based delivery models, or increase demands by physicians for payment from hospitals. Currently, it is projected that RBRVS will have negative updates for the next few years. There is no guarantee that reimbursement under RBRVS will cover the Obligated Group's actual costs of providing physician services to Medicare beneficiaries.

The Health Care Reform Act included several changes to Medicare and Medicaid payments for physician services, including the following:

- make grants to and contract with interdisciplinary "health teams" that support primary care practices who agree to serve as their patients' "medical home" by being accountable for providing integrated, accessible services that meet a large majority of the patient's health needs through a sustained partnership with patients;

- report to physicians their costs of utilization of resources per episode of care in comparison to their peers;

- integrate reporting requirements concerning the meaningful use of electronic health records into the Physician Quality Reporting System ("PQRS");
- establish payment penalties for physicians who fail to file PQRS reports, starting in 2015; and
- develop a system of "value-based payment modifiers" for physicians as early as 2015.

In 1997, legislation was passed to decrease the federal spending deficit. This legislation called for a reduction in Medicare payments to physicians by 26.5% beginning in 2002. Although cuts to the Physician Fee Schedule have been scheduled every year since then, Congress and the President have successfully staved off these cuts in reimbursement to physicians under Medicare. Congress and the President have acted, passing and signing MACRA into law, to stop future reductions in the physician fee schedule by repealing the SGR and implementing a fix as discussed above.

Although most of the provisions of the Medicare Physician Fee Schedule ("*MPFS*") directly affect payments provided under the physician fee schedule, the MPFS final rules also typically address a number of policies that are not directly related to that payment system. Each year the MPFS contains provisions implementing new legislative initiatives, including implementing the Health Care Reform Act, which may impact the reimbursement levels of hospitals, such as: (i) identification and review of potentially misvalued codes; (ii) expansion of the multiple procedure payment reduction policy for advanced imaging services; (iii) methodology for determining the productivity adjustment for ambulatory surgical centers, clinical laboratory services, and the durable medical equipment fee schedule; (iv) revisions to the practice expense methodology; (v) bundling of payments for services provided to outpatients who are later admitted as inpatients and limiting payments for office visits in physician offices owned by hospitals or their subsidiaries to the amount that would be paid if those services were furnished in a hospital, without any compensation for overhead costs (i.e., the 3-day payment window policy); (vi) hospital discharge care coordination; (vii) developing two new post-discharge transitional care management codes; (viii) adding and removing new CPT payment codes; and (ix) continuing to tweak the Physician Quality Reporting System.

Physicians who opt not to participate in the Medicare program also may provide care to Medicare beneficiaries, but will be reimbursed at a lower fee schedule. Regardless of physician enrollment status, physicians who furnish health care services to Medicare beneficiaries must meet all applicable federal coding, documentation, and other compliance requirements.

Capitated Payments. Under the traditional fee-for-service method of health care delivery, hospitals, physicians and other providers are reimbursed on a per-service basis and thus have a financial incentive to provide more services, which, in turn, generate more revenue. Under a capitated payment arrangement, in contrast, providers are reimbursed on a "per member, per month" basis; the provider bears some or all of the risk if the cost of services provided exceeds the amount of the capitation payments. This creates an incentive to control utilization of services.

Capitated contracts may cover hospital and professional services separately, or together as "full-risk" contracts. In either case, the provider assumes financial responsibility for the provision of covered health care services to enrollees under such contracts. The financial risk of such arrangements for a hospital is increased by a variety of factors, including, but not limited to, the following: utilization of facilities and services by enrollees above expected levels; increases in the hospital's cost of providing health care services; increases in the cost of emergency care provided by out-of-area providers; increases in the cost of tertiary care provided by providers other than the hospital; and the size or demographic makeup of the enrollee pool. Insufficient information regarding historical costs, utilization or other factors or inability to manage care jointly with other providers (including physicians) may adversely affect a network's ability to manage the risks of a capitated payment arrangement.

Medical Education Payments. Medicare currently pays for a portion of the direct and indirect costs of medical education (including the salaries of residents and teachers and other overhead costs directly attributable to approved medical education programs). Payment for the direct costs of medical education ("*GME*") is made on a "pass-through" basis, not a prospective payment system basis, based on a formula that reflects the hospital's base year per-resident costs adjusted by inflation and the number of current-year reimbursable resident positions. Payment for indirect costs of medical education ("*IME*") is based on the ratio of a hospital's number of full-time

equivalent residents to its number of available beds. Due to budget-balancing and entitlement program reduction efforts at the Congressional level, these payments may be vulnerable to reduction or elimination in the future. Further, there is no explicit assurance that payments to the Obligated Group Members for providing medical education will be sufficient to cover the costs associated with their medical education programs.

Medicaid. Medicaid is a health insurance program for certain low-income and needy individuals that is jointly funded by the federal government and the states. Pursuant to broad federal guidelines, each state establishes its own eligibility standards; determines the type, amount, duration, and scope of services; sets the payment rates for services; and administers its own programs.

For the fiscal years ended June 30, 2015 and June 30, 2014, MHSC received a significant portion of net patient service revenues from the Wisconsin Medicaid program and Medicaid managed care. For the fiscal year ended December 31, 2014 and the six-month period ended June 30, 2015, the entities that were then Members of the Rockford Memorial Hospital Obligated Group received a significant portion of net patient service revenues from the Illinois Medicaid program and Medicaid managed care for those respective time periods. In Illinois, Medicaid is administered by the Illinois Department of Healthcare and Family Services ("*IDHFS*"). *See the information in APPENDIX A under the caption "SOURCES OF PATIENT REVENUES*".

Under the Medicaid program, the federal government supplements funds provided by the various states for medical assistance to the medically indigent. Payment for medical and health services is made to providers in amounts determined in accordance with procedures and standards established by state law under federal guidelines. Fiscal considerations of both federal and state governments in establishing their budgets will directly affect the funds available to the providers for payment of services rendered to Medicaid beneficiaries.

Payment for Medicaid patients is subject to appropriation by the respective state legislatures of sufficient funds to pay the incurred patient obligations. The federal government continues to explore options for a long-term solution to the funding difficulties with Medicaid. Certain additional proposals being examined may ultimately result in reduced federal Medicaid funding to the states, which could adversely impact the amount of revenue received by the Obligated Group.

The Health Care Reform Act made changes to Medicaid funding and substantially increased the potential number of Medicaid beneficiaries (thereby bringing potential reduction to the amount of charity care expense to providers), as well as temporary federal financial support for that increased enrollment, and expanded the RAC Medicare program to include Medicaid, using state-based RAC contracts. Due to the varied complexities and interrelations among these changes, management of the Obligated Group cannot predict the effect of these changes to the Medicaid program on the financial condition, performance or operations of the Obligated Group.

Since a portion of the Medicaid program's costs in Wisconsin and Illinois are paid by the State of Wisconsin and the State of Illinois, respectively, the absolute level of Medicaid revenues paid to the Members of the Obligated Group, as well as the timeliness of their receipt, may be affected by the financial condition of and budgetary factors facing the State of Wisconsin and/or the State of Illinois, as applicable. The actions the State of Wisconsin and/or the State of Illinois, as applicable could take to reduce Medicaid expenditures to accommodate any budgetary shortfalls include, but are not limited to, changes in the method of payment to health care providers, changes in eligibility requirements for Medicaid recipients and delays of payments due to health care providers. Any such action taken by either or both of the State of Wisconsin and the State of Illinois could have a material adverse effect upon the operations and financial results of the Members of the Obligated Group.

The following paragraphs discuss certain Medicaid reimbursement rules for Illinois and Wisconsin to which the Obligated Group is subject.

Illinois Medicaid. The State of Illinois continues to be adversely affected by fiscal considerations that affect its budget for programs such as Medicaid. Historically, federal payments and amounts appropriated by the Illinois General Assembly for payment of Medicaid claims have not been sufficient to reimburse hospitals for their actual costs in providing services to Medicaid patients. Also, the State of Illinois has routinely failed to pay Medicaid claims on a timely basis. The Save Medicaid Access and Resources Together (the "SMART" Act), passed in 2012 includes approximately $1.6 billion in cuts to the state's Medicaid funding, representing approximately $1.36 billion in program reductions and $240 million in reimbursement rate cuts. Separately, Public Act 97-0691

provides that the maximum amounts of unpaid Medicaid Assistance bills received and recorded by IDHFS on or before June 30 of a particular fiscal year that may be paid by IDHFS from future fiscal year Medicaid Assistance appropriations is $100 million for fiscal year 2014 and each fiscal year thereafter. This amount was $700 million in fiscal year 2013. The reduction in Medicaid services and programs, as well as any failure by the State to pay Medicaid claims on a timely basis, may have an adverse effect on the cash flow and financial condition of the System.

Since 2008, the State of Illinois has had in place a hospital assessment program (the "*2008 Hospital Assessment Program*") that was approved by CMS and, as such, qualifies for federal matching funds under the Illinois Medicaid program. The 2008 Hospital Assessment Program has a sunset provision effective June 30, 2018. Under the 2008 Hospital Assessment Program, each hospital is assessed an amount based on that hospital's adjusted gross hospital revenue. Such assessments are to be used to provide additional reimbursement from the federal government for Medicaid inpatient and outpatient services. There can be no assurance that the State of Illinois will extend, or that CMS will approve an extension of, the 2008 Hospital Assessment Program past its current sunset date.

On June 14, 2012, the Governor of Illinois signed into law Public Act 97-0688, which originally provided for an enhanced hospital assessment program until the end of the 2014 calendar year, but was subsequently extended through the year 2018. The program requires each privately-owned Illinois hospital to pay an assessment equal to 0.008766% of its outpatient gross revenue, and is expected to generate a total assessment of approximately $290 million per year. Of this amount, $240 million will be used to attract federal Medicaid matching funds, which will result in total new Medicaid payments to hospitals of about $480 million, representing a net improvement of approximately $190 million. Payments will be made according to formulae to preserve and improve access to perinatal services, complex emergent services, outpatient services, hospital emergency and psychiatric services, outpatient services at specialty hospitals, salaried physician services in high volume Medicaid hospitals, and to maintain access to hospitals that serve a high percentage of patients who are dually eligible for Medicare and Medicaid, hospitals that provide high volumes of inpatient services to Medicaid patients, and hospitals that have a disproportionate share of their outpatient volume within the emergency room setting. Assessments will not be due and any monies paid will be refunded if these hospital access improvement payments are not eligible for federal Medicaid matching funds. The use of provider assessments has been criticized in Congress and by various federal agencies and may be restricted or eliminated in the future.

On July 22, 2013, Illinois enacted Public Act 98-0104, which expanded Medicaid health coverage to adults under the age of 65 with incomes under 138% of the federal poverty level. Approximately 350,000 adults are expected to obtain health coverage under the Medicaid expansion. The federal government will pay 100% of the cost of the newly eligible Medicaid recipients in 2014, 2015 and 2016, with matching level phasing down (beginning in 2017, by about 2% per year) to 90% by 2020 and subsequent years.

In May, 2014 the Illinois legislature passed and the State's Governor signed into law the Omnibus Medicaid Bill, Senate Bill 741, as Amended by House Amendment #1 ("*SB 741*"). Among its provisions, SB 741 authorizes a new hospital payment system, extended both the existing Medicaid assessment system and enhanced Medicaid assessment system to July 1, 2018 (both of these assessment systems were scheduled to expire on December 31, 2014), and provided that IDHFS request federal funding under the Affordable Care Act for newly eligible Medicaid patients. The new hospital payment system became effective July 1, 2014. The goal of the new payment system is to better align the payment for services rendered to Medicaid patients with the hospitals providing the services. Under the new hospital payment system, rates paid will be based on more current utilization data with a greater emphasis on accurate coding of claims. Quarterly fixed payments are being replaced with increased payments on a per claim basis. Outpatient rates are also being increased. IDHFS requested, and on January 9, 2015 CMS approved, federal funding for hospitals serving newly eligible Medicaid recipients under the Affordable Care Act, retroactive to March 1, 2014. IDHFS estimates that this will provide approximately $400 million of new annual federal funding to be distributed to hospitals across Illinois. The distribution of this new funding is designed to mirror the two current hospital assessment systems' distributions. IDHFS requested the additional funding from CMS, and a decision from CMS was expected by the end of 2014. However, whether Illinois will receive (or accept) such federal funds remains unclear following a change in gubernatorial administration which became effective January 15, 2015.

On February 18, 2015 Governor Rauner presented his State of Illinois fiscal year 2016 budget proposal. The State of Illinois' 2016 fiscal year began July 1, 2015 and will end June 30, 2016. Under the Governor's fiscal 2016 budget proposal, the Medicaid portion of the budget would have been reduced by approximately $1.5 billion. The proposed budget also called for a reduction in the worker's compensation fee schedule. In response to the Governor's proposed budget, the Illinois House and Senate drafted a fiscal year 2016 budget bill that in terms of Medicaid funding increases the provider assessment tax to Illinois hospitals, the same approach used to address the fiscal 2015 budget shortfall, but avoids significant Medicaid program reductions including rate cuts, reductions to the hospital assessment program, and no reductions in the Medicaid transition supplemental payment pool as included in the Governor's budget proposal.

As of the date of this Official Statement, the Governor and the Illinois State legislature have not enacted a budget for the State's 2016 fiscal year. On July 23, 2015, the United States District Court for the Northern District of Illinois ordered the State of Illinois to make Medical payments for claims related to Cook County Medicaid recipients incurred on and after July 1, 2015. On August 5, 2015, the Illinois Attorney General's Office advised the court that the State of Illinois has decided to pay all Medicaid providers statewide during the budget impasse for services provided to all Medicaid beneficiaries, including children and adults. On February 17, 2016, Governor Rauner submitted his State of Illinois fiscal year 2017 budget proposal. It sets forth the governor's operating budget proposals for the period beginning July 1, 2016 through June 30, 2017.

Wisconsin Medicaid. The State of Wisconsin has considered, and is continuing to consider, changes to Medicaid funding, particularly in light of the budget crises facing many states.

The Health Care Reform Act makes changes to Medicaid funding and substantially increases the potential number of Medicaid beneficiaries, as well as federal financial support for that increased enrollment, and expanded the RAC Medicare program to include Medicaid, using state-based RAC contracts. Management cannot predict the effect of these changes to the Medicaid program on the operations, results from operations or financial condition of the Obligated Group Members who received Wisconsin Medicaid funding.

One component of the Affordable Care Act is designed to incentive states to expand their Medicaid programs to individuals earning up to 133% of the federal poverty level by offering additional Medicaid funding to participating states. The State of Wisconsin has decided not to expand its Medicaid programs to cover such individuals and thus has declined the additional federal funding tied to such expansion. Instead, Wisconsin's Medicaid program is limited to individuals earning 100% of the federal poverty level. As of July 1, 2013, individuals above the federal poverty level are no longer eligible for Badger Care Plus, one of Wisconsin's Medicaid programs, and must obtain private insurance through healthcare exchanges. Commencing in 2014, the Federally-facilitated Marketplace (FFM) began offering health coverage in Wisconsin. The state Medicaid agency delegated authority to the FFM to make determinations of eligibility for Medicaid until January 1, 2014, after which the State began accepting assessments of Medicaid/CHIP eligibility from the FFM.

The Wisconsin Department of Health Services is responsible for administering the Wisconsin Medicaid program. Wisconsin Medicaid payments for inpatient services are based on a DRG system. While the Wisconsin Medicaid DRG system is similar to the Medicare DRG system, certain differences apply. Separate Medicaid base rates are paid for hospitals located in Milwaukee County and those located elsewhere in the State. The base rate is adjusted for a Medicaid DRG factor for each patient, as well as for indirect medical education, disproportionate share hospitals, rural hospitals and cost outliers. There are additional payments for direct medical education and capital costs. A Wisconsin hospital with a total cost of treating Medicaid patients that exceeds the prospective payment rate will incur a loss on such services.

The Wisconsin Medicaid Program has implemented a payment methodology for outpatient services as of April 2013 whereby payment is made using a system of enhanced ambulatory patient groups ("*EAPG*"). Each EAPG rate is a prospectively determined estimate of resources for outpatient services with discounts for multiple procedures during the same visit. The EAPG payment rates are subject to adjustment based on funding amounts.

In February 2009, then Wisconsin Governor Jim Doyle signed legislation that assesses a fee, or tax, on the gross revenues of all Wisconsin hospitals (other than critical access hospitals) retroactive to June 1, 2008. The revenues from this assessment will be used to increase payments made to health care providers for services provided to Medicaid and other medically indigent patients. It is intended that these increased payments to health care

providers will also result in increased revenues for the State of Wisconsin from the federal government's cost share for Medicaid services. Payments to the Corporation equaled or exceeded the assessment tax each year since enactment.

Payment for Medicaid patients is subject to appropriation by the respective state legislatures of sufficient funds to pay the incurred patient obligations. Most state governments, including Wisconsin, are experiencing budgetary challenges. The federal government continues to explore options for a long-term solution to the funding difficulties with Medicaid. Certain additional proposals being examined may ultimately result in reduced federal Medicaid funding to the states, which could adversely impact the amount of revenue received by the Obligated Group. Management of the Obligated Group cannot predict the effect of these changes to the Medicaid program on the financial condition of the Obligated Group.

State and Local Budgets

States in which the Corporation and the Members of the Obligated Group own and operate facilities face financial challenges, including erosion of general fund tax revenues, falling real estate values, slowing economic growth and higher unemployment, each of which may continue or worsen over the coming years. These factors have resulted in shortfalls between anticipated revenues and spending demands. The financial challenges facing states may negatively affect the Corporation's and the other Members of the Obligated Group's health care facilities in a number of ways, including but not limited to, elimination or reduction of state and local health care safety net programs (resulting in a greater number of indigent, uninsured or underinsured patients) and reductions in Medicaid reimbursement rates. The financial challenges may also result in a greater number of uninsured or underinsured patients who are unable to pay for their care or access primary care facilities, a greater number of individuals who qualify for Medicaid and reductions in Medicaid reimbursement rates. It cannot be predicted what actions will be taken in the current and future years by state legislatures and governors to address those financial problems. The states' actions will likely depend on national and state economic conditions and other factors that are uncertain at this time.

Children's Health Insurance Program

The Children's Health Insurance Program ("*CHIP*") is a federally funded insurance program for families which are financially ineligible for Medicaid, but cannot afford commercial health insurance. The Centers for Medicare and Medicaid Services of HHS administers CHIP, but each state creates its own program based upon minimum federal guidelines. CHIP insurance is provided through private health plans contracting with the state.

Each state must periodically submit its CHIP plan to CMS for review to determine if it meets the federal requirements. If it does not meet the federal requirements, a state can lose its federal funding for the program.

Private Health Plans and Commercial Insurance

Managed Care. For the fiscal years ended June 30, 2015 and June 30, 2014 , managed care accounted for a significant portion of the net patient revenues of the Obligated Group. *See "SOURCES OF PATIENT REVENUES" in APPENDIX A.* Commercial insurance plans generally negotiate payment rates that are substantially less than facility charges. There cannot be any assurance that the Obligated Group Members will maintain commercial contracts or obtain other similar contracts in the future. Failure to maintain contracts could reduce the market share of an Obligated Group Member and its net patient services revenues.

The Obligated Group Members' ability to develop and expand their services and, therefore, profitability, is dependent upon their ability to enter into contracts with third-party payors at competitive rates. However, recent economic conditions have resulted in lower rate increases from commercial health care insurers. In addition, there cannot be any assurance that Obligated Group Members will be able to attract third-party payors, or that, if they do, the Obligated Group Members will be able to contract with such payors on advantageous terms. If the Obligated Group Members are unable to contract with a sufficient number of such payors on advantageous terms, it could have a material adverse effect on the Obligated Group Members' financial condition and performance.

The Health Care Reform Act imposes, over time, increased regulation of the insurance industry, the use and availability of state-based exchanges in which health insurance can be purchased by certain groups and segments of the population, the extension of subsidies and tax credits for premium payments by some consumers and employers and the imposition upon commercial insurers of certain terms and conditions that must be included in contracts with

providers. In addition, the Health Care Reform Act imposes many new obligations on states related to health care insurance. Due to the uncertainty surrounding the Health Care Reform Act as previously described, there is no guarantee that it will be implemented as described in this Official Statement. The effects of any amendment, repeal or lack of implementation of the Health Care Reform Act cannot be predicted. It is unclear how the increased federal oversight of state health care may affect future state oversight or affect the Obligated Group. The effects of these changes on the financial condition of any third-party payor that offers health care insurance, the rates paid by third-party payors to providers such as Members of the Obligated Group, and upon the financial condition and performance of the Obligated Group cannot be predicted.

In many markets, including those in which Members of the Obligated Group operate, managed care organizations ("*MCOs*"), such as HMOs, PPOs, point of service providers ("*POS*") and consumer-driven care and similar arrangements for health care payment have largely replaced indemnity insurance as the prime source of nongovernmental payment for hospital services. MCOs generally use discounts, risk-transfer mechanisms and other economic incentives to reduce or limit the cost and utilization of health care services, including inpatient hospital care. Payments to the Obligated Group from MCOs typically are lower than those received from traditional indemnity/commercial insurers. There is no assurance that the Obligated Group will maintain managed care contracts or obtain similar contracts in the future. Failure to maintain such contracts could reduce the Obligated Group's market share and net patient services revenues and have a material adverse effect on the financial condition and performance of the Obligated Group. Conversely, participation may maintain or increase the Obligated Group's patient base but could result in lower net operating income or operating losses if the Obligated Group is unable to adequately contain costs.

Under a PPO arrangement, there generally are financial incentives for subscribers to use only those hospitals or providers which contract with the PPO. Under most HMO plans, private payers limit coverage to those services provided by selected hospitals. With this contracting authority, private payers, including health plans and HMOs, may direct patients away from non-selected hospitals by denying coverage for services they provide.

Under a POS arrangement, there are financial incentives for subscribers to use a closed panel of hospitals or providers, but subscribers also are able to use hospitals or providers that do not contract with the network. Use of such non-contracting hospitals or providers requires increased financial contribution from the subscribers, typically in the form of increased coinsurance or deductible payments. Nationally, the popularity of POS and PPO plans has increased while the traditional closed panel HMO has lost popularity.

Under a consumer-directed care arrangement, the consumer generally purchases a high deductible health insurance policy that provides coverage only after the consumer has expended several thousand dollars personally on care. Under federal income tax rules, health savings accounts ("HSAs") provide substantial tax relief for those funds actually spent by consumers on their health care. Therefore, patients and not payors or employers determine where to obtain care, and how much to spend on such care. This may lead to a lessening of importance of private commercial payors.

The Obligated Group has entered into contractual arrangements with PPOs and HMOs pursuant to which the Obligated Group agrees to perform certain health care services for eligible participants at discounted rates. Most PPOs and HMOs currently pay hospitals on a discounted fee-for-service basis or on a fixed rate or episode per day of care. The Obligated Group may not have complete information about its actual costs of providing specific types of care, particularly since each patient presents a different mix of services and length of stay. Consequently, the discounts offered to HMOs and PPOs may result in payment at less than actual cost and the volume of patients directed to a hospital may vary significantly from projections. Changes in utilization of certain services may be dramatic and unexpected.

The Corporation is the sole sponsor of MercyCare HMO, Inc. ("*MercyHMO*"), a health maintenance organization with 39,7000 covered lives. MercyHMO is consolidated with the Members of the Obligated Group for financial reporting purposes but is not a Member of the Obligated Group and is not liable on the Master Notes issued under the Master Indenture.

Some HMOs employ a "capitation" payment method under which hospitals are paid a predetermined periodic rate for each enrollee in the HMO who is "assigned" or otherwise directed to receive care at a particular hospital. In a capitation payment system, the hospital assumes a financial risk for the cost and scope of care given to

the HMO's enrollees. In some cases, the capitated payment covers total hospital patient care provided. However, if payment under an HMO or PPO contract is insufficient to meet the hospital's costs of care or if utilization by enrollees materially exceeds projections, the financial condition of the hospital could erode rapidly and significantly.

As a consequence of the above factors, the effect of managed care on the financial condition of the Members of the Obligated Group is difficult to predict and may be different in the future than the financial statements for the current periods reflect.

As MCOs become more prevalent, hospitals must be capable of attracting and maintaining managed care business, often on a regional basis. There cannot be any assurance that contracts entered into by Members of the Obligated Group with MCO payors will be renewed by such payors upon expiration thereof or will not be terminated prior to expiration thereof. As a consequence of such factors, the effect of managed care on the Obligated Group's future financial condition and performance is difficult to predict and not necessarily indicated by the effect in recent periods.

Physician Contracting and Relations. Obligated Group Members may wish to contract with physician organizations ("*POs*") (e.g., independent physician associations, physician-hospital organizations, etc.) to arrange for the provision of physician and ancillary services. Because POs are separate legal entities with their own goals, obligations to shareholders, financial status, and personnel, there are risks involved in contracting with the POs.

The success of the Obligated Group Members will be partially dependent upon their ability to attract physicians to join the POs and to attract POs to participate in its network, and upon the physicians', including the employed physicians', abilities to perform their obligations and deliver high quality patient care in a cost-effective manner. There cannot be any assurance that the Obligated Group will be able to attract and retain the requisite number of physicians, or that such physicians will deliver high quality health care services. If the Obligated Group were to not impanel a sufficient number and type of providers, the Obligated Group Members could fail to be competitive, could fail to keep or attract payor contracts, or could be prohibited from operating until their panels provide adequate access to patients. Such occurrences could have a material adverse effect on the financial condition and performance of the Obligated Group.

State Laws

Generally. States are increasingly regulating the delivery of health care services. Much of this increased regulation has centered on the managed care industry. State legislatures have cited their right and obligation to regulate and oversee health care insurance and have enacted sweeping measures that aim to protect consumers and, in some cases, providers. For example, a number of states have enacted laws mandating a minimum of 48-hour hospital stays for women after delivery; laws prohibiting "gag clauses" (contract provisions that prohibit providers from discussing various issues with their patients); laws defining "emergencies," which provide that a health care plan may not deny coverage for an emergency room visit if a layperson would perceive the situation as an emergency; and laws requiring direct access to obstetrician-gynecologists without the requirement of a referral from a primary care physician.

Due to this increased state oversight, the Obligated Group Members could become subject to or impacted by a variety of state health care laws and regulations affecting health care providers. In addition, the Obligated Group Members could be subject to state laws and regulations prohibiting, restricting, or otherwise governing PPOs, third party administrators, physician-hospital organizations, independent practice associations or other intermediaries, fee-splitting, the "corporate practice of medicine," selective contracting, "any willing provider" and "freedom of choice" laws, coinsurance and deductible amounts, insurance agency and brokerage, quality assurance, utilization review, and credentialing activities, provider and patient grievances, mandated benefits, rate increases, and many other practices.

In the event that the Obligated Group chooses to transact business subject to such laws, or is considered by the State in which it operates to be engaging in such business, the Obligated Group may be required to comply with these laws or to seek the appropriate license or other authorization from that state. Such requirements may impose operational, financial, and legal burdens, costs or risks on the Obligated Group.

Dependence Upon Third-Party Payors

The ability of the Corporation and the Members of the Obligated Group to develop and expand their services and their operating margins is dependent upon their ability to enter in to contracts with third-party payors at competitive rates. There can be no assurance that they will be able to attract third-party payors, and, where they do, no assurance can be given that they will be able to contract with such payors on advantageous terms. The inability of the Corporation and the Members of the Obligated Group to contract with a sufficient number of such payors on advantageous terms could have a material adverse effect on the System's future operations and financial results.

Alternative or Integrated Delivery System Development

Integrated Physician Groups. Hospitals and hospital systems often own, control or have affiliations with relatively large physician groups. Generally, the sponsoring hospital or health system will be the primary capital and funding source for such alliances and may have an ongoing financial commitment to provide growth capital and support operating deficits. These types of alliances are generally designed to respond to trends in the delivery of medicine to better integrate hospital and physician care, to increase physician availability to the community and/or to enhance the managed care capability of the affiliated hospitals and physicians. However, these goals may not be achieved, and an unsuccessful alliance may be costly and counterproductive to all of the above-stated goals.

Integrated delivery systems carry with them the potential for legal or regulatory risks in varying degrees. The ability of hospitals or health systems to conduct integrated physician operations may be altered or eliminated in the future by legal or regulatory interpretation or changes, or by health care fraud enforcement. In addition, participating physicians may seek their independence for a variety of reasons, thus putting the hospital or health system's investment at risk, and potentially reducing its managed care leverage and/or overall utilization.

Implementation of ICD-10. Health care providers and payors in the United States (including Medicare and Medicaid) operate under the International Classification of Diseases ("*ICD*") system to report and bill for care. In 2009, CMS adopted the ICD 10th Revision coding system ("*ICD¬10*") for every person and organization covered by HIPAA. The implementation of ICD-10, which was delayed until October 1, 2015, required providers and payors to make significant investments in software, education and training. Providers are required to maintain the ICD-9 system in tandem with the ICD-10 system for the first two years following implementation. The ICD-10 system requires a qualitatively different management of claims information and processing. Implementation will affect clinical data, medical records reporting, practice management systems, public health reporting and quality review/utilization reporting systems. In the beginning of the implementation phase, some claims submitted under the ICD-10 system may be rejected or delayed due to faulty transmission or receipt of data.

Regulatory Environment

Enforcement Activity. Enforcement activity against health care providers has increased, and enforcement authorities have adopted aggressive approaches. In the current regulatory climate, it is anticipated that many hospitals and physician groups will be subject to an audit, investigation, or other enforcement action regarding the health care fraud laws mentioned in this BONDHOLDERS' RISKS Section.

Enforcement authorities are often in a position to influence settlements by providers charged with, or being investigated for, false claims violations by withholding or threatening to withhold Medicare, Medicaid and/or similar payments and/or by instituting criminal action. In addition, the cost of defending such an action, the time and management attention consumed, and the facts of a case may strongly influence the decision to enter into a settlement. Because of the leverage available to enforcement authorities and the reputational and business damage of a prolonged or publicized investigation, whatever the outcome, and regardless of the merits of a particular case, a hospital could experience materially adverse settlement costs, as well as materially adverse costs associated with implementation of a settlement agreement.

Certain acts or transactions may result in violation or alleged violation of a number of the federal health care fraud laws described above, and therefore penalties or settlement amounts often are compounded. Generally these risks are not covered by insurance. Enforcement actions may involve multiple hospitals in a health system, as the government can, under certain circumstances, expand enforcement actions regarding health care fraud to other hospitals in the same organization. Therefore, Medicare fraud related risks identified as being materially adverse as to a hospital could have materially adverse consequences to a health system taken as a whole.

Licensing, Surveys, Investigations and Audits. Health facilities, including those of the Obligated Group, are subject to numerous legal, regulatory, licensing, professional certification and private accreditation requirements. These include, but are not limited to, requirements relating to Medicare Conditions of Participation, requirements for participation in Medicaid, state licensing agencies, private payors and the accreditation standards of various organizations, including The Joint Commission, the Healthcare Facilities Accreditation Program and DNV Healthcare, Inc. Renewal and continuation of certain of these licenses, certifications and accreditations are based on inspections, surveys, audits, investigations or other reviews, some of which may require affirmative action.

Management of the Obligated Group does not currently anticipate any difficulty in renewing or continuing currently held licenses, certifications and accreditations, nor does management of the Obligated Group anticipate a reduction in third-party payments from events that would materially adversely affect the financial condition or performance of the Obligated Group. Nevertheless, adverse actions in any of these areas could result in the loss of utilization or revenues or the ability to operate all or a portion of its health care facilities and, consequently, could have a material and adverse effect on financial condition and performance of the Obligated Group.

Illinois Health Facilities Planning Act. Certain Members of the Obligated Group are subject to the Illinois Health Facilities Planning Act, as amended (the "*Planning Act*"). The Planning Act has among its purposes the establishment of procedures designed to reverse the trend of increasing costs of health care resulting from unnecessary construction or modification of health care facilities, for the orderly and economical development of health care facilities in the State, the avoidance of unnecessary duplication of such facilities and the promotion of planning for development of such facilities. Pursuant to the Planning Act and the accompanying regulations, no health care facility (which, as defend in the Planning Act, includes hospitals, nursing homes and certain other facilities) may initiate a project that (i) requires a capital expenditure in excess of the capital expenditure minimum, or (ii) substantially changes the scope or functional operation of a health care facility, or (iii) results in the establishment or discontinuance of a health care facility, or (iv) increases or decreases the number of beds or redistributes the bed capacity among various categories of service or physical facilities by more than ten beds or by more than 10% of the total bed capacity, whichever is less, over a two-year period, or (v) establishes or discontinues a regulated category of service, or (vi) involves the change of ownership of a health care facility, without first obtaining a certificate of need ("*CON*") or a certificate of exemption from the Illinois Health Facilities and Services Review Board (the "*HFSRB*"), formerly the Illinois Health Facilities Planning Board, the issuance of which is governed by the provisions of the Planning Act. The Illinois Department of Public Health (the "*IDPH*"), with the prior approval of the HFSRB, prescribes rules, regulations, standards and criteria required to carry out the provisions and purposes of the Planning Act.

The Illinois General Assembly amended the Planning Act and established new capital expenditure minimum thresholds for hospital capital expenditures and for hospital major medical equipment acquisition, among other things, to be adjusted annually for inflation. Effective July 1, 2015, these thresholds are each $12,797,313. Capital projects exceeding these thresholds require a CON issued by the HFSRB. The Illinois General Assembly also extended the CON program until December 31, 2019.

Negative Rankings Based on Clinical Outcomes, Cost, Quality, Patient Satisfaction and Other Performance Measures. Health plans, Medicare, Medicaid, employers, trade groups and other purchasers of health services, private standard-setting organizations and accrediting agencies increasingly are using statistical and other measures in efforts to characterize, publicize, compare, rank and change the quality, safety and cost of health care services provided by hospitals and physicians. Published rankings such as "score cards," "pay for performance," "never events" and other financial and non-financial incentive programs are being introduced to affect the reputation and revenue of hospitals and the members of their medical staffs and to influence the behavior of consumers and providers. Currently prevalent are measures of quality based on clinical outcomes of patient care, reductions in costs, patient satisfaction and investment in health information technology. Measures of performance set by others that characterize a hospital negatively may adversely affect its reputation and financial condition and performance.

Civil and Criminal Fraud and Abuse Laws and Enforcement. Federal and state health care fraud and abuse laws regulate both the provision of services to government program beneficiaries (and sometimes to individuals insured by private payors) and the methods and requirements for submitting claims for services rendered to such beneficiaries. Under these laws, individuals and organizations can be penalized for submitting claims for services that are not provided, are billed in a manner other than as actually provided, are not medically necessary,

are provided by an improper person, are accompanied by an illegal inducement to utilize or refrain from utilizing a service or product, or are billed in a manner that does not otherwise comply with applicable legal requirements.

Federal and state governments have a range of criminal, civil and administrative sanctions available to penalize and remediate health care fraud and abuse, including exclusion of the provider from participation in the Medicare/Medicaid programs, criminal fines, civil monetary penalties, and suspension of payments and, in the case of individuals, imprisonment. Fraud and abuse cases may be prosecuted by one or more government entities and/or private individuals, and more than one of the available penalties may be imposed for each violation. Based upon the prohibited activity in which the provider has engaged, governmental agencies and officials may bring actions against providers under civil or criminal False Claims Acts, the Anti-Kickback Statute and state statutes prohibiting referrals for compensation or fee-splitting. The civil and criminal monetary assessments and penalties arising out of such investigations and prosecutions may be substantial. Additionally, the provider may be denied participation in federal health care programs. The Health Care Reform Act significantly increased funding for enforcement efforts under these laws, and authorized the Secretary of HHS to suspend payments to a provider pending an investigation of a credible allegation of fraud against the provider.

Laws governing fraud and abuse apply to all individuals and health care enterprises with which a hospital does business, including other hospitals, home health agencies, long term care entities, infusion and pharmaceutical providers, insurers, health maintenance organizations, preferred provider organizations, third party administrators, physicians, physician groups, and physician practice management companies. Fraud and abuse prosecutions can have a materially adverse effect on a provider and on the financial condition of other entities in the health care delivery system of which that entity is a part.

The Obligated Group has internal policies and procedures and a compliance program that management of the Corporation believes will effectively reduce exposure liability for violations of these laws. However, because these laws are complex, enforcement efforts presently are widespread and expanding within the industry, and because those efforts may vary from region to region, there cannot be any assurance that the compliance program will not significantly reduce or eliminate the exposure of the Obligated Group to civil or criminal sanctions or adverse administrative determinations.

Federal Self-Referral Law. The federal self-referral law (commonly known as the "*Stark Law*") prohibits referrals by a physician for Medicare-covered "designated health services" to certain organizations in which such physician, a physician's immediate family or an applicable physician organization has a financial relationship, unless an exception applies. "Designated health services" or "DHS" include the following: clinical laboratory services; physical therapy services; occupational therapy services; certain radiology services, including magnetic resonance imaging, computerized axial tomography scans, and ultrasound services; radiation therapy services and supplies; durable medical equipment and services; parenteral and enteral nutrients, equipment and supplies; prosthetics, orthotics, and prosthetic devices and supplies; home health services; outpatient prescription drugs; and inpatient and outpatient hospital services. The Stark Law also prohibits the furnishing entity from submitting a claim for reimbursement or otherwise billing Medicare or any other person or entity for improperly referred DHS.

An entity that submits a claim for reimbursement in violation of the Stark Law must refund any amounts collected and may be (1) subject to a civil penalty of up to $15,000 for each prohibited self-referred service and (2) excluded from participation in federal health care programs. In addition, a physician or entity that has participated in a "scheme" to circumvent the operation of the Stark Law is subject to a civil penalty of up to $100,000 and possible exclusion from participation in federal health care programs.

The Stark law has a significant influence on the structure and operation of hospital systems through its regulation of physician financial relationships. While the Stark law was intended to provide bright lines on how to structure physician arrangements, the law's complexity and breadth has instead created some unclear boundaries. Thus, it is challenging for even the most sophisticated health care providers to remain completely compliant with the Stark law in all circumstances. And since the government does not need to prove intent by a provider to violate the law, a technical violation of the Stark law can trigger significant financial penalties.

CMS, the federal agency with primary responsibility for enforcement of the Stark Law has, over the years, published a number of regulations interpreting the Stark Law. CMS, on September 23, 2010, published a self-

referral disclosure protocol ("*SRDP*") pursuant to Section 6409(a) of the Health Care Reform Act. The SRDP sets forth a process to enable providers of services and suppliers to voluntarily self-disclose actual or potential violations of the Stark Law. Additionally, Section 6409(b) of the Health Care Reform Act gives the Secretary of HHS the authority to reduce the amount due and owing for violations under the Stark Law.

Investment in the Series 2016 Bonds by physicians (and their family members) raises a question as to whether such physician-investors, by such investment, will acquire a "financial relationship" with the Obligated Group for purposes of the Stark Law. If such a financial relationship were thus created, such physician-investors might be prohibited from referring patients to the Obligated Group's facilities.

The Stark statute is a "strict liability" statute, and, because of its complexity, is relatively easy to violate, even if such violation is inadvertent and unintentional. For example, an arrangement may be deemed to violate the Stark statute by virtue of relatively minor technical issues, such as a lack of appropriate signatures. Matters of technical noncompliance may lead a provider to choose to self-disclose such noncompliance and may subject the provider to fines and penalties. CMS has recently modified its regulations to reduce the likelihood of severe penalties being imposed for matters of technical noncompliance.

The Corporation provides for monitoring of the agreements that Members of the Obligated Group enter into with physicians and physician organizations. Those types of agreements entered into are routinely reviewed and audited, and those reviews and audits have resulted occasionally in the voluntary, self-disclosure by a Member of the Obligated Group to federal authorities of unintentional, non-compliance with federal regulatory requirements. The number of non-compliant agreements identified and self-disclosed is a small percentage of the total number of agreements reviewed, and any potential claims associated with non-compliant agreements either have been settled, or, in the case of any agreements known to management of the Corporation to be non-compliant, but as to which a settlement has not yet occurred, in the view of the Corporation's management, after consultation with legal counsel, will be settled, on terms that do not have a material adverse effect on the operations or condition, financial or otherwise, of the Obligated Group.

Anti-kickback Laws. The federal Anti-kickback Law prohibits knowingly and willfully offering, paying, soliciting, or receiving, directly or indirectly, anything of value if the purpose is "to induce" the recipient to (1) refer, order, recommend, or purchase an item or service for which payment may be made under a federal health care program such as Medicare or Medicaid, or (2) arrange for someone else to do so. Unlike the Stark Law, this statute is not limited to physicians. An arrangement that is intended to induce referrals violates this statute even when the payment is not directly related to the volume or value of referrals and there is no agreement to make referrals. The law contains certain exceptions. One of the exceptions is for payments to bona fide employees for employment in the provision of Medicare and Medicaid-covered items and services. Anyone convicted of violating the federal anti-kickback law can be imprisoned for up to five years and fined up to $25,000, as well as lose status as a Medicare/Medicaid provider. The Obligated Group maintains a compliance program that includes the ongoing review and monitoring of its arrangements with referral sources to ensure adherence to the federal Anti-kickback Law, including an evaluation of the fair market value of such arrangements as well as evaluation by counsel of the legal and regulatory risks, and board committee approval. The review process also mandates additional checks and balances for the more significant and complex relationships, including the requirement of prospective determination of fair market value by an independent valuation firm and analysis of legal and regulatory risks by outside counsel.

False Claims Laws. The federal criminal false claims law prohibits anyone from knowingly causing any bill or other information to be submitted to Medicare or Medicaid that is false or misleading. Violators can be imprisoned for up to five years. A similar law prohibits knowing and willful attempts to defraud in connection with any health care benefits (not merely governmental benefits). Violators can be imprisoned for up to 10 years (20 years if serious bodily injury results). Violators of either law can be fined up to $250,000 per violation ($500,000 for corporations) or double the amount of any resulting loss, whichever is greater, and/or excluded from federal programs.

The federal civil False Claims Act ("*FCA*") makes it illegal to knowingly or willingly submit or present a false, fictitious or fraudulent claim to the federal government. Violators are liable for a civil penalty ranging from $5,500 to $11,000 per claim, plus three times the amount of damages sustained by the government. A person is deemed to have acted knowingly if he or she acted in "deliberate ignorance" or "reckless disregard" of the falsity of the

claim. If an individual or entity becomes aware that it was paid any amount under the Medicare or Medicaid programs to which it was not entitled under program rules, it must disclose and repay the amount within 60 days; failure to do so violates the FCA. FCA investigations and cases have become common in the health care field and may cover a range of activity from intentionally inflated billings, to highly technical billing infractions, to allegations of inadequate care, and to potential violations of the Stark Law. Violation or alleged violation of the FCA most often results in settlements that require multi-million dollar payments and mandatory compliance agreements. The FCA also permits individuals to initiate civil actions on behalf of the government in lawsuits called "qui tam" actions. Qui tam plaintiffs, or "whistleblowers," share in the damages recovered by the government or recovered independently if the government does not participate. The FCA also empowers and provides incentives to private citizens (commonly referred to as a qui tam relator or whistleblower) to file suit on the government's behalf. The qui tam relator's share of the recovery can be between 15% and 25% in cases in which the government intervenes, and 25% to 30% in cases in which the government does not intervene. The government may use the FCA to prosecute Medicare and other government program fraud in areas such as coding errors, billing for services not provided and submitting false cost reports. The FCA has become one of the government's primary weapons against health care fraud. FCA violations or alleged violations could lead to settlements, fines, exclusions or reputational damage that could have a material adverse impact on a hospital. Recent amendments to the FCA in the Fraud Enhancement and Recovery Act of 2009 ("*FERA*") and the Health Care Reform Act amend and expand the reach of the FCA. FERA expanded the FCA's reverse false claims provision, imposing liability on any person who "knowingly conceals" or "knowingly and improperly avoids or decreases" an "obligation to pay or transmit money or property to the Government," whether the person uses a false record or statement to do so or not. FERA also clarified that an "obligation" can arise from the retention of an overpayment. Section 6402 of the Health Care Reform Act further addresses the retention of overpayments by defining the term overpayment and the circumstances and timing under which an overpayment must be returned to the government before it becomes an "obligation" under the FCA.

The Program Fraud Civil Remedies Act ("*PFRCA*") allows HHS to impose administrative penalties for false claims relating to federal healthcare programs. Under PFRCA, "knowingly" filing a false claim triggers fines of up to $5,000 for each claim and an assessment by the United States for up to twice the amount of the False Claim if the government has made payment. As under the FCA, "knowingly" includes actual knowledge, deliberate ignorance, or reckless disregard of the falsity of the claim.

The Federal Civil Money Penalty Law imposes substantial monetary penalties for certain actions, including submitting (or causing someone to submit) bills or other information that the person knows or "should know" may result in payments in violation of the many rules of the Medicare and Medicaid programs. A person "should know" something if they acted with reckless disregard of, or in deliberate ignorance of, its truth or falsity. Such penalties can also be imposed for other conduct, such as financial inducement to patients. Examples of prohibited conduct include:

- Billing for services not rendered.
- Misrepresenting the services actually rendered (such as "upcoding" the level of a service, misrepresenting the qualifications of the person rendering the service or representing that supervision requirements were met when they were not).
- Falsely certifying that certain services were medically necessary. Both the CMS Form 1500 and the UB-04 billing forms contain statements by which the provider of service affirms that the services provided to the patient were medically necessary.
- Submitting (or causing someone to submit) a claim for payment that is inconsistent with or contrary to Medicare or Medicaid payment requirements.
- Failing to repay an amount received under Medicare or Medicare programs to which the person was not entitled within 60 days of learning of the overpayment.

Illinois Insurance Claims Fraud Prevention Act. The Illinois Insurance Claims Fraud Prevention Act prohibits remuneration (in cash or kind) for patient referrals where ultimately an insurance company will pay claims. Penalties for violations of this Act include a civil penalty of $5,000 to $10,000 per violation, plus an assessment of not more than three times the amount of each claim for compensation under a contract of insurance.

Illinois Hospital Report Card Act. The Illinois Hospital Report Card Act, which mandates public access to certain information regarding hospital staffing and patient outcomes, requires the provision of certain hospital data

reports to the IDPH, mandates initial and continuing nursing training and provides whistleblower protection for hospital employees who make good faith disclosures under the act. In addition, upon request, hospitals must share with consumers nurse staff schedules, nurse assignment rosters, methods to determine and adjust nurse staff schedules, and staff training information. The Act requires submission of quarterly and annual reports to the IDPH for subsequent public release following review by the IDPH's advisory committee. These reports must disclose information on topics including patient care levels and infection-related measures. The reporting and public disclosure requirements mandated by the Illinois Hospital Report Card Act have not had an adverse impact on operations of the Obligated Group.

Review of Outlier Payments. CMS is reviewing health care providers that are receiving large proportions of their Medicare revenues from outlier payments. Health care providers found to have obtained inappropriately high outlier payments will be subject to further investigation by the CMS Program Integrity Unit and potentially the HHS Office of Inspector General ("*OIG*"). Management of the Corporation does not believe that any potential review of a Member of the Obligated Group would materially adversely affect the financial condition or performance of the Obligated Group.

Patient Records and Patient Confidentiality. The Health Insurance Portability and Accountability Act of 1996 ("*HIPAA*") requires certain entities and providers to protect the privacy and security of individuals' health information. Disclosure of certain broadly defined protected health information is prohibited unless expressly permitted under the provisions of the HIPAA statute and regulations or authorized by the patient, and a variety of safeguards must be used to protect against privacy or security breaches. HIPAA's confidentiality provisions extend not only to patient medical records, but also to a wide variety of health care clinical and financial settings where patient privacy restrictions often impose communication, operational, accounting and billing restrictions. These requirements add costs and potentially create unanticipated sources of legal liability.

HIPAA imposes civil monetary penalties for violations and criminal penalties for knowingly obtaining or using individually identifiable health information. The penalties range from up to $50,000 to $1.5 million for all identical violations in a calendar year and/or imprisonment if the information was obtained or used with the intent to sell, transfer or use the information for commercial advantage, personal gain or malicious harm.

The ARRA includes broad, sweeping changes to the HIPAA provisions regarding confidentiality of patient medical records. In general, the ARRA expanded the enforcement of violations of patient medical record confidentiality.

Violations of HIPAA, or of comparable state privacy and security laws, may result in significant costs, liability and reputational harm. The Members of the Obligated Group maintain a formal plan for compliance with all applicable HIPAA requirements, have trained their staff and employees in these requirements and maintain a specified HIPAA Compliance Officer who has been provided the authority to supervise, update and enforce policies and procedures designed to assure HIPAA compliance. While the Corporation's management believes that Members of the Obligated Group have taken reasonable and appropriate steps in the design of HIPAA policies and procedures and in their supervision so as to maintain HIPAA compliance, it cannot be predicted when or to what extent complaints may be filed or investigations undertaken, which could involve the expenditure of possibly substantial sums to defend, and the possibility of fines or other penalties should HHS determine that a Member of the Obligated Group is not in compliance with HIPAA requirements.

Security Breaches and Unauthorized Releases of Personal Information. Federal and state authorities are increasingly focused on the importance of protecting the confidentiality of individuals' personal information, including patient health information. The Health Information Technology for Economic and Clinical Health Act ("*HITECH*"), which is part of the ARRA, requires health care providers and some of their vendors to notify individuals, and in some cases, the media, when their unsecured protected health information is subject to a breach of security. *See "The HITECH Act" herein.* In addition, many states have enacted laws requiring businesses to notify individuals of security breaches that result in the unauthorized release of personal information. In some states, notification requirements may be triggered even where information has not been used or disclosed, but rather has been inappropriately accessed. State consumer protection laws may also provide the basis for legal action for privacy and security breaches and frequently, unlike HIPAA, authorize a private right of action. In particular, the public nature of security breaches exposes health organizations to increased risk of individual or class action

lawsuits from patients or other affected persons, in addition to government enforcement. Failure to comply with restrictions on patient privacy or to maintain robust information security safeguards, including taking steps to ensure that contractors who have access to sensitive patient information maintain the confidentiality of such information, could consequently result in material liability and damage to a health care provider's reputation and could materially adversely affect its financial condition and performance.

Emergency Medical Treatment and Labor Act. The federal Emergency Medical Treatment and Active Labor Act ("*EMTALA*") imposes certain requirements on hospitals and facilities with emergency departments. Generally, EMTALA requires that hospitals and other facilities with emergency departments provide "appropriate medical screening" to patients who come to the emergency department to determine if an emergency medical condition exists. If so, the hospital must stabilize the patient within the capabilities of the hospital and the patient cannot be transferred unless stabilization has occurred and the transfer is done pursuant to EMTALA requirements. There are limited exceptions, such as cases in which the physician documents that the benefits of transfer outweigh the risks. In such cases, appropriate steps must be taken to minimize the risks of transfer.

Failure to comply with EMTALA may result in a hospital's exclusion from the Medicare and/or Medicaid programs, as well as the imposition of civil monetary penalties. As such, failure of a Member of the Obligated Group to meet its responsibilities under EMTALA could adversely affect the financial condition and performance of the Obligated Group. Management of the Corporation believes the policies and procedures adopted by Members of the Obligated Group have been and currently are in material compliance with EMTALA, but no assurance can be given that a violation of EMTALA will not be found or asserted. Any sanctions imposed as a result of an EMTALA violation could have a material adverse effect on the financial condition and performance of the Obligated Group.

Environmental Laws and Regulations. Hospitals are subject to a wide variety of federal, state and local environmental and occupational health and safety laws and regulations. These include, but are not limited to: (i) air and water quality control requirements; (ii) waste management requirements; (iii) specific regulatory requirements applicable to asbestos, polychlorinated biphenyls and radioactive substances; (iv) requirements for providing notice to employees and members of the public about hazardous material handled by or located at the hospital; and (v) requirements for training employees in the proper handling and management of hazardous materials and wastes; and (vi) other requirements.

Hospitals may be subject to requirements related to investigating and remedying hazardous substances located on their property, including such substances that may have migrated off the property. Typical hospital operations include the handling, use, storage, transportation, disposal and/or discharge of hazardous, infectious, toxic, radioactive, flammable and other hazardous materials, wastes, pollutants and contaminants. As such, hospital operations are particularly susceptible to the practical, financial and legal risks associated with compliance with such laws and regulations. Such risks may result in damage to individuals, property or the environment; may interrupt operations and/or increase their cost; may result in legal liability, damages, injunctions or fines; and may result in investigations, administrative proceedings, civil litigation, criminal prosecution, penalties or other governmental agency actions; and may not be covered by insurance. Although the management of the Corporation is not aware of any pending or threatened claim, investigation or enforcement action regarding such environmental issues, which, if determined adversely, would have a material adverse effect on the financial condition or performance of the Obligated Group, there cannot be any assurance that a Member of the Obligated Group will not encounter such risks in the future. The occurrence of those risks could have a material adverse effect on the financial condition and performance of the Obligated Group.

Physician Recruitment. The IRS, CMS and OIG have issued various pronouncements that could limit physician recruiting and retention arrangements. In IRS Revenue Ruling 97-21, the IRS ruled that tax-exempt hospitals that provide recruiting and retention incentives to physicians risk loss of tax-exempt status unless the incentives are reasonably necessary to address a community need and accordingly provide a community benefit; improvement of a charitable hospital's financial condition does not necessarily constitute such a purpose. With respect to physician service contracts, the IRS takes the position that the compensation paid must be consistent with the value of services actually provided by the physician. The OIG also has taken the position that any arrangement between a federal health care program-certified facility and a physician that is intended even in part to encourage the physician to refer patients may violate the federal Anti-Kickback Statute unless a regulatory exception applies. Physician service, recruitment and retention arrangements may also implicate the Stark Law. While the OIG has

promulgated a practitioner recruitment safe harbor to the Anti-Kickback Statute, it is limited to recruitment in areas that are health professional shortage areas ("*HPSAs*"). The OIG also requires consistency with fair market value for certain other exceptions that may apply to service contracts and may allege that any amount paid above fair market value implies an intent to induce referrals. The Stark Law exception for practitioner recruitment is not limited to HPSAs, rather it applies to the recruitment of physicians who are relocating their practices to the geographic area served by the hospital, if certain requirements are met. The Stark Law also contains an exception pertaining to retention arrangements that allows hospitals, in limited circumstances, to pay incentives to retain a physician in underserved areas. In addition, the Stark Law includes certain exceptions that may apply to service contracts, many of which also require (among other things) that payments to the physician are consistent with fair market value for services actually performed.

The sanctions that could be imposed by the IRS or other regulatory authorities or the courts for violations of IRS regulations, the Stark Law and the Anti-Kickback Statute and for false claims under the FCA and other similar federal or state laws include, among other things, the loss of tax-exempt status of one or more of the Obligated Group Members, repayment of up to three times the amount of claim payments related to services provided or referred by affected physicians, exclusion of one or more Obligated Group Members from federal health care programs, including the Medicare and Medicaid programs or additional monetary penalties.

Management of the Corporation believes that the physician recruitment arrangements of the Obligated Group Members are in material compliance with these laws and regulations to the extent applicable, but no assurance can be given that regulatory authorities will not take a contrary position or that the Obligated Group Members will not be found to have violated applicable law, or that future laws, regulations or policies will not have a material adverse impact on the ability of the Obligated Group to recruit and retain physicians.

Joint Ventures. The OIG has expressed its concern in various advisory bulletins that many types of joint venture arrangements involving hospitals may implicate the Anti-Kickback Statute, since the parties to joint ventures are typically in a position to refer patients of federal health care programs. In addition, under the federal tax laws governing Section 501(c)(3) organizations, a tax-exempt hospital's participation in a joint venture with for-profit entities must further the hospital's exempt purposes and the joint venture arrangement must permit the hospital to act exclusively in the furtherance of its exempt purposes, with only incidental benefit to any for-profit partners. If the joint venture does not satisfy these criteria, the hospital's tax-exemption may be revoked, the hospital's income from the joint venture may be subject to tax, or the parties may be subject to another sanction. Many hospital joint ventures with physicians may also implicate the federal Stark Law.

Any evaluation of compliance with the Anti-Kickback Statute or tax laws governing Section 501(c)(3) organizations depends on the totality of the facts and circumstances, while the Stark Law requires strict compliance with an exception if the prohibition is triggered. While management of the Obligated Group believes that any joint venture arrangements to which the Obligated Group is a party are in material compliance with the Anti-Kickback Statute and OIG pronouncements, the tax laws governing Section 501(c)(3) organizations and the Stark Law, there cannot be any assurance that regulatory authorities will not take a contrary position or that such transactions will not be found to have violated these laws and related regulations. Any determination that a Member of the Obligated Group is not in compliance with these laws and related regulations could have a material adverse effect on the financial condition and performance of the Obligated Group.

The Obligated Group Members may enter into joint ventures with physicians. The ownership and operation of certain of these joint ventures may not meet safe harbors under the Anti-Kickback Law. Management of the Corporation would proceed with such transactions related to the joint ventures only after consultation with its legal counsel and receipt of advice to the effect that each transaction related to the joint ventures is in compliance with the Stark Law and the tax laws governing Section 501(c)(3) organizations, and is otherwise generally in compliance with the Anti-Kickback Law. However, there cannot be any assurance that regulatory authorities will not take a contrary position or that such transactions will not be found to have violated the Stark Law, the tax laws governing Section 501(c)(3) organizations and/or the Anti-Kickback Law. Any such determination could have a material adverse effect on the financial condition and performance of the Obligated Group.

Enforcement Affecting Clinical Research. In addition to increasing enforcement of laws governing payment and reimbursement, the federal government has also heightened enforcement of laws and regulations

governing the conduct of clinical trials at hospitals. HHS elevated and strengthened its Office of Human Research Protections, one of the agencies with responsibility for monitoring federally funded research. In addition, the National Institutes of Health significantly increased the number of facility inspections that these agencies perform. The Food and Drug Administration ("*FDA*") also has authority over the conduct of clinical trials performed in hospitals when these trials are conducted on behalf of sponsors seeking FDA approval to market the drug or device that is the subject of the research. The FDA's inspection of facilities increased significantly in recent years. These agencies' enforcement powers range from substantial fines and penalties to exclusions of researchers and suspension or termination of entire research programs.

Red Flags Rule. On November 9, 2007, six federal agencies, including the Federal Trade Commission ("*FTC*"), published what has come to be known as the "Red Flags Rule." This rule, promulgated pursuant to the Fair and Accurate Credit Transactions Act of 2003, requires financial institutions and creditors to develop and implement written identity theft prevention programs. The programs must be developed for the identification, detection and response to patterns, practices, or specific activities – known as "red flags" – that could indicate identity theft. The FTC has interpreted the definition of "creditors" to include health care providers. However, The Red Flag Program Clarification Act of 2010, Public Law 111-319 amends the definition of the term "creditor" and may exclude certain service providers, including hospitals, from the requirements of the Red Flags Rule, based on how a service provider uses credit reporting agencies. It is not known whether the Obligated Group is subject to the Red Flags Rule as amended. Failure to comply with the rule could result in penalties of $2,500 per violation under the Fair Credit Reporting Act. Enforcement of the rule commenced on December 31, 2010.

The HITECH Act

Provisions in the 2008 HITECH Act, enacted as part of the economic stimulus legislation, increase the maximum civil monetary penalties for violations of HIPAA and grant enforcement authority of HIPAA to state attorneys general. The HITECH Act also (i) extends the reach of HIPAA beyond "covered entities," (ii) imposes a breach notification requirement on HIPAA-covered entities, (iii) limits certain uses and disclosures of individually identifiable health information and (iv) restricts covered entities' marketing communications. Management does not anticipate that compliance with the HITECH Act will have a material effect on the Corporation's operations.

The HITECH Act also established programs under Medicare and Medicaid to provide incentive payments for the "meaningful use" of certified electronic health record ("*EHR*") technology. The Medicare and Medicaid EHR incentive programs provide incentive payments to eligible professionals and eligible hospitals for demonstrating meaningful use of certified EHR technology. Health care providers demonstrate their meaningful use of EHR technology by meeting objectives specified by CMS for using health information technology and by reporting on specified clinical quality measures. Hospitals and physicians who have not satisfied the performance and reporting criteria for demonstrating meaningful use have their Medicare payments significantly reduced.

Security Breaches and Unauthorized Releases of Personal Information

Federal and state authorities are increasingly focused on the importance of protecting the confidentiality of individuals' personal information, including patient health information. Many states have enacted laws requiring businesses to notify individuals of security breaches that result in the unauthorized release of personal information. In some states, notification requirements may be triggered even where information has not been used or disclosed, but rather has been inappropriately accessed. State consumer protection laws may also provide the basis for legal action for privacy and security breaches and frequently, unlike HIPAA, authorize a private right of action. In particular, the public nature of security breaches exposes health organizations to increased risk of individual or class action lawsuits from patients or other affected persons, in addition to government enforcement. Failure to comply with restrictions on patient privacy or to maintain robust information security safeguards, including taking steps to ensure that contractors who have access to sensitive patient information maintain the confidentiality of such information, could consequently damage a health care provider's reputation and materially adversely affect business operations.

Certain Business Transactions

Physician Relations. The primary relationship between a hospital and physicians who practice in it is through the hospital's organized medical staff. Medical staff bylaws, rules and policies establish the criteria and procedures by which a physician may have his or her privileges or membership curtailed, denied or revoked.

Physicians who are denied medical staff membership or certain clinical privileges, or who have membership or privileges curtailed, denied or revoked, often file legal actions against hospitals. Such action may include a wide variety of claims, some of which could result in substantial uninsured damages to a hospital. In addition, failure of the hospital governing body to adequately oversee the conduct of the medical staff may result in hospital liability to third parties. All hospitals, including those owned and operated by the Members of the Obligated Group, are subject to such risk.

Physician Contracting. The Members of the Obligated Group may contract with physician organizations (such as independent physician associations and physician-hospital organizations) to arrange for the provision of physician and ancillary services. Because physician organizations are separate legal entities with their own goals, obligations to shareholders, financial status, and personnel, there are risks involved in contracting with the physician organizations.

The success of the System will be partially dependent upon its ability to attract physicians to join the physician organizations and to participate in their networks, and upon the ability of the physicians, including the employed physicians, to perform their obligations and deliver high quality patient care in a cost-effective manner. There can be no assurance that the Members of the Obligated Group will be able to attract and retain the requisite number of physicians or that physicians will deliver high quality health care services. Without paneling a sufficient number and type of providers, the Members of the Obligated Group could fail to be competitive, could fail to keep or attract payor contracts, or could be prohibited from operating until its panel provided adequate access to patients. Such occurrences could have a material adverse effect on the business or operations of the Obligated Group.

Physician Recruitment. The Internal Revenue Service and HHS have issued various pronouncements that could limit physician recruiting and retention arrangements. The Internal Revenue Service has stated that hospitals that provide financial incentives to physicians to recruit them or to retain them in the community risk loss of tax-exempt status unless the incentives are necessary to serve a charitable purpose and, further, that improvement of a charitable hospital's financial condition does not necessarily constitute such a purpose. Management of the Corporation, believes that the Corporation and the Members of the Obligated Group are in material compliance with the legal standards applicable to recruitment and retention arrangements and does not anticipate any adverse impact on the ability of the Corporation and the Members of the Obligated Group to recruit and retain physicians.

Affiliations, Merger, Acquisition and Divestiture. The Corporation evaluates and pursues potential acquisition, merger and affiliation candidates as part of the overall strategic planning and development process. As part of its ongoing planning and property management functions, the Corporation reviews the use, compatibility and business viability of many of the operations of the Obligated Group, and from time to time the Members of the Obligated Group may pursue changes in the use of, or disposition of, their facilities. Likewise, the Corporation occasionally receives offers from, or conducts discussions with, third parties about the potential acquisition of operations and properties which may become subsidiaries or other Members of the Obligated Group in the future or about the potential sale of some of the operations or property which are currently conducted or owned by the Members of the Obligated Group. Discussions with respect to affiliation, merger, acquisition, disposition or change of use of facilities are held from time to time with other parties. These may be conducted with acute care hospital facilities and may be related to potential affiliation with a Member of the Obligated Group. As a result, it is possible that the current organization and assets of the Obligated Group may change from time to time.

In addition to relationships with other hospitals and physicians, the Members of the Obligated Group may consider investments, ventures, affiliations, development and acquisition of other health care-related entities. These may include home health care, long-term care entities or operations, infusion providers, pharmaceutical providers, and other health care enterprises that support the overall operations of the System. In addition, the Members of the Obligated Group may pursue transactions with health insurers, HMOs, preferred provider organizations, third-party administrators and other health insurance-related businesses. Because of the integration occurring throughout the health care field, management will consider these arrangements if there is a perceived strategic or operational benefit for the System. Any initiative may involve significant capital commitments and/or capital or operating risk (including, potentially, insurance risk) in a business in which the Members of the Obligated Group may have less expertise than in hospital operations. There can be no assurance that these projects, if pursued, will not lead to material adverse consequences to the System.

Antitrust. Enforcement of antitrust laws against health care providers has become more common. Antitrust liability may arise in a wide variety of circumstances, including medical staff privilege disputes, third party contracting, physician relations, and joint venture, merger, affiliation and acquisition activities. While the application of federal and state antitrust laws to health care is still evolving, enforcement activities by federal and state agencies appear to be increasing. Violators of antitrust laws could be subject to criminal and civil liability by both federal and state agencies as well as by private litigants.

Issues Related to the Health Care Market of the Obligated Group

Proliferation of Competition. Hospitals may face increased competition in the future from other general hospitals, specialty hospitals, skilled nursing facilities, home health agencies, rehabilitation and therapy centers, ambulatory surgery centers, increasingly sophisticated physician group practices, and from other health care providers that offer comparable health care services. This may cause hospitals to lose essential inpatient or outpatient market share. Competition may be focused on services or payor classifications where hospitals realize their highest margins, thus negatively affecting programs that are economically important to hospitals. Specialty hospitals may attract specialists as investors and may seek to treat only profitable classifications of patients, leaving full-service hospitals with higher acuity and/or lower paying patient populations. Likewise, ambulatory surgery centers may increase competition for outpatient hospital services. The growth of e-commerce may also result in a shift in the way that healthcare is delivered. Persons residing in the Member's service area may be able to receive certain health services from remote providers. These new sources of competition may have a material adverse impact on hospitals, particularly if a group of a hospital's principal physician admitters determines to curtail its use of a hospital service in favor of competing facilities.

Additionally, scientific and technological advances, new procedures, drugs and appliances, preventive medicine and outpatient health care delivery may reduce utilization and revenues of the hospitals in the future or otherwise lead the way to new avenues of competition. In some cases, hospital investment in facilities and equipment for capital-intensive services may be lost as a result of rapid changes in diagnosis, treatment or clinical practice brought about by new technology or new pharmacology.

In addition, competition could result from forms of health care delivery that are able to offer lower priced services to the population served by the Obligated Group. These services could be substituted for some of the revenue generating services currently offered by Members of the Obligated Group and their affiliates. The services that could serve as substitutes for hospital treatment include skilled and specialized nursing facilities, home care, intermediate nursing home care, preventive care, and drug and alcohol abuse programs.

Availability of Insurance Products. In recent years, the health care industry has seen significant reductions in the availability of general commercial liability and other insurance products. There can be no assurance that the Obligated Group will be able in the future to fund any self-insurance or obtain commercial insurance on reasonably acceptable terms and conditions. Increases in the cost of such insurance products could have a material adverse effect on the Obligated Group and its results of operations.

Technological Changes. Medical research and resulting discoveries have grown considerably in the last decade. These new discoveries may add greatly to the Obligated Group's cost of providing services with no or little offsetting increase in federal or other third party reimbursement and may also render obsolete certain of the Obligated Group's health services. New drugs and devices may increase hospitals' expenses because, for the most part, the costs of new drugs and devices are not typically accounted for in the DRG payment received by hospitals for inpatient care. The PPS system imposed on outpatient services does permit a direct pass-through of certain new technologies defined by the government.

Staffing Shortages. In past years, the health care industry experienced a scarcity of nursing personnel, respiratory therapists, radiation technicians, pharmacists and other trained health care technicians. A significant factor underlying this trend included a decrease in the number of persons entering these professions. Competition for employees, coupled with increased recruiting and retention costs, could increase hospital operating costs, possibly significantly. Growth, therefore, could be constrained. Such a trend could have a material adverse impact on the financial condition and performance of hospitals. On occasion, the Obligated Group Members utilize nursing agencies to assist with shortages.

Physician Shortages. The health care industry has also recently experienced a shortage of physicians, especially in primary care. This physician shortage may be compounded by the expansion of coverage to the uninsured under the Health Care Reform Act.

Corporate Compliance Program

The Obligated Group has a compliance program that includes a compliance plan to assist all employees in understanding and adhering to the legal and ethical standards that govern the provision of patient care (the "*Compliance Plan*"). The Compliance Plan has been designed to (i) comply with the standards set forth in the OIG Compliance Guidelines for Hospital and in the Federal Sentencing Guidelines for Organizational Defendants and (ii) help ensure that the Obligated Group Members act in accordance with their mission, values and known legal duties.

Feasibility Study

The financial forecast contained in the Feasibility Study included in *APPENDIX C* hereto is based upon assumptions made by the management of the Corporation. As stated in the Feasibility Study, there will usually be differences between the forecasted and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material. In addition, the financial forecast is only for the years ending June 30, 2016 through 2021, and consequently does not cover the whole period during which the Series 2016 Bonds may be outstanding. *See the Feasibility Study included herein as APPENDIX C, which should be read in its entirety, including management's notes and assumptions as set forth therein.*

BECAUSE THERE IS NO ASSURANCE THAT ACTUAL EVENTS WILL CORRESPOND WITH THE ASSUMPTIONS MADE, NO GUARANTEE CAN BE MADE THAT THE FINANCIAL FORECAST IN THE FEASIBILITY STUDY WILL CORRESPOND WITH THE RESULTS ACTUALLY ACHIEVED IN THE FUTURE. ACTUAL OPERATING RESULTS MAY BE AFFECTED BY MANY UNCONTROLLABLE FACTORS, INCLUDING BUT NOT LIMITED TO TAXES, GOVERNMENTAL CONTROLS, CHANGES IN APPLICABLE GOVERNMENTAL REGULATION, CHANGES IN DEMOGRAPHIC TRENDS, CHANGES IN THE HEALTH CARE INDUSTRY, AND GENERAL ECONOMIC CONDITIONS.

Bond Examinations

For several years, IRS officials have indicated that more resources would be invested in audits of tax-exempt bonds in the charitable organization sector with specific review of private use. In addition, the IRS sent several hundred post-issuance compliance questionnaires to nonprofit corporations that had borrowed on a tax-exempt basis regarding their post-issuance compliance with various requirements for maintaining the federal tax exemption of interest on their bonds. The questionnaire included questions relating to the borrower's (i) record retention, which the IRS has particularly emphasized, (ii) qualified use of bond-financed property, (iii) arbitrage yield restriction and rebate requirements, (iv) debt management policies and (v) voluntary compliance and education. In September 2008, the IRS issued an interim report analyzing the responses from the completed questionnaires. The report indicated that there were significant gaps in the implementation by nonprofit corporations of post-issuance and record retention procedures for tax-exempt bonds.

Although management of the Corporation believes that its expenditure and investment of bond proceeds, use of property financed with tax-exempt debt and record retention practices have complied in all material respects with applicable laws and regulations, there can be no assurance that the issuance of surveys or a random audit will not lead to an IRS review that could adversely affect the market value of the Series 2016 Bonds or of other outstanding tax-exempt indebtedness of the Obligated Group. Additionally, the Series 2016 Bonds or other tax-exempt obligations issued for the benefit of Obligated Group Members may be, from time to time, subject to examinations by the IRS. The Obligated Group believes that the Series 2016 Bonds and other tax-exempt obligations issued for the benefit of any Obligated Group Member properly comply with the tax laws. In addition, Bond Counsel will render an opinion with respect to the tax-exempt status of the Series 2016 Bonds, as described under the heading "*TAX EXEMPTION*." The Obligated Group has not sought to obtain a private letter ruling from the IRS with respect to the Series 2016 Bonds, however, and the opinion of Bond Counsel is not binding on the IRS or the courts. There can be no assurance that any IRS examination of the Series 2016 Bonds will not adversely affect the market value of the Series 2016 Bonds. See "*TAX EXEMPTION*" herein.

Proposed Legislation Regarding Limitations or Elimination of Tax-Exempt Status

Other legislative proposals that could have an adverse effect on the Obligated Group include: (i) any changes in the taxation of not for profit organizations or in the scope of their exemption from income, sales or property taxes; (ii) limitations on the amount or availability of tax exempt financing for organizations recognized under the Code; and (iii) regulatory limitations affecting the System's ability to undertake capital projects or develop new services.

Legislative bodies have considered proposed legislation on the charity care standards that not for profit, charitable hospitals must meet to maintain their federal income tax exempt status under the Code as well as legislation mandating that such hospitals have an open-door policy toward Medicare and Medicaid patients and offer qualified charity care and community benefits in a non-discriminatory manner. Not for profit, charitable hospitals that violate these charity care and community benefit requirements could be subject to excise tax penalties and revocation of tax exempt status under the Code. As described in this "*BONDHOLDERS' RISKS*" Section, because of the complexity of health reform generally, legislation beyond the Affordable Care Act is likely to be considered and enacted over time. The scope and effect of any such legislation cannot be predicted. Enactment of any such legislation or similar legislation, if enacted, may have the effect of subjecting a portion of the Obligated Group's income to federal or state income taxes, or other tax penalties.

Other Risks

Construction Risks. The Project is comprised of renovations and construction at several of the Corporation's facilities and is subject to the usual risks associated with construction. Although the Obligated Group believes that such portions of the Project will be constructed within budget and on the anticipated schedule, circumstances or events beyond the control of the Obligated Group could occur which would result in cost overruns and delays. Such circumstances or events could include, among others, strikes and other labor dispute actions, material shortages, shortages in various labor trades, adverse weather conditions, fire or other casualty damage, unanticipated subsoil conditions and financial failure of the general contractor or construction manager or subcontractors. No guaranteed maximum price contract or any other construction contract has been delivered in connection with the Project, and the costs of the Project are based solely upon the estimates of the Corporation.

If the Obligated Group were to experience significant cost overruns over the Obligated Group's budget, or delays in the construction schedule, there could be an adverse impact on the financial condition of the Obligated Group. *For more information on the Project, see* "*RIVERSIDE CAMPUS*" *in APPENDIX A.*

Indigent Care. Tax-exempt hospitals often treat large numbers of "indigent" patients who, for various reasons, are unable to pay for their medical care. These hospitals may be susceptible to economic and political changes which could increase the number of indigent persons or the responsibility for caring for this population. General economic conditions which affect the number of employed individuals who have health insurance coverage have affected the ability of patients to pay for their care.

The Health Care Reform Act imposes requirements on tax-exempt hospitals to develop, implement and monitor charity care policies and procedures. In addition, as described above, one of the objectives of the Health Care Reform Act has been to extend the availability and affordability of health care insurance to those segments of the population who have not been able to afford health care insurances or who have not had access to health care services.

Bond Rating. There is no assurance that the rating assigned to the Series 2016 Bonds will not be lowered or withdrawn at any time, the effect of which could adversely affect the market price for and marketability of the Series 2016 Bonds. See the information herein under the caption "*RATING*."

Market for Series 2016 Bonds. Subject to prevailing market conditions, the Underwriter intends, but is not obligated, to make a market in the Series 2016 Bonds. There is presently no secondary market for the Series 2016 Bonds and no assurance that a secondary market will develop. Consequently, investors may not be able to resell the Series 2016 Bonds purchased should they need or wish to do so for emergency or other purposes.

Investments. The Corporation has significant holdings in a broad range of investments. Market fluctuations may affect the value of those investments and those fluctuations may be at times material.

Professional Liability Claims and Liability Insurance. In recent years, the number of professional and general liability suits and the dollar amounts of damage recoveries have increased nationwide, resulting in substantial increases in malpractice insurance premiums. Professional liability and other actions alleging wrongful conduct and seeking punitive damages often are filed against health care providers. Litigation may also arise from the corporate and business activities of the Members of the Obligated Group, employee-related matters, medical staff and provider network matters and denials of medical staff and provider network membership and privileges. As with professional liability, many of these risks are covered by insurance, but some are not. For example, some antitrust claims, business disputes and workers' compensation claims are not covered by insurance or other sources and, in whole or in part, may be a liability of the Members of the Obligated Group if determined or settled adversely. Claims for punitive damages may not be covered by insurance under certain state laws. Although the Members of the Obligated Group currently maintain actuarially determined self-insurance reserves and carry excess malpractice and general liability insurance which Management considers adequate, Management is unable to predict the availability, cost or adequacy of such insurance in the future.

Competition. The costs and revenues of the Members of the Obligated Group could be substantially affected by future changes in the number and mix of both patients and services brought about by increased competition among health care providers and insurers. *See* "*OTHER AREA HOSPITAL FACILITIES*" *in APPENDIX A.* This competition could take several different forms, including:

(a) Competition from other physician groups, home health agencies, ambulatory care facilities, surgical centers, rehabilitation and therapy centers and other providers of health care services;

(b) Competition from hospitals in the service areas of the Members of the Obligated Group;

(c) Competition for patients between physicians and nonphysician practitioners, such as nurse-midwives, nurse practitioners, chiropractors, physical and occupational therapists and others;

(d) Competition for enrollees between traditional insurers whose patients generally have a free choice of other providers, and health maintenance organizations or other prepaid plans which substantially restrict the health care providers from whom their enrollees can receive services; and

(e) Competition from proprietary health care providers, the operations of which are not subject to the restrictions which are imposed on nonprofit corporations by state nonprofit, tax exemption and other laws, and which proprietary providers may have access to equity capital markets to obtain funds with which to compete under financing instruments which generally do not restrict the operational flexibility of such providers to the degree that the tax-exempt capital market restricts the operations of nonprofit corporate borrowers.

Facility Damage. Hospitals are highly dependent on the condition and functionality of their physical facilities. Damage from fire, flood or other natural disasters, deliberate acts of destruction, or various facilities system failures may have a material adverse impact on hospital operations, financial condition and financial performance.

Other Risk Factors Generally Affecting Health Care Facilities

In the future, the following factors, among others, may adversely affect the operations of health care providers, including the Members of the Obligated Group or the market value of the Series 2016 Bonds, to an extent that cannot be determined at this time.

(a) Hospitals are major employers, combining a complex mix of professional, quasi-professional, technical, clerical, housekeeping, maintenance, dietary and other types of workers in a single operation. As with all large employers, the Obligated Group Members bear a wide variety of risks in connection with their employees. These risks include contract disputes, discrimination claims, personal tort actions, work-related injuries, exposure to hazardous materials, interpersonal torts (such as between employees, between physicians or management and employees, or between employees and patients), and other risks that may flow from the relationships between employer and employee or between physicians, patients and employees. Many of these risks are not covered by insurance, and certain of them cannot be anticipated or

prevented in advance. The Obligated Group Members are subject to all of the risks listed above, and such risks, alone or in combination, could have a material adverse impact on the financial condition and performance of the Obligated Group.

(b) The occurrences of natural or man-made disasters, including floods and earthquakes, may damage some or all of the facilities, interrupt utility service to some or all of the facilities, result in an abnormally high demand for health care services or otherwise impair the operation of some or all of the facilities operated by the Obligated Group Members or the generation of revenues from some or all of the facilities.

(c) Decrease in availability of grants, or in receipt of contributions or bequests.

(d) The occurrence of a large-scale terrorist attack or a global pandemic that increases the proportion of patients who are unable to pay fully for the cost of their care and that disrupts the operation of certain health care facilities by resulting in an abnormally high demand for health care services.

(e) Instability in the stock market that may adversely affect both the principal value of, and income from, the Obligated Group's investment portfolio.

(f) Adoption of a so-called "flat tax" federal income tax, a reduction in the marginal rates of federal income taxation or replacement of the federal income tax with another form of taxation, any of which might adversely affect the market value of the Series 2016 Bonds.

(g) Adoption of legislation that would establish a national or statewide single-payor health program or that would establish national, statewide or otherwise regulated rates applicable to hospitals and other health care providers.

(h) Reduced demand for the services of Obligated Group Members that might result from decreases in population.

(i) Increased unemployment or other adverse economic conditions that would increase the proportion of patients who are unable to pay fully for the cost of their care.

(j) Bankruptcy of an indemnity/commercial insurer, managed care plan or other payor.

(k) Efforts by insurers and governmental agencies to limit the cost of hospital services, to reduce the number of beds and to reduce the utilization of hospital facilities by such means as preventive medicine, improved occupational health and safety and outpatient care, or comparable regulations or attempts by third-party payors to control or restrict the operations of certain health care facilities.

(l) The shift of medical staff loyalties to health systems and facilities other than the Obligated Group's would have an adverse effect, to the extent that each medical staff member has influence in admitting or directing a particular patient, with the patient's consent, to a particular facility.

(m) Increased levels of costs incurred in connection with uncompensated care services for indigent patients or in connection with catastrophic illnesses, pandemics, and other diseases.

(n) Limitations on the availability of, and increased compensation necessary to secure and retain, nursing, technical and other professional personnel.

The occurrence of one or more of the foregoing, or the occurrence of other unanticipated events, could adversely affect the financial performance of the Obligated Group.

CONTINUING DISCLOSURE

In order to provide certain continuing disclosure with respect to the Series 2016 Bonds in accordance with SEC Rule 15c2-12 (the "*Rule*"), the Corporation has entered into an SEC Post-Issuance Compliance Services Pricing Agreement (the "*Disclosure Dissemination Agreement*") for the benefit of the holders of the Series 2016 Bonds with Digital Assurance Certification, L.L.C. ("*DAC*"), under which the Corporation has designated DAC as disclosure dissemination agent (the "*Dissemination Agent*").

The Corporation, on behalf of the Obligated Group, has undertaken all responsibilities for any continuing disclosure to holders of the Series 2016 Bonds, and the Authority has no responsibility or liability to the holders or any other person with respect to such disclosures. The Corporation will enter into a Continuing Disclosure Agreement, dated as of May 1, 2016 (the "*Continuing Disclosure Agreement*"), with the Dissemination Agent. Pursuant to the Continuing Disclosure Agreement, the Corporation will covenant for the benefit of the holders of the Series 2016 Bonds to provide to certain information repositories (i) certain consolidated financial information of the Obligated Group and operating data relating to the Obligated Group on an annual basis (the "*Annual Report*") within 150 days after the close of the Corporation's Fiscal Year, (ii) notices ("*Material Event Notices*") of the occurrence of certain enumerated events, if material, on a timely basis following their occurrence, (iii) quarterly financial statements ("*Quarterly Reports*") within 60 days after the close of each fiscal quarter, and (iv) until the Project is placed in service, quarterly and annual summary statements of the status of construction of the Project, including construction budget and timing updates. The financial and operating data that will be provided will include, but is not limited to, the annual consolidated audited financial statements of the Obligated Group, and an annual update of the financial and operating data included in *APPENDIX A* to this Official Statement in the tables under the headings "*FACILITIES AND OPERATIONS – Existing Hospital Facilities;*" "*MEDICAL STAFF;*" "*UTILIZATION OF PATIENT SERVICES;*" "*SOURCES OF PATIENT REVENUES;*" "*FINANCIAL INFORMATION;*" "*KEY FINANCIAL RATIOS;*" and the last two sentences in the first paragraph under the heading "*FINANCIAL INFORMATION*." Certain of these tables will be presented on a consolidated basis going forward.

The Annual Report and the Quarterly Reports are required to be filed with the Municipal Securities Rulemaking Board's Electronic Municipal Market Access system ("*EMMA*") accessible at http://emma.msrb.org/default.aspx. A default by the Corporation or any other Member of the Obligated Group, or the Dissemination Agent in furnishing the required information does not constitute an Event of Default under the Loan Agreement, the Bond Indenture or the Master Indenture. The sole remedy for any such default is an action by the holders of the Series 2016 Bonds for specific performance.

The Corporation, on behalf of the Obligated Group, is solely responsible for providing the Annual Reports, Quarterly Reports and any Material Event Notices. The Authority has no responsibility or liability to the holders of the Series 2016 Bonds or any other person for the making, monitoring or content of any disclosures made by or on behalf of the Corporation or any other Member of the Obligated Group.

The Dissemination Agent has only the duties specified in the Disclosure Dissemination Agreement and the Continuing Disclosure Agreement. The Dissemination Agent's obligation to deliver the information at the times and with the contents described in the Continuing Disclosure Agreement is limited to the extent the Corporation has provided that information to the Dissemination Agent as required by that Continuing Disclosure Agreement. The Dissemination Agent has no duty with respect to the content of any disclosures or notice made pursuant to the terms of the Continuing Disclosure Agreement or duty or obligation to review or verify any information in the Annual Report, Quarterly Reports, or Material Event Notices, or any other information, disclosure or notices provided to it by the Corporation, and the Dissemination Agent shall not be deemed to be acting in any fiduciary capacity for the Corporation, the holders of the Series 2016 Bonds or any other party. The Dissemination Agent has no responsibility for any failure of the Corporation to report to the Dissemination Agent Material Event Notices or a duty to determine the materiality thereof, or to determine or liability for failing to determine whether the Corporation has complied with the Continuing Disclosure Agreement, and the Dissemination Agent may conclusively rely upon certification of the Corporation at all times.

Continuing Disclosure Compliance

Mercy Alliance Obligated Group.

Mercy Alliance, Inc. entered into a Continuing Disclosure Agreement with the Dissemination Agent, on June 1, 2010 in connection with the issuance of the Series 2010A Bonds (the "*2010A Continuing Disclosure Agreement*") and also entered into a Continuing Disclosure Agreement with the Dissemination Agent on May 1, 2012 in connection with the issuance of the Wisconsin Health and Educational Facilities Authority Revenue Bonds, Series 2012 (Mercy Alliance, Inc.) (the "*2012 Continuing Disclosure Agreement*," and collectively with the 2010A Continuing Disclosure Agreement, the "*Mercy Continuing Disclosure Agreements*"). The requirements of the Mercy Continuing Disclosure Agreements are identical to those requirements of the Continuing Disclosure Agreement described above.

Since entering into the 2010A Continuing Disclosure Agreement, Mercy Alliance, Inc. and then the Corporation, as successor to Mercy Alliance, Inc., have filed the Annual Reports, Material Event Notices and Quarterly Reports required by the Mercy Continuing Disclosure Agreements. Over the last five years, in some instances, Mercy Alliance, Inc., the Corporation, or the Dissemination Agent filed the Quarterly Reports after the dates specifically required by the Mercy Continuing Disclosure Agreements. The late Quarterly Report filings included those filings required to be made in the following quarters of the respective fiscal year listed for Mercy Alliance, Inc., which fiscal year ends on June 30 of each calendar year: 2011 Q3; 2012 Q1, Q2 and Q4; 2013 Q2 and Q4; 2014 Q1, Q2 and Q4; 2015 Q1 and Q4; 2016: Q1. However, all but one of these late filings were made within 40 days of the required filing period. The 2012 Q1 Quarterly Report was filed 136 days late. Furthermore, all Quarterly Report filings, except for the 2014 Q1 filing, did not have comparative information to the same period in the prior fiscal year with respect to the balance sheet and income statement. However, this comparative information could be ascertained from previous filings made on EMMA.

Over the past five years, Mercy Alliance, Inc. was not timely in filing certain of its Annual Reports. These late filings were made for the Annual Reports required to be filed for fiscal years 2013-2015. The required filing for fiscal year 2013 was 40 days delinquent, and the other two required filings were both made within 10 days of the required filing date. The Annual Reports for fiscal years 2012-2015 did not include the last two sentences in the first paragraph under the heading "*FINANCIAL INFORMATION*" appearing in *APPENDIX A* in the 2010 and 2012 official statements, as was required in the Mercy Continuing Disclosure Agreements.

With respect to the late filing of Quarterly Reports and Annual Reports by Mercy Alliance, Inc., in some, but not all, cases the filings were timely sent, but were not timely posted to EMMA by the current dissemination agent. The missing financial and operating information was due to administrative oversight. The Corporation has designated the Controller as the individual responsible for timely compliance with all continuing disclosure requirements going forward. In addition, the Corporation has entered into the Disclosure Dissemination Agreement and the Continuing Disclosure Agreement with DAC, under which agreements DAC will monitor the Corporation's compliance with continuing disclosure requirements.

Rockford Memorial Hospital Obligated Group.

Rockford Memorial, on its own behalf and as the Rockford Memorial Hospital Obligated Group Agent, entered into a Continuing Disclosure Agreement with the Dissemination Agent, on December 1, 2008 in connection with the issuance of the Rockford Series 2008 Bonds (the "*2008 Continuing Disclosure Agreement*"). The 2008 Continuing Disclosure Agreement requires Rockford Memorial to file, or cause the Dissemination Agent to file, (i) within 120 days after the end of Rockford Memorial's fiscal year an annual report ("*Rockford Annual Report*"), the requirements of which are set forth in the 2008 Continuing Disclosure Agreement and (ii) within 60 days after the end of each of the first three quarters of Rockford Memorial's fiscal year a quarterly report ("*Rockford Quarterly Report*"), the requirements of which are set forth in the 2008 Continuing Disclosure Agreement. The form of the 2008 Continuing Disclosure Agreement can be found in *APPENDIX E* to the 2008 official statement posted on EMMA for CUSIP number 45200FSG5, and copies of the final, executed 2008 Continuing Disclosure Agreement are on file with Rockford Memorial and the Dissemination Agent.

Since entering into the 2008 Continuing Disclosure Agreement, Rockford Memorial has filed the Rockford Annual Reports and Rockford Quarterly Reports required by the 2008 Continuing Disclosure Agreement. Over the last five years, in some instances, Rockford Memorial filed the required Quarterly Reports after the dates

specifically required by the 2008 Continuing Disclosure Agreement. The late Quarterly Report filings included those filings required to be made in 2011 Q1 (4 days late) and 2013 Q1 (55 days late). Over the last five years, all Rockford Quarterly Reports did not include a combined balance sheet and statements of operations and changes in net assets and, where more than one financial statement was delivered, as "other financial information," a combining or consolidating schedule from which financial information relating to the Members of the Rockford Memorial Hospital Obligated Group may be derived. However, this comparative information could be ascertained from previous filings made on EMMA.

Over the past five years, Rockford Memorial filed its Rockford Annual Reports in a timely fashion. However, information was missing from certain of the Rockford Annual Reports that was required to be filed under the terms of the 2008 Continuing Disclosure Agreement. The Rockford Annual Reports for fiscal years 2013, 2015, and for the six month period ended June 30, 2015, did not provide updated information contained under the captions "*OBLIGATED GROUP FINANCIAL INFORMATION - Debt Service Coverage Ratio*," "OBLIG*ATED GROUP FINANCIAL INFORMATION – Capitalization*" and "*OBLIGATED GROUP FINANCIAL INFORMATION – Liquidity*" in *APPENDIX A* to the 2008 official statement.

The late quarterly filings and missing information with respect to the Rockford Memorial continuing disclosure requirements were due to administrative oversight. As noted above, the Corporation has designated the Controller as the individual responsible for timely compliance with all continuing disclosure requirements going forward. In addition, the Corporation has entered into the Disclosure Dissemination Agreement and the Continuing Disclosure Agreement with DAC, under which agreements DAC will monitor the Corporation's compliance with continuing disclosure requirements.

LITIGATION

The Authority

There is not now pending (as to which the Authority has received service of process) or, to the actual knowledge of the Authority, threatened, any litigation against the Authority restraining or enjoining the issuance or delivery of the Series 2016 Bonds or questioning or affecting the validity of the Series 2016 Bonds or the proceedings or authority under which the Series 2016 Bonds are to be issued. Neither the creation, organization or existence of the Authority nor the title of any of the present members or other officers of the Authority to their respective offices is being contested. There is no litigation against the Authority pending (as to which the Authority has received service of process) or, to the actual knowledge of the Authority, threatened, which in any manner questions the right of the Authority to enter into the Bond Indenture, the Loan Agreement or the Bond Purchase Agreement or to secure the Series 2016 Bonds in the manner provided in the Bond Indenture, the final bond resolution and the Act.

The Obligated Group

There is no litigation or proceedings pending or, to their knowledge, threatened against any Member of the Obligated Group except litigation in which the probable recoveries and the estimated costs and expenses of defense, in the opinion of counsel to the Obligated Group, will be entirely within the applicable insurance policy limits of the applicable Member of the Obligated Group (subject to applicable deductibles) or which will be otherwise immaterial.

LEGAL MATTERS

Certain legal matters incident to the authorization, issuance and sale of the Series 2016 Bonds are subject to the approving legal opinion of Chapman and Cutler LLP, Chicago, Illinois ("*Chapman and Cutler*"), Bond Counsel, who has been retained by, and acts as, Bond Counsel to the Authority. However, Chapman and Cutler has not undertaken to independently verify the accuracy, completeness or fairness of this Official Statement or other offering material related to the Series 2016 Bonds and does not guarantee the accuracy, completeness or fairness of such information. Certain legal matters with respect to the Series 2016 Bonds will be passed upon for the Authority by its special counsel Quarles & Brady LLP, for the Members of the Obligated Group by their special counsel, Hall Render Killian Heath & Lyman, P.C., and for the Underwriter by its counsel, Peck, Shaffer & Williams, A Division of Dinsmore & Shohl LLP.

TAX EXEMPTION

General

Federal tax law contains a number of requirements and restrictions which apply to the Series 2016 Bonds, including investment restrictions, a requirement of periodic payments of arbitrage profits to the United States of America, requirements regarding the proper use of bond proceeds and the facilities refinanced therewith and certain other matters. The Authority, the Obligated Issuers and MAC have covenanted to comply with all requirements that must be satisfied in order for the interest on the Series 2016 Bonds to be excludable from gross income for federal income tax purposes. Failure to comply with certain of such covenants could cause interest on the Series 2016 Bonds to become includable in gross income for federal income tax purposes retroactively to the date of issuance of the Series 2016 Bonds.

Subject to compliance by the Authority, the Obligated Issuers and MAC with the above-referenced covenants, under present law, in the opinion of Bond Counsel, interest on the Series 2016 Bonds is excludable from the gross income of the owners thereof for federal income tax purposes and is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations, but Bond Counsel expresses no opinion as to whether interest on the Series 2016 Bonds is taken into account in computing adjusted current earnings, which is used in determining the federal alternative minimum tax for certain corporations.

In rendering its opinion, Bond Counsel will rely upon (i) certifications of the Authority, the Obligated Issuers and MAC with respect to certain material facts within their knowledge, including matters relating to, among other things, the property to be financed or refinanced with the proceeds of the Series 2016 Bonds and the application of the proceeds of the Series 2016 Bonds, (ii) an opinion of Hall Render Killian Heath & Lyman, P.C., special counsel to the Obligated Group, that the Obligated Issuers and MAC are 501(c)(3) organizations and as to certain other matters and (iii) the computation of the yield on the Series 2016 Bonds and the yield on certain investments by The Arbitrage Group Inc., Certified Public Accountants. Bond Counsel's opinion represents its legal judgment based upon its review of the law and the facts that it deems relevant to render such opinion and is not a guarantee of a result.

Ownership of the Series 2016 Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, corporations subject to the branch profits tax, financial institutions, certain insurance companies, certain S corporations, individual recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred (or continued) indebtedness to purchase or carry tax-exempt obligations. Prospective purchasers of the Series 2016 Bonds should consult their tax advisors as to applicability of any such collateral consequences.

The issue price (the "*Issue Price*") for each maturity of the Series 2016 Bonds is the price at which a substantial amount of such maturity of the Series 2016 Bonds is first sold to the public. The Issue Price of a maturity of the Series 2016 Bonds may be different from the price set forth, or the price corresponding to the yield set forth, on the inside cover page hereof.

If the Issue Price of a maturity of the Series 2016 Bonds is less than the principal amount payable at maturity, the difference between the Issue Price of each such maturity of the Series 2016 Bonds (the " *OID Bonds*") and the principal amount payable at maturity is original issue discount.

For an investor who purchases an OID Bond in the initial public offering at the Issue Price for such maturity and who holds such OID Bond to its stated maturity, subject to the condition that the Authority, the Obligated Issuers and MAC comply with the covenants discussed above, (a) the full amount of original issue discount with respect to such OID Bond constitutes interest which is excludable from the gross income of the owner thereof for federal income tax purposes; (b) such owner will not realize taxable capital gain or market discount upon payment of such OID Bond at its stated maturity; (c) such original issue discount is not included as an item of tax preference in computing the alternative minimum tax for individuals and corporations under the Code, but owners of OID Bonds should consult their own tax advisors as to whether such original issue discount is taken into account in computing an adjustment used in determining the alternative minimum tax for certain corporations under the Code; and (d) the accretion of original issue discount in each year may result in an alternative minimum tax liability for corporations or certain other collateral federal income tax consequences in each year even though a corresponding cash payment may not be received until a later year. Based upon the stated position of the Illinois Department of

Revenue under Illinois income tax law, accreted original issue discount on such OID Bonds is subject to taxation as it accretes, even though there may not be a corresponding cash payment until a later year. Owners of OID Bonds should consult their own tax advisors with respect to the state and local tax consequences of original issue discount on such OID Bonds.

Owners who dispose of their Series 2016 Bonds prior to the stated maturity (whether by sale, redemption or otherwise), purchase Series 2016 Bonds in the public offering, but at a price different from the Issue Price or purchase Series 2016 Bonds subsequent to the initial public offering should consult their own tax advisors.

If a Series 2016 Bond is purchased at any time for a price that is less than the Series 2016 Bond's stated redemption price at maturity or, in the case of an OID Bond, its Issue Price plus accreted original issue discount (the "*Revised Issue Price*"), the purchaser will be treated as having purchased a Series 2016 Bond with market discount subject to the market discount rules of the Code (unless a statutory *de minimis* rule applies). Accrued market discount is treated as taxable ordinary income and is recognized when a Series 2016 Bond is disposed of (to the extent such accrued discount does not exceed gain realized) or, at the purchaser's election, as it accrues. Such treatment would apply to any purchaser who purchases an OID Bond for a price that is less than its Revised Issue Price. The applicability of the market discount rules may adversely affect the liquidity or secondary market price of such Series 2016 Bond. Purchasers should consult their own tax advisors regarding the potential implications of market discount with respect to the Series 2016 Bonds.

An investor may purchase a Series 2016 Bond at a price in excess of its stated principal amount. Such excess is characterized for federal income tax purposes as "bond premium" and must be amortized by an investor on a constant yield basis over the remaining term of the Series 2016 Bond in a manner that takes into account potential call dates and call prices. An investor cannot deduct amortized bond premium relating to a tax-exempt bond. The amortized bond premium is treated as a reduction in the tax-exempt interest received. As bond premium is amortized, it reduces the investor's basis in the Series 2016 Bond. Investors who purchase a Series 2016 Bond at a premium should consult their own tax advisors regarding the amortization of bond premium and its effect on the Series 2016 Bond's basis for purposes of computing gain or loss in connection with the sale, exchange, redemption or early retirement of the Series 2016 Bond.

There are or may be pending in the Congress of the United States legislative proposals, including some that carry retroactive effective dates, that, if enacted, could alter or amend the federal tax matters referred to above or affect the market value of the Series 2016 Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether, if enacted, it would apply to bonds issued prior to enactment. Prospective purchasers of the Series 2016 Bonds should consult their own tax advisors regarding any pending or proposed federal tax legislation. Bond Counsel expresses no opinion regarding any pending or proposed federal tax legislation.

The Internal Revenue Service (the "*Service*") has an ongoing program of auditing tax exempt obligations to determine whether, in the view of the Service, interest on such tax exempt obligations is includable in the gross income of the owners thereof for federal income tax purposes. It cannot be predicted whether or not the Service will commence an audit of the Series 2016 Bonds. If an audit is commenced, under current procedures, the Service may treat the Authority as a taxpayer and the Series 2016 Bondholders may have no right to participate in such procedure. The commencement of an audit could adversely affect the market value and liquidity of the Series 2016 Bonds until the audit is concluded, regardless of the ultimate outcome.

Payments of interest on, and proceeds of the sale, redemption, or maturity of, tax exempt obligations, including the Series 2016 Bonds, are in certain cases required to be reported to the Service. Additionally, backup withholding may apply to any such payments to any Bondholder who fails to provide an accurate Form W-9 Request for Taxpayer Identification Number and Certification, or a substantially identical form, or to any Bondholder who is notified by the Service of a failure to report any interest or dividends required to be shown on federal income tax returns. The reporting and backup withholding requirements do not affect the excludability of such interest from gross income for federal tax purposes.

State of Illinois Tax Matters

Interest on the Series 2016 Bonds is not exempt from present Illinois income taxes. Ownership of the Series 2016 Bonds may result in other state and local tax consequences to certain taxpayers. Bond Counsel expresses no opinion regarding any such collateral consequences arising with respect to the Series 2016 Bonds. Prospective

purchasers of the Series 2016 Bonds should consult their tax advisors regarding the applicability of any such state and local taxes.

FEASIBILITY STUDY

Management's financial forecast, included as part of the Feasibility Study included in *APPENDIX C* hereto, has been examined by Wipfli LLP, independent certified public accountants, as stated in their report appearing in *APPENDIX C*. As stated in the Feasibility Study, there will usually be differences between the forecasted data and actual results because events and circumstances frequently do not occur as expected, and those differences may be material. The Feasibility Study should be read in its entirety, including management's notes and assumptions set forth therein.

RATINGS

The Series 2016 Bonds have been assigned a bond rating of "A3" from Moody's Investors Service, Inc. ("Moody's") and a rating of "A-" from Fitch Rating Services, Inc. ("Fitch"), as indicated on the cover of this Official Statement, based on the credit strength of the Obligated Group. Such ratings reflect only the views of such rating agencies at the time the ratings are given, and the Authority makes no representation as to the appropriateness of the ratings. An explanation of the significance of any rating may be obtained only from the rating agencies.

The Corporation has furnished the rating agencies with certain information and materials that have not been included in this Official Statement. Generally, rating agencies base their ratings on the information and materials so furnished and on investigations, studies, and assumptions by the rating agencies. There is no assurance that a particular rating will be maintained for any given period of time or that it will not be lowered or withdrawn entirely if, in the judgment of the agency originally establishing the rating, circumstances so warrant. Any such change in or withdrawal of such rating could have an adverse effect on the market price for or marketability of the Series 2016 Bonds.

None of the Authority, the Underwriter or the Obligated Issuers have an obligation to oppose any proposed revision or withdrawal of the ratings on the Series 2016 Bonds. Neither the Authority nor the Underwriter has any responsibility to bring to the attention of the holders of the Series 2016 Bonds any proposed revision or withdrawal of the ratings on the Series 2016 Bonds.

FINANCIAL STATEMENTS

The consolidated financial statements of Mercy Alliance, Inc. and Affiliates as of and for the fiscal years ended June 30, 2015, and 2014, and the consolidated financial statements and supplementary information of Rockford Health System and Affiliates as of June 30, 2015 and for the period from January 1, 2015 to June 30, 2015 included in *APPENDIX B-1* to this Official Statement have been audited by Wipfli LLP, independent auditors, as indicated in their reports therein, which expressed unmodified opinions. The consolidated financial statements as of 2014 and 2013 and for each of the fiscal years ended December 31, 2014 and 2013 of Rockford Health System and Affiliated Corporations included in *APPENDIX B-2* to this Official Statement have been audited by PricewaterhouseCoopers LLP, independent accountants, as stated in their report appearing therein.

VERIFICATION OF MATHEMATICAL ACCURACY

The Arbitrage Group Inc. (the "*Verification Agent*"), will deliver to the Authority on or before the date of issuance of the Series 2016 Bonds, its attestation report indicating that it has completed its agreed upon procedures engagement, in accordance with standards established by the American Institute of Certified Public Accountants, the information and assertions provided by the Underwriter, the Obligated Group and each of their representatives. Included in the scope of the procedures will be a verification of mathematical accuracy of the mathematical computations of the adequacy of the cash and the maturing principal of, and interest on, the Defeasance Obligations (as defined in the bond indenture relating to the Series 2010A Bonds) on deposit with the Series 2010A Bond Trustee for the Series 2010A Bonds to (i) pay interest when due on the portion of the Series 2010A Bonds to be advance refunded (consisting of the two term bonds maturing on June 1, 2026), on and prior to June 1, 2020, and (ii) to redeem on June 1, 2020 the Series 2010A Bonds to be advance refunded at a redemption price equal to 100% of the principal amount thereof.

The examination performed by the Verification Agent will be solely based upon data, information and documents provided to the Verification Agent by the Underwriter, the Obligated Group and each of their representatives. The Verification Agent's report of its examination will state that the Verification Agent has no obligation to update the report because of events occurring, or data or information coming to their attention, subsequent to the date of the report.

UNDERWRITING

B.C. Ziegler and Company, on behalf of itself and as representative of J.P. Morgan Securities LLC (collectively, the "*Underwriter*"), will agree to purchase the Series 2016 Bonds at a purchase price of $539,085,990.15 including an underwriter's discount of $2,500,000.00 pursuant to a Bond Purchase Agreement with the Authority and the Corporation. The Bond Purchase Agreement contains the agreements of the Corporation to indemnify the Underwriter and the Authority against certain liabilities. The Underwriter reserves the right to join with dealers and other underwriters in offering the Series 2016 Bonds to the public. The obligation of the Underwriter to accept delivery of the Series 2016 Bonds will be subject to various conditions set forth in the Bond Purchase Agreement.

In connection with this financing, the Corporation has established certain funds and accounts, including the Project Fund. Under the terms of the Bond Indenture, the Corporation may direct the Bond Trustee to invest some or all of the funds within the investment parameters established in the Bond Indenture.

J.P. Morgan Securities LLC ("*JPMS*") has entered into negotiated dealer agreements (each, a "*Dealer Agreement*") with each of Charles Schwab & Co., Inc. ("*CS&Co.*") and LPL Financial LLC ("*LPL*") for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each Dealer Agreement, each of CS&Co. and LPL may purchase Series 2016 Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Series 2016 Bonds that such firm sells.

In the ordinary course of their various business activities, the Underwriter and their respective affiliates, officers, directors and employees may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers, and such investment and trading activities may involve or relate to assets, securities and/or instruments of the Obligated Issuers (directly, as collateral securing other obligations or otherwise) and/or persons and entities with relationships with the Obligated Issuers. The Underwriter and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

A portion of the proceeds of the Series 2016 Bonds will be used to pay a termination fee connected with the termination of an interest rate swap (the "2008 Swap"). JPMorgan Chase Bank, National Association, an affiliate of JPMS, is the counterparty on the 2008 Swap.

MISCELLANEOUS

The references herein to the Series 2016 Bonds, the Master Indenture, the Mortgages, the Bond Indenture, the Series 2016 Note and the Loan Agreement are outlines of certain provisions thereof and do not purport to be complete. For full and complete statements of such provisions reference is made to such documents. Copies of the documents mentioned under this heading are on file at the offices of the Authority and following delivery of the Series 2016 Bonds will be on file at the offices of the Bond Trustee.

It is anticipated that CUSIP identification numbers will be printed on the Series 2016 Bonds, but neither the failure to print such numbers on any Series 2016 Bond nor any error in the printing of such numbers shall constitute cause for a failure or refusal by the purchaser thereof to accept delivery of and pay for any Series 2016 Bonds.

The Authority has furnished the information contained herein which relates to it. Except for the information concerning it under the captions "*THE AUTHORITY*" and "*LITIGATION – The Authority*" herein, none of the information in this Official Statement has been supplied or verified by the Authority, and no representation or warranty is made by or on behalf of the Authority, express or implied, as to the accuracy or completeness of such

information. The attached Appendices are integral parts of this Official Statement and must be read together with all of the foregoing statements.

The Corporation has reviewed the information contained herein, including the Appendices hereto, which relate to it, its property and the plan of financing, and has approved all such information for use within the Official Statement.

The Obligated Issuers have approved this Official Statement and have authorized the execution and delivery of this Official Statement.

MERCY HEALTH CORPORATION

By: /s/ John Cook

Title: Chief Financial Officer

APPENDIX A

MERCY HEALTH CORPORATION AND THE OBLIGATED GROUP

The information contained in this Appendix A has been obtained from the Members of the Obligated Group and from other sources as shown herein.

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OVERVIEW OF MERCY HEALTH CORPORATION

General

Mercy Health Corporation (herein referred to as "Mercy Health" or the "Parent") is an Illinois not for profit corporation based in Rockford, Illinois. In May, 2016, Mercy Health, which was formerly known as MercyRockford Health System Corporation, changed its name to Mercy Health Corporation. Mercy Health is the result of the consolidation of two health systems, Mercy Alliance, Inc. ("Mercy") and Rockford Health System ("Rockford"). The affiliation was effective on January 1, 2015. In order to streamline governance and operations, Mercy and Rockford were merged into the Parent on January 1, 2016. Mercy Health, together with its subsidiaries (collectively, the "System") is a mission-driven organization that has been providing quality health care services in more than sixty communities within thirteen counties in northern Illinois and southern Wisconsin for over 135 years. Mercy Health is a vertically integrated health care delivery system organized to provide a full continuum of care. Mercy Health's highly integrated team of physicians and care centers includes primary care physicians, specialty physicians, urgent care centers, imaging and ambulatory centers (including a freestanding adult and pediatric emergency center), four hospitals accredited by The Joint Commission, a rehabilitation hospital, post-acute and home health care services, hospice and retail facilities. Mercy Health is the largest health care system by licensed acute care beds in its market as defined under "SERVICE AREA."

Facilities and Services

Mercy Health offers comprehensive services for every stage of life, from OB and maternal fetal medicine services that are supported by a Level III NICU, to Level I and II emergency care and other specialty care, rehabilitation services, comprehensive outpatient services, behavioral health and post-acute home and hospice care.

Mercy Health's four hospitals include: Mercy Hospital and Trauma Center located in Janesville Wisconsin; Rockford Memorial Hospital located in Rockford, Illinois; Mercy Harvard Hospital located in Harvard, Illinois; and Mercy Walworth Hospital and Medical Center located in Lake Geneva, Wisconsin (collectively, the "Hospitals"). See "Facilities and Operations" below for a further description of these Hospitals. All three of the Mercy hospitals have achieved Magnet™ designation, considered the gold standard for excellence in patient care, and Rockford Memorial Hospital was recently recognized by U.S. News & World Report for Best Regional Hospital for the fifth straight year.

To address the needs of the community in Rockford, Mercy Health is building a new health care campus for highly specialized and critical care services to be located at the intersection of East Riverside Boulevard and the Interstate I-90/39 in Rockford, Illinois (the "Riverside Campus"). This new health care campus is designed to be a health care destination center for health care services in the region. The campus will include a 188 licensed bed hospital; Level I trauma center; Level III NICU; the Illinois State-designated Regional Perinatal Center; State-designated Children's Medical Center; Brain and Spine Center; comprehensive inpatient and outpatient care; ambulatory care; and physician clinical offices that will be housed in an adjacent five story medical office building. See "RIVERSIDE CAMPUS" below for a further description of the campus.

Mission and Vision

Mercy Health's leadership is focused on continuous improvement, guided by its mission of providing exceptional health care services for all patients resulting in healing in the broadest sense. Mercy Health's success has been guided by unwavering commitment to its mission and vision. The mission, vision, values, and pillars of excellence reflect Mercy Health's commitment to meeting the

health care needs of its patients and provide consistent organizational guidance in a changing health care environment. Central to the vision statement objective to assure excellence in patient care is the Culture of Excellence which provides the foundation for fostering a supportive, entrepreneurial spirit, empowering staff to suggest changes, continually improve performance, and better serve customers. This culture is reinforced by a Servant Leadership Philosophy which assures excellence and patient centered care. The success of the mission and vision is reflected by the attainment of the Malcolm Baldrige National Quality Award by Mercy Health System in 2007, the nation's highest Presidential honor for quality and organizational excellence.

A key factor that differentiates Mercy Health from other health systems is its Physician Partnership Model. This model involves forming virtual partnerships with employed physicians to address economic and cultural issues within the system. Given that such partnerships help achieve full system integration, this strategy is a key success factor linked to the mission, vision, values, and Culture of Excellence. Full integration, created by employing physicians and reinforced with a production-based compensation plan, allows physicians to emulate the private or group practice of medicine. Full integration achieves economies of scale, fosters an entrepreneurial spirit, and facilitates true integration that is recognized nationally. The physician partnership model has resulted in successful physician recruitment and improved profitability.

Mercy Health serves a diverse community and has achieved a strong inpatient market share and numerous national recognitions for patient satisfaction and clinical excellence.

Integration Initiatives

Mercy Health, together with its subsidiaries, is a regional system created through a thoughtful and well managed combination of two organizations that is focused on achieving the highest levels of quality, patient satisfaction, physician and staff engagement in a culture of excellence. Over the last 25 years, the System has executed strategies to develop the vertically integrated health system of future with integrated hospitals, physicians, and managed care services needed to be successful in a highly competitive and changing environment. Mercy achieved the highest level of organizational excellence and quality needed to become a Malcolm Baldrige National Quality recipient and has been nationally honored for its nursing care as Magnet Recognized encompassing the entire integrated system. Rockford has concentrated on improving care using HealthGrades criteria and is planning to become Magnet Recognized.

Collaboration has been the key element to the successful merger of Mercy and Rockford into a unified system with one integrated Board and Executive Team. Alignment of hospital, physician, and managed care operations has enabled Mercy Health to respond quickly to market opportunities and achieve integration goals at an accelerated pace. Clinical integration improved patient retention within the health system, improved patient satisfaction and assured quality outcomes.

The combined service area with nearly 1.5 million residents has enabled Mercy Health to provide an excellent alternative to Chicago, Madison, and Milwaukee based health care in nearly every medical specialty for patients seeking care close to home. Evaluating community needs and strategically enhancing access to care has led Mercy Health to develop the "one hospital two campus" strategy that received unanimous Certificate of Need approval by the Illinois Health Facilities Planning Board. The new Riverside Campus will enable Mercy Health to provide enhanced inpatient and outpatient care while providing specialty care services to the communities in northern Illinois and southern Wisconsin. Additional initiatives to improve patient access have focused on service area wide rotation of specialists, seamless access to electronic medical records, expansion of clinic sites, enhanced emergency response services, and development of physician residency programs. Mercy Health has combined medical staff

department functions and enhanced access to subspecialty programs and services using best practices to ensure exceptional patient-focused care.

Information systems and technologies have been deployed to support evidence-based care and optimize system processes to support excellence in health care. Advancements in clinical business intelligence, population health management, and predictive modeling have improved the patient experience; resulted in healthier populations; reduced the cost of health care to align with the Institute for Healthcare Improvement's Triple Aim concepts: improving the patient experience of care (including quality and satisfaction), improving the health of populations, and reducing the per capita cost of health care. Further strategic analysis of MercyCare expansion into Illinois is currently being evaluated. The system wide implementation of Mercy Health's Baldrige leadership and accountability model, functional integration and economies of scale will continue to drive cost reductions across the system that assure the System's financial sustainability into the future.

THE OBLIGATED GROUP

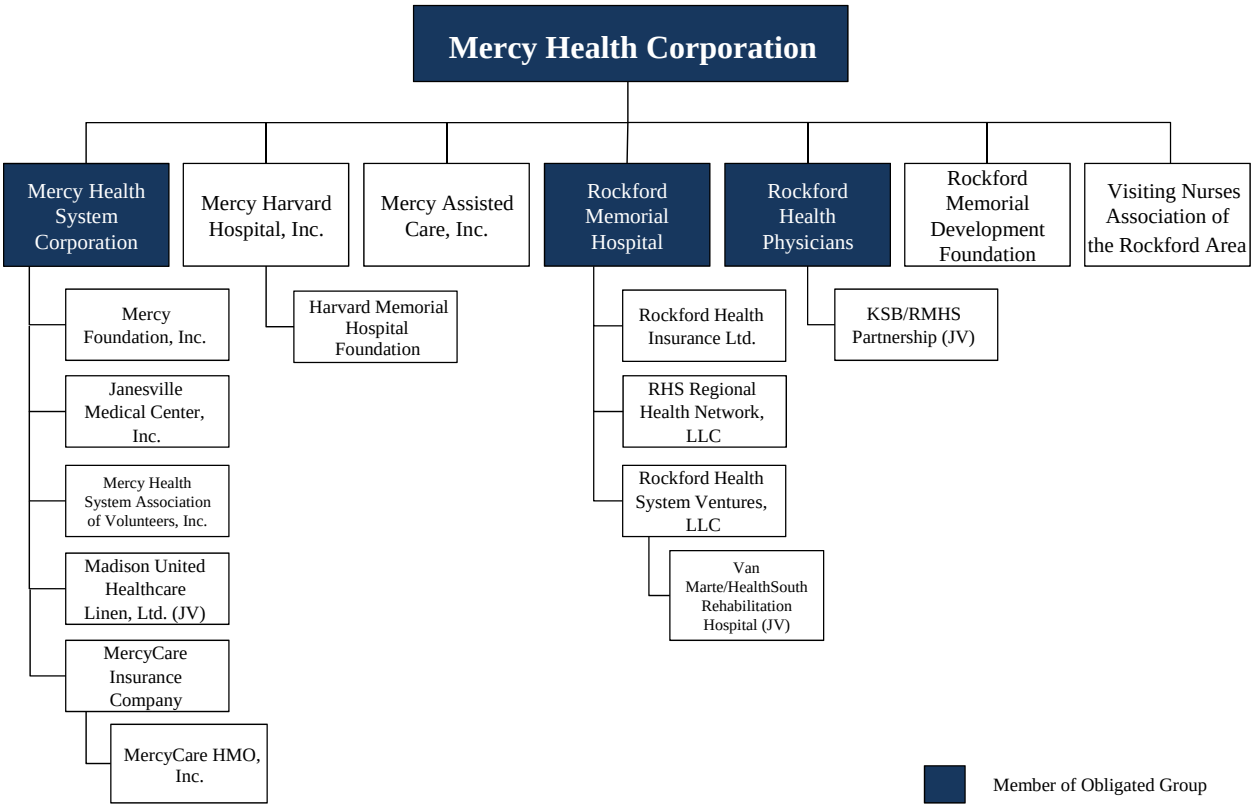
As of the date of issuance of the Series 2016 Bonds, each of the following entities will be a member of the obligated group (collectively, the "Obligated Group") formed pursuant to the Master Indenture: (i) Mercy Health Corporation ("Mercy Health"), an Illinois not for profit corporation; (ii) Mercy Health System Corporation ("MHS"), a Wisconsin nonstock, nonprofit corporation; (iii) Rockford Memorial Hospital ("RMH"), an Illinois not for profit corporation; and (iv) Rockford Health Physicians ("RHP"), an Illinois not for profit corporation. Members of the Obligated Group are responsible for payment of principal, premium, if any, and interest on all Obligations issued under the Master Indenture.

Each member of the Obligated Group has received a determination letter from the Internal Revenue Service recognizing it as an organization described under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Code"), and is exempt from federal taxation under Section 501(a) of the Code.

Currently, Mercy Health is the appointed Obligated Group Representative pursuant to the terms of the Master Indenture. On the date of issuance of the Series 2016 Bonds, RMH and RHP will become members of the Obligated Group. Prior to the date of issuance of the Series 2016 Bonds, RMH and RHP were not included in the financial statements of the Obligated Group. In addition, certain of the financial and statistical information in this Appendix A include financial information on entities that are not members of the Obligated Group. The entities included in the financial and statistical information that are not members of the Obligated Group have no obligation to make any payments on the Series 2016 Bonds or any other Indebtedness issued pursuant to the Master Indenture. Unless otherwise indicated, the financial information captured in this Appendix A is consolidated financial information for Mercy Health. The Obligated Group represented approximately 95.8% of the net patient revenue and 93.1% of net assets of Mercy Health for the fiscal year ended June 30, 2015.

Organizational Chart

A corporate organizational chart, depicting the entities that comprise the System, as of the date of issuance of the Series 2016 Bonds is presented below. The members of the Obligated Group are indicated by blue boxes.



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DESCRIPTION OF THE OBLIGATED GROUP MEMBERS

Mercy Health Corporation

Mercy Health is an Illinois not for profit corporation that is headquartered in Rockford, Illinois. Mercy Health is the sole corporate member of Mercy Health System Corporation, Rockford Health Physicians, Rockford Memorial Hospital and other Illinois and Wisconsin-based non-profit, tax-exempt corporations organized under Section 501(c)(3) of the Code. The primary purpose of Mercy Health is to direct the affairs of a multi-entity regional health system and to provide leadership and resources for the enhancement of health and quality of life in northern Illinois and southern Wisconsin. Mercy Health is the sole corporate member of other members of Obligated Group.

Mercy Health System Corporation

MHS is a Wisconsin nonstock, nonprofit corporation that owns and operates the 240 licensed bed Mercy Hospital and Trauma Center ("MHTC") in Janesville, Wisconsin and the 25 licensed bed Mercy Walworth Hospital and Medical Center ("MWH") in Lake Geneva, Wisconsin. MHS employs approximately 328 physicians, practicing primary care and a wide variety of specialties. MHTC is home to multiple medical specialties and centers, including neurosurgery, heart and vascular care, cancer treatment, plastic surgery, psychiatric care, and a birthing center. MHTC has 24/7 emergency trauma care, inpatient and outpatient surgery with 10 surgical suites and two da Vinci dual console surgical robots, inpatient rehabilitation and a full complement of diagnostic imaging technologies. MHTC is the only Level II Trauma Center in southern Wisconsin designated by the American College of Surgeons (ACS). In addition, MHS operates a 28 licensed bed sub-acute care unit (SNF), an insurance company and 39 physician clinics in southern Wisconsin and northern Illinois, retail pharmacies and vision centers. Both MHTC and MWH are Magnet Designated hospitals.

Rockford Memorial Hospital

RMH is an Illinois not for profit corporation located in Rockford, Illinois that is exempt from federal income taxation under the Code. RMH operates a 282-bed licensed hospital. RMH has a Level I trauma center, Level III NICU, the Illinois State-designated Regional Perinatal Center, State-designated Children's Medical Center, Brain and Spine Center and provides comprehensive inpatient, outpatient and ambulatory care.

Rockford Health Physicians

RHP is an Illinois not for profit corporation located in Rockford, Illinois that is exempt from federal income taxation under the Code. RHP operates a multi-specialty group medical practice of approximately 195 physicians representing 37 specialties and subspecialties. RHP physicians provide clinical care at 12 sites with the majority of the physicians practicing in a clinical facility located adjacent to RMH.

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EXCLUDED AFFILIATES

The affiliated and subsidiary organizations described below are not members of the Obligated Group and are not obligated on the Series 2016 Bonds or the Series 2016 Master Note.

Mercy Harvard Hospital, Inc. ("MHH")

MHH is an Illinois not for profit corporation that is exempt from federal income taxation under the Code. Its controlling member is the Parent. MHH operates a 20 licensed bed critical access hospital and an on-site 45-bed nursing home (SNF), as well as an on-site specialty clinic in Harvard, Illinois. MHH affiliated with the Parent in March, 2003. MHH is a successor to the Harvard Community Memorial Hospital District, McHenry, Illinois, a municipal corporation. Its former name was Harvard Memorial Hospital, Inc. MHH is a Magnet Designated hospital.

Mercy Assisted Care, Inc. ("MAC")

MAC is a Wisconsin nonstock, nonprofit corporation that is exempt from federal income taxation under the Code. Its controlling member is the Parent. MAC coordinates home care through nurses, physical therapists and speech therapists. MAC also operates Mercy Homecare, a supplier of durable medical equipment, and a residential facility for children and adolescents with behavioral issues. MAC is a Magnet Designated facility.

Mercy Foundation, Inc. ("Mercy Foundation")

Mercy Foundation is a Wisconsin nonstock, nonprofit corporation that is exempt from federal income taxation under the Code. MHS is its controlling member. Mercy Foundation's primary activity is fundraising for MHS and its programs in accordance with Mercy Foundation's bylaws. As of January 31, 2016, Mercy Foundation had approximately $1.0 million in cash and investments.

Janesville Medical Center, Inc. ("JMC")

JMC is a for-profit, stock corporation organized under the laws of Wisconsin. MHS owns 100% of the stock of JMC. JMC supplies non-management technical and support personnel to MHS in support of certain of its clinic operations.

Mercy Health System Association of Volunteers, Inc. ("MHA")

MHA is a Wisconsin nonstock, nonprofit corporation that is exempt from federal income taxation under the Code. Its controlling member is MHS. MHA is a volunteer organization, which assists MHS in performing its mission.

Madison United Healthcare Linen, Ltd. ("MUHL")

MUHL is a Wisconsin nonprofit corporation incorporated in 1966 for the purpose of providing cost-effective laundry and linen services to member hospitals. The members of MUHL are MHS (14.6%), University of Wisconsin Hospital and Clinics Authority (42.8%) representing the University of Wisconsin Hospitals and Clinics of Madison, Wisconsin, Meriter Health Services (32.9%) representing Meriter Hospital of Madison, Wisconsin, and Agnesian Healthcare (9.7%) representing St. Agnes Hospital of Fond du Lac, Wisconsin. MUHL also provides laundry service to 25 associate members who are not owners or voting members.

MercyCare Insurance Company ("MCIC")

MCIC is a taxable stock corporation in Wisconsin. MHS owns 100% of the stock. MCIC is an indemnity insurance company that contracts with local employers. MCIC contracts for services with MHS and its affiliates.

MercyCare HMO, Inc. ("Mercy HMO")

Mercy HMO is a taxable stock corporation in Wisconsin and a wholly-owned subsidiary of MCIC. Mercy HMO is licensed in Wisconsin and only sells Mercy HMO products. The products and services of MCIC and the Mercy HMO are marketed and sold under the trade name of MercyCare Health Plans ("MercyCare"). As of March 31, 2016, MercyCare's enrollment consisted of 39,700 covered lives.

Harvard Memorial Hospital Foundation ("HMHF")

HMHF is an Illinois not for profit corporation that is exempt from federal income taxation under the Code. Its controlling member is MHH. HMHF's purpose is to support the programs of MHH. As of January 31, 2016, HMHF had approximately $220,000 in cash and investments.

Rockford Memorial Development Foundation ("RMDF")

RMDF is an Illinois not for profit corporation that is exempt from federal income taxation under the Code. RMDF conducts fundraising for RMH, RHP and VNA. As of January 31, 2016, RMDF had approximately $115 million in cash and investments. In connection with the plan of finance, RMDF will transfer approximately $102 million of cash and investments to Mercy Health and will retain $13 million of cash and investments (including approximately $8 million in donor restricted funds).

Visiting Nurses Association of the Rockford Area ("VNA")

VNA is an Illinois not for profit corporation that is exempt from federal income taxation under the Code. VNA is a certified and licensed home health agency, which provides intermittent home care services, hospice services, private duty home health and older adult day care services. Additionally, VNA sells durable medical equipment to its patients.

Rockford Health Insurance Ltd. ("RHI")

RHI is a captive insurance company incorporated under the laws of Bermuda. RHI manages, on behalf of the Rockford affiliates, a program of self-insurance for certain customary business insurance, including, but not limited to, health care professional liability and general liability, and serves as the vehicle through which excess reinsurance coverage is obtained to supplement the overall program of business insurance.

RHS Regional Health Network, LLC ("RHNL")

RHNL is an ACO formed by RMH April, 2014 in support of its population health initiatives. RHNL is a subsidiary of RMH. The only participating contract that RHNL currently participates in is through the CMS Shared Saving Program.

Rockford Health System Ventures, LLC ("RHSV")

RHSV is an Illinois for profit entity created to manage RMH's investments in joint ventures.

Van Marte/HealthSouth Rehabilitation Hospital ("VMRH")

VMRH, located in Rockford, Illinois, is a 61-bed rehabilitation hospital specializing in the rehabilitation of stroke and other neurological disorders, brain and spinal cord injuries, amputations, orthopedic, cardiac and pulmonary conditions and is the only rehabilitation hospital in northern Illinois. VMRH is a 50-50 joint venture with HealthSouth Corporation.

KSB/RMHS Partnership

RHP has a 27.4% partnership interest in the KSB/RMHS Partnership. The other partner, which has a 72.6% interest, is Katherine Shaw Bethea Hospital (Dixon, IL). The partnership owns land and a medical office building, providing family practice, obstetrics and dentistry services, located in Oregon, Illinois.

GOVERNANCE OF THE OBLIGATED GROUP

The Parent is governed by a Board of Directors consisting of nine members (the "Parent Board"). The Chief Executive Officer of the Parent serves as an ex-officio member of the Parent Board, with vote. The current members of the Parent Board were appointed by the predecessor organizations in 2015 and all serve initial terms which expire in September 2020. Thereafter, the terms are staggered so the terms of approximately 1/3 of the directors will expire each year. Directors on the Parent Board serve without term limits. The members of the Parent Board (other than the ex-officio director), are to be elected by the affirmative vote of a majority of the Parent Board. The Bylaws of each of MHS, RHS and RHP provide that the individuals then serving as directors on the Parent Board shall constitute the boards of directors of the respective corporations.

The Parent's corporate bylaws establish the following standing committees: Finance, Investment and Audit, Compensation, Governance, Quality and Professional Development and Strategic Planning. In addition the Parent Board may establish special committees as it shall deem appropriate.

The following powers are reserved to the Parent Board, subject to majority vote:

- Election and removal of the directors of a System subsidiary;
- Initiation or approval of any sale or other disposition of assets by the Parent or a System subsidiary having a book or market value exceeding $500,000;
- Initiation or approval of the formation of new System subsidiaries, or an equity investment by the Parent or a System subsidiary in any unrelated person;
- Adoption of the annual consolidated operating and capital budgets of the Parent and the System subsidiaries, which shall be consistent with the strategic plans and strategic capital plans of the System;
- Initiation or approval of unbudgeted or out-of-budget capital expenditures by the Parent or one or more System subsidiaries that exceed $500,000 as either a single item or a series of related items;
- Initiation or approval of budgeted capital expenditures by the Parent or one or more System subsidiaries exceeding $1,500,000;
- Approval of local banking relationship of the Parent or the System subsidiaries and the Parent's or any System subsidiary's engagement of independent auditors;
- Initiation or approval of loans or other incurrence of debt by the Parent or any System subsidiary exceeding $500,000;
- Approval of any action that could impair the tax-exempt status of the Parent or any System subsidiary;

- Initiation or approval of the hiring or removal of the chief executive officer, president and/or chief operating officer of any System subsidiary;
- Approval of any and all such other matters regarding the Parent and the conduct of its business activities and ownership of its assets as may rightly come before the Parent Board;
- Any and all actions to promote the quality of care provided by and the safety of patients served by each System subsidiary, including all actions with respect to the medical staff of any System subsidiary operating a hospital; and
- Any other action reserved to the Parent by the articles of incorporation or bylaws of a System subsidiary.

The following powers are reserved to the Parent Board, subject to supermajority vote:

- Approval of the sale, within a single year, of more than 10% of the total assets included within the System;
- Approval of the strategic plans and strategic capital plans of the System;
- Approval of the issuance of indebtedness exceeding $5 million on behalf of the Parent or any System subsidiary;
- Approval of any acquisition, merger, consolidation or other affiliation of the Parent with an unrelated entity;
- Appointment or removal of the Parent's Chief Executive Officer;
- Redevelopment of the Rockford Memorial Hospital Rockton Avenue medical campus or initial development of the Rockford Memorial I-90/Riverside Boulevard property;
- Initiation or approval of changes to the mission of the Parent or any other amendment or restatement of the Parent's Articles of Incorporation or Bylaws;
- Initiation or approval of changes to the respective missions of any System subsidiary;
- Initiation or approval of material changes to the scope of services of any System subsidiary, if such changes would have a material net effect (i.e., an actual or reasonably foreseeable value or economic effect of at least $1,000,000) on the operating margin of the System subsidiary;
- Removal of any director of the Parent based upon a finding of cause;
- Initiation or approval of any amendment to the articles of incorporation or bylaws of a System subsidiary, as amended and restated to date; and
- Initiation or approval of any acquisition, merger, consolidation, dissolution, or sale of all or substantially all of the assets of a System subsidiary.

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The current members of the Parent Board and the boards of directors of the other members of the Obligated Group and their affiliation, if any, are as follows:

Mercy Health Corporation Board of Directors

Name	Title	Occupation	Term Expires
Javon R. Bea	President & CEO	Mercy Health Corporation	ex-officio
Jack J. Becherer, Ed.D	Director	JJB Consultant	September 2020
Thomas D. Budd	Director	President and CEO, Rockford and Trust Company Bank	September 2020
Mark L. Goelzer, M.D.	Director	Director of Medical Affairs	September 2020
Paul A. Green	Director	Managing Director – Investment Officer	September 2020
Rowland J. McClellan	Chair	Retired – Former CEO of Valley Bank of Janesville	September 2020
Thomas R. Pool	Director	Retired – Former Division Chair, Mayo Foundation	September 2020
Dave L. Syverson	Director	Insurance, Williams Manny, Inc. Illinois State Senator	September 2020
Connie M Vitali, M.D.	Vice Chair	Staff Pathologist, RMH Pathologists, Ltd.	September 2020

The Regional Community Board (the "Community Board") was established by Parent Board resolution. It serves as a special committee of the Parent Board with the purpose to provide advice and input to the Parent Board on issues of interest to the broader community, including how to best meet the health care needs of the Mercy Health region. The Community Board encompasses certain individuals who previously served on the governing boards of Mercy Alliance, Inc., Mercy Health System Corporation, Rockford Health System, and Mercy Harvard Hospital, Inc.

In addition to any other responsibilities referred to the Community Board by action of the Board, the following constitute specific responsibilities of the Community Board:

- Provide advice and input to the Parent Board regarding the promotion of quality health care.
- Provide advice and input to the Parent Board regarding community outreach and community service.
- Provide advice and input to the Parent Board regarding the implementation of other strategies and initiatives that benefit the community and Mercy Health.
- Provide advice and input to the Parent Board regarding changes to the charitable mission of Mercy Health or any of its subsidiaries.
- Help support and promote Mercy Health in the regional area.

Conflict of Interest Policy

The Obligated Group Members occasionally engage in transactions in which members of their boards have an interest, including doing business with firms and companies with which members of the Obligated Group Members Boards are affiliated. It is the policy of the Obligated Group that such transactions are permitted only after full disclosure of any potential conflicts of interest to the appropriate board and approval by that board. Board members having such a conflict of interest must refrain from voting on the proposed transaction. Each individual board member annually signs and returns a personal conflict of interest statement. In view of these measures, the Obligated Group Members believe that any such transactions undertaken are fair and that such affiliations and relationships do not constitute material conflicts of interest.

EXECUTIVE MANAGEMENT OF THE OBLIGATED GROUP

The day-to-day management of the Obligated Group's affairs is delegated to an executive management staff. Summarized below are the resumes of those key members of the Mercy Health executive management team, many of whom also serve as officers of the members of the Obligated Group.

Javon R. Bea, President/Chief Executive Officer, Mercy Health Corporation (63). Mr. Bea joined Mercy Health in his current capacity in 1989. Before joining Mercy Health, Mr. Bea served for three years as Executive Vice President and Chief Operating Officer at the Providence Hospital in Southfield, Michigan, part of the Daughters of Charity National Health System. Prior to joining the 452-bed Providence Hospital, he spent nine years as part of the top management team at St. Mary's Hospital, Mayo Medical Center, Rochester, Minnesota. Mr. Bea holds a Bachelor of Science degree in biology from Northern Illinois University, a degree in physical therapy from Mayo Clinic, and a Master of Science degree in hospital and health care administration from the University of Minnesota.

Mark L. Goelzer, M.D., Vice President, Medical Staff Affairs, Mercy Health System (67). Dr. Goelzer is a practicing pediatrician who also serves as system-wide director of medical affairs. In this directorship capacity, he is responsible for acting as liaison between the board of directors, administrative staff, and Mercy Health System staff physicians. Dr. Goelzer is also a member of the Board of Directors of the Parent. Dr. Goelzer received his medical degree from the University of Wisconsin in Madison, Wisconsin, and completed his internship at Milwaukee County General Hospital in Milwaukee, Wisconsin, and his residency at the University of Michigan in Ann Arbor, Michigan. Dr. Goelzer is a board-certified pediatrician and has been with Mercy Health System for 27 years.

John Dorsey, MD, FACP, CPE, Vice President, Medical Staff Affairs, Chief Medical Officer, Rockford Memorial Hospital (61). Dr. Dorsey joined Rockford Health System in 1995 as a practicing Internist. He has been on the staff of Rockford Memorial Hospital since 1987. While practicing general internal medicine, he assumed increasing administrative duties until September 2012, when he became a full time physician administrator. His administrative duties have focused on quality, population health and medical staff issues. In June 2015, he was named Chief Medical Officer of the Rockford Health System. He is board certified in Internal Medicine and is a Certified Physician Executive. He attended George Washington School of Medicine and did his internship and residency at Hershey Medical Center of the Penn State University. He is Hospice Medical Director of VNA Hospice, acting chairman of the department of Internal Medicine at the University of Illinois College of Medicine (UIC) in Rockford and Clinical Associate Professor of Medicine at UIC.

John W. Cook, Senior Vice President and Chief Financial Officer (60). Mr. Cook served as Director of Finance for Mercy Health System from 1998 until 2009 when he was named a Vice President

and Chief Financial Officer. He also serves as Chief Financial Officer for the subsidiary organizations, including MAC; Mercy Harvard and MHTC. Prior to joining Mercy Health System, Mr. Cook provided consulting services to clients of McGladrey & Pullen's national health care group; served as CFO and Finance Director for Physicians Plus Medical Group in Madison Wisconsin; was Finance Director for Meriter Health Services; and was Assistant Controller at Pepsi Cola. He graduated from Ohio Northern University in 1979 and has been a member of the American Institute of Certified Public Accountants since 1987.

Henry M. Seybold, Jr., Senior Vice President, Finance and Chief Financial Officer (59). Mr. Seybold joined Rockford Health System as Senior Vice President, Finance and Chief Financial Officer on April 24, 2006. He formerly held the position of Senior Vice President, Chief Financial Officer and Treasurer of Forum Health in Youngstown, Ohio. Forum Health was an integrated health care system that included Western Reserve Healthcare System, the Trumbull Memorial Hospital, Hillside Rehabilitation Hospital, and Forum Health Services. Before joining Forum Health, Mr. Seybold served as Vice President of Finance of Crozer-Keystone Health System in Media, Pennsylvania. Mr. Seybold earned a Bachelor of Science degree from Drexel University and a Master of Business Administration degree from LaSalle University in Philadelphia and is a CPA. He serves on the Partnership Board of Van Matre HealthSouth Rehabilitation Hospital.

Sue Ripsch, Senior Vice President & COO, Illinois Healthcare Services (61). Ms. Ripsch joined Mercy in 1990. She is responsible for overseeing patient care services for the Hospitals and all the physician clinics in the System. Prior to joining Mercy, Ms. Ripsch worked for Good Samaritan Regional Health Center in Mt. Vernon, Illinois, as Vice President of Patient Care Services. Prior to that, she worked with Saint James Hospital in Pontiac, Illinois, as Assistant Administrator for Patient Care Services. Ms. Ripsch also worked for Brokaw Hospital for eight years, leaving as Director of Maternal/Child Health. Ms. Ripsch is a registered nurse with a Bachelor of Science in nursing and has master's degrees in both business administration and maternal/child health nursing.

Dan A. Parod, Senior Vice President & COO, Wisconsin Healthcare Services (49). Mr. Parod, a native of Rockford, joined the System in 1993 as the Director of Human Resource Development. Mr. Parod was promoted to Director of Human Resources in 1998, Vice President of Human Resources in 2003 and in 2008 he was promoted to Senior Vice President, Hospital & Administrative Affairs. Prior to working at Rockford Health System, Mr. Parod was the Coordinator of Management Development at United Samaritans Medical Center in Danville, Illinois. Mr. Parod has a Bachelor of Arts in Business Communication from Illinois Wesleyan University and a Master of Arts in Labor and Industrial Relations from the University of Illinois. He is a member of the Society for Human Resource Management and American Society for Healthcare Human Resource Administration. Mr. Parod serves as a Board member of the YMCA of Rock River Valley and local United Way.

Paul T. Van Den Heuvel, Vice President of Legal Affairs and General Counsel (52). Mr. Van Den Heuvel joined Mercy Health System in 2013 and directs legal and risk management efforts for the System. He previously served as Associate General Counsel for Marshfield Clinic, and Senior Staff Attorney and Director for Blue Cross and Blue Shield of Wisconsin. He is a member of the American Health Lawyers Association, where he has served as a Vice Chair of its Accountable Care Organization Task Force and In-House Counsel Practice Group. Mr. Van Den Heuvel graduated cum laude from Marquette University Law School and is a member of the Wisconsin Bar Association.

Ruth Yarbrough, Vice President, Quality, Information Systems, System HIM (61). Ms. Yarbrough joined Mercy in 1974. She has provided over 20 years of leadership in a broad array of functions across the system. She assumed the responsibilities of Vice President in 2001. Ms. Yarbrough has system-wide responsibility for quality and patient safety, ancillary services, health information management and

information systems. Ms. Yarbrough received her Bachelor of Science degree in medical technology from the University of Wisconsin in 1974.

Kathleen Harris, Vice President, People & Culture (63). Ms. Harris has been a vice president for Mercy Health System since 1998. In her role as the chief human resources officer for the system, she oversees HR planning and operations, compensation/benefits administration and organizational development. Ms. Harris holds a Bachelor's degree in business administration from Morningside College, a Master of Business Administration from the University of South Dakota and has over 30 years' experience in health care human resources and health care operations at various leadership positions in Iowa and South Dakota. In 2002 and 2003 she served as a national examiner for the Malcolm Baldrige Award Program and in 2004, was a team leader for the Wisconsin Forward Award Program.

Barbra J. Bortner, Vice President, Community Relations, Marketing & Public Relations, (51). Ms. Bortner began with Mercy Health System in 1989 serving several roles over the course of her 20-year tenure and was promoted to vice president of marketing and public relations in 2004. Ms. Bortner is responsible for creating strategic marketing initiatives, handling media relations, executing crisis communications, and developing and implementing public relations and advertising campaigns. Ms. Bortner received her undergraduate degree in journalism from University of Wisconsin-Madison, and a Masters in health care administration from Cardinal Stritch College in Milwaukee. She is a member of the Wisconsin Healthcare Public Relations & Marketing Society, AHA Healthcare Marketing and Public Relations Society, as well as numerous local associations.

FACILITIES AND OPERATIONS

Existing Hospital Facilities

The Hospitals' staffed bed complement, including SNF beds, is shown below by service:

Service	MHTC Beds	RMH Beds	MWH Beds	MHH Beds
Medical-Surgical-Orthopedics	77	166	17	17
ICU/SCU	27	76	4	3
Obstetrics	12	20	4	-
Rehabilitation	14	-	-	-
Psychiatry	12	20	-	-
Sub-acute/SNF	27	-	-	45
Total Staffed Beds[1]	169	282	25	65

[1] The number of staffed beds reflects the number of beds that are available for patient admissions while licensed beds are the maximum that could be put into operation.

Source: Mercy Health Planning Department

Mercy Hospital and Trauma Center

MHTC is home to multiple medical specialties and centers, including neurosurgery, heart and vascular care, cancer treatment, plastic surgery, psychiatric care, and a birthing center. MHTC has 24/7 emergency trauma care, inpatient and outpatient surgery with 10 surgical suites and two da Vinci dual console surgical robots, inpatient rehabilitation and a full complement of diagnostic imaging technologies. MHTC is the only Level II trauma center in southern Wisconsin designated by the American College of Surgeons (ACS).

Rockford Memorial Hospital

RMH is a 282 licensed bed hospital. RMH has a Level I trauma center, Level III NICU, the Illinois State-designated Regional Perinatal Center, State-designated Children's Medical Center, Brain and Spine Center and provides comprehensive inpatient, outpatient, ambulatory and psychiatric care.

Mercy Walworth Hospital and Medical Center

In 2006, MWH expanded from an outpatient center to a six licensed-bed hospital facility and in 2010 further expanded to a 25 licensed bed critical access hospital with ICU beds and OB/delivery suites. MWH has 24/7 emergency care, a critical and intensive care unit, inpatient and outpatient surgery with 4 surgical suites, a retail pharmacy and a full complement of diagnostic imaging technologies.

Mercy Harvard Hospital

MHH is a 20 licensed bed critical access hospital with 24/7 emergency services, and outpatient surgery. Since 2003, it has offered local residents a new level of care and more medical specialties. A recent multi-million dollar renovation and remodeling of the facility and the adjacent Mercy Harvard Hospital Clinic added larger, state-of-the-art surgical suites, an expanded laboratory, a restructured emergency department, an enlarged conference and community education center, and additional parking areas. MHH is a rural hospital providing primary and selected secondary level services.

Mercy Hospital and Trauma Center Emergency North and Mercy Clinic North

The Mercy Hospital and Trauma Center Emergency North and Mercy Clinic North is a 24,000 square foot facility that opened in January 2012 and is located on Janesville's north side near Interstate 90. The facility is an off-site expansion of the Mercy Hospital and Trauma Center's emergency department. The facility also includes Mercy Clinic North which is a primary care clinic with urgent care, OB/Gyn, family practice, and pediatric care. The facility offers convenient access to 24-hour HD digital X-ray imaging, CT scanner, laboratory services and a community education space to be used for lectures, screenings, and instruction.

Clinic Facilities and Employed Physicians

Mercy Health is a major provider of physician and related services. As of January 1, 2016, members of the Obligated Group employed 523 physicians in both community-based clinic practices and in hospital-based practices. There are 353 physicians in community-based clinic practices including 177 primary care physicians and 176 specialists. In addition, there are 170 hospital-based physicians. The following tables do not include 37 physicians currently in the Mercy Clinic South Family Practice residency program.

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Mercy Health operates 55 community clinics located in six counties in Wisconsin and Illinois, ranging from single-physician practices to large, multi-specialty centers with outpatient surgery, urgent care services, and diagnostics. The following table shows the location and size of the clinical locations and the number of employed physicians at each location.

Clinic	Location	Number of Physicians [1]	Square Footage (if ≥ 5,000 sq ft)
Mercy Clinic East	Janesville, WI	37	73,000
Mercy Clinic North	Janesville, WI	6	12,000
Mercy Clinic South	Janesville, WI	7	11,136
Mercy Clinic West (Plastics, Heart, Women's, Pain)	Janesville, WI	19	42,980
Mercy Henry Palmer Building (Lung, Dialysis, Hospice, Behavioral Health)	Janesville, WI	17	17,500
Mercy Michael Berry Clinic (Cancer, Neuro, Men's)	Janesville, WI	16	32,000
Mercy Sports Medicine and Rehabilitation Center	Janesville, WI	5	12,000
Mercy Terrace	Janesville, WI	4	5,000
Mercy Beloit Medical Center	Beloit, WI	5	16,000
Mercy Crystal Lake Medical Center East	Crystal Lake, IL	6	5,000
Mercy Crystal Lake Medical Center South	Crystal Lake, IL	5	7,500
Mercy Elkhorn Medical Center	Elkhorn, WI	2	9,000
Mercy Evansville Medical Center	Evansville, WI	1	5,000
Mercy Harvard Clinic South	Harvard, IL	4	7,500
Mercy Harvard Hospital Clinic	Harvard, IL	3	13,260
Mercy Lake Geneva Med Center (incl. Lakeside Ortho)	Lake Geneva, WI	3	7,992
Mercy Center for Corrective Eye Surgery	McHenry, IL	2	6,000
Mercy McHenry Medical Center	McHenry, IL	12	20,000
Mercy Center for Corrective Eye Surgery	Niles, IL	Rotating	6,000
Mercy Walworth Medical Center	Walworth, WI	20	200,000
Mercy Whitewater Medical Center (incl. Sports Med)	Whitewater, WI	1	5,300
Mercy Woodstock Medical Center	Woodstock, IL	26	60,000
10 Wisconsin Clinics under 5,000 sq. ft.	Wisconsin	16	
10 Illinois Clinics under 5,000 sq. ft.	Illinois	12	
RHPH North Rockton Avenue, Building 1	Rockford, IL	47	207,275
RHPH North Rockton Avenue, Building 2	Rockford, IL	22	81,102
RHPH Alpine	Loves Park, IL	4	15,494
RHPH Belvidere	Belvidere, IL	3	6,885
RHPH Byron	Byron, IL	2	8,344
RHPH Glenwood Behavioral Health	Rockford, IL	1	7,803
RHPH McFarland	Rockford, IL	6	10,536
RHPH Mulford	Rockford, IL	10	41,833
RHPH Perryville	Rockford, IL	14	62,113
RHPH Roscoe	Roscoe, IL	6	21,980
RHPH Winnebago	Winnebago, IL	4	9,813
The Women's Center at Rockford Health System	Rockford, IL	3	11,645
Long Term Care	Illinois	2	N/A
Subtotal – Clinic-Based Physicians	WI and IL	***353***	
Hospital-Based Physicians	WI and IL	170	
TOTAL PHYSICIANS		**523**	

[1] Many physicians rotate to multiple clinics, but they are only counted once at their primary office location

Source: Mercy Health System Planning Department, Medical Staff Office, Rockford Health Physicians, Rockford Health System Architectural Services

The following table shows clinic visits and growth for Mercy Health's key community medical centers:

Clinic	Location	FY14 Patient Visits	FY15 Patient Visits
Mercy Clinic East	Janesville, WI	132,168	134,821
Mercy Woodstock Medical Center	Woodstock, IL	95,415	99,495
Mercy Clinic West	Janesville, WI	85,330	87,617
Mercy Walworth	Lake Geneva, WI	76,832	79,660
Mercy Health Mall Clinics	Janesville, WI	61,471	67,266
Mercy Crystal Lake Clinics	Crystal Lake, IL	53,184	55,191
Mercy McHenry Clinics	McHenry, IL	48,900	43,155
Mercy North	Janesville, WI	25,018	31,195
Mercy Clinic South	Janesville, WI	21,391	22,123
Mercy Harvard Clinics	Harvard, IL	20,135	20,875
Mercy Beloit Medical Center	Beloit, WI	22,471	18,167
Mercy Milton Medical Center	Milton, WI	15,907	16,008
Mercy Whitewater Medical Center	Whitewater, WI	11,464	13,687
Mercy Barrington Medical Center	Barrington, IL	11,912	11,817
Mercy Algonquin Medical Center	Algonquin, IL	10,481	10,420
RHPH North Rockton Avenue, Building 1	Rockford, IL	108,216	119,383
RHPH North Rockton Avenue, Building 2	Rockford, IL	43,289	38,840
RHPH Alpine	Loves Park, IL	17,186	18,158
RHPH Belvidere	Belvidere, IL	6,480	5,473
RHPH Byron	Byron, IL	7,443	7,908
RHPH Glenwood Behavioral Health	Rockford, IL	3,643	3,670
RHPH McFarland	Rockford, IL	-	351
RHPH Mulford	Rockford, IL	38,607	41,840
RHPH Perryville	Rockford, IL	81,520	91,574
RHPH Roscoe	Roscoe, IL	25,256	27,752
RHPH Winnebago	Winnebago, IL	14,904	16,672
The Women's Center at Rockford Health System	Rockford, IL	14,052	14,573
TOTAL		1,052,675	1,097,691

Source: Mercy Health System Finance Department, Rockford Health System Finance Department

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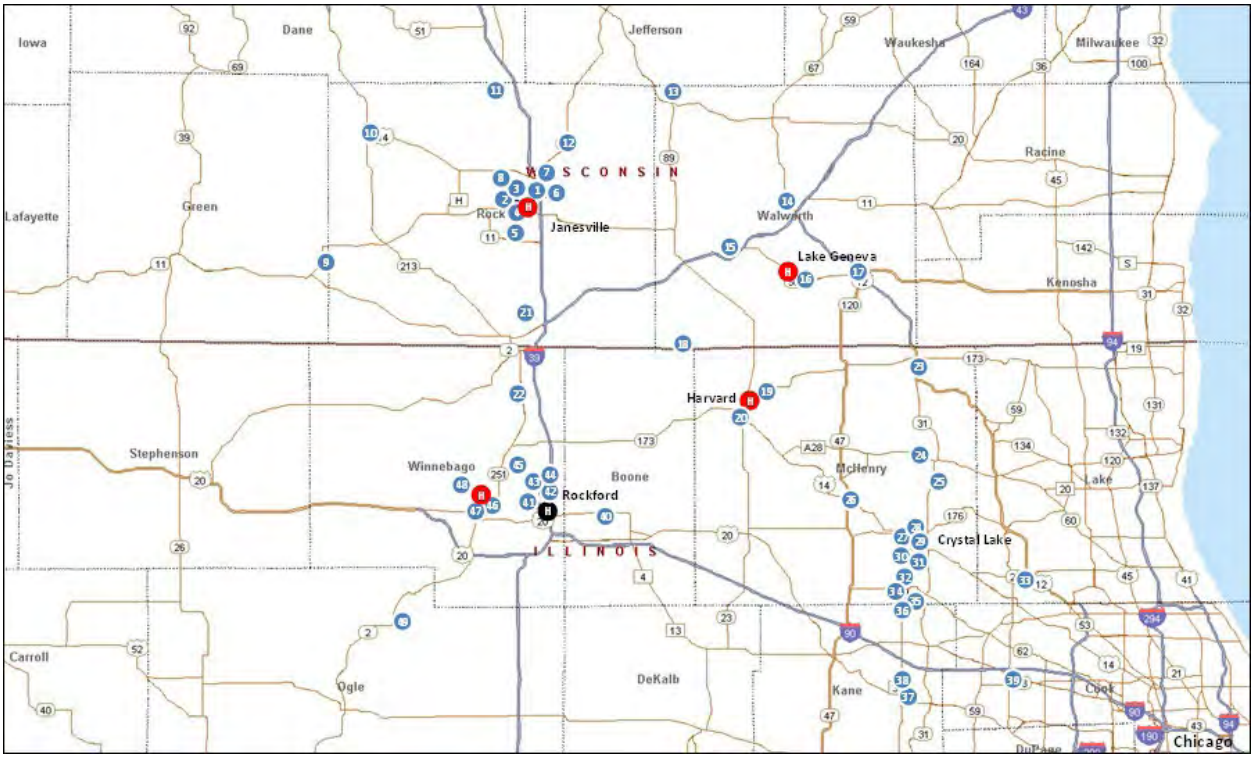
Below is a map of the locations of Mercy Health's primary clinic facilities.



1	Mercy Hospital and Trauma Center	16	Mercy Walworth Medical Center	34	Mercy Algonquin Pediatrics
1	Mercy Henry Palmer Building	17	Mercy Lake Geneva Medical Center	35	Women's Healthcare Center
1	Mercy Clinic West	18	Mercy Sharon Medical Center	36	Mercy Algonquin Medical Center
1	Michael Berry Clinic	19	Mercy Harvard Hospital Clinic	37	Elgin Pediatrics
2	Mercy Terrace	20	Mercy Harvard Clinic South	38	Women's Healthcare Center
3	Mercy Sports Medicine and Rehab Ctr	21	Mercy Beloit Medical Center	39	Women's Healthcare Center
4	Mercy Regional Dialysis Center	22	RHPH Roscoe	40	RHPH Belvidere
5	Mercy Clinic South	23	Mercy Richmond Medical Center	41	RHPH Mulford
6	Mercy Clinic East	24	Mercy Center for Corrective Eye Surgery	42	RHPH McFarland
7	Mercy ED North	25	Mercy McHenry Medical Center	43	The Women's Center at RMH
8	Mercy Health Mall	26	Mercy Woodstock Medical Center	44	RHPH Perryville
9	Mercy Brodhead Medical Center	27	Mercy Crystal Lake Chiropractic/Rehab	45	RHPH Alpine
10	Mercy Evansville Medical Center	28	Mercy Crystal Lake OB	46	RHPH North Rockton Avenue, Building 1
11	Mercy Edgerton Medical Center	29	Mercy Crystal Lake Medical Center-S	47	RHPH North Rockton Avenue, Building 2
12	Mercy Milton Medical Center	30	Mercy Crystal Lake Medical Center-E	48	RHPH Glenwood Behavioral Health
13	Mercy Whitewater Medical Center	31	Mercy Crystal Lake Medical Center-W	49	RHPH Byron
14	Mercy Elkhorn Clinic	32	Mercy Northwest Women's Group		
15	Mercy Delavan Clinic	33	Mercy Barrington Medical Center		

MEDICAL STAFF

Mercy Health has taken care to assemble medical staffs that are trained not only in the delivery of primary care services, but also who specialize in the various medical disciplines and specialties required by patients in the Service Area (as defined below). The majority of the Hospitals' physicians are board certified in their individual specialty. As of January 1, 2016, the Hospitals' medical staffs included 749 physicians, representing approximately 61 specialties and sub-specialties. Approximately 523 of the medical staff members are employed by either RHP or MHS. Some employed physicians are not members of the medical staff. The following table does not include 37 physicians currently in the Mercy Clinic South Family Practice residency program.

Specialty	Total Number	Board Certified	Average Age	Employed
Primary Care:				
Family Medicine (incl. FM/OB, FM/Sports Med)	83	80	48	68
Internal Medicine	43	39	51	31
Occupational Medicine	5	5	58	4
Pediatrics	45	39	52	32
Urgent Care	8	8	59	8
Convenient Care	11	10	46	11
SUBTOTAL - Primary Care	***195***	***181***	***50***	***154***
Specialty Care:				
Allergy & Immunology	4	3	50	4
Behavioral Med - Psychiatry	4	4	54	2
Cardiology	12	11	53	11
Cardiology – Electrophysiology	2	2	56	2
Cardiology – Interventional	3	3	55	2
Clinical Genetics	1	1	63	1
Dentistry	1	0	65	0
Dermatology	7	7	49	5
Endocrinology, Diabetes & Metabolism	5	5	47	4
Gastroenterology	21	21	47	6
Infectious Diseases	2	2	51	1
Maternal-Fetal Medicine	4	1	51	2
Nephrology	20	15	47	4
Neurological Surgery	2	2	51	1
Neurology	10	10	45	8
Obstetrics & Gynecology	34	30	48	31
Oncology	8	8	53	6
Ophthalmology	20	18	53	10
Ophthalmology / Retina Specialist	4	4	56	0
Otolaryngology	8	8	52	7
Pain Management	8	5	46	4
Pediatric Cardiology	13	12	50	1
Pediatric Endocrinology	1	1	64	1
Pediatric Gastroenterology	7	7	46	4
Pediatric Neurology	2	1	55	2
Pediatric Pulmonology	1	1	53	0
Pediatric Surgery	1	0	57	1
Physiatry	2	2	48	2
Physical Medicine & Rehabilitation	4	4	51	0
Podiatry – Surgery – Medical	16	10	54	8
Psychiatry	12	9	45	12
Pulmonology	8	8	48	7
Radiation Oncology	5	2	36	5
Radiology – Vascular Interventional	1	0	55	0
Rheumatology	7	7	53	5
Surgery General	18	17	53	12
Surgery Cardiothoracic / Vascular	9	8	55	5
Surgery Oral Maxillofacial	5	3	43	0
Surgery Orthopedic	21	17	49	11

Specialty	Total Number	Board Certified	Average Age	Employed
Surgery Plastic / Reconstructive	8	7	49	5
Surgery Neurosurgery / Spine	5	2	49	2
Urology	10	8	48	4
Uro Gynecology	1	0	45	1
SUBTOTAL - Specialty Care	***337***	***286***	***50***	***199***
Hospital-Based:				
Anesthesiology	41	40	49	40
Critical Care	9	9	48	3
Emergency Medicine	66	46	43	61
Hospice and Palliative Care	2	1	55	1
Hospitalist Internal Medicine	38	34	46	32
Hospitalist Pediatrics	1	1	42	5
Neonatal Medicine	7	6	59	6
Pathology	8	8	51	4
Pediatric Intensivist	5	4	54	3
Radiation Oncology	2	2	57	0
Radiology	33	29	48	11
Surgery, Trauma	5	4	45	4
SUBTOTAL - Hospital Based	***217***	***184***	***47***	***170***
TOTAL	**749**	**651**	**49**	**523**

Source: Mercy Health System Planning Department, Medical Staff Office, Rockford Health System Finance Department

RIVERSIDE CAMPUS

General

Mercy Health is committed to providing quality health services that improve the health and well-being of the patients it serves. Mercy Health has developed an initiative to create one hospital with two campuses in the Rockford market. To do so, Mercy Health will build a new health care destination campus at the intersection of East Riverside Boulevard and Interstate 90/39 ("RMH-Riverside"). In addition, Mercy Health will modernize, renovate and redevelop the existing RMH located on North Rockton Avenue ("RMH-Rockton").

One of the goals for forming Mercy Health was to centralize specialty services. These specialty services are intended to be located at RMH-Riverside, because of its location on I-90/39, which links the traditional service areas of the Hospitals. As a result, it is anticipated that selected patients, who have traditionally been referred from Mercy's Wisconsin service area to Madison or Milwaukee, will be referred to RMH-Riverside due to its convenient location. Few patients from Wisconsin have traditionally been admitted to RMH. Among the goals of the Project is improved patient satisfaction with Mercy Health's facilities with increased access to services for patients from Wisconsin.

The core of the RMH-Rockton campus was built in 1954 with several additions over the past 62 years. Engineering studies showed that it would cost more to retrofit the hospital than to build a second campus. The building's design is inefficient to upgrade with the latest technology, and further, the campus is landlocked, which prohibits growth. Mercy Health plans to continue offering inpatient and outpatient services at RMH-Rockton. The RMH-Rockton bed complement will be reduced from 282 beds to 94 beds. In addition, Mercy Health currently plans to repurpose approximately 200,000 square feet of RMH-Rockton buildings for community organizations and other businesses that could bring jobs to the area.

The RMH-Riverside campus will be comprised of three connected buildings with approximately 532,000 gross square feet with seven floors and surface parking space. The three buildings will consist of (i) a 110-bed adult acute care hospital with a Level I trauma center and 10 operating suites for inpatient and outpatient surgery, (ii) a 78-bed women's and children's hospital with neonatal and pediatric intensive

care units, pediatric emergency department and a high-risk maternity unit and (iii) a comprehensive diagnostic center with contemporary office space for Mercy Health physicians and other health care professionals for selected hospital-related outpatient, administrative, and support services.

RMH-Riverside is planned to have a 46-bed neonatal intensive care unit. Mercy Health currently maintains a Level III neonatal intensive care unit at the RMH-Rockton campus, and presently this Level III unit is the only NICU in the region. RMH is designated as a regional Perinatal Center and Children's Medical Center by the State of Illinois. A Level III intensive care unit cares for newborns born at less than 32 weeks gestation as well as newborns of all ages with critical illness, and offers prompt and readily available access to a full range of pediatric medical sub-specialties and a full range of respiratory support and advanced imaging.

Planned RMH- Riverside Campus Hospital Bed Composition

Medical Surgical	84
Obstetrics	20
Pediatrics	12
Intensive Care	26
Neonatal Intensive Care	46
Total	188

The hospital buildings will consist of seven levels in approximately 450,000 gross square feet of space. The lower level of the hospital facilities will contain food service, mechanical space, central sterile supply and the laboratory. The first floor will contain the lobby and retail space, a ten station emergency department, a convenient care unit, and imaging department. The operating rooms will be located on the second floor with recovery stations. The obstetric unit and the Labor/Delivery/Recovery unit will be located on the third floor. The neonatal intensive care unit, the pediatric intensive care unit and pediatric unit will be located on the fourth floor. The fifth floor will contain the adult intensive care units and private patient rooms. The sixth floor will contain private patient rooms. The seventh floor will be for mechanical space.

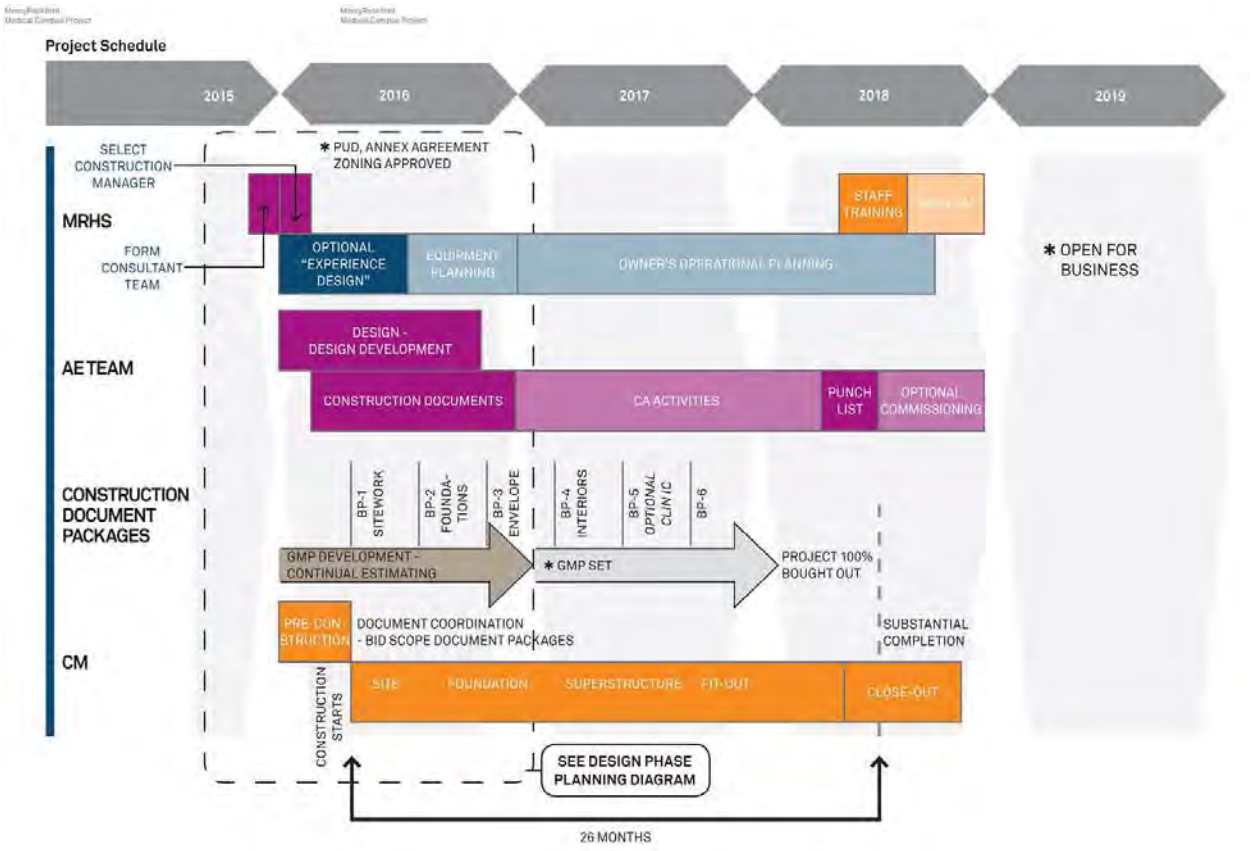
The medical clinics building will consist of six levels in approximately 82,000 gross square feet of space. The lower level will contain mechanical space. Retail pharmacy and support areas will be on the first floor. Physician offices will be on the second and third floors and the diagnostic services and administrative space will be on the fourth floor. The fifth floor will contain additional mechanical space.

A Certificate of Need for the Project was granted by the Illinois Health Facilities Planning Board at its November 17, 2015 meeting. All zoning and annexation approvals required to date have been granted by the Rockford City Council. Construction is expected to commence with a May 2016 groundbreaking. Management expects occupancy for the buildings to occur on January 1, 2019. Below is an artist's rendering of the RMH-Riverside campus.

The cost to construct and equip the facility has been budgeted at $418,500,000. Pursuant to the terms of the Certificate of Need, Mercy Health is not permitted to expend in excess of approximately $475,781,532 to construct and equip the project (exclusive of financing costs) without obtaining further approval. AECOM was selected in January 2016 to lead the architectural and engineering efforts for the project. AECOM merged with URS in 2014 and is now made up of 95,000 employees in over 120 different countries and had $19 billion in revenue last year. AECOM's architects and engineers have been involved in a number of Women's and Children's projects throughout the country and are recognized as an industry leader in health care design.

The Construction Manager, Mortenson, was selected by Mercy Health in February 2016 to provide pre-construction services and to lead the construction efforts through final completion of the project. Mortenson has been in business for 60 years with health care being a top staple of their suite of services. They have built many of the recent replacement hospitals in the Midwest including Lurie Children's Hospital in Chicago, Silver Cross Hospital in New Lenox, IL, and OSF Milestone in Peoria. Mortenson is well versed in the changes and innovations of the health care industry. Mortenson plans to obtain a Guaranteed Maximum Price ("GMP") after each bid package is awarded for different phases of the work (e.g. site work, foundation, structural steel, etc.) Shortly after the completion of the design development phase, Mortenson will provide a preliminary total GMP to Mercy Health for approval. The GMP provided at this stage will be the sum of all the awarded work plus a contingency fund to protect Mortenson against the risks assumed in providing a GMP for the Project based on incomplete design documents. The final GMP will be established after 100% of the construction documents are completed. This is estimated to be in April 2017. Mercy Health believes that the building process described above will help manage the risks associated with commencing construction prior to the completion of the final GMP and maintain costs under the Certificate of Need limit.

Below is a diagram of the Project Schedule which shows key milestones for the Project from 2015 through the expected opening of RMH-Riverside in January, 2019.



EMPLOYEES

As of January, 2016, Mercy Health employed 4,518 full-time and 2,622 part-time persons for an aggregate of 7,140 employees. There is one bargaining unit that represents 2.18% of the employee workforce. That bargaining unit agreement is with the United Auto Workers and has 156 members, representing nurses, technicians, lab, radiology, office and clerical, and service, maintenance and trade employees, all located at Mercy East Clinic in Janesville. These employees have been part of the bargaining unit since 1988, prior to the affiliation with the Janesville Medical Clinic. Mercy Health offers a full range of benefits for its eligible employees. Each year, Mercy Health assesses its pay and benefit structure to ensure it is competitive in the overall market. Management considers its relationship with employees to be favorable.

QUALITY AND RECOGNITIONS

Mercy Health brings together two organizations with rich histories in providing quality health care to individuals throughout northern Illinois and southern Wisconsin. The organizations' entities have received several recognitions and awards over the years, and through a culture of quality and patient safety, continue to improve their outcomes and patient satisfaction in their provision of evidence-based medicine to all patients. Some of the organization's many awards and quality initiatives are highlighted below:

Malcolm Baldrige National Quality Award – MHS received this award, the highest Presidential honor for quality and organizational excellence, in 2007. Established by Congress in 1987, the award was extended to include education and health care in 1999. Named after the late Secretary of Commerce, Malcolm Baldrige, organizations are recognized, pending an exhaustive review, for achievement and improvement in the following areas: leadership; strategic planning; customer and market focus; measurement, analysis, and knowledge management; human resource focus; process management; and, organizational performance results. This review is conducted by an independent board of examiners and includes approximately 1,000 hours of review and on-site visit by teams of examiners. Since 1988, only 109 awards have been given to 102 national role model organizations in recognition of their best practices as it pertains to their respective industries (manufacturing, service, small business, education, health care and nonprofit).

Magnet Recognition – MHS received this designation from the American Nurses Credentialing Center in 2014. The Magnet Recognition Program recognizes health care organizations for quality patient care, nursing excellence and innovations in professional nursing practice. MHTC, MWH, MHH, MAC, and all of the ambulatory entities outside of the hospitals have received this designation. The Rockford entities have now embarked on this process with targeted data submission anticipated in 2018. Organizations that have received this designation must show that they are outperforming national benchmarks over time in a number of areas (patient satisfaction, various clinical outcomes, nurse engagement, etc.).

HealthGrades, 2016 Five Star Award Recognitions – RMH received the top recognition in 8 different clinical areas for quality and patient safety. Many of these programs have received this recognition for 10 or more years. Some of the clinical areas include treatment of COPD, treatment of pneumonia, spinal fusion surgery, back surgery, treatment of sepsis, and total hip replacement. HealthGrades has also named RMH as one of "America's Best Hospitals" including designations in the top 5% and 10% of all U.S. hospitals in several clinical categories.

U.S. News and World Report – Best Regional Hospitals – In 2015, RMH was named to U.S. News & World Report's list of Best Regional Hospitals for the fifth straight year and is the only local hospital to receive this designation which is based on patient outcomes and patient safety initiatives. The magazine chose RMH physicians and professionals as "high performers" in health care when compared to peers in the region and across the country. RMH ranked 27th out of more than 200 hospitals in Illinois.

Joint Commission Top Performer on Key Quality Measures – In 2015, MHS was named a Top Performer on Key Quality Measures by The Joint Commission, the leading accreditor of health care organizations in the nation. Additionally, MHS was recognized for excellence in four specific performance measures including heart attack, heart failure, pneumonia and surgical care. Top performing institutions represent 31.5% of all Joint Commission-accredited hospitals and receive this recognition for improving performance on evidenced-based interventions that increase the chances of healthy outcomes for patients with certain conditions.

Interdisciplinary Rounds – Interdisciplinary rounds are known to have positive effects on clinical outcomes. At RMH, rounds involving the physician, nurse manager, charge nurse, bedside nurse,

case manager, social worker, physical therapist, pharmacist and others occur daily on all nursing units. This allows all care givers to discuss the individualized patient plan for that particular day, the patient's entire stay, and subsequent discharge. This improves communication among the care team resulting in improved efficiency, staff, and patient satisfaction. These rounds have resulted in a significant decrease in hospital length of stay.

Collaboration with Best Practice Organizations – Collaboration with other organizations to share data and best practices is key to continued improvement. Examples of some of RMH's many collaborations include the Vermont Oxford Perinatal Network, a nonprofit collaborative working to improve the quality and safety of medical care for newborn infants and their families through a coordinated program of research, education, and quality improvement projects, Premier Quest Collaborative, a collaborative for transforming health care focused on improving quality and lowering costs, and the Best Fed Collaborative, a collaborative devoted to improving infant nutrition and reducing low infant weights.

Additional Recognitions

The following is a list of additional recognitions (by hospital):

- American College of Surgeons Commission on Cancer (MHTC and RMH);
- Advanced Certification In Heart Failure by the American Heart Association and Joint Commission (MHTC);
- Disaster Hospital; Regional Hospital Coordination Center Illinois Department of Public Health (RMH);
- Echo Cardiography Lab Accreditation by Intersocietal Commission for Accreditation of Echo Cardiography (RMH);
- Cycle IV Chest Pain Center Certification Society of Chest Pain Centers (RMH and MHTC);
- Level II Trauma Center by the American College of Surgeons (MHTC);
- Level I Trauma Center Illinois Department of Public Health (RMH);
- Advanced Certification for Primary Stroke Centers by Joint Commission (MHTC and RMH);
- Chest Pain Center Accreditation from the Society of Cardiovascular Patient Care (MHTC and RMH);
- Pediatric Critical Care Center - Illinois Department of Public Health (RMH);
- Perinatal Center Level III NICU - Illinois Department of Public Health (RMH);
- Sleep Disorder Center Designation American Academy of Sleep Medicine (MHTC and RMH);
- The Joint Commission (MHTC, MHH, MWH, RMH and 8 MHS Ambulatory Sites);
- Total Hip Replacement Certification by Joint Commission (MHTC); and
- Total Knee Replacement Certification by Joint Commission (MHTC).

COMMUNITY EDUCATION AND ENRICHMENT

Mercy Health is committed to improving the overall health and wellbeing of individuals residing in the communities it serves throughout northern Illinois and southern Wisconsin. While recognizing that the provision of comprehensive quality health care is the System's primary focus, Mercy Health continues to make significant contributions to the community in a multitude of ways. A few highlights from some of the many programs and services that are provided are listed below.

House of Mercy Homeless Center

Established in 1996, The House of Mercy Homeless Center is a 25-bed homeless center in Janesville, Wisconsin, that offers homeless families short-term emergency shelter and access to housing, job placement and child care resources. The staff at the center assists the homeless in assessing needs,

obtaining appropriate referrals and services, and designing individualized action plans aimed at achieving more stable housing. Since opening in 1996, more than 5,500 individuals have received services with more than half of these individuals being children.

The Bridge Clinic

Since 2010, RHP has partnered with a local church to operate The Bridge Clinic. Located in Rockford, Illinois this free Saturday clinic is staffed by a physician and nurse to provide immediate medical care to uninsured and underinsured adults. The Bridge Clinic is a safe place to receive immediate medical attention and assistance in the management of chronic diseases to those in need at no charge. By the end of 2015, more than 4,000 patient visits have been provided by the volunteer caregivers at this clinic.

A Silver Lining Foundation

RHP's Women's Center has partnered with A Silver Lining Foundation to ensure all medically underserved women have access to quality breast cancer education and services. Through this partnership, patients that are uninsured or underinsured receive free screening mammography testing, and, when needed, follow up diagnostic testing and treatment in an effort to assure that all women have annual access to state-of-the-art diagnostic breast and treatment services. Since the program's inception in 2012, more than 640 services/procedures have been provided to uninsured and underinsured women.

Autism Support Fund

Mercy Foundation created the Autism Support Fund (ASF) to provide financial resources to families affected by autism spectrum disorder in Walworth County. Resources are used to help provide social skill classes, sensory and safety equipment, respite care and more. Since its inception, the ASF has helped more than 200 families.

Mercy Hospice Care

Established in 1994, Mercy Hospice Care offers patients and families physical, emotional and spiritual care during the most trying times. The agency offers numerous programs and services in both Janesville and Walworth including comprehensive palliative care, GriefCare Support Group, and Widows' Coffee Support Group Services.

Ronald McDonald Care Mobile

The Care Mobile program was founded in 2003 and is funded by the RMDF, Rockford Memorial Hospital Auxiliary, and the Ronald McDonald House Charities of Madison. The Care Mobile travels throughout the region to bring medical and dental care to children who might not otherwise receive these essential services. Since 2003, more than 8,000 children and their families have received immunization and dental services. To date, services have been made available to individuals in five counties in northern Illinois; services will be expanded to communities in Southern Wisconsin in 2016.

Rock County Community Premium Assistance Program

MHS has partnered with HealthNet of Rock County and the Wisconsin Association of Free and Charitable Clinics Organization to provide assistance to individuals in need to cover out-of-pocket premium expenses related to insurance coverage via the Affordable Care Act. Individuals living in Rock County with household incomes of 100 – 150% of the federal poverty level that are enrolled in a silver level insurance plan qualify for assistance. For those that qualify, Mercy Foundation will pay premium payments directly to insurance companies.

Financial Assistance Program

All of the Mercy Health Hospitals maintain a comprehensive financial assistance program for individuals in need whereby medically necessary health care is provided regardless of the patient's ability to pay for such care. The program is available to patients or their guarantors who are experiencing legitimate financial hardship and are unable to pay for all or a portion of the patient's medical care.

Health Screenings and Educational Services

Various health screening and educational programs are held throughout all of the communities served by the System. Some examples include free blood pressure screenings which are offered via designated "free screening days" at the various medical sites located throughout northern Illinois and southern Wisconsin. Obesity education, blood pressure, bone density, and diabetic screening, and other medical education are provided through community events, lunch and learn programs, dinner seminars, seminars at independent living organizations, diabetic fairs, and support groups. These are provided free of charge and are staffed by various caregivers from throughout the System.

SERVICE AREA

The total service area for Mercy Health consists of 13 counties in northern Illinois and southern Wisconsin (collectively, the "Service Area"). In Wisconsin, Mercy Health operates two hospitals, one freestanding adult and pediatric emergency center, an urgent care center, a skilled nursing facility and 24 physician clinical sites. In Illinois, Mercy Health operates two hospitals, one rehab hospital (through a joint venture) and 31 physician clinical sites.

Wisconsin Counties in Service Area

Green	Rock
Jefferson	Walworth

Illinois Counties in Service Area

Boone	Ogle
DeKalb	Stephenson
LaSalle	Whiteside
Lee	Winnebago
McHenry	

The map below highlights the total Service Area of Mercy Health.

Listed below are statistics relating to the population in the Service Area:

Population Growth of Counties and Total Service Area, 2010-2020

Population	Wisconsin Counties	Illinois Counties	Total Service Area
2000 Census	353,734	977,485	1,331,219
2010 Census	383,087	1,073,012	1,456,099
2015 Estimate	383,711	1,056,528	1,440,239
2020 Projection	407,885	1,132,828	1,540,713
Growth Rate			
2000 to 2010	8.3%	9.8%	9.4%
2000 to 2015	8.5%	8.1%	8.2%
2015 to 2020 (projected)	6.3%	7.2%	7.0%

Source: US Census Bureau, Wisconsin Department of Administration, State of Illinois Data Port

NORTHERN ILLINOIS AND SOUTHERN WISCONSIN ECONOMY

The economy of northern Illinois and southern Wisconsin includes business and governmental activities in Boone, Winnebago and Rock Counties. Anchored by Chrysler, health care services, local school districts and governments, the economy of northern Illinois and southern Wisconsin is diverse and strong. General and commercial aviation along with a UPS sorting facility is served by the Chicago Rockford International Airport. The unemployment rate for Boone and Winnebago Counties is 7.2%, and is slightly higher than the State of Illinois unemployment rate of 6.1%. Rock County's unemployment rate is 4.6%, which is in line with the unemployment rate of 4.6% for the State of Wisconsin.

A variety of industries, employers, and employment statistics for Boone, Winnebago and Rock County are provided below:

Company	Product/Service	Employees
Mercy Health Corporation	Health Care	6,877
Chrysler	Automotive	4,500
Rockford Public Schools	Education	3,730
SwedishAmerican Health System	Health Care	2,988
UTC Aerospace	Aerospace	2,200
OSF Healthcare	Health Care	1,800
Rockford Park District	Government	1,739*
Winnebago County	Government	1,731
Wal-Mart Stores	Retail	1,611
Beloit Health System	Medical Services	1,550
Janesville School District	Public K-12 Education	1,450
Woodward	Aerospace	1,400
UPS	Parcel Sorting Hub	1,200
Rock County	Government	1,161
City of Rockford	Government	1,122
AndersonBrecon	Pharmaceutical	1,100
Harlem Consolidated Schools	Education	1,099
Belvidere Schools	Education	967
Lowe's	Distribution	900
Kraft Foods	Food	850
Data Dimensions	Business Automation Processing	830
Wal-Mart / Sam's Club	Retail Department Store	804
NCO Group	Telemarketing	800
Beloit School District	Public K-12 Education	775
Taylor Co	Ice Cream Machines	725
Blackhawk Technical College	Technical College	701
Grainger (Lab Safety)	Catalog Distributor - Safety Supplies	694
Kerry Americas	Dehydrated Food Products	690
Frito-Lay	Snack Foods	685
SSI Technologies, Inc.	Powder Metal Components & Sensors	626
Hendricks Holding Co., Inc.	Construction Materials/Tools; Electronics, Metal Manuf.	623
J.P. Cullen & Sons	Construction	588
City of Janesville	Government	575
Prent Corporation	Custom Thermoformed Plastic Parts	550
Woodman's Food Market, Inc.	Supermarkets	524

*Includes seasonal workers

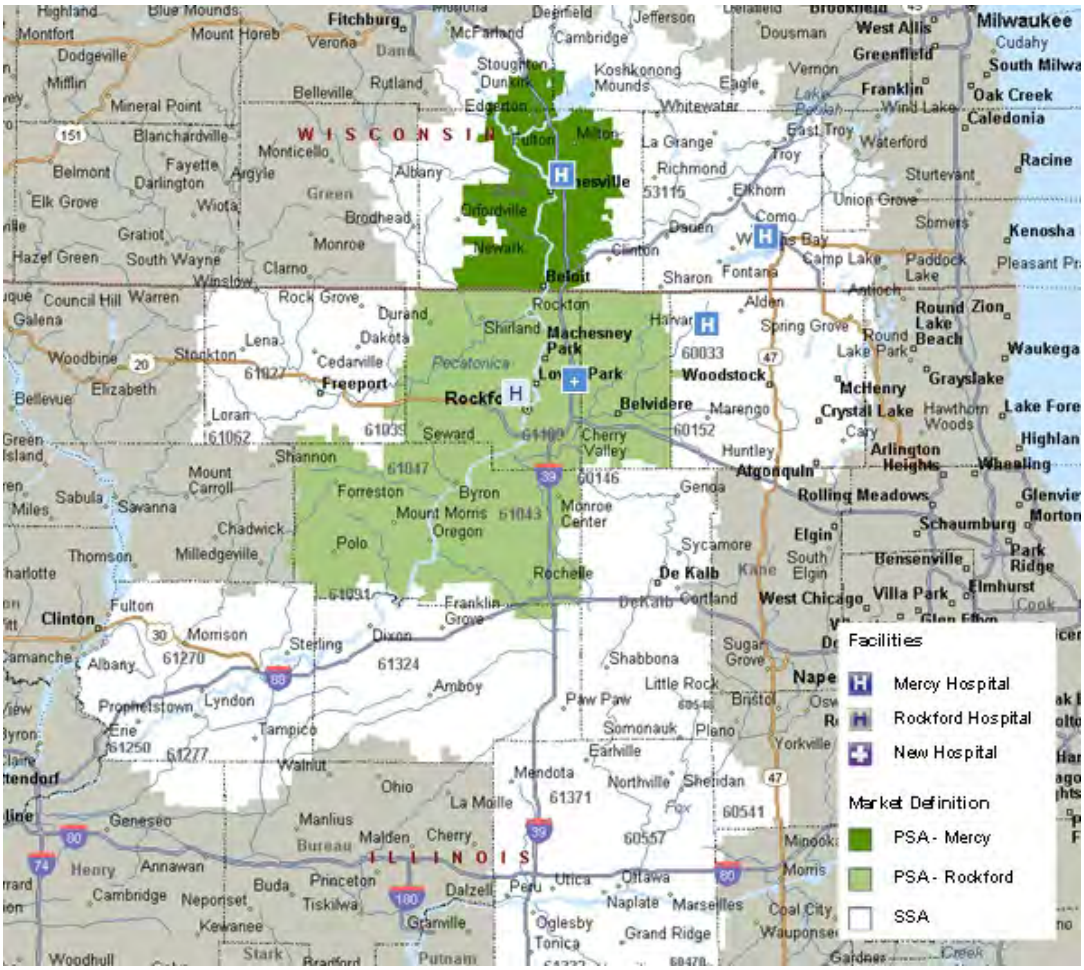
Source: Rock County Development Alliance, Employer Survey, Q4 2014 / Q1 2015; Rockford Chamber of Commerce

ORIGIN OF ADMISSIONS

The Primary Service Area (PSA) for Mercy Health consists of 19 zip codes in Winnebago County, including the Cities of Rockford, Loves Park and South Beloit; the Villages of Cherry Valley, Durand, Pecatonica, Rockton, Roscoe, Winnebago, Machesney Park; the Township of Shirland; Boone County, Ogle County, and 6 zip codes in Rock County which comprise the Cities of Janesville, Beloit, Edgerton and Milton.

The Secondary Service Area (SSA) consists of 6 additional counties in northern Illinois, including Stephenson County, McHenry County, Whiteside County, Lee County, DeKalb County, and LaSalle County, and 3 counties in southern Wisconsin, Green County, Jefferson County, Walworth County, and the remaining portion of Rock County not in the PSA. In addition to the PSA and SSA, RMH is a designated Regional Perinatal Center and Children's Medical Center by the State of Illinois. RMH serves 10 counties and 14 unaffiliated hospitals in northern Illinois with high risk pregnancy and critically ill newborns and children.

The map below highlights the primary and secondary service areas of Mercy Health.



OTHER AREA HOSPITAL FACILITIES

The entities listed below are hospitals and health care systems that provide acute inpatient services within the Service Area. Each of the hospitals and health care systems identified below is a competitor with the Hospitals. Presented below is the number of licensed beds for the health care systems and independent hospitals in the Service Area, including the Hospitals.

Number and Percentage of Licensed Acute Care Hospital Beds in the Service Area (excludes long-term care beds)

Entity	Number of Licensed Beds	Percentage of Total Beds
Mercy Health		
MHTC	240	15.6%
RMH	282	18.3%
MHH	20	1.3%
MWH	25	1.6%
Total Mercy Health	**567**	**36.8%**
OSF		
St. Anthony Medical Center	254	16.5%
UW Health		
Swedish American Hospital	333	21.6%
Beloit Health System		
Beloit Memorial Hospital	256	16.6%
Fort Healthcare		
Fort Memorial Hospital	82	5.3%
SSM		
St. Mary's Janesville Hospital	50	3.2%
TOTAL HOSPITAL BEDS	**1,542**	**100.0%**

Source: Illinois Department of Public Health; Wisconsin Department of Health Services

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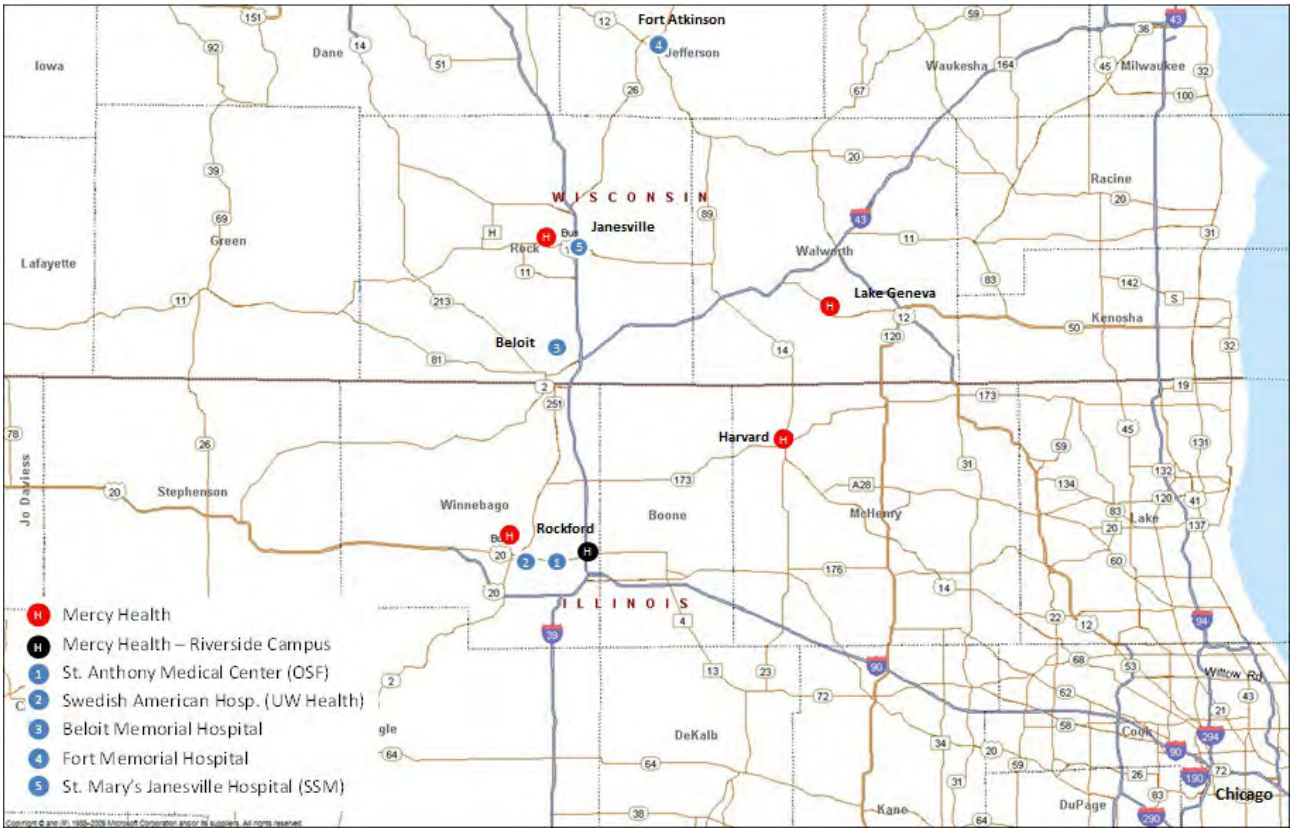
Service Area Map with Mercy Health Hospital Sites (Red & Black "H" Icons)
Other Health Systems and Hospitals (Blue Numbers)



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MARKET SHARE

The following tables show the most recently available market share data of Mercy Health hospitals in their respective primary service areas based upon the fiscal year end of June 30.

MHTC Inpatient Discharges – Rock County

Facility	2013	2014	2015
MHTC	35.9%	36.2%	35.6%
St. Mary's Janesville Hospital[1]	17.8%	16.8%	16.3%
Beloit Memorial Hospital	17.4%	18.6%	18.9%
Fort Memorial Hospital	0.9%	0.8%	0.8%
Madison Hospitals (3)	20.5%	20.6%	21.2%
All others	7.5%	7.0%	7.2%
	100.0%	100.0%	100.0%

[1] Affiliated with SSM.
Source: Wisconsin Hospital Association Information Center, LLC

MHTC Outpatient Surgery - Rock County

Facility	2013	2014	2015
MHTC	35.2%	37.0%	36.9%
St. Mary's Janesville Hospital[1]	16.4%	15.9%	15.6%
Beloit Memorial Hospital	16.6%	12.8%	13.8%
Fort Memorial Hospital	1.0%	0.9%	0.9%
Madison Surgical Centers (9)	24.4%	26.7%	26.2%
All others	6.4%	6.7%	6.6%
	100.0%	100.0%	100.0%

[1] Affiliated with SSM.
Source: Wisconsin Hospital Association Information Center, LLC

RMH Adult Inpatient - Winnebago, Boone and Ogle Counties

Facility	2013	2014	2015
RMH & VMRH	27.0%	28.4%	29.4%
Swedish American Hospital[1]	36.5%	36.0%	34.5%
St. Anthony Medical Center[2]	23.7%	23.3%	24.2%
All others	12.8%	12.3%	11.9%
	100.0%	100.0%	100.0%

[1] Affiliated with UW Health.
[2] Affiliated with OSF
Source: Illinois Hospital Association

RMH Pediatrics Inpatient - Winnebago, Boone and Ogle Counties

Facility	2013	2014	2015
RMH	48.8%	50.9%	54.6%
Swedish American Hospital[1]	27.1%	21.3%	18.8%
St. Anthony Medical Center[2]	6.2%	5.5%	4.2%
All others	17.9%	22.3%	22.4%
	100.0%	100.0%	100.0%

[1] Affiliated with UW Health.
[2] Affiliated with OSF
Source: Illinois Hospital Association

UTILIZATION OF PATIENT SERVICES

The table below presents patient service utilization for all Hospitals and physician services for the last three fiscal years ending June 30 and for the seven-month period ending January 31, 2015 and 2016 for MHTC, MWH, MHH and RMH*.

	2013	2014	2015	Seven Months Ended January 31, 2015	Seven Months Ended January 31, 2016
Total Discharges					
MHTC	7,252	7,290	7,420	4,405	4,529
MWH	1,148	1,126	1,180	734	678
MHH	431	379	412	243	271
RMH	12,607	12,527	13,771	8,210	7,768
Total	21,438	21,322	22,783	13,592	13,246
Newborn Discharges					
MHTC	740	834	847	505	509
MWH	127	170	210	139	93
RMH	1,213	1,267	1,295	759	750
Total	2,080	2,271	2,352	1,403	1,352
Observation Discharges					
MHTC	2,127	2,415	2,352	1,414	1,328
MWH	669	811	819	525	407
MHH	252	302	303	183	200
RMH	3,855	4,209	3,743	2,181	2,400
Total	6,903	7,737	7,217	4,303	4,335
Patient Days (excluding newborn, NICU, Maternal & Psych)					
MHTC	27,261	27,866	29,995	17,734	17,766
MWH	3,253	3,375	3,535	2,133	2,134
MHH	1,338	1,246	1,150	668	744
RMH	48,430	46,102	45,412	27,413	25,472
Total	80,282	78,589	80,092	47,948	46,116
Average Length of Stay					
MHTC, MWH & MHH	3.61	3.69	3.85	3.82	3.77
RMH	4.81	4.70	4.13	4.17	4.16
Emergency Department					
MHTC	30,728	29,924	32,691	18,879	20,875
MWH	14,047	12,736	13,400	8,032	7,879
MHH	6,172	6,147	6,282	3,748	3,454
RMH	49,340	50,357	53,611	31,924	30,262
Total	100,287	99,164	105,984	62,583	62,470

* RMH adjusted its fiscal year end to June 30, effective July 1, 2015. Utilization statistics for RMH in the above table are for the same periods as MHTC, July 1 to June 30 of the years shown.

	2013	2014	2015	Seven Months Ended January 31, 2015	Seven Months Ended January 31, 2016
Inpatient Surgeries					
MHTC	2,210	2,254	2,279	1,358	1,439
MWH	411	454	468	284	373
MHH	203	158	160	99	148
RMH	3,437	3,207	3,294	1,985	1,793
Total	6,261	6,073	6,201	3,726	3,753
Outpatient Surgeries					
MHTC	5,495	5,855	5,901	3,525	3,203
MWH	2,747	3,043	3,005	1,801	1,692
MHH	1,599	1,853	1,810	1,019	1,230
RMH	6,470	5,965	6,494	3,821	3,908
Total	16,311	16,716	17,210	10,166	10,033
Outpatient Visits					
MHTC	152,244	170,556	177,512	102,124	104,243
MHH	5,592	5,328	5,332	3,283	4,720
RMH	273,742	280,908	281,690	166,066	172,819
Total	431,578	456,792	464,534	271,473	281,782
Physician Encounter Visits					
MHTC, MWH & MHH	764,195	771,006	793,414	466,362	447,049
RMH	373,528	386,056	413,604	241,980	244,468
Total	1,137,723	1,157,062	1,207,018	708,342	691,517
Home Health Visits					
MAC	16,068	15,742	17,162	10,522	8,868
VNA	25,131	25,340	25,521	14,077	12,854
Total	41,199	41,082	42,683	24,599	21,722

Source: Mercy Health System Finance Development, Rockford Health System Finance Department

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SOURCES OF PATIENT REVENUES

A substantial portion of Mercy Health's patient revenue is derived from third party payors. The tables below list approximate percentages of net patient service revenue after bad debt by payor source. The tables are based on the fiscal year ended June 30 of each year for MHS and MWH and for RMH assuming its fiscal year ended June 30 of each year and the period ending January 31, 2016. RMH has adjusted its fiscal year from January-December to July-June effective July 1, 2015.

MHTC and MWH Sources of Net Patient Revenue after Bad Debt

	2013	2014	2015	Seven Months Ended January 31, 2016
Medicare	21.5%	21.7%	22.0%	24.3%
Medicaid	6.8%	6.3%	6.3%	6.8%
MercyCare	12.6%	11.0%	10.0%	10.8%
Commercial/Other	54.8%	55.9%	58.3%	54.6%
Self Pay	4.3%	5.1%	3.4%	3.5%
Total	100.0%	100.0%	100.0%	100.0%

Source: Mercy Health System Finance Department

RMH Sources of Net Patient Revenue after Bad Debt

	2013	2014	2015	Seven Months Ended January 31, 2016
Medicare	29.9%	29.2%	27.5%	28.0%
Medicaid	22.1%	25.6%	27.2%	25.2%
Managed Care/Blue Cross	43.1%	41.5%	42.6%	42.7%
Commercial	3.5%	2.3%	1.8%	3.1%
Self Pay/Other	1.4%	1.4%	0.9%	1.0%
Total	100.0%	100.0%	100.0%	100.0%

Source: Rockford Health System Finance Department

FINANCIAL INFORMATION

The following selected financial information for the years ended June 30, 2014 and 2015 is derived from the audited consolidated financial statements of Mercy and for the year ended December 31, 2014 from the audited consolidated financial statements of Rockford. The financial information for Rockford as of June 30, 2015 is derived from the audited consolidated financial statements. The financial information for Rockford for the year ended June 30, 2015 has been derived from the unaudited financial statements as prepared by management of Mercy Health. The data should be read in conjunction with the audited consolidated financial statements and related notes of the audited statements set forth in Appendix B to this Official Statement. The financial information for the seven-month period ended January 31, 2015 and 2016 has been derived from the unaudited financial statements as prepared by management of Mercy Health. Results of operations for an interim period should not necessarily be considered indicative of the results to be expected for a full fiscal year. The consolidated financial information includes accounts of entities that are not members of the Obligated Group. The net assets of the Obligated Group constitute approximately 93.1% of Mercy Health's consolidated net assets. The net patient service revenues of the Obligated Group constitute approximately 95.8% of Mercy Health's consolidated net patient service revenues for the fiscal year ended June 30, 2015.

Summarized Consolidated Balance Sheets as of:
(In Thousands)

	06/30/2014 Mercy	12/31/2014 Rockford	06/30/2015 Mercy	06/30/2015 Rockford	01/31/2015 Mercy Health*	01/31/2016 Mercy Health*
ASSETS						
Current Assets						
Cash, cash equivalents & short-term investments	$22,326	$68,299	$45,206	$73,983	$105,228	$142,364
Patient accounts receivable - net	92,886	64,971	96,457	59,370	157,580	175,788
Supplies	11,893	8,770	12,598	9,151	21,730	23,199
Prepaid expenses	4,140	3,945	3,897	3,652	11,788	9,846
Due from third-party payors	572	-	85	-	-	-
Current portion of assets limited to use	-	11,304	-	11,316	11,310	11,523
Other receivables	9,271	5,686	11,362	5,961	20,763	20,841
Total current assets	**141,088**	**162,975**	**169,605**	**163,433**	**328,399**	**383,561**
Assets limited as to use						
Board-designated & trustee held investments	276,043	193,873	283,518	206,627	464,330	458,317
Donor-restricted & endowment funds	-	3,808	-	3,835	3,812	3,859
Total assets limited as to use	**276,043**	**197,681**	**283,518**	**210,462**	**468,142**	**462,176**
Property & equipment - net	304,740	145,155	296,260	147,331	444,097	442,220
Other assets	4,217	42,032	4,336	34,695	46,982	32,003
Total Assets	**$726,088**	**$547,843**	**$753,719**	**$555,921**	**$ 1,287,620**	**$ 1,319,960**
LIABILITIES						
Current Liabilities						
Current maturities of long-term debt	$6,469	$3,626	$6,684	$3,992	$10,588	$10,649
Accounts payable	10,559	13,460	13,349	13,959	22,429	23,897
Accrued expenses	71,410	51,387	80,113	46,740	125,844	135,029
Deferred revenues	-	248	-	263	229	172
Due to third-party payors	648	14,530	2,324	16,346	14,686	17,949
Total current liabilities	**89,086**	**83,251**	**102,470**	**81,300**	**173,776**	**187,696**
Long-term debt, less current maturities	213,017	85,691	206,748	86,536	299,173	288,141
Deferred compensation	9,970	7,448	12,546	8,521	18,713	22,713
Pension liability	13,522	18,175	13,509	11,760	36,270	30,147
Other	-	63,164	-	64,878	64,247	69,030
Total Liabilities	**325,595**	**257,729**	**335,273**	**252,995**	**592,179**	**597,727**
Net Assets	**400,493**	**290,114**	**418,446**	**302,926**	**695,441**	**722,233**
Total Liabilities & Net Assets	**$726,088**	**$547,843**	**$753,719**	**$555,921**	**$ 1,287,620**	**$ 1,319,960**

* Results are unaudited.

Summarized Consolidated Statements of Operations and Changes in Net Assets
(In Thousands)

	Fiscal Year Ended 06/30/2014 Mercy	Fiscal Year Ended 12/31/2014 Rockford	Fiscal Year Ended 06/30/2015 Mercy	Fiscal Year Ended 06/30/2015* Rockford	7-Months Ended 01/31/2015* Mercy Health	7-Months Ended 01/31/2016* Mercy Health
Revenue:						
Net patient service revenue (net of contractual allowances & discounts)	$466,928	$426,611	$492,364	$442,765	$544,199	$575,582
Provisions for bad debts	(30,934)	(13,210)	(25,580)	(17,656)	(26,665)	(27,503)
Net patient service revenue	**435,994**	**413,401**	**466,784**	**425,109**	**517,534**	**548,079**
Other operating revenue	91,139	24,320	86,238	23,549	74,076	64,291
Total operating revenue	**527,133**	**437,721**	**553,022**	**448,658**	**591,610**	**612,370**
Operating expenses:						
Salaries & benefits expense	298,163	248,671	319,927	256,073	339,788	338,736
Interest expense	10,336	2,193	10,160	2,140	7,205	6,765
Depreciation & amortization expense	27,731	23,546	27,618	22,868	29,934	29,920
Other operating expenses	181,898	169,234	183,537	165,668	210,823	207,257
Total operating expenses	**518,128**	**443,644**	**541,242**	**446,749**	**587,750**	**582,678**
Total income (loss) from operations	**9,005**	**(5,923)**	**11,780**	**1,909**	**3,860**	**29,692**
Non-operating gains (losses)	13,735	10,436	12,353	8,504	3,196	(29,153)
Excess of revenues over expenses	**22,740**	**4,513**	**24,133**	**10,413**	**7,056**	**539**
Other changes in net assets	28,985	(18,176)	(6,180)	(13,581)	(18,202)	322
Change in net assets	**$ 51,725**	**$(13,663)**	**$ 17,953**	**$ (3,168)**	**$(11,146)**	**$861**

* Results are unaudited.

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL PERFORMANCE

Summary of operating results for the seven months ended January 31, 2016 for Mercy Health

Mercy Health reported income from operations of $29.69 million, a $25.83 million improvement over the same period in the prior year. For Mercy, the improvement was due to increased utilization, expense management driven by implementing lean efficiencies in labor and improved medical cost ratio at MercyCare. For Rockford, the improvement was due to emphasis on outpatient volume, labor productivity, and non-labor expenses reduction. Operating EBIDA, consisting of total operating revenue less total operating expenses excluding interest, depreciation and amortization was $66.38 million for the seven months ended January 31, 2016, an increase of $25.38 million or 61.90% over the same period in the prior year.

Total operating revenue was $612.37 million, an increase of $20.76 million or 3.51% over the same period in the prior year. The increase was primarily attributable to volume increases in physician visits, urgent care visits and imaging. Total operating expense of $582.68 million decreased $5.07 million or 0.86% over the same period in the prior year. Salaries and benefits expense of $338.74 million decreased approximately $1.05 million primarily due to a reduction in benefit costs partially offset by salary costs for staff added for volume. Other operating expenses of $207.26 million decreased $3.57 million primarily related to reductions in outside purchased services. Total non-operating losses were $29.15 million, an unfavorable change of $32.35 million over the same period in the prior year. The non-operating loss was due to investment performance and resulted in an excess of revenues over expenses of $0.54 million for the seven months ended January 31, 2016, which represented a $6.52 million decrease from same period in the prior year.

Discharges, excluding newborns, for seven months ended January 31, 2016 were 13,246, a decrease of 346 from the same period in the prior year. Emergency room visits were 62,470, a decrease of 113. Outpatient visits were 281,782, an increase of 10,309. The increase in outpatient visits was primarily due to an increase in physician and urgent care visits.

Summary of operating results for the fiscal year ended June 30, 2015 for Mercy and June 30, 2015 for Rockford (Rockford financial results unaudited; Utilization statistics discussed below for Rockford are from the same time period as Mercy, July 1, 2014 through June 30, 2015)

Mercy reported income from operations of $11.78 million, which was 2.13% of total operating revenue, and Rockford calculated income from operations of $1.91 million, which was 0.43% of total operating revenue. Operating EBIDA consisting of total operating revenue less total operating expenses excluding interest, depreciation and amortization was $49.56 million resulting in an 8.96% margin for Mercy and $26.92 million resulting in a 6.00% margin for Rockford.

Total operating revenue was $553.02 million for Mercy and $448.66 million for Rockford. Total operating expenses were $541.24 for Mercy and $446.75 million for Rockford. Non-operating gains were $12.35 million for Mercy and $8.50 million for Rockford. Non-operating gains resulted in excess of revenues over expenses of $24.13 million, or 4.36% of total operating revenue for Mercy, and $10.41 million, or 2.32% of total operating revenue for Rockford.

Discharges, excluding newborns, were 9,012, an increase of 217 for Mercy and 13,771, an increase of 1,244 for Rockford compared to the prior fiscal year. Emergency room visits were 52,373, an increase of 3,566 for Mercy and 53,611, an increase of 3,254 for Rockford. Outpatient visits were 182,844, an increase of 6,960 for Mercy and 281,690, an increase of 782 for Rockford. The increase in outpatient visits for Mercy was due to the addition of new employed physicians, patient retention and referral initiatives, and successful implementation of a Medicare wellness visit strategy to improve ACO performance.

Summary of operating results for the fiscal year ended June 30, 2014 for Mercy and December 30, 2014 for Rockford (Utilization statistics discussed below for Rockford are from the same time period as Mercy, July 1, 2013 through June 30, 2014)

Mercy reported income from operations of $9.01 million, which was 1.71% of total operating revenue and Rockford reported a loss from operations of $5.92 million, which was -1.35% of total operating revenue. Operating EBIDA consisting of total operating revenue less total operating expenses excluding interest, depreciation and amortization was $47.07 million resulting in an 8.93% margin for Mercy and $19.82 million resulting in a 4.53% margin for Rockford.

Total operating revenues were $527.13 million for Mercy and $437.72 million for Rockford. Total operating expenses were $518.13 for Mercy and $443.64 million for Rockford. Total non-operating gains were $13.74 million for Mercy and $10.44 million for Rockford. The non-operating items generated net excess of revenues over expenses of $22.74 million, or 4.31% of total operating revenue for Mercy and $4.51 million, or 1.03% of total operating revenue for Rockford.

Discharges, excluding newborns, were 8,795, a decrease of 36 for Mercy and 12,527, a decrease of 80 for Rockford compared to the prior fiscal year. Emergency room visits were 48,807, a decrease of 2,140 for Mercy and 50,357, an increase of 1,017 for Rockford. Outpatient visits were 175,884, an increase of 18,048 for Mercy and 280,908 an increase of 7,166 for Rockford. The increase in outpatient visits for Mercy was due to ramping up of new physician practices and continued emphasis on referral retention and wellness visits. The increase in outpatient visits for Rockford was due to increased patient encounters.

KEY FINANCIAL RATIOS

The following tables present Mercy Health's debt service coverage, debt to capitalization, and days unrestricted cash and investments on hand.

Debt Service Coverage

In Thousands	**As of and for the Fiscal Year Ended June 30, 2015***	**Pro Forma as of and for the Fiscal Year Ended June 30, 2015***
Excess of revenue over expenses	$34,546	$53,711[1]
Plus: depreciation and amortization	$50,486	$50,486
Plus: interest	$12,300	$12,300
Income available for debt service	**$97,332**	**$116,497**
Historical Maximum Annual Debt Service	$20,466	
Historical Debt Service Coverage Ratio	**4.8**	
Pro Forma Maximum Annual Debt Service[2]		$42,795
Pro Forma Debt Service Coverage Ratio		**2.7**

* Table represents a combination of Mercy and Rockford balances.

[1] Assumes the capitalized interest of $19.165 million for FY2017 is included in excess of revenue over expenses.

[2] Assumes debt service on Series 2016 Bonds based on par amount of $475.020 million and average coupon of 4.81%.

Debt to Capitalization

In Thousands

	As of June 30, 2015*	As of January 31, 2016	Pro Forma[1] as of January 31, 2016
Long-term debt	$293,284	$288,141	$664,461
Unrestricted net assets	$698,902	$699,492	$699,492
Total Capitalization	**$992,186**	**$987,633**	**$1,363,953**
Long-term Debt as Percent of Capitalization	**29.6%**	**29.2%**	**48.7%**

* Table represents a combination of Mercy and Rockford balances.
[1] Assumes Series 2016 Bonds issued in par amount of $475.020 million.

Days Cash On Hand

In Thousands	As of and for the Fiscal Year Ended June 30, 2015*	As of and for the Seven Months Ended January 31, 2016	Pro Forma[1] as of and for the Seven Months Ended January 31, 2016
Cash & cash equivalents and short-term investments	$127,189	$150,364	$131,654
Assets limited as to use	$481,024	$451,518	$451,518
Total Cash and Unrestricted Investments	**$608,213**	**$601,882**	**$583,172**
Total operating expenses	$987,991	$582,678	$582,678
Less: depreciation & amortization	$50,486	$29,920	$29,920
	$937,505	**$552,758**	**$552,758**
Days Cash on Hand	**236.8**	**234.1**	**226.8**

* Table represents a combination of Mercy and Rockford balances.
[1] Adjusted for $18.710 million equity to be applied at closing relating to the refunding of the Prior Bonds.

ACCREDITATION

The Hospitals are accredited by The Joint Commission. The Joint Commission has been accrediting hospitals for more than sixty (60) years. The Hospitals are subject to The Joint Commission survey every three years. The most recent Joint Commission accreditation dates for each of the Hospitals are as follows:

RMH:	January 11, 2014
MHTC:	November 8, 2014
MWH:	November 5, 2014
MHH:	September 27, 2014

INSURANCE

MHS

The Injured Patients and Families Compensation Fund (the "Fund") is created by Section 655 of the Wisconsin Statutes to pay professional malpractice claims against certain Wisconsin health care providers to the extent claims result in awards in excess of defined limits of required primary insurance coverage. Currently the required primary coverage limits are $1,000,000 for each occurrence and $3,000,000 for all occurrences in any policy year. The Parent currently carries the required primary insurance coverage through ProAssurance Casualty Company. The Parent is responsible for only the first $250,000 of loss on any single professional liability claim and $750,000 annual aggregate per policy year. All claims expenses and defense costs are paid by the insurance carrier.

The Fund assesses Wisconsin health care providers on an annual basis in an amount based partially on the Fund's administrative expenses and partially on the loss and expense experience of each classification of provider and the Fund as a whole. There can be no assurance that the premiums paid by a provider for coverage under the Fund will continue at their historic levels.

Under current Wisconsin law, if a health care organization complies with the statutory rules regarding primary insurance coverage, malpractice claimants against the health care organization must look solely to the Fund for the portion of any awards that are in excess of the primary coverage limits and the health care organization cannot be held liable for such amounts. The operation of the Fund is governed by statute, and there can be no assurance that the State of Wisconsin will continue the Fund indefinitely in its present form.

In Illinois, MHS has purchased excess professional liability coverage for the majority of its physicians. The current excess liability limit is $25,000,000. The Parent generally is responsible for the first $1,000,000 of any claim, plus an additional $1,000,000 "buffer" layer per claim until an annual aggregate "buffer" of $2,000,000 is reached, after which the Parent is responsible for the first $1,000,000 of each claim thereafter.

Rockford Health System

Rockford uses a combination of commercial and self-insurance coverage. Commercial insurance is used for all casualty and liability coverage, except certain self-insurance utilized for workers' compensation and professional and general liability coverage. Self-insurance levels are funded based upon annual actuarial valuations. Under the current self-insurance program, Rockford has the following self-retention limits:

- $150,000 in the annual aggregate excess of the first $600,000 per occurrence in workers' compensation claims; no annual aggregate limitation applies to the $600,000 limit.
- The first $2,000,000 per occurrence for non-patient general liability claims; no annual aggregate limitation.
- The first $2,000,000 per occurrence for managed care errors & omissions claims; no annual aggregate limitation.
- $7,000,000 per occurrence in professional and patient general liability claims; no annual aggregate limitation applies to the $7,000,000 self-insurance. In excess of $7,000,000 there is an additional $1,000,000 per occurrence in professional and patient general liability claims subject to a $2,000,000 limit in the aggregate.

Rockford maintains umbrella professional and general liability coverage, on a claims-made basis, through Rockford Health Insurance, Ltd., a captive insurance company domiciled in Bermuda ("RHI"). RHI is a wholly-owned subsidiary of Rockford Memorial Hospital. RHI issues an annual policy

with limits of $30,000,000 with each loss subject to an aggregate limit of $30,000,000. The RHI policy is 100% re-insured by Zurich, OneBeacon and Medical Protective insurance.

INVESTMENT MANAGEMENT

Mercy Health adopted an investment policy that outlines the objectives, investment guidelines, responsibilities, and reporting requirements for its investments, through which the Finance Committee of the Board oversees the investment portfolio. Currently, the policy permits an equity allocation, including international and emerging market equities, invested at a minimum of 40% and a maximum of 70% and does not permit the use of alternative investments in its general investment portfolio. A minimum of 30% and a maximum of 60% are to be allocated to fixed income securities, primarily consisting of government, agency and investment grade corporate debt. The Finance Committee examines the investment portfolio on a semi-annual basis, which includes market valuations, asset allocation, relative investment performance, and asset manager evaluation. The investment portfolio utilizes a combination of fifteen mutual funds and is managed by twelve investment managers. The investment portfolio is compliant with investment policies as of the printing of this official statement.

RETIREMENT PLANS

MHS

The Mercy Health System Corporation Employees' Retirement Plan (the "Plan") was established January 1, 1968 for the employees of MHS. It is designed to include all affiliates of MHS, excluding union employees. Employees are eligible the first of the year after completing one year of service and working 1,000 hours, earn vesting credit for each year they work 1,000 hours or greater. The Plan uses a three (3) year "cliff" vesting schedule. The Plan is qualified under the Employee Retirement Income Security Act of 1974. The Plan has been filed with the IRS, which issued private letter rulings approving the Plan. The Plan is a Defined Benefit Plan with Cash Balance Formula added in 1989, commonly referred to as a "hybrid plan." Eligible employees are given benefit credits equal to 4% of their pay up to federal wage limit. An additional 2% is contributed for earnings above the social security wage base up to the federal wage limit. Employees hired before 1992 are eligible for a defined benefit plan based on the formula in effect prior to 1992 or the cash balance plan formula after 1992, whichever is greater. Benefit election options include annuity and lump sum selections.

The Plan is administered by a pension administrative committee appointed by the Board of Directors. The committee is charged with applying and interpreting the rules and regulations of the Plan. Professional consultants assist the committee and have the responsibility for day-to-day Plan operation and paying benefits. At present, MHS uses Hewitt Associates to assist in this regard and to act as Plan actuaries. The Plan benefits are insured, within certain legal limits, by the Pension Benefit Guaranty Corporation (PBGC), a federal insurance agency. The Adjusted Funding Target Attainment Percentage for 2015 is 106.79%, as reported in the final certification dated February 19, 2016.

Rockford Health System

Defined Benefit Pension Plan

Rockford sponsors a noncontributory defined benefit pension plan which covered substantially all full-time employees and regular part-time employees until frozen in 2003. At that time, employees elected to stay within the defined benefit pension plan or opt into the defined contribution plan. No new participants were allowed to join the plan after this time. Effective March 19, 2012, the plan's benefits were frozen and benefits ceased to accrue for plan participants resulting in a curtailment at December 31, 2011. Pension benefits are determined based upon employee earnings, social security benefits, covered compensation, and years of service. The funding policy is to contribute annually the amount required to

be funded under provisions of the Employee Retirement Income Security Act of 1974 (ERISA), as determined by an actuary.

During January 1, 2015 to June 30, 2015, lump-sum benefit payments from the plan were $3,007,000 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 Plan recognized $731,000 as settlement charges from January 1, 2015 to June 30, 2015. For fiscal year 2016, settlement accounting will be triggered if lump-sum payouts exceed the interest cost of $3,835,000.

Defined Benefit Postretirement Medical Plan

Rockford sponsors a postretirement medical plan with plan changes effective January 1, 2004. The defined benefit postretirement medical plan provides medical benefits for salaried and non-salaried employees hired before January 1, 2004. The retiree medical plan is noncontributory and is unfunded, other than amounts resulting from the timing of deposits to pay benefits. Rockford recognizes the expected cost of these postretirement benefits during the years the employees render service. Postretirement benefit expense is allocated among the participating entities as determined by an actuary. The expected expense for Rockford in fiscal year 2016 is $171,000 for this plan.

Defined Contribution Plans

Rockford contributes 3.3% of compensation for the benefit of any participant in either the Rockford Health System Fixed Contribution Plan (the "Fixed Contribution Plan"), or the Rockford Clinic Retirement Plan (the "Clinic Retirement Plan"), that is employed as of December 31 each year. Employees are eligible to participate in one of the two defined contribution plans after service and age requirements are met, as long as they do not participate in the defined benefit pension plan. At June 30, 2015, Rockford's liability to the Fixed Contribution Plan was $2,018,000. The cash contribution to the Fixed Contribution Plan for the prior-year liability from January 1, 2015 to June 30, 2015 was $3,354,000. At June 30, 2015, Rockford's liability to the Clinic Retirement Plan was $172,000 Cash contributions made to the Clinic Retirement Plan for the prior-year liability from January 1, 2015 to June 30, 2015 was $553,000.

Voluntary Contribution Retirement Plan

Rockford also participates in a voluntary defined contribution retirement plan. Participants can contribute gross compensation per the plan's agreement and federal guidelines and Rockford makes matching contributions that are limited to an amount specified in the plan and per federal guidelines. Rockford's contribution expense for this plan from January 1, 2015 to June 30, 2015 amounted to $4,019,000.

Salary Deferral Retirement Plan

Rockford offers a 457(b) retirement plan for highly compensated individuals. This voluntary salary deferral is recorded as a long-term asset and liability to the System of $8,521,000 at June 30, 2015. These amounts are included in other assets and other liabilities in the accompanying consolidated balance sheet.

Future Mercy Health Retirement Platform

Mercy Health is developing a common retirement plan for the entire employee population which is expected to be implemented after January 1, 2017.

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APPENDIX B-1

CONSOLIDATED FINANCIAL STATEMENTS OF MERCY ALLIANCE, INC. AND AFFILIATES AS OF AND FOR THE FISCAL YEARS ENDED JUNE 30, 2015, AND 2014, AND THE CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION OF ROCKFORD HEALTH SYSTEM AND AFFILIATES AS OF JUNE 30, 2015 AND FOR THE PERIOD FROM JANUARY 1, 2015 TO JUNE 30, 2015

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Mercy Alliance, Inc. and Affiliates

Janesville, Wisconsin

Consolidated Financial Statements

Years Ended June 30, 2015 and 2014

Mercy Alliance, Inc. and Affiliates

Consolidated Financial Statements

Years Ended June 30, 2015 and 2014

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Independent Auditor's Report

Board of Directors
Mercy Alliance, Inc.
Janesville, Wisconsin

We have audited the accompanying consolidated financial statements of Mercy Alliance, Inc. and Affiliates, which comprise the consolidated balance sheets as of June 30, 2015 and 2014, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

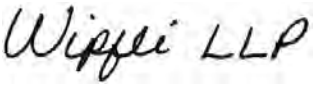
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Mercy Alliance, Inc. and Affiliates as of June 30, 2015 and 2014, and the results of their operations, changes in their net assets, and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.



Wipfli LLP

September 18, 2015
Milwaukee, Wisconsin

Mercy Alliance, Inc. and Affiliates

Consolidated Balance Sheets

June 30, 2015 and 2014

Assets	(In Thousands) 2015	2014
Current assets:		
Cash and cash equivalents	$ 45,206	$ 22,326
Patient accounts receivable - Net	96,457	92,886
Supplies	12,598	11,893
Prepaid expenses	3,897	4,140
Due from third-party payors	85	572
Other receivables	11,362	9,271
Total current assets	169,605	141,088
Assets limited as to use	283,518	276,043
Property and equipment - Net	296,260	304,740
Other assets:		
Unamortized debt issuance costs	2,063	2,177
Other	2,273	2,040
Total other assets	4,336	4,217
TOTAL ASSETS	$ 753,719	$ 726,088

Liabilities and Net Assets	(In Thousands) 2015	2014
Current liabilities:		
Current maturities of long-term debt	$ 6,684	$ 6,469
Accounts payable:		
Trade	12,271	10,071
Construction	1,078	488
Accrued salaries, wages, and payroll taxes	29,236	27,211
Due to third-party payors	2,324	648
Other accrued expenses	50,877	44,199
Total current liabilities	102,470	89,086
Long-term liabilities:		
Long-term debt, less current maturities	206,748	213,017
Deferred compensation	12,546	9,970
Pension liability	13,509	13,522
Total long-term liabilities	232,803	236,509
Total liabilities	335,273	325,595
Total net assets - Unrestricted	418,446	400,493
TOTAL LIABILITIES AND NET ASSETS	$ 753,719	$ 726,088

See accompanying notes to consolidated financial statements.

Mercy Alliance, Inc. and Affiliates

Consolidated Statements of Operations and Changes in Net Assets

Years Ended June 30, 2015 and 2014

	(In Thousands)	
	2015	2014
Revenue:		
Patient service revenue (net of contractual allowances and discounts)	$ 492,364	$ 466,928
Provision for bad debts	(25,580)	(30,934)
Net patient service revenue less provision for bad debts	466,784	435,994
Premium revenue	82,247	84,038
Other revenue	3,991	7,101
Total revenue	553,022	527,133
Expenses:		
Salaries and wages	268,439	256,847
Employee benefits	51,488	41,316
Professional fees and purchased services	34,771	32,302
Medical claims and capitation payments	16,779	26,299
Medical supplies, other supplies, and drugs	89,246	83,683
Utilities	6,848	7,233
Insurance	5,516	4,775
Other	30,377	27,606
Depreciation and amortization	27,618	27,731
Interest	10,160	10,336
Total expenses	541,242	518,128
Income from operations	11,780	9,005
Nonoperating income - Net	12,353	13,735
Excess of revenue over expenses	24,133	22,740
Other changes in unrestricted net assets:		
Change in net unrealized gains and losses on investments other than trading securities	(2,654)	28,724
Changes in pension obligation other than pension expense	(3,552)	195
Other	26	66
Change in unrestricted net assets	17,953	51,725
Unrestricted net assets at beginning	400,493	348,768
Unrestricted net assets at end	$ 418,446	$ 400,493

See accompanying notes to consolidated financial statements.

Mercy Alliance, Inc. and Affiliates

Consolidated Statements of Cash Flows

Years Ended June 30, 2015 and 2014

	(In Thousands)	
	2015	2014
Increase (decrease) in cash and cash equivalents:		
Cash flows from operating activities:		
Change in unrestricted net assets	$ 17,953	$ 51,725
Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities:		
Provision for bad debts	25,580	30,934
Changes in pension obligation other than pension expense	3,552	(195)
Change in net unrealized gains and losses on investments other than trading securities	2,654	(28,724)
Net realized gains on sales of investments	(3,534)	(7,500)
Depreciation and amortization	27,618	27,731
(Gain) loss on sale of property and equipment	(9)	14
Changes in operating assets and liabilities:		
Patient accounts receivable	(29,151)	(40,749)
Supplies and other current assets	(2,553)	154
Trade accounts payable	2,200	1,200
Accrued liabilities and other	7,714	489
Due to/from third-party payors	2,163	(248)
Net cash provided by operating activities	54,187	34,831
Cash flows from investing activities:		
(Increase) decrease in assets limited as to use	(6,595)	1,909
Purchases of property and equipment	(18,892)	(23,697)
Proceeds from sale of property and equipment	10	176
Change in other assets	(233)	30
Net cash used in investing activities	(25,710)	(21,582)

Mercy Alliance, Inc. and Affiliates

Consolidated Statements of Cash Flows (Continued)

Years Ended June 30, 2015 and 2014

	(In Thousands)	
	2015	2014
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	$ 1,064	$ 1,950
Principal payments on long-term debt	(6,661)	(6,157)
Net cash used in financing activities	(5,597)	(4,207)
Net increase in cash and cash equivalents	22,880	9,042
Cash and cash equivalents at beginning	22,326	13,284
Cash and cash equivalents at end	$ 45,206	$ 22,326
Supplemental cash flow information:		
Cash paid for interest	$ 10,144	$ 10,370
Capital expenditures in accounts payable	$ 1,078	$ 488

See accompanying notes to consolidated financial statements.

Mercy Alliance, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 1 Summary of Significant Accounting Policies

The Entity and Principles of Consolidation

The consolidated financial statements include the accounts and operations of Mercy Alliance, Inc. and its affiliates and wholly owned subsidiaries (collectively "Alliance"):

- Mercy Alliance, Inc. (MAI)
  Serves as parent corporation for the corporate group and supports the operations of its affiliates and subsidiaries.

- Mercy Health System Corporation (MHSC)
  Operates a 240-bed hospital (licensed beds) in Janesville, Wisconsin; 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 building; and Mercy Walworth Hospital and Medical Center (MWH), a 25-bed hospital facility in Walworth County, Wisconsin. MWH is reimbursed by Medicare as a critical access hospital (CAH).

- Mercy Assisted Care, Inc. (MAC)
  MAC operates Mercy Homecare, a supplier of durable medical equipment, the Cooperative Childcare Institute (CCI), a residential care center for children and youth, and coordinates home care and hospice services through nurses, physical therapists, and speech therapists. CCI ceased operations in September 2013.

- Mercy Harvard Hospital, Inc. (MHH)
  Operates a hospital with 25 acute and 45 long-term care beds located in Harvard, Illinois. MHH also has a controlled affiliate, Harvard Memorial Hospital Foundation, whose purpose is to support the programs of MHH. MHH is reimbursed by Medicare as a CAH.

- Mercy Foundation, Inc. (MFI)
  MFI's primary activity is fund-raising for MHSC and its programs in accordance with its by-laws.

Note 1 Summary of Significant Accounting Policies (Continued)

The Entity and Principles of Consolidation (Continued)

- MercyCare Insurance Company (MCIC)
  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 its subsidiary contract for services with MHSC and other MAI affiliates.

All significant intercompany accounts and transactions have been eliminated in consolidation.

Effective January 1, 2015, Alliance merged with Rockford Health System, creating a newly formed parent company, Mercy Rockford Health System.

Financial Statement Presentation

Alliance 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.

Use of Estimates in Preparation of Financial Statements

The preparation of the accompanying consolidated financial statements in conformity with GAAP requires management to make 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.

Alliance 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 defined benefit plan liability, and reserves for unpaid claims for participants in MCIC insurance programs.

Note 1 Summary of Significant Accounting Policies (Continued)

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.

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. Alliance bills third-party payors on the patients' behalf, or if a patient is uninsured, the 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. Alliance does not have a policy to charge interest on past due accounts.

Patient accounts receivable are recorded in the accompanying consolidated balance sheets net of contractual adjustments and discounts, and an allowance for doubtful accounts, which reflect 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 addition, management provides for probable uncollectible amounts primarily from uninsured patients and amounts patients are personally responsible for, through a charge to operations and a credit to the allowance for doubtful accounts based on historical loss experience. 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.

Note 1 Summary of Significant Accounting Policies (Continued)

Supplies

Supplies are valued at the lower of cost, determined on the first-in, first-out (FIFO) method, or market.

Assets Limited as to Use and Investment Income

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, amounts restricted for regulatory compliance, and assets held by a trustee under bond indenture agreements.

Certificates of deposit are stated at the principal contributed plus any accrued interest earned. All other investments included in assets limited as to use are measured at fair value in the accompanying consolidated balance sheets. Investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in nonoperating income unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from excess of revenue over expenses unless the investments are trading securities. Realized gains and losses are determined by specific identification.

Alliance monitors the difference between the cost and fair value of its investments. A decline in market value of an individual investment security below cost that is deemed to be other-than-temporary results in an impairment and Alliance reduces the investment's carrying value to fair value. A new cost basis is established for the investment and any impairment loss is recorded as a realized loss in investment income.

Note 1 Summary of Significant Accounting Policies (Continued)

Fair Value Measurements

Alliance measures fair value of its financial instruments, including assets within the defined benefit noncontributory retirement plan, using a three-tier hierarchy which prioritizes the inputs used in measuring fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of fair value hierarchy are as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that Alliance has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets in inactive markets;
- Inputs, other than quoted prices, that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's 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 maximize the use of observable inputs and minimize the use of unobservable inputs.

Note 1 Summary of Significant Accounting Policies (Continued)

Property and Equipment

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. Donated property and equipment are recorded at fair value at the date of donation, which is then treated as cost. Interest costs incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets, net of any earnings on those funds. Estimated useful lives range from 2 to 20 years for land improvements, 5 to 20 years for leasehold improvements, 5 to 30 years for buildings and improvements, and 3 to 20 years for equipment and 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 straight-line method, and are included with depreciation and amortization expense in the accompanying consolidated statements of operations and changes in net assets.

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 there is an indeterminate settlement date for the asset retirement obligations because the range of time over which Alliance may settle the obligation is unknown and cannot reasonably estimate the liability related to these asset retirement activities as of June 30, 2015 and 2014.

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 2015 or 2014.

Note 1 Summary of Significant Accounting Policies (Continued)

Net Assets

Net assets are classified based on the existence or absence of donor-imposed restrictions. All of Alliance's net assets are free from donor-imposed restrictions at June 30, 2015 and 2014.

Self-Insurance

Provisions for self-insured risks include estimates of the ultimate cost for known claims as well as incurred but not reported claims as of the respective balance sheet dates.

Patient Service Revenue

Alliance 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, Alliance recognizes revenue on the basis of discounted rates established under Alliance's uninsured patient policy. The provision for contractual adjustments (that is, the differences 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 Alliance, a significant portion of uninsured patients will be unwilling or unable to pay for services provided. Thus, Alliance 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. Alliance 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.

Note 1 Summary of Significant Accounting Policies (Continued)

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, 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. Alliance has recorded a provision of $9,790,000 and $7,656,000 at June 30, 2015 and 2014, respectively, 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. Alliance's assessment expense was approximately $8,277,000 and $7,417,000 for the years ended June 30, 2015 and 2014, respectively, and is included in other expense in the accompanying consolidated statements of operations and changes in net assets. Increases in reimbursement from Medicaid are included in patient service revenue (net of contractual allowances and discounts).

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, permanent transfer of assets to and from affiliates for other than goods and services, and contributions of long-lived assets.

Note 1 Summary of Significant Accounting Policies (Continued)

Charity Care

Alliance 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 statements of operations and changes in net assets.

The estimated cost of providing care to patients under Alliance's charity care policy is calculated by multiplying the ratio of cost to gross charges by the gross uncompensated charity care charges. The costs to provide Alliance's charity care was approximately $3,057,000 and $4,668,000 for the years ended June 30, 2015 and 2014, respectively.

Contributions and Unconditional Promises 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.

Note 1 Summary of Significant Accounting Policies (Continued)

Income Taxes

MAI, MHSC, MAC, MHH, and MFI are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code (the "Code") and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. They are 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 September 18, 2015, which is the date the 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

MHSC and MAC

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.

MHH and MWH

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

Alliance 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.

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

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 June 30, 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 Alliance 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, 2015, Alliance has received notices from the RAC of certain claims identified by the RAC as inaccurate. Alliance is appealing a number of these adjustments and management believes any reimbursement adjustments related to these claims will not be significant.

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

Electronic Health Record Payments (Continued)

The American Recovery and Reinvestment Act of 2009 (ARRA) provides for incentive payments under the Medicare and Medicaid programs for certain hospitals and physician practices that demonstrate meaningful use of certified electronic health record (EHR) technology. These provisions of ARRA, collectively referred to as the Health Information Technology for Economic and Clinical Health Act (the "HITECH Act"), are intended to promote the adoption and meaningful use of health information technology and qualified EHR technology.

Alliance recognizes revenue for EHR incentive payments 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, Alliance's compliance with the meaningful use criteria is subject to audit by the federal government or its designee.

Alliance recorded approximately $1,387,000 and $4,453,000 in EHR incentive revenue from the Medicare program in 2015 and 2014, respectively, which is recorded in other revenue in the accompanying consolidated statements of operations and changes in net assets. In addition, Alliance recorded approximately $91,000 and $648,000 in EHR incentive revenue from the Medicaid program in 2015 and 2014, respectively, which is also included in other revenue in the accompanying consolidated statements of operations and changes in net assets.

Note 3 Patient Accounts Receivable

Patient accounts receivable consisted of the following at June 30:

	(In Thousands)	
	2015	2014
Patient accounts receivable	$ 236,930	$ 200,565
Less:		
Contractual adjustments and discounts	117,425	87,086
Allowance for doubtful accounts	23,048	20,593
Patient accounts receivable - Net	$ 96,457	$ 92,886

Write-offs as a percentage of gross revenue decreased 1.02% in 2015 compared to 2014; however, gross revenue increased approximately 10.1% in 2015 compared to 2014. These factors contributed to the allowance for doubtful accounts increasing from $20,593,000 at June 30, 2014 to $23,048,000 at June 30, 2015. The Corporation has not changed its charity care or uninsured discount policies during 2015 or 2014.

Note 4 Assets Limited as to Use

Assets limited as to use, stated at fair value, are invested as follows at June 30:

	(In Thousands)	
	2015	2014
Certificates of deposit	$ 1,683	$ 1,683
Money market funds	511	2,520
U.S. government and agency obligations	17,789	16,322
Municipal obligations	32	59
Corporate obligations	11,764	12,138
Foreign obligations	2,586	2,959
Equity mutual funds	27,706	27,935
Pooled separate accounts:		
Fixed income	75,067	63,618
Domestic equity	119,945	121,376
International equity	26,435	27,433
Total assets limited as to use	$ 283,518	$ 276,043

Note 4 Assets Limited as to Use (Continued)

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

	(In Thousands)	
	2015	2014
Held by trustee under bond indenture agreements-		
Debt service reserve and sinking funds	$ 4,872	$ 4,858
Held by Treasurer of State of Wisconsin for regulatory requirements	4,249	4,266
Internally designated:		
Deferred compensation	12,546	9,970
Expansion and capital improvements	252,252	246,644
Regulatory compliance	9,599	10,305
Total assets limited as to use	$ 283,518	$ 276,043

Investment income, which includes investment earnings on cash equivalents and assets limited as to use, was comprised of the following:

	(In Thousands)	
	2015	2014
Interest and dividend income	$ 8,462	$ 5,922
Net realized gains on sales of investments	3,534	7,500
Total investment income - Included in nonoperating income	11,996	13,422
Change in net unrealized gains and losses on investments other than trading securities	(2,654)	28,724
Totals	$ 9,342	$ 42,146

Note 4 Assets Limited as to Use (Continued)

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.

Management assesses individual investment securities as to whether declines in market value are other-than-temporary and result in an impairment. For equity securities and mutual funds, Alliance considers whether it has the ability and intent to hold the investment until a market price recovery. Evidence considered in this includes the reasons for the impairment, the severity and duration of the impairment, changes in value subsequent to year-end, the issuer's financial condition, and the general market condition in the geographic area or industry the investee operates in. For debt securities, if Alliance has made a decision to sell the security, or if it's more likely than not the Alliance will sell the security before the recovery of the security's cost basis, an other-than-temporary impairment is considered to have occurred. If Alliance has not made a decision or does not have intent to sell the debt security, but the debt security is not expected to recover its value due to a credit loss, an other-than temporary impairment is considered to have occurred.

Because Alliance has the intent and the ability to hold investment securities until a market price recovery or maturity, investment securities at June 30, 2015 and 2014, are not considered other-than temporarily impaired. No impairment losses were recognized by Alliance during 2015 and 2014.

Note 5 Fair Value Measurements

Following is a description of the valuation methodologies used for assets measured at fair value, including assets held in Alliance's defined benefit retirement plan (Note 8).

Money market funds: Valued using a net asset value (NAV) of $1.

Equity mutual funds: Valued at the daily closing price as reported by the fund. Mutual funds held by Alliance 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 by Alliance are deemed to be actively traded.

U.S. government and agency obligations, municipal obligations, corporate obligations, and foreign obligations: Valued 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.

Pooled separate accounts and common trust funds (see also Note 8): 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 to estimating fair value. The NAV is based on the fair value of the underlying investments held by the fund less its liabilities.

Note 5 Fair Value Measurements (Continued)

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 Alliance believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following tables sets forth by level, within the fair value hierarchy, Alliance's assets and liabilities measured at fair value on a recurring basis, as of June 30:

	(In Thousands) 2015			
	Level 1	Level 2	Level 3	Total
Money market funds	$ 9	$ 793	$ -	$ 802
U.S. government and agency obligations	-	17,789	-	17,789
Municipal obligations	-	32	-	32
Corporate obligations	-	11,764	-	11,764
Foreign obligations	-	2,586	-	2,586
Equity mutual funds	27,706	-	-	27,706
Pooled separate accounts:				
Fixed income	53,602	21,465	-	75,067
Domestic equity	119,945	-	-	119,945
International equity	26,435	-	-	26,435
Total assets at fair value	$ 227,697	$ 54,429	$ -	$ 282,126

Note 5 Fair Value Measurements (Continued)

	(In Thousands)			
	2014			
	Level 1	Level 2	Level 3	Total
Money market funds	$ 10	$ 3,291	$ -	$ 3,301
U.S. government and agency obligations	-	16,322	-	16,322
Municipal obligations	-	59	-	59
Corporate obligations	-	12,138	-	12,138
Foreign obligations	-	2,959	-	2,959
Equity mutual funds	27,935	-	-	27,935
Pooled separate accounts:				
Fixed income	42,650	20,968	-	63,618
Domestic equity	121,376	-	-	121,376
International equity	27,433	-	-	27,433
Total assets at fair value	$ 219,404	$ 55,737	$ -	$ 275,141

Note 5 Fair Value Measurements (Continued)

The following table set forth additional disclosures of Alliance's investments whose fair value is estimated at net asset value per share as of June 30:

2015				
Investment	(In Thousands) Fair Value	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Pooled separate accounts:				
Fixed income (a)	$ 21,465	$ -	Continuously	N/A

2014				
Investment	(In Thousands) Fair Value	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Pooled separate accounts:				
Fixed income (a)	$ 20,968	$ -	Continuously	N/A

(a) Fund's strategy is to maximize total return by investing primarily in a diversified portfolio of intermediate and long-term debt securities, primarly investment-grade bonds.

Note 6 Property and Equipment

Property and equipment consisted of the following at June 30:

	(In Thousands)	
	2015	2014
Land	$ 27,275	$ 27,301
Land improvements	7,104	6,972
Leasehold improvements	5,605	5,519
Buildings and improvements	331,060	323,105
Equipment	1,444	1,637
Major movable equipment	217,529	208,728
Total property and equipment	590,017	573,262
Less - Accumulated depreciation	300,794	274,593
Net depreciated value	289,223	298,669
Construction in progress	7,037	6,071
Property and equipment - Net	$ 296,260	$ 304,740

Amounts in construction in progress at June 30, 2015 and 2014, relate to routine capital projects for renovating and updating Alliance's facilities and computer software.

Note 7 Long-Term Debt

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

	(In Thousands)	
	2015	2014
Wisconsin Health and Educational Facilities Authority Revenue Bonds, Series 2012, dated May 17, 2012; interest payable semi-annually at varying rates (4.38% to 5.50%), principal due in annual installments beginning June 2018 continuing through June 2039	$ 169,475	$ 169,475
Wisconsin Health and Educational Facilities Authority Revenue Bonds, Series 2010A, dated June 9, 2010; interest payable semi-annually at varying rates (5.00% to 5.50%), principal due in annual installments through June 2026	27,640	31,995
Equipment loans and other	6,061	7,303
Totals	203,176	208,773
Less:		
Unamortized bond premiums	(10,256)	(10,713)
Current maturities	6,684	6,469
Long-term portion	$ 206,748	$ 213,017

Note 7 Long-Term Debt (Continued)

The bond indenture agreements require the creation of funds to be held by a trustee for payment of bond principal and interest. These funds, which are not available for general purposes, are classified as assets limited as to use under bond indenture agreements. 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 Alliance is in compliance with all such covenants. Mercy Health System Obligated Group, which includes MAI, MAC, MHSC, and MHH, has pledged as security for long-term debt substantially all of its property, equipment, and revenue.

Scheduled payments of principal on long-term debt at June 30, 2015, including current maturities, are summarized as follows:

	(In Thousands)
2016	$ 6,684
2017	6,488
2018	6,336
2019	5,881
2020	5,493
Thereafter	172,294
Total	$ 203,176

The carrying value of long-term debt approximates fair value.

Note 8 Retirement Plans

Alliance has a defined benefit noncontributory retirement plan (the "Plan") which covers its employees who work more than 1,000 hours annually, in addition to meeting certain eligibility requirements as specified in the Plan. 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.

The following table provides further information about the Plan as of the Plan years ended June 30:

	(In Thousands)	
	2015	2014
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 124,765	$ 111,361
Service cost	7,882	7,309
Interest cost	4,881	4,965
Benefits paid	(8,223)	(8,122)
Actuarial (gain) loss	(1,241)	9,252
Benefit obligation at end of year	128,064	124,765
Change in Plan assets:		
Fair value of Plan assets at beginning of year	102,642	84,836
Actual return on Plan assets	687	14,728
Employer contributions	11,200	11,200
Benefits paid	(8,223)	(8,122)
Fair value of Plan assets at end of year	106,306	102,642
Funded status	$ (21,758)	$ (22,123)
Accumulated benefit obligation	$ 122,803	$ 119,625

Note 8 Retirement Plans (Continued)

Amounts recognized in the accompanying consolidated balance sheets at June 30, 2015 and 2014, consisted of:

	(In Thousands)	
	2015	2014
Current liability - Other accrued expenses	$ 8,249	$ 8,601
Long-term liability	13,509	13,522
Total	$ 21,758	$ 22,123
Total net assets - Unrestricted:		
Prior service cost	$ 300	$ 407
Net actuarial loss	24,597	20,938
Total amount recognized in net assets	$ 24,897	$ 21,345

Pension expense for the years ended June 30, 2015 and 2014, was comprised of the following:

	(In Thousands)	
	2015	2014
Pension expense:		
Service cost	$ 7,882	$ 7,309
Interest cost	4,881	4,965
Expected return on assets	(7,086)	(6,466)
Amortization of prior service cost	107	107
Amortization of unrecognized actuarial loss	1,499	1,078
Total pension expense	7,283	6,993
Other changes in Plan assets and benefit obligations recognized in other changes in net assets:		
Net actuarial loss	5,158	990
Amortization of actuarial loss	(1,499)	(1,078)
Amortization of prior service cost	(107)	(107)
Total recognized in other changes in net assets	3,552	(195)
Total recognized as pension expense and other changes in net assets	$ 10,835	$ 6,798

Note 8 Retirement Plans (Continued)

The estimated prior service cost and actuarial loss that will be amortized from net assets into pension expense over the next fiscal year will be $1,178,000.

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

	2015	2014
Discount rate for obligation	4.20%	4.05%
Discount rate for net periodic cost	4.05%	4.60%
Expected long-term return on plan assets	6.50%	7.25%
Rate of compensation increase for obligation	2.00%	2.00%
Rate of compensation increase for net periodic cost	2.00%	2.00%

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

Alliance 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 Plan's circumstances, goals, time horizons, and tolerance for risk.

Alliance's asset allocations are as follows at June 30:

	2015	2014
Asset category:		
Cash equivalents	1.3%	0.6%
Common trust funds:		
Fixed income	53.4%	50.9%
Domestic equity	20.3%	43.3%
International equity	19.8%	-
International real estate	5.2%	5.2%
Totals	100.0%	100.0%

Note 8 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:

	(In Thousands) 2015			
	Level 1	Level 2	Level 3	Total
Cash equivalents	$ -	$ 1,397	$ -	$ 1,397
Common trust funds:				
Fixed income	-	56,750	-	56,750
Domestic equity	-	21,582	-	21,582
International equity	-	21,054	-	21,054
International real estate	-	5,523	-	5,523
Total assets at fair value	$ -	$ 106,306	$ -	$ 106,306

	(In Thousands) 2014			
	Level 1	Level 2	Level 3	Total
Cash equivalents	$ -	$ 634	$ -	$ 634
Common trust funds:				
Fixed income	-	52,212	-	52,212
Domestic equity	-	44,473	-	44,473
International real estate	-	5,323	-	5,323
Total assets at fair value	$ -	$ 102,642	$ -	$ 102,642

Note 8 Retirement Plans (Continued)

The following table sets forth additional disclosures of Alliance's investments whose fair value is estimated at NAV per share as of June 30:

	2015			
Investment	(In Thousands) Fair Value	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Common trust funds:				
Fixed income (a)	$ 56,750	$ -	Continuously	15 days
Domestic equity (b)	21,582	-	Continuously	15 days
International equity (c)	21,054	-	Continuously	15 days
International real estate (c)	5,523	-	Continuously	15 days

	2014			
Investment	(In Thousands) Fair Value	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Common trust funds:				
Fixed income (a)	$ 52,212	$ -	Continuously	15 days
Domestic equity (b)	44,473	-	Continuously	15 days
International real estate (c)	5,323	-	Continuously	15 days

(a) Invests primarily in high yield, high-risk debt securities. The objective is to achieve a high level of current income by investing primarily in a diversified portfolio of debt securities.

(b) 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.

(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.

Note 8 Retirement Plans (Continued)

Alliance expects to contribute $11,200,000 to the Plan in fiscal 2016.

Benefit payments are expected to be paid as follows:

	(In Thousands)
2016	$ 8,249
2017	8,861
2018	9,367
2019	10,067
2020	11,024
Years 2021 through 2025	65,886

MHSC, MAC, and MHH also participate in a contributory tax-deferred annuity plan, which covers all employees at least 18 years of age with one year of service. Employees may contribute up to 4% of compensation to the annuity plan on a tax-deferred basis, plus additional amounts subject to a regulatory limit. MHSC, MAC, and MHH may contribute discretionary amounts up to 50% of employees' tax-deferred contribution, up to 4% of compensation. MHSC, MAC, and MHH recognized expense of $2,699,000 and $2,141,000 in 2015 and 2014, respectively.

MHSC also contributes to a multi-employer defined benefit plan, which covers employees pursuant to the terms of collective bargaining agreements. MHSC recognized expense of $250,000 and $240,000 related to this plan for the years ended June 30, 2015 and 2014, respectively. MHSC also contributes to a 401(k) plan for this same group of employees an amount, based on a matching percentage of participant contributions, set by the terms of collective bargaining agreements. MHSC recognized expense of $94,000 and $84,000 related to the 401(k) plan in 2015 and 2014, respectively.

MHSC also sponsors deferred compensation programs covering certain physicians and officers. Investments designated for deferred compensation and corresponding liabilities totaling $12,546,000 and $9,970,000 at June 30, 2015 and 2014, respectively, are included in the accompanying consolidated balance sheets. Total deferred compensation expense was $1,451,000 and $1,456,000 in 2015 and 2014, respectively.

Note 9 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 the years ended June 30:

	(In Thousands)	
	2015	2014
Gross patient service revenue	$ 1,206,691	$ 1,096,491
Deductions - Contractual allowances and discounts:		
Medicare	(304,971)	(264,597)
Medicaid	(151,174)	(118,545)
Managed care	(56,789)	(62,308)
Commercial and other	(197,954)	(175,038)
Uninsured patients	(3,439)	(9,075)
Patient service revenue (net of contractual allowances and discounts)	$ 492,364	$ 466,928

During 2015 and 2014, approximately 34.7% of Alliance's patient service revenue (net of contractual allowances and discounts) related to patients participating in the Medicare and Medicaid programs.

Patient service revenue (net of contractual allowances and discounts) recognized in the years ended June 30, from major payor sources is as follows:

	(In Thousands)	
	2015	2014
Medicare and Medicaid	$ 170,710	$ 162,107
Managed care, and commercial and other	301,087	275,810
Uninsured patients	20,567	29,011
Patient service revenue (net of contractual allowances and discounts)	$ 492,364	$ 466,928

Note 10 Operating Leases

Alliance leases office space, office equipment, and certain medical equipment from unrelated organizations. Total rental expense was approximately $3,309,000 and $3,459,000 in 2015 and 2014, respectively.

Future minimum lease payments, by year and in the aggregate, under non-cancelable lease agreements are summarized as follows:

	(In Thousands)
2016	$ 1,143
2017	573
2018	308
2019	139
Total minimum lease payments	$ 2,163

Note 11 Insurance

Alliance manages a self-insurance program for its professional liability on a claims-made basis. Alliance retains the first $1,000,000 per occurrence and $3,000,000 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 Alliance generally retains the first $2,000,000 of loss per claim and has purchased an umbrella policy that provides excess coverage.

Alliance has provided a reserve of $20,894,000 and $20,000,000 for potential professional liability claims for services provided to patients through June 30, 2015 and 2014, respectively, which have not yet been asserted. These amounts are included in other accrued expenses in the accompanying consolidated balance sheets.

Effective January 1, 2015, Alliance implemented a self-funded health benefit plan covering substantially all of it employees and their dependents. A liability of $2,381,000 for estimated claims, including claims incurred but not yet reported, has been recorded in other accrued expenses in the accompanying consolidated balance sheets as of June 30, 2015.

Note 12 Concentration of Credit Risk

Financial instruments that potentially subject Alliance 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:

	2015	2014
Medicare	30%	30%
Medicaid	15%	10%
Other third-party payors	36%	36%
Patients	19%	24%
Totals	100%	100%

Alliance maintains depository relationships with area financial institutions that are Federal Deposit Insurance Corporation (FDIC) insured institutions. Alliance maintains cash in accounts at these institutions which are insured by the FDIC up to $250,000. At June 30, 2015, Alliance's deposits exceeded the insured limits by approximately $49,133,000.

Note 13 Functional Expenses

Alliance provides general health care services to residents within its geographic location and contracts with various health care providers to provide medical services to members insured by MCIC. Expenses related to providing these services are as follows:

	(In Thousands)	
	2015	2014
Health care services	$ 389,959	$ 381,791
General and administrative	151,283	136,337
Total expenses	$ 541,242	$ 518,128

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Rockford Health System and Affiliates

Rockford, Illinois

Consolidated Financial Statements and Supplementary Information

For the Period From January 1, 2015 to June 30, 2015

Rockford Health System and Affiliates

Consolidated Financial Statements and Supplementary Information

Period From January 1, 2015 to June 30, 2015

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Independent Auditor's Report

Board of Directors
Rockford Health System
Rockford, Illinois

We have audited the accompanying consolidated financial statements of Rockford Health System and Affiliates, which comprise the consolidated balance sheet as of June 30, 2015, and the related consolidated statements of operations, changes in net assets, and cash flows for the period from January 1, 2015 to June 30, 2015, 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 the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

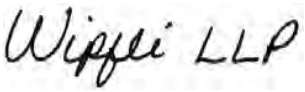
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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 consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Rockford Health System and Affiliates as of June 30, 2015, and the results of their operations, changes in their net assets, and their cash flows for the period from January 1, 2015 to June 30, 2015 in conformity with accounting principles generally accepted in the United States.



Wipfli LLP

October 7, 2015
Milwaukee, Wisconsin

Rockford Health System and Affiliates

Consolidated Balance Sheet

June 30, 2015 (in thousands)

Assets		
Current assets:		
Cash and cash equivalents	$	50,673
Short term investments		23,310
Patient accounts receivable - Net		59,370
Other receivables		5,961
Current portion of assets limited as to use		11,316
Inventories		9,151
Prepaid expense and other current assets		3,652
Total current assets		163,433
Assets limited as to use:		
Board-designated and trustee held investments		206,627
Donor-restricted and endowment funds		3,835
Total assets limited as to use		210,462
Property, plant and equipment - Net		147,331
Investments in joint ventures		10,768
Other assets		23,927
TOTAL ASSETS	$	555,921

Rockford Health System and Affiliates

Consolidated Balance Sheet (Continued)

June 30, 2015 (in thousands)

Liabilities and Net Assets		
Current liabilities:		
Current portion of long-term debt	$	3,992
Accounts payable		13,959
Accrued expenses		46,740
Deferred revenue		263
Due to third-party payors		16,346
Total current liabilities		81,300
Other liabilities:		
Long-term debt, less current portion		86,536
Accrued liabilities under self-insurance program		54,172
Pension liability		11,760
Accrued postretirement medical benefits		6,321
Other liabilities		12,906
Total liabilities		252,995
Net assets:		
Unrestricted		280,456
Temporarily restricted		14,062
Permanently restricted		8,408
Total net assets		302,926
TOTAL LIABILITIES AND NET ASSETS	$	555,921

See accompanying notes to consolidated financial statements.

Rockford Health System and Affiliates

Consolidated Statement of Operations

Period From January 1, 2015 to June 30, 2015 (in thousands)

Revenue:		
Patient service revenue (net of contractual allowances and discounts)	$	198,020
Provision for patient bad debts		(7,719)
Net patient service revenue less provision for patient bad debts		190,301
Provider tax and other provider payments		22,935
Other operating revenues		13,970
Total revenue		227,206
Expenses:		
Salaries and wages		107,041
Employee benefits		24,144
Supplies		30,809
Purchased services and professional fees		30,891
Depreciation and amortization		11,980
Recoveries on doubtful accounts		(26)
Insurance		5,728
Provider tax assessment		6,312
Interest		1,048
Other		4,141
Total expenses		222,068
Income from operations		5,138
Nonoperating gains:		
Investment income		2,986
Change in fair market value of swap		73
Other		19
Excess of revenues over expenses		8,216
Other changes in unrestricted net assets:		
Change in pension obligation other than pension expense		3,188
Postretirement medical benefit adjustment		1,208
Net assets released from restriction for capital		28
Change in unrestricted net assets	$	12,640

See accompanying notes to consolidated financial statements.

Rockford Health System and Affiliates

Consolidated Statement of Changes in Net Assets

Period From January 1, 2015 to June 30, 2015 (in thousands)

Unrestricted net assets:		
Excess of revenues over expenses	$	8,216
Change in pension obligation other than pension expense		3,188
Postretirement medical benefit adjustment		1,208
Net assets released from restriction for capital		28
Increase in unrestricted net assets		12,640
Temporarily restricted net assets:		
Contributions		222
Unrealized gains on investments, net		68
Net change in beneficial interest in trusts		124
Net assets released from restriction		(218)
Increase in temporarily restricted net assets		196
Decrease in permananently restricted net assets - Net change in beneficial interest in trusts		(24)
Change in net assets		12,812
Net assets at beginning		290,114
Net assets at end	$	302,926

See accompanying notes to consolidated financial statements.

Rockford Health System and Affiliates

Consolidated Statement of Cash Flows

Period From January 1, 2015 to June 30, 2015 (in thousands)

Cash flows from operating activities:		
Change in net assets	$	12,812
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities:		
Net realized and unrealized gains on investments		(4,583)
Equity gains in joint ventures		(2,013)
Unrealized gain on interest rate swap		(73)
Net pension and postretirement medical benefit adjustment		(4,396)
Depreciation and amortization		11,980
Provision for patient bad debts and doubtful accounts		7,693
Loss on disposal of assets		171
Changes in operating assets and liabilities:		
Patient accounts receivable		(2,092)
Accounts payable and accrued expenses		(4,387)
Deferred revenues		15
Due to third-party payors		1,816
Accrued liabilities under self-insurance program		2,953
Other assets and liabilities		811
Net cash provided by operating activities		20,707
Cash flows from investing activities:		
Purchases of property and equipment		(13,789)
Purchases of investments		(98,517)
Proceeds from sales of investments		98,468
Acquisition of business		(1,000)
Net cash used in investing activities		(14,838)
Net cash used in financing activities - Principal payments on long-term debt		(281)
Net increase in cash and cash equivalents		5,588
Cash and cash equivalents at beginning		45,085
Cash and cash equivalents at end	$	50,673

Supplemental disclosure of cash flow information		
Cash paid for interest	$	995
Property and equipment purchases accrued at year-end	$	262
Property and equipment purchases through capital lease	$	1,490

See accompanying notes to consolidated financial statements.

Note 1 Summary of Significant Accounting Policies

The Entity and Principles of Consolidation

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

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

The Hospital provides inpatient, outpatient, and emergency care services to area residents. RHPH provides physician and ambulatory care services at several sites. VNA provides home health nursing services and rents medical equipment to area residents. RMDF is organized to promote education and scientific and charitable health care activities. RHSV is a wholly owned subsidiary of the Hospital and was created to manage the organization's investments in joint ventures. RRHN is an accountable care organization created in 2014. RHIL is a wholly owned subsidiary of the Hospital and is incorporated under the laws of Bermuda. RHIL provides the affiliated corporations with excess professional and general liability insurance.

All significant intercompany accounts and transactions have been eliminated in consolidation.

Effective January 1, 2015, RHS merged with Mercy Alliance, Inc. of Janesville, Wisconsin. A new parent company was created, MercyRockford Health System, which became the sole corporate member of RHS. Operations of the new system will be guided by the Board of Directors of the MercyRockford Health System. In conjunction with the merger agreement, the System changed its fiscal year-end to June 30.

Note 1 Summary of Significant Accounting Policies (Continued)

Financial Statement Presentation

The System 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.

Use of Estimates in Preparation of Financial Statements

The preparation of the accompanying consolidated financial statements in conformity with GAAP requires management to make 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 System 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 reserves for malpractice claims, and valuation of the pension liability and postretirement medical benefits.

Cash Equivalents

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

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 System bills third-party payors on the patients' behalf, or if a patient is uninsured, the 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 System 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 addition, management provides for probable uncollectible amounts primarily from uninsured patients and amounts patients are personally responsible for, through a charge to operations and a credit to the allowance for doubtful accounts based on historical loss experience. 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.

Note 1 Summary of Significant Accounting Policies (Continued)

Inventories

Inventories of supplies are valued at the lower of cost, determined on an average cost method, or market.

Investments and Investment Income

Investments are designated as trading securities, and are measured at fair value in the accompanying consolidated balance sheet. 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, except for investment income from RMDF's activities, which is included in other operating revenue. Realized gains and losses are determined by specific identification.

Assets Limited as to Use

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, and temporarily restricted and donor restricted endowment funds, except for interests in beneficial trusts. Amounts required to meet current liabilities of the System have been classified as current assets.

Note 1 Summary of Significant Accounting Policies (Continued)

Fair Value Measurements

The System measures fair value of its financial instruments, including assets within the defined benefit pension plan, using a three-tier hierarchy which prioritizes the inputs used in measuring fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of fair value hierarchy are as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the System has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets in inactive markets;
- Inputs, other than quoted prices, that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's 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 maximize the use of observable inputs and minimize the use of unobservable inputs.

Note 1 Summary of Significant Accounting Policies (Continued)

Property, Plant and Equipment

Property, plant and equipment acquisitions are recorded at cost if purchased. Donated property and equipment are recorded at fair value at the date of donation, which is then treated as cost. Depreciation of property, plant and equipment is calculated using the straight-line, half-year method over their estimated useful lives, which generally range from three to forty years. Leasehold improvements are amortized over the shorter period of their estimated useful lives or the remaining term of the lease. Interest costs incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets, net of any earnings on those funds.

Deferred Financing Costs

Costs related to the issuance of long-term debt are amortized over the life of the related debt using the interest method. Deferred financing costs are included is other assets in the accompanying consolidated balance sheet.

Impairment

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 for the period January 1, 2015 to June 30, 2015.

Interest Rate Swap

The interest rate swap, included in other liabilities, is measured at fair value in the accompanying consolidated balance sheet. The System uses the interest rate swap to manage interest rate risk and to stabilize cash flow variability on its variable rate debt, however, the System has elected to not use hedge accounting for the interest rate swap. The change in fair value of the swap is recorded within nonoperating gains in the accompanying consolidated statement of operations.

Note 1 Summary of Significant Accounting Policies (Continued)

Net Assets

Unrestricted net assets consist of investments and otherwise unrestricted amounts that are not subject to donor-imposed stipulations. Temporarily restricted net assets are those whose use has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained 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.

Patient Service Revenue

The System 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 System recognizes revenue on the basis of discounted rates established under the System's uninsured patient policy. The provision for contractual allowances (that is, the differences 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 System, a significant portion of uninsured patients will be unwilling or unable to pay for services provided. Thus, the System records a provision for patient bad debts related to uninsured patients in the period the services are provided. The provision for patient 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 System 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.

Note 1 Summary of Significant Accounting Policies (Continued)

Charity Care

The System provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because 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 patient bad debts in the accompanying consolidated statement of operations. The estimated cost of providing care to patients under the System's charity care policy is calculated by multiplying the ratio of cost to gross charges by the gross uncompensated charity care charges.

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

(in thousands)

Note 1 Summary of Significant Accounting Policies (Continued)

Other Operating Revenue

Presented below is a table of other operating revenue from January 1, 2015 to June 30, 2015:

Investment income	$	3,008
Joint Ventures		2,013
Grant revenue		1,903
Medical lab		1,763
EMR incentive		1,156
Cafeteria		935
Miscellaneous department revenue		884
Other		709
Donations and contributions		703
Daycare		654
Lease and rental		242
Other operating revenues	$	13,970

Excess of Revenue Over Expenses

The accompanying consolidated statement 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 changes in pension obligation other than pension expense and postretirement medical benefits adjustment, and net assets released from restriction for capital.

Note 1 Summary of Significant Accounting Policies (Continued)

Contributions and Unconditional Promises 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. When donor-restricted contributions are expended for operating purposes or capital improvements, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statement of operations as other revenue or in the consolidated statements of operations and changes in net assets as net assets released from restrictions, respectively. Donor-imposed contributions whose restrictions are met within the same year as received are reflected as unrestricted contributions in the accompanying consolidated financial statements. RMDF recognizes its interest in trustee-held funds at various financial institutions for which RMDF has a beneficial interest. Periodically, the financial institutions distribute a portion of the income earned on these funds to RMDF.

Advertising Costs

Advertising costs are expensed as incurred.

Subsequent Events

Subsequent events have been evaluated through October 7, 2015, which is the date the 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 the System's established rates. A summary of the basis of reimbursement with major third-party payors follows:

Government Payors

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

Medicaid – Effective July 1, 2014, Illinois implemented a new Medicaid reimbursement system which is based on prospectively determined rates using inpatient and outpatient specific patient classification systems. The new system results in a change in how Medicaid reimbursement will be distributed to hospitals, with certain hospitals, including the System, expected to receive decreased reimbursement. A temporary 2-year transition payment program has been implemented to mitigate the negative impact.

Other Payors

The System 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, 2011.

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

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 System 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, 2015, the System has received notices from the RAC of certain claims identified as inaccurate. The System is appealing a number of these adjustments and management believes any reimbursement adjustments related to these claims will not be significant.

Note 3 Charity, Uncompensated Care and Community Benefit

The System's policy is to provide medically necessary health care services regardless of the patient's ability to pay for such care. The System maintains records to identify and monitor the level of charity care it provides. The estimated cost to provide charity care was approximately $1,078.

The System also provides uncompensated care that doesn't qualify as charity care to Medicaid patients for which the reimbursement received from the state for this care is below cost.

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

(in thousands)

Note 4 Patient Accounts Receivable

Patient accounts receivable consisted of the following at June 30, 2015:

Patient accounts receivable	$	141,854
Less:		
Contractual adjustments		67,425
Allowance for doubtful accounts		15,059
Patient accounts receivable - net	$	59,370

Note 5 Short Term Investments and Assets Limited as to Use

The composition of short term investments was as follows at June 30, 2015:

Short term investments:		
Cash and cash equivalents	$	1,902
Corporate bonds		10,129
U.S. government and agency obligations		8,782
Mutual funds		1,836
Marketable equity securities		661
Total short term investments	$	23,310

The composition of assets limited as to use was as follows at June 30, 2015:

Board-designated investments and trustee held:		
Cash and cash equivalents	$	3,117
Corporate bonds		22,651
U.S. government and agency obligations		25,348
Mutual funds		115,690
Marketable equity securities		47,821
Total board-designated and trustee held investments		214,627

(in thousands)

Note 5 Short Term Investments and Assets Limited as to Use (Continued)

Donor-restricted and endowment funds:		
Cash and cash equivalents	$	1,037
Corporate bonds		614
U.S. government and agency obligations		704
Mutual funds		3,292
Marketable equity securities		1,504
Total donor-restricted and endowment funds		7,151
Total assets limited as to use	$	221,778

Total assets limited as to use were classified as follows in the consolidated balance sheet:

Current	$	11,316
Noncurrent		210,462
Total	$	221,778

Investment income was comprised of the following for the period January 1, 2015 to June 30, 2015:

Interest and dividends	$	1,479
Gain on sale of investments		405
Change in net unrealized gains and losses on investments		4,110
Total	$	5,994

Reported as:		
Other operating revenue	$	3,008
Nonoperating gains		2,986
Total	$	5,994

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 6 Fair Value Measurements

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value, including assets held in the System's defined benefit retirement plan (Note 10).

Cash and equivalents: Valued using a net asset value (NAV) of $1.

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

Mutual funds: Valued at the daily closing price as reported by the fund. Mutual funds held by the System 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 by the System are deemed to be actively traded.

U.S. government and agency 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.

Corporate bonds: Valued 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: Valued using NAV as a practical expedient. The fund invests in a variety of short term bonds or asset-backed securities. There are no commitments or redemptions notice periods.

Interest rate swap: Valued using a discounted cash flow analysis using observable market inputs, including forward interest rate yield curves.

(in thousands)

Note 6 Fair Value Measurements (Continued)

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 System believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following tables sets forth by level, within the fair value hierarchy, the System's assets and liabilities measured at fair value on a recurring basis, as of June 30, 2015:

	Level 1	Level 2	Level 3	Total
Assets:				
Cash and equivalents	$ 6,056	$ -	$ -	$ 6,056
U.S. government and agency obligations	18,003	16,831	-	34,834
Corporate bonds	-	33,394	-	33,394
Mutual funds	120,818	-	-	120,818
Marketable equity securities	49,986	-	-	49,986
Total assets at fair value	$ 194,863	$ 50,225	$ -	$ 245,088
Liability - Interest rate swap	$ -	$ 1,919	$ -	$ 1,919

(in thousands)

Note 7 Property, Plant, and Equipment

Property, plant, and equipment consisted of the following at June 30, 2015:

Land and improvements	$	15,945
Buildings		120,839
Equipment		304,532
Total property, plant and equipment		441,316
Less - accumulated depreciation		302,560
Net depreciated value		138,756
Construction in progress		8,575
Total property, plant and equipment - net	$	147,331

Amounts in construction in progress at June 30, 2015 related to routine capital projects for renovating and updating the System's facilities and computer software.

Note 8 Investments in Joint Ventures

The System's investments in joint ventures are recorded on an equity basis. The related income or loss is included in the consolidated statement of operations as other operating revenue. The investments in joint ventures consisted of: a 27% ownership interest in KSB/RMHSC Partnership (KSB), which owns and leases a medical office building, and a 50% ownership interest in VanMatre HealthSouth Rehabilitation Hospital (VanMatre), which provides inpatient and outpatient rehabilitation services. The recorded investment at June 30, 2015, as well as the related income or loss reported from January 1, 2015 to June 30, 2015 was as follows:

		Joint Venture Investment as of June 30, 2015		Joint Venture Income (Loss) January 1, 2015 - June 30, 2015
KSB	$	271	$	14
VanMatre		10,497		1,999
Total	$	10,768	$	2,013

(in thousands)

Note 9 Long-Term Debt

Long-term debt consisted of the following at June 30, 2015:

Illinois Health Facilities Authority Bonds:		
Revenue bonds, Series 2012 fixed rates, maturing at varying amounts through August 2021	$	27,380
Revenue bonds, Series 2008 variable rates, maturing at varying amounts through August 2040		60,800
Equipment loans		2,448
Totals		90,628
Less:		
Current portion		3,992
Unamortized discount		100
Total long-term debt, less current portion	$	86,536

The carrying value of long-term debt approximates fair value.

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

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

Note 9 Long-Term Debt (Continued)

During 2008, the Obligated Group refunded (through a legal defeasance) the Series 1994 revenue bonds through the issuance of $60,800 Series 2008 variable rate demand revenue bonds. These bonds accrue interest at variable rates which reset weekly. The variable rates ranged from 0.737% to 0.827% for the period from January 1, 2015 to June 30, 2015. The Series 2008 bonds are collateralized by a letter of credit with an expiration date of December 16, 2016. The Series 2008 bonds also have a put option that allows the holders to redeem the bonds prior to maturity. The Obligated Group has an agreement with a remarketing agent to remarket any bonds redeemed as a result of the exercise of the put options. If the bonds cannot be remarketed, a bank will purchase the bonds under the letter of credit. The Obligated Group has an obligation to make payments on the letter of credit for unremarketed bonds over a period of three years from the date of a draw on the letter of credit with no principal due in the first year.

In 2009, the Obligated Group entered into an interest rate swap agreement to hedge, or offset, future fluctuations in interest rates relative to the variable rate debt associated to the Series 2008 bonds. The notional value of the swap is $36,500, and is scheduled to terminate in August 2019. Under the terms of the swap agreement, the Obligated Group makes fixed interest payments of 2.435% to a counterparty and receives a variable rate based on a percentage of LIBOR. Under this agreement, the System may be exposed to loss of nonperformance by the counterparty to the interest rate swap agreement. At June 30, 2015, fair value of the interest rate swap agreement was a liability of $1,919, and is included in other liabilities in the accompanying consolidated balance sheet. Net interest paid under the swap agreement totaled $411 for the period from January 1, 2015 to June 30, 2015, and is included in interest expense in the accompanying consolidated statement of operations.

The bond agreements require maintenance of certain financial ratios, and require compliance with various other restrictive covenants. Management believes the System is in compliance with all such covenants. The Obligated Group has pledged as security for long-term debt substantially all of its property, equipment, and revenue.

(in thousands)

Note 9 Long-Term Debt (Continued)

In December 2014, the System entered into a $10,000 lease line of credit agreement for medical equipment. The credit line may be accessed for a period of one year with rental factors determined at the time of each equipment acquisition. As of June 30, 2015, the System has $1,341 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

In June 2014, the System entered into a capitalized lease agreement for medical equipment. Under the terms of the agreement, monthly payments of $24 will be required through June 2019.

Scheduled payments of principal on long-term debt at June 30, 2015, including current maturities, are summarized as follows:

2016	$	3,992
2017		4,175
2018		4,370
2019		4,406
2020		4,090
Thereafter		69,595
Total	$	90,628

Note 10 Pension and Post Retirement

Defined Benefit Pension Plan

The System sponsors a noncontributory defined benefit pension plan which covered substantially all full-time employees and regular part-time employees until the plan was frozen in 2003. At that time, employees elected to stay within the defined benefit pension plan or opt into the defined contribution plan. No new participants were allowed to join the plan after this 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 the Employee Retirement Income Security Act of 1974 (ERISA), as amended, as determined by an actuary. The System contributed $4,000 for the defined benefit pension plan from January 1, 2015 to June 30, 2015. The System expects to incur expense of $17 for fiscal year 2016.

During the period January 1, 2015 to June 30, 2015, lump-sum benefit payments from the plan were $3,007, 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 Plan recognized $731 as settlement charges for the period January 1, 2015 to June 30, 2015. For fiscal year 2016, settlement accounting will be triggered if lump-sum payouts exceed the interest cost of $3,835.

Defined Benefit Postretirement Medical Plan

The System 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 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 System recognizes the expected cost of these postretirement benefits during the years the employees render service. Postretirement benefit expense is allocated among the participating entities as determined by an actuary. The expected expense for the System in fiscal year 2016 is $171 for this plan.

(in thousands)

Note 10 Pension and Post Retirement (Continued)

The following table provides further information about the plans as of June 30, 2015 and for the period from January 1, 2015 to June 30, 2015:

	Pension Benefits	Postretirement Medical Benefits
Change in benefit obligation:		
Benefit obligation at beginning of period	$ 91,583	$ 7,793
Service cost	-	357
Interest cost	1,965	144
Actuarial gains	(2,171)	(1,387)
Settlements	(3,007)	-
Participant contributions	-	96
Benefits paid	(389)	(179)
Benefit obligation at end of period	$ 87,981	$ 6,824
Change in plan assets:		
Fair value of plan assets at beginning of period	73,408	-
Actual return on plan assets	2,209	-
Employer contributions	4,000	83
Settlements	(3,007)	-
Participant Contributions	-	96
Benefits paid	(389)	(179)
Fair value of plan assets at end of period	76,221	-
Funded status of the plan	$ (11,760)	$ (6,824)
Accumulated benefit obligation	$ 87,981	$ 6,824

Amounts recognized in the accompanying consolidated balance sheet at June 30, 2015 consisted of:

	Pension Benefits	Postretirement Medical Benefits
Current liabilities	$ -	$ (503)
Noncurrent liabilities	(11,760)	(6,321)
Total amounts recognized in liabilities	$ (11,760)	$ (6,824)
Total net assets - Unrestricted:		
Prior service cost	$ -	$ (494)
Net actuarial loss	(21,377)	(3,457)
Total amount recognized in unrestricted net assets	$ (21,377)	$ (3,951)

(in thousands)

Note 10 Pension and Post Retirement (Continued)

Pension expense and other amounts recognized in other changes in net assets for the period January 1, 2015 to June 30, 2015 were comprised of the following:

	Pension Benefits	Postretirement Medical Benefits
Benefit expense:		
Service cost	$ -	$ 357
Interest cost	1,965	144
Expected return on plan assets	(2,140)	-
Amortization of prior service cost (credit)	-	(73)
Amortization of unrecognized net loss (gain)	216	(106)
Settlement Charges	731	-
Total benefit expense	$ 772	$ 322
Other changes in assets and benefit obligations recognized in other changes in unrestricted net assets:		
Actuarial gain arising during the period	$ (2,241)	$ (1,387)
Amortization of actuarial (gain) loss	(216)	106
Recognition due to settlements	(731)	-
Reclassification adjustment for recognition of actuarial loss	-	73
Total recognized in other changes in unrestricted net assets	(3,188)	(1,208)
Total recognized as benefit expense and other changes in unrestricted net assets	$ (2,416)	$ (886)

The estimated actuarial loss that will be amortized from net assets into pension expense related to the defined benefit pension plan over the next fiscal year will be $359.

(in thousands)

Note 10 Pension and Post Retirement (Continued)

Weighted average assumptions used at June 30, 2015, the measurement date, in developing the benefit obligation were as follows:

	Pension Benefits	Postretirement Medical Benefits
Assumptions:		
Discount rate-benefit obligation	4.57 %	3.79 %
Discount rate-benefit cost	4.37 %	3.47 %
Assumed rate of return on plan assets	5.71 %	N/A

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

For postretirement medical benefit obligation measurement purposes, a 6.5% annual rate of increase in the per capita cost of covered healthcare benefits was assumed for the period from January 1, 2015 to June 30, 2015. The rate was assumed to decrease gradually to 5.0% for 2018 and remain at that level thereafter. A 1% change in the assumed health care cost trend rates would have the following effects:

	1% increase	1% decrease
Effect on total of service and interest cost components	$ 25	$ (23)
Effect on postretirement benefit obligation	94	(89)

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

(in thousands)

Note 10 Pension and Post Retirement (Continued)

The System's allocations for the defined benefit pension plan assets are as follows at June 30, 2015:

	Target Range	Actual
Equity securities	0-50%	38 %
Fixed income	0-50%	54 %
Cash and cash equivalents	0-100%	8 %
Total		100 %

The following table sets forth by level, within the fair value hierarchy, the System's Plan assets at fair value as of June 30, 2015:

	Level 1	Level 2	Level 3	Total
Cash	$ 5,952	$ -	$ -	$ 5,952
Marketable equity securities	11,348	-	-	11,348
Mutual funds:				
Equity	17,993			17,993
Fixed income	9,044			9,044
U.S. government and agency obligations	5,765	4,635	-	10,400
Corporate bonds	-	11,380	-	11,380
Short-term fund	-	10,104	-	10,104
Total	$ 50,102	$ 26,119	$ -	$ 76,221

The System expects to contribute $4,000 and $503 to the defined benefit plan and postretirement medical benefit plans, respectively, in fiscal 2016.

Benefit payments are expected to be paid as follows:

	Pension Benefits	Postretirement Medical Benefits
2016	$ 8,149	$ 503
2017	6,961	520
2018	6,825	614
2019	6,690	735
2020	6,912	744
2021-2025	31,034	3,433

Note 10 Pension and Post Retirement (Continued)

Defined Contribution Plans

The System contributes 3.3% of compensation for the benefit of any participant in either the Rockford Health System Fixed Contribution Plan (the "Fixed Contribution Plan") or the Rockford Clinic Retirement Plan (the "Clinic Retirement Plan") that is employed as of December 31 each year. Employees are eligible to participate in one of the two defined contribution plans after service and age requirements are met, as long as they do not participate in the defined benefit pension plan. The System's contribution expense for these plans for the period January 1, 2015 to June 30, 2015 amounted to $2,164.

Voluntary Contribution Retirement Plan

The System also offers a voluntary defined contribution pension plan. Participants can contribute gross compensation per the plan's agreement and federal guidelines and the System makes matching contributions that are limited to an amount specified in the plan and per federal guidelines. The System's contribution expense for this plan for the period January 1, 2015 to June 30, 2015 amounted to $4,019.

Salary Deferral Retirement Plan

In addition, the System offers a 457(b) retirement plan for highly compensated individuals. This voluntary salary deferral was recorded as a long-term asset and liability in the amount of $8,521 at June 30, 2015. These amounts are included in assets limited as to use and other liabilities in the accompanying consolidated balance sheet.

(in thousands)

Note 11 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) from January 1, 2015 to June 30, 2015:

Gross patient service revenue:		
Medicare	$	226,973
Medicaid		173,452
Managed care		156,228
Commercial		8,395
Self-pay and other		11,347
Total gross patient service revenue:		576,395
Deductions - Contractual allowances and discounts:		
Medicare		163,518
Medicaid		133,581
Managed care		68,591
Commercial		3,073
Self-pay and other		9,612
Total contractual allowances and discounts		378,375
Patient service revenue (net of contractual allowances and discounts)	$	198,020

For the period January 1, 2015 to June 30, 2015, approximately 29% of the System's patient service revenue (net of contractual allowances and discounts) related to patients participating in the Medicare and Medicaid programs.

Patient service revenue (net of contractual allowances and discounts) recognized for the period January 1, 2015 to June 30, 2015, from major payor sources, was as follows:

Medicare and Medicaid	$	103,326
Managed care and commercial		92,959
Self-pay and other		1,735
Patient service revenue (net of contractual allowances and discounts)	$	198,020

(in thousands)

Note 12 Restricted Net Assets and Endowments

Temporarily restricted net assets as of June 30, 2015 were available for the following purposes:

Care for the indigent	$	1,254
Capital purchases		9
Other purposes		12,799
Total	$	14,062

Permanently restricted net assets as of June 30, 2015 were invested for the following purposes:

Care for the indigent	$	3,091
Educational programs		873
General services		4,444
Total	$	8,408

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

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

(in thousands)

Note 12 Restricted Net Assets and Endowments (Continued)

Endowment net asset composition by type of fund as of June 30, 2015 was as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 4,471	$ 4,017	$ 8,488
Board-designated endowment funds	365	-	-	365
Total funds	$ 365	$ 4,471	$ 4,017	$ 8,853

Investment and Spending Policies

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

Note 13 Insurance

The Hospital, RHPH, and VNA 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, 2015, there were no receivables for claims paid in excess of self-insured limits.

(in thousands)

Note 13 Insurance (Continued)

At June 30, 2015, the self-insurance reserve (discounted at 3.0%) and trustee-held investments recorded in the accompanying consolidated balance sheet were as follows:

Assets:		
Current portion of assets limited as to use	$	8,000
Board-designated and trustee held investments		55,414
Total	$	63,414

Liabilities:		
Accrued expenses	$	8,000
Accrued liabilities under self-insurance program		54,172
Total	$	62,172

The undiscounted reserve at June 30, 2015 was $68,768.

Note 14 Concentration of Credit Risk

Financial instruments that potentially subject the System 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, 2015:

Medicare	19%
Medicaid	29%
Managed care	33%
Commercial	8%
Self-pay and other	11%
Total	100%

The System maintains depository relationships with area financial institutions that exceeded federally insured limits at June 30, 2015. The System regularly monitors cash balances along with the financial condition of the financial institutions to minimize this potential risk.

Note 15 Functional Expenses

The System provides general health care services to residents within its geographic location. Expenses related to providing these services from January 1, 2015 to June 30, 2015 are as follows:

Health care services	$	180,966
General and administrative		41,102
Total	$	222,068

Supplementary Information

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Independent Auditor's Report on Supplementary Information

Board of Directors
Rockford Health System
Rockford, Illinois

We have audited the consolidated financial statements of Rockford Health System and Affiliates as of June 30, 2015 and for the period from January 1, 2015 to June 30, 2015, and our report thereon dated October 7, 2015, which expressed an unmodified opinion on those consolidated 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 consolidating information appearing on pages 41 through 42 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and changes in net assets of the individual organizations, and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating 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 consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Wipfli LLP

Wipfli LLP

October 7, 2015
Milwaukee, Wisconsin

Rockford Health System and Affiliates

Consolidating Balance Sheet

June 30, 2015 (in thousands)

	Rockford Memorial Hospital	Rockford Health Physicians	Rockford Memorial Development Foundation	Eliminations	Obligated Group Subtotal	Rockford Health System	Visiting Nurses Association	Eliminations	Consolidated
Assets									
Current assets:									
Cash and cash equivalents	$ 46,131	$ 231	$ 774	$ -	$ 47,136	$ 2,554	$ 983	$ -	$ 50,673
Short term investments	5,160	-	18,150	-	23,310	-	-	-	23,310
Patient accounts receivable - Net	47,265	9,951	-	(1,008)	56,208	-	3,265	(103)	59,370
Other receivables	5,196	422	73	(805)	4,886	593	482	-	5,961
Due from affiliates	658	26	8	(33)	659	345	-	(1,004)	-
Current portion of assets limited to use	8,000	-	3,316	-	11,316	-	-	-	11,316
Inventories	8,334	683	-	-	9,017	-	134	-	9,151
Prepaid expense and other current assets	1,490	223	3	-	1,716	1,854	82	-	3,652
Total current assets	122,234	11,536	22,324	(1,846)	154,248	5,346	4,946	(1,107)	163,433
Assets limited as to use:									
Board-designated and trustee held investments	104,486	6,010	96,131	-	206,627		-	-	206,627
Donor-restricted and endowment funds	2,280	-	1,555	-	3,835		-	-	3,835
Total assets limited as to use	106,766	6,010	97,686	-	210,462	-	-	-	210,462
Property, plant and equipment - Net	104,456	32,861	-	-	137,317	8,509	1,505		147,331
Investments in joint ventures	10,497	271	-	-	10,768	-	-	-	10,768
Other assets	11,579	3,991	11,938	(4,281)	23,227	644	2,846	(2,790)	23,927
TOTAL ASSETS	$ 355,532	$ 54,669	$ 131,948	$ (6,127)	$ 536,022	$ 14,499	$ 9,297	$ (3,897)	$ 555,921
Liabilities and Net Assets									
Current liabilities:									
Current portion of long-term debt	$ 3,992	$ -	$ -	$ -	$ 3,992	$ -	$ -	$ -	$ 3,992
Accounts payable	6,986	1,767	891	(805)	8,839	4,638	513	(31)	13,959
Accrued expenses	26,847	17,323	22	(1,008)	43,184	2,728	900	(72)	46,740
Deferred revenues	2	31	8	-	41	100	122	-	263
Due to third-party payors	16,346	-	-	-	16,346	-	-	-	16,346
Due to affiliates	-	7	45	(33)	19	-	985	(1,004)	-
Total current liabilities	54,173	19,128	966	(1,846)	72,421	7,466	2,520	(1,107)	81,300
Other liabilities:									
Long-term debt, less current portion	58,567	27,969	-	-	86,536	-	-	-	86,536
Accrued liabilities under self-insurance program	33,600	20,363	-	-	53,963	-	209	-	54,172
Pension Liability	10,668	795	-	-	11,463	-	297	-	11,760
Accrued postretirement medical benefits	5,108	973	-	-	6,081	-	240	-	6,321
Other liabilities	5,754	6,276	90	-	12,120	630	156	-	12,906
Total liabilities	167,870	75,504	1,056	(1,846)	242,584	8,096	3,422	(1,107)	252,995
Net assets:									
Unrestricted	177,587	(20,835)	114,217	-	270,969	6,403	4,983	(1,899)	280,456
Temporarily restricted	7,450	-	10,547	(3,936)	14,061	-	400	(399)	14,062
Permanently restricted	2,625	-	6,128	(345)	8,408	-	492	(492)	8,408
Total net assets	187,662	(20,835)	130,892	(4,281)	293,438	6,403	5,875	(2,790)	302,926
TOTAL LIABILITIES AND NET ASSETS	$ 355,532	$ 54,669	$ 131,948	$ (6,127)	$ 536,022	$ 14,499	$ 9,297	$ (3,897)	$ 555,921

Rockford Health System and Affiliates

Consolidating Statement of Operations

From January 1, 2015 to June 30, 2015 (in thousands)

	Rockford Memorial Hospital	Rockford Health Physicians	Rockford Memorial Development Foundation	Eliminations	Obligated Group Subtotal	Rockford Health System	Visiting Nurses Association	Eliminations	Consolidated
Revenue:									
Patient service revenue (net of contractual allowance and discounts)	$ 156,711	$ 44,226	$ -	$ (7,960)	$ 192,977	$ -	$ 5,358	$ (315)	$ 198,020
Provision for patient bad debts	(5,590)	(1,990)	-	-	(7,580)	-	(139)	-	(7,719)
Net patient service revenue less provision for patient bad debts	151,121	42,236	-	(7,960)	185,397	-	5,219	(315)	190,301
Provider tax and other provider payments	22,935	-	-	-	22,935	-	-	-	22,935
Other operating revenues and net assets released from restrictions	11,400	17,520	3,486	(19,910)	12,496	3,782	1,486	(3,794)	13,970
Total revenue	185,456	59,756	3,486	(27,870)	220,828	3,782	6,705	(4,109)	227,206
Expenses:									
Salaries and wages	53,033	44,206	141	1,857	99,237	4,270	3,534	-	107,041
Employee benefits	20,781	9,563	48	(8,135)	22,257	894	1,219	(226)	24,144
Supplies	26,600	3,279	24	-	29,903	20	977	(91)	30,809
Purchased services and professional fees	42,743	11,231	88	(21,617)	32,445	1,472	719	(3,745)	30,891
Depreciation and amortization	8,967	2,765	-	-	11,732	28	220	-	11,980
Recoveries on doubtful accounts	(26)	-	-	-	(26)	-	-	-	(26)
Insurance	3,054	2,538	-	1	5,593	39	96	-	5,728
Provider tax assessment	6,312	-	-	-	6,312	-	-	-	6,312
Interest	609	439	-	-	1,048	-	-	-	1,048
Other	2,054	868	457	24	3,403	421	364	(47)	4,141
Total expenses	164,127	74,889	758	(27,870)	211,904	7,144	7,129	(4,109)	222,068
Income (loss) from operations	21,329	(15,133)	2,728	-	8,924	(3,362)	(424)	-	5,138
Nonoperating gains (losses):									
Investment income	2,965	21	-	-	2,986	-	-	-	2,986
Change in fair market value of swap	73	-	-	-	73	-	-	-	73
Other	28	(9)	-	-	19	-	-	-	19
Excess (deficiency) of revenues over expenses	24,395	(15,121)	2,728	-	12,002	(3,362)	(424)	-	8,216
Other changes in unrestricted net assets:									
Change in pension obligation other than pension expense	2,891	216	-	-	3,107	-	81	-	3,188
Postretirement medical benefit adjustment	959	219	-	-	1,178	-	30	-	1,208
Net change in beneficial interest in trust	-	-	-	-	-	-	34	(34)	-
Net assets released from restriction used for capital	20	-	-	-	20	8	-	-	28
Transfers (to) from affiliates	(21,493)	16,247	-	-	(5,246)	5,246	-	-	-
Change in unrestricted net assets	$ 6,772	$ 1,561	$ 2,728	$ -	$ 11,061	$ 1,892	$ (279)	$ (34)	$ 12,640

See Independent Auditor's Report on Supplementary Information.

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APPENDIX B-2

CONSOLIDATED FINANCIAL STATEMENTS OF ROCKFORD HEALTH SYSTEM AND AFFILIATED CORPORATIONS AS OF AND FOR THE FISCAL YEARS ENDED DECEMBER 31, 2014 AND 2013

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Rockford Health System and Affiliated Corporations

Consolidated Financial Statements
December 31, 2014 and 2013

Rockford Health System and Affiliated Corporations
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December 31, 2014 and 2013

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Independent Auditor's Report

To the Board of Directors of
Rockford Health System:

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Rockford Health System and Affiliated Corporations at December 31, 2014 and December 31, 2013, and the results of their operations, changes in net assets, and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

March 27, 2015

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

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

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

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

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

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

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

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

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

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

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

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

1. Organization and Nature of Operations

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

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

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

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

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

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

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

2. Summary of Significant Accounting Policies

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(in thousands of dollars)

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

Excess of Revenues over Expenses
The consolidated statements of operations and changes in net assets include excess of revenues over expenses. Changes in unrestricted net assets which are excluded from excess of revenues over expenses, consistent with industry practice, include the change in net unrealized investment gains and losses on non-trading investments, permanent transfers of assets to and from affiliates for other than goods and services, contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets), and the change in pension liability.

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

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

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

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

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

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

(in thousands of dollars)

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

Presented below is a table of other operating revenue for the years ended December 31, 2014 and 2013:

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

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

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

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

3. Third-Party Reimbursement Programs

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

- *Medicare* — Inpatient acute care services provided to Medicare program beneficiaries are paid based on Medicare's Prospective Payment System (PPS). These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient rehabilitation services are paid based on Medicare's PPS for rehabilitation facilities. These rates vary based on clinical and other factors, similar to PPS. Inpatient psychiatric services are paid on a prospective per diem rate based on diagnostic related group assignments and other factors. Most outpatient services are paid under Medicare's Outpatient Prospective Payment System (OPPS) based on Ambulatory Payment Classification groups. Those outpatient services excluded from OPPS continue to be paid based on fee schedules or cost-based methodologies. The

Hospital is reimbursed for cost-reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports. The Hospital's Medicare cost reports have been audited and settled by the Medicare fiscal intermediary through the year ended December 31, 2011.

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

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

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

- *Other* — Reimbursement for services to certain patients is received from commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for reimbursement includes prospectively determined rates per discharge, per diem payments, and discounts from established charges.

- *Regulatory Environment Including Fraud and Abuse Matters* — The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity continues with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the System is in compliance with fraud and abuse, as well as other applicable government laws and regulations. However, compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

4. Charity, Uncompensated Care and Community Benefits

The System's policy is to provide medically necessary health care services regardless of the patient's ability to pay for such care. The System maintains records to identify and monitor the

(in thousands of dollars)

level of charity, uncompensated care and community benefit it provides. These records include the costs for services and supplies furnished under its policy as well as the estimated difference between the cost of services provided to Medicaid patients and the reimbursement received from the state for this care. The costs of service are estimated using the annual cost-to-charge ratio.

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

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

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

5. Concentration of Credit Risk

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

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

6. Fair Value Measurements

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

on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value.

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

- *Level 1* – Quoted prices in active markets for identical assets
- *Level 2* – Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the same term of the assets.
- *Level 3* – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets.

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

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

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

(in thousands of dollars)

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

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

(in thousands of dollars)

7. Assets Limited as to Use

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

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

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

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

8. Property, Plant and Equipment

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

(in thousands of dollars)

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

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

9. Investments in Joint Ventures

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

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

(in thousands of dollars)

10. Long-Term Debt

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

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

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

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

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

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

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

(in thousands of dollars)

in August 2019. Under the terms of the swap agreement, the Obligated Group makes fixed interest payments of 2.435% to a counterparty and receives a variable rate based on a percentage of LIBOR. Under this agreement, the System may be exposed to loss in the event of nonperformance by the counterparty to the interest rate swap agreement.

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

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

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

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

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

2015	$	3,626
2016		3,801
2017		3,987
2018		4,177
2019		4,233
Thereafter		69,595
	$	89,419

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

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

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

11. Pension and Postretirement Plans

Defined Benefit Pension Plan

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

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

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

Defined Contribution Plans

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

Voluntary Contribution Retirement Plan

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

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

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

(in thousands of dollars)

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

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

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

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

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

(in thousands of dollars)

net assets, are as follows:

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

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

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

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

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

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

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

	2014	2013
Accumulated postretirement benefit obligation:		
Retirees	$ 456	$ 380
Fully eligible plan participants	3,019	3,028
Other active plan participants	4,318	4,452
Total	$ 7,793	$ 7,860

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

(in thousands of dollars)

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

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

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

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

Plan Assets

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

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

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

(in thousands of dollars)

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

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

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

The Company’s target allocations for plan assets have been changed to ranges due to the potential termination of the closed pension plan. Asset allocation ranges starting in 2014 are

(in thousands of dollars)

Cash & Equivalents 0.0% to 100.0%, Equity and Fixed Income are both 0.0% to 50.0%. Equity securities primarily include investments in large-cap and small-cap companies primarily located in the United States of America. Fixed income securities include corporate bonds of companies from diversified industries, mortgage-backed securities and U.S. Treasuries.

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

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

12. Restricted Net Assets and Endowment

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

	2014	2013
Care for the indigent	$ 1,162	$ 1,079
Capital purchases	9	9
Other purposes	12,695	12,457
Total	$ 13,866	$ 13,545

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

	2014	2013
Care for the indigent	$ 3,089	$ 2,967
Educational programs	890	882
General services	4,453	4,449
Total	$ 8,432	$ 8,298

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

(in thousands of dollars)

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

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of 2014	$ 391	$ 3,932	$ 3,814	$ 8,137
Investment return				
Investment income	6	13	55	74
Net appreciation (realized and unrealized)	10	13	56	79
Total investment return	16	26	111	153
Contributions	-	57	-	57
Appropriation of endowment assets for expenditure	(35)	-		(35)
Reclassification for UPMIFA	-	371	-	371
Endowment net assets, end of 2014	$ 372	$ 4,386	$ 3,925	$ 8,683

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of 2013	$ 377	$ 3,374	$ 3,363	$ 7,114
Investment return				
Investment income	6	11	53	70
Net appreciation (realized and unrealized)	42	86	398	526
Total investment return	48	97	451	596
Contributions	-	149	-	149
Appropriation of endowment assets for expenditure	(34)	-		(34)
Reclassification for UPMIFA	-	312	-	312
Endowment net assets, end of 2013	$ 391	$ 3,932	$ 3,814	$ 8,137

(in thousands of dollars)

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

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

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

13. Functional Expenses

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

	2014	2013
Health care services	$ 363,598	$ 344,731
General and administrative	80,046	83,519
Total	$ 443,644	$ 428,250

14. Commitments and Contingencies

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

2015	$ 525
2016	475
2017	478
2018	316
2019	143
Thereafter	-
	$ 1,937

Contingencies

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

15. Insurance

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

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

APPENDIX C

FEASIBILITY STUDY

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Mercy Health Corporation

Rockford, Illinois

Forecasted Consolidated Financial Statements

Years Ending June 30, 2016 through 2021

Mercy Health Corporation

Forecasted Consolidated Financial Statements

Years Ending June 30, 2016 through 2021

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Independent Accountant's Report

Board of Directors
MercyRockford Health System Corporation
Rockford, Illinois

We have examined the accompanying forecasted consolidated balance sheets of MercyRockford Health System Corporation, as of June 30, 2016 through 2021, and the related forecasted consolidated statements of operations and changes in net assets and cash flows and schedules of ratios for the years then ending. MercyRockford Health System Corporation's management is responsible for the forecasts. Our responsibility is to express an opinion on the forecasts based on our examinations.

Our examinations were conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants (AICPA) and, accordingly, included such procedures as we considered necessary to evaluate both the assumptions used by management and the preparation and presentation of the forecast. We believe that our examinations provide a reasonable basis for our opinion.

In our opinion, the accompanying forecasts are presented in conformity with guidelines for presentation of a forecast established by the AICPA, and the underlying assumptions provide a reasonable basis for management's forecasts. However, there will usually be differences between the forecasted and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

Wipfli LLP

Wipfli LLP

April 13, 2016
Wausau, Wisconsin

Mercy Health Corporation

Forecasted Consolidated Balance Sheets

June 30, 2016 through 2021

Assets	(In Thousands) 2016	2017	2018	2019	2020	2021
Current assets:						
Cash and cash equivalents	$ 92,529	$ 95,380	$ 98,384	$ 104,129	$ 111,461	$ 115,098
Short-term investments	23,310	23,310	23,310	23,310	23,310	23,310
Current portion of assets limited to use	26,321	26,321	18,352	11,316	11,316	11,316
Patient accounts receivable - Net	158,369	157,923	160,813	168,287	175,796	179,072
Supplies	21,244	22,072	22,975	24,461	25,956	27,019
Prepaid expenses	6,354	6,229	6,361	6,495	6,632	6,772
Other receivables	15,258	14,771	14,944	15,095	15,248	15,416
Total current assets	343,385	346,006	345,139	353,093	369,719	378,003
Assets limited as to use	908,003	793,371	684,533	679,855	756,918	841,382
Property and equipment - Net	501,171	655,868	802,906	840,851	794,885	749,280
Other assets:						
Investments in joint ventures	12,069	12,069	12,069	12,069	12,069	12,069
Other	25,151	25,442	25,883	26,454	27,042	27,649
Total other assets	37,220	37,511	37,952	38,523	39,111	39,718
TOTAL ASSETS	$ 1,789,779	$ 1,832,756	$ 1,870,530	$ 1,912,322	$ 1,960,633	$ 2,008,383

Liabilities and Net Assets	(In Thousands) 2016	2017	2018	2019	2020	2021
Current liabilities:						
Current maturities of long-term debt	$ 10,662	$ 10,706	$ 10,373	$ 9,580	$ 12,675	$ 13,225
Accounts payable:						
Trade	24,370	23,366	23,810	25,217	27,242	28,574
Construction	13,282	13,282	5,313	-	-	-
Due to third-party payors	18,022	18,280	18,541	19,986	21,388	21,668
Accrued salaries, wages, and payroll taxes	54,458	55,542	57,203	59,706	63,462	65,573
Accrued interest	2,706	2,686	2,653	2,618	2,575	2,497
Other accrued expenses	66,208	67,441	69,145	72,274	74,991	76,731
Total current liabilities	189,708	191,303	187,038	189,381	202,333	208,268
Long-term liabilities:						
Long-term debt, less current maturities	719,071	707,077	695,367	684,392	670,260	655,556
Accrued liabilities under self-insurance program	54,327	54,327	54,327	54,327	54,327	54,327
Deferred compensation	21,317	21,567	21,817	22,067	22,317	22,567
Pension liability	22,901	22,259	21,714	21,258	20,881	20,577
Accrued postretirement medical benefits	6,323	6,323	6,323	6,323	6,323	6,323
Other liabilities	4,385	4,385	4,385	4,385	4,385	4,385
Total long-term liabilities	828,324	815,938	803,933	792,752	778,493	763,735
Total liabilities	1,018,032	1,007,241	990,971	982,133	980,826	972,003
Net assets:						
Unrestricted	749,277	803,045	857,089	907,719	957,337	1,013,910
Temporarily restricted	14,062	14,062	14,062	14,062	14,062	14,062
Permanently restricted	8,408	8,408	8,408	8,408	8,408	8,408
Total net assets	771,747	825,515	879,559	930,189	979,807	1,036,380
TOTAL LIABILITIES AND NET ASSETS	$ 1,789,779	$ 1,832,756	$ 1,870,530	$ 1,912,322	$ 1,960,633	$ 2,008,383

See Independent Accountant's Report.
See Summary of Significant Accounting Policies, Forecast Assumptions, and Sensitivity Analyses.

Mercy Health Corporation

Forecasted Consolidated Statements of Operations and Changes in Net Assets

Years Ending June 30, 2016 through 2021

	(In Thousands)					
	2016	2017	2018	2019	2020	2021
Revenue:						
Patient service revenue (net of contractual allowances and discounts)	$ 933,689	$ 953,116	$ 971,308	$ 1,020,984	$ 1,070,769	$ 1,091,141
Provision for bad debts	(45,731)	(47,959)	(50,816)	(54,863)	(59,267)	(62,675)
Net patient service revenue, less provision for bad debts	887,958	905,157	920,492	966,121	1,011,502	1,028,466
Premium revenue	85,151	88,641	94,606	104,939	114,625	123,072
Other revenue	54,784	54,087	53,412	52,666	52,542	52,955
Total revenue	1,027,893	1,047,885	1,068,510	1,123,726	1,178,669	1,204,493
Expenses:						
Salaries and wages	491,520	499,223	507,518	520,053	531,814	538,357
Employee benefits	105,013	106,914	108,742	111,413	113,898	115,351
Contract labor	5,281	5,056	5,069	5,154	5,227	5,237
Professional fees and purchased services	95,183	96,382	100,273	105,689	112,144	117,059
Medical supplies, other supplies, and drugs	155,095	161,229	167,841	178,587	189,409	197,224
Utilities	11,000	11,426	11,712	12,131	12,558	12,870
Insurance	18,770	18,869	18,980	19,131	19,285	19,384
Provider tax assessment	22,821	22,908	22,995	23,083	23,172	23,262
Other	26,539	25,639	25,234	27,543	28,141	28,898
Depreciation and amortization	53,778	55,599	56,851	71,697	87,468	87,104
Interest	11,703	11,452	11,038	20,400	29,717	29,194
Total expenses	996,703	1,014,697	1,036,253	1,094,881	1,152,833	1,173,940
Income from operations	31,190	33,188	32,257	28,845	25,836	30,553
Investment income	19,185	20,580	21,787	21,785	23,782	26,020
Excess of revenue over expenses and changes in unrestricted net assets	50,375	53,768	54,044	50,630	49,618	56,573
Net assets - Beginning of year	721,372	771,747	825,515	879,559	930,189	979,807
Net assets - End of year	$ 771,747	$ 825,515	$ 879,559	$ 930,189	$ 979,807	$ 1,036,380

See Independent Accountant's Report.
See Summary of Significant Accounting Policies, Forecast Assumptions, and Sensitivity Analyses.

Mercy Health Corporation

Forecasted Consolidated Statements of Cash Flows

Years Ending June 30, 2016 through 2021

	(In Thousands)					
	2016	2017	2018	2019	2020	2021
Increase (decrease) in cash and cash equivalents:						
Cash flows from operating activities:						
Excess of revenue over expenses and changes in unrestricted net assets	$ 50,375	$ 53,768	$ 54,044	$ 50,630	$ 49,618	$ 56,573
Adjustments to reconcile excess of revenue over expenses and changes in unrestricted net assets to net cash provided by operating activities:						
Provision for bad debts	45,731	47,959	50,816	54,863	59,267	62,675
Depreciation and amortization	53,778	55,599	56,851	71,697	87,468	87,104
Net amortization of premiums, discounts, and deferred financing fees	(237)	(252)	(263)	(834)	(1,457)	(1,479)
Changes in operating assets and liabilities:						
Patient accounts receivable	(48,273)	(47,513)	(53,706)	(62,337)	(66,776)	(65,951)
Supplies and other assets	2,325	(757)	(1,764)	(2,343)	(2,375)	(1,977)
Accounts payable - Trade	(1,860)	(1,004)	444	1,407	2,025	1,332
Accrued liabilities and other	(7,428)	1,905	3,037	7,114	6,303	3,719
Due to third-party payors	(648)	258	261	1,445	1,402	280
Net cash provided by operating activities	93,763	109,963	109,720	121,642	135,475	142,276
Cash flows from investing activities:						
(Increase) decrease in investments and assets limited as to use	(429,028)	114,632	116,807	11,714	(77,063)	(84,464)
Purchases of property and equipment	(97,119)	(211,082)	(212,817)	(117,238)	(41,500)	(41,500)
Net cash used in investing activities	(526,147)	(96,450)	(96,010)	(105,524)	(118,563)	(125,964)
Cash flows from financing activities:						
Principal payments scheduled on long-term debt	(10,531)	(10,662)	(10,706)	(10,373)	(9,580)	(12,675)
Proceeds from issuance of long-term debt	444,146	-	-	-	-	-
Payment of bond issuance costs	(4,581)	-	-	-	-	-
Net cash provided by (used in) financing activities	429,034	(10,662)	(10,706)	(10,373)	(9,580)	(12,675)
Net increase (decrease) in cash and cash equivalents	(3,350)	2,851	3,004	5,745	7,332	3,637
Cash and cash equivalents at beginning	95,879	92,529	95,380	98,384	104,129	111,461
Cash and cash equivalents at end	$ 92,529	$ 95,380	$ 98,384	$ 104,129	$ 111,461	$ 115,098
Supplemental cash flow information:						
Cash paid for interest, excluding capitalized interest	$ 11,797	$ 13,195	$ 12,794	$ 20,435	$ 29,760	$ 29,272
Interest expense capitalized	3,732	20,670	20,670	10,335	-	-
Investment earnings capitalized	716	2,987	1,257	97	-	-
Net premium amortization capitalized	215	1,236	1,274	661	-	-
Deferred financing fees amortization capitalized	36	200	200	100	-	-
Accrued interest included in construction in progress	1,723	1,723	1,723	-	-	-

See Independent Accountant's Report.

See Summary of Significant Accounting Policies, Forecast Assumptions, and Sensitivity Analyses.

Mercy Health Corporation

Forecasted Consolidated Schedules of Ratios

Years Ending June 30, 2016 through 2021

	2016	2017	2018	2019	2020	2021
Days cash on hand (1)	218	239	259	260	278	302
Days net patient service revenue, less provision for bad debts, in net patient accounts receivable	65	64	64	64	63	64
Debt service coverage (2)	5.3	6.3	6.5	4.9	4.1	4.0
Maximum annual debt service coverage (2)	2.7	3.3	3.3	3.6	3.8	4.0
Debt to capitalization (3)	49.3%	47.2%	45.2%	43.3%	41.6%	39.7%
Operating margin	3.0%	3.2%	3.0%	2.6%	2.2%	2.5%
Total margin	4.9%	5.1%	5.1%	4.5%	4.2%	4.7%

(1) Includes Board-designated funds for Expansion and Deferred Compensation

(2) Includes funded capitalized interest draws in the numerator and removal of amortization of premiums, discounts, and deferred financing fees included in interest expense in the denominator

(3) Based on unrestricted net assets

See Independent Accountant's Report.

See Summary of Significant Accounting Policies, Forecast Assumptions, and Sensitivity Analyses.

Mercy Health Corporation

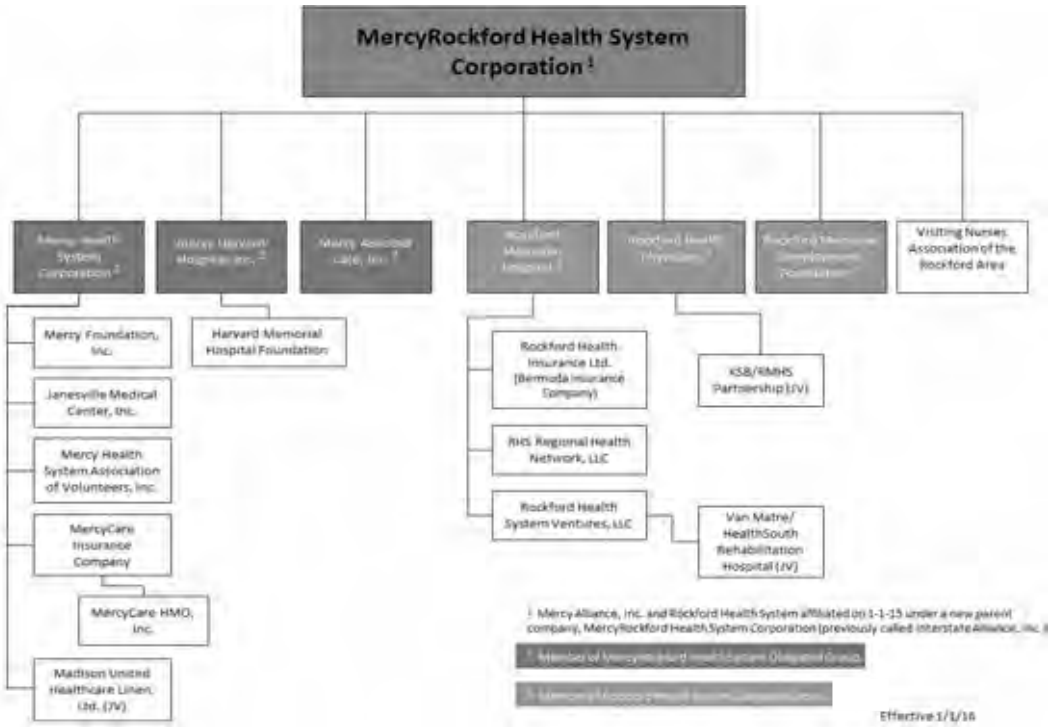
Summary of Significant Accounting Policies, Forecast Assumptions, and Sensitivity Analyses
See Independent Accountant's Report

Note 1 Overview

Organizations and Nature of Operations

Effective January 1, 2015, Rockford Health System, based in Rockford, Illinois, affiliated with Mercy Alliance, Inc., based in Janesville, Wisconsin, to create MercyRockford Health System Corporation ("MercyRockford"). In early May 2016, it is expected that MercyRockford will change its name to Mercy Health Corporation ("Mercy Health"). Mercy Health is a not-for-profit, multi-regional health system comprising four acute care hospitals and one rehabilitation hospital, more than 749 physicians, and 80 outpatient clinics and other service sites that provide care to residents in more than 60 communities in 15 northern Illinois and southern Wisconsin counties.

Operations of the new Mercy Health are guided by a nine-member board with four representatives from Mercy Health System (Mercy Alliance, Inc. and Affiliates), four representatives from Rockford Health System, and the current CEO of Mercy Health. Effective January 1, 2016, the parent companies of the two systems, Mercy Alliance, Inc. and Rockford Health System, were merged into MercyRockford, here after referred to as "Mercy Health". The organization chart as of January 1, 2016, and a brief description of significant entities are as follows:



Note 1 Overview (Continued)

Organizations and Nature of Operations (Continued)

- Entities previously organized under Mercy Alliance, Inc. are as follows:

  - Mercy Health System Corporation (MHSC) operates Mercy Hospital and Trauma Center (MHTC), a 240-bed hospital in Janesville, Wisconsin; approximately 43 physician clinics in southern Wisconsin and northern Illinois; retail pharmacies; vision centers; a skilled nursing facility (SNF) subacute care unit on the Janesville campus; and a 25-bed critical access hospital (CAH) in Walworth County, Wisconsin.
  - Mercy Harvard Hospital, Inc. (MHH) operates a 25-bed CAH and 45 long-term care beds located in Harvard, Illinois. MHH also has a controlled affiliate, Harvard Memorial Hospital Foundation, whose purpose is to support the programs of MHH.
  - 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 Foundation, Inc. is a wholly owned subsidiary of MHSC, and its primary activity is fund-raising for MHSC and its programs.
  - Janesville Medical Center, Inc. (JMC) is a wholly owned subsidiary of MHSC, and it was formed to supply non-management technical and support personnel to MHSC in support of certain of its clinic operations.
  - Mercy Health System Association of Volunteers, Inc. is a wholly owned subsidiary of MHSC. Its primary purpose as a voluntary organization is to assist MHSC and its affiliates.
  - MercyCare Insurance Company (MCIC), a wholly owned subsidiary of MHSC, 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 its subsidiary contract for services with MHSC and other Mercy Alliance, Inc. affiliates.
  - Madison United Healthcare Linen, Ltd. is a joint venture owned 14.6% by MHSC.

Mercy-related entities are collectively referred to as "Mercy."

Note 1 Overview (Continued)

Organizations and Nature of Operations (Continued)

- Entities previous organized under Rockford Health System (RHS) are as follows:

  - Rockford Memorial Hospital (RMH), a 282-bed hospital, provides inpatient, outpatient, and emergency care services to residents of the Rockford, Illinois, area.
  - Rockford Health Physicians (RHPH) provides physician and ambulatory care services at several sites, primarily in the Rockford, Illinois, area.
  - Rockford Memorial Development Foundation (RMDF) is organized to promote education, scientific, and charitable health care activities.
  - Visiting Nurses Association of the Rockford Area (VNA) provides home health nursing and hospice services and rents medical equipment to area residents.
  - Rockford Health Insurance Ltd. (RHIL), a wholly owned subsidiary of RMH incorporated under the laws of Bermuda, provides the affiliated corporations with excess professional and general liability insurance.
  - RHS Regional Health Network, LLC, a wholly owned subsidiary of RMH, was formed to organize the contracting for RHS.
  - Rockford Health System Ventures, LLC (RHSV), a wholly owned subsidiary of RMH, was created to manage the organization's investments in joint ventures.
  - Van Matre/HealthSouth Rehabilitation Hospital is a joint venture formed to operate a 61-bed rehabilitation hospital and is owned 50% by RHSV.
  - KSB/RMHS Partnership is a joint venture formed to operate a medical office building and is owned 27.4% by RHPH.

Rockford-related entities are collectively referred to as "Rockford."

Mercy Health was formed to achieve efficiencies through centralization of services, to improve patient satisfaction, and to expand access to care in southern Wisconsin and northern Illinois. In conjunction with these objectives, Mercy Health plans to continue operating its Janesville, Wisconsin, hospital campus, continue operating but reduce the number of beds from 282 to 94 at its N. Rockton Avenue hospital campus ("Rockton campus") in Rockford, Illinois, and construct a second "destination campus" operating 188 beds at the intersection of E. Riverside Boulevard and the I-90 interstate highway in Rockford, Illinois ("Riverside campus").

Note 1 Overview (Continued)

Organization and Nature of Operations (Continued)

The Rockton campus has quality facilities for a variety of services and currently receives patients from a 15-county region for high-risk maternity, neonatal intensive care, pediatrics and pediatric critical care, adult critical care, and trauma. Mercy Health plans to continue providing a wide range of adult outpatient and inpatient care at the Rockton campus, concentrating services into facilities that have been recently renovated. For example, a $7 million state-of-the-art linear accelerator addition opened in 2015 and recently renovated nursing units will continue to operate. In addition, certain space at the Rockton campus will be repurposed for a variety of uses, including the housing of community-based not-for-profit agencies. As part of the campus repositioning project, Mercy Health plans to invest approximately $10 million into the Rockton campus. Mercy Health also envisions spending no less than $50 million over the next 10 years on this campus to ensure it remains a vibrant and contemporary health care location.

The planned Riverside campus is expected to be a 188-inpatient bed "destination campus" at a strategically convenient location for patients from within the greater Rockford area and for those traveling from a large regional area, resulting in significant patient care and economic value for Rockford. The Riverside destination medical center campus of 532,302 square feet (450,803 square feet for the hospital and 81,499 square feet for the clinic) will include expanded patient services and will incorporate state-of-the-art technology designed to the standards of today and for the future. With its location on the I-90 interstate at the Riverside exit, the new campus is expected to enhance regional access for tertiary level services. The forecasted project cost to develop the Riverside campus is $425,003,000.

There are no significant changes of services or operations anticipated in the Mercy locations.

Note 1 Overview (Continued)

Organization and Nature of Operations (Continued)

Services in Illinois

The following table summarizes services which are expected to be provided at the Rockton and the Riverside campuses in Rockford, Illinois:

Service	Rockton Ave Campus	Riverside Campus
Medical/Surgical Units	X	X
Adult Intensive Care Unit	X	X
Neonatal Intensive Care Unit		X
High Risk Maternity Care		X
Pediatric Intensive Care Unit		X
Pediatrics Unit		X
Psychiatry Unit	X	
Obstetrics Unit		X
Emergency Department	X	X
Level 1 Trauma Center		X
Convenient Care Center	X	X
Radiology/Imaging Department	X	X
Inpatient Surgery	X	X
Outpatient Surgery	X	X
Cardiac Cath/Open Heart Surgery		X
Outpatient Diagnostics	X	X
Inpatient Diagnostics	X	X
Cancer Center	X	
Cardiopulmonary Rehab.	X	
Infusion Therapy Center	X	X
Wound Care Center	X	
Physical Therapy	X	X
Occupational and Speech Therapy	X	X
Women's and Children's Hospital		X
Laboratory	X	X
Physician Offices	X	X

Note 1 Overview (Continued)

Organization and Nature of Operations (Continued)

Mercy Health believes its plan represents a continued commitment to the existing Rockton campus and surrounding neighborhood, as well as investment in the second Riverside campus that will generate significant economic activity relating to employment, construction jobs, income, and retail sales in the community. The result will be increased patient volume from a wide regional geography because it will be much easier for patients to travel to a facility located just off I-90.

Mercy Health believes these strategic investments will keep comprehensive health care services close to home for patients, will increase patient volume, and will provide a wider array of services and jobs for physicians, caregivers, and support staff.

Plans for the project have been approved by the Illinois Health Facilities Planning Board through the Certificate of Need (CON) process. Mercy Health forecasts construction to begin in 2016 and be completed in December 2018.

Note 2 Significant Accounting Policies

The accounting policies presented in this financial forecast are those Mercy Health currently uses for its existing hospital operations and anticipates using during the forecast period. If actual accounting policies are adopted that are significantly different from those described below, those differences could have a significant impact on the reported amounts of assets, liabilities, net assets, revenue, and expenses of Mercy Health.

Principles of Consolidation

The forecasted consolidated financial statements include the accounts and operations of Mercy and Rockford, and wholly owned subsidiaries (collectively "Mercy Health"). All significant intercompany accounts and transactions have been eliminated in consolidation.

Note 2 Significant Accounting Policies (Continued)

Forecasted Financial Statement Presentation

Mercy Health 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.

Use of Estimates in Preparation of Forecasted Consolidated Financial Statements

The preparation of the accompanying forecasted consolidated financial statements in conformity with GAAP requires management to make 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.

Mercy Health 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 Mercy Health 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 held as short-term investments, amounts limited as to use, and amounts held by pension plans.

Note 2 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. Mercy Health bills third-party payors on the patients' behalf, or if a patient is uninsured, the 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. Mercy Health does not have a policy to charge interest on past due accounts.

Patient accounts receivable are recorded in the accompanying forecasted consolidated balance sheets net of contractual adjustments and discounts, and allowances for doubtful accounts, which reflect 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 addition, management provides for probable uncollectible amounts primarily from uninsured patients and amounts patients are personally responsible for, through a charge to operations and a credit to the allowances for doubtful accounts based on historical loss experience. 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 allowances for doubtful accounts.

Supplies

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

Note 2 Significant Accounting Policies (Continued)

Investments, Assets Limited as to Use, and Investment Income

Certificates of deposit are stated at the principal contributed plus any accrued interest earned. All other investments, including assets limited as to use, are measured at fair value in the accompanying forecasted consolidated balance sheets. Certain investments have been designated as trading securities. Investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in nonoperating income unless the income is restricted by donor or law. Unrealized gains and losses on investments are excluded from excess of revenue over expenses unless the investments are trading securities. Realized gains and losses are determined by specific identification. There are no unrealized gains or losses reflected in the accompanying consolidated forecasted financial statements.

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 restricted for regulatory compliance, assets held by a trustee under bond indenture agreements, and temporarily restricted and donor restricted endowment funds, except interests in beneficial trusts. Amounts required to meet current liabilities have been classified as current assets.

Note 2 Significant Accounting Policies (Continued)

Property, Equipment, and Depreciation

Property and equipment acquisitions are recorded at cost if purchased. 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. Donated property and equipment are recorded at fair value at the date of donation, which is then treated as cost. Interest costs incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets, net of any earnings on those funds. Estimated useful lives on existing assets range from 2 to 20 years for land improvements, 5 to 20 years for leasehold improvements, 5 to 30 years for buildings and improvements, and 3 to 20 years for equipment. Estimated useful lives on the new campus assets are forecasted to range from 7 to 40 years.

Unamortized Debt Issuance Costs and Bond Premiums and Discounts

Bond issuance costs and original issue premiums and discounts related to the issuance of long-term debt are amortized over the life of the related debt using a straight-line method or effective interest method, and are included with interest expense in the accompanying forecasted consolidated statements of operations and changes in net assets.

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 there is an indeterminate settlement date for the asset retirement obligations because the range of time over which Mercy Health may settle the obligation is unknown and cannot reasonably estimate the liability related to these asset retirement activities throughout the forecast period.

Note 2 Significant Accounting Policies (Continued)

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 impairment has occurred, a loss will be recognized. No impairment losses are recognized during the forecast period.

Interest Rate Swap

The interest rate swap, included in other liabilities, is measured at fair value in the accompanying forecasted consolidated balance sheets. Mercy Health uses the interest rate swap to manage interest rate risk and to stabilize cash flow variability on its variable rate debt, however, Mercy Health has elected to not use hedge accounting for the interest rate swap. The value of the swap is forecasted to remain at 2015 levels throughout the forecast period.

Self-Insurance

Provisions for self-insured risks include estimates of the ultimate cost for known claims as well as incurred but not reported claims as of the respective forecasted consolidated balance sheet dates.

Net Assets

Unrestricted net assets consist of investments and otherwise unrestricted amounts that are not subject to donor-imposed stipulations. Temporarily restricted net assets are those whose use has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained in perpetuity.

Note 2 Significant Accounting Policies (Continued)

Excess of Revenue Over Expenses

The accompanying forecasted 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, postretirement medical benefit adjustment, permanent transfer of assets to and from affiliates for other than goods and services, and contributions of long-lived assets. There are no other changes in unrestricted net assets included in the accompanying forecasted consolidated financial statements.

Patient Service Revenue

Mercy Health 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, Mercy Health recognizes revenue on the basis of discounted rates established under Mercy Health's uninsured patient policy. The provision for contractual adjustments (that is, the differences 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 Mercy Health, a significant portion of uninsured patients will be unwilling or unable to pay for services provided. Thus, Mercy Health 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. Mercy Health 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.

Note 2 Significant Accounting Policies (Continued)

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, 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.

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. Based on the prior history of this program and the fact that many hospitals within Illinois would likely close without this additional reimbursement, management believes that the program will continue and has included receiving additional Medicaid reimbursement throughout the forecast period.

Provider tax assessments and payments are recognized in the period to which they apply and are included in the accompanying forecasted consolidated statements of operations and changes in net assets.

Note 2 Significant Accounting Policies (Continued)

Charity Care

Mercy Health 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 forecasted consolidated statements of operations and changes in net assets.

Contributions and Unconditional Promises 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 forecasted consolidated financial statements.

Note 2 Significant Accounting Policies (Continued)

Advertising Costs

Advertising costs are expensed as incurred.

Income Taxes

All consolidated entities with the exception of JMC, MCIC, MercyCare HMO, RHIL, and the LLCs are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code (the "Code") and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code, and RMDF, an Illinois not-for-profit corporation, is exempt under Section 509(a)(3) of the Code. They are 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.

No income tax provision has been included in the forecasted consolidated financial statements for JMC, MCIC, MercyCare HMO, RHIL, and the LLCs since their income or loss is required to be reported by the respective partners on their tax returns. 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 accompanying forecasted consolidated financial statements.

Note 2 Significant Accounting Policies (Continued)

Reimbursement Arrangements With Third-Party Payors

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.

Cost-Reimbursed

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. Clinic services are reimbursed primarily on a fixed fee schedule.

Other Payors

Mercy Health 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.

Note 2 Significant Accounting Policies (Continued)

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.

Electronic Health Record Payments

The American Recovery and Reinvestment Act of 2009 (ARRA) provides for incentive payments under the Medicare and Medicaid programs for certain hospitals and physician practices that demonstrate meaningful use of certified electronic health record (EHR) technology. These provisions of ARRA, collectively referred to as the Health Information Technology for Economic and Clinical Health Act (the "HITECH Act"), are intended to promote the adoption and meaningful use of health information technology and qualified EHR technology.

Mercy Health recognizes revenue for EHR incentive payments 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, Mercy Health's compliance with the meaningful use criteria is subject to audit by the federal government or its designee.

Note 3 Significant Forecast Assumptions

This financial forecast presents, to the best of management's knowledge and belief, Mercy Health's expected financial position, results of operations, and cash flows for the forecast period. The forecast reflects the judgment of Mercy Health's management regarding the expected conditions and expected courses of action as of April 13, 2016, the date of this forecast.

Note 3 Significant Forecast Assumptions (Continued)

This forecast has been prepared in accordance with the following assumptions, which are those that management believes are significant to the forecast. These assumptions are based on their judgment and the assumptions may not be all-inclusive. Furthermore, even if the assumptions are significantly correct, there will usually be differences between the forecasted and actual results because events and circumstances frequently do not occur as expected, and those differences may be material. The accompanying forecast includes the issuance of debt to fund the new campus construction project. The forecast does not include any additional debt that may be issued to refinance or advance refund existing debt.

Cash and Cash Equivalents

Interest earnings on a portion of cash and cash equivalents are forecasted at 4.00% to 4.49% of the end of year balances. Cash and cash equivalents are forecasted based on the results of the forecasted cash flows, assuming that any cash in excess of amounts required for daily working capital will be transferred to board designated investments.

Short-Term Investments

Short-term investments are forecasted to remain at historical levels of $23,310 throughout the forecast period.

Patient Accounts Receivable - Net

Patient accounts receivable - net is forecasted, based on historical levels for the various entities, and is forecasted to average approximately 63 to 65 days of net patient service revenue.

Based on the above, patient accounts receivable - net is forecasted as follows at June 30:

(In Thousands)

2016	2017	2018	2019	2020	2021
$ 158,369	$ 157,923	$ 160,813	$ 168,287	$ 175,796	$ 179,072

Note 3 Significant Forecast Assumptions (Continued)

Supplies

Supplies are forecasted, based on historical levels, at approximately 50 days of medical supplies, other supplies, and drugs expense.

Based on the above, supplies are forecasted as follows at June 30:

(In Thousands)

2016	2017	2018	2019	2020	2021
$ 21,244	$ 22,072	$ 22,975	$ 24,461	$ 25,956	$ 27,019

Prepaid Expenses

Prepaid expenses, which include prepaid maintenance contracts, insurance, and other, are forecasted based on historical levels increased approximately 2.0% each year for inflation.

Based on the above, prepaid expenses are forecasted as follows at June 30:

(In Thousands)

2016	2017	2018	2019	2020	2021
$ 6,354	$ 6,229	$ 6,361	$ 6,495	$ 6,632	$ 6,772

Other Receivables

Other receivables which include amounts for supplemental government payments, electronic medical record payments, and miscellaneous receivables are forecasted based on the historical levels of the various entities adjusted for anticipated decreases in reinsurance receivables of $1,900 in 2016 and decreases in EHR receivables of $650 in 2017 and increased 0.0% to 1.5% each year for inflation.

Based on the above, other receivables are forecasted as follows at June 30:

(In Thousands)

2016	2017	2018	2019	2020	2021
$ 15,258	$ 14,771	$ 14,944	$ 15,095	$ 15,248	$ 15,416

Note 3 Significant Forecast Assumptions (Continued)

Assets Limited as to Use and Investment Income

Investments designated as assets limited as to use include investments set aside by the Board of Directors for future capital improvements and expansion, amounts set aside for compensation agreements and for professional liability programs, amounts restricted for regulatory compliance, assets held by a trustee under bond indenture agreements, and temporarily restricted and donor restricted endowment funds, except interests in beneficial trusts.

As previously discussed, the accompanying forecast only includes the issuance of debt to fund the new campus construction project. It is anticipated that the Illinois Finance Authority will issue in April or May 2016, for the benefit of Mercy Health, Series 2016 tax-exempt bonds ("Series 2016 Bonds") in the forecasted amount of $416,440. Proceeds from the Series 2016 Bonds plus bond premium of $28,202 and bond discount of $496, along with $35,788 of available funds from Mercy Health, will be utilized to finance construction of the new hospital, fund cost of issuance of $4,581, and fund net capitalized interest expense of $50,350.

The following schedule summarizes the forecasted source and use of funds related to the Series 2016 Bonds:

Source of funds:	(In Thousands)	
2016 bonds:		
Par amount	$	416,440
Premium		28,202
Discount		(496)
Equity contribution		35,788
Total source of funds	$	479,934

Use of funds:		
Project fund	$	425,003
Net interest expense capitalized		50,350
Cost of issuance		4,581
Total use of funds	$	479,934

Note 3 Significant Forecast Assumptions (Continued)

Assets Limited as to Use and Investment Income (Continued)

The following is the forecasted flow of funds during the forecast period including Mercy Health's equity contribution:

	(In Thousands)					
	2016	2017	2018	2019	2020	2021
Beginning of year	$ -	$ 431,559	$ 254,501	$ 75,712	$ -	$ -
Bond proceeds	444,146	-	-	-	-	-
MercyRockford equity	35,788	-	-	-	-	-
Bond issue costs	(4,581)	-	-	-	-	-
Capital expenditures	(42,501)	(159,375)	(159,376)	(63,751)	-	-
Interest earnings	716	2,987	1,257	97	-	-
Interest payments	(2,009)	(20,670)	(20,670)	(12,058)	-	-
End of year	$ 431,559	$ 254,501	$ 75,712	$ -	$ -	$ -

Assets limited as to use are forecasted to consist of the following:

Debt Service Reserve Fund

The Series 2010A debt service reserve fund is to be used to fund any shortfalls in Mercy Health's ability to make related principal and interest payments on the Series 2010A Bonds when due. The debt service reserve fund is not forecasted to fund any shortfalls in the bond fund during the forecast period and is forecasted at $4,872 for the forecast period.

Note 3 Significant Forecast Assumptions (Continued)

Assets Limited as to Use and Investment Income (Continued)

Project Fund

Project funds associated with the Series 2016 Bonds of $416,440 will be spent in 2016 through 2019 to complete construction of the new campus and fund cost of issuance and net capitalized interest. The earnings on the Series 2016 project funds are forecasted at 0.97213% annually until funds are fully disbursed.

Cost of Issuance Fund

Payment of costs associated with issuance of the Series 2016 Bonds in the amount of $4,581 will occur upon issuance of the bonds and, as such, no interest income will be earned on the cost of issuance fund, and no balance is forecasted for the cost of issuance fund at June 30, 2016.

Held by Treasurer of State of Wisconsin for Regulatory Requirements

Funds held by Treasurer of State of Wisconsin for regulatory requirements are forecasted to remain at historical levels of $4,249 throughout the forecast period.

Donor-Restricted and Endowment Funds

Donor-restricted investments represent monies held to fund donor restricted contributions. Earnings on these investments are forecasted at 4.00% to 4.44% annually.

Internally Designated

Internally designated funds include investments set aside by the Board of Directors for deferred compensation, expansion and capital improvements, professional liability, and regulatory compliance. Earnings on internally designated funds are forecasted at 4.00% to 4.49% annually.

Note 3 Significant Forecast Assumptions (Continued)

Assets Limited as to Use and Investment Income (Continued)

Based on the above, assets limited as to use are forecasted to consist of the following at June 30:

	(In Thousands)					
	2016	2017	2018	2019	2020	2021
Held by trustee under bond indentrue agreements:						
Debt service reserve fund	$ 4,872	$ 4,872	$ 4,872	$ 4,872	$ 4,872	$ 4,872
Project fund	395,771	218,713	39,924	-	-	-
Held by Treasurer of State of Wisconsin for regulatory requirements	4,249	4,249	4,249	4,249	4,249	4,249
Donor-restricted and endowment funds	7,151	7,151	7,151	7,151	7,151	7,151
Internally designated:						
Deferred compensation	21,317	21,567	21,817	22,067	22,317	22,567
Expansion and capital improvements	426,299	488,475	550,207	578,167	654,980	739,194
Professional liability	65,066	65,066	65,066	65,066	65,066	65,066
Regulatory compliance	9,599	9,599	9,599	9,599	9,599	9,599
Total assets limited as to use	934,324	819,692	702,885	691,171	768,234	852,698
Less - Current portion	26,321	26,321	18,352	11,316	11,316	11,316
Noncurrent assets limited as to use	$ 908,003	$ 793,371	$ 684,533	$ 679,855	$ 756,918	$ 841,382

Property and Equipment

Mercy Health is planning to begin construction of the Riverside campus in 2016 and complete construction in December 2018 with operations to commence on the new campus January 2019.

As discussed on page 32, the construction of the new campus will be financed through the issuance of Series 2016 Bonds and available funds provided by Mercy Health.

Note 3 Significant Forecast Assumptions (Continued)

Property and Equipment (Continued)

Mercy Health's planned capital additions related to the above, as well as other projects and ongoing capital expenditures are as follows:

	(In Thousands)					
	2016	2017	2018	2019	2020	2021
Land and improvements	$ -	$ -	$ -	$ 815	$ -	$ -
Buildings	-	-	-	465,029	4,500	4,500
Equipment	56,087	34,024	34,025	48,188	37,002	36,999
Construction in progress	54,779	176,023	169,747	(404,390)	-	-
Totals	$ 110,866	$ 210,047	$ 203,772	$ 109,642	$ 41,502	$ 41,499

Mercy Health is planning to repurpose the majority of the existing Rockford buildings. Due to the insignificant net book value of areas that may not be repurposed, an impairment loss has not been recorded during the forecast period. In addition, Mercy Health is not planning to sell or dispose of property and equipment with a net book value during the forecast period.

Forecasted depreciation expense is based on existing capital assets continued to be utilized in operations and for capital assets acquired or constructed during the forecast period. Depreciation was computed using the straight-line method based on the lives of the assets as described on page 16.

Based on the above, depreciation is forecasted as follows:

(In Thousands)					
2016	2017	2018	2019	2020	2021
$ 53,286	$ 55,350	$ 56,734	$ 71,697	$ 87,468	$ 87,104

Amortization of acquisition costs of physician practices is also included in depreciation and amortization on page 4.

Note 3 Significant Forecast Assumptions (Continued)

Property and Equipment (Continued)

Based on the above, property and equipment is forecasted as follows at June 30:

	(In Thousands)					
	2016	2017	2018	2019	2020	2021
Land and improvements	$ 50,324	$ 50,324	$ 50,324	$ 51,139	$ 51,139	$ 51,139
Buildings	457,504	457,504	457,504	922,533	927,033	931,533
Equipment	579,592	613,616	647,641	695,829	732,831	769,830
Totals	1,087,420	1,121,444	1,155,469	1,669,501	1,711,003	1,752,502
Less - Accumulated depreciation	656,640	711,990	768,724	840,421	927,889	1,014,993
Net depreciated property	430,780	409,454	386,745	829,080	783,114	737,509
Construction in progress	70,391	246,414	416,161	11,771	11,771	11,771
Property and equipment - Net	$ 501,171	$ 655,868	$ 802,906	$ 840,851	$ 794,885	$ 749,280

Investments in Joint Ventures

Investments in joint ventures represent MHSC's investment in Madison United Healthcare Linen, Ltd., RHSV's investment in VanMatre/HealthSouth Rehabilitation Hospital, and RHPH's investment in KSB/RMHS Partnership and are forecasted at $12,069 throughout the forecast period.

Other Assets

Other assets include beneficial interest in trusts, property held for investments, and miscellaneous assets. Beneficial interests in trusts are forecasted to increase approximately 3% each year of the forecast. Property held for investment is forecasted to remain level during the forecast period. Miscellaneous assets are forecasted for each of the various entities with anticipated decreases in 2016 and 2017 and increases in 2018 through 2021.

Note 3 Significant Forecast Assumptions (Continued)

Other Assets (Continued)

Based on the above, other assets are forecasted as follows at June 30:

	(In Thousands)					
	2016	2017	2018	2019	2020	2021
Beneficial interest in trust	$ 12,100	$ 12,463	$ 12,837	$ 13,222	$ 13,619	$ 14,028
Property held for investment	7,812	7,812	7,812	7,812	7,812	7,812
Miscellaneous assets	5,239	5,167	5,234	5,420	5,611	5,809
Totals	$ 25,151	$ 25,442	$ 25,883	$ 26,454	$ 27,042	$ 27,649

Long-Term Debt

Prior to the issuance of the Series 2016 Bonds, there are currently two obligated groups within Mercy Health: the "Mercy Alliance Obligated Group," which currently includes Mercy Health, MHSC, MHH, and MAC, and the "Rockford Health System Obligated Group," which currently includes RMH, RHPH, and RMDF. As of issuance of the 2016 Bonds, there will be only one obligated group formed under a Second Supplemental Master Trust Indenture dated as of May 1, 2016 (the "Master Indenture") and consisting of Mercy Health, MHSC, RMH and RHPH (the "Mercy Health Corporation Obligated Group").

The forecast includes the issuance of the Series 2016 Bonds in April or May 2016, in the forecasted amount of $416,440 through the Illinois Finance Authority. As previously mentioned, the accompanying forecast does not include any additional debt that may be issued to refinance or advance refund existing debt.

Note 3 Significant Forecast Assumptions (Continued)

Long-Term Debt (Continued)

The Series 2016 Bonds will be issued under a Bond Trust Indenture (the "2016 Bond Indenture"), dated as of May 1, 2016 between the Issuer and U.S. Bank National Association, as bond trustee. The Series 2016 Bonds will be payable from payments made by the Mercy Health Corporation Obligated Group pursuant to a loan agreement between the Issuer and Mercy Health. The Series 2016 Bonds will be secured by the Series 2016 Note to be issued by the Mercy Health Corporation Obligated Group pursuant to the Master Indenture. The bonds are forecasted to be composed of serial and term bonds with principal payments to be made on December 1 each year commencing December 1, 2020, with final payment to be made December 1, 2046. Interest payments will be made semi-annually on June 1 and December 1.

The 2016 Bond Indenture requires the creation of funds to be held by a trustee for payment of bond principal and interest. In addition, the Master Indenture requires maintenance of certain debt service coverage ratios, limited additional borrowings, and requires compliance with various other restrictive covenants of the Mercy Health Corporation Obligated Group. All outstanding Notes issued under the Master Indenture (including the Series 2016 Note) are the general, joint, and several obligations of the members of the Mercy Health Corporation Obligated Group.

In June 2010, the Mercy Alliance Obligated Group issued its Series 2010A Note to secure the $48,445 Wisconsin Health and Educational Facilities Authority Revenue Bonds, Series 2010A (Mercy Alliance, Inc.) (the "Series 2010A Bonds"). The Series 2010A Bonds that are currently outstanding bear interest at fixed rates that range from 5.00% to 5.50%. Principal payments are due annually on June 1 with final maturity in June 2026.

Note 3 Significant Forecast Assumptions (Continued)

Long-Term Debt (Continued)

In May 2012, the Mercy Alliance Obligated Group issued its Series 2012 Note to secure the $169,475 Wisconsin Health and Educational Facilities Authority Revenue Bonds, Series 2012 (Mercy Alliance, Inc.) (the "Series 2012 Bonds"). The proceeds from the Series 2012 Bonds were used to refund the Series 2009, Series 2005, and Series 1999 Bonds of the Mercy Alliance Obligated Group and to finance costs of acquiring, constructing, renovating, and equipping its facilities. The Series 2012 Bonds bear interest at fixed rates that range from 4.375% to 5.000%. Principal payments are due annually on June 1 with final maturity of June 1, 2039.

Under the terms of a Master Trust Indenture dated as of August 1, 1991 (the "Rockford Master Indenture"), the Rockford Health System Obligated Group has issued master notes to secure the Series 2008 Bonds and Series 2012 Rockford Bonds discussed below. All outstanding debt under the Rockford Master Indenture is the general, joint, and several obligations of the members of the Rockford Health System Obligated Group.

During 2008, the Rockford Health System Obligated Group issued a master note (the "Series 2008 Note") to secure the $60,800 Illinois Finance Authority Variable Rate Demand Revenue Bonds, Series 2008 (Rockford Memorial Hospital Obligated Group) (the "Series 2008 Bonds"). These variable rate demand revenue bonds accrue interest at variable rates which reset weekly. The interest rate forecasted on the Series 2008 Bonds is 2.167% in 2016 and 2.435% each year thereafter. The Series 2008 Bonds are collateralized by a letter of credit with an expiration date of December 16, 2016. The letter of credit is forecasted to be renewed during the forecast period at current terms. The Series 2008 Bonds also have a put option that allows the holders to redeem the bonds prior to maturity. The Rockford Health System Obligated Group has an agreement with a remarketing agent to remarket any bonds redeemed as a result of the exercise of the put options. If the bonds cannot be remarketed, a bank will purchase the bonds under the letter of credit. The Rockford Health System Obligated Group has an obligation to make payments on the letter of credit for bonds that have not been remarketed over a period of three years from the date of a draw on the letter of credit with no principal due in the first year. Principal payments are due annually with final payment due in August 2040.

Note 3 Significant Forecast Assumptions (Continued)

Long-Term Debt (Continued)

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 Series 2008 Bonds. The notional value of the swap is $36,500, and is scheduled to terminate in August 2019. Under the terms of the swap agreement, the Rockford Health System Obligated Group makes fixed interest payments of 2.435% to a counterparty and receives a variable rate based on a percentage of LIBOR. Under this agreement, Mercy Health may be exposed to loss of nonperformance by the counterparty to the interest rate swap agreement. Although the swap terminates in August 2019, the forecast includes the swap remaining at the June 30, 2015, fair value level of $1,919, and is included in other liabilities in the accompanying forecasted consolidated balance sheets.

In May 2012, the Rockford Health System Obligated Group issued a master note (the "Series 2012 Rockford Note") to secure $35,075 of fixed rate bonds (the "Series 2012 Rockford Bonds") issued by the Illinois Finance Authority to refund certain revenue bonds secured by the Rockford Health System Obligated Group. The Series 2012 Rockford Bonds were issued through a direct purchase (private placement) with a fixed rate of 2.79%. Principal payments are due annually with final payment due in August 2021. An additional covenant calculation for days cash on hand is required with this agreement.

Note 3 Significant Forecast Assumptions (Continued)

Long-Term Debt (Continued)

The bond agreements require maintenance of certain financial ratios and require compliance with various other restrictive covenants. Management believes Mercy Health's obligated groups are in compliance with all such covenants. The obligated groups have pledged as security for long-term debt substantially all of their property, equipment, and revenue.

Mercy Health also has various other loans with varying interest rates and terms.

Principal payments on long-term debt are forecasted as follows:

	(In Thousands)					
	2016	2017	2018	2019	2020	2021
Illinois Revenue Bonds, Series 2016	$ -	$ -	$ -	$ -	$ -	$ 2,730
Wisconsin Revenue Bonds, Series 2012	-	-	2,720	2,895	3,045	3,195
Illinois Revenue Bonds, Series 2012	3,360	3,530	3,710	3,895	4,090	4,290
Wisconsin Revenue Bonds, Series 2010A	4,575	4,795	2,160	2,230	2,338	2,460
Equipment loans and other	2,596	2,337	2,116	1,353	107	-
Totals	$ 10,531	$ 10,662	$ 10,706	$ 10,373	$ 9,580	$ 12,675

Note 3 Significant Forecast Assumptions (Continued)

Long-Term Debt (Continued)

Based on the above, balances of long-term debt are forecasted as follows at June 30:

	(In Thousands)					
	2016	2017	2018	2019	2020	2021
Illinois Finance Authority Revenue Bonds, Series 2016, fixed rates, maturing at varying amounts through December 2046.	$ 416,440	$ 416,440	$ 416,440	$ 416,440	$ 416,440	$ 413,710
Wisconsin Health and Educational Facilities Authority Revenue Bonds, Series 2012, fixed rates, principal due in annual installments beginning June 2018 continuing through June 2039	169,475	169,475	166,755	163,860	160,815	157,620
Illinois Finance Authority Revenue Bonds, Series 2012, fixed rates, maturing at varying amounts through August 2021	24,020	20,490	16,780	12,885	8,795	4,505
Wisconsin Health and Educational Facilities Authority Revenue Bonds, Series 2010A, dated June 9, 2010, interest payable semi-annually at varying rates, principal due in annual installments through June 2026	23,065	18,270	16,110	13,880	11,542	9,082
Illinois Finance Authority Revenue Bonds, Series 2008, variable rates, maturing at varying amounts through August 2040	60,800	60,800	60,800	60,800	60,800	60,800
Equipment loans and other	5,913	3,576	1,460	107	-	-
Totals	699,713	689,051	678,345	667,972	658,392	645,717
Plus - Unamortized bond premiums and discounts - Net	37,194	35,505	33,778	32,004	30,181	28,351
Less:						
Unamortized deferred financing fees	7,174	6,773	6,383	6,004	5,638	5,287
Current maturities	10,662	10,706	10,373	9,580	12,675	13,225
Long-term portion	$ 719,071	$ 707,077	$ 695,367	$ 684,392	$ 670,260	$ 655,556

Note 3 Significant Forecast Assumptions (Continued)

Long-Term Debt (Continued)

Accrued interest payable is forecasted at one month of interest expense on all outstanding bonds as follows at June 30:

(In Thousands)

2016	2017	2018	2019	2020	2021
$ 2,706	$ 2,686	$ 2,653	$ 2,618	$ 2,575	$ 2,497

Mercy Health capitalizes interest during the construction period of major capital additions in accordance with FASB Statements No. 34, *Capitalization of Interest Cost,* and No. 62, *Capitalization of Interest Cost in Situations Involving Certain Tax-Exempt Borrowings and Certain Gifts and Grants*. Mercy Health is forecasted to capitalize interest related to major capital additions net of interest earnings and amortization of net bond premium and deferred financing fees as follows:

(In Thousands)

2016	2017	2018	2019	2020	2021
$ 2,837	$ 16,647	$ 18,339	$ 9,677	$ -	$ -

Note 3 Significant Forecast Assumptions (Continued)

Long-Term Debt (Continued)

Based on the above, interest expense is forecasted as follows:

	(In Thousands)					
	2016	2017	2018	2019	2020	2021
2016 Bonds	$ 3,732	$ 20,670	$ 20,670	$ 20,670	$ 20,665	$ 20,591
2012 Bonds	9,023	8,922	8,807	8,560	8,293	8,029
2010 Bonds	1,373	1,143	914	806	694	572
2008 Bonds	1,317	1,480	1,480	1,480	1,480	1,480
Equipment loans and other	226	159	99	53	42	-
Subtotals	15,671	32,374	31,970	31,569	31,174	30,672
Plus:						
Deferred financing fees amortization	252	401	391	380	366	352
Less:						
Premium/discount amortization - Net	668	1,689	1,727	1,774	1,823	1,830
Capitalized interest and amortization of premium, discount, and deferred financing fees	3,552	19,634	19,596	9,775	-	-
Total interest expense	$ 11,703	$ 11,452	$ 11,038	$ 20,400	$ 29,717	$ 29,194

Note 3 Significant Forecast Assumptions (Continued)

Accounts Payable - Trade

Accounts payable - trade is forecasted, based on historical levels for the various entities, and is forecasted to average approximately 25 to 27 days of total operating expenses less salaries and wages, employee benefits, depreciation, and interest expense.

Based on the above, accounts payable - trade is forecasted as follows at June 30:

(In Thousands)

2016	2017	2018	2019	2020	2021
$ 24,370	$ 23,366	$ 23,810	$ 25,217	$ 27,242	$ 28,574

Accounts Payable - Construction

Accounts payable relating to the project is forecasted, based on one-twelfth of the annual forecasted construction draws, as follows at June 30:

(In Thousands)

2016	2017	2018	2019	2020	2021
$ 13,282	$ 13,282	$ 5,313	$ -	$ -	$ -

Due To Third-Party Payors

Settlements from the Medicare and Blue Cross Blue Shield ("Blue Cross") programs have been forecasted assuming there will be differences in reimbursement between interim rates and the final reimbursement. Due to third-party payors is forecasted based on the number of days of the various entities' net patient service revenue for Medicare and Blue Cross ranging from approximately 5 to 64 days.

Based on the above, due to third-party payors is forecasted as follows at June 30:

(In Thousands)

2016	2017	2018	2019	2020	2021
$ 18,022	$ 18,280	$ 18,541	$ 19,986	$ 21,388	$ 21,668

Note 3 Significant Forecast Assumptions (Continued)

Accrued Salaries, Wages, and Payroll Taxes

Accrued salaries, wages, and payroll taxes include liabilities related to salaries and wages, paid time off, withholdings, severance, and other payroll-related accounts.

Accrued Salaries and Wages

Accrued salaries and wages are forecasted based on average salaries and wages expense per day and the number of days of payroll outstanding at each balance sheet date for nonproviders and historical level of days of salaries and wages for providers for the various entities.

Based on the above, accrued salaries and wages are forecasted as follows at June 30:

(In Thousands)

2016	2017	2018	2019	2020	2021
$ 31,545	$ 33,239	$ 34,975	$ 36,921	$ 40,157	$ 41,971

Accrued Paid Time Off and Withholdings

Accrued paid time off and withholdings are forecasted based on historical days of salaries and wages included in accrued paid time off and withholdings for the various entities.

Based on the above, accrued paid time off and withholdings are forecasted as follows at June 30:

(In Thousands)

2016	2017	2018	2019	2020	2021
$ 19,737	$ 20,067	$ 20,412	$ 20,948	$ 21,447	$ 21,722

Note 3 Significant Forecast Assumptions (Continued)

Accrued Salaries, Wages, and Payroll Taxes (Continued)

Accrued Severance

Accrued severance was $3,306 as of June 30, 2015 and is forecasted as follows at June 30:

(In Thousands)

2016	2017	2018	2019	2020	2021
$ 1,400	$ 440	$ -	$ -	$ -	$ -

Accrued Other

Accrued other includes miscellaneous payroll-related accruals and is forecasted based on historical days of salaries, wages, and employee benefits expense in accrued other for the various entities.

Based on the above, accrued other is forecasted as follows at June 30:

(In Thousands)

2016	2017	2018	2019	2020	2021
$ 1,776	$ 1,796	$ 1,816	$ 1,837	$ 1,858	$ 1,880

Based on the above, accrued salaries, wages, and payroll taxes are forecasted as follows at June 30:

(In Thousands)

2016	2017	2018	2019	2020	2021
$ 54,458	$ 55,542	$ 57,203	$ 59,706	$ 63,462	$ 65,573

Note 3 Significant Forecast Assumptions (Continued)

Other Accrued Expenses

Other accrued expenses include accruals for malpractice, medical claims, health/dental, retirement, workers' compensation, and miscellaneous and are forecasted based on historical levels including days of salaries, wages, and employee benefits for the various entities.

Based on the above, other accrued expenses are forecasted as follows at June 30:

(In Thousands)					
2016	2017	2018	2019	2020	2021
$ 66,208	$ 67,441	$ 69,145	$ 72,274	$ 74,991	$ 76,731

Accrued Liabilities Under Self-Insurance Program

Mercy manages a self-insurance program for its professional liability on a claims-made basis. Mercy retains 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, Mercy generally retains the first $2,000 of loss per claim and has purchased an umbrella policy that provides excess coverage.

Rockford has 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.

Mercy Health has provided reserves for potential professional liability claims for services provided to patients through June 30 of each year, which have not yet been asserted, in the accompanying forecasted consolidated balance sheets.

Note 3 Significant Forecast Assumptions (Continued)

Accrued Liabilities Under Self-Insurance Program (Continued)

At June 30, the internally designated investments and self-insurance reserves recorded in the accompanying forecasted consolidated balance sheets are included in assets limited as to use as noted on page 29.

Accrued liabilities under self-insurance program are forecasted at $54,327 throughout the forecast period.

Deferred Compensation

Deferred compensation is forecasted based on historical levels increased $250 each year for anticipated investment earnings and increases in benefits over the forecast period. Deferred compensation is funded in assets limited as to use as noted on page 29.

Based on the above, deferred compensation is forecasted as follows at June 30:

(In Thousands)

2016	2017	2018	2019	2020	2021
$ 21,317	$ 21,567	$ 21,817	$ 22,067	$ 22,317	$ 22,567

Note 3 Significant Forecast Assumptions (Continued)

Pension Liability

Mercy has a defined benefit noncontributory retirement plan which covers its employees 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.

Rockford sponsors a noncontributory defined benefit pension plan which covered substantially all full-time employees and regular part-time employees until the plan was frozen in 2003. At that time, employees elected to stay within the defined benefit pension plan or opt into the defined contribution plan. No new participants were allowed to join the plan after 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 liability related to the Mercy plan is forecasted based on historical levels increased 2% each year of the forecast period. The liability for the Rockford plan is forecasted to decrease 10 percent each year of the forecast period.

Based on the above, pension liability is forecasted as follows at June 30:

(In Thousands)					
2016	2017	2018	2019	2020	2021
$ 22,901	$ 22,259	$ 21,714	$ 21,258	$ 20,881	$ 20,577

Note 3 Significant Forecast Assumptions (Continued)

Accrued Postretirement Medical Benefits

Rockford 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 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. Rockford recognizes the expected cost of these postretirement benefits during the years the employees render service. Accrued postretirement medical benefits are forecasted to remain at historical levels of $6,323 throughout the forecast period.

Other Liabilities

Other liabilities include interest rate swap, asset retirement obligation, life insurance liability and miscellaneous liabilities and are forecasted to remain at historical levels of $4,385.

Note 3 Significant Forecast Assumptions (Continued)

Temporarily Restricted Net Assets

Temporarily restricted net assets consist of grants and contributions received for long-lived assets and specific purposes. Temporarily restricted net assets are forecasted to remain at June 30, 2015 levels.

Based on the above, temporarily restricted net assets are forecasted as follows at June 30, 2016 through 2021:

		(In Thousands)
Care for the indigent	$	1,254
Capital purchases		9
Other purposes		12,799
Total	$	14,062

Permanently Restricted Net Assets

Permanently restricted net assets consist of endowment funds and are forecasted to remain at June 30, 2015 levels.

Based on the above, permanently restricted net assets are forecasted as follows at June 30, 2016 through 2021:

		(In Thousands)
Care for the indigent	$	3,091
Educational programs		873
General services		4,444
Total	$	8,408

Note 3 Significant Forecast Assumptions (Continued)

Service Area Definition and Patient Origin – Rockford

The service area definition was provided by management for Rockford and was separated into a primary service area (PSA) made up of 19 ZIP codes and two counties, and secondary service area (SSA) made up of seven additional counties. The service area for both the Rockton and Riverside campuses are identical. The primary and secondary service areas of Rockford are defined by the following ZIP codes and counties:

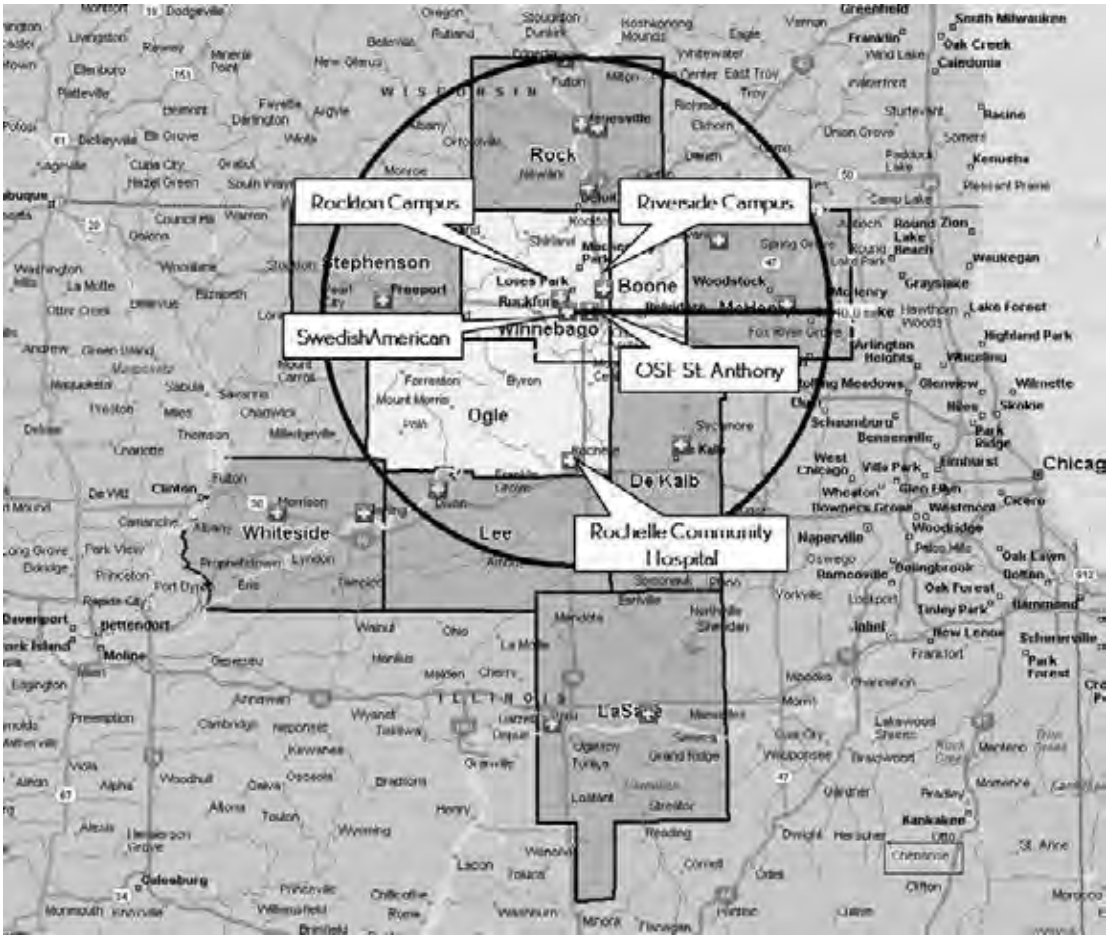
Primary Service Area	
61101 - Rockford	61016 - Cherry Valley
61102 - Rockford	61024 - Durand
61103 - Rockford	61063 - Pecatonica
61104 - Rockford	61072 - Rockton
61107 - Rockford	61073 - Roscoe
61108 - Rockford	61079 - Shirland
61109 - Rockford	61080 - South Beloit
61112 - Rockford	61088 - Winnebago
61114 - Rockford	61115 - Machesney Park
61111 - Loves Park	Boone County, IL
	Ogle County, IL

Secondary Service Area	
Dekalb County, IL	LaSalle County, IL
Lee County, IL	McHenry County, IL
Stephenson County, IL	Whiteside County, IL
Rock County, WI	

Note 3 Significant Forecast Assumptions (Continued)

Service Area Definition and Patient Origin – Rockford (Continued)

The following map shows the location of Rockford and other area hospitals as well as the PSA and SSA.



Source: Microsoft MapPoint

Note 3 Significant Forecast Assumptions (Continued)

Service Area Definition and Patient Origin – Rockford (Continued)

The PSA has experienced decline over the past five years. Many rural areas are declining in population. The SSA has also experienced a slight decline over the same period of time. The PSA and SSA population changes have been as follows:

	2012	2013	2014	2015	% Change 2012-2015	Change 2012-2015
Primary Service Area (PSA)						
61101 - Rockford	22,037	21,935	21,832	21,729	*-1.4%*	(308)
61102 - Rockford	19,454	19,364	19,275	19,186	*-1.4%*	(268)
61103 - Rockford	23,965	23,894	23,824	23,754	*-0.9%*	(211)
61104 - Rockford	18,407	18,325	18,244	18,163	*-1.3%*	(244)
61107 - Rockford	30,955	30,925	30,896	30,866	*-0.3%*	(89)
61108 - Rockford	28,907	28,820	28,732	28,644	*-0.9%*	(263)
61109 - Rockford	28,571	28,566	28,561	28,556	*-0.1%*	(15)
61114 - Rockford	15,599	15,552	15,506	15,459	*-0.9%*	(140)
61111 - Loves Park	23,602	23,543	23,484	23,425	*-0.7%*	(177)
61016 - Cherry Valley	4,738	4,740	4,743	4,746	*0.2%*	8
61024 - Durand	2,932	2,937	2,941	2,946	*0.5%*	14
61063 - Pecatonica	3,991	4,011	4,030	4,049	*1.5%*	58
61072 - Rockton	10,831	10,807	10,784	10,760	*-0.7%*	(71)
61073 - Roscoe	20,342	20,318	20,293	20,269	*-0.4%*	(73)
61079 - Shirland	107	105	102	100	*-6.5%*	(7)
61080 - South Beloit	11,093	11,100	11,106	11,113	*0.2%*	20
61088 - Winnebago	6,149	6,137	6,125	6,113	*-0.6%*	(36)
61115 - Machesney Park	23,005	23,026	23,046	23,067	*0.3%*	62
Boone County, IL	54,612	54,836	55,059	55,283	*1.2%*	671
Ogle County, IL	53,418	53,378	53,339	53,299	*-0.2%*	(119)
PSA Total	***402,715***	***402,319***	***401,922***	***401,527***	*-0.3%*	***(1,188)***
Secondary Service Area (SSA)						
Dekalb County, IL	105,444	105,586	105,728	105,870	*0.4%*	426
LaSalle County, IL	113,485	113,266	113,046	112,827	*-0.6%*	(658)
Lee County, IL	35,963	35,930	35,896	35,862	*-0.3%*	(101)
McHenry County, IL	309,486	309,848	310,211	310,574	*0.4%*	1,088
Stephenson County, IL	47,374	47,205	47,037	46,868	*-1.1%*	(506)
Whiteside County, IL	58,096	57,894	57,693	57,492	*-1.0%*	(604)
SSA Total	***669,848***	***669,729***	***669,611***	***669,493***	*-0.1%*	***(355)***
Total Service Area	***1,072,563***	***1,072,048***	***1,071,533***	***1,071,020***	*-0.1%*	***(1,543)***

Source: ESRI Business Information Solutions

Note 3 Significant Forecast Assumptions (Continued)

Service Area Definition and Patient Origin – Rockford (Continued)

Population growth scenarios were developed to provide sensitivity to volume estimates. ESRI five-year population growth estimates point to a slight increase in population in the primary and secondary service areas. An increase of 1.3% was projected according to ESRI estimates as follows:

	Historical Reference % Change 2012-2015	Forecasted % Change 2015-2021
Primary Service Area (PSA)		
61101 - Rockford	-1.4%	0.5%
61102 - Rockford	-1.4%	1.0%
61103 - Rockford	-0.9%	0.5%
61104 - Rockford	-1.3%	0.1%
61107 - Rockford	-0.3%	0.5%
61108 - Rockford	-0.9%	-0.2%
61109 - Rockford	-0.1%	2.4%
61114 - Rockford	-0.9%	-0.2%
61111 - Loves Park	-0.7%	0.6%
61016 - Cherry Valley	0.2%	3.5%
61024 - Durand	0.5%	0.6%
61063 - Pecatonica	1.5%	3.3%
61072 - Rockton	-0.7%	1.4%
61073 - Roscoe	-0.4%	3.3%
61079 - Shirland	-6.5%	-24.0%
61080 - South Beloit	0.2%	0.8%
61088 - Winnebago	-0.6%	7.2%
61115 - Machesney Park	0.3%	0.7%
Boone County, IL	1.2%	5.2%
Ogle County, IL	-0.2%	-1.0%
PSA Total	-0.3%	1.4%
Secondary Service Area (SSA)		
Dekalb County, IL	0.4%	2.6%
LaSalle County, IL	-0.6%	-1.0%
Lee County, IL	-0.3%	-0.9%
McHenry County, IL	0.4%	3.1%
Stephenson County, IL	-1.1%	-2.3%
Whiteside County, IL	-1.0%	-1.9%
SSA Total	-0.1%	1.3%
Total Service Area	-0.1%	1.3%

Source: ESRI Business Information Solutions

Note 3 Significant Forecast Assumptions (Continued)

Service Area Definition and Patient Origin – Rockford (Continued)

Total service area population in the forecast is anticipated to increase by 14,193 as follows:

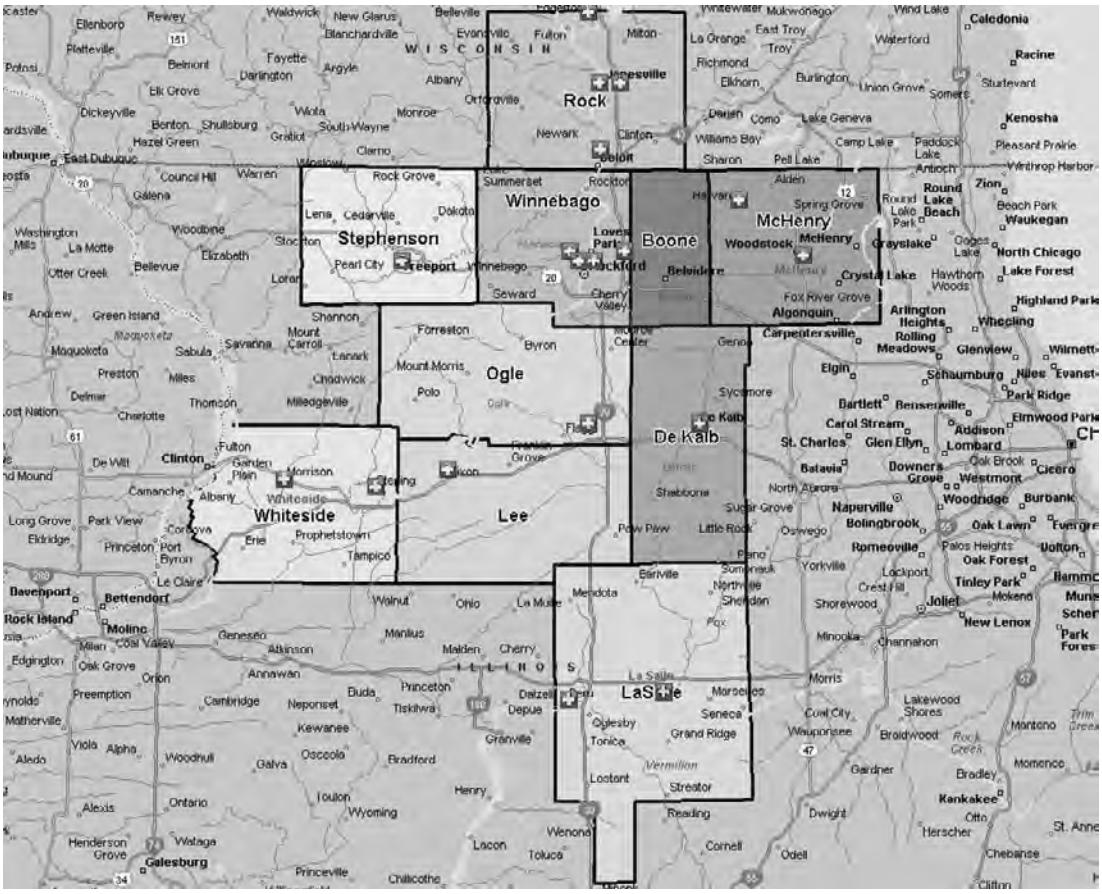
	2015 Population	2021 Population	2015-2021 Variance
Primary Service Area (PSA)			
61101 - Rockford	21,729	21,842	113
61102 - Rockford	19,186	19,383	197
61103 - Rockford	23,754	23,878	124
61104 - Rockford	18,163	18,187	24
61107 - Rockford	30,866	31,021	155
61108 - Rockford	28,644	28,591	(53)
61109 - Rockford	28,556	29,254	698
61114 - Rockford	15,459	15,424	(35)
61111 - Loves Park	23,425	23,559	134
61016 - Cherry Valley	4,746	4,910	164
61024 - Durand	2,946	2,964	18
61063 - Pecatonica	4,049	4,182	133
61072 - Rockton	10,760	10,911	151
61073 - Roscoe	20,269	20,940	671
61079 - Shirland	100	76	(24)
61080 - South Beloit	11,113	11,199	86
61088 - Winnebago	6,113	6,552	439
61115 - Machesney Park	23,067	23,221	154
Boone County, IL	55,283	58,180	2,897
Ogle County, IL	53,299	52,785	(514)
PSA Total	***401,527***	***407,059***	***5,532***
Secondary Service Area (SSA)			
Dekalb County, IL	105,870	108,612	2,742
LaSalle County, IL	112,827	111,697	(1,130)
Lee County, IL	35,862	35,556	(306)
McHenry County, IL	310,574	320,096	9,522
Stephenson County, IL	46,868	45,800	(1,068)
Whiteside County, IL	57,492	56,393	(1,099)
SSA Total	***669,493***	***678,154***	***8,661***
Total Service Area	***1,071,020***	***1,085,213***	***14,193***

Source: ESRI Business Information Solutions

Note 3 Significant Forecast Assumptions (Continued)

Service Area Definition and Patient Origin – Rockford (Continued)

The following illustration represents a graphical depiction of future population change within the service area by ZIP code:

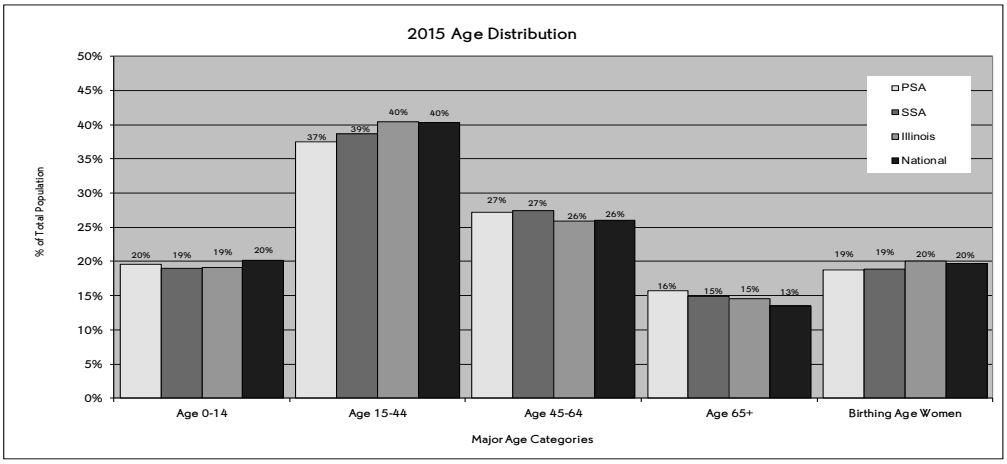


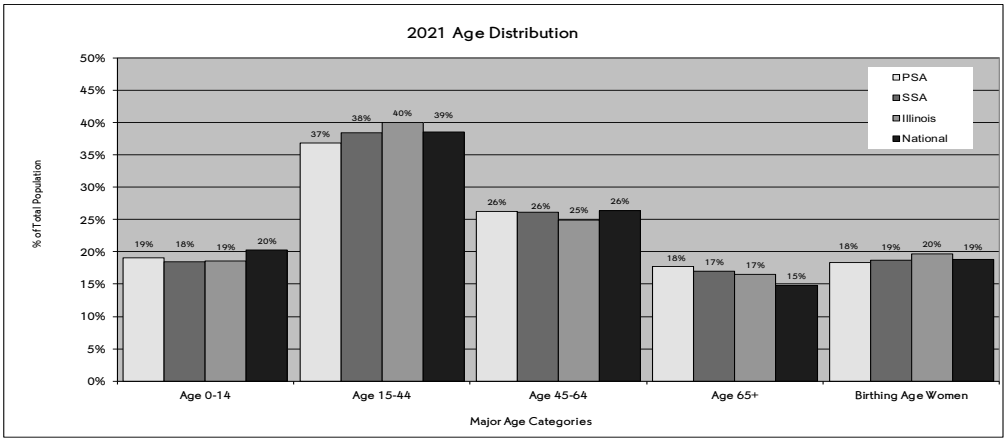
Source: Microsoft MapPoint

Note 3 Significant Forecast Assumptions (Continued)

Service Area Definition and Patient Origin – Rockford (Continued)

The PSA and SSA have an older population than state and national averages. The population graphs reflect the baby boomers (45-64) and the 65+ categories, which are both above the state and national averages. This results in an expectation of higher utilization of inpatient and outpatient services per 1,000 population because of the higher average age (equating to higher acuity). The utilization is also expected to continue to increase as the baby boomers continue to age in the service area over the next five years. The proportion of birthing age women is expected to decline in the PSA over the next five years. This combined with an overall decline in population will result in a downward trend in the number of births in the PSA over the next five years. Demographic information from ESRI Business Information Solutions for the primary and secondary service areas compared to the state of Illinois and the entire nation is summarized below:





Source: ESRI Business Information Solutions

Note 3 Significant Forecast Assumptions (Continued)

Service Area Definition and Patient Origin – Mercy

The service area definition was provided by management for MHTC and was separated into a PSA made up of six ZIP codes, and SSA made up of 21 additional ZIP codes. The primary and secondary service areas of MHTC are defined by the following ZIP codes:

Primary Service Area	
53511 - Beloit	53546 - Janesville
53534 - Edgerton	53548 - Janesville
53545 - Janesville	53563 - Milton

Secondary Service Area	
53114 - Darien	53523 - Cambridge
53115 - Delavan	53525 - Clinton
53121 - Elkhorn	53536 - Evansville
53125 - Fontana	53538 - Fort Atkinson
53147 - Lake Geneva	53576 - Orfordville
53184 - Walworth	53585 - Sharon
53190 - Whitewater	53589 - Stoughton
53191 - Williams Bay	61072 - Rockton
53502 - Albany	61073 - Roscoe
53505 - Avalon	61080 - South Beloit
53520 - Brodhead	

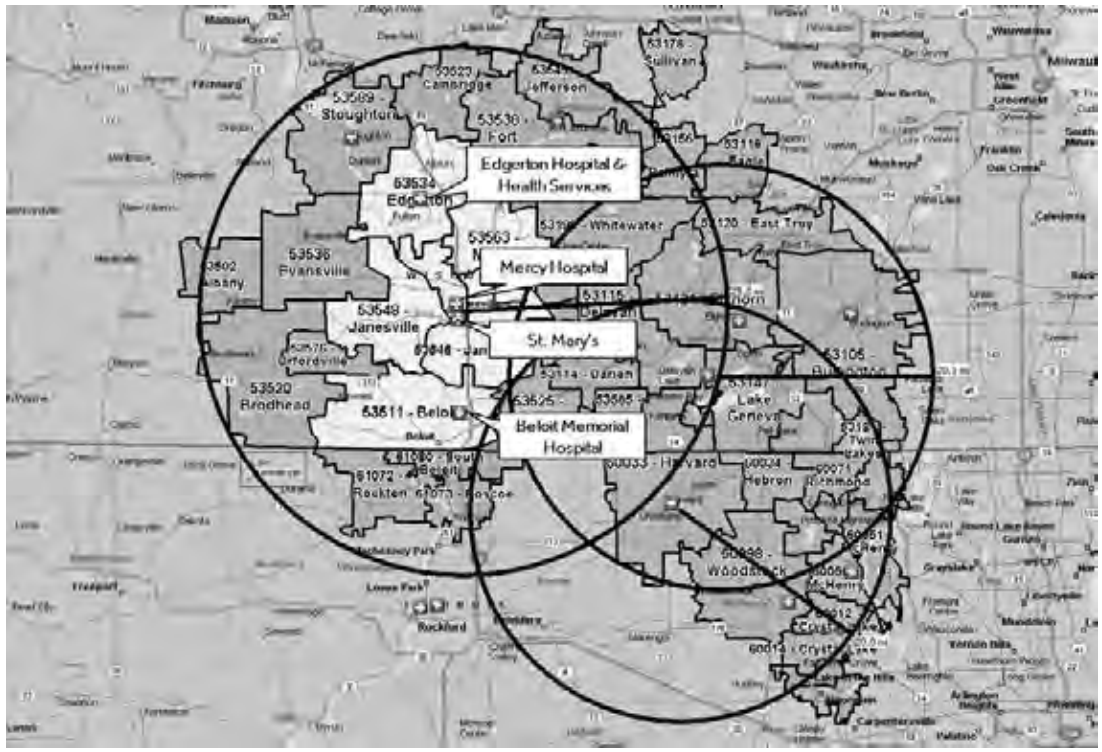
Additional Secondary Service Area	
53105 - Burlington	60034 - Hebron
53119 - Eagle	60050 - McHenry
53120 - East Troy	60051 - McHenry
53128 - Genoa City	60071 - Richmond
53156 - Palmyra	60072 - Ringwood
53178 - Sullivan	60081 - Spring Grove
53181 - Twin Lakes	60097 - Wonder Lake
53549 - Jefferson	60098 - Woodstock
60012 - Crystal Lake	60102 - Algonquin
60014 - Crystal Lake	60156 - Algonquin
60033 - Harvard	

Source: ESRI Business Information Solutions

Note 3 Significant Forecast Assumptions (Continued)

Service Area Definition and Patient Origin – Mercy (Continued)

The following map shows the location of Mercy and other area hospitals as well as the PSA and SSA.



Source: Microsoft MapPoint

Note 3 Significant Forecast Assumptions (Continued)

Service Area Definition and Patient Origin – Mercy (Continued)

The PSA has experienced a decline over the past four years. As noted before, many rural areas are declining in population. The SSA has experienced a slight increase over the same period of time. The additional SSA has also experienced a slight increase over the same time period. The PSA and SSA population changes have been as follows:

	2012	2013	2014	2015	% Change 2012-2015	Change 2012-2015
Primary Service Area (PSA)						
53511 - Beloit	49,098	48,987	48,875	48,763	-0.7%	(335)
53534 - Edgerton	11,854	11,896	11,939	11,981	1.1%	127
53545 - Janesville	22,821	22,794	22,768	22,742	-0.3%	(79)
53546 - Janesville	30,597	30,612	30,628	30,643	0.2%	46
53548- Janesville	19,004	19,009	19,015	19,021	0.1%	17
53563 - Milton	10,659	10,669	10,680	10,691	0.3%	32
PSA Total	***144,033***	***143,967***	***143,905***	***143,841***	-0.1%	***(192)***
Secondary Service Area (SSA)						
53114 - Darien	2,542	2,575	2,608	2,641	3.9%	99
53115 - Delavan	15,928	15,912	15,897	15,881	-0.3%	(47)
53121 - Elkhorn	18,914	18,916	18,918	18,920	0.0%	6
53125 - Fontana	1,932	1,932	1,931	1,930	-0.1%	(2)
53147 - Lake Geneva	16,840	16,836	16,833	16,829	-0.1%	(11)
53184 - Walworth	4,203	4,235	4,267	4,299	2.3%	96
53190 - Whitewater	19,282	19,318	19,355	19,391	0.6%	109
53191 - Williams Bay	2,892	2,896	2,899	2,903	0.4%	11
53502 - Albany	2,419	2,454	2,490	2,526	4.4%	107
53505 - Avalon	471	473	474	475	0.8%	4
53520 - Brodhead	6,746	6,721	6,696	6,671	-1.1%	(75)
53523 - Cambridge	4,950	4,960	4,969	4,979	0.6%	29
53525 - Clinton	4,058	4,036	4,013	3,990	-1.7%	(68)
53536 - Evansville	8,611	8,681	8,750	8,819	2.4%	208
53538 - Fort Atkinson	18,274	18,205	18,136	18,067	-1.1%	(207)
53576 - Orfordville	2,399	2,409	2,418	2,427	1.2%	28
53585 - Sharon	2,199	2,194	2,188	2,182	-0.8%	(17)
53589 - Stoughton	19,960	20,036	20,112	20,188	1.1%	228
61072 - Rockton	10,831	10,807	10,784	10,760	-0.7%	(71)
61073 - Roscoe	20,342	20,318	20,293	20,269	-0.4%	(73)
61080 - South Beloit	11,093	11,100	11,106	11,113	0.2%	20
SSA Total	***194,886***	***195,014***	***195,137***	***195,260***	0.2%	***374***
Additional Secondary Service Area						
53105 - Burlington	28,047	28,033	28,019	28,005	-0.1%	(42)
53119 - Eagle	5,356	5,351	5,346	5,341	-0.3%	(15)
53120 - East Troy	9,667	9,663	9,660	9,657	-0.1%	(10)
53128 - Genoa City	9,229	9,282	9,336	9,389	1.7%	160
53156 - Palmyra	3,438	3,441	3,443	3,445	0.2%	7
53178 - Sullivan	3,053	3,059	3,065	3,071	0.6%	18
53181 - Twin Lakes	7,857	7,874	7,892	7,910	0.7%	53
53549 - Jefferson	10,507	10,485	10,462	10,439	-0.6%	(68)
60012 - Crystal Lake	11,549	11,551	11,552	11,553	0.0%	4
60014 - Crystal Lake	46,902	46,920	46,937	46,955	0.1%	53
60033 - Harvard	14,031	14,033	14,034	14,035	0.0%	4
60034 - Hebron	2,151	2,164	2,176	2,189	1.8%	38
60050 - McHenry	29,710	29,709	29,707	29,705	0.0%	(5)
60051 - McHenry	25,296	25,276	25,257	25,238	-0.2%	(58)
60071 - Richmond	3,931	3,948	3,966	3,984	1.3%	53
60072 - Ringwood	788	785	783	781	-0.9%	(7)
60081 - Spring Grove	11,345	11,356	11,367	11,378	0.3%	33
60097 - Wonder Lake	11,472	11,487	11,503	11,519	0.4%	47
60098 - Woodstock	32,221	32,351	32,480	32,609	1.2%	388
60102 - Algonquin	33,254	33,309	33,363	33,417	0.5%	163
60156 - Algonquin	28,281	28,271	28,260	28,250	-0.1%	(31)
Additional SSA Total	***328,085***	***328,348***	***328,608***	***328,870***	0.2%	***785***
Total Service Area	***667,004***	***667,329***	***667,650***	***667,971***	0.1%	***967***

Source: ESRI Business Information Solutions

Note 3 Significant Forecast Assumptions (Continued)

Service Area Definition and Patient Origin – Mercy (Continued)

Population growth scenarios were developed to provide sensitivity to volume estimates. ESRI five-year population growth estimates point to a slight increase in population in the primary and secondary service areas. An increase of 1.8% was projected for the total service area according to ESRI estimates as follows:

	Historical Reference % Change 2012-2015	Forecasted % Change 2015-2021
Primary Service Area (PSA)		
53511 - Beloit	-0.7%	-0.4%
53534 - Edgerton	1.1%	2.6%
53545 - Janesville	-0.3%	0.1%
53546 - Janesville	0.2%	0.8%
53547 - Janesville	0.1%	0.6%
53563 - Milton	0.3%	0.9%
PSA Total	-0.1%	0.4%
Secondary Service Area (SSA)		
53114 - Darien	3.9%	5.6%
53115 - Delavan	-0.3%	0.5%
53121 - Elkhorn	0.0%	0.7%
53125 - Fontana	-0.1%	0.4%
53147 - Lake Geneva	-0.1%	0.5%
53184 - Walworth	2.3%	3.4%
53190 - Whitewater	0.6%	1.2%
53191 - Williams Bay	0.4%	1.2%
53502 - Albany	4.4%	6.3%
53505 - Avalon	0.8%	1.3%
53520 - Brodhead	-1.1%	-0.6%
53523 - Cambridge	0.6%	3.2%
53525 - Clinton	-1.7%	-1.5%
53536 - Evansville	2.4%	3.5%
53538 - Fort Atkinson	-1.1%	-0.4%
53576 - Orfordville	1.2%	2.0%
53585 - Sharon	-0.8%	-0.1%
53589 - Stoughton	1.1%	4.9%
61072 - Rockton	-0.7%	1.4%
61073 - Roscoe	-0.4%	3.3%
61080 - South Beloit	0.2%	0.8%
SSA Total	0.2%	1.7%
Additional Secondary Service Area		
53105 - Burlington	-0.1%	0.4%
53119 - Eagle	-0.3%	0.3%
53120 - East Troy	-0.1%	0.7%
53128 - Genoa City	1.7%	3.2%
53156 - Palmyra	0.2%	1.5%
53178 - Sullivan	0.6%	2.2%
53181 - Twin Lakes	0.7%	1.4%
53549 - Jefferson	-0.6%	0.2%
60012 - Crystal Lake	0.0%	2.0%
60014 - Crystal Lake	0.1%	1.4%
60033 - Harvard	0.0%	10.9%
60034 - Hebron	1.8%	14.0%
60050 - McHenry	0.0%	1.9%
60051 - McHenry	-0.2%	0.5%
60071 - Richmond	1.3%	3.7%
60072 - Ringwood	-0.9%	-0.1%
60081 - Spring Grove	0.3%	5.2%
60097 - Wonder Lake	0.4%	4.5%
60098 - Woodstock	1.2%	6.7%
60102 - Algonquin	0.5%	1.5%
60156 - Algonquin	-0.1%	1.2%
Additional SSA Total	0.2%	2.6%
Total Service Area	0.1%	1.8%

Source: ESRI Business Information Solutions

Note 3 Significant Forecast Assumptions (Continued)

Service Area Definition and Patient Origin – Mercy (Continued)

Total service area population in the forecast is anticipated to increase by 12,345 as follows:

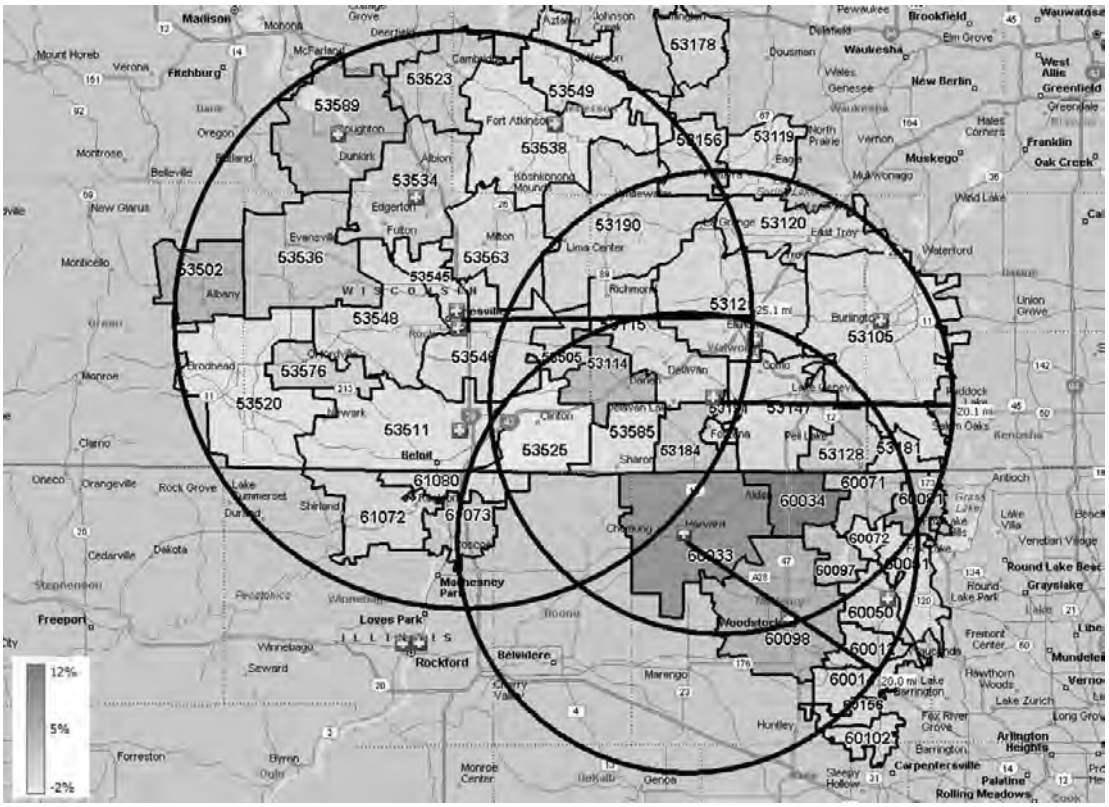
	2015 Population	2021 Population	2015-2021 Variance
Primary Service Area (PSA)			
53511 - Beloit	48,763	48,585	(178)
53534 - Edgerton	11,981	12,297	316
53545 - Janesville	22,742	22,770	28
53546 - Janesville	30,643	30,885	242
53548 - Janesville	19,021	19,143	122
53563 - Milton	10,691	10,783	92
PSA Total	***143,841***	***144,463***	***622***
Secondary Service Area (SSA)			
53114 - Darien	2,641	2,789	148
53115 - Delavan	15,881	15,967	86
53121 - Elkhorn	18,920	19,048	128
53125 - Fontana	1,930	1,938	8
53147 - Lake Geneva	16,829	16,921	92
53184 - Walworth	4,299	4,447	148
53190 - Whitewater	19,391	19,627	236
53191 - Williams Bay	2,903	2,937	34
53502 - Albany	2,526	2,686	160
53505 - Avalon	475	481	6
53520 - Brodhead	6,671	6,633	(38)
53523 - Cambridge	4,979	5,139	160
53525 - Clinton	3,990	3,930	(60)
53536 - Evansville	8,819	9,127	308
53538 - Fort Atkinson	18,067	17,999	(68)
53576 - Orfordville	2,427	2,475	48
53585 - Sharon	2,182	2,180	(2)
53589 - Stoughton	20,188	21,180	992
61072 - Rockton	10,760	10,912	152
61073 - Roscoe	20,269	20,939	670
61080 - South Beloit	11,113	11,201	88
SSA Total	***195,260***	***198,556***	***3,296***
Additional Secondary Service Area			
53105 - Burlington	28,005	28,105	100
53119 - Eagle	5,341	5,355	14
53120 - East Troy	9,657	9,728	71
53128 - Genoa City	9,389	9,689	300
53156 - Palmyra	3,445	3,495	50
53178 - Sullivan	3,071	3,138	67
53181 - Twin Lakes	7,910	8,024	114
53549 - Jefferson	10,439	10,465	26
60012 - Crystal Lake	11,553	11,780	227
60014 - Crystal Lake	46,955	47,599	644
60033 - Harvard	14,035	15,565	1,530
60034 - Hebron	2,189	2,496	307
60050 - McHenry	29,705	30,282	577
60051 - McHenry	25,238	25,372	134
60071 - Richmond	3,984	4,130	146
60072 - Ringwood	781	780	(1)
60081 - Spring Grove	11,378	11,964	586
60097 - Wonder Lake	11,519	12,043	524
60098 - Woodstock	32,609	34,786	2,177
60102 - Algonquin	33,417	33,922	505
60156 - Algonquin	28,250	28,579	329
Additional SSA Total	***328,870***	***337,297***	***8,427***
Total Service Area	***667,971***	***680,316***	***12,345***

Source: ESRI Business Information Solutions

Note 3 Significant Forecast Assumptions (Continued)

Service Area Definition and Patient Origin – Mercy (Continued)

The following illustration represents a graphical depiction of future population change within the service area by ZIP code:

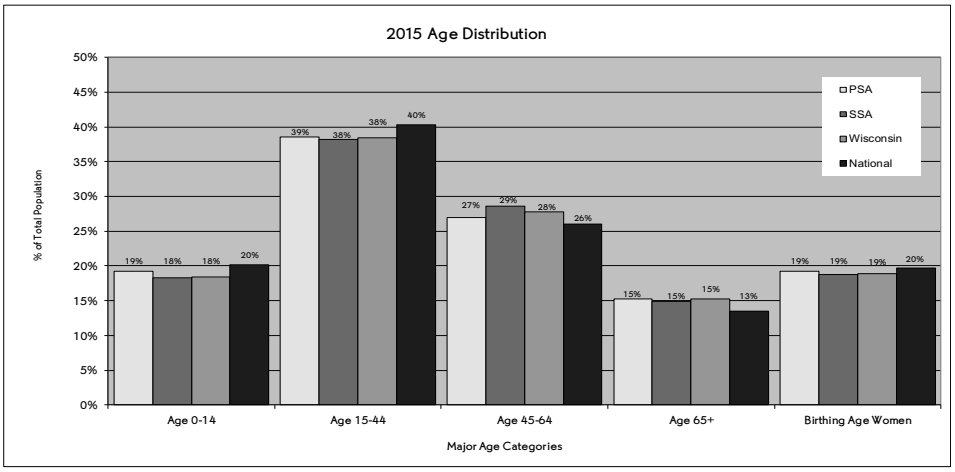


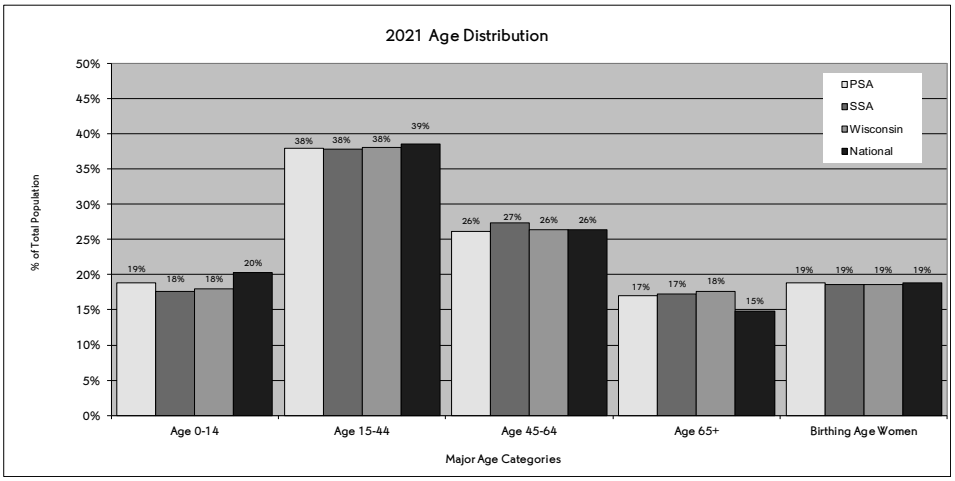
Source: Microsoft MapPoint

Note 3 Significant Forecast Assumptions (Continued)

Service Area Definition and Patient Origin – Mercy (Continued)

The PSA and SSA have an older population than national averages. The population graphs reflect the baby boomers (45-64) and the 65+ categories, which are both above the national averages. This results in an expectation of higher utilization of inpatient and outpatient services per 1,000 population because of the higher average age (equating to higher acuity). The utilization is also expected to continue to increase as the baby boomers continue to age in the service area over the next five years. The proportion of birthing age women is expected to decline in the PSA over the next five years. This combined with an overall decline in population will result in a downward trend in the number of births in the PSA over the next five years. Demographic information from ESRI Business Information Solutions for the primary and secondary service areas compared to the state of Wisconsin and the entire nation is summarized below:



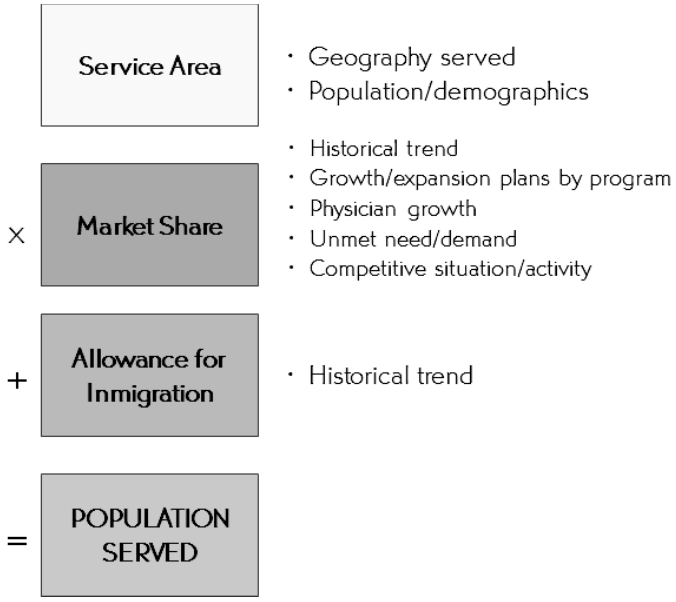


Source: ESRI Business Information Solutions

Note 3 Significant Forecast Assumptions (Continued)

Patient Service Revenue

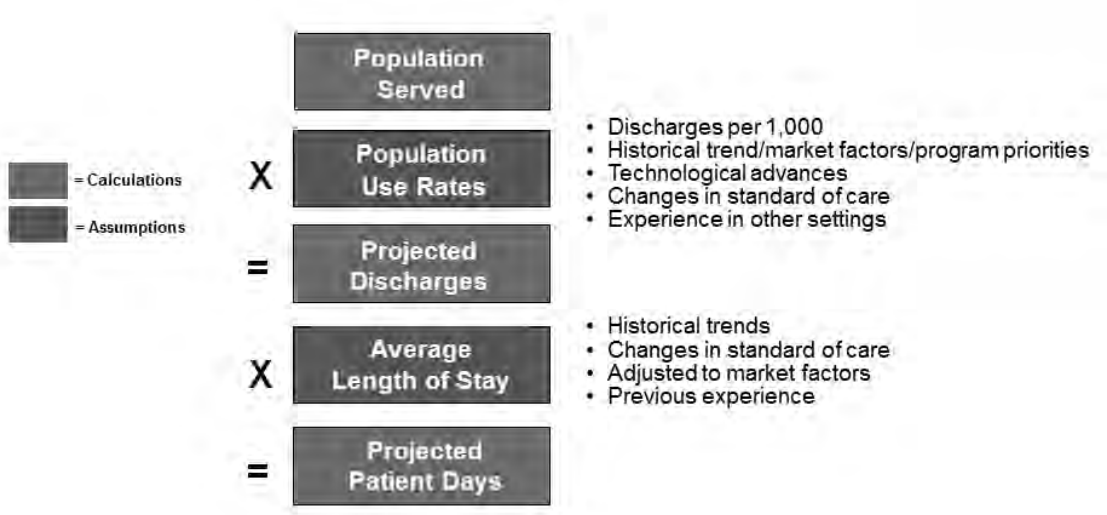
A population and market-driven approach was utilized to test the volume statistics that were forecasted and provided by Rockford and Mercy. The process included reviewing the service area definition and reviewing demographic trends including population and age in order to understand how the population has changed and will continue to change over the forecast period. Based on the population, Rockford's and Mercy's market share was analyzed to understand the market dynamics and calculate a 'population served' number. The population served number is then multiplied by future assumptions regarding population and market share to calculate anticipated population served over the forecast period. The future use rate estimates are utilized to project total discharges, and market share is multiplied by an assumption regarding average length of stay to project future patient days. Mercy's and Rockford's inpatient days are also the drivers for inpatient ancillary revenue. A similar methodology was used to compare Rockford's outpatient ancillary forecasts for significant revenue departments. The methodology for Mercy was completed at a higher level as forecasted changes are insignificant. Rockford's and Mercy's forecasted patient service revenue was evaluated based on anticipated levels of revenue per patient day or unit of service adjusted for changes in utilization, pricing, and reimbursement.



Note 3 Significant Forecast Assumptions (Continued)

Patient Service Revenue (Continued)

In addition, inpatient services revenue was evaluated based on historical use rates, length of stay, and occupancy rates. The following methodology estimates the projected patient days:



Note 3 Significant Forecast Assumptions (Continued)

Patient Service Revenue (Continued)

Rockford's historical market share has ranged from 25.1% to 27.3% over the past four years in the PSA. In the SSA, Rockford's market share ranged from 2.1% to 2.5% over the past four years. A summary of historical inpatient discharges and market data is as follows:

Primary Service Area	2012	2013	2014	2015 Ann.	Change
Swedish American Hospital	17,515	17,119	16,239	16,244	(1,271)
Rockford Health System	**11,464**	**11,537**	**12,145**	**12,140**	**676**
OSF Saint Anthony Medical Center	9,358	9,468	9,374	10,136	778
Katherine Shaw Bethea Hospital	1,096	1,062	833	859	(237)
Rochelle Community Hospital	410	397	510	526	116
All Others	5,795	5,613	5,461	5,631	(164)
Totals	**45,638**	**45,196**	**44,562**	**45,536**	**(102)**

Secondary Service Area	2012	2013	2014	2015 Ann.	Change
Swedish American Hospital	816	842	792	728	(88)
Rockford Health System	**1,639**	**1,698**	**1,858**	**1,852**	**213**
OSF Saint Anthony Medical Center	1,502	1,317	1,414	1,396	(106)
Katherine Shaw Bethea Hospital	-	-	-	-	-
Rochelle Community Hospital	-	-	-	-	-
All Others	74,851	70,650	69,179	69,920	(4,931)
Totals	**78,808**	**74,507**	**73,243**	**73,896**	**(4,912)**

Total Service Area	2012	2013	2014	2015 Ann.	Change
Swedish American Hospital	18,331	17,961	17,031	16,972	(1,359)
Rockford Health System	**13,103**	**13,235**	**14,003**	**13,992**	**889**
OSF Saint Anthony Medical Center	10,860	10,785	10,788	11,532	672
Katherine Shaw Bethea Hospital	1,096	1,062	833	859	(237)
Rochelle Community Hospital	410	397	510	526	116
All others	80,646	76,263	74,640	75,551	(5,095)
Totals	**124,446**	**119,703**	**117,805**	**119,432**	**(5,014)**

Source: IL Hospital Association Market Data; Note data does not include out of state cases or corresponding hospitals

Note 3 Significant Forecast Assumptions (Continued)

Patient Service Revenue (Continued)

Primary Service Area	2012	2013	2014	2015 Ann.	% Change
Swedish American Hospital	38.4%	37.9%	36.4%	35.7%	-2.7%
Rockford Health System	**25.1%**	**25.5%**	**27.3%**	**26.7%**	**1.6%**
OSF Saint Anthony Medical Center	20.5%	21.0%	21.0%	22.2%	1.7%
Katherine Shaw Bethea Hospital	2.4%	2.4%	1.9%	1.9%	-0.5%
Rochelle Community Hospital	0.9%	0.9%	1.1%	1.1%	0.2%
All Others	12.7%	12.4%	12.3%	12.4%	-0.3%
Totals	**100.0%**	**100.0%**	**100.0%**	**100.0%**	

Secondary Service Area	2012	2013	2014	2015 Ann.	
Swedish American Hospital	1.0%	1.1%	1.1%	1.0%	0.0%
Rockford Health System	**2.1%**	**2.3%**	**2.5%**	**2.5%**	**0.4%**
OSF Saint Anthony Medical Center	1.9%	1.8%	1.9%	1.9%	0.0%
Katherine Shaw Bethea Hospital	0.0%	0.0%	0.0%	0.0%	0.0%
Rochelle Community Hospital	0.0%	0.0%	0.0%	0.0%	0.0%
All Others	95.0%	94.8%	94.5%	94.6%	-0.4%
Totals	**100.0%**	**100.0%**	**100.0%**	**100.0%**	

Total Service Area	2012	2013	2014	2015 Ann.	
Swedish American Hospital	14.7%	15.0%	14.5%	14.2%	-0.5%
Rockford Health System	**10.5%**	**11.1%**	**11.9%**	**11.7%**	**1.2%**
OSF Saint Anthony Medical Center	8.7%	9.0%	9.2%	9.7%	1.0%
Katherine Shaw Bethea Hospital	0.9%	0.9%	0.7%	0.7%	-0.2%
Rochelle Community Hospital	0.3%	0.3%	0.4%	0.4%	0.1%
All others	64.9%	63.7%	63.3%	63.3%	-1.6%
Totals	**100.0%**	**100.0%**	**100.0%**	**100.0%**	

Source: IL Hospital Association Market Data; Note data does not include out of state cases or corresponding hospitals

Note 3 Significant Forecast Assumptions (Continued)

Patient Service Revenue (Continued)

Rockford market share is anticipated to grow with the new campus. Rockford's population and market share growth are forecasted as follows:

	Historical	Forecasted					
	2015	2016	2017	2018	2019	2020	2021
RHS Population Served							
Total PSA Population (X)	401,527	402,449	403,371	404,294	405,216	406,138	407,060
RHS PSA Market Share (=)	*26.7%*	*26.8%*	*26.9%*	*27.0%*	*29.0%*	*31.2%*	*31.7%*
(A) RHS PSA Population Served	107,208	107,856	108,507	109,159	117,513	126,715	129,038
Total SSA Population (X)	669,493	670,936	672,380	673,823	675,267	676,710	678,153
RHS SSA Market Share (=)	*2.5%*	*2.5%*	*2.5%*	*2.5%*	*2.6%*	*2.7%*	*2.7%*
(B) RHS SSA Population Served	16,737	16,773	16,810	16,846	17,557	18,271	18,310
A = Total RHS Service Area Pop.	123,945	124,629	125,317	126,005	134,867	144,986	147,348
In-migration Allowance (=)	*4.6%*	*4.6%*	*4.6%*	*4.6%*	*4.6%*	*4.6%*	*4.6%*
(B) In-migration Total	5,701	5,733	5,765	5,796	6,204	6,669	6,778
(A+B) Total RHS Population Served	129,646	130,362	131,082	131,801	141,274	151,655	154,126

Note 3 Significant Forecast Assumptions (Continued)

Patient Service Revenue (Continued)

Mercy's historical market share has ranged from 36.6% to 37.8% over the past four years in the PSA. In the SSA, excluding the secondary SSA market data, Mercy's market share ranged from 8.0% to 9.9% over the past four years. A summary of historical inpatient discharges and market data is as follows:

Primary Service Area	2012	2013	2014	2015 Ann.	Change
Mercy Hospital and Trauma Center	**5,913**	**5,950**	**5,859**	**6,109**	**196**
Beloit Memorial Hospital	3,444	2,716	3,191	3,327	(117)
UW Hospital and Clinics	1,427	1,419	1,387	1,504	77
St. Mary's - Janesville	2,596	2,911	2,714	2,821	225
St. Mary's - Madison	912	1,023	1,225	1,185	273
All Others	1,863	1,706	1,640	1,665	(198)
Totals	**16,155**	**15,725**	**16,016**	**16,612**	**457**

Secondary Service Area	2012	2013	2014	2015 Ann.	Change
Mercy Hospital and Trauma Center	**1,278**	**1,350**	**1,501**	**1,500**	**222**
Beloit Memorial Hospital	820	871	788	819	(1)
UW Hospital and Clinics	1,545	1,539	1,681	1,688	143
St. Mary's - Janesville	351	413	351	344	(7)
St. Mary's - Madison	1,695	1,645	1,691	1,517	(178)
All Others	10,234	9,731	9,781	9,324	(910)
Totals	**15,923**	**15,549**	**15,793**	**15,192**	**(731)**

Total Service Area	2012	2013	2014	2015 Ann.	Change
Mercy Hospital and Trauma Center	**7,191**	**7,300**	**7,360**	**7,609**	**418**
Beloit Memorial Hospital	4,264	3,587	3,979	4,145	(119)
UW Hospital and Clinics	2,972	2,958	3,068	3,192	220
St. Mary's - Janesville	2,947	3,324	3,065	3,165	218
St. Mary's - Madison	2,607	2,668	2,916	2,703	96
All others	12,097	11,437	11,421	10,989	(1,108)
Totals	**32,078**	**31,274**	**31,809**	**31,804**	**(274)**

Source: DataBay Resources; WHA Information Center, LLC

Note 3 Significant Forecast Assumptions (Continued)

Patient Service Revenue (Continued)

Primary Service Area	2012	2013	2014	2015 Ann.	% Change
Mercy Hospital and Trauma Center	**36.6%**	**37.8%**	**36.6%**	**36.8%**	**0.2%**
Beloit Memorial Hospital	21.3%	17.3%	19.9%	20.0%	-1.3%
UW Hospital and Clinics	8.8%	9.0%	8.7%	9.1%	0.3%
St. Mary's - Janesville	16.1%	18.5%	16.9%	17.0%	0.9%
St. Mary's - Madison	5.6%	6.5%	7.6%	7.1%	1.5%
All Others	11.6%	10.9%	10.3%	10.0%	-1.6%
Totals	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**2.8%**

Secondary Service Area	2012	2013	2014	2015 Ann.	
Mercy Hospital and Trauma Center	**8.0%**	**8.7%**	**9.5%**	**9.9%**	**1.9%**
Beloit Memorial Hospital	5.1%	5.6%	5.0%	5.4%	0.3%
UW Hospital and Clinics	9.7%	9.9%	10.6%	11.1%	1.4%
St. Mary's - Janesville	2.2%	2.7%	2.2%	2.3%	0.1%
St. Mary's - Madison	10.6%	10.6%	10.7%	10.0%	-0.6%
All Others	64.4%	62.5%	62.0%	61.3%	-3.1%
Totals	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**-4.6%**

Total Service Area	2012	2013	2014	2015 Ann.	
Mercy Hospital and Trauma Center	**22.4%**	**23.3%**	**23.1%**	**23.9%**	**1.5%**
Beloit Memorial Hospital	13.3%	11.5%	12.5%	13.0%	-0.3%
UW Hospital and Clinics	9.3%	9.5%	9.6%	10.0%	0.7%
St. Mary's - Janesville	9.2%	10.6%	9.6%	10.0%	0.8%
St. Mary's - Madison	8.1%	8.5%	9.2%	8.5%	0.4%
All others	37.7%	36.6%	36.0%	34.6%	-3.1%
Totals	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**-0.9%**

Source: DataBay Resources; WHA Information Center, LLC

Note 3 Significant Forecast Assumptions (Continued)

Patient Service Revenue (Continued)

Mercy is forecasted to not increase market share during the forecast period. Mercy's population and market share growth, excluding the secondary SSA, are forecasted as follows:

	Historical	Forecasted					
	2015	2016	2017	2018	2019	2020	2021
Mercy Population Served							
Total PSA Population **(X)**	143,841	143,946	144,051	144,156	144,261	144,362	144,463
MHS PSA Market Share (=)	36.8%	36.8%	36.8%	36.8%	36.8%	36.8%	36.8%
(A) MHS PSA Population Served	52,933	52,972	53,011	53,049	53,088	53,125	53,162
Total SSA Population **(X)**	195,260	195,808	196,356	196,904	197,452	198,004	198,556
MHS SSA Market Share (=)	9.9%	9.9%	9.9%	9.9%	9.9%	9.9%	9.9%
(B) MHS SSA Population Served	19,331	19,385	19,439	19,493	19,548	19,602	19,657
A = Total RHS Service Area Pop.	72,264	72,357	72,450	72,542	72,636	72,727	72,819
In-migration Allowance **(=)**	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%
(B) In-migration Total	3,975	3,980	3,985	3,990	3,995	4,000	4,005
(A+B) Total MHS Population Served	76,239	76,337	76,435	76,532	76,631	76,727	76,824

Rockford's volumes are forecasted to increase during the forecast period based on the following factors:

- The new medical center campus will include expanded patient services geographically and will incorporate state-of-the-art technology designed to the standards of today and the future. With its location on the I-90 interstate at the Riverside exit, the new campus is expected to enhance regional access for critical tertiary level services.

- The strong history of loyal and dedicated physician relationships will continue to contribute to volume growth.

- A larger than average population over the age of 65 will require additional health care services.

Note 3 Significant Forecast Assumptions (Continued)

Patient Service Revenue (Continued)

Mercy is forecasted to have insignificant changes in days and discharges and no change in average length of stay (ALOS) during the forecast period.

An analysis was completed of Rockford's and Mercy's market area, population trends, the effect of opening the new medical center campus on January 1, 2019, and the impact of other anticipated operating changes. This analysis supported management's forecasted inpatient discharges, patient days, and ancillary service volumes for the years ending June 30, 2016 through 2021.

Rockford's forecasted inpatient volumes for Rockton and Riverside were tested by utilizing a similar methodology as described above to translate population served into a population served admissions per 1,000 using the historical inpatient statistics at Rockford from 2012 through 2015. Inpatient statistics were broken into major bed types, and also major costs centers for comparison. Using the historical statistics by bed type the anticipated split of services was reviewed between the two campuses, and ultimately utilized a similar split to parse out the forecasted utilization rates for inpatient admissions between the two campuses. A higher level approach was utilized to test Mercy's assumptions related to discharges and days due to the insignificant changes forecasted.

Note 3 Significant Forecast Assumptions (Continued)

Patient Service Revenue (Continued)

Rockford's discharges, days, and ALOS are forecasted as follows:

	Rockford Discharges					
	2016	2017	2018	2019	2020	2021
Medicare	6,090	6,122	6,153	6,518	6,865	6,889
Medicaid	4,199	4,221	4,244	4,545	4,831	4,847
Managed care and commercial	3,422	3,441	3,459	3,730	3,987	4,001
Self pay	140	141	141	150	159	159
Other	130	131	131	140	148	148
Totals	13,981	14,056	14,128	15,083	15,990	16,044

	Rockford Days					
	2016	2017	2018	2019	2020	2021
Medicare	28,938	29,163	29,298	30,085	30,718	30,797
Medicaid	23,773	23,887	24,080	25,177	25,706	25,785
Managed care and commercial	15,220	15,309	15,418	15,931	16,491	16,540
Self pay	834	838	845	873	917	920
Other	470	473	465	485	497	499
Totals	69,235	69,670	70,106	72,551	74,329	74,541

Note 3 Significant Forecast Assumptions (Continued)

Patient Service Revenue (Continued)

	Rockford ALOS					
	2016	2017	2018	2019	2020	2021
Medicare	4.8	4.8	4.8	4.6	4.5	4.5
Medicaid	5.7	5.7	5.7	5.5	5.3	5.3
Managed care and commercial	4.4	4.4	4.5	4.3	4.1	4.1
Self pay	6.0	5.9	6.0	5.8	5.8	5.8
Other	3.6	3.6	3.6	3.5	3.4	3.4
Totals	5.0	5.0	5.0	4.8	4.6	4.6

Rockford's outpatient ancillary volumes are forecasted to increase as follows:

2016	2017	2018	2019	2020	2021
3.7%	1.2%	1.3%	11.4%	9.8%	1.3%

Rockford's physician volumes are forecasted to increase as follows:

2016	2017	2018	2019	2020	2021
7.5%	2.6%	1.3%	3.5%	3.4%	0.4%

Note 3 Significant Forecast Assumptions (Continued)

Patient Service Revenue (Continued)

Rockford maintains rates which allow it to recover its costs and provide an operating margin to meet its financial requirements. Rockford is forecasting price increases of 5% each year of the forecast.

Charity care is forecasted based on historical levels and is forecasted as follows:

(In Thousands)					
2016	2017	2018	2019	2020	2021
$ 16,910	$ 18,432	$ 19,494	$ 21,685	$ 23,896	$ 25,225

Based on the above, Rockford's gross patient service revenue by major payor, net of charity care is forecasted as follows:

Rockford - Inpatient

	(In Thousands)					
	2016	2017	2018	2019	2020	2021
Medicare	$ 282,912	$ 299,529	$ 315,987	$ 341,880	$ 367,456	$ 386,726
Medicaid	191,605	202,159	214,059	235,851	253,206	266,653
Managed care and commercial	164,370	173,568	183,592	199,669	217,612	229,144
Self pay	1,316	1,163	1,236	1,145	1,287	1,331
Other	4,493	4,744	4,883	5,384	5,823	6,138
Totals	$ 644,696	$ 681,163	$ 719,757	$ 783,929	$ 845,384	$ 889,992

Rockford - Outpatient

	(In Thousands)					
	2016	2017	2018	2019	2020	2021
Medicare	$ 230,143	$ 242,312	$ 254,508	$ 283,707	$ 314,457	$ 330,299
Medicaid	171,414	180,596	189,648	211,311	234,101	245,709
Managed care and commercial	192,974	203,259	213,154	242,066	272,516	285,981
Self pay	8,937	8,883	9,381	10,843	12,423	13,141
Other	4,811	5,025	5,232	5,802	6,399	6,664
Totals	$ 608,279	$ 640,075	$ 671,923	$ 753,729	$ 839,896	$ 881,794

Note 3 Significant Forecast Assumptions (Continued)

Patient Service Revenue (Continued)

Rockford - Total

	(In Thousands)					
	2016	2017	2018	2019	2020	2021
Medicare	$ 513,055	$ 541,841	$ 570,495	$ 625,587	$ 681,913	$ 717,025
Medicaid	363,019	382,755	403,707	447,162	487,307	512,362
Managed care and commercial	357,344	376,827	396,746	441,735	490,128	515,125
Self pay	10,253	10,046	10,617	11,988	13,710	14,472
Other	9,304	9,769	10,115	11,186	12,222	12,802
Totals	$ 1,252,975	$ 1,321,238	$ 1,391,680	$ 1,537,658	$ 1,685,280	$ 1,771,786

Mercy's volumes, discharges, and ALOS are forecasted to decrease slightly in 2016 and then stay relatively flat throughout the forecast period. Mercy's ancillary statistics were also analyzed, at a higher level due to the insignificant changes forecasted, and were supported by the procedures performed.

Mercy's forecasted discharges, days, and ALOS, excluding the nursing homes, are forecasted as follows:

	Mercy Discharges					
	2016	2017	2018	2019	2020	2021
Medicare	4,341	4,352	4,360	4,368	4,376	4,384
Medicaid	1,310	1,312	1,314	1,316	1,317	1,319
Managed care and commercial	3,125	3,131	3,136	3,141	3,146	3,151
Self pay	247	247	248	248	249	250
Totals	9,023	9,042	9,058	9,073	9,088	9,104

Note 3 Significant Forecast Assumptions (Continued)

Patient Service Revenue (Continued)

	Mercy Days					
	2016	2017	2018	2019	2020	2021
Medicare	16,490	16,518	16,541	16,564	16,587	16,611
Medicaid	5,063	5,070	5,075	5,080	5,085	5,091
Managed care and commercial	11,920	11,937	11,951	11,966	11,980	11,994
Self pay	937	939	941	942	944	945
Totals	34,410	34,464	34,508	34,552	34,596	34,641

	Mercy ALOS					
	2016	2017	2018	2019	2020	2021
Medicare	3.8	3.8	3.8	3.8	3.8	3.8
Medicaid	3.9	3.9	3.9	3.9	3.9	3.9
Managed care and commercial	3.8	3.8	3.8	3.8	3.8	3.8
Self pay	3.8	3.8	3.8	3.8	3.8	3.8
Totals	3.8	3.8	3.8	3.8	3.8	3.8

Mercy's hospital outpatient ancillary volumes and physician visits are forecasted to increase as follows:

2016	2017	2018	2019	2020	2021
0.0%	0.2%	0.3%	0.3%	0.3%	0.2%

Note 3 Significant Forecast Assumptions (Continued)

Patient Service Revenue (Continued)

Mercy also maintains rates which allow it to recover its costs and provide an operating margin to meet its financial requirements. Mercy is forecasting increases from 0% to 5% each year of the forecast.

Charity care is forecasted based on historical levels and is forecasted as follows:

(In Thousands)						
2016	2017	2018	2019	2020	2021
$ 8,272	$ 8,617	$ 8,986	$ 9,372	$ 9,774	$ 10,194

Based on the above, Mercy's gross patient service revenue by major payor, net of charity care, is forecasted as follows:

Mercy - Inpatient

	(In Thousands)					
	2016	2017	2018	2019	2020	2021
Medicare	$ 163,178	$ 170,320	$ 177,980	$ 186,000	$ 194,391	$ 203,176
Medicaid	45,166	47,184	49,350	51,617	53,989	56,470
Managed care and commercial	86,408	89,975	93,566	97,082	100,618	104,684
Self pay	10,113	10,478	10,951	11,440	11,957	12,494
Totals	$ 304,865	$ 317,957	$ 331,847	$ 346,139	$ 360,955	$ 376,824

Mercy - Outpatient

	(In Thousands)					
	2016	2017	2018	2019	2020	2021
Medicare	$ 278,565	$ 290,409	$ 302,764	$ 315,650	$ 329,095	$ 343,122
Medicaid	150,374	156,861	163,635	170,704	178,083	185,788
Managed care and commercial	467,284	486,336	504,980	523,816	543,090	564,014
Self pay	18,970	19,810	20,681	21,595	22,547	23,543
Other	25,626	26,307	27,204	28,138	29,104	30,103
Totals	$ 940,819	$ 979,723	$ 1,019,264	$ 1,059,903	$ 1,101,919	$ 1,146,570

Note 3 Significant Forecast Assumptions (Continued)

Patient Service Revenue (Continued)

Mercy - Total

	(In Thousands)					
	2016	2017	2018	2019	2020	2021
Medicare	$ 441,743	$ 460,729	$ 480,744	$ 501,650	$ 523,486	$ 546,298
Medicaid	195,540	204,045	212,985	222,321	232,072	242,258
Managed care and commercial	553,692	576,311	598,546	620,898	643,708	668,698
Self pay	29,083	30,288	31,632	33,035	34,504	36,037
Other	25,626	26,307	27,204	28,138	29,104	30,103
Totals	$ 1,245,684	$ 1,297,680	$ 1,351,111	$ 1,406,042	$ 1,462,874	$ 1,523,394

Based on the above, total gross patient service revenue, net of charity care, for Mercy Health is forecasted as follows:

	(In Thousands)					
	2016	2017	2018	2019	2020	2021
Medicare	$ 954,798	$ 1,002,570	$ 1,051,239	$ 1,127,237	$ 1,205,399	$ 1,263,323
Medicaid	558,559	586,800	616,692	669,483	719,379	754,620
Managed care and commercial	911,036	953,138	995,292	1,062,633	1,133,836	1,183,823
Self pay	39,336	40,334	42,249	45,023	48,214	50,509
Other	34,930	36,076	37,319	39,324	41,326	42,905
Totals	$ 2,498,659	$ 2,618,918	$ 2,742,791	$ 2,943,700	$ 3,148,154	$ 3,295,180

Note 3 Significant Forecast Assumptions (Continued)

Patient Service Revenue (Continued)

Deductions From Revenue

Mercy Health's contractual allowances and discounts are forecasted by applying each significant third-party reimbursement program's reimbursement methodology to forecasted revenue by payor for each year, considering the following:

Inpatient Medicare reimbursement is based on prospectively determined rates which vary depending on the acuity, or "case-mix," of the patient population. Rockford's Medicare case-mix has ranged from 1.6103 in 2013 to 1.6537 in 2015. Rockford's case-mix is forecasted to stay level at the budgeted case-mix of 1.6863 throughout the forecast period which is a slight increase over 2015 due to recent clinical documentation improvement efforts. Mercy's Medicare case-mix has ranged from 1.5749 in 2013 to 1.6762 in 2015. Mercy's case-mix is forecasted to stay level at the 2015 case-mix of 1.6762 throughout the forecast period.

In addition to Medicare, Mercy Health provides services to patients whose health care costs are covered by insurance companies, health maintenance organizations, and other health plans, including Medicaid. These payors compensate Mercy Health under various financial arrangements, including discounts from hospital-established charges and prospectively determined rates.

Mercy Health currently receives additional reimbursement from Wisconsin and Illinois Medicaid as part of the state's Medicaid assessment program or as supplemental reimbursement. It is anticipated that this additional reimbursement will remain at historical levels with insignificant changes over the forecast period. This additional reimbursement is included as an offset to contractual allowances and discounts or in other revenue and is forecasted as follows:

	(In Thousands)					
	2016	2017	2018	2019	2020	2021
Included in contractual allowances and discounts	$ 7,159	$ 7,231	$ 7,303	$ 7,376	$ 7,450	$ 7,525
Included in other revenue	30,425	30,312	30,195	30,082	30,082	30,082

Note 3 Significant Forecast Assumptions (Continued)

Patient Service Revenue (Continued)

Deductions From Revenue (Continued)

Because Mercy Health rates have historically been consistent with those in the region, the hospitals have generally been able to pass a portion of their rate increase through to nongovernment payors in the form of additional reimbursement as long as rate increases were 5% or less. Consequently, the forecasted contractual allowances and discounts of Mercy Health reflect the following assumptions regarding payments from these third parties:

- A stable proportion of total hospital revenue will come from patients covered by these payors, such as Blue Cross.

- Contracts with these payors will be renewed with similar terms through the forecast period which will include price increases similar to historic terms of Mercy Health.

Based on the above, Mercy Health's contractual allowances and discounts by payor are forecasted as follows:

	2016	2017	2018	2019	2020	2021
Medicare	71.8%	72.8%	73.8%	74.6%	75.4%	76.3%
Medicaid	77.5%	78.4%	79.4%	80.0%	80.6%	81.4%
Managed care and commercial	47.0%	47.8%	48.7%	49.0%	49.4%	50.2%
Self pay	28.7%	31.4%	34.0%	37.0%	39.6%	41.9%
Other	20.1%	20.9%	21.4%	23.0%	24.4%	25.1%
Totals	62.6%	63.6%	64.6%	65.3%	66.0%	66.9%

Note 3 Significant Forecast Assumptions (Continued)

Patient Service Revenue (Continued)

Based on the above, net patient service revenue as a percent of payor for Mercy Health is forecasted as follows:

	2016	2017	2018	2019	2020	2021
Medicare	28.8%	28.6%	28.4%	28.0%	27.7%	27.5%
Medicaid	13.5%	13.3%	13.1%	13.1%	13.1%	12.9%
Blue Cross	29.1%	29.1%	29.1%	28.1%	27.2%	27.2%
Managed care and commercial	22.7%	23.1%	23.5%	25.0%	26.4%	26.8%
Self pay	2.9%	2.9%	2.9%	2.8%	2.7%	2.7%
Other	3.0%	3.0%	3.0%	3.0%	2.9%	2.9%
Totals	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Based on the above, net patient service revenue for Mercy Health is forecasted as follows:

	(In Thousands)					
	2016	2017	2018	2019	2020	2021
Gross patient service revenue:						
Inpatient	$ 940,905	$ 999,120	$ 1,051,605	$ 1,130,070	$ 1,206,339	$ 1,266,816
Outpatient	1,557,754	1,619,798	1,691,186	1,813,630	1,941,815	2,028,364
Totals	2,498,659	2,618,918	2,742,791	2,943,700	3,148,154	3,295,180
Less - Contractual allowances and discounts	1,564,970	1,665,802	1,771,483	1,922,716	2,077,385	2,204,039
Net patient service revenue	$ 933,689	$ 953,116	$ 971,308	$ 1,020,984	$ 1,070,769	$ 1,091,141

Note 3 Significant Forecast Assumptions (Continued)

Provision for Bad Debts

Provision for bad debts, as a percent of gross patient service revenue, which was approximately 1.8% to 1.9% of gross patient service revenue for the year ended June 30, 2015, is forecasted as follows for Mercy Health:

	(In Thousands)					
	2016	2017	2018	2019	2020	2021
	$ 45,731	$ 47,959	$ 50,816	$ 54,863	$ 59,267	$ 62,675
Percent of GPSR	1.8%	1.8%	1.9%	1.9%	1.9%	1.9%

Premium Revenue

Premium revenue is forecasted based on a price increase of 5% each year of the forecast and a change in members as follows:

(In Thousands)					
2016	2017	2018	2019	2020	2021
$ 85,151	$ 88,641	$ 94,606	$ 104,939	$ 114,625	$ 123,072

Other Revenue

Other revenue includes Medicaid assessments, supplemental reimbursement, cafeteria income, meaningful use reimbursement, rental income, and other miscellaneous income. Other revenue is impacted by decreases in meaningful use reimbursement, elimination of the Illinois Department of Public Health Trauma Grant, and forecasted inflationary increases. Based on the above, other revenue is forecasted as follows:

(In Thousands)					
2016	2017	2018	2019	2020	2021
$ 54,784	$ 54,087	$ 53,412	$ 52,666	$ 52,542	$ 52,955

Note 3 Significant Forecast Assumptions (Continued)

Expenses

Salaries and Wages

Employee compensation is based on anticipated salary and staffing levels. Wage rates are based on historical levels increased 1.6% to 1.8% each year of the forecast for nonproviders. Providers' compensation is based on productivity levels, and compensation programs are not projected to change during the forecast period. Staffing, based on historical levels, was adjusted for forecasted increases in patient service volumes adjusted for available capacity, productivity improvements, and the impact of opening the new campus on January 1, 2019.

The forecast includes a reduction of 71.3 full-time equivalents (FTEs) (23.0 FTEs in 2019, 50.5 FTEs in 2020, and 71.3 FTEs in 2021) due to the focus on labor productivity and efficiencies related to the new campus.

The reductions in 2019 are a reflection of internal activities and the continued focus to reach the 50th percentile for Rockford. Rockford has a robust process in place to monitor labor productivity, evaluate positions for need, and identify opportunities for efficiencies. Rockford has established targets for variable cost centers based on the worked hours per unit of service. Fixed departments also have targets and are expected to flex staffing if gross revenue drops below 5% of budgeted gross revenue. Labor productivity is monitored daily and by pay period for each operating unit. In addition, all positions must be evaluated and approved by the Labor Productivity Committee before they are posted for hire. Any new and/or management positions must be approved by the Mercy Health CEO before posting. Rockford has been successful in controlling FTEs and is 108 FTEs below budget for the six months ended December 31, 2015 (2,757 actual FTEs vs. 2,865 budgeted FTEs). In addition, certain departments within Rockford are currently above the 50th percentile benchmark, and there are plans to drive the FTE levels down to the benchmark. This along with the above process will achieve the savings target for 2019. Mercy also has a proven track record of labor management through the utilization of Baldrige principles and Lean processes. Mercy reduced its workforce by over 300 FTEs (-10%) from 2009 to 2012 to reach the 35th percentile of the benchmark. It is Rockford's goal to reach the same level of operating efficiency. Operating at the 35th percentile should result in additional savings which are not included in the accompanying forecast.

Note 3 Significant Forecast Assumptions (Continued)

Expenses (Continued)

Salaries and Wages (Continued)

Further labor savings are anticipated in 2020 as the new campus is expected to provide many opportunities to improve efficiencies through building design, standardization of rooms, proximity of services, size of units, etc. Barriers exist with the current facility that prevent optimal staffing/productivity and include the following:

- The units are not sized for efficient staffing. The number of beds is not optimal on the units thus resulting in inefficient staffing depending on the census.
- The size of the current rooms does not meet industry standards and is not conducive to patient care. In fact, some rooms can only accommodate certain patients due to the size.
- The units/services are not located for efficient delivery of care. For example, the intensive care unit is currently located on two separate, nonadjacent floors. Also, the units currently have a centralized nurses' station rather than work areas dispersed throughout the unit that are closer to the patient. Finally, outpatient surgical and procedural areas recover their patients in various areas (in the procedural area, outpatient surgery, PACU, on the inpatient floors, etc.) depending on the patient needs, time of day, and volume. The new campus will provide a centralized outpatient holding and recovery area allowing for more efficient use of staff.
- The patient rooms are not standardized on the units or between like units. The room setup does not allow for common locations of supplies, linens, etc.

The integration process is also expected to result in synergies that will lead to further labor savings. Bringing the two organizations together will result in lower costs in supply chain, billing, information technology, human resources, finance, etc. Mercy Health has already seen reductions in leadership positions and expects further consolidation of certain positions as the integration process continues to mature.

Note 3 Significant Forecast Assumptions (Continued)

Expenses (Continued)

Salaries and Wages (Continued)

Based on historical levels adjusted for patient volumes, existing capacity, addition of new FTEs in various departments, elimination of FTEs in certain departments, the new campus, and efficiencies that will be gained in the new facility, FTEs excluding contract labor are forecasted as follows:

	2016	2017	2018	2019	2020	2021
FTEs - Nonproviders	5,489	5,511	5,527	5,596	5,650	5,641
FTEs - Providers	563	567	568	574	579	579
Totals	6,052	6,078	6,095	6,170	6,229	6,220

Average salaries and wages expense per FTE are forecasted as follows:

	(In Thousands)					
	2016	2017	2018	2019	2020	2021
Average salary per FTE - Nonproviders	$ 58	$ 59	$ 60	$ 61	$ 62	$ 63
Change	1.8%	1.7%	1.7%	1.7%	1.6%	1.6%
Average salary per FTE - Providers	$ 306	$ 307	$ 309	$ 310	$ 312	$ 314
Change	-8.9%	0.3%	0.7%	0.3%	0.6%	0.6%
Total average salary per FTE	$ 81	$ 82	$ 83	$ 84	$ 85	$ 87

Based on the above, salaries and wages are forecasted as follows:

	(In Thousands)					
	2016	2017	2018	2019	2020	2021
Salaries - Nonproviders	$ 319,132	$ 325,343	$ 331,989	$ 341,977	$ 351,235	$ 356,794
Salaries - Providers	172,388	173,880	175,529	178,076	180,579	181,563
Totals	$ 491,520	$ 499,223	$ 507,518	$ 520,053	$ 531,814	$ 538,357

Note 3 Significant Forecast Assumptions (Continued)

Expenses (Continued)

Employee Benefits

Employee benefits consist of social security and unemployment taxes, retirement plan expense, deferred compensation, health and dental insurance, and other benefits. Mercy and Rockford are currently evaluating opportunities for a single employee benefit program that would cover all employees in the Mercy Health system. It is anticipated that this integration strategy will generate significant cost savings that are not included in the accompanying forecast.

Employee benefits are forecasted to stay at approximately 21.4% of salaries and wages throughout the forecast period.

Based on the above, the total employee benefits are forecasted as follows:

(In Thousands)					
2016	2017	2018	2019	2020	2021
$ 105,013	$ 106,914	$ 108,742	$ 111,413	$ 113,898	$ 115,351

Contract Labor

Contract labor mainly includes the cost of contracting with locum tenants. Contract labor is forecasted to increase in 2016 due to filling vacancies in the certain departments, decrease in 2017 when the vacancies are anticipated to be filled, and increase approximately 0.2% to 1.7% each year thereafter.

Based on the above, contract labor is forecasted as follows:

(In Thousands)					
2016	2017	2018	2019	2020	2021
$ 5,281	$ 5,056	$ 5,069	$ 5,154	$ 5,227	$ 5,237

Note 3 Significant Forecast Assumptions (Continued)

Expenses (Continued)

Professional Fees and Purchased Services

Professional fees and purchased services include medical claims expense, information technology, marketing, legal, professional and physician fees, and contracted services. Professional fees are forecasted to decrease in 2016 due to contracts for natural gas declining, decrease in the support services allocation due to Information Management Services, and a reduction in consulting services. Professional fees and purchased services are adjusted for inflation of 0.0% to 2.0% and volume changes, as applicable. Professional fees and purchased services are forecasted to range from 3.6% to 3.8% of gross patient service revenue.

Based on the above, professional fees and purchased services are forecasted as follows:

(In Thousands)

2016	2017	2018	2019	2020	2021
$ 95,183	$ 96,382	$ 100,273	$ 105,689	$ 112,144	$ 117,059

Medical Supplies, Other Supplies, and Drugs

Medical supplies, other supplies, and drugs include general and medical supplies, implants, drugs, laboratory fees, food, and office supplies.

These expenses are adjusted for volume sensitive services and increased for inflation of 1.5% to 5.0% each year of the forecast period. Implemented cost savings through Mercy Health's Group Purchasing Organization (GPO) are forecasted at approximately $1,500 in 2016 and $500 in 2017. The GPO is expected to shift to preferential pricing and managing supply chain management. The change in GPO will allow Mercy Health to more effectively negotiate custom contracts for specialty items not normally contracted for by the GPO. This could generate significant cost savings that are not included in the accompanying forecast. Medical supplies, other supplies, and drugs are forecasted to range from 6.0% to 6.2% of gross patient service revenue.

Note 3 Significant Forecast Assumptions (Continued)

Expenses (Continued)

Medical Supplies, Other Supplies, and Drugs (Continued)

Based on the above, medical supplies, other supplies, and drugs are forecasted as follows:

(In Thousands)

2016	2017	2018	2019	2020	2021
$ 155,095	$ 161,229	$ 167,841	$ 178,587	$ 189,409	$ 197,224

Utilities

Utilities include telephone, water, electricity, gas and fuel, and communication lines. The cost of utilities of the new campus is expected to be lower than the existing campus due to efficiencies realized at the new campus. Utilities are increased 1.5% to 3.0% for inflation each year of the forecast period.

Based on the above, utilities are forecasted as follows:

(In Thousands)

2016	2017	2018	2019	2020	2021
$ 11,000	$ 11,426	$ 11,712	$ 12,131	$ 12,558	$ 12,870

Note 3 Significant Forecast Assumptions (Continued)

Expenses (Continued)

Insurance

Insurance includes malpractice, property, and general liability insurance. Insurance is forecasted to increase for the additional square feet of the new campus. The additional property insurance is forecasted based on historical amounts per square feet. Mercy Health is self-funded for malpractice claims. Management is anticipating significant savings in insurance through integration and combing all policies into one policy. This could generate significant cost savings that are not included in the accompanying forecast. Insurance is forecasted to increase 0.0% to 1.0% each year of the forecast period.

Based on the above, insurance is forecasted as follows:

(In Thousands)

2016	2017	2018	2019	2020	2021
$ 18,770	$ 18,869	$ 18,980	$ 19,131	$ 19,285	$ 19,384

Provider Tax Assessment

Provider tax assessment represents the fees paid to the states of Wisconsin and Illinois as discussed on page 19. Rockford is anticipating an increase of approximately $2,000 in the provider tax assessment in 2016. The provider tax assessment is forecasted to increase approximately 0.40% each year of the forecast period beginning in 2017. The associated provider tax revenue is included in contractual allowances and discounts and other revenue as discussed on page 78.

Based on the above, provider tax assessment is forecasted as follows:

(In Thousands)

2016	2017	2018	2019	2020	2021
$ 22,821	$ 22,908	$ 22,995	$ 23,083	$ 23,172	$ 23,262

Note 3 Significant Forecast Assumptions (Continued)

Expenses (Continued)

Other Expenses

Other expenses include maintenance contracts, property rental, equipment repairs, equipment rental, real estate taxes, marketing, mileage, minor equipment, education, staff recruitment, membership and dues, and other expenses and are forecasted at 0.9% to 1.1% of gross patient service revenue each year of the forecast period.

Based on the above, other expenses are forecasted as follows:

(In Thousands)

2016	2017	2018	2019	2020	2021
$ 26,539	$ 25,639	$ 25,234	$ 27,543	$ 28,141	$ 28,898

Investment Income

Investment income is based on the rates of return ranging from 4.000% to 4.495% of cash and investment balances and is forecasted as follows:

(In Thousands)

2016	2017	2018	2019	2020	2021
$ 19,185	$ 20,580	$ 21,787	$ 21,785	$ 23,782	$ 26,020

Note 4 Sensitivity Analyses

Forecast assumptions are considered particularly sensitive if either there is a relatively high probability of a sizable variation from the assumption or the effect of virtually any variation in the assumption would have a significant effect on forecasted results.

Management believes the following assumptions do not have a high probability of variation. However, forecasted operating results and related cash flows are deemed particularly sensitive to variations in these assumptions:

- *Reimbursement* – Mercy Health's net revenue is forecasted based on the forecasted payor mix described on pages 73 and 76 and on reimbursement methods under agreements with third parties. The forecast also includes that the Medicaid Provider Tax Assessment Program will continue for both the state of Illinois and the state of Wisconsin at the level of revenue and expense within the forecast period. If the method and rates of reimbursement, the payor mix, or assessment program change, net patient service revenue would be affected and the effects could be material.

- *Competition* – Mercy and Rockford are two of the leading providers of hospital services in their primary service area ZIP codes in Janesville, Wisconsin, and Rockford, Illinois. Management is not aware of any significant strategic or operational changes planned by their competitors. If these competitors implement significant strategic or operational changes, Mercy and Rockford's market share, patient service volumes, and net patient service revenue could be affected and the effects could be material.

- *Market Share* –The planned construction of the new campus is forecasted to increase Rockford's market share. If Rockford is unable to increase its market share, net patient service revenue could be affected and the effects could be material.

Note 4 Sensitivity Analyses (Continued)

- *Physicians* – Mercy Health's volume and related patient service revenue for hospital services are linked to its ability to recruit and retain key physician providers. An inability to recruit and retain the necessary physicians could adversely affect market share, patient service volumes, and net patient service revenue, and the effects could be material.

- *Project Costs* – Construction of the project is subject to the usual risks associated with construction projects, including, but not limited to, cost overruns, delays in issuance of required building permits or other necessary approvals, strikes, shortages of materials and adverse weather conditions. Mercy Health does not have a guaranteed maximum price as of the date of this forecast. It is anticipated proceeds from the sale of the Series 2016 Bonds, together with anticipated investment earnings thereon and other funds provided by Mercy Health will be sufficient to complete the acquisition, construction, furnishing, and equipping of the project. Should significant cost overruns occur or should the completion of the project be delayed, assets and revenue could be affected and the effects could be material.

- *Staffing Levels* – Staffing levels are anticipated to be as discussed on page 82. If the staffing levels can't be reached, the impact on salaries, wages, and benefit expenses would be affected and the effects could be material.

- *Integration Savings* – Integration savings are anticipated throughout the forecast period. If the integration savings can't be reached, the impact on expenses would be affected and the effects could be material.

- *National Health Care Reform* – The impact of national health care reform in the future is unknown. Depending on the impact, if any, net patient service revenue could be affected, and the effects could be material.

Note 4 Sensitivity Analyses (Continued)

- *Laws and Regulations* – The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and billing regulations. Government activity with respect to investigations and allegations concerning possible violations of such regulations by health care providers has increased. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of fines and penalties, as well as repayments for patient services previously billed. Management believes Mercy Health will be in compliance with applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time. The financial forecast assumes Mercy Health will be in substantial compliance with laws and regulations throughout the forecast period.

  CMS has implemented a project using recovery audit contractors (RACs) as part of CMS's efforts to ensure accurate payments. The project uses RACs to 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 the RAC identifies a claim it believes is inaccurate, it makes a deduction from or addition to the provider's Medicare reimbursement in an amount estimated to equal the overpayment or underpayment. Certain states have also hired Medicaid Integrity Contractors (MICs) to perform audits similar to RACs. RAC and MIC reviews with Mercy Health are anticipated; however, the outcome of such potential reviews are unknown and cannot be reasonably estimated at this time, and the effects could be material.

Note 4 Sensitivity Analyses (Continued)

The following sensitivity analyses have been performed to illustrate the estimated impact if the volumes, net revenue, and expense change from what is reported in the accompanying forecast.

1. Rockford inpatient volume decreases 2% a year starting in 2017.

	2016	2017	2018	2019	2020	2021
As forecasted, excess of revenue over expenses and changes in net assets*	$ 50,375	$ 53,768	$ 54,044	$ 50,630	$ 49,618	$ 56,573
Sensitivity #1 forecasted excess of revenue over expenses and changes in net assets*	50,375	51,756	51,947	48,171	46,766	53,600
Change*	-	(2,012)	(2,097)	(2,459)	(2,852)	(2,973)
As forecasted, days cash on hand (1)	218	239	259	260	278	302
Sensitivity #1 forecasted days cash on hand (1)	218	239	258	258	276	299
Change	-	-	(1)	(2)	(2)	(3)
As forecasted, debt service coverage (2)	5.3	6.3	6.5	4.9	4.1	4.0
Sensitivity #1 forecasted debt service coverage (2)	5.3	6.2	6.4	4.8	4.0	3.9
Change	-	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
As forecasted, maximum annual debt service coverage (2)	2.7	3.3	3.3	3.6	3.8	4.0
Sensitivity #1 forecasted maximum annual debt service coverage (2)	2.7	3.2	3.2	3.5	3.7	3.9
Change	-	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)

* In Thousands

(1) Includes Board-designated funds for Expansion and Deferred Compensation

(2) Includes funded capitalized interest draws in the numerator and removal of amortization of premiums, discounts, and deferred financing fees included in interest expense in the denominator

Note 4 Sensitivity Analyses (Continued)

2. Rockford inpatient volume increases 2% a year starting in 2017.

	2016	2017	2018	2019	2020	2021
As forecasted, excess of revenue over expenses and changes in net assets*	$ 50,375	$ 53,768	$ 54,044	$ 50,630	$ 49,618	$ 56,573
Sensitivity #2 forecasted excess of revenue over expenses and changes in net assets*	50,375	55,778	56,144	53,087	52,463	59,545
Change*	-	2,010	2,100	2,457	2,845	2,972
As forecasted, days cash on hand (1)	218	239	259	260	278	302
Sensitivity #2 forecasted days cash on hand (1)	218	239	259	261	281	306
Change	-	-	-	1	3	4
As forecasted, debt service coverage (2)	5.3	6.3	6.5	4.9	4.1	4.0
Sensitivity #2 forecasted debt service coverage (2)	5.3	6.4	6.6	5.0	4.2	4.1
Change	-	0.1	0.1	0.1	0.1	0.1
As forecasted, maximum annual debt service coverage (2)	2.7	3.3	3.3	3.6	3.8	4.0
Sensitivity #2 forecasted maximum annual debt service coverage (2)	2.7	3.3	3.3	3.6	3.9	4.1
Change	-	-	-	-	0.1	0.1

* In Thousands

(1) Includes Board-designated funds for Expansion and Deferred Compensation

(2) Includes funded capitalized interest draws in the numerator and removal of amortization of premiums, discounts, and deferred financing fees included in interest expense in the denominator

Mercy Health Corporation

Summary of Significant Accounting Policies, Forecast Assumptions, and Sensitivity Analyses
See Independent Accountant's Report

Note 4 Sensitivity Analyses (Continued)

3. Rockford's net patient service revenue, less provisions for bad debts, decreases 1% a year starting in 2017.

	2016	2017	2018	2019	2020	2021
As forecasted, excess of revenue over expenses and changes in net assets*	$ 50,375	$ 53,768	$ 54,044	$ 50,630	$ 49,618	$ 56,573
Sensitivity #3 forecasted excess of revenue over expenses and changes in net assets*	50,375	49,426	49,407	45,373	43,724	50,291
Change*	-	(4,342)	(4,637)	(5,257)	(5,894)	(6,282)
As forecasted, days cash on hand (1)	218	239	259	260	278	302
Sensitivity #3 forecasted days cash on hand (1)	218	238	255	255	272	294
Change	-	(1)	(4)	(5)	(6)	(8)
As forecasted, debt service coverage (2)	5.3	6.3	6.5	4.9	4.1	4.0
Sensitivity #3 forecasted debt service coverage (2)	5.3	6.1	6.3	4.7	3.9	3.8
Change	-	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
As forecasted, maximum annual debt service coverage (2)	2.7	3.3	3.3	3.6	3.8	4.0
Sensitivity #3 forecasted maximum annual debt service coverage (2)	2.7	3.2	3.2	3.5	3.7	3.8
Change	-	(0.1)	(0.1)	(0.1)	(0.1)	(0.2)

* In Thousands

(1) Includes Board-designated funds for Expansion and Deferred Compensation

(2) Includes funded capitalized interest draws in the numerator and removal of amortization of premiums, discounts, and deferred financing fees included in interest expense in the denominator

Note 4 Sensitivity Analyses (Continued)

4. Rockford's operating expense, other than depreciation, decreases $5,000,000 in 2017 and $10,000,000 in 2018 through 2021 due to integration savings.

	2016	2017	2018	2019	2020	2021
As forecasted, excess of revenue over expenses and changes in net assets*	$ 50,375	$ 53,768	$ 54,044	$ 50,630	$ 49,618	$ 56,573
Sensitivity #4 forecasted excess of revenue over expenses and changes in net assets*	50,375	58,930	64,830	61,786	61,143	68,602
Change*	-	5,162	10,786	11,156	11,525	12,029
As forecasted, days cash on hand (1)	218	239	259	260	278	302
Sensitivity #4 forecasted days cash on hand (1)	218	242	267	272	294	322
Change	-	3	8	12	16	20
As forecasted, debt service coverage (2)	5.3	6.3	6.5	4.9	4.1	4.0
Sensitivity #4 forecasted debt service coverage (2)	5.3	6.6	7.0	5.3	4.4	4.3
Change	-	0.3	0.5	0.4	0.3	0.3
As forecasted, maximum annual debt service coverage (2)	2.7	3.3	3.3	3.6	3.8	4.0
Sensitivity #4 forecasted maximum annual debt service coverage (2)	2.7	3.4	3.5	3.8	4.1	4.3
Change	-	0.1	0.2	0.2	0.3	0.3

* In Thousands

(1) Includes Board-designated funds for Expansion and Deferred Compensation

(2) Includes funded capitalized interest draws in the numerator and removal of amortization of premiums, discounts, and deferred financing fees included in interest expense in the denominator

APPENDIX D

SUMMARY OF MASTER INDENTURE AND MORTGAGES

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SUMMARY OF THE MASTER INDENTURE AND MORTGAGES

Brief descriptions of the Master Indenture and the Mortgages are set forth below. These descriptions do not purport to be comprehensive or definitive. All references in this Official Statement to the Master Indenture and the Mortgages are qualified in their entirety by reference to those documents, copies of which are available at the offices of the Bond Trustee.

DEFINITIONS OF CERTAIN TERMS

"Accountant's Certificate" shall mean a certificate prepared and executed by a firm of independent certified public accountants selected by the Obligated Group Representative.

"Additional Indebtedness" shall mean any Indebtedness incurred or assumed subsequent to the date of the Indenture.

"Balloon Indebtedness" shall mean Indebtedness, 25% or more of the original principal amount of which matures during any consecutive twelve-month period, if such maturing principal amount is not required to be amortized below such percentage by mandatory redemption or prepayment prior to such twelve-month period. Balloon Indebtedness does not include Indebtedness which otherwise would be classified under the Master Indenture as Put Indebtedness.

"Board of Directors" shall mean either the Board of Directors of the Corporation or any duly authorized committee of that Board (and not the Governing Body of any other Obligated Issuer).

"Book Value" shall mean, when used in connection with Property of the Corporation or any other Obligated Issuer, that value of such Property, net of accumulated depreciation, and any unimproved Property or interest therein, as it is carried on the books of account of the Corporation or any other Obligated Issuer and in conformity with accounting principles generally accepted in the United States of America, and when used in connection with Property of the Obligated Group, means the aggregate of the values so determined with respect to Property of each member of the Obligated Group.

"Cash and Investments" shall mean (a) the sum of the following unrestricted and unencumbered items: cash, cash equivalents, funded depreciation investments, long term marketable and liquid investments, less (b) the required collateral levels under an Interest Rate Agreement if collateral was actually posted or is required to be posted by the Obligated Group, if those funds are not already restricted. Cash and Investments shall exclude the following: trustee-held funds, reserves, deposits, set-asides, debt service funds, construction funds, reserve funds, malpractice funds, litigation reserves, self-insurance and captive insurer funds and pension and retirement funds.

"Code" shall mean the Internal Revenue Code of 1986, as amended, and any proposed, temporary or final regulations related to it or any successor federal income tax code and its related regulations.

"Commitment Indebtedness" shall mean the obligation of any Person to repay amounts disbursed pursuant to a commitment from a financial institution, insurer, surety or similar entity to pay, refinance or purchase when due, when tendered or when required to be purchased or tendered, or to extend funds for such purpose, other Indebtedness of such Person or any other obligation of any other Person, and the obligation of any Person to pay interest payable on amounts disbursed for such purposes, plus any fees, costs or expenses payable to such financial institution, insurer, surety or similar entity for, under or in connection with such commitment, in the event of disbursement pursuant to such commitment or in connection with enforcement thereof, including without limitation any penalties payable in the event of such enforcement and any indemnification or contribution obligation related thereto.

"Completion Indebtedness" shall mean any Long-Term Indebtedness incurred by any Person for the purpose of financing the completion of facilities for the acquisition, construction or equipping of which Long-Term Indebtedness has theretofore been incurred in compliance with the provisions of the Master Indenture, to the extent

necessary to provide a completed and equipped facility of substantially the same type and scope contemplated at the time that such Long-Term Indebtedness theretofore incurred was originally incurred, and with a principal amount not in excess of the amount required to provide a completed and equipped facility of substantially the same type and scope contemplated at the time such prior Long-Term Indebtedness was originally incurred, to provide for interest on the Completion Indebtedness through the completion of the facility being financed, to provide any reserve funds related to such Completion Indebtedness and to pay the costs and expenses of issuing such Completion Indebtedness.

"Construction Index" shall mean the then current health care component of the implicit price deflator for the gross national product as most recently reported by the United States Department of Commerce or its successor agency, or, if such index is no longer published, such other index as is certified to be comparable and appropriate by the Corporation in an Officer's Certificate delivered to the Master Trustee.

"Corporation" shall mean Mercy Health Corporation, an Illinois not for profit corporation or any successor permitted by the provisions summarized under the heading "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – Consolidation, Merger, Sale or Conveyance."

"Cross-over Date" shall mean, with respect to Cross-over Refunding Indebtedness, the date on which the principal portion of the Cross-over Refunded Indebtedness is paid or redeemed, or on which it is anticipated that such principal portion be paid or redeemed, from the proceeds of such Cross-over Refunding Indebtedness.

"Cross-over Refunded Indebtedness" shall mean Indebtedness of a Person refunded by Cross-over Refunding Indebtedness.

"Cross-over Refunding Indebtedness" shall mean Indebtedness of a Person issued for the purpose of refunding other Indebtedness of such Person if the proceeds of such Cross-over Refunding Indebtedness are irrevocably deposited in escrow to secure the payment on the applicable Cross-over Date of the Cross-over Refunded Indebtedness and earnings on such escrow deposit are required to be applied to pay interest on either or both of such Cross-over Refunding Indebtedness or such Cross-over Refunded Indebtedness until the Cross-over Date.

"Counterparty" shall mean the counterparty with which an Obligated Issuer enters into an Interest Rate Agreement.

"Debt Service" shall mean the aggregate annual principal (whether at maturity or pursuant to sinking fund redemption requirements), interest payments and other payments of the Corporation and the other Obligated Issuers on all Outstanding Long-Term Indebtedness, including Balloon Indebtedness, Commitment Indebtedness, Guaranties (other than any Guaranty by one Obligated Issuer of Indebtedness of another Obligated Issuer) and Put Indebtedness, but excluding Non-Recourse Indebtedness, Subordinated Indebtedness and Short-Term Indebtedness for the period of time for which calculated; provided, however, that for purposes of calculating such amount:

(a) the amount of such payments for any future period shall be calculated in accordance with the assumptions summarized under the headings "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – Restrictions as to Incurrence of Additional Indebtedness" and " - Calculation of Debt Service;"

(b) principal and interest shall be excluded from the determination of Debt Service to the extent that such principal or interest is payable and expected to be paid in the period of the determination from amounts deposited in trust, escrowed or otherwise set aside for the payment thereof with the Master Trustee, a Related Bond Trustee or another Person approved by the Master Trustee; and

(c) fees and expenses related to Indebtedness, such as remarketing fees, auction fees, bond insurance premiums, and amortization of original issue discount or premium, shall be excluded from the determination of Debt Service.

"Debt Service Coverage Ratio" shall mean the ratio of Net Income Available for Debt Service for the period or periods in question to the Maximum Annual Debt Service.

"Defeasance Obligations" has the meaning attributed to it under the headings "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – Providing for Payment of Notes."

"Event of Default" shall have the meaning attributed to it under the heading "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – Events of Default."

"Excluded Property" shall mean any Property of an Obligated Issuer which is not used or needed in any significant respect at the time of determination in connection with the operation of revenue producing facilities or activities of an Obligated Issuer.

"Facilities" shall mean the real and personal property owned by each Obligated Issuer and used by any such Obligated Issuer in its primary operations, but does not include Excluded Property.

"Federal Bankruptcy Code" shall mean United States Code, Title 11-Bankruptcy, as amended.

"Fiscal Year" shall mean the period commencing on the first day of July of each year and ending on the thirtieth day of June of the succeeding calendar year. So long as any Obligated Issuer uses and with respect to any period during which any Obligated Issuer used a fiscal year for its internal purposes which is or was different from the Fiscal Year provided for in the Master Indenture, for any purpose under the Master Indenture the financial information for any Fiscal Year may include financial information from the most recently completed fiscal year of such Obligated Issuer ending on a date prior to the ending date of such Fiscal Year.

"Fitch" shall mean Fitch Inc., its successors and assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "Fitch" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Corporation with written notice to the Master Trustee.

"Governing Body" shall mean with respect to any corporation the board of trustees or directors or other analogous body established as required by the law of the state of incorporation of such corporation.

"Guaranty" when used in connection with a particular Person shall mean all obligations of such Person guaranteeing or in effect guaranteeing any indebtedness or other obligation of any other Person (the "primary obligor") in any manner, whether directly or indirectly, including without limitation, obligations incurred through an agreement, contingent or otherwise, by such Person:

(a) to purchase such indebtedness or obligation or any Property or assets constituting security therefor;

(b) to advance or supply funds-

(i) for the purchase or payment of such indebtedness or obligation at any time after its original incurrence, or

(ii) to maintain working capital or other balance sheet condition;

(c) to lease Property or to purchase securities or other Property or services primarily for the purpose of assuring the owner of such indebtedness or obligation of the ability of the primary obligor to make payment of the indebtedness or obligation; or

(d) otherwise to assure the owner of the indebtedness or obligation of the primary obligor against loss in respect thereof; provided, however, that notwithstanding the foregoing, none of the following shall be deemed to constitute a Guaranty: (A) the endorsement in the ordinary course of business of negotiable instruments for deposit

or collection; (B) the discount or sale with recourse of any such person's notes receivable or accounts receivable; (C) rentals payable in future years under operating leases, provided such leases be for an original term of 84 months or less; (D) the obligation to make payments on Notes pursuant to the provisions of the Master Indenture; (E) excluding obligations of the type described in (c) above, any obligation of such person guaranteeing or in effect guaranteeing any obligation of the primary obligor that does not constitute an obligation for the payment of money; and (F) any obligation of any Obligated Issuer to guaranty indebtedness of, or the income of, or to purchase land and improvements thereon from, physicians (or entities controlled by such physicians) who are at the date of determination, or will become pursuant to the contract creating such obligation, members of the medical staff of such Obligated Issuer and any obligation of any Obligated Issuer to guaranty the income of other professionals or managers which obligations the Obligated Issuer considers necessary or appropriate in recruiting and retaining its professional and managerial staff; provided, however, that guaranties of indebtedness (which for purposes of this definition do not include guaranties of income) shall not be excluded under clause (F) to the extent that the aggregate amount thereof exceed 3% of Unrestricted Revenues in the most recent Fiscal Year for which audited financial statements of the Obligated Group are available.

"Holder" (see "Noteholder").

"Indebtedness" shall mean (a) all Notes, (b) all Guaranties, and (c) all other indebtedness or obligations of any Obligated Issuer for the repayment of borrowed money or credit extended (including capital leases, installment purchase contracts and guaranties of indebtedness) shown as liabilities on the balance sheet of such Obligated Issuer or which are properly capitalized on the balance sheet of such Obligated Issuer in accordance with accounting principles generally accepted in the United States of America (including obligations that are not evidenced or secured by Notes under the Master Indenture). Indebtedness does not include, without limitation (whether or not evidenced by a Note, Guaranty or otherwise):

(a) obligations of any Obligated Issuer to another Obligated Issuer or guarantees or assumptions by an Obligated Issuer, directly or indirectly, of Indebtedness of another Obligated Issuer;

(b) any portion of any Indebtedness or any Related Bonds which is deemed to be discharged or defeased in accordance with the terms of the instrument or instruments creating or evidencing such Indebtedness or Related Bonds, as the case may be;

(c) liabilities incurred by the endorsement for collection or deposit of checks or drafts received in the ordinary course of business or overdrafts to banks to the extent there are immediately available funds sufficient to pay such overdrafts and such overdrafts are incurred and corrected in the normal course of business;

(d) accounts payable and similar liabilities (other than for the repayment of borrowed money) incurred in the ordinary course of business;

(e) liabilities payable out of current payments for the funding of employee pension plans, retiree benefits other than pensions, health plans and other benefit programs, contributions to self-insurance or pooled-risk insurance programs and estimated long-term self-insurance liability, and the funding of reserves for deferred taxes, deferred revenues, deferred compensation, and similar such liabilities;

(f) obligations under contracts for supplies, services or pensions allocated to the current operating expenses of future years in which the supplies are to be furnished, the services rendered or the pensions paid;

(g) rentals payable under leases which are not capitalized under accounting principles generally accepted in the United States of America;

(h) any other obligations that do not constitute indebtedness under accounting principles generally accepted in the United States of America;

(i) obligations of any Obligated Issuer with respect to an Interest Rate Agreement; and

(j) any obligation of any Obligated Issuer to repay moneys deposited by patients or others with an Obligated Issuer as security for or as prepayment of the cost of patient care or any rights of residents of life care, elderly housing or similar facilities to entrance fees, endowment or similar funds deposited by or on behalf of such residents.

"Independent" shall mean, in the case of an individual, a Person who is not a partner, member, director, officer or employee of either the Corporation or any other Obligated Issuer and, in the case of a firm, shall not have a partner, member, director, officer or employee who is a partner, member, director, officer or employee of either the Corporation or any other Obligated Issuer.

"Independent Architect" shall mean an architect, engineer or firm of architects or engineers selected by the Corporation or any other Obligated Issuer, and licensed by, or permitted to practice in, the state where the construction involved is located, which architect, engineer or firm of architects or engineers is Independent and shall have no interest, direct or indirect, in the Corporation or any other Obligated Issuer; it being understood that an arm's-length contract with either the Corporation or any other Obligated Issuer for the performance of architectural or engineering services shall not in and of itself be regarded as creating an interest in or an employee relationship with such entity and that the term Independent Architect may include an architect or engineer or a firm of architects or engineers who otherwise meet the requirements of this definition and who also are under contract to construct the facility which they have designed.

"Independent Consultant" shall mean a Person who is Independent and is appointed by the Corporation or any other Obligated Issuer, nationally recognized as qualified to pass upon questions relating to the financial affairs of organizations engaged in like operations to those of the Corporation and the other Obligated Issuers and having a favorable reputation for skill and experience in such financial affairs.

"Independent Insurance Consultant" shall mean a Person who is Independent, appointed by the Corporation, qualified to survey risks and to recommend insurance coverage for organizations engaged in like operations to those of the Corporation and the other Obligated Issuers and having a favorable reputation for skill and experience in such surveys and such recommendations, and who may be a broker or agent with whom the Corporation or any other Obligated Issuer transacts business.

"Insurance Subsidiary" shall mean any corporation of which the Corporation or another Obligated Issuer is the sole voting member which is in the business of providing insurance coverage to the Corporation or any other Obligated Issuer.

"Interest Rate Agreement" shall mean an interest rate swap, basis swap, index swap or option, exchange, cap, collar, option, floor, forward, futures contract or hedging agreement, arrangement or security, or combination of the foregoing, however denominated, including any option to enter into the foregoing, identified to the Master Trustee in a certificate of the Corporation as having been entered into by an Obligated Issuer for the purpose of reducing, modifying, converting or otherwise managing the Obligated Issuer's risk of interest rate or interest rate index changes or interest rate or interest rate index exposures or costs or risk of changes or exposures to prices of commodities, securities, portfolios, products, supplies, goods or services. Obligations of an Obligated Issuer in respect of an Interest Rate Agreement shall not constitute Indebtedness under the Master Indenture.

"Interest Rate Agreement Payments" shall mean all payment obligations of the Obligated Issuers pursuant to an Interest Rate Agreement that is authenticated as a Note under the Master Indenture, or is secured by a Note under the Master Indenture.

"Issuer" shall mean the Corporation or another Obligated Issuer, depending on the context.

"Lien" shall mean any mortgage of, security interest in, lien, charge or encumbrance on or pledge of Property excepting, however, any lease and leaseback or similar arrangements entered into by an Obligated Issuer with a Related Issuer to the extent required in connection with the issuance of Related Bonds.

"Long-Term" when used in connection with Indebtedness, shall mean Indebtedness having an original maturity greater than one year or renewable or extendible at the option of the Corporation or any other Obligated Issuer for a period greater than one year from the date of original issuance thereof.

"Market Value" shall mean (i) with respect to Net Plant, Property and Equipment: (a) the aggregate fair market value of such Net Plant, Property and Equipment as reflected in the most recent written report of an Independent appraiser selected by the Corporation and, in the case of real property, who is a member of the American Institute of Real Estate Appraisers (MAI), delivered to the Master Trustee (which report shall be dated not more than three years prior to the date as of which Market Value is to be calculated) increased or decreased by a percentage equal to the aggregate percentage increase or decrease in the Construction Index from the date of such report to the date as of which Market Value is to be calculated; plus (b) the Book Value of any Net Plant, Property and Equipment acquired since the last such report increased or decreased by a percentage equal to the aggregate percentage increase or decrease in the Construction Index from the date of such acquisition to the date as of which Market Value is to be calculated; minus (c) the greater of the Book Value or the fair market value (as reflected in such most recent appraiser's report) of any Net Plant, Property and Equipment disposed of since the last such report increased or decreased by a percentage equal to the aggregate percentage increase or decrease in the Construction Index from the date of such report to the date as of which Market Value is to be calculated, and (ii) with respect to any other Property the fair market value of such Property, which fair market value shall be evidenced by a certification of the Corporation as to its fair market value.

"Master Indenture" shall mean the Second Amended and Restated Master Trust Indenture dated as of May 1, 2016 between the Obligated Group created by the Master Indenture and the Master Trustee, amending and restating that certain Master Trust Indenture dated as of May 1, 2012 as previously amended and supplemented.

"Master Mortgage" shall mean (i) the Amended and Restated Mortgage, Security Agreement and Fixture Filing dated as of May 1, 2016 from Mercy Health System Corporation to the Master Trustee and (ii) the Mortgage, Security Agreement and Fixture Filing dated as of May 1, 2016 from Rockford Memorial Hospital to the Master Trustee and (iii) any other similar mortgage granted by an Obligated Issuer to the Master Trustee from time to time to secure Notes and other obligations under the Master Indenture.

"Master Trustee" shall mean U.S. Bank National Association or its successor pursuant to the Master Indenture.

"Maximum Annual Debt Service" shall mean the Debt Service due in the then current or a future Fiscal Year in which Debt Service is the greatest.

"Member" shall mean, with respect to any corporation organized on a not-for-profit basis under state law, a Person so designated under such corporation's Articles of Incorporation (or similar organizational document) or by-laws having the power to elect or appoint, together with any other Members, the Governing Body of such corporation.

"Moody's" shall mean Moody's Investors Service, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and assigns and, if Moody's Investors Service shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Corporation with written notice to the Master Trustee.

"Net Income Available for Debt Service" shall mean, as to any period of time, all Unrestricted Revenues of the Corporation and each other Obligated Issuer minus Total Expenses of the Corporation and each other Obligated Issuer other than depreciation, amortization and interest, all as determined on a pro forma consolidated or combined basis in accordance with accounting principles generally accepted in the United States of America or as otherwise specifically required.

"Net Plant, Property and Equipment" shall mean, with respect to the Corporation and each other Obligated Issuer, the entire complex of tangible long-lived assets used by the Corporation and each other Obligated Issuer as

shown on the balance sheet of the Corporation and each other Obligated Issuer, net of accumulated depreciation, determined on a combined basis in accordance with accounting principles generally accepted in the United States of America.

"Net Proceeds," when used with respect to any insurance or condemnation award, shall mean the gross proceeds from the insurance or condemnation award remaining after payment of all expenses (including attorneys' fees and expenses of any Related Bond Trustee or Related Issuer) incurred in the collection of such gross proceeds.

"Non-Recourse Indebtedness" shall mean Long-Term Indebtedness incurred subsequent to the date of execution and delivery of the Master Indenture for the purpose of financing the purchase or acquisition of real or tangible personal property secured by a lien on, or security interest in, the property being purchased or acquired and evidenced by an instrument which expressly provides that upon default in the payment of the principal thereof or interest thereon the obligee thereof may look only to the property securing the same and not to the credit of any Obligated Issuer nor to any other Property of any Obligated Issuer.

"Note" shall mean any obligation of an Obligated Issuer issued under the Master Indenture, as a joint and several obligation of each Obligated Issuer, which has been authenticated by the Master Trustee and which may be in any form set forth in a Supplemental Master Indenture, including, but not limited to, notes, direct note obligations, bonds, obligations, debentures, Interest Rate Agreements, loan agreements, leases or reimbursement agreements. Reference to a Series of Notes or to Notes of a Series shall mean a Series of Notes or Notes of a Series issued pursuant to a single Supplemental Master Indenture to the Master Indenture.

"Noteholder" or "Holder" (when used with reference to any Note or Notes) shall mean the Person in whose name the Note is registered on the Note Register.

"Note Register" shall mean the register kept pursuant to the Master Indenture at the principal office of the Master Trustee in which, subject to such reasonable regulations as it may prescribe, the Master Trustee shall provide on behalf of the Obligated Issuers for the registration and transfer of Notes.

"Obligated Group" shall mean the Corporation and each other Obligated Issuer.

"Obligated Group Representative" shall mean the Corporation or such other Obligated Issuer as may have been designated pursuant to written notice to the Master Trustee, executed by the Corporation.

"Obligated Issuer" shall mean the Corporation, each other Person named on the signature pages of the Master Indenture which has executed the Master Indenture and any Person which shall have become an Obligated Issuer pursuant to the provisions summarized under the headings "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – The Obligated Group - Becoming an Obligated Issuer and Member of the Obligated Group" and "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – The Obligated Group - Acceptance as an Obligated Issuer" and shall not have withdrawn as such pursuant to the provisions summarized under the heading "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – The Obligated Group – Withdrawal of Obligated Issuers."

"Officer's Certificate" shall mean a certificate signed by the President or any Vice President of one or more Obligated Issuers.

"Opinion of Bond Counsel" shall mean an opinion in writing signed by legal counsel who shall be nationally recognized as expert in matters pertaining to the validity of obligations of governmental issuers (as such term is defined within the definition of the term "Related Bonds") and the exemption from federal income taxation of interest on such obligations.

"Opinion of Counsel" shall mean an opinion in writing signed by legal counsel who may be an employee of or counsel to the Corporation or any other Obligated Issuer.

"Outstanding," when used in connection with Indebtedness, shall mean, as of any time, Indebtedness issued or incurred and not paid or for which payment has not been provided by deposit of money or securities with the Master Trustee and shall not include Notes surrendered for exchange pursuant to the Master Indenture or Notes for which replacement Notes have been issued pursuant to the Master Indenture, or Notes that the Master Indenture otherwise provides shall be deemed not to be Outstanding.

"Permitted Encumbrances" shall mean those encumbrances enumerated under the heading "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE - Restrictions as to Creation of Liens."

"Permitted Investments" shall mean (i) direct obligations of (including obligations issued or held in book entry form on the books of) the Department of Treasury of the United States of America, (ii) obligations of any of the following federal agencies which obligations represent full faith and credit of the United States of America: Export-Import Bank, Farmers Home Administration, General Services Administration, U.S. Maritime Administration, Small Business Administration, Government National Mortgage Association (GNMA), U.S. Department of Housing & Urban Development (PHA's) and Federal Housing Administration, (iii) bonds, notes or other evidences of indebtedness rated "AAA" by Standard & Poor's and "Aaa" by Moody's issued by the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation with remaining maturities not exceeding three years, (iv) U.S. dollar denominated deposit accounts, federal funds and banker's acceptances with domestic commercial banks which have a rating on their short term certificates of deposit on the date of purchase of "A-1" or "A-1+" by Standard & Poor's and "P-1" by Moody's and maturing no more than 360 days after the date of purchase (ratings on holding companies not considered as the rating of the bank), (v) commercial paper which is rated at the time of purchase in the single highest classification, "A-1+" by Standard & Poor's and "P-1" by Moody's, and which matures not more than 270 days after the date of purchase and (vi) investments in a money market fund rated "AAAm" or "AAAm-G" or better by Standard & Poor's.

"Person" shall mean an individual, a corporation, a partnership, an association, a joint stock company, a joint venture, a trust, an unincorporated organization, or a government or any agency or political subdivision thereof.

"Pledged Revenues" shall mean all rents, issues, profits, income, revenues, accounts and receipts of the Corporation or any other Obligated Issuer referred to in, and not excepted by, the provisions summarized in clause (b) under the heading "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – Granting Clauses."

"Projected Rate" shall mean at the option of the Corporation, (i) The Bond Buyer Revenue Bond Index most recently published prior to the date such rate is calculated or any successor index in effect at the time such rate must be calculated, or, in the event such index or successor index is no longer published, then a comparable index selected in the reasonable discretion of the Corporation or (ii) the projected yield at par of an obligation, as set forth in the report of an Independent Consultant which report shall state that in determining the Projected Rate such Independent Consultant reviewed the yield evaluations at par of not less than three obligations selected by such Independent Consultant, the interest on which is excludable from gross income for federal income tax purposes (or, if it is not expected that it would be possible to issue such tax-exempt obligations to refinance the Indebtedness with respect to which debt service is being estimated or if it is not intended that the interest on the obligation for which the Projected Rate is being determined be excludable from gross income for federal income tax purposes, the obligations the interest on which is subject to federal income tax), which obligations such Independent Consultant states in its opinion are reasonable comparators to be utilized in developing such Projected Rate, and which obligations:

(a) were outstanding on a date selected by the Independent Consultant which date so selected occurred during the 45-day period preceding the date of the calculation utilizing the Projected Rate in question, and

(b) (i) if the obligation with respect to which such Projected Rate is being determined bears interest at a fixed rate, bear interest at a fixed rate, or (ii) if the obligation with respect to which such Projected Rate is being determined bears interest at a variable rate, bear interest at a variable rate, and

(c) (i) if an Obligated Issuer has no commitment for credit enhancement for the obligation with respect to which such Projected Rate is being determined, are obligations of persons engaged in operations similar to those of the Obligated Group, have a credit rating similar to that of the Obligated Group and are not entitled to the benefits of any credit enhancement, or (ii) if an Obligated Issuer has a commitment for credit enhancement for the obligation with respect to which such Projected Rate is being determined, including without limitation any letter of credit or insurance policy, are entitled to the benefits of comparable credit enhancement; provided that the annual fees payable for such credit enhancement shall be taken into account when determining such Projected Rate, and

(d) to the extent practicable, have a remaining term and amortization schedule substantially the same as the obligation with respect to which such Projected Rate is being determined.

"Property," when used in connection with a particular Person, shall mean any and all rights, title and interests of such Person in and to any and all property (including cash) whether real or personal, tangible or intangible, and wherever situated, but not including Excluded Property.

"Property, Plant and Equipment" shall mean all Property of an Obligated Issuer which is considered property, plant and equipment of such Obligated Issuer under generally accepted accounting principles.

"Put Date" shall mean (i) any date on which an owner of Put Indebtedness may elect to have such Put Indebtedness paid, purchased or redeemed by or on behalf of the underlying obligor prior to its stated maturity date or (ii) any date on which Put Indebtedness is required to be paid, purchased or redeemed from the owner by or on behalf of the underlying obligor (other than at the option of the owner) prior to its stated maturity date, other than pursuant to any mandatory sinking fund or other similar fund or other than by reason of acceleration upon the occurrence of an event of default.

"Put Indebtedness" shall mean Indebtedness which is (a) payable or required to be purchased or redeemed by or on behalf of the underlying obligor, at the option of the owner thereof, prior to its stated maturity date or (b) payable or required to be purchased or redeemed from the owner by or on behalf of the underlying obligor (other than at the option of the owner) prior to its stated maturity date, other than pursuant to any mandatory sinking fund or other similar fund or other than by reason of acceleration or required purchase upon the occurrence of an event of default.

"Qualified Accountants" shall mean (a) Wipfli, LLP, (b) a firm of certified public accountants of the size and type commonly referred to as nationally known certified public accountants selected by the Corporation.

"Rating Agency" shall mean Moody's, Standard & Poor's or Fitch.

"Refunding Indebtedness" shall mean any Additional Indebtedness including any Cross-over Refunding Indebtedness issued for the purpose of refunding any Outstanding Long-Term Indebtedness, Balloon Indebtedness, Non-Recourse Indebtedness or Put Indebtedness and financing the funding of related reserve funds, costs of issuance and other costs related to such refunding.

"Refunding Notes" shall mean any additional Notes that constitute Refunding Indebtedness.

"Related Bond Indenture" shall mean any indenture or other document pursuant to which a series of Related Bonds is issued or incurred.

"Related Bond Trustee" shall mean the trustee and its successors in the trusts created under any Related Bond Indenture.

"Related Bonds" shall mean the bonds, participation certificates, debentures or other obligations of any Related Issuer issued or incurred pursuant to a Related Bond Indenture, the proceeds of which are loaned or otherwise made available to any Obligated Issuer in consideration of the execution, authentication and delivery of a Note or Notes to such Related Issuer.

"Related Issuer" shall mean any state of the United States or any municipal corporation or political subdivision formed under the laws thereof or any body corporate and politic or any constituted authority or any agency or instrumentality of any of the foregoing empowered to issue or incur obligations on behalf thereof which is the issuer or obligor of any series of Related Bonds.

"Responsible Officer of the Master Trustee" shall mean the chairman and vice-chairman of the board of directors, the president, the chairman and vice-chairman of a standing committee of the board of directors, the chairman of the trust committee, every vice president or officer senior thereto, every assistant vice president, the secretary, every assistant secretary, the treasurer, every assistant treasurer, every corporate trust officer, every assistant corporate trust officer, and every other officer and assistant officer of the Master Trustee customarily performing functions similar to those performed by the persons who at the time shall be such an officer, respectively, or to whom any corporate trust matter is referred because of his knowledge of, and familiarity with, a particular subject.

"Secured Indebtedness" shall mean any Indebtedness secured by a Lien.

"Short-Term" when used in connection with Indebtedness, shall mean Indebtedness having an original maturity less than or equal to one year, and not renewable or extendible at the option of the obligor thereon for a term greater than one year beyond the date of original issuance.

"Standard & Poor's" shall mean Standard & Poor's Financial Services LLC, a limited liability company organized and existing under the laws of the State of Delaware, its successors and assigns and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "Standard & Poor's" shall be deemed to refer to any other nationally recognized securities rating agency which has been designated by the Corporation with written notice to the Master Trustee.

"Subordinated Indebtedness" shall mean Indebtedness which, with respect to any issue thereof, is evidenced by instruments, or issued under an indenture or other document, containing provisions for the subordination of such Indebtedness (to which appropriate reference shall be made in the instrument evidencing such Indebtedness) substantially as set forth under the heading "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – Subordinated Indebtedness."

"Supplemental Master Indenture" shall mean an indenture supplemental to, and authorized and executed pursuant to the terms of, the Master Indenture for the purpose of creating one or more series of Notes issued under the Master Indenture or amending or supplementing the terms thereof.

"Tax-Exempt Organization" shall mean a Person organized under the laws of the United States of America or any state thereof which is an organization described in Section 501(c)(3) of the Code, which is exempt from federal income taxes under Section 501(a) of the Code and is not a "private foundation" within the meaning of Section 509(a) of the Code, or corresponding provisions of federal income tax laws from time to time in effect.

"Total Expenses" shall mean total operating and non-operating expenses of the Corporation and each other Obligated Issuer, determined on a pro forma consolidated or combined basis in accordance with accounting principles generally accepted in the United States of America consistently applied; provided, however, that no determination of Total Expenses shall take into account (t) minimum pension liability adjustments; (u) losses resulting from any reappraisal, revaluation or impairment of assets, (v) unrealized losses from investments, (w) unrealized losses in respect of any Interest Rate Agreement, (x) any loss resulting from the early extinguishment of Indebtedness, (y) the equity in the losses from investments in affiliates, and (z) any losses resulting from the sale, exchange or other disposition of investments not in the ordinary course of business.

"Unencumbered" shall mean not subject to a Lien other than a Lien which secures the Notes as contemplated by clause (iii) in the first paragraph under the heading "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE - Restrictions as to Creation of Liens."

"Unrestricted Revenues" shall mean for any period, (i) in the case of any Obligated Issuer providing health care services, the sum of (a) gross patient and resident service revenues less contractual allowances and provisions for uncollectible accounts, free care and discounted care, plus all rents and income derived by any Obligated Issuer from the regular course of its operations including residents' entrance fees, minus amortization of deferred revenues on residents' entrance fees, plus (b) other operating revenues, plus (c) non-operating revenues, all as determined in accordance with accounting principles generally accepted in the United States of America consistently applied; and (ii) in the case of any other Obligated Issuer, gross revenues less sale discounts and sale returns and allowances, as determined in accordance with accounting principles generally accepted in the United States of America consistently applied; provided, however, that no determination of Unrestricted Revenues shall take into account (r) earnings resulting from any reappraisal, revaluation or impairment of assets, (s) unrealized gains from investments, (t) unrealized gains or losses in respect of any Interest Rate Agreement, (u) any gains or losses resulting from the early extinguishment of Indebtedness, (v) the equity in the earnings from investments in affiliates, (w) any gains or losses resulting from the sale, exchange or other disposition of investments not in the ordinary course of business, (x) any gains or losses resulting from the sale, exchange or other disposition of property, plant and equipment, (y) gifts, grants, bequests or donations restricted as to use for a purpose inconsistent with the payment of Debt Service, and (z) insurance (other than business interruption) and condemnation proceeds.

"Unsecured Indebtedness" shall mean any Indebtedness not secured by any Lien.

SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE

General

The Master Indenture authorizes the Obligated Issuers to issue Notes which are joint and several obligations of the Obligated Issuers and which may be but are not required to be secured by a mortgage on or security interest in the assets of any of the Members of Obligated Group. The Notes are entitled to the benefit of certain operational and financial restrictions and other contractual obligations contained in the Master Indenture. Set forth below is a summary of certain provisions of the Master Indenture. The summary is not comprehensive and reference is made to the Master Indenture for a complete recital of its terms.

Granting Clauses

In consideration of the premises and the acceptance by the Master Trustee of the trusts created by the Master Indenture and of the purchase and acceptance of the Notes of each series by the Holders thereof that shall be issued under the Master Indenture and under Supplemental Master Indentures applicable thereto, and for other good and valuable considerations, to secure the payment of the principal of and premium, if any, and interest and Interest Rate Agreement Payments on such Notes according to their tenor and effect and to secure the performance and observance by the Corporation and each other Obligated Issuer of all the covenants expressed or implied therein and in the Master Indenture, Supplemental Master Indentures and each series of Notes issued under the Master Indenture and thereunder, the Corporation and each other Obligated Issuer pledge, assign and grant a security interest in the following described property (the "Master Trust Estate") to the Master Trustee and its successors in trust and assigns forever, SUBJECT, HOWEVER, to Permitted Encumbrances:

(a) Any funds or property held by the Master Trustee under the Master Indenture or any Supplemental Master Indenture.

(b) Any and all right, title and interest of each Obligated Issuer in and to all rents, issues, income, revenues and receipts derived by each Obligated Issuer from all sources, including all right, title and interest and security interest, if any, of each Obligated Issuer in and to all moneys, earnings, revenues, rights to the payment of money and receivables, whether now owned or hereafter acquired and whether or not derived from the use or operation of the Facilities including, without limitation: (i) all patient and resident fees, third party payments, rents, issues, profits, income, revenues and receipts derived in any fashion from the Facilities; and (ii) all accounts, chattel paper and instruments owned by each Obligated Issuer and all proceeds therefrom, whether cash or non-cash, all as defined in Article 9 of the Uniform Commercial Code applicable to each Obligated Issuer.

Excepting, however, from the foregoing (i) gifts, donations, grants, pledges, legacies, bequests, devises and contributions and investment earnings thereon restricted by the donor to uses inconsistent with use for payment of principal and interest and Interest Rate Agreement Payments on the Notes; (ii) revenue received pursuant to grants and contracts for sponsored programs of research or instruction; (iii) revenue received by each Obligated Issuer as billing agent for others, including charges for a physician's services whether or not the physician is an employee of the Obligated Issuer; (iv) proceeds of borrowings; and (v) proceeds of sale of property that is not a part of the Facilities upon foreclosure of, or in satisfaction of, a security interest.

(c) Any and all other property, or interests therein, of every kind or description that may from time to time hereafter, by delivery or by writing of any kind, be sold, transferred, conveyed, assigned, hypothecated, endorsed, deposited, pledged, mortgaged, granted or delivered to or deposited with the Corporation or any other Obligated Issuer or the Master Trustee as additional security under the Master Indenture by the Corporation or any other Obligated Issuer or by anyone on behalf of any of them or with the written consent of any of them, or that pursuant to any of the provisions of the Master Indenture may come into the possession of or control of the Master Trustee or a receiver appointed pursuant to the Master Indenture, as such additional security.

Series and Amount of Notes

The number or series of Notes that may be created under the Master Indenture is not limited. The aggregate principal or notional amount of Notes of each series that may be issued, authenticated and delivered under the Master Indenture is not limited except as may be set forth in the Supplemental Master Indenture and as restricted by the provisions of the Master Indenture including but not limited to the provisions summarized under the heading "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – Restrictions as to Incurrence of Additional Indebtedness."

Payment of Principal, Premium, Interest and Interest Rate Agreement Payments on Notes and Guaranty of Notes

Each Obligated Issuer agrees in the Master Indenture, jointly and severally, that it will duly and punctually pay the principal of, the premium, if any, and the interest and Interest Rate Agreement Payments on each Note issued under the Master Indenture, and the payment of any other amounts payable thereunder or under the Master Indenture, on the dates, at the times and at the place and in the manner provided in such Note, the Supplemental Master Indenture relating thereto and the Master Indenture when and as the same become payable, whether at maturity, upon call for redemption, by acceleration of maturity or otherwise, according to the true intent and meaning thereof. These agreements on the part of each Obligated Issuer shall be continuing, irrevocable, absolute and unconditional and shall remain in full force and effect until an Obligated Issuer shall withdraw as summarized under the heading "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – The Obligated Group – Withdrawal of Obligated Issuers," in which event they shall terminate only with respect to the withdrawing Obligated Issuer, or until the Master Indenture has been satisfied and discharged in the manner summarized under the heading "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – Satisfaction and Discharge of the Master Indenture." The obligation of each Obligated Issuer with respect to payments on Notes issued under the Master Indenture shall not be abrogated, prejudiced or affected by:

(a) the granting of any extension, waiver or other concession given to the Corporation or any other Obligated Issuer by the Master Trustee, a Related Bond Trustee, or any other Noteholder, or by any compromise, release, abandonment, variation, relinquishment or renewal of any of the rights of the Master Trustee, a Related Bond Trustee or any Noteholder or anything done or omitted or neglected to be done by the Master Trustee or any such Related Bond Trustee or Noteholder in exercise of the authority, power and discretion vested in them by the Master Indenture, or by any other dealing or thing which, but for this provision, might abrogate, prejudice or affect such obligation;

(b) the liability of the Corporation or any other Obligated Issuer ceasing for any cause whatsoever, other than the release of an Obligated Issuer upon withdrawal as an Obligated Issuer pursuant

to the provisions summarized under the heading "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – The Obligated Group – Withdrawal of Obligated Issuers;" or

(c) any Obligated Issuer's failure to become liable as, or losing eligibility to become, an Obligated Issuer according to the terms of the Master Indenture or of any Supplemental Master Indenture.

General Covenants

The Corporation and each other Obligated Issuer, respectively, covenants in the Master Indenture to:

(a) subject to the provisions summarized under the heading "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE - Consolidation, Merger, Sale or Conveyance," preserve its corporate existence as a corporation and all its rights and licenses to the extent necessary or desirable in the operation of its business and affairs and be qualified to do business in each jurisdiction where its ownership of Property or the conduct of its business requires such qualification; provided, however, that nothing contained in the Master Indenture shall be construed to obligate it to retain or preserve any of its rights or licenses no longer used or, in the judgment of its Governing Body, no longer useful in the conduct of its business;

(b) at all times cause its business to be carried on and conducted in an effective manner and its Property to be maintained, preserved and kept in good repair, working order and condition and all needful and proper repairs, renewals and replacements thereof to be made; provided, however, that nothing contained in the Master Indenture shall be construed (i) to prevent it from ceasing to operate any portion of its Property, if in the judgment of its Governing Body it is advisable not to operate the same for the time being, or if it intends to sell or otherwise dispose of the same and within a reasonable time endeavors to effect such sale or other disposition, or (ii) to obligate it to retain, preserve, repair, renew or replace any Property, leases, rights, privileges or licenses no longer used or, in the judgment of its Governing Body, no longer useful in the conduct of its business;

(c) conduct its affairs and carry on its business and operations in such manner as to comply with any and all applicable laws of the United States of America and the several states thereof and duly observe and conform to all valid orders, regulations or requirements of any governmental authority relative to the conduct of its business and the ownership of its Property; provided, nevertheless, that nothing contained in the Master Indenture shall require it to comply with, observe and conform to any such law, order, regulation or requirement of any governmental authority so long as the validity thereof shall be contested in good faith;

(d) promptly pay all lawful taxes, governmental charges and assessments at any time levied or assessed and due upon or against it or its Property; provided, however, that it shall have the right to contest in good faith by appropriate proceedings any such taxes, charges or assessments or the collection of any such sums and pending such contest may delay or defer payment thereof and shall have the right to pay taxes in installments; and provided further that such contest shall not materially impair the ability of the Obligated Issuers to meet their obligations under the Master Indenture;

(e) promptly pay or otherwise satisfy and discharge all of its obligations and Indebtedness (including, in addition to Indebtedness, Guaranties by any Obligated Issuer of Indebtedness of any other Obligated Issuer) and all demands and claims against it as and when the same become due and payable, other than any thereof (exclusive of the Notes issued and Outstanding under the Master Indenture and the obligations to make payments on Notes pursuant to the provisions summarized under the heading "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE - Payment of Principal, Premium and Interest Rate Agreement Payments and Guaranty of Notes") whose validity, amount or collectability is being contested in good faith by appropriate proceedings, so long as such contest shall not materially impair the ability of the Obligated Issuers to meet their obligations under the Master Indenture;

(f) at all times comply with all terms, covenants and provisions contained in any Liens at such time existing upon its Property or any part thereof or securing any of its Indebtedness and pay or cause to be paid, or to be renewed, refunded or extended or to be taken up, by it, all of its Liens, as and when the same shall become due and payable; and

(g) procure and maintain all necessary licenses and permits.

Restrictions as to Creation of Liens

The Corporation and each other Obligated Issuer, respectively, agrees in the Master Indenture that it will not create or suffer to be created or exist any Lien upon Property other than Excluded Property now owned or hereafter acquired by it (i) except for Permitted Encumbrances whenever created, all of which may be superior to the lien of the Master Indenture, (ii) other than on Property conveyed in the ordinary course of business or pursuant to the provisions summarized in paragraphs (b) or (c) under the heading "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE - Sale, Lease or Other Disposition of Property" and (iii) other than on any Property or interest therein, if, in each instance and by the instrument creating such Lien, each series of Notes issued and Outstanding under the Master Indenture is directly secured thereby equally and ratably by such Lien.

Permitted Encumbrances shall consist of the following:

(i) liens arising by reason of good faith deposits with the Corporation or any other Obligated Issuer in connection with tenders, leases of real estate, bids or contracts (other than contracts for the payment of money), deposits by the Corporation or any other Obligated Issuer to secure public or statutory obligations, or to secure, or in lieu of, surety, stay or appeal bonds, and deposits as security for the payment of taxes or assessments or other similar charges;

(ii) statutory rights of the United States of America to recover against the Corporation or any other Obligated Issuer by reason of federal funds made available under 42 U.S.C. § 291 et seq., and similar rights under federal and state statutes;

(iii) any lien arising by reason of deposits to enable the Corporation, any other Obligated Issuer or an Insurance Subsidiary to maintain self-insurance or to participate in any funds established to cover any insurance risks or in connection with worker's compensation, unemployment insurance, old age pensions or other social security, or to share in the privileges or benefits required for companies participating in such arrangements;

(iv) any judgment lien against the Corporation or any other Obligated Issuer so long as such judgment is being contested and execution thereon is stayed, and so long as such lien or contest shall not materially impair the ability of the Obligated Issuers to meet their obligations under the Master Indenture;

(v) (A) rights reserved to or vested in any municipality or public authority by the terms of any right, power, franchise, grant, license, permit or provision of law, affecting any Property, to (l) terminate such right, power, franchise, grant, license or permit, provided that the exercise of such right would not materially impair the use of such Property or materially and adversely affect the value thereof, or (2) purchase, condemn, appropriate or recapture, or designate a purchaser of, such Property, provided that the exercise of such right would not materially impair the use of such Property or materially and adversely affect such Property; (B) any liens on any Property for taxes, assessments, levies, fees, water and sewer rents, and other governmental and similar charges and any liens of mechanics, materialmen and laborers for work or services performed or materials furnished in connection with such Property, which are not due and payable or which are not delinquent or which, or the amount or validity of which, are being contested and execution thereon is stayed or, with respect to liens of mechanics, materialmen and laborers, have been due for less than 90 days; (C) easements, rights-of-way, servitudes, restrictions and other minor defects, encumbrances, and irregularities in the title of any Property which do not materially impair the use of such Property and which do not materially and adversely affect the value thereof; (D) rights reserved to or vested in any municipality or public authority to control or regulate any Property or to use such Property in any

manner, which rights do not materially impair the use of such Property or materially and adversely affect the value thereof, and (E) to the extent that it affects title to any Property, the Master Indenture;

(vi) any Lien described in the Master Indenture which is existing on the date of the Master Indenture, provided that no Lien so described may be modified to apply to any Property of the Corporation or any other Obligated Issuer not subject to such Lien on the date of the Master Indenture, and provided further that no Additional Indebtedness may be incurred which is secured by such Lien;

(vii) any Lien to which the Property of an Obligated Issuer is subject at the time it becomes an Obligated Issuer, provided that at the time of becoming an Obligated Issuer, (a) the requirements of the Master Indenture summarized in paragraph (a) under the heading "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – The Obligated Group - Acceptance as an Obligated Issuer" have been met, (b) no Lien so described may be modified to apply to any Property of any Obligated Issuer not subject to such Lien on the date of such Obligated Issuer's joining as an Obligated Issuer, (c) no Additional Indebtedness may be thereafter incurred which is secured by such Lien and (d) no Lien so described may be extended or replaced by another Lien;

(viii) any Lien or restriction on use, expressed or implied, on Property of an Obligated Issuer received as a gift, pursuant to the terms of such gift;

(ix) Liens on moneys deposited by patients, residents or others with the Corporation or any Obligated Issuer as security for or as prepayment for the cost of patient or resident care or other services;

(x) Liens arising under law or by contract with respect to initial deposits made under life-care contracts;

(xi) any Lien arising by reason of deposits with, or the giving of any form of security to, any governmental agency or any body created or approved by law or governmental regulation for any purpose at any time as required by law or governmental regulation as a condition to the transaction of any business or the exercise of any privilege or license;

(xii) leases which relate to Property of the Obligated Group which is of a type that is customarily the subject of such leases, such as office space for physicians and educational institutions, food service facilities, parking facilities, gift shops, pharmacy and similar departments; leases entered into in accordance with the disposition of Property provisions of the Master Indenture; leases, licenses or similar rights to use property to which the Corporation or another Obligated Issuer is a party existing as of May 1, 2016 and any renewals and extensions thereof; and any leases, licenses or similar rights to use Property whereunder an Obligated Issuer is lessee, licensee or the equivalent thereof upon fair and reasonable terms no less favorable to the lessee or licensee than would obtain in a comparable arm's-length transaction;

(xiii) utility, access and other easements and rights-of-way, restrictions, encumbrances and exceptions which do not materially interfere with or materially impair the operation of the Property affected thereby (or, if such Property is not being then operated, the operation for which it was designed or last modified);

(xiv) such Liens, defects, irregularities of title and encroachments on adjoining property as normally exist with respect to property similar in character to the Property involved and which do not materially adversely affect the value of, or materially impair, the Property affected thereby for the purpose for which it was acquired or is held by the owner thereof, including without limitation statutory liens granted to banks or other financial institutions, which liens have not been specifically granted to secure Indebtedness and which do not apply to Property which has been deposited as part of a plan to secure Indebtedness;

(xv) zoning laws and similar restrictions which are not violated by use or operation of the Property affected thereby;

(xvi) Liens on Property due to rights of third party payors for recoupment of excess reimbursement paid;

(xvii) any security interest in any rebate account, depreciation reserve, debt service or interest reserve, debt service fund or any similar fund established pursuant to the terms of any Supplemental Master Indenture or Related Bond Indenture in favor of the Master Trustee, a Related Bond Trustee, a Related Issuer or the holder of the Indebtedness issued pursuant to such Supplemental Master Indenture or Related Bond Indenture;

(xviii) any Lien on any Related Bond or any evidence of Indebtedness of any Obligated Issuer acquired by or on behalf of any Obligated Issuer which secures Commitment Indebtedness and only Commitment Indebtedness;

(xix) any purchase money security interest in or similar security interest arising under an installment sale, lease or financing lease of personal property provided that the aggregate amount of annual rental and debt service payments for such financing arrangements in any Fiscal Year do not exceed 25% of Unrestricted Revenues;

(xx) leases pursuant to which the residents of the Facilities of an Obligated Issuer occupy their units;

(xxi) Liens securing Non-Recourse Indebtedness without limit;

(xxii) Liens securing Indebtedness or Interest Rate Agreements if the Book Value or, at the option of the Corporation, the Market Value, of the Property subject to the Lien does not exceed 10% of the Book Value or, at the option of the Corporation, the Market Value of the Unencumbered Net Plant, Property and Equipment of the Obligated Issuers on a combined basis, based on the most recently available audited financial statements of the Obligated Group;

(xxiii) Liens on funds or securities posted in a collateral account held by a Counterparty or by a third party custodian therefor securing the obligations of an Obligated Issuer under an Interest Rate Agreement other than the obligation to make termination payments, indemnification payments, gross-up payments, payments of expenses, default interest payments or similar non-scheduled payments with respect to an Interest Rate Agreement; and

(xxiv) Liens securing Short-Term Indebtedness on the Obligated Issuers' accounts receivable (and proceeds thereof) arising as a result of a pledge or sale of such accounts receivable with or without recourse, which Lien may be prior to, on a parity with or subordinate to the security interest in these accounts created by the Master Indenture, provided that the principal amount of the Indebtedness secured by any such lien does not exceed 15% of the Unrestricted Revenues of the Obligated Group. The Master Trustee is authorized and directed to execute and deliver any documents the Corporation may reasonably request to evidence the priority of the security interest in accounts permitted by this subsection.

Restrictions as to Incurrence of Additional Indebtedness

The Corporation and each other Obligated Issuer, respectively, agrees in the Master Indenture that it will not incur any Additional Indebtedness, other than the following Additional Indebtedness, if incurred at any time when there shall not exist any Event of Default of the Corporation or such Obligated Issuer under the Master Indenture or under any Related Bond Indenture (unless such Additional Indebtedness is to be incurred to cure such Event of Default):

(a) Long-Term Additional Indebtedness. Long-Term Additional Indebtedness provided that: the Corporation shall have delivered to the Master Trustee either:

(i) Report on Historical Coverage. An Officer's Certificate certifying that for most recently ended Fiscal Year for which audited financial statements are available the Debt Service Coverage Ratio was not less than 1.15 for all Outstanding Long-Term Indebtedness (exclusive of any Outstanding Long-Term Indebtedness which is to be refunded or redeemed with proceeds of the Indebtedness proposed to be incurred) and the Long-Term Indebtedness then proposed to be incurred; or

(ii) Reports on Historical and Pro Forma Coverage. The following:

(aa) an Officer's Certificate certifying that for the most recently ended Fiscal Year for which audited financial statements are available the Debt Service Coverage Ratio was not less than 1.10 for all Outstanding Long-Term Indebtedness (not including the Long-Term Indebtedness then proposed to be incurred); and

(bb) a written report of an Independent Consultant certifying that the projected Debt Service Coverage Ratio for each of the first two full Fiscal Years following the estimated completion of the acquisition, construction, renovation or replacement being paid for with the proceeds of such Additional Indebtedness or following the incurrence of Long-Term Additional Indebtedness for other purposes will not be less than 1.25 for all Outstanding Long-Term Indebtedness after giving effect to the incurrence of such Long-Term Additional Indebtedness and the application of the proceeds thereof.

provided, however, that in the event that an Independent Consultant shall deliver a report to the Master Trustee certifying that state or federal laws or regulations or administrative interpretations of such laws or regulations then in existence do not permit or by their application make it impracticable for the Obligated Issuers to produce the required ratios set forth above, then such ratios shall be reduced to the highest practicable ratios then permitted by such laws or regulations but in no event less than 1.00.

(b) Completion Indebtedness. Completion Indebtedness if there is delivered to the Master Trustee: (i) an Officer's Certificate stating that at the time the original Indebtedness for the facilities to be completed was incurred, the Corporation or other Obligated Issuer had reason to believe that the proceeds of such Indebtedness together with other moneys then expected to be available would provide sufficient moneys for the completion of such facilities; (ii) a statement of an Independent Architect or a construction expert selected by the Corporation setting forth the amount estimated to be needed to complete the facilities; and (iii) an Officer's Certificate stating that the proceeds of such Completion Indebtedness to be applied to the completion of the facilities, together with other moneys available therefor, will be in an amount not less than the amount set forth in the statement of an Independent Architect referred to in (ii) above.

(c) Refunding Indebtedness. Refunding Indebtedness, provided that, the requirements summarized in clause (a) under this heading are satisfied or the Corporation has delivered an Officer's Certificate to the Master Trustee certifying that the Maximum Annual Debt Service on all Long-Term Indebtedness will not be increased by more than 20% by such refunding.

(d) Balloon Indebtedness. Balloon Indebtedness if:

(i) (a) the principal amount of the Balloon Indebtedness to be incurred together with the aggregate principal amount of all other Balloon Indebtedness then outstanding which was incurred subject to this clause (d)(iv) does not exceed 10% of the Unrestricted Revenues of the Obligated Group for the most recently ended Fiscal Year for which audited financial statements

are available and (b) the conditions set forth in clause (a)(i) or (a)(ii) above are met with respect to the Balloon Indebtedness when it is assumed that, with respect to the Balloon Indebtedness coming due in each consecutive 12 month period in which 25% or more of the original principal amount of such Balloon Indebtedness comes due (the "Balloon Amount") (A) the Balloon Amount bears interest on the unpaid principal balance at the Projected Rate and (B) principal and interest on the Balloon Amount are payable on a level debt service basis over a 30-year term from the date of issuance of the Balloon Indebtedness; or

(ii) (a) there is in effect at the time the Balloon Indebtedness is incurred a binding commitment by a financial institution selected by the Corporation that is generally regarded as responsible and such commitment provides for repayment of amounts drawn under it over a term of at least 18 months commencing with the last day of each consecutive twelve-month period during which 25% or more of the Balloon Indebtedness matures, to provide financing sufficient to pay the Balloon Amount and (b) the conditions set forth in clause (a)(i) or (a)(ii)above are met when it is assumed that, with respect to the Balloon Amount (A) the Balloon Amount bears interest on the unpaid principal balance at the Projected Rate and (B) principal and interest on the Balloon Amount are payable on a level debt service basis over a 30-year term from the date of issuance of the Balloon Indebtedness..

(e) Put Indebtedness. Put Indebtedness if:

(i) (a) there is in effect at the time such Put Indebtedness is incurred a binding commitment by a financial institution selected by the Corporation that is generally regarded as responsible and which commitment provides for the amortization of Indebtedness incurred under the commitment over a term of at least 18 months commencing with the next succeeding Put Date, to provide financing sufficient to pay such Put Indebtedness on any Put Date occurring during the term of that commitment, and (b) the conditions set forth in clause (a)(i) or (a)(ii) above are met with respect to the Put Indebtedness when it is assumed that the Put Indebtedness is Long-Term Indebtedness that bears interest at the Projected Rate and is payable on a level debt service basis over a 30-year period; or

(ii) (a) the period from the date of incurrence of the proposed Put Indebtedness to the first Put Date is at least 36 months and (b) the conditions set forth in Section 5.5(a)(i) or (ii) above are met with respect to the Put Indebtedness when it is assumed that the Put Indebtedness is Long-Term Indebtedness that (x) bears interest at the fixed rate applicable to the Put Indebtedness to be incurred (with such fixed interest rate applied over the entire term of the Indebtedness, for purposes of this clause (e)(ii)) or (y) bears interest at the Projected Rate and (z) principal is payable on a level debt service basis over a 30-year period; or

(iii) such Put Indebtedness is due (or can become due at the option of the Holders of such Indebtedness) within 12 months of the date of calculation, and the Obligated Issuer has delivered to the Trustee, not more than 30 days prior to the date of calculation, an Officer's Certificate to the effect that the Obligated Issuer intends to refinance such Put Indebtedness on or prior to the date on which it is due (or can become due at the option of the Holders of such Indebtedness), then:

(a) portion of the principal of the Put Indebtedness in an amount equal to the amount of unrestricted cash and investments of the Obligated Group as of the most recently completed semi-annual period ending June 30 or December 31 (or if the most recent semi-annual period shall end less than 120 days prior to the date of any calculation, as of the end of the immediately preceding June 30 or December 31, as the case may be) may be assumed to be Indebtedness which bears interest at the Projected Rate and principal is payable on a level debt service basis over a 30-year period; and

(b) the balance of the principal amount of such Put Indebtedness is deemed to be payable on the earlier of such Indebtedness is due or the date it can become due at the option of the Holders of such Indebtedness.

(iv) (a) the principal amount of the Put Indebtedness to be incurred together with the aggregate principal amount of all other Put Indebtedness then outstanding which was incurred subject to this clause (e)(iv) does not exceed 10% of the Unrestricted Revenues of the Obligated Group for the most recently ended Fiscal Year for which audited financial statements are available and (b) the conditions set forth in clause (a)(i) or (a)(ii) above are met with respect to the Put Indebtedness when it is assumed that the Put Indebtedness is Long-Term Indebtedness that bears interest at the Projected Rate and is payable on a level debt service basis over a 30-year period

(f) Non-Recourse Indebtedness, Commitment Indebtedness and Subordinated Indebtedness. Non-Recourse Indebtedness, Commitment Indebtedness and Subordinated Indebtedness without limit.

(g) Additional Indebtedness. Any other Additional Indebtedness provided at the time of incurrence of such Additional Indebtedness the aggregate principal amount of all Outstanding Additional Indebtedness incurred pursuant to the provisions summarized in this clause (g) does not exceed 20% of Unrestricted Revenues of the Obligated Group for the most recent Fiscal Year for which audited financial statements are available and provided further that with respect to Short-Term Indebtedness, secured or unsecured, no such Short-Term Indebtedness in excess of 10% of Unrestricted Revenues of the Obligated Group shall be Outstanding for a thirty (30) day period during each Fiscal Year except a Fiscal Year during the last 90 days of which any third party reimburser or insurer providing in excess of 20% of the Unrestricted Revenues of the Obligated Group is in arrears in excess of 90 days on accounts payable to any Obligated Issuer.

Indebtedness may be incurred under any of clauses (a) through (g) summarized under this heading even though other Indebtedness is simultaneously being incurred under a different clause summarized under this heading.

Calculation of Debt Service

The various calculations of the amount of Indebtedness of a Person, the amortization schedule of such Indebtedness and the Debt Service payable with respect to such Indebtedness for future periods required under certain provisions of the Master Indenture shall be made in a manner consistent with the provisions summarized under the heading "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE - Restrictions as to Incurrence of Additional Indebtedness" and as summarized under this heading. The Projected Rate and other assumptions utilized with respect to Indebtedness at the time compliance with the provisions summarized under the heading "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – Restrictions as to Incurrence of Additional Indebtedness" was first calculated shall continue to be utilized for the calculation of Debt Service payable with respect to such Indebtedness for future periods unless such Indebtedness is reclassified as provided under this heading.

In determining the amount of Debt Service payable on Indebtedness in the course of the various calculations required under certain provisions of the Master Indenture, except as otherwise summarized under the heading "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE - Restrictions as to Incurrence of Additional Indebtedness" with respect to interest rate assumptions, if the terms of the Indebtedness being considered are such that interest thereon for any future period of time is expressed to be calculated at a varying rate per annum, a formula rate or a fixed rate per annum based on a varying index, then for the purpose of making such determination of Debt Service, interest on such Indebtedness for such period (the "Determination Period") shall be computed by assuming that the rate of interest applicable to the Determination Period is equal to the average annual rate of interest (calculated in the manner in which the rate of interest for the Determination Period is expressed to be calculated) that was or would have been in effect for the 12-month period immediately preceding the date on which such calculation is made; provided, however, that if such average annual rate of interest cannot be calculated for such entire 12-month period but can be calculated for a shorter period, then the assumed interest rate for the Determination Period shall be the average annual rate of interest that was or would have been in

effect for such shorter period; and provided further, that if such average annual rate of interest cannot be calculated for any preceding period of time, then the assumed interest rate for the Determination Period shall be the initial annual rate of interest which is actually applicable to such Indebtedness upon the incurrence thereof. No Indebtedness shall be deemed to arise when variable rate Indebtedness is converted to Indebtedness which bears interest at a fixed rate, or when fixed rate Indebtedness is converted to Indebtedness which bears interest at a variable rate, or when the method of computing the variable rate on variable rate Indebtedness is changed if any such conversion is in accordance with the provisions applicable to such Indebtedness in effect immediately prior to such conversion.

Except for the purpose of calculating any historical Debt Service or for determining whether a Guaranty may be incurred, in which case the guarantor's Debt Service under a Guaranty shall be deemed to be the actual amount paid (for historical) or payable (for incurrence) on such Guaranty by the guarantor, a guarantor shall be considered liable only for 20% of the annual debt service requirement on the Indebtedness guaranteed for future periods; provided, however, if the guarantor has been required by reason of its guaranty to make a payment in respect of such Indebtedness within the immediately preceding 12 months, the guarantor shall be considered liable in future periods for 100% of the annual debt service requirement on the Indebtedness guaranteed.

Balloon Indebtedness incurred pursuant to the provisions summarized under the heading "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE - Restrictions as to Incurrence of Additional Indebtedness" shall be deemed payable in accordance with the assumptions set forth in clause (d) under said heading.

Put Indebtedness incurred pursuant to the provisions summarized under the heading "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE - Restrictions as to Incurrence of Additional Indebtedness" shall be deemed payable in accordance with the assumptions set forth under said heading; provided that if the option of the holder to require that such Put Indebtedness be paid, purchased or redeemed prior to its stated maturity date has expired as of the date of calculation, such Put Indebtedness shall be deemed payable in accordance with its terms. No Indebtedness shall be deemed to arise when the terms upon which Put Indebtedness may be or is required to be tendered for purchase are changed, if such change is in accordance with the provisions applicable to such Put Indebtedness in effect immediately prior to such change.

Notes issued to secure Indebtedness permitted to be incurred pursuant to the provisions summarized under the heading "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE - Restrictions as to Incurrence of Additional Indebtedness" shall not be treated as Additional Indebtedness.

No debt service shall be deemed payable with respect to Commitment Indebtedness until such time as funding occurs under the commitment which gave rise to such Commitment Indebtedness, except to the extent that the terms of such Commitment Indebtedness are to be considered pursuant to the provisions summarized under the heading "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE - Restrictions as to Incurrence of Additional Indebtedness" in determining the amortization schedule and debt service payable with respect to the Indebtedness supported by the commitment which gave rise to such Commitment Indebtedness. From and after such funding, the amount of such debt service shall be calculated in accordance with the actual amount required to be repaid on such Commitment Indebtedness and the actual interest rate and amortization schedule applicable thereto, utilizing the various assumptions summarized under the heading "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE - Restrictions as to Incurrence of Additional Indebtedness" and under this heading. No Additional Indebtedness shall be deemed to arise when any funding occurs under any such commitment or any such commitment is renewed upon terms which provide for substantially the same terms of repayment of amounts disbursed pursuant to such commitment as obtained prior to such renewal.

The Master Trustee shall have no obligation to make any determination of Debt Service under the master Indenture and shall be provided with such opinions or reports of Independent Consultants with respect to such determination.

The Corporation or any other Obligated Issuer may elect to have Indebtedness issued pursuant to one provision summarized under the heading "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER

INDENTURE - Restrictions as to Incurrence of Additional Indebtedness" classified as having been incurred under another provision summarized under the heading "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE - Restrictions as to Incurrence of Additional Indebtedness" by demonstrating compliance with such other provision on the assumption that such Indebtedness is being reissued on the date of delivery of the materials required to be delivered under such other provision including the certification of any applicable Projected Rate. From and after such demonstration, such Indebtedness shall be deemed to have been incurred under the provision with respect to which such compliance has been demonstrated until any subsequent reclassification of such Indebtedness.

If any Obligated Issuer enters an Interest Rate Agreement with a Counterparty requiring the Obligated Issuer to pay a fixed interest rate on a notional amount or requiring the Obligated Issuer to pay a variable interest rate on a notional amount, and the Obligated Issuer has made a determination that the Interest Rate Agreement was entered for the purpose of providing substitute interest payments (or a portion thereof) for Indebtedness of a particular maturity or maturities in a principal amount equal to the notional amount of the Interest Rate Agreement, then during the term of the Interest Rate Agreement and so long as the Counterparty under the Interest Rate Agreement is not in default under the Interest Rate Agreement, then, for purposes of any calculation of Debt Service, the interest rate (or portion thereof) on the Indebtedness of that maturity or maturities will be determined as if the Indebtedness bore interest at the fixed interest rate or the variable interest rate, as the case may be, payable by the Obligated Issuer after giving effect to the Interest Rate Agreement. Any obligations under the Interest Rate Agreement, whether or not secured by a Note, will not be separately included in any calculation of Debt Service payable on Indebtedness. No Additional Indebtedness is deemed to arise when an Interest Rate Agreement is entered into or terminated.

Debt Service Coverage Ratio

The Obligated Group shall set rates and charges for its facilities such that the Debt Service Coverage Ratio, calculated at the end of each Fiscal Year, will not be less than 1.10. If the Debt Service Coverage Ratio, as calculated at the end of any Fiscal Year is below 1.10, the Corporation shall retain an Independent Consultant at the end of each such Fiscal Year to make recommendations to increase the Debt Service Coverage Ratio for the subsequent Fiscal Years to at least 1.10; provided, however, that in the event that an Independent Consultant shall deliver a report to the Master Trustee to the effect that state or federal laws or regulations or administrative interpretations of such laws or regulations then in existence do not permit or by their application make it impracticable for the Obligated Group to produce a Debt Service Coverage Ratio of 1.10, then the required Debt Service Coverage Ratio shall be reduced to the highest practicable ratio permitted by the laws or regulations then in effect as so stated in such report but in no event less than 1.00 for such subsequent Fiscal Year. Each Obligated Issuer, respectively, agrees in the Master Indenture that it will, to the extent feasible, follow the recommendations of the Independent Consultant. So long as the Corporation shall retain an Independent Consultant at the end of each Fiscal Year in which the Debt Service Coverage Ratio of the Obligated Group is below 1.10 and each Obligated Issuer shall follow such Independent Consultant's recommendations for the subsequent Fiscal Year to the extent feasible, and so long as the Debt Service Coverage Ratio of the Obligated Group is not less than 1.00 for each of the subsequent two Fiscal Years, the provisions summarized under this heading shall be deemed to have been complied with for such subsequent Fiscal Year even if the Debt Service Coverage Ratio is below 1.10, and those circumstances will not constitute an Event of Default under the Master Indenture. The Master Trustee has no duty or Obligation to monitor whether or not any such recommendations are complied with.

Sale, Lease or Other Disposition of Property

(a) The Corporation and each other Obligated Issuer, respectively, agrees in the Master Indenture that, except as summarized under the heading "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE - Consolidation, Merger, Sale or Conveyance," it will not sell, lease or otherwise dispose of any of its Property (other than Excluded Property) except in the ordinary course of business, except to another Obligated Issuer or except as permitted by the provisions summarized in paragraphs (b) and (c) under this heading, unless the Corporation shall certify to the Master Trustee in an Officer's Certificate that:

(i) in the judgment of the Corporation and each other Obligated Issuer which is the owner of such Property, such Property, has, or within the next succeeding 24 calendar months is reasonably expected to, become inadequate, obsolete, worn out, unsuitable, undesirable or unnecessary, provided the sale, lease, removal or other disposition thereof will not materially impair the structural soundness, efficiency or economic value of its remaining Property; or

(ii) immediately after such transaction, the condition described in clause (a) under the heading "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE - Restrictions as to Incurrence of Additional Indebtedness" would be met for the incurrence of one dollar of Long-Term Additional Indebtedness after giving effect to such transaction.

(b) In addition, the Corporation or any other Obligated Issuer may sell, lease or otherwise dispose of its Property (other than in the ordinary course of business and other than Excluded Property which can be disposed of without limit), without satisfying the conditions that must be certified pursuant to the provisions summarized in paragraph (a) under this heading, if the aggregate Book Value of the Property sold, leased or otherwise disposed of pursuant to the provisions summarized in this paragraph (b) in any Fiscal Year does not exceed 10% of the total assets of the Obligated Group as of the beginning of that Fiscal Year.

(c) Nothing in the Master Indenture shall prohibit any Obligated Issuer from making secured or unsecured loans provided that any such loan in excess of $500,000 (i) is evidenced in writing, and (ii) the Master Trustee receives an Officer's Certificate stating that (a) the Obligated Group Representative reasonably expects such loan to be repaid, and (b) such loan bears interest at a reasonable rate of interest as determined in good faith by the Obligated Group Representative.

(d) If the Property to be disposed in accordance with this heading is Mortgaged Property, the Trustee shall, upon the request of the Obligated Group Representative, release such Mortgaged Property from the Master Mortgage pursuant to the terms of the Master Mortgage and from any Uniform Commercial Code financing statement in connection with such disposition of such Property.

Consolidation, Merger, Sale or Conveyance

(a) The Corporation and each other Obligated Issuer, respectively, covenants in the Master Indenture that it will not merge or consolidate with any other corporation not an Obligated Issuer or sell or convey all or substantially all of its assets to any Person not an Obligated Issuer unless either (A) such Obligated Issuer shall be the surviving corporation, or (B) the successor corporation (if other than such Obligated Issuer) shall be a corporation organized and existing under the laws of the United States of America or a state thereof and such corporation shall expressly assume in writing all of the obligations of such Obligated Issuer to pay principal of and interest and Interest Rate Agreement Payments on the Notes issued under the Master Indenture, and the due and punctual performance and observance of all of the covenants and conditions of the Master Indenture to be performed or observed by such Obligated Issuer by a Supplemental Master Indenture, executed and delivered to the Master Trustee by such corporation.

(b) In case of any such consolidation, merger, sale or conveyance and upon any such assumption by the successor corporation, such successor corporation shall succeed to and be substituted for such Obligated Issuer, with the same effect as if it had been named in the Master Indenture as the Corporation or another Obligated Issuer, as the case may be. Such successor corporation thereupon may cause to be signed, and may issue in its own name Notes issuable under the Master Indenture; and upon the order of such successor corporation, instead of such Obligated Issuer, and subject to all the terms, conditions and limitations in the Master Indenture prescribed, the Master Trustee shall authenticate and shall deliver Notes that such successor corporation shall have caused to be signed and delivered to the Master Trustee. All Outstanding Notes so issued by such successor corporation under the Master Indenture shall in all respects have the same legal rank and benefit under the Master Indenture as Notes theretofore or thereafter issued in accordance with the terms of the Master Indenture as though all of such Notes had been issued under the Master Indenture at the date of the execution of the Master Indenture.

(c) In case of any such consolidation, merger, sale or conveyance such changes in phraseology and form (but not in substance) may be made in Notes thereafter to be issued as may be appropriate.

(d) The Master Trustee, subject to the provisions of the Master Indenture, shall be provided with an Opinion of Counsel which shall be deemed conclusive evidence that any such consolidation, merger, sale or conveyance, and any such assumption, complies with the provisions of the Master Indenture summarized under this heading and that it is proper for the Master Trustee under the provisions of the Master Indenture to join in the execution of the Supplemental Master Indenture as summarized under this heading.

(e) Any corporation which controls the Corporation (the "New Parent") may assume all obligations, rights and duties and succeed to all interests of the Corporation under the Master Indenture, and upon completion of such assumption will be the "Corporation" under the Master Indenture if (i) there shall be filed with the Master Trustee (1) a resolution of the Governing Body of the New Parent agreeing to assume all obligations, rights and duties of the Corporation under the Master Indenture, approving the form of and authorizing the execution of the document mentioned in clause (2) below, (2) a document, executed by the Corporation and the New Parent evidencing such assumption, (3) an Opinion of Bond Counsel, to the effect that such assumption will not adversely affect any exclusion from gross income for federal income tax purposes of interest payable on any Related Bond to which that interest would otherwise be entitled and (4) an Officer's Certificate certifying compliance with the requirements of the provisions of the Master Indenture summarized under this heading and (ii) the requirements summarized in paragraphs (a) through (d) under this heading shall have been met to the same extent as if the New Parent and the Corporation had merged.

Each Obligated Issuer agrees that it will not take any action or omit to take any action which is lawful and within its power to take, and which, if taken or omitted, would adversely affect the exclusion from gross income for federal income tax purposes of the interest paid to holders of any Related Bonds.

Filing of Financial Statements, Certificate of No Default, Other Information

The Corporation and each other Obligated Issuer, respectively, covenant in the Master Indenture as follows:

(a) as soon as practicable but in no event later than 150 days after the end of each Fiscal Year, the Corporation shall file, or cause to be filed, with the Trustee, with each Noteholder who may have so requested or on whose behalf the Trustee may have so requested, with each Related Issuer, with each Rating Agency maintaining a rating on any issue of Related Bonds and with each underwriter who has underwritten the sale of a series of Related Bonds who may have so requested: (i) a combined and combining or consolidated and consolidating balance sheet as of the last day of the Fiscal Year and (ii) combined and combining or consolidated and consolidating statements of operations and changes in net assets for the Fiscal Year then ended for the Corporation and each other Obligated Issuer (all material inter-company transactions and balances shall be eliminated in the preparation of the combined or consolidated statements), accompanied by an opinion of Qualified Accountants which states that such financial statements of the respective Obligated Issuers have been presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States;

(b) as soon as practicable but in no event later than 150 days after the end of each Fiscal Year, the Corporation shall file with the Master Trustee, with each Noteholder who may have so requested or on whose behalf the Master Trustee may have so requested, with each Related Issuer, with each Rating Agency maintaining a rating on any issue of Related Bonds and with each underwriter who has underwritten the sale of a series of Related Bonds who may have so requested, (i) an Officer's Certificate of the Corporation stating that to the knowledge of the signer, the Obligated Issuers are not in default of any covenants set forth in the Master Indenture and (ii) an opinion from Qualified Accountants stating whether or not, to the best knowledge of the signers, the Obligated Issuers are in default in the performance of the Debt Service Coverage Ratio covenant summarized under the heading "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – Debt Service Coverage Ratio," and, in each case, if so, specifying each such default of which the signers may have knowledge;

(c) if an Event of Default shall have occurred and be continuing, the Corporation and each other Obligated Issuer shall (i) file with the Master Trustee other financial statements and information concerning the operations and financial affairs of the Corporation and each Obligated Issuer as the Master Trustee may from time to time reasonably request, excluding donor records, patient and resident records and personnel records and (ii) provide access to the facilities of each Obligated Issuer for the purpose of inspection by the Master Trustee during regular business hours as the Master Trustee may reasonably request; and

(d) within 20 days after the Corporation's receipt thereof, the Corporation will file with the Master Trustee a copy of each report which any provision of the Master Indenture requires to be prepared by an Independent Consultant or an Independent Insurance Consultant.

The Trustee is under no obligation to analyze, review or make any credit decisions with respect to any financial statements, reports (including those of consultants), notices, certificates or documents provided to it under the foregoing sections. To the extent that accounting principles generally accepted in the United States of America would require consolidation of certain financial information of entities which are not Obligated Issuers with financial information of one or more Obligated Issuers, consolidated financial information with respect to entities which are not Obligated Issuers may be delivered in satisfaction of the requirements summarized under this heading so long as: (a) supplemental information in sufficient detail to separately identify the information with respect to the Obligated Issuers is delivered to the Master Trustee with the audited financial statements; (b) such supplemental information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements delivered to the Master Trustee and, in the opinion of the accountant, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole; and (c) such supplemental information is used for the purposes of the Master Indenture or for any agreement, document or certificate executed and delivered in connection with or pursuant to the Master Indenture.

Insurance

Subject to their rights to enter into a program of self insurance in compliance with the provisions summarized under the heading "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE - Reduction of Insurance Coverage; Self Insurance," the Corporation and each other Obligated Issuer, respectively, agrees in the Master Indenture that it will maintain, or cause to be maintained, insurance covering such risks (including, but not limited to, public liability, fire and extended coverage and medical malpractice) and in such amounts as is customary in the case of corporations engaged in the same or similar activities and similarly situated as the Corporation and each other Obligated Issuer which is adequate to protect it and its Properties and operations. The insurance or self insurance program required to be maintained pursuant to the Master Indenture shall be subject to the review of an Independent Insurance Consultant not less frequently than once every two years and the Corporation and each other Obligated Issuer, respectively, agrees in the Master Indenture that it will follow any recommendations of the Independent Insurance Consultant to the extent feasible. In order to establish compliance with the provisions summarized under this heading and under the heading "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE - Reduction of Insurance Coverage; Self Insurance," the Corporation and each other Obligated Issuer, respectively, agrees in the Master Indenture that it will deliver or cause to be delivered to the Master Trustee not less frequently than once every two years, on or prior to a date designated by the Corporation, a report of the Independent Insurance Consultant setting forth a description of the insurance maintained, or caused to be maintained, by such Obligated Issuer pursuant to the provisions summarized under this heading and then in effect and stating whether, in the opinion of the Independent Insurance Consultant, such insurance and any reduction or elimination of the amount of any insurance coverage during the period covered by such report complies with the requirements summarized under this heading and under the heading "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE - Reduction of Insurance Coverage; Self Insurance" and adequately protects such Obligated Issuer and its Properties and operations provided with respect to any self insurance that such report shall be by an independent actuary selected by the Corporation. Such report shall also set forth any recommendations of the Independent Insurance Consultant as to additional insurance, if any, reasonably required (during the period preceding the next such report) for the protection referred to in the next preceding sentence in light of available insurance coverage in the health care industry (or other industry applicable to an Obligated Issuer).

Reduction of Insurance Coverage; Self Insurance

If the Corporation or any other Obligated Issuer has or hereafter obtains any of the following types of insurance, whether from an Insurance Subsidiary or other insurer, it must secure the concurrence of an Independent Insurance Consultant before it may reduce or eliminate the amounts of its insurance coverage for the following types of insurance: (i) comprehensive general public liability insurance, including product liability, blanket contractual liability and automobile insurance including owned, non-owned and hired automobiles (excluding collision and comprehensive coverage thereon), (ii) professional liability or medical malpractice insurance, (iii) worker's compensation insurance and (iv) boiler insurance.

In making its decision whether to concur in such reductions or eliminations, the Independent Insurance Consultant shall make an estimate of the added financial risk, if any, assumed by the Corporation or the Obligated Issuer, as the case may be, as a result of the lower or amended coverage; it shall consider the availability of commercial insurance, the terms upon which such insurance is available and the cost of such available insurance, and the effect of such terms and such cost upon such Obligated Issuer and charges for its services; and it shall determine whether the additional financial risk, if any, being assumed by such Obligated Issuer, is prudent in light of the savings to be realized from lowered insurance premiums or in light of the general availability of such coverage.

Before the Corporation or any other Obligated Issuer may enter into a program of self insurance (i.e. a program not involving a contract of insurance issued by an insurer licensed by the Commissioner of Insurance of the States of Illinois or Wisconsin) against any particular risk for which it is not on the date of the Master Indenture self-insuring, it must receive a certificate from an Independent Insurance Consultant to the effect that adequate reserves for such insurance program are deposited and maintained with an independent corporate trustee if recommended by the Independent Insurance Consultant. The Corporation or any other Obligated Issuer may not enter into a program of self insurance against risks of damage to property, plant and equipment, including business interruption insurance.

Damage or Destruction

Each Obligated Issuer agrees in the Master Indenture to notify the Master Trustee immediately in the case of the destruction of its Facilities or any portion thereof as a result of fire or other casualty, or any damage to such Facilities or portion thereof as a result of fire or other casualty, the Net Proceeds of which are estimated to exceed 10% of the Book Value of the Property of the Obligated Issuers at the end of the most recent Fiscal Year for which audited financial statements are available.

In the event such Net Proceeds exceed the amount described above, the Obligated Issuer suffering such casualty or loss shall deposit such Net Proceeds with the Master Trustee and within 12 months after the date on which the Net Proceeds are finally determined elect by written notice of such election to the Master Trustee one of the following three options:

(a) Option A-Repair and Restoration. Such Obligated Issuer may elect to replace, repair, reconstruct, restore or improve any of the Facilities of the Obligated Group or acquire additional Facilities for the Obligated Group or repay Indebtedness incurred for any such purpose pending the receipt of such Net Proceeds. In such event such Obligated Issuer shall proceed forthwith to replace, repair, reconstruct, restore or improve Facilities of the Obligated Group or to acquire additional Facilities. So long as the Obligated Issuers are not in default under the Master Indenture, any Net Proceeds of insurance relating to such damage or destruction received by the Master Trustee shall be released from time to time by the Master Trustee to such Obligated Issuer upon the receipt by the Master Trustee of:

(1) an Officer's Certificate of such Obligated Issuer specifying the expenditures made or to be made or the Indebtedness incurred in connection with such repair, reconstruction, restoration, improvement or acquisition and stating that such Net Proceeds, together with any other moneys legally available for such purposes, will be sufficient to complete such replacement, repair, reconstruction, restoration, improvement or acquisition; and

(2) if such expenditures were or are to be made or such Indebtedness was incurred for the construction or renovation of Facilities and if so indicated in such Officer's Certificate, the written approval of such Officer's Certificate by an Independent Architect.

It is further understood and agreed that in the event such Obligated Issuer shall elect this Option A, such Obligated Issuer shall complete the replacement, repair, reconstruction, restoration, improvement and acquisition of the Facilities, whether or not the Net Proceeds of insurance received for such purposes are sufficient to pay for the same.

(b) Option B-Prepayment of Notes. Such Obligated Issuer may elect to have all or a portion of the Net Proceeds payable as a result of such damage or destruction applied to the prepayment of the Notes designated by the Corporation. In such event such Obligated Issuer shall, in its notice of election to the Master Trustee, direct the Master Trustee to apply such Net Proceeds, when and as received, to the prepayment of the Notes provided that if in any such case less than all of the Notes are redeemed the Obligated Group shall have first provided the Master Trustee with a certificate of an Independent Architect or Independent Consultant stating (i) that the property that was damaged is not essential to the Obligated Group's use or occupancy of its Facilities and the damage will not operate to materially reduce the revenues of the Obligated Group or (ii) that the damaged facility has been restored to a condition substantially equivalent to its condition prior to the damage or condemnation. Notwithstanding the foregoing, if the Notes designated by the Corporation for prepayment secure an issue of Related Bonds the Obligated Group further agrees in the Master Indenture to comply with the provisions of the Related Bond Indenture for the prepayment of the Related Bonds and the Notes designated for prepayment by the Corporation pursuant to the provisions summarized under this heading are not deemed prepaid pursuant to the provisions summarized under this heading unless their prepayment results in a corresponding prepayment of the Related Bonds.

(c) Option C-Partial Restoration and Partial Prepayment of Notes. Such Obligated Issuer may elect to have a portion of such Net Proceeds applied to the replacement, repair, reconstruction, restoration and improvement of the Facilities of the Obligated Group or the acquisition of additional Facilities for the Obligated Group or the repayment of Indebtedness incurred for any such purpose pending the receipt of such Net Proceeds with the remainder of such Net Proceeds to be applied to prepay Notes, in which event such Net Proceeds to be used for replacement, repair, reconstruction, restoration, improvement and acquisition shall be applied as set forth in subparagraph (a) under this heading and such Net Proceeds to be used for prepayment of the Notes shall be applied as set forth in subparagraph (b) under this heading.

The foregoing notwithstanding, no Obligated Issuer will be required to comply with the provisions summarized under this heading to the extent that the Facilities damaged or destroyed were pledged as security for Non-Recourse Indebtedness incurred in accordance with the provisions summarized under the heading "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE - Restrictions as to Incurrence of Additional Indebtedness" and the documents pursuant to which such Indebtedness was incurred require Net Proceeds to be applied in a manner inconsistent with the provisions summarized under this heading.

Condemnation

The Master Indenture contains provisions similar to those described under the heading "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – Damage or Destruction" which apply in the case of a condemnation, taking or payment received in a sale consummated under threat of condemnation.

Events of Default

Event of Default, as used in the Master Indenture, shall mean any of the events described under this heading, whatever the reason for such Event of Default and whether it shall be voluntary or involuntary or come about or be effected by operation of law or pursuant to or in compliance with any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body:

(a) There shall be a failure to make any payment of the principal of, the premium, if any, interest or Interest Rate Agreement Payments on any Notes issued and Outstanding under the Master Indenture when and as the same shall become due and payable, whether at maturity, by acceleration or otherwise, in accordance with the terms thereof, of the Master Indenture and any Supplemental Master Indenture; or

(b) The Corporation or any other Obligated Issuer shall fail duly to observe or perform any covenant or agreement on its part contained in the Master Indenture, any Master Mortgage or any Supplemental Master Indenture (other than a failure that would result in a default summarized in clause (a), (d) or (e) under this heading) for a period of 30 days after the date on which written notice of such failure, requiring the same to be remedied, shall have been given to the Corporation and the other Obligated Issuers by the Master Trustee, or to the Corporation, the other Obligated Issuers and the Master Trustee by the Holders of at least 25% in aggregate principal amount of Notes then Outstanding except that, if such failure can be remedied but not within such thirty (30) day period, such failure shall not become an Event of Default for so long as the Corporation and the other Obligated Issuers shall diligently proceed to remedy same in accordance with and subject to any directions or limitations of time established by the Master Trustee; or

(c) The Corporation or any other Obligated Issuer shall default in the payment of any Indebtedness for borrowed money (other than Notes issued and Outstanding under the Master Indenture) in an amount which exceeds 1% of the net assets of the Obligated Group for its most recently completed Fiscal Year for which audited financial statements are available, whether such Indebtedness now exists or shall hereafter be created, and any period of grace with respect thereto shall have expired, or an event of default as defined in any mortgage, indenture or instrument, under which there may be issued, or by which there may be secured or evidenced, any Indebtedness, whether such Indebtedness now exists or shall hereafter be created, shall occur, which default in payment or event of default shall result in such Indebtedness becoming or being declared due and payable prior to the date on which it would otherwise become due and payable, provided, however, that such default shall not constitute an Event of Default within the meaning of the provisions summarized under this heading if within the time allowed for service of a responsive pleading in any proceeding to enforce payment of the Indebtedness under the laws of the state having jurisdiction or other laws governing such proceeding (i) the Obligated Issuers in good faith commence proceedings to contest the existence or payment of such Indebtedness, and (ii) sufficient moneys are escrowed with a bank or trust company for the payment of such Indebtedness; or

(d) (i) without the consent of the Corporation or any other Obligated Issuer, a decree or order by a court having jurisdiction in the premises shall have been entered adjudging the Corporation or any other Obligated Issuer as bankrupt or insolvent, or approving as properly filed a petition seeking reorganization or arrangement of the Corporation or any other Obligated Issuer under the Federal Bankruptcy Code or any other similar applicable federal or state law, and such decree or order shall have continued undischarged and unstayed for a period of 90 days; or, without the consent of the Corporation or any other Obligated Issuer, a decree or order of a court having jurisdiction in the premises for the appointment of a receiver or trustee or assignee in bankruptcy or insolvency of the Corporation or any other Obligated Issuer or of its Property, or for the winding up or liquidation of its affairs, shall have been entered and such decree or order shall have remained in force undischarged and unstayed for a period of 90 days and (ii) the Obligated Issuers shall have failed to deposit with the Master Trustee within 15 calendar days of the end of such 90 day period an amount sufficient to pay in full all Notes of such Obligated Issuer; or

(e) (i) the Corporation or any other Obligated Issuer shall institute proceedings to be adjudicated a voluntary bankrupt, or shall consent to the institution of a bankruptcy proceeding against it, or shall file a petition or answer or consent seeking reorganization or arrangement under the Federal Bankruptcy Code or any other similar applicable federal or state law, or shall consent to the filing of any such petition, or shall consent to the appointment of a receiver or trustee or assignee in bankruptcy or insolvency of it or of its Property, or shall make assignment for the benefit of creditors, or shall admit in writing its inability to pay its debts generally as they become due, or corporate action shall be taken by the

Corporation or any other Obligated Issuer in furtherance of any of the aforesaid purposes and (ii) the Obligated Issuers shall have failed to deposit with the Master Trustee within 15 calendar days of such an event an amount sufficient to pay in full all Notes of such Obligated Issuer.

The provisions summarized in subparagraph (b) under this heading are subject to the following limitations: If by reason of force majeure, any Obligated Issuer is unable in whole or in part to carry out its agreements on its part contained in the Master Indenture, such Obligated Issuer shall not be deemed in default during the continuance of such disability. The term "force majeure" includes the following: acts of God; strikes; lockouts or other employee disturbances; acts of public enemies; orders of any kind of the government of the United States of America, the state or states in which such Obligated Issuer is doing business, or any of their departments, agencies, political subdivisions or officials, or any civil or military authority; insurrections; riots; epidemics; storms; floods; washouts; droughts; civil disturbances; explosions, breakage or accident to machinery, transmission pipes or canals; partial or entire failure of utilities; or similar acts or events other than financial not within the control of the Obligated Issuer.

Remedies for Certain Defaults

Upon the occurrence of an Event of Default described in subparagraphs (a), (c), (d) and (e) under the heading "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – Events of Default," then and in each and every such case, unless the principal of and termination payments (in the case of Interest Rate Agreements that are authenticated as Notes or secured by Notes) on Notes shall have already become due and payable, the Master Trustee may, and if requested by the Holders of not less than 25% in aggregate principal amount of all Notes then Outstanding, the Master Trustee shall, and upon the occurrence of an Event of Default described in subparagraph (b) under the heading "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – Events of Default" and if requested by the holders of not less than 25% in aggregate principal amount of all Notes then Outstanding the Master Trustee shall, by notice in writing to the Obligated Issuers declare the principal of and termination payments (in the case of Interest Rate Agreements that are authenticated as Notes or secured by Notes) on all such Notes to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in the Master Indenture or in such Notes contained to the contrary notwithstanding. In such event, there shall be due and payable on the Notes an amount equal to the aggregate principal amount of and termination payments (in the case of Interest Rate Agreements that are authenticated as Notes or secured by Notes) on all such Notes, plus all interest and other amounts accrued thereon and, to the extent permitted by applicable law, interest on such amounts to the date of payment. This provision, however, is subject to the condition that if, at any time after the principal of all Notes and termination payments (in the case of Interest Rate Agreements that are authenticated as Notes or secured by Notes) shall have been so declared due and payable, and before any judgment or decree for the payment of the moneys due shall have been obtained or entered as provided in the Master Indenture, the Obligated Issuers shall pay or shall deposit with the Master Trustee a sum sufficient to pay all matured installments of interest upon all such Notes and the principal and premium, if any, and Interest Rate Agreement Payments of all such Notes that shall have become due otherwise than by acceleration (with interest on overdue installments of interest and on such principal and premium, if any, and Interest Rate Agreement Payments at the respective rates borne by such Notes to the date of such payment or deposit) and the expenses of the Master Trustee, and any and all Events of Default under the Master Indenture, other than the nonpayment of principal of and accrued interest on such Notes that shall have become due by acceleration, shall have been remedied, then and in every such case the Holders of a majority in aggregate principal amount of all Notes then Outstanding, by written notice to the Obligated Issuers and to the Master Trustee, or the Master Trustee by written notice to the Obligated Issuers, may rescind and annul such declaration and its consequences; but no such rescission and annulment shall extend to or affect any subsequent Event of Default, or shall impair any right consequent thereon.

The Master Trustee, in its own name and as trustee of an express trust shall be entitled and empowered to institute any actions or proceedings at law or in equity for the collection of the sums so due and unpaid and, in addition thereto, such further amount as shall be sufficient to cover the costs and expenses of collection, including a reasonable compensation to the Master Trustee, its agents, attorneys and counsel, and any expenses incurred by the Master Trustee other than as a result of its negligence or bad faith. The Master Trustee may prosecute any such action or proceedings to judgment or final decree, and may enforce any such judgment or final decree against the

Corporation and each other Obligated Issuer, and collect in the manner provided by law out of the Property of the Corporation and each other Obligated Issuer, wherever situated, the moneys adjudged or decreed to be payable. The Master Trustee, upon the bringing of any action or proceeding at law or in equity as summarized under this heading as a matter of right, without notice and without giving bond to the Corporation or any other Obligated Issuer, may, to the extent permitted by law, have a receiver appointed for all of the Property of the Corporation and each other Obligated Issuer pending such action or proceeding with such powers as the court making such appointment shall confer.

In addition, immediately upon the occurrence of an Event of Default described in subparagraph (a) under the heading "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – Events of Default," the Corporation and each other Obligated Issuer shall deposit all of their respective Pledged Revenues with the Master Trustee daily until the arrears which caused the Event of Default are satisfied. All or any portion of such Pledged Revenues may be released to the Corporation and each other Obligated Issuer to pay the expenses of operating their respective Facilities upon Master Trustee's receipt of Corporation's signed requisition for disbursement providing reasonable detail as to the expenses to be paid, including costs of ordinary repairs but not including any costs related to new capital expenditures.

Additional Remedies and Enforcement of Remedies

Upon the occurrence and continuance of any Event of Default described in subparagraphs (a) through (e) under the heading "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – Events of Default," the Master Trustee may, and upon the written request of the Holders of not less than 25% in aggregate principal amount of the Notes then Outstanding, together with indemnification of the Master Trustee to its satisfaction therefor, shall proceed forthwith to protect and enforce its rights and the rights of the Holders under the Master Indenture by such suits, actions or proceedings as the Master Trustee, being advised by counsel, shall deem expedient, including but not limited to:

(i) Enforcement of the rights of the Holders to collect and enforce the payment of amounts due or becoming due under the Notes and the Master Indenture, including the joint and several liability of the Obligated Issuers for the payment of principal and interest and Interest Rate Agreement Payments on Outstanding Notes;

(ii) Suit upon all or any part of the Notes;

(iii) Civil action to require any Person holding moneys, documents or other Property pledged to secure payment of amounts due or to become due on the Notes to account as if it were the trustee of an express trust for the Noteholders;

(iv) Civil action to enjoin any acts or things which may be unlawful or in violation of the rights of the Noteholders and to compel the performance of any action required by the Indenture;

(v) Upon bringing any such suit or other proceeding, as a matter of right and without notice or giving bond, to the extent permitted by law, have a receiver appointed of all or any part of the Property of any Obligated Issuer pending such suit or other proceeding with such powers as the court making such appointment shall confer; and

(vi) Enforcement of any other rights or remedy of the Noteholders conferred by law or equity or by the Master Indenture or by any Master Mortgage, including, without limitation, foreclosure upon any Master Mortgage and exercise of remedies of a secured party under Article 9 of the Uniform Commercial Code with respect to personal property pledged to secure Notes and the Master Indenture.

Regardless of the happening of an Event of Default, the Master Trustee may, and if requested in writing by the Holders of not less than 25% in aggregate principal amount of the Notes then Outstanding, shall, upon being indemnified to its satisfaction therefor, institute and maintain such suits and proceedings as it may be advised shall be necessary or expedient (i) to prevent any impairment of the security under the Master Indenture by any acts

which may be unlawful or in violation of the Master Indenture, or (ii) to preserve or protect the interests of the Noteholders, provided that such request and the action to be taken by the Master Trustee are not in conflict with any applicable law or the provisions of the Master Indenture and, in the sole judgment of the Master Trustee, not unduly prejudicial to the interest of the Noteholders not making such request.

Suit by Trustee

All rights of action and rights to assert claims under any Note may be enforced by the Master Trustee without the possession of such Note in any trial or other proceedings instituted by the Master Trustee. In any proceedings brought by the Master Trustee (and also any proceedings involving the interpretation of any provision of the Master Indenture to which the Master Trustee shall be a party) the Master Trustee shall be held to represent all the holders of Notes, and it shall not be necessary to make any holders of Notes parties to such proceedings.

Application of Moneys Collected

Any amounts collected by the Master Trustee shall be applied, for the equal and ratable benefit of the holders of Notes of all series then due and payable by acceleration or otherwise in the order following, at the date or dates fixed by the Master Trustee for the distribution of such moneys, upon presentation of such Notes and stamping thereon the payment, if only partially paid, and upon surrender thereof if fully paid:

(a) to the payment of costs and expenses of collection, and of all amounts payable to the Master Trustee pursuant to the Master Indenture and all amounts payable to the Related Bond Trustees;

(b) to fund any deficiency in any fund or account created by a Related Bond Indenture or otherwise to provide for the payment of amounts required to be paid to the United States pursuant to Section 148 of the Code with respect to any Related Bonds if doing so will prevent owners or holders of the Related Bonds from losing the ability to exclude from their gross incomes interest paid on the Related Bonds for federal income tax purposes;

(c) unless the principal of all of the Notes shall have become or shall have been declared due and payable, all such moneys shall be applied in the following order:

FIRST: to the payment to the persons entitled thereto of all installments of interest and scheduled payments on Interest Rate Agreements then due and payable in the order in which such installments shall have become due and payable and, if the amount available shall not be sufficient to pay in full any particular installment, then to the payment, ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or preference except as to any difference in the respective rates of interest specified in the Notes; and

SECOND: to the payment to the persons entitled thereto of the unpaid principal of and termination payments on (in the case of Interest Rate Agreements authenticated as Notes under the Master Indenture or secured by Notes under the Master Indenture) any of the Notes which shall have become due and payable (other than Notes previously called for redemption for the payment of which moneys are held pursuant to the provisions of the Master Indenture) in the order of their due dates, and, if the amount available shall not be sufficient to pay in full such amounts due and payable on any particular date, then to the payment of such amounts, ratably, according to the amount of such amounts due on that date, to the persons entitled thereto without any discrimination or preference; and

(d) if the principal of and termination payments on (in the case of Interest Rate Agreements authenticated as Notes under the Master Indenture or secured by Notes under the Master Indenture) all the Notes shall have become or shall have been declared due and payable, moneys shall be applied to the payment of the principal and interest and Interest Rate Agreement Payments then due and unpaid upon the Notes, (other than for Notes previously called for redemption for the payment of which moneys are held pursuant to the provisions of the Master Indenture) without preference or priority of any of principal,

termination payments (in the case of Interest Rate Agreements authenticated as Notes under the Master Indenture or secured by Notes under the Master Indenture, interest or Interest Rate Agreement Payments over any of the other of such amounts, or of any installment of any such amounts over any other installment of any such amounts, or of any Note over any other Note, ratably, according to the amounts due respectively for such amounts, to the persons entitled thereto without any discrimination or preference except as to any differences in the respective rates of interest specified in the Notes;

(e) to the payment of any other sums required to be paid by the Corporation or any other Obligated Issuer pursuant to any provisions of the Master Indenture or any of the Notes; and

(f) to the payment of the remainder, if any, to the Obligated Issuers, their successors or assigns, or to whomsoever may be lawfully entitled to receive the same, or as a court of competent jurisdiction may direct.

Suit by Noteholders

Unless otherwise provided in the applicable Supplemental Master Indenture, no Noteholder shall have any right by virtue of any provision of the Master Indenture to institute any suit, action or proceeding in equity or at law upon or under or with respect to the Master Indenture or for the appointment of a receiver or trustee, or any other remedy under the Master Indenture, unless such Noteholder previously shall have given to the Master Trustee written notice of default and of the continuance thereof, as provided in the Master Indenture, and unless also the Holders of not less than 25% in aggregate principal amount of all series of Notes then Outstanding shall have made written request upon the Master Trustee to institute such action, suit or proceeding in its own name as Master Trustee under the Master Indenture and shall have offered to the Master Trustee such reasonable indemnity as it may require against the costs, expenses and liabilities to be incurred therein or thereby, and the Master Trustee, for 30 days after its receipt of such notice, request and offer of indemnity, shall have neglected or refused to institute any such action, suit or proceeding and no direction inconsistent with such written request shall have been given to the Master Trustee pursuant to the provisions summarized under the heading "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE - Direction of Proceedings and Waiver of Defaults by Noteholders;" it being understood and intended, and being expressly covenanted by the taker and Holder of a Note with every other taker and Holder of a Note and the Master Trustee, that no one or more Noteholders shall have any right in any manner whatever by virtue or by availing of any provision of the Master Indenture to affect, disturb or prejudice the rights of any other Noteholders or to obtain or seek to obtain priority over or preference to any other such Noteholder, or to enforce any right under the Master Indenture, except in the manner provided in the Master Indenture and for the equal, ratable and common benefit of all Noteholders. For the protection and enforcement of the provisions summarized under this heading, each and every Noteholder and the Master Trustee shall be entitled to such relief as can be given either at law or in equity.

The Noteholder instituting a suit, action or proceeding in compliance with the provisions summarized under this heading shall be entitled in such suit, action or proceeding to such amounts as shall be sufficient to cover the costs and expenses of collection, including, to the extent permitted by applicable law, a reasonable compensation to its attorneys.

Notwithstanding any other provisions in the Master Indenture, the right of a Noteholder to receive payment of the principal of and interest and Interest Rate Agreement Payments on such Note, on or after the respective due dates expressed in such Note, or to institute suit for the enforcement of any such payment on or after such respective dates, shall not be impaired or affected without the consent of such Noteholder.

Direction of Proceedings and Waiver of Defaults by Noteholders

The Holders of a majority in aggregate principal amount of Notes then Outstanding shall have the right to direct the time, method, and place of conducting any proceeding for any remedy available to the Master Trustee, or exercising any trust or power conferred on the Master Trustee; provided, however, that, subject to the Master Indenture, the Master Trustee shall have the right to decline to follow any such direction if the Master Trustee, being advised by counsel, determines that the action so directed may not lawfully be taken, or if the Master Trustee in

good faith shall, by a Responsible Officer or Officers of the Master Trustee, determine that the proceedings so directed would be illegal or involve it in personal liability, and provided further that nothing in the Master Indenture shall impair the right of the Master Trustee in its discretion to take any action deemed proper by the Master Trustee and which is not inconsistent with such direction by the Noteholders.

Prior to the declaration of the maturity of Notes as summarized under the heading "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE - Remedies for Certain Defaults," the Holders of 25% or more in aggregate principal amount of Notes then Outstanding may on behalf of the Holders of all Notes waive any past Event of Default and its consequences, except a default in the payment of the principal of or interest or Interest Rate Agreement Payments on such Notes or in respect of a covenant or provision of the Master Indenture which under the Master Indenture cannot be modified or amended without the consent of all the Holders of such Notes then Outstanding. In the case of any such waiver the Corporation, each other Obligated Issuer, the Master Trustee and the Noteholders of all series shall be restored to their former positions and rights under the Master Indenture, respectively; but no such waiver shall extend to any subsequent or other default or impair any right consequent thereon.

Remedies Cumulative

No remedy conferred upon or reserved to the Master Trustee or the Noteholders entitled to the benefits of the Master Indenture is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative, and shall be in addition to every other remedy given under the Master Indenture or now or hereafter existing at law or in equity or by statute; and the employment of any remedy under the Master Indenture or otherwise, shall not prevent the concurrent employment of any other appropriate remedy or remedies.

Notice of Default

The Master Trustee shall, within 10 days after the occurrence of an Event of Default, mail to all Noteholders as the names and addresses of such Noteholders appear in the Note Register notice of such Event of Default known to the Master Trustee, unless such Event of Default shall have been cured before the giving of such notice (the term "Event of Default" for the purposes of the Master Indenture summarized under this heading being defined to be the events specified under the heading "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – Events of Default" not including any periods of grace provided for under said heading) and provided that, except in the case of default in the payment of the principal of or premium, if any, or interest and Interest Rate Agreement Payments on any of the Notes and the Events of Default specified in subparagraphs (d) and (e) under the heading "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – Events of Default," the Master Trustee shall be protected in withholding such notice if and so long as the board of directors, the executive committee, or a trust committee of directors or Responsible Officers of the Master Trustee in good faith determines that the withholding of such notice is in the interest of the Noteholders.

Resignation, Removal and Successor Trustee

The Master Trustee may resign at any time without cause by giving at least 30 days' prior written notice to the Obligated Issuers and to each Noteholder, as the names and addresses of such Noteholders appear on the register maintained pursuant to the Master Indenture, such resignation to be effective upon the acceptance of such trusteeship by a successor. In addition, the Master Trustee may be removed upon 30 days' prior written notice without cause at the direction of the Corporation (so long as no Event of Default under the Master Indenture has occurred and is continuing, and no event has occurred which, with the giving of notice or the passage of time or both, will become an Event of Default) or the Holders of more than 50% in aggregate principal amount of Notes then Outstanding, delivered to the Obligated Issuers and the Master Trustee, and the Master Trustee shall promptly give notice thereof in writing to each Noteholder as provided above. Such removal of the Master Trustee shall not be effective until the acceptance of such trusteeship by a successor. In the case of the resignation or removal of the Master Trustee, a successor Master Trustee may be appointed at the direction of the Corporation (so long as no Event of Default under the Master Indenture has occurred and is continuing, and no event has occurred which, with the giving of notice or the passage of time or both, will become an Event of Default) or, if an Event of Default under the Master Indenture has occurred and is continuing or an event has occurred which with the giving of notice or the

passage of time or both will become an Event of Default, the Holders of more than 50% in aggregate principal amount of Notes then Outstanding. If a successor Master Trustee shall not have been appointed within 30 days after such notice of resignation or removal, the Master Trustee, the Corporation, any other Obligated Issuer or any Noteholder may apply to any court of competent jurisdiction to appoint a successor to act until such time, if any, as a successor shall have been appointed as above provided. The successor so appointed by such court shall immediately and without further act be superseded by any successor appointed as above provided.

Evidence of Action by Noteholders; Related Bondholders Deemed Noteholders

Whenever in the Master Indenture it is provided that the Holders of a specified percentage in aggregate principal amount of Notes may take any action (including the making of any demand or request, the giving of any notice, consent, or waiver or the taking of any other action), (i) the fact that at the time of taking any such action the Holders of such specified percentage have joined therein shall be evidenced by any instrument or any number of instruments of similar tenor executed by such Holders in person or by agent or proxy appointed in writing and (ii) subject to the provisions of any Supplemental Master Indenture to the contrary, in determining whether the Holders of the requisite aggregate principal amount of Notes have concurred in taking any such action, Notes owned or held by a Related Bond Trustee as security for the payment of Related Bonds shall be disregarded and deemed not Outstanding for the purposes of such determination and each Holder of such a Related Bond then outstanding under the Related Bond Indenture shall, for the purposes of such determination, be deemed to hold a Note then Outstanding in a principal amount equal to the aggregate principal amount of such Related Bonds then Outstanding.

Supplemental Master Indentures without Consent of Noteholders

The Corporation, when authorized by its Board of Directors, and each other Obligated Issuer, and the Master Trustee may from time to time and at any time enter into one or more Supplemental Master Indentures for one or more of the following purposes:

(i) to evidence the succession of another corporation to the Corporation or any other Obligated Issuer, or successive successions, and the assumption by the successor corporation of the covenants, agreements and obligations of the Corporation or any other Obligated Issuer pursuant to the Master Indenture;

(ii) to add to the covenants of the Corporation or any other Obligated Issuer such further covenants, restrictions or conditions as the Master Trustee shall consider to be for the protection of the holders of Notes issued under the Master Indenture, to add to the covenants of the Corporation or any other Obligated Issuer such further covenants, restrictions or conditions that are enforceable solely by holders of specific Notes and to make the occurrence, or the occurrence and continuance, of a default in any of such additional covenants, restrictions or conditions an Event of Default permitting the enforcement of all or any of the several remedies provided in the Master Indenture; provided, however, that in respect of any such additional covenant, restriction or condition such supplemental indenture may provide for a particular period of grace after default (which period may be shorter or longer than that allowed in the case of other defaults) or may provide for an immediate enforcement upon such default or may limit the remedies available to the Master Trustee upon such default;

(iii) to cure any ambiguity or to correct or supplement any provision contained in the Master Indenture or in any Supplemental Master Indenture which may be defective or inconsistent with any other provision contained therein or in any Supplemental Master Indenture, or to make any other changes that, in the Master Trustee's judgment, shall not impair the security of the Master Indenture or adversely affect the interest of the Noteholders;

(iv) to modify or supplement the Master Indenture in such manner as may be necessary or appropriate to qualify the Master Indenture under the Trust Indenture Act of 1939 as then amended (the "1939 Act"), or under any similar federal statute hereafter enacted, or as may be necessary to comply with any applicable state securities laws which require the Master Indenture to comport with any requirements of the 1939 Act regardless of the applicability of the 1939 Act to the Master Indenture, including provisions

whereby the Master Trustee accepts such powers, duties, conditions and restrictions under the Master Indenture and the Corporation and each other Obligated Issuer undertakes such covenants, conditions or restrictions additional to those contained in the Master Indenture as would be necessary or appropriate so to qualify the Master Indenture or so to comply with such state securities laws;

(v) to provide for the issuance of additional Notes;

(vi) to add new Obligated Issuers, and if applicable, to add details with respect to existing Liens applicable to the new Obligated Issuers, pursuant to the provisions summarized in clause (vii) under the heading "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE - Restrictions as to Creation of Liens;" and

(vii) to evidence the withdrawal of Obligated Issuers.

The Master Trustee is authorized by the Master Indenture to join with the Corporation and each other Obligated Issuer in the execution of any Supplemental Master Indenture, to make any further appropriate agreements and stipulations which may be therein contained and to accept the conveyance, transfer, mortgage, pledge or assignment of any Property thereunder, but the Master Trustee shall not be obligated to enter into any such Supplemental Master Indenture that affects the Master Trustee's own rights, duties or immunities under the Master Indenture or otherwise.

Any Supplemental Master Indenture authorized by the provisions summarized under this heading may be executed by the Corporation, by each other Obligated Issuer without adoption of resolutions by the Governing Body of such other Obligated Issuers, and by the Master Trustee without the consent of the Noteholders, notwithstanding any of the provisions summarized under the heading "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE - Supplemental Master Indentures with Consent of Noteholders."

Supplemental Master Indentures with Consent of Noteholders

With the consent (evidenced as summarized under the heading "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE - Evidence of Action by Noteholders; Related Bond Trustees Deemed Noteholders) of the Holders of not less than 60% in aggregate principal amount of Notes then Outstanding, the Corporation and each other Obligated Issuer, when authorized by resolution of the Board of Directors and the Governing Bodies, respectively, and the Master Trustee may from time to time and at any time enter into a Supplemental Master Indenture for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of the Master Indenture or of any Supplemental Master Indenture or of modifying in any manner the rights of the Noteholders; provided, however, that no such Supplemental Master Indenture shall, (i) without the consent of the Holders of all Notes then Outstanding which are affected thereby, (A) effect a change in the times, amounts or currency of payment of the principal of, premium, if any, or interest and Interest Rate Agreement Payments on any Note or a reduction in the principal or notional amount or redemption price of any Note or the rate of interest thereon, or rates established in an Interest Rate Agreement or any other amounts payable thereon, (B) reduce the aforesaid percentage of Notes, the Holders of which are required to consent to any such Supplemental Master Indenture or (C) except as otherwise provided in the Master Indenture, permit the preference or priority of any Note or Notes over any other Note or Notes or (ii) release any portion of the Master Trust Estate or any other collateral given to secure the Notes except as specifically provided in the documents pursuant to which the interest in the collateral is given.

Upon the request of the Corporation and each other Obligated Issuer, accompanied by a copy of a resolution of each Governing Body certified by the Secretary or an Assistant Secretary of each Obligated Issuer authorizing the execution of any such Supplemental Master Indenture, and upon the filing with the Master Trustee of evidence of the consent of the Noteholders as aforesaid, the Master Trustee shall join with the Corporation and each other Obligated Issuer in the execution of such Supplemental Master Indenture unless such Supplemental Master Indenture affects the Master Trustee's own rights, duties or immunities under the Master Indenture or otherwise, in which case the Master Trustee may in its discretion, but shall not be obligated to, enter into such Supplemental Master Indenture.

Pursuant to the provisions summarized under this heading, it shall not be necessary for the consent of the Noteholders to approve the particular form of any proposed Supplemental Master Indenture, but it shall be sufficient if such consent shall approve the substance thereof.

Promptly after the execution by the Corporation, each other Obligated Issuer and the Master Trustee of any Supplemental Master Indenture pursuant to the provisions summarized under this heading, the Corporation shall mail to each Noteholder a letter setting forth in general terms the substance of such Supplemental Master Indenture. Any failure of the Corporation to publish such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such Supplemental Master Indenture.

Supplemental Master Indentures Creating Series of Notes

The Corporation or any other Obligated Issuer, when authorized by a resolution of the Governing Body of the entity planning to create a series of Notes, and the Master Trustee may from time to time enter into a Supplemental Master Indenture in order to create a series of Notes. Such Supplemental Master Indenture shall, with respect to the series of Notes created thereby, set forth the date thereof, and the date or dates upon which principal of and premium, if any, and interest and Interest Rate Agreement Payments on such Notes shall be payable, and shall contain such other terms and provisions as shall be established in the Supplemental Master Indenture. Any Supplemental Master Indenture authorized by the provisions summarized under this heading may be executed without the consent of the Noteholders, notwithstanding the provisions summarized under the heading "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE - Supplemental Master Indentures with Consent of Noteholders."

Conditions to Issue of Notes

With respect to each series of Notes, simultaneously with or prior to the execution, authentication and delivery of such Notes pursuant to the Master Indenture: (a) all requirements and conditions to the issuance of such Notes, if any, set forth in the Supplemental Master Indenture shall have been complied with and satisfied; (b) the Issuer of such Notes shall have delivered to the Master Trustee an Opinion of Counsel to the effect that registration of such Notes under the Securities Act of 1933, as amended, is not required, or, if such registration is required, that the Obligated Issuers have complied with all applicable provisions of said Act; and (c) the Corporation and the applicable Obligated Issuer shall have delivered to the Master Trustee an Officer's Certificate stating that, to the best of the knowledge of the signer thereof, each of the persons in whose name such a Note is to be registered upon the original issuance thereof is not acquiring the interest represented by such a Note directly or indirectly with the assets of, or in connection with any arrangement or understanding by it in any way involving any employee benefit plan with respect to which (i) any employee of any Obligated Issuer or the Master Trustee, in its individual capacity, is a participant or (ii) any Obligated Issuer or the Master Trustee, in its individual capacity, or any of their affiliates is otherwise a party in interest, all within the meaning of the Employee Retirement Income Security Act of 1974, as amended.

The Obligated Group

Becoming an Obligated Issuer and Member of the Obligated Group

Subject to meeting the criteria with respect to acceptance summarized under the subheading "Acceptance as an Obligated Issuer" below, any Person may, with the consent of the Corporation, become an Obligated Issuer and a member of the Obligated Group.

Acceptance as an Obligated Issuer

Prior to becoming an Obligated Issuer under the Master Indenture, a Person shall in each case deliver to the Master Trustee and each Related Issuer a written instrument in the form attached to the Master Indenture. In addition, a Person may not become an Obligated Issuer unless the Corporation shall deliver to the Master Trustee an Officer's Certificate certifying that:

(a) Giving effect to the inclusion of the proposed Obligated Issuer at the beginning of the most recently completed Fiscal Year, the Debt Service Coverage Ratio for the most recently completed Fiscal Year for which combined financial statements which have been reported upon by an independent certified public accountant are available would not have been less than 90% of the actual Debt Service Coverage Ratio for such period, and would in no event have been less than 1.25; and

(b) Giving effect to the inclusion of the proposed Obligated Issuer, no Event of Default would occur and be continuing under the Master Indenture or any Related Bond Indenture.

Each such acceptance shall be accompanied by a Supplemental Master Indenture duly executed and delivered pursuant the provisions summarized in clause (vi) of the first paragraph under the heading "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE - Supplemental Master Indentures without Consent of Noteholders" and by an Opinion of Counsel, addressed to the Master Trustee to the effect that all conditions precedent to the addition of a member to the Obligated Group, as set forth in the Master Indenture, have been satisfied, each such Person has the corporate power and authority to execute and deliver the acceptance in the form attached to the Master Indenture and the Supplemental Master Indenture and to perform its obligations under such instruments and such instruments have been duly authorized, executed and delivered by such Person and constitute valid and binding obligations of each of such parties, enforceable in accordance with their terms, except as limited by bankruptcy laws, insolvency laws and other similar laws affecting creditors' rights generally.

It shall be a condition precedent to the consummation of any transaction involving an instrument to be executed and delivered to the Master Trustee in accordance with the provisions summarized under the subheading "Becoming an Obligated Issuer and Member of the Obligated Group" and under this subheading that the Master Trustee shall also have received an Opinion of Bond Counsel to the effect that the consummation of such transaction would not adversely affect the exclusions under the Code of the interest payable on any issue of Related Bonds then outstanding from the gross income of the owners of the Related Bonds for federal income tax purposes.

Effects of Becoming an Obligated Issuer

Upon any Person becoming an Obligated Issuer, (i) the Person shall be jointly and severally liable for the payment of principal and interest and Interest Rate Agreement Payments on all of the Outstanding Notes and (ii) the Person shall be required to perform the various covenants applicable to Obligated Issuers contained in the Master Indenture.

Obligated Issuer Remains an Obligated Issuer

A Person becoming an Obligated Issuer shall remain an Obligated Issuer until such time as the Master Indenture shall be discharged pursuant to the Master Indenture or is permitted to withdraw pursuant to the provisions summarized under the subheading "Withdrawal of Obligated Issuers" below.

Withdrawal of Obligated Issuers

An Obligated Issuer may not withdraw from the terms of the Master Indenture and the obligation of such Obligated Issuer under the Master Indenture unless, in each case, the Obligated Issuer shall deliver to the Master Trustee and each Related Issuer a written instrument in the form attached to the Master Indenture. In addition an Obligated Issuer may not withdraw unless the Corporation shall deliver to the Master Trustee an Officer's Certificate certifying that:

(a) Giving effect to the proposed withdrawal of the Obligated Issuer, as if such withdrawal had occurred at the beginning of the most recently completed Fiscal Year for which combined financial statements which have been reported upon by an independent certified public accountant are available, the Debt Service Coverage Ratio for that Fiscal Year would not have been less than 90% of the actual Debt Service Coverage Ratio for such period, and would in no event have been less than 1.25;

(b) Giving effect to the proposed withdrawal of the Obligated Issuer, no Event of Default would occur and be continuing under the Master Indenture or any Related Bond Indenture; and

(c) The Obligated Issuer proposing to withdraw has no series of Notes Outstanding or any such Note has been reissued or assumed by an Obligated Issuer which is not withdrawing in accordance with the provisions of the Master Indenture as if it were new Indebtedness and all applicable provisions of law pursuant to which the Note and any other Indebtedness secured by the Note and any Related Bonds were issued or incurred.

Each such withdrawal shall be accompanied by a Supplemental Master Indenture duly executed and delivered pursuant to the provisions summarized in clause (vii) of the first paragraph under the heading "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE - Supplemental Master Indentures without Consent of Noteholders" and by an Opinion of Counsel, addressed to the Master Trustee to the effect that all conditions precedent to the withdrawal of a member of the Obligated Group have been satisfied and that any reissued or assumed Note referred to in subparagraph (c) above is a valid and enforceable obligation under the terms of the Master Indenture.

Satisfaction and Discharge of the Master Indenture

If (i) all Notes theretofore authenticated (other than any Notes which shall have been mutilated, destroyed, lost or stolen and which shall have been replaced or paid as provided in the Master Indenture) and not theretofore canceled are delivered to the Master Trustee for cancellation, or (ii) all Notes not theretofore canceled or delivered to the Master Trustee for cancellation shall have become due and payable and payment thereof shall have been provided for by a deposit of money in accordance with the provisions summarized under the heading "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE - Providing for Payment of Notes," or (iii) the Corporation or any Obligated Issuer shall deposit with the Master Trustee (or with a bank or trust company acceptable to the Master Trustee pursuant to an agreement between the Corporation or any Obligated Issuer and such bank or trust company in form acceptable to the Master Trustee) as trust funds the entire amount of moneys or Defeasance Obligations (as defined under the heading "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE - Providing for Payment of Notes") or both which, together in the case of Defeasance Obligations with the income or increment to accrue thereon, will be sufficient to pay at maturity or upon redemption, or termination in the case of Interest Rate Agreements authenticated as Notes under the Master Indenture or secured by Notes under the Master Indenture, or combination of payment, redemption and termination, all Notes not theretofore canceled or delivered to the Master Trustee for cancellation, including principal and interest and Interest Rate Agreement Payments due or to become due to such date of maturity, redemption or termination or combination thereof, as the case may be, and if in any such case the Corporation or any Obligated Issuer shall also pay or cause to be paid all other sums payable under the Master Indenture by the Corporation or any Obligated Issuer, then the Master Indenture, shall cease to be of further effect, and the Master Trustee, on demand of the Corporation or any Obligated Issuer, and at the cost and expense of the Corporation and the Obligated Issuers, shall execute proper instruments acknowledging satisfaction of and discharging the Master Indenture. The Corporation and each Obligated Issuer agrees in the Master Indenture to reimburse the Master Trustee for any costs of expenses theretofore and thereafter reasonably and properly incurred by the Master Trustee in connection with the Master Indenture or such Notes.

Providing for Payment of Notes

Payment of one or more series of, but less than all, Notes may be provided for by the deposit with the Master Trustee (or with a bank or trust company acceptable to the Master Trustee pursuant to an agreement between the Corporation or any Obligated Issuer and such bank or trust company in form acceptable to the Master Trustee) as trust funds of moneys or Defeasance Obligations or both. The moneys and the maturing principal and interest income on such Defeasance Obligations, if any, shall be sufficient, as evidenced by a certificate of independent certified public accountants acceptable to the Master Trustee, to pay the principal of and interest or Interest Rate Agreement Payments on such Notes. The moneys and Defeasance Obligations shall be held by the Master Trustee or other bank or trust company irrevocably in trust for the holders of such Notes solely for the purpose of paying the principal of and interest or Interest Rate Agreement Payments on such Notes as the same shall mature, come due or

become payable upon prior redemption, and, if applicable, upon simultaneous direction, expressed to be irrevocable, to the Master Trustee as to the dates upon which any such Notes are to be redeemed prior to their respective maturities.

As used in this summary, Defeasance Obligations shall mean non-callable:

(a) Direct general obligations of, or obligations the payment of principal and interest on which is unconditionally guaranteed by, the United States of America;

(b) Evidences of ownership of proportionate interests in future interest and principal payments on specified obligations described in (a) held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor on the underlying obligations described in (a), and which underlying obligations are not available to satisfy any claim of the custodian or any person claiming through the custodian or to whom the custodian may be obligated;

(c) Evidences of indebtedness issued by any of the following: Bank for Cooperatives; Federal Home Loan Banks, Federal Home Loan Mortgage Corporation (including participation certificates); Federal Land Banks; Federal Financing Banks; or any other agency or instrumentality of the United States of America created by an act of Congress which is substantially similar to the foregoing in its legal relationship to the United States of America;

(d) Debt obligations, whether or not interest thereon is exempt from federal income taxes, which, at the time of deposit, are rated by Moody's and Standard & Poor's in the highest long-term debt rating category of such rating agency or, if such debt obligations are then being rated by Moody's or Standard & Poor's but not both, are rated by Moody's or Standard & Poor's in the highest long-term debt rating category of such rating agency, without regard to any refinement or gradation of such rating category by numerical modifier or otherwise; provided, that if any Note or Related Bond being provided for is then rated by Moody's or Standard & Poor's, the obligations deposited must be rated by each rating agency having a rating in effect on such Notes or Related Bonds in a rating category no lower than that in effect on such Notes or Related Bonds; and

(e) Obligations described in Section 103(a) of the Code, provision for the payment of the principal of, premium, if any, and interest on which shall have been made by the irrevocable deposit with a bank or trust company acting as a trustee or escrow agent for holders of such obligations of securities described in clauses (a) or (b) the maturing principal of and interest on which, when due and payable, will provide sufficient moneys to pay when due the principal of, premium, if any, and interest on such obligations, and which securities described in clauses (a) or (b) are not available to satisfy any other claim, including any claim of the trustee or escrow agent or of any person claiming through the trustee or escrow agent or to whom the trustee or escrow agent may be obligated, including in the event of the insolvency of the trustee or escrow agent or proceedings arising out of such insolvency.

Notwithstanding the foregoing provisions summarized under this heading, the Supplemental Master Indenture or Related Bond Indenture pursuant to which a series of Notes or Related Bonds, respectively, is issued may preclude providing for the payment thereof through the deposit of one or more types of Defeasance Obligations described in the preceding paragraph, and as to such series of Notes or Related Bonds, respectively, the provisions of such Supplemental Master Indenture or Related Bond Indenture shall control. A notes securing Related Bonds will not be deemed to be defeased until such Related Bonds are no longer entitled to any lien, benefit or security of such note or the Master Indenture, as supplemented.

If payment of a series of Notes is provided for in compliance with the provisions summarized under this heading, the Master Trustee shall mail a notice so stating to each Holder of a registered Note so provided for.

Notes the payments of which has been provided for in accordance with the provisions summarized under this heading shall no longer be deemed Outstanding under the Master Indenture or secured by the Master Indenture,

and the Holders thereof shall thereafter be entitled to payment only from the moneys or obligations deposited in trust to provide for the payment of such Notes.

Payment of Notes after Discharge of Lien

Notwithstanding the discharge of the lien of the Master Indenture as provided in the Master Indenture, the Master Trustee shall nevertheless retain such rights, powers and duties under the Master Indenture as may be necessary and convenient for the payment of amounts due or to become due on the Notes and the registration, transfer, exchange and replacement of Notes as provided in the Master Indenture. Nevertheless, any moneys held by the Master Trustee or any paying agent for the payment of amounts due on any Note remaining unclaimed for five years after the principal of and Interest Rate Agreement Payments on all Notes has become due and payable, whether at maturity or upon proceedings for redemption or by declaration as provided in the Master Indenture, shall then be paid to the respective Obligated Issuers and the Holders of any Notes not theretofore presented for payment shall thereafter be entitled to look only to the Obligated Group for payment thereof and all liability of the Master Trustee or any paying agent with respect to such moneys thereupon cease.

SUMMARY OF CERTAIN PROVISIONS OF THE SECOND SUPPLEMENT

Second Supplement Definitions

"Second Supplement" means the Second Supplemental Master Trust Indenture dated as of May 1, 2016 among the Corporation, certain of its affiliates and the Master Trustee.

"Series 2016 Bonds" means the Illinois Finance Authority Revenue Bonds, Series 2016 (Mercy Health Corporation).

"Series 2016 Master Note" means the Promissory Note, Series 2016, issued by the Corporation to the Illinois Finance Authority in connection with the Series 2016 Bonds.

Withdrawal of Obligated Issuers

Pursuant to the Second Supplement, Mercy Harvard Hospital, an Illinois not for profit corporation and Mercy Assisted Care, Inc., a Wisconsin nonstock nonprofit corporation, each withdraw as Obligated Issuers.

Additions to the Obligated Group

Pursuant to the Second Supplement, Rockford Memorial Hospital, an Illinois not for profit corporation and Rockford Health Physicians, an Illinois not for profit corporation, each become Obligated Issuers.

Restatement of Master Indenture

With the deemed consent of the Holders of the Series 2016 Master Note, which constitutes not less than 60% in aggregate principal amount of Notes Outstanding under the Master Indenture as of the issuance date, pursuant to the Second Supplement the Obligated Issuers and the Master Trustee will amend and restate the Master Indenture. Upon the issuance of the Series 2016 Master Note, Notes issued and Outstanding under the Master Indenture will be entitled to the benefits of, secured by, and governed by the terms of the Second Amended and Restated Master Indenture, as summarized herein.

SUMMARY OF CERTAIN PROVISIONS OF THE MASTER MORTGAGES

Definitions

"Mercy Mortgage" means the Amended and Restated Mortgage, Security Agreement and Fixture Filing dated as of May 1, 2016 from Mercy Health System Corporation to the Master Trustee.

"Mortgagor" means each of Mercy Health System Corporation, a Wisconsin nonstock nonprofit corporation and Rockford Memorial Hospital, an Illinois not for profit corporation, as applicable.

"Rockford Mortgage" means the Mortgage, Security Agreement and Fixture Filing dated as of May 1, 2016 from Rockford Memorial Hospital to the Master Trustee.

Mortgage and Grant of Security Interest

To (a) secure the timely payment of the principal of, premium, if any, and interest on the Notes, (b) secure the payment of all other amounts which may become due under the Master Indenture or the Master Mortgage, (c) secure the performance by the Mortgagor and the other members of the Obligated Group of all the covenants, conditions, stipulations and agreements contained in the Master Indenture and the Master Mortgage, (d) secure the repayment of any amounts which may be advanced by the Master Trustee pursuant to the Master Indenture or the Master Mortgage and (e) charge the properties, interests and rights described in the Master Mortgage with that payment, performance and observance the Mortgagor mortgages and grants a security interest to the Master Trustee, its successors and assigns forever, in all of its right, title and interest in and to the mortgaged property described in the Master Mortgage (collectively, the "Mortgaged Property").

Representations of the Mortgagor

The Mortgagor represents and warrants in the Master Mortgage that it is the lawful owner and is now lawfully seized and possessed of the Mortgaged Property (other than that not presently in existence) free and clear of all liens, security interests, charges or encumbrances whatever except Permitted Encumbrances and has full power and lawful authority to mortgage and grant a security interest in the Mortgaged Property to the Master Trustee. The Master Mortgage constitutes a direct and valid lien on and security interest in the Mortgaged Property subject only to Permitted Encumbrances.

Payment and Performance

The Mortgagor agrees in the Master Mortgage to (a) pay when due its obligations under the Master Mortgage , including the principal of, premium, if any, and interest on the Notes, and (b) punctually perform and observe all of the terms, provisions, covenants and conditions to be performed or observed by the Mortgagor under the Master Mortgage and the Master Indenture.

Release of Mortgaged Property The Mortgagor may dispose Mortgaged Property, subject to the requirements summarized under the heading "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE- Sale, Lease or Other Disposition of Property," and the Master Trustee shall release such Property from the lien thereof.

Repairs, Maintenance and Alterations

The Mortgagor at its own cost and expense will keep the Mortgaged Property in good repair and order, reasonable wear and tear excepted, and in as reasonably safe condition as its operation will permit, will make all necessary repairs to the Mortgaged Property, interior and exterior, structural and non-structural, ordinary and extraordinary, foreseen and unforeseen, and will make all necessary replacements or renewals.

The Mortgagor has the right, from time to time at its sole cost and expense, to make additions, alterations, demolitions and other changes, whether structural or non-structural (collectively, the "Alterations") in or to the

Mortgaged Property provided that (i) no buildings constituting part of the Mortgaged Property may be demolished unless the Master Trustee is furnished a certificate of a Qualified Accountant to the effect that the demolition will not have a material adverse effect on the Net Income Available for Debt Service of the Obligated Group and no building constituting a substantial part of the Mortgaged Property may be demolished as part of a project to replace the building or to relocate the operations conducted in it unless the replacement building or the relocated operations, as the case may be, are located on or in the Mortgaged Property, (ii) all the Alterations must be located wholly within the boundary lines of Mortgaged Real Estate and (iii) the Alterations will not result in an Event of Default under the Master Indenture.

With respect to any repairs, construction, restoration, replacement or alterations performed upon the Mortgaged Property by the Mortgagor during the term of the Master Mortgage in accordance with or as required by any provisions of the Master Mortgage, the Mortgagor agrees in the Master Mortgage that (i) no work will be undertaken until the Mortgagor has obtained and paid for all required municipal and other governmental permits and authorizations of the various municipal departments and governmental subdivisions having jurisdiction and (ii) all work will be done promptly, in good workmanlike manner, in compliance with applicable building and zoning laws and all applicable laws, ordinances, orders, rules, regulations and requirements of all federal, state and municipal governments and their appropriate departments, commissions, boards and officers, will not violate the provisions of any policy of insurance covering the Mortgaged Property and will proceed to completion with reasonable dispatch.

Events of Default

The occurrence and continuing of any event of default under the Master Indenture is an event of default under the Master Mortgage.

Remedies

Upon the occurrence of an Event of Default the Master Trustee has the rights, powers and remedies described in the Master Indenture, including the power to declare the principal of all Notes to be due and payable immediately and to enforce the rights of the holders of the Notes and the rights of the Master Trustee with respect to any collateral securing the payment of amounts due or becoming due under the Notes and the Master Indenture (including the Master Mortgage).

None of the Master Trustee's remedies under the Master Mortgage is exclusive of any other remedy or remedies. Each remedy given to the Master Trustee is cumulative and is in addition to every other remedy which is given or which now or hereafter exists at law, in equity or by statute. No delay or omission by the Master Trustee in the exercise of any right or power accruing upon an Event of Default impairs the right or power or is a waiver of or acquiescence in any Event of Default. Every right and power given by the Master Mortgage to the Master Trustee may be exercised from time to time and as often as may be deemed expedient by the Master Trustee. No waiver of any Event of Default extends to or affects any subsequent Event of Default or impairs any rights or remedies consequent thereon.

Except as otherwise specifically required by the Master Mortgage, notice of the exercise of any right, remedy or power granted to the Master Trustee by the Master Mortgage is not required to be given.

Foreclosure

Upon the occurrence of an Event of Default the Master Trustee also has the right to foreclose the lien of the Mercy Master Mortgage in accordance with the laws of the States of Wisconsin. In any suit to foreclose the lien of the Master Mortgage, foreclosure expenses are to be treated as additional indebtedness secured by the Master Mortgage. The Mortgagor agrees in the Mercy Master Mortgage that in addition to all the other rights of the Master Trustee under the Mercy Master Mortgage and without waiving or modifying any of its rights, the Master Trustee may at its option utilize the provisions of Section 846.103 of the Wisconsin Statutes or its successor or any other statute which allows the sale of the Mortgaged Property following a shortened redemption period.

Waiver of Right of Redemption and Other Rights

To the full extent permitted by law, the Mortgagor:

(a) agrees that it will not insist upon, plead or in any manner claim or take any advantage of any stay, exemption or extension law or any so-called "Moratorium Law" now or at any time hereafter in force;

(b) agrees that it will not claim, take or insist upon any benefit or advantage of or from any law now or hereafter in force providing for the valuation or appraisement of the Mortgaged Property or any part of it prior to any sale or sales of it made pursuant to any provisions of the Master Mortgage or any decree, judgment or order of a court of competent jurisdiction;

(c) agrees that it will not, after a sale or sales, claim or exercise any rights under any statute now or hereafter in force to redeem the property sold or any part of it or relating to the marshalling of the Mortgaged Property upon foreclosure sale or other enforcement of the Master Mortgage;

(d) expressly waives any and all rights or redemption from sale under any order or decree of foreclosure of the Master Mortgage on its own behalf, on behalf of all persons claiming or having an interest (direct or indirect) by, through or under the Mortgagor and on behalf of each and every person acquiring any interest in or title to the Mortgaged Property subsequent to the date of the Master Mortgage; and

(e) agrees that it will not, by invoking or utilizing any applicable law or otherwise, hinder, delay or impede the exercise of any right, power or remedy granted in the Master Mortgage or elsewhere or delegated to the Master Trustee but will suffer and permit the exercise of every right, power and remedy granted in the Master Mortgage as though no such law or laws have been or will have been made or enacted.

Remedies Subject to Provisions of Law

All rights, remedies and powers provided by the Master Mortgage may be exercised only to the extent that the exercise of them does not violate any applicable provision of law and all the provisions of the Master Mortgage are intended to be subject to all applicable mandatory provisions of law which may be controlling and to be limited to the extent necessary so that they will not render the Master Mortgage invalid or unenforceable under the provisions of any applicable law.

Remedies Under Uniform Commercial Code

In addition to any other remedies provided for by the Master Mortgage or by law, the Master Trustee has the rights of a secured party and the Mortgagor has the rights of a debtor under the Uniform Commercial Code of Wisconsin with respect to the Mortgaged Equipment upon the occurrence and continuance of an Event of Default.

Supplements and Amendments Without the Consent of Noteholders

The Mortgagor and the Master Trustee may from time to time and at any time enter into one or more supplements and amendments to the Master Mortgage for one or more of the following purposes:

(i) to evidence the succession of another corporation to the Mortgagor, or successive successions, and the assumption by the successor corporation of the covenants, agreements and obligations of the Mortgagor pursuant to the Master Mortgage;

(ii) to add to the covenants of the Mortgagor such further covenants, restrictions or conditions as the Master Trustee shall consider to be for the protection of the holders of the Notes, and to make the occurrence, or the occurrence and continuance, of a default in any of such additional covenants, restrictions or conditions an Event of Default permitting the enforcement of all or any of the several remedies provided in the Master Indenture; provided, however, that in respect of any such additional covenant, restriction or condition such amendment or supplement may provide for a particular period of grace after default (which period may be shorter or longer than that allowed in

the case of other defaults) or may provide for an immediate enforcement upon such default or may limit the remedies available to the Master Trustee upon such default;

(iii) to cure any ambiguity or to correct or supplement any provision contained in the Master Mortgage or in any other amendment or supplement to the Master Mortgage which may be defective or inconsistent with any other provision contained in the Master Mortgage or in any other amendment or supplement to the Master Mortgage, or to make any other changes that, in the Master Trustee's judgment, shall not impair the security of the Master Mortgage or the Master Indenture or adversely affect the interest of the Noteholders;

(iv) to modify or supplement the Master Mortgage as may be necessary to comply with any applicable state securities laws which require the Master Mortgage to comport with any requirements of the Trust Indenture Act of 1939, as amended (the "Act"), regardless of the applicability of the Act to the Master Mortgage, including provisions whereby the Master Trustee accepts such powers, duties, conditions and restrictions under the Master Mortgage and the Mortgagor undertakes such covenants, conditions or restrictions additional to those contained in the Master Mortgage as would be necessary or appropriate the Master Mortgage so to comply with such state securities laws;

(v) to release Property from the lien of the Master Mortgage as provided in the Master Mortgage; and

(vi) to provide for the issuance of additional Notes pursuant to the Master Indenture.

In addition, under the Rockford Mortgage, the Mortgagor and the Master Trustee may amend the initial legal description of the mortgaged real estate therein to conform to a corresponding plat of subdivision to be prepared in accordance with the Illinois Plat Act and the City of Rockford subdivision ordinance, as certified to the Master Trustee in an Officer's Certificate.

The Master Trustee is authorized in the Master Mortgage to join with the Mortgagor in the execution of any amendment or supplement to the Master Mortgage, to make any further appropriate agreements and stipulations which may be therein contained and to accept the conveyance, transfer, mortgage, pledge or assignment of any Property thereunder, but the Master Trustee shall not be obligated to enter into any such amendment or supplement to the Master Mortgage that affects the Master Trustee's own rights, duties or immunities under the Master Mortgage or otherwise.

Any amendment or supplement to the Master Mortgage authorized by the provisions summarized under this heading may be executed by the Mortgagor and by the Master Trustee without the consent of the holders of the Notes, notwithstanding any of the provisions summarized under the heading "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER MORTGAGE – Supplements and Amendments with Consent of Noteholders."

Supplements and Amendments with Consent of Noteholders

With the consent of the Holders of not less than a majority in aggregate principal amount of Notes then Outstanding, the Mortgagor when authorized by resolution of the Board of Directors, and the Master Trustee may from time to time and at any time enter into supplements and amendments to the Master Mortgage for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of the Master Mortgage or of any other supplement or amendment to the Master Mortgage or of modifying in any manner the rights of the Noteholders; provided, however, that no such supplements and amendments to the Master Mortgage shall, without the consent of the Holders of all Notes then Outstanding which are affected thereby, (i) effect a change in the times, amounts or currency of payment of the principal of, premium, if any, or interest on any Note or a reduction in the principal amount or redemption price of any Note or the rate of interest thereon, or any other amounts payable thereon, (ii) reduce the aforesaid percentage of Notes, the Holders of which are required to consent to any such supplements and amendments to the Master Mortgage, (iii) permit the preference or priority of any Note or Notes over any other Note or Notes or (iv) release any portion of the Trust Estate or any other collateral given to secure the Notes except as specifically provided in the documents pursuant to which the interest in the collateral is given.

Upon the request of the Mortgagor, accompanied by a copy of a resolution of the Board of Directors authorizing the execution of the amendment or supplement to the Master Mortgage, and upon the filing with the Master Trustee of evidence of the consent of the Noteholders as aforesaid, the Master Trustee shall join with the Mortgagor in the execution of such amendment or supplement to the Master Mortgage unless such amendment or supplement to the Master Mortgage affects the Master Trustee's own rights, duties or immunities under the Master Mortgage or the Master Indenture or otherwise, in which case the Master Trustee may in its discretion, but shall not be obligated to, enter into such amendment or supplement to the Master Mortgage.

Defeasance

If the Mortgagor shall pay and discharge or provide, in a manner satisfactory to the Master Trustee and consistent with the Master Indenture, for the payment and discharge of the whole amount of the principal of, premium, if any, and interest on Notes at the time outstanding, and shall pay or cause to be paid all other sums payable under the Master Mortgage, or shall make arrangements satisfactory to the Master Trustee for such payment and discharge, then and in that case all property, rights and interest conveyed or assigned or pledged by the Master Mortgage shall revert to the Mortgagor, and the estate, right, title and interest of the Master Trustee therein shall thereupon cease, terminate and become void; and the Master Mortgage, and the covenants of the Mortgagor contained in the Master Mortgage, shall be discharged and the Master Trustee in such case on demand of the Mortgagor and at its cost and expense, shall execute and deliver to the Mortgagor a proper instrument or proper instruments acknowledging the satisfaction and termination of the Master Mortgage, and shall convey, assign and transfer or cause to conveyed, assigned or transferred, and shall deliver or cause to be delivered, to the Mortgagor, all property, including money, then held by the Master Trustee other than money deposited with the Master Trustee for the payment of the principal of and premium, if any, or interest on the Notes together with the Notes marked paid or canceled.

APPENDIX E

SUMMARY OF THE BOND INDENTURE AND THE LOAN AGREEMENT

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DEFINITIONS OF CERTAIN TERMS

"*Act*" means the Illinois Finance Authority Act, 20 ILCS 3501/801-1 *et seq.*, as supplemented and amended.

"*Affiliate*" means, with respect to any Person, any Person that directly or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, such first Person. A Person shall be deemed to control another Person for the purposes of this definition if such first Person possesses, directly or indirectly, the power to direct, or cause the direction of, the management and policies of the second Person, whether through the ownership of voting securities, common directors, trustees, members or officers, by contract or otherwise.

"*Authority*" means the Illinois Finance Authority, a body politic and corporate created and existing under and by virtue of the Act, and its successors and assigns.

"*Authorized Denomination*" means, with respect to any Series 2016 Bond, $5,000 and any integral multiple thereof.

"*Authorized Officer*" means (a) in the case of the Authority, its Chairperson, Vice Chairperson, Executive Director or any other member or officer of the Authority designated by the Authority to act on behalf of the Authority under a resolution of the Authority; (b) in the case of the Borrower, its President and its Chief Financial Officer and any other officer of the Borrower designated by its President or its Chief Financial Officer in writing to the Bond Trustee as authorized to take certain actions required under the Bond Indenture on behalf of the Borrower or any such officer of the Obligated Group Representative acting on behalf of the Borrower; and (c) in the case of the Bond Trustee, any Vice President, any Assistant Vice President, any Trust Officer and any other person authorized by or pursuant to the by-laws of the Bond Trustee or a resolution of the Board of Directors of the Bond Trustee.

"*Bond Counsel*" means Chapman and Cutler LLP, Chicago, Illinois, or any other nationally recognized municipal bond attorney or firm of municipal bond attorneys not objected to by the Authority.

"*Bond Financed Property*" means all real and personal property located in the States of Illinois and Wisconsin to be financed, refinanced or reimbursed in whole or in part, directly or indirectly out of the proceeds of the Series 2016 Bonds or the Prior Bonds (as defined in the forepart of this Official Statement), including, without limitation, the Project.

"*Bond Indenture*" means the Bond Trust Indenture dated as of May 1, 2016, between the Authority and the Bond Trustee, as it may from time to time be amended or supplemented.

"*Bond Purchase Agreement*" means the Bond Purchase Agreement among B.C. Ziegler and Company, on behalf of itself and J.P. Morgan Securities LLC, as representatives of the underwriters named therein, the Borrower and the Authority providing for the sale of the Series 2016 Bonds.

"*Bond Register*" means the registration books of the Authority kept by the Bond Trustee to evidence the registration and transfer of the Series 2016 Bonds.

"*Bond Sinking Fund*" means the Fund by that name established by the Bond Indenture and as summarized under the caption "SUMMARY OF THE BOND INDENTURE – FUNDS – Bond Sinking Fund" in this APPENDIX E.

"*Bond Trustee*" means U.S. Bank National Association, a national banking association organized and existing under the laws of the United States, its successors and assigns and any corporation resulting from or surviving any consolidation or merger to which it or its successors may be a party. All references in the Bond Indenture to "designated corporate trust office" of the Bond Trustee shall mean the office of the Bond Trustee located at the address set forth in the Bond Indenture.

"*Bondholder,*" "*Bondowner,*" "*Holder,*" "*holder,*" "*Owner*" or "*owner of the Series 2016 Bonds*" means the registered owner of any Series 2016 Bond.

"*Borrower*" means Mercy Health Corporation, an Illinois not for profit corporation, and its successors and assigns and any surviving, resulting or transferee corporation.

"*Borrower Documents*" means the Loan Agreement, the Use Agreement, the Bond Purchase Agreement, the Master Indenture (including the Second Supplement), the Series 2016 Note, the Tax Agreement and the Official Statement.

"*Business Day*" means any day other than a Saturday, Sunday or other day on which banks located in the State or in the city in which the principal office of the Bond Trustee is located are required or authorized to remain closed or other day on which the New York Stock Exchange is closed.

"*Closing Date*" means the date of issuance of the Series 2016 Bonds.

"*Code*" means the Internal Revenue Code of 1986, as amended, or any successor sections of a subsequent income tax statute or code, including the regulations, rulings and proclamations promulgated and proposed thereunder or under the predecessor code.

"*Cost of Issuance Fund*" means the Fund by that name established by the Bond Indenture and as summarized under the caption "SUMMARY OF THE BOND INDENTURE – FUNDS – Cost of Issuance Fund" in this APPENDIX E.

"*Costs*" means all costs incurred with respect to the acquisition, construction, improvement, renovation and equipping of (i) the Project and (ii) the costs of any other "health facility projects" (within the meaning of the Act) which are otherwise financeable under the Act, including capitalized interest on the Series 2016 Bonds.

"*Defaulted Interest*" means interest or any Series 2016 Bond which is payable but not duly paid on the date due.

"*Defeasance Obligations*" means United States Government Obligations.

"*Event of Default*" means (i) with respect to the Bond Indenture, any of the events defined as "Events of Default" under the Bond Indenture and summarized in this APPENDIX E under the caption

"SUMMARY OF THE BOND INDENTURE – Events of Default and Remedies" and (ii) with respect to the Loan Agreement, any Loan Default.

"*Facilities*" means all land, leasehold interests and buildings and all fixtures and equipment (as defined in the Uniform Commercial Code or equivalent statute in effect in the state where such fixtures or equipment are located) of each Obligated Issuer.

"*Fitch*" means Fitch Ratings Inc., a corporation organized and existing under the laws of the State of New York, and its successors and assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "Fitch" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Obligated Group Representative by notice to the Authority and the Bond Trustee.

"*Fund*" means any of the funds established pursuant to the Bond Indenture.

"*Government Obligations*" means securities which consist of (a) United States Government Obligations or (b) evidences of a direct ownership in future interest or principal payments on United States Government Obligations, which obligations are held in a custody account by a bank or trust company organized and existing under the laws of the United States of America or any state thereof in the capacity of custodian satisfactory to the Bond Trustee pursuant to the terms of a custody agreement.

"*Independent Counsel*" means an attorney or firm whose members are attorneys duly admitted to practice law before the highest court of any state and, without limitation, may include independent legal counsel for the Authority, the Bond Trustee, the Borrower or any other Obligated Issuer.

"*Interest Fund*" means the Fund by that name established by the Bond Indenture and as summarized under the caption "SUMMARY OF THE BOND INDENTURE – Funds – Interest Fund" in this APPENDIX E.

"*Interest Payment Date*" means June 1 and December 1 of each year, commencing June 1, 2016.

"*Loan*" means the loan of the proceeds from the sale of the Series 2016 Bonds made by the Authority to the Borrower pursuant to the Loan Agreement.

"*Loan Agreement*" means the Loan Agreement dated as of May 1, 2016, between the Borrower and the Authority, as it may from time to time be amended or supplemented.

"*Loan Default*" means the occurrence of one of the events described under the Loan Agreement and summarized in this APPENDIX E under the caption "SUMMARY OF THE LOAN AGREEMENT – Events of Default and Remedies."

"*Loan Payment*" means a payment by the Borrower pursuant to the Loan Agreement of amounts which correspond to the principal, premium, if any, and interest payments on the Series 2016 Bonds, all in accordance with the Loan Agreement and the Series 2016 Note.

"*MAC*" means Mercy Assisted Care, Inc., a Wisconsin nonstock, nonprofit corporation, and its successors and assigns and any surviving, resulting or transferee corporation.

"*Master Indenture*" means the Second Supplemental Master Trust Indenture dated as of May 1, 2016 among the Borrower, as the Obligated Group Representative, RMH, RHPH and the Master Trustee (the "Second Supplement"), and the Second Amended and Restated Master Trust Indenture attached thereto and dated as of May 1, 2016, among the Borrower, RMH, RHPH, MHSC and the Master Trustee, amending and restating the Amended and Restated Master Trust Indenture dated as of May 1, 2012 between a predecessor of the Borrower and certain other persons referred to therein as "Obligated Issuers" and the Master Trustee, and as it may be further supplemented and amended by various supplemental indentures from time to time.

"*Master Trustee*" means U.S. Bank National Association, as master trustee, or any successor trustee under the Master Indenture.

"*MHSC*" means Mercy Health System Corporation, a Wisconsin nonstock, nonprofit corporation, and its successors and assigns and any surviving, resulting or transferee corporation.

"*Moody's*" means Moody's Investors Service, Inc., a corporation organized and existing under the laws of the State of Delaware, and its successors and assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Obligated Group Representative by notice to the Authority and the Bond Trustee.

"*Mortgages*" means (i) the Amended and Restated Mortgage, Security Agreement and Fixture Filing dated as of May 1, 2016, as amended or supplemented from time to time, from MHSC to the Master Trustee, and (ii) the Mortgage, Security Agreement and Fixture Filing dated as of May 1, 2016, as amended or supplemented from time to time, from RMH to the Master Trustee, each delivered as additional security for the Obligated Group's obligations under the Master Indenture.

"*Obligated Group*" means the Obligated Group established under the Master Indenture.

"*Obligated Group Representative*" means the Borrower or any other corporation designated as the Obligated Group Representative pursuant to the Master Indenture.

"*Obligated Issuer*" means any person that is from time to time an Obligated Issuer under the Master Indenture, which (as of the date of issuance of the Series 2016 Bonds) is comprised of the Borrower, RMH, RHPH and MHSC.

"*Official Statement*" means this Official Statement, prepared in connection with the offering, issuance and sale of the Series 2016 Bonds.

"*Optional Redemption Fund*" means the Fund by that name established by the Bond Indenture and as summarized under the caption "SUMMARY OF THE BOND INDENTURE – Funds – Optional Redemption Fund" in this APPENDIX E.

"*Outstanding,*" when used with respect to Series 2016 Bonds, means all Series 2016 Bonds which have been duly authenticated and delivered by the Bond Trustee under the Bond Indenture, except:

(a) Series 2016 Bonds cancelled after purchase in the open market or because of payment at or redemption prior to maturity in accordance with the Bond Indenture;

(b) Series 2016 Bonds deemed paid as provided in the Bond Indenture;

(c) Series 2016 Bonds in lieu of which others have been authenticated under the Bond Indenture; and

(d) For the purposes of all consents, approvals, waivers and notices required to be obtained or given under the Bond Indenture, Series 2016 Bonds owned by the Borrower, any other Obligated Issuer or an Affiliate thereof.

"*Paying Agent*" means the bank or banks, if any, designated pursuant to the Bond Indenture to receive and disburse the principal of and interest on the Series 2016 Bonds or designated pursuant to the Master Indenture to receive and disburse the principal of and interest on the Series 2016 Note.

"*Person*" means any natural person, firm, association, corporation, joint venture, partnership, business trust, limited liability company, public body, agency or political subdivision thereof or any similar entity.

"*Project*" means the acquisition, construction, restoration, remodeling and equipping of certain health facilities of the Borrower, RMH and/or RHPH located in the State of Illinois, including without limitation, a 188 bed hospital and ambulatory care building, and financed or reimbursed with proceeds of the Series 2016 Bonds, as more fully set forth in the Schedules, as the same may be modified pursuant to the Written Requests of the Borrower delivered pursuant to the Bond Indenture.

"*Project Certificate*" means the Project Certificate of the Borrower, RMH, RHPH, MAC and MHSC, relating to the Bond Financed Property.

"*Project Fund*" means the Fund by that name established by the Bond Indenture and summarized under the caption "SUMMARY OF THE BOND INDENTURE - Funds - Project Fund" in this APPENDIX E.

"*Qualified Investments*" means, if and to the extent the same are at the time legal for investment of funds held under the Bond Indenture, dollar denominated investments in any of the following:

(a) Government Obligations;

(b) debt obligations which are (i) issued by any state or political subdivision thereof or any agency or instrumentality of such state or political subdivision, and (ii) at the time of purchase, rated in one of the two highest rating categories (without regard to any refinement or gradation of rating category by numerical modifier or otherwise) assigned by any Rating Agency;

(c) any bond, debenture, note, participation certificate or other similar obligation issued by a government sponsored agency (such as the Federal National Mortgage Association, the Federal Home Loan Bank System, the Federal Home Loan Mortgage Corporation or the Federal Farm Credit Bank) which is either (i) at the time of purchase, rated in one of the two highest rating categories (without regard to any refinement or gradation of rating category by numerical modifier or otherwise) assigned by any Rating Agency, or (ii) backed by the full faith and credit of the United States of America;

(d) U.S. denominated deposit account, certificates of deposit and banker's acceptances of any bank, trust company, or savings and loan association, including the Master Trustee or the Bond Trustee or their affiliates, which have a rating on their short-term certificates of deposit on the date of purchase in one of the two highest short-term rating categories (without regard to any refinement or gradation of rating category by numerical modifier or otherwise) assigned by any Rating Agency, and, which mature not more than 365 days after the date of purchase;

(e) commercial paper which is rated at the time of purchase in one of the two highest short-term rating categories (without regard to any refinement or gradation of rating category by numerical modifier or otherwise) assigned by any Rating Agency, and which matures not more than 270 days after the date of purchase;

(f) bonds, notes, debentures or other evidences of indebtedness issued or guaranteed by a corporation which are, at the time of purchase, rated by any Rating Agency in any of the three highest rating categories (without regard to any refinement or gradation of rating category by numerical modifier or otherwise);

(g) asset-backed securities, commercial mortgage-backed securities, or mortgage-backed securities which are, at the time of purchase, rated by any Rating Agency in any of the two highest rating categories (without regard to any refinement or gradation of rating category by numerical modifier or otherwise);

(h) investment agreements with banks that at the time the agreement is executed are at the time of purchase rated in one of the two highest rating categories (without regard to any refinement or gradation of rating category by numerical modifier or otherwise) assigned by any Rating Agency or investment agreements with non-bank financial institutions, provided that (1) all of the unsecured, direct long-term debt of either the non-bank financial institution or the related guarantor of such non-bank financial institution is rated by any Rating Agency at the time the agreement is executed in one of the two highest rating categories (without regard to any refinement or gradation of rating category by numerical modifier or otherwise) for obligations of that nature; or (2) if the non-bank financial institution and any related guarantor have no outstanding long-term debt that is rated, all of the short-term debt of either the non-bank financial institution or the related guarantor of the non-bank financial institution is at the time of purchase rated by any Rating Agency in one of the two highest rating categories (without regard to any refinement or gradation of the rating category by numerical modifier or otherwise) assigned to short-term indebtedness by any Rating Agency. If such non-bank financial institution and any guarantor do not have any short-term or long-term debt, but do have a rating in one of the two

highest rating categories (without regard to any refinement or gradation of rating category by numerical modifier or otherwise), then investment agreements with the non-bank financial institution will be permitted;

(i) repurchase agreements with respect to and secured by Government Obligations or by obligations described in clause (b) and (c) above, which agreements may be entered into with a bank (including the Bond Trustee or its affiliates), a trust company, financial services firm or a broker dealer which is a member of the Securities Investors Protection Corporation, provided that (i) the Bond Trustee or a custodial agent of the Bond Trustee has possession of the collateral and that the collateral is free and clear of third-party claims, (ii) a master repurchase agreement or specific written repurchase agreement governs the transaction, (iii) the collateral securities are valued no less frequently than monthly, and (iv) the fair market value of the collateral securities in relation to the amount of the repurchase obligation, including principal and interest, is equal to at least 103%, and (v) such obligations must be held in the custody of the Bond Trustee or the Bond Trustee's agent; and

(j) investments in a money market fund, including funds of the Bond Trustee or its affiliates, rated (at the time of purchase) in the highest rating category for this type of investment by any Rating Agency; and

(k) shares in any investment company, money market mutual fund, fixed income mutual fund, Exchange Traded Fund or other collective investment fund registered under the federal Investment Company Act of 1940, whose shares are registered under the Securities Act of 1933, and whose investments consist solely of Qualified Investments as defined in paragraphs (a) through (i) above, including money market mutual funds from which the Bond Trustee or its affiliates derive a fee for investment advisory or other services to the fund.

The Bond Trustee shall be entitled to assume that any investment which at the time of purchase is a Qualified Investment remains a Qualified Investment thereafter, absent receipt of written notice or information to the contrary.

For the purposes of this definition, obligations issued or held in the name of the Bond Trustee (or in the name of the Authority and payable to the Bond Trustee) in book-entry form on the books of the Department of Treasury of the United States shall be deemed to be deposited with the Bond Trustee.

Ratings of Qualified Investments referred to in the Bond Indenture shall be determined at the time of purchase of such Qualified Investments and without regard to ratings subcategories. The Bond Trustee shall have no responsibility to monitor the ratings of Qualified Investments after the initial purchase of such Qualified Investments.

The value of the Qualified Investments shall be determined as follows:

(a) For the purpose of determining the amount in any fund, all Qualified Investments credited to such fund shall be valued at fair market value. The Bond Trustee shall determine the fair market value based on accepted industry standards and from accepted industry providers.

(b) Certificates of deposit and bankers' acceptances shall be valued at the face amount thereof, plus accrued interest thereon.

(c) The value of any Qualified Investment not specified in the Bond Indenture shall be established by prior agreement between the Borrower and the Bond Trustee.

"*Rating Agency*" means, as of any date, each of Moody's, if the Series 2016 Bonds are then rated by Moody's, Fitch, if the Series 2016 Bonds are then rated by Fitch, and S&P, if the Series 2016 Bonds are then rated by S&P; *provided, however*, for purposes of the definition of Qualified Investments, "Rating Agency" shall mean Moody's, Fitch and/or S&P, as applicable.

"*Rebate Fund*" means the Rebate Fund created by the Tax Agreement.

"*Record Date*" means with respect to the Series 2016 Bonds, May 15 and November 15 of each year.

"*Resolution*" means the resolution adopted by the Authority authorizing the issuance of the Series 2016 Bonds.

"*RHPH*" means Rockford Health Physicians, an Illinois not for profit corporation, and its successors and assigns and any surviving, resulting or transferee corporation.

"*RMH*" means Rockford Memorial Hospital, an Illinois not for profit corporation, and its successors and assigns and any surviving, resulting or transferee corporation.

"*S&P*" means Standard & Poor's Financial Services LLC, a limited liability company organized and existing under the laws of the State of Delaware, and its successors and assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "S&P" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Obligated Group Representative by notice to the Authority and the Bond Trustee.

"*Schedule*" *or* "*Schedules*" means a schedule of the acquisition, construction, improvement, renovation and equipping costs to be paid or reimbursed with the proceeds of the Series 2016 Bonds, together with the Borrower's estimate of such costs (each a "*Schedule*") (the initial Schedules in existence as of the Closing Date shall be attached as an exhibit to the Project Certificate).

"*Second Supplement*" has the meaning set forth in the definition of Master Indenture.

"*Series 2016* Bonds" or "*Bonds*" means the Illinois Finance Authority Revenue Bonds, Series 2016 (Mercy Health Corporation) being issued under the Bond Indenture in the aggregate principal amount of $475,020,000.

"*Series 2016 Note*" means the $475,020,000 Promissory Note, Series 2016 being issued to the Authority to secure the Borrower's obligations under the Loan Agreement.

"*Special Consultant*" means a law firm, professional consulting, financial advisory, accounting, investment banking or commercial banking firm selected by the Borrower, having the skill and experience necessary to render the particular certificate required and having a favorable reputation for such skill and experience, which firm does not control any Obligated Issuer and is not controlled by or under common control with any Obligated Issuer.

"*Special Consultant's Certificate*" means a written certificate of a Special Consultant delivered in accordance with the provisions of the Bond Indenture related thereto.

"*Special Record Date*" means the date fixed by the Bond Trustee pursuant to the Bond Indenture for the payment of Defaulted Interest.

"*State*" means the State of Illinois.

"*Tax Agreement*" means the Tax Exemption Certificate and Agreement dated the Closing Date among the Authority, the Bond Trustee and the Borrower, relating to the Series 2016 Bonds.

"*Tax-Exempt Organization*" means a Person organized under the laws of the United States or any state thereof (a) which is an organization described in Section 501(c)(3) of the Code, (b) which is exempt from federal income taxes under Section 501(a) of the Code and (c) which is not a "private foundation" within the meaning of Section 509(a) of the Code, unless there is delivered to the Authority and the Bond Trustee an opinion of Bond Counsel to the effect that the status of such Person as a private foundation will not adversely affect any exemption from federal income taxation to which interest on any Series 2016 Bond would otherwise be entitled.

"*Unassigned Rights*" means the rights of the Authority to receive payment of expenses, fees and indemnification, including, without limitation, amounts payable to the Authority by the Borrower pursuant to the Loan Agreement, the rights of the Authority to receive indemnification pursuant to the Use Agreement and the rights of the Authority to make determinations and to receive notices pursuant to the Loan Agreement.

"*United States Government Obligations*" means non-callable direct obligations of, or obligations the timely payment of principal of and interest on which is fully guaranteed by, the United States of America, including obligations issued or held in book entry form on the books of the Department of Treasury of the United States of America.

"*Unrelated Trade or Business*" means an activity which constitutes an "unrelated trade or business" within the meaning of Section 513(a) of the Code without regard to whether such activity results in unrelated trade or business income subject to taxation under Section 512(a) of the Code.

"*Use Agreement*" means the Use Agreement dated as of May 1, 2016 among the Borrower, MHSC, RMH, MAC and RHPH, relating to the use of certain components of the Bond Financed Property, as it may be supplemented or amended from time to time.

"*Written Request*" means a request in writing signed by an Authorized Officer and not objected to by the Bond Trustee.

SUMMARY OF THE BOND INDENTURE

The following, in addition to information provided elsewhere in this Official Statement, summarizes certain provisions of the Bond Indenture. Reference is made to the Bond Indenture for a complete description thereof. The discussion herein is qualified by such reference.

PLEDGE AND ASSIGNMENT TO BOND TRUSTEE

In order to (a) secure the payment of the principal of, premium, if any, and interest on the Series 2016 Bonds and (b) secure the performance and observance of all of the covenants and conditions contained in the Bond Indenture and the Series 2016 Bonds, the Authority will assign and pledge to the Bond Trustee all of its right, title and interest in and to:

(i) the Series 2016 Note and all sums payable in respect of the indebtedness evidenced thereby;

(ii) the Loan Agreement and the amounts payable to the Authority under the Loan Agreement (except Unassigned Rights);

(iii) the Use Agreement (except Unassigned Rights);

(iv) all moneys and securities held in the funds and accounts established under the Bond Indenture; and

(v) any and all other property of every kind and nature from time to time after the execution of the Bond Indenture, by delivery or by writing of any kind, conveyed, pledged, assigned or transferred as and for additional security under the Bond Indenture by the Authority or the Borrower or by anyone on their behalf to the Bond Trustee, including without limitation funds of the Borrower held by the Bond Trustee as security for the Series 2016 Bonds.

There is, however, expressly excepted and excluded from the lien and operation of the Bond Indenture amounts held by the Bond Trustee in the Rebate Fund established by the Tax Agreement.

THE SERIES 2016 BONDS ARE LIMITED OBLIGATIONS

The Series 2016 Bonds, together with all principal and interest thereon and any premium, if any, with respect thereto, are special, limited obligations of the Authority secured by the Loan Agreement and the Series 2016 Note and shall always be payable solely from the revenues and income derived from the Loan Agreement and the Series 2016 Note (except to the extent paid out of moneys attributable to proceeds of the Series 2016 Bonds or the income from the temporary investment thereof) and are and shall always be a valid claim of the Owner thereof only against the revenues and income derived from the Loan Agreement and the Series 2016 Note, and other funds held by the Bond Trustee for the benefit of the Series 2016 Bonds, which revenues and income shall be used for no other purpose than to pay the principal installments of, premium, if any, and interest on the Series 2016 Bonds, except as may be expressly authorized otherwise in the Bond Indenture, the Resolution and the Loan Agreement.

The Series 2016 Bonds and the obligation to pay principal and interest thereon and any premium with or respect thereto do not now and shall never constitute an indebtedness or obligation of the State or any political subdivision thereof, within the purview of any constitutional or statutory limitation or provision, or a charge against the general credit or the taxing powers, if any, of any of them, but shall be secured as aforesaid, and shall be payable solely from the revenues and income derived the Loan Agreement and the Series 2016 Note (except as stated aforesaid). No Owner of the Series 2016 Bonds shall have the right to compel the exercise of the taxing power, if any, of the State or any political subdivision thereof to pay any principal installment of, redemption premium, if any, or interest on the Series 2016 Bonds. The Authority does not have the power to levy taxes for any purposes whatsoever.

APPLICATION OF SERIES 2016 BOND PROCEEDS

Upon the issuance and delivery of the Series 2016 Bonds, the Bond Trustee shall apply the net proceeds from the sale of thereof in accordance with the Bond Indenture approximately as set forth in the forepart of this Official Statement under the caption "ESTIMATED SOURCES AND USES OF FUNDS."

FUNDS

The following funds are created by the Bond Indenture:

Project Fund. Under the Bond Indenture, the Authority shall establish with the Bond Trustee a separate fund to be known as the "Project Fund — Mercy Health Corporation, Series 2016" (the "Project Fund"), and the Bond Trustee shall make the deposit to the credit of the Project Fund which is specified in the Bond Indenture. Any moneys received by the Bond Trustee from any other source for the Project shall be deposited in the Project Fund. The moneys in the Project Fund shall be held as trust funds under the Bond Indenture in favor of the Owners of the Series 2016 Bonds and for the further security of such Owners until paid out or transferred as provided in the Bond Indenture. Moneys in the Project Fund shall be applied to the Costs of the Project unless the Borrower elects to apply any such moneys to any other Costs.

Moneys deposited in the Project Fund shall be paid out from time to time by the Bond Trustee in order to pay, or to reimburse the Borrower for the payment of, Costs of the Project, in each case in accordance with the terms of the Bond Indenture and the Loan Agreement. In addition, to the extent moneys on deposit in the Funded Interest Account have been exhausted, at the election of the Borrower and subject to the provisions of the Tax Agreement, moneys may be transferred by the Bond Trustee from the Project Fund to the Interest Fund at the written direction of the Borrower and applied to the payment of the interest coming due on the Series 2016 Bonds on the next succeeding Interest Payment Date.

Pursuant to the Loan Agreement, the Borrower is required to submit to the Bond Trustee and the Authority, within 90 days after the completion of the Project, a completion certificate in substantially in the form attached to the Loan Agreement. Subject to the provisions of the Bond Indenture, if after payment by the Bond Trustee of all orders theretofore tendered to the Bond Trustee pursuant to the provisions of the Bond Indenture there shall remain any moneys in the Project Fund, the Borrower may elect (i) to retain all or a portion of such moneys in the Project Fund until May 1, 2019 and withdraw such moneys in accordance with the provisions of the Bond Indenture to pay or reimburse the Borrower for payment of the Costs of an additional "health facility project" or "health facility projects" (as such terms

are defined in the Act) if the Borrower complies with the provisions of the Loan Agreement relating to changes in or amendments to the Project Documents (as defined in the Loan Agreement), or (ii) to instruct the Bond Trustee to deposit (and the Bond Trustee shall deposit) such moneys in the Interest Fund, the Bond Sinking Fund and the Optional Redemption Fund (in the order listed) and use such moneys to make the next interest payment on the Series 2016 Bonds from the Interest Fund, to make the next principal payment on the Series 2016 Bonds from the Bond Sinking Fund so long as the next principal payment is required to be made within 13 months from the date of deposit therein and then to redeem Series 2016 Bonds from moneys on deposit in the Optional Redemption Fund; *provided, however,* that if the Borrower and the Bond Trustee receive an opinion of Bond Counsel to the effect that such moneys may be retained in the Project Fund or deposited in a manner not in accordance with the foregoing provisions without impairing the exclusion of interest on the Series 2016 Bonds from gross income for purposes of federal income taxation, such moneys may be retained in the Project Fund or, if such Opinion is received by the Bond Trustee in sufficient time to permit the Bond Trustee to follow any directions contained therein, deposited as set forth in such Opinion. The foregoing notwithstanding, amounts remaining in the Project Fund after completion of the Project which are attributable to investment earnings may be transferred to the Rebate Fund upon the Written Request of the Borrower.

Cost of Issuance Fund. The Bond Trustee shall establish and maintain a separate Fund to be known as the "Cost of Issuance Fund — Mercy Health Corporation, Series 2016" (the "Cost of Issuance Fund"), to the credit of which a deposit is to be made as required by the provisions of the Bond Indenture. Moneys on deposit in the Cost of Issuance Fund shall be applied to pay the fees, costs and expenses of issuing the Series 2016 Bonds, including, without limitation, printing expenses in connection with the Bond Indenture, the Loan Agreement, the Series 2016 Note, the Series 2016 Bonds, the preliminary official statement relating to the Series 2016 Bonds and the Official Statement; Rating Agency fees; legal fees; the administrative charge of the Authority; the initial fees and expenses of the Bond Trustee and any Paying Agent; all other fees and expenses of the Bond Trustee and any Paying Agent; and all other fees and expenses incurred in connection with the issuance of the Series 2016 Bonds. The costs described above shall be payable upon submission of a Written Request from the Borrower in substantially the form attached to the Bond Indenture, stating that the amount indicated thereon is due and owing, has not been the subject of another Written Request which has been paid, and is a proper cost of issuing the Series 2016 Bonds. At such time as the Bond Trustee is furnished with a Written Request of the Borrower stating that all such fees and expenses have been paid, and in no event later than November 1, 2016, the Bond Trustee shall transfer any moneys remaining in the Cost of Issuance Fund to the Interest Fund and apply said moneys as provided in the Bond Indenture.

Interest Fund. The Bond Trustee shall establish and maintain so long as any of the Series 2016 Bonds are outstanding a separate account to be known as the "Interest Fund — Mercy Health Corporation, Series 2016" (the "Interest Fund"). The Bond Trustee shall establish a separate and segregated account in the Interest Fund designated the "Funded Interest Account — Mercy Health Corporation, Series 2016" (the "Funded Interest Account"). An initial deposit to the Funded Interest Account shall be made as provided in the Bond Indenture. All payments of interest on the Series 2016 Note (other than prepayments), as and when received by the Bond Trustee, shall be deposited in the Interest Fund.

On or before each Interest Payment Date on the Series 2016 Bonds, commencing June 1, 2016, after taking into account the amount transferred to the Interest Fund from the Funded Interest Account,

the Bond Trustee shall deposit in the Interest Fund from any moneys received by the Bond Trustee for that purpose an amount which, together with any amount then on deposit in the Interest Fund and available for such purpose, is equal to the amount of interest due and payable on the Series 2016 Bonds on such Interest Payment Date. No such deposit pursuant to this paragraph need be made, however, to the extent that there is a sufficient amount already on deposit in the Interest Fund, including amounts transferred from the Funded Interest Account, and available for such purpose.

Moneys in the Interest Fund, other than income earned thereon which is to be transferred to other funds created under the Bond Indenture or to the Rebate Fund, shall be used by the Bond Trustee to pay interest on the Series 2016 Bonds as it becomes due.

Bond Sinking Fund. The Bond Trustee shall establish and maintain so long as any of the Series 2016 Bonds are outstanding a separate account to be known as the "Bond Sinking Fund — Mercy Health Corporation, Series 2016" (the "Bond Sinking Fund"). All payments of principal on the Series 2016 Note (other than prepayments) shall be deposited as and when received by the Bond Trustee in the Bond Sinking Fund and shall be applied by the Bond Trustee to pay principal of the Series 2016 Bonds as such principal becomes due.

On or before each date on which a payment of principal is due on the Series 2016 Bonds, the Bond Trustee shall deposit in the Bond Sinking Fund from any moneys received by the Bond Trustee for that purpose an amount which, after taking into account any amount then on deposit in the Bond Sinking Fund and available for such purpose, is equal to the principal amount due and payable on the Series 2016 Bonds on such principal payment date. No such deposit need be made, however, to the extent that there is a sufficient amount already on deposit and available for such purpose.

Except as otherwise provided in the Bond Indenture, moneys deposited in the Bond Sinking Fund pursuant to the foregoing provisions, shall be used by the Bond Trustee to pay the Series 2016 Bonds in accordance with the schedule provided for in the Bond Indenture.

Optional Redemption Fund. The Bond Trustee shall establish and maintain so long as any of the Series 2016 Bonds are outstanding a separate account to be known as the "Optional Redemption Fund — Mercy Health Corporation, Series 2016" (the "Optional Redemption Fund"). In the event of (i) prepayment by or on behalf of the Borrower of amounts payable on the Series 2016 Note, including prepayment pursuant to the Bond Indenture, or (ii) deposit with the Bond Trustee by the Borrower or the Authority of moneys from any other source for redeeming Series 2016 Bonds, except as otherwise provided in the Bond Indenture, such moneys shall be deposited into the Optional Redemption Fund. Moneys on deposit in the Optional Redemption Fund shall be used first, to make up any deficiencies existing in the Interest Fund and the Bond Sinking Fund (in the order listed) and second, for the redemption or purchase of Series 2016 Bonds in accordance with the provisions of the Bond Indenture.

INVESTMENT OF FUNDS

Moneys in the Interest Fund, the Bond Sinking Fund, the Cost of Issuance Fund, the Project Fund and the Optional Redemption Fund shall be invested only in accordance with the provisions of the Bond Indenture and the Tax Agreement. Such moneys shall be invested only in Qualified Investments (including Qualified Investments of the Bond Trustee or of any affiliate of the Bond Trustee), in each

case upon a Written Request of the Borrower filed with the Bond Trustee, upon which written instructions the Bond Trustee is entitled to rely and act. Such Qualified Investments shall mature on or before the date or dates that moneys therefrom are anticipated to be required. The Bond Trustee may conclusively rely upon the Borrower's written instructions as to both the suitability and legality of such directed investments and as to such directed investments' compliance with the Tax Agreement. If the Borrower fails to give such Written Request to the Bond Trustee, moneys in such funds shall be invested in the First American Funds Prime Obligations Fund or a successor fund offered by the Bond Trustee; *provided, however*, if the First American Funds Prime Obligations Fund is no longer in existence, moneys in such funds shall be invested in such other fund as designated by the Borrower. The Bond Trustee shall be entitled to reinvest any earnings in the same directed investments unless it receives written notice specifying alternative investments from the Borrower. Ratings of Qualified Investments shall be determined at the time of purchase of such investments and without regard to ratings subcategories. The Bond Trustee is authorized by the Bond Indenture to purchase Qualified Investments, notwithstanding that an affiliate of the Bond Trustee has underwritten, privately placed or made a market for any such Qualified Investments, or may in the future underwrite, privately place or make a market for any such Qualified Investments and is also authorized by the Bond Indenture to trade with itself, or with any affiliate of the Bond Trustee, in the purchase and sale of Qualified Investments. In no case shall any investment be otherwise than in accordance with the investment limitations contained in the Bond Indenture. The Bond Trustee has no duty to confirm whether or not the written investment direction it receives under the Bond Indenture from the Borrower is in compliance with the Tax Agreement. The Bond Trustee shall not be liable or responsible for any loss resulting from any such investment so long as such investment was made in accordance with the duties imposed on the Bond Trustee pursuant to the Bond Indenture. All income derived from the investment of moneys on deposit in such Funds shall, subject to the provisions of the Bond Indenture, be deposited (i) in the Project Fund prior to the completion of the Project, *provided* that subject to the provisions of the Tax Agreement, the Borrower may direct the Bond Trustee to deposit such investment income in the Interest Fund and apply such amounts to the payment of the interest coming due on the Series 2016 Bonds on the next succeeding Interest Payment Date, and (ii) thereafter in the Bond Sinking Fund or the Interest Fund.

ARBITRAGE AND TAX COVENANTS

Subject to the Borrower's direction of the investment of moneys on deposit in certain Funds pursuant to the provisions of the Bond Indenture summarized under the caption "INVESTMENT OF FUNDS," the Authority covenants and agrees in the Bond Indenture that it will not take any action or fail to take any action, to the extent permitted by applicable law, with respect to the investment of the proceeds of the Series 2016 Bonds or with respect to the payments derived from the Series 2016 Note or the Loan Agreement which may result in constituting the Series 2016 Bonds "arbitrage bonds" within the meaning of such term as used in Section 148 of the Code. The Authority further covenants and agrees that it will comply with and take all actions required by the Tax Agreement. Subject to the Borrower's direction of the investment of moneys on deposit in certain Funds summarized under the caption "INVESTMENT OF FUNDS," the Authority further covenants that it will not take any action, permit any action to be taken or fail to take any action, to the extent permitted by applicable law, with respect to the investment of the proceeds of the Series 2016 Bonds, with respect to the payments derived from the Series 2016 Note and the Loan Agreement or with respect to any other amounts, regardless of the source or where held, which may have an adverse effect on any exemption from federal income taxation to which interest on the Series 2016 Bonds would otherwise be entitled. The Authority shall be deemed to

have complied with the requirements of the Bond Indenture summarized in this paragraph so long as it acts on the Written Request of the Borrower.

EXTENSION OF PAYMENT; PENALTY

In case the time for the payment of principal of or the interest on any Series 2016 Bonds shall be extended, whether or not such extension be by or with the consent of the Authority, such principal or such interest so extended shall not be entitled, in case of the occurrence of an Event of Default under the Bond Indenture, to the benefit or security of the Bond Indenture, except subject to the prior payment in full of the principal of all Series 2016 Bonds then outstanding and of all interest thereon, the time for the payment of which shall not have been extended.

EVENTS OF DEFAULT AND REMEDIES

Each of the following events is an Event of Default under the Bond Indenture:

(a) payment of any installment of interest payable on any of the Series 2016 Bonds shall not be made when the same shall become due and payable; or

(b) payment of the principal of or the premium, if any, payable on any of the Series 2016 Bonds shall not be made when the same shall become due and payable, either at maturity, by proceedings for redemption, upon acceleration, through failure to make any payment to any Fund under the Bond Indenture or otherwise; or

(c) failure by the Authority to observe or perform any other covenant, condition or agreement on its part to be observed or performed in the Bond Indenture or the Series 2016 Bonds for a period of 30 days after written notice of such failure shall have been given to the Borrower and the Authority by the Bond Trustee; *provided, however*, that if such observance or performance requires work to be done, actions to be taken or conditions to be remedied which by its or their nature cannot reasonably be done, taken or remedied, as the case may be, within such 30-day period, no Event of Default under this subparagraph (c) shall be deemed to have occurred or to exist if and so long as the Authority or the Borrower, as the case may be, shall have commenced such work, action or remediation within such 30-day period and provided written notice thereof to the Bond Trustee and shall diligently and continuously prosecute the same to completion; or

(d) the Authority shall for any reason be rendered incapable of fulfilling its obligations under the Bond Indenture; or

(e) a Loan Default shall occur and be continuing from and after the date the Authority is entitled under the Loan Agreement to request that the Master Trustee declare the Series 2016 Note to be immediately due and payable; or

(f) an event of default shall occur under the Master Indenture, which default is not cured or waived and extends beyond any period of grace with respect thereto.

Upon the happening of an Event of Default specified in subparagraph (a) or (b) above, the Bond Trustee shall, by notice in writing delivered to the Authority, declare the entire principal amount of the Series 2016 Bonds then outstanding under the Bond Indenture and the interest accrued thereon to be immediately due and payable, and said entire principal and interest shall thereupon become and be immediately due and payable, subject, however, to the provisions of the Bond Indenture with respect to waivers of Events of Default and rescission of any acceleration as described in this APPENDIX E under the caption "SUMMARY OF THE BOND INDENTURE—Waivers of Events of Default." Upon the happening of any Event of Default specified in subparagraphs (c) through (f) above and the continuance of the same for the period, if any, specified in said paragraphs, the Bond Trustee may, without any action on the part of the Bondholders, and shall (i) at the written request of the Owners of not less than 25% in aggregate principal amount of the Series 2016 Bonds then outstanding under the Bond Indenture and (ii) by written notice delivered to the Authority, declare the entire principal amount of the Series 2016 Bonds then outstanding and the interest accrued thereon immediately due and payable, and said entire principal and interest shall thereupon become and be immediately due and payable, subject, however, to the provisions of the Bond Indenture with respect to waivers of Events of Default and rescission of any acceleration as described in this APPENDIX E under the caption "SUMMARY OF THE BOND INDENTURE—Waivers of Events of Default."

DIRECTION OF PROCEEDINGS BY BONDHOLDERS

The Owners of a majority in aggregate principal amount of Series 2016 Bonds then outstanding shall have the right, at any time, by an instrument or instruments in writing executed and delivered to the Bond Trustee, to direct the method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Bond Indenture, including the enforcement of the rights of the Authority under the Loan Agreement and the Use Agreement, the appointment of a receiver or any other proceedings under the Bond Indenture; *provided* that such direction shall not be otherwise than in accordance with the provisions of law and of the Bond Indenture.

RIGHTS AND REMEDIES OF BONDHOLDERS

No Owner of any Series 2016 Bond shall have any right to institute any suit, action or proceeding in equity or at law for the enforcement of the Bond Indenture or for the execution of any trust under the Bond Indenture or for the appointment of a receiver or any other remedy thereunder, unless a default shall have become an Event of Default and the holders of not less than 25% in aggregate principal amount of Series 2016 Bonds then outstanding shall have made a written request to the Bond Trustee and shall have offered it reasonable opportunity either to proceed to exercise the powers granted under the Bond Indenture or to institute such action, suit or proceeding in its own name, and unless they have offered to the Bond Trustee indemnity as provided in the Bond Indenture, and unless the Bond Trustee shall thereafter fail or refuse to exercise the power granted under the Bond Indenture, or to institute such action, suit or proceeding in its own name; and such notification, request, offer of indemnity and consent are declared in every case at the option of the Bond Trustee to be conditions precedent to the execution of the powers and trusts of the Bond Indenture and to any action or cause of action for the enforcement of the Bond Indenture, or for the appointment of a receiver or for any other remedy thereunder; it being understood and intended that no one or more Owners of the Series 2016 Bonds shall have any right in any manner whatsoever to affect, disturb or prejudice the lien of the Bond Indenture by any action or to enforce any right thereunder except in the manner provided therein, and that all proceedings at law or in

equity shall be instituted, had and maintained in the manner provided therein and for the equal benefit of the holders of all Series 2016 Bonds outstanding. Nothing contained in the Bond Indenture shall, however, affect or impair the right of any Owner to enforce the payment of the principal of and interest on any Series 2016 Bond at and after the maturity thereof, or the obligation of the Authority to pay the principal of and interest on the Series 2016 Bonds to the respective Owners thereof at the time and place, from the source and in the manner expressed in the Series 2016 Bonds.

WAIVERS OF EVENTS OF DEFAULT

The Bond Trustee may, in its discretion, waive any Event of Default under the Bond Indenture and its consequences and rescind any declaration of maturity of principal, and shall do so upon the written request of the Owners of (1) at least a majority in aggregate principal amount of all the Series 2016 Bonds outstanding in respect of which default in the payment of principal and/or interest exists or (2) at least a majority in aggregate principal amount of all the Series 2016 Bonds outstanding in the case of any other Event of Default; *provided, however*, that there shall not be waived (a) any Event of Default in the payment of the principal of any Outstanding Series 2016 Bonds when due at the dates of maturity specified therein or (b) any default in the payment when due of the interest on any such Series 2016 Bonds, unless prior to such waiver or rescission all arrears of interest, with interest thereon (to the extent permitted by law) at the rate borne by the Series 2016 Bonds in respect of which such default shall have occurred on overdue installments of interest or all arrears of payments of principal when due, as the case may be, and all expenses of the Bond Trustee and any Paying Agent in connection with such default shall have been paid or provided for, and in case of any such waiver or rescission or in case any proceeding taken by the Bond Trustee on account of any such default shall have been discontinued or abandoned or determined adversely, then and in every such case the Authority, the Bond Trustee and the Bondholders shall, subject to any determination in such proceeding, be restored to their former positions and rights under the Bond Indenture respectively, but no such waiver or rescission shall extend to any subsequent or other default or impair any right consequent thereon.

APPLICATION OF MONEYS

All moneys received by the Bond Trustee pursuant to any right given or action taken under the provisions of the Bond Indenture relating to Events of Default shall, after payment of the cost and expenses of the proceedings resulting in the collection of such moneys (including the reasonable compensation of the Authority, the Bond Trustee and the Master Trustee, their attorneys, agents and counsel, and the expenses of any judicial proceeding wherein the same may be made) and of the expenses, liabilities and advances incurred or made by the Bond Trustee or the Master Trustee, be deposited in the Bond Sinking Fund and all moneys in the Funds maintained by the Bond Trustee under the Bond Indenture shall be applied as follows:

(a) Unless the principal of all the Series 2016 Bonds shall have become or shall have been declared due and payable, all such moneys shall be applied:

FIRST: To the payment of amounts, if any, payable pursuant to the Tax Agreement;

SECOND: To the payment to the Persons entitled thereto of all installments of interest then due on the Series 2016 Bonds, in the order of the maturity of the installments of such interest, and, if the amount available shall not be sufficient to pay in full any particular installment, then to the payment ratably, according to the amounts due on such installment, to the Persons entitled thereto without any discrimination or privilege;

THIRD: To the payment to the Persons entitled thereto of the unpaid principal of any of the Series 2016 Bonds which shall have become due (other than Series 2016 Bonds called for redemption for the payment of which moneys are held pursuant to the provisions of the Bond Indenture), in the order of their due dates, and, if the amount available shall not be sufficient to pay in full Series 2016 Bonds due on any particular date, then to the payment ratably, according to the amount of principal due on such date, to the Persons entitled thereto without any discrimination or privilege; and

FOURTH: To the payment of the Persons entitled thereto of unpaid principal and interest due and owing on any Series 2016 Bonds, the payment of principal and interest of which has been extended in the manner summarized under the caption "SUMMARY OF THE BOND INDENTURE – Extension of Payment; Penalty."

(b) If the principal of all the Series 2016 Bonds shall have become due or shall have been declared due and payable, all such moneys shall be applied:

FIRST: To the payment of amounts, if any, payable pursuant to the Tax Agreement;

SECOND: To the payment of the principal and interest then due and unpaid upon the Series 2016 Bonds, without preference or priority of principal or interest over the other, or of any installment of interest over any other installment of interest, or of any Series 2016 Bond over any other Series 2016 Bond, ratably, according to the amounts due respectively for principal and interest, to the Persons entitled thereto without any discrimination or privilege; and

THIRD: To the payment of the principal and interest then due and unpaid upon Series 2016 Bonds with respect to which the payment of principal and interest has been extended in the manner summarized under the caption "SUMMARY OF THE BOND INDENTURE – Extension of Payment; Penalty."

(c) If the principal of all the Series 2016 Bonds shall have been declared due and payable, and if such declaration shall thereafter have been rescinded and annulled in accordance with the Bond Indenture, then, subject to the provisions of subparagraph (b) above, in the event that the principal of all the Series 2016 Bonds shall later become due or be declared due and payable, the moneys shall be applied in accordance with the provisions of subparagraph (a) above.

Whenever moneys are to be applied by the Bond Trustee pursuant to the provisions of the Bond Indenture summarized under this caption, such moneys shall be applied by it at such times, and from time to time, as the Bond Trustee shall determine, having due regard for the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Bond Trustee shall apply such moneys, it shall fix the date (which shall be an Interest Payment Date unless it shall deem another date more suitable, or, with respect to payments of Defaulted Interest, shall be such date as is required by the provisions of the Bond Indenture relating to such payments) upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such dates shall cease to accrue. The Bond Trustee shall give such notice as it may deem appropriate of the deposit with it of any such moneys and of the fixing of any such date and of the Special Record Date by mailing a copy of such notice by first class mail to the Owners of the Series 2016 Bonds at least 10 days prior to the Special Record Date. The Bond Trustee shall not be required to make payment to the Owner of any Series 2016 Bond until such Series 2016 Bond shall be presented to the Bond Trustee for appropriate endorsement or for cancellation if fully paid.

Whenever all Series 2016 Bonds and interest thereon have been paid pursuant to the provisions of the Bond Indenture summarized under this caption and all expenses and charges of the Bond Trustee have been paid, any balance, fees and advances remaining shall be paid to the Persons entitled to receive the same; if no other Person shall be entitled thereto, then the balance shall be paid to the Borrower.

SUPPLEMENTAL BOND INDENTURES

Subject to the limitation summarized in the following paragraph, the Authority and the Bond Trustee may, without the consent of, or notice to, any of the Bondholders, enter into an indenture or indentures supplemental to the Bond Indenture, as shall not be inconsistent with the terms and provisions of the Bond Indenture, for any one or more of the following purposes: (i) to cure any ambiguity or formal defect or omission in the Bond Indenture; (ii) to grant to or confer upon the Bond Trustee for the benefit of the Bondholders any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Bondholders and the Bond Trustee, or either of them; (iii) to assign and pledge under the Bond Indenture additional revenues, properties or collateral; (iv) to evidence the appointment of a separate trustee or the succession of a new trustee under the Bond Indenture; (v) to modify, amend or supplement the Bond Indenture or any indenture supplemental thereto in such manner as to permit the qualification of the Bond Indenture under the Trust Indenture Act of 1939, as then amended, or any similar federal statute hereafter in effect or to permit the qualification of the Series 2016 Bonds for sale under the securities laws of any state of the United States; (vi) to modify, amend or supplement the Bond Indenture or any indenture supplemental thereto in such manner as to permit the issuance of coupon bonds and to permit the exchange of Series 2016 Bonds from registered form to coupon form and vice versa; (vii) to provide for the refunding, advance refunding or provision for the payment of any Series 2016 Bonds; (viii) to provide for certificated Series 2016 Bonds if the Series 2016 Bonds are no longer held in a book-entry only system; (ix) to amend or modify the Bond Indenture, or any part thereof, in such manner as may be necessary to maintain the exclusion from gross income for purposes of federal income taxation of the interest on the Series 2016 Bonds; (x) to modify, amend or supplement the Bond Indenture, or any part thereof, in such manner as the Bond Trustee and the Authority deem necessary in order to comply with any statute, regulation, judicial decision or other law relating to secondary market disclosure requirements with respect to tax-exempt obligations of the type that includes the Series 2016 Bonds; (xi) to provide for changes in the components of the Project to the extent permitted by the Bond

Indenture and the Loan Agreement; (xii) to provide for the appointment of a successor securities depository; or (xiii) to make any other change that, in the opinion of the Bond Trustee, does not materially adversely affect the rights of any Bondholders, which opinion may be based on its reliance upon a Special Consultant's Certificate certifying to such change.

The Authority and the Bond Trustee may not enter into an indenture supplemental to the Bond Indenture pursuant to clause (vi) of the preceding paragraph unless they shall have received an opinion of Bond Counsel to the effect that the issuance of coupon bonds will not adversely affect the validity of the Series 2016 Bonds or result in the loss of any exemption from federal income taxation to which interest on the Series 2016 Bonds would otherwise be entitled.

In addition to supplemental indentures for the purposes summarized above and subject to the terms and provisions of the Bond Indenture summarized in this paragraph, and not otherwise, the Owners of not less than a majority in aggregate principal amount of the Series 2016 Bonds which are outstanding under the Bond Indenture at the time of the execution of such indenture or supplemental indenture shall have the right, from time to time, anything contained in the Bond Indenture to the contrary notwithstanding, to consent to and approve the execution by the Authority and the Bond Trustee of such other indenture or indentures supplemental to the Bond Indenture as shall be deemed necessary or desirable by the Authority for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Bond Indenture or in any supplemental indenture; *provided, however,* that none of the terms or provisions contained in the Bond Indenture summarized under this caption shall permit, or be construed as permitting, a supplemental indenture to effect: (i) an extension of the stated maturity or reduction in the principal amount of, or reduction in the rate or extension of the time of paying of interest on, or reduction of any premium payable on the redemption of, any Series 2016 Bonds, without the consent of the Owners of such Series 2016 Bonds; (ii) a reduction in the amount or extension of the time of any payment required to be made to or from the Interest Fund or the Bond Sinking Fund; (iii) the creation of any lien prior to or on a parity with the lien of the Bond Indenture, without the consent of the Owners of all the Series 2016 Bonds at the time outstanding; (iv) a reduction in the aforesaid aggregate principal amount of Series 2016 Bonds the Owners of which are required to consent to any such supplemental indenture, without the consent of the Owners of all the Series 2016 Bonds at the time outstanding which would be affected by the action to be taken; or (v) a modification of the rights, duties or immunities of the Bond Trustee, without the written consent of the Bond Trustee.

If at any time the Authority shall request the Bond Trustee to enter into any such supplemental indenture for any of the purposes summarized in the immediately preceding paragraph, the Bond Trustee shall, upon being satisfactorily indemnified with respect to expenses, cause notice of the proposed execution of such supplemental indenture to be mailed by first class mail, postage prepaid to each Owner of Series 2016 Bonds as shown on the registration books of the Bond Trustee. Such notice shall briefly set forth the nature of the proposed supplemental indenture and shall state that copies thereof are on file at the designated corporate trust office of the Bond Trustee for inspection by all Bondholders. The Bond Trustee shall not, however, be subject to any liability to any Bondholder by reason of its failure to mail such notice, and any such failure shall not affect the validity of such supplemental indenture when consented to and approved as provided in this caption. If the Owners of not less than a majority in aggregate principal amount of the Series 2016 Bonds outstanding under the Bond Indenture at the time of the execution of any such supplemental indenture shall have consented to and approved the execution

thereof as in the Bond Indenture provided, no Owner of any Series 2016 Bond shall have any right to object to any of the terms and provisions contained therein or the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Bond Trustee or the Authority from executing the same or from taking any action pursuant to the provisions thereof. Upon the execution of any such supplemental indenture as permitted and provided in the immediately preceding paragraph, the Bond Indenture shall be and be deemed to be modified and amended in accordance therewith.

Anything in the Bond Indenture to the contrary notwithstanding, so long as no Loan Default has occurred and is continuing under the Loan Agreement, a supplemental indenture described under this caption shall not become effective unless and until the Borrower has consented in writing to the execution and delivery of such supplemental indenture.

In connection with a supplemental indenture entered into pursuant to the Bond Indenture, the Borrower shall deliver to the Bond Trustee an opinion of Bond Counsel (which opinion may rely upon certain certifications of a financial institution or other professionals experienced in tax exempt obligations) stating that the execution of such supplemental indenture is authorized and permitted by the Bond Indenture.

AMENDMENTS TO LOAN AGREEMENT

The Authority and the Borrower may, with the prior written consent of the Bond Trustee and without the consent of or notice to the Owners of the Series 2016 Bonds, amend or modify the Loan Agreement, or any provision thereof, in any manner not inconsistent with the terms and provisions of the Bond Indenture, for any one or more of the following purposes: (i) to cure any ambiguity or formal defect or omission in the Loan Agreement, (ii) to grant to or confer upon the Authority or the Bond Trustee, for the benefit of the Owners, any additional rights, remedies, powers or authorities that lawfully may be granted to or conferred upon the Authority or the Bond Trustee, (iii) to amend or modify the Loan Agreement, or any part thereof, in any manner specifically required or permitted by the terms of the Bond Indenture and the Loan Agreement, including, without limitation as may be necessary to maintain the exclusion from gross income for purposes of federal income taxation of the interest on the Series 2016 Bonds, (iv) to provide that the Series 2016 Bonds may be secured by a credit facility or other additional security not otherwise provided for in the Bond Indenture or the Loan Agreement, (v) to modify, amend or supplement the Loan Agreement, or any part thereof, or any supplement thereto, in such manner as the Authority and the Borrower deem necessary in order to comply with any statute, regulation, judicial decision or other law relating to secondary market disclosure requirements with respect to tax-exempt obligations of the type that includes the Series 2016 Bonds, (vi) to provide for changes in the components of the Project, to the extent permitted by the Bond Indenture and the Loan Agreement, (vii) to provide for the appointment of a successor securities depository, (viii) to provide for the availability of certificated Series 2016 Bonds and (ix) to make any other change which does not, in the opinion of the Bond Trustee, materially adversely affect the rights of the Bond Trustee or have a material adverse effect upon the interest of the Owners of the Series 2016 Bonds, *provided, however*, that nothing in this caption shall permit, or be construed as permitting, any amendment, change or modification of the Loan Agreement that may result in anything described in the lettered clauses contained in the third paragraph under the caption "SUMMARY OF THE BOND INDENTURE—Supplemental Bond Indentures" in this APPENDIX E without the consent of each Owner affected. In addition, subject to the terms and provisions described in

the second succeeding paragraph, the Bond Trustee may grant such waivers of compliance by the Borrower with the provisions of the Loan Agreement as to it may seem necessary or desirable to effectuate the purposes or the intent of the Loan Agreement and which, in the opinion of the Bond Trustee, do not have a material adverse effect upon the interests of the Bondholders; *provided* that the Bond Trustee shall file with the Authority any and all such waivers granted by the Bond Trustee within three Business Days after granting the same.

Except for the amendments, changes or modifications as summarized in the immediately preceding paragraph, neither the Authority, the Borrower nor the Bond Trustee shall consent to any other amendment, change or modification of the Loan Agreement without the written approval or consent, given and procured as provided in this paragraph, of the Owners of not less than a majority in aggregate principal amount of the Series 2016 Bonds which are outstanding under the Bond Indenture at the time of execution of any such amendment, change or modification. If at any time the Authority and the Borrower shall request the consent of the Bond Trustee to any such proposed amendment, change or modification of the Loan Agreement, the Bond Trustee shall, upon being satisfactorily indemnified with respect to expenses, cause notice of such proposed amendment, change or modification to be given in the same manner as described above under the caption "SUMMARY OF THE BOND INDENTURE—Supplemental Bond Indentures" in this APPENDIX E with respect to supplemental indentures. Such notice shall briefly set forth the nature of such proposed amendment, change or modification and shall state that copies of the instrument embodying the same are on file at the designated corporate trust office of the Bond Trustee for inspection by all Owners. The Bond Trustee shall not, however, be subject to any liability to any Owner by reason of its failure to give such notice, and any such failure shall not affect the validity of such amendment, change or modification when consented to and approved as provided in this paragraph.

If the Owners of not less than a majority in aggregate principal amount of the Series 2016 Bonds outstanding under the Bond Indenture at the time of the execution of any such amendment, change or modification shall have consented to and approved the execution thereof as in the Bond Indenture provided, no Owner of any Series 2016 Bond shall have any right to object to any of the terms contained therein or the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Bond Trustee or the Authority from executing the same or from taking any action pursuant to the provisions thereof.

Under no circumstances shall any amendment to the Loan Agreement alter the Series 2016 Note with respect to the payments of principal, premium, if any, and interest thereon without the consent of the Owners of all of the Series 2016 Bonds then outstanding.

RELEASE AND SUBSTITUTION OF OBLIGATIONS UPON DELIVERY OF REPLACEMENT MASTER INDENTURE

The Bond Trustee will surrender the Series 2016 Note upon presentation to the Bond Trustee prior to such surrender of the following:

(a) a copy of an original executed counterpart of a master indenture (the "Replacement Master Indenture") executed by or on behalf of a different credit group (collectively, the "New Group") and an independent corporate trustee (the "Replacement Trustee");

(b) an original replacement note or similar obligation issued by or on behalf of the New Group (the "Substitute Note") under and pursuant to and secured by the Replacement Master Indenture, which Substitute Note has been duly authenticated by the Replacement Trustee;

(c) an opinion of Counsel addressed to the Bond Trustee to the effect that: (i) the Replacement Master Indenture has been duly authorized, executed and delivered by or on behalf of the New Group, the Substitute Note has been duly authorized, executed and delivered by or on behalf of the New Group and the Replacement Master Indenture and the Substitute Note are each a legal, valid and binding obligation of the New Group, subject in each case to customary exceptions for bankruptcy, insolvency and other laws generally affecting enforcement of creditors' rights and application of general principles of equity and to customary qualifications with respect to the joint and several obligations of the members of the New Group to make payments of debt service on the Substitute Note; (ii) all requirements and conditions to the issuance of the Substitute Note set forth in the Replacement Master Indenture have been complied with and satisfied; and (iii) registration of the Substitute Note under the Securities Act of 1933, as amended, is not required or, if registration is required, the Substitute Notes have been so registered;

(d) an Opinion of Bond Counsel that the surrender of the existing Series 2016 Note and the delivery of the Substitute Note will not adversely affect the validity of any Series 2016 Bonds or any exemption for the purposes of federal income taxation to which interest on any Series 2016 Bonds would otherwise be entitled; and

(e) written notice from each Rating Agency then maintaining a rating on any Series 2016 Bonds confirming that the rating on such Series 2016 Bonds will not be lowered or withdrawn from the rating (taking into account any refinement or gradation of rating category by numerical modifier or otherwise, but without regard to any rating outlooks) in effect prior to the substitution; provided that in connection with the request for a review of the ratings assigned to the Series 2016 Bonds, each Rating Agency is provided a copy of the Replacement Master Indenture and such information as such Rating Agency may request with respect to the operations and financial condition of the New Group; and provided further that the rating on the Series 2016 Bonds after the delivery of the Substitute Note will in no event be lower than "A2" from Moody's or "A" from S&P or "A" from Fitch (in each case without regard to any refinement by any related rating outlook).

In connection with the delivery of a Replacement Master Indenture and the substitution of the outstanding Series 2016 Note with the Substitute Note, the provisions summarized under this caption shall not permit, or be construed as permitting, (i) a change in the times, amounts or currency of payment of the principal of, premium, if any, and interest on any obligation or the Series 2016 Bonds, (ii) a reduction in the principal amount of any obligation or the Series 2016 Bonds, (iii) a change in the redemption premiums or rates of interest on any obligation or the Series 2016 Bonds, or (iv) a preference or priority of any Obligation over any other Obligation, unless the Bond Trustee receives the prior written consent of the Holders of each Series 2016 Bond so affected.

DEFEASANCE OF SERIES 2016 BONDS

If the Authority shall pay or provide for the payment of the entire indebtedness on all the Series 2016 Bonds outstanding in any one or more of the following ways:

(a) by paying or causing to be paid the principal of (including redemption premium, if any) and interest on all the Series 2016 Bonds outstanding, as and when the same become due and payable;

(b) by depositing with the Bond Trustee, in trust, at or before maturity, moneys in an amount sufficient to pay or redeem (when redeemable) all the Series 2016 Bonds outstanding (including the payment of premium, if any, and interest payable on such Series 2016 Bonds to the maturity or redemption date thereof), *provided* that such moneys, if invested, shall be invested in noncallable Defeasance Obligations in an amount, without consideration of any income or increment to accrue thereon, sufficient to pay or redeem (when redeemable) and discharge the indebtedness on all Series 2016 Bonds outstanding at or before their respective maturity dates, it being understood that the investment income on such noncallable Defeasance Obligations may be used for any other purpose under the Act;

(c) by delivering to the Bond Trustee, for cancellation by it, all the Series 2016 Bonds outstanding; or

(d) by depositing with the Bond Trustee, in trust, noncallable Defeasance Obligations in such amount as the Bond Trustee shall determine will, together with the income or increment to accrue thereon, without consideration of any reinvestment thereof, and any uninvested cash, be fully sufficient to pay or redeem (when redeemable) and discharge the indebtedness on all outstanding Series 2016 Bonds at or before their respective maturity dates, *provided* that the Bond Trustee shall receive and may rely upon a verification report prepared by a recognized firm of independent certified public accountants or verification experts, not objected to by the Authority, as conclusive evidence of the sufficiency of the amount of such deposit;

and if the Authority shall pay or cause to be paid all other sums payable under the Bond Indenture by the Authority, and if notice of any redemption of such Series 2016 Bonds has been given as provided in the Bond Indenture or provisions satisfactory to the Bond Trustee has been made for the giving of such notice, the Bond Indenture and the estate and rights granted thereunder shall cease, determine, and become null and void, and thereupon the Bond Trustee shall, upon receipt of a Written Request of the Authority and an opinion of Bond Counsel addressed to the Authority, the Borrower and the Bond Trustee to the effect that the Series 2016 Bonds are no longer outstanding under the Bond Indenture, forthwith execute proper instruments acknowledging satisfaction of and discharging the Bond Indenture and the lien thereof. The satisfaction and discharge of the Bond Indenture shall be without prejudice to the rights of the Bond Trustee to charge and be reimbursed by the Borrower for any fees and expenditures which it may thereafter incur in connection with the Bond Indenture.

Any moneys, funds, securities, or other property remaining on deposit with the Bond Trustee under the Bond Indenture (other than said Defeasance Obligations or other moneys deposited in trust as

above provided) shall, upon the full satisfaction of the Bond Indenture, forthwith be transferred, paid over and distributed to the Authority and the Borrower, as their respective interests may appear.

PROVISION FOR PAYMENT OF A PORTION OF THE SERIES 2016 BONDS

If the Authority shall pay or provide for the payment of the entire indebtedness on any portion of the Series 2016 Bonds, in one or more of the following ways:

(a) by paying or causing to be paid the principal of (including premium, if any) and interest on any such portion of the Series 2016 Bonds as and when the same shall become due and payable;

(b) by depositing with the Bond Trustee, in trust, at or before maturity, moneys in an amount sufficient to pay or redeem (when redeemable) any such portion of the Series 2016 Bonds (including the payment of premium, if any, and interest payable thereon to the maturity or redemption date thereof), *provided* that such moneys, if invested, shall be invested in noncallable Defeasance Obligations in an amount, without consideration of any income or increment to accrue thereon, sufficient to pay or redeem (when redeemable) and discharge the indebtedness on any such portion thereof at or before their respective maturity dates, it being understood that the investment income on such Defeasance Obligations may be used for any other purpose under the Act;

(c) by delivering to the Bond Trustee, for cancellation by it, any such portion of Series 2016 Bonds; or

(d) by depositing with the Bond Trustee, in trust, Defeasance Obligations, in such amount as the Bond Trustee shall determine will, together with the income or increment to accrue thereon, without consideration of any reinvestment thereof, be fully sufficient to pay or redeem (when redeemable) and discharge the indebtedness on any such portion of Series 2016 Bonds at or before their respective maturity dates, *provided* that the Bond Trustee shall receive and may rely upon a verification report prepared by a recognized firm of independent certified public accountants or verification experts, not objected to by the Authority, as conclusive evidence of the sufficiency of the amount of such deposit;

and if the Authority shall also pay or cause to be paid all other sums payable under the Bond Indenture by the Authority with respect to such portion of Series 2016 Bonds and the Bond Trustee shall have received an opinion of Bond Counsel addressed to the Authority, the Borrower and the Bond Trustee to the effect that such Series 2016 Bonds are no longer outstanding under the Bond Indenture, and if such Series 2016 Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in the Bond Indenture or provisions satisfactory to the Bond Trustee shall have been made for the giving of such notice, such portion of the Series 2016 Bonds shall cease to be entitled to any lien, benefit or security under the Bond Indenture. The liability of the Authority in respect of such Series 2016 Bonds shall continue, but the Owners thereof shall thereafter be entitled to payment (to the exclusion of all other Bondholders) only out of the moneys or Defeasance Obligations deposited with the Bond Trustee as aforesaid.

REDEMPTION AFTER DEFEASANCE

Notwithstanding anything to the contrary in the Bond Indenture, upon the provision for payment of the Series 2016 Bonds or any portion thereof as described above in this APPENDIX E under the captions "SUMMARY OF THE BOND INDENTURE—Defeasance of Series 2016 Bonds" and "—Provision for Payment of a Portion of the Series 2016 Bonds," the optional redemption provisions (but not the extraordinary optional redemption provisions) of the Bond Indenture allowing the Series 2016 Bonds to be called for redemption prior to maturity upon proper notice (notwithstanding provision for the payment of such Series 2016 Bonds having been made through a date after the first optional redemption date provided for such Series 2016 Bonds in the Bond Indenture) shall remain available to the Authority, upon direction of the Borrower, unless, in connection with making a deposit referred to under such captions, the Authority, at the direction of the Borrower, shall have irrevocably elected to waive any future right to call such Series 2016 Bonds or portions thereof for redemption prior to maturity. No such redemption shall occur, however, unless the Borrower shall deliver on behalf of the Authority to the Bond Trustee (a) Defeasance Obligations and/or cash sufficient to discharge such Series 2016 Bonds (or portion thereof) on the redemption date or dates selected, (b) an opinion of a recognized independent certified public accountant or verification expert not objected to by the Authority verifying that such Defeasance Obligations, together with the expected earnings thereon, and/or cash will be sufficient to provide for the payment of such Series 2016 Bonds to the redemption dates, and (c) an opinion of Bond Counsel (which opinion may be based upon a ruling or rulings of the Internal Revenue Service) to the effect that such earlier redemption will not result in the loss of any exemption for purposes of federal income taxation to which interest on such Series 2016 Bonds would otherwise be entitled. The Bond Trustee will give written notice of any such redemption to the Owners of the Series 2016 Bonds affected thereby in accordance with the Bond Indenture.

None of the Series 2016 Bonds may be advance refunded as aforesaid nor may the Bond Indenture be discharged if under any circumstances such advance refunding would result in the loss of any exemption for purposes of federal income taxation to which interest on such Series 2016 Bonds would otherwise be entitled. As a condition precedent to the advance refunding of any Series 2016 Bonds, the Bond Trustee shall receive an opinion of Bond Counsel (which opinion may be based upon a ruling or rulings of the Internal Revenue Service) to the effect that such advance refunding would not result in the loss of any exemption for the purposes of federal income taxation to which interest on such Series 2016 Bonds would otherwise be entitled.

BOND TRUSTEE AS HOLDER OF SERIES 2016 NOTE; BOND TRUSTEE AUTHORIZED TO VOTE SERIES 2016 NOTE

The Bond Trustee shall be deemed the holder of the Series 2016 Note. The Bond Trustee, as assignee of the Series 2016 Note, shall be entitled to vote the Series 2016 Note or the indebtedness represented thereby in connection with any proposed amendment, supplement, change, modification, waiver or consent (each an "amendment") to or in respect of the Master Indenture. The Bond Trustee may agree to any such amendment, without obtaining the consent of or the provision of notice to the Owners of the Series 2016 Bonds, if the Bond Trustee determines that such amendment is not materially adverse to the interests of the Owners of the Series 2016 Bonds. In the event that the Bond Trustee does not make such determination, the Bond Trustee shall solicit the consent of the Owners of the Series 2016 Bonds to such amendment. The Bond Trustee shall consent to such amendment if the Holders of at least

a majority in principal amount of the then Outstanding Series 2016 Bonds consent to such amendment; *provided* that (i) no such consent shall be given to an amendment which affects the rights of some but less than all the Outstanding Series 2016 Bonds without the consent of the Holders of a majority in aggregate principal amount of the Series 2016 Bonds affected and (ii) no such consent shall be given to an amendment which alters the time, amounts, currency or terms of any payment terms of the Series 2016 Note (other than to reflect prepayments on the Series 2016 Note or the redemption of the Series 2016 Bonds) without the consent of the Holders of all Outstanding Series 2016 Bonds.

REMOVAL OF BOND TRUSTEE

The Owners of not less than a majority in aggregate principal amount of the Series 2016 Bonds then outstanding may, with the prior written consent of the Authority, remove the Bond Trustee for any reason at any time upon 30 days' prior notice by an instrument or concurrent instruments in writing signed by such Owners, or by their duly authorized attorneys in fact, a copy of which shall be delivered personally or sent by first class mail, postage prepaid, to the Bond Trustee, the Authority and the Obligated Group Representative. As long as no Loan Default has occurred and is continuing, and no event shall have occurred which, with the passage of time or the giving of notice, or both, would become a Loan Default, the Obligated Group Representative may remove the Bond Trustee with or without cause at any time, with the prior written consent of the Authority, by a written instrument delivered personally or sent by first class mail, postage prepaid, to the Bond Trustee and the Authority.

APPOINTMENT OF SUCCESSOR BOND TRUSTEE BY THE OWNERS; TEMPORARY BOND TRUSTEE

In the event that the Bond Trustee or the Bond Registrar under the Bond Indenture shall give notice of resignation or be removed, or be dissolved, or shall be in the course of dissolution or liquidation, or otherwise become incapable of acting under the Bond Indenture, or in case it shall be taken under the control of any public office or offices, or of a receiver appointed by a court, the Borrower may (to the extent that no Loan Default shall have occurred and be continuing), with the prior written consent of the Authority, appoint a successor Bond Trustee or Bond Registrar and shall confirm such appointment in writing delivered personally or sent by first class mail, postage prepaid, to the Authority, the Bond Trustee, the successor Bond Trustee, if applicable, the Bond Registrar, the successor Bond Registrar, if applicable, and the Borrower.

In the event that the Bond Trustee or the Bond Registrar shall give notice of resignation or be removed, or be dissolved, or shall be in the course of dissolution or liquidation, or otherwise become incapable of acting under the Bond Indenture, or in case it shall be taken under the control of any public office or offices, or of a receiver appointed by a court, to the extent that a Loan Default shall have occurred and be continuing, a successor may be appointed by the owners of a majority in aggregate principal amount of Bonds then Outstanding, by an instrument or concurrent instruments in writing signed by such owners, or by their duly authorized attorneys in fact, a copy of which shall be delivered personally or sent by first class mail, postage prepaid, to the Authority, to the Bond Trustee, the successor Bond Trustee, if applicable, the Bond Registrar, the successor Bond Registrar, if applicable, and the Borrower.

Pending such appointment by the Bondholders or the Borrower, the Authority may, with the consent of the Borrower (to the extent that no Loan Default shall have occurred and be continuing),

appoint a temporary successor Bond Trustee by an instrument in writing signed by an authorized officer of the Authority, a copy of which shall be delivered personally or sent by first class mail, postage prepaid, to the Bond Trustee, the successor Bond Trustee, if applicable, the Bond Registrar, the successor Bond Registrar, if applicable, and the Borrower. If no permanent successor Bond Trustee shall have been appointed by the Borrower or the Bondholders within the six calendar months next succeeding the month during which the Authority appoints such a temporary Bond Trustee, such temporary Bond Trustee shall without further action on the part of the Authority or the Bondholders become the permanent successor Bond Trustee.

If the Borrower, the registered owners or the Authority fail to so appoint a successor Bond Trustee or Bond Registrar (whether permanent or temporary) under the Bond Indenture within forty-five (45) days after the Bond Trustee or Bond Registrar has given notice of its resignation, has been removed, has been dissolved, has otherwise become incapable of acting under the Bond Indenture or has been taken under control by a public officer or receiver, the Bond Trustee or Bond Registrar shall have the right to petition a court of competent jurisdiction to appoint a successor under the Bond Indenture. Every such Bond Trustee or Bond Registrar appointed pursuant to the provisions of the provisions of the Bond Indenture summarized under this caption shall be a trust company or bank organized and in good standing under the laws of the United States, the State or any other state or the District of Columbia and have a combined capital and surplus of not less than $50,000,000 as set forth in its most recent published annual report of condition, or alternatively, a liability policy having the type of coverage and in an amount acceptable to the Authority and the Borrower. Every such Bond Trustee shall have an operations group of at least four (4) experienced trust officers, with primary responsibility for municipal bond issues and shall have at least 25 municipal bond indentures aggregating at least $25,000,000 under its administration.

SUMMARY OF THE LOAN AGREEMENT

The following, in addition to information provided elsewhere in this Official Statement, summarizes certain provisions of the Loan Agreement. Reference is made to the Loan Agreement for a complete description thereof. The discussion herein is qualified by such reference.

CONSENT TO ASSIGNMENT OF LOAN AGREEMENT AND SERIES 2016 NOTE TO BOND TRUSTEE

As security for the payment of the Series 2016 Bonds, the Authority will assign and pledge to the Bond Trustee all right, title and interest of the Authority in and to in the Loan Agreement and the Series 2016 Note, including the right to receive payments under the Loan Agreement and the Series 2016 Note (except Unassigned Rights, including without limitation, the right to receive payment of expenses, fees, indemnification and the rights to make determinations and receive notices as provided in the Loan Agreement) and directs the Borrower in the Loan Agreement to make payments directly to the Bond Trustee. The Borrower assents to such assignment and pledge and agrees to make payments directly to the Bond Trustee without defense or set-offs by reason of any dispute between the Borrower and the Authority or the Bond Trustee, and agrees in the Loan Agreement that its obligation to make payments thereunder and to perform its other agreements contained therein are absolute and unconditional.

TERM OF LOAN AGREEMENT

The Borrower's obligations under the Loan Agreement shall commence on the date of the execution and delivery of the Loan Agreement and shall terminate after payment in full of all principal of, premium, if any and interest on the Series 2016 Bonds or the provision for the payment thereof shall have been made pursuant to the Bond Indenture; all fees, charges and indemnities and expenses of the Authority and the Bond Trustee have been fully paid or provision made for such payment (as certified in writing by the Borrower); and all other amounts due under the Loan Agreement, the Bond Indenture and the Series 2016 Note have been fully paid or provision made for such payment; *provided, however*, that certain of the covenants and obligations set forth in the Loan Agreement shall survive the termination of the Loan Agreement and the payment in full of the amounts due under the Loan Agreement and under the Bond Indenture and the Series 2016 Note.

PAYMENT OF PRINCIPAL AND INTEREST; PREPAYMENTS

The Borrower agrees to make Loan Payments under the Loan Agreement on or before each Interest Payment Date or date on which principal becomes due on the Series 2016 Bonds in such amounts as shall be sufficient to make all payments of principal of, premium, if any, and interest on the Series 2016 Bonds when due and payable on such date.

At the option of the Borrower and after giving at least 35 days' written notice to the Authority and the Bond Trustee (or such lesser period of notice as may be acceptable to the Authority and the Bond Trustee), the Borrower may prepay all or a portion of the Loan by paying to the Bond Trustee the then applicable optional redemption price of the Series 2016 Bonds or by paying to the Bond Trustee an amount sufficient to defease or redeem all or any portion of the Series 2016 Bonds under the provisions of the Bond Indenture summarized above under the caption "SUMMARY OF THE BOND INDENTURE—Defeasance of Series 2016 Bonds" and "—Provision for Payment of a Portion of the Series 2016 Bonds" in this APPENDIX E.

OBLIGATIONS UNCONDITIONAL

The Borrower's obligations under the Loan Agreement and the obligations of the Obligated Group under the Series 2016 Note are continuing, unconditional and absolute, and are independent of and separate from any obligations of the Authority and shall not be diminished or deferred for any reason whatsoever, irrespective of the doing of any act or the omission thereof by the Authority or the Bond Trustee, irrespective of the existence of any other circumstances which might otherwise constitute a legal or equitable defense or discharge of the obligations of the Borrower under the Loan Agreement, including without limitation (i) any matters of abatement, setoff, counterclaim, recoupment, defense or other right the Borrower or the other Obligated Issuers may have against the Authority or the Bond Trustee, suppliers of any portion of the Obligated Group's hospital facilities or anyone for any reason whatsoever; (ii) compliance with specifications, conditions, design, operation, disrepair or fitness for use of, or any damage to or loss or destruction of any portion of the Obligated Group's hospital facilities, any condemnation or sale in anticipation of condemnation of all or any portion of the Bond Financed Property, or any interruption or cessation in the use or possession thereof for any reason whatsoever; (iii) any insolvency, bankruptcy, reorganization or similar proceedings by or against the Borrower or the other Obligated Issuers; (iv) any failure of any supplier to deliver any portion of the Bond Financed

Property for any reason whatsoever except as otherwise provided in the Loan Agreement; (v) any acts or circumstances that may constitute failure of consideration, sale, loss, destruction or condemnation of or damage to the Bond Financed Property; or (vi) any change in the tax or other laws of the United States or of the State or any political subdivision of either or any failure of the Authority to perform and observe any agreement, whether express or implied, or any duty, liability or obligation arising out of or in connection with the Loan Agreement. The Borrower waives, to the extent permitted by applicable law, any and all rights which it may now have or which at any time hereafter may be conferred upon it, by statute or otherwise, to terminate, cancel, quit or surrender the Loan Agreement except in accordance with the express terms of the Loan Agreement. The parties to the Loan Agreement intend that the payments made pursuant to the Series 2016 Note shall be paid to the Bond Trustee on behalf of the Authority without diminution of any kind.

NO RECOURSE

The obligations of the Authority under the Loan Agreement are special, limited obligations of the Authority, payable solely out of the revenues and income derived under the Loan Agreement and the Series 2016 Note and as otherwise provided under the Loan Agreement, the Bond Indenture and the Resolution. The obligations of the Authority under the Loan Agreement shall not be deemed to constitute an indebtedness or an obligation of the State or any political subdivision thereof within the purview of any constitutional limitation or statutory provision, or a charge against the credit or general taxing powers, if any, of any of them. The Authority does not have the power to levy taxes for any purposes whatsoever. Neither the Authority nor any member, director, officer, employee or agent of the Authority nor any person executing the Series 2016 Bonds shall be liable personally for the Series 2016 Bonds or be subject to any personal liability or accountability by reason of the issuance of the Series 2016 Bonds. No recourse shall be had for the payment of the principal of, premium, if any, and interest on any of the Series 2016 Bonds or for any claim based thereon or upon any obligation, covenant or agreement contained in the Bond Indenture, the Loan Agreement or the Bond Purchase Agreement against any past, present or future member, officer, agent or employee of the Authority, or any incorporator, member, officer, employee, director or trustee of any successor corporation, as such, either directly or through the Authority or any successor corporation, under any rule of law or equity, statute or constitution or by the enforcement of any assessment or penalty or otherwise, and all such liability of any such incorporator, member, officer, employee, director, agent or trustee as such is expressly waived and released as a condition of and consideration for the execution of the Bond Indenture and the Loan Agreement and the issuance of the Series 2016 Bonds.

SECURITY INTEREST IN FUNDS

To secure payment of the principal of and interest payable on the Series 2016 Note and the performance of all the other covenants of the Borrower contained in the Loan Agreement, the Borrower does grant to the Authority a security interest in the Borrower's right, title and interest, if any, in any and all moneys, securities and other property from time to time on deposit in any Fund established under the Bond Indenture, together with all income thereon and proceeds thereof, and all substitutions thereof and additions thereto. Notwithstanding the foregoing, there is expressly excluded from the lien of the Bond Indenture amounts held by the Bond Trustee in the Rebate Fund.

MAINTENANCE AND OPERATION OF THE BOND FINANCED PROPERTY

The Borrower shall be responsible for operating and maintaining the Bond Financed Property in good working order, making from time to time all needed material repairs thereto, and shall maintain reasonable amounts of insurance coverage and pay all costs of such maintenance, repair and insurance; *provided, however*, that nothing in this paragraph shall require the Borrower, RMH, RHPH, MHSC or MAC to operate or maintain the Bond Financed Property or any part thereof if it determines that it is not in its best interests to do so as long as there is no negative impact on the tax exempt status of the Series 2016 Bonds.

USE OF BOND FINANCED PROPERTY

The Borrower agrees under the Loan Agreement that the Borrower, RMH, RHPH, MHSC and MAC will use the Bond Financed Property only in furtherance of their lawful purposes and only for purposes permitted by the Act. The Borrower further agrees that it will not use the Bond Financed Property or any part thereof for sectarian instruction or as a place of religious worship or as a facility used in connection with any part of the program of a school or department of divinity for any religious denomination or for the training of priests, ministers, rabbis or other similar persons in the field of religion. Notwithstanding the payment of the Series 2016 Note, and notwithstanding the termination of the Loan Agreement, the Borrower agrees that the Borrower, RMH, RHPH, MHSC and MAC will continue to comply with the restriction stated in the preceding sentence on the sectarian use of the Bond Financed Property. The Borrower agrees under the Loan Agreement that the Borrower, RMH, RHPH, MHSC and MAC will permit inspections of the Bond Financed Property solely in order to determine whether the Borrower has complied with the provisions of this paragraph. Nothing contained in the Loan Agreement, however, shall prevent the Borrower, RMH, RHPH, MHSC or MAC from having a chapel or chapels in its facilities for the use of patients, employees or visitors or from having a chaplain staff and chaplain training program.

ASSIGNMENT, SALE, LEASE OR DISPOSITION OF BOND FINANCED PROPERTY

The Borrower may assign its interest in the Loan Agreement and the Borrower, RMH, RHPH, MHSC and MAC may sell, lease and dispose of the Bond Financed Property, in whole or in part, without the prior written consent of the Authority or the Bond Trustee*; provided* that in connection with any such assignment of the Loan Agreement or any sale, lease or disposition of the Bond Financed Property, in whole or in part, other than in the ordinary course of business, the Borrower shall provide the Bond Trustee with (i) a certificate of an Authorized Officer of the Borrower to the effect that such assignment or such sale or lease will not result in any event of default, or event which, with the passage of time or the giving of notice or both, would constitute an event of default under the Master Indenture and (ii) an opinion of Bond Counsel to the effect that such assignment or such sale or lease is authorized or permitted under the terms of the Act and will not, by itself adversely affect the exclusion of interest on the Series 2016 Bonds from gross income of the Owners for federal income tax purposes. No such assignment, sale or lease shall relieve the Borrower from its obligations under the Loan Agreement or the Series 2016 Note.

MAINTENANCE OF CORPORATE EXISTENCE AND QUALIFICATION

Notwithstanding any provisions of the Master Indenture, unless the Borrower complies with the following provisions of the Loan Agreement summarized under this caption, the Borrower agrees under the Loan Agreement that, as long as any Series 2016 Bonds are outstanding, the Borrower will maintain its existence, will not dissolve, liquidate or otherwise dispose of all or substantially all of its assets, and will not consolidate with or merge into another corporation or permit one or more other corporations to consolidate with or merge into it. Any dissolution, liquidation, disposition, consolidation or merger of the Borrower shall be subject to the following conditions:

(a) no event of default exists under the Loan Agreement, the Bond Indenture or the Borrower Agreements and no event of default thereunder will be caused by the dissolution, liquidation, disposition, consolidation or merger;

(b) the entity surviving the dissolution, liquidation, disposition, consolidation or merger assumes (or if the surviving entity is the Borrower, affirms) in writing and without condition or qualification the obligations of the Borrower under each of the Borrower Agreements;

(c) neither the validity nor the enforceability of the Series 2016 Bonds, the Bond Indenture or the Borrower Agreements is adversely affected by the dissolution, liquidation, disposition, consolidation or merger;

(d) the exclusion of the interest on the Series 2016 Bonds from gross income for federal income tax purposes is not adversely affected by the dissolution, liquidation, disposition, consolidation or merger, and the provisions of the Act and the Bond Indenture are complied with concerning the dissolution, liquidation, disposition, consolidation or merger;

(e) the Bond Financed Property continues to be as described in the Loan Agreement;

(f) any successor to the Borrower shall be qualified to do business in the State and shall continue to be qualified to do business in the State throughout the term of the Loan Agreement; and

(g) the Authority has executed a certificate acknowledging receipt and approval of all documents, information and materials required by the provisions of the Loan Agreement summarized under this caption.

As of the effective date of the dissolution, liquidation, disposition, consolidation or merger, the Borrower (at its cost) shall furnish to the Authority (i) an opinion of Bond Counsel, in form and substance satisfactory to the Authority, as to item (d) above, (ii) an opinion of counsel (of high reputation and expertise as determined by the Authority), in form and substance satisfactory to the Authority, as to the legal, valid and binding nature of items (b) and (c) above, (iii) a certificate of the Borrower, in form and substance satisfactory to the Authority, as to items (a), (e) and (f), and (iv) a true and complete copy of the instrument of dissolution, liquidation, disposition, consolidation or merger.

The Authority and the Borrower expressly acknowledge and agree in the Loan Agreement that the covenant summarized under this caption is for the sole benefit of the Authority and that the Authority may waive compliance with this covenant, or otherwise agree to any amendments to this covenant, without the consent of the Bond Trustee or any Bondholders.

COVENANTS RELATING TO THE TAX STATUS OF THE SERIES 2016 BONDS

The Borrower and the Authority covenant in the Loan Agreement that each will not take (or fail to take) any action or permit (or fail to permit) any action to be taken on its behalf, or cause or permit any circumstance within its control to arise or continue, if such action or circumstance, or its reasonable expectation on the date of issuance of the Series 2016 Bonds, would adversely affect the exclusion of interest on the Series 2016 Bonds from gross income of the Owners thereof for federal income tax purposes.

Without limiting the foregoing, the Borrower covenants in the Loan Agreement that, notwithstanding any other provision of the Loan Agreement or any other instrument, it will neither make nor cause to be made, or permit any investment or other use of the proceeds of the Loan or the use of any property or investment property financed or refinanced thereby, which use would cause any of the Series 2016 Bonds to be an "arbitrage bond" under Section 148(a) of the Code or bonds described in paragraph (3) or (4) of Section 149(d) of the Code relating to restrictions on advance refundings or "hedge bonds" under Section 149(g) of the Code. The Borrower agrees in the Loan Agreement that it will not make or permit any use of the proceeds of the Series 2016 Bonds, or the investment proceeds thereof, or any use of the Bond Financed Property, which would adversely affect the exclusion of interest on the Series 2016 Bonds from gross income of the Owners thereof for federal income tax purposes. The Borrower covenants in the Loan Agreement that neither it nor any related person (as defined in Section 1.150-1(e) of the Regulations, as defined in the Tax Agreement) over which it has control shall purchase obligations of the Authority in an amount related to the Series 2016 Note.

RECORDING AND MAINTENANCE OF LIENS

(a) The Borrower will, at its own expense, take all necessary action to maintain and preserve the liens and security interests of the Borrower Documents and the Bond Indenture as long as any principal, premium, if any, or interest on the Series 2016 Bonds remains unpaid and to comply with the recording and filing requirements under the Bond Indenture.

(b) The Borrower will, forthwith after the execution and delivery of the Borrower Documents and the Bond Indenture and thereafter from time to time, cause the Borrower Documents and the Bond Indenture, including any amendments thereof and supplements thereto, and any financing statements in respect thereof to be filed, registered and recorded in such manner and such places as may be required by law in order to publish notice of and fully to perfect and protect (i) the lien and security interest thereof upon the trust estate created under the Bond Indenture and (ii) the lien and security interest therein granted to the Bond Trustee or the purchasers of the Series 2016 Bonds, if any, upon the rights, if any, of the Authority assigned under the Borrower Documents and the Bond Indenture, and from time to time will perform or cause to be performed any other act as provided by law and will execute or cause to be executed any and all continuation statements and further instruments necessary for such publication, perfection and protection. Except to the extent it is exempt therefrom, the Borrower will pay or cause to

be paid all filing, registration and recording fees incident to such filing, registration and recording, and all expenses incident to the preparation, execution and acknowledgment of such instruments of further assurance, and all federal or State fees and other similar fees, duties, imposts, assessments and charges arising out of or in connection with the execution and delivery of the Borrower Documents, the Bond Indenture and such instruments of further assurance.

(c) The Authority shall have no responsibility for the preparation, filing or recording of any instrument, document or financing statement or for the maintenance of any security interest intended to be perfected thereby. The Authority will execute such instruments provided to it by the Borrower as may be reasonably necessary in connection with such filing or recording.

EVENTS OF DEFAULT AND REMEDIES

If any of the following events occurs, it is defined as and declared to be and to constitute a "Loan Default":

(a) failure by the Borrower to pay any Loan Payment on or before the date on which the corresponding payment of the principal of, premium, if any, or interest on the Series 2016 Bonds is due and payable;

(b) failure by the Borrower to observe and perform any covenant, condition or agreement on its part to be observed or performed under the Loan Agreement (other than the failures referred to in the preceding subparagraph (a)) or the failure by the Borrower, RMH, RHPH, MHSC or MAC to observe and perform any covenant, condition or agreement on its part to be observed or performed under the Tax Agreement or by RMH, RHPH, MHSC or MAC to observe and perform any covenant, condition or agreement on its part to be observed or performed under the Use Agreement, in each case for a period of 30 days after written notice specifying such failure and requesting that it be remedied, is given to the party in default by the Authority or the Bond Trustee, unless the Authority and the Bond Trustee shall agree in writing to an extension of such time prior to its expiration; *provided, however*, that if the failure stated in the notice is correctable but cannot be corrected within the applicable period, the Authority and the Bond Trustee will not unreasonably withhold their consent to an extension of such time if corrective action is instituted by the party in default within the applicable period and diligently pursued until such failure is corrected;

(c) the Borrower admits insolvency or bankruptcy or its inability to pay its debts as they mature, or is generally not paying its debts as such debts become due, or makes an assignment for the benefit of creditors or applies for or consents to the appointment of a trustee, custodian or receiver for the Borrower or for the major part of its Property;

(d) bankruptcy, dissolution, reorganization, arrangement, insolvency or liquidation proceedings, proceedings under Title 11 of the United States Code, as amended, or other proceedings for relief under any bankruptcy law or similar law for the relief of debtors are instituted by or against the Borrower (other than bankruptcy proceedings instituted by the Borrower against third parties) and, if instituted against the Borrower, are allowed against the

Borrower or are consented to or are not dismissed, stayed or otherwise nullified within 60 days after such institution;

(e) an Event of Default shall occur under the Bond Indenture; or

(f) an event of default under the Master Indenture shall have occurred, which default is not cured or waived and extends beyond any period of grace with respect thereto.

The preceding subparagraph (b) is subject to the following limitation: if by reason of force majeure, the Borrower is unable in whole or in part to carry out the agreements on its part contained in the Loan Agreement, the Borrower shall not be deemed in default during the continuance of such inability. The term "force majeure" as used in the Loan Agreement shall mean, without limitation, the following: acts of God; strikes, lockouts or other industrial disturbances; acts of public enemies; orders or restraints of any kind of the government of the United States or of the State or any of their departments, agencies or officials, or any civil or military authority; insurrections; riots; landslides; earthquakes; fires; storms; droughts; floods; explosions; or breakage or accident to machinery, transmission pipes or canals.

Whenever any Loan Default shall have occurred and be continuing, the Authority and the Bond Trustee shall, in addition to any other remedies provided in the Loan Agreement or by law, have the right, at its or their option, without any further demand or notice, to take one or any combination of the following remedial steps:

(a) declare all amounts due under the Series 2016 Note to be immediately due and payable, and upon written notice to the Borrower the same shall become immediately due and payable without further notice or demand; or

(b) take whatever other action at law or in equity may appear necessary or desirable to collect the amounts then due and thereafter to become due under the Loan Agreement or to enforce any other rights of the Bond Trustee or the Authority thereunder or as the holder of the Series 2016 Note.

Notwithstanding the foregoing, any declaration of acceleration pursuant to (a) above shall be rescinded upon rescission of any declaration of acceleration of the Series 2016 Bonds under the provisions of the Bond Indenture summarized under the caption "SUMMARY OF THE BOND INDENTURE — Waivers of Event of Default" in this APPENDIX E.

No remedy conferred upon or reserved to the Authority or the Bond Trustee in the Loan Agreement is intended to be exclusive of any other available remedy, and every such remedy shall be cumulative and shall be in addition to every other remedy given under the Loan Agreement and the Bond Indenture or now or hereafter existing at law or in equity or by statute. No delay or omission to exercise any right, remedy or power accruing upon any Loan Default shall impair any such right, remedy or power or shall be construed to be a waiver thereof, but any such right, remedy or power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Authority or the Bond Trustee to exercise any remedy reserved to it or them in the Loan Agreement, neither the Bond Trustee nor the Authority shall be required to give any notice, other than such notice as may be expressly required therein.

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APPENDIX F

PROPOSED FORM OF OPINION OF BOND COUNSEL

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APPENDIX F

PROPOSED FORM OF OPINION OF BOND COUNSEL

[LETTERHEAD OF CHAPMAN AND CUTLER LLP]

[TO BE DATED CLOSING DATE]

Illinois Finance Authority
Chicago, Illinois

Mercy Health Corporation
Rockford, Illinois

U.S. Bank National Association, as bond trustee
Milwaukee, Wisconsin

B.C. Ziegler and Company, as representative of the underwriters
Chicago, Illinois

Re: $475,020,000 Illinois Finance Authority
Revenue Bonds, Series 2016
(Mercy Health Corporation)

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance on the date hereof by the Illinois Finance Authority (the "Authority") of $475,020,000 in aggregate principal amount of its Illinois Finance Authority Revenue Bonds, Series 2016 (Mercy Health Corporation) (the "Series 2016 Bonds"). The Series 2016 Bonds are being issued under the provisions of the Illinois Finance Authority Act, as amended (the "Act"), and under and pursuant to the Bond Trust Indenture dated as of May 1, 2016 (the "Bond Indenture"), between the Authority and U.S. Bank National Association, as bond trustee (the "Bond Trustee"), relating to the Series 2016 Bonds. Capitalized terms used herein, but not defined herein, have the meanings set forth in the Bond Indenture.

The proceeds from the sale of the Series 2016 Bonds are being loaned to Mercy Health Corporation, an Illinois not for profit corporation (the "Borrower"), pursuant to the Loan Agreement dated as of May 1, 2016 (the "Loan Agreement"), between the Authority and the Borrower. The proceeds of the Series 2016 Bonds will be used, together with other available funds, to (i) finance, refinance, or reimburse the Borrower, Rockford Memorial Hospital, an Illinois not for profit corporation ("RMH"), or Rockford Health Physicians, an Illinois not for profit corporation ("RHPH"), for all or a portion of the costs, including capitalized interest, if any, of the planning, design, acquisition, construction, renovation, improvement, expansion and equipping of certain of its health care facilities, including without limitation a new 188 bed hospital and ambulatory care building, (ii) refund all outstanding Illinois Finance Authority Variable Rate Demand Revenue Bonds, Series 2008 (Rockford Memorial Hospital Obligated Group) issued in the original principal amount of $60,800,000 (the "Series 2008 Bonds") and all outstanding Illinois Finance Authority Revenue Refunding Bonds, Series 2012 (Rockford Health

System Obligated Group) issued in the original principal amount of $35,075,000 (the "Series 2012 Bonds" and, collectively with the Series 2008 Bonds, the "Rockford Prior Bonds"), the proceeds of which were loaned to RMH for the financing or refinancing of the costs of acquiring, constructing and equipping certain health care facilities of RMH and related corporate affiliates, (iii) advance refund $13,880,000 in aggregate principal amount of the Wisconsin Health and Educational Facilities Authority Revenue Bonds, Series 2010A (Mercy Alliance, Inc.) (the "Series 2010A Bonds" and, collectively with the Rockford Prior Bonds, the "Prior Bonds"), issued in the original aggregate principal amount of $48,445,000 and outstanding in the aggregate principal amount of $27,640,000, the proceeds of which were loaned to a predecessor of the Borrower, for the financing or refinancing of the costs of acquiring, constructing and equipping certain health care facilities of such entity and related corporate affiliates, (iv) pay certain payments incurred in connection with the termination of (a) an interest rate agreement related to the Series 2008 Bonds and (b) an additional covenant agreement related to the Series 2012 Bonds, and (v) pay certain costs relating to the issuance of the Series 2016 Bonds and the refunding of the Prior Bonds, all as permitted under the Act.

Concurrently with the issuance of the Series 2016 Bonds, the Borrower will enter into a Use Agreement dated as of May 1, 2016 (the "Use Agreement"), among the Borrower, RMH, RHPH, Mercy Health System Corporation, a Wisconsin nonstock, nonprofit corporation ("MHSC"), and Mercy Assisted Care, Inc., a Wisconsin nonstock, nonprofit corporation ("MAC"), relating to the use of certain components of the Bond Financed Property.

In order to secure the payment of the Series 2016 Bonds, the Borrower, concurrently with the issuance and delivery of the Series 2016 Bonds, is issuing and delivering to the Authority, and the Authority is assigning to the Bond Trustee, all of its right, title and interest in and to the $475,020,000 Promissory Note, Series 2016 (the "Series 2016 Note") of the Borrower. The Series 2016 Note is being issued by the Borrower pursuant to the Second Supplemental Master Trust Indenture dated as of May 1, 2016 (the "Second Supplement") among the Borrower, as Obligated Group Representative on behalf of itself, MHSC and certain affiliates thereof, RMH and RHPH, and U.S. Bank National Association, as master trustee (the "Master Trustee"), supplementing the hereinafter defined Existing Master Indenture. Pursuant to the Second Supplement, the Amended and Restated Master Trust Indenture dated as of May 1, 2012, as supplemented and amended (the "Existing Master Indenture"), among the Borrower, MHSC, Mercy Harvard Hospital, Inc. and MAC and U.S. Bank National Association, as master trustee, is being amended and restated by the Second Amended and Restated Master Trust Indenture dated as of May 1, 2016 (the "Master Indenture") among the Borrower, RMH, RHPH and MHSC (the "Obligated Group" or the "Obligated Issuers") and the Master Trustee in the form attached to the Second Supplement.

In connection with the execution and delivery of the Master Indenture, there has been executed and delivered (i) the Amended and Restated Mortgage, Security Agreement and Fixture Filing dated as of May 1, 2016 from MHSC, as mortgagor, to the Master Trustee, as mortgagee, and (ii) the Mortgage, Security Agreement and Fixture Filing dated as of May 1, 2016 from RMH, as mortgagor, to the Master Trustee, as mortgagee (collectively, the "Mortgages"). The Mortgages secure, among other things, the payment of the principal of, premium, if any, and

interest payable on all Master Notes (as defined in the Master Indenture) issued under the Master Indenture, including the Series 2016 Note.

The Series 2016 Bonds have been sold to B.C. Ziegler and Company, as representative of the underwriters (the "Representative"), pursuant to a Bond Purchase Agreement dated May 5, 2016 (the "Bond Purchase Agreement"), among the Representative, on behalf of itself and the underwriters named therein, the Borrower and the Authority. In connection with the sale of the Series 2016 Bonds, the Borrower has executed and delivered an Official Statement dated May 5, 2016 (the "Official Statement"), relating to the Series 2016 Bonds.

In connection with the issuance of the Series 2016 Bonds, the Authority, the Bond Trustee and the Borrower have executed a Tax Exemption Certificate and Agreement dated the date hereof (the "Tax Agreement"), which places certain restrictions on the investment of moneys held in the funds established by the Bond Indenture and which, under certain circumstances, would require the transfer of certain moneys held in such funds to a Rebate Fund created under the Tax Agreement.

As bond counsel, we have examined the following:

(a) certified copies of the proceedings of the Authority authorizing or approving, among other things, the execution and delivery of the Bond Indenture, the Loan Agreement, the Use Agreement, the Bond Purchase Agreement, the Second Supplement, the Master Indenture, the Series 2016 Note and the Tax Agreement, the use and distribution of the Official Statement and the issuance and sale of the Series 2016 Bonds;

(b) certified copies of the Articles of Incorporation, as amended, of the Obligated Issuers and MAC and the Bylaws, as amended, of the Obligated Issuers and MAC;

(c) certificates of the Secretary of State of the State of Illinois and the Wisconsin Department of Financial Institutions relative to the good standing of the Obligated Issuers and MAC in the State of Illinois or the State of Wisconsin, as applicable;

(d) certified copies of the corporate proceedings of the Board of Directors of the Borrower authorizing or approving for itself and the other Members of the Obligated Group, among other things, the execution and delivery of the Bond Indenture, the Series 2016 Note, the Second Supplement, the Master Indenture, the Mortgages, the Loan Agreement, the Use Agreement, the Bond Purchase Agreement, the Official Statement and the Tax Agreement, and the issuance and sale of the Series 2016 Bonds;

(e) the executed Series 2016 Note and Official Statement and executed counterparts of the Bond Indenture, the Loan Agreement, the Use Agreement, the Bond Purchase Agreement, the Second Supplement, the Master Indenture, the Mortgages and the Tax Agreement;

(f) a specimen Series 2016 Bond;

(g) executed opinions of Hall, Render, Killian, Heath & Lyman, P.C., Milwaukee, Wisconsin, special counsel to the Obligated Issuers and MAC, and Quarles & Brady LLP, Milwaukee, Wisconsin, special counsel to the Authority; and

(h) such other documents and showings and related matters of law as we have deemed necessary in order to enable us to render this opinion.

Based upon the foregoing and in reliance upon the matters hereinafter referred to, we are of the opinion that:

1. The Bond Indenture, the Loan Agreement, the Bond Purchase Agreement and the Tax Agreement have been duly authorized by all necessary action on the part of the Authority, have been duly executed and delivered by authorized officers of the Authority and, assuming the due authorization, execution and delivery thereof by the other parties thereto, constitute the legal, valid and binding obligations of the Authority enforceable against the Authority in accordance with their respective terms, except to the extent limited by bankruptcy, reorganization or other similar laws affecting creditors' rights generally and by the availability of equitable remedies, and except to the extent that the enforcement of the indemnification provisions of the Loan Agreement and the Bond Purchase Agreement may be limited by federal or state securities laws. The Series 2016 Note has been pledged and assigned by the Authority to the Bond Trustee pursuant to the Bond Indenture as security for the Series 2016 Bonds.

2. The Series 2016 Bonds have been duly authorized by all necessary action on the part of the Authority, have been duly executed by authorized officers of the Authority, authenticated by the Bond Trustee and issued by the Authority and constitute the legal, valid and binding limited obligations of the Authority enforceable in accordance with their terms, except to the extent limited by bankruptcy, reorganization or other similar laws affecting the enforcement of creditors' rights generally and by the availability of equitable remedies, and the Series 2016 Bonds are entitled to the benefits and security of the Bond Indenture.

3. Subject to compliance by the Authority, the Obligated Issuers and MAC with certain covenants, under present law, interest on the Series 2016 Bonds is excludable from gross income of the owners thereof for federal income tax purposes and is not included as an item of tax preference in computing the alternative minimum tax for individuals and corporations under the Internal Revenue Code of 1986, as amended (the "Code"), but we express no opinion as to whether interest on the Series 2016 Bonds is taken into account in computing adjusted current earnings, which is used in determining the federal alternative minimum tax for certain corporations. Failure to comply with certain of such covenants of the Authority, the Obligated Issuers and MAC could cause the interest on the Series 2016 Bonds to be includable in gross income for federal income tax purposes retroactively to the date of issuance of the Series 2016 Bonds. Ownership of the Series 2016 Bonds may result in other federal tax consequences to certain

taxpayers, and we express no opinion regarding any such collateral consequences arising with respect to the Series 2016 Bonds. Interest on the Series 2016 Bonds is not exempt from present Illinois income taxation. Ownership of the Series 2016 Bonds may result in other state and local tax consequences to certain taxpayers, and we express no opinion regarding any such collateral consequences arising with respect to the Series 2016 Bonds.

In rendering this opinion, we have relied upon (a) the opinion of Hall, Render, Killian, Heath & Lyman, P.C., Milwaukee, Wisconsin, special counsel to the Obligated Issuers and MAC, referred to in paragraph (g) above, with respect to, among other things, (i) the status of the Obligated Issuers and MAC as organizations described in Section 501(c)(3) of the Code that are exempt from federal income taxation under Section 501(a) of the Code and (ii) the validity and binding effect upon and enforceability against the respective Obligated Issuers and MAC, as applicable, of the Master Indenture, the Loan Agreement, the Use Agreement, the Series 2016 Note, the Tax Agreement, the Mortgages and the Bond Purchase Agreement, subject to the exceptions set forth in said opinion, and (b) the mathematical computations of the yield on the Series 2016 Bonds and the yield on certain investments by The Arbitrage Group, Inc., Certified Public Accountants. In rendering the opinions in paragraph 3 hereof, we have relied upon certificates of even date herewith of the Obligated Issuers and MAC with respect to certain material facts within their knowledge relating to the application of the proceeds of the Series 2016 Bonds. In rendering this opinion, we have relied upon certifications of the Authority with respect to certain material facts within the knowledge of the Authority.

Our opinion represents our legal judgment based upon our review of the law and the facts that we deem relevant to render such opinion and is not a guaranty of a result. This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Respectfully submitted,

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