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December 20, 2016

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RECEIVED
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HEALTH FACILITIES & SERVICES REVIEW BOARD

Via Overnight Mail

Mike Constantino, Project Reviewer
Illinois Health Facilities and Services Review Board
525 W. Jefferson Street, 2nd Floor
Springfield, IL 62761

RE: Project No. 16-045- Champaign SurgiCenter

Dear Mike:

This letter responds to your inquiry from last week dated December 15, 2016 relating to Champaign SurgiCenter, Project Number 16-045. Thank you for your assistance with this project.

Service Accessibility

With regard to the Service Accessibility criterion, Carle Foundation, the sole member of Carle Foundation Hospital (the "Hospital"), is a co-applicant to this project and we can favorably address the cooperative venture provisions of Section 1110.1540(g)(4) of the HFSRB rules. As such, we believe the project should receive a favorable finding under the Service Accessibility criterion.
First, the Hospital's GSA for outpatient services is closely aligned with the service area of the Champaign SurgiCenter. Thus, the Hospital is currently providing outpatient services to the population of the ASC's GSA. The Hospital's recent application for an outpatient building in Urbana describes the counties served by the orthopedic and sports medicine physicians who will occupy that building (Project No. 15-002, see attached page 63) and this service area is generally reflective of Carle's outpatient hospital services GSA generally.

The relocation is one phase of the modernization of surgical services in the Carle system. There are three primary reasons to expand the ASC beyond the current capacity as part of this modernization. First, expanding the ASC will provide more capacity for a generally less costly outpatient surgery option. Second, there has been significant growth in Carle surgical services. This growth requires expansion of the Carle surgical program overall. Third, the main Hospital surgical department was constructed over 30 years ago in 1985 so addressing some of the growth in a new facility will partially achieve modernization of the surgical program without immediate construction in the main Hospital surgical department.

The ASC relocation is expected to be completed in 2019. Based on utilization trends discussed below, the Hospital's main surgical department and the endoscopy rooms in the Dr. Eugene Greenberg Digestive Health Institute will be operating above target utilization at the time the ASC opens at the new location. Carle anticipates transitioning the caseload of several employed physicians to the relocated surgery center including 2,418 hours of cases currently being performed in the main Hospital operating rooms and 1,215 hours of endoscopy cases currently provided in the Digestive Health Institute. These transfers are reflected in the Carle referral letter beginning on page 164 of the CON application.

Transitioning some endoscopy cases to the surgery center will allow the Hospital to continue to meet demand for upper endoscopy and colonoscopy services at the main Hospital campus while providing an alternative lower-cost setting for endoscopy at the surgery center. Overall growth in Carle's GI services is attributed to improved colorectal cancer screening rates, the aging population with associated co-morbidities (and age-related screening guidelines) and improved insurance coverage for preventative/screening services both in private payer and government insurance programs. Successful recruitment to build the Carle gastroenterology physician group has significantly enhanced provider access to support the community preventive colonoscopy screening needs. With significant endoscopy growth, transferring cases to the ASC should help the Hospital manage its growing demand for endoscopy room time. Similarly, shifting some cases from the general operating rooms allows for planning for future demand.

As reflected in the published annual hospital reports, from CY 2012 to CY 2015, Carle's general surgical program experienced a significant increase of utilization averaging 9.3% annual growth and endoscopy volume grew an average of about 25% per year based on hours. For the general operating rooms, annualizing the 2016 data that is available for the Hospital[1], general operating room utilization for 2016 will be 28,356 hours which has 18 of the 19 rooms at full capacity and the 19th room with 1,356 hours. I believe this utilization shows these operating rooms are fully utilized. Further, for planning purposes Carle must anticipate growth trends to continue into the future so the general operating rooms will be serving well in excess of 1,500 hours per room by the time any cases are transferred to the ASC in 2019. The Digestive Health Institute is also projected to have well in excess of 1,500 hours per room before the ASC is relocated – 1,794 hours per room by 2018 based on the growth trend. Even with more modest growth than is

[1] 1/1/2016 to 12/18/2016.

reflected by historical growth, the rooms should be fully utilized at both sites. Thus, we believe Carle's surgical program will support the number of rooms that it has at both sites and that the ASC will help to meet growing demand.

Also as described in the Carle referral letter, Carle will be transferring ophthalmology cases from the two dedicated eye procedure rooms at the Hospital which are provided in two specialized treatment rooms. With transitioning the routine, scheduled ophthalmology procedures currently performed in the specialized eye procedure rooms to the ASC, these eye procedure rooms will be deactivated except in connection with treating patients who are not candidates for surgery in a freestanding setting due to co-morbidities including excessive BMI and hospital emergency room patients or inpatients needing acute or emergency eye procedures.

Once the ASC is relocated, the Hospital agrees it will not increase its general surgery operating room or endoscopy procedure room capacity (for cases meeting criteria for surgery in an ASC setting) at the Hospital until such time the ASC's surgical/treatment rooms are operating at or above the target utilization for a period of at least 12 consecutive months, unless it receives a CON permit from the HFSRB to do so.

With regard to a comparison of reimbursement between the two sites of care, not only will the proposed charges for comparable procedures at the ASC be generally lower than those of the Hospital for the same procedures (See Attachment A), but Medicare payment rates for ASCs are on average 55% of what CMS pays hospitals (See Attachment B). This comparison helps demonstrate the value provided by expanding the ASC.

Charge Commitment

With regard to the charges set forth on Attachment 27 relating to part 1110.1540(j), I can confirm that the charges on pages 107 to 109, which are derived from a time and materials methodology, are representative of those that will be in place for a period of at least two years after the surgery center is relocated and the methodology will not be modified unless approved by the HFSRB.

Financing

To confirm our prior email exchange, page 133 of the CON application contains the attestation on financing.

As for anticipated financing terms the bond financing is part of Carle's recent issue of 30 year bonds, both tax-exempt and taxable. For both issues combined, the average bond life is 24.151

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years and the all-in true interest cost is 3.812568% with an average coupon of 4.280505%. Actual yields on the tax-exempt serial bonds range from 1.71% - 4.05%. The taxable bonds are variable rate with rates reset weekly. For purposes of the issue, a 2.50% average coupon was assumed.

Financial Statement

I have also included the 2015 audited financial statements for the Obligated Group companies that are part of Carle Foundation as you requested.

Let me know if you have any additional questions.

Sincerely,

Kara Friedman

Kara M. Friedman

KMF:rl

ATTACHMENT 12-A

Table 1110.230(a) Orthopedics/Sports Medicine Utilization by County		
County	**Visits***	**Percent of Visits**
CHAMPAIGN	22,981	66.2%
VERMILION	2,993	8.6%
PIATT	1,665	4.8%
DOUGLAS	1,585	4.6%
COLES	904	2.6%
FORD	599	1.7%
IROQUOIS	525	1.5%
DEWITT	334	1.0%
EDGAR	313	0.9%
MACON	191	0.6%
EFFINGHAM	185	0.5%
MCLEAN	166	0.5%
MOULTRIE	141	0.4%
CUMBERLAND	114	0.3%
SHELBY	103	0.3%
CLARK	91	0.3%
LIVINGSTON	80	0.2%
VERMILLION, IN	77	0.2%
FOUNTAIN, IN	60	0.2%
CRAWFORD	58	0.2%
JASPER	55	0.2%
CLAY	35	0.1%
LAWRENCE	31	0.1%
KANKAKEE	26	0.1%
WARREN, IN	26	0.1%
RICHLAND	15	0.0%
WOODFORD	12	0.0%
CHRISTIAN	8	0.0%
GRUNDY	8	0.0%
LOGAN	4	0.0%
MONTGOMERY, IN	3	0.0%
TOTAL VISITS* FROM SERVICE AREA	**33,388**	**96.2%**
TOTAL VISITS* OUTSIDE SERVICE AREA	**1,320**	**3.8%**
TOTAL VISITS*	**34,708**	**100.0%**

*A visit is defined as CPT codes 99201-99205, 99211-99215 and 99241-99245

ATTACHMENT A
CHARGE COMPARISON

Primary CPT	Primary CPT_Description	ASTC	Hospital
64721	Carpal tunnel surgery	$4,148.95	$6,146.02
26055	Incise finger tendon sheath	$4,116.72	$5,688.15
20680	Removal of support implant	$5,519.98	$9,337.10
52356	Cysto/uretero w/lithotripsy	$13,411.91	$16,767.10
52332	Cystoscopy and treatment	$9,589.93	$15,600.33
26160	Remove tendon sheath lesion	$4,581.92	$8,455.82
42830	Removal of adenoids	$4,938.69	$6,687.44
30520	Repair of nasal septum	$16,338.86	$17,943.00
47562	Laparoscopic cholecystectomy	$14,427.71	$17,616.89
64718	Revise ulnar nerve at elbow	$8,556.25	$13,665.72
29806	Shoulder arthroscopy/surgery	$15,352.89	$16,937.04

Attachment B

Primary CPT	Enc - Primary CPT_Desc	Hospital OPPS Payment	OPPS Weight	ASTC Payment	ASTC Payment Weight	ASC Revenue as a percentage of HOPD revenue
64721	Carpal tunnel surgery	$1,392.56	18.8886	$778.70	17.6268	55.9%
29881	Knee arthroscopy/surgery	$2,395.59	32.4936	$1,339.58	30.3230	55.9%
69436	Create eardrum opening	$1,616.90	21.9315	$904.15	20.4665	55.9%
42820	Remove tonsils and adenoids	$1,616.90	21.9315	$904.15	20.4665	55.9%
26055	Incise finger tendon sheath	$1,455.26	19.739	$813.76	18.4204	55.9%
20680	Removal of support implant	$1,414.28	19.1832	$790.85	17.9018	55.9%
29824	Shoulder arthroscopy/surgery	$2,395.59	32.4936	$1,339.58	30.3230	55.9%
52356	Cysto/uretero w/lithotripsy	$3,393.73	46.0323	$1,744.29	39.4841	51.4%
42826	Removal of tonsils	$1,616.90	21.9315	$904.15	20.4665	55.9%
23412	Repair rotator cuff chronic	$4,969.26	67.4027	$2,486.22	56.2787	50.0%

Sources:

https://www.cms.gov/Medicare/Medicare-Fee-for-Service-Payment/HospitalOutpatientPPS/Addendum-A-and-Addendum-B-Updates-Items/2016-Jan-Addendum-B.html?DLPage=1&DLEntries=10&DLSort=2&DLSortDir=descending
https://www.cms.gov/Medicare/Medicare-Fee-for-Service-Payment/ASCPayment/11_Addenda_Updates.html

The Carle Foundation Obligated Group

Combined Special-Purpose Financial Statements and Supplementary Schedules
December 31, 2015 and 2014

(With Independent Auditors' Report Thereon)

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KPMG

KPMG LLP
Aon Center
Suite 5500
200 East Randolph Drive
Chicago, IL 60601-6436

Independent Auditors' Report

The Board of Trustees
The Carle Foundation:

Report on the Financial Statements

We have audited the accompanying special-purpose combined financial statements of The Carle Foundation Obligated Group (the Obligated Group), which comprise the special-purpose combined balance sheets as of December 31, 2015 and 2014, and the related special-purpose combined statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the special-purpose combined financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these special-purpose combined financial statements in accordance with Section 411 of the Master Trust Indenture agreement between Wells Fargo Bank, National Association, and The Carle Foundation; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of special-purpose combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these special-purpose combined 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 special-purpose combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the special-purpose combined financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the special-purpose combined 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 special-purpose combined 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 special-purpose combined financial statements.

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

KPMG

Opinion

In our opinion, the special-purpose combined financial statements referred to above present fairly, in all material respects, the financial position of the Obligated Group as of December 31, 2015 and 2014, and the results of their operations and their cash flows for the years then ended in accordance with the basis of accounting described in note 1 to the special-purpose combined financial statements.

Basis of Accounting

We draw attention to note 1 of the special-purpose combined financial statements, which describes the basis of accounting. The special-purpose combined financial statements are prepared by the Obligated Group on the basis of the financial reporting provisions of Section 411 of the Master Trust Indenture, which is a basis of accounting other than U.S. generally accepted accounting principles, to comply with the financial reporting provisions of the contract referred to above. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the special-purpose combined financial statements as a whole. The supplementary information included in schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the special-purpose combined 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 special-purpose combined financial statements. The information has been subjected to the auditing procedures applied in the audits of the special-purpose combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the special-purpose combined financial statements or to the special-purpose combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the special-purpose combined financial statements as a whole.

Restriction on Use

This report is intended solely for the information and use of the Board of Trustees and management of The Carle Foundation; Wells Fargo Bank, National Association, and the Illinois Finance Authority, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

Chicago, Illinois
April 25, 2016

The Carle Foundation Obligated Group
Combined Balance Sheets
December 31, 2015 and 2014
(Dollars in thousands)

Assets		**2015**	**2014**
Current assets:			
Cash and cash equivalents		$ 82,802	$ 33,966
Investments	(Notes 5, 6, and 7)	202,510	261,225
Assets limited as to use	(Notes 5, 6, and 7)	18,573	17,834
Patient receivables, less allowance for doubtful accounts of $24,257 in 2015 and $32,786 in 2014	(Notes 10 and 17)	134,752	127,799
Other receivables	(Note 19)	130,019	95,680
Inventories		9,215	9,424
Prepaid expenses		12,351	9,893
Total current assets		590,222	555,821
Property and equipment, net	(Note 11)	554,910	539,710
Investments and other assets:			
Investments, net of current portion	(Notes 5, 6, and 7)	644,575	638,945
Investment in unconsolidated subsidiaries	(Note 4)	15,078	19,131
Interest rate swap agreements	(Notes 6 and 13)	4,656	3,181
Other assets	(Note 19)	251,940	203,413
Total investments and other assets		916,249	864,670
Total assets		$ 2,061,381	$ 1,960,201

See accompanying notes to combined financial statements.

(Continued)

Liabilities and Net Assets		2015	2014
Current liabilities:			
Accounts payable		$ 17,729	$ 19,735
Current maturities of long-term debt	(Note 12)	12,328	7,507
Estimated third-party payor settlements	(Note 8)	50,784	43,987
Current portion of estimated liability for self-insurance losses	(Note 14)	11,807	10,960
Compensation and paid leave payable		76,617	71,504
Other accrued liabilities		31,588	17,426
Total current liabilities		200,853	171,119
Long-term liabilities:			
Long-term debt, net of current maturities	(Note 12)	534,613	546,939
Interest rate swap agreements	(Notes 6 and 13)	19,269	19,289
Asset retirement obligation	(Note 2)	6,294	6,403
Estimated liability for self-insurance losses, net of current portion	(Note 14)	12,856	12,857
Other accrued liabilities		41,241	10,650
Total long-term liabilities		614,273	596,138
Total liabilities		815,126	767,257
Net assets - unrestricted		1,246,255	1,192,944
Total liabilities and net assets		$ 2,061,381	$ 1,960,201

The Carle Foundation Obligated Group
Combined Statements of Operations and Changes in Net Assets
Years Ended December 31, 2015 and 2014
(Dollars in thousands)

		2015	2014
Revenue:			
Patient service revenue (net of contractual allowances)		$ 924,728	$ 912,432
Benefit from (provision for) bad debts		11,732	(11,192)
Net patient service revenue	(Notes 2 and 8)	936,460	901,240
Other revenue:			
Rental income		16,331	15,537
Gain (loss) on disposal of property and equipment		1	(2,818)
Other		50,846	40,049
Total revenue		1,003,638	954,008
Expenses:			
Salaries and wages		449,347	423,245
Employee benefits	(Notes 14 and 15)	93,653	83,147
Patient care and other supplies		149,830	128,615
Purchased services		48,273	44,747
General and administrative		103,205	49,829
Insurance	(Note 14)	6,183	12,286
Depreciation		52,054	48,325
Interest and financing expense	(Note 12)	20,418	22,073
Real estate and other taxes	(Notes 8 and 16)	13,660	13,528
Change in fair value of derivative instruments	(Note 13)	(1,495)	8,140
Total expenses		935,128	833,935
Income from operations		68,510	120,073
Nonoperating gains:			
Investment income	(Note 5)	58,778	46,679
Gain on unconsolidated subsidiaries	(Note 4)	6,642	5,410
Nonoperating gains, net		65,420	52,089
Excess of revenue over expenses, before income taxes		133,930	172,162
Provision for income taxes	(Note 2)	2,537	404
Excess of revenue over expenses		$ 131,393	$ 171,758

See accompanying notes to combined financial statements.

(Continued)

		2015	2014
Unrestricted net assets:			
Excess of revenue over expenses		$ 131,393	$ 171,758
Change in net unrealized gains and losses on other-than-trading securities	(Note 5)	(56,744)	(6,644)
Equity transfers to affiliates	(Note 19)	(21,338)	(21,444)
Change in net assets		**53,311**	143,670
Net assets, beginning of the year		**1,192,944**	1,049,274
Net assets, end of the year		**$ 1,246,255**	$ 1,192,944

The Carle Foundation Obligated Group
Combined Statements of Cash Flows
Years Ended December 31, 2015 and 2014
(Dollars in thousands)

	2015	2014
Cash flows from operating activities:		
Change in net assets	$ 53,311	$ 143,670
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	52,054	48,325
Loss (gain) on disposal of property and equipment	(1)	2,818
Provision for (benefit from) bad debts	(11,732)	11,192
Amortization of deferred financing costs and original issue discount/premium	510	943
Net realized and unrealized gains and losses on investments	14,473	(22,802)
Accretion on asset retirement obligation	(109)	(117)
Change in fair value of derivative instruments	(1,495)	8,140
Decrease (increase) in investment in unconsolidated subsidiaries	4,053	(3,684)
Change in assets and liabilities:		
(Increase) decrease in:		
Receivables	(29,560)	(29,832)
Inventories	209	(2,397)
Prepaid expenses	(2,458)	(760)
Increase (decrease) in:		
Accounts payable and accrued expenses	47,860	6,957
Third-party payor settlements	6,797	12,003
Self-insurance liability	846	(2,564)
Net cash provided by operating activities	134,758	171,892
Cash flows from investing activities:		
Proceeds from maturities and sales of investments	328,574	150,458
Purchases of investments	(290,701)	(165,504)
Proceeds from sale of property and equipment	829	918
Purchase and construction of property and equipment	(68,082)	(73,168)
Purchase of membership interest in Champaign Surgicenter, LLC	-	(2,999)
Increase in other assets	(48,829)	(60,934)
Net cash used in investing activities	(78,209)	(151,229)
Cash flows from financing activities:		
Proceeds from long-term debt	-	26,095
Payments on long-term debt	(7,525)	(33,229)
Payments of deferred financing costs	(188)	(480)
Net cash used in financing activities	(7,713)	(7,614)
Net increase in cash and cash equivalents	48,836	13,049
Cash and cash equivalents:		
Beginning	33,966	20,917
Ending	$ 82,802	$ 33,966
Supplemental disclosures of cash flow information:		
Cash payments for interest	$ 20,020	$ 21,813
Net cash payments for taxes	$ 2,398	$ 182

See accompanying notes to combined financial statements.

Note 1. Basis of Presentation and Organization

Basis of presentation: The accompanying combined financial statements are those of The Carle Foundation Obligated Group (Obligated Group), which includes The Carle Foundation (Foundation), The Carle Foundation Hospital (Hospital), Carle Health Care Incorporated (Health Care), and Carle Retirement Centers, Inc. (Windsor), and are not those of the primary reporting entity. These combined financial statements were prepared for the purpose of complying with the Master Trust Indenture and are not intended to be a presentation in conformity with U.S. generally accepted accounting principles (GAAP) as it does not include certain affiliates that are required to be included in a GAAP presentation.

Organization: The Foundation, headquartered in Urbana, Illinois, is an Illinois not-for-profit corporation engaged in providing health care services to residents of central Illinois.

The Foundation serves as the sole member and elects all of the trustees of, and thereby controls, the following Illinois not-for-profit affiliates (Obligated Group Affiliates):

a. The Hospital operates a licensed 393-bed hospital, a certified home health agency, and a certified hospice, all which lease property and equipment from the Foundation (Hospital Division). The Hospital also operates Carle Medical Supply (Medical Supply), a provider of medical equipment and supplies to the general public and hospital patients; and the Danville Surgery Center and outpatient surgical recovery centers, which are located in Champaign and Danville, Illinois (DASC). The Hospital serves as the sole stockholder and elects all directors of and, therefore, controls the following for-profit subsidiaries: Carle Risk Management Company (Risk Management), which provides professional liability insurance claims processing and management services to the Foundation and eValiData, Inc. (eValiData), which provides physician credentialing services to the Foundation and external organizations. Risk Management and eValiData are not members of the Obligated Group.

b. Health Care operates Carle Physician Group (Physician Group), acquired on April 1, 2010 through the Foundation's purchase of Carle Clinic Association, P.C. and its subsidiaries (Clinic), which operates as a private, multispecialty, group medical practice comprising approximately 450-licensed physicians and surgeons, some of whom are contracted to provide services through other entities; Airlife, which operates an air medical transport service; and The Caring Place day care center. Health Care also operates the following subsidiaries that are not part of the Obligated Group, referred to herein, collectively, as the "Unconsolidated Subsidiaries": Champaign Surgicenter, LLC (Surgicenter), a freestanding ambulatory surgery center located in Champaign, Illinois and Arrow Ambulance, LLC (Arrow), which operates an ambulance transport service.

   On January 31, 2013, Health Care sold a 25% interest in Surgicenter to Christie Clinic ASC, LLC (Christie) an affiliate of a private, multispecialty, group medical practice headquartered in Champaign, Illinois for $6,000. On June 30, 2014, Health Care exercised its right under the Champaign Surgicenter, LLC Operating Agreement to repurchase Christie's 25% membership interest in Surgicenter for $6,000. Upon dissolution of the partnership, Surgicenter distributed accrued dividends of $1,695 to Christie and $5,084 to Health Care.

c. Windsor operates a 174-unit retirement living center.

Note 1. Basis of Presentation and Organization (Continued)

The primary reporting entity also includes the following (Non-Obligated Group Affiliates):

a. The Foundation is the sole member of CHA Holding, Inc. (CHA Holding), a taxable not-for-profit entity. CHA Holding is the sole stockholder of Carle Holding Company, Inc. (Carle Holding), the sole member of Health Alliance Connect, Inc. (HA Connect), and has a 60% membership interest in Health Alliance Northwest Holding, Inc. (HANW Holding).

   Carle Holding, also part of the Foundation's acquisition of the Clinic on April 1, 2010, is a taxable entity, which is the sole owner of Health Alliance Medical Plans Inc. and its subsidiaries (Health Alliance). Health Alliance is a licensed life, accident, and health insurance company in the state of Illinois (State) and is subject to regulation by the Illinois Department of Insurance (DOI). Health Alliance has approximately 222,500 and 325,300 members at December 31, 2015 and 2014, respectively.

   Health Alliance has a wholly-owned subsidiary, Health Alliance-Midwest, Inc. (HAMW), which is incorporated as a licensed HMO to write health insurance policies in the states of Illinois, Iowa, and Nebraska.

   HA Connect is a taxable not-for-profit entity that provides health care services to its enrollees, which includes beneficiaries of governmental programs, such as Medicaid Family Health Plan, Medicaid ACA Adult and Dual Special Needs Plan, Medicare-Medicaid Alignment Initiative (MMAI), Medicaid Seniors and Persons with Disabilities (SPD), and Medicare Advantage. HA Connect has approximately 141,000 and 70,900 members as of December 31, 2015 and 2014, respectively, inclusive of the aforementioned plans.

   HANW Holding is a taxable not-for-profit, noninsurance company in the state of Washington established for the purpose of owning Health Alliance Northwest Health Plan, Inc. (HANW Health Plan), a Washington health care contractor. HANW Health Plan has approximately 9,800 and 9,100 members at December 31, 2015 and 2014, respectively.

b. The Carle Development Foundation (Development) does business as the Carle Center for Philanthropy, which is engaged in fund-raising activities and manages substantially all activity related to restricted and unrestricted contributions. In addition, Development is also the sole member of Carle Community Health Corporation (Community Health), which is engaged in funding charitable, scientific, and educational community-based healthcare initiatives.

c. The Foundation is the sole stockholder for Health Systems Insurance, Limited (Health Systems), an offshore captive insurance company, established to underwrite the Foundation's general, professional, and workers' compensation liability insurance risks.

d. Hoopeston Community Memorial Hospital (Hoopeston), acquired on November 1, 2012, comprises a 24-bed Critical Access Hospital and eight Rural Health Clinics. The hospital is located approximately 50 miles northeast of the Foundation's main campus. Hoopeston is an independent operating entity of the Foundation.

The Obligated Group Affiliates, Non-Obligated Group Affiliates and Unconsolidated Subsidiaries are referred to herein, collectively, as the "Foundation Affiliates."

Note 2. Summary of Significant Accounting Policies

A summary of the significant accounting policies adopted by the Obligated Group is as follows:

Principles of combination: All significant intercompany accounts and transactions are eliminated in the combination.

Use of estimates: The preparation of financial statements in conformity with GAAP 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, including, among other estimates, third-party settlements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents: Cash and cash equivalents include investments in highly liquid debt instruments with a maturity of three months or less at the time of purchase, excluding amounts limited as to use by board designation or other arrangements under trust agreements with third-party payors or donors.

Fair value: The Obligated Group applies the provisions of Accounting Standards Codification (ASC) No. 820, *Fair Value Measurement*, for fair value measurements of financial assets and liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the combined financial statements on a recurring basis. ASC No. 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC No. 820 establishes a framework for measuring fair value and expands disclosure about fair value measurements (Note 6).

Investments: Investments and assets limited as to use are measured at fair value in the combined balance sheets, except as noted below.

The Obligated Group owns interests in certain joint ventures whose investments are accounted for under the equity method of accounting. The largest of the joint ventures, recorded at $2,750 and $2,739 at December 31, 2015 and 2014, respectively, is The Center for Outpatient Medicine, LLC that provides a facility for medical professionals to perform outpatient surgical procedures. The Obligated Group's ownership interest was 10.6% and 10.0% at December 31, 2015 and 2014, respectively.

All investments are classified as noncurrent with the exception of trading securities, certain intermediate term investments held for operating purposes, and bond fund investments needed to pay current construction draws.

The investments held by the executive benefit plan are designated as trading securities. The investment income including unrealized gains and losses on these securities is included in the excess of revenue over expenses as nonoperating gains (losses).

Investment income (loss) is included in excess of revenue over expenses as nonoperating gains (losses). Unrealized gains and losses on investments, other than those on trading securities, are excluded from excess of revenue over expenses and are included as a change in unrestricted net assets.

Realized gains from the sale of investments are recognized using the first-in, first-out cost basis for sales of marketable equity securities. Gains and losses from sales of debt securities are recognized using the specific identification cost basis.

Note 2. Summary of Significant Accounting Policies (Continued)

The investments in unconsolidated subsidiaries and investment securities, other than those classified as trading, are regularly evaluated for impairment. When a determination is made that a decline in fair value below the cost basis is other than temporary, the related investment is written down to its estimated fair value and the write-down is included as a realized loss in the excess of revenue over expenses.

Assets limited as to use: Assets limited as to use includes assets set aside due to legal or contractual requirements. Amounts required to meet current liabilities have been classified as current assets.

Patient receivables: Patient receivables due from third-party payors are carried at estimated net realizable value determined by the original charge for the service provided, less a related estimate for contractual discounts.

Patient receivables due directly from patients are carried at estimated net realizable value. An allowance for doubtful accounts as well as a charity care reserve is established by analyzing historic trends. The account receivable is written off as bad debt when payment is determined unlikely or as charity care when qualifying criteria are satisfied.

Inventories: Inventories are valued at the lower of cost or market using the average-cost method for the supply storeroom and central distribution inventories and the first-in, first-out method of valuation for all other inventories.

Property and equipment: Property and equipment are carried at cost less accumulated depreciation. Interest expense incurred on borrowed funds is capitalized as a component of the cost of acquiring those assets. Depreciation is computed using the straight-line method over the assets' estimated useful lives. Leasehold improvements are depreciated over the lesser of the life of the lease or the useful life of the improvements.

The Obligated Group regularly evaluates the recoverability of long-lived assets and the related estimated remaining lives. The Obligated Group records an impairment charge or changes the useful life if events or changes in circumstances indicate that the carrying amount may not be recoverable or the useful life has changed. During the years ended December 31, 2015 and 2014, the Obligated Group recorded insignificant impairment losses and project abandonments.

Interest rate swap agreements: The Obligated Group's derivative financial instruments consist of interest rate swap agreements, which are recognized on the combined balance sheets at fair value. Interest rate fluctuations create an unrealized appreciation or depreciation in the market value of the Obligated Group's debt when compared to its cost. The effect of this unrealized appreciation or depreciation in market value will generally be offset by the underlying derivative instrument income or loss linked to the debt. None of the Obligated Group's swaps meet the eligibility requirements for hedge accounting treatment. All changes in fair value are recorded as an operating expense.

Deferred financing costs: Bond issuance costs are deferred and amortized over the shorter of the term of the related indebtedness or related liquidity facility using the effective-interest method and are included in other assets in the combined balance sheets. In the event any of the Variable Rate Demand Bonds are converted into Bank Bonds, the bond issuance costs associated with those bonds would be amortized over the relevant accelerated period.

Bond discounts/premiums: Portions of the Illinois Finance Authority (IFA) revenue bonds were issued at a discount and portions were issued at a premium. The discounts and premiums are amortized over the life of the respective bond using the effective-interest method.

(Continued)

(Dollars in thousands)

Note 2. Summary of Significant Accounting Policies (Continued)

Asset retirement obligation: The Obligated Group recognizes a liability for the fair value of any unconditional asset retirement obligation if the fair value of the liability can be estimated. An obligation is unconditional if there is a legal obligation to perform the retirement. The Obligated Group determined that an obligation exists with regard to future asbestos and storage tank removal. The estimated and recorded liability was $6,294 and $6,403 at December 31, 2015 and 2014, respectively.

Excess of revenue over expenses: The combined statements of operation include excess of revenue over expenses. Changes in unrestricted net assets, which are excluded from excess of revenue over expenses, consistent with industry practice, include unrealized gains/losses on investments that are not classified as trading securities and permanent transfers of assets to and from affiliates for other than goods and services.

Net patient service revenue: Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments with third-party payors are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. The Obligated Group recognizes gross revenue on the basis of its established rates for services. Historically, a significant portion of the Obligated Group's uninsured patients are unable or unwilling to pay for the services provided. Thus, the Obligated Group records a provision for both charity care and bad debts related to uninsured patients in the period the services are provided.

The net patient service revenue for the years ended December 31, 2015 and 2014 is as follows:

	2015	2014
Gross patient service charges	$ 3,655,578	$ 3,320,047
Less:		
Discounts, allowances, and estimated contractual adjustments under third-pary reimbursement programs	(2,730,850)	(2,407,615)
Benefit from (provision for) bad debts	11,732	(11,192)
Net patient service revenue	$ 936,460	$ 901,240
Percentage of net patient service revenue to gross charges	25.6%	27.1%

Charity care: The Obligated Group is committed to providing quality health care to all, regardless of their ability to pay. The Obligated Group provides care to patients who meet certain criteria under the Carle Financial Assistance Program (financial assistance policy) without charge or at amounts significantly less than its established rates. Since the Obligated Group does not pursue collection of these amounts, they are not included in net patient service revenue.

(Continued)

Note 2. Summary of Significant Accounting Policies (Continued)

Electronic health record incentive program: The Electronic Health Record (EHR) Incentive Program (Incentive Program) provides incentive payments to eligible hospitals and professionals as they adopt, implement, upgrade, or demonstrate meaningful use of certified EHR technology in their first year of participation and demonstrate meaningful use for up to five remaining participation years. The Obligated Group accounts for the Incentive Program using the "ratable recognition" approach, which states that the grant income can be recognized ratably over the entire EHR reporting period once the "reasonable assurance" income recognition threshold is met. For the years ended December 31, 2015 and 2014, the Obligated Group recognized $2,158 and $4,239, respectively, as other revenue related to EHR incentives, which has been received or is expected to be received based on certifications prepared by management under the appropriate guidelines for stage 1 and stage 2 attestation.

Insurance: Substantially all of the Obligated Group activity related to the professional and general liability and workers' compensation insurance are recorded on Health Systems' books. All claims paid and the estimated liabilities for unpaid losses are accounted for by Health Systems. Tail liability for periods outside of Health Systems coverage dates are recorded on the Obligated Group's books. In addition, all reinsurance recoverable on paid and unpaid losses is also accounted for by Health Systems. As of December 31, 2015 and 2014, the Obligated Group has prepaid expense of $347 and $1,067, respectively, which represents premiums paid in advance to Health Systems.

The Obligated Group has elected to self-insure its employee health insurance claims and purchases excess coverage for large claims. Amounts are charged against income based upon actual losses with a supplemental provision for incurred but not received claims determined by historic trends.

Income taxes: The Obligated Group members, as described in Section 501(c)(3) of the Internal Revenue Code (the Code) are exempt from federal income taxes, pursuant to Section 501(a) of the Code. The Obligated Group members are, however, subject to federal and state income taxes on unrelated business income (UBI) under the provision of Section 511 of the Code. The Obligated Group recorded insignificant UBIT tax liabilities for the years ended December 31, 2015 and 2014 and a UBIT expense of $2,537 and $404 for the years ended December 31, 2015 and 2014, respectively.

The guidance on accounting for uncertainty in income taxes prescribes a more-likely-than-not recognition threshold and measurement attribute for financial statement recognition of a tax position taken or expected to be taken. There were no uncertain tax positions identified or recorded as a liability as of December 31, 2015 and 2014.

Tax returns filed by the Obligated Group are subject to examination by the Internal Revenue Service (IRS) up to three years from the extended due date of each return. The statute of limitations remains open for tax returns filed for the calendar years ended December 31, 2012 through 2014.

Reclassifications: To be consistent with classifications adopted for the year ended December 31, 2015, certain balances on the combined financial statements for the year ended December 31, 2014 have been reclassified with no effect on revenue, expenses, or net assets.

(Continued)

Note 2. Summary of Significant Accounting Policies (Continued)

New accounting pronouncements: In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, (Topic 606) *Revenue from Contract with Customers*, guidance related to recognizing revenue from contracts with customers. This guidance dictates that the standard be applied either retrospectively to each prior reporting period, or retrospectively with the cumulative effect of initially applying this standard recognized at the date of initial application. This new guidance is effective for fiscal years that begin after December 15, 2017 as well as for interim reporting periods within that reporting period. The Obligated Group is evaluating the effect this guidance will have upon its financial statements.

In April 2015, the FASB issued ASU 2015-03, *Interest – Imputation of Interest (Subtopic 835-30), Simplifying the Presentation of Debt Issuance Costs.* This guidance is to simplify presentation of debt issuance costs by requiring that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. This ASU is effecftive for fiscal years beginning after December 15, 2015 with early adoption permitted for financial statements that have not been previously issued. These amendments should be applied retrospectively to all periods presented with applicable disclosures for a change in accounting principle. The Obligated Group is currently evaluating the effect this guidance will have upon its financial statements.

In May 2015, the FASB issued ASU No. 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. The amendments in this update remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The amendments also remove the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. This ASU is effective for fiscal years beginning after December 15, 2016 and interim periods within those fiscal years with earlier application permitted. These amendments should be applied retrospectively to all period presented. The Obligated Group is currently evaluating the effect this guidance will have upon its financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, guidance which is intended to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information regarding leasing arrangements. This guidance supersedes ASC Topic 840, *Leases*. This ASU is effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years with earlier application permitted. The Obligated Group is evaluating the effect this guidance will have upon its financial statements.

Note 3. CHA Holding

On April 1, 2010, the Foundation acquired the Clinic, which included Health Alliance, a wholly-owned subsidiary; converted the Clinic from a Professional Corporation to an Illinois corporation; and changed its name to Carle Holding. After the purchase, substantially all of the assets and operations of the Clinic were transferred to various Foundation affiliates, while the Clinic retained certain liabilities and their ownership interest in the operations of Health Alliance. The transaction did not change the Members of the Obligated Group and was structured to maintain and continue the not-for-profit status of the Foundation's Section 501(c)(3) exempt entities. Carle Holding and its subsidiaries remain taxable corporations.

The acquired assets and assumed liabilities were recorded at fair market value. The difference between the recorded fair value and the purchase price was recognized as goodwill. Substantially all the acquired intangibles including goodwill were recorded by, and attributable to, Health Alliance.

In 2014, Carle began restructuring insurance business operations. The initial step of the restructuring process was the creation of CHA Holding, a taxable not-for-profit entity, with the Foundation as its sole member. The Foundation subsequently contributed Carle Holding, HA Connect, and its membership interest in HANW Holding to CHA Holding. These restructuring actions were designed to create a structure that allows Carle to align with other health systems around government products (such as Medicare and Medicaid) by separating those products from commercial insurance offerings and improve the efficiency and competitiveness of the insurance operations. CHA Holding and its subsidiaries are not members of the Obligated Group.

HANW Holding is a noninsurance company in the state of Washington established for the purpose of owning HANW Health Plan, a Washington health care contractor. On January 7, 2013, Health Alliance purchased 60% of the authorized capital stock of HANW Holding for $3,000. In 2014, Health Alliance sold its 60% interest in HANW Holding to CHA Holding for $3,000. Subsequently, HANW Holding converted to a taxable not-for-profit entity.

HA Connect is a taxable not-for-profit entity, which was incorporated December 30, 2013 and commenced operations in 2014. HA Connect provides health care services to its enrollees, which includes beneficiaries of governmental programs, such as Medicaid Family Health Plan, Medicaid ACA Adult and Dual Special Needs Plan. Effective January 1, 2015 Health Alliance sold the Medicare-Medicaid Alignment Initiative (MMAI) and the Medicaid Seniors and Persons with Disabilities (SPD) membership lives to HA Connect. Effective July 1, 2015 Health Alliance sold the Medicare Advantage Illinois membership lives to HA Connect.

(Dollars in thousands)

Note 3. CHA Holding (Continued)

The condensed balance sheets for CHA Holding as of December 31, 2015 and 2014 are as follows:

	2015	2014
Assets:		
Investments and cash	$ 277,202	$ 184,851
Premiums receivable	366,457	340,423
Other receivables and prepaids	87,274	53,516
Property and equipment	1,810	1,309
Intangible assets and goodwill	117,442	127,963
Deferred taxes	21,385	21,638
Total assets	$ 871,570	$ 729,700
Liabilities:		
Accounts payable and other accrued liabilities	$ 93,656	$ 82,790
Intercompany payables	289,212	244,418
Debt	152,000	100,000
Medical claims payable	218,070	175,802
Deferred taxes	-	6,561
Retirement plan benefits obligation	113,137	128,116
Total liabilities	866,075	737,687
Stockholder's equity	5,495	(7,987)
Total liabilities and stockholder's equity	$ 871,570	$ 729,700

The condensed statements of operations and changes in net assets for CHA Holding for the years ended December 31, 2015 and 2014 are as follows:

	2015	2014
Underwriting income, premiums earned less premiums ceded, and other revenue	$ 1,713,385	$ 1,312,459
Underwriting and general and administrative expenses	(1,742,904)	(1,354,692)
Net underwriting loss	(29,519)	(42,233)
Investment income	26,516	25,807
Noncontrolling interest in net income of consolidated subsidiary	105	127
Provision for income taxes	(14,609)	242
Excess (deficiency) of revenue over expenses	$ (17,507)	$ (16,057)
Pension related changes other than net period pension costs, net of deferred taxes	10,989	(59,376)
Equity transfer from affiliates	20,000	20,000
Other	-	(79)
Change in net assets	$ 13,482	$ (55,512)

(Continued)

(Dollars in thousands)

Note 4. Unconsolidated Subsidiaries

As described in Note 1, Health Care operates certain Unconsolidated Subsidiaries that are not part of the Obligated Group. The condensed balance sheets for these entities as of December 31, 2015 and 2014 are as follows:

	2015			2014		
	Assets	Liabilities	Net Assets	Assets	Liabilities	Net Assets
Surgicenter	$ 14,376	$ 1,109	$ 13,267	$ 18,045	$ 886	$ 17,159
Arrow	2,120	309	1,811	2,261	289	1,972
	$ 16,496	$ 1,418	$ 15,078	$ 20,306	$ 1,175	$ 19,131

The condensed statements of operations for the years ended December 31, 2015 and 2014 are as follows:

	2015			2014		
	Revenue	Expenses	Gain	Revenue	Expenses	Gain (Loss)
Surgicenter	$ 15,910	$ 9,303	$ 6,607	$ 14,035	$ 8,314	$ 5,721
Arrow	7,517	7,482	35	6,789	7,100	(311)
	$ 23,427	$ 16,785	$ 6,642	$ 20,824	$ 15,414	$ 5,410

Note 5. Investments and Assets Limited as to Use

Investments and assets limited as to use as of December 31, 2015 and 2014 are as follows:

	2015	2014
Investments not included as assets limited as to use:	$ 847,085	$ 900,170
Assets limited as to use:		
Executive benefit plan	18,560	17,139
Deposits limited by bond indentures	13	695
Total assets limited as to use	18,573	17,834
Total investments and assets limited as to use	$ 865,658	$ 918,004

(Dollars in thousands)

Note 5. Investments and Assets Limited as to Use (Continued)

The composition of investments and assets limited as to use as of December 31, 2015 and 2014 is as follows:

	2015		2014	
	Cost	Carrying Value	Cost	Carrying Value
Cash and cash equivalents*	$ 114,503	$ 114,503	$ 50,199	$ 50,199
Certificates of deposit	-	-	743	743
Fixed income securities*	364,919	355,754	408,144	409,750
Marketable equity securities*	239,600	274,026	271,782	347,115
Real asset investments*	35,051	29,763	28,820	26,756
Alternative investments:				
Private equity funds of funds*	60,847	70,173	52,291	63,121
Hedge fund of funds*	41	50	58	86
	$ 814,961	844,269	$ 812,037	897,770
Investments in joint ventures		2,829		3,095
Trading securities				
Mutual funds:				
Executive benefit plan		18,560		17,139
		$ 865,658		$ 918,004

* The Foundation maintains pooled investments for Development and Community Health. Cash and cash equivalents, fixed income securities, marketable equity securities, real asset investments, and the alternative investments have been reduced by the portion allocable to these Non-Obligated Group Affiliates.

The gross unrealized gains (losses) on investments and assets limited as to use as of December 31, 2015 and 2014 are as follows:

	2015	2014
Gross unrealized gains	$ 62,078	$ 99,544
Gross unrealized losses	(32,770)	(13,811)
	$ 29,308	$ 85,733

Investment income for the years ended December 31, 2015 and 2014 comprises the following:

	2015	2014
Net realized gains on sales of investments	$ 42,271	$ 29,446
Interest and dividend income	17,911	19,107
Investment management fees	(1,404)	(1,874)
	$ 58,778	$ 46,679

(Continued)

Note 6. Fair Value Measurements

The carrying amount reported in the combined balance sheets for certain Obligated Group financial instruments approximates fair value because of their short maturities. These include cash and cash equivalents, patient receivables, other receivables, and accounts payable.

The Obligated Group holds other financial instruments that are required to be measured at fair value on a recurring basis. The valuation techniques used to measure fair value under ASC No. 820 establishes a hierarchy for ranking the quality and reliability of the information used to determine fair values. Assets and liabilities carried at fair value are to be disclosed according to the following levels:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date

Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about how other market participants would price an asset or liability

A description of the valuation methodologies used for assets and liabilities measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy follows.

Investments and assets limited as to use: The fair value of the majority of the Obligated Group's investments is determined using Level 1 and Level 2 inputs. Fair value for Level 1 is based upon quoted market prices. Fair value for Level 2 is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data. Inputs are obtained from various sources, including market participants, dealers, and brokers.

The remaining portion of the Obligated Group's investments is measured using Level 3 inputs as follows:

Investments in private equity funds of funds through limited partnerships and the hedge fund of funds are valued at fair value based on the applicable percentage ownership of the underlying funds' fair value as of the measurement date, as determined by the Obligated Group. In determining fair value, the Obligated Group utilizes valuations provided by the underlying investment funds. The underlying investment funds value nonexchange listed securities and other financial instruments on a fair value basis of accounting using discounted cash flow methodologies, asset and liability pricing, corroborated pricing, yield curves, and other indices. The estimated fair values of certain investments of the underlying investment funds are determined by the managers of the respective underlying fund and may not reflect amounts that could be realized upon immediate sale, or amounts that ultimately may be realized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments. The fair value of the Obligated Group's investments in funds generally represents the amount the Obligated Group would expect to receive if it were to liquidate its investments in funds, excluding any redemption charges that may apply.

Interest rate swap contracts: Quoted prices are obtained from a number of dealer counterparties and other market sources based on the observable interest rates and yield curves for the full term of the asset or liability. These fair values are established using Level 2 inputs.

(Dollars in thousands)

Note 6. Fair Value Measurements (Continued)

Assets and liabilities at fair value: The following tables summarize assets and liabilities measured at fair value as of December 31, 2015 and 2014:

	2015			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	$ 82,802	$ -	$ -	$ 82,802
Investments and assets limited as to use:				
Cash and cash equivalents	114,503	-	-	114,503
Fixed income securities				
U.S. government and agencies	-	20,664	-	20,664
Mortgage-backed and asset-backed securities	-	4,724	-	4,724
Corporate and other	-	22,741	-	22,741
Mutual funds	279,317	-	-	279,317
Commingled funds	-	28,308	-	28,308
Marketable equity securities				
United States	166,225	2,961	-	169,186
Non-U.S. developed markets	49,951	46,902	-	96,853
Non-U.S. emerging markets	-	7,987	-	7,987
Real asset funds				
Mutual funds	29,763	-	-	29,763
Mutual funds–executive benefit plan	18,560	-	-	18,560
Private equity funds of funds	-	-	70,173	70,173
Hedge fund of funds	-	-	50	50
Interest rate swap agreements	-	4,656	-	4,656
Total assets measured at fair value	$ 741,121	$ 138,943	$ 70,223	$ 950,287
Liabilities:				
Interest rate swap agreements	$ -	$ 19,269	$ -	$ 19,269
Other accrued liabilities–executive benefit plan	-	18,560	-	18,560
Total liabilities measured at fair value	$ -	$ 37,829	$ -	$ 37,829

(Continued)

(Dollars in thousands)

Note 6. Fair Value Measurements (Continued)

	2014			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	$ 33,966	$ -	$ -	$ 33,966
Investments and assets limited as to use:				
Cash and cash equivalents	50,199	-	-	50,199
Certificate of deposits	743	-	-	743
Fixed income securities				
U.S. government and agencies	-	17,623	-	17,623
Mortgage-backed and asset-backed securities	-	5,696	-	5,696
Corporate and other	-	21,261	-	21,261
Mutual funds	365,170	-	-	365,170
Marketable equity securities				
United States	251,016	3,071	-	254,087
Non-U.S. developed markets	39,649	46,242	-	85,891
Non-U.S. emerging markets	7,137			7,137
Real asset funds				
Mutual funds	26,756	-	-	26,756
Mutual funds–executive benefit plan	17,139	-	-	17,139
Private equity funds of funds	-	-	63,121	63,121
Hedge fund of funds	-	-	86	86
Interest rate swap agreements	-	3,181	-	3,181
Total assets measured at fair value	$ 791,775	$ 97,074	$ 63,207	$ 952,056
Liabilities:				
Interest rate swap agreements	$ -	$ 19,289	$ -	$ 19,289
Other accrued liabilities–executive benefit plan	-	17,139	-	17,139
Total liabilities measured at fair value	$ -	$ 36,428	$ -	$ 36,428

ASU No. 2010-06, *Fair Value Measurements and Disclosures*, amends ASC No. 820 to require disclosure of transfers in and out of Levels 1 and 2. The Obligated Group had no transfers between Levels 1 and 2 for the years ended December 31, 2015 and 2014.

(Dollars in thousands)

Note 6. Fair Value Measurements (Continued)

The following tables set forth a summary of changes in the fair value of the Obligated Group's Level 3 assets for the years ended December 31, 2015 and 2014:

	2015		
	Private Equity	Hedge Fund of Funds	Total
Foundation balance at December 31, 2014	$ 71,055	$ 97	$ 71,152
Purchases and funding of capital commitments	14,857	-	14,857
Sales and redemptions	(13,070)	(31)	(13,101)
Realized gains, interest, and dividends	6,338	12	6,350
Change in unrealized appreciation	(569)	(22)	(591)
Foundation balance at December 31, 2015	78,611	56	78,667
Amount allocable to Non-Obligated Group Affiliates	(8,438)	(6)	(8,444)
Obligated Group balance at December 31, 2015	$ 70,173	$ 50	$ 70,223

	2014		
	Private Equity	Hedge Fund of Funds	Total
Foundation balance at December 31, 2013	$ 52,788	$ 189	$ 52,977
Purchases and funding of capital commitments	18,133	-	18,133
Sales and redemptions	(8,827)	(101)	(8,928)
Realized gains, interest, and dividends	3,524	29	3,553
Change in unrealized appreciation (depreciation)	5,437	(20)	5,417
Foundation balance at December 31, 2014	71,055	97	71,152
Amount allocable to Non-Obligated Group Affiliates	(7,934)	(11)	(7,945)
Obligated Group balance at December 31, 2014	$ 63,121	$ 86	$ 63,207

(Dollars in thousands)

Note 6. Fair Value Measurements (Continued)

The following tables set forth additional disclosures of the Foundation's investments whose fair value is estimated using net asset value per share. These investments are included in a pool of investments that are allocated to the Foundation, Development, and Community Health. Therefore, only 89.3% and 88.8% of these investments as of December 31, 2015 and 2014, respectively, are allocable to the Obligated Group.

	2015					
	Foundation Fair Value	Obligated Group Fair Value	Unfunded Commitment	Remaining Life	Redemption Frequency	Redemption Notice Period
Commingled funds investing in:						
Fixed income securities (a)	$ 31,712	$ 28,308	NA	NA	Daily	15 days
Non-U.S. developed markets equity (b)	52,542	46,902	NA	NA	Monthly	None
Non-U.S. emerging markets equity (b)	8,947	7,987	NA	NA	Monthly	30 days
Private equity funds of funds (c)	78,611	70,173	$ 63,208	to 2025	NA	NA
Hedge fund of funds (d)	56	50	NA	NA	Quarterly	90 days
Total	$ 171,868	$ 153,420				

	2014					
	Foundation Fair Value	Obligated Group Fair Value	Unfunded Commitment	Remaining Life	Redemption Frequency	Redemption Notice Period
Commingled funds investing in:						
Non-U.S. developed markets equity (b)	$ 52,054	$ 46,242	NA	NA	Monthly	None
Private equity funds of funds (c)	71,055	63,121	$ 47,958	to 2025	NA	NA
Hedge fund of funds (d)	97	86	NA	NA	Quarterly	90 days
Total	$ 123,206	$ 109,449				

(a) This category represents investments in various fixed income securities. Investments are valued each business day and contributions can be made and withdrawals may be redeemed as of any business day, with the consent of the General Partner.

(b) This category represents investments in international public equity securities. Investments are valued at the last business day of the month and contributions can be made and withdrawals may be redeemed as of the first business day of each month.

Note 6. Fair Value Measurements (Continued)

(c) The Foundation has 11 private equity investments that are structured as limited partnerships, the purpose of which is to help diversify the risk and return attributes of the Foundation's investment portfolio. These partnerships make investments in funds of leveraged buyout, venture capital, special situation, and other assets. These investments are recorded at fair value. Income recorded by the limited partnership investments includes interest income, dividends, and realized/unrealized gains and losses of the underlying investments, the net of which is recorded by the Foundation as investment income. The Foundation has committed to make total investments of $149,000 by 2025. The remaining commitment at December 31, 2015 and 2014 is $63,208 and $47,958, respectively. These investments cannot be redeemed during the life of the funds. Instead, distributions are received through the liquidation of the underlying assets of the funds. It is estimated that the underlying funds will be liquidated over the next 1 to 12 years.

(d) The holdings in this fund represent the Foundation's remaining investment in a portable alpha fund, which incorporates a fund of low-volatility hedge funds, the investments of which are in liquidation. Investments are valued at the last business day of the month and the Foundation has provided its notice of liquidation and continues to await the full liquidation of this investment.

Note 7. Other-Than-Temporary Impairment

Management continually reviews its investment portfolio (excluding trading securities) and evaluates whether the declines in the fair value of securities should be considered an other-than-temporary impairment (OTTI) in value. Factored into this ongoing evaluation are general market conditions, issuer's financial condition and near-term prospects, conditions in issuer's industry and competitive factors, the recommendation of advisors, including the Obligated Group's investment consultant, and the length of time and magnitude to which the fair value has been less than cost. During the years ended December 31, 2015 and 2014, the Obligated Group did not record any realized losses due to an OTTI.

(Dollars in thousands)

Note 7. Other-Than-Temporary Impairment (Continued)

Unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of December 31, 2015 and 2014 are as follows:

	2015					
	Continuous unrealized losses existing for less than 12 months		Continuous unrealized losses existing for greater than 12 months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Marketable equity securities	$ 58,297	$ 10,125	$ 9,052	$ 2,346	$ 67,349	$ 12,471
Fixed income	90,645	3,592	196,156	9,223	286,801	12,815
Real asset funds	5,126	660	24,331	4,628	29,457	5,288
Alternative investments	16,486	1,867	3,885	329	20,371	2,196
	$ 170,554	$ 16,244	$ 233,424	$ 16,526	$ 403,978	$ 32,770

	2014					
	Continuous unrealized losses existing for less than 12 months		Continuous unrealized losses existing for greater than 12 months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Marketable equity securities	$ 48,463	$ 5,722	$ 4,826	$ 1,257	$ 53,289	$ 6,979
Fixed income securities	6,468	85	320,110	3,776	326,578	3,861
Real asset funds	2,152	21	24,604	2,042	26,756	2,063
Alternative investments	9,469	557	2,444	351	11,913	908
	$ 66,552	$ 6,385	$ 351,984	$ 7,426	$ 418,536	$ 13,811

The Obligated Group recognizes the need to prudently manage its investment portfolio. Therefore, its investment philosophy is grounded in fundamental investment principles, incorporating modern portfolio theory, broad diversification among and within asset classes, in-depth analysis, and monitoring. The Obligated Group's investment portfolio includes investment managers that provide large cap growth, value, and core equity exposure; nonlarge cap growth and value equity exposure; international growth, value, small cap, and emerging market equity exposure; private equity funds of funds; core fixed income; and real asset exposure. Marketable equity securities primarily consist of domestic and foreign equities, exchange traded funds, investments in regulated investment companies, and exchange-traded American Depository Receipts. Fixed income securities include government and agency bonds, corporate bonds, international bonds, asset-backed securities, and less-frequently traded agency bonds. Alternative investments include private equity funds of funds.

Note 8. Contractual Arrangements with Third-Party Payors

The Obligated Group has agreements with third-party payors that provide for reimbursement to the Obligated Group at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the Obligated Group's established rates for services and amounts reimbursed by third-party payors.

Net patient service revenue for the years ended December 31, 2015 and 2014 includes approximately $3,194 and $15,632, respectively, of favorable retroactively determined settlements from third-party payors related to prior years.

For the years ended December 31, 2015 and 2014, approximately 53.7% and 53.9%, respectively, of the Obligated Group's net patient service revenue was earned under prospective payment, cost, and cost-plus reimbursement agreements with Medicare, Medicaid, and Blue Cross and Blue Shield of Illinois (Blue Cross). These are subject to audit and adjustment by the administering agencies.

A summary of the payment arrangements with major third-party payors follows:

Medicare: For the years ended December 31, 2015 and 2014, approximately 29.8% and 30.6%, respectively, of the Obligated Group's net patient service revenue was earned under the Medicare and Medicare Advantage programs. The Obligated Group is paid for inpatient acute care services rendered to Medicare program beneficiaries under prospectively determined rates-per-discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. The prospectively determined classification of patients and the appropriateness of the patients' admissions are subject to validation reviews by a Medicare quality improvement organization, which is under contract to perform such reviews. Outpatient services are paid via the outpatient prospective payment system. Under this system, most outpatient services are paid at predetermined outpatient rates.

Laws and regulations governing the Medicare programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates may change by a material amount in the near term due to changes in the allowances previously estimated that are no longer necessary as a result of final settlements, or other changes due to prior year retroactive adjustments.

Congress passed the Medicare Modernization Act in 2003, which among other things established a demonstration of The Medicare Recovery Audit Contractor (RAC) program, the purpose of which is to identify and correct improper payments to providers. Once a RAC identifies a claim it believes is inaccurate, it makes a deduction from or addition to the provider's Medicare reimbursement in an amount equal to the estimated overpayment or underpayment. The Center for Medicare and Medicaid Services (CMS) has implemented this program nationally and the Obligated Group is currently under such an audit. Generally, the Obligated Group fully reserves any overpayment amounts that are assessed under the RAC at the time the RAC notice is received.

The Obligated Group's Medicare cost reports have been audited and settled by the Medicare fiscal intermediary through December 31, 2010.

Medicaid: For the years ended December 31, 2015 and 2014, approximately 14.1% and 14.5%, respectively, of the Obligated Group's net patient service revenue was earned under State Medicaid programs. The Obligated Group renders inpatient and outpatient services to Illinois Public Aid patients at prospective rates determined by State reimbursement formulas. These rates are not subject to retroactive adjustment.

(Continued)

Note 8. Contractual Arrangements with Third-Party Payors (Continued)

In December 2008, CMS approved State legislation for a Medicaid Hospital Assessment Program (Program) for an additional five years. An Enhanced Hospital Assessment Program was approved by CMS for June 10, 2012 through December 31, 2014. The statutory sunset of both Programs was extended to June 30, 2018. Under the Programs, the Obligated Group receives additional Medicaid reimbursement from the State and pays a related assessment. For the years ended December 31, 2015 and 2014, the Obligated Group recognized total reimbursement revenue under the Programs of approximately $28,605 for both years, which is included in net patient service revenue, and incurred assessments of approximately $12,714 and $12,431, respectively, which is included in real estate and other taxes expense in the combined statements of operations.

On January 9, 2015, CMS approved a new Illinois Medicaid supplemental hospital payment program for services provided to individuals who quality as Medicaid beneficiaries under the Affordable Care Act. The program was retroactive to March 1, 2014 and expires June 30, 2018. For the years ended December 31, 2015 and 2014, the Obligated Group recognized total reimbursement revenue of $6,331 and $5,280, respectively, for the supplemental payment.

Blue Cross: The majority of Blue Cross covered subscribers are paid under a Preferred Provider Organization (PPO) plan. For the years ended December 31, 2015 and 2014, approximately 9.8% and 8.8%, respectively, of the Obligated Group's net patient service revenue was earned under traditional Blue Cross and Blue Cross PPO plans. The Blue Cross PPO plan reimburses the Obligated Group for inpatient services based on the lesser of net covered charges or per diem costs from the annual Blue Cross cost report less one hundred dollars. Outpatient services covered under contract are reimbursed based on a specified discount from charges.

Blue Cross processes claims under a uniform payment plan on an interim basis subject to a monthly reconciliation between actual payments received and the agreed-upon contractual amounts. The monthly reconciliation process results in the recognition of a liability that will be liquidated within 90 days.

Health Alliance: For the years ended December 31, 2015 and 2014, approximately 22.3% and 24.7%, respectively, of the Obligated Group's net patient service revenue was earned under a health maintenance organization (HMO) plan with Health Alliance, a Non-Obligated Group affiliate. Health Alliance Hospital claims were reimbursed under varying contractual payment methodologies. Claims reimbursed on a percentage of charge basis for inpatient and outpatient services comprises approximately 13.3% and 18.9% of Health Alliance claims for the years ended December 31, 2015 and 2014, respectively. Claims reimbursed at acuity based payments per occurrence for inpatient and percentage of charges for outpatient comprises approximately 86.7% and 81.1%, of Health Alliance claims for the years ended December 31, 2015 and 2014, respectively. Risk-sharing arrangements under various plans decreased the Obligated Group's net patient service revenue $12,443 and $798 in 2015 and 2014, respectively.

Other: The Obligated Group has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Obligated Group under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

(Continued)

(Dollars in thousands)

Note 9. Community Benefit and Charity Care

The Obligated Group is committed to providing quality health care to all, regardless of their ability to pay. Under the Obligated Group's financial assistance policy, patients meeting certain criteria receive care without charge or with a significant reduction in charges. When patients successfully satisfy the prescribed requirements of the financial assistance policy, applicable accounts receivable in bad debt status are reclassified to charity care. Because the Obligated Group does not pursue collection of amounts identified as charity care, they are not reported in net patient service revenue. The uncompensated cost of charity care is estimated by applying an overall cost to charge ratio to the charges associated with patients who qualify for charity care. Uncompensated costs of charity care totaled $30,159 and $36,013 for the years ended December 31, 2015 and 2014, respectively.

Historically, when patients successfully satisfy the prescribed requirements of the financial assistance program, any applicable accounts receivable in bad debt status have also been reclassified as charity care. While reclassifications of bad debt accounts receivable to charity care occurs as a course of routine operations for services provided in previous fiscal years, in 2015 and 2014, the Obligated Group reclassified $11,165 and $10,525, respectively, from bad debt expense to charity care related to service dates prior to January 1, 2015 and 2014, respectively.

In addition to providing direct charity health services, the Obligated Group periodically conducts a comprehensive community needs assessment, including active partnering with various community service organizations. The assessment helps identify areas of under-served and under-insured populations and further helps promote a common and joint approach to responding to identified community needs. The Obligated Group and its affiliates are key financial supporters of Promise Healthcare NFP, which operates Frances Nelson Health Center, a federally qualified health center, and also financially supports other health and educational services for eligible at-risk populations. The Foundation plays a vital role in Champaign County's emergency preparedness and homeland security initiatives. These are in addition to numerous other community health and wellness programs identified by the community needs assessment.

Note 10. Patient Receivables

Patient receivables as of December 31, 2015 and 2014 are as follows:

	2015	2014
Patient receivables, gross	$ 621,178	$ 587,907
Less:		
Allowance for estimated contractual adjustments	(462,169)	(427,322)
Allowance for doubtful accounts	(24,257)	(32,786)
Patient receivables, net	$ 134,752	$ 127,799

Accounts receivable are reduced by an allowance for estimated contractual adjustments and an allowance for doubtful accounts. In evaluating the collectibility of accounts receivable, The Obligated Group analyzes its past history and identifies trends. The Obligated Group records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unwilling to pay the portion of their bill for which they are financially responsible. The difference between the established rates and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

(Dollars in thousands)

Note 10. Patient Receivables (Continued)

The Obligated Group's allowance for doubtful accounts for self-pay patients increased from 52.3% of self-pay accounts receivable at December 31, 2014 to 52.6% of self-pay accounts receivable at December 31, 2015. The Obligated Group has not changed its charity care or uninsured discount policies during the periods presented. The Obligated Group does not maintain a material allowance for doubtful accounts from third-party payors, nor did it incur significant write-offs related to third-party payors.

Note 11. Property and Equipment

Property and equipment as of December 31, 2015 and 2014 comprise the following:

	2015	2014
Land and improvements	$ 53,352	$ 53,109
Buildings and improvements	627,392	603,715
Furniture and equipment	328,165	300,756
Construction in progress	31,261	16,737
	1,040,170	974,317
Less: accumulated depreciation	(485,260)	(434,607)
	$ 554,910	$ 539,710

On October 30, 2012, the Illinois Health Facilities and Services Review Board granted a certificate of need to allow the Obligated Group to build an approximately 14,000 square foot addition to the emergency department at the Hospital at a cost of approximately $16,732. Substantially all costs related to this project were capitalized in 2014. Construction began in the spring of 2013 and the addition was occupied in December 2014. This project nearly doubled the size of the 16,700 square foot emergency department and added the following: 17 new acute-care beds for a total of 39, another trauma room, and new or replacement imaging equipment in a dedicated radiology suite.

On August 27, 2014, the Illinois Health Facilities and Services Review Board granted a certificate of need to allow the Obligated Group to build out existing shell space of approximately 40,000 square feet. The space was created as part of the previous bed tower project with the future intent to build out the shell space as a 48-bed Medical / Surgical unit when the need for the additional space was identified. The approximate cost for modernization of the area is $17,765, which includes an $11,137 Guaranteed Maximum Purchase construction contract for which $960 remains unexpended as of December 31, 2015. Occupancy began in January 2016. As of December 31, 2015, the balance of construction in progress related to this project was $17,441.

In September 2014, the Board of Trustees approved $12,450 for expansion and renovation of the Inpatient Rehabilitation Unit. Costs include an $8,520 Guaranteed Maximum Purchase construction contract for which $7,632 remains unexpended as of December 31, 2015. The project design will allow the unit to move from 15 semiprivate rooms to 15 private patient rooms with adequate space to increase to up to 20 private rooms to accommodate future growth. The design will also provide expanded and modernized support and treatment spaces to facilitate more comprehensive patient care. Phased construction began in August 2015 with full occupancy anticipated in early 2017. As of December 31, 2015, the balance of construction in progress related to this project was $4,412.

(Dollars in thousands)

Note 11. Property and Equipment (Continued)

In December 2014, the Board of Trustees approved $23,100 for the design, construction, furnishing, and occupancy of a 52,000 square foot Orthopedic and Sports Medicine building. Costs include an $18,452 Guaranteed Maximum Purchase construction contract, for which $18,251 remains unexpended as of December 31, 2015. This facility will accommodate the planned addition of 10 providers over the next five years as well as enable consolidation of services. The facility will accommodate clinical, research, business activities, and allow for the repurposing of existing service locations. Certificate of need approval was received at the April 2015 Illinois Health Facilities and Services Review Board hearing and construction began in October 2015 with occupancy slated to occur in January 2017. As of December 31, 2015, the balance of construction in progress related to this project was $2,425.

In June 2015, the Board of Trustees approved $75,000 for the design, construction, furnishing, and occupancy of a 300,000 square foot administrative building to provide a single location for housing non-clinical support services. Those services are currently accommodated in a number of locations, most of which are rental properties. Consolidation will allow for reduced costs, improved efficiencies, and resolution of parking and adjacency issues. As of December 31, 2015, the balance of construction in progress related to this project was immaterial.

On August 25, 2015, the Illinois Health Facilities and Services Review Board granted a certificate of need to allow the Obligated Group to add space and services to an existing clinic in Champaign, Illinois. The 70,000 square foot addition will allow the Obligated Group to better address demand for both primary and specialty care by consolidating services in the building and adding providers. The Convenient Care walk-in clinic will be expanded to accommodate increasing patient demand. Construction began in the fall of 2015 with occupancy anticipated in early 2017. As of December 31, 2015, the balance of construction in progress related to this project was immaterial.

The remaining portion of the construction in progress balance comprises smaller projects for information technology, buildings, and equipment.

The Obligated Group leases equipment and office space under long-term noncancelable agreements that expire at various dates through the year 2021. In addition, the Obligated Group leases land under long-term noncancelable agreements that expire at various dates through the year 2065. Total future operating lease commitments under long-term, noncancelable equipment, office space, and land leases, exclusive of related-party leases, at December 31, 2015 are as follows:

Year ending December 31:		
2016	$	4,699
2017		3,427
2018		2,045
2019		868
2020		297
Thereafter		4,532
	$	15,868

Total equipment lease expense under long-term lease agreements and month-to-month leases was approximately $74 and $855 for the years ended December 31, 2015 and 2014, respectively. Total office space and land lease expense under long-term lease agreements was approximately $5,429 and $4,834 for the years ended December 31, 2015 and 2014, respectively.

(Dollars in thousands)

Note 12. Long-Term Debt and Other Borrowings

The long-term debt at December 31, 2015 and 2014 is as follows:

	Final Maturity or Payment		2015		2014
IFA borrowings:					
Series 2009A; fixed rate, 4.375% to 5.50%	2017	$	15,435	$	22,565
Series 2009B; variable rate, 0.01% at 12/31/15	2033		25,000		25,000
Series 2009C; variable rate, 0.01% at 12/31/15	2033		25,000		25,000
Series 2009D; variable rate, 0.01% at 12/31/15	2033		55,000		55,000
Series 2009E; variable rate, 0.01% at 12/31/15	2033		55,000		55,000
Series 2011A; fixed rate, 4.00% to 6.00%	2041		234,735		234,735
Series 2011B; variable rate, 0.91% at 12/31/15	2033		50,000		50,000
Series 2011C; variable rate, 0.77% at 12/31/15	2033		50,000		50,000
Series 2014A; variable rate, 0.61% at 12/31/15	2033		26,095		26,095
Less: unamortized discounts and premiums			(1,289)		(1,308)
Subtotal IFA borrowings			534,976		542,087
Installment note–Champaign Primary Care Center	2022		11,965		12,359
Total debt outstanding			546,941		554,446
Current portion			(12,328)		(7,507)
Long-term portion		$	534,613	$	546,939

IFA borrowings: The Obligated Group entered into a Master Trust Indenture (MTI) dated March 1, 2009, as supplemented by various Supplemental Master Trust Indentures (collectively referred to as the Master Trust Indenture). The purpose of the MTI is to provide a mechanism for the efficient and economical issuance of notes by the members of the Obligated Group using the collective borrowing capacity and credit rating of the Obligated Group. The MTI requires individual members of the Obligated Group to make principal and interest payments on notes issued for their benefit. The MTI also requires Obligated Group members to make payments on notes issued by other members of the Obligated Group if such other members are unable to satisfy their obligations under the MTI.

On March 1, 2009, the IFA issued $239,415 of revenue bonds, which comprised $79,415 of fixed rate revenue bonds, Series 2009A, and $160,000 of variable rate demand revenue bonds, Series 2009B through Series 2009E (collectively referred to as the Series 2009 Bonds). The IFA issued the Series 2009A and Series 2009 Bonds pursuant to bond trust indentures between the IFA and Wells Fargo Bank, N.A., as bond trustee. The Series 2009 Bonds were issued under and secured by separate Bond Trust Indentures. The Series 2009A and Series 2009 Bonds were all issued pursuant to the MTI and have been designated as tax-exempt for federal income tax purposes. Effective January 8, 2010, Bank of New York Mellon Trust Company, N.A. became Successor Bond Trustee (Bond Trustee), replacing Wells Fargo Bank, N.A.

The bond proceeds were primarily used to repay the short-term loan that enabled the Obligated Group to defease its previously outstanding debt. The remaining proceeds were used to acquire, construct, renovate, remodel, and/or equip certain healthcare facilities owned by the Obligated Group, and to pay certain expenses incurred in conjunction with the issuance of the Series 2009A and Series 2009 Bonds.

Note 12. Long-Term Debt and Other Borrowings (Continued)

The Series 2009A Bonds are secured by a pledge of gross receipts (which includes all patient receivables) of the Obligated Group members to the Master Trustee (Wells Fargo Bank, N.A.). Of the Series 2009A Bonds maturing on February 15 of the years 2016 through 2017, principal of $15,435 is guaranteed by a financial guaranty insurance policy issued by Assured Guaranty Corp.

The Northern Trust Company and JPMorgan Chase Bank, N.A. (Banks) provided credit and liquidity facilities to support the Series 2009 Bonds by issuing irrevocable direct-pay letters of credit for each separate bond issue. The letters of credit secure payment of the principal, interest, and purchase price of the Series 2009 Bonds and as of December 31, 2015, the expiration dates were March 18, 2019 and April 5, 2016, for the respective banks. On March 30, 2016, the Obligated Group executed extension agreements for the letters of credit issued by JP Morgan Chase Bank, N.A. to August 5, 2019.

The Series 2009 Bonds bear interest at a weekly rate and give the bond holders the option of tendering their bonds for purchase while in the weekly interest rate mode. The Obligated Group has entered into Remarketing Agreements (Agreements) with Goldman Sachs & Co. and Barclays Capital, Inc., which provide for a "best efforts" remarketing of the bonds that are tendered for purchase. If the bonds cannot be remarketed, the tendered bonds will be purchased by the Banks pursuant to the terms of the letter of credit agreements. Upon purchase of the bonds by the Banks, the Banks will be granted all security rights granted to a bondholder under the MTI. In accordance with the Agreements between the Obligated Group and the Banks, if there is no event of default, the Obligated Group will reimburse the Banks for all amounts drawn on the letters of credit. The obligations of the Obligated Group to the Banks under the Agreements are secured by the same rights noted in the Bond Trust Indenture.

On May 19, 2011, the IFA issued $234,735 of fixed rate revenue bonds, Series 2011A, pursuant to bond trust indentures between the IFA and Bank of New York Mellon Trust Company, N.A. as Bond Trustee. On June 16, 2011, the IFA issued $50,000 of variable rate revenue bonds to each of two banks in direct placement transactions with each, Series 2011B and Series 2011C, pursuant to bond trust indentures between the IFA and Bank of New York Mellon Trust Company, N.A. as Bond Trustee. On July 15, 2014, the Series 2011B and 2011C Bonds were amended through supplemental bond trust indentures, which, among other changes, resulted in a reduced interest rate structure. The Series 2011A, Series 2011B, and Series 2011C (collectively referred to as the Series 2011 Bonds) were issued under and secured by separate Bond Trust Indentures. The Series 2011 Bonds were all issued pursuant to the MTI and have been designated as tax-exempt for federal income tax purposes.

The bond proceeds were used to acquire, construct, renovate, remodel, and/or equip certain health care facilities owned by the Foundation and to refinance the taxable indebtedness of the Foundation. The proceeds of the taxable indebtedness had been used for the payment of costs of acquiring, constructing, renovating, remodeling, and equipping certain of the Obligated Group members' health facilities. The remaining proceeds were used to pay a portion of the interest on the Series 2011 Bonds.

The Series 2011 Bonds are secured by a pledge of gross receipts (which includes all patient receivables) of the Obligated Group members to the Master Trustee. Of the Series 2011A Bonds maturing on August 15, 2041, principal of $75,000 is guaranteed by a financial guaranty policy issued by Assured Guaranty Municipal Corp.

The Series 2011B and Series 2011C Bonds bear interest at a monthly rate calculated as a percentage of LIBOR plus a spread. The banks that purchased the bonds agreed to an initial hold period of seven years from the date of issuance. There are certain provisions that allow for the extension of this hold period to a period extending no later than August 15, 2041, subject to notice provisions between the Obligated Group and the bondholders. There are also provisions that allow the bonds to be converted into a different mode in accordance with the bond trust indentures, and remarketed accordingly.

(Dollars in thousands)

Note 12. Long-Term Debt and Other Borrowings (Continued)

In accordance with the provisions of the loan agreements and direct note obligations between the Obligated Group and the IFA, the Obligated Group is required to make deposits for principal and interest to cover debt service on outstanding obligations as they come due. Such deposits are held by the Bond Trustee and are reported within assets limited as to use in the combined balance sheets.

On August 1, 2014, the IFA issued $26,095 of variable rate revenue bonds to a bank in a direct placement transaction, pursuant to a bond trust indenture between the IFA and Bank of New York Mellon Trust Company, N.A. as Bond Trustee. The bond proceeds were used to refinance certain Series 2009A Bonds, which were subject to early redemption provisions. The Series 2014A Bonds were issued pursuant to the MTI and have been designated as tax-exempt for federal income tax purposes.

The Master Trust Indenture, Bond Trust Indentures, and Agreements impose certain restrictive covenants upon the Obligated Group related to maintenance of corporate existence, maintenance of insurance, limitations on transfer of property, furnishing financial reports and other information, maintenance of certain financial ratios and levels, limitations on additional debt and liens, transfers of cash and distributions, and other matters.

Installment note - Champaign Primary Care Center: In conjunction with the construction of a primary care center in southwest Champaign in 2008, an installment note payable to Geneva Mortgage was entered into for a principal sum of $14,200 and bearing a fixed interest rate of 6.21% on a 15-year note. Monthly installments of principal and interest of $93 are scheduled through July 1, 2022 with a balloon payment of $9,002 due on August 1, 2022. Subject to certain provisions, a prepayment penalty is applicable to principal balances paid prior to their scheduled amortization.

Aggregate maturities of long-term debt (net of original issue discount) as of December 31, 2015 are as follows assuming that the Series 2009 Bonds are successfully remarketed:

Year ending December 31	
2016	$ 12,328
2017	13,008
2018	13,680
2019	14,403
2020	20,513
Later years	473,009
	$ 546,941

In the event a remarketing agent is unsuccessful in remarketing any of the Series 2009 Bonds, a liquidity draw is prepared and presented to the credit-providing Bank by the bond trustee and the bond trustee begins the process to convert those bonds into Bank Bonds. In the event there is a draw against one of the associated letters of credit, the Obligated Group shall pay the principal amount of the liquidity advance in eight substantially equal quarterly principal payments with interest, with the first payment due on the first day of the month that is at least 365 days following the day on which the Bank honored a liquidity drawing. Had the remarketing agent been unsuccessful in remarketing the bonds in the last remarketing of December 2015, up to a total of $160,000 of payments would have been accelerated and due in 2017 and 2018.

(Dollars in thousands)

Note 12. Long-Term Debt and Other Borrowings (Continued)

The fair value of the variable rate debt approximates the carrying value. The fair value of the Obligated Group's fixed rate debt is estimated based on the quoted market prices for the same or similar issues or is determined using observable inputs other than quoted market prices. The fair value of the long-term debt at December 31, 2015 was $595,591 compared to a carrying value of $546,941, and the fair value at December 31, 2014 was $603,445 compared to a carrying value of $554,446.

The composition of interest and financing expense for the years ended December 31, 2015 and 2014 is as follows:

	2015	2014
Interest on IFA revenue bonds	$ 15,424	$ 16,512
Net interest expense on derivative instruments	2,645	2,736
Finance and letter of credit fees	1,186	1,202
Interest on installment notes	726	778
Other	510	949
	20,491	22,177
Capitalized interest	(73)	(104)
	$ 20,418	$ 22,073

Note 13. Interest Rate Swap Agreements

The Obligated Group maintains an interest-rate risk-management strategy that uses derivative instruments (interest rate swap agreements) to minimize significant, unanticipated earnings fluctuations caused by interest rate volatility. The Obligated Group's specific goals are (1) to manage interest rate sensitivity by modifying the repricing or maturity characteristics of its variable rate debt and (2) to lower, where possible, the overall cost of its borrowed funds. The interest rate swap agreements involve the periodic exchange of payments without the exchange of the notional amount upon which the payments are based. The Obligated Group does not use financial instruments for trading purposes, nor does it use leveraged financial instruments. Credit risk related to the derivative financial instruments is considered minimal and is managed by using multiple counterparties, requiring high credit standards for its counterparties and through periodic settlements. The counterparties to these contractual arrangements are financial institutions that carry investment-grade credit ratings. The Obligated Group is exposed to potential credit loss in the event of nonperformance by these counterparties. To mitigate credit exposure, the swap agreements contain certain collateral provisions applicable to both the Obligated Group and the counterparties. The Obligated Group does not anticipate nonperformance by the other parties. The fair value of the swap agreements is included on the combined balance sheets.

On November 10, 2004, the Obligated Group entered into two fixed-payer interest rate swaps to convert a portion of its effective variable interest rate exposure to fixed interest rates with UBS AG (original notional $64,300) and Citibank, N.A. (original notional $48,500). On April 4, 2012 the Obligated Group novated its fixed-payer interest rate swap with UBS AG to PNC Bank, National Association. Under the terms of the novation agreement, all financial contractual terms and conditions remained the same, and no financial consideration was made between the Obligated Group and either UBS AG or PNC Bank, National Association.

(Dollars in thousands)

Note 13. Interest Rate Swap Agreements (Continued)

On December 16, 2008, the Obligated Group entered into an interest rate swap with Goldman Sachs Mitsui Marine Derivative Products, L.P. (original notional $50,000), and on February 24, 2009, the Obligated Group entered into an interest rate swap with Barclays Bank PLC (original notional $50,000). These transactions provide that the Obligated Group will make quarterly scheduled payments to the counterparty at a variable rate and receive quarterly scheduled payments from the counterparty as follows: (1) for an initial period at a variable rate based upon a percentage of three-month LIBOR plus 0.60% and (2) subsequently, until swap termination, at a variable rate based upon a percentage of three-month LIBOR without a spread.

None of the Obligated Group's swaps meet the eligibility requirements for hedge accounting treatment; all changes in fair value are classified as operating income or expense.

Interest expense includes $3,065 and $3,178 for 2015 and 2014, respectively, for net periodic payments to the counterparty for the fixed-payer interest rate swaps and $421 and $442 for 2015 and 2014, respectively, for net periodic payments from the counterparty for the basis interest rate swaps.

The interest rate swap agreements as of December 31, 2015 and 2014 are as follows:

Counter-Party	Maturity Date	Obligated Group Pays	Obligated Group Receives	Notional Value 2015	Fair Value 2015	Fair Value 2014	Change in Fair Value of Derivative Instruments 2015	Change in Fair Value of Derivative Instruments 2014
PNC Bank	2/15/2035	3.537%	65% of 1-Month LIBOR + 0.12%	$ 61,550	$ (15,326)	$ (15,022)	$ (304)	$ (6,604)
Citibank, N.A.	2/15/2028	3.347%	65% of 1-Month LIBOR + 0.12%	33,025	(3,943)	(4,268)	325	(810)
Goldman Sachs Mitsui Marine Derivative Products, L.P.	12/15/2028	SIFMA Municipal Swap Index	92.39% of 3-Month LIBOR (initially 67% of 3-Month LIBOR + 0.60% until 12/15/2011)	50,000	2,159	1,336	823	(170)
Barclays Bank PLC	03/01/2029	SIFMA Municipal Swap Index	93.53% of 3-Month LIBOR (initially 67% of 3-Month LIBOR + 0.60% until 8/31/2015)	50,000	2,497	1,846	651	(556)
				$ 194,575	$ (14,613)	$ (16,108)	$ 1,495	$ (8,140)
Recorded on the combined balance sheets as:								
Asset					$ 4,656	$ 3,181		
Liability					(19,269)	(19,289)		
					$ (14,613)	$ (16,108)		

(Continued)

Note 14. Insurance and Investment in Health Systems

The Foundation formed Health Systems, an offshore captive insurance company, to underwrite the professional and general liability and workers' compensation risks of the Foundation Affiliates on a claims-made basis with a retroactive date to January 1, 1986. Health Systems is a Non-Obligated Group affiliate. Health Systems utilizes the services of an independent actuary to determine the liability assessments.

The Foundation owns 100% of the outstanding common stock of Health Systems, which has no recorded investment value as of December 31, 2015 and 2014 due to impairment losses recognized in prior years.

Substantially all of the general and professional liability insurance activities relating to the Obligated Group are accounted by Health Systems funded through premiums to the Obligated Group entities.

Effective February 2013, Health Systems underwrites a primary layer of insurance with liability limits of $3,000 per occurrence with no annual aggregate. Health Systems also provides excess layers of insurance (100% reinsured) to its insureds with a combined liability limit of $50,000 per occurrence with a combined annual aggregate of $50,000. The excess insurance is procured through three commercial insurers. Prior to February 2013, Health Systems provided similar coverage except the excess layer was $40,000 per occurrence with a $40,000 annual aggregate. Also, prior to February 2007, Health Systems provided similar coverage except the primary layer was $4,000. Prior to 2005, the primary layer contained varied per occurrence and annual aggregate limits.

As noted above, Health Systems provides an excess layer of insurance. The amount of reinsurance recoverable on unpaid losses for professional and general liability insurance recorded on Health Systems financial statements as of December 31, 2015 and 2014 was $9,359 and $9,872, respectively. Health Systems has reinsurance recoverable on paid losses of $1,052 and $1,005 as of December 31, 2015 and 2014, respectively.

Effective February 2012, Health Systems underwrites workers' compensation liability risks for the Foundation and its subsidiaries and affiliates. Health Systems covers the first $750 per occurrence, and amounts above this retention are covered by external insurance carriers. Prior to this time, the Obligated Group had elected to self-insure its workers' compensation risk.

In the event the excess loss insurance companies are unable to meet their obligations under existing agreements, the Obligated Group would be liable for defaulted amounts.

(Continued)

(Dollars in thousands)

Note 14. Insurance and Investment in Health Systems (Continued)

The condensed balance sheets for Health Systems as of December 31, 2015 and 2014 are as follows:

	2015	2014
Assets:		
Investments and cash	$ 120,517	$ 132,806
Reinsurance recoverable	10,411	10,877
Other assets and prepaids	222	341
Total assets	$ 131,150	$ 144,024
Liabilities:		
Accounts payable and other accrued liabilities	$ 4,530	$ 2,140
Intercompany payable	762	6,827
Estimated liability for unpaid losses	60,414	62,272
Total liabilities	65,706	71,239
Stockholder's equity:		
Capital stock	1,800	1,800
Retained earnings	38,795	41,549
Accumulated other comprehensive income	24,849	29,436
Total stockholder's equity	65,444	72,785
Total liabilities and stockholder's equity	$ 131,150	$ 144,024

The condensed statements of operations and changes in net assets for Health Systems for the years ended December 31, 2015 and 2014 are as follows:

	2015	2014
Underwriting income premiums earned less premiums ceded and other	$ 3,926	$ 11,061
Underwriting and general and administrative expenses	(11,290)	764
Net underwriting income (loss)	(7,364)	11,825
Investment income	4,540	5,133
Excess (deficiency) of revenue over expenses	(2,824)	16,958
Change in net unrealized gains and losses on other-than-trading securities	(4,586)	4,439
Equity transfer from affiliate	69	-
Change in net assets	$ (7,341)	$ 21,397

(Dollars in thousands)

Note 14. Insurance and Investment in Health Systems (Continued)

The Obligated Group has recorded an estimate for incurred but not reported claims for both active and departed physicians as of December 31, 2015 and 2014 of $12,856 and $12,857, respectively. The coverage discussed above is currently arranged through January 31, 2017. There are no assurances that the Obligated Group and Health Systems will be able to renew existing policies on similar terms.

The Obligated Group has elected to self-insure a portion of its employee health insurance cost. The Obligated Group is self-insured annually up to $600 per enrollee and with an unlimited maximum life-time benefit (covering services from both in-network and out-of-network providers) effective January 1, 2014. Claims in excess of $600 are funded through a commercial stop-loss policy procured by the Foundation.

The liability recorded on the combined balance sheets at December 31, 2015 and 2014 and the expenses on the combined statements of operations for years ended December 31, 2015 and 2014 are as follows:

	Liability		Expense	
	2015	2014	2015	2014
Health insurance	$ 11,807	$ 10,960	$ 38,884	$ 31,438
Professional, general, and other	12,856	12,857	6,183	12,286
	$ 24,663	$ 23,817	$ 45,067	$ 43,724

Note 15. Pension Plans

The Obligated Group has defined contribution pension plans for its employees. Upon meeting eligibility requirements, the Obligated Group contributes 5.0% of an employee's salary to the relevant plan. For any eligible employees contributing to a 403(b) plan, the Obligated Group matches up to 2.0% of the employee's earnings as well as contributing 2.0% for earnings above the social security taxable wage base, up to the maximum allowed.

Total expense incurred by the Obligated Group under the defined contribution plan for the years ended December 31, 2015 and 2014 was $21,320 and $20,569, respectively. The total liabilities at December 31, 2015 and 2014 are $16,161 and $16,215, respectively.

The Foundation acquired a qualified noncontributory defined benefit pension plan through a 2010 acquisition. It covers employees formerly employed by the acquired entity and hired prior to January 1, 2004 who met eligibility requirements. The benefits are based on each employee's compensation during the highest five consecutive years of the last 15 years of employment and years of service through December 31, 2011, at which time participants' accrued benefits were frozen. Therefore, there is no longer any service cost recognized.

The plan is sponsored by Carle Holding, a Non-Obligated Group affiliate. The plan's sponsor makes annual contributions to the plan in an amount equal to the amortization of prior service cost as determined by the plan's actuary. There was no pension expense incurred by the Obligated Group for the years ended December 31, 2015 and 2014. Separate accounting for the assets and liabilities of each entity is not maintained. Carle Holding records the liability for underfunding of the plan on its books and as of December 31, 2015 and 2014 was $113,137 and $128,116, respectively.

Note 16. Commitments and Contingencies

Litigation: The individual members of the Obligated Group are currently defendants in several lawsuits arising in the normal course of operations. In management's opinion, the estimated costs accrued as of December 31, 2015 are adequate to provide for potential losses and management believes these matters will be resolved without material adverse effect on the future financial position or results from operations of the Foundation and its subsidiaries and affiliates.

Legal, regulatory, and other contingencies and commitments: The laws and regulations goveming the Medicare, Medicaid, and other govemment health care programs are extremely complex and subject to interpretation, making compliance an ongoing challenge for the Obligated Group and other health care organizations. Recently the federal government has increased its enforcement activity, including audits and investigations related to billing practices, clinical documentation, and related matters. The Obligated Group maintains a compliance program designed to educate employees and to detect and correct possible violations.

State and federal agencies routinely conduct regulatory investigations and compliance audits of healthcare providers. The Obligated Group is subject to these regulatory efforts. Management is currently unaware of any regulatory matters, which may have a material adverse effect on Foundation's financial position or results of operations.

The Patient Protection and Affordable Care Act and other enacted legislation: The Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010 (often referred to, collectively, as the Affordable Care Act), was signed into law on March 23, 2010. This legislation includes numerous provisions affecting the delivery of health care services, the financing of health care costs, reimbursement of health care providers, and the legal obligations of health insurers, providers, and employers. These provisions are slated to take effect at specified times over substantially the next decade. The law also contains stronger antifraud enforcement provisions and provides additional funding for enforcement activity. To date, this legislation has not materially affected the Obligated Group's combined financial statements.

On May 6, 2011, CMS issued a final rule establishing a value-based purchasing program (VBP) for acute care hospitals paid under the Medicare Inpatient Prospective Payment System. Beginning in federal fiscal year 2013, value-based incentive payments will be made based upon a provider's achievement of or improvement in a set of clinical and quality measures designed to foster improved clinical outcomes. The VBP started with a 1% reduction in Medicare inpatient payments in federal fiscal year 2013 that will increase annually by 0.25% up to 2% of payments by federal fiscal year 2017. These value-based incentives will be withheld and redistributed based on hospital performance.

It is not currently possible to determine the impact of any additional or further cuts that may result based on any federal budget actions to Medicare reimbursement. The Obligated Group continues to monitor the impact of these regulations.

Tax exemption for sales tax and property tax: Effective June 14, 2012, the Governor of Illinois signed into law, Public Act 97-0688, which created new standards for state sales tax and property tax exemptions in Illinois. The law established new standards for the issuance of charitable exemptions, including requirements for a nonprofit hospital to certify annually that in the prior year, it provided a dollar amount of qualified services and activities to low-income and underserved individuals with a value at least equal to the hospital's estimated property tax liability. The Foundation certified its services and activities as required by county officials in December 2014, 2013, and 2012. These certifications required the subsequent approval from each respective county and the state; accordingly, the Foundation has not recognized property tax expense on those properties eligible for exemption since 2011. Until 2011, the Foundation had recognized property tax expense on all of its properties as they were added to the property tax rolls beginning in 2004 through 2007.

(Continued)

Note 16. Commitments and Contingencies (Continued)

The Foundation has been working through the court system to recover the property taxes that were assessed against it for tax years 2004 through 2011. In October 2013, the Foundation resolved its claims against two of the defendants by way of settlements in which the two defendants agreed to make scheduled payments to the Foundation, beginning in 2013 and which will continue through 2018, and the Foundation agreed to allow those defendants to keep a portion of the taxes that had been paid. The Foundation recorded the present value of these payments as other income in the amount of $2,696 during 2013. The Foundation's claims against the remaining defendants continued and resulted in several issues being certified for interlocutory appeal to the Fourth District Appellate Court of Illinois, including a challenge to the constitutionality of Section 15-86 of the Illinois Property Tax Code. This matter proceeded to the Fourth District Appellate Court which held, in its January 5, 2016 opinion, that Section 15-86 of the Illinois Property Tax Code, the Illinois statute establishing a framework for granting hospital property tax exemptions, to be unconstitutional. The Foundation has filed an appeal of that decision to the Illinois Supreme Court on February 9, 2016. The Foundation also filed a motion to stay the enforcement of the Fourth District Appellate Court opinion pending further review by the Illinois Supreme Court. The Fourth District denied the motion to stay, which prompted the Foundation to file an emergency motion to stay with the Illinois Supreme Court. On March 14, 2016, the Illinois Supreme Court granted the Foundation's request to stay the enforcement of the Fourth District Appellate Court decision that the Champaign County Board of Review and the Supervisor of Assessments were using as the basis to again place Foundation properties on the tax rolls for 2015. The Illinois Supreme Court ordered Carle to post a bond with the Champaign County Treasurer in the amount of taxes it would be assessed if it was on the tax rolls in 2015. The Foundation secured a standby letter of credit in the favor of the Champaign County Treasurer sufficient to keep the Foundation's exempt properties off the tax rolls while the Foundation's appeal is pending before the Illinois Supreme Court. The comparative standard set forth in Section 15-86 of the Illinois Property Tax Code establishes that nonprofit hospitals seeking exemption should continue providing charity care at levels that meet or exceed their estimated property tax liability. The Foundation asserts that the Section 15-86 of the Illinois Property Tax Code, "can be constitutionally read if the court breaks apart...charitable ownership and charitable use," with the constitution and case law properly defining charitable use and the legislature properly defining charitable ownership via statute.

Investment risk and uncertainties: The Foundation invests in various investment securities, which are exposed to various risks, including interest rate, credit, and overall market volatility among others. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities may occur in the near term and that such change could materially affect the amounts reported in the accompanying combined balance sheets.

Carle Illinois College of Medicine: Effective August 1, 2015, the Foundation entered into an Affiliation Agreement with the Board of Trustees of The University of Illinois for the development of a College of Medicine at its Urbana-Champaign campus with an engineering-focused curriculum and to be known as the Carle Illinois College of Medicine (CI COM). This agreement resulted in an unconditional commitment of $50,000, which has been reflected as general and administrative expense. The Foundation funded $10,000 of this commitment during 2015. At the financial statement date, $10,000 of this commitment resides in current accrued liabilities and $30,000 resides in long-term accrued liabilities. The Foundation also pledged $50,000, payable in five equal annual installments, conditioned upon CI COM attaining provisional accreditation from the Liaison Committee on Medical Education (LCME). The LCME accreditation process involves several steps including application, preliminary accreditation, provisional accreditation, and full accreditation. LCME will begin evaluating CI COM for provisional accreditation once the charter class begins; the charter class is anticipated to commence in the fall of 2018. In accordance with generally accepted accounting principles this conditional pledge is not reflected within the financial statements.

Based upon the success of other medical schools seeking LCME accreditation since 2000, the Foundation believes it is reasonably possible that provisional accreditation will be attained for CI COM as early as 2018.

(Dollars in thousands)

Note 17. Concentrations of Credit Risk

The Obligated Group grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of net patient receivables from patients and third-party payors at December 31, 2015 and 2014 is as follows:

	2015	2014
Commercial insurance and other	45%	32%
Medicare	23%	32%
Medicaid	14%	14%
Health Alliance	13%	16%
Private pay	5%	6%
	100%	100%

The Obligated Group had deposits in local financial institutions, which at times exceed Federal Deposit Insurance Corporation limits by material amounts. The Obligated Group has not experienced any losses in such accounts and believes its cash balances are not exposed to any significant credit risk.

Note 18. Functional Expenses

The Obligated Group provides comprehensive health care services to the residents of the central Illinois area. Expenses related to providing these services for the years ended December 31, 2015 and 2014 are as follows:

	2015	2014
Health care services	$ 831,923	$ 784,106
General and administrative	103,205	49,829
	$ 935,128	$ 833,935

(Dollars in thousands)

Note 19. Equity Transfers to Affiliates and Related-Party Transactions

For the years ended December 31, 2015 and 2014, Foundation Affiliates processed various intercompany balances resulting from the normal course of operations and primarily provided funding for various health services. The equity transfer from Unconsolidated Subsidiaries for the years ended December 31, 2015 and 2014 resulted in $10,695 and $1,726, respectively, being transferred into the Obligated Group. Equity transfers of $21,338 and 21,444 were made to Non-Obligated Group Affiliates for the years ended December 31, 2015 and 2014.

The Obligated Group recognized net patient service revenue from CHA Holding for the years ended December 31, 2015 and 2014 of $261,954 and $246,635, respectively. Other significant related-party transactions for the years ended December 31, 2015 and 2014 include $11,020 and $4,439, respectively, of contracted physician services sold to Hoopeston, $11,084 and $8,059, respectively, of shared services support cost allocated from the Foundation, and $4,960 and $4,067, respectively, for a variety of other supplies and services exchanges. Additionally, for both the years ended December 31, 2015 and 2014, the Obligated Group received $2,618 in internal mission funding from Community Health to offset costs associated with certain Hospital services.

The Obligated Group has balances due from Non-Obligated Group members on the combined balance sheets as of December 31, 2015 and 2014 as follows:

	2015	2014
Receivable (payable) from:		
CHA Holding	$ 289,216	$ 256,174
Hoopeston	26,844	22,803
Development	(773)	(1,117)
Health Systems	762	6,827
	$ 316,049	$ 284,687

The intercompany receivable due from CHA Holding at December 31, 2015 and 2014 includes current receivables of $255 and $11,749, respectively, related to the medical and pharmacy services provided to members; current receivables of $23,169 and $29,107, respectively, related to salaries and other administrative services; and current receivables with Carle Holding of $21,781 and $20,285, respectively. These amounts are recorded as other receivables on the combined balance sheets. The remaining intercompany receivable due from CHA Holding at December 31, 2015 and 2014 includes noncurrent amounts of $244,011 and $195,033, respectively. These amounts are recorded as other assets on the combined balance sheets.

Note 20. Subsequent Events

Subsequent events have been evaluated through April 25, 2016, the date of the issuance of these financial statements. Through that date, there were no events requiring disclosure other than the item noted below.

Effective January 1, 2016, Health Care sold a 25% interest in Surgicenter to Christie for $6,625, which approximates fair value. Under a new partnership agreement, the Hospital will manage the day-to-day operation of the facility and Health Care and Christie will share governance of the Surgicenter Board of Managers.

The Carle Foundation Obligated Group
Supplementary Information - Combining Balance Sheet
December 31, 2015
(Dollars in thousands)

Schedule 1

Assets	Foundation	Hospital	Health Care	Windsor	Subtotal	Eliminations and Reclassifications	Obligated Group
Current assets:							
Cash and cash equivalents	$ 89,135	$ 40	$ 333	$ 23	$ 89,531	$ (6,729)	$ 82,802
Investments	202,510	-	-	-	202,510	-	202,510
Assets limited as to use	18,573	-	-	-	18,573	-	18,573
Patient receivables, net	-	112,336	22,416	-	134,752	-	134,752
Intercompany receivables	24,228	48,763	-	-	72,991	(72,991)	-
Other receivables	52,335	4,892	744	9	57,980	72,039	130,019
Inventories	-	9,215	-	-	9,215	-	9,215
Prepaid expenses	6,449	5,731	167	4	12,351	-	12,351
Total current assets	393,230	180,977	23,660	36	597,903	(7,681)	590,222
Property and equipment, net	472,818	75,908	1,724	4,460	554,910	-	554,910
Investments and other assets:							
Investments, net of current portion	644,575	-	-	-	644,575	-	644,575
Investment in unconsolidated subsidiaries	-	-	15,078	-	15,078	-	15,078
Interest rate swap agreements	4,656	-	-	-	4,656	-	4,656
Other assets	60,929	191,011	-	-	251,940	-	251,940
Total investments and other assets	710,160	191,011	15,078	-	916,249	-	916,249
Total assets	$ 1,576,208	$ 447,896	$ 40,462	$ 4,496	$ 2,069,062	$ (7,681)	$ 2,061,381

See accompanying notes to supplementary schedules and independent auditors' report.

(Continued)

The Carle Foundation Obligated Group
Supplementary Information - Combining Balance Sheet
December 31, 2015
(Dollars in thousands)

Liabilities and Net Assets	Foundation	Hospital	Health Care	Windsor	Subtotal	Eliminations and Reclassifications	Obligated Group
Current liabilities:							
Accounts payable	$ 5,977	$ 17,560	$ 830	$ 91	$ 24,458	$ (6,729)	$ 17,729
Intercompany payables	-	-	952	-	952	(952)	-
Current maturities of long-term debt	12,328	-	-	-	12,328	-	12,328
Estimated third-party payor settlements	-	50,784	-	-	50,784	-	50,784
Current portion of estimated liability for self-insurance losses	11,807	-	-	-	11,807	-	11,807
Compensation and paid leave payable	17,501	29,956	28,984	176	76,617	-	76,617
Other accrued liabilities	20,660	3,036	6,644	1,248	31,588	-	31,588
Total current liabilities	68,273	101,336	37,410	1,515	208,534	(7,681)	200,853
Long-term debt and other liabilities:							
Long-term debt, net of current maturities	534,613	-	-	-	534,613	-	534,613
Interest rate swap agreements	19,269	-	-	-	19,269	-	19,269
Asset retirement obligation	6,294	-	-	-	6,294	-	6,294
Estimated liability for self-insurance losses, net of current portion	10,449	2,407	-	-	12,856	-	12,856
Other accrued liabilities	41,241	-	-	-	41,241	-	41,241
Total long-term liabilities	611,866	2,407	-	-	614,273	-	614,273
Total liabilities	680,139	103,743	37,410	1,515	822,807	(7,681)	815,126
Net assets–unrestricted	896,069	344,153	3,052	2,981	1,246,255	-	1,246,255
Total liabilities and net assets	$ 1,576,208	$ 447,896	$ 40,462	$ 4,496	$ 2,069,062	$ (7,681)	$ 2,061,381

See accompanying notes to supplementary schedules and independent auditors' report.

The Carle Foundation Obligated Group **Schedule 2**

Supplementary Information - Combining Statement of Operations and Changes in Net Assets

Year Ended December 31, 2015

(Dollars in thousands)

	Foundation	Hospital	Health Care	Windsor	Subtotal	Eliminations and Reclassifications	Obligated Group
Revenue:							
Patient service revenue (net of contractual allowances)	$ -	$ 733,032	$ 191,696	$ -	$ 924,728	$ -	$ 924,728
Benefit from bad debts	-	8,536	3,196	-	11,732	-	11,732
Net patient service revenue	-	741,568	194,892	-	936,460	-	936,460
Other revenue:							
Rental income	792	8,094	-	7,445	16,331	-	16,331
Gain (loss) on disposal of property and equipment	(92)	93	-	-	1	-	1
Internal fees	217,770	3,825	1	-	221,596	(221,596)	-
Other	4,118	5,461	9,019	102	18,700	32,146	50,846
Total revenue	222,588	759,041	203,912	7,547	1,193,088	(189,450)	1,003,638
Expenses:							
Salaries and wages	76,563	165,769	205,019	1,996	449,347	-	449,347
Employee benefits	23,251	43,793	26,169	533	93,746	(93)	93,653
Patient care and other supplies	5,182	138,408	6,035	214	149,839	(9)	149,830
Purchased services	25,888	20,789	1,384	212	48,273	-	48,273
General and administrative	83,488	194,585	12,245	2,235	292,553	(189,348)	103,205
Insurance	2,020	1,895	2,219	49	6,183	-	6,183
Depreciation	33,672	17,305	385	692	52,054	-	52,054
Interest and financing expense	19,988	85	-	345	20,418	-	20,418
Real estate and other taxes	587	12,736	(38)	375	13,660	-	13,660
Change in fair market value of derivative instruments	(1,495)	-	-	-	(1,495)	-	(1,495)
Total expenses	269,144	595,365	253,418	6,651	1,124,578	(189,450)	935,128
Income (loss) from operations	(46,556)	163,676	(49,506)	896	68,510	-	68,510
Nonoperating gains:							
Investment income	58,774	3	-	1	58,778	-	58,778
Gain on unconsolidated subsidiaries	-	-	6,642	-	6,642	-	6,642
Nonoperating gains, net	58,774	3	6,642	1	65,420	-	65,420
Excess (deficiency) of revenue over expenses before income taxes	12,218	163,679	(42,864)	897	133,930	-	133,930
Provision for income taxes	2,535	-	-	2	2,537	-	2,537
Excess (deficiency) of revenue over expenses	$ 9,683	$ 163,679	$ (42,864)	$ 895	$ 131,393	$ -	$ 131,393

The Carle Foundation Obligated Group **Schedule 2, Continued**

Supplementary Information - Combining Statement of Operations and Changes in Net Assets

Year Ended December 31, 2015

(Dollars in thousands)

	Foundation	Hospital	Health Care	Windsor	Subtotal	Eliminations and Reclassifications	Obligated Group
Unrestricted net assets:							
Excess (deficiency) of revenue over expenses	$ 9,683	$ 163,679	$ (42,864)	$ 895	$ 131,393	$ -	$ 131,393
Change in net unrealized gains and losses on other-than-trading securities	(56,744)	-	-	-	(56,744)	-	(56,744)
Equity transfers from (to) affiliates	143,212	(181,383)	18,640	(1,807)	(21,338)	-	(21,338)
Change in net assets	96,151	(17,704)	(24,224)	(912)	53,311	-	53,311
Net assets, beginning of year	799,918	361,857	27,276	3,893	1,192,944	-	1,192,944
Net assets, end of year	$ 896,069	$ 344,153	$ 3,052	$ 2,981	$ 1,246,255	$ -	$ 1,246,255

See accompanying notes to supplementary schedules and independent auditors' report.

Carle Foundation Hospital **Schedule 3**

Supplementary Information - Combining Statement of Operations and Changes in Net Assets

Year Ended December 31, 2015

(Dollars in thousands)

	Hospital Division	Medical Supply	DASC	Total	Eliminations and Reclassifications	Total Hospital
Revenue:						
Patient service revenue (net of contractual allowances)	$ 729,957	$ 601	$ 2,795	$ 733,353	$ (321)	$ 733,032
Benefit from (provision for) bad debts	8,806	(219)	(51)	8,536	-	8,536
Net patient service revenue	738,763	382	2,744	741,889	(321)	741,568
Other revenue:						
Rental income	405	8,007	-	8,412	(318)	8,094
Gain on disposal of property and equipment	2	91	-	93	-	93
Internal fees	3,825	-	-	3,825	-	3,825
Other	5,452	9	-	5,461	-	5,461
Total revenue	748,447	8,489	2,744	759,680	(639)	759,041
Expenses:						
Salaries and wages	163,438	1,676	655	165,769	-	165,769
Employee benefits	43,121	481	191	43,793	-	43,793
Patient care and other supplies	134,860	3,770	393	139,023	(615)	138,408
Purchased services	20,514	249	26	20,789	-	20,789
General and administrative	192,042	1,425	1,142	194,609	(24)	194,585
Insurance	1,818	66	11	1,895	-	1,895
Depreciation	16,451	714	140	17,305	-	17,305
Interest and financing expense	14	36	35	85	-	85
Real estate and other taxes	12,736	-	-	12,736	-	12,736
Total expenses	584,994	8,417	2,593	596,004	(639)	595,365
Income from operations	163,453	72	151	163,676	-	163,676
Nonoperating gains:						
Investment income	-	3	-	3	-	3
Excess of revenue over expenses	163,453	75	151	163,679	-	163,679
Unrestricted net assets:	-	-	-			
Equity transfers from (to) affiliates	(181,775)	594	(202)	(181,383)	-	(181,383)
Change in unrestricted net assets	(18,322)	669	(51)	(17,704)	-	(17,704)

See accompanying notes to supplementary schedules and independent auditors' report.

The accompanying supplementary information represents corporate entities, corporate consolidations, or business lines as defined below and in Note 1 of the notes to the combined special-purpose financial statements.

Organization:

The Carle Foundation (Foundation) serves as the sole member and elects all of the trustees of, and thereby controls, the following Illinois not-for-profit affiliates (Obligated Group):

a. The Carle Foundation Hospital (Hospital) comprises the following:

   - Hospital Division, which includes operation of a licensed 393-bed hospital, a certified home health agency, and a certified hospice
   - Carle Medical Supply (Medical Supply), a provider of medical equipment and supplies to the general public and hospital patients
   - Danville Surgery Center and outpatient surgical recovery centers located in Champaign and Danville, Illinois (DASC)

b. Carle Health Care Incorporated (Health Care) comprises the following:

   - Carle Physician Group (Physician Group), which operates as a private, multispecialty, group medical practice
   - Airlife, which operates an air medical transport service
   - The Caring Place day care center

c. Carle Retirement Centers, Inc. (Windsor) operates a 174-unit retirement living center.

Certain affiliated or controlled entities of the Foundation and certain wholly-owned subsidiaries of the Obligated Group are not members of the Obligated Group and are excluded from the Obligated Group Financials Statements. These entities are included in the Carle Foundation Consolidated Financial Statements.

All significant intercompany transactions and balances have been eliminated upon consolidation. The eliminations represent intercompany transactions among Carle Foundation affiliates.