

CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

Edward-Elmhurst Healthcare
Fiscal Years Ended June 30, 2015 and 2014
With Reports of Independent Auditors

Ernst & Young LLP



Building a better
working world

Edward-Elmhurst Healthcare
Consolidated Financial Statements
and Supplementary Information
Fiscal Years Ended June 30, 2015 and 2014

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Report of Independent Auditors

The Board of Trustees
Edward-Elmhurst Healthcare

We have audited the accompanying consolidated financial statements of Edward-Elmhurst Healthcare, which comprise the consolidated balance sheets as of June 30, 2015 and 2014, and the related consolidated statements of operations and changes in net assets and cash flows for the fiscal years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Edward-Elmhurst Healthcare at June 30, 2015 and 2014, and the consolidated results of its operations and its cash flows for the fiscal years then ended in conformity with U.S. generally accepted accounting principles.

Ernst + Young LLP

September 25, 2015

Edward-Elmhurst Healthcare

Consolidated Balance Sheets
(Dollars in Thousands)

	June 30	
	2015	2014
Assets		
Current assets:		
Cash and cash equivalents	\$ 49,885	\$ 42,090
Assets limited as to use	16,966	16,779
Patient accounts receivable, less allowances for doubtful accounts of \$26,977 and \$33,576	202,741	194,385
Estimated amounts due from third-party payors	11,624	13,381
Inventories	19,070	17,663
Prepaid expenses and other current assets	43,731	43,758
Total current assets	344,017	328,056
Assets limited as to use, less current portion:		
Externally designated investments under debt agreements	14,537	14,645
Externally designated for self-insurance	104,708	111,450
Board-designated investments	709,781	674,483
	829,026	800,578
Other assets:		
Deferred financing costs, net	5,017	5,369
Goodwill and other intangible assets, net	64,763	64,770
Investments in affiliates and other	33,314	28,752
Reinsurance recoverable for reinsured losses	8,698	27,208
	111,792	126,099
Land, buildings, and equipment:		
Land and improvements	145,192	144,803
Buildings and improvements	1,078,152	1,007,850
Furniture and equipment	513,445	466,689
Construction-in-progress	26,490	82,633
	1,763,279	1,701,975
Less allowances for depreciation	779,662	708,961
	983,617	993,014
Total assets	\$ 2,268,452	\$ 2,247,747

	June 30	
	2015	2014
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 34,005	\$ 52,798
Accrued expenses	124,244	100,230
Estimated amounts due to third-party payors	195,853	178,139
Current maturities of long-term debt	13,780	12,988
Total current liabilities	<u>367,882</u>	344,155
Long-term debt, less current maturities	716,690	728,678
Professional and general liability	58,106	61,613
Reserve for reinsured losses	8,698	27,208
Pension plan liability	42,795	19,083
Other liabilities	53,385	53,559
Total liabilities	<u>1,247,556</u>	1,234,296
Net assets:		
Unrestricted net assets of Edward-Elmhurst Healthcare	992,462	995,220
Non-controlling interest	14,896	12,736
Total unrestricted net assets	<u>1,007,358</u>	1,007,956
Temporarily restricted net assets	12,681	4,638
Permanently restricted net assets	857	857
Total net assets	<u>1,020,896</u>	1,013,451
Total liabilities and net assets	<u><u>\$ 2,268,452</u></u>	<u><u>\$ 2,247,747</u></u>

See accompanying notes.

Edward-Elmhurst Healthcare

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

	Year Ended June 30	
	2015	2014
Revenues		
Net patient service revenue before provision for bad debts	\$ 1,172,820	\$ 1,070,953
Provision for bad debts	(41,355)	(50,879)
Net patient service revenue	1,131,465	1,020,074
Other operating revenue	66,202	63,349
	1,197,667	1,083,423
Expenses		
Salaries and wages	467,099	431,191
Employee benefits	103,665	92,447
Medical fees	55,781	54,924
Purchased services	88,501	65,478
Supplies and other	336,459	295,124
Depreciation and amortization	79,620	80,434
Interest	19,294	20,046
Medicaid tax	34,148	39,851
	1,184,567	1,079,495
Operating income before pension settlement cost	13,100	3,928
Pension settlement cost	7,014	—
Operating income	6,086	3,928
Nonoperating		
Realized gains and investment income, net	54,743	129,045
Unrealized losses on investments, net	(33,373)	(28,624)
Change in fair value of interest rate swaps	1,163	3,878
Cash settlements on interest swaps	(7,429)	(7,021)
Loss on early extinguishment of debt	—	(3,515)
Other nonoperating (losses) gains, net	(1,240)	10,014
	13,864	103,777
Excess of revenues and gains over expenses and losses	19,950	107,705
Less: non-controlling interest	(2,160)	(837)
Excess of revenues and gains over expenses and losses attributable to controlling interest	17,790	106,868

Edward-Elmhurst Healthcare

Consolidated Statements of Operations and Changes in Net Assets (continued)
(Dollars in Thousands)

	Year Ended June 30	
	2015	2014
Unrestricted net assets, controlling interest		
Excess of revenues and gains over expenses and losses	\$ 17,790	\$ 106,868
Net assets released from restrictions and used for purchase of fixed assets	97	576
Postretirement benefit plan adjustments	(19,286)	9,099
Distributions to owners	(1,536)	(475)
Amortization of loss on discontinuation of hedge accounting	177	177
(Decrease) increase in unrestricted net assets, controlling interest	<u>(2,758)</u>	116,245
Unrestricted net assets, non-controlling interest		
Excess of revenues and gains over expenses and losses	2,160	837
Amounts acquired in business combinations	–	11,552
Amounts disposed in business sale	–	(347)
Increase in unrestricted net assets, non-controlling interest	<u>2,160</u>	12,042
Temporarily restricted net assets, controlling interest		
Contributions	10,241	1,999
Net assets released from restrictions and used for operations	(2,101)	(1,731)
Net assets released from restrictions and used for purchase of fixed assets	(97)	(576)
Redesignation of donor intent	–	26
Increase (decrease) in temporarily restricted net assets, controlling interest	<u>8,043</u>	(282)
Permanently restricted net assets, controlling interest		
Redesignation of donor intent	–	(26)
Decrease in permanently restricted net assets, controlling interest	<u>–</u>	(26)
Increase in net assets	7,445	127,979
Net assets at beginning of fiscal year	1,013,451	885,472
Net assets at end of fiscal year	<u>\$ 1,020,896</u>	<u>\$ 1,013,451</u>

See accompanying notes.

Edward-Elmhurst Healthcare

Consolidated Statements of Cash Flows (Dollars in Thousands)

	Year Ended June 30	
	2015	2014
Operating activities		
Increase in net assets	\$ 7,445	\$ 127,979
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	79,620	80,434
Provision for bad debts	41,355	50,879
Change in fair value of interest rate swaps	(1,163)	(3,878)
Restricted contributions	(10,241)	(1,999)
Loss on early extinguishment of debt	-	3,515
Net loss (gain) on disposal of fixed assets	280	(3,054)
Change in funded status of pension plan	19,286	(9,099)
Net assets released from restriction for operations	2,101	1,731
Changes in operating assets and liabilities:		
Patient accounts receivable	(49,711)	(85,493)
Inventories, prepaid expenses, and other current assets	(1,380)	(1,669)
Accounts payable and accrued expenses	5,221	(3,009)
Other assets and liabilities	624	(8,095)
Investments	(28,635)	(47,439)
Estimated amounts due from/to third-party payors	19,471	45,199
Net cash provided by operating activities	84,273	146,002
Investing activities		
Additions to land, buildings, and equipment, net	(70,503)	(86,205)
Investments in affiliates and other	(4,562)	(10,378)
Net cash paid for business acquisitions	-	(17,436)
Net cash used in investing activities	(75,065)	(114,019)
Financing activities		
Principal payments under bond obligations	(11,196)	(12,057)
Proceeds from issuance of long-term debt	-	309,025
Repayment of long-term debt	-	(326,325)
Change in collateral posted under swap agreements	1,643	2,602
Restricted contributions	10,241	1,999
Net assets released from restriction for operations	(2,101)	(1,731)
Net cash used in financing activities	(1,413)	(26,487)
Net increase in cash and cash equivalents	7,795	5,496
Cash and cash equivalents at beginning of fiscal year	42,090	36,594
Cash and cash equivalents at end of fiscal year	\$ 49,885	\$ 42,090
Supplemental disclosure of cash flow information		
Interest paid	\$ 19,464	\$ 21,720

See accompanying notes.

Edward-Elmhurst Healthcare

Notes to Consolidated Financial Statements (Dollars in Thousands)

June 30, 2015

1. Organization and Basis of Consolidation

The accompanying consolidated financial statements represent the accounts of Edward-Elmhurst Healthcare (the Corporation) and its various affiliates. Significant intercompany transactions have been eliminated in consolidation.

Effective July 1, 2013, Edward Health Services Corporation and its subsidiaries (collectively, Edward) and Elmhurst Memorial Healthcare and its subsidiaries (collectively, Elmhurst) completed a system merger to form Edward-Elmhurst Healthcare (EEH), an integrated health system comprising three hospitals: Edward Hospital, Elmhurst Memorial Hospital and Linden Oaks Hospital. The merger was effectuated by reconstituting the parent organization of Edward, which was renamed Edward-Elmhurst Healthcare and which became the sole corporate member of Edward Hospital (EH), Edward Heath Ventures (EHV), Edward Foundation, EEH, SPC (the Captive), and Elmhurst Memorial Healthcare. The merger aims to advance the predecessor organizations' combined missions through coordinated planning, effective allocation of resources, costs savings and integrated health care delivery.

Included among Edward's historical affiliates are EH, an acute care hospital located in Naperville, Illinois, serving residents of Naperville and its surrounding communities; EHV, an organization that provides services to physician practices, holds real estate investments, and invests in joint ventures and other health care services; Edward Foundation, a charitable foundation organized to solicit gifts for the maintenance and benefit of Edward; and the Captive, which provides general and professional liability insurance coverage to the Corporation and its subsidiaries. EHV is the sole corporate member of Edward Health & Fitness Center (EHFC), an Illinois not-for-profit corporation, and is the sole shareholder of Edward Management Corporation (EMC), an Illinois for-profit corporation. EHV has a 99% ownership interest in Naperville Psychiatric Ventures, an Illinois general partnership, d/b/a Linden Oaks Hospital (Linden Oaks), a psychiatric hospital located on the campus of EH, and the Corporation owns the remaining 1% interest. EHV was also the general partner of the Edward Physician Office Center Limited Partnership (EPOCLP), an Illinois for-profit limited partnership, which owned a medical office building on the EH campus until June 30, 2015, at which date EPOCLP was dissolved pursuant to an agreement entered into by EHV and EH. EHV and EH had together owned 100% of the limited and general partnership units of EPOCLP at the time of dissolution. Following dissolution and effective July 1, 2015, EPOCLP and EH assigned all EPOCLP assets and liabilities to EHV.

Edward-Elmhurst Healthcare

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

1. Organization and Basis of Consolidation (continued)

Included among Elmhurst's historical affiliates are Elmhurst Memorial Healthcare, which is the sole corporate member of Elmhurst Memorial Hospital (EMH), an acute care hospital located in Elmhurst, Illinois, serving residents of Elmhurst and its surrounding communities, and the sole shareholder of Elmhurst Memorial Health Technologies LLC (HTI), a for-profit limited liability corporation. EMH is the sole corporate member of Elmhurst Memorial Hospital Foundation (Elmhurst Foundation), a charitable foundation organized to solicit gifts for the maintenance and benefit of Elmhurst.

At July 1, 2013, neither Edward nor Elmhurst had significant assets or liabilities not otherwise required to be recognized under United States generally accepted accounting principles (GAAP). Further, the application of merger accounting to the combination as of July 1, 2013, did not require any significant adjustments to conform accounting policies of the merging entities or to eliminate intra-entity balances.

The amounts recognized as of the July 1, 2013, merger date for each major class of assets, liabilities, and net assets for Edward and Elmhurst are as follows:

	Edward	Elmhurst	Total
Total assets:			
Cash and cash equivalents	\$ 547	\$ 36,047	\$ 36,594
Patient accounts receivable, less allowances for doubtful accounts	93,467	66,304	159,771
Estimated amounts due from third-party payors	1,395	19,494	20,889
Other current assets	23,737	20,205	43,942
Assets limited as to use	534,498	247,519	782,017
Land, buildings, and equipment, net	454,138	532,651	986,789
Goodwill and intangibles	31,355	-	31,355
Other assets	26,744	15,463	42,207
	\$ 1,165,881	\$ 937,683	\$ 2,103,564

Edward-Elmhurst Healthcare

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

1. Organization and Basis of Consolidation (continued)

	Edward	Elmhurst	Total
Total liabilities:			
Current maturities of long-term debt	\$ 6,575	\$ 11,346	\$ 17,921
Accounts payable and accrued expenses	91,903	62,904	154,807
Estimated amounts due to third-party payors	99,964	41,443	141,407
Long-term debt, less current maturities	261,298	488,261	749,559
Professional and general liability	42,275	20,043	62,318
Pension plan liability	–	26,359	26,359
Other liabilities	42,654	23,067	65,721
Total liabilities	544,669	673,423	1,218,092
Net assets:			
Unrestricted net assets of Edward-Elmhurst Healthcare	619,078	259,897	878,975
Non-controlling interest	694	–	694
Total unrestricted net assets	619,772	259,897	879,669
Temporarily restricted net assets	1,047	3,873	4,920
Permanently restricted net assets	393	490	883
Total net assets	621,212	264,260	885,472
	<u>\$ 1,165,881</u>	<u>\$ 937,683</u>	<u>\$ 2,103,564</u>

Edward-Elmhurst Healthcare

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

1. Organization and Basis of Consolidation (continued)

During 2014, the Corporation acquired controlling interest of three separate businesses (see Note 6), in addition to a previously held controlling interest in Edward Ambulance Services, a joint venture that provides ambulance services throughout EH's service area. The ownership percentages acquired for each business were less than 100%, resulting in the recognition of non-controlling interest in the consolidated financial statements. The following represents a reconciliation of beginning and ending balances of the Corporation's interest and the non-controlling interests for each class of net assets for which a non-controlling interest existed during the fiscal years ended June 30, 2015 and 2014:

	Unrestricted Net Assets		
	Controlling Interest	Non- Controlling Interest	Total
Balance at July 1, 2013	\$ 878,975	\$ 694	\$ 879,669
Revenue and gains in excess of expenses and losses	106,868	837	107,705
Net assets released from restrictions and used for			
purchases of fixed assets	576	-	576
Postretirement benefit plan adjustments	9,099	-	9,099
Distribution to owners	(475)	-	(475)
Amortization of gain on discontinuation of hedge			
accounting	177	-	177
Non-controlling interests acquired in			
business combinations	-	11,552	11,552
Non-controlling interests disposed of in business sale	-	(347)	(347)
Balance at June 30, 2014	995,220	12,736	1,007,956
Revenue and gains in excess of expenses and losses	17,790	2,160	19,950
Net assets released from restrictions and used for			
purchases of fixed assets	97	-	97
Postretirement benefit plan adjustments	(19,286)	-	(19,286)
Distribution to owners	(1,536)	-	(1,536)
Amortization of gain on discontinuation of hedge			
accounting	177	-	177
Balance at June 30, 2015	\$ 992,462	\$ 14,896	\$ 1,007,358

Edward-Elmhurst Healthcare

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Although estimates are considered to be fairly stated at the time the estimates are made, 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 when purchased, excluding amounts whose use is limited by board designation or other arrangements under trust agreements.

Patient Accounts Receivable

The Corporation evaluates the collectibility of its patient accounts receivable based on the length of time the receivable is outstanding, payor class, and the anticipated future uncollectible amounts based on historical experience. Patient accounts receivable are charged to the allowance for doubtful accounts when they are deemed uncollectible.

Patient service revenue is reduced by the provision for bad debts, and patient accounts receivable are reduced by an allowance for doubtful accounts. These amounts are based on management's assessment of historical and expected net collections for each major payor source, considering business and economic conditions, trends in health care coverage, and other collection indicators. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. On the basis of historical experience, a significant portion of the Corporation's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Corporation records a significant provision for bad debts in the period services are provided related to self-pay patients, including both uninsured patients and patients with deductible and co-payment balances due for which third-party coverage exists for a

Edward-Elmhurst Healthcare

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

portion of their balance. For receivables associated with patients who have third-party coverage, the Corporation analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary. Accounts receivable are written off after collection efforts have been followed in accordance with the Corporation's policies.

The Corporation's allowances for doubtful accounts were 15% and 19% of total accounts receivable at June 30, 2015 and 2014, respectively. The Corporation's combined allowances for doubtful accounts and charity care covered 94% and 86% of self-pay accounts receivable at June 30, 2015 and 2014, respectively. The Corporation's write-offs to the allowances for doubtful accounts were \$48,016 and \$49,934 for the fiscal years ended June 30, 2015 and 2014, respectively.

Assets Limited as to Use and Investment Income

Assets limited as to use include assets set aside by the Board of Trustees (the Board) for future capital improvements, which the Board, at its discretion, may subsequently use for other purposes. In addition, assets limited as to use include assets externally designated by reinsurers for the self-insured professional and general liability and assets held by trustees under debt agreements. Assets limited as to use are classified as current assets to the extent they are required to satisfy obligations classified as current liabilities in the accompanying consolidated balance sheets.

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value based on quoted market prices for those or similar investments, with the exception of assets held in a privately held pooled bond fund that are valued using the ownership interest in the net asset value per share, and certain hedge funds, collective investment fund and private real estate fund that are accounted for in accordance with the equity method of accounting, which is not a fair value measurement. Dividends, realized gains and losses, and unrealized gains and losses are reported as nonoperating gains and losses in the consolidated statement of operations and changes in net assets.

Edward-Elmhurst Healthcare

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

Interest Rate Swaps

Interest rate swaps are measured at fair value based on quoted market interest rates. Gains and losses resulting from changes in market interest rates are reported as change in fair value of interest rate swaps in the consolidated statements of operations and changes in net assets.

The accounting for changes in the fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated as part of a hedging relationship and, further, on the type of hedging relationship. For derivative instruments that are designated as hedging instruments, the Corporation must designate the hedging instrument based upon the exposure being hedged as a fair value hedge, cash flow hedge, or a hedge of a net investment in a foreign operation.

For derivative instruments that are designated and qualify as a cash flow hedge (i.e., hedging the exposure of variability in expected future cash flows that is attributable to a particular risk), the gain or loss is recorded as a change in unrestricted net assets, whereas for derivative instruments not designated as hedging instruments, the gain or loss is recognized in current earnings during the period of change. At June 30, 2015, the Corporation had no derivative instruments that are designated and qualify as a fair value hedge or hedge of a net investment in a foreign currency.

Inventories

Inventories are stated at the lower of cost (first-in, first-out method) or market.

Deferred Financing Costs

Debt issuance and financing costs are capitalized and amortized over the life of the debt issue using methods that approximate the effective interest method.

Land, Buildings, and Equipment

Land, buildings, and equipment are carried at cost, except donated assets, which are recorded at fair market value as of the date of donation. The Corporation has capitalized internally developed software costs of \$36,274 and \$31,516 (and related accumulated amortization of \$8,312 and \$4,750) at June 30, 2015 and 2014, respectively, which are recorded in furniture and equipment

Edward-Elmhurst Healthcare

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

in the consolidated balance sheets. Total non-depreciable assets (consisting of various parcels of land) totaled \$94,856 at June 30, 2015 and 2014. There were no significant improvements to leased facilities and equipment during 2015 and 2014.

The Corporation records depreciation expense, including amortization of assets recorded under capital leases, using the straight-line method over the estimated useful lives of the assets, which have the following ranges:

	<u>Years</u>
Buildings	20–100
Building improvements	3–40
Furniture and equipment	3–15

Total depreciation expense, inclusive of the amortization of assets recorded under capital leases, during 2015 and 2014, was \$74,632 and \$79,100, respectively, and is included in depreciation and amortization in the accompanying consolidated statements of operations and changes in net assets.

During 2014, the Corporation sold certain real estate property located in Elmhurst, Illinois for \$5,675 with a carrying amount at the time of sale of \$2,105, resulting in a gain of \$3,570, which is included in other nonoperating gains in the accompanying consolidated statement of operations and changes in net assets for the fiscal year ended June 30, 2014. There were no significant property sales during the fiscal year ended June 30, 2015.

Interest expense, including interest capitalized during 2015 and 2014, was \$20,144 and \$22,577, respectively. Interest capitalized during 2015 and 2014 was \$850 and \$2,531, respectively.

At June 30, 2015, the Corporation had commitments totaling \$11,159 related to construction and modernization projects.

Edward-Elmhurst Healthcare

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

Asset Impairments

Long-lived and intangible assets are reviewed for impairment whenever events or business conditions indicate the carrying amount of such assets may not be fully recoverable. Initial assessments of recoverability are based on estimates of undiscounted future net cash flows associated with an asset or group of assets. When impairment is indicated, the carrying amount of these long-lived assets is reduced to fair value based on discounted net cash flows or other estimated fair values. No significant impairments of long-lived and intangible assets were recorded during the fiscal years ended June 30, 2015 and 2014.

Goodwill is assessed for impairment on an annual basis at the reporting unit level. If fair value of the reporting unit is less than the carrying value, an impairment loss equal to the difference between the implied fair value of the reporting unit goodwill and the carrying value of the reporting unit goodwill is recognized. There was no impairment of goodwill during the fiscal years ended June 30, 2015 and 2014.

Intangible Assets

The acquisition of a business entity can result in the recording of intangible assets. Acquired definite-lived intangible assets are amortized over the useful lives of the assets. Indefinite-lived intangible assets (including goodwill) are carried at acquisition value, less any impairment reductions.

The weighted average amortization period of intangibles subject to amortization is approximately 9.1 years and 8.1 years as of June 30, 2015 and 2014, respectively.

Investment in Affiliates

The Corporation accounts for its investments in less-than-majority owned and controlled affiliates using either the cost basis or the equity method of accounting. Income from these investments is reflected in other revenue in the consolidated statements of operations and changes in net assets.

Edward-Elmhurst Healthcare

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

Non-Controlling Interest

The consolidated financial statements include all assets, liabilities, revenues, and expenses of less-than-100% owned or controlled entities of the Corporation, in accordance with relevant accounting guidance. The Corporation has separately reflected a non-controlling interest for the portion of net assets not owned or controlled by the Corporation within the consolidated balance sheets.

Contributions

Unconditional promises to give cash and other assets are reported at fair value at the date the pledge is received to the extent estimated to be collectible by the Corporation. Pledges received with donor restrictions that limit the use of the donated assets are reported as either temporarily or permanently restricted support. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations and changes in net assets as net assets are released from restrictions.

Temporarily restricted net assets are used to differentiate resources, the use of which is restricted by donors or grantors to a specific time period or purpose, from resources on which no restrictions have been placed or that arise from the general operations of the Corporation. Temporarily restricted gifts are recorded as an addition to temporarily restricted net assets in the period received. Resources restricted by donors for specific operating purposes are reported as revenue to the extent expended within the period.

Permanently restricted net assets consist of amounts held in perpetuity, as designated by donors. Earnings on investments of endowment funds are included in revenue unless restricted by donors.

Net Patient Service Revenue

The Corporation has agreements with various third-party payors that provide for payments to the Corporation at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts

Edward-Elmhurst Healthcare

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

received or due from patients, third-party payors, and others for services rendered. These amounts include estimated adjustments under certain reimbursement agreements with third-party payors, which are subject to audit by the applicable administering agency. These adjustments are accrued on an estimated basis and are adjusted in future periods as final settlements are determined (see Note 4). Patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts), recognized in the period from these major payor services is as follows for the fiscal years ended June 30, 2015 and 2014:

	2015			2014		
	Third-Party Payors	Self-Pay	Total All Payors	Third-Party Payors	Self-Pay	Total All Payors
Net patient service revenue before provision for bad debts	\$1,084,911	\$ 87,909	\$1,172,820	\$ 943,567	\$ 127,386	\$1,070,953

Charity Care

The Corporation provides care to all patients regardless of their ability to pay. Charity care provided by the Corporation is excluded from net patient service revenue. The cost of providing charity care was \$18,546 and \$27,501 for the fiscal years ended June 30, 2015 and 2014, respectively.

Advertising Costs

The Corporation expenses the production costs of advertising as incurred. Advertising expenses were \$5,155 and \$1,348 for the fiscal years ended June 30, 2015 and 2014, respectively, and are included in supplies and other expense in the accompanying consolidated statements of operations and changes in net assets.

Excess of Revenues and Gains Over Expenses and Losses

The consolidated statements of operations and changes in net assets include excess of revenues and gains over expenses and losses attributable to controlling interest. Changes in unrestricted net assets, which are excluded from excess of revenues and gains over expenses and losses attributable to controlling interest, include net assets released from restrictions and used for purchase of fixed assets, postretirement benefit plan adjustments, distributions to owners, and amortization of loss on discontinuation of hedge accounting.

Edward-Elmhurst Healthcare

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

Income Taxes

The Corporation, EH, EHV, EHFC, Edward Foundation, Linden Oaks, Elmhurst Memorial Healthcare, EMH and Elmhurst Foundation are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code on income related to their exempt purposes. Accordingly, there is no material provision for income tax for these entities.

There is presently no tax imposed by the government of the Cayman Islands on the Captive. During 2014, the Captive started a new segregated portfolio cell (Cell B) to provide coverage for certain affiliates, employed physicians of the Corporation and certain independent physicians. Cell B made an election under Section 953(d) of the Internal Revenue Code to be treated as a United States corporation for federal income tax purposes. The initial election was denied by the Internal Revenue Service (IRS); however, due to the nature of the findings identified by the IRS in its denial letter, the Captive is currently appealing the decision. As of June 30, 2015 and 2014, there is no material provision for income taxes relating to the Captive. The only taxes payable by the Captive for the original segregated portfolio cell (Cell A) are withholding taxes of other countries applicable to certain investment income relating to Cell A.

For the fiscal year ended June 30, 2015, HTI had net operating income of \$161 for financial statement purposes that was offset by previous years' net operating losses (NOL). At June 30, 2015, \$664 of NOL was available to be carried forward, expiring in the years 2020 through 2031. The deferred tax asset related to the NOL is offset by a valuation allowance, as realization of the tax benefits of the NOL carryforward is not assured. For the fiscal year ended June 30, 2014, HTI had net operating income of \$294 for financial statement purposes that was offset by previous years' NOL.

For the fiscal year ended June 30, 2015, EMC had a net operating loss of \$11 for financial statement purposes. At June 30, 2015, EMC had a NOL carryforward of \$368, expiring in the years 2022 through 2035. The deferred tax asset related to the NOL is offset by a valuation allowance, as realization of the tax benefits of the NOL carryforward is not assured. For the fiscal year ended June 30, 2014, EMC had a net operating loss of \$12 for financial statement purposes.

Edward-Elmhurst Healthcare

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued guidance related to recognizing revenue from its contracts with customers. This new guidance dictates that the standard be applied either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying the revenue recognition standard recognized as of the date of initial application. In August 2015, the FASB agreed to extend the effective date whereby the new guidance is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2017. The Corporation is evaluating the effect this guidance will have on its consolidated financial statements.

In April 2015, the FASB issued Accounting Standards Update (ASU) 2015-03, *Simplifying the Presentation of Debt Issuance Costs*, to simplify the presentation of debt issuance costs. The ASU requires that debt issuance costs be presented in the balance sheet as a direct deduction from the carrying amount of debt liability, consistent with debt discounts or premiums. The guidance is effective for fiscal years beginning after December 15, 2015. Upon adoption, an entity must apply the new guidance retrospectively to all prior periods presented in the financial statements. The Corporation is evaluating the effect this guidance will have on its consolidated financial statements.

In May 2015, the FASB issued ASU 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, to remove the requirement to categorize in the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The objective of this ASU is to address the diversity in practice. This guidance is effective for fiscal years beginning after December 15, 2015, and should be applied retrospectively for all prior periods presented in the financial statements. The Corporation is evaluating the effect this guidance will have on its consolidated financial statements.

Reclassifications

Certain reclassifications were made to the fiscal year 2014 financial statements to conform to the classification used in fiscal year 2015. These reclassifications had no impact on excess revenues and gains over expenses and losses or on net assets, as previously reported.

Edward-Elmhurst Healthcare

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

3. General and Professional Liability Claims

Edward was a party to an agreement with the Illinois Provider Trust (IPT) for primary and excess coverage of Edward general and professional liability claims through December 31, 2004, on a claims-made basis. Effective January 1, 2005, the Captive began providing claims-made health care professional liability and occurrence-based general liability coverage to Edward at various layers. The Captive includes tail coverage retroactive to the dates of the claims-made primary and excess coverages through IPT (January 2003 and January 2002, respectively). In January 2007, the Captive began providing professional liability coverage to certain employed physicians of the EH and EHV. The Corporation has recorded an undiscounted tail coverage liability representing incurred but not reported claims of \$11,938 and \$13,498 at June 30, 2015 and 2014, respectively. Edward is also covered by an excess liability policy with limits of \$80,000 in the aggregate for the period January 1, 2009 through December 31, 2015. Elmhurst became covered under this excess policy effective July 15, 2013, when its self-insured retention liabilities were moved to the Captive via a loss portfolio transfer.

The Captive's Cell A self-insurance liability amounts of \$36,547 and \$44,564 for the fiscal years ended June 30, 2015 and 2014, respectively, are reported in the accompanying consolidated balance sheets on an undiscounted basis. The Captive's Cell B self-insurance liability amounts of \$9,621 and \$3,551 for the fiscal years ended June 30, 2015 and 2014, respectively, are reported in the accompanying consolidated balance sheets based on an annual discount rate of 4.0%.

Annual premiums paid to IPT or deposited in the Captive are based on actuarial valuations. The premiums for primary coverage under IPT are subject to retrospective adjustments based on the loss experience of Edward and other IPT members, subject to certain maximum limitations. No retrospective premium adjustments were assessed to Edward during the fiscal years ended June 30, 2015 and 2014.

Actuarial estimates are subject to uncertainty, including changes in claim reporting patterns, claim settlement patterns, judicial decisions, legislation, and economic conditions. The actual claim payments could be materially different from the estimates. The Corporation recorded \$17,917 and \$10,031 of general and professional liability expense in 2015 and 2014, respectively. The Corporation is a defendant in various lawsuits arising in the ordinary course of business. Although the outcome of these lawsuits cannot be predicted with certainty, management believes the ultimate disposition of such matters will not have a material effect on the Corporation's consolidated financial condition or results of operations.

Edward-Elmhurst Healthcare

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

3. General and Professional Liability Claims (continued)

Effective July 1, 2015, Cell B began providing professional liability coverage for the following affiliates: Elmhurst Clinic, LLC; Elmhurst Medical Associates, LLC; and Elmhurst Primary Care Associates, LLC.

4. Contractual Arrangements With Third-Party Payors

The Medicare and Medicaid programs pay EH and EMH for inpatient and outpatient services at predetermined rates based on treatment diagnosis. Medicare reimbursement for certain outpatient and extended care services rendered by Linden Oaks is primarily based on allowable costs, which are subject to retroactive audit and adjustment. Changes in the Medicare and Medicaid programs or reductions of funding levels for the programs could have an adverse effect on future amounts recognized as net patient service revenue.

The laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Payment for services provided to health maintenance organization and preferred provider organization (HMO/PPO) patients is made at predetermined fixed rates. Payment for services provided to Blue Cross program patients is based on allowable reimbursable costs and is subject to retroactive audit and adjustment.

Net patient revenues received under the HMO/PPO and Medicare payment arrangements account for 60% and 28%, respectively, of total net patient service revenue for the fiscal year ended June 30, 2015, and 64% and 28%, respectively, of total net patient service revenue for the fiscal year ended June 30, 2014. A provision has been made in the consolidated financial statements for contractual adjustments, representing the difference between standard charges for services and actual or estimated payment.

Edward-Elmhurst Healthcare

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

4. Contractual Arrangements With Third-Party Payors (continued)

EH, EMH, Linden Oaks, and EHV grant credit without collateral to their patients, most of whom are local residents and are insured under third-party arrangements. The mix of receivables from patients and third-party payors is as follows at June 30, 2015 and 2014:

	2015	2014
Medicare	19%	18%
Medicaid	12	6
Managed care HMO/PPO	25	32
Managed care Blue Cross HMO/PPO	12	16
Commercial	16	11
Self-pay and other	16	17
	100%	100%

Adjustments arising from reimbursement arrangements with third-party payors are accrued on an estimated basis in the period in which the services are rendered. Estimates for cost report settlements and contractual allowances can differ from actual reimbursement based on the results of subsequent reviews and cost report audits. Changes in third-party payor settlements that relate to prior years are reported in net patient service revenue in the consolidated statements of operations and changes in net assets. The impact of such items resulted in increases in net patient service revenue in the amounts of \$2,145 and \$2,773 in 2015 and 2014, respectively.

The Corporation recognized Illinois hospital assessment revenue and assessment expense in the amounts of \$40,006 and \$34,148, respectively, resulting in an increase of \$5,857 in the Corporation's operating income for the fiscal year ended June 30, 2015. The Corporation recognized Illinois hospital assessment revenue and assessment expense in the amounts of \$36,213 and \$39,851, respectively, resulting in a decrease of \$3,638 in the Corporation's operating income for the fiscal year ended June 30, 2014. Illinois hospital assessment revenues are reported in net patient service revenue before provision for bad debts, and Illinois hospital assessment expense are reported as Medicaid tax in the accompanying consolidated statements of operations and changes in net assets.

Edward-Elmhurst Healthcare

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

4. Contractual Arrangements With Third-Party Payors (continued)

The Corporation recognized unrestricted contributions of \$1,821 and \$2,684 during 2015 and 2014, respectively, from the Illinois Hospital Research and Educational Foundation (IHREF), representing financial assistance to certain hospitals participating in the Illinois Medicaid Provider Tax program. These amounts have been recorded as other operating revenue in the accompanying consolidated statements of operations and changes in net assets for the fiscal years ended June 30, 2015 and 2014.

5. Investments in Affiliates

Investments in affiliates include a 33.3% interest in Northern Illinois Surgery Center Limited Partnership; a 50.0% ownership interest in Illinois Health Partners, LLC (IHP); a 42.5% ownership interest in Residential Hospice Illinois, LLC; a 12.5% investment in DMG Surgical Center, LLC; a 26.0% interest in the Plainfield Surgery Center, LLC; a 50.0% interest in Elmcare, LLC; a 40.0% interest in CyberKnife Center of Chicago, LLC; and a 53.4% interest in Elmhurst Outpatient Surgery Center, LLC. These investments are recorded using the equity method of accounting. Net income from these investments of \$3,674 and \$2,464 is included in other operating revenue in the accompanying consolidated statements of operations and changes in net assets for the fiscal years ended June 30, 2015 and 2014, respectively.

Summarized unaudited financial results for the investments in affiliates accounted for under the equity method as of and for the fiscal years ended June 30, 2015 and 2014, are as follows:

	<u>2015</u>	<u>2014</u>
Assets	\$ 88,343	\$ 89,408
Liabilities	25,464	36,042
Net income	36,125	33,110

Edward-Elmhurst Healthcare

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

6. Business Acquisitions

EHV acquired a 55.0% ownership interest in Midwest Endoscopy Center, LLC (Midwest) on January 2, 2014, for a purchase price of \$12,876. Midwest operates an ambulatory surgery center located in Naperville, Illinois. This transaction was accounted for under the purchase method of accounting. EHV recorded goodwill in the amount of \$18,165 and a non-controlling interest of \$6,215 based upon the fair value of Midwest's balance sheet as of the date of acquisition. In valuing these assets and liabilities, fair values were based on, but not limited to, professional appraisals, discounted cash flows and replacement costs.

The fair value of assets and liabilities of Midwest at January 2, 2014, consists of the following:

Cash and cash equivalents	\$	209
Patient accounts receivable		125
Other current assets		287
Land, buildings, and equipment, net		310
Total assets	\$	<u>931</u>
Accrued expenses	\$	<u>5</u>
Total liabilities	\$	<u>5</u>

Total operating revenue and operating income from the date of acquisition of Midwest of \$2,655 and \$1,138, respectively, have been included in the 2014 consolidated statement of operations and changes in net assets.

EHV acquired a 60.0% ownership interest in Westmont Surgery Center, LLC (Westmont) on December 31, 2013, for a purchase price of \$5,826 plus a capital contribution of \$1,399. Westmont operates an ambulatory surgery center located in Westmont, Illinois. This transaction was accounted for under the purchase method of accounting. EHV recorded goodwill in the amount of \$7,260 and a non-controlling interest of \$2,775 based upon the fair value of Westmont's balance sheet as of the date of acquisition. In valuing these assets and liabilities, fair values were based on, but not limited to, professional appraisals, discounted cash flows, and replacement costs.

Edward-Elmhurst Healthcare

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

6. Business Acquisitions (continued)

The fair value of assets and liabilities of Westmont at December 31, 2013, consists of the following:

Cash and cash equivalents	\$	2,456
Patient accounts receivable		445
Inventories		325
Prepaid expenses and other current assets		68
Other current assets		220
Land, buildings, and equipment, net		485
Total assets	\$	<u>3,999</u>
Accrued expenses	\$	1,259
Total liabilities	\$	<u>1,259</u>

Total operating revenue and operating income from the date of acquisition of Westmont amount to \$2,453 and \$171, respectively, have been included in the 2014 consolidated statement of operations and changes in net assets.

Effective March 29, 2014, Elmhurst Memorial Home Health contributed and transferred its business and related assets to EH. EH then contributed and transferred the business and related assets to Residential Home Health of Illinois, LLC (RHHI). Prior to March 29, 2014, EH maintained a 49.0% ownership interest in RHHI. Based upon the fair value of the Elmhurst Memorial Home Health business and the fair value of the RHHI business prior to the transfer and contribution of the Elmhurst Memorial Home Health business and related assets to RHHI of \$2,181, the EH ownership interest in RHHI increased to 60.0%. This transaction was accounted for under the purchase method of accounting. Effective June 30, 2014, EH contributed and transferred the business and related assets of RHHI to the Corporation.

For the period July 1, 2013 through March 28, 2014, EH recorded its investment in RHHI using the equity method of accounting. Beginning on March 29, 2014, RHHI financial results are included in the accompanying consolidated statements of operations and changes in net assets. Effective March 29, 2014, the carrying value and fair value of EH's investment in RHHI were \$1,812 and \$2,409, respectively, resulting in a gain of \$597 that was recorded as other

Edward-Elmhurst Healthcare

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

6. Business Acquisitions (continued)

nonoperating gains, net in the accompanying 2014 consolidated statement of operations and net assets. EH recorded goodwill in the amount of \$5,952 and a non-controlling interest of \$2,561 based upon the fair value of RHHI's balance sheet as of the date of acquisition. In valuing these assets and liabilities, fair values were based on, but not limited to, professional appraisals, discounted cash flows, and replacement costs.

The fair value of assets and liabilities of RHHI at March 29, 2014, consists of the following:

Patient accounts receivable	\$	2,241
Inventories		19
Prepaid expenses and other current assets		70
Other current assets		13
Land, buildings, and equipment, net		178
Total assets	\$	<u>2,521</u>
Accrued expenses	\$	<u>1,322</u>
Total liabilities	\$	<u>1,322</u>

Following are the unaudited pro forma results for the fiscal year ended June 30, 2014. These results reflect the addition of unaudited results for RHHI for the period July 1, 2013 through March 28, 2014; Midwest for the period July 1, 2013 through December 30, 2013; and Westmont for the period July 1, 2013 through January 1, 2014, to the Corporation's results for the fiscal year ended June 30, 2014.

Total operating revenue	\$	27,852
Operating income		15,467
Revenues in excess of expenses		3,906

The pro forma information provided is a compilation of results only and should not be construed to accurately reflect what the actual results would have been had the acquisitions been consummated on July 1, 2013, and is not intended to project the Corporation's results of operations for any future periods.

Edward-Elmhurst Healthcare

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

7. Investments

The Corporation's investments at June 30, 2015 and 2014, are summarized as follows:

	<u>2015</u>	<u>2014</u>
Assets limited as to use, current portion	\$ 16,966	\$ 16,779
Assets limited as to use, less current portion:		
Externally designated investments under debt agreements	14,537	14,645
Externally designated for self-insurance	104,708	111,450
Board-designated investments	709,781	674,483
	<u>829,026</u>	<u>800,578</u>
Prepaid expenses and other current assets	14,717	16,515
Investments in affiliates and other	13,112	11,587
	<u>\$ 873,821</u>	<u>\$ 845,459</u>

A summary of the composition of the Corporation's investment portfolio at June 30, 2015 and 2014, is as follows:

	<u>2015</u>	<u>2014</u>
Cash and cash equivalents	\$ 20,513	\$ 23,600
Mutual funds – equity	444,107	458,232
Mutual funds – fixed income	278,440	296,678
U.S. government and agency obligations	3,324	4,972
Municipal bonds	3,692	3,092
Corporate bonds	5,225	4,368
Privately held pooled bond fund	–	20,062
Alternative investments	118,520	34,455
	<u>\$ 873,821</u>	<u>\$ 845,459</u>

Edward-Elmhurst Healthcare

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

7. Investments (continued)

Return on investments for the fiscal years ended June 30, 2015 and 2014, are as follows:

	2015	2014
Investment return:		
Interest and dividend income	\$ 17,842	\$ 35,672
Unrealized losses on investments, net	(33,373)	(28,624)
Realized gains on investments, net	36,901	93,373
Total investment return	\$ 21,370	\$ 100,421
Reported as:		
Unrealized losses on investments, net	\$ (33,373)	\$ (28,624)
Realized gains and investment income, net	54,743	129,045
	\$ 21,370	\$ 100,421

Returns on investments are reported net of investment-related expenses, including custodial fees and investment advisory fees, totaling \$1,344 and \$1,375 for the fiscal years ended June 30, 2015 and 2014, respectively.

8. Fair Value Measurements

Accounting Standards Codification (ASC) 820, *Fair Value Measurement*, 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 participants at the measurement date and establishes a framework for measuring fair value.

ASC 820 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- Level 1 – Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instruments.

Edward-Elmhurst Healthcare

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

8. Fair Value Measurements (continued)

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

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The following table presents the financial instruments carried at fair value as of June 30, 2015, by caption, on the consolidated balance sheet by the ASC 820 valuation hierarchy defined above:

	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents ^(a)	\$ 49,885	\$ –	\$ –	\$ 49,885
Assets limited as to use:				
Cash and cash equivalents ^(a)	315	–	–	315
Mutual funds – equity ^(b)	14,126	–	–	14,126
Mutual funds – fixed income ^(b)	857	–	–	857
U.S. government and agency obligations ^(c)	–	623	–	623
Municipal bonds ^(c)	–	1,045	–	1,045
	15,298	1,668	–	16,966
Externally designated investments under debt agreements:				
Cash and cash equivalents ^(a)	3,964	–	–	3,964
U.S. government and agency obligations ^(c)	–	2,701	–	2,701
Municipal bonds ^(c)	–	2,647	–	2,647
Corporate bonds ^(c)	–	5,225	–	5,225
	3,964	10,573	–	14,537
Externally designated for self-insurance:				
Mutual funds – equity ^(b)	40,461	–	–	40,461
Mutual funds – fixed income ^(b)	64,247	–	–	64,247
	104,708	–	–	104,708

Edward-Elmhurst Healthcare

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

8. Fair Value Measurements (continued)

	Level 1	Level 2	Level 3	Total
Board-designated investments:				
Cash and cash equivalents	\$ 1,000	\$ –	\$ –	\$ 1,000
Mutual funds – equity ^(b)	378,373	–	–	378,373
Mutual funds – fixed income ^(b)	211,888	–	–	211,888
	<u>591,261</u>	–	–	<u>591,261</u>
Investments not at fair value	–	–	–	118,520
Total board-designated investments	<u>591,261</u>	–	–	<u>709,781</u>
Prepaid expenses and other current assets:				
Cash and cash equivalents ^(a)	–	14,717	–	14,717
Investments in affiliates and other:				
Cash and cash equivalents ^(a)	517	–	–	517
Mutual funds – equity ^(b)	11,147	–	–	11,147
Mutual funds – fixed income ^(b)	1,448	–	–	1,448
	<u>13,112</u>	–	–	<u>13,112</u>
Total	<u>\$ 778,228</u>	<u>\$ 26,958</u>	<u>\$ –</u>	<u>\$ 923,706</u>
Liabilities				
Edward swaps ^(e)	\$ –	\$ (28,828)	\$ –	\$ (28,828)
Elmhurst swaps ^(e)	–	(13,518)	–	(13,518)
	<u>\$ –</u>	<u>\$ (42,346)</u>	<u>\$ –</u>	<u>\$ (42,346)</u>

Edward-Elmhurst Healthcare

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

8. Fair Value Measurements (continued)

The following table presents the financial instruments carried at fair value as of June 30, 2014, by caption, on the consolidated balance sheet by the ASC 820 valuation hierarchy defined above:

	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents ^(a)	\$ 42,090	\$ –	\$ –	\$ 42,090
Assets limited as to use:				
Cash and cash equivalents ^(a)	2,668	–	–	2,668
Mutual funds – equity ^(b)	11,602	–	–	11,602
Mutual funds – fixed income ^(b)	701	–	–	701
U.S. government and agency obligations ^(c)	–	703	–	703
Municipal bonds ^(c)	–	1,105	–	1,105
	14,971	1,808	–	16,779
Externally designated investments under debt agreements:				
Cash and cash equivalents ^(a)	4,021	–	–	4,021
U.S. government and agency obligations ^(c)	–	4,269	–	4,269
Municipal bonds ^(c)	–	1,987	–	1,987
Corporate bonds ^(c)	–	4,368	–	4,368
	4,021	10,624	–	14,645
Externally designated for self-insurance:				
Mutual funds – equity ^(b)	43,782	–	–	43,782
Mutual funds – fixed income ^(b)	67,668	–	–	67,668
	111,450	–	–	111,450

Edward-Elmhurst Healthcare

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

8. Fair Value Measurements (continued)

	Level 1	Level 2	Level 3	Total
Board-designated investments:				
Mutual funds – equity ^(b)	\$ 393,282	\$ –	\$ –	\$ 393,282
Mutual funds – fixed income ^(b)	226,684	–	–	226,684
Privately held pooled bond fund ^(d)	–	20,062	–	20,062
	619,966	20,062	–	640,028
Investments not at fair value	–	–	–	34,455
Total board-designated investments	619,966	20,062	–	674,483
Prepaid expenses and other current assets:				
Cash and cash equivalents ^(a)	–	16,515	–	16,515
Investments in affiliates and other:				
Cash and cash equivalents ^(a)	396	–	–	396
Mutual funds – equity ^(b)	9,566	–	–	9,566
Mutual funds – fixed income ^(b)	1,625	–	–	1,625
	11,587	–	–	11,587
Total	\$ 804,085	\$ 49,009	\$ –	\$ 887,549
Liabilities				
Edward swaps ^(c)	\$ –	\$ (26,232)	\$ –	\$ (26,232)
Elmhurst swaps ^(c)	–	(17,455)	–	(17,455)
	\$ –	\$ (43,687)	\$ –	\$ (43,687)

^(a) Pricing for money market funds is based on the open market and is valued on a daily basis.

^(b) Pricing for mutual funds – equity and mutual funds – fixed income is based on the open market and is valued on a daily basis.

^(c) Pricing for U.S. government and agency obligations, municipal bonds, and corporate bonds is based on market prices provided by recognized broker dealers.

^(d) Pricing for commingled funds is based on information provided by the fund manager, which in turn is based on the most recent information available to the fund manager for the underlying investments.

Edward-Elmhurst Healthcare

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

8. Fair Value Measurements (continued)

^(e)Pricing is based on discounted cash flows to reflect a credit spread to the London Interbank Offered Rate (LIBOR) discount curve in order to reflect “nonperformance” risk. The credit spread adjustment is derived from how other comparable entities’ bonds price and trade in the market.

There were no transfers into or out of Level 1, Level 2, or Level 3 during the fiscal years ended June 30, 2015 and 2014.

The carrying values of cash and cash equivalents, assets limited as to use (excluding alternative investments), patient accounts receivable, accounts payable, other accrued expenses, and estimated amounts due to/from third-party payors approximate their fair values at June 30, 2015, due to the short-term nature of these financial instruments.

Alternative investments were \$118,520 and \$34,455 at June 30, 2015 and 2014, respectively, which were invested in a combination of funds of hedge funds, a collective investment fund, and a private real estate fund with quarterly liquidity requiring 65–95 days’ notice for redemption. These alternative investments with no public market activity are accounted for in accordance with the equity method of accounting, which is not a fair value measurement.

The valuation for the estimated fair value of the Corporation’s long-term debt is completed by a third-party service and is primarily driven by the Municipal Market Data (MMD) index and current market credit spreads against the MMD index. MMD is an index that is updated daily and reflects current borrowing rates in the tax-exempt bond market. A number of factors including, but not limited, to any one or more of the following variables affect MMD and credit spreads against MMD: (i) general interest rate and market conditions; (ii) macroeconomic environment; (iii) underlying credit ratings on the Corporation’s outstanding debt; (iv) investor opinions about the Corporation and its outstanding debt; (v) if applicable, third-party credit enhancement provided on the Corporation’s debt; and (vi) trades for comparable or similarly rated securities in the secondary market. Based on the inputs in determining the estimated fair value of the debt of the Corporation, this liability would be considered Level 2. The estimated fair value of long-term debt (including current portion) was \$753,655 and \$762,880 at June 30, 2015 and 2014, respectively.

Edward-Elmhurst Healthcare

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

9. Long-Term Debt

Long-term debt consists of the following at June 30, 2015:

	<u>2015</u>	<u>2014</u>
Edward Obligated Group		
Illinois Finance Authority Revenue Bonds, Series 2012A:		
Serial Bonds, interest at 4.1% to 5.5%, due in varying annual installments from 2013 to 2018	\$ 6,475	\$ 9,460
Term Bonds, interest at 5.0%, due in 2020	11,050	11,050
Illinois Finance Authority Revenue Bonds, Series 2009A:		
Variable Rate Securities, interest payable monthly at a floating rate (0.07% and 0.06% at June 30, 2015 and 2014, respectively), and principal due in varying annual installments from 2011 to 2034	42,980	43,085
Illinois Finance Authority Revenue Bonds, Series 2008A:		
Serial Bonds, interest at 6.0%, due in varying annual installments from 2021 to 2026	15,375	15,375
Term Bonds, interest at 6.0%, due in 2028	6,150	6,150
Term Bonds, interest at 6.25%, due in 2033	8,450	8,450
Term Bonds, interest at 5.50%, due in 2040	56,125	56,125
Illinois Finance Authority Revenue Bonds, Series 2008B-1:		
Variable Rate Securities, interest payable monthly at a floating rate (0.07% and 0.06% at June 30, 2015 and 2014, respectively), and principal due in varying annual installments from 2010 to 2040	49,725	50,835
Illinois Finance Authority Revenue Bonds, Series 2008B-2:		
Variable Rate Securities, interest payable monthly at a floating rate (0.07% and 0.08% at June 30, 2015 and 2014, respectively), and principal due in varying annual installments from 2010 to 2040	49,725	50,835
Illinois Finance Authority Revenue Bonds, Series 2008C:		
Variable Rate Securities, interest payable monthly at a floating rate (0.07% and 0.08% at June 30, 2015 and 2014, respectively), and principal due in varying annual installments from 2010 to 2040	9,715	10,240
Total Edward Obligated Group obligations	<u>255,770</u>	<u>261,605</u>

Edward-Elmhurst Healthcare

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

9. Long-Term Debt (continued)

Elmhurst Obligated Group

Illinois Finance Authority Taxable Revenue Bonds, Series 2013A: Term Bonds, interest at 4.545%, due in 2018	\$ 76,025	\$ 76,025
Illinois Finance Authority Taxable Revenue Bonds, Series 2013B: Variable Rate Securities, interest payable monthly at a floating rate (1.50% and 1.60% at June 30, 2015 and 2014, respectively), and principal due in varying annual installments from 2015 to 2023	31,750	33,000
Illinois Finance Authority Revenue Bonds, Series 2013C: Variable Rate Securities, interest payable monthly at a floating rate (1.08% and 1.06% at June 30, 2015 and 2014, respectively), and principal due in varying annual installments from 2015 to 2048	120,000	125,000
Illinois Finance Authority Revenue Bonds, Series 2013D: Variable Rate Securities, interest payable monthly at a floating rate (0.88% and 0.86% at June 30, 2015 and 2014, respectively), and principal due in varying annual installments from 2018 to 2048	75,000	75,000
Illinois Finance Authority Revenue Bonds, Series 2008A: Serial Bonds, interest at 4.50%, paid in 2015	–	5
Term Bonds, interest at 5.625%, due in 2037	124,815	124,815
Illinois Finance Authority Revenue Bonds, Series 2008D: Variable Rate Securities, interest payable monthly at a floating rate (0.06% at June 30, 2015 and 2014), and principal due in varying annual installments from 2037 to 2048	50,000	50,000
Total Elmhurst Obligated Group obligations	477,590	483,845
Other long-term borrowings	1,784	1,208
	735,144	746,658
Less current maturities	(13,780)	(12,988)
Unamortized discount net of bonds payable	(4,674)	(4,992)
Long-term debt	\$ 716,690	\$ 728,678

Edward-Elmhurst Healthcare

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

9. Long-Term Debt (continued)

The Edward Obligated Group's long-term debt is issued pursuant to the Edward Amended and Restated Master Trust Indenture dated as of September 1, 1997, and subsequently amended and supplemented. The master trust indenture establishes the Edward Obligated Group, consisting of EH, the Corporation, EHV, EHFC, and Linden Oaks. All members of the Edward Obligated Group are jointly and severally obligated to pay all debt under the master trust indenture and are required to maintain their status as tax-exempt, not-for-profit health care providers.

The Elmhurst Obligated Group's long-term debt is issued pursuant to the Elmhurst Amended and Restated Master Trust Indenture dated as of May 15, 2008, among the master trustee and the Elmhurst Obligated Group, consisting of Elmhurst Memorial Healthcare, EMH and Elmhurst Memorial Home Health. Elmhurst Memorial Home Health ceased to be a member of the Elmhurst Obligated Group, effective March 1, 2014.

Annual maturities, assuming remarketing of the 2008, 2009, 2012, and 2013 obligations, on the debt (including mandatory sinking fund deposits) for each of the next five years are as follows:

2016	\$	13,780
2017		13,085
2018		14,700
2019		86,780
2020		15,845

Edward Obligated Group

Edward Obligated Group has entered into two credit agreements, which expire on August 31, 2016 and December 23, 2018, respectively, with banks under the terms of which the banks agree to make liquidity loans to the Edward Obligated Group in the amount necessary to purchase the variable rate demand direct obligations if not remarketed. The maximum amount of the liquidity loans would be principal of \$152,145 at June 30, 2015, plus accrued interest. The liquidity loans would be payable quarterly in equal installments over three years, with the initial payment being due 367 days after being drawn.

Edward-Elmhurst Healthcare

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

9. Long-Term Debt (continued)

Under the terms of the Edward master trust indenture, various amounts are held on deposit with a trustee for bond redemption, interest payments, and certain construction expenditures. In addition, the master trust indenture requires the Edward Obligated Group to maintain certain financial ratios and places restrictions on various activities, such as the transfer of assets and incurrence of additional indebtedness.

Elmhurst Obligated Group

In May 2008, Elmhurst Obligated Group issued Series 2008A and D Revenue Bonds through the Illinois Finance Authority. The Series 2008D bonds are puttable on demand by the bondholders. Elmhurst Obligated Group uses a remarketing agent to resell any tendered bonds to new investors. Elmhurst Obligated Group has entered into a credit agreement, which expires February 19, 2017, with a bank under the terms of which the bank agrees to make liquidity loans to the Elmhurst Obligated Group in the amount necessary to purchase the variable rate demand direct obligations if not remarketed. The maximum amount of the liquidity loans would be principal of \$50,000 at June 30, 2015, plus accrued interest. The liquidity loans would be payable quarterly in equal installments over 18 months, with the initial payment being due 367 days after being drawn.

In October 2013, Elmhurst Obligated Group issued Series 2013A and B Taxable Revenue Bonds through the Illinois Finance Authority. The proceeds, along with amounts on deposit in trustee-held funds, were used to refund Series 2002D obligations. In December 2013, Elmhurst Obligated Group issued Series 2013C Revenue Bonds through a private placement, the proceeds of which were used to refund Series 2008B and E obligations. In December 2013, Elmhurst Obligated Group issued Series 2013D Revenue Bonds through the Illinois Finance Authority, which were sold through a private placement. The proceeds were used to refund Series 2008C obligations. A loss on early extinguishment of debt of \$3,515 was recorded as a component of other nonoperating gains in the accompanying 2014 consolidated statement of operations and changes in net assets.

Edward-Elmhurst Healthcare

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

10. Derivative Instruments

The Corporation has interest rate-related derivative instruments to manage its exposure on its variable-rate and fixed-rate debt instruments and does not enter into derivative instruments for any purpose other than risk management purposes. The Corporation actively manages its interest cost and seeks to achieve the lowest interest cost consistent with an acceptable level of risk given varying interest rate environments. By using derivative financial instruments to manage the risk of changes in interest rates, the Corporation exposes itself to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contracts. When the fair value of a derivative contract is positive, the counterparty owes the Corporation, which creates credit risk for the Corporation. When the fair value of a derivative contract is negative, the Corporation owes the counterparty, and therefore, it does not possess credit risk. The Corporation minimizes the credit risk in derivative instruments by entering into transactions that require the counterparty to post collateral for the benefit of the Corporation, based on the credit rating of the counterparty and the fair value of the derivative contract. Market risk is the adverse effect on the value of the financial instrument that results from a change in interest rates. The market risk associated with interest rate changes is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken. Management also mitigates risk through periodic reviews of their derivative positions in the context of their total blended cost of capital.

The Corporation has not experienced any financial losses or changes in counterparty collateral posting requirements due to changes in the credit ratings or risk profiles of its derivative counterparties for fiscal years ended June 30, 2015 and 2014.

The Corporation maintains interest rate swap programs to achieve two primary objectives: (i) limit the variability on its variable rate demand revenue bonds and (ii) lower total interest cost by earning income from spreads between taxable and tax-exempt interest rates. The notional amount under each interest rate swap agreement is reduced over the term of the respective agreement to correspond with reductions in various outstanding bond series.

Edward-Elmhurst Healthcare

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

10. Derivative Instruments (continued)

The following is a summary of the market values of the outstanding positions under these interest swap agreements at June 30, 2015:

Bond Series	Notional Amount	Maturity Date	Rate Paid	Rate Received	2015 Fair Value
2008B-1	\$ 49,465	February 2040	3.96%	61.8% of one-month LIBOR plus 0.31%	\$ (11,383)
2008B-2	29,679	February 2040	4.05%	61.8% of one-month LIBOR plus 0.31%	(7,129)
2008B-2	19,786	February 2040	3.93%	61.8% of one-month LIBOR plus 0.31%	(4,493)
2009A	30,000	February 2031	3.59%	67.0% of one-month LIBOR	(5,824)
n/a	50,000	June 2022	SIFMA	76.2% of one-month LIBOR	169
n/a	42,000	January 2038	4.14%	SIFMA	(10,304)
n/a	48,000	May 2016	4.14%	SIFMA	(1,582)
n/a	30,000	May 2035	4.15%	SIFMA	(7,665)
n/a	42,000	January 2038	SIFMA	67.0% of one-month LIBOR + 0.76%	1,720
n/a	48,000	January 2038	SIFMA	67.0% of one-month LIBOR + 0.76%	1,969
n/a	30,000	January 2035	SIFMA	67.0% of one-month LIBOR + 0.76%	1,320
n/a	77,000	January 2038	SIFMA	61.3% of one-month LIBOR + 0.73%	469
n/a	63,000	January 2038	SIFMA	61.3% of one-month LIBOR + 0.73%	387

The following is a summary of the market values of the outstanding positions under these interest swap agreements at June 30, 2014:

Bond Series	Notional Amount	Maturity Date	Rate Paid	Rate Received	2014 Fair Value
2008B-1	\$ 50,570	February 2040	3.96%	61.8% of one-month LIBOR plus 0.31%	\$ (10,283)
2008B-2	30,342	February 2040	4.05%	61.8% of one-month LIBOR plus 0.31%	(6,468)
2008B-2	20,228	February 2040	3.93%	61.8% of one-month LIBOR plus 0.31%	(4,053)
2009A	30,000	February 2031	3.59%	67.0% of one-month LIBOR	(5,429)
n/a	50,000	June 2022	SIFMA	76.2% of one-month LIBOR	(300)
n/a	42,000	January 2038	4.14%	SIFMA	(7,768)
n/a	48,000	May 2016	4.14%	SIFMA	(3,330)
n/a	30,000	May 2035	4.15%	SIFMA	(5,674)
n/a	42,000	January 2038	SIFMA	67.0% of one-month LIBOR + 0.76%	800
n/a	48,000	January 2038	SIFMA	67.0% of one-month LIBOR + 0.76%	903
n/a	30,000	January 2035	SIFMA	67.0% of one-month LIBOR + 0.76%	602
n/a	77,000	January 2038	SIFMA	61.3% of one-month LIBOR + 0.73%	(1,478)
n/a	63,000	January 2038	SIFMA	61.3% of one-month LIBOR + 0.73%	(1,209)

Edward-Elmhurst Healthcare

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

10. Derivative Instruments (continued)

The Corporation recognizes all of its derivative instruments as either assets or liabilities in the consolidated balance sheets at fair value.

The fair value of derivative instruments at June 30, 2015 and 2014, is as follows:

Derivatives Not Designated as Hedging Instruments Under ASC 815	Location on Consolidated Balance Sheet	2015	2014
Interest rate swap agreements – Edward Obligated Group	Other liabilities	\$ (28,828)	\$ (26,232)
Interest rate swap agreements – Elmhurst Obligated Group	Other liabilities	(13,518)	(17,455)
		<u>\$ (42,346)</u>	<u>\$ (43,687)</u>

The effects of derivative instruments on the consolidated statement of operations and changes in net assets for the fiscal year ended June 30, 2015, are as follows:

Derivatives Not Designated as Hedging Instruments Under ASC 815	Location of Gain Recognized in Nonoperating Gains in the Consolidated Statement of Operations and Changes in Net Assets	2015	2014
Interest rate swap agreements	Change in fair value of interest rate swaps	<u>\$ 1,163</u>	<u>\$ 3,878</u>

Edward-Elmhurst Healthcare

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

10. Derivative Instruments (continued)

Net interest paid or received under the interest rate swap agreements is included in cash settlements on interest rate swaps in the nonoperating section of the consolidated statements of operations and changes in net assets. The net differential paid by the Corporation as a result of the interest rate swap agreements amounted to \$7,429 and \$7,021 for the fiscal years ended June 30, 2015 and 2014, respectively. The net fair values of the swaps were liabilities of \$42,346 and \$43,867 at June 30, 2015 and 2014, respectively, included in other liabilities.

For the fiscal year ended June 30, 2015, the Corporation recorded \$1,163 in nonoperating gains, which relates to a loss of \$1,641 due to the change in the swaps' value and a gain of \$2,804 to reflect the fair value of the credit adjustment related to the uncollateralized portion of the swap balance. For the fiscal year ended June 30, 2014, the Corporation recorded \$3,878 in nonoperating gains, which relates to a loss of \$1,848 due to the change in the swaps' value and a gain of \$5,726 to reflect the fair value of the credit adjustment related to the uncollateralized portion of the swap balance.

The Corporation maintains separate obligated groups for each predecessor organization's legacy debt issuances (Edward Obligated Group and Elmhurst Obligated Group) (see Note 9). Certain of the Corporation's derivative instruments contain provisions that require the Corporation's debt under each of the obligated groups to separately maintain a certain long-term credit rating from each of the major credit rating agencies. If the Corporation's debt was to fall below these thresholds, the counterparties to the derivative instruments could request either immediate additional collateralization or ongoing full overnight collateralization on derivative instruments in net liability positions. The aggregate fair values of all derivative instruments with credit risk-related contingent features that are in a liability position on June 30, 2015 and 2014, are \$48,380 and \$45,992, respectively.

No collateral was posted at June 30, 2015, relating to the Edward Obligated Group's derivative instruments. If ratings fell below the current levels and the credit risk-related contingent features underlying these agreements were triggered on June 30, 2015, the Corporation would be required to post total collateral as outlined in the following table to its counterparties.

Edward-Elmhurst Healthcare

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

10. Derivative Instruments (continued)

Edward Obligated Group's Bond Rating	<u>Collateral Requirement</u>
S&P/Moody's:	
A/A2 (Current)	\$ —
A-/A3	2,205
BBB+/Baa1	14,668
BBB/Baa2	29,290
BBB-/Baa3	30,040
Below BBB-/Baa3	30,790

Collateral of \$14,496 was posted at June 30, 2015, relating to the Elmhurst Obligated Group's derivative instruments. If ratings fell below current levels and the credit risk-related contingent features underlying these agreements were triggered on June 30, 2015, the Corporation would be required to post total collateral as outlined in the table below to its counterparties.

Elmhurst Obligated Group's Bond Rating	<u>Collateral Requirement</u>
Fitch/Moody's:	
BBB/Baa2 (Current)	\$ 14,496
BBB-/Baa3	14,496
Below BBB-/Baa3	14,496

11. Employee Retirement Plans

Effective January 1, 2015, the Corporation maintains a 401(k) defined contribution retirement plan covering substantially all Corporation employees. The employer contributions include a discretionary basic contribution based upon a percentage of the employee's compensation and a matching contribution based upon the amount of the employee's contribution.

Edward and Elmhurst also maintain additional defined contribution retirement plans for employees for service periods prior to January 1, 2015. The Corporation's pension expense under defined contribution retirement plans was \$18,935 and \$15,040 in 2015 and 2014, respectively. The Corporation's contribution payments were \$16,075 and \$14,015 in 2015 and 2014, respectively.

Edward-Elmhurst Healthcare

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

11. Employee Retirement Plans (continued)

Elmhurst also has a noncontributory retirement plan (the Plan), which qualifies as a pension plan under ASC 715, *Compensation – Retirement Benefits*. The Plan covers substantially all full-time employees. Effective August 21, 2013, the Plan was amended to prevent new employees from entering the Plan after December 31, 2013, and to freeze accrued benefits as of December 31, 2013. Participants of the Plan remain eligible to earn vesting service towards their accrued benefits. It is Elmhurst's policy to make contributions in amounts calculated by the actuarial consultant to adequately fund benefit programs and meet Employee Retirement Income Security Act of 1974 (ERISA) requirements. Due to the Plan's curtailment, the projected benefit obligation was reduced by \$11,999 during 2014. Lump sums totaling \$18,700 were paid out during 2015, triggering a settlement charge of \$7,014, which is included in pension settlement cost in the accompanying 2015 consolidated statement of operations and changes in net assets. The mortality table used to estimate the disclosure calculations for the fiscal year ended June 30, 2015, was updated to the Retirement Pensioner's Mortality Table (RP-2014) with generationally projected mortality improvement scale (MP-2014) from the previously used RP-2000 mortality table.

Information regarding the benefit obligations and assets of the Plan as of and for the fiscal years ended June 30, 2015 and 2014, is as follows:

	2015	2014
Accumulated benefit obligation	\$ 217,437	\$ 215,988
Projected benefit obligation:		
Projected benefit obligation, beginning of year	\$ 215,988	\$ 200,753
Service cost	–	3,092
Interest cost	9,532	9,961
Actuarial losses	18,175	21,184
Benefits paid	(7,538)	(7,003)
Settlements	(18,720)	–
Curtailment	–	(11,999)
Projected benefit obligation, end of year	\$ 217,437	\$ 215,988
Change in plan assets:		
Fair value of plan assets, beginning of year	\$ 196,905	\$ 174,393
Actuarial return on plan assets	3,995	29,515
Benefits paid	(7,538)	(7,003)
Settlements	(18,720)	–
Fair value of plan assets, end of year	\$ 174,642	\$ 196,905
Funded status of the plan, end of year	\$ (42,795)	\$ (19,083)

Edward-Elmhurst Healthcare

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

11. Employee Retirement Plans (continued)

The unfunded pension liability is reported as pension plan liability in the accompanying consolidated balance sheets.

Plan items not yet recognized as a component of periodic pension expense, but included as a separate component of unrestricted net assets at June 30, 2015 and 2014, are as follows:

	<u>2015</u>	<u>2014</u>
Unrecognized net actuarial loss	<u>\$ 66,329</u>	<u>\$ 47,040</u>

Pension-related changes other than net periodic pension cost that have been included as a change of unrestricted net assets consist of:

	<u>2015</u>	<u>2014</u>
Net actuarial loss (gain)	<u>\$ 20,596</u>	<u>\$ (7,446)</u>
Amortization of actuarial loss	<u>(1,307)</u>	<u>(1,653)</u>
	<u>\$ 19,289</u>	<u>\$ (9,099)</u>

	<u>2015</u>	<u>2014</u>
Assumptions:		
Discount rate used to determine benefit obligation	4.50%	4.50%
Discount rate used to determine net periodic benefit cost	4.50	5.25
Rate of increase in compensation levels used to determine benefit obligation and net periodic benefit cost	N/A	3.00
Expected long-term rate of return on assets used to determine benefit obligation and net periodic benefit cost	7.50	7.50

The estimated net actuarial loss that will be amortized as a component of net periodic benefit cost during fiscal 2016 is \$1,495 for the Plan.

Edward-Elmhurst Healthcare

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

11. Employee Retirement Plans (continued)

Elmhurst expects to make no contributions to the Plan during fiscal 2016.

The allocation of pension plan assets at June 30, 2015 and 2014, is as follows:

	2015 Target	2014 Target	2015	2014
Equity securities	33%	55%	31%	63%
Fixed-income securities	57	25	57	24
Alternative investments	10	20	12	13
Total	100%	100%	100%	100%

The Plan is managed in accordance with the policies established by the Edward-Elmhurst Healthcare Retirement Committee (the Retirement Committee). The investment policy includes specific guidelines for quality, asset concentration, asset mix, asset allocations, and performance expectations. The pension fund investment allocations are periodically reviewed for compliance with the pension investment policy by the Retirement Committee. The expected long-term rate of return on plan assets is based on historical and projected rates of return for current and planned asset categories in the Plan's investment portfolio. Assumed projected rates of return for each asset category are selected after analyzing historical experience and future expectations of the returns and volatility for assets of that category using benchmark rates. Based on the target asset allocation among the asset categories, the overall expected rate of return for the portfolio is developed and adjusted for historical and expected experience of active portfolio management results compared to benchmark returns and for the effect of expenses paid from plan assets.

Expected future benefit payments for the plan years ending December 31 are as follows:

2016	\$	9,610
2017		10,176
2018		10,685
2019		11,160
2020		11,632
2021–2025		63,164

Edward-Elmhurst Healthcare

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

11. Employee Retirement Plans (continued)

Net periodic (benefits) costs for the fiscal years ended June 30, 2015 and 2014, include the following components:

	<u>2015</u>	<u>2014</u>
Service cost	\$ —	\$ 3,092
Interest cost	9,532	9,961
Expected return on plan assets	(13,430)	(12,884)
Amortization of actuarial loss	1,307	1,653
	<u>\$ (2,591)</u>	<u>\$ 1,822</u>

The table below presents the balances of pension assets measured at fair value on a recurring basis at June 30, 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents ^(a)	\$ —	\$ 821	\$ —	\$ 821
Mutual funds – equity ^(b)	54,825	–	–	54,825
Mutual funds – fixed income ^(b)	98,791	–	–	98,791
Private real estate fund ^(c)	–	–	20,205	20,205
Total investments	<u>\$ 153,616</u>	<u>\$ 821</u>	<u>\$ 20,205</u>	<u>\$ 174,642</u>

The table below presents the balances of pension assets measured at fair value on a recurring basis at June 30, 2014:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents ^(a)	\$ —	\$ 239	\$ —	\$ 239
Mutual funds – equity ^(b)	123,253	–	–	123,253
Mutual funds – fixed income ^(b)	29,367	–	–	29,367
Privately-held pooled bond fund ^(d)	–	25,946	–	25,946
Hedge funds ^(e)	–	18,100	–	18,100
Total investments	<u>\$ 152,620</u>	<u>\$ 44,285</u>	<u>\$ —</u>	<u>\$ 196,905</u>

Edward-Elmhurst Healthcare

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

11. Employee Retirement Plans (continued)

- (a) Pricing for money market funds is based on the open market and is valued on a daily basis.
- (b) Pricing for mutual funds – equity and mutual funds – fixed income is based on the open market and is valued on a daily basis.
- (c) Pricing for private real estate funds is based on property-specific inputs, such as projected cash flows that are not derived from market data. This fund has quarterly liquidity requiring 65 days' notice for redemption.
- (d) Pricing for commingled funds is based on information provided by the fund manager, which in turn is based on the most recent information available to the fund manager for the underlying investments.
- (e) Pricing for hedge funds is based on the market values of the underlying investments held by the investment funds. These funds have quarterly liquidity requiring 65–95 days' notice for redemption.

The following table presents a reconciliation for Level 3 assets measured at fair value on a recurring basis for the fiscal year ended June 30, 2015:

Beginning balance	\$	–
Unrealized gain		505
Purchases, sales, transfers, and settlements, net		19,700
Ending balance	\$	<u>20,205</u>

There were no transfers into or out of Level 1, Level 2, or Level 3 during the fiscal years ended June 30, 2015 and 2014.

Management's estimate of the fair value of hedge funds are based on information provided by the fund managers or general partners, which in turn is based on the most recent information available to the fund manager for the underlying investments.

Edward-Elmhurst Healthcare

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

12. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Temporarily restricted net assets:		
Pledges receivable (time restricted)	\$ 10,311	\$ 2,890
Oncology programs	240	376
Cardiovascular programs	232	219
Animal-assisted therapy	144	149
Wellness programs	126	126
Employee hardship	89	84
Social services	30	70
Other special uses	1,509	724
Total temporarily restricted net assets	<u>\$ 12,681</u>	<u>\$ 4,638</u>

Permanently restricted net assets at June 30, 2015 and 2014, are summarized below, the income from which is expendable to support the following expenses:

	<u>2015</u>	<u>2014</u>
Permanently restricted net assets:		
Cardiovascular endowment	\$ 100	\$ 100
Animal-assisted therapy endowment	155	155
Medical staff education endowment	190	190
Student scholarship endowment	201	201
Other special uses	211	211
Total permanently restricted net assets	<u>\$ 857</u>	<u>\$ 857</u>

Edward-Elmhurst Healthcare

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

12. Temporarily and Permanently Restricted Net Assets (continued)

Net assets were released from donor restrictions by incurring expenditures for the following purposes during the fiscal years ended June 30, 2015 and 2014:

	2015	2014
Net assets released from donor restrictions:		
Pledges received (time restricted)	\$ 823	\$ 972
Cancer center construction and operations	304	849
Health care services and other	539	300
Hospital operations	521	142
KidsCare campaign	11	27
Employee hardship	–	11
Home health and hospice operations	–	6
Total net assets released from donor restrictions	\$ 2,198	\$ 2,307

Pledges receivable, which are included in the consolidated balance sheets in prepaid expenses and other current assets for the current portion and in investments in affiliates and other for the long-term portion, are due over the following time periods at June 30, 2015 and 2014:

	2015	2014
Less than one year	\$ 1,066	\$ 955
One through five years	2,867	2,166
Thereafter	7,913	–
Total pledges receivable	11,846	3,121
Less: discount and allowance	(1,535)	(231)
Net pledges receivable	\$ 10,311	\$ 2,890

13. Related-Party Transactions

During the fiscal years ended June 30, 2015 and 2014, IHP paid the Corporation \$26,249 and \$18,735 for medical services and \$6,727 and \$4,054 in distributions. Elmcare, LLC paid the Corporation \$2,035 in distributions and \$2,986 for medical services during the fiscal years ended June 30, 2015 and 2014, respectively. The Corporation had no other significant related-party transactions during 2015 and 2014.

Edward-Elmhurst Healthcare

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

14. Operating Lease Commitments

The Corporation leases office space and equipment under leases that are classified as operating leases. The future minimum lease payments for office space and equipment leases with initial or noncancelable lease terms in excess of one year are as follows:

Fiscal year ending June 30:		
2016	\$	13,943
2017		13,440
2018		12,587
2019		11,253
2020		8,927
Thereafter		33,659
	\$	<u>93,809</u>

Rent expense amounted to \$17,159 and \$17,178 for the fiscal years ended June 30, 2015 and 2014, respectively.

15. Functional Expenses

The Corporation provides general health care services to residents within its geographic location. Expenses related to this and general and administrative functions for the fiscal years ended June 30, 2015 and 2014, are as follows:

	<u>2015</u>	<u>2014</u>
Health care services	\$ 929,789	\$ 824,734
General and administrative	261,792	254,761
	<u>\$ 1,191,581</u>	<u>\$ 1,079,495</u>

Edward-Elmhurst Healthcare

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

16. Goodwill and Other Intangible Assets

Goodwill and other intangible assets for the Corporation at June 30, 2015 and 2014, were \$64,763 and \$64,770, net of accumulated amortization of \$4,336 and \$3,692, respectively. Intangible assets primarily consist of goodwill and noncompete agreements related to physician practice acquisitions. Intangible assets whose lives are indefinite, primarily goodwill, are not amortized and are evaluated for impairment at least annually, while intangible assets with definite lives, primarily noncompete agreements, are amortized over their expected useful lives.

	Goodwill	Definite- Lived Intangible Assets, Net	Total
July 1, 2013	\$ 28,634	\$ 2,721	\$ 31,355
Additions	32,687	1,281	33,968
Amortization	–	(305)	(305)
Impairments	–	(248)	(248)
July 1, 2014	61,321	3,449	64,770
Additions	657	–	657
Amortization	–	(664)	(664)
June 30, 2015	\$ 61,978	\$ 2,785	\$ 64,763

17. Subsequent Events

The Corporation evaluated events and transactions occurring subsequent to June 30, 2015 through September 25, 2015, the date of issuance of the financial statements.

During this period, there were no other subsequent events requiring recognition or disclosure in the consolidated financial statements.

Supplementary Information



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Report of Independent Auditors on Supplementary Information

The Board of Trustees
Edward-Elmhurst Healthcare

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records use to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements themselves, and then additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Ernst & Young LLP

September 25, 2015

Edward-Elmhurst Healthcare

Schedules of Charity Care and Other Unreimbursed Care
(Dollars in Thousands)

Year Ended June 30, 2015 and 2014

Charity and Other Unreimbursed Care

The Corporation maintains policies whereby patients in need of medical services are treated without regard to their ability to pay for such services. The Corporation maintains records to identify and monitor the level of charity care it provides. These records include the amount of estimated costs for services and supplies furnished under its charity care policies using an overall cost to charge ratio, as well as the estimated difference between the cost of services provided to Medicaid and Medicare patients and the expected reimbursement from Medicaid and Medicare, under which actual costs are spread to charges using workload units (salaries) and percentage of charges (supplies). In addition, the Corporation reports the actual or estimated cost associated with services provided to the community as charity care, net of any fees charged. The following information measures the level of charity care provided during the fiscal years ended June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Charity care provided, at cost	\$ 18,546	\$ 27,501
Excess of allocated cost over reimbursement for services provided to Medicaid patients	35,038	45,291
Excess of allocated cost over reimbursement for services provided to Medicare patients	83,330	85,150
Community services provided, at cost	14,621	11,846
	<u>\$ 151,535</u>	<u>\$ 169,788</u>

Edward-Elmhurst Healthcare

Details of Consolidated Balance Sheet (Dollars in Thousands)

June 30, 2015

	Consolidated Edward- Elmhurst Healthcare	Eliminations	Consolidated Edward Edward	Eliminations	Edward Obligated Group	Edward Non- Obligated Group	Consolidated Elmhurst	Eliminations	Elmhurst Obligated Group	Elmhurst Non- Obligated Group
Assets										
Current assets:										
Cash and cash equivalents	\$ 49,885	\$ -	\$ 29,635	\$ -	\$ 24,368	\$ 5,267	\$ 20,250	\$ -	\$ 15,795	\$ 4,455
Assets limited as to use	16,966	-	6,125	-	6,125	-	10,841	-	6,250	4,591
Patient accounts receivable, less allowances for doubtful accounts of \$26,977	202,741	-	129,488	-	129,488	-	73,253	-	73,247	6
Estimated amounts due from third-party payors	11,624	-	4,458	-	4,458	-	7,166	-	7,166	-
Inventories	19,070	-	10,510	-	10,510	-	8,560	-	8,560	-
Prepaid expenses and other current assets	43,731	-	22,553	(9,247)	22,493	9,307	21,178	-	11,618	9,560
Total current assets	344,017	-	202,769	(9,247)	197,442	14,574	141,248	-	122,636	18,612
Assets limited as to use, less current portion:										
Externally designated investments under debt agreements	14,537	-	10	-	10	-	14,527	-	14,527	-
Externally designated for self-insurance	104,708	-	104,708	-	-	104,708	-	-	-	-
Board-designated investments	709,781	-	474,028	-	466,907	7,121	235,753	-	235,753	-
	829,026	-	578,746	-	466,917	111,829	250,280	-	250,280	-
Other assets:										
Deferred financing costs, net	5,017	-	3,013	-	3,013	-	2,004	-	2,004	-
Goodwill and other intangible assets, net	64,763	-	63,259	-	63,259	-	1,504	-	1,504	-
Investments in affiliates and other	33,314	-	26,957	(63,483)	90,145	295	6,357	(3,438)	8,820	975
Reinsurance recoverable for reinsured losses	8,698	-	5,680	-	-	5,680	3,018	-	3,018	-
	111,792	-	98,909	(63,483)	156,417	5,975	12,883	(3,438)	15,346	975
Land, buildings, and equipment:										
Land and improvements	145,192	-	41,661	-	41,661	-	103,531	-	103,531	-
Buildings and improvements	1,078,152	-	619,390	-	619,386	4	458,762	-	458,762	-
Furniture and equipment	513,445	-	316,636	-	315,851	785	196,809	-	196,616	193
Construction-in-progress	26,490	-	24,232	-	24,232	-	2,258	-	2,258	-
	1,763,279	-	1,001,919	-	1,001,130	789	761,360	-	761,167	193
Less allowances for depreciation	779,662	-	506,404	-	505,615	789	273,258	-	273,092	166
	983,617	-	495,515	-	495,515	-	488,102	-	488,075	27
Total assets	\$ 2,268,452	\$ -	\$ 1,375,939	\$ (72,730)	\$ 1,316,291	\$ 132,378	\$ 892,513	\$ (3,438)	\$ 876,337	\$ 19,614

Edward-Elmhurst Healthcare

Details of Consolidated Balance Sheet (continued)

(Dollars in Thousands)

	Consolidated Edward- Elmhurst Healthcare	Eliminations	Consolidated Edward Edward	Eliminations	Edward Obligated Group	Edward Non- Obligated Group	Consolidated Elmhurst	Elmhurst Eliminations	Elmhurst Obligated Group	Elmhurst Non- Obligated Group
Liabilities and net assets										
Current liabilities:										
Accounts payable	\$ 34,005	\$ -	\$ 24,462	\$ -	\$ 23,950	\$ 512	\$ 9,543	\$ -	\$ 9,538	\$ 5
Accrued expenses	124,244	-	89,474	(387)	89,197	664	34,770	-	34,687	83
Estimated amounts due to third-party payors	195,853	-	138,923	-	138,923	-	56,930	-	56,930	-
Current maturities of long-term debt	13,780	-	7,530	-	7,530	-	6,250	-	6,250	-
Total current liabilities	367,882	-	260,389	(387)	259,600	1,176	107,493	-	107,405	88
Long-term debt, less current maturities	716,690	-	249,740	-	249,740	-	466,950	-	466,950	-
Professional and general liability	58,106	-	53,912	-	7,744	46,168	4,194	-	4,194	-
Reserve for reinsured losses	8,698	-	5,680	-	-	5,680	3,018	-	3,018	-
Pension plan liability	42,795	-	-	-	-	-	42,795	-	42,795	-
Other liabilities	53,385	-	39,546	(64,980)	39,918	64,608	13,839	-	13,839	-
Total liabilities	1,247,556	-	609,267	(65,367)	557,002	117,632	638,289	-	638,201	88
Net assets:										
Unrestricted net assets of Edward-Elmhurst Healthcare	992,462	-	749,442	(5,131)	742,161	12,412	243,020	(956)	235,654	8,322
Non-controlling interest	14,896	-	14,896	-	14,896	-	-	-	-	-
Total unrestricted net assets	1,007,358	-	764,338	(5,131)	757,057	12,412	243,020	(956)	235,654	8,322
Temporarily restricted net assets	12,681	-	1,967	(1,920)	1,920	1,967	10,714	(1,992)	1,992	10,714
Permanently restricted net assets	857	-	367	(312)	312	367	490	(490)	490	490
Total net assets	1,020,896	-	766,672	(7,363)	759,289	14,746	254,224	(3,438)	238,136	19,526
Total liabilities and net assets	\$ 2,268,452	\$ -	\$ 1,375,939	\$ (72,730)	\$ 1,316,291	\$ 132,378	\$ 892,513	\$ (3,438)	\$ 876,337	\$ 19,614

Edward-Elmhurst Healthcare

Details of Consolidated Statement of Operations and Changes in Net Assets (Dollars in Thousands)

Year Ended June 30, 2015

	Consolidated Edward- Elmhurst Healthcare	Eliminations	Consolidated Edward Edwards	Eliminations	Edward Obligated Group	Edward Non- Obligated Group	Consolidated Elmhurst	Eliminations	Elmhurst Obligated Group	Elmhurst Non- Obligated Group
Revenues										
Net patient service revenue before provision for bad debts	\$ 1,172,820	\$ -	\$ 722,236	\$ -	\$ 722,236	\$ -	\$ 450,584	\$ -	\$ 450,584	\$ -
Provision for bad debts	(41,355)	-	(20,642)	-	(20,642)	-	(20,713)	-	(20,713)	-
Net patient service revenue	1,131,465	-	701,594	-	701,594	-	429,871	-	429,871	-
Other operating revenue	66,202	(32,163)	81,301	(10,653)	73,679	18,275	17,064	(2,687)	15,860	3,891
	1,197,667	(32,163)	782,895	(10,653)	775,273	18,275	446,935	(2,687)	445,731	3,891
Expenses										
Salaries and wages	467,099	-	316,698	(391)	316,698	391	150,401	(1,018)	150,193	1,226
Employee benefits	103,665	-	66,949	(26)	66,949	26	36,716	-	36,716	-
Medical fees	55,781	-	7,425	-	7,425	-	48,356	-	48,356	-
Purchased services	88,501	(32,163)	70,198	-	70,124	74	50,466	(1,336)	51,217	585
Supplies and other	336,459	-	213,619	(10,236)	204,624	19,231	122,840	(333)	122,002	1,171
Depreciation and amortization	79,620	-	43,140	-	43,140	-	36,480	-	36,474	6
Interest	19,294	-	5,617	-	5,617	-	13,677	-	13,677	-
Medicaid tax	34,148	-	22,667	-	22,667	-	11,481	-	11,481	-
	1,184,567	(32,163)	746,313	(10,653)	737,244	19,722	470,417	(2,687)	470,116	2,988
Operating income (loss) before pension settlement cost	13,100	-	36,582	-	38,029	(1,447)	(23,482)	-	(24,385)	903
Pension settlement cost	7,014	-	-	-	-	-	7,014	-	7,014	-
Operating income (loss)	6,086	-	36,582	-	38,029	(1,447)	(30,496)	-	(31,399)	903
Nonoperating										
Realized gains and investment income, net	54,743	-	27,583	-	26,591	992	27,160	-	27,162	(2)
Unrealized (losses) gains on investments, net	(33,373)	-	(11,804)	-	(14,331)	2,527	(21,569)	-	(21,664)	95
Change in fair value of interest rate swaps	1,163	-	(2,596)	-	(2,596)	-	3,759	-	3,759	-
Cash settlements on interest swaps	(7,429)	-	(4,603)	-	(4,603)	-	(2,826)	-	(2,826)	-
Other nonoperating (losses) gains, net	(1,240)	-	(1,242)	-	(864)	(378)	2	-	2	-
	13,864	-	7,338	-	4,197	3,141	6,526	-	6,433	93

Edward-Elmhurst Healthcare

Details of Consolidated Statement of Operations and Changes in Net Assets (continued) (Dollars in Thousands)

	Consolidated Edward- Elmhurst Healthcare	Eliminations	Consolidated Edward Edward	Eliminations	Edward Obligated Group	Edward Non- Obligated Group	Consolidated Elmhurst	Elmhurst Eliminations	Elmhurst Obligated Group	Elmhurst Non- Obligated Group
Excess (deficit) of revenue and gains over (under) expenses and losses	\$ 19,950	\$ –	\$ 43,920	\$ –	\$ 42,226	\$ 1,694	\$ (23,970)	\$ –	\$ (24,966)	\$ 996
Less: non-controlling interest	(2,160)	–	(2,160)	–	(2,160)	–	–	–	–	–
Excess (deficit) of revenues and gains over (under) expenses and losses attributable to controlling interest	17,790	–	41,760	–	40,066	1,694	(23,970)	–	(24,966)	996
Unrestricted net assets, controlling interest										
Excess (deficit) of revenues and gains over (under) expenses and losses	17,790	–	41,760	–	40,066	1,694	(23,970)	–	(24,966)	996
Net assets released and used for purchase of fixed assets	97	–	13	–	–	13	84	–	–	84
Postretirement benefit plan adjustments	(19,286)	–	–	–	–	–	(19,286)	–	(19,286)	–
Net asset transfer to/from affiliates	–	–	–	–	13	(13)	–	10,206	(6,355)	(3,851)
Distributions to owners	(1,536)	–	(1,536)	–	(1,536)	–	–	–	–	–
Amortization of loss on discontinuation of hedge accounting	177	–	–	–	–	–	177	–	177	–
(Decrease) increase in unrestricted net assets, controlling interest	(2,758)	–	40,237	–	38,543	1,694	(42,995)	10,206	(50,430)	(2,771)
Unrestricted net assets, non-controlling interest										
Excess of revenues and gains over expenses and losses	2,160	–	2,160	–	2,160	–	–	–	–	–
Increase in unrestricted net assets, non-controlling interest	2,160	–	2,160	–	2,160	–	–	–	–	–

Edward-Elmhurst Healthcare

Details of Consolidated Statement of Operations and Changes in Net Assets (continued) (Dollars in Thousands)

	Consolidated Edward- Elmhurst Healthcare	Eliminations	Consolidated Edward Edward	Eliminations	Edward Obligated Group	Edward Non- Obligated Group	Consolidated Elmhurst	Elmhurst Eliminations	Elmhurst Obligated Group	Elmhurst Non- Obligated Group
Temporarily restricted net assets, controlling interest										
Contributions	\$ 10,241	\$ -	\$ 1,206	\$ (1,172)	\$ 1,172	\$ 1,206	\$ 9,035	\$ (1,863)	\$ 1,863	\$ 9,035
Net assets released from restrictions and used for operations	(2,101)	-	(537)	542	(542)	(537)	(1,564)	3,198	(3,198)	(1,564)
Net assets released from restrictions and used for purchase of fixed assets	(97)	-	(13)	-	-	(13)	(84)	-	-	(84)
Increase (decrease) in temporarily restricted net assets, controlling interest	8,043	-	656	(630)	630	656	7,387	1,335	(1,335)	7,387
Increase (decrease) in net assets	7,445	-	43,053	(630)	41,333	2,350	(35,608)	11,541	(51,765)	4,616
Net assets at beginning of year	1,013,451	-	723,619	(6,733)	717,956	12,396	289,832	(14,979)	289,901	14,910
Net assets at end of year	<u>\$ 1,020,896</u>	<u>\$ -</u>	<u>\$ 766,672</u>	<u>\$ (7,363)</u>	<u>\$ 759,289</u>	<u>\$ 14,746</u>	<u>\$ 254,224</u>	<u>\$ (3,438)</u>	<u>\$ 238,136</u>	<u>\$ 19,526</u>

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