RECEIVED

FEB 29 2016

HEALTH FACILITIES & SERVICES REVIEW BOARD

ORIG

E-015-16

ILLINOIS HEALTH FACILITIES AND SERVICES REVIEW BOARD
APPLICATION FOR EXEMPTION FOR THE
CHANGE OF OWNERSHIP FOR AN EXISTING HEALTH CARE FACILITY

1. **INFORMATION FOR EXISTING FACILITY**

Current Facility Name Greenville Regional Hospital
Address 200 Health Care Drive
City Greenville Zip Code 62246 County Bond
Name of current licensed entity for the facility Greenville Regional Hospital, Inc.
Does the current licensee: own this facility X OR lease this facility ____ (if leased, check if sublease ☐)
Type of ownership of the current licensed entity (check one of the following:) ____ Sole Proprietorship
X Not-for-Profit Corporation ____ For Profit Corporation ____ Partnership ____ Governmental
____ Limited Liability Company ____ Other, specify ____
Illinois State Senator for the district where the facility is located: Sen. Kyle McCarter
State Senate District Number 54 Mailing address of the State Senator
310 W. Gallatin, Vandalia, IL 62471
Illinois State Representative for the district where the facility is located: Rep. John D. Cavaletto
State Representative District Number 107 Mailing address of the State Representative
1370 W. Main Street, Suite A, P.O. Box 1264, Salem, IL 62881

2. **OUTSTANDING PERMITS.** Does the facility have any projects for which the State Board issued a permit that will not be completed (refer to 1130.140 "Completion or Project Completion" for a definition of project completion) by the time of the proposed ownership change? Yes ☐ No ☒. If yes, refer to Section 1130.520(f), and indicate the projects by Project # NOT APPLICABLE

3. **NAME OF APPLICANT** (complete this information for each co-applicant and insert after this page).
Exact Legal Name of Applicant See following page (Page 2)
Address ____
City, State & Zip Code ____
Type of ownership of the current licensed entity (check one of the following:) ____ Sole Proprietorship
____ Not-for-Profit Corporation ____ For Profit Corporation ____ Partnership ____ Governmental
____ Limited Liability Company ____ Other, specify ____

4. **NAME OF LEGAL ENTITY THAT WILL BE THE LICENSEE/OPERATING ENTITY OF THE FACILITY NAMED IN THE APPLICATION AS A RESULT OF THIS TRANSACTION.**

Exact Legal Name of Entity to be Licensed HSHS Holy Family Hospital, Inc.
Address 200 Healthcare Drive
City, State & Zip Code Greenville, Illinois 62246
Type of ownership of the current licensed entity (check one of the following:) ____ Sole Proprietorship
X Not-for-Profit Corporation ____ For Profit Corporation ____ Partnership ____ Governmental
____ Limited Liability Company ____ Other, specify ____

5. **BUILDING/SITE OWNERSHIP. NAME OF LEGAL ENTITY THAT WILL OWN THE "BRICKS AND MORTAR" (BUILDING) OF THE FACILITY NAMED IN THIS APPLICATION IF DIFFERENT FROM THE OPERATING/LICENSED ENTITY**

Exact Legal Name of Entity That Will Own the Site HSHS Holy Family Hospital, Inc.
Address ____
City, State & Zip Code Greenville, Illinois 62246
Type of ownership of the current licensed entity (check one of the following:) ____ Sole Proprietorship
X Not-for-Profit Corporation ____ For Profit Corporation ____ Partnership ____ Governmental
____ Limited Liability Company ____ Other, specify ____

3. **NAME OF APPLICANT** (complete this information for each co-applicant and insert after this page).
Exact Legal Name of Applicant Hospital Sisters Health System
Address 4936 LaVerna Road
City, State & Zip Code Springfield, Illinois 62707
Type of ownership of the current licensed entity (check one of the following:) _____ Sole Proprietorship
__X__ Not-for-Profit Corporation _____ For Profit Corporation _____ Partnership _____ Governmental
_____ Limited Liability Company _____ Other, specify _____

3. **NAME OF APPLICANT** (complete this information for each co-applicant and insert after this page).
Exact Legal Name of Applicant Hospital Sisters Services, Inc.
Address 4936 LaVerna Road
City, State & Zip Code Springfield, Illinois 62707
Type of ownership of the current licensed entity (check one of the following:) _____ Sole Proprietorship
__X__ Not-for-Profit Corporation _____ For Profit Corporation _____ Partnership _____ Governmental
_____ Limited Liability Company _____ Other, specify _____

3. **NAME OF APPLICANT** (complete this information for each co-applicant and insert after this page).
Exact Legal Name of Applicant Greenville Regional Hospital, Inc.
Address 200 Health Care Drive
City, State & Zip Code Greenville, IL 62246
Type of ownership of the current licensed entity (check one of the following:) _____ Sole Proprietorship
__X__ Not-for-Profit Corporation _____ For Profit Corporation _____ Partnership _____ Governmental
_____ Limited Liability Company _____ Other, specify _____

6. **TRANSACTION TYPE. CHECK THE FOLLOWING THAT APPLY TO THE TRANSACTION:**
   - o Purchase resulting in the issuance of a license to an entity different from current licensee;
   - o Lease resulting in the issuance of a license to an entity different from current licensee;
   - o Stock transfer resulting in the issuance of a license to a different entity from current licensee;
   - o Stock transfer resulting in no change from current licensee;
   - o Assignment or transfer of assets resulting in the issuance of a license to an entity different from the current licensee;
   - o Assignment or transfer of assets not resulting in the issuance of a license to an entity different from the current licensee;
   - ☒ Change in membership or sponsorship of a not-for-profit corporation that is the licensed entity;
   - o Change of 50% or more of the voting members of a not-for-profit corporation's board of directors that controls a health care facility's operations, license, certification or physical plant and assets;
   - o Change in the sponsorship or control of the person who is licensed, certified or owns the physical plant and assets of a governmental health care facility;
   - o Sale or transfer of the physical plant and related assets of a health care facility not resulting in a change of current licensee;
   - o Any other transaction that results in a person obtaining control of a health care facility's operation or physical plant and assets, and explain in "Attachment 3 Narrative Description"

7. **APPLICATION FEE.** Submit the application fee in the form of a check or money order for $2,500 payable to the Illinois Department of Public Health and append as **ATTACHMENT #1.**

8. **FUNDING.** Indicate the type and source of funds which will be used to acquire the facility (e.g., mortgage through Health Facilities Authority; cash gift from parent company, etc.) and append as **ATTACHMENT #2.**

9. **ANTICIPATED ACQUISITION PRICE:** $ NOT APPLICABLE/MEMBERSHIP SUBSTITUTION

10. **FAIR MARKET VALUE OF THE FACILITY:** $ 16,327,323*
    (to determine fair market value, refer to 77 IAC 1130.140)

11. **DATE OF PROPOSED TRANSACTION:** On or before May 31, 2016

12. **NARRATIVE DESCRIPTION.** Provide a narrative description explaining the transaction, and append it to the application as **ATTACHMENT #3.**

13. **BACKGROUND OF APPLICANT** (co-applicants must also provide this information). Corporations and Limited Liability Companies must provide a current Certificate of Good Standing from the Illinois Secretary of State. Limited Liability Companies and Partnerships must provide the name and address of each partner/ member and specify the percentage of ownership of each. Append this information to the application as **ATTACHMENT #4.**

14. **TRANSACTION DOCUMENTS.** Provide a copy of the complete transaction document(s) including schedules and exhibits which detail the terms and conditions of the proposed transaction (purchase, lease, stock transfer, etc). Applicants should note that the document(s) submitted should reflect the applicant's (and co-applicant's, if applicable) involvement in the transaction. The document must be signed by both parties and contain language stating that the transaction is contingent upon approval of the Illinois Health Facilities and Services Review Board. Append this document(s) to the application as **ATTACHMENT #5.**

15. FINANCIAL STATEMENTS. (Co-applicants must also provide this information) Provide a copy of the applicants latest audited financial statements, and append it to this application as ATTACHMENT #6. If the applicant is a newly formed entity and financial statements are not available, please indicate by checking YES____, and indicate the date the entity was formed _____

* Unrestricted Net Assets as of 1/31/2016

16. **PRIMARY CONTACT PERSON.** Individual representing the applicant to whom all correspondence and inquiries pertaining to this application are to be directed. (Note: other persons representing the applicant not named below will need written authorization from the applicant stating that such persons are also authorized to represent the applicant in relationship to this application).

Name: Clare Connor Ranalli – Partner, McDermott Will & Emery
Address: 227 W. Monroe Street
City, State & Zip Code: Chicago, Illinois 60606
Telephone ( ) Ext. (312) 984-3365

17. **ADDITIONAL CONTACT PERSON. Consultant, attorney, other individual who is also authorized to discuss this application and act on behalf of the applicant.**

Name: Joshua Campos – Manager of Strategic Planning, Hospitals Sisters Health System
Address: 4936 LaVerna Road
City, State & Zip Code: Springfield, Illinois 62246
Telephone ( ) Ext. (217) 492-6156

ADDITIONAL CONTACT PERSON. Consultant, attorney, other individual who is also authorized to discuss this application and act on behalf of the applicant.

Name: Brian Nall – CEO, Greenville Regional Hospital
Address: 200 Health Care Drive
City, State & Zip Code: Greenville, Illinois 62246
Telephone ( ) Ext. (618) 690-3401

18. CERTIFICATION

I certify that the above information and all attached information are true and correct to the best of my knowledge and belief. I certify that the number of beds within the facility will not change as part of this transaction. I certify that no adverse action has been taken against the applicant(s) by the federal government, licensing or certifying bodies, or any other agency of the State of Illinois. I certify that I am fully aware that a change in ownership will void any permits for projects that have not been completed unless such projects will be completed or altered pursuant to the requirements in 77 IAC 1130.520(f) prior to the effective date of the proposed ownership change. I also certify that the applicant has not already acquired the facility named in this application or entered into an agreement to acquire the facility named in the application unless the contract contains a clause that the transaction is contingent upon approval by the State Board.

Signature of Authorized Officer Mary Starmann-Harrison

Typed or Printed Name of Authorized Officer Mary Starmann-Harrison

Title of Authorized Officer: President & Chief Executive Officer, Hospital Sisters Health System

Address: 4936 LaVerna Road

City, State & Zip Code: Springfield, Illinois 62707

Telephone (217) 523-5483 Date: 2-26-16

NOTE: complete a separate signature page for each co-applicant and insert following this page.

18. CERTIFICATION

I certify that the above information and all attached information are true and correct to the best of my knowledge and belief. I certify that the number of beds within the facility will not change as part of this transaction. I certify that no adverse action has been taken against the applicant(s) by the federal government, licensing or certifying bodies, or any other agency of the State of Illinois. I certify that I am fully aware that a change in ownership will void any permits for projects that have not been completed unless such projects will be completed or altered pursuant to the requirements in 77 IAC 1130.520(f) prior to the effective date of the proposed ownership change. I also certify that the applicant has not already acquired the facility named in this application or entered into an agreement to acquire the facility named in the application unless the contract contains a clause that the transaction is contingent upon approval by the State Board.

Signature of Authorized Officer Mary Starmann-Harrison

Typed or Printed Name of Authorized Officer Mary Starmann-Harrison

Title of Authorized Officer: President & Chief Executive Officer, Hospital Sisters Services, Inc.

Address: 4936 LaVerna Road

City, State & Zip Code: Springfield, Illinois 62707

Telephone (217) 523-5483 Date: 2-26-16

NOTE: complete a separate signature page for each co-applicant and insert following this page.

18. CERTIFICATION

I certify that the above information and all attached information are true and correct to the best of my knowledge and belief. I certify that the number of beds within the facility will not change as part of this transaction. I certify that no adverse action has been taken against the applicant(s) by the federal government, licensing or certifying bodies, or any other agency of the State of Illinois. I certify that I am fully aware that a change in ownership will void any permits for projects that have not been completed unless such projects will be completed or altered pursuant to the requirements in 77 IAC 1130.520(f) prior to the effective date of the proposed ownership change. I also certify that the applicant has not already acquired the facility named in this application or entered into an agreement to acquire the facility named in the application unless the contract contains a clause that the transaction is contingent upon approval by the State Board.

Signature of Authorized Officer Brian Nall

Typed or Printed Name of Authorized Officer Brian Nall

Title of Authorized Officer: President & Chief Executive Officer, Greenville Regional Hospital, Inc.

Address: 200 Health Care Drive

City, State & Zip Code: Greenville, Illinois 62246

Telephone (618) 690-3401 Date: 2/29/16

NOTE: complete a separate signature page for each co-applicant and insert following this page.

Attachment #2

NOT APPLICABLE

There is no cost associated with this project.

Attachment #3

12. NARRATIVE DESCRIPTION. Provide a narrative description explaining the transaction, and append it to the application as **ATTACHMENT #3**.

Greenville Regional Hospital (GRH) intends to fully integrate with Hospital Sisters Health System (HSHS) through Hospital Sisters Services, Inc. (HSSI) becoming the sole member of GRH (membership substitution). GRH will amend its corporate documents, as necessary, to recognize HSHS as its sole member with standard HSHS system reserved powers.

The principal purpose of full integration will be to continue to improve the ability of GRH to sustainably deliver high quality, cost-effective care to the residents of Greenville, Illinois and surrounding communities. Through integration and the anticipated future coordination between GRH and HSHS, the Parties will be able to deliver more comprehensive primary and specialty care to patients in the service area. As a fully integrated hospital within HSHS, GRH and HSHS together will be more effective in physician recruitment and the delivery of health care services.

GRH will become a Catholic hospital and will be re-named Holy Family Hospital at the time of closing. All health care services provided by GRH will be in accordance with the Ethical and Religious Directives for Catholic Health Care.

The Applicant will provide confirmation to the HFSRB, within 90 days of the proposed change of ownership, that the change occurred in accordance with the terms described herein.

Attachment #4

File Number 5163-355-5

To all to whom these Presents Shall Come, Greeting:

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

HOSPITAL SISTERS HEALTH SYSTEM, A DOMESTIC CORPORATION, INCORPORATED UNDER THE LAWS OF THIS STATE ON DECEMBER 26, 1978, APPEARS TO HAVE COMPLIED WITH ALL THE PROVISIONS OF THE GENERAL NOT FOR PROFIT CORPORATION ACT OF THIS STATE, AND AS OF THIS DATE, IS IN GOOD STANDING AS A DOMESTIC CORPORATION IN THE STATE OF ILLINOIS.

In Testimony Whereof, *I hereto set my hand and cause to be affixed the Great Seal of the State of Illinois, this* 16TH *day of* SEPTEMBER *A.D.* 2015 .

Authentication #: 1525901744 verifiable until 09/16/2016
Authenticate at: http://www.cyberdriveillinois.com

Jesse White

SECRETARY OF STATE

File Number 5325-639-2

To all to whom these Presents Shall Come, Greeting:

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

HOSPITAL SISTERS SERVICES, INC., A DOMESTIC CORPORATION, INCORPORATED UNDER THE LAWS OF THIS STATE ON NOVEMBER 04, 1983, APPEARS TO HAVE COMPLIED WITH ALL THE PROVISIONS OF THE GENERAL NOT FOR PROFIT CORPORATION ACT OF THIS STATE, AND AS OF THIS DATE, IS IN GOOD STANDING AS A DOMESTIC CORPORATION IN THE STATE OF ILLINOIS.

In Testimony Whereof, *I hereto set my hand and cause to be affixed the Great Seal of the State of Illinois, this* 16TH *day of* SEPTEMBER *A.D.* 2015 .

Authentication #: 1525901640 verifiable until 09/16/2016
Authenticate at: http://www.cyberdriveillinois.com

Jesse White

SECRETARY OF STATE

File Number 3598-185-3

To all to whom these Presents Shall Come, Greeting:

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

GREENVILLE REGIONAL HOSPITAL, INC., A DOMESTIC CORPORATION, INCORPORATED UNDER THE LAWS OF THIS STATE ON APRIL 03, 1956, APPEARS TO HAVE COMPLIED WITH ALL THE PROVISIONS OF THE GENERAL NOT FOR PROFIT CORPORATION ACT OF THIS STATE, AND AS OF THIS DATE, IS IN GOOD STANDING AS A DOMESTIC CORPORATION IN THE STATE OF ILLINOIS.

In Testimony Whereof, *I hereto set my hand and cause to be affixed the Great Seal of the State of Illinois, this* 25TH *day of* FEBRUARY *A.D.* 2016 .

Authentication #: 1605602658 verifiable until 02/25/2017
Authenticate at: http://www.cyberdriveillinois.com

Jesse White

SECRETARY OF STATE

Attachment #5

Not applicable per recent legislative changes. However, attached is a term sheet generally describing the transaction, and these terms will not generally change. The applicants understand a change to any material term will result in the need to notify HFSRB, and the possibility for the need to file a subsequent second Certificate of Exemption application.

TERM SHEET

MEMBERSHIP SUBSTITUTION OF GREENVILLE REGIONAL HOSPITAL

PARTIES: Greenville Regional Hospital, Inc. ("Greenville") and Hospital Sisters Health System ("HSHS").

NATURE OF TRANSACTION: Greenville Regional Hospital, Inc. is an Illinois NFP Corporation, and its sole member is Greenville Regional Healthcare, Inc. If the transaction is approved, Greenville Regional Healthcare will be dissolved and Hospital Sisters Services, Inc. ("HSSI") will become the sole member of Greenville, with the standard reserve powers it holds as Member, by way of example; approval of changes to the mission, vision and values of GRH, amendments to articles and bylaws of GRH, appointment and removal of the board of directors of GRH, approve the sale, alienation exchange, lease or encumbrance of an of the real, tangible or intangible property with value in excess of limits set forth by HSHS, approve debt in excess of limits set forth by HSHS, etc.

ACQUISITION PRICE: None. HSHS will assume all obligations and liabilities of Greenville upon becoming its sole member. HSHS recognizes the value of local health care services and intends to invest capital as necessary to provide and expand where reasonably appropriate Greenville's health care services to ensure high quality care and financial viability. HSHS will become the owner of Greenville's assets, through HSSI assuming sole membership of Greenville Hospital, Inc. (to become HSHS Holy Family Hospital, Inc.; see below).

NAME CHANGE: HSHS intends to request a corporate name change so that Greenville Regional Hospital, Inc. will, after the transaction, be named HSHS Holy Family Hospital, Inc.

CATHOLIC IDENTITY: HSHS intends to operate the hospital as a Catholic Hospital, subject to the Ethical and Religious Directives for Catholic Health Care.

EMPLOYEES AND PHYSICIANS: It is the intent of HSHS to employ those general employees and physicians currently employed by Greenville that meet HSHS credentialing requirements and employment qualifications. It is anticipated there will be little change in the Medical Staff or employment for those involved.

GOVERNANCE: The governance structure will follow HSHS governance policies and the hospital's board of directors will include representation from the community and HSHS executives.

ACCESS: HSHS has a progressive charity care program and will continue to provide care to the uninsured and underinsured in the Greenville community, at both the hospital and physician clinic(s), regardless of ability to pay in accordance with the HSHS then current charity care policy.

CLOSING: The closing is contingent upon completion of due diligence and state and federal regulatory approvals, including receipt of a COE from the Illinois Health Facilities and Services Review Board. It is anticipated the membership substitution will occur on or before May 31, 2016.

MISCELLANEOUS: HSHS will leave the Foundation intact for three years post-closing to be used for the hospital's operating expenses and capital expenditures consistent with its purpose and past practices. After three years HSHS will move the funds to the HSHS Foundation. The HSHS Foundation practice and intent is to use funds raised locally for the benefit of that locality.

Attachment #6

HOSPITAL SISTERS HEALTH SYSTEM AND SUBSIDIARIES
Springfield, Illinois

Consolidated Financial Statements and Supplementary Information

June 30, 2015 and 2014

(With Independent Auditors' Report Thereon)

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

Independent Auditors' Report

The Board of Directors
Hospital Sisters Health System:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Hospital Sisters Health System and Subsidiaries, which comprise the consolidated balance sheets as of June 30, 2015 and 2014, and the related consolidated statements of operations and change in unrestricted net assets, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Hospital Sisters Health System and Subsidiaries as of June 30, 2015 and 2014, and the results of their operations, the changes in their net assets, and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

KPMG LLP is a Delaware limited liability partnership, the U.S. member firm of KPMG International Cooperative ("KPMG International"), a Swiss entity.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information included in schedules 1 through 6 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 used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

Chicago, Illinois
October 19, 2015

HOSPITAL SISTERS HEALTH SYSTEM AND SUBSIDIARIES
Springfield, Illinois

Consolidated Balance Sheets

June 30, 2015 and 2014

(Dollars in thousands)

Assets		2015	2014
Current assets:			
Cash and cash equivalents	$	140,061	122,197
Receivables:			
Patients' accounts, less allowance for uncollectible accounts of approximately $130,100 in 2015 and $118,700 in 2014		356,123	325,652
Due from third-party reimbursement programs		3,104	4,887
Other		34,064	38,527
Total receivables		393,291	369,066
Current portion of assets whose use is limited or restricted		250,636	214,898
Inventories		43,869	38,035
Prepaid expenses		22,866	20,878
Total current assets		850,723	765,074
Assets whose use is limited or restricted, net of current portion		1,785,891	1,749,958
Property, plant, and equipment, net		1,274,214	1,283,353
Assets held for sale		40,569	44,525
Other assets		69,808	73,545
	$	4,021,205	3,916,455
Liabilities and Net Assets			
Current liabilities:			
Current installments of long-term debt	$	26,565	18,494
Long-term debt subject to short-term remarketing agreements		155,345	169,508
Current portion of estimated self-insurance liabilities		40,606	26,896
Accounts payable		120,057	104,101
Accrued liabilities		148,321	145,617
Estimated payables under third-party reimbursement programs		62,476	60,586
Total current liabilities		553,370	525,202
Long-term debt, excluding current installments		505,791	485,193
Estimated self-insurance liabilities, net of current portion		61,717	76,335
Derivative instruments		48,734	43,052
Accrued benefit liability		317,480	210,621
Other noncurrent liabilities		47,700	45,550
Total liabilities		1,534,792	1,385,953
Net assets:			
Unrestricted		2,434,840	2,479,350
Temporarily restricted		25,754	26,695
Permanently restricted		25,819	24,457
Total net assets		2,486,413	2,530,502
	$	4,021,205	3,916,455

See accompanying notes to consolidated financial statements.

3

HOSPITAL SISTERS HEALTH SYSTEM AND SUBSIDIARIES
Springfield, Illinois

Consolidated Statements of Operations and Change in Unrestricted Net Assets

Years ended June 30, 2015 and 2014

(Dollars in thousands)

		2015	2014
Net patient service revenue	$	2,162,241	2,035,878
Provision for uncollectible accounts		(66,390)	(96,383)
Net patient service revenue less provision for uncollectible accounts		2,095,851	1,939,495
Other revenue:			
Investment return		209	1,812
Net assets released from restrictions used for operations		4,023	1,657
Other		94,150	102,804
Total revenue		2,194,233	2,045,768
Expenses:			
Sisters' services		1,073	1,202
Salaries and wages		804,716	748,546
Employee benefits		247,030	221,788
Professional fees		96,441	112,071
Supplies		304,008	279,665
Depreciation and amortization		167,947	148,004
Interest		13,490	8,472
Restructuring costs		—	1,800
Other		540,345	503,732
Total expenses		2,175,050	2,025,280
Income from operations		19,183	20,488
Nonoperating gains (losses):			
Investment return		34,928	212,803
Contributions of excess assets over liabilities for St. Clare Hospital		8,900	—
Discontinued operations – gain (loss) from operations		3,203	(3,820)
Change in fair value of interest rate swaps		(5,682)	(1,221)
Loss on conversion and early extinguishment of debt		(907)	—
Revenue and gains in excess of expenses and losses		59,625	228,250
Other changes in unrestricted net assets:			
Net assets released from restrictions used for the purchase of property, plant, and equipment		2,724	6,876
Change in pension funded status		(106,859)	41,273
Change in unrestricted net assets	$	(44,510)	276,399

See accompanying notes to consolidated financial statements.

HOSPITAL SISTERS HEALTH SYSTEM AND SUBSIDIARIES
Springfield, Illinois

Consolidated Statements of Changes in Net Assets

Years ended June 30, 2015 and 2014

(Dollars in thousands)

		2015	2014
Unrestricted net assets:			
Revenues and gains in excess of expenses and losses	$	59,625	228,250
Other changes in unrestricted net assets:			
Net assets released from restrictions used for the purchase of property, plant, and equipment		2,724	6,876
Change in pension funded status		(106,859)	41,273
Change in unrestricted net assets		(44,510)	276,399
Temporarily restricted net assets:			
Investment return		(179)	2,109
Contributions		5,985	7,632
Net assets released from restrictions		(6,747)	(8,533)
Change in temporarily restricted net assets		(941)	1,208
Permanently restricted net assets:			
Investment return		9	9
Contributions		1,353	1,377
Change in permanently restricted net assets		1,362	1,386
Change in net assets		(44,089)	278,993
Net assets at beginning of year		2,530,502	2,251,509
Net assets at end of year	$	2,486,413	2,530,502

See accompanying notes to consolidated financial statements.

HOSPITAL SISTERS HEALTH SYSTEM AND SUBSIDIARIES
Springfield, Illinois

Consolidated Statements of Cash Flows

Years ended June 30, 2015 and 2014

(Dollars in thousands)

	2015	2014
Cash flows from operating activities:		
Change in net assets	$ (44,089)	278,993
Adjustments to reconcile change in net assets to net cash from operating activities:		
Loss on conversion and early extinguishment of debt	907	—
Change in pension funded status	106,859	(41,273)
Income from equity basis investments	(2,238)	(4,193)
Cash received from equity basis investments, net	2,570	5,740
Net assets released from restrictions used for operations	4,023	1,657
Contributions of excess assets over liabilities for St. Clare Hospital	(8,900)	—
Restricted contributions and investment return	(7,168)	(11,127)
Amortization of bond issuance costs, included in interest expense	389	253
Depreciation and amortization, including $4,463 and $4,872, respectively, included in discontinued operations	172,410	151,683
Provision for uncollectible accounts	66,390	98,003
Change in net unrealized gain and losses on investments	39,486	(86,580)
Net realized gains on sale of investments	(56,445)	(105,423)
Change in the fair value of derivative instruments	5,682	1,221
Changes in assets and liabilities:		
Patients' accounts receivables	(93,486)	(129,077)
Other receivables	4,463	(14,892)
Inventories	(4,049)	2,016
Prepaid expenses	(1,844)	(573)
Net amounts due to third-party reimbursement programs	3,992	14,875
Accounts payable and accrued liabilities	15,134	1,688
Estimated self-insurance liabilities and other noncurrent liabilities	1,092	7,702
Net cash provided by operating activities	205,178	170,693
Cash flows from investing activities:		
Acquisition of property, plant, and equipment	(157,766)	(224,242)
Cash received from acquisition of St. Clare	2,152	—
Gross purchases of investments	(944,489)	(1,761,889)
Gross proceeds from sale or maturity of investments	893,551	1,796,885
Change in other assets	2,408	(7,137)
Net cash used in investing activities	(204,144)	(196,383)
Cash flows from financing activities:		
Repayment of long-term debt	(164,537)	(13,663)
Proceeds from issuance of debt	180,000	70,970
Payment of bond issuance cost	(1,778)	—
Net assets released from restrictions used for operations	(4,023)	(1,657)
Restricted contributions and investment return	7,168	11,127
Net cash provided by financing activities	16,830	66,777
Change in cash and cash equivalents	17,864	41,087
Cash and cash equivalents at beginning of year	122,197	81,110
Cash and cash equivalents at end of year	$ 140,061	122,197

(Continued)

HOSPITAL SISTERS HEALTH SYSTEM AND SUBSIDIARIES
Springfield, Illinois

Consolidated Statements of Cash Flows

Years ended June 30, 2015 and 2014

(Dollars in thousands)

		2015	2014
Supplemental disclosure of cash flow information:			
Cash paid for interest, net of amounts capitalized	$	13,490	8,383
Supplemental disclosure of noncash transactions:			
Assets acquired under capital lease		7,806	2,198
Noncash transactions associated with acquisition of St. Clare Hospital:			
Patients' accounts receivable	$	3,375	—
Inventories		1,785	—
Prepaid expenses		144	
Investments		6,873	—
Property, plant, and equipment		9,355	—
Other assets		299	—
Estimated third-party payor settlements		319	—
Accounts payable and accrued expenses		(3,526)	—
Other long-term liabilities		(150)	—
Long-term debt		(8,627)	—

See accompanying notes to consolidated financial statements.

(1) Organization and Purpose

Hospital Sisters Health System (HSHS), an Illinois not-for-profit corporation, considers all wholly owned or controlled entities as subsidiaries for consolidated financial statement purposes. The accompanying consolidated financial statements include the accounts of HSHS and its subsidiaries. HSHS is the parent corporation for several subsidiary corporations and exerts control through various reserved powers. The subsidiary corporations and controlled entities presented in the accompanying consolidated financial statements include Hospital Sisters Services, Inc. (HSSI), HSHS System Services Center (the SSC), Hospital Sisters of St. Francis Foundation, Inc. (the Foundation), and Kiara, Inc. HSSI, an Illinois not-for-profit holding company, is the sole member of 14 hospitals in Illinois and Wisconsin, Hospital Sisters Healthcare – West, Inc. (HCW), HSHS Medical Group, Inc., and HSHS Wisconsin Medical Group, Inc. (collectively referred to as the Medical Group), Unity Limited Partnership, Kiara Clinical Integration Network (KCIN), Prairie Education & Research Cooperative (PERC), and Renaissance Quality Insurance, Ltd. (RQIL).

The hospitals are organized for the purpose of providing inpatient and outpatient healthcare services. HSSI formed the Medical Group for the purpose of affiliating with physicians. RQIL is a captive insurance company incorporated in the Cayman Islands to provide professional and general liability insurance coverage to HSHS and affiliates. Effective July 1, 2013, RQIL started providing workers compensation coverage for the 14 hospitals.

Other than St. Clare, Oconto Falls (SCO), the remaining 13 hospitals within HSSI have formed an Obligated Group for debt financing purposes through the use of a Master Trust Indenture (MTI) (note 12).

On September 1, 2014, HSSI became the sole corporate member of Community Memorial Hospital (CMH) in Oconto Falls, Wisconsin. Effective on the acquisition date, CMH became a Catholic entity and the hospital name was changed to St. Clare Memorial Hospital, Inc. Prior to the acquisition, two HSSI affiliates held a combined 24% minority interest in CMH. Revised governing documents are consistent with HSHS policies applicable to affiliates. HSSI will retain certain reserve powers over St. Clare Memorial Hospital, Inc. consistent with other HSSI subsidiaries. As a part of the change in sponsorship, HSHS recorded $8,900 of contribution for the excess of fair value of assets over liabilities less their equity based investment in SCO of $3,100 and acquired $22,978 of total assets, $10,978 of total liabilities, and $12,000 of net assets. Annual revenue and expenses for SCO are estimated as $40,500 and $40,800, respectively.

The 14 hospitals, of which HSSI is the sole corporate member, are as follows:

Hospital	Location
	Illinois:
St. Elizabeth's Hospital	Belleville
St. Joseph's Hospital	Breese
St. Mary's Hospital	Decatur
St. Anthony's Memorial Hospital	Effingham
St. Joseph's Hospital	Highland
St. Francis Hospital	Litchfield
St. John's Hospital	Springfield
St. Mary's Hospital	Streator
	Wisconsin:
St. Joseph's Hospital	Chippewa Falls
Sacred Heart Hospital	Eau Claire
St. Mary's Hospital Medical Center	Green Bay
St. Vincent Hospital	Green Bay
St. Nicholas Hospital	Sheboygan
St. Clare Hospital	Oconto Falls

The SSC administers the Health Care Trust Fund. The SSC is supported by annual fees paid by the HSHS affiliated hospitals and certain other HSHS controlled entities to the SSC. The SSC utilizes these funds to provide centralized management and information services to the 14 affiliated hospitals and employee health administration. In addition, the SSC administers a centralized investment program and defined contribution pension plan on behalf of all HSHS entities.

The Foundation, an Illinois not-for-profit corporation, is an entity whose purpose is to solicit and administer philanthropic funds. The Foundation is structured into 14 separate divisions to administer restricted and unrestricted gifts and bequests at each of the respective hospital locations and the SSC.

Kiara, Inc., an Illinois for-profit corporation, provides a vehicle for joint ventures with physicians and an entry into those health related services, which do not qualify as tax-exempt services, such as pharmacy, durable medical equipment, nonaffiliated electronic health records (EHR) implementations, and real estate holdings. Kiara, Inc. is the sole stockholder of LaSante, Inc., LaSante Wisconsin, Inc., and Prairie Cardiovascular Consultants, Inc. (PCC). The operations of these three wholly owned subsidiaries are consolidated into the financial statements of Kiara, Inc. In connection with the acquisition of PCC, $1,686 was payable at June 30, 2014 and was a component of other noncurrent liabilities in the accompanying consolidated balance sheets.

Pursuant to a Membership Substitution Agreement, HSSI became the sole corporate member of PERC on October 1, 2013. As part of the change in sponsorship, HSHS acquired $3,886 of total assets, $2,121 of total liabilities, and $1,765 of unrestricted contributions. HSSI retains certain reserved powers over PERC consistent with other HSSI subsidiaries.

On June 22, 2015, the Board of Directors approved the intention to sell and donate certain assets associated with St. Mary's Hospital (SMS) in Streator, Illinois. As a result, these assets have been presented as assets held for sale in the accompanying consolidated balance sheets (note 9).

All significant intercompany transactions have been eliminated in consolidation.

(2) Summary of Significant Accounting Policies

The significant accounting policies of HSHS are as follows:

(a) Presentation

For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of healthcare services are reported as revenue and expenses. Peripheral or incidental transactions are reported as nonoperating gains or losses. Nonoperating gains or losses include investment return, other than that which is associated with self-insurance programs, or funds held by trustee under indenture agreements, loss on conversion and early extinguishment of debt, contributions of excess assets over liabilities for St. Clare Hospital, discontinued operation – gain (loss) from operations, and the change in fair value of the interest rate swap agreements.

(b) Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Significant estimates include allowances for contractual allowances and bad debts, third-party payor settlements, valuation of investments, recoverability of property, plant, and equipment, self-insurance liabilities, derivative instruments, accrued benefit liability, and other liabilities. Actual results could differ from those estimates.

(c) 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 those amounts included as assets whose use is limited or restricted.

(d) Assets Whose Use is Limited or Restricted

Assets whose use is limited or restricted include assets set aside by the Board of Directors for future capital improvements, self-insurance funding, and for other purposes over which the board of directors retains control and may at its discretion subsequently use for other purposes; assets held by third-party trustees under indenture agreements; and funds temporarily or permanently restricted by donors. Management classifies the current portion of assets whose use is limited or restricted based on the approximate amount of the current portion of long-term debt and self-insurance.

Investments in equity securities with readily determinable values and all investments in debt securities are measured at fair value in the accompanying consolidated balance sheets. Investment return on assets associated with self-insurance programs or assets deposited in funds held by trustee under indenture agreements is reported as other revenue. Investment return from all other investments is reported as nonoperating gains – investment return, unless the income or loss is restricted by donor or law. Changes in net unrealized gains and losses on investments are included in revenue and gains in excess of expenses and losses as all investments are considered to be trading securities.

(e) Inventories

Inventories are stated at the lower of cost or market. Cost is determined on a first-in, first-out basis.

(f) Property, Plant, and Equipment

Property, plant, and equipment additions are stated at cost or fair value at the date of acquisition or donation. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method of accounting. Useful lives may be reassessed from time to time as facts and circumstances change in regards to how assets are being used. Interest cost incurred on borrowed funds during the period of construction of major projects are capitalized as a component of the cost of acquiring those assets. Capitalized interest is reduced by the amount of investment income earned on unexpended proceeds from project specific borrowings.

(g) Long-Lived Assets

Long-lived assets (including property, plant, and equipment) are periodically assessed for recoverability based on the occurrence of a significant adverse event or change in the environment in which HSHS operates or if the expected future cash flows (undiscounted and without interest) would become less than the carrying amount of the asset. An impairment loss would be recorded in the period such determination is made based on the fair value of the related entity. No impairments were recorded for the years ended June 30, 2015 and 2014.

(h) Other Assets – Joint Ventures

HSHS invests in various organizations that are not wholly owned or controlled by HSHS. Investments in affiliates in which HSHS has significant influence but does not control are reported on the equity method of accounting, which represents HSHS' equity in the underlying net book value. The equity

method of accounting is discontinued when the investment is reduced to zero unless HSHS has guaranteed the obligations of the organization or is committed to provide additional capital support.

(i) Loss Reserves

HSHS is self-insured for professional and general liability, workers' compensation, and employee health claims. The provision for loss reserves include the ultimate cost for both reported losses and losses incurred, but not reported as of the respective consolidated balance sheet dates. HSHS reports the amount predicted to settle within one year as the current portion of estimated self-insurance liabilities with the corresponding investments held as current portion of assets whose use is limited or restricted. The long-term portion is reported as estimated self-insurance liabilities with the corresponding investments held as assets whose use is limited or restricted.

The liability for loss reserves represents an estimate of the ultimate net cost of all such amounts that are unpaid at the consolidated balance sheet dates. The liability is based on projections and the historical claim experience of HSHS and gives effect to estimates of trends. Although management believes the estimate of the liability for claims is reasonable, it is possible HSHS' actual incurred claims will not conform to the assumptions' inherent variability with respect to the significant assumptions utilized. The ultimate settlement of claims may vary from the liability for unpaid claims included in the accompanying consolidated financial statements.

(j) Derivative Instruments

HSHS accounts for derivatives and hedging activities in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) SubTopic 815-10, *Accounting for Derivative Instruments and Hedging Activities*, which requires that an entity recognize all derivatives as either assets or liabilities in the consolidated balance sheet and measure those instruments at fair value. HSHS is involved in various interest rate swaps. The fair value of the interest rate swap programs is included as derivative instruments in the accompanying consolidated balance sheets. For HSHS, the derivatives are not designated as hedge instruments, and therefore, settlements on derivative instruments and the change in fair values of the interest rate swap agreements are recognized in the consolidated statements of operations and change in unrestricted net assets as a component of nonoperating gains (losses).

(k) Asbestos Removal Costs

HSHS accounts for asbestos removal costs in accordance with ASC SubTopic 410-20, *Accounting for Conditional Asset Retirement Obligations*. ASC SubTopic 410-20 requires the current recognition of a liability when a legal obligation exists to perform an asset retirement obligation (ARO) in which the timing or method of settlement is conditional on a future event that may or may not be under the control of the entity. ASC SubTopic 410-20 requires an ARO liability be recorded at its net present value with recognition of a related long-lived asset in a corresponding amount. The ARO liability is accreted through periodic charges to depreciation expense. The initially capitalized ARO long-lived asset is depreciated over the corresponding long-lived asset's remaining useful life. HSHS is legally liable to remove asbestos from existing buildings prior to future remodeling or demolishing of the existing

hospital buildings. The estimated asbestos removal cost at June 30, 2015 and 2014 is $28,897 and $27,927, respectively, and is included within other noncurrent liabilities in the accompanying consolidated balance sheets. The net book value of the ARO long-lived asset at June 30, 2015 and 2014 is $258 and $334, respectively, and is included within other assets in the accompanying consolidated balance sheets.

(l) Donor-Restricted Net Assets

Net assets and activities are classified into three classes based on the existence or absence of donor-imposed restrictions: unrestricted, temporarily restricted, and permanently restricted. Temporarily restricted net assets represent those net assets whose use by HSHS has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by HSHS in perpetuity.

HSHS classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment, the original value of subsequent gifts to the permanent endowment, and accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument. Investment returns in excess of spending are classified as increases in temporarily restricted net assets until appropriated for expenditure by HSHS.

HSHS has established a spending policy, which is evaluated and approved by the Foundation's board every year. The approved spending rate for fiscal year 2015 and 2014 was 4.90%. In establishing this policy, the long-term expected return on the endowment is considered. This is consistent with HSHS' objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term.

Endowment funds are commingled with the pooled investment fund administered by HSHS. HSHS relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). HSHS targets a diversified asset allocation of 35.5% fixed income, 22.5% domestic equities, 17% international equities, 20% custom hedge funds, and 5% real assets to achieve its long-term return objectives within prudent risk constraints.

(m) Gifts, Bequests, and Grants

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received, which is then treated as cost. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations and change in unrestricted net assets as assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are recorded as unrestricted contributions. Unrestricted contributions are included in other revenue.

Gifts of long-lived assets such as property, plant, and equipment are reported as unrestricted gifts and bequests and are excluded from revenue and gains in excess of expenses and losses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted contributions. In the absence of explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

(n) Net Patient Service Revenue

Net patient service revenue are reported at the estimated net realizable amounts due from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors and amounts received under the Medicaid assessment tax programs. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

(o) Charity Care

HSHS provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Amounts determined to qualify as charity care are not reported as net patient service revenue, since HSHS does not pursue collection of such amounts.

(p) Revenue and Gains in Excess of Expenses and Losses

The consolidated statements of operations and change in unrestricted net assets include revenue and gains in excess of expenses and losses. Changes in unrestricted net assets that are excluded from revenue and gains in excess of expenses and losses, consistent with industry practice, include contributions of property, plant, and equipment (including assets acquired using contributions that by donor restrictions or grants were to be used for the purpose of acquiring such assets) and the change in pension funded status.

(q) Income Taxes

HSHS and the Foundation are Illinois not-for-profit organizations as described in Section 501(c) (3) of the Internal Revenue Code (the Code) and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. Kiara, Inc. is an Illinois for-profit corporation that recognizes income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax basis and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Kiara, Inc.'s tax effects of temporary differences that give rise to significant portions of the deferred tax assets at June 30, 2015 and 2014 are primarily the result of net operating loss carryforwards of $94,120 and $72,356 at June 30, 2015 and 2014, respectively, which expire at various future dates through 2034.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers projected future taxable income and tax planning strategies in making this assessment. Based upon the level of historical taxable losses and projections for future taxable losses over the periods for which the deferred tax assets are deductible, management believes it is more likely than not Kiara, Inc. will not realize the majority of the benefits of these deductible differences. The deferred tax assets attributable to the net operating loss carryforwards not realized as of June 30, 2015 and 2014 have been fully reserved in the accompanying consolidated financial statements due to the uncertainty of realization.

HSHS recognizes the tax benefit from an uncertain tax position only if it is more likely than not the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. As of June 30, 2015 and 2014, HSHS does not have any liabilities for unrecognized tax benefits.

(r) Fair Value

HSHS has adopted the provisions of ASC Topic 820, *Fair Value Measurement*, for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis. ASC Topic 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC Topic 820 also establishes a framework for measuring fair value and expands disclosures about fair value measurements.

In conjunction with the adoption of ASC Topic 820, HSHS adopted the measurement provisions of FASB Accounting Standards Update (ASU) 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, to certain investments in funds that do not have readily determinable fair values including private investments, hedge funds, real estate, and other funds. This guidance amends ASC Topic 820 and allows for the estimation of the fair value of investments in investment companies for which the investment does not have a readily determinable fair value using net asset value (NAV) per share or its equivalent.

(s) EHR Incentive Program

The EHR Incentive Program (the Program) provides incentive payments to eligible hospitals and professionals as they adopt, implement, upgrade, or demonstrate meaningful use of certified EHR technology in their first year of participation and demonstrate meaningful use for up to five remaining participation years. HSHS accounts for the Program using the grant model. HSHS applies the "ratable

recognition" approach, which states that the grant income can be recognized ratably over the entire EHR reporting period once a "reasonable assurance" income recognition threshold is met. For the years ended June 30, 2015 and 2014, HSHS recognized $8,427 and $15,586, respectively, as other revenue related to EHR incentives, which have been received or are expected to be received based on certifications prepared by management under the appropriate guidelines.

(t) Reclassification

Certain 2014 amounts have been reclassified to conform to the 2015 consolidated financial statement presentation as a result of discontinued operations presentation (note 9).

(3) Community Benefit

Consistent with its mission, HSHS provides medical care to all patients regardless of their ability to pay. In addition, HSHS provides services intended to benefit the poor and underserved, including those persons who cannot afford health insurance because of inadequate resources and/or are uninsured or underinsured, and to enhance the health status of the communities in which it operates.

The following summary has been prepared in accordance with the Catholic Health Association of the United States' (CHA) policy document, *A Guide for Planning and Reporting Community Benefit*, released in May 2006. HSHS uses a cost-to-charge ratio to calculate the cost of charity care and the unpaid cost of Medicaid. The amounts in the following table reflect the quantifiable costs of HSHS' community benefit for the years ended June 30, 2015 and 2014:

		2015	2014
Benefits for the poor:			
Charity care at cost	$	24,026	37,951
Unpaid cost of Medicaid and other public programs		129,546	92,685
Community health services		1,845	1,532
Other		2,826	2,042
		158,243	134,210
Benefits for the broader community:			
Community health services		5,100	4,680
Health professions education		18,298	17,883
Other		9,472	12,002
		32,870	34,565
Total community benefit	$	191,113	168,775

Benefits for the poor represent the cost of services provided to persons who cannot afford healthcare because of inadequate resources and who are uninsured or underinsured.

Benefits for the broader community represent the cost of services provided to other needy populations that may not qualify as poor, but that need special services and support. It also includes the cost of services for the general benefit of the communities in which HSHS operates. Many programs are targeted toward populations that may be poor, but also include those areas that may need special health services and support. These programs are not financially self-supporting.

Charity care at cost represents the cost of services provided to patients who cannot afford healthcare services due to inadequate resources. All or a portion of a patient's services may be considered charity care for which no payment is anticipated in accordance with HSHS' established policies.

Unpaid cost of Medicaid and other public programs represents the cost of providing services to beneficiaries of public programs, including state Medicaid and indigent care programs, in excess of payments for those services. (See note 4 for an explanation of changes to the Medicaid reimbursement from the State of Illinois.)

Community health services are activities and services for which no patient bill exists although there may be nominal patient fees. These services are not expected to be financially self-supporting although some may be partially supported by outside grants or funding.

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

Other benefits include subsidized health services, in-kind donations, and other benefits.

In addition to the amounts reported above, HSHS committed significant resources in serving the Medicare population. The cost (determined using a cost-to-charge ratio) of providing services to primarily elderly beneficiaries of the Medicare program, in excess of governmental and managed care contract payments, was $183,772 and $171,288 for the years ended June 30, 2015 and 2014, respectively.

A related organization, the Foundation, funded $12,794 and $8,865 for charity care or other operating expenses on behalf of the hospitals during the years ended June 30, 2015 and 2014, respectively. The community benefits reported above are net of the contributions from the Foundation for such benefits.

HSHS also provides a significant amount of uncompensated care for patients, which is not included above, but is reported in the consolidated statements of operations and change in unrestricted net assets as a provision for uncollectible accounts. Many of those patients are uninsured or underinsured, but did not apply for, or qualify for, charity care.

St. Mary's Hospital, Streator, Illinois, provided $4,155 and $5,190 for benefits to the community during the years ended June 30, 2015 and 2014, respectively, which is included in discontinued operations.

(4) Net Patient Service Revenue:

HSHS has agreements with third-party payors that provide for payment at amounts different from their established rates. A summary of the payment arrangements with major third-party payors is as follows:

Medicare – Inpatient acute care services rendered to Medicare program beneficiaries are generally paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Certain patient services related to Medicare beneficiaries are paid based upon a cost reimbursement method, prospectively determined rates, established fee screens, or a combination thereof. The hospitals are reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the hospitals and audits by the Medicare fiscal intermediary. Certain outpatient services performed by the hospitals are reimbursed at a prospectively determined rate per service based upon their ambulatory payment classification. Home health services performed by the hospitals are reimbursed at a prospectively determined rate per episodic treatment.

As of June 30, 2015, Medicare cost reports have been audited and final settled through June 30, 2010.

Medicaid – Inpatient services rendered to Medicaid program beneficiaries are reimbursed at prospectively determined rates per discharge. Outpatient services rendered to Medicaid program beneficiaries are reimbursed based upon per visit rates. Medicaid payment methodologies and rates for services are based on the amount of funding available to state Medicaid programs.

HSHS participates in the State of Illinois (the State) provider assessment program that assists in the financing of its Medicaid program. The program has been renewed by the State since its inception in 2004. Pursuant to this program, hospitals within the State are required to remit payment to the State Medicaid program under an assessment formula approved by the Centers for Medicare and Medicaid Services (CMS).

The hospitals have included their assessments of $25,743 for both 2015 and 2014 within other expenses in the accompanying consolidated statements of operations and change in unrestricted net assets. The assessment program also provides hospitals within the State with additional Medicaid reimbursement based on funding formulas also approved by CMS. The hospitals have included their additional reimbursement of $43,897 for both 2015 and 2014 within net patient service revenue in the accompanying consolidated statements of operations and change in unrestricted net assets.

As of and for the years ended June 30, 2015 and 2014, HSHS has included its assessment of $8,106 and $16,678, respectively, under the Illinois Enhanced Hospital Assessment Program, within other expenses in the accompanying consolidated statement of operations and change in unrestricted net assets. The Enhanced Hospital Assessment Program provides hospitals within the State with additional Medicaid reimbursement, based on funding formulas also approved by CMS. HSHS has included its additional related reimbursements for the years ended June 30, 2015 and 2014 of $13,519 and $27,366, respectively, within net patient service revenue in the accompanying consolidated statement of operations and change in unrestricted net assets.

During 2015, CMS approved Illinois' request for a new supplemental payment to hospitals for services provided to newly eligible Medicaid beneficiaries under the Affordable Care Act. The new supplemental payment to hospitals was approved retroactive to March 1, 2014. Illinois will use same pro rata allocation as a percentage of the gross assessment payments under the existing Hospital Assessment Programs. HSHS has included its additional related reimbursements for the year ended June 30, 2015 of $18,030 within net patient service revenue in the accompanying 2015 consolidated statement of operations and change in unrestricted net assets.

During 2009, the State of Wisconsin enacted an assessment tax on the gross revenue of all Wisconsin hospitals, which is used to increase reimbursements made under its Medicaid program. During the years ended June 30, 2015 and 2014, the HSHS Wisconsin hospitals were assessed $20,640 and $20,834, respectively, related to this tax, which is included as a component of other expenses in the accompanying consolidated statements of operations and change in unrestricted net assets, and received $25,499 and $24,329, respectively, in supplemental Medicaid reimbursement, which is included as a component of net patient service revenues in the accompanying consolidated statements of operations and change in unrestricted net assets.

Other – HSHS has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined per diem rates.

A summary of gross and net patient service revenue for the years ended June 30, 2015 and 2014 is as follows:

		2015	2014
Inpatient revenue	$	2,492,017	2,343,084
Outpatient revenue		3,629,158	3,171,066
Less provisions for estimated contractual adjustments under third-party reimbursement programs		3,958,934	3,478,272
Net patient service revenue	$	2,162,241	2,035,878

Net patient service revenue for the years ended June 30, 2015 and 2014 include $4,829 and $2,784, respectively, of favorable retrospectively determined prior year settlements with third-party payors.

A summary of Medicare, Medicaid, and managed care/contracted payor utilization percentages, based upon gross patient service revenue, is as follows:

	2015	2014
Medicare	47%	48%
Medicaid	18	15
Managed care/contracted payor	31	32
Self-pay	1	3
Other	3	2

Patients' accounts receivable are reduced by an allowance for uncollectible accounts. In evaluating the collectibility of patients' accounts receivable, HSHS analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for uncollectible accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, HSHS analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (e.g., for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), HSHS records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

HSHS' allowance for uncollectible accounts for self-pay patients increased from 80.4% of self-pay accounts receivable at June 30, 2014, to 83.6% of self-pay accounts receivable at June 30, 2015. HSHS' self-pay write-offs decreased $53,570 from $108,560 for fiscal year 2014 to $54,990 for fiscal year 2015 as a result of the expansion of Medicaid eligibility.

HSHS recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, HSHS recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of HSHS' uninsured patients will be unable or unwilling to pay for the services provided. Thus, HSHS records a significant provision for bad debts related to uninsured patients in the period the

services are provided. Patient service revenue, net of contractual allowances and discounts (before the provision for bad debts), is recognized in the period from these major payor sources, as follows:

		2015	2014
Medicare	$	737,981	689,437
Medicaid		294,603	246,287
Managed care/contracted payor		1,034,681	964,106
Self-pay		30,567	76,698
Other		64,409	59,350
Net patient service revenue	$	2,162,241	2,035,878

(5) Concentration of Credit Risk

HSHS provides healthcare services through their inpatient and outpatient facilities located in Illinois and Wisconsin. HSHS grants credit to patients, substantially all of whom are local residents. HSHS does not require collateral or other security in extending credit to patients; however, they routinely obtain assignment of (or are otherwise entitled to receive) patients' benefits payable under their health insurance programs, plans, or policies (e.g., Medicare, Medicaid, Blue Cross, health maintenance organizations, and commercial insurance policies).

The mix of net receivables from patients and third-party payors as of June 30, 2015 and 2014 is as follows:

	2015	2014
Medicare	31%	28%
Medicaid	11	10
Managed care/contracted payor	47	46
Self-pay	5	9
Other	6	7

(6) Investment Composition and Fair Value Measurements

(a) Overall Investment Objective

The overall investment objective of HSHS is to invest its assets in a prudent manner that will achieve an expected rate of return, manage risk exposure, and focus on downside protection. HSHS' invested assets will maintain sufficient liquidity to fund a portion of HSHS' annual operating activities and structure the invested assets to maintain a high percentage of available liquidity. HSHS diversifies its investments among various asset classes incorporating multiple strategies and managers. The HSHS board approves the investment policy statement. The Investment Committee oversees the investment program in accordance with the investment policy statement.

(b) Allocation of Investment Strategies

To manage risk, HSHS invests in fixed income, domestic equities, international equities, custom hedge funds, and real assets. HSHS engages outside portfolio managers as follows: 6 fixed income managers, 13 domestic equity managers, 5 international managers, 2 custom hedge fund portfolio managers (K2 and Mesirow), and 1 real estate manager. Because of the inherent uncertainties for valuation of some holdings, the estimated fair values may differ from values that would have been used had a ready market existed.

The investment objective of the K2 Custom Solutions Hospital Sisters Fund is to achieve equity type returns with reduced volatility and risk. This is achieved through a diversified portfolio targeting allocations of long strategies and low volatility strategies and spread across 29 separate underlying funds.

The investment objective of the Mesirow Custom Solutions Hospital Sisters Fund is to achieve positive returns with low volatility and risk. This is achieved through a multimanager, multi-strategy, and diversified investment approach and spread across 31 separate underlying funds.

A summary of the strategies used by the hedge fund managers is as follows:

- *Commodities* include investment entities that may trade in agricultural, metal, and energy markets at various stages of the commodity cycle.
- *Event Driven* includes investment entities that focus on identifying and analyzing securities that may benefit from the occurrence of specific corporate events.
- *Global Macro* includes investment entities, which invest in products that may benefit from overall economic and political events of various countries.
- *Insurance-Linked* includes investment entities with an income-based strategy that invest across instruments, the value of which is driven by insurance-related events primarily related to property and life insurance. Risk is managed by diversifying over geography, insurance type, and sensitivity to insured losses amongst other factors. The strategy is a tool to reduce overall investment risk as underlying insurance risk factors are less sensitive to general market factors.
- *Long/Short Equity* includes investment entities that invest both long and short, primarily in common stocks and debt instruments, based on the manager's perception of such securities being undervalued or overvalued by the market.
- *Multi-Strategy* includes investment entities that pursue multiple strategies to diversify risks and reduce volatility.
- *Relative Value* includes investment entities that utilize nondirectional strategies. Relative value investing involves trading around the mispricing of two related securities using various types of securities or instruments.

- *Specialist Credit* includes investment entities that seek to generate superior risk-adjusted returns from a combination of capital appreciation and current income by opportunistically investing and trading in a diversified portfolio of credit-related securities and other instruments.
- *Structured Credit* includes investment entities that invest across structured credit markets including agency and nonagency residential mortgage-backed securities, commercial mortgage-backed securities, and various asset-backed securities. Strategies can be trading oriented or directional, and may include a hedging component to offset market risks.

(c) Basis of Reporting

Assets whose use is limited or restricted are reported at estimated fair value. If an investment is held directly by HSHS and an active market with quoted prices exists, the market price of an identical security is used as reported fair value. Reported fair values for shares in common and preferred stock and fixed income are based on share prices reported by the funds as of the last business day of the fiscal year. HSHS' interests in alternative investment funds are generally reported at the NAV reported by the fund managers, which is used as a practical expedient to estimate the fair value of the HSHS' interest therein, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. As of June 30, 2015, HSHS had no plans or intentions to sell investments at amounts different from NAV.

(d) Fair Value of Financial Instruments

The following methods and assumptions were used by HSHS in estimating the fair value of its financial instruments:

- The carrying amount reported in the consolidated balance sheets for the following approximates fair value because of the short maturities of these instruments: cash and cash equivalents, receivables, accounts payable, accrued liabilities, and estimated payables under third-party reimbursement programs.
- Fair values of HSHS' investments held as assets whose use is limited or restricted are estimated based on prices provided by its investment managers and its custodian bank except pledges receivable and other, whereby carrying amounts approximate fair value. Fair value for cash and cash equivalents, corporate and preferred stocks, foreign securities, U.S. government securities, corporate bonds, municipal bonds, and commingled mutual funds are measured using quoted market prices at the reporting date multiplied by the quantity held. The carrying value equals fair value.
- HSHS has two hedge fund investments for which quoted market prices are not available. The estimated fair value of these hedge fund investments includes estimates, appraisals, assumptions, and methods provided by external financial advisers and reviewed by HSHS.
- Fair value of fixed rate long-term debt is estimated based on the quoted market prices for the same or similar issues or on the current rates offered to HSHS for debt of the same remaining maturities. For variable rate debt, carrying amounts approximate fair value. Fair value was

estimated using quoted market prices based upon HSHS' current borrowing rates for similar types of long-term debt securities.

- Fair value of interest rate swaps is determined using pricing models developed based on the LIBOR swap rate and other observable market data by financial advisers. The value was determined after considering the potential impact of collateralization and netting agreements, adjusted to reflect nonperformance risk of both the counterparty and HSHS. The carrying value equals fair value.

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

The following table presents the carrying amounts and estimated fair values of HSHS' financial instruments not carried at fair value at June 30, 2015:

	2015		2014	
	Carrying amount	Fair value	Carrying amount	Fair value
Long-term debt	$ 687,701	684,863	673,195	673,845

(e) Fair Value Hierarchy

HSHS has adopted ASC Topic 820 for fair value measurements of financial assets and liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis. ASC Topic 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that HSHS has the ability to access at the measurement date.
- Level 2 inputs are observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 inputs are unobservable inputs for the asset or liability.

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period. There were no transfers between Level 1, Level 2, or Level 3 for the fiscal years ended June 30, 2015 and 2014.

The following table summarizes HSHS' fair values of cash and cash equivalents, assets whose use is limited or restricted by major category and derivative instruments in the fair value hierarchy as of June 30, 2015, as well as related strategy, liquidity, and funding commitments:

	June 30, 2015				Redemption	Days'
	Level 1	Level 2	Level 3	Total	or liquidation	notice
Cash and cash equivalents	$ 140,061	—	—	140,061	Daily	One
Assets whose use is limited or restricted excluding accrued interest and other of $4,306 and pledges receivable and other of $25,654:						
Cash and cash equivalents	80,971	—	—	80,971	Daily	One
Common stocks	477,992	—	—	477,992	Daily	One
U.S. government securities	—	191,577	—	191,577	Daily	One
Taxable municipals	—	32,929	—	32,929	Daily	Two
Corporate bonds	—	144,863	—	144,863	Daily	Two
Foreign securities	355,643	21,150	—	376,793	Daily	Three
Commingled mutual funds	12,633	316,455	—	329,088	Daily	Three
Hedge funds:						
K2 multistrategy fund	—	—	284,267	284,267	See below	
Mesirow multistrategy	—	—	88,057	88,057	See below	
Total financial assets	$ 1,067,300	706,974	372,324	2,146,598		
Liabilities:						
Derivative instruments	$ —	48,734	—	48,734		

The table below sets forth a summary of changes in the fair value of the HSHS' Level 3 assets for the year ended June 30, 2015:

	Level 3 assets, year ended June 30, 2015		
	K2 fund	Mesirow fund	Total funds
Balance, beginning of year	$ 277,432	69,560	346,992
Purchases	—	15,500	15,500
Total net gains	6,835	2,997	9,832
Balance, end of year	$ 284,267	88,057	372,324

The following table summarizes HSHS' cash and cash equivalents and assets whose use is limited or restricted by major category in the fair value hierarchy as of June 30, 2014, as well as related strategy, liquidity, and funding commitments:

	June 30, 2014				Redemption or liquidation	Days' notice
	Level 1	Level 2	Level 3	Total		
Cash and cash equivalents	$ 122,197	—	—	122,197	Daily	One
Assets whose use is limited or restricted excluding accrued interest and other of $4,585 and pledges receivable and other of $29,393:						
Cash and cash equivalents	82,195	—	—	82,195	Daily	One
Common stocks	446,359	—	—	446,359	Daily	One
U.S. government securities	—	106,851	—	106,851	Daily	One
Taxable municipals	—	31,068	—	31,068	Daily	Two
Corporate bonds	—	138,213	—	138,213	Daily	Two
Foreign securities	347,370	17,824	—	365,194	Daily	Three
Commingled mutual funds	12,492	401,514	—	414,006	Daily	Three
Hedge funds:						
K2 multistrategy fund	—	—	277,432	277,432	See below	
Mesirow multistrategy	—	—	69,560	69,560	See below	
Total financial assets	$ 1,010,613	695,470	346,992	2,053,075		
Liabilities:						
Derivative instruments	$ —	43,052	—	43,052		

(Continued)

The table below sets forth a summary of changes in the fair value of the HSHS' Level 3 assets for the year ended June 30, 2014:

	Level 3 assets, year ended June 30, 2014		
	K2 fund	Mesirow fund	Total funds
Balance, beginning of year	$ 196,551	55,542	252,093
Purchases	63,000	10,000	73,000
Total net gains	17,881	4,018	21,899
Balance, end of year	$ 277,432	69,560	346,992

The following table presents information about the redemption terms and restrictions as of June 30, 2015 and 2014 for the alternative investments:

K2 Custom Solutions Hospital Sisters Fund

	Fair value		Notice period (days) minimum maximum
	2015	2014	
Redemption terms:			
Monthly	$ 63,040	69,302	15–90 days
Quarterly	170,647	191,480	30–90 days
Biannual	22,297	8,325	60–90 days
Annually	28,283	8,325	90 days
Total	$ 284,267	277,432	

Mesirow Custom Solutions Hospital Sisters Fund

	Fair value 2015	Fair value 2014	Notice period (days) minimum maximum
Redemption terms:			
Monthly	$ 31,786	28,024	15–90 days
Quarterly	17,279	32,342	30–90 days
Biannual	35,381	6,299	60–90 days
Annually	3,611	2,895	90 days
Total	$ 88,057	69,560	

A summary of assets whose use is limited or restricted as of June 30, 2015 and 2014 is as follows:

	2015	2014
Assets whose use is limited or restricted:		
By the board for capital improvements	$ 1,769,762	1,692,347
Funds held by trustee for self-insurance	63,849	67,687
Funds held by RQIL	103,291	100,258
Funds temporarily restricted by donors	527	484
Investments held at the Foundation	99,098	104,080
Total assets whose use is limited or restricted	$ 2,036,527	1,964,856

The composition of investment return for the years ended June 30, 2015 and 2014 is as follows:

	2015	2014
Investment return:		
Interest and dividend income	$ 18,008	24,745
Net realized gains on sale of investments	56,445	105,423
Change in net unrealized gains and losses	(39,486)	86,580
Total investment return	$ 34,967	216,748

Investment returns are included in the accompanying consolidated statements of operations and change in unrestricted net assets and changes in net assets for the years ended June 30, 2015 and 2014 as follows:

		2015	2014
Other revenue – investment return	$	209	1,827
Nonoperating gains – investment return		34,928	212,803
Temporarily restricted net assets – investment return		(179)	2,109
Permanently restricted net assets – investment return		9	9
Total investment return	$	34,967	216,748

(7) **Derivative Instruments**

HSHS has interest-rate related derivative instruments to manage its exposure on its debt instruments. HSHS does not enter into derivative instruments for any purpose other than cash flow hedging purposes, and HSHS does not speculate using derivative instruments.

By using derivative financial instruments to hedge exposures to changes in interest rates, HSHS exposes itself to credit risk, tax risk, and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty owes HSHS, which creates credit risk for HSHS. When the fair value of a derivative contract is negative, HSHS owes the counterparty, and therefore, it does not possess credit risk. HSHS minimizes the credit risk in derivative instruments by entering into transactions with high-quality counterparties.

Tax risk is the adverse effect that HSHS takes on to the extent tax law changes impact the rates paid to a variable rate bondholder (either positively or negatively) that would affect the variable rate received from the counterparty under a LIBOR-based swap that may not match the tax-exempt equivalent rate being paid. HSHS minimizes the tax risk in derivative instruments by maintaining sufficient cash reserves to handle potential tax law changes.

Market risk is the adverse effect on the value of the derivative instrument that results from a change in interest rates. The market risk associated with interest rate contracts is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken.

HSHS is exposed to credit loss in the event of nonperformance by the counterparty to the interest rate swap agreements; however, this is not anticipated. During the years ended June 30, 2015 and 2014, HSHS was not required to post collateral.

HSHS maintains interest rate swap agreements, which effectively change the interest rate exposure on a portion of its variable rate bonds to a fixed rate. HSHS receives 86.1% of the three-month LIBOR ($76,750 notional amount) and 67% of the one-month LIBOR ($41,300 and $100,425 notional amounts) and pays a fixed rate of 4.02% ($76,750 notional amount) and 3.47% ($41,300 and $100,425 notional amounts). The

interest rate swap agreements have notional amounts of $218,475 at June 30, 2015 and 2014, respectively, which will amortize through March 2036.

HSHS also entered into a fixed spread basis swap in fiscal year 2008 that removes the tax risk from the bondholders and transfers the risk to HSHS. The premium that HSHS receives for taking on this risk is 67.00% of the one-month LIBOR plus a fixed spread of 48 basis points less the SIFMA Index rate. The fixed spread basis swap has a notional amount of $150,000 with a final maturity in May 2033.

The following is a summary of the swaps as of June 30, 2015:

Type of interest swap	Notional amount	Settlement value	Fair value
Fixed payor	$ 76,750	(17,755)	(16,723)
Fixed spread basis	150,000	(96)	221
Fixed payor	41,300	(9,955)	(9,385)
Fixed payor	100,425	(24,238)	(22,847)
		$ (52,044)	(48,734)

The following is a summary of the swaps as of June 30, 2014:

Type of interest swap	Notional amount	Settlement value	Fair value
Fixed payor	$ 76,750	(14,748)	(13,350)
Fixed spread basis	150,000	(4,855)	(3,333)
Fixed payor	41,300	(8,635)	(7,680)
Fixed payor	100,425	(21,014)	(18,689)
		$ (49,252)	(43,052)

(8) Property, Plant, and Equipment

A summary of property, plant, and equipment at June 30, 2015 and 2014 is as follows:

		2015	2014
Land	$	56,974	58,172
Land improvements		39,619	40,051
Buildings and permanent fixtures		1,510,514	1,456,753
Equipment and furnishings		1,180,086	1,169,400
		2,787,193	2,724,376
Less accumulated depreciation		1,588,496	1,520,478
		1,198,697	1,203,898
Construction in progress		75,517	79,455
	$	1,274,214	1,283,353

As of June 30, 2015, construction in progress represents various building and remodeling projects. These projects, which have remaining contracted costs at June 30, 2015 of $175,246, will be financed with board-designated assets or from operations.

A reconciliation of total interest costs, as reported in the accompanying consolidated statements of operations and change in unrestricted net assets for 2015 and 2014, is as follows:

		2015	2014
Interest cost capitalized	$	—	2,766
Interest cost charged to expense		13,490	8,472
Total interest cost	$	13,490	11,238

(9) Discontinued Operations

SMS in Streator, Illinois is an inpatient hospital currently operated by HSSI. HSSI and SMS will be submitting a Certificate of Exemption application to the Health Facilities and Services Review Board for the State of Illinois to discontinue all services, both inpatient and outpatient at SMS.

SMS' long term assets of property, plant and equipment have been presented as assets held for sale in the accompanying consolidated balance sheets for $40,569 and $44,525 during the years ended June 30, 2015 and 2014, respectively. The operations of SMS are presented in the accompanying 2015 consolidated

statement of operations and changes in unrestricted net assets as discontinued operations. HSHS's results of operations for the year ended June 30, 2014 have also been reclassified to reflect the discontinuance of SMS.

A summary of the operating components of the gain (loss) from discontinued operations for SMS for the years ended June 30, 2015 and 2014 is as follows:

		2015	2014
Revenue	$	44,378	43,249
Expenses		41,175	47,069
Gain (loss) from discontinued operations	$	3,203	(3,820)

(10) Self-Insurance

(a) Workers' Compensation, Professional and General Liability

On July 1, 2013, the hospital workers' compensation self-insurance program was transferred to RQIL and over the course of the fiscal year 2014, the nonhospital subsidiaries that were previously commercially insured were added to RQIL. RQIL provides coverage in addition to workers' compensation, professional and general liability, but the associated liabilities for the other coverages are less than 1% of the total RQIL liabilities at June 2015 and at June 2014.

Under the System's Workers' Compensation, Professional and General Liability self-insurance program through RQIL, claims are reflected based upon actuarial estimation, including both reported and incurred but not reported claims, taking into consideration the severity of incidents and the expected timing of claim payments. At June 30, 2015 and 2014, funds held by RQIL were $103,291 and $100,258, respectively. The related current estimated self-insurance liabilities for June 30, 2015 and 2014 were $29,319 and $16,478, respectively. The related long-term estimated self-insurance liabilities for June 30, 2015 and 2014 were $61,717 and $76,335, respectively. At June 30, 2015 and 2014, the estimated self-insurance liability for all future claims payments reflects the actuarially determined outstanding losses at the undiscounted/expected level. The amount included in expenses for 2015 and 2014 was $26,862 and $32,833, respectively, and is included in other expense in the consolidated statements of operations and change in unrestricted net assets. These calculations take into consideration any liability that may be covered under an extended reporting endorsement and considered "tail" liability.

HSHS is involved in litigation arising in the ordinary course of business. Reported claims are in various stages of litigation. Additional claims may be asserted against HSHS arising from services through June 30, 2015. It is the opinion of management that the estimated liabilities accrued at June 30, 2015 are adequate to provide for potential losses resulting from pending or threatened litigation.

(b) Employee Health

The HSHS self-insurance program provides health insurance for employees. HSHS has developed internal techniques for estimating costs. The amounts funded are administered by the trustee.

At June 30, 2015 and 2014, funds held by the trustee for health insurance liability for employees' self-insurance are $63,849 and $67,687, respectively, and are included in current and noncurrent assets whose use is limited or restricted. At June 30, 2015 and 2014, related estimated current self-insurance liabilities are $11,287 and $10,418, respectively.

(11) Pension

HSHS employees participate in The Hospital Sisters Health System Employees' Pension Plan (the Plan). This noncontributory defined benefit pension plan covers substantially all employees of HSHS who have completed 1,000 hours of employment during any calendar year subsequent to the commencement of employment. The Plan recognizes and funds the costs related to employee service using the projected unit credit actuarial cost method. The information below represents the aggregation of HSHS' pension financial status, which is determined by the consulting actuaries on a member-specific basis.

The following table sets forth the Plan's funded status, amounts recognized in HSHS' consolidated financial statements, and assumptions at June 30, 2015 and 2014:

		2015	2014
Change in benefit obligation:			
Benefit obligation at beginning of year	$	1,350,052	1,271,770
Service cost		54,409	47,117
Interest cost		63,934	65,606
Plan amendments		160	—
Actuarial loss		87,859	82,721
Expected expenses		(8,546)	(7,649)
Benefits paid		(33,277)	(109,513)
Benefit obligation at end of year	$	1,514,591	1,350,052
Change in plan assets:			
Fair value of plan assets at beginning of year	$	1,139,431	1,019,876
Actual gain on plan assets		35,707	179,208
Employer contributions		55,250	49,860
Benefits paid		(33,277)	(109,513)
Fair value of plan assets at end of year	$	1,197,111	1,139,431
Reconciliation of funded status:			
Funded status	$	(317,480)	(210,621)
Amounts recognized in the accompanying consolidated balance sheets:			
Accrued benefit liability		(317,480)	(210,621)
Amounts not yet reflected in net periodic benefit cost and included as an accumulated charge to unrestricted net assets:			
Prior service cost	$	(1,495)	(1,920)
Actuarial loss		(315,985)	(208,701)
	$	(317,480)	(210,621)

		2015	2014
Changes recognized in unrestricted net assets:			
Net gain arising during the period	$	128,756	(23,259)
Prior service cost arising during the period		160	—
Amortization of prior service credit		(583)	(575)
Amortization or settlement recognition of net loss		(21,474)	(17,439)
Total recognized in unrestricted net assets	$	106,859	(41,273)
Total recognized in net periodic pension cost and unrestricted net assets	$	162,107	8,586
Estimated amounts that will be amortized from unrestricted net assets over the next fiscal year:			
Prior service credit		(581)	(575)
Net loss		(21,979)	(19,938)
Accumulated benefit obligation		1,386,244	1,237,243
Components of net periodic benefit cost:			
Service cost	$	54,409	47,117
Interest cost		63,934	65,606
Expected return on plan assets		(85,150)	(80,877)
Amortization of prior service cost		583	575
Amortization of net loss		21,474	17,439
Net periodic benefit cost	$	55,250	49,860

	2015	2014
Weighted average assumptions used to determine benefit obligations at June 30:		
Discount rate	4.86%	4.74%
Average rate of compensation increase	3.00	3.00
Measurement date	June 30, 2015	June 30, 2014
Weighted average assumptions used to determine net periodic benefit cost for the year ended June 30:		
Discount rate	4.74%	5.24%
Expected long-term return on plan assets	8.25	8.25
Average rate of compensation increase	3.00	3.00
Measurement date	June 30, 2014	June 30, 2013

The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual assets categories. The return is based exclusively on historical returns, without adjustments.

The Mercer Bond Model was used to determine the discount rate used to measure liabilities of the Plan. HSHS concluded the Mercer Bond Model provided the best estimate of the interest rates at which the pension benefits could be effectively settled in accordance with ASC Section 715-30-55-25. The Mercer Bond Model discounts the Plan's cash flow and calculates the Plan's appropriate equivalent single discount rate for the given cash flow based on a hypothetical bond portfolio whose cash flows from coupons and maturities match year-by-year the projected liability benefit payments from the Plan.

HSHS expects to contribute to its pension plan for the 2016 fiscal year the following amount	$	92,372
The following benefit payments that reflect expected future service, as appropriate, are expected to be paid:		
2016		41,055
2017		47,787
2018		54,918
2019		62,005
2020		68,988
2021–2025		443,859

The expected benefits are based on the same assumptions used to measure HSHS' benefit obligation at June 30, 2015 and include estimated future employee service. In 2014, HSHS offered all participants of the plan terminated prior to June 30, 2014 a onetime option to take their full benefit in the form of a lump sum, which 1,643 deferred vested participants accepted for a total amount of $80,773.

As of June 30, 2015, HSHS adopted the new RP-2014 Mortality Table with generational improvements using projection scale MP-2014. As a result of the adoption, the projected benefit obligation increased by approximately $96,900.

The Plan has developed an Investment Policy Statement (the IPS), which is reviewed and approved by the HSHS Board of Directors. The IPS establishes goals and objectives of the fund, asset allocations, allowable and prohibited investments, socially responsible guidelines, and asset classifications. The IPS dictates that assets should be rebalanced back to target allocation on a quarterly basis. Investments are managed by independent managers. Management monitors the performance of these managers on a quarterly basis.

The table below lists the target asset allocation and acceptable ranges and actual asset allocations as of June 30, 2015 and 2014:

Asset	Target allocation	Acceptable range	Actual allocation at June 30	
			2015	2014
Equities	57%	30%–70%	55%	58%
Debt securities	30	20–70	27	28
Alternative investments	13	0–15	13	13
Cash and cash equivalents	—	0–6	5	1

(a) Overall Investment Objective

The overall investment objective of the Plan is to invest the Plan's assets in a prudent manner to best serve the participants of the Plan. Plan investment assets are to produce investment results that achieve the Plan's actuarial assumed rate of return, protect the integrity of the Plan, assist HSHS in meeting the obligations to the Plan's participants, manage risk exposures, focus on downside protection, and to maintain enough liquidity in the portfolio to ensure timely cash outflows and beneficiary payments. The Plans' investments are diversified among various asset classes incorporating multiple strategies and managers to exceed a weighted benchmark return based upon policy asset allocation targets and standard index returns. Major investment decisions are authorized by the Board's Retirement Committee, which oversees the Plan's investment program in accordance with established guidelines.

(b) Allocation of Investment Strategies

The Plan maintains a percent of assets in domestic and international equity stocks to achieve the expected rate of return. To manage risk exposure, up to 30% of the Plans' assets are invested in a liability driven investment strategy.

(c) Basis of Reporting

Investments are reported at estimated fair value. If an investment is held directly by the Plan and an active market with quoted prices exists, the market price of an identical security is used as reported fair value. Reported fair values for shares in mutual funds registered with them are based on share prices reported by the funds as of the last business day of the fiscal year. The Plan's ownership in alternative investment funds are generally reported at the NAV reported by the fund managers, which is used as a practical expedient to estimate the fair value of the Plan's ownership therein, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. As of June 30, 2015, the Plan had no plans or intentions to sell investments at amounts different from NAV.

HOSPITAL SISTERS HEALTH SYSTEM AND SUBSIDIARIES
Springfield, Illinois

Notes to Consolidated Financial Statements

June 30, 2015 and 2014

(Dollars in thousands)

The fair values of the Plan's assets at June 30, 2015, by asset category class, are as follows:

	June 30, 2015				Redemption or liquidation	Days' notice
	Level 1	Level 2	Level 3	Total		
Pension plan assets excluding accrued interest of $1,311:						
Cash and cash equivalents	$ 55,624	—	—	55,624	Daily	One
Common stocks	460,007	—	—	460,007	Daily	One
U.S. government securities	—	125,260	—	125,260	Daily	One
Commingled mutual funds	—	194,721	—	194,721	Daily	Three
Municipal bonds	—	1,231	—	1,231	Daily	Two
Corporate bonds, notes, and debentures	—	4,395	—	4,395	Daily	Two
Foreign securities	202,285	1,899	—	204,184	Daily	Three
Hedge funds:						
K2 multistrategy fund	—	—	33,161	33,161	Note 6(e)*	Note 6(e)*
Mesirow multistrategy fund	—	—	117,217	117,217	Note 6(e)*	Note 6(e)*
Total assets at fair value	$ 717,916	327,506	150,378	1,195,800		

* Liquidity terms are allocated the same as disclosed in note 6(e) for plan assets.

The table below sets forth a summary of changes in the fair value of the Plan's Level 3 assets for the year ended June 30, 2015:

	Level 3 assets, year ended June 30, 2015		
	K2 fund	Mesirow fund	Total funds
Balance, beginning of year	$ 32,363	112,282	144,645
Total net gains	798	4,935	5,733
Balance, end of year	$ 33,161	117,217	150,378

(Continued)

The fair values of the Plan's assets at June 30, 2014, by asset category class, are as follows:

	June 30, 2014				Redemption or liquidation	Days' notice
	Level 1	Level 2	Level 3	Total		
Pension plan assets excluding accrued interest of $1,909:						
Cash and cash equivalents	$ 30,336	—	—	30,336	Daily	One
Common stocks	448,067	—	—	448,067	Daily	One
U.S. government securities	—	116,649	—	116,649	Daily	One
Commingled mutual funds	—	192,942	—	192,942	Daily	Three
Municipal bonds	—	2,781	—	2,781	Daily	Two
Corporate bonds, notes, and debentures	—	5,343	—	5,343	Daily	Two
Foreign securities	192,154	4,605	—	196,759	Daily	Three
Hedge funds:						
K2 multistrategy fund	—	—	32,363	32,363	Note 6(e)*	Note 6(e)*
Motirow multistrategy fund	—	—	112,282	112,282	Note 6(e)*	Note 6(e)*
Total assets at fair value	$ 670,557	322,320	144,645	1,137,522		

* Liquidity terms are allocated the same as disclosed in note 6(e) for plan assets.

The table below sets forth a summary of changes in the fair value of the Plan's Level 3 assets for the year ended June 30, 2014:

	Level 3 assets, year ended June 30, 2014		
	K2 fund	Escrow fund	Total funds
Balance, beginning of year	$ 29,679	104,876	134,555
Total net gains	2,684	7,406	10,090
Balance, end of year	$ 32,363	112,282	144,645

(d) *Fair Value of Financial Instruments*

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2015 and 2014.

- Cash and cash equivalents: Valued at the carrying amount that approximates fair value because of the short-term maturity of these investments
- Common and preferred stocks, U.S. government securities, commingled mutual funds, and foreign securities: Valued at the closing price reported on the active market on which the individual securities are traded

- Municipal bonds, corporate bonds, notes, and debentures: Certain corporate bonds are valued at the closing price reported in the active market in which the bond is traded. Other corporate bonds are valued based on yields currently available on comparable securities of issuers with similar credit ratings. When quoted prices are not available for identical or similar bonds, the bond is valued under a discounted cash flows approach that maximizes observable inputs, such as current yields of similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity.

The Plan has certain hedge fund investments for which quoted market prices are not available. The estimated fair value of these hedge fund investments includes estimates, appraisals, assumptions, and methods provided by external financial advisers and reviewed by HSHS.

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

(e) Fair Value Hierarchy

The Plan has adopted ASC SubTopic 715-20-50, *Compensation – Retirement Benefits: Defined Benefit Plans – General: Disclosures*, for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis. ASC SubTopic 715-20-50 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value.

(12) Long-Term Debt

Under the terms of the Obligated Group MTI, each member of the Obligated Group is jointly and severally liable for all obligations issued thereunder. Bonds issued are unsecured general obligations, but carry covenants regarding withdrawals from the Obligated Group, issuance of additional debt, and creations of liens on property. Obligations outstanding under the Obligated Group MTI are issued through state health facility authorities and comprise both serial and term bonds with varying maturities.

On November 1, 2014, HSSI issued $180,000 in fixed rate debt Series 2014A bonds. HSSI received a bond premium of $27,358 and paid bond issue costs of $1,778, related to this issuance. These bonds are noncallable and mature in 2029. The proceeds of 2014A were used to refund prior outstanding bonds 2012D, 2012E, 2012F, and 2012J and a portion of 2012A, which were variable rate debt. As a result of this issuance, HSSI incurred a noncash loss of $907 for previously unamortized bond issue costs.

HOSPITAL SISTERS HEALTH SYSTEM AND SUBSIDIARIES
Springfield, Illinois

Notes to Consolidated Financial Statements

June 30, 2015 and 2014

(Dollars in thousands)

As of June 30, 2015, long-term debt consisted of the following:

Series	Interest rates	Final maturity dates	2015
Fixed interest rate issues:			
2007A	5.00%	March 15, 2028	$ 72,035
2012B	4.00% and 5.00%	August 15, 2021	62,430
2012C	5.00%	August 15, 2021	55,610
2014A	5.00%	November 15, 2029	180,000
Variable interest rate issues:			
2012A	Variable 0.87% at June 30, 2015	June 30, 2041	50,160
2012G	Variable 0.07% at June 30, 2015	August 1, 2041	31,645
2012H	Variable 0.07% to 0.10% at June 30, 2015	August 1, 2041	65,885
2012I	Variable 0.08% to 0.09% at June 30, 2015	August 1, 2041	89,460
Total fixed and variable interest debt			607,225
Other long-term debt			37,724
Plus unamortized bond issue premiums			42,752
Total debt			687,701
Less current installments			26,565
Less long-term debt subject to short-term remarketing agreements			155,345
Total long-term debt, excluding current installments			$ 505,791

(Continued)

As of June 30, 2014, long-term debt consisted of the following:

Series	Interest rates	Final maturity dates	2014
Fixed interest rate issues:			
2007A	5.00%	March 15, 2028	$ 72,035
2012B	4.00% and 5.00%	August 15, 2021	69,755
2012C	3.00% and 5.00%	August 15, 2021	62,290
Variable interest rate issues:			
2012A	Variable 0.85% at June 30, 2014	June 30, 2041	91,270
2012D	Variable 0.06% at June 30, 2014	August 1, 2041	61,050
2012E	Variable 0.06% at June 30, 2014	August 1, 2041	41,550
2012F	Variable 0.05% at June 30, 2014	August 1, 2041	31,645
2012G	Variable 0.05% at June 30, 2014	August 1, 2041	31,645
2012H	Variable 0.08% to 0.10% at June 30, 2014	August 1, 2041	65,885
2012I	Variable 0.07% to 0.09% at June 30, 2014	August 1, 2041	89,460
2012J	Variable 0.09% at June 30, 2014	August 1, 2041	14,160
Total fixed and variable interest debt			630,745
Other long-term debt			23,013
Plus unamortized bond issue premiums			19,437
Total debt			673,195
Less current installments			18,494
Less long-term debt subject to short-term remarketing agreements			169,508
Total long-term debt, excluding current installments			$ 485,193

The Obligated Group's effective interest rates for variable debt for the years ended June 30, 2015 and 2014 are as follows:

	2015
Variable interest rate issues:	
2012A	0.87%
2012G	0.05
2012H	0.08
2012I	0.08

	2014
Variable interest rate issues:	
2012A	0.57%
2012D	0.05
2012E	0.05
2012F	0.05
2012G	0.05
2012H	0.11
2012I	0.10
2012J	0.11

Bond issue premiums and costs are amortized over the term of the related bonds using the bonds outstanding method. Bond issuance costs, net of amortization, are reported as other assets in the accompanying consolidated balance sheets.

HSSI has variable rate bonds, a portion of which has a put option available to the holder. If the put option is exercised, the bonds are presented to the bank, which in turn draws on the underlying direct pay letter of credit, if available. Self-liquidity bonds are backed by the financial assets of HSSI. The bond series and the underlying credit facility terms are described as follows as of June 30, 2015:

Series	Term
Series 2012 G	Equal quarterly installments on the first business day of each January, April, July, or October whichever occurs first on or following the 367th day after the purchase date and paid in full no later than the third anniversary of the purchase date
Series 2012 H and I	Self-liquidity – 270 days

Scheduled principal repayments on long-term debt based on the variable rate demand notes being put back to HSHS and a corresponding draw being made on the underlying credit facility, if available, are as follows:

Year ending June 30:		
2016	$	181,910
2017		26,897
2018		27,488
2019		26,586
2020		27,163
Thereafter		354,905
	$	644,949

Scheduled principal repayments on the long-term debt based on the scheduled redemptions according to the Obligated Group MTI are as follows:

Year ending June 30:		
2016	$	26,565
2017		26,897
2018		27,488
2019		26,586
2020		27,163
Thereafter		510,250
	$	644,949

(13) Capital Leases

HSHS leases certain equipment under capital leases. Included with property, plant, and equipment are $35,178 and $27,381 of assets held under capital leases and $12,145 and $10,130 of related accumulated amortization at June 30, 2015 and 2014, respectively. A summary of future minimum lease payments and the present value of future minimum lease payments related to capital leases at June 30, 2015 are as follows:

		Amount
Year:		
2016	$	6,096
2017		5,284
2018		4,530
2019		2,370
2020		1,570
Thereafter		14,264
Total future minimum lease payments		34,114
Less amount representing interest at rates ranging from 5.0% to 6.5%		9,782
Present value of future minimum lease payments		24,332
Less current portion of obligations under capital leases included in current installments of long-term debt		4,704
Obligations under capital leases, excluding current portion included in long-term debt, excluding current installments	$	19,628

(14) Functional Expenses

HSHS provides general healthcare services to residents within its respective geographic regions. Expenses related to providing these services for the years ended June 30, 2015 and 2014 are as follows:

		2015	2014
Healthcare services	$	1,684,563	1,568,691
General and administrative services		490,487	456,589
	$	2,175,050	2,025,280

(15) Prevea

St. Vincent Hospital (St. Vincent) and St. Mary's Hospital Medical Center (St. Mary's) (collectively referred to as the Green Bay Hospitals), two members of the Obligated Group located in Green Bay, Wisconsin, each have a 25% interest in Prevea Health Systems, Inc. (Prevea). The Green Bay Hospitals held $21,989 (21,989 shares), at June 30, 2015 and 2014, of Prevea preferred stock. Prevea has 9,000 shares of authorized stock consisting of 900 shares of Class P voting common stock, 3,600 shares of Class P nonvoting, and 4,500 shares of Class H common stock.

With respect to all matters upon which shareholders are entitled to vote or give consent, the outstanding shares of Class P voting common stock constitute one voting group and the holders of outstanding shares of Class H common stock constitute a separate voting group. Each voting group gets 50% of the total voting privileges (with each entitled to elect one-half of the total authorized number of directors of the corporation). As of June 30, 2015 and 2014, there are 100 voting shares for the Hospitals (Class H) and 146 voting shares for Physicians (Class P). There are 457 nonvoting shares. The preferred stockholders of Prevea have liquidation preferences to common stockholders, as defined in the Articles of Incorporation of Prevea. The preferred stock entitles the Green Bay Hospitals to receive dividends equal to 7% of the face value of the preferred stock. Additionally, preferred stock dividends are cumulative. The Green Bay Hospitals' policy is to recognize preferred stock dividends when the dividends are declared. Dividends were declared and paid by Prevea totaling $250 in 2015 and $1,350 in 2014. The investment in Prevea is accounted for using the equity method. The carrying value of the Green Bay Hospitals' investment in Prevea, inclusive of preferred stock holdings, is reported as other assets in the accompanying consolidated balance sheets.

In September 2009, St. Vincent assumed operations of the Clinic's medical clinic locations, and is now operating these sites as St. Vincent doing business as Prevea Health receiving all of the Clinic's patient revenue and responsible for all of the operating expenses. The expenses directly related to Prevea Health, primarily for the leasing of all employees and doctors, for the years ended June 30, 2015 and 2014 are $217,981 and $198,573, respectively, included in other expenses in the consolidated statements of operations and change in unrestricted net assets.

During the years ended June 30, 2015 and 2014, the Green Bay Hospitals have $857 and $882, respectively, of notes receivable for cash advances to Prevea.

The following are Prevea's condensed unaudited financial statement data as of and for the years ended June 30, 2015 and 2014:

	2015	2014
Total assets	$ 92,796	90,644
Total liabilities	51,219	49,673
Total equity	41,577	40,971
Total net revenue	265,012	228,959
Net income	611	5,824

The Green Bay Hospitals' equity portion in Prevea at June 30, 2015 and 2014 increased by $106 and $2,058, respectively, and is included in other operating income in the accompanying consolidated statements of operations and change in unrestricted net assets.

During fiscal year 2010, the Obligated Group replaced the St. Vincent guarantee whereby the Obligated Group agreed to guarantee the lesser of $10,500, or 39.92%, of the outstanding notes. In fiscal year 2014, the agreement changed, and now the Obligated Group is guaranteeing all outstanding debt. The Obligated Group will be paid 1.25% of the average outstanding principal amount of the outstanding notes. Included in the guarantee executed in December 2009 are $2,920 taxable variable rate demand notes of PHP Insurance Plan, Inc. (PHP). PHP, a former health maintenance organization, sold its insurance license, changed its corporate structure, and became Prevea Ventures, LLC (PV). Prevea is the sole corporate member of PV. At June 30, 2015 and 2014, the Clinic has notes outstanding with balances of $19,258 and $20,419, respectively. At June 30, 2015 and 2014, PV has notes outstanding of $2,170 and $2,267, respectively.

(16) Joint Ventures

Joint ventures are accounted for using the equity method of accounting and represent $6,686 and $11,445 of other long-term assets in the accompanying consolidated balance sheets at June 30, 2015 and 2014, respectively. The most significant of these investments, excluding Prevea (note 15), include:

- Protestant Memorial Medical Center and St. Elizabeth's Healthcare Services, LLP (held by St. Elizabeth's Hospital) – 50% ownership interest
- Northeast Wisconsin Radiation Therapy Services, LLC (held by St. Vincent and St. Mary's, Green Bay) – each hospital has a 25% ownership interest. St. Vincent hospital purchased the remaining 50% of the LLC on April 3, 2015. Then St. Mary's hospital transferred its 25% ownership interest to St. Vincent hospital. This service is an operating department of St. Vincent hospital as of April 3, 2015.
- Pain Center of Wisconsin (held by St. Vincent) – 50% ownership interest
- Surgery Center of Sheboygan, LLC (held by St. Nicholas Hospital) – HSHS purchased the remaining 50% during 2015 and it is a department of the St. Nicholas Hospital.
- Orange Cross Ambulance, Inc. (held by St. Nicholas Hospital) – 50% ownership interest
- Community Memorial Hospital – (held by St. Vincent (70%) and St. Mary's, Green Bay (30%)) – 24% ownership interest overall, beginning May 17, 2011. Effective September 1, 2014, CMH became a wholly owned subsidiary of HSSI.

For the years ended June 30, 2015 and 2014, HSHS recognized income of $2,132 and $2,135, respectively, in investments in affiliated companies. This activity is included as a component of other revenue in the accompanying consolidated statements of operations and change in unrestricted net assets. During 2015 and 2014, HSHS received cash distributions of $2,320 and $4,390, respectively, from the joint ventures.

The following table summarizes the unaudited aggregated financial information of unconsolidated affiliated companies of HSHS as of June 30, 2015 and 2014:

		2015	2014
Total assets	$	14,491	43,412
Total liabilities		1,172	12,853
Total equity		13,319	30,559
Total net revenue		15,942	52,488
Net income		4,264	3,431

(17) Pledges Receivable

Pledges, net of a present value discount rate, determined in the year the pledge is made, and an allowance for uncollectible pledges are recorded as a component of assets whose use is limited or restricted in the accompanying consolidated financial statements based on their expected collection date.

Included in assets whose use is limited or restricted at June 30, 2015 and 2014 are the following unconditional promises to give:

		2015	2014
Unconditional promises to give	$	5,407	6,506
Less unamortized discount		189	190
		5,218	6,316
Less allowance for uncollectible pledges		140	168
Net pledges receivable	$	5,078	6,148
Amounts due in:			
Less than one year	$	4,057	2,600
One to five years		1,189	3,732
More than five years		161	174
Total	$	5,407	6,506

(18) Temporarily and Permanently Restricted Assets

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

		2015	2014
Healthcare services	$	18,754	17,234
Capital expenditures		6,522	8,978
Catholic radio		260	271
College of nursing		218	212
	$	25,754	26,695

As of June 30, 2015 and 2014, HSHS has permanently restricted endowments as follows:

		2015	2014
Assets to be held in perpetuity, the income from which expendable to support nursing schools	$	3,044	3,179
Assets to be held in perpetuity, the income from which expendable to support specific operations of HSHS facilities		22,775	21,278
	$	25,819	24,457

As of June 30, 2015 and 2014, HSHS has unrestricted and temporarily restricted funds that represent the unspent accumulation of earnings for endowment funds as follows:

		2015	2014
Unspent income from which is expendable to support nursing schools	$	365	409
Unspent income from which is expendable to support specific operations of HSHS facilities		8,707	10,010
	$	9,072	10,419

(19) Commitments and Contingencies

(a) Operating Leases

HSHS occupies space in certain facilities and leases various pieces of equipment under long-term noncancelable operating lease arrangements. Total equipment rental, asset lease, and facility rental expense in 2015 and 2014 were $39,931 and $34,309, respectively.

The following is a schedule by year of future minimum lease payments to be made under operating leases as of June 30, 2015 that have initial or remaining lease terms in excess of one year:

	Amount
Year ending June 30:	
2016	$ 27,691
2017	21,485
2018	18,753
2019	15,157
2020	13,295
Thereafter	24,843

(b) Legal, Regulatory, and Other Contingencies and Commitments

The laws and regulations governing the Medicare, Medicaid, and other government healthcare programs are extremely complex and subject to interpretation, making compliance an ongoing challenge for HSHS and other healthcare organizations. The federal government has increased its enforcement activity, including audits and investigations related to billing practices, clinical documentation, and related matters. HSHS maintains a compliance program designed to educate employees and to detect and correct possible violations.

(c) Litigation

HSHS is involved in litigation arising in the ordinary course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the HSHS's future consolidated financial position or results of operations.

(d) Unemployment

The Wisconsin hospitals of HSHS pledged a U.S. Treasury note as collateral for any unpaid unemployment compensation claims with a face value of $4,630 and $4,000 for 2015 and 2014, respectively, to the Wisconsin Unemployment Reserve Fund. The pledged U.S. Treasury note remained unused at June 30, 2015 and 2014.

(e) The Patient Protection and Affordable Care Act

In March 2010, the Patient Protection and Affordable Care Act of 2010 (the Affordable Care Act) was enacted. Some of the provisions of the Affordable Care Act took effect immediately, while others will take effect or will be phased in over time, ranging from a few months to ten years following approval. The Affordable Care Act was designed to make available, or subsidize the premium costs of, healthcare insurance for some of the millions of currently uninsured or underinsured consumers below certain income levels. An increase in utilization of healthcare services by those who are currently avoiding or rationing their healthcare was expected. Although bad debt expenses and/or charity care provided were

expected to be reduced, increased utilization would be associated with increased variable and fixed costs of providing healthcare services, which may or may not be offset by increased revenues.

The Affordable Care Act contains more than 32 Sections related to healthcare fraud and abuse and program integrity. The potential for increased legal exposure related to the Affordable Care Act's enhanced compliance and regulatory requirements could increase operating expenses.

Key provisions of the Affordable Care Act include:

- Annual Medicare market basket updates for hospitals will be reduced based on productivity adjustments through September 30, 2019
- Payments under "Medicare Advantage" programs (Medicare managed care) will be reduced
- A value-based purchasing program was established to provide incentive payments or payment reductions to hospitals based on performance on quality and efficiency measures
- Commencing October 1, 2013, Medicare disproportionate share hospital (DSH) payments are reduced initially by 75%. DSH payments will be adjusted thereafter to account for the national rate of consumers who do not have healthcare insurance and receive care
- Expansion of Medicaid programs to a broader population
- The Hospital Readmissions Reduction Program, which began in October 2012, reduces Medicare payments to hospitals that have a high rate of potentially preventable readmissions of Medicare patients with certain clinical conditions to account for such excessive and "preventable" costs associated with hospital readmissions. As of October 1, 2014, Medicare payments to certain hospitals that experience high levels of hospital-acquired conditions are being reduced by 2%
- Introduced a requirement that healthcare insurers include quality improvement covenants in their contracts. Commencing January 1, 2015, healthcare insurers participating in the health insurance exchanges may contract only with hospitals that have implemented programs designed to ensure patient safety and enhance quality of care.

HSHS continues to analyze the Affordable Care Act to assess its effects on current and projected operations, financial performance, and financial condition.

(f) Tax Exemption for Sales Tax and Property Tax

Effective June 14, 2012, the Governor of Illinois signed into law, Public Act 97-0688, which creates new standards for state sales tax and property tax exemptions in Illinois. The law establishes new standards for the issuance of charitable exemptions, including requirements for a nonprofit hospital to certify annually that in the prior year, it provided an amount of qualified services and activities to low-income and underserved individuals with a value at least equal to the hospital's estimated property tax liability. HSHS certified in 2015 and 2014 and has not recorded a liability for related property taxes based upon management's current determination of qualified services provided.

(g) Investment Risk and Uncertainties

HSHS invests in various investment securities. Investment securities are exposed to various risks such as interest rate, credit, and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying consolidated balance sheets.

(h) Guarantee Agreement

During fiscal year 2014, the Obligated Group executed a Guarantee Agreement with JPMorgan Chase, NA to guaranty $10,000 of debt for Touchette Regional Hospital in East Saint Louis, Illinois. The Obligated Group will be paid a fee of 0.90% of the average outstanding principal amount of the outstanding debt. Relative to the Guarantee Agreement, no amounts have been paid or accrued as of June 30, 2015 and 2014.

(20) Subsequent Events

Effective July 1, 2015, HSHS elected to change its accounting methodology for recognizing pension expense on the Plan. Previous to the change, net actuarial gains or losses were recognized over the average remaining service life of employees in the plan. Further, a calculated value of plan assets reflecting changes in the fair value of plan assets was used for recognition. Under the new accounting method, actuarial gains or losses and the difference between actual and expected return on plan assets are recognized annually within benefits expense. The remaining components of pension expense: service and interest costs and the expected return on plan assets, will continue to be recorded as ongoing pension expense within benefits expense. While the historical method is acceptable, HSHS believes the new policy is preferable as it eliminates the delay in recognition of changes in fair value of plan assets and actuarial gains and losses into operating expense. The change will also be applied retrospectively to all periods presented. Had the impact been reflected within the consolidated 2015 and 2014 financial statements there would have been a mark-to-market adjustment within pension expense of $(133,244) and $18,777 in 2015 and 2014, respectively.

In connection with the preparation of the consolidated financial statements and in accordance with ASC Topic 855, *Subsequent Events*, HSHS evaluated subsequent events after the consolidated statements of financial position date of June 30, 2015 through October 19, 2015, which was the date the financial statements were issued.

HOSPITAL SISTERS HEALTH SYSTEM AND SUBSIDIARIES
Springfield, Illinois

Consolidating Balance Sheet Information

June 30, 2015

(Dollars in thousands)

Assets	HSHS – Obligated Group	St. Clare Oconto Falls, Wisconsin	HOSI	Unity Limited Partnership	SCCPN
Current assets:					
Cash and cash equivalents	$ 90,543	4,419	—	1,425	4,234
Receivables:					
Patients' accounts, less allowances for uncollectible accounts of approximately $130,100	332,636	4,048	—	3,267	—
Due from third-party reimbursement programs	3,304	—	—	—	—
Other	29,498	222	—	38	3,236
Total receivables	365,218	4,270	—	3,405	3,236
Current portion of assets whose use is limited or restricted	195,641	—	34,543	5,632	—
Inventories	40,219	1,919	—	—	—
Prepaid expenses	11,997	57	—	—	938
Total current assets	637,322	10,665	34,543	10,462	8,412
Assets whose use is limited or restricted, net of current portion	1,364,822	6,897	68,746	364	—
Property, plant, and equipment, net	1,091,908	8,816	—	4,717	4,378
Assets held for sale	33,115	—	—	—	—
Other assets	96,157	294	—	—	—
	$ 3,623,325	26,672	103,293	15,543	12,790
Liabilities and Net Assets					
Current liabilities:					
Current installments of long-term debt	$ 21,970	275	—	—	2
Long-term debt subject to short-term remarketing agreements	155,345	—	—	—	—
Current portion of estimated self-insurance liabilities	—	—	29,519	—	—
Accounts payable	86,342	3,052	5,034	1,436	7,834
Accrued liabilities	105,236	368	192	50	511
Estimated payables under third-party reimbursement programs	61,366	3,330	—	—	—
Total current liabilities	430,659	7,025	34,543	1,526	8,347
Long-term debt, excluding current installments	588,850	7,975	—	—	5,051
Estimated self-insurance liabilities, net of current portion	—	—	63,717	—	—
Derivative instruments	48,734	—	—	—	—
Accrued benefit liability	279,362	49	—	—	—
Other noncurrent liabilities	34,499	350	—	6,309	—
Total liabilities	1,382,104	15,982	98,260	7,835	13,398
Net assets:					
Unrestricted	2,144,528	11,043	7,029	7,708	(642)
Temporarily restricted	71,883	35	—	—	—
Permanently restricted	24,805	84	—	—	—
Total net assets	2,241,221	11,042	7,029	7,708	(642)
Sole member's equity	—	—	—	—	—
	$ 3,623,325	26,672	105,293	15,543	12,756

See accompanying independent auditors' report.

(Continued)

Schedule 1

HCW	System Office	HSHS Medical Group	Health Care Trust Fund	Plan Plan	Foundation	Stars, Inc.	PERC	Eliminations	Total
26	31,998	10,728	—	753	1,346	12,825	1,546	(1,346)	142,051
—	—	9,977	—	—	—	4,115	—	—	336,123
—	—	—	—	—	—	—	—	—	3,104
—	10,138	3,178	—	2,205	5,078	3,404	754	(23,639)	34,064
—	10,136	13,155	—	2,205	5,078	9,519	754	(23,639)	373,291
—	—	2,402	11,287	—	—	195	—	40,843	253,636
—	—	—	—	—	—	1,731	—	—	43,890
—	9,970	204	—	—	—	446	24	—	22,896
26	34,094	23,679	11,287	2,958	6,424	24,214	2,324	15,111	830,725
9,976	865,362	—	52,562	—	93,832	7,935	1,036	(383,639)	1,313,081
2,411	844,202	12,153	—	—	—	3,329	285	—	1,274,214
—	7,454	—	—	—	—	—	—	—	43,509
—	31,806	—	—	—	426	8,402	—	(96,377)	49,808
12,413	912,478	43,825	63,849	2,958	800,682	46,374	3,645	(434,988)	4,023,205
—	4,023	—	—	—	—	195	—	—	28,365
—	—	—	—	—	—	—	—	—	115,345
—	—	—	11,287	—	—	—	—	—	43,606
211	3,851	2,365	20,694	2,758	—	2,534	33	(34,396)	320,037
—	11,488	54,801	2,805	—	800,682	9,299	711	(402,887)	148,321
—	—	—	—	—	—	—	—	—	42,476
211	23,362	57,166	34,786	2,758	800,682	12,028	743	(319,283)	553,370
—	132,947	—	—	—	—	7,575	—	(254,364)	905,799
—	—	—	—	—	—	—	—	—	41,717
—	—	—	—	—	—	—	—	—	48,734
—	29,719	2,402	—	—	—	880	168	—	317,489
433	5,632	—	—	—	—	677	—	—	47,209
644	231,660	24,298	36,181	2,758	800,682	19,960	951	(573,647)	1,134,792
11,769	867,964	19,553	29,664	200	—	—	2,754	33,956	2,434,847
—	2,074	—	—	—	—	—	—	(41,043)	25,754
—	1,000	—	—	—	—	—	—	—	25,819
11,769	871,038	19,553	29,664	200	—	—	2,754	(34,757)	2,486,413
—	—	—	—	—	—	26,414	—	(26,414)	—
12,413	912,478	43,825	63,849	2,958	800,682	46,374	3,645	(434,988)	4,023,205

54

HOSPITAL SISTERS HEALTH SYSTEM AND SUBSIDIARIES
Springfield, Illinois

Consolidating Statement of Operations and Changes in Unrestricted Net Assets

Year ended June 30, 2011

(Dollars in thousands)

	HSSI – Obligated Group	St. Clare Oconto Falls, Wisconsin	HOH	Unity Limited Partnership	KCPN
Net patient service revenue	$ 2,010,146	24,241	—	17,341	—
Provision for uncollectible amounts	(61,191)	(795)	—	—	—
Net patient service revenue less provision for uncollectible accounts	1,948,955	23,446	—	17,341	—
Other revenue:					
Investment return	—	—	3,628	315	—
Net assets released from restrictions used for operations	1,344	—	—	—	—
Other	50,545	6,026	23,159	539	10,958
Total revenue	2,000,867	29,472	26,802	18,195	10,958
Expenses:					
Sisters' services	43	—	—	—	—
Salaries and wages	547,698	12,336	—	10,455	—
Employee benefits	195,879	3,861	—	3,043	—
Professional fees	73,265	86	—	334	77
Supplies	296,484	6,302	—	234	15
Depreciation and amortization	109,978	1,508	—	438	1,009
Interest	14,579	194	—	—	111
Other	660,779	5,505	26,862	4,223	12,338
Total expenses	1,898,721	29,890	26,862	18,727	13,550
Income (loss) from operations	102,146	(418)	—	(216)	(2,607)
Nonoperating gains (losses):					
Investment return	22,169	38	—	—	(7)
Contributions of excess assets over liabilities for St. Clare Hospital	—	8,970	—	—	—
Discontinued operations – gain from operations	3,503	—	—	—	—
Change in fair value of interest rate swaps	(3,082)	—	—	—	—
Loss on conversions and early extinguishment of debt	(897)	—	—	—	—
Revenues and gains in excess (deficiency) of expenses and losses	120,979	8,690	—	(216)	(2,609)
Other changes in unrestricted net assets:					
Net assets released from restrictions used for the purchase of property, plant, and equipment	6,551	—	—	—	—
Change in pension funded status	(93,329)	(49)	—	—	—
Transfers (to) from affiliates	(68,997)	3,010	—	—	—
Change in unrestricted net assets	$ (34,727)	11,641	—	(216)	(2,609)

See accompanying independent auditors' report.

(Continued)

Schedule 2

HCW	System Office	HSHS Medical Group	Health Care Trust Fund	Flex Plan	Foundation	Stars, Inc.	PPHC	Elimination	Total
—	—	35,158	—	—	—	34,755	—	—	2,162,241
—	—	(4,095)	—	—	—	(309)	—	—	(66,390)
—	—	73,263	—	—	—	34,444	—	—	2,095,851
—	—	—	1,311	1	—	205	—	(3,049)	209
—	—	—	—	—	6,032	—	—	(3,775)	4,023
944	127,525	69,648	155,600	710	2,929	29,311	5,461	(388,273)	94,150
944	127,525	145,911	156,911	712	9,161	63,962	5,461	(397,097)	2,194,233
—	1,056	—	—	—	—	—	—	—	1,873
—	42,226	105,262	—	—	—	64,912	2,084	—	854,716
—	18,618	15,441	154,778	863	—	82,589	452	(157,162)	247,630
37	1,415	15,999	—	—	—	740	427	—	96,441
40	246	3,924	—	—	—	1,286	12	(3,235)	304,098
404	50,330	2,649	—	—	—	1,445	79	—	147,947
—	493	—	—	—	—	244	—	(2,131)	13,490
333	49,790	21,193	—	—	16,512	9,367	955	(267,990)	543,345
719	157,744	164,165	154,778	863	16,512	91,082	4,199	(432,498)	2,375,050
263	(80,219)	(23,254)	2,133	51	(7,151)	(27,121)	1,272	34,999	19,183
168	12,670	91	—	—	1,791	—	23	(2,015)	34,928
—	—	—	—	—	—	—	—	—	4,995
—	—	—	—	—	—	—	—	—	3,205
—	—	—	—	—	—	—	—	—	(3,682)
									(975)
331	(67,549)	(23,163)	2,133	51	(5,360)	(27,121)	1,295	32,884	59,625
—	—	—	—	—	—	—	—	(3,857)	2,724
—	(8,998)	(2,638)	—	—	—	(1,899)	(168)	—	(100,339)
—	34,065	15,628	—	—	5,360	29,020	—	(54,180)	—
331	(22,482)	5,849	2,133	51	—	—	1,127	(5,153)	(44,339)

HOSPITAL SISTERS HEALTH SYSTEM AND SUBSIDIARIES
Springfield, Illinois

Consolidating Statement of Changes in Net Assets Information

Year ended June 30, 2015

(Dollars in thousands)

	HSSI – Obligated Group	St. Clare Oconto Falls, Wisconsin	ROH,	Unity Limited Partnership	KCN
Unrestricted net assets:					
Revenue and gains in excess (deficient) of expenses and losses	$ 120,929	5,010	—	(216)	(2,669)
Other changes in unrestricted net assets:					
Net assets released from restrictions use for the purchase of property, plant, and equipment	6,581	—	—	—	—
Change in pension funded status	(99,329)	(49)	—	—	—
Transfers (to) from affiliates	(68,703)	1,018	—	—	—
Change in unrestricted net assets	(34,522)	11,011	—	(216)	(2,669)
Temporarily restricted net assets:					
Investment return	(345)	—	—	—	—
Contributions	1,597	35	—	—	—
Transfers (to) from affiliates	—	—	—	—	—
Net assets released from restrictions	(7,847)	—	—	—	—
Change in temporarily restricted net assets	(7,595)	35	—	—	—
Permanently restricted net assets:					
Investment return	9	—	—	—	—
Contributions	339	14	—	—	—
Transfers (to) from affiliates	—	—	—	—	—
Change in permanently restricted net assets	348	14	—	—	—
Change in net assets	(41,769)	11,090	—	(216)	(2,669)
Net assets at beginning of year	2,282,790	—	7,029	7,924	2,027
Net assets at end of year	$ 2,241,021	11,090	7,029	7,708	(642)

See accompanying independent auditors' report

(Continued)

57

Schedule 3

HCW	System Office	HSHS Medical Group	Health Care Trust Fund	Flex Plan	Foundation	Sisters, Inc.	SFLC	Eliminations	Total
331	(47,549)	(23,163)	2,133	51	(5,360)	(72,121)	1,295	32,884	59,625
—	—	—	—	—	—	—	—	(3,857)	2,724
—	(8,998)	(2,616)	—	—	—	11,669	(168)	—	(106,859)
—	34,955	31,628	—	—	5,366	23,826	—	(34,185)	—
331	(22,492)	5,849	2,133	51	—	—	1,127	(5,153)	(44,510)
—	2,362	—	—	—	(179)	—	—	(1,617)	(179)
—	(1,112)	—	—	—	3,641	—	—	324	5,985
—	—	—	—	—	970	—	—	(970)	—
—	—	—	—	—	(6,432)	—	—	7,632	(6,347)
—	1,250	—	—	—	—	—	—	5,369	(941)
—	—	—	—	—	9	—	—	(9)	9
—	1,000	—	—	—	1,340	—	—	(1,340)	1,153
—	—	—	—	—	(1,349)	—	—	1,349	—
—	1,000	—	—	—	—	—	—	—	1,362
331	(20,232)	5,849	2,133	51	—	—	1,127	216	(44,089)
11,438	191,230	13,706	27,535	149	—	—	1,607	(14,953)	2,530,502
11,769	171,000	19,555	29,668	200	—	—	2,734	(14,737)	2,456,413

Schedule 5

HCW	System Office	HSHS Medical Group	Health Care Trust Fund	Flex Plan	Foundation	Khera, Inc.	PHRC	Eliminations	Total
331	(47,549)	(23,163)	2,133	51	(5,365)	(27,171)	1,295	32,884	59,625
—	—	—	—	—	—	—	—	(3,857)	2,724
—	(8,998)	(2,616)	—	—	—	(1,699)	(168)	—	(105,859)
—	34,675	31,628	—	—	5,365	28,870	—	(31,180)	—
331	(22,872)	5,849	2,133	51	—	—	1,127	(1,153)	(44,510)
—	2,362	—	—	—	(179)	—	—	(1,617)	(179)
—	(1,312)	—	—	—	3,641	—	—	324	3,995
—	—	—	—	—	970	—	—	(970)	—
—	—	—	—	—	(6,432)	—	—	2,632	(6,547)
—	1,050	—	—	—	—	—	—	3,369	(941)
—	—	—	—	—	9	—	—	(9)	9
—	1,006	—	—	—	1,340	—	—	(1,342)	1,352
—	—	—	—	—	(1,349)	—	—	1,349	—
—	1,006	—	—	—	—	—	—	—	1,362
331	(20,232)	5,849	2,133	51	—	—	1,127	216	(44,089)
11,438	191,250	13,706	27,535	149	—	—	1,607	(14,951)	2,590,522
11,769	171,018	19,555	29,668	200	—	—	2,734	(14,737)	2,486,413

HOSPITAL SISTERS HEALTH SYSTEM AND SUBSIDIARIES
Springfield, Illinois
Consolidating Balance Sheet Information
June 30, 2012
(Dollars in thousands)

Assets	St. Elizabeth's Belleville, Illinois	St. Joseph's Breese, Illinois	St. Mary's Decatur, Illinois	St. Anthony's Effingham, Illinois	St. Joseph's Highland, Illinois
Current assets:					
Cash and cash equivalents	$ 3,331	4,590	7,266	11,537	3,029
Receivables:					
Patients' accounts, less allowance for uncollectible accounts	34,530	9,585	37,310	28,997	7,834
Due from third-party reimbursement programs	1,261	192	(372)	957	531
Other	4,972	95	3,405	3,692	(1,990)
Total receivables	39,763	9,872	39,343	31,646	7,375
Current portion of assets whose use is limited or restricted	20	2,465	116	3,301	6,122
Inventories	3,342	634	3,182	4,477	525
Prepaid expenses	1,924	245	782	119	3,136
Total current assets	47,409	17,816	41,491	51,990	18,647
Assets whose use is limited or restricted, net of current portion	6,379	111,646	2,137	306,290	3,925
Property, plant, and equipment, net	69,438	20,541	92,476	63,094	46,308
Assets held for sale	—	—	—	—	—
Other assets	5,193	136	226	171	310
	$ 128,909	150,137	141,330	423,524	68,189
Liabilities and Net Assets					
Current liabilities:					
Current maturities of long-term debt	$ 1,286	364	3,862	3,004	3,715
Long-term debt subject to short-term remarketing agreements	9,530	2,115	7,149	6,533	12,323
Accounts payable	7,258	1,240	4,473	5,572	1,807
Accrued liabilities	11,777	2,726	4,996	5,259	1,374
Estimated payables under third-party reimbursement programs	3,858	6,139	10,257	10,192	5,231
Total current liabilities	33,959	12,740	29,647	28,560	23,929
Long-term debt, excluding current maturities	131,802	5,802	29,744	19,889	41,257
Derivative instruments	1	2,995	3	8,261	36
Accrued benefit liability	22,212	6,735	20,182	12,767	5,298
Other noncurrent liabilities	8,976	2,654	1,404	436	—
Total liabilities	177,342	30,912	79,980	69,841	69,520
Net assets:					
Unrestricted	(57,318)	117,424	53,016	352,457	(4,420)
Temporarily restricted	4,744	1,801	2,958	1,075	2,980
Permanently restricted	134	—	1,201	179	—
Total net assets	(52,440)	119,225	62,176	353,711	(1,431)
	$ 128,909	150,137	141,330	423,524	68,189

See accompanying independent auditors' report.

(Continued)

Schedule 4

St. Francis Litchfield, Illinois	St. John's Springfield, Illinois	St. Mary's Benson, Illinois	St. Joseph's Chippewa Falls, Wisconsin	Sacred Heart Eau Claire, Wisconsin	St. Mary's Green Bay, Wisconsin	St. Vincent Green Bay, Wisconsin	St. Nicholas Sturgeon, Wisconsin	Hospital Shares Services, Inc.	Eliminations	Total
4,451	11,576	1,511	773	3,330	2,731	24,831	1,626	3,364	—	97,147
2,454	89,156	7,260	9,256	26,772	15,535	67,414	12,297	—	—	332,616
—	—	214	—	—	185	—	156	—	—	3,164
381	3,480	459	255	1,856	1,532	11,954	803	1,231	(1,494)	29,498
2,835	92,636	7,935	9,511	28,628	15,197	79,368	14,256	1,231	(1,494)	365,218
2,273	69,737	3,621	4,517	17,175	9,464	22,198	4,685	576	—	150,641
379	11,048	750	358	3,359	2,618	6,816	1,864	—	—	45,219
235	3,192	582	112	520	145	2,747	274	—	—	11,997
9,172	180,894	14,467	15,283	55,842	30,151	120,360	29,685	5,131	(1,494)	677,322
35,464	221,217	28,224	104,459	452,895	77,636	305,340	49,376	—	—	1,294,822
34,459	347,213	—	31,222	205,730	82,654	144,438	43,724	—	—	1,095,909
—	—	20,415	—	—	—	—	—	—	—	20,415
44	9,502	249	97	394	9,698	41,175	775	8,119	—	70,157
69,739	786,136	76,855	151,103	614,971	200,390	675,313	125,783	13,257	(1,494)	3,623,325
165	8,131	442	633	2,887	3,156	2,997	838	—	—	21,970
1,308	41,586	3,179	3,964	14,984	8,208	19,485	4,111	—	—	155,245
1,323	14,441	3,954	3,263	13,386	6,855	20,175	2,216	—	(1,494)	86,242
1,616	16,867	2,216	3,496	9,337	3,743	37,746	3,347	4,414	—	105,736
2,927	12,598	2,442	850	3,733	5	211	21	—	—	83,366
7,341	113,573	10,233	12,424	44,328	19,267	78,614	11,535	4,414	(1,494)	436,619
8,480	156,597	8,452	14,195	79,819	22,092	50,654	11,829	—	—	580,858
400	7,347	820	2,624	12,809	2,133	16,258	1,223	—	—	48,734
8,547	29,796	13,116	11,452	79,245	15,949	55,237	6,956	—	—	279,542
5,481	9,824	3,901	—	1,858	238	681	316	1,096	—	24,990
31,449	457,180	35,522	44,379	323,451	42,739	208,474	19,907	5,924	(1,494)	1,382,504
34,564	330,775	40,279	94,279	477,289	170,841	465,987	71,927	7,233	—	2,144,528
2,874	25,855	2,871	3,731	2,865	6,511	5,020	6,371	—	—	73,838
1,245	2,478	83	6,420	6,026	2,599	2,512	1,606	—	—	24,805
37,693	359,127	43,233	104,730	486,680	177,951	473,519	84,904	7,233	—	2,243,821
69,330	786,136	76,855	151,103	614,971	200,390	675,313	125,783	13,257	(1,494)	3,623,325

HOSPITAL SISTERS HEALTH SYSTEM AND SUBSIDIARIES
Springfield, Illinois
Consolidating Statement of Operations Information
Year ended June 30, 2015
(Dollars in thousands)

	St. Elizabeth's Belleville, Illinois	St. Joseph's Breese, Illinois	St. Mary's Decatur, Illinois	St. Anthony's Effingham, Illinois	St. Joseph's Highland, Illinois	St. Francis Litchfield, Illinois
Net patient service revenue	$ 168,317	55,828	143,800	127,303	39,078	40,211
Provision for uncollectible accounts	(14,593)	(3,414)	(9,637)	(1,392)	(2,083)	(1,317)
Net patient service revenue less provision for uncollectible accounts	153,724	52,414	133,173	126,311	36,995	38,894
Other revenue:						
Net assets released from restrictions used for operations	—	—	—	—	—	12
Other	6,226	1,553	4,314	4,118	433	902
Total revenue	159,950	53,967	142,487	130,429	37,428	39,808
Expenses:						
Sisters' services	—	—	—	—	—	—
Salaries and wages	55,012	18,333	43,420	34,939	11,202	10,965
Employee benefits	19,063	9,220	14,930	14,075	4,508	4,255
Professional fees	6,110	1,229	5,330	3,630	1,754	2,542
Supplies	23,646	6,372	19,729	17,455	3,576	3,087
Depreciation and amortization	8,574	2,863	9,199	6,763	3,621	2,413
Interest	2,076	64	734	481	2,454	473
Other	59,479	18,334	41,893	29,799	10,312	8,876
Total expenses	173,960	47,584	135,215	106,141	36,987	32,609
Income (loss) from operations	(14,042)	6,383	7,272	22,248	441	6,699
Nonoperating gains (losses):						
Investment return	46	1,336	136	4,012	200	343
Discontinued operations – gain from operations	—	—	—	—	—	—
Change in fair value of interest rate swap	(1)	(387)	2	(908)	(3)	(240)
Loss on conversion and early extinguishment of debt	(336)	(13)	(65)	(38)	(34)	(6)
Revenues and gains in excess (deficient) of expenses and losses	(14,333)	7,319	7,365	21,314	604	6,996
Other changes in unrestricted net assets:						
Net assets released from restrictions used for the purchase of property, plant, and equipment	859	73	833	241	121	39
Transfers (to) from affiliates	(9,806)	(1,264)	(4,794)	(2,800)	(1,027)	(837)
Changes in pension funded status	(9,573)	(2,451)	(3,317)	(4,943)	(1,903)	(2,471)
Change in unrestricted net assets	$ (32,173)	3,677	(9,883)	14,314	(2,306)	3,345

See accompanying independent auditors' report.

(Continued)

Schedule 5

St. John's Springfield, Illinois	St. Mary's Streator, Illinois	St. Joseph's Chippewa Falls, Wisconsin	Sacred Heart Eau Claire, Wisconsin	St. Mary's Green Bay, Wisconsin	St. Vincent Green Bay, Wisconsin	St. Nicholas Sheboygan, Wisconsin	Hospital Shared Services, Inc.	Eliminations	Total
466,609	—	70,082	236,485	122,830	462,361	77,572	—	—	2,050,149
(19,417)	—	(1,219)	(2,325)	(2,369)	(5,150)	(1,505)	—	—	(61,991)
447,282	—	68,863	234,160	120,021	457,011	76,067	—	—	1,988,158
5,332	—	6	16	—	—	—	—	—	5,366
20,379	—	1,366	2,956	5,851	7,377	2,473	314	(11,676)	30,540
472,993	—	70,235	237,132	125,872	464,388	78,540	314	(11,676)	2,000,063
42	—	—	—	—	25	—	—	—	67
138,899	—	27,086	70,220	34,705	83,236	21,682	—	—	347,828
41,220	—	9,952	25,091	13,194	28,243	7,238	—	—	125,878
29,948	—	5,970	5,569	3,926	9,692	1,212	—	(3,818)	72,266
90,934	—	4,643	34,958	19,383	63,329	10,999	—	—	224,434
33,317	—	3,054	12,220	6,436	17,408	4,306	—	—	76,741
5,892	—	202	606	423	936	218	—	—	8,377
110,308	1,247	16,912	46,156	40,398	241,262	27,607	2	(8,858)	475,034
478,920	1,247	67,821	195,859	118,465	446,181	72,643	2	(11,676)	1,308,723
(5,927)	(1,247)	4,414	43,241	7,407	18,205	5,895	312	—	82,146
3,025	323	1,218	5,463	468	4,870	575	6	—	22,148
—	3,223	—	—	—	—	—	—	—	3,223
(231)	(41)	(162)	(1,997)	(309)	(1,187)	(209)	—	—	(3,687)
(356)	(29)	(85)	(97)	(49)	(113)	(241)	—	—	(969)
(2,541)	2,198	5,440	46,632	7,234	23,775	6,237	318	—	100,929
835	6	1,437	421	568	5,075	70	—	—	6,543
(32,881)	(1,374)	(1,823)	(2,859)	(2,471)	(3,607)	(698)	—	—	(48,702)
(22,231)	(3,489)	(4,126)	(9,047)	(7,329)	(17,329)	(3,119)	—	—	(99,859)
(54,888)	(2,859)	925	35,967	(1,698)	(233)	2,519	318	—	(34,529)

HOSPITAL SISTERS HEALTH SYSTEM AND SUBSIDIARIES
Springfield, Illinois

Consolidating Statement of Changes in Net Assets Information

Year ended June 30, 2015

(Dollars in thousands)

	St. Elizabeth's Belleville, Illinois	St. Joseph's Breese, Illinois	St. Mary's Decatur, Illinois	St. Anthony's Effingham, Illinois	St. Joseph's Highland, Illinois	St. Francis Litchfield, Illinois
Unrestricted net assets:						
Revenues and gains in excess (deficiency) of expenses and losses	$ (14,350)	7,319	7,365	25,314	564	6,994
Other changes in unrestricted net assets:						
Net assets released from restrictions used for the purchase of property, plant, and equipment	839	73	833	241	121	59
Transfer (to) from affiliates	(9,086)	(3,244)	(8,784)	(2,880)	(1,828)	(877)
Change in pension funded status	(9,576)	(2,471)	(5,317)	(4,463)	(1,953)	(2,471)
Change in unrestricted net assets	(32,173)	1,677	(5,903)	18,214	(2,996)	3,345
Temporarily restricted net assets:						
Investment return	(47)	(13)	(51)	(34)	(14)	(25)
Contributions	37	49	887	(549)	(388)	97
Net assets released from restrictions	(839)	(73)	(833)	(241)	(121)	(71)
Change in temporarily restricted net assets	(849)	(37)	3	(795)	(275)	(4)
Permanently restricted net assets:						
Investment return	—	—	—	—	—	—
Contributions	32	—	—	—	—	—
Change in permanently restricted net assets	32	—	—	—	—	—
Change in net assets	(32,990)	1,640	(5,900)	17,419	(2,279)	3,341
Net assets at beginning of year	117,450	115,585	66,050	336,296	1,348	34,149
Net assets at end of year	$ (50,440)	119,225	62,150	353,715	(1,931)	37,490

See accompanying independent auditors' report.

(Continued)

Schedule 4

St. John's Springfield, Illinois	St. Mary's Streator, Illinois	St. Joseph's Chippewa Falls, Wisconsin	Sacred Heart Eau Claire, Wisconsin	St. Mary's Green Bay, Wisconsin	St. Vincent Green Bay, Wisconsin	St. Nicholas Sheboygan, Wisconsin	Hospital Shared Services, Inc.	Eliminations	Total
(2,611)	2,998	3,440	46,632	7,734	21,773	6,237	318	—	130,959
535	6	9,437	421	368	1,078	70	—	—	4,581
(32,881)	(1,374)	(1,323)	(2,037)	(2,471)	(3,607)	(607)	—	—	(68,700)
(22,251)	(9,489)	41,926	(9,067)	(7,529)	(17,529)	(3,189)	—	—	(99,329)
(56,808)	(2,858)	928	35,967	(1,698)	(2,285)	2,519	318	—	(34,525)
(247)	(7)	(96)	(84)	(34)	(66)	(64)	—	—	(745)
(800)	(7)	111	10	(30)	991	204	—	—	1,077
57,167	(5)	(1,441)	(4,93)	(568)	(1,873)	(20)	—	—	(2,947)
(1,288)	(20)	(1,426)	(493)	(632)	(153)	570	—	—	(2,595)
—	—	—	9	—	—	—	—	—	9
57	(5)	29	473	—	(257)	10	—	—	339
57	(5)	29	482	—	(257)	10	—	—	348
(60,119)	(2,684)	(480)	33,954	(2,330)	(695)	2,899	318	—	(41,769)
439,446	46,217	805,390	450,522	139,981	474,352	83,682	7,435	—	2,242,705
379,327	43,533	804,910	486,480	137,651	473,839	86,581	7,753	—	2,241,021

GREENVILLLE REGIONAL HEALTHCARE, INC.

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

GREENVILLE REGIONAL HEALTHCARE, INC.
TABLE OF CONTENTS
YEARS ENDED DECEMBER 31, 2014 AND 2013

INDEPENDENT AUDITORS' REPORT	1
CONSOLIDATED FINANCIAL STATEMENTS	
CONSOLIDATED BALANCE SHEETS	3
CONSOLIDATED STATEMENTS OF OPERATIONS	5
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS	6
CONSOLIDATED STATEMENTS OF CASH FLOWS	7
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	8

CliftonLarsonAllen

CliftonLarsonAllen LLP
CLAconnect.com

INDEPENDENT AUDITORS' REPORT

Board of Directors
Greenville Regional Healthcare, Inc.
Greenville, Illinois

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of Greenville Regional Healthcare, Inc. (an Illinois not-for-profit corporation) and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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

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

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

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

Board of Directors
Greenville Regional Healthcare, Inc.

Basis for Qualified Opinion

As discussed in Note 4 to the financial statements, we became aware of a departure from accounting principles generally accepted in the United States of America in that Greenville Regional Healthcare, Inc. did not review the value of various assets to make a determination of impairment, if any, that may need to be recorded. Accounting principles require the Organization to review assets for impairment loss when there is a potential for a reduced supported asset value due to the impact of financial results. The effects of that departure on the financial statements are not reasonably determined.

Qualified Opinion

In our opinion, except for the departure from accounting principles generally accepted in the United States of America as discussed in the Basis for Qualified Opinion paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Greenville Regional Healthcare, Inc. as of December 31, 2014 and 2013, and the results of their operations, changes in net assets, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

St. Louis, Missouri
April 2, 2015

GREENVILLE REGIONAL HEALTHCARE, INC.
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2014 AND 2013

ASSETS	2014	2013
CURRENT ASSETS		
Cash and Cash Equivalents	$ 3,002,673	$ 2,083,574
Current Portion of Assets Limited as to Use	528,090	1,031,338
Patient Accounts Receivable, Net	4,555,819	4,703,975
Other Receivables	975,065	730,266
Inventories	508,068	484,612
Prepaid Expenses	211,246	329,071
Total Current Assets	9,780,959	9,362,836
ASSETS LIMITED AS TO USE		
Internally Designated Cash and Investments	3,242,331	2,759,028
Externally Restricted By Donor	989,306	953,924
Held by Trustee for Capital Project	291,541	1,554,188
Held by Trustee Under Indenture Agreement	899,024	952,423
Total Assets Limited as to Use	5,422,202	6,219,563
Less: Current Portion	(528,090)	(1,031,338)
Assets Limited as to Use, Net of Current Portion	4,894,112	5,188,225
PROPERTY AND EQUIPMENT, NET	20,402,083	20,910,490
OTHER ASSETS		
Deferred Financing Costs, Net	118,110	128,021
Other Assets	47,840	40,392
Total Other Assets	165,950	168,413
Total Assets	$ 35,243,104	$ 35,629,964

See accompanying Notes to Consolidated Financial Statements.

(3)

LIABILITIES AND NET ASSETS	2014	2013
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	$ 557,409	$ 1,024,996
Trade Accounts Payable	1,976,529	1,409,913
Accrued Payroll and Payroll Taxes	1,452,624	1,438,636
Accrued Interest Expense	17,537	22,304
Other Accrued Expenses	455,048	567,632
Estimated Third-Party Payor Settlements Payable	1,485,017	1,168,024
Total Current Liabilities	5,944,164	5,631,505
LONG-TERM DEBT, Less Current Maturities	7,641,796	8,036,314
OTHER LONG-TERM LIABILITIES		
Life Residency Fees	1,533,436	1,589,310
Asset Retirement Obligation	347,740	331,971
Total Other Long-Term Liabilities	1,881,176	1,921,281
Total Liabilities	15,467,136	15,589,100
NET ASSETS		
Unrestricted	18,786,772	19,025,237
Temporarily Restricted	28,179	62,237
Permanently Restricted	961,017	953,390
Total Net Assets	19,775,968	20,040,864
Total Liabilities and Net Assets	$ 35,243,104	$ 35,629,964

(4)

GREENVILLE REGIONAL HEALTHCARE, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
UNRESTRICTED REVENUES, GAINS AND OTHER SUPPORT		
Patient Service Revenue (net of contractual allowances and discounts)	$ 31,245,599	$ 33,344,387
Provision for Bad Debts	(1,743,485)	(2,336,388)
Net Patient Service Revenue	29,502,114	31,007,999
Other Revenue	2,442,225	2,587,626
Total Unrestricted Revenues, Gains and Other Support	31,944,339	33,595,625
EXPENSES		
Salaries and Wages	14,280,635	16,519,161
Employee Benefits	3,862,999	4,335,454
Contract Labor	234,100	161,520
Physician Fees	1,672,509	1,745,793
Purchased Services	2,863,708	2,682,775
Marketing/Outreach	180,479	177,443
Supplies	3,189,350	3,235,350
Repairs & Maintenance	957,468	901,988
Utilities	772,684	684,955
Rent/Leases	730,439	634,766
Insurance/Property Tax	1,307,328	1,973,591
Other Expenses	323,460	421,177
Depreciation and Amortization	2,112,794	2,137,716
Interest	424,545	466,906
Total Expense	32,912,498	36,078,595
OPERATING LOSS	(968,159)	(2,482,970)
OTHER INCOME		
Investment Income	276,013	640,015
Unrestricted Contributions	82,276	126,740
Other, Net of Expenses	307,025	324,311
Total Other Income	665,314	1,091,066
DEFICIT OF REVENUES OVER EXPENSES	$ (302,845)	$ (1,391,904)

See accompanying Notes to Consolidated Financial Statements.

GREENVILLE REGIONAL HEALTHCARE, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
UNRESTRICTED NET ASSETS		
Deficit of Revenues Over Expenses	$ (302,845)	$ (1,391,904)
Grants Received for Property and Equipment Acquisition	64,380	204,875
Decrease In Unrestricted Net Assets	(238,465)	(1,187,029)
TEMPORARILY RESTRICTED NET ASSETS		
Restricted Contributions	53,511	22,859
Released from Restrictions	(87,569)	(2,308)
Increase (Decrease) In Temporarily Restricted Net Assets	(34,058)	20,551
PERMANENTLY RESTRICTED NET ASSETS		
Investment Income	7,627	14,090
Increase In Permanently Restricted Net Assets	7,627	14,090
DECREASE IN NET ASSETS	(264,896)	(1,152,388)
Net Assets, Beginning of Year	20,040,864	21,193,252
NET ASSETS, END OF YEAR	$ 19,775,968	$ 20,040,864

See accompanying Notes to Consolidated Financial Statements.

GREENVILLE REGIONAL HEALTHCARE, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Decrease in Net Assets	$ (264,896)	$ (1,152,388)
Adjustments to Reconcile Decrease in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	2,112,794	2,137,716
Amortization of Residency Fees	(55,874)	(42,762)
Loss on Sale of Assets	37,571	6,721
Change in Unrealized and Realized Gains on Investments	(41,581)	(407,977)
Provision for Bad Debts	1,743,485	2,336,388
Temporarily Restricted Contributions and Grants for Capital Acquisition	(30,322)	(225,426)
(Increase) Decrease in:		
Patient Accounts Receivable	(1,595,329)	(748,115)
Other Receivables	(244,799)	186,602
Prepaid Expenses and Inventories	94,371	(29,324)
Increase (Decrease) in:		
Accounts Payable and Accrued Expenses	468,020	(1,346,268)
Accrued Interest Expense	(4,767)	1,093
Estimated Third-Party Payor Settlements Payable	316,993	(173,652)
Deferred Revenue	-	(103,523)
Net Cash Provided by Operating Activities	2,535,666	439,085
CASH FLOWS FROM INVESTING ACTIVITIES		
Change in Assets Limited as to Use	838,942	(74,075)
Purchase of Property and Equipment	(1,435,600)	(668,811)
Proceeds from Sale of Property and Equipment	59,330	41,059
Change in Other Assets and Liabilities	(7,448)	250,814
Net Cash Used by Investing Activities	(544,776)	(451,013)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal Payments on Long-Term Debt	(1,102,113)	(556,229)
Temporarily Restricted Contributions and Grants for Capital Acquisition	30,322	225,426
Life Residency Fees Received, Net of Refunds	-	65,105
Net Cash Used by Financing Activities	(1,071,791)	(265,698)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	919,099	(277,626)
Cash and Cash Equivalents - Beginning of Year	2,083,574	2,361,200
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 3,002,673	$ 2,083,574
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Payments for Interest	$ 429,312	$ 465,813
Capital Lease Obligations Incurred for Equipment	$ 240,008	$ -

See accompanying Notes to Consolidated Financial Statements.

(7)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Greenville Regional Healthcare, Inc. is an Illinois not-for-profit corporation which owns six medical office buildings containing approximately 20,000 total square feet of rentable space and is the parent company to Utlaut Memorial Foundation, Inc. and Greenville Regional Hospital, Inc.

The Board of Directors of the parent company and affiliates were identical for both the years ended December 31, 2014 and 2013. The consolidated financial statements include the accounts of the parent company and affiliates and are referred to as (the "Hospital") in the consolidated financial statements. All significant intercompany accounts and transactions have been eliminated in the consolidation.

The Hospital primarily earns revenue by providing inpatient, outpatient, emergency care, skilled nursing services and long-term nursing home care to patients in Greenville, Illinois.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less, excluding assets limited as to use.

Patient Accounts Receivable

The Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party payors, patients and others. The Hospital provides an allowance for doubtful accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions. As a service to the patient, the Hospital bills third-party payors directly and bills the patient when the patient's liability is determined. Patient accounts receivable are due in full within 15 days after billing. Accounts are considered delinquent and subsequently written off as bad debts based on individual credit evaluation and specific circumstances of the account after 90 days. At December 31, 2014 and 2013, the allowance for uncollectible accounts was approximately $1,734,000 and $1,741,000, respectively.

During fiscal year 2014, the Hospital's allowance for doubtful accounts for self-pay patients increased from an average of 74 percent of self-pay accounts receivable at December 31, 2013 to an average of 75 percent of self-pay accounts receivable at December 31, 2014. In addition, the Hospital's self-pay write-offs decreased approximately $593,000 from $2,336,000 for fiscal year 2013 to $1,743,000 for fiscal year 2014.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories

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

Investments and Investment Income

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated balance sheets. Investment income or loss (including realized and unrealized gains and losses on investments, interest and dividends) is included in deficit of revenues over expenses unless the income or loss is restricted by donor or law.

Investment income that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets. Other investment income is reflected in the consolidated statements of operations and changes in net assets as, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

Assets Limited as to Use

Assets limited as to use include assets set aside by the board of directors for future purposes, over which the Board retains control and may at its discretion subsequently use for any purpose. Assets limited as to use also include assets held by trustee under indenture agreement and assets restricted by donors. Amounts required to meet current liabilities of the Hospital have been reclassified to current assets in the consolidated balance sheets at December 31, 2014 and 2013.

Property and Equipment

Property and equipment acquisitions are recorded at cost. Depreciation is recorded over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. The Hospital's policy is to capitalize assets with an original cost of more than $2,500 and a useful life beyond a year.

Gifts of long-lived assets such as land, buildings or equipment are reported as additions to unrestricted net assets, and are excluded from deficit of revenues over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when donated or when acquired long-lived assets are placed in service.

Deferred Financing Costs

Financing costs incurred in connection with the issuance of 2011 revenue bonds in the amount of $148,670 are shown net of accumulated amortization of $30,560 and $20,649 at December 31, 2014 and 2013, respectively. The deferred costs are being amortized over the life of the related bonds using the straight line method which approximates the effective interest method.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Life Residency Fees

The Hospital requires residents to pay a one-time life residency or entrance fee in order to occupy a duplex unit. The entrance fee, which is partially refundable, is comprised of two portions.

Half of the entrance fee is refundable based on a prorated balance of the remaining life of the contract. Revenues from this portion of the entrance fees are deferred and recognized over the periods to which the fees relate.

The other half of the entrance fees is entirely refundable. The refundable portion of the entrance fee is not amortized and any income from such fees is recognized at the termination of the residency agreements.

The unearned and refundable entrance fees are recorded as a non-current liability on the consolidated balance sheets.

Asset Retirement Obligation

This represents an obligation to dispose of asbestos contained in buildings that the Hospital owns. The obligation is recorded at the net present value using a risk-free interest rate and inflationary rate.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Hospital has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Hospital in perpetuity.

Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and are adjusted in future periods as final settlements are determined.

Charity Care

The Hospital provides care without charge to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Electronic Health Record Incentive Payments

As discussed in Note 8, the Hospital received funds under the Electronic Health Records (EHR) Incentive Program during 2014 and 2013. The Hospital recognizes revenue at the completion of the EHR reporting period and all meaningful use objectives and any other specific grant requirements that are applicable, e.g., electronic transmission of quality measures to CMS in the second and subsequent payment years are met.

Donor-Restricted Gifts

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When donor stipulated time restrictions or purpose restrictions are met or accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported as an increase in unrestricted net assets. Donor-restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted contributions in the consolidated statements of operations.

Deficit of Revenues over Expenses

The consolidated statement of operations includes deficit of revenues over expenses. Changes in unrestricted net assets, which are excluded from deficit of revenues over expenses, consistent with industry practice, include permanent transfers of assets to and from affiliates for other than goods and services and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

Income Taxes

The consolidated affiliates are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code, thus there is no provision for income taxes at December 31, 2014 and 2013.

The Hospital applies the income tax standard for uncertain tax positions. This standard clarifies the accounting for uncertainty in income taxes recognized in an organization's financial statements in accordance with the income tax standard. This standard prescribes recognition and measurement of tax positions taken or expected to be taken on a tax return that are not certain to be realized. The Hospital does not currently include an income tax provision in the consolidated financial statements. Management monitors the reporting of uncertain tax positions, which could result in recording of an income tax provision in the future.

The consolidated affiliate's income tax returns are subject to review and examination by federal, state, and local authorities. The Hospital is not aware of any activities that would jeopardize its tax-exempt status and is not aware of any activities that are subject to tax on unrelated business income or excise or other taxes. The tax returns for the fiscal years 2011 to 2013 are open to examination by federal, local, and state authorities.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurement

Fair value measurement applies to reported balances that are required or permitted to be measured at fair value under an existing accounting standard. The Hospital emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability and establishes a fair value hierarchy.

The fair value hierarchy consists of three levels of inputs that may be used to measure fair value as follows:

Level 1 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Hospital has the ability to access.

Level 2 – Inputs that include quoted prices for similar assets and 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 instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The Hospital also adopted the policy of valuing certain financial instruments at fair value. This accounting policy allows entities the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities on an instrument-by-instrument basis. The Hospital has not elected to measure any existing financial instruments at fair value, however may elect to measure newly acquired financial instruments at fair value in the future.

Trading Securities: Trading securities are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions, and other factors such as credit loss assumptions. Securities valued using Level 1 inputs include those traded on an active exchange, such as the New York Stock Exchange. Securities valued using Level 2 inputs include U.S. government and agency obligations and certificates of deposit.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events

In preparing these consolidated financial statements, the Hospital has evaluated events and transactions for potential recognition or disclosure through April 2, 2015, the date the consolidated financial statements were available for issuance.

Reclassifications

Certain reclassifications have been made to the 2012 consolidated financial statements to conform to the 2013 presentation. The reclassifications had no effect on the changes in net assets.

NOTE 2 NET PATIENT SERVICE REVENUE

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

Medicare

Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per inpatient discharge or outpatient visit. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient skilled nursing services are paid at prospectively determined per diem rates that are based on the patients' acuity. The Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary.

The Patient Protection and Affordable Care Act provided additional funding under a Medicare Low-Volume Hospital program during federal fiscal years 2014 and 2013. The Hospital qualified for this additional funding and for the years ended December 31, 2014 and 2013, received approximately $441,000 and $514,000, respectively, of additional patient revenue. The program expired on March 31, 2014 at which time the low volume payments ceased. The Protecting Access to Medicare Act of 2014 extended the program from April 1, 2014 to March 31, 2015.

Medicaid

Inpatient and substantially all outpatient services rendered to Medicaid program beneficiaries are reimbursed at prospectively determined rates. The state of Illinois has previously enacted legislation that provides for a hospital assessment program intended to qualify for federal matching funds under the Illinois Medicaid program. The program covers the state of Illinois' fiscal years ended June 30. In December 2008, the Centers for Medicare and Medicaid Services (CMS) approved a five-year hospital assessment program. Payments related to the new program began in March 2009.

NOTE 2 NET PATIENT SERVICE REVENUE (CONTINUED)

Medicaid (Continued)

Under the hospital assessment program, each hospital is assessed tax based on that hospital's adjusted gross revenue. The legislation provides that none of the assessment funds are to be collected and no additional Medicaid payments are to be paid until the program receives the required federal government approval through CMS.

The State of Illinois passed legislation in State Fiscal Year 2012 that expanded the Hospital Assessment Program by providing additional Hospital Access Improvement Payments to qualifying hospitals, also referred to Enhanced Hospital Assessment. CMS approved the program on October 1, 2013 with a retroactive effective date of June 10, 2012. The Hospital retroactively paid all assessed taxes based on the program assessments and received all payments in the year ended December 31, 2013.

In 2014 the Centers for Medicare and Medicaid Services (CMS) approved an additional supplemental payment to Illinois' hospitals for services provided to newly eligible Medicaid beneficiaries under the Affordable Care Act. The supplemental payment to hospitals was retroactive to March 1, 2014. The assessments are effective until June 30, 2018 to align with the transition periods of both rate reform and the ACA Medicaid expansion payments. As a result the Hospital has recorded revenue and a receivable of approximately $325,000 at December 31, 2014.

The effects of the programs in the consolidated statements of operations for the years ended December 31, 2014 and 2013 are as follows:

	2014	2013
Additional Medicaid Payments Included in Net Patient Service Revenue	$ 2,224,000	$ 2,264,000
Taxes Assessed and Included in Supplies and Other	$ 784,000	$ 937,000

The hospital assessment program contains a sunset provision effective June 30, 2015, and there is no assurance the program will not be discontinued or materially modified.

Other

The Hospital has also entered into payment agreements with Blue Cross and other commercial insurance carriers. The basis for reimbursement under these agreements includes discounts from established charges and prospectively determined rates.

Uninsured

For uninsured patients that do not qualify for charity care, the Hospital recognizes revenue on the basis of its standard rates for services provided. On the basis of historical experience, an increased portion of the Hospital's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Hospital records a significant provision for bad debts related to uninsured patients in the period the services are provided.

NOTE 2 NET PATIENT SERVICE REVENUE (CONTINUED)

Medicaid (Continued)

Under the hospital assessment program, each hospital is assessed tax based on that hospital's adjusted gross revenue. The legislation provides that none of the assessment funds are to be collected and no additional Medicaid payments are to be paid until the program receives the required federal government approval through CMS.

The State of Illinois passed legislation in State Fiscal Year 2012 that expanded the Hospital Assessment Program by providing additional Hospital Access Improvement Payments to qualifying hospitals, also referred to Enhanced Hospital Assessment. CMS approved the program on October 1, 2013 with a retroactive effective date of June 10, 2012. The Hospital retroactively paid all assessed taxes based on the program assessments and received all payments in the year ended December 31, 2013.

In 2014 the Centers for Medicare and Medicaid Services (CMS) approved an additional supplemental payment to Illinois' hospitals for services provided to newly eligible Medicaid beneficiaries under the Affordable Care Act. The supplemental payment to hospitals was retroactive to March 1, 2014. The assessments are effective until June 30, 2018 to align with the transition periods of both rate reform and the ACA Medicaid expansion payments. As a result the Hospital has recorded revenue and a receivable of approximately $325,000 at December 31, 2014.

The effects of the programs in the consolidated statements of operations for the years ended December 31, 2014 and 2013 are as follows:

	2014	2013
Additional Medicaid Payments Included in Net Patient Service Revenue	$ 2,224,000	$ 2,264,000
Taxes Assessed and Included in Supplies and Other	$ 784,000	$ 937,000

The hospital assessment program contains a sunset provision effective June 30, 2015, and there is no assurance the program will not be discontinued or materially modified.

Other

The Hospital has also entered into payment agreements with Blue Cross and other commercial insurance carriers. The basis for reimbursement under these agreements includes discounts from established charges and prospectively determined rates.

Uninsured

For uninsured patients that do not qualify for charity care, the Hospital recognizes revenue on the basis of its standard rates for services provided. On the basis of historical experience, an increased portion of the Hospital's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Hospital records a significant provision for bad debts related to uninsured patients in the period the services are provided.

NOTE 2 NET PATIENT SERVICE REVENUE (CONTINUED)

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. Approximately 91% and 85% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2014 and 2013, respectively. The 2014 and 2013 net patient service revenue increased approximately $472,000 and $381,000 due to prior year retroactive adjustments in excess of amounts previously estimated.

Net patient service revenue recognized for the years ended December 31, 2014 and 2013 are as follows:

	2014	2013
Net Patient Service Revenue (net of contractual allowances and discounts) From:		
Third Party Payors	$ 28,788,499	$ 31,408,856
Uninsured Patients	2,457,100	1,935,531
	31,245,599	33,344,387
Provision for Bad Debts	(1,743,485)	(2,336,388)
Net Patient Service Revenue, Less Provision for Bad Debts	$ 29,502,114	$ 31,007,999

NOTE 3 INVESTMENTS AND INVESTMENT INCOME

Assets Limited as to Use

The composition of assets limited as to use at December 31, 2014 and 2013 is shown in the following table. Investments are stated at fair value.

	2014	2013
Internally Designated Cash and Investments:		
Cash and Cash Equivalents	$ 1,076	$ 11,979
Money Market Funds	35,758	26,700
Certificates of Deposit	354,508	282,032
Mutual Funds	2,582,832	2,226,376
U.S. Government and Agency Obligations	264,772	208,445
Interest Receivable	3,385	3,496
	3,242,331	2,759,028
Restricted by Donor For Scholarships:		
Cash and Cash Equivalents	235	422
Money Market Funds	38,567	13,441
Certificates of Deposit	116,318	142,652
Mutual Funds	691,480	627,781
U.S. Government and Agency Obligations	142,931	167,740
Interest Receivable	1,775	1,888
	989,306	953,924
Held by Trustee for Capital Project:		
Money Market Funds	291,541	1,554,188
Held by Trustee Under Indenture Agreement:		
Money Market Funds	899,024	952,423
Total Assets Limited as to Use	$ 5,422,202	$ 6,219,563

Investment Income

Investment income and gains and losses on assets limited as to use, cash and cash equivalents and other investments are comprised of the following for the years ended December 31, 2014 and 2013:

	2014	2013
Investment Income:		
Interest and Dividend Income	$ 242,059	$ 246,128
Realized and Unrealized Gains on Investments	41,581	407,977
	$ 283,640	$ 654,105

Total investment income is reflected in the consolidated statements of operations and changes in net assets as follows:

	2014	2013
Unrestricted Net Assets	$ 276,013	$ 640,015
Permanently Restricted Net Assets	7,627	14,090
	$ 283,640	$ 654,105

NOTE 4 PROPERTY AND EQUIPMENT

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

	2014	2013
Land and Land Improvements	$ 1,764,898	$ 1,626,030
Buildings and Improvements	34,648,401	34,027,176
Fixed and Movable Equipment	10,248,721	10,260,244
	46,662,020	45,913,450
Less: Accumulated Depreciation	(26,360,483)	(25,043,131)
	20,301,537	20,870,319
Construction in Progress	100,546	40,171
Property and Equipment, Net	$ 20,402,083	$ 20,910,490

Depreciation expense recognized on property and equipment, combined with amortization on the Consolidated Statement of Operations, was $2,087,114 and $2,112,752 for the year ended December 31, 2014 and 2013, respectively.

Construction in Progress as of December 31, 2014 consists of various renovation projects and equipment upgrades expected to be completed in fiscal 2015.

GAAP Departure

U.S. generally accepted accounting principles require the review of the carrying value of property and equipment for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The Hospital did not review the possibility of impairment of various property and equipment as of December 31, 2014 and 2013 to make a determination of impairment loss if any, that may exist as that time.

NOTE 5 SELF-FUNDED HEALTH INSURANCE

Substantially all of the Hospital's employees are eligible to participate in the Hospital's health insurance plan. The Hospital is self-insured for health claims of participating employees and dependents up to limits provided for in an agreement with its insurance plan administrator. At December 31, 2014 and 2013, the Hospital has estimated a net liability of approximately $284,000 and $331,000 for incurred but unreported claims, respectively. The Hospital has recognized approximately $2,053,000 and $2,191,000 in total employer health insurance expense for the years ended December 31, 2014 and 2013, respectively.

NOTE 6 LONG-TERM DEBT

A summary of long-term debt at December 31, 2014 and 2013 follows:

Description	2014	2013
Series 2011 Hospital Revenue Bonds dated October 20, 2011, which bear interest at 5%, principal due in monthly installments through November 1, 2026.	$ 8,001,266	$ 9,045,349
Capital lease obligation for equipment with annual payments of $50,717, rate of imputed interest of 2.19%, through January of 2019.	197,939	-
Other	-	15,961
Total Long-Term Debt	8,199,205	9,061,310
Less: Current Maturities	(557,409)	(1,024,996)
Long-Term Debt, Net of Current Maturities	$ 7,641,796	$ 8,036,314

Series 2011 Hospital Revenue Bonds

The Series 2011 hospital revenue bonds (the "2011 Bonds") were issued in the original amount of $10,000,000, to refinance Series 2003 bonds, fund a debt service reserve, pay the cost of issuance of the 2011 bonds and provide funds to complete additional capital projects. The Hospital is required to make monthly installments of $74,916 comprised of principal and interest until final maturity on November 15, 2026. All of the Bonds still outstanding may be redeemed at the Hospital's option, in whole or in part at anytime at the redemption price of 100% of the principal amount thereof, plus accrued interest through the date fixed for redemption.

The City of Greenville, Illinois issued the Bonds on behalf of the Hospital. The proceeds of the bond issue were loaned to Greenville Regional Healthcare, Inc. and Greenville Regional Hospital, Inc. under a trust indenture and a loan agreement, both dated October 1, 2011. The Bonds are secured by the net revenues and accounts receivable as well as the assets restricted under the bond indenture agreement. The Bonds have not been guaranteed by the City.

The bond agreements require that certain funds be established with the trustee. Accordingly, these funds are included as Assets Limited As To Use in the consolidated balance sheets. Funds Held by Trustee for Project Fund in the amount of $291,541 and $1,554,188 as of December 31, 2014 and 2013, respectfully, are to be used for constructing, renovating, expanding, improving and equipping a medical office building and other health care facilities. Funds Held by Trustee Under Indenture Agreement are to be maintained for the repayment of the outstanding debt service obligations.

NOTE 6 LONG-TERM DEBT (CONTINUED)

Series 2011 Hospital Revenue Bonds (Continued)

The bond agreements also require compliance with certain restrictive covenants including minimum insurance coverage, a liquidity covenant, maintaining a historical annual primary debt-service coverage ratio of at least 1.25, historical annual debt-service coverage ratio of at least 1.15 and restrictions on incurrence of additional debt.

For the year ended December 31, 2013, the Hospital did not achieve the historical annual primary debt-service coverage ratio, historical annual debt-service coverage ratio and days cash on hand ratio as set forth in the bond agreements. Under the bond agreement consultant reports are required to make recommendations for improvements in financial performance when there are matters of non-compliance. Management was not required to complete these reports for the year ended December 31, 2013 non-compliance as the agreement stipulates they are only required every two years. Management had previously delivered consultant reports related to non-compliance with the covenants for the year ended December 31, 2012. Management believes they have complied with the requirements of the bond covenants as of December 31, 2014.

Capital Lease Obligation

Capital lease obligation includes the following property under capital lease:

	2014
Equipment	$ 240,008
Less: Accumulated Depreciation	73,336
Total	$ 166,672
Depreciation Expense	$ 73,336

Future Maturities

Scheduled principal repayments on long-term debt and capital lease obligations are as follows:

Year Ending December 31,	Long-Term Debt	Capital Lease Obligations
2015	$ 507,600	$ 50,717
2016	533,482	50,717
2017	560,910	50,717
2018	589,560	50,717
2019	619,723	4,226
Thereafter	5,189,991	-
Total	$ 8,001,266	207,094
Less: Amounts Representing Interest on Obligations Under Capital Lease, Total		(9,155)
Total		$ 197,939

NOTE 7 RESTRICTED NET ASSETS

Temporarily Restricted Net Assets

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

	2014	2013
The Foundation is the beneficiary of several charitable gift annuities, requiring the Foundation to pay a fixed amount to the donor for a specified period of time	$ 11,320	$ 16,399
Assets held for assistance of employees	786	1,547
Assets restricted for grant purpose	11,873	22,041
Assets held for future improvements to the independent senior living center	4,200	22,250
Total Temporarily Restricted Net Assets	$ 28,179	$ 62,237

Permanently Restricted Net Assets

Permanently restricted net assets held in perpetuity included on the consolidated balance sheet at December 31, 2014 and 2013 were as follows:

	2014	2013
Nursing Scholarship Endowment	$ 961,017	$ 953,390

Endowments

The principal balance of permanent endowments is protected by taking into account inflation. Income in excess of inflation would represent temporarily restricted net assets that may be used for nursing scholarships.

During the year ending December 31, 2014 and 2013, net assets used for scholarships were $6,000 and $0, respectively. The charitable gift annuities and nursing scholarships are considered to be endowments.

Interpretation of Relevant Law

The Board of Directors of the Hospital has interpreted the State of Illinois Prudent Management of Institutional Funds Act (the Act) as requiring the preservation of the purchasing power (real value) of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

As a result of this interpretation, the Hospital classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund, and (4) the portion of investment return added to the permanent endowment to maintain its purchasing power.

NOTE 7 RESTRICTED NET ASSETS (CONTINUED)

Interpretation of Relevant Law (Continued)

For purposes of determining that portion, each year the Hospital adjusts permanently restricted net assets by the change in the Consumer Price Index (CPI) for that year. If the endowment assets earn investment returns beyond the amount necessary to maintain the endowment assets' real value, that excess is available for appropriation and, therefore, classified as temporarily restricted net assets until appropriated by the Board for expenditure. In accordance with the Act, the Hospital considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Hospital and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Hospital
- The investment policies of the Hospital

The following are the changes in endowment net assets for the year ended December 31, 2014 and 2013:

	2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets - Beginning of Year	$ 534	$ 16,399	$ 953,390	$ 970,323
Return on Investment	27,755	(5,079)	7,627	30,303
Endowment Net Assets - End of Year	$ 28,289	$ 11,320	$ 961,017	$ 1,000,626

	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets - Beginning of Year	$ (85,206)	$ 16,053	$ 939,300	$ 870,147
Return on Investment	85,740	346	14,090	100,176
Endowment Net Assets - End of Year	$ 534	$ 16,399	$ 953,390	$ 970,323

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the Act requires the Hospital to retain as a fund of perpetual duration. Deficiencies of this nature are reported in unrestricted net assets. As of December 31, 2014 and 2013 there were no deficiencies reported in unrestricted net assets.

NOTE 7 RESTRICTED NET ASSETS (CONTINUED)

Return Objectives and Risk Parameters

The Hospital has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and other items supported by its endowment while seeking to maintain the purchasing power of the endowment. Endowment assets include those assets of donor-restricted funds that the Hospital must hold in perpetuity or for a donor-specified period. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed inflation while assuming a moderate level of investment risk. The Hospital expects its endowment funds to provide an average rate of return of approximately 6% annually over time. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Hospital relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Hospital targets a diversified asset allocation that places greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy

The Hospital has a policy of distributing scholarships from the Endowment fund's fair value on an annual basis. This policy has been used in order to continue the mission of the Endowment fund when the interest has already been used. The Hospital's objective is to maintain the purchasing power of endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

NOTE 8 ELECTRONIC HEALTH RECORD INCENTIVE PROGRAM

The Electronic Health Record (EHR) incentive program was enacted as part of the American Recovery and Reinvestment Act of 2009 (ARRA) and the Health Information Technology for Economic and Clinical Health (HITECH) Act. These Acts provided for incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified EHR technology. The incentive payments are made based on a statutory formula and are contingent on the Hospital continuing to meet the escalating meaningful use criteria. For the first payment year, the Hospital must attest, subject to an audit, that it met the meaningful use criteria for a continuous 90-day period.

For the subsequent payment year, the Hospital must demonstrate meaningful use for the entire year. The incentive payments are generally made over a four year period. For hospitals that do not start receiving meaningful use payments until federal fiscal year 2014 or 2015, the base payment amount will reduce in subsequent years by ¼, ½, and ¾.

NOTE 8 ELECTRONIC HEALTH RECORD INCENTIVE PROGRAM (CONTINUED)

The Hospital demonstrated meaningful use for the initial 90-day period during the year ending December 31, 2011 and continues to demonstrate meaningful use for the years ending December 31, 2014 and 2013. As a result the Hospital has recognized approximately $723,000 and $1,027,000 for the years ending December 31, 2014 and 2013 in other operating revenues related to these programs. As of December 31, 2014 and 2013 the Hospital has recorded receivables from Medicare and Medicaid of approximately $248,000 and $258,000 for funds that they believe they are reasonably assured to receive.

The final amount of incentives will be determined based on information from the Hospital's Medicare cost reports for the years ending December 31, 2014 and 2013. Events could occur that would cause the final payments to differ materially upon final settlement.

NOTE 9 DEFINED CONTRIBUTION PENSION PLAN

The Hospital has a defined contribution pension plan covering substantially all employees. The Board of Directors annually determines the amount, if any, of the Hospital's contributions to the plan. Pension expense was approximately $153,000 and $156,000 for the years ended December 31, 2014 and 2013, respectively.

NOTE 10 UNCOMPENSATED CARE AND COMMUNITY BENEFIT

In support of its mission, the Hospital voluntarily provides care to patients that meet the Hospital's charity care criteria. Key elements used to determine eligibility include a minimal dollar claim threshold, Medicaid eligibility has been denied and the patient's demonstrated inability to pay based on household income compared to 100% of federal income poverty guidelines.

In addition, the Hospital provides services to other medically indigent patients under certain government-reimbursed public aid programs. Such programs pay providers amounts which are less than established charges for the services provided to the recipients and many times the payments are less than the cost of rendering the services provided.

Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported in net patient service revenue. Charges excluded from revenue under the Hospital's charity care policy were approximately $680,000 and $1,039,000 for the years ended December 31, 2014 and 2013, respectively.

For the year ended December 31, 2014 and 2013 management has estimated the cost of charity as $300,000 and $454,000. The cost of charity care is estimated using the Hospital's overall cost to charge ratios.

In addition, the Hospital also commits significant time and resources to endeavors and critical services which meet otherwise unfilled community needs. Many of these activities are sponsored with the knowledge that they will not be self-supporting or financially viable.

NOTE 11 FUNCTIONAL EXPENSES

The Hospital provides health care services to residents within its geographic location. Expenses related to providing these services by functional class for the years ended December 31, 2014 and 2013 are estimated to be:

	2014	2013
Health Care Services	$ 27,391,431	$ 30,026,415
General and Administrative	5,521,067	6,052,180
Total Expenses	$ 32,912,498	$ 36,078,595

NOTE 12 SIGNIFICANT CONCENTRATIONS AND CREDIT RISK

Patient Accounts Receivable

The Hospital grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payor agreements. The mix of gross receivables from patients and third-party payors at December 31, 2014 and 2013 is:

	2014	2013
Medicare	22 %	23 %
Medicaid	30	25
Other Third-Party Payors	32	34
Patients	16	18
Total	100 %	100 %

FDIC Coverage

The Hospital maintains cash balances at several financial institutions. FDIC insurance coverage is $250,000 for all accounts at a financial instruction. At times, cash balances may have been in excess of insured limits.

Risk Management

The Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

NOTE 13 COMMITMENTS AND CONTINGENCIES

Medical Malpractice Insurance Coverage and Claims

The Hospital has joined together with other providers of health care services to form the Illinois Provider Trust and the Illinois Compensation Trust, two risk pools currently operating as common risk management and insurance programs for their members. The Hospital pays annual premiums to the pools for its general liability torts, medical malpractice and employee injuries insurance coverage. The pools' governing agreements specify that the pools will be self-sustaining through member premiums and will reinsure through commercial carriers for claims in excess of specified stop-loss amounts.

The Hospital purchases medical malpractice insurance as described above on a claims made, fixed premium basis. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate cost of the incidents. Based upon the Hospital's experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

Litigation

In the normal course of business, the Hospital is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the Hospital's insurance program (discussed elsewhere in these notes); for example, allegations regarding performance of contracts. The Hospital evaluates such allegations by conducting investigations to determine the validity of each potential claim. Litigation based upon the advice of counsel, management records an estimate of the amount of ultimate expected loss, if any, for each of these matters. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Healthcare Legislation and Regulation

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers.

Violation of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

Management believes that the Hospital is in substantial compliance with fraud and abuse as well as other applicable government laws and regulations. While no regulatory inquiries have been made, compliance with such laws and regulations is subject to government review and interpretation, as well as regulatory actions unknown or unasserted at this time.