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

HEALTH FACILITIES & SERVICES REVIEW BOARD

E-025-13

1. INFORMATION FOR EXISTING FACILITY

Current Facility Name Midwest Endoscopy Center LLC
Address 1243 Rickert Drive
City Naperville Zip Code 60540 County DuPage
Name of current licensed entity for the facility Midwest Endoscopy Center LLC
Does the current licensee: own this facility OR lease this facility X (if leased, check if sublease )
Type of ownership of the current licensed entity (check one of the following:) Sole Proprietorship
Not-for-Profit Corporation For Profit Corporation Partnership Governmental
X Limited Liability Company Other, specify

Illinois State Senator for the district where the facility is located: Sen. Michael Connelly
State Senate District Number 21 Mailing address of the State Senator 1725 S. Naperville Road, Ste. 200, Wheaton, IL 60189
Illinois State Representative for the district where the facility is located: Rep. Darlene Senger
State Representative District Number 41 Mailing address of the State Representative 401 S. Main St, Ste. 300, Naperville, IL 60540

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 x. If yes, refer to Section 1130.520(f), and indicate the projects by Project #

3. NAME OF APPLICANT (complete this information for each co-applicant and insert after this page).

Exact Legal Name of Applicant Edward Health Ventures
Address 801 S. Washington St.
City, State & Zip Code Naperville, IL 60540
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

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 Midwest Endoscopy Center LLC
Address 1243 Rickert Drive
City, State & Zip Code Naperville, IL 60540
Type of ownership of the current licensed entity (check one of the following:) Sole Proprietorship
Not-for-Profit Corporation For Profit Corporation Partnership
Governmental X 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 DJSB, LLC
Address 640 S. Washington St.
City, State & Zip Code Naperville, IL 60540
Type of ownership of the current licensed entity (check one of the following:) Sole Proprietorship
Not-for-Profit Corporation For Profit Corporation Partnership
Governmental X Limited Liability Company Other, specify

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**3. NAME OF APPLICANT** (complete this information for each co-applicant and insert after this page).

Exact Legal Name of Applicant Edward-Elmhurst Healthcare  
Address 801 S. Washington St.  
City, State & Zip Code Naperville, IL 60540  
Type of ownership of the current licensed entity (check one of the following:): \_\_\_\_\_ Sole Proprietorship  
X Not-for-Profit Corporation \_\_\_\_\_ For Profit Corporation \_\_\_\_\_ Partnership \_\_\_\_\_  
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Governmental \_\_\_\_\_  Limited Liability Company \_\_\_\_\_ Other, specify \_\_\_\_\_

**6. TRANSACTION TYPE. CHECK THE FOLLOWING THAT APPLY TO THE TRANSACTION:**

- Purchase resulting in the issuance of a license to an entity different from current licensee;
- Lease resulting in the issuance of a license to an entity different from current licensee;
- Stock transfer resulting in the issuance of a license to a different entity from current licensee;
- Stock transfer resulting in no change from current licensee;
- Assignment or transfer of assets resulting in the issuance of a license to an entity different from the current licensee;
- 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;
- 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;
- 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;
- Sale or transfer of the physical plant and related assets of a health care facility not resulting in a change of current licensee;
- 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:** \$12,876,600

**10. FAIR MARKET VALUE OF THE FACILITY:** \$23,412,000

(to determine fair market value, refer to 77 IAC 1130.140)

**11. DATE OF PROPOSED TRANSACTION:** 12/31/2013

**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 X, and indicate the date the entity was formed July1, 2013 **Page 4**

**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).

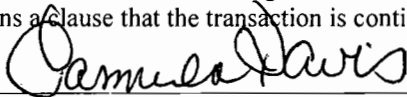
Name: Annette Kenney  
Address: Edward-Elmhurst Healthcare, 801 S. Washington St.  
City, State & Zip Code: Naperville, IL 60540  
Telephone (630 ) Ext. 527-5803

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

Name: Kari Runge  
Address: Edward-Elmhurst Healthcare 801 S. Washington St.  
City, State & Zip Code: Naperville, IL 60540  
Telephone (630 )527-3917 Ext. \_\_\_\_\_

**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 

Typed or Printed Name of Authorized Officer Pamela Meyer Davis  
Title of Authorized Officer: President & CEO, Edward-Elmhurst Healthcare  
Address: 801 S. Washington St.  
City, State & Zip Code: Naperville, IL 60540  
Telephone (630)527-3010  
Date: 1/14/13

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

**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).

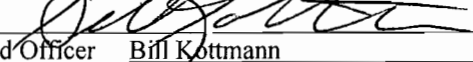
Name: Annette Kenney  
Address: Edward Health Services Corporation 801 S. Washington St.  
City, State & Zip Code: Naperville, IL 60540  
Telephone (630-527-5803 ) Ext. \_\_\_\_\_

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Name: Kari Runge  
Address: Edward Health Services Corporation 801 S. Washington St.  
City, State & Zip Code: Naperville, IL 60540  
Telephone (630-527-3917 ) Ext. \_\_\_\_\_

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Signature of Authorized Officer   
Typed or Printed Name of Authorized Officer Bill Kottmann  
Title of Authorized Officer: President, Edward Health Ventures

Address: 801 S. Washington St.

City, State & Zip Code: Naperville, IL 60540

Telephone ( 630 ) 527-3010 Date: \_\_\_\_\_

11/14/13

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

**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: Annette Kenney  
Address: Edward-Elmhurst Healthcare, 801 S. Washington St.  
City, State & Zip Code: Naperville, IL 60540  
Telephone (630 ) Ext. 527-5803

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Name: Kari Runge  
Address: Edward-Elmhurst Healthcare 801 S. Washington St.  
City, State & Zip Code: Naperville, IL 60540  
Telephone (630 )527-3917 Ext. \_\_\_\_\_

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Signature of Authorized Officer Dinesh Jain

Typed or Printed Name of Authorized Officer Dr. Dinesh Jain  
Title of Authorized Officer: President, Midwest Endoscopy Center  
Address: 1243 Rickert Road.  
City, State & Zip Code: Naperville, IL 60540  
Telephone 630-303-5647  
Date: November 13, 2013

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

**APPLICATION FEE  
ATTACHMENT #1**

Attached is a check in the amount of \$2,500 payable to the Illinois Department of Public Health for the required application fee.

**ATTACHMENT 1**





**SOURCE OF FUNDING  
ATTACHMENT #2**

The acquisition of a 55% ownership interest will be funded from internal capital resources from the co-applicant Edward-Elmhurst Healthcare through co-applicant Edward Health Ventures, a wholly owned subsidiary of Edward-Elmhurst Healthcare. As evidence of sufficient resources to fund the transaction., proof of 'A' bond rating is provided as Attachment #6. Note that effective July 1, 2013, Edward Health Services Corporation (referenced in the Moody's report) changed its legal name to Edward-Elmhurst Healthcare.

**ATTACHMENT 2**

**NARRATIVE OF TRANSACTION  
ATTACHMENT #3**

Midwest Endoscopy Center LLC (MEC) is a licensed, Medicare approved, single specialty surgery center located at 1243 Rickert Drive, Naperville, IL. It is the only freestanding endoscopy center in DuPage County, Illinois. The facility was constructed in 2007 and performed its first case in 2008. The current owners of MEC are all owners of the Suburban Gastroenterology, Ltd., physician practice (SGI) and are all members in good standing of the Edward Hospital medical staff. MEC is currently owned by five (5) physician investors:

Dinesh Jain, MD  
Scott Berger, MD  
Sushama Gundlapalli, MD  
Darren Kestin, MD  
Ravi Nadimpalli, MD

MEC will not increase its number of operating rooms and/or the types of surgical services provided as a result of the change of ownership.

In the proposed transaction, the existing 5 physician owners will retain 45% of the MEC and sell the remaining 55% to Edward Health Ventures (EHV), a wholly owned subsidiary of Edward-Elmhurst Healthcare (EEH). EHV will acquire its ownership interest through a cash transaction, utilizing internally available financial resources.

The EEH organizational structure pending project approval is presented on the following page. Edward-Elmhurst Healthcare is the parent and sole corporate member of Edward Hospital, Edward Health Ventures, and Elmhurst Memorial Hospital. The system maintains two separate obligated groups, with Edward Hospital and Edward Health Ventures operating within the Edward obligated group and Elmhurst Memorial Healthcare operating within the Elmhurst obligated group.

The purchase price for the 55% ownership interest is \$12,876,600 which is consistent with 55% of 7.5X EBITDA based on an external fair market analysis. If a COE is issued by the HFSRB on or before December 31, 2013, the transaction is expected to close on that date. If it does not, we anticipate closing immediately after the issuance of a COE by HFSRB, but in no event later than 12 months after the issuance of a COE. The HFSRB will be notified when the change of ownership occurs, as will IDPH. We do not anticipate that a new license will be necessary as the licensed entity is not changing as a result of this transaction..

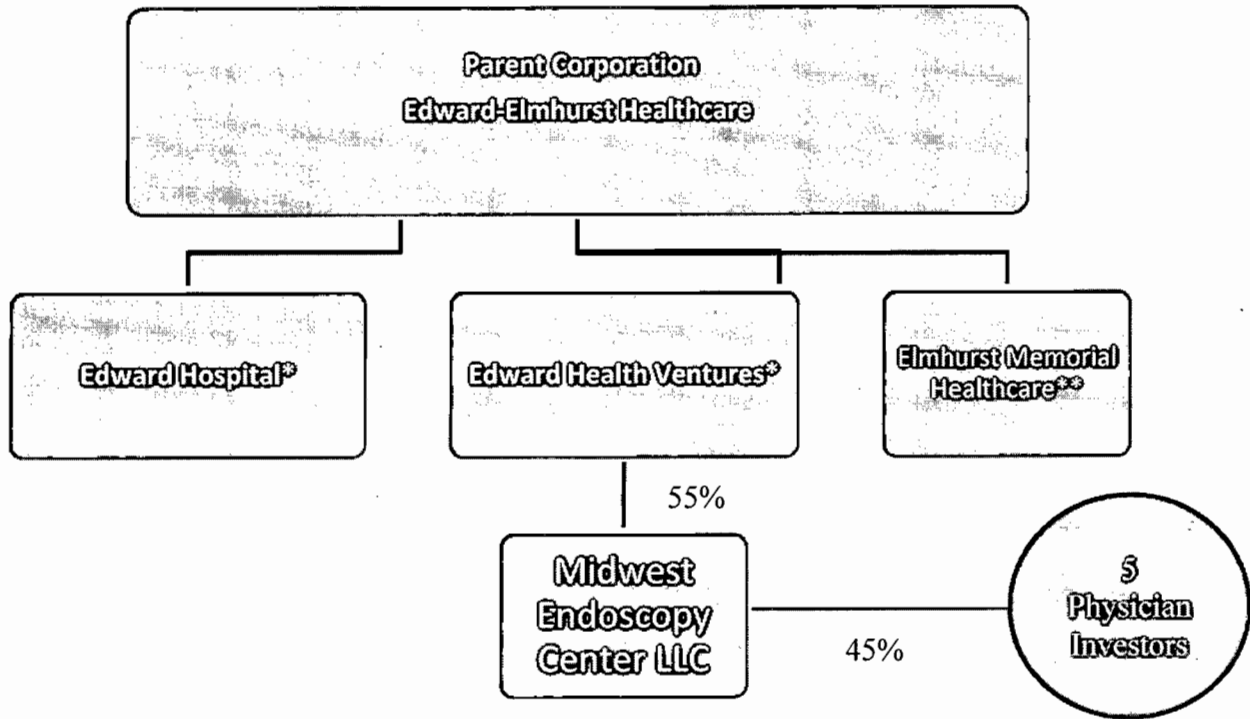
Further details of the transaction are provided in the Transaction Documents, provided as Attachment #5.

**ATTACHMENT 3**

This transaction will result in no change in services delivered by the Surgery Center for a 12-month period. Further, the Applicants intend to maintain ownership and control of the facility for a minimum of three years.

**ATTACHMENT 3**

# Post-Closing Organizational Structure



\*Edward Obligated Group

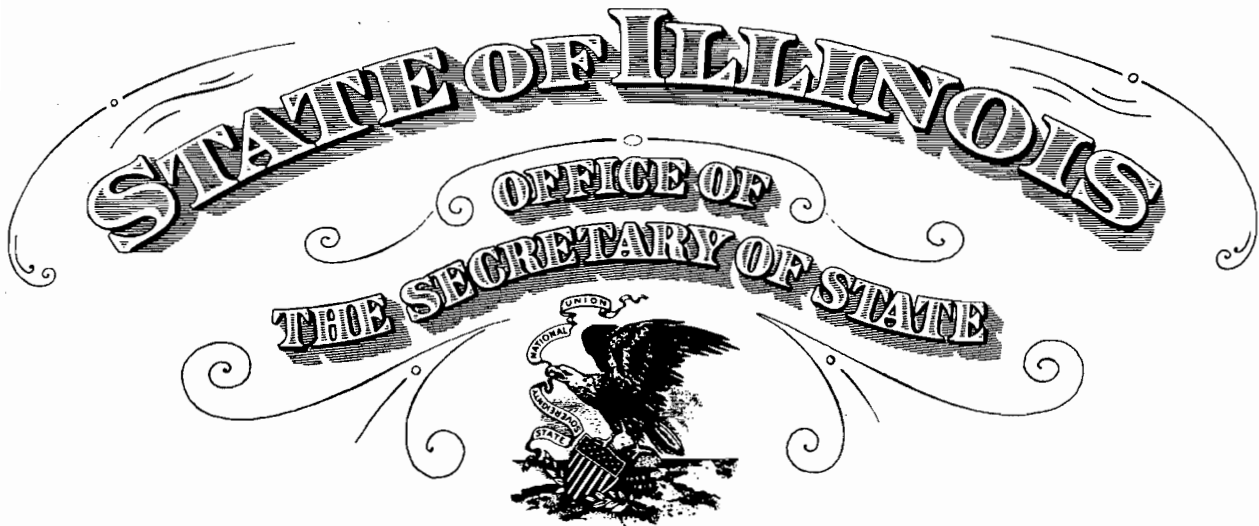
\*\*Elmhurst Obligated Group

ATTACHMENT 3

**BACKGROUND OF APPLICANT  
ATTACHMENT #4**

Certificates of Good Standing for co-Applicants Edward-Elmhurst Healthcare, Edward Health Ventures and Midwest Endoscopy Center are provided as Attachment #4.

**ATTACHMENT 4**



**To all to whom these Presents Shall Come, Greeting:**

*I, Jesse White, Secretary of State of the State of Illinois, do hereby certify that*

EDWARD-ELMHURST HEALTHCARE, A DOMESTIC CORPORATION, INCORPORATED UNDER THE LAWS OF THIS STATE ON APRIL 27, 1987, 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.



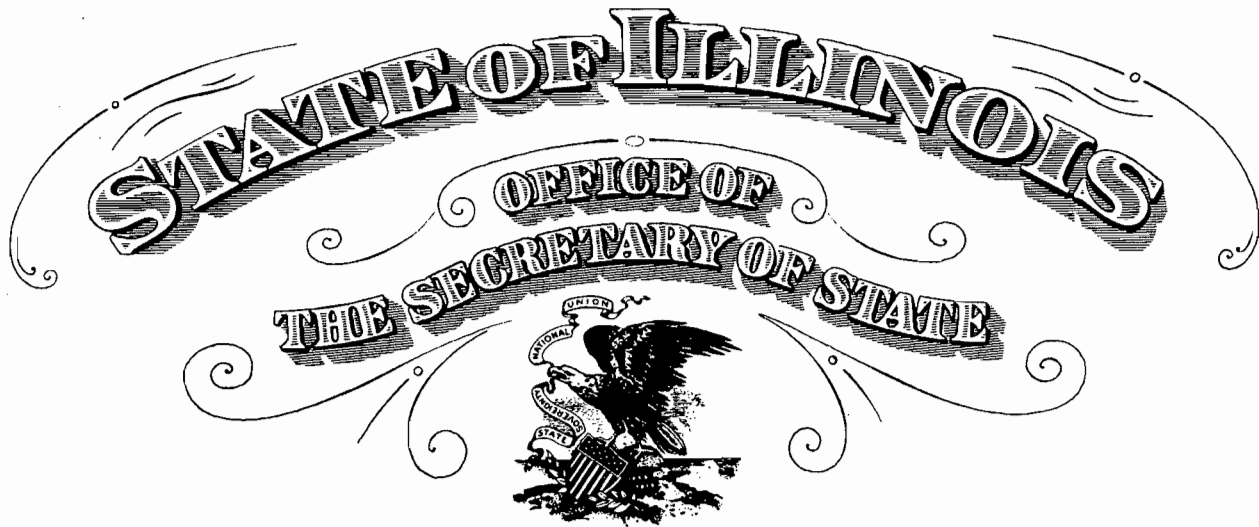
Authentication #: 1325303084

Authenticate at: <http://www.cyberdriveillinois.com>

***In Testimony Whereof,*** I hereto set  
*my hand and cause to be affixed the Great Seal of  
the State of Illinois, this 10TH  
day of SEPTEMBER A.D. 2013 .*

*Jesse White*

SECRETARY OF STATE



**To all to whom these Presents Shall Come, Greeting:**

*I, Jesse White, Secretary of State of the State of Illinois, do hereby certify that*

EDWARD HEALTH VENTURES, A DOMESTIC CORPORATION, INCORPORATED UNDER THE LAWS OF THIS STATE ON MARCH 28, 1986, 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.



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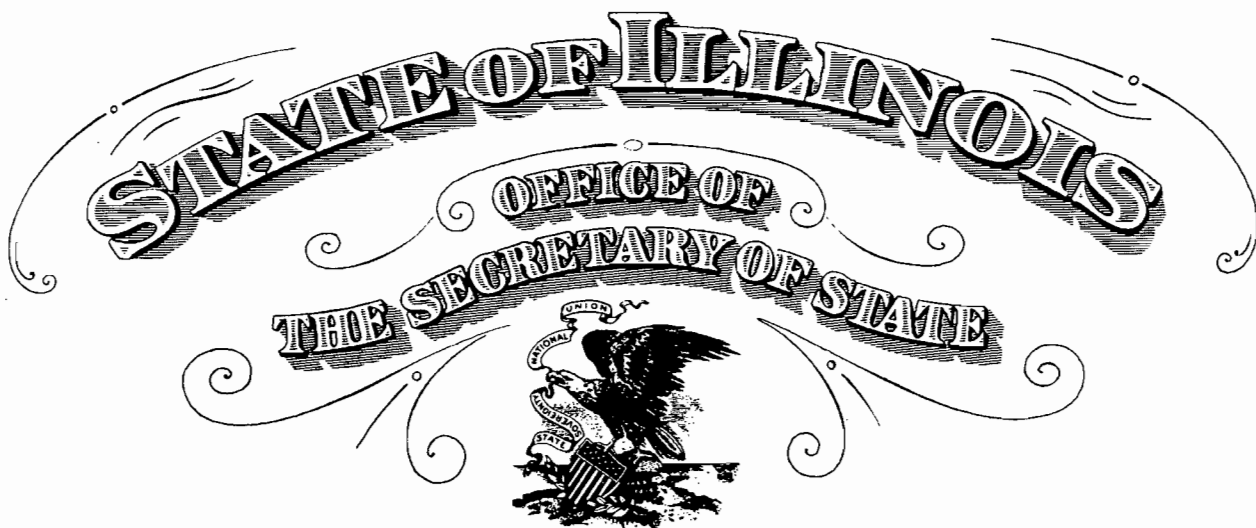
Authenticate at: <http://www.cyberdriveillinois.com>

***In Testimony Whereof,*** I hereto set  
*my hand and cause to be affixed the Great Seal of  
the State of Illinois, this 10TH  
day of SEPTEMBER A.D. 2013 .*

*Jesse White*

SECRETARY OF STATE





**To all to whom these Presents Shall Come, Greeting:**

*I, Jesse White, Secretary of State of the State of Illinois, do hereby certify that*

MIDWEST ENDOSCOPY CENTER, LLC, HAVING ORGANIZED IN THE STATE OF ILLINOIS ON APRIL 09, 2004, APPEARS TO HAVE COMPLIED WITH ALL PROVISIONS OF THE LIMITED LIABILITY COMPANY ACT OF THIS STATE, AND AS OF THIS DATE IS IN GOOD STANDING AS A DOMESTIC LIMITED LIABILITY COMPANY 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 13TH day of NOVEMBER A.D. 2013 .***

*Jesse White*

SECRETARY OF STATE

Authentication #: 1331702528

Authenticate at: <http://www.cyberdriveillinois.com>

**BACKGROUND OF APPLICANT  
ATTACHMENT #4**

**List of Owners of Midwest Endoscopy Center, LLC**

| <b>Investor Name</b>               | <b>Address</b>                                     | <b>Current % Ownership</b> |
|------------------------------------|--|----------------------------|
| <b>Dinesh Jain, MD</b>             | <b>118 Covington Court<br/>Oak Brook, IL 60523</b> | <b>41%</b>                 |
| <b>Scott A. Berger, MD</b>         | <b>2211 Stowe Circle<br/>Naperville, IL 60564</b>  | <b>41%</b>                 |
| <b>Sushama Gundlapalli,<br/>MD</b> | <b>3709 Fairview Ave.<br/>Oak Brook IL 60523</b>   | <b>6%</b>                  |
| <b>Darren A. Kastin, MD</b>        | <b>3 Birchwood Ave.<br/>Deerfield, IL 60015</b>    | <b>6%</b>                  |
| <b>Ravi Nadimpalli, MD</b>         | <b>2335 W. Shakespeare<br/>Chicago, IL 60647</b>   | <b>6%</b>                  |

**ATTACHMENT 4**

**TRANSACTION DOCUMENTS  
ATTACHMENT #5**

A copy of the signed documents detailing the terms and conditions of the proposed transaction are provided as Attachment 5.

**ATTACHMENT 5**

## MEMBERSHIP INTEREST PURCHASE AGREEMENT

**THIS MEMBERSHIP INTEREST PURCHASE AGREEMENT** (this “**Agreement**”) is made and entered into as of November 14, 2013, by and among **Midwest Endoscopy Center, LLC**, an Illinois limited liability company (the “**Company**”), **Edward Health Ventures**, an Illinois nonprofit corporation (“**Purchaser**”), and the “**Existing Members**” as hereinafter defined. The Company, Purchaser and Existing Members are sometimes referred to in this Agreement individually as a “**Party**” and collectively as the “**Parties.**”

### RECITALS

A. The Company operates an ambulatory surgery center located at 1243 Rickert Drive, Naperville, Illinois (the “**ASC**”).

B. The Parties desire that Purchaser purchase from Existing Members, and that Existing Members sell to Purchaser, membership interests in the Company, upon which Purchaser will hold a fifty-five percent (55%) economic interest in the Company, all on the terms and conditions set forth in this Agreement.

**NOW, THEREFORE**, in consideration of the mutual covenants and agreements contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

### ARTICLE I DEFINITIONS

When capitalized in this Agreement the following terms shall have the meanings set forth below in this Article I.

“**ASC**” shall have the meaning set forth in the recitals.

“**Business Day**” shall mean a day other than a Saturday, Sunday or legal holiday under federal law.

“**Closing**” shall have the meaning set forth in Section 3.1.

“**Closing Date**” shall have the meaning set forth in Section 3.1.

“**Company**” shall have the meaning set forth in the introduction.

“**Contract**” shall mean any legally binding agreement, contract or commitment.

“**Effective Time**” shall mean 11:59 p.m. Central time on the Closing Date (the “**Effective Time**”).

“**Existing Members**” shall mean those persons who are members of the Company both as of the date hereof and immediately prior to the Effective Time, as set forth on the signature page(s) hereto.

**“Federal Health Care Program”** shall have the meaning set forth in Section 1128B (f) of the Social Security Act, 42 U.S.C. Section 1320a-7b (f) and shall include, without limitation, Medicare and Medicaid.

**“Landlord”** shall mean DJSB, LLC.

**“Party”** shall have the meaning set forth in the introduction.

**“Person”** shall mean any natural person, trust, estate, partnership, limited liability company or any incorporated or unincorporated organization, association or entity.

**“Purchase Price”** shall have the meaning set forth in Section 2.2.

**“Purchaser”** shall have the meaning set forth in the introduction.

**“Purchaser Affiliate”** shall mean any Person that directly or indirectly controls or is controlled by, or is under common control with, Purchaser, including, without limitation: Edward Hospital and Elmhurst Memorial Hospital.

**“Review Board”** shall mean the Illinois Health Facilities and Services Review Board.

**“Subject Membership Interests”** shall have the meaning set forth in Section 2.1.

## **ARTICLE II** **PURCHASE AND RELATED TRANSACTIONS**

2.1 **Purchase and Sale of Membership Interests.** Subject to the terms and conditions of this Agreement, effective as of the Effective Time, each of the Existing Members shall sell to Purchaser that portion of such Existing Member’s membership interests in the Company as is set forth on Exhibit 2.2(b) such that Purchaser shall acquire a total of fifty-five percent (55%) of the membership interests in the Company (all such Company membership interests to be sold to Purchaser hereunder shall be referred to herein collectively as the “Subject Membership Interests”), for the Purchase Price, determined and payable as provided in Section 2.2.

### **2.2 Purchase Price and Payment.**

(a) The total “Purchase Price” for the Subject Membership Interests shall be an amount equal to Twelve Million Eight Hundred Seventy-Six Thousand Six Hundred Dollars (\$12,876,600) (the “Purchase Price”).

(b) Purchaser shall, effective as of the Effective Time, acquire the Subject Membership Interests and shall pay the Purchase Price at the Closing as follows: Purchaser shall deliver to each Existing Member the portion of the Purchase Price corresponding to such Existing Member’s name on Exhibit 2.2(b), by wire transfer to an account designated by such Existing Member.

2.3 **Change of Ownership Exemption ("COE").**

(a) Purchaser shall (no later than two (2) Business Days after the date hereof) file with the Review Board an Application For Exemption For the Change of Ownership For an Existing Health Care Facility (the "COE Application") and shall use its best efforts to obtain approval of the change of ownership of the ASC by the Review Board. Each Party shall use its best efforts to seek and obtain all necessary internal and other third party approvals in order to close the purchase of the Subject Membership Interests on or prior to January 2, 2014. Each Party shall cooperate with the other Parties in obtaining all such approvals.

(b) If the Review Board fails to approve the change of ownership of the ASC on or prior to January 2, 2014, then the Closing Date shall be postponed to a Business Day falling within the two-week period immediately following the date of Review Board approval, with such Business Day mutually agreed to by the Company and Purchaser, but to no later than January 2, 2015.

2.4 **Distribution of Cash.** The Parties acknowledge and agree that all cash in the Company's bank account(s) shall be distributed by the Company pro rata to the Existing Members on or immediately prior to the Closing Date, except that Two Hundred Four Thousand Dollars (\$204,000) shall be left in the Company's bank account(s) at Closing.

**ARTICLE III**  
**CLOSING**

3.1 **Time and Place of Closing.** The closing date (the "Closing Date") for the closing of the purchase and sale of the Subject Membership Interests contemplated by this Agreement (the "Closing") shall be on or prior to January 2, 2014, with such Closing Date designated by the Company and Purchaser; provided, however, that the Closing Date shall be subject to postponement as set forth in Section 2.3(b). Subject to Section 2.3(b) above, the Closing Date shall be as soon as practicable after the Review Board approval is obtained. The Closing shall take place at the offices of Edward Hospital and shall be effective as of the Effective Time. All proceedings to be taken and all documents to be executed and delivered by all Parties at the Closing shall be deemed to have been taken and executed simultaneously and no proceedings shall be deemed to have been taken nor documents executed or delivered until all have been taken, executed and delivered.

3.2 **Purchaser's Deliveries.** On or prior to the Closing Date, Purchaser shall deliver to the Company (or, as provided in Section 2.2, transfer to the applicable accounts) the following payments, instruments and other documents in form and substance reasonably satisfactory to counsel for the Company:

(a) Payment of the Purchase Price in accordance with Section 2.2;

(b) Resolutions of the governing body of Purchaser authorizing the execution of this Agreement and the performance by Purchaser of the transactions contemplated under this Agreement; and

(c) Such other instruments or documents as may reasonably be required by the Company.

3.3 **The Company's Deliveries.** On or prior to the Closing Date, the Company shall deliver to Purchaser the following instruments and other documents in form and substance reasonably satisfactory to counsel for Purchaser:

(a) Resolutions of the Company authorizing the execution of this Agreement and the performance by the Company as contemplated under this Agreement; and

(b) Such other instruments or documents as may reasonably be required by Purchaser.

3.4 **Closing Conditions of Purchaser.** Purchaser shall not be obligated to consummate the transactions contemplated under this Agreement unless each of the following conditions is fulfilled or performed (unless expressly waived in writing by the Company) at or prior to the Closing:

(a) All of the representations and warranties set forth in Section 4.2 shall be true and correct as of the Effective Time, the Company shall have performed or complied in all material respects with all covenants and conditions required by this Agreement to be performed or complied with by the Company prior to or at the Effective Time, and the Company shall have delivered to Purchaser a certificate dated as of the Effective Time, certifying to the truth of such representations and warranties as of the Closing and to the fulfillment of such covenants and conditions.

(b) No action or proceedings shall have been instituted against, and no order, decree or judgment of any court, agency, commission or governmental authority shall be subsisting against Purchaser or the Company which seeks to, or would, render it unlawful as of the Effective Time to effect the transactions contemplated hereby in accordance with the terms hereof, and no such action shall seek damages in a material amount by reason of the transactions contemplated hereby. Also, no substantive legal objection to the transactions contemplated by this Agreement shall have been received from or threatened by any governmental department or agency.

(c) The Review Board shall have approved the change of ownership of the ASC.

3.5 **Closing Conditions of the Company.** The Company and the Existing Members shall not be obligated to consummate the transactions contemplated under this Agreement unless each of the following conditions is fulfilled or performed (unless expressly waived in writing by the Company) at or prior to the Closing:

(a) All of the representations and warranties set forth in Section 4.1 shall be true and correct as of the Effective Time, the Purchaser shall have performed or complied in all material respects with all covenants and conditions required by this Agreement to be performed or complied with by the Purchaser prior to or at the Effective Time, and Purchaser shall have delivered to the Company a certificate dated as of the Closing Date,

certifying to the truth of such representations and warranties as of the Closing and to the fulfillment of such covenants and conditions.

(b) No action or proceedings shall have been instituted against, and no order, decree or judgment of any court, agency, commission or governmental authority shall be subsisting against Purchaser or the Company which seeks to, or would, render it unlawful as of the Effective Time to effect the transactions contemplated hereby in accordance with the terms hereof, and no such action shall seek damages in a material amount by reason of the transactions contemplated hereby. Also, no substantive legal objection to the transactions contemplated by this Agreement shall have been received from or threatened by any governmental department or agency.

(c) The Review Board shall have approved the change of ownership of the ASC.

3.6 **Transfer of Subject Membership Interests.** The Parties shall take any and all actions reasonably necessary to effectuate the transfer of ownership of the Subject Membership Interests as provided in this Agreement. Immediately after the Closing, the membership interests of the Company shall be owned as indicated on Exhibit 3.6 attached hereto.

3.7 **Tax Matters.**

(a) The Existing Members shall cause the Company to prepare and file all federal and state income and franchise tax returns of the Company for all periods ending on or prior to the Closing Date. Any tax return or amended tax return filed by the Company with respect to any period ending on or prior to the Closing Date or any period beginning before and ending after the Closing Date, with respect to which the Existing Members bear the associated taxes, in part or whole, shall be submitted to the Existing Members for their review and approval twenty (20) days prior to the filing date. Any refunds of taxes received by the Company with respect to any period ending on or prior to the Closing Date or any period beginning before and ending after the Closing Date (to the extent allocable to the period of time through the Closing Date) shall be promptly paid to the Existing Members.

(b) The Purchaser and Existing Members agree that the Purchase Price and the liabilities of the Company (plus other relevant items) shall be allocated among the assets of the Company for federal and applicable state income tax purposes in accordance with Exhibit 3.7(b) (the "Allocation"). Each Party agrees to file its federal and state income tax returns consistent with the Allocation.

**ARTICLE IV**  
**REPRESENTATIONS AND WARRANTIES**

4.1 **Representations and Warranties of Purchaser.** Purchaser hereby represents and warrants to the Company and the Existing Members as follows:

(a) Purchaser has the requisite power and authority to execute, deliver and perform its obligations under this Agreement. The execution, delivery and performance



of this Agreement have been duly authorized by Purchaser and its governing body, and no other proceedings or actions on the part of Purchaser or its directors, officers or members are necessary to authorize, adopt and approve this Agreement. This Agreement constitutes the valid and binding obligations of Purchaser enforceable against Purchaser in accordance with its terms, except as such enforceability may be limited by bankruptcy, moratorium or other laws relating generally to the enforcement of creditors' rights.

(b) The execution, delivery and performance of this Agreement do not and will not (i) violate any judgment, decree, order or other directive of any court or governmental agency applicable to or binding upon Purchaser or any Purchaser Affiliate, or (ii) breach or constitute a default under any agreement to which Purchaser or any Purchaser Affiliate is a party or by which Purchaser or any Purchaser Affiliate is bound.

(c) Neither Purchaser nor any Purchaser Affiliate is excluded from participation in any "Federal Health Care Program" (as defined in Section 1128B(f) of the Social Security Act, 42 U.S.C. Section 1320a-7b(f)), including, without limitation, Medicare and Medicaid.

(d) Neither Purchaser nor any Purchaser Affiliate has received any written notice from any governmental entity finding or alleging any violation by Purchaser or any Purchaser Affiliate of or failure by Purchaser or any Purchaser Affiliate to comply with any law or regulation if such violation or failure creates or would create material exposure to the Company or its members.

(e) To the best of Purchaser's knowledge, neither Purchaser nor any Purchaser Affiliate is subject to (i) any pending action, suit, proceeding, inquiry or investigation, at law or in equity or before any court, arbitrator, public board or body, or (ii) any order of any court or governmental authority.

4.2 **Representations and Warranties of the Company.** The Company hereby represents and warrants to Purchaser as follows:

(a) Since December 31, 2012, working capital has been managed in accordance with past practice and in the normal course of business.

(b) The Company has made available to Purchaser true and correct copies of (A) the following financial statements dated as of or through the date of December 31, 2012: (i) Statement of Partners' Capital – Cash Basis, (ii) Balance Sheet – Cash Basis, (iii) Operating Statement – Cash Basis, and (iv) Statement of Operating Expenses – Cash Basis, and (B) interim financial statements dated as of or through the date of September 30, 2013: (i) Statement of Assets, Liabilities and Members' Equity – Cash Basis, and (ii) Statement of Revenues and Expenses – Cash Basis (collectively, the "Financial Statements"). The Financial Statements (i) are based upon the information contained in the books and records of the Company and (ii) to the knowledge of the Company fairly present the financial condition and the results of operations of the Company.

(c) To the knowledge of the Company, all accounts receivable of the Company that are reflected on the accounting records of the Company represent services actually performed in the ordinary course of business.

(d) To the knowledge of Company, all accounts payable and accrued expenses reflected on the accounting records of the Company arose in bona fide arm's length transactions in the ordinary course of business; provided, however, that the Landlord under the Company's real estate lease is owned and controlled by Dr. Dinesh Jain and Dr. Scott Berger, the same two Existing Members whom own a majority of the Company's membership interests, and that the Company has an employee leasing arrangement with the physician practice owned by the Existing Members.

(e) Since December 31, 2012, no material adverse changes have occurred in the operations of the Company other than as disclosed on Schedule 4.2(e) or incurred in the ordinary course of business.

(f) Company has the requisite power and authority to execute, deliver and perform its obligations under this Agreement. The execution, delivery and performance of this Agreement have been duly authorized by Company and its governing body, and no other proceedings or actions on the part of Company or its officers or members are necessary to authorize, adopt and approve this Agreement. This Agreement constitutes the valid and binding obligation of Company enforceable against Company in accordance with its terms, except as such enforceability may be limited by bankruptcy, moratorium or other laws relating generally to the enforcement of creditors' rights.

(g) Except as set forth on Schedule 4.2(g), the execution, delivery and performance of this Agreement do not and will not (i) violate any judgment, decree, order or other directive of any court or governmental agency applicable to or binding upon Company, or (ii) breach or constitute a default under any agreement to which Company is a party or by which Company is bound.

(h) Except as set forth on Schedule 4.2(h), there are no proceedings pending or, to the knowledge of the Company, threatened, against the Company or pursuant to which any assets of the Company are subject, in each case, before any governmental authority and which (a) seek any injunctive relief, or (b) seek any legal restraint on or prohibition against the transactions contemplated by this Agreement. To the knowledge of the Company, Schedule 4.2(h) sets forth all malpractice and general liability claims that have been asserted by third Persons against the Company as of the date of this Agreement and remain unresolved as of the date of this Agreement. Except as set forth on Schedule 4.2(h), there are no (x) outstanding judgments, orders, injunctions or decrees of any governmental authority or arbitration tribunal against the Company arising out of or related to the business, (y) proceedings pending or, to the knowledge of the Company, threatened against the Company arising out of or related to the business, or (z) to the knowledge of the Company, investigations by any governmental authority which are pending or threatened against the Company arising out of or related to the business.

**ARTICLE V**  
**TERMINATION**

5.1 **Termination.** This Agreement may be terminated as follows at any time prior to the Closing:

- (a) By mutual written agreement of the Purchaser and Company;
- (b) By the Company, if Purchaser is in material breach of this Agreement and, if such breach is curable, such breach shall not have been cured by Purchaser or waived in writing by the Company within twenty (20) Business Days after written notice thereof from the Company;
- (c) By Purchaser, if Company is in material breach of this Agreement and, if such breach is curable, such breach shall not have been cured by Company or waived in writing by the Purchaser within twenty (20) Business Days after written notice thereof from the Purchaser;
- (d) By either the Company or Purchaser if the Review Board approval has not been obtained by January 2, 2015; or
- (e) By either the Company or Purchaser if the other makes an assignment for the benefit of creditors, files a voluntary petition in bankruptcy or seeks or consents to any reorganization or similar relief under any present or future bankruptcy act or similar law, or is adjudicated as bankrupt or insolvent, or if a third party commences any bankruptcy, insolvency, reorganization or similar proceeding involving such other Party.

5.2 **Remedies for Termination.** In the event of termination of this Agreement under Section 5.1, no Party shall have any liabilities pursuant to this Agreement to the other Parties unless such first Party is in material breach of this Agreement, in which case the non-breaching Parties shall be entitled to pursue all of their respective rights and remedies.

**ARTICLE VI**  
**GENERAL PROVISIONS**

6.1 **Assignment and Binding Effect.** This Agreement shall be binding upon and inure to the benefit of the Parties, their heirs, executors, administrators and permitted successors and assigns, provided, however, that the rights and obligations set forth in this Agreement shall not be assigned, transferred or delegated by any Party except with the written consent of the other Parties. Any assignment, transfer or delegation in violation of the terms set forth in this Agreement shall be null and void.

6.2 **Amendments.** This Agreement may be amended in whole or in part at any time only by a written instrument setting forth such changes and signed by each of the Parties.

6.3 **Entire Agreement.** This Agreement and the exhibits and schedules attached hereto set forth the entire understanding among the Parties relating to the subject matter hereof,

there being no terms, conditions, warranties or representations other than those contained herein or therein.

6.4 **Counterparts.** This Agreement may be executed in any number of counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same instrument. Execution and delivery of this Agreement by electronic exchange bearing copies of the Parties' signatures shall constitute a valid and binding execution and delivery of this Agreement by the Parties. Such electronic copies shall constitute enforceable original documents.

6.5 **Notices.** Any and all notices given in connection with this Agreement shall be deemed adequately given only if in writing and personally delivered, sent by nationally recognized overnight courier or sent registered or certified mail, postage prepaid, to the Party or Parties for whom such notices are intended. A written notice shall be deemed to have been given to the recipient Party on the earlier of: (i) the date it shall be delivered to the intended recipient or to the address required by this Agreement; (ii) the date delivery shall have been refused at the address required by this Agreement; or (iii) with respect to notices sent by mail but not delivered, the date as of which the postal service shall have indicated such notice to be undeliverable at the address required by this Agreement. Any and all notices referred to in this Agreement or which any Party desires to give to another, shall be addressed as follows:

**To Purchaser:**

Edward Health Ventures  
801 S. Washington St.  
Naperville, IL 60540  
Attn: President

**To the Company and/or  
any Existing Members:**

Midwest Endoscopy Center, LLC  
1243 Rickert Drive  
Naperville, IL 60540  
Attn: Dinesh Jain, M.D. and  
Scott Berger, M.D.

**With a copy to:**

McDermott Will & Emery  
333 Avenue of the Americas  
Suite 4500  
Miami, FL 33131  
Attn: Jennifer A. Vecchio, Esq.

Any Party may change his, her or its address to any other location in the United States upon written notice in accordance with this Section.

6.6 **Choice of Law.** This Agreement shall be subject to and governed by the laws of the State of Illinois.

6.7 **Headings.** The headings contained herein are for reference only, are not a part of this Agreement and shall have no substantive meaning.

6.8 **Modification and Severability.**

(a) It is the intention of the Parties to make the covenants and understandings of this Agreement binding only to the extent lawful and enforceable under applicable law. Therefore, if any term, restriction, covenant or promise contained in this Agreement is invalid or unenforceable, then the Parties agree to be bound by such term, restriction, covenant or promise as modified to the extent necessary to make it valid and enforceable; provided, however, that if for any reason Section 2.2(a) is invalid or unenforceable in any way, this Agreement shall be non-binding, and Purchaser shall not acquire and shall not be deemed to have acquired any Subject Membership Interests.

(b) Subject to the foregoing proviso, the invalidity or unenforceability of any provision of this Agreement shall not affect the validity or unenforceability of any other provision.

6.9 **Pronouns.** Unless the context requires otherwise, any pronouns used in this Agreement shall include the corresponding plural, singular, masculine, feminine or neuter pronouns, as applicable.

6.10 **Waiver.** No waiver of any default under this Agreement shall be construed, taken or held to be a waiver of any other default. No delay or omission by any Party to exercise his, her or its rights under this Agreement shall impair any such right or power or shall be construed as a waiver or acquiescence of any default, except as set forth in a signed writing.

6.11 **Further Action.** Each Party to this Agreement agrees to perform all further acts and execute, acknowledge and deliver any documents which may be reasonably necessary, appropriate or desirable to carry out the provisions of this Agreement.

6.12 **Professional Fees.** Each Party shall pay the fees and expenses incurred by such Party with respect to its counsel, accountants, other experts and all other expenses incurred by such Party relating to this Agreement or the transactions contemplated hereunder, subject to Section 6.13 below.

6.13 **Attorneys' Fees.** If any Party to this Agreement seeks to enforce the terms and provisions of this Agreement, then the prevailing Party in such action shall be entitled to recover from the losing Party all costs in connection with such action, including without limitation reasonable attorneys' fees, expenses and costs incurred at the trial court and all appellate levels.

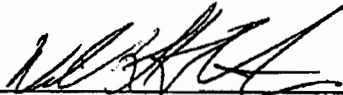
6.14 **Specific Performance; Injunctive Relief.** The Parties hereto agree that in the event of a breach of any provision of this Agreement, the aggrieved Party or Parties may be without an adequate remedy at law. The Parties therefore agree that in the event of a breach of any provision of this Agreement, the aggrieved Party or Parties may elect to institute and prosecute proceedings in any court of competent jurisdiction to enforce specific performance or to enjoin the continuing breach of such provision, as well as to obtain damages for breach of this Agreement. By seeking or obtaining any such relief, the aggrieved Party shall not be precluded from seeking or obtaining any other relief to which it may be entitled.

*[Signature Page Follows]*

IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed as of the date and year set forth above.

**PURCHASER:**

**EDWARD HEALTH VENTURES,**  
*an Illinois nonprofit corporation*

By:   
William G. Kottmann  
President

**COMPANY:**

**MIDWEST ENDOSCOPY CENTER, LLC,**  
*an Illinois limited liability company*

By: \_\_\_\_\_  
Dinesh Jain, M.D., President

**EXISTING MEMBERS:**

\_\_\_\_\_  
Dinesh Jain, M.D.

\_\_\_\_\_  
Scott Berger, M.D.

\_\_\_\_\_  
Sushama Gundlapalli, M.D.

\_\_\_\_\_  
Darren Katin, M.D.

\_\_\_\_\_  
Ravi Nadimpalli, M.D.

(Signature Page to Purchase Agreement)

Attachment 5

IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed as of the date and year set forth above.

**PURCHASER:**

**EDWARD HEALTH VENTURES,**  
*an Illinois nonprofit corporation*

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**COMPANY:**

**MIDWEST ENDOSCOPY CENTER, LLC,**  
*an Illinois limited liability company*

By: Dinesh Jain  
Dinesh Jain, M.D., President

**EXISTING MEMBERS:**

Dinesh Jain  
Dinesh Jain, M.D.

Scott Berger  
Scott Berger, M.D.

Sushama Gundlapalli  
Sushama Gundlapalli, M.D.

Darren Kastin  
Darren Kastin, M.D.

Ravi Nadimpalli  
Ravi Nadimpalli, M.D.

**Exhibit 2.2(b)**

**Pre-Closing Percentage Membership Interests/Portion  
of Purchase Price Owed to Each Existing Member**

| <b><u>Existing Member</u></b> | <b><u>Pre-Closing<br/>Percentage<br/>Membership<br/>Interests</u></b> | <b><u>Percentage<br/>Membership<br/>Interest in Company<br/>Being Sold to<br/>Purchaser By Such<br/>Existing Member</u></b> | <b><u>Portion of Purchase<br/>Price Owed to Such<br/>Existing Member</u></b> |
|-------------------------------|---|---|--|
| Dinesh Jain, M.D.             | 41%   | 24.5%   | \$5,735,940  |
| Scott Berger, M.D.            | 41%   | 24.5%   | \$5,735,940  |
| Sushama Gundlapalli, M.D.     | 6%  | 2.0%  | \$468,240  |
| Darren Kastin, M.D.           | 6%  | 2.0%  | \$468,240  |
| Ravi Nadimpalli, M.D.         | 6%  | 2.0%  | \$468,240  |
|                               | <u>100%</u>   | <u>55%</u>  | <u>\$12,876,600</u>  |



**Exhibit 3.6**

**Ownership of the Company (Immediately After the Effective Time)**

| <b><u>Member</u></b>      | <b><u>Percentage Membership Interest</u></b> |
|---------------------------|--|
| Edward Health Ventures    | 55.0%  |
| Dinesh Jain, M.D.         | 16.5%  |
| Scott Berger, M.D.        | 16.5%  |
| Sushama Gundlapalli, M.D. | 4.0%   |
| Darren Kestin, M.D.       | 4.0%   |
| Ravi Nadimpalli, M.D.     | <u>4.0%</u>                                  |
|                           | 100.0%                                       |

**Exhibit 3.7(b)**

**Allocation**

The Purchase Price (including liabilities and other relevant items) shall be allocated for federal and applicable state income tax purposes among the assets of the Company in accordance with the methodology set forth below:

|  |   |
|--|---|
| Accounts Receivable<br>(Class III)   | Net book value of such assets as of the Closing Date as reflected on the books and records of the Company |
| Inventory<br>(Class IV)  | Not applicable  |
| Prepaid Expenses,<br>Deposits and Other<br>Current Assets<br>(Class V)               | Net book value of such assets as of the Closing Date as reflected on the books and records of the Company |
| Property, Plant &<br>Equipment (including<br>Leasehold<br>Improvements)<br>(Class V) | \$480,000   |
| Goodwill<br>(Classes VII)  | Remainder of the Purchase Price   |

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**DISCLOSURE SCHEDULES  
TO  
MEMBERSHIP INTEREST PURCHASE AGREEMENT**

**BY AND AMONG  
MIDWEST ENDOSCOPY CENTER, LLC,  
THE EXISTING MEMBERS THEREOF**

**AND  
EDWARD HEALTH VENTURES**

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Attached to and forming a part of that certain Membership Interest Purchase Agreement dated as of November 14, 2013 (the "Purchase Agreement"), by and among Midwest Endoscopy Center, LLC, an Illinois limited liability company (the "Company"), the existing members of the Company (the "Existing Members"), and Edward Health Ventures, an Illinois nonprofit corporation ("Purchaser"), are these Disclosure Schedules. Capitalized terms used but not defined in these Disclosure Schedules shall have the respective meanings provided in the Purchase Agreement. These Disclosure Schedules shall not be construed as constituting representations or warranties of any party (including any representation or warranty as to the completeness or description of any matters set forth or described in these Disclosure Schedules) except as and to the extent provided in the Purchase Agreement. The inclusion of any matter in these Disclosure Schedules in connection with any representation, warranty, covenant or agreement that is qualified as to materiality is not an admission or an indication that such matter is material. No disclosure in these Disclosure Schedules relating to any possible breach or violation of any agreement or law shall be construed as an admission or indication that any such breach or violation actually occurred. Section headings and numbers used in these Disclosure Schedules refer to the corresponding sections of the Purchase Agreement, and these and other headings and numbers are for convenience only and are not to be used to interpret any provision of the Purchase Agreement or these Disclosure Schedules. Any matters disclosed in one section of these Disclosure Schedules shall be deemed disclosed for all purposes in all other sections of these Disclosure Schedules to the extent that the applicability of such disclosure is reasonably apparent. The Company shall have the right to update these Disclosure Schedules at any time prior to Closing.

**Schedule 4.2(e)**  
**Material Adverse Changes**

None.

**Schedule 4.2(g)**  
**Consents**

**PRE-CLOSING**

1. Pre-Closing Regulatory Filings.
  - (i) Certificate of Exemption from the Illinois Health Facilities and Services Review Board.
2. Pre-Closing Consents.
  - (i) Ancillary Provider Participation Agreement, dated August 1, 2008, by and between Humana Health Plan, Inc., Humana HealthChicago Insurance Company and Humana Insurance Company and Employers Health Insurance Company and Midwest Endoscopy Center, LLC.
3. Pre-Closing Notices.
  - (i) Ancillary Services Agreement, dated July 15, 2008, by and between CIGNA Healthcare of Illinois, Inc. and Midwest Endoscopy Center, LLC.

**POST-CLOSING**

1. Post-Closing Notices.
  - (i) Facility Services Agreement, dated September 1, 2008 by and between Aetna Health of Illinois, Inc. and Midwest Endoscopy Center, LLC.
  - (ii) Participating Provider Agreement, dated May 15, 2011, by and between HealthLink, Inc. and Midwest Endoscopy Center, LLC.
  - (iii) Participating Ancillary Provider Agreement, dated September 1, 2008, by and among Midwest Endoscopy Surgery Center, LLC and PersonalCare Insurance of Illinois, Inc. and Coventry Health and Life Insurance Company.
  - (iv) Facility Participation Agreement, dated August 1, 2008, by and between United HealthCare Insurance Company and Midwest Endoscopy Center, LLC.
2. Post-Closing Regulatory Filings.
  - (i) Change of information 855B Medicare filing with CMS.
  - (ii) Notification Letter regarding Certificate of Waiver, CLIA No. 14D1069769, issued to Midwest Endoscopy Center, LLC by the Centers for Medicare and Medicaid Services, expiring June 12, 2015.
  - (iii) Change of ownership information regarding the Accreditation Association for Ambulatory Health Care accreditation, Organization No. 78412, expiring March 6, 2015.

**Schedule 4.2(h)**  
**Proceedings and Investigations**

Case No. 2013L001004, Michele Debartolo, as Executor of the Estate of Rosemary L. Debartolo, deceased, vs. Ravi Nadimpalli, M.D., Suburban Gastroenterology, Ltd., and Midwest Endoscopy Center, filed October 23, 2013, in the Circuit Court of the 18<sup>th</sup> Judicial Circuit DuPage County, Illinois.

**FINANCIAL INFORMATION  
ATTACHMENT #6**

As indicated in Attachment #3, Edward-Elmhurst Healthcare maintains two separate obligated groups, with Edward Hospital and Edward Health Ventures operating within the Edward obligated group and Elmhurst Memorial Healthcare operating within the Elmhurst obligated group. Proof of "A" bond rating for the Edward obligated group is provided as Attachment 6. Note that effective July 1, 2013, Edward Health Services Corporation (referenced in the Moody's report) changed its legal name to Edward-Elmhurst Healthcare.

**ATTACHMENT 6**

# MOODY'S

## INVESTORS SERVICE

### Rating Update: Moody's revises Edward Health Services Corporation, IL outlook to negative; affirms A2

---

Global Credit Research - 13 Aug 2013

**Action affects \$243.9M in debt**

ILLINOIS FINANCE AUTHORITY  
Hospitals & Health Service Providers  
IL

#### Opinion

NEW YORK, August 13, 2013 --Moody's Investors Service has affirmed the A2 long-term rating assigned to Edward Health Services Corporation (EHSC), IL. This action affects approximately \$243.9 million of outstanding debt (see RATED DEBT section at the end of the report). The rating outlook is revised to negative from positive.

#### SUMMARY RATING RATIONALE

The affirmation of the A2 rating is driven by EHSC's history of exceptionally strong operating performance, that provides a material cushion to support EHSC's rating and absorb a material increase in debt and significant operating losses associated with Elmhurst Memorial Healthcare, IL (Baa2/Negative). EHSC's financial strength demonstrates management's ability to implement strategic initiatives under an affiliation agreement with Elmhurst. Under the affiliation agreement, debt from the two systems is to remain separately obligated and operations, while jointly managed by EHSC's leadership team, occur in distinct primary service areas. The revision in the rating outlook to negative factors the risk inherent in EHSC's affiliation with Elmhurst, including new operating challenges in the highly-competitive Chicagoland marketplace, potential for management distraction and execution risk related to operational improvement initiatives at Elmhurst and incorporates Elmhurst's aggressive debt structure.

#### STRENGTHS

- \*Strong management team at EHSC with track record of strong operating results.
- \*The combination with Elmhurst results in a larger revenue base, with future potential for shared savings, opportunities for economies of scale in the era of healthcare reform; revenue base grows from \$590 million at EHSC alone to combined system \$989 million in unaudited FYE 2013.
- \* Strategy to turn around operations at Elmhurst relies in part on improving volumes through physician referrals via a strong and stable affiliation with the large DuPage Medical Group.
- \*Located in Aaa-rated City of Naperville, the fourth largest city in Illinois, EHSC benefits from strong population growth (10.5% from 2000-2010) and wealth measures (\$100,503 median household income; \$397,000 median home value); strong payer mix at both facilities, with Medicaid exposure below national medians.
- \*Strong cash with 297 days cash on hand at unaudited FYE 2013 at EHSC alone and 261 days at combined system.
- \*Limited capital needs for system going forward; brand new Elmhurst facility reduces need for spending and projects at EHSC are manageable in scope.

#### CHALLENGES

- \*Affiliation agreement with Elmhurst introduces roughly a 190% increase in debt compared to EHSC's debt burden (although debt to remain separately obligated), with EHSC debt of \$268 million at unaudited FYE 2013 compared to \$510 million from Elmhurst, for combined \$778 million; debt metrics weaken considerably, cash to debt falls from 162% at EHSC alone to 84.8% at the combined system. Adjusted maximum annual debt service (MADS) coverage weakens, with 5.28 times coverage at EHSC alone compared to 3.15 times at the combined system.



\*Elmhurst's modest operating results weaken the combined entity's results compared to EHSC as a standalone facility, from EHSC's 11.4% operating cash flow margin in unaudited FY 2013 compared to a pro forma 9.1% operating cash flow margin for the combined entity.

\*The affiliation agreement introduces EHSC to defined benefit pension plan risk, as Elmhurst's pension plan was \$62.4M underfunded at FYE 2012; EHSC management indicates it will freeze the plan effective January 1, 2014.

\*Considerable swap exposure, particularly at Elmhurst. EHSC's current notional amount of swaps measure \$134, compared to \$490 million notional outstanding at Elmhurst, for combined \$624 million. Management reports it plans to combine fixed payer swaps and fixed spread basis swaps to lower aggregate notional amount.

\*Crowded competitive market 25 miles west of Chicago with a dozen similarly sized hospitals within a 20-mile radius of EHSC; the market is becoming increasingly competitive with consolidation among hospitals and more competition for physician groups.

#### DETAILED CREDIT DISCUSSION

**LEGAL SECURITY:** The Obligated Group, which consists of Edward Hospital, Edward Health Ventures, Edward Health and Fitness Center, Linden Oaks Hospital and Edward Health Services Corporation, is jointly and severally obligated on all parity debt. The bonds are secured by a security interest in each of the Obligated Group Members' Gross Receipts, but are not secured by a pledge on any real property. The pledge of Gross Receipts can only be enforced by the bond insurer. Elmhurst is not obligated on EHSC's debt.

**INTEREST RATE DERIVATIVES:** EHSC entered into a 30-year floating-to-fixed interest rate swap in the notional amount of \$30 million, locking in a fixed rate of 3.59% on a portion of the Series 2009A variable rate bonds. The swap terminates in 2031 and the counterparty is JPMorgan with a \$5.3 million swap liability as of June 30, 2013. No collateral posting is required unless EHSC's rating falls below Baa1. EHSC entered into two fixed payer swaps with a total initial notional amount of \$75.0 million in conjunction with the Series 2008B-1 (PNC Bank, N.A.) and a portion of its Series 2008B-2 (Goldman Sachs & Co.) bonds, locking in a fixed rate of 3.93%. As of June 30, 2013 the swap had a negative mark-to-market of \$14.5 million and no collateral posting. EHSC also had a swap with Deutsche Bank for initial notional \$32.2 million in conjunction with the remaining portion of its Series 2008B-2 Bonds. As of June 30, 2013, the swap had a negative mark-to-market value of \$6.6 million with no collateral posted.

#### RECENT DEVELOPMENTS/RESULTS

Effective July 1, 2013, EHSC entered into an affiliation agreement with Elmhurst Memorial Healthcare, IL (rated Baa2/Negative). In unaudited FY 2013, Elmhurst recorded approximately \$400 million in operating revenues. Under the affiliation agreement, both EHSC and Elmhurst completely joined operations under a management team primarily comprised of Edward executive leadership, including the Edward CEO and CFO.

Under the executed agreement, EHSC and Elmhurst will maintain separate obligated groups on their respective outstanding bonds with the expectation that bonds could become jointly obligated in subsequent years should operations at Elmhurst improve. The affiliation agreement calls for the combined system board to be comprised of eight members identified by EHSC and five members from Elmhurst. Additionally, the two systems will maintain separate hospital boards (with significant overlap of members from the parent board, and the parent board retaining reserve powers), primarily for physician credentialing purposes. EHSC and Elmhurst operate in distinct, although contiguous primary service areas.

The merger strategy, which includes plans to improve operations at Elmhurst, a hospital with a track record of modest operating margins. The improvement plan for Elmhurst centers around physician alignment through Illinois Health Partners (IHP), a joint-venture with DuPage Medical Group, a 400-physician owned multi-specialty group. DuPage physicians have recently signed a 10,000 square-foot leasing arrangement at the Elmhurst facility. Additionally, Elmhurst's physicians will join IHP effective January 1, 2014. Additionally, Edward management has identified \$25 million in expense savings at Elmhurst in year one, including (a) implementing a new senior management team at Elmhurst, (b) reducing supply costs, (c) standardizing EHSC and Elmhurst employee benefit plans (and freezing Elmhurst's defined benefit pension), (d) and reduce staffing levels.

EHSC includes two hospitals, Edward Hospital (82.2% of admissions in FY 2013) and Linden Oaks, a behavioral health service provider. Inpatient admissions grew 2.9% in 2013 and have grown 16.1% since 2008. EHSC continues to operate in a competitive environment with a dozen hospitals of similar size and service line offerings (some of which are owned by larger systems with resources) within a 20-mile radius. Competition in the area is

increasing with consolidation among hospitals in the Chicagoland area and greater competition for physician groups. Based on management-provided data, EHSC's market share in its northern primary service area grew to 38.2% in fiscal year 2012 from 36.4% in 2010; market share in the secondary service area grew slightly to 5.6% in fiscal year 2012 from 5.0% in 2010. EHSC continues to experience competition for surgeries with outpatient surgeries declining slightly in 2013 and a 6.5% decline since 2008.

EHSC is located approximately 25 miles West of Chicago in Aaa-rated Naperville, IL. The service area benefits from favorable demographics characterized by with high income levels and a growing population. As the fourth largest city in the state, Naperville has a favorable payer mix with low Medicaid and low self-pay population despite economic pressures.

EHSC's strong operating margins continued in FY 2013, although were below FY 2012. Operating income was \$21.0 million (3.6% operating margin) in unaudited FY 2013, compared with \$36.2 million (6.2% margin) in audited FY 2012. Operating cashflow was \$67.2 million (11.4% margin) in FY 2013, compared with \$82.1 million (14.0% margin) in FY 2012. Operating cashflow was higher in FY 2012 due to a favorable settlement with a private insurer. Management is projecting operating margins between 3.0 and 3.7% through FY 2017 and operating cash flow margins between 11.3% and 12.8%. At the combined system, factoring both EHSC and Elmhurst, management projects the operating margin to improve from -2.3% in FY 2013 to 0.8% in FY 2017 and operating cash flow margin to grow from a combined 9.1% in FY 2013 to 12.3% in FY 2017.

Management reports limited capital needs for the combined system. Elmhurst opened a new hospital in June 2011, which reduces the need for spending and capital projects at EHSC are manageable in scope. Spending at EHSC is estimated at \$60 million and \$58 million in FY 2014 and FY 2015, respectively.

EHSC's debt structure continues to present some risk, although we believe it is manageable relative to liquidity levels, with 59% variable rate debt, all supported by bank letters of credit (LOC) with JP Morgan Chase and Bank of America. All of EHSC's LOCs have relatively long terms with expirations in 2014 and 2016 and the term-out periods are adequate (approximately three years). EHSC has adequate headroom under its financial covenants (100 days cash on hand, 1.2 times rate covenant and 65% debt-to-capitalization) and had adequate cash-to-demand debt. Elmhurst introduces material debt structure risk as monthly liquidity to demand debt is significantly lower at Elmhurst (47% at FYE 2013) compared to EHSC (275%), this weakens the metric significantly, with combined monthly liquidity to demand debt at 132% for the combined entity. Monthly liquidity at Edward grew to \$440.0 million at unaudited FYE 2013 compared to \$426.3 million in FY 2012. We note that Elmhurst's monthly liquidity at unaudited FYE 2013 was \$119.5 million, an improvement from \$82.6 million at FYE 2012.

EHSC has a defined contribution pension plan and will assume Elmhurst's underfunded defined benefit pension liability (\$62.4 million underfunded at FYE 2012); management indicates it will implement a hard freeze on Elmhurst's defined benefit pension plan effective January 1, 2014.

## OUTLOOK

The revision in the outlook to negative from positive is driven by risk inherent in EHSC's affiliation with Elmhurst, which presents new operating and debt structure challenges to EHSC in the highly-competitive Chicagoland marketplace.

## WHAT COULD MAKE THE RATING GO UP

A rating upgrade will be considered upon successful execution of strategic initiatives at Elmhurst which enable EHSC to maintain or improve its historical operating performance and introduce shared savings offered by the potential scalability of a larger system.

## WHAT COULD MAKE THE RATING GO DOWN

A rating downgrade will be considered if strategies outlined by management to turn around operations and improve volumes at Elmhurst are unsuccessful, placing credit strain on EHSC.

## KEY INDICATORS

- First number reflects audit year ended June 30, 2012
- Second number reflects unaudited results, fiscal year ended June 30, 2013
- Investment returns normalized at 6% unless otherwise noted

Attachment 6

-Comprehensive debt includes direct debt, operating leases, and pension obligation, if applicable

-Monthly liquidity to demand debt ratio is not included if demand debt is de minimis

\* Inpatient admissions: 25,243; 25,356

\*Observation stays: 9,048; 7,234

\*Medicare % of gross revenues: 33.0%; 35.9%

\*Medicaid % of gross revenues: 6.0%; 6.4%

\*Total operating revenues (\$): \$585.6 million; \$590.6 million

\*Revenue growth rate (%) (3 yr CAGR): 4.5%; 4.5%

\*Operating margin (%): 6.2%; 3.6%

\*Operating cash flow margin (%): 14.0%; 11.4%

\*Debt to cash flow (x): 2.70x; 3.01x

\*Days cash on hand: 296 days; 297 days

\*Maximum annual debt service (MADS) (\$): \$18.8 million; \$18.8 million

\*MADS coverage with reported investment income (x): 4.53x; 5.49x

\*Moody's-adjusted MADS Coverage with normalized investment income (x): 5.98x; 5.28x

\*Direct debt (\$): \$273.5 million; \$267.9 million

\*Cash to direct debt (%): 153%; 162%

\*Comprehensive debt: \$300.9 million; \$291.9 million

\*Cash to comprehensive debt (%): 139%; 148%

\*Monthly liquidity to demand debt (%): 259%;275%

RATED DEBT (debt outstanding as of June 30, 2013)

- Series 2008A fixed rate bonds: \$86.1 million; A2 rating; Ambac insured

- Series 2008B1-2 variable rate bonds: \$103.8 million; A2 underlying rating; JPMorgan Chase Bank Letter of Credit expiring August 31, 2016

- Series 2008C variable rate bonds: \$10.8 million; A2 underlying rating; JP Morgan Chase Bank Letter of Credit expiring August 31, 2016

- Series 2009A variable rate bonds: \$43.2 million; A2 underlying rating; Bank of America Letter of Credit expiring November 28, 2014

The principal methodology used in this rating was Not-for-Profit Healthcare Rating Methodology published in March 2012. Please see the Credit Policy page on [www.moody's.com](http://www.moody's.com) for a copy of this methodology.

#### REGULATORY DISCLOSURES

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Attachment 6

relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on [www.moodys.com](http://www.moodys.com).

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**MOODY'S**  
INVESTORS SERVICE

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Attachment 6

# MOODY'S

## INVESTORS SERVICE

7 World Trade Center  
250 Greenwich Street  
New York, NY 10007  
www.moody's.com

October 3, 2013

Mr. Vincent Pryor  
Senior Vice President-Chief Financial Officer  
Edward Health Services Corporation  
801 S. Washington Street  
Naperville, IL 60566

Dear Mr. Pryor,

In response to your request, this letter outlines Moody's Investors Service's current ratings on the outstanding debt of your organization. Moody's maintains an A2 long-term, unenhanced or underlying bond rating and negative outlook on the following bonds issued for Edward Health Services Corporation:

- Series 2008A fixed rate bonds
- Series 2008B1-2 variable rate bonds
- Series 2008C variable rate bonds
- Series 2009A variable rate bonds

The obligated group for the Edward Health Services Corporation bonds is comprised of Edward-Elmhurst Healthcare (formerly known as Edward Health Services Corporation, per the recent name change confirmed by the amended and restated articles of incorporation forwarded to Moody's by your management from the Secretary of State for the State of Illinois), Edward Hospital, Edward Health Ventures, Edward Health and Fitness Center, and Linden Oaks Hospital.

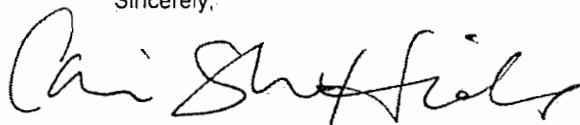
Additionally, Moody's maintains a distinct and wholly separate Baa2 rating and negative outlook on the following bonds issued for Elmhurst Memorial Healthcare:

- Series 2002D fixed rate bonds
- Series 2008A fixed rate bonds
- Series 2008B VRDO Bonds
- Series 2008C VRDO Bonds
- Series 2008D VRDO Bonds
- Series 2008E VRDO Bonds

The obligated group for the Elmhurst Memorial Healthcare bonds is comprised of Elmhurst Memorial Healthcare, Elmhurst Memorial Hospital, and Elmhurst Memorial Home Health.

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

Sincerely,



Carrie Sheffield  
Associate Analyst  
Phone : 212-553-1095  
Fax : 212-298-6235  
Email : carrie.sheffield@moody's.com

CS:rl

Attachment 6



CONSOLIDATED FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION

Edward Health Services Corporation and Subsidiaries  
Years Ended June 30, 2013 and 2012  
With Reports of Independent Auditors

Ernst & Young LLP

 **ERNST & YOUNG**

Edward Health Services Corporation and Subsidiaries

Consolidated Financial Statements and  
Supplementary Information

Years Ended June 30, 2013 and 2012

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## Report of Independent Auditors

The Board of Trustees  
Edward Health Services Corporation

We have audited the accompanying consolidated financial statements of Edward Health Services Corporation and Subsidiaries (the Corporation), which comprise the consolidated balance sheets as of June 30, 2013 and 2012, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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

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

### **Auditor's Responsibility**

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

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

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Edward Health Services Corporation and Subsidiaries at June 30, 2013 and 2012, and the consolidated results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

*Ernst + Young LLP*

September 26, 2013

Edward Health Services Corporation and Subsidiaries

Consolidated Balance Sheets

(Dollars in Thousands)

|  | June 30             |                     |
|--|---------------------|---------------------|
|  | 2013                | 2012                |
| <b>Assets</b>  |                     |                     |
| Current assets:  |                     |                     |
| Cash and cash equivalents  | \$ 547              | \$ 2,503            |
| Assets limited as to use   | 5,575               | 5,325               |
| Patient accounts receivable, less allowances for<br>doubtful accounts (2013 – \$19,808; 2012 – \$20,839) | 93,467              | 88,105              |
| Estimated amounts due from third-party payors  | 1,395               | 1,941               |
| Inventories  | 9,530               | 9,198               |
| Prepaid expenses and other current assets  | 8,632               | 7,855               |
| Total current assets   | <u>119,146</u>      | <u>114,927</u>      |
| Assets limited as to use, less current portion:  |                     |                     |
| Externally designated investments under debt<br>agreements   | –                   | 3,843               |
| Externally designated for self-insurance   | 100,575             | 93,344              |
| Board-designated investments   | 433,923             | 414,627             |
|  | <u>534,498</u>      | <u>511,814</u>      |
| Other assets:  |                     |                     |
| Deferred financing costs, net  | 3,428               | 3,613               |
| Goodwill and other intangible assets, net  | 31,356              | 31,651              |
| Investments in affiliates and other  | 15,886              | 15,049              |
| Reinsurance recoverable for reinsured losses   | 7,429               | 7,632               |
|  | <u>58,099</u>       | <u>57,945</u>       |
| Land, buildings, and equipment:  |                     |                     |
| Land and improvements  | 41,530              | 41,257              |
| Buildings and improvements   | 525,240             | 506,042             |
| Furniture and equipment  | 259,060             | 208,163             |
| Construction-in-progress   | 64,263              | 38,089              |
|  | <u>890,093</u>      | <u>793,551</u>      |
| Less allowances for depreciation   | 435,955             | 401,778             |
|  | <u>454,138</u>      | <u>391,773</u>      |
|  | <u>\$ 1,165,881</u> | <u>\$ 1,076,459</u> |

|   | June 30        |                |
|---|----------------|----------------|
|   | 2013           | 2012           |
| <b>Liabilities and net assets</b>           |                |                |
| Current liabilities:                        |                |                |
| Accounts payable                            | \$ 35,202      | \$ 26,658      |
| Accrued expenses                            | 56,701         | 47,864         |
| Estimated amounts due to third-party payors | 99,964         | 95,698         |
| Current maturities of long-term debt        | 6,575          | 5,325          |
| Total current liabilities                   | <u>198,442</u> | <u>175,545</u> |
| Long-term debt, less current maturities     | 261,298        | 267,862        |
| Professional and general liability          | 42,275         | 47,139         |
| Reserve for reinsured losses                | 7,429          | 7,632          |
| Other liabilities                           | 35,919         | 47,874         |
| Total liabilities                           | <u>545,363</u> | <u>546,052</u> |
| Net assets:                                 |                |                |
| Unrestricted net assets                     | 619,078        | 529,065        |
| Temporarily restricted net assets           | 1,047          | 949            |
| Permanently restricted net assets           | 393            | 393            |
| Total net assets                            | <u>620,518</u> | <u>530,407</u> |

|                     |                     |
|---------------------|---------------------|
| <u>\$ 1,165,881</u> | <u>\$ 1,076,459</u> |
|---------------------|---------------------|

See accompanying notes.

Edward Health Services Corporation and Subsidiaries

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

|  | Year Ended June 30 |                 |
|--|--------------------|-----------------|
|  | 2013               | 2012            |
| <b>Revenues</b>  |                    |                 |
| Net patient service revenue before provision for bad debts | \$ 586,052         | \$ 593,675      |
| Provision for bad debts                                    | (28,522)           | (38,290)        |
| Net patient service revenue                                | 557,530            | 555,385         |
| Other operating revenue                                    | 35,506             | 31,578          |
|  | <u>593,036</u>     | <u>586,963</u>  |
| <b>Expenses</b>  |                    |                 |
| Salaries and wages   | 252,118            | 238,089         |
| Employee benefits  | 62,223             | 55,896          |
| Medical fees   | 7,671              | 9,716           |
| Purchased services   | 40,603             | 32,430          |
| Supplies and other   | 144,884            | 151,265         |
| Depreciation and amortization                              | 35,741             | 34,753          |
| Interest   | 5,752              | 6,340           |
| Medicaid tax   | 16,089             | 16,089          |
|  | <u>565,081</u>     | <u>544,578</u>  |
| Operating income before impairment of software             | 27,955             | 42,385          |
| Impairment of software                                     | —                  | 6,029           |
| Operating income   | <u>27,955</u>      | <u>36,356</u>   |
| <b>Non-operating</b>                                       |                    |                 |
| Realized gains and investment income                       | 34,358             | 3,059           |
| Unrealized gains (losses) on investments, net              | 19,629             | (389)           |
| Gain (loss) on interest rate swaps                         | 11,790             | (17,955)        |
| Cash settlements on interest swaps                         | (4,721)            | (4,783)         |
| Other non-operating gains (losses)                         | 906                | (1,426)         |
|  | <u>61,962</u>      | <u>(21,494)</u> |
| Excess of revenues and gains over expenses and losses      | \$ 89,917          | \$ 14,862       |

Edward Health Services Corporation and Subsidiaries

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

(Dollars in Thousands)

|  | Year Ended June 30 |                   |
|--|--------------------|-------------------|
|  | 2013               | 2012              |
| <b>Unrestricted net assets</b>   |                    |                   |
| Excess of revenues and gains over expenses<br>and losses                       | \$ 89,917          | \$ 14,862         |
| Net assets released from restrictions and used for purchase<br>of fixed assets | 96                 | 432               |
| Increase in unrestricted net assets  | <u>90,013</u>      | <u>15,294</u>     |
| <b>Temporarily restricted net assets</b>                                       |                    |                   |
| Contributions  | 564                | 793               |
| Net assets released from restrictions and used for operations                  | (370)              | (430)             |
| Net assets released from restrictions and used for purchase<br>of fixed assets | (96)               | (432)             |
| Increase (decrease) in temporarily restricted net assets                       | <u>98</u>          | <u>(69)</u>       |
| Increase in net assets   | 90,111             | 15,225            |
| Net assets at beginning of year  | 530,407            | 515,182           |
| Net assets at end of year  | <u>\$ 620,518</u>  | <u>\$ 530,407</u> |

See accompanying notes.

# Edward Health Services Corporation and Subsidiaries

## Consolidated Statements of Cash Flows (Dollars in Thousands)

|   | Year Ended June 30 |                 |
|---|--------------------|-----------------|
|   | 2013               | 2012            |
| <b>Operating activities</b>   |                    |                 |
| Increase in net assets  | \$ 90,111          | \$ 15,225       |
| Adjustments to reconcile increase in net assets to net cash provided by operating activities: |                    |                 |
| Depreciation and amortization   | 35,741             | 34,753          |
| Impairment of equipment   | -                  | 6,029           |
| Provision for doubtful accounts   | 28,522             | 38,290          |
| Change in net unrealized (gain) loss on interest rate swaps                                   | (11,790)           | 17,955          |
| Restricted contributions  | (564)              | (793)           |
| Loss on early extinguishment of debt  | -                  | 782             |
| Loss on disposal of fixed assets  | -                  | 532             |
| Changes in operating assets and liabilities:  |                    |                 |
| Patient accounts receivable   | (33,884)           | (54,828)        |
| Inventories, prepaid expenses, and other current assets                                       | (1,109)            | 3,543           |
| Accounts payable and accrued expenses   | 17,381             | 7,260           |
| Other assets and liabilities  | (5,029)            | 2,595           |
| Investments   | (22,934)           | (35,585)        |
| Estimated amounts due from/to third-party payors  | 4,812              | 18,488          |
| Net cash provided by operating activities   | <u>101,257</u>     | <u>54,246</u>   |
| <b>Investing activities</b>   |                    |                 |
| Additions to land, buildings, and equipment, net  | (97,626)           | (58,325)        |
| Investments in affiliates and other   | (837)              | (2,423)         |
| Net cash used in investing activities   | <u>(98,463)</u>    | <u>(60,748)</u> |
| <b>Financing activities</b>   |                    |                 |
| Principal payments under bond obligations   | (5,314)            | (5,010)         |
| Proceeds from issuance of long-term debt  | -                  | 26,050          |
| Repayment of long-term debt   | -                  | (26,050)        |
| Restricted contributions  | 564                | 793             |
| Net cash used in financing activities   | <u>(4,750)</u>     | <u>(4,217)</u>  |
| Net decrease in cash and cash equivalents   | (1,956)            | (10,719)        |
| Cash and cash equivalents at beginning of year  | 2,503              | 13,222          |
| Cash and cash equivalents at end of year  | <u>\$ 547</u>      | <u>\$ 2,503</u> |
| <b>Supplemental disclosure of cash flow information</b>                                       |                    |                 |
| Interest paid   | <u>\$ 5,628</u>    | <u>\$ 6,316</u> |

See accompanying notes.

# Edward Health Services Corporation and Subsidiaries

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

June 30, 2013

### 1. Corporate Organization

The accompanying consolidated financial statements represent the accounts of Edward Health Services Corporation (the Corporation) and its affiliates. Included among the affiliates are Edward Hospital (the Hospital), an acute care hospital located in Naperville, Illinois, serving residents of Naperville and its surrounding communities; Edward Health Ventures (EHV), an organization that provides the services of physician practices, holds real estate investments, and invests in joint venture medical practices and other health care services; Edward Foundation (the Foundation), a charitable foundation organized to solicit gifts for the maintenance and benefit of the Corporation and its affiliates; and EHSC Cayman Segregated Portfolio Co. (the Captive), which provides general and professional liability insurance coverage to the Corporation and its affiliates. EHV is the sole corporate member of Edward Health & Fitness Center (EHFC), an Illinois not-for-profit corporation, and is the sole shareholder of Edward Management Corporation (EMC), an Illinois for-profit corporation, which provides physician billing services. EHV has a 99% ownership interest in Naperville Psychiatric Ventures, an Illinois general partnership, d/b/a Linden Oaks Hospital (Linden Oaks), a psychiatric hospital located on the campus of the Hospital, and the Corporation owns the remaining 1% interest. EHV is also the general partner of the Edward Physician Office Center Limited Partnership (EPOCLP), an Illinois for-profit limited partnership, which owns a medical office building on the Hospital campus. EHV and the Hospital together own 96% of the limited and general partnership units of EPOCLP.

Significant intercompany transactions have been eliminated in consolidation.

### 2. Summary of Significant Accounting Policies

#### Use of Estimates

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

Although estimates are considered to be fairly stated at the time the estimates are made, actual results could differ from those estimates.



Edward Health Services Corporation and Subsidiaries

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

**2. Summary of Significant Accounting Policies (continued)**

**Cash Equivalents**

Cash equivalents include investments in highly liquid debt instruments with a maturity of three months or less when purchased, excluding amounts whose use is limited by board designation or other arrangements under trust agreements.

**Accounts Receivable**

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

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

The Corporation's allowance for doubtful accounts was 17.5% and 19.4% of total accounts receivable as of June 30, 2013 and 2012, respectively. The Corporation's combined allowance for doubtful accounts and charity care covered 51.0% and 75.4% of self-pay accounts receivable at June 30, 2013 and 2012, respectively. The Corporation's write-offs to the allowance for doubtful accounts were \$29,375 and \$34,817 for the years ended June 30, 2013 and 2012 respectively. This decrease was the result of positive trends experienced in collecting the

Edward Health Services Corporation and Subsidiaries

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

**2. Summary of Significant Accounting Policies (continued)**

amounts due from the patient. The Corporation has not changed its charity care or uninsured discount policies from fiscal year 2012 to fiscal year 2013. In addition, the Corporation has not changed its process for estimating the allowance for doubtful accounts.

**Assets Limited as to Use and Investment Income**

Assets limited as to use include assets set aside by the Board of Trustees (the Board) for future capital improvements, which the Board, at its discretion, may subsequently use for other purposes. In addition, assets limited as to use include assets externally designated by reinsurers for the self-insured professional and general liability.

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value based on quoted market prices for those or similar investments. Dividends, realized gains and losses, and unrealized gains and losses are reported as non-operating gains and losses in the consolidated statements of operations and changes in net assets.

**Interest Rate Swaps**

Interest rate swaps are measured at fair value based on quoted market interest rates. In accordance with Accounting Standards Codification (ASC) 815-10-50, *Disclosures about Derivative Instruments and Hedging Activities*, gains and losses resulting from changes in market interest rates are reported as non-operating gains and losses in the consolidated statements of operations and changes in net assets.

**Inventories**

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

Edward Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

**2. Summary of Significant Accounting Policies (continued)**

**Deferred Financing Costs and Goodwill**

Debt issuance and financing costs are capitalized and amortized over the life of the debt issue using methods that approximate the effective interest method. Goodwill is reviewed annually for impairment.

**Land, Buildings, and Equipment**

Land, buildings, and equipment are carried at cost, except donated assets, which are recorded at fair market value as of the date of donation. The Corporation has capitalized internal developed software costs of \$27,393 and \$2,340 at June 30, 2013 and 2012, respectively, which is recorded in furniture and equipment in the consolidated balance sheet. The related amortization expense is \$1,370 and \$167 as of June 30, 2013 and 2012, respectively. The Corporation records depreciation expense, including amortization of assets recorded under capital leases, using the straight-line method over the estimated useful lives of the assets, which range from 3 to 90 years. During 2012, management changed the estimate of the remaining service life of certain buildings. The change is being accounted for prospectively as a change in estimate. The impact of this change was a reduction in depreciation expense of \$9,200 in 2012.

The Corporation considers whether indicators of impairment are present and performs the necessary tests to determine if the carrying values of an asset are appropriate. Impairment write-downs are recognized in the consolidated statements of operations and changes in net assets at the time the impairment is identified.

**Impairment and Nonrecurring Gain**

Long-lived and intangible assets are reviewed for impairment whenever events or business conditions indicate the carrying amount of such assets may not be fully recoverable. Initial assessments of recoverability are based on estimates of undiscounted future net cash flows associated with an asset or group of assets. When impairment is indicated, the carrying amount of these long-lived assets is reduced to fair value based on discounted net cash flows or other estimated fair values.

Edward Health Services Corporation and Subsidiaries

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

**2. Summary of Significant Accounting Policies (continued)**

**Net Patient Service Revenue**

The Corporation has agreements with various third-party payors that provide for payments to the Corporation at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts received or due from patients, third-party payors, and others for services rendered. These amounts include estimated adjustments under certain reimbursement agreements with third-party payors, which are subject to audit by the applicable administering agency. These adjustments are accrued on an estimated basis and are adjusted in future periods as final settlements are determined (see Note 4). Patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts), recognized in the period from these major payor services, is as follows for the years ended June 30, 2013 and June 30, 2012:

|  | <u>Third-Party<br/>Payors</u> | <u>Self-Pay</u> | <u>Total All<br/>Payors</u> |
|--|-------------------------------|-----------------|-----------------------------|
| Patient service revenue (net of contractual allowances and discounts) for the year ended June 30, 2013 | \$ 505,036                    | \$ 81,016       | \$ 586,052                  |
| Patient service revenue (net of contractual allowances and discounts) for the year ended June 30, 2012 | 518,165                       | 75,510          | 593,675                     |

**Charity Care**

The Corporation provides care to all patients regardless of their ability to pay. Charity care provided by the Corporation is excluded from net patient service revenue.

**Excess of Revenues and Gains Over Expenses and Losses**

The consolidated statements of operations and changes in net assets include excess of revenues and gains over expenses and losses. Changes in unrestricted net assets, which are excluded from excess of revenues and gains over expenses and losses, include contributions of long-lived assets, including assets acquired using donor-restricted contributions.

## Edward Health Services Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

#### 2. Summary of Significant Accounting Policies (continued)

##### Income Taxes

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

EPOCLP is a partnership, and as such, income taxes are paid directly by the partners. Accordingly, no provision for income taxes has been recorded.

There is presently no tax imposed by the government of the Cayman Islands on the Captive. The only taxes payable by the Captive are withholding taxes of other countries applicable to certain investment income. As a result, no tax liability or expense has been recorded in the financial statements of the Captive.

##### Adoption of New Accounting Standards

In July 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-07, *Health Care Entities (Topic 954): Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*. ASU 2011-07 is effective for fiscal years and interim periods beginning after December 31, 2011, with early adoption permitted. Changes to the presentation of the provision for bad debts related to patient service revenue in the statement of operations should be applied retrospectively to all prior periods presented. ASU 2011-07 states that a health care entity that recognizes significant amounts of patient service revenue at the time the services are rendered even though it does not assess the patient's ability to pay must present the provision for doubtful accounts as a reduction of net patient revenue and not include it as a separate item in operating expenses. The Corporation adopted this guidance effective July 1, 2011. The presentation and disclosures, as required by ASU 2011-07, are reflected in the Corporation's consolidated statement of operations and changes in net assets and in Note 2.

Edward Health Services Corporation and Subsidiaries

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

**2. Summary of Significant Accounting Policies (continued)**

In August 2010, the FASB issued ASU 2010-23, *Measuring Charity Care for Disclosure*, which clarifies and defines the calculation of charity care disclosed by not-for-profit entities. This guidance was adopted by the Corporation on July 1, 2011, and had no impact on the consolidated financial statements. Refer to Charity Care in Note 2.

In August 2010, the FASB issued ASU 2010-24, *Presentation of Insurance Claims and Related Insurance Recoveries*, which requires that health care entities present anticipated insurance recoveries separately on the balance sheet from estimated liabilities for medical malpractice claims or similar contingent liabilities. The Corporation adopted this guidance in its first quarter of fiscal year 2012. The guidance had no impact on the consolidated financial statements.

In January 2010, the FASB issued ASU 2010-06, *Improving Disclosures about Fair Value Measurements*. ASU 2010-06 amends ASC 820, *Fair Value Measurement*, to require a number of additional disclosures regarding fair value measurements. These disclosures include the amounts of significant transfers between Level 1 and Level 2 of the fair value hierarchy and the reasons for these transfers; the reasons for any transfer in or out of Level 3; and information in the reconciliation of recurring Level 3 measurements about purchases, sales, issuances, and settlements on a gross basis, as well as clarification on previous reporting requirements. This new guidance was effective for the first reporting period, including interim periods beginning after December 15, 2009, for all disclosures except the requirement to separately disclose purchases, sales, issuances, and settlements of recurring Level 3 measurements, which was effective for the Corporation in fiscal year 2012. The Corporation adopted this guidance with the exception of the additional Level 3 disclosures in the first quarter of fiscal year 2011. The additional Level 3 disclosures were adopted beginning July 1, 2011. This guidance had no impact on the consolidated financial statements.

**Reclassifications**

Certain reclassifications were made to the 2012 financial statements to conform with the classifications used in 2013. These reclassifications had no impact on excess of revenues and gains over expenses and losses or on net assets as previously reported.

Edward Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

**3. General and Professional Liability Claims**

The Corporation was a party to an agreement with the Illinois Provider Trust (IPT) for primary and excess coverage of general and professional liability claims through December 31, 2004. Effective January 1, 2005, the Captive began providing claims-made health care professional liability and occurrence-based general liability coverage to the Corporation and its affiliates. From January 1, 2005 through December 31, 2007, the Captive's primary limits were \$3,000 per occurrence without an aggregate limit and a buffer layer of \$2,000 in the aggregate. From January 1, 2008 through December 31, 2008, the Captive's primary limits were \$2,000 per occurrence with an aggregate of \$32,000 and a buffer layer of \$2,000 in the aggregate. Beginning January 1, 2009, the Captive's primary limits were \$2,000 per occurrence with an aggregate of \$12,000 and a buffer layer of \$2,000 in the aggregate.

From January 1, 2003 through December 31, 2004, the Corporation's primary layer of general and professional liability coverage with IPT was on a claims-made basis, and from January 1, 2002 through December 31, 2004, the Corporation's excess general and professional liability coverage with IPT was on a claims-made basis. The professional liability coverage under the Captive is also on a claims-made basis, beginning January 1, 2005. However, the Captive includes tail coverage retroactive to the dates of the claims-made primary and excess coverages through IPT (January 2003 and January 2002, respectively). In January 2007, the Captive began providing professional liability coverage to certain employed physicians of the Hospital and EHV. The Corporation has recorded a tail coverage liability representing incurred but not reported claims of \$10,000 and \$9,764 at June 30, 2013 and 2012, respectively. The Corporation is also covered by an excess liability policy with limits of \$80,000 in the aggregate for the period January 1, 2009 through December 31, 2013.

The Captive has also recorded a liability of \$32,275 and \$37,376 for claims reported to the Captive at June 30, 2013 and 2012, respectively.

Annual premiums paid to IPT or deposited in the Captive are based on actuarial valuations. The premiums for primary coverage under IPT are subject to retrospective adjustments based on the loss experience of the Corporation and other IPT members, subject to certain maximum limitations. No retrospective premium adjustments were assessed to the Corporation during fiscal years 2013 and 2012.

Edward Health Services Corporation and Subsidiaries

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

**3. General and Professional Liability Claims (continued)**

Actuarial estimates are subject to uncertainty, including changes in claim reporting patterns, claim settlement patterns, judicial decisions, legislation, and economic conditions. The actual claim payments could be materially different from the estimates. The Corporation and its subsidiaries recorded \$1,331 and \$3,112 of general and professional liability expense in 2013 and 2012, respectively. The Corporation is a defendant in various lawsuits arising in the ordinary course of business. Although the outcome of these lawsuits cannot be predicted with certainty, management believes the ultimate disposition of such matters will not have a material effect on the Corporation's consolidated financial condition or results of operations.

**4. Contractual Arrangements With Third-Party Payors**

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

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

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

Net patient revenues received under the HMO/PPO and Medicare payment arrangements account for 69% and 25% of net patient service revenue, respectively, for the year ended June 30, 2013, and 72% and 22%, respectively, for the year ended June 30, 2012. A provision has been made in the consolidated financial statements for contractual adjustments, representing the difference between standard charges for services and actual or estimated payment.



Edward Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

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

The Hospital, Linden Oaks, and EHV grant credit without collateral to their patients, most of whom are local residents and are insured under third-party arrangements. Major components of net patient accounts receivable include 22% and 19%, respectively, at June 30, 2013, and 18% and 18% at June 30, 2012, respectively, from Medicare and Blue Cross.

Adjustments arising from reimbursement arrangements with third-party payors are accrued on an estimated basis in the period in which the services are rendered. Estimates for cost report settlements and contractual allowances can differ from actual reimbursement based on the results of subsequent reviews and cost report audits. Changes in third-party payor settlements that relate to prior years are reported in net patient service revenue in the consolidated statements of operations and changes in net assets. The impact of such items resulted in an increase in net patient service revenue in the amounts of \$7,158 and \$762 in 2013 and 2012, respectively.

The Centers for Medicare and Medicaid Services approved the State of Illinois' Hospital Assessment Program with an effective date beginning July 1, 2008 (the beginning of the state's fiscal year 2008) through June 30, 2013 (the end of the state's fiscal year 2013).

The Corporation recognized in its year ended June 30, 2013, Illinois hospital assessment revenue and assessment expense in the amounts of \$12,231 and \$16,089, respectively, resulting in a decrease in the Corporation's fiscal 2013 excess of revenues and gains over expenses and losses of \$3,858. The Corporation recognized in its year ended June 30, 2012, Illinois hospital assessment revenue and assessment expense in the amounts of \$12,675 and \$16,089, respectively, resulting in a decrease in the Corporation's fiscal 2012 excess of revenues and gains over expenses and losses of \$3,414.

Edward Health Services Corporation and Subsidiaries

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

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

The Corporation recognized \$1,474 and \$1,937 as unrestricted contributions from the Illinois Hospital Research and Educational Foundation (IHREF), representing financial assistance to certain hospitals participating in the 2013 and 2012 Illinois Medicaid Provider Tax program, respectively. This amount has been recorded as other operating revenues in the accompanying consolidated statements of operations and changes in net assets for the years ended June 30, 2013 and 2012.

**5. Temporarily and Permanently Restricted Net Assets**

Temporarily restricted net assets are available for the following purposes at June 30:

|   | <u>2013</u>     | <u>2012</u>   |
|---|-----------------|---------------|
| Temporarily restricted:                 |                 |               |
| Animal assisted therapy                 | \$ 153          | \$ 153        |
| Oncology programs                       | 93              | 93            |
| Cardiovascular programs                 | 108             | 108           |
| Other special uses                      | 693             | 595           |
| Total temporarily restricted net assets | <u>\$ 1,047</u> | <u>\$ 949</u> |

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

|   | <u>2013</u>   | <u>2012</u>   |
|---|---------------|---------------|
| Permanently restricted:                 |               |               |
| Cardiovascular endowment                | \$ 100        | \$ 100        |
| Animal assisted therapy endowment       | 155           | 155           |
| Other special uses                      | 138           | 138           |
| Total permanently restricted net assets | <u>\$ 393</u> | <u>\$ 393</u> |

Edward Health Services Corporation and Subsidiaries

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

**5. Temporarily and Permanently Restricted Net Assets (continued)**

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

|   | <u>2013</u>   | <u>2012</u>   |
|---|---------------|---------------|
| KidsCare campaign                           | \$ 126        | \$ 432        |
| Cancer campaign                             | (27)          | -             |
| Health care services and other              | 370           | 430           |
| Total net assets released from restrictions | <u>\$ 469</u> | <u>\$ 862</u> |

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

|                        | <u>June 30</u> |               |
|------------------------|----------------|---------------|
|                        | <u>2013</u>    | <u>2012</u>   |
| Less than one year     | \$ 324         | \$ 295        |
| One through five years | 335            | 579           |
|                        | <u>\$ 659</u>  | <u>\$ 874</u> |

**6. Investments in Affiliates**

Investments in affiliates include a 33% interest in Northern Illinois Surgery Center Limited Partnership, an Illinois limited partnership; a 50% membership interest and 100% ownership interest in Naperville Health Care Associates (NHCA), an Illinois for-profit corporation; a 50% ownership interest in Illinois Health Partners, LLC (IHP), an Illinois limited partnership; a 49% interest in Residential Home Health of Illinois; a 12.5% investment in DMG Surgical Center, LLC; and a 45% interest in the Plainfield Surgery Center LLC. These investments are recorded using the equity method of accounting. Net income from these investments is included in other operating revenue in the accompanying consolidated statements of operations and changes in net assets.

Edward Health Services Corporation and Subsidiaries

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

**6. Investments in Affiliates (continued)**

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

|             | <u>2013</u> | <u>2012</u> |
|-------------|-------------|-------------|
| Assets      | \$ 49,498   | \$ 41,405   |
| Liabilities | 17,318      | 13,689      |
| Net income  | 4,373       | 9,167       |

**7. Investments**

Board-designated investments represent assets invested in a pooled investment fund, which aggregates investments of all the entities of the Corporation. Board-designated investments, along with trustee-held investments, consisted of the following at June 30:

|   | <u>2013</u>       |                   | <u>2012</u>       |                   |
|---|-------------------|-------------------|-------------------|-------------------|
|   | <u>Fair Value</u> | <u>Cost</u>       | <u>Fair Value</u> | <u>Cost</u>       |
| Mutual funds                                  | \$ 472,418        | \$ 425,108        | \$ 456,724        | \$ 422,222        |
| Equity securities                             | 56,440            | 44,778            | 50,929            | 46,087            |
| Money market funds and short-term investments | 11,215            | 11,215            | 9,486             | 9,487             |
|   | <u>\$ 540,073</u> | <u>\$ 481,101</u> | <u>\$ 517,139</u> | <u>\$ 477,796</u> |

Edward Health Services Corporation and Subsidiaries

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

**7. Investments (continued)**

Return on investments for the years ended June 30 are as follows:

|   | <u>2013</u>      | <u>2012</u>     |
|---|------------------|-----------------|
| Investment return:                            |                  |                 |
| Interest and dividend income                  | \$ 19,062        | \$ 9,822        |
| Unrealized gains (losses) on investments, net | 19,629           | (389)           |
| Net realized gains (losses) on investments    | 15,296           | (6,546)         |
| Total investment return                       | <u>\$ 53,987</u> | <u>\$ 2,887</u> |
| Reported as:                                  |                  |                 |
| Other operating revenue                       | \$ —             | \$ 217          |
| Unrealized gains (losses) on investments, net | 19,629           | (389)           |
| Net realized gains and investment income      | 34,358           | 3,059           |
|   | <u>\$ 53,987</u> | <u>\$ 2,887</u> |

**8. Derivatives and Other Financial Instruments**

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

Edward Health Services Corporation and Subsidiaries

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

**8. Derivatives and Other Financial Instruments (continued)**

The Corporation has not experienced any financial losses or changes in counterparty collateral posting requirements due to changes in the credit ratings or risk profiles of its derivative counterparties for fiscal years ended June 30, 2013 and 2012.

The Corporation maintains interest rate swap programs on its variable rate demand revenue bonds. These bonds expose the Corporation to variability in interest payments due to changes in interest rates. Management believes that it is prudent to limit the variability of its interest payments. To meet this objective and to take advantage of low interest rates, the Corporation entered into various interest rate swap agreements to manage fluctuations in cash flows resulting from interest rate risk. These swaps limit the variable rate cash flow exposure on the variable rate demand revenue bonds to synthetically fixed cash flows. The notional amount under each interest rate swap agreement is reduced over the term of the respective agreement to correspond with reductions in various outstanding bond series.

The following is a summary of the outstanding positions under these interest swap agreements at June 30, 2013:

| Bond Series | Notional Amount | Maturity Date | Rate Paid | Rate Received                       |
|-------------|-----------------|---------------|-----------|-------------------------------------|
| 2008B-1     | \$ 51,630       | February 2040 | 3.96%     | 61.8% of one-month LIBOR plus 0.31% |
| 2008B-2     | \$ 30,978       | February 2040 | 4.05%     | 61.8% of one-month LIBOR plus 0.31% |
| 2008B-2     | \$ 20,652       | February 2040 | 3.93%     | 61.8% of one-month LIBOR plus 0.31% |
| 2009A       | \$ 30,000       | February 2031 | 3.59%     | 67.0% of one-month LIBOR            |

The following is a summary of the outstanding positions at June 30, 2012:

| Bond Series | Notional Amount | Maturity Date | Rate Paid | Rate Received                       |
|-------------|-----------------|---------------|-----------|-------------------------------------|
| 2008B-1     | \$ 52,650       | February 2040 | 3.96%     | 61.8% of one-month LIBOR plus 0.31% |
| 2008B-2     | \$ 31,590       | February 2040 | 4.05%     | 61.8% of one-month LIBOR plus 0.31% |
| 2008B-2     | \$ 21,060       | February 2040 | 3.93%     | 61.8% of one-month LIBOR plus 0.31% |
| 2009A       | \$ 30,000       | February 2031 | 3.59%     | 67.0% of one-month LIBOR            |

Edward Health Services Corporation and Subsidiaries

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

**8. Derivatives and Other Financial Instruments (continued)**

As required in ASC 815-10-25-1, the Corporation is required to recognize all of its derivative instruments as either assets or liabilities in the consolidated balance sheets at fair value. The accounting for changes in the fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated as part of a hedging relationship and, further, on the type of hedging relationship. For derivative instruments that are designated as hedging instruments, the Corporation must designate the hedging instrument based upon the exposure being hedged as a fair value hedge, cash flow hedge, or a hedge of a net investment in a foreign operation.

The fair value of derivative instruments at June 30, 2013 and 2012, is as follows:

| <b>Derivatives Not Designated as Hedging<br/>Instruments Under ASC 815-10</b> | <b>Location on<br/>Consolidated Balance<br/>Sheets</b> | <b>June 30,<br/>2013</b> | <b>June 30,<br/>2012</b> |
|---|--|--------------------------|--------------------------|
| Interest rate swap agreements   | Other liabilities                                      | \$ (26,431)              | \$ (38,221)              |

The effects of derivative instruments on the consolidated statements of operations and changes in net assets for the years ended June 30, 2013 and 2012, are as follows:

| <b>Derivatives Not Designated as Hedging<br/>Instruments Under ASC 815-10</b> | <b>Location of Gain<br/>(Loss) Recognized in<br/>Non-operating Gains<br/>(Losses) in the<br/>Consolidated<br/>Statements of<br/>Operations and<br/>Changes in Net Assets</b> | <b>June 30,<br/>2013</b> | <b>June 30,<br/>2012</b> |
|---|--|--------------------------|--------------------------|
| Interest rate swap agreements   | Gain (loss) on interest<br>rate swaps  | \$ 11,790                | \$ (17,955)              |

For derivative instruments that are designated and qualify as a cash flow hedge (i.e., hedging the exposure of variability in expected future cash flows that is attributable to a particular risk), the gain or loss is recorded as a change in unrestricted net assets, whereas for derivative instruments not designated as hedging instruments, the gain or loss is recognized in current earnings during the period of change. At June 30, 2013 and 2012, the Corporation had no derivative instruments that are designated and qualify as a fair value hedge or hedge of a net investment in a foreign currency.

Edward Health Services Corporation and Subsidiaries

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

**8. Derivatives and Other Financial Instruments (continued)**

In November 2001, the Corporation entered into a 30-year interest rate swap agreement with a counterparty. The agreement effectively converted \$30,000 of the Corporation's Series 2001C Bond issue (refunded in October 2009 by Series 2009A) from a variable rate that approximates the Securities Industry and Financial Markets Association (SIFMA) 30-day rate (0.06% and 0.18% at June 30, 2013 and 2012, respectively), reset on a weekly basis, to a fixed rate of 3.59%. Financial settlement of the terms of the agreement occurs on a monthly basis. The agreement expires in 2031.

In April 2006, the Corporation entered into two 33-year interest rate swap agreements with two counterparties with notional amounts of \$57,140 for each swap. The swaps effectively locked in future refunding savings by exchanging a variable rate of 61.8% of the one-month London Interbank Offered Rate (LIBOR) plus 0.31% with a fixed rate of 3.93%. The agreements became effective on February 1, 2007, at the option of the Corporation.

In April 2011, the Corporation entered into a swap novation agreement for its 2008B-2 swap with an additional counterparty for a notional amount of \$21,060. This swap novation effectively locked in future cash flows by exchanging a variable rate of 61.8% of one-month LIBOR plus 0.31% with a fixed rate of 4.0485% and raised the collateral posting threshold on the novated portion of the swap to \$10,000. The agreement became effective on May 4, 2011.

In December 2011, the Corporation entered into a swap novation agreement for its 2008B-1 swap with an additional counterparty for a notional amount of \$52,650. This swap novation effectively locked in future cash flows by exchanging a variable rate of 61.8% of one-month LIBOR plus 0.31% with a fixed rate of 3.96% and raised the collateral posting threshold on the novated portion of the swap to \$20,000. The agreement became effective on December 21, 2011.

A summary of the market values of the outstanding swap agreements at June 30, 2013 and 2012, is as follows:

|                                | <b>Notional<br/>Amount</b> | <b>2013<br/>Fair Value</b> | <b>2012<br/>Fair Value</b> |
|--------------------------------|----------------------------|----------------------------|----------------------------|
| Fixed pay LIBOR swap (2008B-1) | \$ 51,630                  | \$ (10,410)                | \$ (15,047)                |
| Fixed pay LIBOR swap (2008B-2) | 30,978                     | (6,568)                    | (9,383)                    |
| Fixed pay LIBOR swap (2008B-2) | 20,652                     | (4,099)                    | (5,947)                    |
| Fixed pay LIBOR swap (2009A)   | 30,000                     | (5,354)                    | (7,844)                    |



Edward Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

**8. Derivatives and Other Financial Instruments (continued)**

Net interest paid or received under the interest rate swap agreements is included in cash settlements on interest rate swaps in the non-operating section of the consolidated statements of operations and changes in net assets. The net differential paid by the Corporation as a result of the interest rate swap agreements amounted to approximately \$4,721 and \$4,783 for the years ended June 30, 2013 and 2012, respectively. These amounts are reflected as an increase to interest expense. The net fair value of the swaps was a liability of \$26,431 and \$38,221 included in other liabilities at June 30, 2013 and 2012, respectively. At June 30, 2013 and 2012, the interest rate swap agreements do not qualify for hedge accounting; therefore, the change in the fair value has been reflected as a gain (loss) on interest rate swaps in the non-operating section of the consolidated statements of operations and changes in net assets.

For the year ended June 30, 2013, the Corporation recorded approximately \$11,790 in non-operating gains, which relates to a gain of \$10,314 due to the change in the swaps' value and a gain of \$1,476 to reflect the fair value of the credit adjustment related to the uncollateralized portion of the swap balance.

For the year ended June 30, 2012, the Corporation recorded approximately \$17,955 in non-operating losses, which relates to a loss of \$21,476 due to the change in the swaps' value and a gain of \$3,521 to reflect the fair value of the credit adjustment related to the uncollateralized portion of the swap balance.

Certain of the Corporation's derivative instruments contain provisions that require the Corporation's debt to maintain a certain long-term credit rating from each of the major credit rating agencies. If the Corporation's debt were to fall below these thresholds, the counterparties to the derivative instruments could request either immediate additional collateralization or ongoing full overnight collateralization on derivative instruments in net liability positions. The aggregate fair value of all derivative instruments with credit-risk-related contingent features that are in a liability position on June 30, 2013 and 2012, is \$26,431 and \$38,221, respectively. The Corporation has posted collateral of \$750 at June 30, 2012, in the normal course of business. This amount is recorded as a current asset in the consolidated balance sheets. No collateral was

Edward Health Services Corporation and Subsidiaries

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

**8. Derivatives and Other Financial Instruments (continued)**

posted at June 30, 2013. If ratings fell below the current levels and the credit-risk-related contingent features underlying these agreements were triggered on June 30, 2013, the Corporation would be required to post total collateral as outlined in the table below to its counterparties.

| <u>Bond Rating</u> | <u>Collateral Requirement</u> |
|--------------------|-------------------------------|
| S&P/Moody's:       |                               |
| A+/A2 (Current)    | \$ -                          |
| A-/A3              | 1,032                         |
| BBB+/Baa1          | 12,343                        |
| BBB/Baa2           | 26,408                        |
| BBB-/Baa3          | 27,158                        |
| Below BBB-/Baa3    | 27,908                        |

ASC 820-10-50-2 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between participants at the measurement date and establishes a framework for measuring fair value.

ASC 820-10-50-2 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1 – Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

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

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

Edward Health Services Corporation and Subsidiaries

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

**8. Derivatives and Other Financial Instruments (continued)**

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The following table presents the financial instruments carried at fair value as of June 30, 2013, by caption, on the consolidated balance sheet by the ASC 820-10-50-2 valuation hierarchy defined above:

|  | Level 1    | Level 2   | Level 3 | Total<br>Fair Value |
|--|------------|-----------|---------|---------------------|
| <b>Assets</b>  |            |           |         |                     |
| Cash and cash equivalents  | \$ 547     | \$ -      | \$ -    | \$ 547              |
| Assets whose use is limited:   |            |           |         |                     |
| Cash and cash equivalents  | 5,575      | -         | -       | 5,575               |
| Externally designated for self-insurance mutual funds <sup>(a)</sup> | 100,575    | -         | -       | 100,575             |
| Board-designated investments:  |            |           |         |                     |
| Cash and equivalents   | 5,640      | -         | -       | 5,640               |
| Domestic common stocks <sup>(b)</sup>                                | 51,241     | -         | -       | 51,241              |
| Foreign stocks <sup>(b)</sup>  | 5,199      | -         | -       | 5,199               |
| Mutual funds – equity <sup>(a)</sup>                                 | 161,442    | -         | -       | 161,442             |
| Mutual funds – fixed income <sup>(a)</sup>                           | 171,050    | -         | -       | 171,050             |
| Mutual funds – balanced <sup>(a)</sup>                               | 39,351     | -         | -       | 39,351              |
| Total board-designated investments                                   | 433,923    | -         | -       | 433,923             |
| Total  | \$ 540,620 | \$ -      | \$ -    | \$ 540,620          |
| <b>Liabilities</b>   |            |           |         |                     |
| Swaps <sup>(c)</sup>   | \$ -       | \$ 26,431 | \$ -    | \$ 26,431           |

Edward Health Services Corporation and Subsidiaries

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

**8. Derivatives and Other Financial Instruments (continued)**

The following table presents the financial instruments carried at fair value as of June 30, 2012, by caption, on the consolidated balance sheet by the ASC 820-10-50-2 valuation hierarchy defined above:

|  | Level 1    | Level 2   | Level 3 | Total<br>Fair Value |
|--|------------|-----------|---------|---------------------|
| <b>Assets</b>  |            |           |         |                     |
| Cash and cash equivalents  | \$ 2,503   | \$ -      | \$ -    | \$ 2,503            |
| Assets whose use is limited  | 5,325      |           |         | 5,325               |
| Externally designated under debt agreements:                         |            |           |         |                     |
| Money market <sup>(a)</sup>  | 3,843      | -         | -       | 3,843               |
| Externally designated for self-insurance mutual funds <sup>(a)</sup> | 93,344     | -         | -       | 93,344              |
| Board-designated investments:  |            |           |         |                     |
| Cash and equivalents   | 317        | -         | -       | 317                 |
| Domestic common stocks <sup>(b)</sup>                                | 47,154     | -         | -       | 47,154              |
| Foreign stocks <sup>(b)</sup>  | 3,775      | -         | -       | 3,775               |
| Mutual funds – equity <sup>(a)</sup>                                 | 158,391    | -         | -       | 158,391             |
| Mutual funds – fixed income <sup>(a)</sup>                           | 166,478    | -         | -       | 166,478             |
| Mutual funds – balanced <sup>(a)</sup>                               | 38,512     | -         | -       | 38,512              |
| Total board-designated investments                                   | 414,627    | -         | -       | 414,627             |
| Collateral (included in prepaid expenses and other current assets):  |            |           |         |                     |
| Money market <sup>(a)</sup>  | 750        | -         | -       | 750                 |
| Total  | \$ 520,392 | \$ -      | \$ -    | \$ 520,392          |
| <b>Liabilities</b>   |            |           |         |                     |
| Swaps <sup>(c)</sup>   | \$ -       | \$ 38,221 | \$ -    | \$ 38,221           |

Edward Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

**8. Derivatives and Other Financial Instruments (continued)**

- (a) Pricing for mutual funds and money market funds is based on the open market and is valued on a daily basis.
- (b) Equities are priced based on the open market and are valued on a daily basis.
- (c) Pricing is based on discounted cash flows to reflect a credit spread to the LIBOR discount curve in order to reflect "nonperformance" risk. The credit spread adjustment is derived from how other comparable entities' bonds price and trade in the market.

The carrying values of cash and cash equivalents, assets limited as to use, patient accounts receivable, accounts payable, other accrued expenses, and estimated amounts due to/from third-party payors approximate their fair values at June 30, 2013 and 2012, due to the short-term nature of these financial instruments. The valuation for the estimated fair value of the Corporation's long-term debt is completed by a third-party service and is primarily driven by the Municipal Market Data (MMD) index and current market credit spreads against the MMD index. MMD is an index which is updated daily and reflects current borrowing rates in the tax-exempt bond market. A number of factors including, but not limited, to any one or more of the following variables affect MMD and credit spreads against MMD: (i) general interest rate and market conditions; (ii) macroeconomic environment; (iii) underlying credit ratings on the Corporation's outstanding debt; (iv) investor opinions about the Corporation and its outstanding debt; (v) if applicable, third-party credit enhancement provided on the Corporation's debt; and (vi) trades for comparable or similarly rated securities in the secondary market. Based on the inputs in determining the estimated fair value of the debt of the Corporation, this liability would be considered Level 2. The estimated fair value of long-term debt (including current portion) was \$271,196 and \$281,789 at June 30, 2013 and 2012, respectively.

Edward Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

**9. Long-Term Debt**

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

|   | <u>2013</u>       | <u>2012</u>       |
|---|-------------------|-------------------|
| <b>Illinois Finance Authority</b>   |                   |                   |
| Revenue Bonds, Series 2012A:  |                   |                   |
| Serial Bonds, interest at 4.1% to 5.5%, due in varying annual installments from 2013 to 2018  | \$ 12,290         | \$ 14,975         |
| Term Bonds, interest at 5.0%, due in 2020   | 11,050            | 11,050            |
| Revenue Bonds, Series 2009A:  |                   |                   |
| Variable Rate Securities, interest payable monthly at a floating rate (0.08% and 0.29% at June 30, 2013 and 2012, respectively), and principal due in varying annual installments from 2011 to 2034 | 43,195            | 43,295            |
| Revenue Bonds, Series 2008A:  |                   |                   |
| Serial Bonds, interest at 6.0%, due in varying annual installments from 2021 to 2026  | 15,375            | 15,375            |
| Term Bonds, interest at 6.0%, due in 2028   | 6,150             | 6,150             |
| Term Bonds, interest at 6.25%, due in 2033  | 8,450             | 8,450             |
| Term Bonds, interest at 5.50%, due in 2040  | 56,125            | 56,125            |
| Revenue Bonds, Series 2008B-1:  |                   |                   |
| Variable Rate Securities, interest payable monthly at a floating rate (0.08% and 0.18% at June 30, 2013 and 2012, respectively), and principal due in varying annual installments from 2010 to 2040 | 51,900            | 52,925            |
| Revenue Bonds, Series 2008B-2:  |                   |                   |
| Variable Rate Securities, interest payable monthly at a floating rate (0.09% and 0.20% at June 30, 2013 and 2012, respectively), and principal due in varying annual installments from 2010 to 2040 | 51,900            | 52,925            |
| Revenue Bonds, Series 2008C:  |                   |                   |
| Variable Rate Securities, interest payable monthly at a floating rate (0.09% and 0.20% at June 30, 2013 and 2012, respectively), and principal due in varying annual installments from 2010 to 2040 | 10,745            | 11,235            |
| <b>JP Morgan Chase, Line of Credit, Due August 31, 2013</b>   |                   |                   |
| Interest at LIBOR + 1.75% (1.95% at June 30, 2013)  | 1,000             | 1,000             |
|   | <u>268,180</u>    | <u>273,505</u>    |
| Less current maturities   | 6,575             | 5,325             |
| Unamortized discount net of bonds payable   | (307)             | (318)             |
| Long-term debt  | <u>\$ 261,298</u> | <u>\$ 267,862</u> |

Edward Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

**9. Long-Term Debt (continued)**

Edward Health Services Corporation and Subsidiaries' long-term debt is issued pursuant to the Amended and Restated Master Trust Indenture dated as of September 1, 1997, and subsequently amended and supplemented. The master trust indenture establishes an "Obligated Group," consisting of Edward Hospital, Edward Health Services Corporation, Edward Health Ventures, Edward Health & Fitness Center, and Naperville Psychiatric Ventures d/b/a Linden Oaks Hospital. All members of the Obligated Group are jointly and severally obligated to pay all debt under the master trust indenture and are required to maintain their status as tax-exempt, not-for-profit health care providers.

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

|      |    |       |
|------|----|-------|
| 2014 | \$ | 7,687 |
| 2015 |    | 7,740 |
| 2016 |    | 6,125 |
| 2017 |    | 6,335 |
| 2018 |    | 6,700 |

In April 2001, the Corporation issued Series 2001A, B, and C Revenue Bonds through the Illinois Health Facilities Authority. The bond proceeds were used to finance the costs of acquiring, constructing, renovating, and equipping certain health care facilities as part of a modernization and expansion program and to reimburse the Hospital for certain prior capital expenditures.

In April 2008, the Corporation issued Series 2008A, B, and C Revenue Bonds through the Illinois Finance Authority. The proceeds were used to refund the Series 2007 obligations.

In October 2009, the Corporation issued Series 2009A Revenue Bonds through the Illinois Finance Authority. The proceeds were used to refund the Series 2001C obligations.

In March 2012, the Corporation issued Series 2012A Revenue Bonds through the Illinois Finance Authority, which were sold through a private placement. The proceeds were used to refund the Series 2001A obligations.

Edward Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

**9. Long-Term Debt (continued)**

The Corporation has entered into several credit agreements, which expire on November 28, 2014, and August 31, 2016, with banks under the terms of which the banks agree to make liquidity loans to the Corporation in the amount necessary to purchase the variable rate demand direct obligations if not remarketed. The maximum amount of the liquidity loans would be principal of \$157,740 at June 30, 2013, plus accrued interest. The liquidity loans would be payable quarterly in equal installments over five years, with the initial payment being due 90 days following the expiration of the credit agreement.

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

Externally designated investments under debt agreements consisted of the \$3,843 project funds at June 30, 2012. There were no externally designated investments under debt agreements at June 30, 2013.

Interest expense, including interest capitalized during 2013 and 2012, was \$6,935 and \$7,634, respectively. Interest capitalized during 2013 and 2012 was \$1,183 and \$1,294, respectively.

**10. Employee Defined-Contribution Retirement Plan**

The Corporation maintains two defined-contribution retirement plans for employees. Employees of the Corporation and its subsidiaries participate in the Corporation's 401(k). During 2008, the 403(b) plan was frozen, and employees of the Corporation and its tax-exempt subsidiaries began contributing to the 401(k) plan.

The employer contributions include a discretionary basic contribution based upon a percentage of the employee's compensation and a matching contribution based upon the amount of the employee's contribution. Pension expense was approximately \$11,108 and \$10,219 in 2013 and 2012, respectively.



Edward Health Services Corporation and Subsidiaries

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

**11. Related-Party Transactions**

During the years ended June 30, 2013 and 2012, NHCA paid the Corporation \$15 and \$9,186, respectively, for medical services.

**12. Commitments**

At June 30, 2013, the Corporation had commitments totaling approximately \$22,485 related to construction and modernization projects.

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

|                      |    |               |
|----------------------|----|---------------|
| Year ending June 30: |    |               |
| 2014                 | \$ | 5,576         |
| 2015                 |    | 5,437         |
| 2016                 |    | 5,278         |
| 2017                 |    | 4,774         |
| 2018                 |    | 3,626         |
| Thereafter           |    | 12,308        |
|                      | \$ | <u>36,999</u> |

Rental expense amounted to approximately \$5,610 and \$4,566 for the years ended June 30, 2013 and 2012, respectively.

**13. Functional Expenses**

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

|                            | <u>2013</u>       | <u>2012</u>       |
|----------------------------|-------------------|-------------------|
| Health care services       | \$ 449,408        | \$ 443,246        |
| General and administrative | 115,673           | 101,332           |
|                            | <u>\$ 565,081</u> | <u>\$ 544,578</u> |

Edward Health Services Corporation and Subsidiaries

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

**14. Goodwill and Other Intangible Assets**

Goodwill and other intangible assets for the Corporation at June 30, 2013 and 2012, was \$31,356 and \$31,651, net of accumulated amortization of \$6,886 and \$6,613, respectively. Intangible assets primarily consist of goodwill and non-compete agreements related to physician practice acquisitions. Intangible assets whose lives are indefinite, primarily goodwill, are not amortized and are evaluated for impairment at least annually, while intangible assets with definite lives, primarily non-compete agreements, are amortized over their expected useful lives. Amortization relating to non-compete agreements was \$273 for 2013 and 2012.

**15. Subsequent Events**

The Corporation evaluated events and transactions occurring subsequent to June 30, 2013 through September 26, 2013, the date of issuance of the financial statements.

Effective July 1, 2013, the Corporation merged with Elmhurst Memorial Healthcare. At June 30, 2013, Elmhurst Memorial Healthcare had assets of \$937,683 and net assets of \$264,260 and for the year ended June 30, 2013, generated total operating revenues of \$394,514.

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

## Supplementary Information

## Report of Independent Auditors on Supplementary Information

The Board of Trustees  
Edward Health Services Corporation

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

*Ernst & Young LLP*

September 26, 2013

Edward Health Services Corporation and Subsidiaries

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

**Charity and Other Unreimbursed Care**

The Corporation maintains a policy whereby patients in need of medical services are treated without regard to their ability to pay for such services. The Corporation maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges forgone for services and supplies furnished under its charity care policy, as well as the estimated difference between the cost of services provided to Medicaid and Medicare patients and the expected reimbursement from Medicaid and Medicare. In addition, the Corporation reports the cost associated with services provided to the community as charity care. The following information measures the level of charity care provided during the years ended June 30:

|  | <u>2013</u>      |    | <u>2012</u>   |
|--|------------------|----|---------------|
| Charity care provided, at cost   | \$ 17,805        | \$ | 13,433        |
| Excess of allocated cost over reimbursement for services provided to Medicaid patients | 16,736           |    | 17,719        |
| Excess of allocated cost over reimbursement for services provided to Medicare patients | 40,340           |    | 45,396        |
| Community services provided, at cost   | 11,508           |    | 10,382        |
|  | <u>\$ 86,389</u> | \$ | <u>86,930</u> |

# Edward Health Services Corporation and Subsidiaries

## Details of Consolidated Balance Sheet

June 30, 2013

(Dollars in Thousands)

| Assets  | Consolidated<br>Edward<br>Health<br>Services<br>Corporation | Edward<br>Health<br>Services<br>Corporation | Edward<br>Hospital | Edward<br>Foundation | EHSC<br>Cayman<br>Segregated<br>Portfolio Co. | Edward<br>Ambulance<br>Services | Edward<br>Health<br>Ventures | Linden Oaks<br>Hospital | Edward<br>Health &<br>Fitness<br>Center | Edward<br>Physician<br>Office Center<br>Limited<br>Partnership | Edward<br>Management<br>Corporation |
|---|---|---|--------------------|----------------------|---|---------------------------------|------------------------------|-------------------------|---|--|-------------------------------------|
| <b>Current assets:</b>  |   |   |                    |                      |   |                                 |                              |                         |   |  |                                     |
| Cash and cash equivalents   | 547   | \$ (33)                                     | \$ (269)           | \$ (3)               | \$ 416  | \$ 467                          | \$ 1                         | \$ (16)                 | \$ (10)                                 | \$ (6)   | \$ -                                |
| Assets limited as to use, externally designated investments under debt agreements | 5,575   | -   | 5,575              | -                    | -   | -                               | -                            | -                       | -                                       | -  | -                                   |
| Patient accounts receivable, less allowances for doubtful accounts                | 93,467  | -   | 83,115             | -                    | -   | 676                             | 2,655                        | 7,021                   | -                                       | -  | -                                   |
| Estimated amounts due from third-party payors                                     | 1,395   | -   | 1,395              | -                    | -   | -                               | -                            | -                       | -                                       | -  | -                                   |
| Inventories   | 9,530   | -   | 9,189              | -                    | -   | -                               | -                            | 127                     | 214                                     | -  | -                                   |
| Premium receivable  | 8,632   | (4,075)                                     | -                  | -                    | 4,075   | -                               | -                            | -                       | -                                       | -  | -                                   |
| Prepaid expenses and other current assets   | 119,146   | (1,106)                                     | 2,693              | 484                  | 1,147   | 63                              | 2,726                        | 295                     | 30                                      | (98)   | 19                                  |
| <b>Total current assets</b>   | <b>119,146</b>  | <b>(5,181)</b>                              | <b>101,384</b>     | <b>481</b>           | <b>5,638</b>                                  | <b>1,206</b>                    | <b>5,382</b>                 | <b>7,427</b>            | <b>234</b>                              | <b>(104)</b>   | <b>19</b>                           |
| <b>Assets limited as to use, less current portion:</b>                            |   |   |                    |                      |   |                                 |                              |                         |   |  |                                     |
| Externally designated investments under debt agreements                           | 100,575   | -   | -                  | -                    | -   | -                               | -                            | -                       | -                                       | -  | -                                   |
| Externally designated for self-insurance  | 433,923   | -   | 43,751             | 4,346                | 100,575                                       | -                               | (1,256)                      | 21,581                  | 12,926                                  | 7,955  | 71                                  |
| Board-designated investments  | 534,498   | -   | 43,751             | 4,346                | 100,575                                       | -                               | (1,256)                      | 21,581                  | 12,926                                  | 7,955  | 71                                  |
| <b>Other assets:</b>  |   |   |                    |                      |   |                                 |                              |                         |   |  |                                     |
| Interest in restricted net assets of the Foundation                               | -   | (1,355)                                     | -                  | 1,234                | -   | -                               | -                            | 121                     | -                                       | -  | -                                   |
| Investments in EPOCLP and Linden Oaks   | -   | (32,491)                                    | 241                | 3,123                | -   | -                               | 29,127                       | -                       | -                                       | -  | -                                   |
| Deferred financing costs, net   | 3,428   | -   | 3,403              | -                    | -   | -                               | -                            | -                       | -                                       | 25   | -                                   |
| Goodwill and other intangible assets, net   | 31,356  | -   | 28,240             | -                    | -   | -                               | 2,914                        | 202                     | -                                       | -  | -                                   |
| Due from affiliates   | -   | (27,079)                                    | -                  | -                    | -   | -                               | 2,776                        | -                       | -                                       | -  | -                                   |
| Investments in affiliates and other   | 15,886  | (69,081)                                    | 70,228             | 334                  | -   | 32                              | 6,662                        | -                       | -                                       | -  | -                                   |
| Reinsurance recoverable for reinsured losses                                      | 7,429   | -   | 7,429              | -                    | -   | -                               | -                            | -                       | -                                       | -  | -                                   |
| <b>Land, buildings, and equipment:</b>  |   |   |                    |                      |   |                                 |                              |                         |   |  |                                     |
| Land and improvements   | 58,099  | (130,006)                                   | 94,772             | 334                  | 7,429   | 32                              | 41,479                       | 323                     | -                                       | 25   | -                                   |
| Buildings and improvements  | 41,530  | -   | 10,000             | -                    | -   | -                               | 30,356                       | 1,174                   | -                                       | -  | -                                   |
| Furniture and equipment   | 525,240   | -   | 375,338            | -                    | -   | 22                              | 95,864                       | 20,678                  | 22,891                                  | 10,443   | 4                                   |
| Construction-in-progress  | 259,060   | -   | 243,687            | -                    | -   | 921                             | 5,980                        | 3,942                   | 3,620                                   | 125  | 785                                 |
| Less allowances for depreciation  | 64,263  | -   | 63,512             | -                    | -   | 89                              | 570                          | 92                      | -                                       | -  | -                                   |
|   | 435,955   | -   | 361,821            | -                    | 300   | 42,590                          | 10,472                       | 14,272                  | -                                       | 5,711  | 789                                 |
|   | 454,138   | -   | 330,716            | -                    | 732   | 90,180                          | 15,414                       | 12,239                  | -                                       | 4,857  | -                                   |
| <b>Total assets</b>   | <b>\$ 1,165,881</b>   | <b>\$ (135,187)</b>                         | <b>\$ 820,360</b>  | <b>\$ 5,161</b>      | <b>\$ 113,642</b>                             | <b>\$ 1,970</b>                 | <b>\$ 135,785</b>            | <b>\$ 44,745</b>        | <b>\$ 25,399</b>                        | <b>\$ 12,733</b>   | <b>\$ 90</b>                        |

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Attachment 6

# Edward Health Services Corporation and Subsidiaries

## Details of Consolidated Balance Sheet (continued)

June 30, 2013

(Dollars in Thousands)

| Consolidated<br>Edward<br>Health<br>Services<br>Corporation | Eliminations | Edward<br>Health<br>Services<br>Corporation | Edward<br>Hospital | Edward<br>Foundation | EHSC<br>Cayman<br>Segregated<br>Portfolio Co. | Edward<br>Ambulance<br>Services | Edward<br>Health<br>Ventures | Linden Oaks<br>Hospital | Edward<br>Health &<br>Fitness<br>Center | Edward<br>Physician<br>Office Center<br>Limited<br>Partnership | Edward<br>Management<br>Corporation |
|---|--------------|---|--------------------|----------------------|---|---------------------------------|------------------------------|-------------------------|---|--|-------------------------------------|
| \$ 35,202   | \$ -         | \$ 3,149                                    | \$ 30,522          | \$ 67                | \$ 100  | \$ 139                          | \$ 329                       | \$ 475                  | \$ 328                                  | \$ 93  | \$ -                                |
| 56,701  | (73)         | 8,102                                       | 34,985             | 240                  | 72  | 60                              | 8,561                        | 2,610                   | 1,045                                   | 1,099  | -                                   |
| 99,964  | -            | -   | 96,017             | -                    | -   | -                               | -                            | 3,947                   | -                                       | -  | -                                   |
| 6,575   | -            | -   | 5,575              | -                    | -   | 1,000                           | -                            | -                       | -                                       | -  | -                                   |
| 198,442   | (73)         | 11,251                                      | 167,099            | 307                  | 172   | 1,199                           | 8,890                        | 7,032                   | 1,373                                   | 1,192  | -                                   |
| 261,298   | -            | -   | 261,298            | -                    | -   | -                               | -                            | -                       | -                                       | -  | -                                   |
| 42,275  | -            | 198   | 8,711              | -                    | 32,275  | -                               | 481                          | 471                     | 136                                     | 3  | -                                   |
| -   | (95,533)     | -   | -                  | -                    | 68,454  | -                               | 24,303                       | -                       | -                                       | 2,776  | -                                   |
| 7,429   | -            | -   | -                  | -                    | 7,429   | -                               | -                            | -                       | -                                       | -  | -                                   |
| -   | (5,181)      | -   | -                  | -                    | 5,181   | -                               | -                            | -                       | -                                       | -  | -                                   |
| 35,919  | 694          | 1,349                                       | 33,876             | -                    | -   | -                               | -                            | -                       | -                                       | -  | -                                   |
| 545,363   | (100,093)    | 12,798                                      | 470,984            | 307                  | 113,511                                       | 1,199                           | 33,674                       | 7,503                   | 1,509                                   | 3,971  | -                                   |
| 619,078   | (33,740)     | 128,385                                     | 348,143            | 3,414                | 131   | 771                             | 102,111                      | 37,121                  | 23,890                                  | 8,762  | 90                                  |
| 1,047   | (1,042)      | -   | 921                | 1,047                | -   | -                               | -                            | 121                     | -                                       | -  | -                                   |
| 393   | (312)        | -   | 312                | 393                  | -   | -                               | -                            | -                       | -                                       | -  | -                                   |
| 620,518   | (35,094)     | 128,385                                     | 349,376            | 4,854                | 131   | 771                             | 102,111                      | 37,242                  | 23,890                                  | 8,762  | 90                                  |

Net assets:  
 Unrestricted net assets  
 Temporarily restricted net assets  
 Permanently restricted net assets  
 Total net assets

|              |              |            |            |          |            |          |            |           |           |           |       |
|--------------|--------------|------------|------------|----------|------------|----------|------------|-----------|-----------|-----------|-------|
| \$ 1,165,881 | \$ (135,187) | \$ 141,183 | \$ 820,360 | \$ 5,161 | \$ 113,642 | \$ 1,970 | \$ 135,785 | \$ 44,745 | \$ 25,399 | \$ 12,733 | \$ 90 |
|--------------|--------------|------------|------------|----------|------------|----------|------------|-----------|-----------|-----------|-------|

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Attachment 6

# Edward Health Services Corporation and Subsidiaries

## Details of Consolidated Statement of Operations and Changes in Net Assets

Year Ended June 30, 2013  
(Dollars in Thousands)

|  | Consolidated Edward Health Services Corporation | Edward Health Services Corporation | Edward Hospital | Edward Foundation | Edward Segregated Portfolio Co. | Edward Ambulance Services | Edward Health Ventures | Linden Oaks Hospital | Edward Health & Fitness Center | Edward Physician Office Center Limited Partnership | Edward Management Corporation |
|--|---|------------------------------------|-----------------|-------------------|---------------------------------|---------------------------|------------------------|----------------------|--------------------------------|--|-------------------------------|
| <b>Revenues</b>  |   |                                    |                 |                   |                                 |                           |                        |                      |                                |  |                               |
| Net patient service revenue before provision for bad debts | \$ 586,052                                      | \$ (1,675)                         | \$ 501,140      | \$ -              | \$ -                            | \$ 4,070                  | \$ 39,091              | \$ 43,426            | \$ -                           | \$ -   | \$ -                          |
| Provision for bad debts                                    | (28,522)  | -                                  | (21,818)        | -                 | -                               | (642)                     | (3,129)                | (2,533)              | -                              | -  | -                             |
| Net patient service revenue after provision for bad debts  | 557,530   | (1,675)                            | 479,322         | -                 | -                               | 3,428                     | 35,962                 | 40,893               | -                              | -  | -                             |
| Other operating revenue                                    | 35,506  | (107,554)                          | 12,432          | 2,002             | 8,625                           | -                         | 37,404                 | 2,453                | 9,197                          | 1,943  | 39                            |
|  | 593,036   | (109,229)                          | 491,754         | 2,002             | 8,625                           | 3,428                     | 73,366                 | 42,946               | 9,197                          | 1,943  | 39                            |
| <b>Expenses</b>  |   |                                    |                 |                   |                                 |                           |                        |                      |                                |  |                               |
| Salaries and wages   | 252,118   | (364)                              | 160,243         | 364               | -                               | 1,312                     | 36,001                 | 21,145               | 3,600                          | -  | (14)                          |
| Employee benefits  | 62,223  | (645)                              | 42,453          | 24                | -                               | 334                       | 6,349                  | 4,782                | 881                            | -  | 4                             |
| Medical fees   | 7,671   | -                                  | 6,522           | -                 | -                               | -                         | 967                    | 182                  | -                              | -  | -                             |
| Purchased services   | 40,603  | (80,209)                           | 92,871          | 73                | -                               | 804                       | 10,181                 | 3,904                | 1,180                          | 114  | 61                            |
| Supplies and other   | 144,884   | (19,956)                           | 116,316         | 878               | 15,468                          | 456                       | 8,846                  | 3,804                | 2,382                          | 454  | 70                            |
| Depreciation and amortization                              | 35,741  | -                                  | 28,703          | -                 | -                               | 208                       | 4,746                  | 1,136                | 738                            | 210  | -                             |
| Interest   | 5,752   | (1,931)                            | 5,730           | -                 | -                               | 22                        | 1,727                  | -                    | -                              | 204  | -                             |
| Medicaid tax   | 16,089  | -                                  | 12,596          | -                 | -                               | -                         | -                      | 3,493                | -                              | -  | -                             |
|  | 565,081   | (103,105)                          | 465,434         | 1,339             | 15,468                          | 3,136                     | 68,817                 | 38,446               | 8,781                          | 982  | 121                           |
| Operating income (loss) before impairment of software      | 27,955  | (6,124)                            | 26,320          | 663               | (6,843)                         | 292                       | 4,549                  | 4,500                | 416                            | 961  | (82)                          |
| Impairment of software                                     | -   | (6,124)                            | -               | -                 | -                               | -                         | -                      | -                    | -                              | -  | -                             |
| Operating income (loss)                                    | 27,955  | (6,124)                            | 26,320          | 663               | (6,843)                         | 292                       | 4,549                  | 4,500                | 416                            | 961  | (82)                          |
| <b>Non-operating</b>                                       |   |                                    |                 |                   |                                 |                           |                        |                      |                                |  |                               |
| Realized gains and investment income                       | 34,358  | (1,931)                            | 22,264          | 234               | 8,576                           | -                         | 60                     | 738                  | 485                            | 284  | -                             |
| Unrealized (losses) gains on investments, net              | 19,629  | -                                  | 16,938          | 306               | (1,733)                         | -                         | (181)                  | 922                  | 609                            | 357  | -                             |
| Loss on interest rate swaps                                | (4,721)   | -                                  | (4,721)         | -                 | -                               | -                         | -                      | -                    | -                              | -  | -                             |
| Cash settlements on interest rate swaps                    | 906   | -                                  | 1,230           | -                 | -                               | -                         | (324)                  | -                    | -                              | -  | -                             |
| Other non-operating (losses) gains                         | 61,962  | (1,931)                            | 47,501          | 540               | 6,843                           | -                         | (445)                  | 1,660                | 1,094                          | 641  | -                             |
| Excess of revenues and gains over expenses and losses      | 89,917  | (8,055)                            | 73,821          | 1,203             | -                               | 292                       | 4,104                  | 6,160                | 1,510                          | 1,602  | (82)                          |

Attachment 6

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# Edward Health Services Corporation and Subsidiaries

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

(Dollars in Thousands)

|   | Consolidated<br>Edward<br>Health<br>Services<br>Corporation | Eliminations | Edward<br>Health<br>Services<br>Corporation | Edward<br>Hospital | Edward<br>Foundation | EHSC<br>Cayman<br>Segregated<br>Portfolio Co. | Edward<br>Ambulance<br>Services | Edward<br>Health<br>Ventures | Linden Oaks<br>Hospital | Edward<br>Health &<br>Fitness<br>Center | Edward<br>Physician<br>Office Center<br>Limited<br>Partnership | Edward<br>Management<br>Corporation |
|---|---|--------------|---|--------------------|----------------------|---|---------------------------------|------------------------------|-------------------------|---|--|-------------------------------------|
| Unrestricted net assets   |   |              |   |                    |                      |   |                                 |                              |                         |   |  |                                     |
| Excess of revenues and gains over expenses and losses                       | \$ 89,917   | \$ (8,055)   | \$ 9,362                                    | \$ 73,821          | \$ 1,203             | \$ -  | \$ 292                          | \$ 4,104                     | \$ 6,160                | \$ 1,510                                | \$ 1,602   | \$ (82)                             |
| Transfers from (to) affiliates and other, net                               | -   | -            | -   | 2,540              | (2,640)              | -   | -                               | 2,400                        | 100                     | -                                       | -  | (2,400)                             |
| Net assets released from restrictions and used for purchase of fixed assets | 96  | -            | -   | -                  | 96                   | -   | -                               | -                            | -                       | -                                       | -  | -                                   |
| Increase (decrease) in unrestricted net assets                              | 90,013  | (8,055)      | 9,362                                       | 76,361             | (1,341)              | -   | 292                             | 6,504                        | 6,260                   | 1,510                                   | 1,602  | (2,482)                             |
| Temporarily restricted net assets   |   |              |   |                    |                      |   |                                 |                              |                         |   |  |                                     |
| Contributions   | 564   | (568)        | -   | 407                | 567                  | -   | -                               | -                            | 158                     | -                                       | -  | -                                   |
| Net assets released from restrictions and used for operations               | (370)   | 460          | -   | (344)              | (370)                | -   | -                               | -                            | (116)                   | -                                       | -  | -                                   |
| Net assets released from restrictions and used for purchase of fixed assets | (96)  | -            | -   | -                  | (96)                 | -   | -                               | -                            | -                       | -                                       | -  | -                                   |
| (Decrease) increase in temporarily restricted net assets                    | 98  | (108)        | -   | 63                 | 101                  | -   | -                               | -                            | 42                      | -                                       | -  | -                                   |
| Increase (decrease) in net assets   | 90,111  | (8,163)      | 9,362                                       | 76,424             | (1,240)              | -   | 292                             | 6,504                        | 6,302                   | 1,510                                   | 1,602  | (2,482)                             |
| Net assets at beginning of year   | 530,407   | (26,931)     | 119,023                                     | 272,952            | 6,094                | 131   | 479                             | 95,607                       | 30,940                  | 22,380                                  | 7,160  | 2,572                               |
| Net assets at end of year   | \$ 620,518  | \$ (35,094)  | \$ 128,385                                  | \$ 349,376         | \$ 4,854             | \$ 131  | \$ 771                          | \$ 102,111                   | \$ 37,242               | \$ 23,890                               | \$ 8,762   | \$ 90                               |

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Attachment 6