

THE CARLE FOUNDATION OBLIGATED GROUP
ANNUAL OPERATING INFORMATION – Year Ended December 31, 2013

INTRODUCTION

The Carle Health Care System (the “Health Care System” or “System”) consists of The Carle Foundation (the “Corporation”) and its wholly owned subsidiaries and wholly controlled affiliates and functions as a physician-led integrated delivery system providing a broad spectrum of inpatient, outpatient and long-term health care services to a large and predominantly rural service area that includes a total population of approximately 1.3 million persons across 29 counties in east central Illinois and six counties in west central Indiana surrounding the cities of Champaign and Urbana, Illinois.

The three principal entities in the Obligated Group are the Corporation, The Carle Foundation Hospital (the “Hospital”) and Carle Health Care. The Corporation serves as the parent corporation for the other Members of the Obligated Group and the other subsidiaries and affiliates in the Health Care System, and provides management services to these entities. The Hospital operates a 345-bed acute care hospital located in Urbana, Illinois, and provides outpatient, home health and hospice services. Carle Health Care owns and operates the Physician Group, air medical transport services and a day care center. The other Member of the Obligated Group, Carle Retirement Centers, Inc. (“Retirement Centers”), owns and operates a 174-unit continuing care retirement community. Hoopeston Community Memorial Hospital (“Hoopeston”) operates a 24-bed Critical Access Hospital which is not a member of the Obligated Group.

BED COMPLEMENT

The distribution of the Health Care System’s licensed bed complement and beds in service as of December 31, 2013 was as follows:

	Obligated Licensed Beds	Obligated Beds in Service	Consolidated Licensed Beds	Consolidated Beds in Service
Medical/Surgical.....	212	211	236	224
Obstetrical/Gynecology.....	35	34	35	34
Pediatric.....	20	20	20	20
Intensive Care Unit.....	38	38	38	38
Neonatal Intensive Care Unit...	25	25	25	25
Rehabilitation.....	15	15	15	15
TOTAL.....	345	343	369	356

The 25 neonatal intensive care beds maintained by the Hospital are designated as Level III by the Illinois Health Facilities and Services Review Board. In the State of Illinois, Level II neonatal beds are not a licensed category of service, but the Health Care System staffs these beds, charges appropriately for them, and includes them in the “Beds in Service” category above.

Effective May 10, 2013, upon approval of the retrofitting of certain rooms, seven additional obstetrical/gynecology beds were added to the Hospital’s licensed bed complement, increasing the number of licensed obstetrical/gynecology beds to 35 from 28. At that time, the total licensed bed count of the Hospital increased to 345 from 338.

MEDICAL STAFF

Membership on the Medical Staff is divided into four categories: Attending Staff, Provisional Staff, Research/Academic, and Emeritus Staff. Attending Staff are voting members of the Medical Staff. Those who are members of the Provisional Staff and who only hold clinical privileges are non-voting members who are appointed for not more than two two-year periods. Individuals who are eligible for consideration for appointment to the Attending Staff or the Provisional Staff and who hold clinical privileges are referred to as the "Active Staff". The Active Staff consists of 662 members (defined as MD, DO, DPM, DDS, DMD, and PhD) and dentists as of December 31, 2013. Of the 662 members of the Active Staff, 641 are eligible for board certification, and 586 (91%) of those eligible are Board Certified. There is also a mechanism whereby an individual may apply for clinical privileges and not apply for membership. Advance Practice Registered Nurses ("APRNs") and Physician Assistants ("PAs") are credentialed and privileged through the Medical Staff process; however, those practitioners are not members of the Medical Staff. There were 239 APRNs and PAs as of December 31, 2013.

Approximately 56% of the members of the Medical Staff are physicians employed by Carle Physician Group ("Physician Group"). Additionally, a substantial majority of the patients admitted by these physicians on an inpatient basis are admitted to the Carle Foundation Hospital ("Hospital"), with the remainder admitted to other area hospitals.

The average age of the Active Staff as of December 31, 2013 was approximately 48 years. The Health Care System historically has been able to recruit sufficient numbers of physicians to maintain staffing at the appropriate levels.

The table below presents the number of physicians on the Hospital's Medical Staff at December 31, 2013 and other previous year-end periods. It categorizes the staff members based on their relationship with the Physician Group, the Christie Clinic, and for earlier periods, CFPS. While the Hospital continues to have an open medical staff, most of the members are part of one of these four groups; those who are not are reported under "Other Physicians". Over 94% of the Hospital's inpatients in calendar year 2013 were admitted by members of the Physician Group.

MEDICAL STAFF BY GROUP CATEGORY

In the table below, the first four columns are as of December 31 of the year presented, while the last three columns are as of June 30 of the year presented.

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Carle Physician Group ^{(1) (2)}	372	350	365	297	353	396	377
Carle Foundation Physician Services ⁽³⁾	-	-	-	87	74	47	47
Christie Clinic Physicians	83	80	77	78	81	69	63
Other Physicians	<u>207</u>	<u>208</u>	<u>125</u>	<u>73</u>	<u>59</u>	<u>44</u>	<u>44</u>
Total Active Physicians	<u>662</u>	<u>638</u>	<u>567</u>	<u>535</u>	<u>567</u>	<u>556</u>	<u>531</u>

(1) Through December 2010, certain physicians under contract with Carle Physician Group or its predecessor are included in this category. From 2011 forward, these physicians are included in Other Physicians.

(2) As of December 31, 2010, due to a change in the CMS credentialing requirements, there was a reduction in the number of contracted radiologist providers included under Carle Physician Group. From December 31, 2011 and forward, these contracted radiologists are included in Other Physicians.

(3) From December 31, 2011 and forward, physicians under contract with Carle Foundation Physician Services (CFPS) are included in Carle Physician Group (CPG). Effective June 1, 2013, all services previously provided under CFPS were provided under CPG.

ACTIVE MEDICAL STAFF

The following table identifies the Medical Staff's Active Staff members eligible for board certification by department, including the number and percent Board certified, all as of December 31, 2013.

Department	Physicians/Dentists	Board Certified ⁽⁸⁾	Board Certified (%)
Anesthesiology ⁽¹⁾	19	17	89%
Emergency	30	26	87%
Family Practice	86	74	86%
Laboratory/Pathology	11	11	100%
Occupational Medicine	4	2	50%
Medicine			
Adult Medicine	76	72	95%
Allergy	1	1	100%
Cardiology	20	17	85%
Dermatology	4	4	100%
Endocrinology	7	6	86%
Gastroenterology	9	7	78%
Infectious Disease	4	4	100%
Nephrology	5	5	100%
Neurology	17	17	100%
Oncology ⁽²⁾	11	9	82%
Physical Medicine/Rehabilitation	3	3	100%
Psychiatry ⁽³⁾	14	14	100%
Pulmonary Medicine	6	6	100%
Rheumatology	2	1	50%
Obstetrics/Gynecology	38	37	97%
Pediatrics	70	65	93%
Radiology	88	88	100%
Surgery			
Cardiovascular & Thoracic	5	5	100%
Colon Rectal	4	4	100%
General Surgery ⁽⁴⁾	20	18	90%
Neurosurgery	4	3	75%
Ophthalmology ⁽⁵⁾	10	9	90%
Oral Maxillofacial ⁽⁶⁾	4	4	100%
Orthopedic ⁽⁷⁾	31	24	77%
Otolaryngology	11	11	100%
Pediatric Surgery	6	5	83%
Plastic	8	7	88%
Urology	11	10	91%
Vascular	2	0	0%
TOTAL	641	586	91%

(1) – Includes Pain Management and Pain Medicine

(2) – Includes Radiation Oncology

(3) – Does not include Psychologists. There are fifteen psychologists who have privileges – not required to be Board Certified.

(4) – Includes Trauma Surgery

(5) – Does not include Optometrists. There are five optometrists – not required to be Board Certified.

(6) – Does not include General Dentistry. There is one general dentist who has privileges – not required to be Board Certified.

(7) – Includes Hand Surgery, Podiatry and Sports Medicine

(8) – Practitioners may be Board Certified in more than one specialty and/or be Board Certified but not in the specific Department in which they practice.

COMPETITIVE ENVIRONMENT

There are twelve hospitals in CFH's service area. Listed below are approximate proximity to CFH, staffed bed counts, discharges, percent occupancy, and Medicare case mix index ("CMI") of these facilities.

Hospital	Miles from Carle	Staffed Beds	2013 Discharges	Patient Days	Percent Occupancy	All Payer CMI
Carle Foundation Hospital, Urbana	-	322	19,724	98,828	84.1%	1.63
Presence Covenant, Urbana	1	181	7,153	28,637	43.3%	1.41
Gibson Area Hospital, Gibson City	31	25	832	2,408	26.4%	1.44
Presence United Samaritans, Danville	34	127	6,140	19,784	42.7%	1.19
Decatur Memorial Hospital, Decatur	45	188	10,697	40,301	58.7%	1.45
St. Mary's Hospital, Decatur	45	232	7,836	36,649	43.3%	1.27
Sarah Bush Lincoln, Mattoon	56	118	6,558	22,660	52.6%	1.21
Iroquois Memorial Hospital, Watseka	61	84	801	2,178	7.1%	1.30
Advocate BroMenn Medical, Normal	67	204	9,040	34,129	45.8%	1.35
OSF St. Joseph, Bloomington	67	149	6,791	25,555	47.0%	1.51
Riverside Medical Center, Kankakee	75	325	9,757	49,350	41.6%	1.46
Presence St. Mary's, Kankakee	75	143	5,440	22,921	43.9%	1.30

Source: "Staffed Beds" and "Percent Occupancy" from 2014 AHA Guide (based on data from January 1, 2013 through December 31, 2013). All other information provided by the Illinois Hospital Association's COMPdata. Discharges, patient days, and occupancy exclude newborns (MS-DRG 795). All Payer CMI uses the Medicare weights and excludes newborns (MS-DRG 795) and inpatient rehabilitation (MS-DRG 945-946).

UTILIZATION

The following table sets forth certain utilization data for the Health Care System for calendar years 2013, 2012 and 2011.

	<u>2013</u>	<u>2012</u>	<u>2011</u>
<u>Hospital – Obligated Group</u>			
Licensed Beds	345	338	325
Beds in Service	343	322	316
Discharges w/o Newborns	19,867	19,778	18,375
Patient Days w/o Newborns	101,688	97,594	89,024
Births	2,688	2,575	2,563
Occupancy – beds in service	81.2%	82.8%	77.2%
Average daily census	298.7	280.9	255.6
Inpatient surgery	6,068	5,996	5,685
Outpatient surgery	6,474	6,530	6,595
Emergency room visits	71,386	70,567	65,359
Observation days	7,349	5,215	4,265
Medicare case mix index	1.81	1.79	1.78
All payor case mix index	1.62	1.61	1.60
<u>Hospitals – System</u>			
Licensed Beds	369	362	325
Beds in Service	356	335	316
Discharges w/o Newborns	20,348	19,840	18,375
Patient Days w/o Newborns	102,789	97,792	89,024
Swing Bed days	505	116	0
Births	2,688	2,575	2,563
Occupancy – beds in service	79.5%	82.4%	77.2%
Average daily census	304.2	286.0	255.6
Inpatient surgery	6,150	6,005	5,685
Outpatient surgery	7,418	6,660	6,595
Emergency room visits	79,706	72,138	65,359
Observation days	7,749	5,257	4,265
<u>Physician Practice – Obligated Group</u>			
Physician Visits ¹	600,016	570,405	558,669
Mid-Level Visits ¹	266,795	240,089	229,056
<u>Physician Practice – System²</u>			
Physician Visits ¹	611,788	611,788	597,921
Mid-Level Visits ¹	249,960	249,960	238,783
<u>Retirement Centers</u>			
Occupancy	97.6%	97.6%	97.6%
<u>Health Alliance³</u>			
Fully Insured Lives	210,000	207,153	209,341
Self-Insured Lives	<u>70,044</u>	<u>81,398</u>	<u>111,507</u>
Total Lives	<u>280,044</u>	<u>288,551</u>	<u>320,848</u>

¹ Outpatient visits are defined to include only provider office-based encounters and exclude “no-show” and “special procedure room” encounters.

² Includes visits attributable to entities outside of the Obligated Group.

³ Not attributable to the Obligated Group.

BALANCE SHEET SUMMARY
(THE CARLE FOUNDATION OBLIGATED GROUP)
(in thousands of dollars)

	As of	
	December 31	December 31
	2013	2012
Assets:		
Current assets:		
Cash and cash equivalents	\$ 20,917	\$ 38,726
Investments	240,875	145,789
Assets limited as to use	18,130	27,567
Patient receivables, net	124,285	120,667
Other receivables	80,554	68,549
Inventories	7,027	6,142
Prepaid expenses	9,133	5,226
Total current assets	\$ 500,921	\$ 412,666
Property and equipment, net	515,604	443,765
Investments and other assets:		
Investments, net of current portion	590,927	501,018
Assets limited as to use, net of current	30,224	94,783
Investments in unconsolidated subs.	15,447	19,436
Interest rate swap agreements	3,907	3,043
Other assets	143,051	109,160
Total investments and other assets	\$ 783,556	\$ 727,440
Total assets	\$ 1,800,081	\$ 1,583,871
Liabilities and Net Assets		
Current liabilities		
Accounts payable	\$ 13,408	\$ 11,429
Current maturities of long-term debt	7,156	6,823
Estimated third-party payor settlements	31,984	26,922
Liability for self-insurance losses	11,301	10,914
Compensation and paid leave payable	70,878	67,174
Other accrued liabilities	18,381	23,991
Total current liabilities	\$ 153,108	\$ 147,253
Long-term debt and other liabilities:		
Long-term debt	554,533	561,657
Interest rate swap agreements	11,875	22,829
Asset retirement obligation	6,520	6,552
Liability for self-insurance losses	15,080	16,924
Other accrued liabilities	9,691	8,376
Total long-term liabilities	\$ 597,699	\$ 616,338
Total liabilities	\$ 750,807	\$ 763,591
Net assets	\$ 1,049,274	\$ 820,280
Total liabilities and net assets	\$ 1,800,081	\$ 1,583,871

SUMMARY OF REVENUES AND EXPENSES
(THE CARLE FOUNDATION OBLIGATED GROUP)
(in thousands of dollars)

	Fiscal Year ended		
	Dec. 31, 2012	Dec. 31, 2012	Dec. 31, 2011
Patient service revenue, net of contractals	\$ 863,809	\$ 739,472	\$ 702,322
Provision for bad debts	(37,795)	(32,119)	(41,710)
Net patient service revenue	826,014	707,353	660,612
Other revenue:			
Rental Income	14,337	12,922	12,530
Other	55,708	68,143	58,958
Total revenue	\$ 896,059	\$ 788,418	\$ 732,100
Expenses			
Salaries and wages	\$ 380,024	\$ 352,585	\$ 327,066
Employee benefits	77,875	82,087	78,649
Patient care and other supplies	121,448	109,435	97,052
Purchased services	39,830	37,636	33,847
General and administrative	47,858	46,588	51,639
Insurance	19,635	5,983	1,044
Depreciation	40,884	37,785	37,770
Interest and financing expense	18,814	20,736	18,844
Real estate and other taxes	14,543	11,514	17,473
Loss (gain) on disposal of property/equip.	(2,942)	975	811
Change in fair value of derivatives	(11,818)	(2,464)	18,564
Total expenses	\$ 746,151	\$ 702,860	\$ 682,759
Income from operations	\$ 149,908	\$ 85,558	\$ 49,341
Nonoperating gains (losses)			
Investment income	51,860	28,557	27,556
Loss on unconsolidated subsidiaries	(4,554)	(9,571)	(9,390)
HSIL repatriation dividend	-	-	50,000
Nonoperating gains, net	\$ 47,306	\$ 18,986	\$ 68,166
Excess of revenue over expenses before income taxes	\$ 197,214	\$ 104,544	\$ 117,507
Provision (benefit) for income taxes	377	(78)	204
Excess of revenue over expenses before discontinued operations	\$ 196,837	\$ 104,622	\$ 117,303
Gain from discontinued operations	-	-	4,008
Excess of revenue over expenses	\$ 196,837	\$ 104,622	\$ 121,311
Change in net unrealized gains (losses)	33,633	28,918	(27,813)
Equity transfers from unconsolidated sub's	565	10,434	3,765
Equity transfers to affiliates	(2,041)	(10,393)	(3,720)
Other	-	29	84
Increase in unrestricted net assets	\$ 228,994	\$ 133,610	\$ 93,627

CERTAIN FINANCIAL RATIOS

Please see page 2 of Management's Discussion and Analysis of Financial Performance for 4Q 2013 for the Obligated Group Financial Ratio information.

DEBT SERVICE COVERAGE RATIOS

Please see page 12 of Management's Discussion and Analysis of Financial Performance for 4Q 2013, as of and for the twelve months ended December 31, 2013 for this information.

INTEREST RATE DERIVATIVE TRANSACTIONS

Please see page 13 of Management's Discussion and Analysis of Financial Performance for 4Q 2013 for this information.

SOURCES OF PATIENT SERVICE REVENUE

A major portion of the Obligated Group's revenues is derived from the Hospital's and Physician Group's patient service revenues. A substantial portion of patient service revenues is received from third-party payors. The mix of gross patient service revenues by payor type for the calendar years 2013, 2012 and 2011 is shown below for the Health Care System as a whole and then for the Hospital and the Physician Group. For comparative purposes, the mix of revenues is presented on a pro forma basis consistent with presentation of other financial information in the Appendix A for the Series 2011A bonds.

Percent of Patient Service Revenues - System			
Calendar year ended December 31,			
	2013	2012	2011
Commercial Insurance and Other ¹	15%	16%	16%
Private Pay ¹	7	7	5
Health Alliance.....	22	22	24
Medicare.....	41	41	41
Medicaid.....	15	14	14
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>

Percent of Patient Service Revenues - Hospital			
Calendar year ended December 31,			
	2013	2012	2011
Commercial Insurance and Other	15%	16%	16%
Private Pay.....	8	7	6
Health Alliance.....	20	19	19
Medicare.....	42	42	43
Medicaid.....	15	16	16
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>

Percent of Patient Service Revenues – Physician Group

	Calendar year ended December 31,		
	2013	2012	2011
Commercial Insurance and Other ¹	16%	15%	15%
Private Pay ¹	7	5	4
Health Alliance.....	26	29	31
Medicare.....	39	40	40
Medicaid.....	<u>12</u>	<u>11</u>	<u>10</u>
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>

Most commercial insurance plans reimburse their subscribers or make direct payments to hospitals for charges at established rates. Patients carrying such coverage are responsible to the Hospital for any deficiency between the insurance proceeds and the charges incurred. Within the Hospital's service area several employers' commercial group hospitalization plans provide various benefits to employees and their dependents. These plans usually pay the prevailing area room rates plus ancillary service charges, subject to various limitations and deductibles.

INVESTMENT MANAGEMENT

The Obligated Group has an Investment Policy Committee which is comprised of individuals who are deemed investment professionals and individuals who serve on the Board of Trustees. The Investment Policy Committee along with management and an investment consultant develops investment policies, recommends asset allocation and manager changes, monitors and reviews portfolio performance and compliance, monitors overall portfolio risk, provides advice to the Board of Trustees, recommends and evaluates its investment consultant and approves a Statement of Investment Policy to govern the portfolio. The Board of Trustees has ultimate accountability and oversight, appoints Investment Policy Committee members, appoints consultants, approves the Statement of Investment Policy, approves manager changes recommended by the Investment Policy Committee and makes all decisions under the Manager Development Program. The Carle Foundation's investment policy has a target asset allocation of 50% public equities (35% U.S. and 15% international), 10% private equities and 40% fixed income. The target ten-year return is 6.1% and the target standard deviation of the portfolio is 11.5%, using historical asset class correlations.

Investment Asset Allocation

<u>Investment Type</u>	<u>Allocation Target</u>	<u>Allocation Actual*</u>
Public Equity		
U.S.	31%	40%
International	19	17
Private Equity	10	8
Fixed Income	40	35
Total	<u>100%</u>	<u>100%</u>

* As of December 31, 2013

To achieve the objectives of the policy, the Obligated Group attempts to select best of breed managers for the respective asset sub-class for which they are hired and employs twelve public equity managers, two fixed income managers, one real asset manager, investments in nine private equity funds of funds, one hedge fund of funds investment in liquidation, and one ultra-short term fixed income fund. The public equity funds represent U.S. large cap core, growth, and value; U.S. non-large cap growth and value; international core, value, small cap, and emerging markets; and a Manager Development Program which includes two U.S. large cap core managers and one U.S. non-large cap value manager. The portfolio target

of 10% for private equity investments is expected to take about seven to eight years to achieve as The Carle Foundation has made \$16.5 million, \$15 million, \$17.5 million, \$10 million, \$10 million, \$10 million, \$10 million, \$10 million, and \$10 million commitments to funds of funds closing in each fiscal year from 2007 through 2013. As of December 31, 2013, the Foundation had remaining capital commitments outstanding of \$3.1 million, \$5.0 million, \$8.6 million, \$3.4 million, \$3.3 million, \$7.4 million, \$6.8 million, \$8.3 million, and \$9.9 million, respectively, to these funds. The Investment Policy Committee desires to achieve diversification across fund of funds managers, underlying fund managers, vintage years, geographies, and across venture, buyout, and secondaries.

The market values of the Obligated Group's managed investment portfolio at December 31, 2013, 2012 and 2011 are set forth in the table below.

Market Value of Investments

<u>December 31,</u>	<u>Market Value</u>
2013	\$831,802,000
2012	646,807,000
2011	564,588,000

EMPLOYEES

As of December 31, 2013, the Hospital employed 4,982 individuals for a total of approximately 4,342 full-time equivalent employees, including registered nurses. The Corporation currently employs 21 executive officers which includes certain medical directors. The Hospital offers a full range of benefit programs for its eligible employees which management believes is comparable with other area employers. These benefits include life and disability insurance, hospital/medical insurance benefits, tuition assistance, tax-sheltered annuity programs, pharmacy discounts and an employee pension program for eligible employees. The Hospital has no organized labor unions representing any group of employees. Carle Health Care employs 926 individuals for a total of approximately 844 full-time equivalent employees. These totals include 546 providers representing approximately 492 full-time equivalent employees who are part of the Physician Group. No other Member of the Obligated Group directly employs personnel, but rather each utilizes employees from the Hospital or Carle Health Care. In addition, Hoopeston Community Memorial Hospital employed 253 individuals for a total of 226 full-time equivalent employees as of December 31, 2013. These totals include 33 providers representing approximately 31 full-time equivalent employees. Management believes that its relationship with its employees is good. Through an outside consultant, management surveys its employees periodically, and has focused on employee engagement as a strong indicator of employee job satisfaction. The level of favorable responses grew over four years of surveys, during which time the Hospital's scores were comparable to the top 25% of the healthcare clients surveyed by the consultant; however, the overall level of scores declined in the 2011 survey period. In the 2012 survey period, employee engagement increased modestly, but remained below the consultant's norm for its health care clients. The level of favorable responses remained unchanged in the 2013 survey period as compared with the 2012 period. Management believes some, or all, of the decline in the scores was due to uncertainty in the period shortly after integration. Management remains focused on restoring the overall positioning of Carle's scores as evidenced by one of the seven Strategic Plan pillars, "Focus on Our People."