Carle
The Carle Foundation

Date: August 15, 2017

RE: Officer's Certificate for The Carle Foundation Relating to the Following Filing:

- ☐ Annual Report
- ☒ Quarterly Report
- ☐ Audited Financial Statements
- ☐ Listed Event Notice
- ☐ Failure to File Event Notice

The information contained within pertains to the following Bonds:

Illinois Finance Authority Variable Rate Demand Revenue Bonds (The Carle Foundation) Series 2009B, 2009C, 2009E
CUSIPs: 45200FVC0, 45200FVG1, 45200FVH9

Illinois Finance Authority Revenue Bonds (The Carle Foundation) Series 2011A
CUSIPs: 45203HBC5, 45203HBD3, 45203HBE1, 45203HBF8, 45203HBG6, 45203HBH4, 45203HBJ0, 45203HBK7, 45203HBL5, 45203HBM3, 45203HBN1, 45203HBQ4, 45203HBR2, 45203HBS0, 45203HBT8, 45203HBU5

Illinois Finance Authority Revenue Bonds (The Carle Foundation) Series 2016A
CUSIPs: 45204EPB8, 45204EPC6, 45204EPD4, 45204EPE2, 45204EPF9, 45204EPG7, 45204EPH5, 45204EPJ1, 45204EPK8, 45204EPL6, 45204EPM4, 45204EPN2, 45204EPP7, 45204EPQ5

Illinois Finance Authority Taxable Variable Rate Demand Revenue Bonds (The Carle Foundation) Series 2016B
CUSIP: 45204EPA0

I hereby certify the name of the document identified by checkmark above on the date so noted constitutes the valid and complete information for that document as required to be submitted to the MSRB under one or more Continuing Disclosure Agreements. I further certify this information complies with the Continuing Disclosure Agreement(s) and the Rule as required. DAC shall be entitled to rely upon this certificate.

Dennis P. Hesch
Executive Vice President & System CFO

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The Carle Foundation

Consolidated Financial Statements and Supplementary Schedules (Unaudited)
June 30, 2017 and 2016

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The Carle Foundation
Consolidated Balance Sheets
June 30, 2017 and 2016
(Dollars in thousands)

Assets		**2017**	2016
Current assets:			
Cash and cash equivalents		**$ 250,256**	$ 138,139
Investments	(Notes 3, 4, and 5)	**360,390**	118,431
Assets limited as to use or restricted	(Notes 3, 4, and 5)	**119,057**	31,120
Patient receivables, less allowance for doubtful accounts of $37,652 in 2017 and $31,376 in 2016	(Notes 8 and 19)	**132,324**	108,210
Premiums receivable	(Note 19)	**241,222**	463,722
Reinsurance recoverable	(Note 15)	**15,424**	11,007
Other receivables		**130,932**	81,338
Inventories		**9,814**	8,888
Prepaid expenses		**22,618**	19,372
Total current assets		**1,282,037**	980,227
Property and equipment, net	(Note 9)	**658,877**	583,409
Investments and other assets:			
Investments, net of current portion	(Notes 3, 4, and 5)	**956,456**	849,484
Assets limited as to use or restricted, net of current portion	(Notes 3, 4, and 5)	**224,805**	195,446
Interest rate swap agreements	(Notes 4 and 14)	**3,098**	2,226
Reinsurance recoverable, net of current portion	(Note 15)	**8,212**	7,957
Intangible assets and goodwill, net	(Note 10)	**121,542**	135,825
Deferred taxes	(Note 11)	**1,093**	5,232
Other assets		**26**	26
Total investments and other assets		**1,315,232**	1,196,196
Total assets		**$ 3,256,146**	$ 2,759,832

See accompanying notes to consolidated financial statements.

Liabilities and Net Assets		2017	2016
Current liabilities:			
Accounts payable		$ 7,221	$ 9,157
Short-term borrowings	(Note 13)	100,000	100,000
Current maturities of long-term debt	(Note 13)	14,665	13,101
Estimated third-party payor settlements	(Note 6)	57,922	55,615
Medical claims payable	(Note 12)	169,192	165,284
Current portion of estimated liability for self-insurance losses	(Note 15)	27,944	26,586
Current portion of retirement plan benefits obligation	(Note 16)	12,000	12,000
Compensation and paid leave payable		87,509	77,263
Other accrued liabilities		121,540	60,964
Total current liabilities		597,993	519,970
Long-term liabilities:			
Long-term debt, net of current maturities	(Note 13)	719,237	530,150
Interest rate swap agreements	(Notes 4 and 14)	16,506	24,316
Asset retirement obligation	(Note 2)	6,337	6,387
Estimated liability for self-insurance losses, net of current portion	(Note 15)	74,814	75,239
Retirement plan benefits obligation, net of current portion	(Note 16)	78,594	93,865
Other accrued liabilities		34,903	43,847
Total long-term liabilities		930,391	773,804
Total liabilities		1,528,384	1,293,774
Net assets:			
Unrestricted		1,700,138	1,443,712
Unrestricted, noncontrolling interests		7,216	5,702
Temporarily restricted		14,552	10,930
Permanently restricted		5,856	5,714
Total net assets		1,727,762	1,466,058
Total liabilities and net assets		$ 3,256,146	$ 2,759,832

See accompanying notes to consolidated financial statements.

The Carle Foundation
Consolidated Statements of Operations and Changes in Net Assets
Six Months Ended June 30, 2017 and 2016
(Dollars in thousands)

		2017	2016
Revenue:			
Patient service revenue (net of contractual allowances)		$ 464,598	$ 394,314
Provision for bad debts		(19,715)	(17,902)
Net patient service revenue	(Notes 2 and 6)	444,883	376,412
Net premium revenue–health insurance		735,546	892,639
Other revenue:			
Rental income		8,937	8,530
Net assets released from restrictions		417	376
Other		12,657	14,791
Total revenue		1,202,440	1,292,748
Expenses:			
Salaries and wages		289,411	266,993
Employee benefits	(Note 15 and 16)	70,755	64,051
Medical benefits of insured	(Note 12)	532,430	679,512
Patient care and other supplies		86,157	80,557
Purchased services		55,532	52,339
General and administrative		42,493	32,654
Insurance	(Note 15)	7,869	14,491
Depreciation and amortization	(Note 10)	33,792	33,039
Interest and financing expense	(Note 13)	15,974	12,182
Real estate and other taxes	(Notes 6 and 17)	14,889	23,054
Loss (gain) on the disposal of property and equipment		24	(109)
Change in fair value of derivative instruments	(Note 14)	(665)	7,477
Total expenses		1,148,661	1,266,240
Income from operations		53,779	26,508
Nonoperating gains:			
Investment income	(Note 3)	43,175	33,492
Excess of revenue over expenses, before noncontrolling interest and income taxes		96,954	60,000
Noncontrolling interest in net income of consolidated joint ventures		667	670
Provision for income taxes	(Note 11)	13,998	9,891
Excess of revenue over expenses		$ 82,289	$ 49,439

See accompanying notes to consolidated financial statements.

(Continued)

		2017	2016
Unrestricted net assets:			
Excess of revenue over expenses		**$ 82,289**	$ 49,439
Change in net unrealized gains and losses on other-than-trading securities	(Note 3)	**38,219**	11,686
Change in noncontrolling interest in consolidated joint ventures		**667**	3,987
Increase in unrestricted net assets		**121,175**	65,112
Temporarily restricted net assets:			
Contributions		**1,406**	917
Investment income	(Note 3)	**108**	53
Change in net unrealized gains and losses on other-than-trading securities	(Note 3)	**148**	33
Net assets released from restrictions		**(378)**	(376)
Increase in temporarily restricted net assets		**1,284**	627
Permanently restricted net assets:			
Contributions		**89**	4
Increase in permanently restricted net assets		**89**	4
Change in net assets		**122,548**	65,743
Net assets, beginning of the period		**1,605,214**	1,400,315
Net assets, end of the period		**$ 1,727,762**	$ 1,466,058

See accompanying notes to consolidated financial statements.

The Carle Foundation
Consolidated Statements of Cash Flows
Six Months Ended June 30, 2017 and 2016
(Dollars in thousands)

	2017	2016
Cash flows from operating activities:		
Change in net assets	**$ 122,548**	$ 65,743
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	**33,792**	33,039
Loss (gain) on disposal of property and equipment	**24**	(109)
Gain on sale of membership interest in Champaign Surgicenter, LLC (Surgicenter)	**-**	(3,308)
Provision for bad debts	**19,715**	17,902
Amortization of deferred financing costs and original issue discount/premium	**(73)**	255
Net realized and unrealized gains and losses on investments	**(63,361)**	(23,694)
Accretion on asset retirement obligation	**(22)**	(51)
Change in fair value of derivative instruments	**(665)**	7,477
Permanently restricted contributions	**(89)**	(4)
Change in retirement plan benefits obligation	**(8,376)**	(7,272)
Changes in assets and liabilities:		
(Increase) decrease in:		
Receivables	**15,096**	(110,565)
Reinsurance recoverable	**(2,158)**	(675)
Inventories	**283**	327
Prepaid expenses	**(9,119)**	(5,320)
Increase (decrease) in:		
Accounts payable and accrued expenses	**41,205**	(72,256)
Medical claims payable	**(22,233)**	(16,593)
Third-party payor settlements	**(9,748)**	2,443
Self-insurance liability	**4,105**	10,750
Deferred taxes	**1,410**	16,153
Net cash provided by (used in) operating activities	**122,334**	(85,758)

See accompanying notes to consolidated financial statements.

		2017		2016
Cash flows from investing activities:				
Proceeds from maturities and sale of investments	**$**	**108,756**	$	172,592
Purchases of investments		**(83,907)**		(95,265)
Proceeds from sale of property and equipment		**432**		469
Proceeds from sale of membership interest in Surgicenter		**-**		6,625
Purchase and construction of property and equipment		**(53,284)**		(44,843)
Cash acquired through Richland member substiution		**4,556**		-
Net cash provided by (used in) investing activities		**(23,447)**		39,578
Cash flows from financing activities:				
Payments on long-term debt		**(8,364)**		(7,915)
Refunds (payments) of deferred financing costs		**302**		(78)
Permanently restricted contributions		**89**		4
Net cash used in financing activities		**(7,973)**		(7,989)
Net increase (decrease) in cash and cash equivalents		**90,914**		(54,169)
Cash and cash equivalents:				
Beginning		**159,342**		192,308
Ending	**$**	**250,256**	$	138,139
Supplemental disclosures of cash flow information:				
Cash payments for interest	**$**	**16,868**	$	12,220
Net cash payments for taxes		**5,967**		10,128

See accompanying notes to consolidated financial statements.

Note 1. Organization

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

The Foundation serves as the sole member and elects all of the trustees of, and thereby controls, the following Illinois not-for-profit organizations and affiliates:

a. The Carle Foundation Hospital (Hospital) operates a licensed 413-bed hospital, a certified home health agency, and a certified hospice (Hospital Division), all of which lease property and equipment from the Foundation. The Hospital also operates Carle Medical Supply (Medical Supply), a provider of medical equipment and supplies to the general public and hospital patients; and the Danville Surgery Center and outpatient surgical recovery center, which is located in Danville, Illinois (DASC). The Hospital serves as the sole stockholder and elects all directors of and, therefore, controls the following for-profit subsidiaries: Carle Risk Management Company (Risk Management), which provides professional liability insurance claims processing and management services to the Foundation and eValiData, Inc. (eValiData), which provides physician credentialing services to the Foundation and external organizations.

b. Carle Health Care Incorporated (Health Care) operates Arrow Ambulance, LLC (Arrow), an ambulance transport service; Carle Physician Group (Physician Group), acquired on April 1, 2010 through the Foundation's purchase of Carle Clinic Association, P.C. and its subsidiaries (Clinic), which operates as a private, multispecialty, group medical practice comprising approximately 475-licensed physicians and surgeons; and Airlife and The Caring Place (Other Entities), an air medical transport service and day care center, respectively. Health Care also operates the Surgicenter, which is a freestanding ambulatory surgery center located in Champaign, Illinois.

   On January 1, 2016, Health Care sold a 25% interest in Surgicenter to Christie Clinic ASC, LLC (Christie) for $6,625, which approximates fair value. This resulted in a gain on the sale of $3,308. The Hospital manages the day-to-day operations of the facility and Health Care and Christie share governance of the Surgicenter Board of Managers.

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

d. Richland Memorial Hospital, Inc. (Richland), in Olney, Illinois, integrated into the Foundation through a membership substitution effective April 1, 2017. Richland has 134-licensed beds and serves portions of eight counties in southeastern Illinois. The hospital is located approximately 96 miles south of the Foundation's main campus. Richland is an independent operating entity of the Foundation.

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

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

Note 1. Organization (Continued)

g. The Foundation is the sole member of CHA Holding, Inc. (CHA Holding), a taxable not-for-profit entity. CHA Holding controls the following entities:

   i. CHA Holding is the sole stockholder of Carle Holding Company, Inc. (Carle Holding). Carle Holding, also part of the Foundation's acquisition of the Clinic on April 1, 2010, is a taxable for-profit entity, which is the sole owner of Health Alliance Medical Plans Inc. and its subsidiaries (Health Alliance). Health Alliance is a licensed life, accident, and health insurance company in the state of Illinois (State) and is subject to regulation by the Illinois Department of Insurance (DOI). Health Alliance was granted a certificate of authority to transact business as a health maintenance organization (HMO) on November 28, 1989. Health Alliance had approximately 216,800 and 215,600 members at June 30, 2017 and 2016, respectively.

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

   ii. CHA Holding is the sole member of Health Alliance Connect, Inc. (HA Connect). HA Connect is a taxable not-for-profit entity that provides health care services to its enrollees, which, in 2017 consists solely of Illinois Medicare Advantage membership lives. Membership in this program totaled approximately 19,700 and 18,700 at June 30, 2017 and 2016, respectively.

   Previously, HA Connect enrollees included beneficiaries of other governmental programs, such as Medicaid Family Health Plan and Medicaid ACA Adult. Effective December 31, 2016, HA Connect terminated all Medicaid product line contracts. For the six months ended June 30, 2016, the premium recorded and the medical benefits of insured for the Medicaid product line was $229,606 and $228,770, respectively. The average membership under this contract was 131,227 for the six months ended June 30, 2016.

   iii. CHA Holding has a 60% membership interest in Health Alliance Northwest Holding, Inc. (HANW Holding). HANW Holding is a taxable not-for-profit entity operating as a noninsurance company in the state of Washington, established for the purpose of owning Health Alliance Northwest Health Plan, Inc. (HANW Health Plan), a Washington health care contractor. HANW Health Plan had approximately 13,300 and 11,100 members at June 30, 2017 and 2016, respectively.

   CHA Holding, Carle Holding, Health Alliance, HAMW, HANW Holding, HANW Health Plan, and HA Connect are collectively referred to herein as Health Group.

The Foundation serves as the sole stockholder and elects all the directors of, and thereby controls, the following for-profit subsidiary:

Health Systems Insurance, Limited (Health Systems), an offshore captive insurance company, underwrites substantially all of the Foundation's general, professional, and workers' compensation liability insurance risks.

Note 2. Summary of Significant Accounting Policies

A summary of the significant accounting policies adopted by the Foundation and its subsidiaries and affiliates is as follows:

Principles of consolidation: The consolidated financial statements include the accounts of the Foundation and its subsidiaries and affiliates. All significant intercompany accounts and transactions have been eliminated.

Use of estimates: The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, including, among other estimates, third-party settlements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Going concern: The guidance for evaluating the going concern of an entity requires management to evaluate whether there are events that raise substantial doubt about the entity's ability to continue as a going concern. Management has evaluated relevant conditions and events that are known and reasonably understandable, and has determined there is currently no substantial doubt the Foundation will be able to continue as a going concern for the next year, as prescribed within ASU No. 2014-15, *Going Concern (Subtopic 205-40)*.

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

Fair value: The Foundation applies the provisions of Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurement*, for fair value measurements of financial assets and liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis. ASC Topic 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC Topic 820 establishes a framework for measuring fair value and expands disclosure about fair value measurements (Note 4).

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

The Foundation owns interests in certain joint ventures whose investments are accounted for under the equity method of accounting. The largest of the joint ventures, recorded at $3,078 and $2,901 at June 30, 2017 and 2016, respectively, is The Center for Outpatient Medicine, LLC that provides a facility for medical professionals to perform outpatient surgical procedures. The Foundation's ownership interest was 10.1% at both June 30, 2017 and 2016.

All investments are classified as noncurrent with the exception of certain intermediate term investments held for operating purposes, bond fund investments needed to pay current construction draws, and a portion of Health Systems' investments needed to pay current claims.

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

Note 2. Summary of Significant Accounting Policies (Continued)

Investment income (loss) is included in excess of revenue over expenses as nonoperating gains (losses) unless the income or loss is restricted by donors, in which case the investment return is recorded to temporarily or permanently restricted net assets. Unrealized gains and losses on investments, other than those on trading securities, are excluded from excess of revenue over expenses and are included as a change in either unrestricted or temporarily restricted net assets

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

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

Assets limited as to use or restricted: Assets limited as to use or restricted includes assets over which the Board of Trustees retains ultimate control and assets set aside due to legal or contractual requirements. Amounts required to meet current liabilities have been classified as current assets.

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

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

Premiums receivable: Premiums receivable are carried at estimated realizable value and represent amounts billed for periods of coverage through the consolidated balance sheet date. These amounts are primarily for the membership administered by the State through Health Alliance and membership in certain governmental programs through HA Connect.

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

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

The Foundation regularly evaluates the recoverability of long-lived assets and the related estimated remaining lives. The Foundation records an impairment charge or changes the useful life if events or changes in circumstances indicate that the carrying amount may not be recoverable or the useful life has changed. During the six months ended June 30, 2017 and 2016, the Foundation recorded no impairment losses and project abandonments.

Note 2. Summary of Significant Accounting Policies (Continued)

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

Intangible assets and goodwill: Excluding goodwill, the Foundation has intangible assets that represent customer and subscriber relationships, provider networks, and trade name, which are held by Health Group. All of the intangibles are amortized on the straight-line basis over ten years.

Goodwill represents the excess of the aggregate purchase price over the fair value of the net assets acquired in a purchase business combination. Goodwill is not amortized but is reviewed for impairment at least annually in accordance with the provisions of the ASC Subtopic 350-10, *Intangibles—Goodwill and Other—Overall.* No impairment was recorded in the consolidated statements of operations and changes in net assets at June 30, 2017 and 2016.

Deferred financing costs: Bond issuance costs are deferred and amortized over the term of the related indebtedness using the effective-interest method and are included in long-term debt in the consolidated balance sheets. In the event any of the Variable Rate Demand Bonds are converted into Bank Bonds, the bond issuance costs associated with those bonds would be amortized over the relevant accelerated period. The Foundation adopted Accounting Standards Update (ASU) No. 2015-03, *Interest – Imputation of Interest (Subtopic 835-30), Simplifying the Presentation of Debt Issuance Costs* in 2016.

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

Asset retirement obligation: The Foundation recognizes a liability for the fair value of any unconditional asset retirement obligation if the fair value of the liability can be estimated. An obligation is unconditional if there is a legal obligation to perform the retirement. The Foundation determined that an obligation exists with regard to future asbestos and storage tank removal. The estimated and recorded liability was $6,337 and $6,387 at June 30, 2017 and 2016, respectively.

Net assets: Net assets are classified based upon the existence or absence of donor restrictions. Contributions received without specific restrictions from a donor or that arise as a result of operations of the Foundation are classified as unrestricted net assets. The Foundation reports contributions of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets to a particular time or purpose. When a donor restriction expires, that is, when the stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions. Net assets that are subject to donor restrictions in gift instruments requiring assets to be held in perpetuity are classified as permanently restricted.

Temporarily restricted net assets and earnings on permanently restricted net assets are primarily restricted for medical education, research, construction/equipment, charity care, and other health care related activities.

(Dollars in thousands)

Note 2. Summary of Significant Accounting Policies (Continued)

Excess of revenue over expenses: The consolidated statements of operation and changes in net assets include excess of revenue over expenses. Changes in unrestricted net assets, which are excluded from excess of revenue over expenses, consistent with industry practice, include unrealized gains/losses on investments that are not classified as trading, permanent transfers of assets to and from affiliates for other than goods and services, pension liability adjustments, and contributions of long-lived assets (including assets acquired using contributions, which by donor restrictions were to be used for the purpose of acquiring such assets).

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

The net patient service revenue for the six months ended June 30, 2017 and 2016 is as follows:

	2017	2016
Gross patient service charges	$ 1,772,651	$ 1,328,673
Less:		
Discounts, allowances, and estimated contractual adjustments under third-party reimbursement programs	(1,308,053)	(934,359)
Provision for bad debts	(19,715)	(17,902)
Net patient service revenue	$ 444,883	$ 376,412
Percentage of net patient service revenue to gross charges	25.1%	28.3%

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

Electronic health record incentive program: The Electronic Health Record (EHR) Incentive Program (Incentive Program) provides incentive payments to eligible hospitals and professionals as they adopt, implement, upgrade, or demonstrate meaningful use of certified EHR technology in their first year of participation and demonstrate meaningful use for up to five remaining participation years. The Foundation accounts for the Incentive Program using the "ratable recognition" approach, which states that the grant income can be recognized ratably over the entire EHR reporting period once the "reasonable assurance" income recognition threshold is met. For the six months ended June 30, 2017 and 2016, the Foundation recognized $410 and $731, respectively, as other revenue related to EHR incentives, which has been received or is expected to be received based on certifications prepared by management under the appropriate guidelines for stage 1 and stage 2 attestation.

Note 2. Summary of Significant Accounting Policies (Continued)

Insurance-Health Group: Health Group has negotiated contracts with hospitals, physicians, and other health care providers to satisfy the necessary medical needs of eligible enrollees (members). The contracts are generally structured to pay providers based on capitated amounts per member per month, discounted fee for service, per discharge, and per diem reimbursement arrangements. Health Group recognizes premiums from members as revenue in the period to which health care coverage relates. Amounts billed and collected in advance of the period of coverage are recorded within other accrued liabilities. Amounts due to Health Group for provider referrals under these agreements are reported as other receivables in the consolidated balance sheets.

Health Group purchases commercial insurance coverage to reinsure risk relating to hospital and physician services for each insured enrollee during the contract period with various retention limits. Reinsurance premiums paid are reported as a reduction of premium revenue. Reinsurance recoveries are recorded as a reduction in medical benefits of insured. Health Group remains liable in the event of nonperformance by reinsurers.

Health Group estimates and establishes medical claims payable for reported claims, claims incurred but not reported, and related claims adjustment expenses. The estimates are based on multiple factors including historical experience, service mix, pending level of unpaid claims, and other known facts and circumstances. The establishment of appropriate liabilities is an inherently uncertain process and the ultimate cost may vary materially from the recorded amounts. The estimates are regularly reviewed as experience develops and new information becomes known. The estimated liabilities are adjusted, as necessary, with such adjustments reflected in the results from operations. The medical claims payables and related expense are reported net of insured copay and deductible amounts and also net of coordination of benefits provisions. The medical claims payables reflect estimated unpaid and incurred claims through June 30, 2017 and 2016, respectively.

Guaranty funds and other assessments are accrued at the time the event on which the assessments are expected to be based occurs and are included in other accrued liabilities on the Foundation's consolidated balance sheets.

Insurance-Health Systems: Health Systems recognizes premiums from underlying insureds as revenue in the period for which liability coverage is provided and earned on a pro rata basis over the life of the policies. The unearned portion at the consolidated balance sheet date is recorded as unearned premium revenue within other accrued liabilities.

Health Systems has purchased commercial insurance products with large deductibles to provide additional excess layers of insurance. Reinsurance premiums ceded are recorded as a reduction in premium revenue in the period in which the related policies are issued on a pro rata basis over the policy periods with the unexpensed portion, if any, recorded as prepaid expense on the consolidated balance sheets.

Health Systems' estimates for self-insurance comprise estimates for losses reported by the Foundation and a provision for incurred but not reported losses. Health Systems records its estimated liabilities for self-insurance gross of any amounts recoverable under reinsurance policies, which amounts, if any, are recorded separately in the consolidated balance sheets as reinsurance recoverable.

In the event that the Health System's reinsurers are unable to meet their obligations under the reinsurance agreements, the Foundation would be liable to pay all claims under the reinsurance assumed but would only receive reimbursement to the extent that the reinsurers can meet their obligations.

Note 2. Summary of Significant Accounting Policies (Continued)

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

Pension plan: The guidance for accounting for defined benefit pension plans requires the Foundation to recognize the funded status of its pension plan in the consolidated balance sheets with a corresponding charge to net assets. The funded status is the difference between the fair value of plan assets and benefit obligations.

Income taxes: The Foundation and its not-for-profit affiliates, as described in Section 501(c)(3) of the Internal Revenue Code (Code) are exempt from federal income taxes, pursuant to Section 501(a) of the Code. The Foundation and its not-for-profit affiliates are, however, subject to federal and state income taxes on unrelated business income under the provision of Section 511 of the Code.

Health Group is subject to income taxes and accounts for income taxes in accordance with ASC Topic 740, *Income Taxes.* Deferred income tax assets and liabilities are recognized for the differences between the financial and income tax reporting basis of assets and liabilities based on enacted tax rates and laws and are accounted for under the asset and liability method. The deferred income tax provision or benefit generally reflects the net change in deferred income tax assets and liabilities during the year. The current income tax provision reflects the tax consequences of revenue and expenses currently taxable or deductible on various income tax returns for the year reported.

The guidance on accounting for uncertainty in income taxes prescribes a more-likely-than-not recognition threshold and measurement attribute for financial statements recognition of a tax position taken or expected to be taken. There were no uncertain tax benefits identified or recorded as a liability as of June 30, 2017 and 2016.

Tax returns filed by the Foundation are subject to examination by the Internal Revenue Service (IRS) up to three years from the extended due date of each return. The statute of limitations remains open for Richland tax returns filed for Richland fiscal years ended September 30, 2014 through 2016 and for all other not-for-profit entities the calendar years ended December 31, 2013 through 2015. In general, the statute of limitations remains open for tax returns filed for the calendar years ended December 31, 2010 through 2015 for the various for-profit entities.

Reclassifications: To be consistent with classifications adopted for the six months ended June 30, 2017, certain balances on the consolidated financial statements for the six months ended June 30, 2016 have been reclassified with no effect on revenue or expenses. Net assets and other accrued liabilities were not materially impacted by the reclassification of noncontrolling interest in consolidated joint ventures from other accrued liabilities to unrestricted net assets.

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

Note 2. Summary of Significant Accounting Policies (Continued)

In May 2015, the FASB issued ASU No. 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. The amendments in this update remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The amendments also remove the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. This ASU is effective for fiscal years beginning after December 15, 2016 and interim periods within those fiscal years with earlier application permitted. The Foundation adopted ASU No. 2015-07 in 2016. There was no effect on the Foundation's consolidated financial statements.

In May 2015, the FASB issued ASU No. 2015-09, *Disclosures about Short-Duration Contracts*. The amendments in this update require insurance entities to make certain disclosures regarding the liability for unpaid claims and claims adjustment expense, including incurred and paid claims development information by accident year; a reconciliation of incurred and paid claims development information to the aggregate carrying amount of the liability for unpaid claims and claims adjustment expense; the total of incurred but not reported liabilities plus expected development on reported claims included in the liability for unpaid claims; and quantitative information about claim frequency. The amendments also require insurance entities to disclose information about significant changes in methodologies and assumptions used to calculate the liability for unpaid claims and claims adjustment expense. The requirements of this statement are effective for the Foundation for the year ending December 31, 2017. The Foundation is evaluating the effect this guidance will have upon its financial statements.

In July 2015, the FASB issued ASU No. 2015-11, *Inventory (Topic 330), Simplifying the Measurement of Inventory.* The guidance requires inventory to be measured at the lower of cost and net realized value, which is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. This ASU is effective for fiscal years beginning after December 15, 2016 and interim periods within fiscal years beginning after December 15, 2017. The Foundation is evaluating the effect this guidance will have upon its financial statements and anticipate no material impact to the Foundation financial statements from the implemetation of this guidance.

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

(Continued)

(Dollars in thousands)

Note 3. Investments and Assets Limited as to Use or Restricted

Investments and assets limited as to use or restricted as of June 30, 2017 and 2016 are as follows:

	2017	2016
Investments:	$ 1,316,846	$ 967,915
Assets limited as to use or restricted:		
Deposits for self-insurance	123,722	117,891
Deposits limited by bond indentures or debt covenants	101,117	513
Assets designated by Board for community health expenditures	69,980	65,493
Executive benefit plans	22,952	20,106
Donor-restricted investments	19,662	16,001
Deposits for statutory requirements of DOI	6,429	6,562
Total assets limited as to use or restricted	343,862	226,566
Total investments and assets limited as to use or restricted	$ 1,660,708	$ 1,194,481

The composition of investments and assets limited as to use or restricted as of June 30, 2017 and 2016 is as follows:

	2017		2016	
	Cost	Carrying Value	Cost	Carrying Value
Cash and cash equivalents	$ 27,205	$ 27,205	$ 16,910	$ 16,910
Fixed income securities	873,081	901,811	521,377	546,695
Marketable equity securities	271,855	346,595	244,402	282,651
Real asset investments	50,256	47,638	49,910	47,365
Pledge receivable–restricted	5,380	5,380	2,506	2,506
Other assets	17	17	-	-
Alternative and illiquid investments:				
Private equity funds of funds	78,475	92,887	73,938	84,170
Emerging markets equities fund	11,177	12,217	10,500	8,675
Hedge fund of funds	-	-	3	3
	$ 1,317,446	1,433,750	$ 919,546	988,975
Investments in joint ventures		3,384		3,221
Trading securities:				
Cash and cash equivalents		3,639		2,804
Fixed income securities		109,050		104,533
Marketable equity securities		84,043		71,250
Mutual funds:				
Executive benefit plans		22,952		20,106
Beneficial interest in trust		3,890		3,592
		$ 1,660,708		$ 1,194,481

(Continued)

(Dollars in thousands)

Note 3. Investments and Assets Limited as to Use or Restricted (Continued)

The gross unrealized gains (losses) on investments and assets limited as to use or restricted as of June 30, 2017 and 2016 are as follows:

	2017	2016
Gross unrealized gains	$ 135,313	$ 96,599
Gross unrealized losses	(19,009)	(27,170)
	$ 116,304	$ 69,429

Investment income for the six months ended June 30, 2017 and 2016 comprises the following:

	2017	2016
Interest and dividend income	$ 19,506	$ 22,590
Net realized gains on sales of investments	17,358	7,113
Net realized and unrealized gains and losses on trading securities	7,636	4,862
Investment management fees	(1,217)	(1,020)
	43,283	33,545
Change in net unrealized gains and losses on other-than-trading securities	38,367	11,719
	$ 81,650	$ 45,264

Investment income has been recorded in the consolidated statements of operations and changes in net assets for the six months ended June 30, 2017 and 2016 as follows:

	2017	2016
Nonoperating gains:		
Investment income	$ 43,175	$ 33,492
Other changes in temporarily restricted net assets:		
Investment income	108	53
	43,283	33,545
Other changes in unrestricted net assets:		
Change in net unrealized gains and losses on other-than-trading securities	38,219	11,686
Other changes in temporarily restricted net assets:		
Change in net unrealized gains and losses on other-than-trading securities	148	33
	38,367	11,719
	$ 81,650	$ 45,264

Note 4. Fair Value Measurements

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

The Foundation holds certain financial instruments that are required to be measured at fair value on a recurring basis. The valuation techniques used to measure fair value under ASC Topic 820 establishes a hierarchy for ranking the quality and reliability of the information used to determine fair values. Assets and liabilities carried at fair value are to be disclosed according to the following levels:

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

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

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

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

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

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

(Dollars in thousands)

Note 4. Fair Value Measurements (Continued)

Assets and liabilities at fair value: The following tables summarize assets and liabilities measured at fair value basis as of June 30, 2017 and 2016:

	2017			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	$ 250,256	$ -	$ -	$ 250,256
Investments and assets limited as to use or restricted:				
Cash and cash equivalents	30,844	-	-	30,844
Fixed income securities:				
U.S. government and agencies	34,441	36,028	-	70,469
Mortgage-backed and asset-backed securities	-	110,665	-	110,665
Corporate and other	-	111,793	-	111,793
Mutual funds	678,419	-	-	678,419
Commingled funds	-	39,515	-	39,515
Marketable equity securities:				
United States	273,555	3,448	-	277,003
Non-U.S. developed markets	86,319	66,752	-	153,071
Non-U.S. emerging markets	513	51	-	564
Real asset investments:				
Mutual funds	47,638	-	-	47,638
Mutual funds–executive benefit plans	22,952	-	-	22,952
Interest rate swap agreements	-	3,098	-	3,098
	$ 1,424,937	$ 371,350	$ -	1,796,287
Investments measured at net asset value[1]				105,104
Total recurring fair value measurements - assets				$ 1,901,391
Liabilities:				
Interest rate swap agreements	$ -	$ 16,506	$ -	$ 16,506
Other accrued liabilities–executive benefit plans	-	22,952	-	22,952
Total recurring fair value measurements - liabilities	$ -	$ 39,458	$ -	$ 39,458

[1] Certain investments measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated balance sheets.

(Dollars in thousands)

Note 4. Fair Value Measurements (Continued)

	2016			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	$ 138,139	$ -	$ -	$ 138,139
Investments and assets limited as to use or restricted:				
Cash and cash equivalents	19,714	-	-	19,714
Fixed income securities				
U.S. government and agencies	31,379	44,508	-	75,887
Mortgage-backed and asset-backed securities	-	10,281	-	10,281
Corporate and other	-	96,474	-	96,474
Mutual funds	434,675	-	-	434,675
Commingled funds	-	33,911	-	33,911
Marketable equity securities				
United States	236,965	2,961	-	239,926
Non-U.S. developed markets	61,376	52,525	-	113,901
Non-U.S. emerging markets	74	-	-	74
Real asset investments:				
Mutual funds	47,365	-	-	47,365
Mutual funds–executive benefit plans	20,106	-	-	20,106
Interest rate swap agreements	-	2,226	-	2,226
	$ 989,793	$ 242,886	$ -	1,232,679
Investments measured at net asset value[1]				92,848
Total recurring fair value measurements - assets				$ 1,325,527
Liabilities:				
Interest rate swap agreements	$ -	$ 24,316	$ -	$ 24,316
Other accrued liabilities–executive benefit plans	-	20,106	-	20,106
Total recurring fair value measurements - liabilities	$ -	$ 44,422	$ -	$ 44,422

[1] Certain investments measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated balance sheets.

ASU No. 2010-06, *Fair Value Measurements and Disclosures*, amends ASC Topic 820 to require disclosure of transfers in and out of Levels 1 and 2. The Foundation had no transfers between Levels 1 and 2 for the six months ended June 30, 2017 and 2016.

(Dollars in thousands)

Note 4. Fair Value Measurements (Continued)

The following information pertains to those alternative investments recorded at net asset value or for which unfunded commitments remain as of June 30, 2017 and 2016:

2017	Fair Value	Unfunded Commitment	Remaining Life	Redemption Frequency	Redemption Notice Period
Commingled funds investing in:					
Non-U.S. emerging markets equity (a)	12,217	NA	NA	Monthly	30 days
Private equity funds of funds (b)	92,887	$ 58,771	to 2025	NA	NA
Total	$ 105,104				

2016	Fair Value	Unfunded Commitment	Remaining Life	Redemption Frequency	Redemption Notice Period
Commingled funds investing in:					
Non-U.S. emerging markets equity (a)	8,675	NA	NA	Monthly	30 days
Private equity funds of funds (b)	84,170	$ 55,267	to 2025	NA	NA
Hedge fund of funds (c)	3	NA	NA	Quarterly	90 days
Total	$ 92,848				

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

(b) The Foundation has 13 private equity investments that are structured as limited partnerships, the purpose of which is to diversify the risk and return attributes of the investment portfolio. These partnerships make investments in funds of leveraged buyout, venture capital, special situation, and other assets. These investments are recorded at fair value. Income recorded by the limited partnership investments includes interest income, dividends, and realized/unrealized gains and losses of the underlying investments, the net of which is recorded by the Foundation as investment income. The Foundation has committed to make total investments of $164,000 by 2025. The remaining commitment at June 30, 2017 and 2016 is $58,771 and $55,267, respectively. These investments cannot be redeemed during the life of the funds. Instead, distributions are received through the liquidation of the underlying assets of the funds. It is estimated that the underlying funds will be liquidated over periods extending up to 12 years.

(c) The holdings in this fund represent the Foundation’s remaining investment in a portable alpha fund, which incorporated a fund of low-volatility hedge funds, the investments of which were in liquidation. Investments are valued at the last business day of the month. The liquidation was completed in 2016.

(Dollars in thousands)

Note 5. Other-Than-Temporary Impairment

Management continually reviews its investment portfolio (excluding trading securities) and evaluates whether the declines in the fair value of securities should be considered an other-than-temporary impairment (OTTI) in value. Factored into this ongoing evaluation are general market conditions, each issuer's financial condition and near-term prospects, conditions in each issuer's industry and competitive factors, the recommendation of advisors, including the Foundation's investment consultant, and the length of time and magnitude to which the fair value has been less than cost. During the six months ended June 30, 2017 and 2016, the Foundation did not record any realized losses due to an OTTI.

Unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of June 30, 2017 and 2016, are as follows:

	2017					
	Continuous Unrealized Losses Existing for Less Than 12 Months		Continuous Unrealized Losses Existing for Greater Than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Marketable equity securities	$ 33,678	$ 2,488	$ 25,417	$ 2,715	$ 59,095	$ 5,203
Fixed income securities	47,255	726	156,230	10,281	203,485	11,007
Real asset funds	281	1	45,886	2,680	46,167	2,681
Alternative investments	904	54	12,217	64	13,121	118
	$ 82,118	$ 3,269	$ 239,750	$ 15,740	$ 321,868	$ 19,009

	2016					
	Continuous Unrealized Losses Existing for Less Than 12 Months		Continuous Unrealized Losses Existing for Greater Than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Marketable equity securities	$ 35,722	$ 4,211	$ 27,015	$ 7,085	$ 62,737	$ 11,296
Fixed income securities	135,067	245	142,173	10,388	277,240	10,633
Real asset funds	10,608	37	36,003	2,565	46,611	2,602
Alternative investments	11,200	2,150	14,236	489	25,436	2,639
	$ 192,597	$ 6,643	$ 219,427	$ 20,527	$ 412,024	$ 27,170

Note 5. Other-Than-Temporary Impairment (Continued)

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

Note 6. Contractual Arrangements with Third-Party Payors

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

Net patient service revenue for the six months ended June 30, 2017 and 2016, includes approximately $1,485 and $4,911, respectively, of favorable retroactively determined settlements from third-party payors related to prior years.

For the six months ended June 30, 2017 and 2016, approximately 68.0% and 60.5%, respectively, of the Foundation's net patient service revenue was earned under prospective payment, cost, and cost-plus reimbursement agreements with Medicare, Medicaid, and Blue Cross and Blue Shield of Illinois (Blue Cross). These are subject to audit and adjustment by the administering agencies.

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

Medicare: For the six months ended June 30, 2017 and 2016, approximately 34.1% and 34.0%, respectively, of the Foundation's net patient service revenue was earned under the Medicare and Medicare Advantage programs. The revenue received from Health Group for Medicare and Medicare Advantage has been eliminated upon consolidation. The Foundation is paid for inpatient acute care services rendered to Medicare program beneficiaries under prospectively determined rates-per-discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. The prospectively determined classification of patients and the appropriateness of the patients' admissions are subject to validation reviews by a Medicare quality improvement organization, which is under contract to perform such reviews. Outpatient services are paid via the outpatient prospective payment system. Under this system, most outpatient services are paid at predetermined outpatient rates.

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

Note 6. Contractual Arrangements with Third-Party Payors (Continued)

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

The Foundation's Medicare cost reports have been audited and settled by the Medicare fiscal intermediary through December 31, 2012.

Medicaid: For the six months ended June 30, 2017 and 2016, approximately 16.1% and 8.4%, respectively, of the Foundation's net patient service revenue was earned under State Medicaid programs. The revenue received from Health Group for Medicaid has been eliminated upon consolidation. The Foundation renders inpatient and outpatient services to Illinois Public Aid patients at prospective rates determined by State reimbursement formulas. These rates are not subject to retroactive adjustment.

In December 2008, CMS approved State legislation for a Medicaid Hospital Assessment Program (Program) for an additional five years. An Enhanced Hospital Assessment Program was approved by CMS for the period from June 10, 2012 through December 31, 2014. The statutory sunset of both Programs was extended to June 30, 2018. Under the Programs, the Foundation receives additional Medicaid reimbursement from the State and pays a related assessment. For the six months ended June 30, 2017 and 2016, the Foundation recognized total reimbursement revenue under the Programs of approximately $15,441 and $15,048, respectively, which is included in net patient service revenue, and incurred assessments of approximately $7,975 and $6,405, respectively, which is included in real estate and other taxes expense in the consolidated statements of operations and changes in net assets.

On January 9, 2015, CMS approved a new State Medicaid supplemental hospital payment program for services provided to individuals who qualify as Medicaid beneficiaries under the Affordable Care Act. The program was retroactive to March 1, 2014 and expires June 30, 2018. For the six months ended June 30, 2017 and 2016, the Foundation recognized total reimbursement revenue of $3,148 and $2,469, respectively, for this supplemental payment program.

Effective January 1, 2016, the Illinois General Assembly determined and authorized certain payments under the Managed Care Organization Hospital Access Program (MCO-HAP). The program is intended to preserve and improve access to hospital services for Medicaid beneficiaries. For the six months ended June 30, 2017 and 2016, the Foundation recognized $3,467 and $0 reimbursement revenue, respectively, for this program. The program expires on June 30, 2018.

Blue Cross: The majority of Blue Cross covered subscribers are paid under a Preferred Provider Organization (PPO) plan. For the six months ended June 30, 2017 and 2016, approximately 17.8% and 18.1%, respectively, of the Foundation's net patient service revenue was earned under traditional Blue Cross and Blue Cross PPO plans. The Blue Cross PPO plan reimburses the Foundation for inpatient services based on the lesser of net covered charges or per diem costs from the annual Blue Cross cost report less one hundred dollars. Outpatient services covered under contract are reimbursed based on a specified discount from charges.

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

Note 6. Contractual Arrangements with Third-Party Payors (Continued)

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

Note 7. Community Benefit and Charity Care

The Foundation is committed to providing quality health care to all, regardless of their ability to pay. Under the Foundation's financial assistance policy, patients meeting certain criteria receive care without charge or with a significant reduction in charges. When patients successfully satisfy the prescribed requirements of the financial assistance policy, applicable accounts receivable in bad debt status are reclassified to charity care. The Foundation does not pursue collection of amounts identified as charity care; as such, they are not reported in net patient service revenue. The uncompensated cost of charity care is estimated by applying an overall cost to charge ratio to the charges associated with patients who qualify for charity care. Uncompensated costs of charity care totaled $16,613 and $15,472 for the six months ended June 30, 2017 and 2016, respectively.

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

(Continued)

(Dollars in thousands)

Note 8. Patient Receivables

Patient receivables at June 30, 2017 and 2016 are as follows:

	2017	2016
Patient receivables, gross	$ 883,049	$ 664,451
Less:		
Allowance for estimated contractual adjustments	(713,073)	(524,865)
Allowance for doubtful accounts	(37,652)	(31,376)
Patient receivables, net	$ 132,324	$ 108,210

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

The Foundation's allowance for doubtful accounts for self-pay patients increased from 47.8% of self-pay accounts receivable at June 30, 2016 to 50.3% of self-pay accounts receivable at June 30, 2017. The Foundation implemented changes to its charity care and uninsured discount policies January 1, 2016 in accordance with final regulation guidelines within Section 501(r) of the Code. The impact of these changes on the consolidated financial statements has been minimal. The Foundation does not maintain a material allowance for doubtful accounts from third-party payors, nor did it incur significant write-offs related to third-party payors.

Note 9. Property and Equipment

Property and equipment as of June 30, 2017 and 2016 comprise the following:

	2017	2016
Land and improvements	$ 65,826	$ 55,210
Buildings and improvements	714,121	659,800
Furniture and equipment	407,436	367,572
Construction in progress	63,416	29,203
	1,250,799	1,111,785
Less: accumulated depreciation	(591,922)	(528,376)
	$ 658,877	$ 583,409

(Continued)

Note 9. Property and Equipment (Continued)

In September 2014, the Board of Trustees approved $12,450 for expansion and renovation of the Inpatient Rehabilitation Unit. The project design allowed the unit to move from 15 semiprivate to 15 private rooms with adequate space to allow up to 20 private rooms to accommodate future growth. The design also provided expanded and modernized support and treatment spaces to facilitate more comprehensive patient care. Phased construction began in August 2015 with occupancy of the renovated expansion section achieved in June 2016. The last phase of work was completed by the conclusion of the 2016 fiscal year with full occupancy achieved, as anticipated, in March 2017. As of June 30, 2017, substantially all costs for the project had been capitalized and the balance of construction in progress related to this project was immaterial.

In December 2014, the Board of Trustees approved $23,100 for the design, construction, furnishing, and occupancy of a 52,000 square foot Orthopedic and Sports Medicine building. Costs include an $18,286 Guaranteed Maximum Price construction contract, for which $111 remains unexpended as of June 30, 2017. This facility will accommodate the planned addition of 10 providers over the next five years as well as enable consolidation of services. The facility will accommodate clinical, research, business activities, and allow for the repurposing of existing service locations. Certificate of need approval was received at the April 2015 Illinois Health Facilities and Services Review Board hearing and construction began in October 2015 with full occupancy occurring in January 2017, as anticipated. As of June 30, 2017, substantially all costs had been capitalized and the balance of construction in progress related to this project was immaterial.

In June 2015, the Board of Trustees approved $75,000 for the design, construction, furnishing, and occupancy of a 283,000 square foot administrative building to provide a single location for housing most nonclinical support services. Those services are currently accommodated in a number of locations, most of which are rental properties. Consolidation will allow for reduced costs, improved efficiencies, and resolution of parking and adjacency issues. Infrastructure work is in progress and building construction began in August 2016. Costs include a $58,951 Guaranteed Maximum Price construction contract, for which $37,646 remains unexpended as of June 30, 2017. Initial occupancy is anticipated in early spring 2018 with final occupancy to be achieved by early summer 2018. As of June 30, 2017, the balance of construction in progress related to this project was $25,157.

In June 2015, the Board of Trustees approved $28,500 for the design, construction, furnishing, and occupancy of a 70,000 square foot addition to an existing clinic in Champaign, Illinois. Costs include a $19,751 Guaranteed Maximum Price construction contract, for which $6,488 remains unexpended as of June 30, 2017. The addition will allow the Foundation to better address demand for both primary and specialty care by consolidating services in the building and adding providers. The Convenient Care clinic was expanded to accommodate increasing patient demand. Certificate of need approval was received at the August 2015 Illinois Health Facilities and Services Review Board hearing and construction began in the fall of 2015 with initial occupancy of the new convenient care space achieved in March 2017. Full occupancy is anticipated in the summer of 2017. As of June 30, 2017, the balance of construction in progress related to this project was $19,126.

In September 2016, the Board of Trustees approved $30,800 for the design, construction, furnishing, and occupancy of an approximately 45,000 square foot ambulatory surgery center to improve access; increase quality of care; accommodate anticipated growth; increase patient, physician, and employee satisfaction; and cultivate external partnerships. The clinical space will include eight operating rooms and three procedure rooms with potential for future expansion. Certificate of need approval was received at the January 2017 Illinois Health Facilities and Services Review Board hearing and construction is slated to begin in late summer 2017. Full occupancy is anticipated in early 2019.

(Dollars in thousands)

Note 9. Property and Equipment (Continued)

In March 2017, the Board of Trustees approved $64,900 for the design, construction, and occupancy of two medical office buildings in order to improve access; increase quality of care; accommodate anticipated growth; increase patient, physician and employee satisfaction; and cultivate external partnerships. One building of approximately 80,500 square feet will be furnished and equipped to accommodate a number of Physician Group outpatient practices that will utilize the ambulatory surgery center being built at the same site. The second medical office building of approximately 71,000 square feet will be leased to a private physician practice, which owns a 25% interest in the ambulatory surgery center. Certificate of need approval was received at the June 2017 Illinois Health Facilities and Services Review Board hearing and construction will begin in late summer 2017 with occupancy anticipated in summer 2019.

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

The Foundation leases equipment and office space under long-term noncancelable agreements that expire at various dates through the year 2022. In addition, the Foundation leases land under long-term noncancelable agreements that expire at various dates through the year 2065. Total future operating lease commitments under long-term, noncancelable equipment, office space, and land leases, exclusive of related-party leases, as of June 30, 2017 are as follows:

Year ending December 31:	
2017	$ 2,386
2018	3,370
2019	1,423
2020	620
2021	374
Thereafter	4,653
	$ 12,826

Total equipment lease expense under long-term lease agreements and month-to-month leases was approximately $133 and $90 for the six months ended June 30, 2017 and 2016, respectively. Total office space and land lease expense under long-term lease agreements was approximately $3,404 and $3,476 for the six months ended June 30, 2017 and 2016, respectively.

(Dollars in thousands)

Note 10. Intangible Assets and Goodwill

On April 1, 2010, the Foundation acquired Health Alliance as part of its acquisition of the Clinic. The transaction did not change the members of the Obligated Group and was structured to maintain and continue the not-for-profit status of the Foundation's Section 501(c)(3) exempt entities. Carle Holding and its subsidiaries, including Health Alliance, remain taxable corporations under the merged structure, which changed the Foundation's nature of operations.

The acquired assets and assumed liabilities were recorded at fair market value. The difference between the recorded fair value and the purchase price was recognized as goodwill. Substantially all the acquired intangibles including goodwill were recorded by, and attributable to, Health Group. The increase in goodwill reflected within the current year table below is attributable to the purchase of a competing ambulance service, which occurred in July 2016.

Intangible assets and goodwill as of June 30, 2017 and 2016 comprise the following:

	2017		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intangible assets:			
Subscriber relationships	$ 44,448	$ 29,607	$ 14,841
State of Illinois contract	41,500	30,088	11,412
Trade name	9,800	7,105	2,695
Provider network	6,700	4,858	1,842
Subtotal intangible assets	102,448	71,658	30,790
Goodwill	90,752	-	90,752
Total intangible assets and goodwill	$ 193,200	$ 71,658	$ 121,542

	2016		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intangible assets:			
Subscriber relationships	$ 49,960	$ 30,675	$ 19,285
State of Illinois contract	41,500	25,937	15,563
Health Insurance Tax Asset	9,575	-	9,575
Trade name	9,800	6,125	3,675
Provider network	6,700	4,187	2,513
Subtotal intangible assets	117,535	66,924	50,611
Goodwill	85,214	-	85,214
Total intangible assets and goodwill	$ 202,749	$ 66,924	$ 135,825

(Dollars in thousands)

Note 10. Intangible Assets and Goodwill (Continued)

Intangible assets are amortized on the straight-line basis over 10 years for book purposes and are not amortized for tax purposes. Total amortization expense related to the intangible assets was $5,123 for both of the six months ended June 30, 2017 and 2016, respectively. This is included in depreciation and amortization expense on the consolidated statements of operations. Total amortization expense for the year ending June 30, 2017 and future periods is as follows:

Year ending June 30:	
2017	$ 10,245
2018	10,245
2019	7,808
2020	499
2021	499
Thereafter	1,494
	$ 30,790

The Foundation periodically reviews the appropriateness of the amortization periods related to its intangible assets and the carrying value of goodwill for impairment evaluation. Tests for possible impairment of intangible assets are conducted whenever events and circumstances indicate that amortizable long-lived assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of those assets. When specific assets are determined to be unrecoverable, the cost basis of the asset is reduced to reflect the current fair value. No impairment loss was recorded as of June 30, 2017 and 2016. The assessment of possible impairment is based on the ability to recover the carrying amount of the asset. Impairments are calculated as the total by which the carrying amount of the asset exceeds its estimated fair value.

(Dollars in thousands)

Note 11. Income Tax Matters

The Foundation generates “unrelated business” income subject to federal and state income taxes (UBIT). The Foundation recorded UBIT liability of $341 and $932 for the six months ended June 30, 2017 and 2016, respectively. UBIT expense of $718 and $1,500 was recorded for the six months ended June 30, 2017 and 2016, respectively.

CHA Holding and its affiliates and subsidiaries file a consolidated federal tax return, except HANW Holding and its subsidiary, which together file a separate consolidated federal tax return. In Illinois, Carle Holding files a state income tax return for the noninsurance group. CHA Holding, Health Alliance, HAMW, and HA Connect file a state income tax return for the insurance business. Iowa income tax returns are filed on a unitary basis, as applicable. The state of Washington does not impose a corporate income tax. The tax allocation agreement requires that taxes be provided for amounts currently due or recoverable. Under that agreement, the parties have agreed that the consolidated tax liability for any given year is allocated to those entities that have taxable income during such year in proportion to each entity’s relative taxable income. Similarly, the consolidated tax benefit in any given year is allocated to those entities that have taxable losses, giving rise to the benefit in proportion to each entity’s relative taxable losses. Income taxes due or accrued are payable to the federal government through the consolidated filer. Historically, Health Alliance has directly paid any state taxes payable for its separate state filings to the Illinois Department of Revenue and the Iowa Department of Revenue.

The Foundation recorded tax receivable as other receivables and tax payable as other accrued liabilities. For its for-profit entities, a net tax payable of $1,902 and a net tax receivable of $9,758 were recorded for the six months ended June 30, 2017 and 2016. For these entities, income tax expense for the six months ended June 30, 2017 and 2016 consisted of the following:

	2017	2016
Current income tax expense (benefit)	$ 11,870	$ (7,762)
Deferred income tax expense	1,410	16,153
Income tax expense	$ 13,280	$ 8,391

Income tax expense for the for-profit entities attributable to revenue, gains, and other support over expenses differed from the amounts computed by applying the federal income tax rate of 35% to pretax income for the six months ended June 30, 2017 and 2016, as a result of the following:

	2017	2016
Computed "expected" tax expense	$ 11,597	$ 7,492
Increase in income tax expense resulting from:		
State income taxes, net of federal tax benefits	1,713	292
Nondeductible expenses and other	(30)	607
	$ 13,280	$ 8,391

(Continued)

(Dollars in thousands)

Note 11. Income Tax Matters (Continued)

Deferred income taxes result from temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Health Group's deferred tax assets and liabilities as of June 30, 2017 and 2016 by category are as follows:

	2017	2016
Deferred tax assets:		
Retirement plan benefits obligation	$ 33,876	$ 39,547
Net operating loss	8,126	7,508
Retiree health insurance reserve	1,978	2,361
Accrued compensation and paid leave	1,492	1,949
Accrued liabilities	864	3,034
Other	5,557	3,851
	51,893	58,250
Less: valuation allowance	(12,756)	(12,900)
Total deferred tax assets	39,137	45,350
Deferred tax liabilities:		
Intangibles	12,259	21,193
Unrealized gains and losses on investments	14,642	11,036
Other	11,143	7,889
Total deferred tax liabilities	38,044	40,118
Net deferred tax assets	$ 1,093	$ 5,232

In assessing the ultimate realization of gross deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. A deferred tax valuation allowance was recognized by Carle Holding in the amount of $12,756 and $12,900 as of June 30, 2017 and 2016, respectively, related to deemed ineligibility under state's unitary filing methodology. Of this valuation allowance, $8,126 and $7,508 relates primarily to future tax benefits associated with state net operating loss carryforwards as of June 30, 2017 and 2016, respectively. The state net operating loss carryforwards at June 30, 2017 total approximately $161,319 and expire beginning in 2030. Based upon the historical taxable income of Carle Holding and projections for future taxable income during the periods in which the deferred tax assets would be deductible, management believes it is more likely than not that Carle Holding will realize the benefits of the deductible differences, net of the valuation allowance.

(Dollars in thousands)

Note 12. Medical Claims Payable

Activity in medical claims payable related to covered medical services for the six months ended June 30, 2017 and 2016 is summarized as follows:

	2017	2016
Medical claims payable at beginning of period	$ 191,427	$ 181,877
Incurred benefits related to the:		
Current year	602,463	705,616
Prior years	(62,884)	(30,892)
Total incurred	539,579	674,724
Paid benefits related to the:		
Current year	429,713	548,068
Prior years	132,101	143,249
Total paid	561,814	691,317
Medical claims payable at end of period	$ 169,192	$ 165,284

The recorded incurred benefits above excludes primarily reinsurance recoveries, pharmacy rebates, incentive payments, network management fees, capitation, and withholds, resulting in an expense offset of $7,149 and expense of $4,788 for the six months ended June 30, 2017 and 2016, respectively.

The movement in incurred benefits during the six months ended June 30, 2017 and 2016 for prior years reflects the lower-than-anticipated cost of claims.

(Dollars in thousands)

Note 13. Long-Term Debt and Other Borrowings

The long-term debt at June 30, 2017 and 2016 is as follows:

	Final Maturity or Payment	2017	2016
IFA borrowings:			
Series 2009A; fixed rate, 3.50% to 5.50%	2017	$ -	$ 7,925
Series 2009B; variable rate, 0.89% at 06/30/17	2033	25,000	25,000
Series 2009C; variable rate, 0.93% at 06/30/17	2033	25,000	25,000
Series 2009D; variable rate	2033	-	55,000
Series 2009E; variable rate, 0.93% at 06/30/17	2033	55,000	55,000
Series 2011A; fixed rate, 4.00% to 6.00%	2041	230,285	234,735
Series 2011B; variable rate, 1.08% at 06/30/17	2033	50,000	50,000
Series 2011C; variable rate, 1.35% at 06/30/17	2033	50,000	50,000
Series 2014A; variable rate, 1.05% at 06/30/17	2020	26,095	26,095
Series 2016A; fixed rate, 3.50% to 5.00%	2045	184,385	-
Series 2016B; variable rate, 1.18% at 06/30/17	2046	50,000	-
Less: unamortized discounts, premiums, and debt issuance costs		12,531	(5,658)
Subtotal IFA borrowings		708,296	523,097
Installment note–Champaign Primary Care Center	2022	11,374	11,774
Farm Credit Services–Hoopeston	2031	5,962	6,271
United States Department of Agriculture (USDA) Rural Development–Richland	2037	5,929	-
Installment note–Richland	2023	325	-
Surplus debenture–HANW Health Plan	N/A	2,000	2,000
Capital lease obligations–Hoopeston	Various	16	109
Total debt outstanding		733,902	543,251
Less: current portion		(14,665)	(13,101)
Long-term portion		$ 719,237	$ 530,150

IFA borrowings: The revenue bonds are obligations of The Carle Foundation Obligated Group (Obligated Group), which includes the Foundation, Hospital, Windsor, and Health Care, exclusive of the unconsolidated subsidiaries: Surgicenter, Arrow, Risk Management, and eValiData.

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

(Continued)

Note 13. Long-Term Debt and Other Borrowings (Continued)

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

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

The Northern Trust Company and JPMorgan Chase Bank, N.A. (Banks) provided credit and liquidity facilities to support the Series 2009 Bonds by issuing irrevocable direct-pay letters of credit for each separate bond issue. The letters of credit secure payment of the principal, interest, and purchase price of the Series 2009 Bonds and as of June 30, 2017, the expiration dates were March 18, 2019 and August 5, 2019, for the respective banks.

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

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

Note 13. Long-Term Debt and Other Borrowings (Continued)

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

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

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

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

On November 10, 2016, the IFA issued $184,385 of fixed rate revenue bonds, Series 2016A, and $50,000 of variable rate demand revenue bonds, Series 2016B, pursuant to separate bond trust indentures between the IFA and Bank of New York Mellon Trust Company, N.A. as Bond Trustee. The Series 2016A and Series 2016B Bonds were issued pursuant to the MTI and the Series 2016A Bonds and the Series 2016B Bonds (collectively, the Series 2016 Bonds) were designated as tax-exempt and taxable, respectively, for federal income tax purposes.

The bond proceeds were used to (1) plan, design, acquire, construct, renovate, improve, expand, complete, and/or equip certain of the Obligated Group's health facilities and (2) refund all of the IFA's variable rate demand revenue bonds, Series 2009D.

The Series 2016 Bonds are secured by a pledge of gross receipts (which includes all patient receivables) of the Obligated Group members to the Master Trustee.

JPMorgan Chase Bank, N.A provided a credit and liquidity facility to support the Series 2016B Bonds by issuing an irrevocable direct-pay letter of credit, which secures payment of the principal, interest, and purchase price of the Series 2016B Bonds, and as of June 30, 2017, the expiration date was August 5, 2019.

Note 13. Long-Term Debt and Other Borrowings (Continued)

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

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

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

Farm Credit Services - Hoopeston: In conjunction with the refinancing of existing debt and the renovation and modernization of facilities at Hoopeston, a bond financing in the original amount of $7,450 and bearing an adjusted interest rate of 5.15% was obtained from Farm Credit Services of Illinois on August 2, 2011. Monthly installments of principal and interest of $48 are scheduled through August 1, 2031 with a final balloon payment of remaining principal. Subject to certain provisions, a prepayment penalty is applicable to principal balances paid prior to their scheduled amortization. The obligation is collateralized by a mortgage and a security interest in all the assets of Hoopeston.

USDA Rural Development - Richland: The $5,929 of long-term debt for Richland as of June 30, 2017 is comprised of the follwing obligations:

a. USDA Rural Development real estate mortgage, loan interest 4.375% per annum, payable in monthly installments of $22,000 beginning February 2005 through January 2035.

b. USDA Rural Development real estate mortgage, loan interest 4.125% per annum, payable in monthly installments of $13,832 beginning February 2007 through January 2037.

c. USDA Rural Development real estate mortgage guaranteed by USDA Rural Development, loan interest 2.75% per annum, payable in monthly installments of $6,159 beginning June 2007 through January 2037.

The USDA Rural Development Loan Resolution Security Agreements require Richland to deposit a total of $4,042 per month into a reserve account until $487,000 has been accumulated in the account. The reserve account is fully funded. The reserve funds can only be expended for specific purposes as outlined in the Security Agreement. Accordingly, these funds are included in assets whose use is limited in these financial statements.

Richland has pledged all real estate and equipment as security for the USDA Rural Development loans.

Installment note – Richland: In conjunction with the construction of an outpatient rehab facility in Olney, an installment note payable to CNB Bank was entered into for a principal sum of $625 and bearing a fixed interest rate of 4.50% on a 15-year note. Monthly installments of $5 are scheduled through September 2023.

(Dollars in thousands)

Note 13. Long-Term Debt and Other Borrowings (Continued)

Surplus Debenture – HANW Health Plan: On December 28, 2015, HANW Health Plan issued Surplus Debentures to Confluence Health, which has a 40% membership interest in HANW Holding, in the principal amount of $2,000 and bearing a variable interest rate of Prime plus 0.75%, subject to the highest lawful rate. Principal is due and payable in quarterly payments beginning on the last business day of each quarter, beginning on March 31, 2020 with payments continuing until the entire amount, including all principal and interest has been paid. HANW Health Plan may also prepay any portion of this debenture from excess surplus of HANW Health Plan without prepayment penalty, with prepayments applied first to accrued but unpaid interest and any remaining prepayment to unpaid principal of this debenture. All payments shall be payable only out of available surplus of HANW Health Plan subject to the minimum surplus required to maintain total adjusted capital at a statutorily defined level. Further, all payments of accrued interest and principal require the express written prior approval of the insurance regulatory authority of the state of Washington.

Aggregate maturities of long-term debt (net of original issue discount) as of June 30, 2017 are as follows assuming that the Series 2009 and Series 2016B Bonds are successfully remarketed:

Year ending June 30:	
2017	$ 14,665
2018	15,374
2019	15,840
2020	12,873
2021	1,814
Thereafter	673,336
	$ 733,902

In the event a remarketing agent is unsuccessful in remarketing any of the Series 2009 or the Series 2016B Bonds, a liquidity draw is prepared and presented to the credit providing Bank by the bond trustee and the bond trustee begins the process to convert those bonds into Bank Bonds. In the event there is a draw against one of the associated letters of credit, the Obligated Group shall pay the principal amount of the liquidity advance in eight substantially equal quarterly principal payments with interest, with the first payment due on the first day of the month that is at least 365 days following the day on which the Bank honored a liquidity drawing. Had the remarketing agent been unsuccessful in remarketing the bonds in the last remarketing of June 2017, up to a total of $155,000 of payments would have been accelerated and due in 2018, 2019 and 2020.

(Dollars in thousands)

Note 13. Long-Term Debt and Other Borrowings (Continued)

The composition of interest and financing expense for the six months ended June 30, 2017 and 2016 is as follows:

	2017	2016
Interest on IFA revenue bonds	$ 12,368	$ 7,737
Interest on short-term borrowings	2,063	2,002
Net interest expense on derivative instruments	1,092	1,243
Finance and letter of credit fees	474	560
Interest on installment notes	566	545
Other	(69)	255
	16,494	12,342
Less: capitalized interest	(520)	(160)
	$ 15,974	$ 12,182

Line of credit – Health Alliance: In July 2016, Health Alliance renewed a $100,000 secured 364-day syndicated revolving credit agreement with PNC Bank, National Association, as the co-lead arranger/administrative agent, which gives Health Alliance the option of choosing LIBOR-based or Prime-based borrowings with a limited number of LIBOR tranches, each defined by an interest rate established at the advance date. The rate on each draw will be LIBOR plus 2.50% or Prime plus 1.50% depending on the option chosen. There is also a nonusage fee of 0.175% payable monthly on the average unused portion. This line of credit is secured by all Health Alliance receivables, inventory, equipment, and general intangibles. Principal and interest payments are made monthly. Health Alliance is required to limit the amount borrowed under the revolving credit facility to 80% of the eligible accounts receivable that serves as collateral and to maintain cash and cash equivalents as defined in the credit agreement at 125% of the amount borrowed. Both requirements were met as of June 30, 2017 and 2016.

Borrowings under this agreement at June 30, 2017 and 2016 are as follows:

	2017	2016
LIBOR tranche 1; 3.27% at 06/30/17 and 2.94% at 06/30/16	$ 70,000	$ 70,000
LIBOR tranche 2; 3.27% at 06/30/17 and 2.94% at 06/30/16	30,000	30,000
	$ 100,000	$ 100,000

Note 14. Interest Rate Swap Agreements

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

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

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

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

Interest expense includes $1,234 and $1,433 for the six months ended June 30, 2017 and 2016, respectively, for net periodic payments to the counterparty for the fixed-payer interest rate swaps and $142 and $190 for the six months ended June 30, 2017 and 2016, respectively, for net periodic payments from the counterparty for the basis interest rate swaps.

(Dollars in thousands)

Note 14. Interest Rate Swap Agreements (Continued)

The interest rate swap agreements as of June 30, 2017 and 2016 are as follows:

Counterparty	Maturity Date	Foundation Pays	Foundation Receives	Notional Value 2017	Fair Value 2017	Fair Value 2016	Change in Fair Value of Derivative Instruments 2017	Change in Fair Value of Derivative Instruments 2016
PNC Bank	2/15/2035	3.537%	65% of 1-Month LIBOR + 0.12%	$ 61,425	$ (13,592)	$ (19,647)	$ 105	$ (4,322)
Citibank, N.A.	2/15/2028	3.347%	65% of 1-Month LIBOR + 0.12%	30,775	(2,914)	(4,669)	252	(725)
Goldman Sachs Mitsui Marine Derivative Products, L.P.	12/15/2028	SIFMA Municipal Swap Index	92.39% of 3-Month LIBOR (initially 67% of 3-Month LIBOR + 0.60% until 12/15/2011)	50,000	1,394	1,002	155	(1,157)
Barclays Bank PLC	03/01/2029	SIFMA Municipal Swap Index	93.53% of 3-Month LIBOR (initially 67% of 3-Month LIBOR + 0.60% until 8/31/2015)	50,000	1,704	1,224	153	(1,273)
				$ 192,200	$ (13,408)	$ (22,090)	$ 665	$ (7,477)
Recorded on the consolidated balance sheets as:								
Asset					$ 3,098	$ 2,226		
Liability					(16,506)	(24,316)		
					$ (13,408)	$ (22,090)		

Note 15. Professional, General, Workers' Compensation, and Health Insurance

The Foundation formed Health Systems, an offshore captive insurance company, to underwrite the professional and general liability risks of the Foundation and its subsidiaries and affiliates on a claims-made basis with a retroactive date to January 1, 1986. The Foundation owns 100% of the outstanding common stock of Health Systems. Health Systems determines the liability assessments based upon the recommendations made by the Foundation's independent actuary.

Health Systems suspended direct premium charges related to professional and general liability coverage from February 1, 2015 through January 31, 2017 to the Foundation's insured entities to help reduce Health Systems excess capital.

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

As noted above, Health Systems provides an excess layer of insurance. The amount of reinsurance recoverable on unpaid losses for professional and general liability insurance as of June 30, 2017 and 2016 was $9,794 and $9,666, respectively. The coverage is currently arranged through January 31, 2018. There are no assurances that the Foundation and Health Systems will be able to renew existing policies on similar terms. Additionally, Health Group has contracts with insurance companies to reinsure risk relating to hospital and physician services for each insured enrollee during the contract period with various retention limits. The amount of Health Group reinsurance recoverable as of June 30, 2017 and 2016 was $13,842 and $9,298, respectively.

The Foundation has recorded an estimate for incurred but not reported claims for both active and departed physicians as of June 30, 2017 and 2016 of $12,959 and $12,900, respectively.

Effective February 2012 and continuing, Health Systems underwrites workers' compensation risk for the Foundation and its insured subsidiaries and affiliates for all claims with a date of loss after January 31, 2012. Health Systems covers the first $750 per occurrence, and amounts above this retention are covered by an external insurance carrier. Prior to this time, the Foundation had elected to self-insure its workers' compensation risk.

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

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

(Dollars in thousands)

Note 15. Professional, General, Workers' Compensation, and Health Insurance (Continued)

The liability recorded on the consolidated balance sheets for professional and general liability insurance as of June 30, 2017 and 2016 and the associated expenses on the consolidated statements of operations for the six months ended June 30, 2017 and 2016 are as follows:

	Liability		Expense	
	2017	2016	2017	2016
Health insurance	$ 22,177	$ 20,315	$ 27,928	$ 26,781
Professional, general, and other	80,581	81,510	7,869	14,491
	102,758	101,825	$ 35,797	$ 41,272
Less: reinsurance recoverable - unpaid losses	(9,794)	(9,666)		
Insurance reserves, net of reinsurance recoverable	$ 92,964	$ 92,159		

Movement in the provision for outstanding losses on professional and general liability and workers' compensation insurance for the six months ended June 30, 2017 and 2016 is summarized as follows:

	2017	2016
Outstanding loss provision at beginning of period	$ 79,898	$ 73,314
Less: provision for unasserted claims	(12,959)	(12,900)
Balance at beginning of period (excluding provision for unasserted claims)	66,939	60,414
Incurred losses (net of recoverables)	13,462	12,215
Paid losses (net of recoveries)	(12,909)	(4,326)
Net losses	553	7,889
Less: reinsurance recoverable - unpaid losses, beginning of period	(9,664)	(9,359)
Add: reinsurance recoverable - unpaid losses, end of period	9,794	9,666
Net balance at end of period (excluding provision for unasserted claims)	67,622	68,610
Add: provision for unasserted claims	12,959	12,900
Balance at end of period	$ 80,581	$ 81,510

The movement in incurred losses during the six months ended June 30, 2017 and 2016 in relation to prior periods is as a result of changes in underlying estimates and assumptions inherent in the loss reserving process.

Note 15. Professional, General, Workers' Compensation, and Health Insurance (Continued)

The Foundation has established a provision for outstanding professional, general, and workers' compensation liability losses based upon recommendations made by the Foundation's independent actuary. The actuarial reports dated June 6, 2017 and August 16, 2016 estimated the unpaid claim liabilities and projected losses at a 65% confidence level and 3% discount rate for all policy years as of June 30, 2017 and 2016. Independent actuarial reports are received semiannually for June 30 and December 31.

The Foundation's outstanding losses for professional and general liability risks on a discounted basis for all policy years were $50,259 and $53,220 as of June 30, 2017 and 2016, respectively. The Foundation's outstanding losses for professional and general liability risks on an undiscounted basis for all policy years were $54,045 and $57,365 as of June 30, 2017 and 2016, respectively.

The Foundation's outstanding losses for workers' compensation risks on a discounted basis for all policy years after January 31, 2012 were $3,769 and $3,524 as of June 30, 2017 and 2016, respectively.

Note 16. Pension Plans

The Foundation has defined contribution pension plans for its employees as follows:

Foundation (excluding Richland): Upon meeting eligibility requirements, the Foundation contributes 5.0% of an employee's salary to the relevant plan. For any eligible employee contributing to a 403(b) or 401(k) plan, the Foundation matches up to 2.0% of the employee's earnings as well as contributing an additional 2.0% for earnings above the social security taxable wage base, up to the maximum allowed.

Richland: For any eligible employee contributing to a 401(k), Richland matches 100% of the first 3% of employee contributions and 50% of the next 2% of employee's contributions. The maximum match is equal to 4% of the employee's eligible compensation.

Total expense incurred by the Foundation under the defined contribution plans for the six months ended June 30, 2017 and 2016 was $16,202 and $14,855 respectively. The total liabilities at June 30, 2017 and 2016 are $12,359 and $11,373, respectively.

The Foundation acquired a qualified noncontributory defined benefit pension plan through a 2010 acquisition. It covers employees formerly employed by the acquired entity and hired prior to January 1, 2004 who met eligibility requirements. The benefits are based on each employee's compensation during the highest five consecutive years of the last 15 years of employment for years of service through December 31, 2011, at which time participants' accrued benefits were frozen. The Foundation makes annual contributions to the plan in an amount equal to the amortization of prior service cost as determined by the plan's actuary. Pension cost is determined using the projected unit credit method.

(Continued)

(Dollars in thousands)

Note 16. Pension Plans (Continued)

The tables below set forth the defined benefit plan's funded status, amounts recognized in the consolidated financial statements, and assumptions at December 31, 2016 and 2015, which are when actuarial reports were prepared:

	2016	2015
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 400,499	$ 440,354
Interest cost	16,181	16,394
Actuarial loss (gain)	2,399	(27,239)
Benefits paid	(25,655)	(29,010)
Benefit obligation at end of year	393,424	400,499
Change in plan assets:		
Fair value of plan assets at beginning of year	287,362	312,238
Actual return on plan assets	20,747	(7,866)
Employer contribution	12,000	12,000
Benefits paid	(25,655)	(29,010)
Fair value of plan assets at end of year	294,454	287,362
Funded status at end of year, recognized on the consolidated balance sheet	$ (98,970)	$ (113,137)
Unrecognized loss not yet recognized in net periodic pension costs at end of year	$ 98,437	$ 110,059
Accumulated benefit obligation at end of year	$ 393,424	$ 400,499

Components of net periodic benefit cost for the years ended December 31, 2016 and 2015 are as follows:

	2016	2015
Interest cost	$ 16,181	$ 16,394
Expected return on plan assets	(15,253)	(16,582)
Amortization of loss	8,527	9,237
Net periodic benefit cost	$ 9,455	$ 9,049

(Dollars in thousands)

Note 16. Pension Plans (Continued)

The discount rates used to determine benefit obligations at December 31, 2016 and 2015 were 3.92% and 4.12%, respectively.

The weighted-average assumptions used to determine net periodic benefit cost for the years ended December 31, 2016 and 2015 are as follows:

	2016	2015
Discount rate	4.12%	3.79%
Expected return on plan assets	5.35%	5.35%

The Foundation's Investment Policy Committee (the Committee) oversees the investment policy of the Pension Fund. In establishing the investment policy for the Pension Fund, the Committee takes into consideration the long-term nature of the asset pool as well as the participants' needs and assesses the risk and returns characteristics of the various asset classes available to institutional investors and utilizes the guidance of outside investment consultants. The Committee establishes the target asset allocation and permissible ranges of eligible investment asset classes, which are subject to change. The performance objective of the Pension Fund's investment assets is to exceed, after investment management fees, the actuarial assumed rate of return and a customized blended benchmark. The benchmark will consist of a weighted-average of market indices that represent a passive implementation of the investment policy targets.

The Pension Fund's target and actual weighted-average asset allocations at December 31, 2016 and 2015 are as follows:

	2016		2015	
	Target Allocation	Actual Allocation	Target Allocation	Actual Allocation
Equity securities	60-80%	73%	60-80%	69%
Debt securities	20-40%	26%	20-40%	25%
Other	0-10%	1%	0-10%	6%
	100%	100%	100%	100%

(Dollars in thousands)

Note 16. Pension Plans (Continued)

The following tables summarize the plan's assets as of December 31, 2016 and 2015 within the fair value hierarchy (Note 4). All the plan assets were either Level 1 or Level 2.

	2016			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 5,359	$ -	$ -	$ 5,359
Fixed income securities:				
Mutual funds	40,468	34,603	-	75,071
Marketable equity securities:				
United States	99,483	33,164	-	132,647
Non-U.S. developed markets	61,964	7,826	-	69,790
Non-U.S. emerging markets	-	11,587	-	11,587
Total fair value of plan assets	$ 207,274	$ 87,180	$ -	$ 294,454

	2015			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 15,406	$ -	$ -	$ 15,406
Fixed income securities:				
Mutual funds	37,335	35,777	-	73,112
Marketable equity securities:				
United States	95,048	32,499	-	127,547
Non-U.S. developed markets	50,132	9,406	-	59,538
Non-U.S. emerging markets	-	11,759	-	11,759
Total fair value of plan assets	$ 197,921	$ 89,441	$ -	$ 287,362

ASU No. 2010-06 amends ASC Topic 820 to require disclosure of transfers in and out of Levels 1 and 2. The plan assets had no transfers between Levels 1 and 2.

The Foundation contributed $12,000 to its pension plan in February 2017. No additional contributions are planned during the year ending December 31, 2017.

Following are the estimated future benefit payments as of December 31, 2016:

Year ending December 31:	
2017	$ 15,085
2018	16,614
2019	18,047
2020	19,509
2021	20,608
2022-2026	112,707

Note 17. Commitments and Contingencies

Litigation: The Foundation and its subsidiaries and affiliates are currently defendants in several lawsuits arising in the normal course of operations. In management's opinion, the estimated costs accrued as of June 30, 2017 are adequate to provide for potential losses and management believes these matters will be resolved without material adverse effect on the future financial position or results from operations of the Foundation and its subsidiaries and affiliates.

Capitation arrangements: Health Group has entered into capitated risk agreements with physicians and other health care providers to cover certain medical services. Payments made to these entities totaled approximately $69,603 and $65,763 for the six months ended June 30, 2017 and 2016, respectively. Health Group remains ultimately liable should the capitated entities be unable to meet their obligations.

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

Health Group participates in the Medicare Advantage program administered by the CMS. Under this plan, CMS uses a risk-adjustment model to pay for enrollees, which allows higher payments for those enrollees with higher medical risk. Health Group submits diagnosis codes on Medicare Advantage claims and medical records from hospitals or physician providers to CMS. CMS uses the data to compute the risk-adjusted premium to remit to Health Group. CMS continues to perform Risk Adjustment Data Validation Audits (RADV audits) of selected Medicare Advantage plans to validate the accuracy of the data utilized to determine the risk-adjusted payments.

The Department of Insurance (DOI) and other state and federal agencies routinely conduct regulatory investigations and compliance audits of healthcare providers and health plans. The Foundation is subject to these regulatory efforts. Management is currently unaware of any regulatory matters which may have a material adverse effect on Foundation's financial position or results of operations.

Carle Holding has been undergoing an audit by the IRS for the tax year ended December 31, 2010. In January 2014, the IRS presented Carle Holding a notice of proposed adjustment (NOPA) related to the IRS's position on the treatment of certain transactions that occurred during the period subject to audit. Management rejected this notice, believing the IRS's position was in error, and prepared and submitted a response to the IRS providing support that refuted the IRS's position. In April 2015, the IRS presented Carle Holding with a new NOPA and revoked the prior Revenue Agent Report. Management reviewed the NOPA, disagreed with the IRS's position, discussed the document with the IRS, which agreed to make certain changes, and management prepared a response to the IRS. After meeting with management, the IRS presented Carle Holding with a new NOPA in October 2015 and revoked the prior Revenue Agent Report. Management reviewed the NOPA, disagreed with the IRS's position, and, in December 2015, prepared and submitted a response to the IRS providing support that refuted the IRS's position. In February 2016, the IRS notified Carle Holding that its case has been forwarded to the Office of Appeals for assignment to an appeals officer. On February 28, 2017, a letter was received from an Appeals Team Case Leader with the IRS requesting a conference regarding this matter and indicated that the IRS would need to extend the statute an additional year to September 30, 2018. Management met with the Appeals Team Case Leader on April 27, 2017 and believes that resolution of this matter will not have a material adverse effect on the Foundation's consolidated balance sheets or statements of operations and changes in net assets.

(Continued)

Note 17. Commitments and Contingencies (Continued)

The Patient Protection and Affordable Care Act and other enacted legislation: The Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010 (often referred to, collectively, as the Affordable Care Act), was signed into law on March 23, 2010. This legislation includes numerous provisions affecting the delivery of health care services, the financing of health care costs, reimbursement of health care providers, and the legal obligations of health insurers, providers, and employers. While some provisions took effect immediately, others were phased in, or will take effect, at specified times up to ten years following the law's enactment. The law also contains stronger antifraud enforcement provisions and provides additional funding for enforcement activity.

On January 1, 2014, Health Group became subject to the annual Health Insfurance Provider fee under section 9010 of the Federal Affordable Care Act (ACA). This annual fee will be allocated to individual health insurers based on the ratio of the amount of the entity's net premiums written during the preceding calendar year to the amount of health insurance for any U.S. health risk that is written during the preceding calendar year. A health insurance entity's portion of the annual fee becomes payable once the entity provides health insurance for a U.S. health risk for each calendar year beginning on or after January 1 of the year the fee is due. The Federal Government has suspended the Health Insurance Provider fee payable in 2017, which is based on the 2016 written health insurance. As of June 30, 2016, Health Group recorded $19,145 of non-deductible expense for the estimated ACA annual health insurer fee payable on September 30, 2016.

Premium adjustments pursuant to the ACA risk adjustment program are based upon the risk scores (health status) of enrollees participating in the risk adjustment covered plans. Adjustments are estimated for the portion of the policy period that has expired and shall be reported as an immediate adjustment to premium. As of June 30, 2017 and 2016, Health Group has ACA risk adjustment net payables of $0 and $2,238, respectively, related to prior benefit years. A reasonable estimate for the current year ACA risk adjustment was unable to be determined.

The ACA risk corridors program, effective for benefit years 2014 through 2016, applies to Qualified Health Plans (QHPs) in the individual and small group markets whether sold on or outside of an exchange. The purpose of the risk corridors program is to provide limitations on issuer losses and gains for the QHPs through additional protection against initial pricing risk. The final risk corridors settlement calculation will be communicated after the end of the benefit year and after premium and loss adjustments related to reinsurance and risk adjustment programs have been determined. The additions or reductions to premium revenue resulting from the risk corridors program are recognized over the contractual period of coverage, to the extent that such additions or reductions are reasonably estimable. As of June 30, 2017 and 2016, a reasonable estimate for the ACA risk corridors was unable to be determined.

The ACA transitional reinsurance program, effective for plan years 2014 through 2016, provides funding to issuers in the individual market that incur high claims costs for enrollees. The per member per year fee, assessed on all health insurance issuers, will fund the reinsurance distributions plus disbursements to the U.S. Treasury, in addition to covering administrative expenses of the program. Reinsurance program distributions will be made to issuers of non-grandfathered individual market plans for high claim costs of enrollees.

Note 17. Commitments and Contingencies (Continued)

The ACA transitional reinsurance assessments accrued as other expense as of June 30, 2017 and 2016 was $0 and $2,304, respectively. At June 30, 2017 and 2016, $10,398 and $8,892, respectively, was accrued as distributions for enrollees in individual plans and recorded as other receivables. At June 30, 2017 and 2016, $2,588 and $4,737, respectively, was recorded as a reduction of hospital and medical benefits under accident and health policies.

Health Group does not make ACA transitional reinsurance assessments on behalf of self-insured plans.

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

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

Tax exemption for sales tax and property tax: Effective June 14, 2012, the Governor of Illinois signed into law, Public Act 97-0688, which created new standards for state sales tax and property tax exemptions in Illinois. The law established new standards for the issuance of charitable exemptions, including requirements for a nonprofit hospital to certify annually that in the prior year, it provided a dollar amount of qualified services and activities to low-income and underserved individuals with a value at least equal to the hospital's estimated property tax liability. The Foundation certified its services and activities as required by county officials for the 2016, 2015, 2014, 2013 and 2012 years. These certifications required the subsequent approval from each respective county and the State; accordingly, the Foundation has not recognized property tax expense on those properties eligible for exemption since 2011. Until 2011, the Foundation recognized property tax expense on all of its properties as they were added to the property tax rolls beginning in 2004 through 2007.

The Foundation has been working through the court system to recover the property taxes that were assessed against it for tax years 2004 through 2011. In October 2013, the Foundation resolved its claims against two of the defendants by way of settlements in which the two defendants agreed to make scheduled payments to the Foundation, beginning in 2013 and which will continue through 2018, and the Foundation agreed to allow those defendants to keep a portion of the taxes that had been paid. The Foundation's claims against the remaining defendants continued.

As a result, several issues were certified for interlocutory appeal to the Fourth District Appellate Court of Illinois, including a challenge to the constitutionality of Section 15-86 of the Illinois Property Tax Code. This matter proceeded to the Fourth District Appellate Court, which held, in its January 5, 2016 opinion, that Section 15-86 of the Illinois Property Tax Code, the Illinois statute establishing a framework for granting hospital property tax exemptions, was unconstitutional. The Foundation filed an appeal of that decision to the Illinois Supreme Court on February 9, 2016. The Foundation also filed a motion to stay the enforcement of the Fourth District Appellate Court opinion pending further review by the Illinois Supreme Court. The Fourth District denied the motion to stay, which prompted the Foundation to file an emergency motion to stay with the Illinois Supreme Court.

(Continued)

Note 17. Commitments and Contingencies (Continued)

On March 14, 2016, the Illinois Supreme Court granted the Foundation's request to stay the enforcement of the Fourth District Appellate Court decision that the Champaign County Board of Review and the Supervisor of Assessments were using as the basis to again place Foundation properties on the tax rolls for 2015. The Illinois Supreme Court ordered Carle to post a bond with the Champaign County Treasurer in the amount of taxes it would be assessed if it was on the tax rolls in 2015. The Foundation secured a standby letter of credit in the favor of the Champaign County Treasurer sufficient to keep the Foundation's exempt properties off the tax rolls while the Foundation's appeal is pending before the Illinois Supreme Court.

The comparative standard set forth in Section 15-86 of the Illinois Property Tax Code establishes that nonprofit hospitals seeking exemption should continue providing charity care at levels that meet or exceed their estimated property tax liability. The Foundation presented oral arguments before the Illinois Supreme Court on January 12, 2017 and assessed that Section 15-86 of the Illinois Property Tax Code, "can be constitutionally read if the court breaks apart...charitable ownership and charitable use," with the constitution and case law properly defining charitable use and the legislature properly defining charitable ownership via statute. On March 23, 2017, the Illinois Supreme Court issued its opinion in this case ruling that the Fourth District Appellate Court lacked jurisdiction. The effect of the ruling is that the Fourth District Appellate Court's decision (that the statute is unconstitutional) was vacated. The Foundation's case was remanded to the Circuit Court for further proceedings, and the standby letter of credit in favor of the Champaign County Treasurer was cancelled.

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

Carle Illinois College of Medicine: Effective August 1, 2015, the Foundation entered into an Affiliation Agreement with the Board of Trustees of The University of Illinois for the development of a College of Medicine at its Urbana-Champaign campus with an engineering-focused curriculum and to be known as the Carle Illinois College of Medicine (CI COM). This agreement resulted in an unconditional commitment of $50,000, which was recorded as general and administrative expense in the year ended December 31, 2015. The Foundation has funded $20,000 of this commitment, $10,000 during 2016 and $10,000 during 2015. At the financial statement date, $10,000 of this commitment resides in current accrued liabilities and $20,000 resides in long-term accrued liabilities. The Foundation also pledged $50,000, payable in five equal annual installments, conditioned upon CI COM attaining provisional accreditation from the Liaison Committee on Medical Education (LCME). The LCME accreditation process involves several steps including application, preliminary accreditation, provisional accreditation, and full accreditation. LCME will begin evaluating CI COM for provisional accreditation once the charter class begins; the charter class is anticipated to commence in the fall of 2018. In accordance with generally accepted accounting principles, this conditional pledge is not reflected within the financial statements. Based upon the success of other medical schools seeking LCME accreditation since 2000, the Foundation believes it is reasonably possible that provisional accreditation will be attained for CI COM as soon as 2019.

(Dollars in thousands)

Note 18. Risk-Based Capital and Dividend Restrictions

The DOI imposes risk-based capital (RBC) requirements on insurance companies, including Health Group. The RBC model serves as a benchmark for the regulation of insurance companies by state insurance regulators. RBC provides for targeted surplus levels based on formulas that specify various weighting factors that are applied to financial balances or various levels of activity based on the perceived degree of risk, and are set forth in the RBC requirements. At June 30, 2017 and 2016, the total statutory net worth of Health Group was approximately $218,503 and $180,019, respectively. Its authorized control level RBC was approximately $34,875 and $33,055 at June 30, 2017 and 2016, respectively.

The ability of Health Alliance to pay dividends is dependent upon business conditions, income, cash requirements of Health Alliance, and other relevant factors. The payment of stockholder dividends by insurance companies without prior approval of the DOI is limited to formula amounts based on net income and capital and surplus, determined in accordance with statutory accounting principles, as well as the timing and amount of dividends paid in the preceding 12 months. Health Alliance did not pay a dividend in the six months ended June 30, 2017 or 2016.

Note 19. Concentrations of Credit Risk

A major subscriber of Health Alliance is the membership administered by the State, which includes State of Illinois Employee Group, Local Government Health Plan, Teachers Retirement System, and College Insurance Program. Premium revenue from this subscriber amounted to approximately $297,291 and $292,846 for the six months ended June 30, 2017 and 2016, respectively. Premium receivables due from the State at June 30, 2017 and 2016 totaled $182,100 and $357,253, respectively. As of June 30, 2017, the State of Illinois Employee Group is 27 months behind; however, 9 months were sold to third-party vendors in 2015 and 14 months were sold in 2016 and 6 months were sold in 2017 with total proceeds received by Health Alliance of $1,279,000. In addition, interest receivable from the State for premiums past due is approximately $59,279 and $43,933, at June 30, 2017 and 2016, respectively. As of June 30, 2017, interest on late premium payments through December 2014 has been received. Health Alliance expects to ultimately collect the State of Illinois receivables in full. Health Alliance has a contract with the State of Illinois through June 30, 2016 with five additional one-year renewals. A one year renewal under the contract was authorized for the period beginning July 1, 2017.

The Foundation grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of net patient receivables from patients and third-party payors at June 30, 2017 and 2016 is as follows:

	2017	2016
Commercial insurance and other	56%	57%
Medicare	16%	22%
Private	14%	11%
Medicaid	14%	10%
	100%	100%

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

(Dollars in thousands)

Note 20. Functional Expenses

The Foundation provides comprehensive health care services to the residents of the central Illinois area. Expenses related to providing these services for the six months ended June 30, 2017 and 2016 are as follows:

	2017	2016
Health care services	$ 1,105,604	$ 1,233,021
General and administrative	42,493	32,654
Fundraising expenses	564	565
	$ 1,148,661	$ 1,266,240

Note 21. Subsequent Events

Subsequent events have been evaluated through August 15, 2017, the date of the issuance of these financial statements. Through that date, there were no events requiring disclosure.

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The Carle Foundation **Schedule 1**

Supplementary Information - Consolidating Balance Sheet

June 30, 2017

(Dollars in thousands)

Assets	Foundation Division	Hospital	Health Care	Hoopeston	Richland	Windsor	Development	CHA Holding	Health Systems	Subtotal	Eliminations and Reclassifications	Consolidated Foundation
Current assets:												
Cash and cash equivalents	$ 88,855	$ 16	$ 9,554	$ (118)	$ 6,784	$ 17	$ -	$ 160,714	$ -	$ 265,822	$ (15,566)	$ 250,256
Investments	360,076	-	-	-	-	-	-	314	-	360,390	-	360,390
Assets limited as to use or restricted	107,186	-	-	-	-	-	-	1,669	10,202	119,057	-	119,057
Patient receivables, net	-	107,207	34,745	5,186	8,181	-	-	-	-	155,319	(22,995)	132,324
Premiums receivable	-	-	-	-	-	-	-	241,222	11,041	252,263	(11,041)	241,222
Intercompany receivables	20,774	129,961	7	-	-	327	275	-	-	151,344	(151,344)	-
Reinsurance recoverable	-	-	-	-	-	-	-	13,842	1,582	15,424	-	15,424
Other receivables	40,170	6,093	512	731	2,026	5	85	119,669	-	169,291	(38,359)	130,932
Inventories	-	8,989	-	-	825	-	-	-	-	9,814	-	9,814
Prepaid expenses	8,499	6,793	1,314	83	573	16	-	5,694	1,486	24,458	(1,840)	22,618
Total current assets	625,560	259,059	46,132	5,882	18,389	365	360	543,124	24,311	1,523,182	(241,145)	1,282,037
Property and equipment, net	544,944	72,736	5,933	14,976	14,132	4,532	458	1,166	-	658,877	-	658,877
Investments and other assets:												
Investments, net of current portion	748,928	-	-	-	7,384	-	9,922	190,222	-	956,456	-	956,456
Assets limited as to use or restricted, net of current portion	14,137	-	-	4,166	848	-	85,705	6,429	113,520	224,805	-	224,805
Interest rate swap agreements	3,098	-	-	-	-	-	-	-	-	3,098	-	3,098
Reinsurance recoverable, net of current portion	-	-	-	-	-	-	-	-	8,212	8,212	-	8,212
Intangible assets and goodwill	-	-	15,022	4,445	-	-	-	102,075	-	121,542	-	121,542
Deferred taxes	-	-	-	-	-	-	-	1,093	-	1,093	-	1,093
Other assets	41,179	188,771	-	-	-	-	26	-	-	229,976	(229,950)	26
Total investments and other assets	807,342	188,771	15,022	8,611	8,232	-	95,653	299,819	121,732	1,545,182	(229,950)	1,315,232
Total assets	$ 1,977,846	$ 520,566	$ 67,087	$ 29,469	$ 40,753	$ 4,897	$ 96,471	$ 844,109	$ 146,043	$ 3,727,241	$ (471,095)	$ 3,256,146

See accompanying notes to supplementary schedules.

(Continued)

The Carle Foundation **Schedule 1, Continued**

Supplementary Information - Consolidating Balance Sheet

June 30, 2017

(Dollars in thousands)

Liabilities and Net Assets	Foundation Division	Hospital	Health Care	Hoopeston	Richland	Windsor	Development	CHA Holding	Health Systems	Subtotal	Eliminations and Reclassifications	Consolidated Foundation
Current liabilities:												
Accounts payable	$ 1,344	$ 20,731	$ 141	$ 26	$ 450	$ 7	$ 14	$ 74	$ -	$ 22,787	$ (15,566)	$ 7,221
Intercompany payables	-	829	49,053	21,645	82	-	-	79,106	703	151,418	(151,418)	-
Short-term borrowings	-	-	-	-	-	-	-	139,000	-	139,000	(39,000)	100,000
Current maturities of long-term debt	14,066	-	-	457	308	-	-	-	-	14,831	(166)	14,665
Estimated third-party payor settlements	-	51,473	1,336	3,439	1,674	-	-	-	-	57,922	-	57,922
Medical claims payable	-	-	-	-	-	-	-	192,187	-	192,187	(22,995)	169,192
Current portion of estimated liability for self-insurance losses	15,290	-	-	-	1,106	-	-	-	10,741	27,137	807	27,944
Current portion of retirement plan benefits obligation	-	-	-	-	-	-	-	12,000	-	12,000	-	12,000
Compensation and paid leave payable	22,124	25,489	29,128	1,146	2,554	150	94	6,824	-	87,509	-	87,509
Other accrued liabilities	39,091	5,416	825	296	772	1,302	-	73,721	12,924	134,347	(12,807)	121,540
Total current liabilities	91,915	103,938	80,483	27,009	6,946	1,459	108	502,912	24,368	839,138	(241,145)	597,993
Long-term liabilities:												
Long-term debt, net of current maturities	705,604	-	-	8,866	5,946	-	-	2,000	-	722,416	(3,179)	719,237
Interest rate swap agreements	16,506	-	-	-	-	-	-	-	-	16,506	-	16,506
Asset retirement obligation	6,193	-	-	144	-	-	-	-	-	6,337	-	6,337
Estimated liability for self-insurance losses, net of current portion	14,297	2,418	44	-	-	-	-	4,974	53,081	74,814	-	74,814
Retirement plan benefits obligation, net of current	-	-	-	-	-	-	-	78,594	-	78,594	-	78,594
Other accrued liabilities	31,461	-	1,000	-	-	-	103	229,110	-	261,674	(226,771)	34,903
Total long-term liabilities	774,061	2,418	1,044	9,010	5,946	-	103	314,678	53,081	1,160,341	(229,950)	930,391
Total liabilities	865,976	106,356	81,527	36,019	12,892	1,459	211	817,590	77,449	1,999,479	(471,095)	1,528,384
Net assets:												
Common stock	-	-	-	-		-	-	-	1,800	1,800	(1,800)	-
Unrestricted	1,111,870	414,210	(19,898)	(10,183)	27,557	3,438	79,789	24,761	66,794	1,698,338	1,800	1,700,138
Unrestricted, noncontrolling interests	-	-	5,458	-	-	-	-	1,758	-	7,216		7,216
Temporarily restricted	-	-	-	47	304	-	14,201	-	-	14,552	-	14,552
Permanently restricted	-	-	-	3,586	-	-	2,270	-	-	5,856	-	5,856
Total net assets	1,111,870	414,210	(14,440)	(6,550)	27,861	3,438	96,260	26,519	68,594	1,727,762	-	1,727,762
Total liabilities and net assets	$ 1,977,846	$ 520,566	$ 67,087	$ 29,469	$ 40,753	$ 4,897	$ 96,471	$ 844,109	$ 146,043	$ 3,727,241	$ (471,095)	$ 3,256,146

See accompanying notes to supplementary schedules.

The Carle Foundation **Schedule 2**

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

Six Months Ended June 30, 2017

(Dollars in thousands)

	Foundation Division	Hospital	Health Care	Hoopeston	Richland	Windsor	Development	CHA Holding	Health Systems	Subtotal	Eliminations and Reclassifications	Consolidated Foundation
Revenue:												
Patient service revenue (net of contractual allowances)	$ -	$ 410,156	$ 127,502	$ 29,262	$ 13,553	$ -	$ -	$ -	$ -	$ 580,473	$ (115,875)	$ 464,598
Provision for bad debts	-	(14,091)	(4,270)	(866)	(488)	-	-	-	-	(19,715)	-	(19,715)
Net patient service revenue	-	396,065	123,232	28,396	13,065	-	-	-	-	560,758	(115,875)	444,883
Net premium revenue–health insurance	-	-	-	-		-	-	735,778	-	735,778	(232)	735,546
Other revenue:												
Rental income	369	4,608	-	9	29	3,922	-	-	-	8,937	-	8,937
Net premium expense–general and professional liability	-	-	-	-	-	-	-	-	8,139	8,139	(8,139)	-
Net assets released from restrictions	-	-	-	13	39	-	365	-	-	417	-	417
Internal fees	117,404	2,401	41	-	-	-	-	-	-	119,846	(119,846)	-
Other	2,370	3,436	4,214	135	267	44	65	3,669	-	14,200	(1,543)	12,657
Total revenue	120,143	406,510	127,487	28,553	13,400	3,966	430	739,447	8,139	1,448,075	(245,635)	1,202,440
Expenses:												
Salaries and wages	42,763	90,422	120,567	7,227	6,476	990	416	20,550	-	289,411	-	289,411
Employee benefits	15,424	24,168	18,305	2,289	2,345	282	104	9,600	-	72,517	(1,762)	70,755
Medical benefits of insured	-	-	-	-	-	-	-	648,305	-	648,305	(115,875)	532,430
Patient care and other supplies	2,548	73,588	5,800	2,741	1,103	94	5	280	-	86,159	(2)	86,157
Purchased services	14,308	13,076	756	1,658	889	151	31	24,663	-	55,532	-	55,532
General and administrative	26,261	103,591	8,495	12,941	993	1,065	1,769	7,337	-	162,452	(119,959)	42,493
Insurance	4,639	3,467	5,490	173	263	38	-	223	1,715	16,008	(8,139)	7,869
Depreciation and amortization	16,224	9,405	738	1,031	536	382	2	5,474	-	33,792	-	33,792
Interest and financing expense	13,526	21	11	146	66	140	-	3,171	-	17,081	(1,107)	15,974
Real estate and other taxes	542	7,297	52	227	475	186	-	6,110	-	14,889	-	14,889
Loss (gain) on the disposal of property and equipment	17	(93)	21	83	-	(4)	-	-	-	24	-	24
Change in fair value of derivative instruments	(665)	-	-	-	-	-	-	-	-	(665)	-	(665)
Total expenses	135,587	324,942	160,235	28,516	13,146	3,324	2,327	725,713	1,715	1,395,505	(246,844)	1,148,661
Income (loss) from operations	(15,444)	81,568	(32,748)	37	254	642	(1,897)	13,734	6,424	52,570	1,209	53,779
Nonoperating gains:												
Investment income	22,194	3	-	8	9	-	2,052	17,674	2,444	44,384	(1,209)	43,175
Excess (deficiency) of revenue over expenses, before noncontrolling interest and income taxes	6,750	81,571	(32,748)	45	263	642	155	31,408	8,868	96,954	-	96,954
Noncontrolling interest in net income (loss) of consolidated joint ventures	-	-	719	-	-	-	-	(52)	-	667	-	667
Provision for income taxes	718	13	-	-	-	-	-	13,267	-	13,998	-	13,998
Excess (deficiency) of revenue over expenses	$ 6,032	$ 81,558	$ (33,467)	$ 45	$ 263	$ 642	$ 155	$ 18,193	$ 8,868	$ 82,289	$ -	$ 82,289

See accompanying notes to supplementary schedules.

(Continued)

The Carle Foundation **Schedule 2, Continued**

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

Six Months Ended June 30, 2017

(Dollars in thousands)

	Foundation Division	Hospital	Health Care	Hoopeston	Richland	Windsor	Development	CHA Holding	Health Systems	Subtotal	Eliminations and Reclassifications	Consolidated Foundation
Unrestricted net assets:												
Excess (deficiency) of revenue over expenses	$ 6,032	$ 81,558	$ (33,467)	$ 45	$ 263	$ 642	$ 155	$ 18,193	$ 8,868	$ 82,289	$ -	$ 82,289
Change in net unrealized gains and losses on other-than-trading securities	32,261	-	-	-	232	-	3,418	-	2,308	38,219	-	38,219
Change in noncontrolling interest of consolidated joint ventures	-	-	719	-	-	-	-	(52)	-	667	-	667
Increase (decrease) in unrestricted net assets	38,293	81,558	(32,748)	45	495	642	3,573	18,141	11,176	121,175	-	121,175
Temporarily restricted net assets:												
Contributions	-	-	-	10	-	-	1,396	-	-	1,406	-	1,406
Investment income	-	-	-	4	-	-	104	-	-	108	-	108
Change in net unrealized gains and losses on other-than-trading securities	-	-	-	-	-	-	148	-	-	148	-	148
Net assets released from restrictions	-	-	-	(13)	-	-	(365)	-	-	(378)	-	(378)
Increase in temporarily restricted net assets	-	-	-	1	-	-	1,283	-	-	1,284	-	1,284
Permanently restricted net assets:												
Contributions	-	-	-	-	-	-	89	-	-	89	-	89
Increase in permanently restricted net assets	-	-	-	-	-	-	89	-	-	89	-	89
Change in net assets	38,293	81,558	(32,748)	46	495	642	4,945	18,141	11,176	122,548	-	122,548
Net assets, beginning of the period	1,073,577	332,652	18,308	(6,596)	27,366	2,796	91,315	8,378	57,418	1,605,214	-	1,605,214
Net assets, end of the period	$ 1,111,870	$ 414,210	$ (14,440)	$ (6,550)	$ 27,861	$ 3,438	$ 96,260	$ 26,519	$ 68,594	$ 1,727,762	$ -	$ 1,727,762

See accompanying notes to supplementary schedules.

(Continued)

Carle Foundation Hospital **Schedule 3**

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

Six Months Ended June 30, 2017

(Dollars in thousands)

	Hospital Division	Medical Supply	DASC	Risk Management	eValiData	Subtotal	Eliminations and Reclassifications	Total Hospital
Revenue:								
Patient service revenue (net of contractual allowances)	$ 409,589	$ (922)	$ 1,605	$ -	$ -	$ 410,272	$ (116)	$ 410,156
Provision for bad debts	(13,939)	(137)	(15)	-	-	(14,091)	-	(14,091)
Net patient service revenue	395,650	(1,059)	1,590	-	-	396,181	(116)	396,065
Other revenue:								
Rental income	284	4,464	-	-	-	4,748	(140)	4,608
Gain on the disposal of property and equipment	5	88	-	-	-	93	-	93
Internal fees	1,618	-	-	650	133	2,401	-	2,401
Other	3,434	1	-	-	1	3,436	-	3,436
Total revenue	400,991	3,494	1,590	650	134	406,859	(256)	406,603
Expenses:								
Salaries and wages	88,841	885	378	283	35	90,422	-	90,422
Employee benefits	23,722	246	106	84	10	24,168	-	24,168
Patient care and other supplies	71,741	1,728	276	87	-	73,832	(244)	73,588
Purchased services	12,886	71	18	52	49	13,076	-	13,076
General and administrative	102,164	705	594	109	31	103,603	(12)	103,591
Insurance	3,389	54	20	4	-	3,467	-	3,467
Depreciation and amortization	8,961	394	48	-	2	9,405	-	9,405
Interest and financing expense	6	15	-	-	-	21	-	21
Real estate and other taxes	7,297	-	-	-	-	7,297	-	7,297
Total expenses	319,007	4,098	1,440	619	127	325,291	(256)	325,035
Income (loss) from operations	81,984	(604)	150	31	7	81,568	-	81,568
Nonoperating gains:								
Investment income	-	3	-	-	-	3	-	3
Excess (deficiency) of revenue over expenses before income taxes	81,984	(601)	150	31	7	81,571	-	81,571
Provision for income taxes	-	-	-	13	-	13	-	13
Excess (deficiency) of revenue over expenses and change in net assets	81,984	(601)	150	18	7	81,558	-	81,558
Change in unrestricted net assets	$ 81,984	$ (601)	$ 150	$ 18	$ 7	$ 81,558	$ -	$ 81,558

See accompanying notes to supplementary schedules.

(Continued)

Carle Health Care Incorporated **Schedule 4**
Supplementary Information - Consolidating Statement of Operations and Changes in Net Assets
Six Months Ended June 30, 2017
(Dollars in thousands)

	Physician Group	Arrow	Surgicenter	Other Entities	Total Health Care
Revenue:					
Patient service revenue (net of contractual allowances)	$ 112,840	$ 6,033	$ 8,596	$ 33	$ 127,502
Provision for bad debts	(3,605)	(566)	(99)	-	(4,270)
Net patient service revenue	109,235	5,467	8,497	33	123,232
Other revenue:					
Internal fees	-	10	31	-	41
Other	3,336	204	-	674	4,214
Total revenue	112,571	5,681	8,528	707	127,487
Expenses:					
Salaries and wages	116,615	2,532	992	428	120,567
Employee benefits	17,169	686	286	164	18,305
Patient care and other supplies	3,290	396	2,095	19	5,800
Purchased services	343	355	53	5	756
General and administrative	5,159	1,030	1,900	406	8,495
Insurance	5,270	146	66	8	5,490
Depreciation and amortization	164	336	209	29	738
Interest and financing expense	-	11	-	-	11
Real estate and other taxes	-	-	49	3	52
Loss on the disposal of property and equipment	4	17	-	-	21
Total expenses	148,014	5,509	5,650	1,062	160,235
Excess (deficiency) of revenue over expenses, before noncontrolling interest	(35,443)	172	2,878	(355)	(32,748)
Noncontrolling interest in net income of consolidated joint venture	-	-	719	-	719
Excess (deficiency) of revenue over expenses	(35,443)	172	2,159	(355)	(33,467)
Unrestricted net assets:					
Change in noncontrolling interest in consolidated joint venture	-	-	719	-	719
Change in unrestricted net assets	$ (35,443)	$ 172	$ 2,878	$ (355)	$ (32,748)

See accompanying notes to supplementary schedules.

(Continued)

Carle Development Foundation **Schedule 5**

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

Six Months Ended June 30, 2017

(Dollars in thousands)

	Philanthropy Center	Community Health	Total Development
Other revenue:			
Net assets released from restrictions	$ 365	$ -	$ 365
Other	65	-	65
Total revenue	430	-	430
Expenses:			
Salaries and wages	416	-	416
Employee benefits	104	-	104
Patient care and other supplies	5	-	5
Purchased services	31	-	31
General and administrative	459	1,310	1,769
Depreciation	2	-	2
Total expenses	1,017	1,310	2,327
Loss from operations	(587)	(1,310)	(1,897)
Nonoperating gains:			
Investment income	252	1,800	2,052
Excess (deficiency) of revenue over expenses	(335)	490	155
Unrestricted net assets:			
Change in net unrealized gains and losses on other-than-trading securities	420	2,998	3,418
Increase in unrestricted net assets	85	3,488	3,573
Temporarily restricted net assets:			
Contributions	1,396	-	1,396
Investment income	104	-	104
Change in net unrealized gains and losses on other-than-trading securities	148	-	148
Net assets released from restrictions	(365)	-	(365)
Increase in temporarily restricted net assets	1,283	-	1,283
Permanently restricted net assets:			
Contributions	89	-	89
Increase in permanently restricted net assets	89	-	89
Change in net assets	$ 1,457	$ 3,488	$ 4,945

See accompanying notes to supplementary schedules.

(Continued)

CHA Holding, Inc. **Schedule 6**

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

Six Months Ended June 30, 2017

(Dollars in thousands)

	CHA Holding	HA Connect	HA Northwest	Carle Holding	Health Alliance	Subtotal	Eliminations and Reclassifications	Total CHA Holding
Revenue:								
Net premium revenue - health insurance	$ -	$ 99,211	$ 27,618	$ -	$ 608,949	$ 735,778	$ -	$ 735,778
Internal fees	-	-	-	-	10,484	10,484	(10,484)	-
Other revenue	-	-	367	-	3,302	3,669	-	3,669
Total revenue	-	99,211	27,985	-	622,735	749,931	(10,484)	739,447
Expenses:								
Salaries and wages	-	-	23	-	20,527	20,550	-	20,550
Employee benefits	-	-	4	3,624	5,972	9,600	-	9,600
Medical benefits of insured	-	88,410	24,155	-	535,740	648,305	-	648,305
Patient care and other supplies	-	-	-	-	280	280	-	280
Purchased services	8	2,133	1,112	71	21,339	24,663	-	24,663
General and administrative	-	7,699	2,807	26	7,289	17,821	(10,484)	7,337
Insurance	-	16	10	-	197	223	-	223
Depreciation and amortization	-	650	-	-	5,225	5,875	(401)	5,474
Interest and financing expense	-	1,813	118	-	3,123	5,054	(1,883)	3,171
Real estate and other taxes	-	34	48	-	6,028	6,110	-	6,110
Total expenses	8	100,755	28,277	3,721	605,720	738,481	(12,768)	725,713
Income (loss) from operations	(8)	(1,544)	(292)	(3,721)	17,015	11,450	2,284	13,734
Nonoperating gains:								
Investment income	1,633	851	75	(30)	17,028	19,557	(1,883)	17,674
Excess (deficiency) of revenue over expenses before noncontrolling interest and income taxes	1,625	(693)	(217)	(3,751)	34,043	31,007	401	31,408
Noncontrolling interest in net loss of consolidated joint venture	-	-	(52)	-	-	(52)	-	(52)
Provision for (benefit from) income taxes	1	(278)	(87)	-	13,631	13,267	-	13,267
Excess (deficiency) of revenue over expenses	1,624	(415)	(78)	(3,751)	20,412	17,792	401	18,193
Unrestricted net assets:								
Change in net unrealized gains and losses on other-than-trading securities	(415)	-	-	20,412	-	19,997	(19,997)	-
Change in noncontrolling interest of consolidated joint venture	-	-	(52)	-	-	(52)	-	(52)
Change in unrestricted net assets	$ 1,209	$ (415)	$ (130)	$ 16,661	$ 20,412	$ 37,737	$ (19,596)	$ 18,141

See accompanying notes to supplementary schedules.

(Continued)

The Carle Foundation **Schedule 7**

Supplementary Information - Consolidating Balance Sheet

June 30, 2017

(Dollars in thousands)

Assets	Obligated Group	Obligated Group Unconsolidated Subsidiaries	Combined Obligated Group	Hoopeston	Richland	Development	CHA Holding	Health Systems	Eliminations and Reclassifications	Consolidated Foundation
Current assets:										
Cash and cash equivalents	$ 73,468	$ 9,408	$ 82,876	$ (118)	$ 6,784	$ -	$ 160,714	$ -	-	$ 250,256
Investments	360,076	-	360,076	-	-	-	314	-	-	360,390
Assets limited as to use or restricted	107,186	-	107,186	-	-	-	1,669	10,202	-	119,057
Patient receivables, net	137,357	4,595	141,952	5,186	8,181	-	-	-	(22,995)	132,324
Premiums receivable	-	-	-	-	-	-	241,222	11,041	(11,041)	241,222
Intercompany receivables	-	10	10	-	-	275	-	-	(285)	-
Reinsurance recoverable	-	-	-	-	-	-	13,842	1,582	-	15,424
Other receivables	153,773	-	153,773	731	2,026	85	119,669	-	(145,352)	130,932
Inventories	8,989	-	8,989	-	825	-	-	-	-	9,814
Prepaid expenses	16,281	341	16,622	83	573	-	5,694	1,486	(1,840)	22,618
Total current assets	857,130	14,354	871,484	5,882	18,389	360	543,124	24,311	(181,513)	1,282,037
Property and equipment, net	623,709	4,436	628,145	14,976	14,132	458	1,166	-	-	658,877
Investments and other assets:										
Investments, net of current portion	748,928	-	748,928	-	7,384	9,922	190,222	-	-	956,456
Assets limited as to use or restricted, net of current portion	14,137	-	14,137	4,166	848	85,705	6,429	113,520	-	224,805
Investment in unconsolidated subsidiaries	24,590	(24,590)	-	-	-	-	-	-	-	-
Interest rate swap agreements	3,098	-	3,098	-	-	-	-	-	-	3,098
Reinsurance recoverable, net of current portion	-	-	-	-	-	-	-	8,212	-	8,212
Intangible assets and goodwill	-	15,022	15,022	4,445	-	-	102,075	-	-	121,542
Deferred taxes	-	-	-	-	-	-	1,093	-	-	1,093
Other assets	229,950	-	229,950	-	-	26	-	-	(229,950)	26
Total investments and other assets	1,020,703	(9,568)	1,011,135	8,611	8,232	95,653	299,819	121,732	(229,950)	1,315,232
Total assets	$ 2,501,542	$ 9,222	$ 2,510,764	$ 29,469	$ 40,753	$ 96,471	$ 844,109	$ 146,043	$ (411,463)	$ 3,256,146

See accompanying notes to supplementary schedules.

(Continued)

(Dollars in thousands)

Liabilities and Net Assets	Obligated Group	Obligated Group Unconsolidated Subsidiaries	Combined Obligated Group	Hoopeston	Richland	Development	CHA Holding	Health Systems	Eliminations & Reclassifications	Consolidated Foundation
Current liabilities:										
Accounts payable	$ 6,633	24	$ 6,657	$ 26	$ 450	$ 14	$ 74	$ -	$ -	$ 7,221
Intercompany payables	-	5,816	5,816	21,645	82	-	79,106	703	(107,352)	-
Short-term borrowings	-	-	-	-	-	-	139,000	-	(39,000)	100,000
Current maturities of long-term debt	14,066	-	14,066	457	308	-	-	-	(166)	14,665
Estimated third-party payor settlements	51,473	1,336	52,809	3,439	1,674	-	-	-	-	57,922
Medical claims payable	-	-	-	-	-	-	192,187	-	(22,995)	169,192
Current portion of estimated liability for self-insurance losses	15,290	-	15,290	-	1,106	-	-	10,741	807	27,944
Current portion of retirement plan benefits obliga	-	-	-	-	-	-	12,000	-	-	12,000
Compensation and paid leave payable	76,275	616	76,891	1,146	2,554	94	6,824	-	-	87,509
Other accrued liabilities	46,318	316	46,634	296	772	-	73,721	12,924	(12,807)	121,540
Total current liabilities	210,055	8,108	218,163	27,009	6,946	108	502,912	24,368	(181,513)	597,993
Long-term liabilities:										
Long-term debt, net of current maturities	705,604	-	705,604	8,866	5,946	-	2,000	-	(3,179)	719,237
Interest rate swap agreements	16,506	-	16,506	-	-	-	-	-	-	16,506
Asset retirement obligation	6,193	-	6,193	144	-	-	-	-	-	6,337
Estimated liability for self-insurance losses, net of current portion	16,715	44	16,759	-	-	-	4,974	53,081	-	74,814
Retirement plan benefits obligation, net of currer	-	-	-	-	-	-	78,594	-	-	78,594
Other accrued liabilities	31,461	1,000	32,461	-	-	103	229,110	-	(226,771)	34,903
Total long-term liabilities	776,479	1,044	777,523	9,010	5,946	103	314,678	53,081	(229,950)	930,391
Total liabilities	986,534	9,152	995,686	36,019	12,892	211	817,590	77,449	(411,463)	1,528,384
Net assets:										
Common stock	-	-	-	-	-	-	-	1,800	(1,800)	-
Unrestricted	1,509,550	70	1,509,620	(10,183)	27,557	79,789	24,761	66,794	1,800	1,700,138
Unrestricted, noncontrolling interest	5,458	-	5,458	-	-	-	1,758	-	-	7,216
Temporarily restricted	-	-	-	47	304	14,201	-	-	-	14,552
Permanently restricted	-	-	-	3,586	-	2,270	-	-	-	5,856
Total net assets	1,515,008	70	1,515,078	(6,550)	27,861	96,260	26,519	68,594	-	1,727,762
Total liabilities and net assets	$ 2,501,542	$ 9,222	$ 2,510,764	$ 29,469	$ 40,753	$ 96,471	$ 844,109	$ 146,043	$ (411,463)	$ 3,256,146

See accompanying notes to supplementary schedules.

(Continued)

The Carle Foundation **Schedule 8**

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

Six Months Ended June 30, 2017

(Dollars in thousands)

	Obligated Group	Obligated Group Unconsolidated Subsidiaries	Combined Obligated Group	Hoopeston	Richland	Development	CHA Holding	Health Systems	Eliminations and Reclassifications	Consolidated Foundation
Revenue:										
Patient service revenue (net of contractual allowances)	$ 523,029	$ 14,629	$ 537,658	$ 29,262	$ 13,553	$ -	$ -	$ -	$ (115,875)	$ 464,598
Provision for bad debts	(17,696)	(665)	(18,361)	(866)	(488)	-	-	-	-	(19,715)
Net patient service revenue	505,333	13,964	519,297	28,396	13,065	-	-	-	(115,875)	444,883
Net premium revenue - patient care	-	-	-	-	-	-	735,778	-	(232)	735,546
Other revenue:										
Rental income	8,899	-	8,899	9	29	-	-	-	-	8,937
Net premium expense–general and professional liability	-	-	-	-	-	-	-	8,139	(8,139)	-
Net assets released from restrictions	-	-	-	13	39	365	-	-	-	417
Internal fees	-	824	824	-	-	-	-	-	(824)	-
Other	28,089	205	28,294	135	267	65	3,669	-	(19,773)	12,657
Total revenue	542,321	14,993	557,314	28,553	13,400	430	739,447	8,139	(144,843)	1,202,440
Expenses:										
Salaries and wages	250,900	3,842	254,742	7,227	6,476	416	20,550	-	-	289,411
Employee benefits	57,061	1,066	58,127	2,289	2,345	104	9,600	-	(1,710)	70,755
Medical benefits of insured	-	-	-	-	-	-	648,305	-	(115,875)	532,430
Patient care and other supplies	79,451	2,578	82,029	2,741	1,103	5	280	-	(1)	86,157
Purchased services	27,782	509	28,291	1,658	889	31	24,663	-	-	55,532
General and administrative	35,603	3,070	38,673	12,941	993	1,769	7,337	-	(19,220)	42,493
Insurance	13,418	216	13,634	173	263	-	223	1,715	(8,139)	7,869
Depreciation and amortization	26,202	547	26,749	1,031	536	2	5,474	-	-	33,792
Interest and financing expense	13,687	11	13,698	146	66	-	3,171	-	(1,107)	15,974
Real estate and other taxes	8,028	49	8,077	227	475	-	6,110	-	-	14,889
Loss (gain) on the disposal of property and equipment	(76)	17	(59)	83	-	-	-	-	-	24
Change in fair value of derivative instruments	(665)	-	(665)	-	-	-	-	-	-	(665)
Total expenses	511,391	11,905	523,296	28,516	13,146	2,327	725,713	1,715	(146,052)	1,148,661
Income (loss) from operations	30,930	3,088	34,018	37	254	(1,897)	13,734	6,424	1,209	53,779
Nonoperating gains:										
Investment income	22,197	-	22,197	8	9	2,052	17,674	2,444	(1,209)	43,175
Gain on unconsolidated subsidiaries	2,331	(2,331)	-	-	-	-	-	-	-	-
Nonoperating gains, net	24,528	(2,331)	22,197	8	9	2,052	17,674	2,444	(1,209)	43,175
Excess of revenue over expenses, before noncontrolling interest and income taxes	55,458	757	56,215	45	263	155	31,408	8,868	-	96,954
Noncontrolling interest in net income of consolidated joint ventures	-	719	719	-	-	-	(52)	-	-	667
Provision for income taxes	718	13	731	-	-	-	13,267	-	-	13,998
Excess of revenue over expenses	$ 54,740	$ 25	$ 54,765	$ 45	$ 263	$ 155	$ 18,193	$ 8,868	$ -	$ 82,289

See accompanying notes to supplementary schedules.

(Continued)

The Carle Foundation

Supplementary Information - Consolidating Statement of Operations and Changes in Net Assets
Six Months Ended June 30, 2017
(Dollars in thousands)

	Obligated Group	Obligated Group Unconsolidated Subsidiaries	Combined Obligated Group	Hoopeston	Richland	Development	CHA Holding	Health Systems	Eliminations and Reclassifications	Consolidated Foundation
Unrestricted net assets:										
Excess of revenue over expenses	$ 54,740	$ 25	$ 54,765	$ 45	$ 263	$ 155	$ 18,193	$ 8,868	$ -	$ 82,289
Change in net unrealized gains and losses on other-than-trading securities	32,261	-	32,261	-	232	3,418	-	2,308	-	38,219
Change in noncontrolling interest of consolidated joint ventures	719	-	719	-	-	-	(52)	-	-	667
Increase in unrestricted net assets	87,720	25	87,745	45	495	3,573	18,141	11,176	-	121,175
Temporarily restricted net assets:										
Contributions	-	-	-	10	-	1,396	-	-	-	1,406
Investment income	-	-	-	4	-	104	-	-	-	108
Change in net unrealized gains and losses on other-than-trading securities	-	-	-	-	-	148	-	-	-	148
Net assets released from restrictions	-	-	-	(13)	-	(365)	-	-	-	(378)
Increase in temporarily restricted net assets	-	-	-	1	-	1,283	-	-	-	1,284
			-							
Permanently restricted net assets:										
Contributions	-	-	-	-	-	89	-	-	-	89
Increase in permanently restricted net assets	-	-	-	-	-	89	-	-	-	89
Change in net assets	87,720	25	87,745	46	495	4,945	18,141	11,176	-	122,548
Net assets, beginning of the period	1,427,288	45	1,427,333	(6,596)	27,366	91,315	8,378	57,418	-	1,605,214
Net assets, end of the period	$ 1,515,008	$ 70	$ 1,515,078	$ (6,550)	$ 27,861	$ 96,260	$ 26,519	$ 68,594	$ -	$ 1,727,762

(Continued)

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

Organization:

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

a. The Carle Foundation Hospital (Hospital) comprises the following:
    - Hospital Division, which includes operation of a licensed 413-bed hospital, a certified home health agency, and a certified hospice
    - Carle Medical Supply (Medical Supply), a provider of medical equipment and supplies to the general public and hospital patients
    - Danville Surgery Center and outpatient surgical recovery centers located in Champaign and Danville, Illinois (DASC)
b. Carle Health Care Incorporated (Health Care) comprises the following:
    - Carle Physician Group (Physician Group), which operates as a private, multispecialty, group medical practice
    - Airlife, which operates an air medical transport service and The Caring Place day care center (Other Entities)
c. Carle Retirement Centers, Inc. (Windsor) operates a 174-unit retirement living center.

Certain affiliated or controlled entities of the Foundation and certain wholly-owned subsidiaries of the Obligated Group are not members of the Obligated Group and are excluded from the Obligated Group. In order to present the financial statements in accordance with GAAP, these entities are required to be consolidated. These entities include:

a. Obligated Group Unconsolidated Subsidiaries comprise the following:
    - Champaign Surgicenter, LLC (Surgicenter), a free-standing ambulatory surgery center located in Champaign, Illinois
    - Arrow Ambulance, LLC (Arrow), which operates an ambulance transport
    - Carle Risk Management Company (Risk Management), which provides professional liability insurance claims processing and management services to the Foundation
    - eValiData, Inc. (eValiData), which provides physician credentialing services to the Foundation and external organizations
b. Non-Obligated Group Affiliates comprise the following:
    - Hoopeston Community Memorial Hospital (Hoopeston) operates a 24-bed Critical Access Hospital and Rural Health Clinics.
    - Richland Memorial Hospital, Inc. (Richland), in Olney, Illinois, operates a 134-licensed bed hospital and serves portions of eight counties in southeastern Illinois.
    - The Carle Development Foundation (Development) does business as the Carle Center for Philanthropy (Philanthropy Center), which is engaged in fund-raising activities and is the sole member of Carle Community Health Corporation (Community Health), which is engaged in funding charitable, scientific, and educational community-based health care initiatives.

(Continued)

Organization (Continued):

- CHA Holding, Inc. (CHA Holding) is the sole stockholder of Carle Holding Company, Inc. (Carle Holding), the sole member of Health Alliance Connect, Inc. (HA Connect), and has a 60% membership interest in Health Alliance Northwest Holding, Inc. (HANW Holding). Carle Holding is the sole owner of Health Alliance Medical Plans, Inc. and its subsidiaries (Health Alliance), which is a licensed life, accident, and health insurance company. HA Connect provides health care services to its enrollees, which consists solely of Medicare Advantage Illinois membership lives. HANW Holding is a taxable not-for-profit entity operating as a noninsurance company in the state of Washington, established for the purpose of owning Health Alliance Northwest Health Plan, Inc. (HANW Health Plan), a Washington health care contractor.
- Health Systems Insurance, Limited (Health Systems), an offshore captive insurance company, underwrites the general, professional, and workers' compensation liability risks of the Foundation

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