



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.

A handwritten signature in black ink, appearing to read "Dennis P. Hesch". The signature is written over a horizontal line.

Dennis P. Hesch

Executive Vice President & System CFO

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# **The Carle Foundation Obligated Group**

Combined Special-Purpose Financial Statements and Supplementary Schedules (Unaudited)  
June 30, 2017 and 2016

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**The Carle Foundation Obligated Group**  
**Combined Balance Sheets**  
**June 30, 2017 and 2016**  
**(Dollars in thousands)**

<b>Assets</b>		<b>2017</b>	<b>2016</b>
Current assets:			
Cash and cash equivalents		\$ 73,468	\$ 112,833
Investments	(Notes 5, 6, and 7)	360,076	117,536
Assets limited as to use	(Notes 5, 6, and 7)	107,186	18,129
Patient receivables, less allowance for doubtful accounts of \$34,312 in 2017 and \$29,805 in 2016	(Notes 10 and 17)	137,357	133,216
Other receivables	(Note 19)	153,773	207,229
Inventories		8,989	8,888
Prepaid expenses		16,281	12,708
<b>Total current assets</b>		<b>857,130</b>	<b>610,539</b>
 Property and equipment, net	 (Note 11)	 <b>623,709</b>	 <b>562,113</b>
 Investments and other assets:			
Investments, net of current portion	(Notes 5, 6, and 7)	748,928	668,936
Assets limited as to use, net of current portion	(Notes 5, 6, and 7)	14,137	-
Investment in unconsolidated subsidiaries	(Note 4)	24,590	17,646
Interest rate swap agreements	(Notes 6 and 13)	3,098	2,226
Other assets	(Note 19)	229,950	254,637
<b>Total investments and other assets</b>		<b>1,020,703</b>	<b>943,445</b>
 <b>Total assets</b>		 <b>\$ 2,501,542</b>	 <b>\$ 2,116,097</b>

See accompanying notes to combined financial statements.

<b>Liabilities and Net Assets</b>		<b>2017</b>	<b>2016</b>
Current liabilities:			
Accounts payable		\$ 6,633	\$ 8,966
Current maturities of long-term debt	(Note 12)	14,066	12,719
Estimated third-party payor settlements	(Note 8)	51,473	52,245
Current portion of estimated liability for self-insurance losses	(Note 14)	15,290	14,271
Compensation and paid leave payable		76,275	67,796
Other accrued liabilities		46,318	32,656
<b>Total current liabilities</b>		<b>210,055</b>	<b>188,653</b>
Long-term liabilities:			
Long-term debt, net of current maturities	(Note 12)	705,604	522,191
Interest rate swap agreements	(Notes 6 and 13)	16,506	24,316
Asset retirement obligation	(Note 2)	6,193	6,243
Estimated liability for self-insurance losses, net of current portion	(Note 14)	16,715	15,056
Other accrued liabilities		31,461	40,247
<b>Total long-term liabilities</b>		<b>776,479</b>	<b>608,053</b>
<b>Total liabilities</b>		<b>986,534</b>	<b>796,706</b>
Net assets - unrestricted		1,515,008	1,319,391
<b>Total liabilities and net assets</b>		<b>\$ 2,501,542</b>	<b>\$ 2,116,097</b>

See accompanying notes to combined financial statements.

**The Carle Foundation Obligated Group**  
**Combined Statements of Operations and Changes in Net Assets**  
**Six Months Ended June 31, 2017 and 2016**  
**(Dollars in thousands)**

		2017	2016
Revenue:			
Patient service revenue (net of contractual allowances)		\$ 523,029	\$ 496,180
Provision for bad debts		(17,696)	(17,175)
<b>Net patient service revenue</b>	(Notes 2 and 8)	<b>505,333</b>	<b>479,005</b>
Other revenue:			
Rental income		8,899	8,520
Gain on disposal of property and equipment		76	109
Other		28,089	29,420
<b>Total revenue</b>		<b>542,397</b>	<b>517,054</b>
Expenses:			
Salaries and wages		250,900	234,573
Employee benefits	(Notes 14 and 15)	57,061	51,247
Patient care and other supplies		79,451	75,732
Purchased services		27,782	25,046
General and administrative	(Note 18)	35,603	26,808
Insurance	(Note 14)	13,418	3,917
Depreciation		26,202	26,172
Interest and financing expense	(Note 12)	13,687	9,987
Real estate and other taxes	(Notes 8 and 16)	8,028	6,942
Change in fair value of derivative instruments	(Note 13)	(665)	7,477
<b>Total expenses</b>		<b>511,467</b>	<b>467,901</b>
<b>Income from operations</b>		<b>30,930</b>	<b>49,153</b>
Nonoperating gains:			
Investment income	(Note 5)	22,197	11,067
Gain on unconsolidated subsidiaries	(Note 4)	2,331	1,916
<b>Nonoperating gains, net</b>		<b>24,528</b>	<b>12,983</b>
<b>Excess of revenue over expenses, before income taxes</b>		<b>55,458</b>	<b>62,136</b>
Provision for income taxes	(Note 2)	718	1,502
<b>Excess of revenue over expenses</b>		<b>\$ 54,740</b>	<b>\$ 60,634</b>

See accompanying notes to combined financial statements.



	2017	2016
Unrestricted net assets:		
Excess of revenue over expenses	\$ 54,740	\$ 60,634
Change in net unrealized gains and losses on other-than-trading securities	(Note 5) 32,261	8,533
Change in noncontrolling interest in unconsolidated subsidiary	719	3,969
<b>Change in net assets</b>	<b>87,720</b>	<b>73,136</b>
Net assets, beginning of the period	<u>1,427,288</u>	<u>1,246,255</u>
Net assets, end of the period	<u><b>\$ 1,515,008</b></u>	<u><b>\$ 1,319,391</b></u>

See accompanying notes to combined financial statements.

**The Carle Foundation Obligated Group**  
**Combined Statements of Cash Flows**  
**Six Months Ended June 31, 2017 and 2016**  
**(Dollars in thousands)**

	2017	2016
Cash flows from operating activities:		
Change in net assets	\$ 87,720	\$ 73,136
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	26,202	26,172
Gain on disposal of property and equipment	(76)	(109)
Gain on sale of membership interest in Champaign Surgicenter, LLC (Surgicenter)	-	(3,308)
Provision for bad debts	17,696	17,175
Amortization of deferred financing costs and original issue discount/premium	(76)	255
Net realized and unrealized gains and losses on investments	(46,257)	(12,934)
Accretion on asset retirement obligation	(22)	(51)
Change in fair value of derivative instruments	(665)	7,477
Increase in investment in unconsolidated subsidiaries	(3,050)	(2,568)
Change in assets and liabilities:		
(Increase) decrease in:		
Receivables	(44,708)	(92,849)
Inventories	281	327
Prepaid expenses	(5,129)	(357)
Increase (decrease) in:		
Accounts payable and accrued expenses	(12,419)	(20,827)
Third-party payor settlements	(10,862)	1,461
Self-insurance liability	5,754	4,664
<b>Net cash provided by (used in) operating activities</b>	<b>14,389</b>	<b>(2,336)</b>

See accompanying notes to combined financial statements.

	2017	2016
Cash flows from investing activities:		
Proceeds from maturities and sales of investments	91,484	155,693
Purchases of investments	(59,326)	(81,702)
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	(51,443)	(33,735)
Increase in other assets	(15,050)	(7,202)
<b>Net cash provided by (used in) investing activities</b>	<b>(33,903)</b>	<b>40,148</b>
Cash flows from financing activities:		
Payments on long-term debt	(8,125)	(7,703)
Refunds (payments) of deferred financing costs	302	(78)
<b>Net cash used in financing activities</b>	<b>(7,823)</b>	<b>(7,781)</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(27,337)</b>	<b>30,031</b>
Cash and cash equivalents:		
Beginning	100,805	82,802
Ending	<u>\$ 73,468</u>	<u>\$ 112,833</u>
Supplemental disclosures of cash flow information:		
Cash payments for interest	\$ 14,583	\$ 10,029
Net cash payments for taxes	\$ 841	\$ 930

See accompanying notes to combined financial statements.

**Note 1. Basis of Presentation and Organization**

**Basis of presentation:** The accompanying combined financial statements are those of The Carle Foundation Obligated Group (Obligated Group), which includes The Carle Foundation (Foundation), The Carle Foundation Hospital (Hospital), Carle Health Care Incorporated (Health Care), and Carle Retirement Centers, Inc. (Windsor), and are not those of the primary reporting entity. These combined financial statements were prepared for the purpose of complying with the Master Trust Indenture and are not intended to be a presentation in conformity with U.S. generally accepted accounting principles (GAAP) as it does not include certain affiliates that are required to be included in a GAAP presentation.

**Organization:** The 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 affiliates (Obligated Group Affiliates):

- a. The 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. Risk Management and eValiData are not members of the Obligated Group.
- b. Health Care operates 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; AirLife, which operates an air medical transport service; and The Caring Place day care center. Health Care also operates the following subsidiaries that are not part of the Obligated Group, referred to herein, collectively, as the "Unconsolidated Subsidiaries": Champaign Surgicenter, LLC, a freestanding ambulatory surgery center located in Champaign, Illinois and Arrow Ambulance, LLC (Arrow), which operates an ambulance transport service.

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. Windsor operates a 174-unit retirement living center.

**Note 1. Basis of Presentation and Organization (Continued)**

The primary reporting entity also includes the following (Non-Obligated Group Affiliates):

- d. 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.
- e. The Carle Development Foundation (Development) does business as the Carle Center for Philanthropy, which is engaged in fund-raising activities and manages substantially all activity related to restricted and unrestricted contributions. In addition, Development is also the sole member of Carle Community Health Corporation (Community Health), which funds charitable, scientific, and educational community-based health care initiatives.
- f. The Foundation is the sole stockholder for Health Systems Insurance, Limited (Health Systems), a for-profit offshore captive insurance company, which underwrites substantially all of the Foundation's general, professional, and workers' compensation liability insurance risks.

**Note 1. Basis of Presentation and Organization (Continued)**

- g. Hoopeston Community Memorial Hospital (Hoopeston), a not-for-profit 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.
- h. 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.

The Obligated Group Affiliates, Non-Obligated Group Affiliates, and Unconsolidated Subsidiaries are referred to herein, collectively, as the "Foundation Affiliates."

**Note 2. Summary of Significant Accounting Policies**

A summary of the significant accounting policies adopted by the Obligated Group is as follows:

**Principles of combination:** All significant intercompany accounts and transactions are eliminated in the combination.

**Use of estimates:** The preparation of financial statements in conformity with GAAP 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 Obligated Group 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 Obligated Group 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 combined 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 6).

**Note 2. Summary of Significant Accounting Policies (Continued)**

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

The Obligated Group 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 Obligated Group'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, and bond fund investments needed to pay current construction draws.

The investments held by 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).

Investment income (loss) is included in excess of revenue over expenses as nonoperating gains (losses). 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 unrestricted 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.

The investments in unconsolidated subsidiaries and 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:** Assets limited as to use includes 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.

**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.

**Note 2. Summary of Significant Accounting Policies (Continued)**

**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 Obligated Group regularly evaluates the recoverability of long-lived assets and the related estimated remaining lives. The Obligated Group 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 Obligated Group recorded no impairment losses and project abandonments.

**Interest rate swap agreements:** The Obligated Group's derivative financial instruments consist of interest rate swap agreements, which are recognized on the combined balance sheets at fair value. Interest rate fluctuations create an unrealized appreciation or depreciation in the market value of the Obligated Group'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 Obligated Group'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.

**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 combined 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) 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 Obligated Group 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 Obligated Group determined that an obligation exists with regard to future asbestos and storage tank removal. The estimated and recorded liability was \$6,193 and \$6,243 at June 30, 2017 and 2016, respectively.

**Excess of revenue over expenses:** The combined 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 securities and permanent transfers of assets to and from affiliates for other than goods and services.



**Note 2. Summary of Significant Accounting Policies (Continued)**

**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 Obligated Group recognizes gross revenue on the basis of its established rates for services. Historically, a significant portion of the Obligated Group's uninsured patients are unable or unwilling to pay for the services provided. Thus, the Obligated Group 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	\$ 2,091,883	\$ 1,963,950
Less:		
Discounts, allowances, and estimated contractual adjustments under third-party reimbursement programs	(1,568,854)	(1,467,770)
Provision for bad debts	(17,696)	(17,175)
Net patient service revenue	<u>\$ 505,333</u>	<u>\$ 479,005</u>
Percentage of net patient service revenue to gross charges	<u>24.2%</u>	<u>24.4%</u>

**Charity care:** The Obligated Group is committed to providing quality health care to all, regardless of their ability to pay. The Obligated Group 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 Obligated Group 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 Obligated Group 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 Obligated Group recognized \$410 and \$346, 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:** Substantially all of the Obligated Group activity related to the professional, general, and workers' compensation liability insurance are recorded on Health Systems' books. All claims paid and the estimated liabilities for unpaid losses are accounted for by Health Systems. Tail liability for periods outside of Health Systems coverage dates are recorded on the Obligated Group's books. In addition, all reinsurance recoverable on paid and unpaid losses is also accounted for by Health Systems. As of June 30, 2017 and 2016, the Obligated Group has prepaid expense of \$1,782 and \$176, respectively, which represents premiums paid in advance to Health Systems.

The Obligated Group has elected to self-insure its employee health insurance claims and purchases 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.

**Income taxes:** The Obligated Group members, 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 Obligated Group members are, however, subject to federal and state income taxes on unrelated business income (UBI) under the provision of Section 511 of the Code. The Obligated Group recorded UBIT tax liabilities of \$341 and \$932 for the six months ended June 30, 2017 and 2016, respectively, and a UBIT expense of \$718 and \$1,502 for the six months ended June 30, 2017 and 2016, respectively.

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

Tax returns filed by the Obligated Group 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 tax returns filed for the calendar years ended December 31, 2013 through 2015.

**Reclassifications:** To be consistent with classifications adopted for the six months ended June 30, 2017, certain balances on the combined 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 Obligated Group is evaluating the effect this guidance will have upon its financial statements.

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 Obligated Group adopted ASU No. 2015-07 in 2016. There was no effect on the Obligated Group's combined financial statements.

**Note 2. Summary of Significant Accounting Policies (Continued)**

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 Obligated Group is evaluating the effect this guidance will have upon its financial statements and anticipates no material impact to the financial statements from the implementation 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 Obligated Group is evaluating the effect this guidance will have upon its financial statements.

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**Note 3. CHA Holding**

As described in Note 1, CHA Holding, Inc. is a taxable not-for-profit entity, which serves as the sole stockholder of Carle Holding, the sole member of HA Connect, and has a 60% membership interest in HANW Holding. CHA Holding and its subsidiaries and affiliates are not part of the Obligated Group.

On April 1, 2010, the Foundation acquired the Clinic, which included Health Alliance, a wholly-owned subsidiary; converted the Clinic from a Professional Corporation to an Illinois corporation; and changed its name to Carle Holding. After the purchase, substantially all of the assets and operations of the Clinic were transferred to various Foundation affiliates, while the Clinic retained certain liabilities and their ownership interest in the operations of Health Alliance. 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 remain taxable corporations.

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 Alliance.

The condensed balance sheets for these entities as of June 30, 2017 and 2016 are as follows:

	2017	2016
<b>Assets:</b>		
Investments and cash	\$ 359,348	\$ 201,456
Premiums receivable	241,222	461,483
Other receivables and prepaids	139,205	147,910
Property and equipment	1,166	1,850
Intangible assets and goodwill	102,075	112,320
Deferred taxes	1,093	5,232
	<hr/>	<hr/>
Total assets	<u>\$ 844,109</u>	<u>\$ 930,251</u>
<b>Liabilities:</b>		
Accounts payable and other liabilities	\$ 87,932	\$ 97,327
Intercompany payables	305,877	329,720
Debt	141,000	194,000
Medical claims payable	192,187	199,298
Retirement plan benefits obligation	90,594	105,865
Total liabilities	<hr/> 817,590	<hr/> 926,210
	<hr/>	<hr/>
Stockholder's equity	26,519	4,041
	<hr/>	<hr/>
Total liabilities and stockholder's equity	<u>\$ 844,109</u>	<u>\$ 930,251</u>

**The Carle Foundation Obligated Group**  
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**Note 3. CHA Holding (Continued)**

The condensed statements of operations and changes in net assets for CHA Holding for the six months ended June 30, 2017 and 2016 are as follows:

	2017	2016
Underwriting income, premiums earned less premiums ceded, and other revenue	\$ 739,447	\$ 895,565
Underwriting and general and administrative expenses	(725,713)	(909,170)
Net underwriting income (loss)	13,734	(13,605)
Investment income	17,674	20,543
Noncontrolling interest in net income (loss) of consolidated subsidiary	52	(17)
Provision for income taxes	(13,267)	(8,375)
Excess (deficiency) of revenue over expenses	18,193	(1,454)
Change in noncontrolling interest in consolidated joint ventures	(52)	17
Change in net assets	\$ 18,141	\$ (1,437)

**Note 4. Unconsolidated Subsidiaries**

As described in Note 1, Health Care operates certain Unconsolidated Subsidiaries that are not part of the Obligated Group. The condensed balance sheets for these entities as of June 30, 2017 and 2016 are as follows:

	2017			2016		
	Assets	Liabilities	Net Assets	Assets	Liabilities	Net Assets
Surgicenter	\$ 23,683	\$ 1,851	\$ 21,832	\$ 17,530	\$ 1,653	\$ 15,877
Arrow	9,930	7,172	2,758	2,324	555	1,769
	<u>\$ 33,613</u>	<u>\$ 9,023</u>	<u>\$ 24,590</u>	<u>\$ 19,854</u>	<u>\$ 2,208</u>	<u>\$ 17,646</u>

The condensed statements of operations for the six months ended June 30, 2017 and 2016 are as follows:

	2017			2016		
	Revenue	Expenses	Gain	Revenue	Expenses	Gain (Loss)
Surgicenter	\$ 8,528	\$ 6,369	\$ 2,159	\$ 7,693	\$ 5,735	\$ 1,958
Arrow	5,681	5,509	172	3,661	3,703	(42)
	<u>\$ 14,209</u>	<u>\$ 11,878</u>	<u>\$ 2,331</u>	<u>\$ 11,354</u>	<u>\$ 9,438</u>	<u>\$ 1,916</u>

**The Carle Foundation Obligated Group**  
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**Note 5. Investments and Assets Limited as to Use**

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

	2017	2016
Investments:	\$ 1,109,004	\$ 786,472
Assets limited as to use:		
Deposits limited by bond indentures	100,040	-
Executive benefit plan	21,283	18,129
Total assets limited as to use	121,323	18,129
Total investments and assets limited as to use	\$ 1,230,327	\$ 804,601

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

	2017		2016	
	Cost	Carrying Value	Cost	Carrying Value
Cash and cash equivalents*	\$ 19,008	\$ 19,008	\$ 14,455	\$ 14,455
Fixed income securities*	753,337	750,867	401,289	399,702
Marketable equity securities*	240,512	307,565	218,476	253,312
Real asset investments*	36,136	33,920	35,153	32,907
Other assets	17	17	-	-
Alternative and illiquid investments:				
Private equity funds of funds*	70,570	83,530	66,193	75,353
Emerging markets equities fund*	10,051	10,986	10,006	7,766
Hedge fund of funds*	-	-	3	3
	<u>\$ 1,129,631</u>	1,205,893	<u>\$ 745,575</u>	783,498
Investments in joint ventures		3,151		2,974
Trading securities				
Mutual funds:				
Executive benefit plan		21,283		18,129
		<u>\$ 1,230,327</u>		<u>\$ 804,601</u>

\* The Foundation maintains pooled investments for Development and Community Health. Cash and cash equivalents, fixed income securities, marketable equity securities, real asset investments, and the alternative investments have been reduced by the portion allocable to these Non-Obligated Group Affiliates.

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**Note 5. Investments and Assets Limited as to Use (Continued)**

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

	2017	2016
Gross unrealized gains	\$ 93,209	\$ 62,201
Gross unrealized losses	(16,947)	(24,278)
	<u>\$ 76,262</u>	<u>\$ 37,923</u>

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

	2017	2016
Interest and dividend income	\$ 9,089	\$ 7,367
Net realized gains on sales of investments	13,996	4,401
Investment management fees	(888)	(701)
	<u>22,197</u>	<u>11,067</u>
Change in net unrealized gains and losses on other-than-trading securities	<u>32,261</u>	<u>8,533</u>
	<u>\$ 54,458</u>	<u>\$ 19,600</u>

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

	2017	2016
Nonoperating gains:		
Investment income	\$ 22,197	\$ 11,067
Other changes in unrestricted net assets:		
Change in net unrealized gains and losses on other-than-trading securities	<u>32,261</u>	<u>8,533</u>
	<u>\$ 54,458</u>	<u>\$ 19,600</u>

**Note 6. Fair Value Measurements**

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

The Obligated Group holds other 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:** The fair value of the majority of the Obligated Group'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.



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**Note 6. Fair Value Measurements (Continued)**

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

	2017			
	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Cash and cash equivalents	\$ 73,468	\$ -	\$ -	\$ 73,468
Investments and assets limited as to use:				
Cash and cash equivalents	19,008	-	-	19,008
Fixed income securities				
U.S. government and agencies	-	25,509	-	25,509
Mortgage-backed and asset-backed securities	-	106,246	-	106,246
Corporate and other	-	43,186	-	43,186
Mutual funds	540,392	-	-	540,392
Commingled funds	-	35,534	-	35,534
Marketable equity securities				
United States	182,325	2,961	-	185,286
Non-U.S. developed markets	62,385	59,894	-	122,279
Real asset Investments				
Mutual funds	33,920	-	-	33,920
Mutual funds—executive benefit plan	21,283	-	-	21,283
Interest rate swap agreements	-	3,098	-	3,098
	<u>\$ 932,781</u>	<u>\$ 276,428</u>	<u>\$ -</u>	<u>1,209,209</u>
Investments measured at net asset value <sup>1</sup>				<u>94,516</u>
Total recurring fair value measurements - assets				<u>\$ 1,303,725</u>
<b>Liabilities:</b>				
Interest rate swap agreements	\$ -	\$ 16,506	\$ -	\$ 16,506
Other accrued liabilities—executive benefit plan	-	21,283	-	21,283
Total recurring fair value measurements - liabilities	<u>\$ -</u>	<u>\$ 37,789</u>	<u>\$ -</u>	<u>\$ 37,789</u>

<sup>1</sup> 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 combined balance sheets.

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**Note 6. Fair Value Measurements (Continued)**

	2016			
	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Cash and cash equivalents	\$ 112,833	\$ -	\$ -	\$ 112,833
Investments and assets limited as to use:				
Cash and cash equivalents	14,455	-	-	14,455
Fixed income securities				
U.S. government and agencies	-	28,747	-	28,747
Mortgage-backed and asset-backed securities	-	4,416	-	4,416
Corporate and other	-	36,304	-	36,304
Mutual funds	299,876	-	-	299,876
Commingled funds	-	30,359	-	30,359
Marketable equity securities				
United States	155,691	2,961	-	158,652
Non-U.S. developed markets	47,637	47,023	-	94,660
Real asset funds				
Mutual funds	32,907	-	-	32,907
Mutual funds—executive benefit plan	18,129	-	-	18,129
Interest rate swap agreements	-	2,226	-	2,226
	<u>\$ 681,528</u>	<u>\$ 152,036</u>	<u>\$ -</u>	<u>833,564</u>
Investments measured at net asset value <sup>1</sup>				<u>83,122</u>
Total recurring fair value measurements - assets				<u>\$ 916,686</u>
<b>Liabilities:</b>				
Interest rate swap agreements	\$ -	\$ 24,316	\$ -	\$ 24,316
Other accrued liabilities—executive benefit plan	-	18,129	-	18,129
Total recurring fair value measurements - liabilities	<u>\$ -</u>	<u>\$ 42,445</u>	<u>\$ -</u>	<u>\$ 42,445</u>

<sup>1</sup> 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 combined 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 Obligated Group had no transfers between Levels 1 and 2 for the six months ended June 30, 2017 and 2016.

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**Note 6. Fair Value Measurements (Continued)**

The following tables set forth additional disclosures of the Foundation's investments whose fair value is estimated using net asset value per share or for which unfunded commitments remain. These investments are included in a pool of investments that are allocated to the Foundation, Development, and Community Health. Therefore, only 89.9% and 89.5% of these investments as of June 30, 2017 and 2016, respectively, are allocable to the Obligated Group.

		2017				
	Foundation Fair Value	Obligated Group Fair Value	Foundation Unfunded Commitment	Remaining Life	Redemption Frequency	Redemption Notice Period
Commingled funds investing in:						
Non-U.S. emerging markets equity (a)	12,217	10,986	NA	NA	Monthly	30 days
Private equity funds of funds (b)	92,887	83,530	\$ 58,771	to 2025	NA	NA
<b>Total</b>	<b>\$ 105,104</b>	<b>\$ 94,516</b>				
		2016				
	Foundation Fair Value	Obligated Group Fair Value	Foundation Unfunded Commitment	Remaining Life	Redemption Frequency	Redemption Notice Period
Commingled funds investing in:						
Non-U.S. emerging markets equity (a)	8,675	7,766	NA	NA	Monthly	None
Private equity funds of funds (b)	84,170	75,353	\$ 55,267	to 2025	NA	NA
Hedge fund of funds (c)	3	3	NA	NA	Quarterly	90 days
<b>Total</b>	<b>\$ 92,848</b>	<b>\$ 83,122</b>				

- (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 help diversify the risk and return attributes of the Foundation's 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.

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**Note 7. 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, issuer's financial condition and near-term prospects, conditions in issuer's industry and competitive factors, the recommendation of advisors, including the Obligated Group'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 Obligated Group 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	\$ 30,285	\$ 2,237	\$ 22,857	\$ 2,441	\$ 53,142	\$ 4,678	
Fixed income	42,495	653	134,295	9,239	176,790	9,892	
Real asset funds	253	1	32,414	2,269	32,667	2,270	
Alternative investments	813	49	10,986	58	11,799	107	
	<u>\$ 73,846</u>	<u>\$ 2,940</u>	<u>\$ 200,552</u>	<u>\$ 14,007</u>	<u>\$ 274,398</u>	<u>\$ 16,947</u>	
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	\$ 31,980	\$ 3,770	\$ 24,185	\$ 6,343	\$ 56,165	\$ 10,113	
Fixed income securities	9,745	116	244,604	9,390	254,349	9,506	
Real asset funds	-	-	32,232	2,296	32,232	2,296	
Alternative investments	10,027	1,925	12,745	438	22,772	2,363	
	<u>\$ 51,752</u>	<u>\$ 5,811</u>	<u>\$ 313,766</u>	<u>\$ 18,467</u>	<u>\$ 365,518</u>	<u>\$ 24,278</u>	

**Note 7. Other-Than-Temporary Impairment (Continued)**

The Obligated Group 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 Obligated Group'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 8. Contractual Arrangements with Third-Party Payors**

The Obligated Group has agreements with third-party payors that provide for reimbursement to the Obligated Group at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the Obligated Group'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 \$4,847, 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 56.7% and 56.6%, respectively, of the Obligated Group'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 31.3% and 31.7%, respectively, of the Obligated Group's net patient service revenue was earned under the Medicare and Medicare Advantage programs. The Obligated Group 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 8. 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 Obligated Group fully reserves any amounts that are assessed as overpayments under the RAC at the time the RAC notice is received.

The Obligated Group'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 12.4% and 12.1%, respectively, of the Obligated Group's net patient service revenue was earned under State Medicaid programs. The Obligated Group 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 Obligated Group receives additional Medicaid reimbursement from the State and pays a related assessment. For the six months ended June 30, 2017 and 2016, the Obligated Group recognized total reimbursement revenue under the Programs of approximately \$14,303 for both periods, which is included in net patient service revenue, and incurred assessments of approximately \$7,297 and \$6,215, respectively, which is included in real estate and other taxes expense in the combined statements of operations and changes in net assets.

On January 9, 2015, CMS approved a new Illinois 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 Obligated Group recognized total reimbursement revenue of \$2,740 and \$2,281, 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 Obligated Group recognized total reimbursement revenue of \$3,256 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 13.0% and 12.8%, respectively, of the Obligated Group's net patient service revenue was earned under traditional Blue Cross and Blue Cross PPO plans. The Blue Cross PPO plan reimburses the Obligated Group 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 will be liquidated within 90 days.

**Note 8. Contractual Arrangements with Third-Party Payors (Continued)**

**Health Alliance:** For the six months ended June 30, 2017 and 2016, approximately 26.6% and 26.3%, respectively, of the Obligated Group's net patient service revenue was earned under a health maintenance organization (HMO) plan with Health Alliance, a Non-Obligated Group affiliate. Health Alliance hospital claims were reimbursed under varying contractual payment methodologies. Claims reimbursed on a percentage of charge basis for inpatient and outpatient services comprises approximately 17.0% and 14.9% of Health Alliance claims for the six months ended June 30, 2017 and 2016, respectively. Claims reimbursed at acuity based payments per occurrence for inpatient and percentage of charges for outpatient comprises approximately 83.0% and 85.1%, of Health Alliance claims for the six months ended June 30, 2017 and 2016, respectively. Risk-sharing arrangements under various plans increased the Obligated Group's net patient service revenue \$4,113 as of June 30, 2017 and decreased their revenue \$11,894 as of June 30, 2016.

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

**Note 9. Community Benefit and Charity Care**

The Obligated Group is committed to providing quality health care to all, regardless of their ability to pay. Under the Obligated Group'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 Obligated Group 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 \$14,872 and \$13,944 for the six months ended June 30, 2017 and 2016, respectively.

In addition to providing direct charity health services, the Obligated Group 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 Obligated Group 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.

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**Note 10. Patient Receivables**

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

	2017	2016
Patient receivables, gross	\$ 843,412	\$ 667,724
Less:		
Allowance for estimated contractual adjustments	(671,743)	(504,703)
Allowance for doubtful accounts	(34,312)	(29,805)
Patient receivables, net	<u>\$ 137,357</u>	<u>\$ 133,216</u>

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 Obligated Group analyzes its past history and identifies trends. The Obligated Group 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 Obligated Group's allowance for doubtful accounts for self-pay patients increased from 47.8% of self-pay accounts receivable at June 30, 2016 to 48.6% of self-pay accounts receivable at June 30, 2017. The Obligated Group 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 combined financial statements has been minimal. The Obligated Group 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 11. Property and Equipment**

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

	2017	2016
Land and improvements	\$ 63,552	\$ 53,609
Buildings and improvements	684,043	646,405
Furniture and equipment	348,810	343,379
Construction in progress	63,113	29,106
	<u>1,159,518</u>	<u>1,072,499</u>
Less: accumulated depreciation	(535,809)	(510,386)
	<u>\$ 623,709</u>	<u>\$ 562,113</u>



**Note 11. 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.

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**Note 11. 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 Obligated Group leases equipment and office space under long-term noncancelable agreements that expire at various dates through the year 2022. In addition, the Obligated Group 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, at June 30, 2017 are as follows:

Year ending December 31:	
2017	\$ 2,082
2018	3,099
2019	1,260
2020	574
2021	354
Thereafter	<u>4,651</u>
	<u>\$ 12,020</u>

Total equipment lease expense under long-term lease agreements and month-to-month leases was approximately \$59 and \$2 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 \$2,527 and \$2,694 for the six months ended June 30, 2017 and 2016, respectively.

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**Note 12. 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	2033	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	(5,619)
Subtotal IFA borrowings		708,296	523,136
Installment note—Champaign Primary Care Center	2022	11,374	11,774
Total debt outstanding		719,670	534,910
Current portion		(14,066)	(12,719)
Long-term portion		\$ 705,604	\$ 522,191

**IFA borrowings:** 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, N.A. was, and remains, Master Trustee under the MTI.

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.

**Note 12. Long-Term Debt and Other Borrowings (Continued)**

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 healthcare facilities owned by the Obligated Group, 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 bond holders 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.

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 policy issued by Assured Guaranty Municipal Corp.

**Note 12. Long-Term Debt and Other Borrowings (Continued)**

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

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 in the combined 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.

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**Note 12. Long-Term Debt and Other Borrowings (Continued)**

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	\$ 14,066
2018	14,790
2019	15,254
2020	12,285
2021	1,222
Later years	<u>662,053</u>
	<u><u>\$ 719,670</u></u>

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.

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	\$ 12,357	\$ 7,722
Net interest expense on derivative instruments	1,092	1,243
Finance and letter of credit fees	474	559
Interest on installment notes	356	369
Other	(72)	255
	<u>14,207</u>	<u>10,148</u>
Capitalized interest	<u>(520)</u>	<u>(161)</u>
	<u><u>\$ 13,687</u></u>	<u><u>\$ 9,987</u></u>

**Note 13. Interest Rate Swap Agreements**

The Obligated Group 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 Obligated Group'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 Obligated Group 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 Obligated Group is exposed to potential credit loss in the event of nonperformance by these counterparties. To mitigate credit exposure, the swap agreements contain certain collateral provisions applicable to both the Obligated Group and the counterparties. The Obligated Group does not anticipate nonperformance by the other parties. The fair value of the swap agreements is included on the combined balance sheets.

On November 10, 2004, the Obligated Group 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 Obligated Group 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 Obligated Group and either UBS AG or PNC Bank, National Association.

On December 16, 2008, the Obligated Group 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 Obligated Group entered into an interest rate swap with Barclays Bank PLC (original notional \$50,000). These transactions provide that the Obligated Group 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 Obligated Group's swaps meet the eligibility requirements for hedge accounting treatment; all changes in fair value are classified 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.

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**Note 13. Interest Rate Swap Agreements (Continued)**

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

Counterparty	Maturity Date	Obligated Group Pays	Obligated Group Receives	Notional Value 2017	Fair Value		Change in Fair Value of Derivative Instruments	
					2017	2016	2017	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)
				<u>\$ 192,200</u>	<u>\$ (13,408)</u>	<u>\$ (22,090)</u>	<u>\$ 665</u>	<u>\$ (7,477)</u>
Recorded on the combined balance sheets as:								
Asset					\$ 3,098	\$ 2,226		
Liability					<u>(16,506)</u>	<u>(24,316)</u>		
					<u>\$ (13,408)</u>	<u>\$ (22,090)</u>		



**Note 14. Insurance and Investment in Health Systems**

The Foundation formed Health Systems, an offshore captive insurance company, to underwrite the professional and general liability risks of the Foundation Affiliates on a claims-made basis with a retroactive date to January 1, 1986. Health Systems is a Non-Obligated Group affiliate. Health Systems utilizes the services of an independent actuary to determine the liability assessments.

The Foundation owns 100% of the outstanding common stock of Health Systems, which has no recorded investment value as of June 30, 2017 and 2016 due to impairment losses recognized in prior years. 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.

Substantially all of the professional, general and workers' compensation liability insurance activities relating to the Obligated Group are accounted by Health Systems and are funded through premiums paid by the Obligated Group entities.

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 recorded on Health Systems financial statements 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 Obligated Group and Health Systems will be able to renew existing policies on similar terms.

Effective February 2012 and continuing, Health Systems underwrites workers' compensation liability risks for the Foundation and its insured subsidiaries and affiliates. 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 Obligated Group had elected to self-insure its workers' compensation risk.

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

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**Note 14. Insurance and Investment in Health Systems (Continued)**

The condensed balance sheets for Health Systems as of June 30, 2017 and 2016 are as follows:

	2017	2016
Assets:		
Investments and cash	\$ 123,722	\$ 117,891
Reinsurance recoverable	9,794	9,666
Other assets and prepaids	12,527	2,736
Total assets	<u>\$ 146,043</u>	<u>\$ 130,293</u>
Liabilities:		
Accounts payable and other accrued liabilities	\$ 12,924	\$ 1,503
Intercompany payable	703	1,741
Estimated liability for unpaid losses	63,822	66,410
Total liabilities	<u>77,449</u>	<u>69,654</u>
Stockholder's equity:		
Capital stock	1,800	1,800
Retained earnings	35,464	31,771
Accumulated other comprehensive income	31,330	27,068
Total stockholder's equity	<u>68,594</u>	<u>60,639</u>
Total liabilities and stockholder's equity	<u>\$ 146,043</u>	<u>\$ 130,293</u>

The condensed statements of operations and changes in net assets for Health Systems for the six months ended June 30, 2017 and 2016 are as follows:

	2017	2016
Underwriting income premiums earned less premiums ceded and other	\$ 8,139	\$ 175
Underwriting and general and administrative expenses	(1,715)	(10,167)
Net underwriting income (loss)	6,424	(9,992)
Investment income	2,444	2,969
Excess (deficiency) of revenue over expenses	8,868	(7,023)
Change in net unrealized gains and losses on other-than-trading securities	2,308	2,218
Change in net assets	<u>\$ 11,176</u>	<u>\$ (4,805)</u>

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**Note 14. Insurance and Investment in Health Systems (Continued)**

The Obligated Group has recorded an estimate for incurred but not reported claims for both active and departed physicians as of June 30, 2017 and 2016 of \$12,915 and \$12,856, respectively.

The Obligated Group has elected to self-insure a portion of its employee health insurance cost. The Obligated Group 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.

The liability recorded on the combined balance sheets at June 30, 2017 and 2016 and the expenses on the combined statements of operations for six months ended June 30, 2017 and 2016 are as follows:

	Liability		Expense	
	2017	2016	2017	2016
Health insurance	\$ 15,290	\$ 14,271	\$ 23,472	\$ 20,239
Professional, general, and other	16,715	15,056	13,418	3,917
	<u>\$ 32,005</u>	<u>\$ 29,327</u>	<u>\$ 36,890</u>	<u>\$ 24,156</u>

**Note 15. Pension Plans**

The Foundation has defined contribution pension plans for its employees. The Obligated Group participates in the plans. Upon meeting eligibility requirements, the Obligated Group contributes 5.0% of an employee's salary to the relevant plan. For any eligible employees contributing to a 403(b) plan, the Obligated Group matches up to 2.0% of the employee's earnings as well as contributing 2.0% for earnings above the social security taxable wage base, up to the maximum allowed.

Total expense incurred by the Obligated Group under the defined contribution plan for the six months ended June 30, 2017 and 2016 was \$14,015 and \$12,992, respectively. The total liabilities at June 30, 2017 and 2016 are \$11,305 and \$10,401, 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 and years of service through December 31, 2011, at which time participants' accrued benefits were frozen. Therefore, there is no longer any service cost recognized.

The plan is sponsored by Carle Holding, a Non-Obligated Group affiliate. The plan's sponsor makes annual contributions to the plan in an amount equal to the amortization of prior service cost as determined by the plan's actuary. There was no pension expense incurred by the Obligated Group for the six months ended June 30, 2017 and 2016. Separate accounting for the assets and liabilities of each entity is not maintained. Carle Holding records the liability for underfunding of the plan on its books and as of June 30, 2017 and 2016 this liability was \$90,594 and \$105,865, respectively.

**Note 16. Commitments and Contingencies**

**Litigation:** The individual members of the Obligated Group 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.

**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 Obligated Group 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 Obligated Group maintains a compliance program designed to educate employees and to detect and correct possible violations.

State and federal agencies routinely conduct regulatory investigations and compliance audits of healthcare providers. The Obligated Group is subject to these regulatory efforts. Management is currently unaware of any regulatory matters which may have a material adverse effect on Obligated Group's financial position or results of operations.

**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 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 Obligated Group 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.

**Note 16. Commitments and Contingencies (Continued)**

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.

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 combined balance sheets.

**Note 16. Commitments and Contingencies (Continued)**

**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.

**Note 17. Concentrations of Credit Risk**

The Obligated Group 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	43%	47%
Medicare	21%	22%
Health Alliance	15%	15%
Medicaid	14%	9%
Private pay	7%	7%
	<u>100%</u>	<u>100%</u>

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

**The Carle Foundation Obligated Group**  
**Notes to Combined Financial Statements**  
**June 30, 2017 and 2016**  
**(Dollars in thousands)**

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**Note 18. Functional Expenses**

The Obligated Group 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	\$ 475,864	\$ 441,093
General and administrative	35,603	26,808
	<u>\$ 511,467</u>	<u>\$ 467,901</u>

**Note 19. Related-Party Transactions**

The Obligated Group recognized net patient service revenue from CHA Holding for the six months ended June 30, 2017 and 2016 of \$115,875 and \$138,416, respectively. Other significant related-party transactions for the six months ended June 30, 2017 and 2016 include \$5,917 and \$6,165, respectively, of contracted physician services sold to Hoopeston, \$9,795 and \$8,057, respectively, of shared services support cost allocated from the Foundation, and \$3,371 and \$3,133, respectively, for a variety of other supplies and services exchanges. Additionally, for the six months ended June 30, 2017 and 2016, the Obligated Group received \$1,309 and \$1,348, respectively, in internal mission funding from Community Health to offset costs associated with certain Hospital services.

The Obligated Group has balances due from Non-Obligated Group members on the combined balance sheets as of June 30, 2017 and 2016 as follows:

	2017	2016
Receivable (payable) from:		
CHA Holding	\$ 305,877	\$ 329,720
Hoopeston	21,645	28,243
Arrow Ambulance	5,742	256
Health Systems	703	1,741
Other Non-Obligated Group Affiliates	72	(378)
Development	(275)	(173)
	<u>\$ 333,764</u>	<u>\$ 359,409</u>

The intercompany receivable due from CHA Holding at June 30, 2017 and 2016 includes a current receivable of \$4,997 and payable of \$11,639, respectively, related to the medical and pharmacy services provided to members; current receivables of \$14,573 and \$68,286, respectively, related to salaries and other administrative services; and other current receivables of \$59,536 and \$21,781, respectively. These amounts are recorded as other receivables on the combined balance sheets. The remaining intercompany receivable due from CHA Holding at June 30, 2017 and 2016 includes noncurrent amounts of \$226,771 and \$251,292, respectively. These amounts are recorded as other assets on the combined balance sheets.

**Note 20. 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.



The Carle Foundation Obligated Group  
Supplementary Information - Combining Balance Sheet  
June 30, 2017  
(Dollars in thousands)

Schedule 1

<b>Assets</b>	Foundation	Hospital	Health Care	Windsor	Subtotal	Eliminations and Reclassifications	Obligated Group
Current assets:							
Cash and cash equivalents	\$ 88,855	\$ 16	\$ 146	\$ 17	\$ 89,034	\$ (15,566)	\$ 73,468
Investments	360,076	-	-	-	360,076	-	360,076
Assets limited as to use	107,186	-	-	-	107,186	-	107,186
Patient receivables, net	-	107,207	30,150	-	137,357	-	137,357
Intercompany receivables	20,774	129,958	-	327	151,059	(151,059)	-
Other receivables	40,170	6,093	512	5	46,780	106,993	153,773
Inventories	-	8,989	-	-	8,989	-	8,989
Prepaid expenses	8,499	6,611	1,155	16	16,281	-	16,281
<b>Total current assets</b>	<b>625,560</b>	<b>258,874</b>	<b>31,963</b>	<b>365</b>	<b>916,762</b>	<b>(59,632)</b>	<b>857,130</b>
Property and equipment, net	544,944	72,722	1,511	4,532	623,709	-	623,709
Investments and other assets:							
Investments, net of current portion	748,928	-	-	-	748,928	-	748,928
Asset whose use is limited	14,137	-	-	-	14,137	-	14,137
Investment in unconsolidated subsidiaries	-	-	24,590	-	24,590	-	24,590
Interest rate swap agreements	3,098	-	-	-	3,098	-	3,098
Other assets	41,179	188,771	-	-	229,950	-	229,950
<b>Total investments and other assets</b>	<b>807,342</b>	<b>188,771</b>	<b>24,590</b>	<b>-</b>	<b>1,020,703</b>	<b>-</b>	<b>1,020,703</b>
<b>Total assets</b>	<b>\$ 1,977,846</b>	<b>\$ 520,367</b>	<b>\$ 58,064</b>	<b>\$ 4,897</b>	<b>\$ 2,561,174</b>	<b>\$ (59,632)</b>	<b>\$ 2,501,542</b>

See accompanying notes to supplementary schedules.

The Carle Foundation Obligated Group  
Supplementary Information - Combining Balance Sheet  
June 30, 2017  
(Dollars in thousands)

Schedule 1, Continued

Liabilities and Net Assets	Foundation	Hospital	Health Care	Windsor	Subtotal	Eliminations and Reclassifications	Obligated Group
Current liabilities:							
Accounts payable	\$ 1,344	\$ 20,766	\$ 82	\$ 7	\$ 22,199	\$ (15,566)	\$ 6,633
Intercompany payables	\$ -	\$ 756	\$ 43,310	\$ -	\$ 44,066	\$ (44,066)	-
Current maturities of long-term debt	14,066	-	-	-	14,066	-	14,066
Estimated third-party payor settlements	-	51,473	-	-	51,473	-	51,473
Current portion of estimated liability for self-insurance losses	15,290	-	-	-	15,290	-	15,290
Compensation and paid leave payable	22,124	25,405	28,596	150	76,275	-	76,275
Other accrued liabilities	39,091	5,409	516	1,302	46,318	-	46,318
<b>Total current liabilities</b>	<b>91,915</b>	<b>103,809</b>	<b>72,504</b>	<b>1,459</b>	<b>269,687</b>	<b>(59,632)</b>	<b>210,055</b>
Long-term debt and other liabilities:							
Long-term debt, net of current maturities	705,604	-	-	-	705,604	-	705,604
Interest rate swap agreements	16,506	-	-	-	16,506	-	16,506
Asset retirement obligation	6,193	-	-	-	6,193	-	6,193
Estimated liability for self-insurance losses, net of current portion	14,297	2,418	-	-	16,715	-	16,715
Other accrued liabilities	31,461	-	-	-	31,461	-	31,461
<b>Total long-term liabilities</b>	<b>774,061</b>	<b>2,418</b>	<b>-</b>	<b>-</b>	<b>776,479</b>	<b>-</b>	<b>776,479</b>
<b>Total liabilities</b>	<b>865,976</b>	<b>106,227</b>	<b>72,504</b>	<b>1,459</b>	<b>1,046,166</b>	<b>(59,632)</b>	<b>986,534</b>
Net assets—unrestricted	1,111,870	414,140	(14,440)	3,438	1,515,008	-	1,515,008
<b>Total liabilities and net assets</b>	<b>\$ 1,977,846</b>	<b>\$ 520,367</b>	<b>\$ 58,064</b>	<b>\$ 4,897</b>	<b>\$ 2,561,174</b>	<b>\$ (59,632)</b>	<b>\$ 2,501,542</b>

See accompanying notes to supplementary schedules.

The Carle Foundation Obligated Group  
Supplementary Information - Combining Statement of Operations and Changes in Net Assets  
Six Months Ended June 30, 2017  
(Dollars in thousands)

Schedule 2

	Foundation	Hospital	Health Care	Windsor	Subtotal	Eliminations and Reclassifications	Obligated Group
Revenue:							
Patient service revenue (net of contractual allowances)	\$ -	\$ 410,156	\$ 112,873	\$ -	\$ 523,029	\$ -	\$ 523,029
Provision for bad debts	-	(14,091)	(3,605)	-	(17,696)	-	(17,696)
<b>Net patient service revenue</b>	-	396,065	109,268	-	505,333	-	505,333
Other revenue:							
Rental income	369	4,608	-	3,922	8,899	-	8,899
Gain (loss) on disposal of property and equipment	(17)	93	(4)	4	76	-	76
Internal fees	117,404	1,618	-	-	119,022	(119,022)	-
Other	2,370	3,435	4,010	44	9,859	18,230	28,089
<b>Total revenue</b>	120,126	405,819	113,274	3,970	643,189	(100,792)	542,397
Expenses:							
Salaries and wages	42,763	90,104	117,043	990	250,900	-	250,900
Employee benefits	15,424	24,074	17,333	282	57,113	(52)	57,061
Patient care and other supplies	2,548	73,501	3,309	94	79,452	(1)	79,451
Purchased services	14,308	12,975	348	151	27,782	-	27,782
General and administrative	26,261	103,451	5,565	1,065	136,342	(100,739)	35,603
Insurance	4,639	3,463	5,278	38	13,418	-	13,418
Depreciation	16,224	9,403	193	382	26,202	-	26,202
Interest and financing expense	13,526	21	-	140	13,687	-	13,687
Real estate and other taxes	542	7,297	3	186	8,028	-	8,028
Change in fair market value of derivative instruments	(665)	-	-	-	(665)	-	(665)
<b>Total expenses</b>	135,570	324,289	149,072	3,328	612,259	(100,792)	511,467
<b>Income (loss) from operations</b>	(15,444)	81,530	(35,798)	642	30,930	-	30,930
Nonoperating gains:							
Investment income	22,194	3	-	-	22,197	-	22,197
Gain on unconsolidated subsidiaries	-	-	2,331	-	2,331	-	2,331
<b>Nonoperating gains, net</b>	22,194	3	2,331	-	24,528	-	24,528
<b>Excess (deficiency) of revenue over expenses before income taxes</b>	6,750	81,533	(33,467)	642	55,458	-	55,458
Provision for income taxes	718	-	-	-	718	-	718
<b>Excess (deficiency) of revenue over expenses</b>	\$ 6,032	\$ 81,533	\$ (33,467)	\$ 642	\$ 54,740	\$ -	\$ 54,740

See accompanying notes to supplementary schedules.

**The Carle Foundation Obligated Group**  
**Supplementary Information - Combining Statement of Operations and Changes in Net Assets**  
**Six Months Ended June 30, 2017**  
(Dollars in thousands)

**Schedule 2, Continued**

	Foundation	Hospital	Health Care	Windsor	Subtotal	Eliminations and Reclassifications	Obligated Group
Unrestricted net assets:							
Excess (deficiency) of revenue over expenses	\$ 6,032	\$ 81,533	\$ (33,467)	\$ 642	\$ 54,740	\$ -	\$ 54,740
Change in net unrealized gains and losses on other-than-trading securities	32,261	-	-	-	32,261	-	32,261
Change in noncontrolling interest in unconsolidated joint venture	-	-	719	-	719	-	719
<b>Change in net assets</b>	<b>38,293</b>	<b>81,533</b>	<b>(32,748)</b>	<b>642</b>	<b>87,720</b>	<b>-</b>	<b>87,720</b>
Net assets, beginning of the period	1,073,577	332,607	18,308	2,796	1,427,288	-	1,427,288
Net assets, end of the period	<u>\$ 1,111,870</u>	<u>\$ 414,140</u>	<u>\$ (14,440)</u>	<u>\$ 3,438</u>	<u>\$ 1,515,008</u>	<u>\$ -</u>	<u>\$ 1,515,008</u>

See accompanying notes to supplementary schedules.

**Carle Foundation Hospital**  
**Supplementary Information - Combining Statement of Operations and Changes in Net Assets**  
**Six Months Ended June 30, 2017**  
**(Dollars in thousands)**

**Schedule 3**

	Hospital Division	Medical Supply	DASC	Total	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)
<b>Net patient service revenue</b>	<b>395,650</b>	<b>(1,059)</b>	<b>1,590</b>	<b>396,181</b>	<b>(116)</b>	<b>396,065</b>
Other revenue:						
Rental income	284	4,464	-	4,748	(140)	4,608
Gain on disposal of property and equipment	5	88	-	93	-	93
Internal fees	1,618	-	-	1,618	-	1,618
Other	3,434	1	-	3,435	-	3,435
<b>Total revenue</b>	<b>400,991</b>	<b>3,494</b>	<b>1,590</b>	<b>406,075</b>	<b>(256)</b>	<b>405,819</b>
Expenses:						
Salaries and wages	88,841	885	378	90,104	-	90,104
Employee benefits	23,722	246	106	24,074	-	24,074
Patient care and other supplies	71,741	1,728	276	73,745	(244)	73,501
Purchased services	12,886	71	18	12,975	-	12,975
General and administrative	102,164	705	594	103,463	(12)	103,451
Insurance	3,389	54	20	3,463	-	3,463
Depreciation	8,961	394	48	9,403	-	9,403
Interest and financing expense	6	15	-	21	-	21
Real estate and other taxes	7,297	-	-	7,297	-	7,297
<b>Total expenses</b>	<b>319,007</b>	<b>4,098</b>	<b>1,440</b>	<b>324,545</b>	<b>(256)</b>	<b>324,289</b>
<b>Income (loss) from operations</b>	<b>81,984</b>	<b>(604)</b>	<b>150</b>	<b>81,530</b>	<b>-</b>	<b>81,530</b>
Nonoperating gains:						
Investment income	-	3	-	3	-	3
<b>Excess (deficiency) of revenue over expenses and change in unrestricted net assets</b>	<b>\$ 81,984</b>	<b>\$ (601)</b>	<b>\$ 150</b>	<b>\$ 81,533</b>	<b>\$ -</b>	<b>\$ 81,533</b>

See accompanying notes to supplementary schedules.

**The Carle Foundation Obligated Group**  
**Notes to Supplementary Schedules**  
**June 30, 2017**  
**(Dollars in thousands)**

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The accompanying supplementary information represents corporate entities, corporate consolidations, or business lines as defined below and in Note 1 of the notes to the combined special-purpose 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) comprise 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) comprise the following:
  - Carle Physician Group (Physician Group), which operates as a private, multispecialty, group medical practice
  - Airlife, which operates an air medical transport service
  - The Caring Place day care center
- 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 Financials Statements. These entities are included in the Carle Foundation Consolidated Financial Statements.

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