The Carle Foundation

Consolidated Financial Statements and Supplementary Schedules
December 31, 2015 and 2014

(With Independent Auditors' Report Thereon)

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Independent Auditors' Report

The Board of Trustees
The Carle Foundation:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of The Carle Foundation (the Foundation), which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of December 31, 2015 and 2014, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information included in schedules 1 through 8 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

Chicago, Illinois
April 25, 2016

The Carle Foundation
Consolidated Balance Sheets
December 31, 2015 and 2014
(Dollars in thousands)

Assets		**2015**	2014
Current assets:			
Cash and cash equivalents		**$ 192,308**	$ 55,657
Investments	(Notes 3, 4, and 5)	**366,753**	425,879
Assets limited as to use or restricted	(Notes 3, 4, and 5)	**30,387**	29,400
Patient receivables, less allowance for doubtful accounts of $25,849 in 2015 and $34,360 in 2014	(Notes 8 and 19)	**107,952**	107,085
Premiums receivable	(Note 19)	**366,457**	340,423
Reinsurance recoverable	(Note 15)	**10,568**	7,379
Other receivables		**86,198**	53,922
Inventories		**9,215**	9,424
Prepaid expenses		**14,052**	10,680
Total current assets		**1,183,890**	1,039,849
Property and equipment, net	(Note 9)	**576,418**	560,390
Investments and other assets:			
Investments, net of current portion	(Notes 3, 4, and 5)	**653,780**	648,135
Assets limited as to use or restricted, net of current portion	(Notes 3, 4, and 5)	**197,194**	210,367
Interest rate swap agreements	(Notes 4 and 14)	**4,656**	3,181
Reinsurance recoverable, net of current portion	(Note 15)	**7,721**	8,398
Intangible assets and goodwill	(Note 10)	**131,372**	141,893
Deferred taxes	(Note 11)	**21,385**	15,077
Other assets		**4,570**	4,862
Total investments and other assets		**1,020,678**	1,031,913
Total assets		**$ 2,780,986**	$ 2,632,152

See accompanying notes to consolidated financial statements.

Liabilities and Net Assets		**2015**	2014
Current liabilities:			
Accounts payable		**$ 22,971**	$ 25,024
Short-term borrowings	(Note 13)	**100,000**	100,000
Current maturities of long-term debt	(Note 13)	**12,747**	7,955
Estimated third-party payor settlements	(Note 6)	**53,172**	44,854
Medical claims payable	(Note 12)	**181,877**	140,960
Current portion of estimated liability for self-insurance losses	(Note 15)	**21,584**	16,716
Current portion of retirement plan benefits obligation	(Note 16)	**12,000**	12,000
Compensation and paid leave payable		**88,088**	81,716
Other accrued liabilities		**97,458**	62,758
Total current liabilities		**589,897**	491,983
Long-term liabilities:			
Long-term debt, net of current maturities	(Note 13)	**542,786**	553,586
Interest rate swap agreements	(Notes 4 and 14)	**19,269**	19,289
Asset retirement obligation	(Note 2)	**6,438**	6,547
Estimated liability for self-insurance losses, net of current portion	(Note 15)	**69,491**	75,372
Retirement plan benefits obligation, net of current portion	(Note 16)	**101,137**	116,116
Other accrued liabilities		**53,368**	21,712
Total long-term liabilities		**792,489**	792,622
Total liabilities		**1,382,386**	1,284,605
Net assets:			
Unrestricted		**1,382,587**	1,331,385
Temporarily restricted		**10,303**	10,706
Permanently restricted		**5,710**	5,456
Total net assets		**1,398,600**	1,347,547
Total liabilities and net assets		**$ 2,780,986**	$ 2,632,152

The Carle Foundation
Consolidated Statements of Operations and Changes in Net Assets
Years Ended December 31, 2015 and 2014
(Dollars in thousands)

		2015	2014
Revenue:			
Patient service revenue (net of contractual allowances)		$ 732,663	$ 723,392
Benefit from (provision for) bad debts		11,092	(13,635)
Net patient service revenue	(Notes 2 and 6)	743,755	709,757
Net premium revenue–health insurance		1,701,006	1,296,242
Other revenue:			
Rental income		16,351	15,556
Net assets released from restrictions		1,687	1,597
Other		30,432	34,573
Total revenue		2,493,231	2,057,725
Expenses:			
Salaries and wages		514,484	478,864
Employee benefits	(Note 15 and 16)	117,325	97,864
Medical benefits of insured		1,296,175	942,232
Patient care and other supplies		159,456	136,266
Purchased services		99,913	100,444
General and administrative		119,928	68,322
Insurance	(Note 15)	16,052	2,442
Depreciation and amortization	(Note 10)	65,933	62,058
Interest and financing expense	(Note 13)	24,388	26,239
Real estate and other taxes	(Notes 6 and 17)	48,366	37,437
Loss on the disposal of property and equipment		3	2,824
Change in fair value of derivative instruments	(Note 14)	(1,495)	8,140
Total expenses		2,460,528	1,963,132
Income from operations		32,703	94,593
Nonoperating gains:			
Investment income	(Note 3)	92,573	80,492
Excess of revenue over expenses, before noncontrolling interest and income taxes		125,276	175,085
Noncontrolling interest in net income (loss) of consolidated subsidiary		(105)	62
Provision for income taxes	(Note 11)	17,184	201
Excess of revenue over expenses		$ 108,197	$ 174,822

See accompanying notes to consolidated financial statements.

(Continued)

		2015	2014
Unrestricted net assets:			
Excess of revenue over expenses		**$ 108,197**	$ 174,822
Change in net unrealized gains and losses on other-than-trading securities	(Note 3)	**(67,984)**	(2,952)
Pension related changes other than net period pension costs, net of deferred taxes– ($1,038) in 2015 and $31,960 in 2014		**10,989**	(59,376)
Other		**-**	(136)
Increase in unrestricted net assets		**51,202**	112,358
Temporarily restricted net assets:			
Contributions		**1,229**	1,067
Investment Income	(Note 3)	**319**	195
Change in net unrealized gains and losses on other-than-trading securities	(Note 3)	**(264)**	(25)
Net assets released from restrictions		**(1,687)**	(1,597)
Other		**-**	57
Decrease in temporarily restricted net assets		**(403)**	(303)
Permanently restricted net assets:			
Contributions		**249**	107
Change in value of beneficial interest in perpetual trust		**5**	13
Increase in permanently restricted net assets		**254**	120
Change in net assets		**51,053**	112,175
Net assets, beginning of year		**1,347,547**	1,235,372
Net assets, end of year		**$ 1,398,600**	$ 1,347,547

The Carle Foundation
Consolidated Statements of Cash Flows
Years Ended December 31, 2015 and 2014
(Dollars in thousands)

	2015	2014
Cash flows from operating activities:		
Change in net assets	$ 51,053	$ 112,175
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	65,933	62,059
(Gain) loss on disposal of property and equipment	3	(175)
Loss on purchase of membership interest in Champaign Surgicenter, LLC (Surgicenter)	-	2,999
Provision for (benefit from) bad debts	(11,092)	13,635
Amortization of deferred financing costs and original issue discount/premium	509	943
Change in value of beneficial interest in perpetual trust	(5)	(13)
Net realized and unrealized gains and losses on investments	20,482	(40,479)
Accretion on asset retirement obligation	(109)	(117)
Change in fair value of derivative instruments	(1,495)	8,140
Donated capital and permanently restricted contributions	(249)	(107)
Change in retirement plan benefits obligation	(14,979)	79,313
Changes in assets and liabilities:		
(Increase) decrease in:		
Receivables	(48,085)	(45,418)
Reinsurance recoverable	(2,512)	8,151
Inventories	209	(2,397)
Prepaid expenses	(3,372)	(26)
Increase (decrease) in:		
Accounts payable and accrued expenses	70,675	20,757
Medical claims payable	40,917	27,602
Third-party payor settlements	8,318	12,335
Self-insurance liability	(1,013)	(29,853)
Deferred taxes	(6,308)	(36,468)
Net cash provided by operating activities	168,880	193,056

See accompanying notes to consolidated financial statements.

	2015	2014
Cash flows from investing activities:		
Proceeds from maturities and sales of investments	**$ 373,601**	$ 153,315
Purchases of investments	**(328,411)**	(178,513)
Proceeds from sale of property and equipment	**841**	925
Purchase of membership interest in Surgicenter	**-**	(6,000)
Purchase and construction of property and equipment	**(72,284)**	(76,197)
Increase in other assets	**(10)**	-
Net cash used in investing activities	**(26,263)**	(106,470)
Cash flows from financing activities:		
Proceeds from short-term borrowings	**176,000**	364,000
Payments on short-term borrowings	**(176,000)**	(364,000)
Proceeds from long-term debt	**2,000**	26,095
Payments on long-term debt	**(8,027)**	(99,539)
Payments of deferred financing costs	**(188)**	(480)
Donated capital and permanently restricted contributions	**249**	107
Net cash used in financing activities	**(5,966)**	(73,817)
Net increase in cash and cash equivalents	**136,651**	12,769
Cash and cash equivalents:		
Beginning	**55,657**	42,888
Ending	**$ 192,308**	$ 55,657
Supplemental disclosures of cash flow information:		
Cash payments for interest	**$ 23,986**	$ 24,163
Net cash payments for taxes	**11,018**	9,791

Note 1. Organization

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

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

a. The Carle Foundation Hospital (Hospital) operates a licensed 393-bed hospital, a certified home health agency, and a certified hospice, all which lease property and equipment from the Foundation (Hospital Division). 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 centers, which are located in Champaign and Danville, Illinois (DASC). The Hospital serves as the sole stockholder and elects all directors of and, therefore, controls the following for-profit subsidiaries: Carle Risk Management Company (Risk Management), which provides professional liability insurance claims processing and management services to the Foundation and eValiData, Inc. (eValiData), which provides physician credentialing services to the Foundation and external organizations.

b. Carle Health Care Incorporated (Health Care) operates Arrow Ambulance, LLC (Arrow), an ambulance transport service; Carle Physician Group (Physician Group), acquired on April 1, 2010 through the Foundation's purchase of Carle Clinic Association, P.C. and its subsidiaries (Clinic), which operates as a private, multispecialty, group medical practice comprising approximately 450-licensed physicians and surgeons, some of whom are contracted to provide services through other entities; and Airlife and The Caring Place (Other Entities), an air medical transport service and day care center, respectively. Health Care also operates the SurgiCenter, which is a freestanding ambulatory surgery center located in Champaign, Illinois.

   On January 31, 2013, Health Care sold a 25% interest in Surgicenter to Christie Clinic ASC, LLC (Christie) an affiliate of a private, multispecialty, group medical practice headquartered in Champaign, Illinois for \$6,000. On June 30, 2014, Health Care exercised its right under the Champaign Surgicenter, LLC Operating Agreement to repurchase Christie's 25% membership interest in Surgicenter for \$6,000. Upon dissolution of the partnership, Surgicenter distributed accrued dividends of \$1,695 to Christie and \$5,084 to Health Care.

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

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

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

Note 1. Organization (Continued)

f. The Foundation is the sole member of CHA Holding, Inc. (CHA Holding), a taxable not-for-profit entity. CHA Holding was created in 2014 as the initial step in restructuring the insurance business operations. The Foundation subsequently contributed Carle Holding Company, Inc. (Carle Holding), Health Alliance Connect, Inc. (HA Connect), and its membership interest in Health Alliance Northwest Holding, Inc. (HANW Holding) to CHA Holding. These restructuring actions were designed to create a structure that allows Carle to align with other health systems around government products (such as Medicare and Medicaid) by separating those products from commercial insurance offerings and improve the efficiency and competitiveness of the insurance operations.

   Carle Holding, also part of the Foundation's acquisition of the Clinic on April 1, 2010, is a taxable 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 222,500 and 325,300 members at December 31, 2015 and 2014, 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.

   HANW Holding is 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. On January 7, 2013, Health Alliance purchased 60% of the authorized capital stock of HANW Holding for $3,000. In 2014, Health Alliance sold its 60% interest in HANW Holding to CHA Holding for $3,000. Subsequently, HANW Holding converted to a taxable not-for-profit entity. HANW Health Plan had approximately 9,800 and 9,100 members at December 31, 2015 and 2014, respectively.

   HA Connect is a taxable not-for-profit entity, which was incorporated December 30, 2013 and commenced operations in 2014. HA Connect provides health care services to its enrollees, which includes beneficiaries of governmental programs, such as Medicaid Family Health Plan, Medicaid ACA Adult and Dual Special Needs Plan. Effective January 1, 2015 Health Alliance sold the Medicare-Medicaid Alignment Initiative (MMAI) and the Medicaid Seniors and Persons with Disabilities (SPD) membership lives to HA Connect . Effective July 1, 2015, Health Alliance sold the Medicare Advantage Illinois membership lives to HA Connect. Membership in this program totaled approximately 16,600 and 18,200 at December 31, 2015 and 2014, respectively. HA Connect had approximately 141,000 and 70,900 members as of December 31, 2015 and 2014, respectively, inclusive of the aforementioned plans.

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

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

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

Note 2. Summary of Significant Accounting Policies

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

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

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

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-party payors or donors.

Fair value: The Foundation applies the provisions of Accounting Standards Codification (ASC) No. 820, *Fair Value Measurement*, for fair value measurements of financial assets and liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis. ASC No. 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 No. 820 establishes a framework for measuring fair value and expands disclosure about fair value measurements (Note 4).

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

The Foundation owns interests in certain joint ventures whose investments are accounted for under the equity method of accounting. The largest of the joint ventures, recorded at $2,750 and $2,739 at December 31, 2015 and 2014, respectively, is The Center for Outpatient Medicine, LLC that provides a facility for medical professionals to perform outpatient surgical procedures. The Foundation’s ownership interest was 10.6% and 10.0% at December 31, 2015 and 2014, respectively.

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

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

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

Note 2. Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

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

The Foundation regularly evaluates the recoverability of long-lived assets and the related estimated remaining lives. The Foundation records an impairment charge or changes the useful life if events or changes in circumstances indicate that the carrying amount may not be recoverable or the useful life has changed. During the years ended December 31, 2015 and 2014, the Foundation recorded insignificant impairment losses and project abandonments.

Note 2. Summary of Significant Accounting Policies (Continued)

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

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

Goodwill represents the excess of the aggregate purchase price over the fair value of the net assets acquired in a purchase business combination. Goodwill is not amortized but is reviewed for impairment at least annually in accordance with the provisions of the ASC Subtopic 350-10, *Intangibles—Goodwill and Other*. No impairment was recorded in the consolidated statements of operations at December 31, 2015 and 2014.

Deferred financing costs: Bond issuance costs are deferred and amortized over the shorter of the term of the related indebtedness or related liquidity facility using the effective-interest method and are included in other assets in the consolidated balance sheets. In the event any of the Variable Rate Demand Bonds are converted into Bank Bonds, the bond issuance costs associated with those bonds would be amortized over the relevant accelerated period.

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

Asset retirement obligation: The Foundation recognizes a liability for the fair value of any unconditional asset retirement obligation if the fair value of the liability can be estimated. An obligation is unconditional if there is a legal obligation to perform the retirement. The Foundation determined that an obligation exists with regard to future asbestos and storage tank removal. The estimated and recorded liability was $6,438 and $6,547 at December 31, 2015 and 2014, respectively.

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

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

(Dollars in thousands)

Note 2. Summary of Significant Accounting Policies (Continued)

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

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

The net patient service revenue for the years ended December 31, 2015 and 2014 is as follows:

	2015	2014
Gross patient service charges	$ 2,560,153	$ 2,598,719
Less:		
Discounts, allowances, and estimated contractual adjustments under third-party reimbursement programs	(1,827,490)	(1,875,327)
Benefit from (provision for) bad debts	11,092	(13,635)
Net patient service revenue	$ 743,755	$ 709,757
Percentage of net patient service revenue to gross charges	29.1%	27.3%

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

Electronic health record incentive program: The Electronic Health Record (EHR) Incentive Program (Incentive Program) provides incentive payments to eligible hospitals and professionals as they adopt, implement, upgrade, or demonstrate meaningful use of certified EHR technology in their first year of participation and demonstrate meaningful use for up to five remaining participation years. The Foundation accounts for the Incentive Program using the "ratable recognition" approach, which states that the grant income can be recognized ratably over the entire EHR reporting period once the "reasonable assurance" income recognition threshold is met. For the years ended December 31, 2015 and 2014, the Foundation recognized $2,371 and $4,880, 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.

(Continued)

Note 2. Summary of Significant Accounting Policies (Continued)

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

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

Health Group estimates and establishes medical claims payable for reported claims, claims incurred but not reported, and related claims adjustment expenses. The estimates are based on multiple factors including historical experience, service mix, pending level of unpaid claims, and other known facts and circumstances. The establishment of appropriate liabilities is an inherently uncertain process and the ultimate cost may vary materially from the recorded amounts. The estimates are regularly reviewed as experience develops and new information becomes known. The estimated liabilities are adjusted, as necessary, with such adjustments reflected in the results from operations. The medical claims payables and related expense are reported net of insured copay and deductible amounts and also net of coordination of benefits provisions. The medical claims payables reflect estimated unpaid and incurred claims through December 31, 2015 and 2014, respectively.

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

Insurance-Health Systems: Health Systems, the Foundation's offshore captive insurance company, underwrites its professional and general liability and workers' compensation risks. Health Systems recognizes premiums from underlying insureds as revenue in the period for which liability coverage is provided and earned on a pro rata basis over the life of the policies. The unearned portion at the balance sheet date is recorded as unearned premium reserves. Premiums to Health Systems paid by the Foundation and its subsidiaries and affiliates are eliminated in consolidation.

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

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

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

Note 2. Summary of Significant Accounting Policies (Continued)

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

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

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

Carle Holding is subject to income tax accounting in accordance with ASC No. 740, *Income Taxes.* Deferred income tax assets and liabilities are recognized for the differences between the financial and income tax reporting basis of assets and liabilities based on enacted tax rates and laws and are accounted for under the asset and liability method. The deferred income tax provision or benefit generally reflects the net change in deferred income tax assets and liabilities during the year. The current income tax provision reflects the tax consequences of revenue and expenses currently taxable or deductible on various income tax returns for the year reported.

The guidance on accounting for uncertainty in income taxes prescribes a more-likely-than-not recognition threshold and measurement attribute for financial statements recognition of a tax position taken or expected to be taken. There were no uncertain tax benefits identified or recorded as a liability as of December 31, 2015 and 2014.

Tax returns filed by the Foundation are subject to examination by the Internal Revenue Service (IRS) up to three years from the extended due date of each return. The statute of limitations remains open for Hoopeston tax returns filed for the fiscal year ended September 30, 2012 and for all other not-for-profit entities for the calendar years ended December 31, 2012 through 2014. In general, the statute of limitations remains open for tax returns filed for the calendar years ended December 31, 2010 through 2014 for the various for-profit entities.

Reclassifications: To be consistent with classifications adopted for the year ended December 31, 2015, certain balances on the consolidated financial statements for the year ended December 31, 2014 have been reclassified with no effect on revenue, expenses, or net assets.

New accounting pronouncements: In January 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-02, *Accounting for Goodwill*. The amendments in this update allow an accounting alternative for the subsequent measure of goodwill. An entity within the scope of the amendments that elects the accounting alternative in this update can amortize goodwill on a straight-line basis for a period up to ten years. The Foundation is within the scope of this amendment, but it has not elected to implement this accounting policy change.

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

(Continued)

Note 2. Summary of Significant Accounting Policies (Continued)

In April 2015, the FASB issued ASU 2015-03, *Interest – Imputation of Interest (Subtopic 835-30), Simplifying the Presentation of Debt Issuance Costs.* This guidance is to simplify presentation of debt issuance costs by requiring that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. This ASU is effective for fiscal years beginning after December 15, 2015 with early adoption permitted for financial statements that have not been previously issued. These amendments should be applied retrospectively to all periods presented with applicable disclosures for a change in accounting principle. The Foundation is currently 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. These amendments should be applied retrospectively to all period presented. The Foundation is currently evaluating the effect this guidance will have upon its financial statements.

In May 2015, the FASB issued ASU No. 2015-09, *Disclosures About Short-Duration Contracts*. The amendments in this update require insurance entities to make certain disclosures regarding the liability for unpaid claims and claims adjustment expense, including: incurred and paid claims development information by accident year; a reconciliation of incurred and paid claims development information to the aggregate carrying amount of the liability for unpaid claims and claims adjustment expense; the total of incurred but not reported liabilities plus expected development on reported claims included in the liability for unpaid claims; and quantitative information about claim frequency
The amendments also require insurance entities to disclose information about significant changes in methodologies and assumptions used to calculate the liability for unpaid claims and claims adjustment expense. The requirements of this statement are effective for The Foundation for the year ending December 31, 2016. The Foundation has not evaluated the impact of this statement.

In November 2015, the FASB issued ASU No. 2015-17, *Balance Sheet Classification of Deferred Taxes*, guidance which states that deferred tax liabilities and deferred tax assets should be reported as noncurrent amounts in the balance sheet. The ASU also supersedes ASC 740-10-45-5, which required the valuation allowance for a particular tax jurisdiction be allocated between current and noncurrent deferred tax assets for that tax jurisdiction on a pro rata basis. The ASU is effective for annual periods beginning after December 15, 2016 and interim periods within those annual periods with earlier application permitted. The Foundation adopted ASU 2015-17 in 2015 and applied changes retrospectively to 2014.

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

(Dollars in thousands)

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

Investments and assets limited as to use or restricted as of December 31, 2015 and 2014 are as follows:

	2015	2014
Investments not included in assets limited as to use or restricted	$ 1,020,533	$ 1,074,014
Assets limited as to use or restricted:		
Deposits for self-insurance	120,517	132,807
Assets designated by Board for community health expenditures	65,124	67,926
Executive benefit plans	20,707	19,512
Donor-restricted investments	15,357	15,069
Deposits for statutory requirements of DOI	5,354	3,203
Deposits limited by bond indentures or debt covenants	522	1,250
Total assets limited as to use or restricted	227,581	239,767
Total investments and assets limited as to use or restricted	$ 1,248,114	$ 1,313,781

The composition of investments and assets limited as to use or restricted as of December 31, 2015 and 2014 is as follows:

	2015		2014	
	Cost	Carrying Value	Cost	Carrying Value
Cash and cash equivalents	$ 116,342	$ 116,342	$ 51,620	$ 51,620
Certificates of deposit	-	-	743	743
Fixed income securities	487,753	503,216	529,311	560,394
Marketable equity securities	268,096	306,676	305,599	390,416
Real asset investments	50,792	44,002	45,154	42,989
Pledge receivable–restricted	2,220	2,220	2,456	2,456
Alternative investments:				
Private equity funds of funds	68,164	78,611	58,863	71,055
Hedge fund of funds	46	56	66	97
	$ 993,413	1,051,123	$ 993,812	1,119,770
Investments in joint ventures		3,095		3,360
Trading securities:				
Cash and cash equivalents		2,554		5,331
Fixed income securities		97,123		93,032
Marketable equity securities		69,920		69,189
Mutual funds:				
Executive benefit plans		20,707		19,512
Beneficial interest in farm trust		3,592		3,587
		$ 1,248,114		$ 1,313,781

(Dollars in thousands)

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

The gross unrealized gains (losses) on investments and assets limited as to use or restricted as of December 31, 2015 and 2014 are as follows:

	2015	2014
Gross unrealized gains	$ 95,274	$ 141,546
Gross unrealized losses	(37,564)	(15,588)
	$ 57,710	$ 125,958

Investment income for the years ended December 31, 2015 and 2014 comprises the following:

	2015	2014
Net realized gains on sales of investments	$ 50,694	$ 36,614
Interest and dividend income	47,276	39,948
Net realized and unrealized gains and losses on trading securities	(2,928)	6,842
Investment management fees	(2,150)	(2,717)
	$ 92,892	$ 80,687

Investment income has been recorded in the consolidated statements of operations and of changes in net assets for the years ended December 31, 2015 and 2014 as follows:

	2015	2014
Nonoperating gains:		
Investment income	$ 92,573	$ 80,492
Other changes in temporarily restricted net assets:		
Investment income	319	195
	$ 92,892	$ 80,687

Note 4. Fair Value Measurements

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

The Foundation holds certain financial instruments that are required to be measured at fair value on a recurring basis. The valuation techniques used to measure fair value under ASC No. 820 establishes a hierarchy for ranking the quality and reliability of the information used to determine fair values. Assets and liabilities carried at fair value are to be disclosed according to the following levels:

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

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

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

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

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

The remaining portion of the Foundation's investments is measured using Level 3 inputs as follows:

Investments in private equity funds of funds through limited partnerships and the hedge fund of funds are valued at fair value based on the applicable percentage ownership of the underlying funds' fair value as of the measurement date, as determined by the Foundation. In determining fair value, the Foundation utilizes valuations provided by the underlying investment funds. The underlying investment funds value nonexchange listed securities and other financial instruments on a fair value basis of accounting using discounted cash flow methodologies, asset and liability pricing, corroborated pricing, yield curves, and other indices. The estimated fair values of certain investments of the underlying investment funds are determined by the managers of the respective underlying fund and may not reflect amounts that could be realized upon immediate sale, or amounts that ultimately may be realized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments. The fair value of the Foundation's investments in funds generally represents the amount the Foundation would expect to receive if it were to liquidate its investments in funds, excluding any redemption charges that may apply.

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.

 (Continued)

(Dollars in thousands)

Note 4. Fair Value Measurements (Continued)

Assets and liabilities at fair value: The following tables summarize assets and liabilities measured at fair value basis as of December 31, 2015 and 2014:

	2015			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	$ 192,308	$ -	$ -	$ 192,308
Investments and assets limited as to use or restricted:				
Cash and cash equivalents	118,896	-	-	118,896
Fixed income securities:				
U.S. government and agencies	28,615	38,553	-	67,168
Mortgage-backed and asset-backed securities	-	6,490	-	6,490
Corporate and other	-	77,893	-	77,893
Mutual funds	417,076	-	-	417,076
Commingled funds	-	31,712	-	31,712
Marketable equity securities:				
United States	248,381	2,961	-	251,342
Non-U.S. developed markets	63,666	52,542	-	116,208
Non-U.S. emerging markets	99	8,947	-	9,046
Real asset investments:				
Mutual funds	44,002	-	-	44,002
Mutual funds–executive benefit plans	20,707	-	-	20,707
Private equity funds of funds	-	-	78,611	78,611
Hedge fund of funds	-	-	56	56
Interest rate swap agreements	-	4,656	-	4,656
Total assets measured at fair value	$ 1,133,750	$ 223,754	$ 78,667	$ 1,436,171
Liabilities:				
Interest rate swap agreements	$ -	$ 19,269	$ -	$ 19,269
Other accrued liabilities–executive benefit plans	-	20,707	-	20,707
Total liabilities measured at fair value	$ -	$ 39,976	$ -	$ 39,976

(Dollars in thousands)

Note 4. Fair Value Measurements (Continued)

	2014			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	$ 55,657	$ -	$ -	$ 55,657
Investments and assets limited as to use or restricted:				
Cash and cash equivalents	56,951	-	-	56,951
Certificates of deposit	743	-	-	743
Fixed income securities				
U.S. government and agencies	27,411	37,924	-	65,335
Mortgage-backed and asset-backed securities	-	8,371	-	8,371
Corporate and other	-	70,293	-	70,293
Mutual funds	509,427	-	-	509,427
Marketable equity securities				
United States	348,365	3,071	-	351,436
Non-U.S. developed markets	48,081	52,054	-	100,135
Non-U.S. emerging markets	8,034	-	-	8,034
Real asset investments:				
Mutual funds	42,989	-	-	42,989
Mutual funds–executive benefit plans	19,512	-	-	19,512
Private equity funds of funds	-	-	71,055	71,055
Hedge fund of funds	-	-	97	97
Interest rate swap agreements	-	3,181	-	3,181
Total assets measured at fair value	$ 1,117,170	$ 174,894	$ 71,152	$ 1,363,216
Liabilities:				
Interest rate swap agreements	$ -	$ 19,289	$ -	$ 19,289
Other accrued liabilities–executive benefit plans	-	19,512	-	19,512
Total liabilities measured at fair value	$ -	$ 38,801	$ -	$ 38,801

ASU No. 2010-06, *Fair Value Measurements and Disclosures*, amends ASC No. 820 to require disclosure of transfers in and out of Levels 1 and 2. The Foundation had no transfers between Levels 1 and 2 for the years ended December 31, 2015 and 2014.

(Dollars in thousands)

Note 4. Fair Value Measurements (Continued)

The following tables set forth a summary of changes in the fair value of the Foundation's Level 3 assets for the years ended December 31, 2015 and 2014:

	2015		
	Private Equity	Hedge Fund of Funds	Total
Balance at December 31, 2014	$ 71,055	$ 97	$ 71,152
Purchases and funding of capital commitments	14,857	-	14,857
Sales and redemptions	(13,070)	(31)	(13,101)
Realized gains, interest, and dividends	6,338	12	6,350
Change in unrealized appreciation	(569)	(22)	(591)
Balance at December 31, 2015	$ 78,611	$ 56	$ 78,667

	2014		
	Private Equity	Hedge Fund of Funds	Total
Balance at December 31, 2013	$ 52,788	$ 189	$ 52,977
Purchases and funding of capital commitments	18,133	-	18,133
Sales and redemptions	(8,827)	(101)	(8,928)
Realized gains, interest, and dividends	3,524	29	3,553
Change in unrealized appreciation (depreciation)	5,437	(20)	5,417
Balance at December 31, 2014	$ 71,055	$ 97	$ 71,152

The following information pertains to those alternative investments recorded at net asset value as of December 31, 2015 and 2014:

	2015				
	Fair Value	Unfunded Commitment	Remaining Life	Redemption Frequency	Redemption Notice Period
Commingled funds investing in:					
Fixed income securities (a)	$ 31,712	NA	NA	Daily	15 days
Non-U.S. developed markets equity (b)	52,542	NA	NA	Monthly	None
Non-U.S. emerging markets equity (b)	8,947	NA	NA	Monthly	30 days
Private equity funds of funds (c)	78,611	$ 63,208	to 2025	NA	NA
Hedge fund of funds (d)	56	NA	NA	Quarterly	90 days
Total	$ 171,868				

(Dollars in thousands)

Note 4. Fair Value Measurements (Continued)

	2014				
	Fair Value	Unfunded Commitment	Remaining Life	Redemption Frequency	Redemption Notice Period
Commingled funds investing in:					
Non-U.S. developed markets equity (b)	$ 52,054	NA	NA	Monthly	None
Private equity funds of funds (c)	71,055	$ 47,958	to 2025	NA	NA
Hedge fund of funds (d)	97	NA	NA	Quarterly	90 days
Total	$ 123,206				

(a) This category represents investments in various fixed income securities. Investments are valued each business day and contributions can be made and withdrawals may be redeemed as of any business day, with the consent of the General Partner.

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

(c) The Foundation has 11 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 $149,000 by 2025. The remaining commitment at December 31, 2015 and 2014 is $63,208 and $47,958, 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 the next 1 to 12 years.

(d) The holdings in this fund represent the Foundation's remaining investment in a portable alpha fund, which incorporates a fund of low-volatility hedge funds, the investments of which are in liquidation. Investments are valued at the last business day of the month and the Foundation has provided its notice of liquidation and continues to await the full liquidation of this investment.

Note 5. Other-Than-Temporary Impairment

Management continually reviews its investment portfolio (excluding trading securities) and evaluates whether the declines in the fair value of securities should be considered an other-than-temporary impairment (OTTI) in value. Factored into this ongoing evaluation are general market conditions, each issuer's financial condition and near-term prospects, conditions in each issuer's industry and competitive factors, the recommendation of advisors, including the Foundation's investment consultant, and the length of time and magnitude to which the fair value has been less than cost. During the years ended December 31, 2015 and 2014, the Foundation did not record any realized losses due to an OTTI.

(Dollars in thousands)

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

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 December 31, 2015 and 2014 are as follows:

	2015					
	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	$ 65,307	$ 11,341	$ 10,140	$ 2,628	$ 75,447	$ 13,969
Fixed income securities	101,544	4,024	214,176	10,320	315,720	14,344
Real asset funds	16,401	1,606	27,257	5,185	43,658	6,791
Alternative investments	18,468	2,091	4,352	369	22,820	2,460
	$ 201,720	$ 19,062	$ 255,925	$ 18,502	$ 457,645	$ 37,564

	2014					
	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	$ 54,554	$ 6,441	$ 5,433	$ 1,415	$ 59,987	$ 7,856
Fixed income securities	25,742	133	338,886	4,253	364,628	4,386
Real asset funds	2,422	24	27,696	2,299	30,118	2,323
Alternative investments	10,659	628	2,751	395	13,410	1,023
	$ 93,377	$ 7,226	$ 374,766	$ 8,362	$ 468,143	$ 15,588

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

Note 6. Contractual Arrangements with Third-Party Payors

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

Net patient service revenue for the years ended December 31, 2015 and 2014 includes approximately $3,194 and $15,632, respectively, of favorable retroactively determined settlements from third-party payors related to prior years.

For the years ended December 31, 2015 and 2014, approximately 55.5% and 64.7%, respectively, of the Foundation's net patient service revenue was earned under prospective payment, cost, and cost-plus reimbursement agreements with Medicare, Medicaid, and Blue Cross and Blue Shield of Illinois (Blue Cross). These are subject to audit and adjustment by the administering agencies.

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

Medicare: For the years ended December 31, 2015 and 2014, approximately 30.4% and 32.8%, respectively, of the Foundation's net patient service revenue was earned under the Medicare and Medicare Advantage programs. The revenue received by the Hospital from Health Group for Medicare and Medicare Advantage has been eliminated upon consolidation. The Foundation is paid for inpatient acute care services rendered to Medicare program beneficiaries under prospectively determined rates-per-discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. The prospectively determined classification of patients and the appropriateness of the patients' admissions are subject to validation reviews by a Medicare quality improvement organization, which is under contract to perform such reviews. Outpatient services are paid via the outpatient prospective payment system. Under this system, most outpatient services are paid at predetermined outpatient rates.

Laws and regulations governing the Medicare programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates may change by a material amount 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.

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 and the Foundation is currently under such an audit. Generally, the Foundation fully reserves any overpayment amounts that are assessed under the RAC at the time the RAC notice is received.

The Foundation's Medicare cost reports have been audited and settled by the Medicare fiscal intermediary through December 31, 2010.

Medicaid: For the years ended December 31, 2015 and 2014, approximately 11.2% and 19.7%, respectively, of the Foundation's net patient service revenue was earned under State Medicaid programs. The revenue received by the Hospital from Health Group for Medicaid has been eliminated upon consolidation. The Foundation renders inpatient and outpatient services to Illinois Public Aid patients at prospective rates determined by State reimbursement formulas. These rates are not subject to retroactive adjustment.

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

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 June 10, 2012 through December 31, 2014. The statutory sunset of both Programs was extended to June 30, 2018. Under the Programs, the Foundation receives additional Medicaid reimbursement from the State and pays a related assessment. For the years ended December 31, 2015 and 2014, the Foundation recognized total reimbursement revenue under the Programs of approximately $30,095 for both years, which is included in net patient service revenue, and incurred assessments of approximately $13,107 and $12,813, respectively, which is included in real estate and other taxes expense in the consolidated statements of operations.

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 years ended December 31, 2015 and 2014, the Foundation recognized total reimbursement revenue of $6,819 and $5,629, respectively, for the supplemental payment.

Blue Cross: The majority of Blue Cross covered subscribers are paid under a Preferred Provider Organization (PPO) plan. For the years ended December 31, 2015 and 2014, approximately 13.9% and 12.2%, respectively, of the Foundation's net patient service revenue was earned under traditional Blue Cross and Blue Cross PPO plans. The Blue Cross PPO plan reimburses the Foundation for inpatient services based on the lesser of net covered charges or per diem costs from the annual Blue Cross cost report less one hundred dollars. Outpatient services covered under contract are reimbursed based on a specified discount from charges.

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

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

Note 7. Community Benefit and Charity Care

The Foundation is committed to providing quality health care to all, regardless of their ability to pay. Under the Foundation's financial assistance policy, patients meeting certain criteria receive care without charge or with a significant reduction in charges. When patients successfully satisfy the prescribed requirements of the financial assistance policy, applicable accounts receivable in bad debt status are reclassified to charity care. Because the Foundation does not pursue collection of amounts identified as charity care, 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 $33,092 and $38,949 for the years ended December 31, 2015 and 2014, respectively.

Historically, when patients successfully satisfy the prescribed requirements of the financial assistance program, any applicable accounts receivable in bad debt status have also been reclassified as charity care. While reclassifications of bad debt accounts receivable to charity care occurs as a course of routine operations for services provided in previous fiscal years, in 2015 and 2014, the Foundation reclassified $11,165 and $10,747, respectively, from bad debt expense to charity care related to service dates prior to January 1, 2015 and 2014, respectively.

(Dollars in thousands)

Note 7. Community Benefit and Charity Care (Continued)

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

Note 8. Patient Receivables

Patient receivables at December 31, 2015 and 2014 are as follows:

	2015	2014
Patient receivables, gross	$ 613,978	$ 589,724
Less:		
Allowance for estimated contractual adjustments	(480,177)	(448,279)
Allowance for doubtful accounts	(25,849)	(34,360)
Patient receivables, net	$ 107,952	$ 107,085

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

The Foundation's allowance for doubtful accounts for self-pay patients increased from 52.2% of self-pay accounts receivable at December 31, 2014 to 52.7% of self-pay accounts receivable at December 31, 2015. The Foundation has not changed its charity care or uninsured discount policies during the periods presented. The Foundation does not maintain a material allowance for doubtful accounts from third-party payors, nor did it incur significant write-offs related to third-party payors.

(Dollars in thousands)

Note 9. Property and Equipment

Property and equipment as of December 31, 2015 and 2014 comprise the following:

	2015	2014
Land and improvements	$ 54,953	$ 54,709
Buildings and improvements	640,547	614,816
Furniture and equipment	350,475	320,732
Construction in progress	31,588	17,460
	1,077,563	1,007,717
Less: accumulated depreciation	(501,145)	(447,327)
	$ 576,418	$ 560,390

On October 30, 2012, the Illinois Health Facilities and Services Review Board granted a certificate of need to allow the Foundation to build an approximately 14,000 square foot addition to the emergency department at the Hospital at a cost of approximately $16,732. Substantially all costs related to this project were capitalized in 2014. Construction began in the spring of 2013 and the addition was occupied in December 2014. This project nearly doubled the size of the 16,700 square foot emergency department and added the following: 17 new acute-care beds for a total of 39, another trauma room, and new or replacement imaging equipment in a dedicated radiology suite.

On August 27, 2014, the Illinois Health Facilities and Services Review Board granted a certificate of need to allow the Foundation to build out existing shell space of approximately 40,000 square feet. The space was created as part of the previous bed tower project with the future intent to build out the shell space as a 48-bed Medical / Surgical unit when the need for the additional space was identified. The approximate cost for modernization of the area is $17,765, which includes an $11,137 Guaranteed Maximum Purchase construction contract for which $960 remains unexpended as of December 31, 2015. Occupancy began in January 2016. As of December 31, 2015, the balance of construction in progress related to this project was $17,441.

In September 2014, the Board of Trustees approved $12,450 for expansion and renovation of the Inpatient Rehabilitation Unit. Costs include an $8,520 Guaranteed Maximum Purchase construction contract for which $7,632 remains unexpended as of December 31, 2015. The project design will allow the unit to move from 15 semiprivate rooms to 15 private patient rooms with adequate space to increase to up to 20 private rooms to accommodate future growth. The design will also provide expanded and modernized support and treatment spaces to facilitate more comprehensive patient care. Phased construction began in August 2015 with full occupancy anticipated in early 2017. As of December 31, 2015, the balance of construction in progress related to this project was $4,412.

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 $18,452 Guaranteed Maximum Purchase construction contract, for which $18,251 remains unexpended as of December 31, 2015. 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 occupancy slated to occur in January 2017. As of December 31, 2015, the balance of construction in progress related to this project was $2,425.

(Continued)

(Dollars in thousands)

Note 9. Property and Equipment (Continued)

In June 2015, the Board of Trustees approved $75,000 for the design, construction, furnishing, and occupancy of a 300,000 square foot administrative building to provide a single location for housing non-clinical 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. As of December 31, 2015, the balance of construction in progress related to this project was immaterial.

On August 25, 2015, the Illinois Health Facilities and Services Review Board granted a certificate of need to allow the Foundation to add space and services to an existing clinic in Champaign, Illinois. The 70,000 square foot 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 walk-in clinic will be expanded to accommodate increasing patient demand. Construction began in the fall of 2015 with occupancy anticipated in early 2017. As of December 31, 2015, the balance of construction in progress related to this project was immaterial.

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

The Foundation leases equipment and office space under long-term noncancelable agreements that expire at various dates through the year 2022. In addition, the Foundation leases land under long-term noncancelable agreements that expire at various dates through the year 2065. Total future operating lease commitments under long-term, noncancelable equipment, office space, and land leases, exclusive of related-party leases, as of December 31, 2015 are as follows:

Year ending December 31:	
2016	6,259
2017	4,240
2018	2,213
2019	977
2020	343
Thereafter	4,554
	$ 18,586

Total equipment lease expense under long-term lease agreements and month-to-month leases was approximately $330 and $1,165 for the years ended December 31, 2015 and 2014, respectively. Total office space and land lease expense under long-term lease agreements was approximately $6,908 and $5,961 for the years ended December 31, 2015 and 2014, respectively.

(Dollars in thousands)

Note 10. Intangible Assets and Goodwill

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

The acquired assets and assumed liabilities were recorded at fair market value. The difference between the recorded fair value and the purchase price was recognized as goodwill. Substantially all the acquired intangibles including goodwill were recorded by, and attributable to, Health Group and are as follows at December 31, 2015 and 2014:

	2015		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intangible assets:			
Subscriber relationships	$ 49,960	$ 28,451	$ 21,509
State of Illinois contract	41,500	23,863	17,637
Trade name	9,800	5,635	4,165
Provider network	6,700	3,853	2,847
Subtotal intangible assets	107,960	61,802	46,158
Goodwill	85,214	-	85,214
Total intangible assets and goodwill	$ 193,174	$ 61,802	$ 131,372

	2014		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intangible assets:			
Subscriber relationships	$ 49,960	$ 23,732	$ 26,228
State of Illinois contract	41,500	19,712	21,788
Trade name	9,800	4,655	5,145
Provider network	6,700	3,182	3,518
Subtotal intangible assets	107,960	51,281	56,679
Goodwill	85,214	-	85,214
Total intangible assets and goodwill	$ 193,174	$ 51,281	$ 141,893

(Dollars in thousands)

Note 10. Intangible Assets and Goodwill (Continued)

The total amortization expense related to the intangible assets was $10,521 and $10,796 for both the years ended December 31, 2015 and 2014, respectively. This is included in depreciation and amortization expense on the consolidated statements of operations. Estimated amortization expense as of December 31, 2015 is as follows:

Year ending December 31:	
2016	$ 10,245
2017	10,245
2018	10,245
2019	10,245
2020	2,935
Thereafter	2,243
	$ 46,158

The Foundation periodically reviews the appropriateness of the amortization periods related to its intangible assets and the carrying value of goodwill for impairment evaluation. Tests for possible impairment of intangible assets are conducted whenever events and circumstances indicate that amortizable long-lived assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of those assets. When specific assets are determined to be unrecoverable, the cost basis of the asset is reduced to reflect the current fair value. No impairment loss was recorded as of December 31, 2015 and 2014. The assessment of possible impairment is based on the ability to recover the carrying amount of the asset. Impairments are calculated as the total by which the carrying amount of the asset exceeds its estimated fair value.

(Dollars in thousands)

Note 11. Income Tax Matters

The Foundation generates “unrelated business” income subject to federal and state income taxes (UBIT). The Foundation recorded UBIT liability of $362 and $271 for the years ended December 31, 2015 and 2014, respectively. UBIT expense of $2,537 and $411 were recorded for the years ended December 31, 2015 and 2014, respectively.

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

The Foundation recorded a net tax payable as of December 31, 2015 of $7,217 and a net tax receivable of $6,112 as of December 31, 2014, for its for-profit entities. For these entities, income tax expense for the years ended December 31, 2015 and 2014 consisted of the following:

	2015	2014
Current income tax expense	$ 20,554	$ 4,298
Deferred income tax expense	(5,907)	(4,508)
Income tax expense	$ 14,647	$ (210)

Income tax expense for the for-profit entities attributable to revenue, gains, and other support over expenses differed from the amounts computed by applying the federal income tax rate of 35% to pretax income for the years ended December 31, 2015 and 2014, as a result of the following:

	2015	2014
Computed "expected" tax expense	$ 2,122	$ (4,488)
Increase in income tax expense resulting from:		
State income taxes, net of federal tax benefits	2,802	1,499
Nondeductible expenses and other	9,723	2,779
	$ 14,647	$ (210)

(Continued)

(Dollars in thousands)

Note 11. Income Tax Matters (Continued)

Deferred income taxes result from temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of Carle Holding's deferred tax assets and liabilities as of December 31, 2015 and 2014 are as follows:

	2015	2014
Deferred tax assets:		
Retirement plan benefits obligation	$ 39,548	$ 45,544
Accrued liabilities	9,864	5,277
Net operating loss	7,508	6,882
Accrued compensation and paid leave	2,396	2,048
Retiree health insurance reserve	2,361	2,369
Other	4,015	4,453
	65,692	66,573
Less: valuation allowance	(12,900)	(13,029)
Total deferred tax assets	52,792	53,544
Deferred tax liabilities:		
Intangibles	18,373	22,692
Unrealized gains and losses on investments	8,367	11,567
Other	4,667	4,208
Total deferred tax liabilities	31,407	38,467
Net deferred tax assets	$ 21,385	$ 15,077

The Foundation adopted ASU 2015-17 in 2015 and applied changes retrospectively to 2014; therefore, deferred tax assets are shown net of deferred tax liabilities in the noncurrent section of the Foundation's consolidated balance sheets. As of December 31, 2015 and 2014, the Foundation recorded deferred tax assets of $21,385 and $15,077, respectively.

(Dollars in thousands)

Note 11. Income Tax Matters (Continued)

In assessing the ultimate realization of gross deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. A deferred tax valuation allowance was recognized by Carle Holding in the amount of $12,900 and $13,029 as of December 31, 2015 and 2014, respectively, related to deemed ineligibility under states' unitary filing methodology. Of this valuation allowance, $7,508 and $6,882 relates primarily to future tax benefits associated with state net operating loss carry forwards as of December 31, 2015 and 2014, respectively. The state net operating loss carry forwards at December 31, 2015 total approximately $149,051 and expire beginning in 2030. Based upon the historical taxable income of Carle Holding and projections for future taxable income during the periods in which the deferred tax assets would be deductible, management believes it is more likely than not that Carle Holding will realize the benefits of the deductible differences, net of the valuation allowance.

Note 12. Medical Claims Payable

Activity in medical claims payable related to covered medical services for the years ended December 31, 2015 and 2014 is summarized as follows:

	2015	2014
Medical claims payable at beginning of period	$ 140,960	$ 113,358
Incurred benefits related to the:		
Current year	1,317,155	936,475
Prior years	(13,160)	(6,577)
Total incurred	1,303,995	929,898
Paid benefits related to the:		
Current year	1,136,240	796,069
Prior years	126,838	106,227
Total paid	1,263,078	902,296
Medical claims payable at end of period	$ 181,877	$ 140,960

The recorded incurred benefits above excludes primarily reinsurance recoveries, pharmacy rebates, incentive payments, network management fees, capitation, and withholds in the amount of $(7,820) and $12,332 for the years ended December 31, 2015 and 2014, respectively.

The movement in incurred benefits during the years ended December 31, 2015 and 2014 for prior years reflects the lower than anticipated cost of claims.

(Dollars in thousands)

Note 13. Long-Term Debt and Other Borrowings

The long-term debt at December 31, 2015 and 2014 is as follows:

	Final Maturity or Payment	2015	2014
IFA borrowings:			
Series 2009A; fixed rate, 4.375% to 5.50%	2017	$ 15,435	$ 22,565
Series 2009B; variable rate, 0.01% at 12/31/15	2033	25,000	25,000
Series 2009C; variable rate, 0.01% at 12/31/15	2033	25,000	25,000
Series 2009D; variable rate, 0.01% at 12/31/15	2033	55,000	55,000
Series 2009E; variable rate, 0.01% at 12/31/15	2033	55,000	55,000
Series 2011A; fixed rate, 4.00% to 6.00%	2041	234,735	234,735
Series 2011B; variable rate, 0.91% at 12/31/15	2033	50,000	50,000
Series 2011C; variable rate, 0.77% at 12/31/15	2033	50,000	50,000
Series 2014A; variable rate, 0.61% at 12/31/15	2020	26,095	26,095
Less: unamortized discounts and premiums		(1,289)	(1,308)
Subtotal IFA borrowings		534,976	542,087
Installment note–Champaign Primary Care Center	2022	11,965	12,359
Farm Credit Services–Hoopeston	2031	6,401	6,711
Surplus debenture–HANW Health Plan	N/A	2,000	-
Capital lease obligations–Hoopeston	Various	191	384
Total debt outstanding		555,533	561,541
Less: current portion		(12,747)	(7,955)
Long-term portion		$ 542,786	$ 553,586

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

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

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 13. 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 health care facilities owned by the Foundation, and to pay certain expenses incurred in conjunction with the issuance of the Series 2009A and Series 2009 Bonds.

The Series 2009A Bonds are secured by a pledge of gross receipts (which includes all patient receivables) of the Obligated Group members to the Master Trustee (Wells Fargo Bank, N.A.). Of the Series 2009A Bonds maturing on February 15 of the years 2016 through 2017, principal of $15,435 is guaranteed by a financial guaranty insurance policy issued by Assured Guaranty Corp.

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 December 31, 2015, the expiration dates were March 18, 2019 and April 5, 2016, for the respective banks. On March 30, 2016, the Obligated Group executed extension agreements for the letters of credit issued by JP Morgan Chase Bank, N.A. to August 5, 2019.

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

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

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

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

Note 13. 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. 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.

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

On August 1, 2014, the IFA issued $26,095 of variable rate revenue 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.

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

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

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

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

(Dollars in thousands)

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

Aggregate maturities of long-term debt (net of original issue discount) as of December 31, 2015 are as follows assuming that the Series 2009 Bonds are successfully remarketed:

Year ending December 31:	
2016	$ 12,747
2017	13,322
2018	13,949
2019	14,659
2020	20,758
Thereafter	480,098
	$ 555,533

In the event a remarketing agent is unsuccessful in remarketing any of the Series 2009 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 December 2015, up to a total of $160,000 of payments would have been accelerated and due in 2017 and 2018.

The fair value of the variable rate debt approximates the carrying value. The fair value of the Obligated Group's fixed rate debt is estimated based on the quoted market prices for the same or similar issues or is determined using observable inputs other than quoted market prices. The fair value of the long-term debt as of December 31, 2015 was $604,211 compared to a carrying value of $555,533 and the fair value as of December 31, 2014 was $610,628 compared to a carrying value of $561,541.

The composition of interest and financing expense for the years ended December 31, 2015 and 2014 is as follows:

	2015	2014
Interest on IFA revenue bonds	$ 15,453	$ 16,546
Interest on short-term borrowings	3,587	2,350
Net interest expense on derivative instruments	2,645	2,735
Finance and letter of credit fees	1,188	1,205
Interest on installment notes	1,078	1,159
Other	510	2,348
	24,461	26,343
Less: capitalized interest	(73)	(104)
	$ 24,388	$ 26,239

(Dollars in thousands)

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

Line of credit – Health Alliance: In November 2015, Health Alliance renewed a $100,000 secured 364-day syndicated revolving credit agreement with PNC Bank, National Association, as the co-lead arranger/administrative agent, which gives Health Alliance the option of choosing LIBOR-based or Prime-based borrowings with a limited number of LIBOR tranches, each defined by an interest rate established at the advance date. The rate on each draw will be LIBOR plus 2.50% or Prime plus 1.50% depending on the option chosen. There is also a nonusage fee of 0.175% payable monthly on the average unused portion. This line of credit is secured by all Health Alliance receivables, inventory, equipment, and general intangibles. Principal and interest payments are made monthly. Health Alliance is required to limit the amount borrowed under the revolving credit facility to 80% of the eligible accounts receivable that serves as collateral and to maintain cash and cash equivalents as defined in the credit agreement at 125% of the amount borrowed. Both requirements were met as of December 31, 2015 and 2014.

Borrowings under this agreement at December 31, 2015 and 2014 are as follows:

	2015	2014
Prime option; 4.75% at 12/31/15	$ -	$ 100,000
LIBOR tranche 1; 2.82% at 12/31/15	70,000	-
LIBOR tranche 2; 2.92% at 12/31/15	30,000	-
	$ 100,000	$ 100,000

Note 14. Interest Rate Swap Agreements

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

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

(Continued)

(Dollars in thousands)

Note 14. Interest Rate Swap Agreements (Continued)

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

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

Interest expense includes $3,065 and $3,178 for 2015 and 2014, respectively, for net periodic payments to the counterparty for the fixed-payer interest rate swaps and $421 and $442 for 2015 and 2014, respectively, for net periodic payments from the counterparty for the basis interest rate swaps.

The interest rate swap agreements as of December 31, 2015 and 2014 are as follows:

Counter-Party	Maturity Date	Foundation Pays	Foundation Receives	Notional Value 2015	Fair Value 2015	Fair Value 2014	Change in Fair Value of Derivative Instruments 2015	Change in Fair Value of Derivative Instruments 2014
PNC Bank	2/15/2035	3.537%	65% of 1-Month LIBOR + 0.12%	$ 61,550	$ (15,326)	$ (15,022)	$ (304)	$ (6,604)
Citibank, N.A.	2/15/2028	3.347%	65% of 1-Month LIBOR + 0.12%	33,025	(3,943)	(4,268)	325	(810)
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	2,159	1,336	823	(170)
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	2,497	1,846	651	(556)
				$ 194,575	$ (14,613)	$ (16,108)	$ 1,495	$ (8,140)
Recorded on the consolidated balance sheets as:								
Asset					$ 4,656	$ 3,181		
Liability					(19,269)	(19,289)		
					$ (14,613)	$ (16,108)		

Note 15. Professional, General, and Health Insurance

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

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

As noted above, Health Systems provides an excess layer of insurance. The amount of reinsurance recoverable on unpaid losses for professional and general liability insurance as of December 31, 2015 and 2014 was $9,359 and $9,872, respectively. The Foundation has reinsurance recoverable on paid losses of $1,052 and $1,005 as of December 31, 2015 and 2014, respectively. The coverage is currently arranged through January 31, 2017. There are no assurances that the Foundation and Health Systems will be able to renew existing policies on similar terms. Additionally, Health Group has contracts with insurance companies to reinsure risk relating to hospital and physician services for each insured enrollee during the contract period with various retention limits. The amount of Health Group reinsurance recoverable as of December 31, 2015 and 2014 was $7,878 and $4,900, respectively.

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

The Foundation has recorded an estimate for incurred but not reported claims for both active and departed physicians as of December 31, 2015 and 2014 of $12,900 and $12,901, respectively.

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

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

(Dollars in thousands)

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

The liability recorded on the consolidated balance sheets for professional and general liability insurance as of December 31, 2015 and 2014 and the associated expenses on the consolidated statements of operations for the years ended December 31, 2015 and 2014 are as follows:

	Liability		Expense	
	2015	2014	2015	2014
Health insurance	$ 17,761	$ 16,915	$ 50,610	$ 43,581
Professional, general, and other	73,314	75,173	16,052	2,442
	91,075	92,088	$ 66,662	$ 46,023
Less: reinsurance recoverable - unpaid losses	(9,359)	(9,872)		
Insurance reserves, net of reinsurance recoverable	$ 81,716	$ 82,216		

Movement in the provision for outstanding losses on professional and general liability and workers' compensation insurance for the years ended December 31, 2015 and 2014 is summarized as follows:

	2015	2014
Outstanding loss provision at beginning of period	$ 75,173	$ 106,609
Less: provision for unasserted claims	(12,901)	(15,131)
Balance at beginning of period (excluding provision for unasserted claims)	62,272	91,478
Incurred losses (net of recoverables)	10,459	(1,539)
Paid losses (net of recoveries)	(11,804)	(13,637)
Net losses	(1,345)	(15,176)
Less: reinsurance recoverable - unpaid losses, beginning of period	(9,872)	(23,902)
Add: reinsurance recoverable - unpaid losses, end of period	9,359	9,872
Net balance at end of period (excluding provision for unasserted claims)	60,414	62,272
Add: provision for unasserted claims	12,900	12,901
Balance at end of period	$ 73,314	$ 75,173

The movement in incurred losses during the years ended December 31, 2015 and 2014 in relation to prior periods is as a result of changes in underlying estimates and assumptions inherent in the loss reserving process.

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

The Foundation has established a provision for outstanding professional, general, and workers' compensation liability losses based upon recommendations made by the Foundation's independent actuary. The actuarial reports dated February 9, 2016 and January 30, 2015 estimated the unpaid claim liabilities and projected losses at a 65% confidence level and 3% discount rate for all policy years as of December 31, 2015 and 2014, respectively. Independent actuarial reports are received semiannually for June 30 and December 31.

The Foundation's outstanding losses for professional and general liability risks on a discounted basis for all policy years were $47,508 as of December 31, 2015 and $51,637 as of December 31, 2014. The Foundation's outstanding losses for professional and general liability risks on an undiscounted basis for all policy years were $51,172 and $55,393 as of December 31, 2015 and 2014, respectively. Subsequent to December 31, 2014, a settlement of a claim that was included in the actuarial calculations of outstanding losses was paid in the amount of $3,500. The December 31, 2014 balance sheet was adjusted to reflect this amount in accounts payable, with a corresponding reduction in the estimated liability for unpaid losses.

The Foundation's outstanding losses for workers' compensation risks on a discounted basis for all policy years after January 31, 2012 were $3,547 and $3,258 as of December 31, 2015 and 2014, respectively.

Note 16. Pension Plans

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

Total expense incurred by the Foundation under the defined contribution plans for the years ended December 31, 2015 and 2014 was $24,498 and $23,458, respectively. The total liabilities at December 31, 2015 and 2014 are $17,724 and $17,727, respectively.

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

(Dollars in thousands)

Note 16. Pension Plans (Continued)

The tables below set forth the defined benefit plan's funded status, amounts recognized in the consolidated financial statements, and assumptions at December 31, 2015 and 2014, which are when actuarial reports were prepared:

	2015	2014
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 440,354	$ 341,139
Interest cost	16,394	15,546
Actuarial loss (gain)	(27,239)	96,396
Benefits paid	(29,010)	(12,727)
Benefit obligation at end of year	400,499	440,354
Change in plan assets:		
Fair value of plan assets at beginning of year	312,238	292,336
Actual return on plan assets	(7,866)	20,629
Employer contribution	12,000	12,000
Benefits paid	(29,010)	(12,727)
Fair value of plan assets at end of year	287,362	312,238
Funded status at end of year, recognized on the balance sheet	$ (113,137)	$ (128,116)
Unrecognized loss not yet recognized in net periodic pension costs at end of year	$ 110,059	$ 122,087
Accumulated benefit obligation at end of year	$ 400,499	$ 440,354

In October 2014, the Society of Actuaries published RP-2014 White Collar Mortality Table, which includes separate tables for male and female participants as well as separate tables for active employees, healthy annuitants, and disabled participants. The Society of Actuaries also published Generational Mortality Improvement Scale MP-2014, which projects mortality improvement indefinitely beginning with high-level improvement, based on recent experience, tapering to a lower level of improvement for long-term mortality projections. These tables have been utilized in determining the Projected Benefit Obligation at December 31, 2015 and 2014.

Components of net periodic benefit cost for the years ended December 31, 2015 and 2014 are as follows:

	2015	2014
Interest cost	$ 16,394	$ 15,546
Expected return on plan assets	(16,582)	(15,569)
Amortization of loss	9,237	-
Net periodic benefit cost	$ 9,049	$ (23)

(Dollars in thousands)

Note 16. Pension Plans (Continued)

The discount rates used to determine benefit obligations at December 31, 2015 and 2014 were 4.12% and 3.79%, respectively.

The weighted average assumptions used to determine net periodic benefit cost for the years ended December 31, 2015 and 2014 are as follows:

	2015	2014
Discount rate	3.79%	4.65%
Expected return on plan assets	5.35%	5.35%

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

The Foundation's target and actual weighted-average asset allocations at December 31, 2015 and 2014 are as follows:

	2015		2014	
	Target Allocation	Actual Allocation	Target Allocation	Actual Allocation
Equity securities	60-80%	69%	60-80%	70%
Debt securities	20-40%	26%	20-40%	26%
Other	0-10%	5%	0-10%	4%
	100%	100%	100%	100%

(Dollars in thousands)

Note 16. Pension Plans (Continued)

The following tables summarize the plan's assets as of December 31, 2015 and 2014 within the fair value hierarchy (Note 4). All the plan assets were either Level 1 or Level 2.

	2015		
	Total	Level 1	Level 2
Fixed income securities:			
Mutual funds	$ 73,112	$ 37,335	$ 35,777
Marketable equity securities:			
United States	127,547	95,048	32,499
Non-U.S. developed markets	59,538	29,118	30,420
Non-U.S. emerging markets	11,759	-	11,759
	271,956	$ 161,501	$ 110,455
Cash and cash equivalents	15,406		
Total fair value of plan assets	$ 287,362		

	2014		
	Total	Level 1	Level 2
Fixed income securities:			
Mutual funds	$ 80,676	$ 44,251	$ 36,425
Marketable equity securities:			
United States	149,551	109,135	40,416
Non-U.S. developed markets	54,801	23,951	30,850
Non-U.S. emerging markets	13,465	13,465	-
	298,493	$ 190,802	$ 107,691
Cash and cash equivalents	13,745		
Total fair value of plan assets	$ 312,238		

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

The Foundation expects to contribute $12,000 to its pension plan in the year ending December 31, 2016.

Following are the estimated future benefit payments as of December 31, 2015:

Year ending December 31:	
2016	14,339
2017	15,548
2018	16,986
2019	18,294
2020	19,764
2021-2025	111,936

Note 17. Commitments and Contingencies

Litigation: The Foundation and its subsidiaries and affiliates are currently defendants in several lawsuits arising in the normal course of operations. In management's opinion, the estimated costs accrued as of December 31, 2015 are adequate to provide for potential losses and management believes these matters will be resolved without material adverse effect on the future financial position or results from operations of the Foundation and its subsidiaries and affiliates.

Capitation arrangements: Health Group has entered into capitated risk agreements with physicians and other health care providers to cover certain medical services. Payments made to these entities totaled approximately $139,814 and $126,350 for the years ended December 31, 2015 and 2014, respectively. Health Group remains ultimately liable should the capitated entities be unable to meet their obligations.

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

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

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

Carle Holding has been undergoing an audit by the IRS for the tax year ended December 31, 2010. In January 2014, the IRS presented Carle Holding a notice of proposed adjustment (NOPA) related to the IRS's position on the treatment of certain transactions that occurred during the period subject to audit. Management rejected this notice, believing the IRS's position was in error, and prepared and submitted a response to the IRS providing support that refuted the IRS's position. In April 2015, the IRS presented Carle Holding with a new NOPA and revoked the prior Revenue Agent Report. Management has reviewed the NOPA, disagrees with the IRS's position, discussed the document with the IRS which has agreed to make certain changes, and management prepared a response to the IRS. After meeting with management, the IRS presented Carle Holding with a new NOPA in October 2015 and revoked the prior Revenue Agent Report. Management has reviewed the NOPA, disagrees with the IRS's position and, in December 2015, prepared and submitted a response to the IRS providing support that refutes the IRS's position. In February 2016, the IRS notified Carle Holding that its case has been forwarded to the Office of Appeals for assignment to an appeals officer. Management believes that resolution of this matter will not have a material adverse effect on the Foundation's balance sheets or statements of operations.

(Continued)

Note 17. Commitments and Contingencies (Continued)

The Patient Protection and Affordable Care Act and other enacted legislation: The Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010 (often referred to, collectively, as the Affordable Care Act), was signed into law on March 23, 2010. This legislation includes numerous provisions affecting the delivery of health care services, the financing of health care costs, reimbursement of health care providers, and the legal obligations of health insurers, providers, and employers. These provisions are slated to take effect at specified times over substantially the next decade. The law also contains stronger antifraud enforcement provisions and provides additional funding for enforcement activity.

On January 1, 2014, Health Group became subject to the annual Health Insurance Provider fee under section 9010 of the Federal Affordable Care Act (ACA). This annual fee will be allocated to individual health insurers based on the ratio of the amount of the entity's net premiums written during the preceding calendar year to the amount of health insurance for any U.S. health risk that is written during the preceding calendar year. A health insurance entity's portion of the annual fee becomes payable once the entity provides health insurance for a U.S. health risk for each calendar year beginning on or after January 1 of the year the fee is due. As of December 31, 2015, Health Group recorded $22,622 of non-deductible expense for the ACA annual health insurer fee, which was paid on September 30, 2015. As of December 31, 2014, Health Group recorded $15,950 of non-deductible expense for the ACA annual health insurer fee which was paid on September 30, 2014. The Health Group has written health insurance subject to the ACA assessment, expects to conduct health insurance business in 2016, and estimates their portion of the annual health insurance industry fee to be payable on September 30, 2016 to be $20,429.

Premium adjustments pursuant to the ACA risk adjustment program are based upon the risk scores (health status) of enrollees participating in the risk adjustment covered plans. Adjustments are estimated for the portion of the policy period that has expired and shall be reported as an immediate adjustment to premium. As of December 31, 2015, $1,395 was received for the 2014 ACA risk adjustment and $169 was recognized as still outstanding, excluding a 2.5% hold back on amounts owed to Health Group.

The ACA risk corridors program, effective for benefit years 2014 through 2016, applies to Qualified Health Plans (QHPs) in the individual and small group markets whether sold on or outside of an exchange. The purpose of the risk corridors program is to provide limitations on issuer losses and gains for the QHPs through additional protection against initial pricing risk. The final risk corridors settlement calculation will be communicated after the end of the benefit year and after premium and loss adjustments related to reinsurance and risk adjustment programs have been determined.

The additions or reductions to premium revenue resulting from the risk corridors program are recognized over the contractual period of coverage, to the extent that such additions or reductions are reasonably estimable. As of December 31, 2015, the amount of risk corridors received for 2014, $258, was approximately 9.7% of the expected payment net of a 2.5% hold back.

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

(Continued)

Note 17. Commitments and Contingencies (Continued)

The ACA transitional reinsurance assessments accrued as other expense as of December 31, 2015 and 2014 was $7,621 and $10,682, respectively. At December 31, 2015 and 2014, $6,557 and $4,123, respectively, was accrued as distributions for enrollees in individual plans and recorded as other receivables. At December 31, 2015 and 2014, $6,958 and $4,123, respectively, was recorded as a reduction of hospital and medical benefits under accident and health policies.

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

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

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

Tax exemption for sales tax and property tax: Effective June 14, 2012, the Governor of Illinois signed into law, Public Act 97-0688, which created new standards for state sales tax and property tax exemptions in Illinois. The law established new standards for the issuance of charitable exemptions, including requirements for a nonprofit hospital to certify annually that in the prior year, it provided a dollar amount of qualified services and activities to low-income and underserved individuals with a value at least equal to the hospital's estimated property tax liability. The Foundation certified its services and activities as required by county officials in December 2014, 2013, and 2012. 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 had recognized property tax expense on all of its properties as they were added to the property tax rolls beginning in 2004 through 2007.

Note 17. 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 recorded the present value of these payments as other income in the amount of $2,696 during 2013. The Foundation's claims against the remaining defendants continued and resulted in several issues being 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, to be unconstitutional. The Foundation has 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 asserts that the 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.

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

Carle Illinois College of Medicine: Effective August 1, 2015, the Foundation entered into an Affiliation Agreement with the Board of Trustees of The University of Illinois for the development of a College of Medicine at its Urbana-Champaign campus with an engineering-focused curriculum and to be known as the Carle Illinois College of Medicine (CI COM). This agreement resulted in an unconditional commitment of $50,000, which has been reflected as general and administrative expense. The Foundation funded $10,000 of this commitment during 2015. At the financial statement date, $10,000 of this commitment resides in current accrued liabilities and $30,000 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 early as 2018.

(Dollars in thousands)

Note 18. Risk-Based Capital and Dividend Restrictions

The DOI imposes risk-based capital (RBC) requirements on insurance companies, including Health Group. The RBC model serves as a benchmark for the regulation of insurance companies by state insurance regulators. RBC provides for targeted surplus levels based on formulas that specify various weighting factors that are applied to financial balances or various levels of activity based on the perceived degree of risk, and are set forth in the RBC requirements. At December 31, 2015 and 2014, the total statutory net worth of Health Group was approximately $184,484 and $179,131, respectively. Its authorized control level RBC was approximately $33,055 and $37,001 at December 31, 2015 and 2014, respectively.

The ability of Health Alliance to pay dividends is dependent upon business conditions, income, cash requirements of Health Alliance, and other relevant factors. The payment of stockholder dividends by insurance companies without prior approval of the DOI is limited to formula amounts based on net income and capital and surplus, determined in accordance with statutory accounting principles, as well as the timing and amount of dividends paid in the preceding 12 months. Health Alliance paid a dividend of $13,285 and $17,400 to Carle Holding in the years ended December 31, 2015 and 2014, respectively.

Note 19. Concentrations of Credit Risk

A major subscriber of Health Alliance is the membership administered by the State, which includes State of Illinois Employee Group, Local Government Health Plan, Teachers Retirement System, and College Insurance Program. Premium revenue from this subscriber amounted to approximately $587,333 and $553,991 for the years ended December 31, 2015 and 2014, respectively. Premium receivables due from the State at December 31, 2015 and 2014 totaled $273,139 and $291,816, respectively. As of December 31, 2105, the State of Illinois Employee Group is 14 months behind; however, nine months have been sold to third party vendors in 2015 with total proceeds received by Health Alliance of $370,000. In addition, interest receivable from the State for premiums past due is approximately $23,529 and $5,780, at December 31, 2015 and 2014, respectively. As of December 31, 2015, interest on late premium payments through October 2014 has been received. Health Alliance expects to ultimately collect the State of Illinois receivables in full. Health Alliance has a contract with the State of Illinois through June 30, 2016 with five additional one-year renewals.

The Foundation grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of net patient receivables from patients and third-party payors at December 31, 2015 and 2014 is as follows:

	2015	2014
Commercial insurance and other	57%	44%
Medicare	22%	30%
Private	11%	8%
Medicaid	10%	18%
	100%	100%

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

(Dollars in thousands)

Note 20. Functional Expenses

The Foundation provides comprehensive health care services to the residents of the central Illinois area. Expenses related to providing these services for the years ended December 31, 2015 and 2014 are as follows:

	2015	2014
Health care services	$ 2,339,392	$ 1,893,472
General and administrative	119,928	68,322
Fundraising expenses	1,208	1,338
	$ 2,460,528	$ 1,963,132

Note 21. Subsequent Events

Subsequent events have been evaluated through April 25, 2016, the date of the issuance of these financial statements. Through that date, there were no events requiring disclosure other than the items noted below.

Effective January 1, 2016, Health Care sold a 25% interest in Surgicenter to Christie for $6,625, which approximates fair value. Under a new partnership agreement, the Hospital will manage the day-to-day operation of the facility and Health Care and Christie will share governance of the Surgicenter Board of Managers.

On February 26, 2016 the Illinois Department of Insurance notified HA Connect of various matters it wished to address. As a result of the discussions, the Illinois Department of Insurance and Health Alliance reached a verbal agreement on April 15, 2016 that Health Alliance will enter into a Guaranty Agreement effective as of May 15, 2016 in favor of its affiliate, HA Connect and pursuant to which Health Alliance guarantees to the fullest extent of its assets, all liabilities of HA Connect related to all Medicare Advantage PPO business transferred to HA Connect from Health Alliance pursuant to that certain Purchase Agreement effective July 1, 2015 (note 1(f)), and any other PPO or indemnity insurance business reflected in the financial statements of HA Connect. As of December 31, 2015, the liabilities related to the Medicare Advantage PPO business were approximately $11,840. Health Alliance, HA Connect and the Department of Insurance continue to address additional matters that management believes will not impact the consolidated 2015 financial statements as presented. These ongoing discussions with the Department of Insurance could result in transferring the Medicare Advantage PPO business back to Health Alliance at some future date. The premium revenue recorded in HA Connect's statement of revenue and expenses was approximately $41,000 for the period from July 1, 2015 to December 31, 2015.

The Carle Foundation **Schedule 1**

Supplementary Information - Consolidating Balance Sheet

December 31, 2015

(Dollars in thousands)

Assets	Foundation Division	Hospital	Health Care	Hoopeston	Windsor	Development	CHA Holding	Health Systems	Subtotal	Eliminations and Reclassifications	Consolidated Foundation
Current assets:											
Cash and cash equivalents	$ 89,135	$ 40	$ 614	$ 4,034	$ 23	$ -	$ 105,191	$ -	$ 199,037	$ (6,729)	$ 192,308
Investments	202,510	-	-	-	-	-	164,243	-	366,753	-	366,753
Assets limited as to use or restricted	18,573	-	-	-	-	-	2,147	9,667	30,387	-	30,387
Patient receivables, net	-	112,336	26,504	5,305	-	-	-	-	144,145	(36,193)	107,952
Premiums receivable	-	-	-	-	-	-	366,457	-	366,457	-	366,457
Intercompany receivables	24,228	48,763	-	-	-	773	-	-	73,764	(73,764)	-
Reinsurance recoverable	-	-	-	-	-	-	7,878	2,690	10,568	-	10,568
Other receivables	52,335	4,954	743	243	9	84	77,867	-	136,235	(50,037)	86,198
Inventories	-	9,215	-	-	-	-	-	-	9,215	-	9,215
Prepaid expenses	6,449	5,860	220	168	4	3	1,529	222	14,455	(403)	14,052
Total current assets	393,230	181,168	28,081	9,750	36	860	725,312	12,579	1,351,016	(167,126)	1,183,890
Property and equipment, net	472,818	75,930	4,314	16,614	4,460	472	1,810	-	576,418	-	576,418
Investments and other assets:											
Investments, net of current portion	644,575	-	-	-	-	8,938	267	-	653,780	-	653,780
Assets limited as to use or restricted, net of current portion	-	-	-	4,157	-	76,833	5,354	110,850	197,194	-	197,194
Interest rate swap agreements	4,656	-	-	-	-	-	-	-	4,656	-	4,656
Reinsurance recoverable, net of current portion	-	-	-	-	-	-	-	7,721	7,721	-	7,721
Intangible assets and goodwill	-	-	9,485	4,445	-	-	117,442	-	131,372	-	131,372
Deferred taxes	-	-	-	-	-	-	21,385	-	21,385	-	21,385
Other assets	60,929	191,011	-	40	-	25	-	-	252,005	(247,435)	4,570
Total investments and other assets	710,160	191,011	9,485	8,642	-	85,796	144,448	118,571	1,268,113	(247,435)	1,020,678
Total assets	$ 1,576,208	$ 448,109	$ 41,880	$ 35,006	$ 4,496	$ 87,128	$ 871,570	$ 131,150	$ 3,195,547	$ (414,561)	$ 2,780,986

See accompanying notes to supplementary schedules and independent auditors' report.

(Continued)

Supplementary Information - Consolidating Balance Sheet
December 31, 2015
(Dollars in thousands)

Liabilities and Net Assets	Foundation Division	Hospital	Health Care	Hoopeston	Windsor	Development	CHA Holding	Health Systems	Subtotal	Eliminations and Reclassifications	Consolidated Foundation
Current liabilities:											
Accounts payable	$ 5,977	$ 17,561	$ 1,212	$ 446	$ 91	$ 11	$ 4,402	$ -	$ 29,700	$ (6,729)	$ 22,971
Intercompany payables	-	-	952	26,844	-	-	289,212	762	317,770	(317,770)	-
Short-term borrowings	-	-	-	-	-	-	150,000	-	150,000	(50,000)	100,000
Current maturities of long-term debt	12,328	-	-	571	-	-	-	-	12,899	(152)	12,747
Estimated third-party payor settlements	-	50,784	491	1,897	-	-	-	-	53,172	-	53,172
Medical claims payable	-	-	-	-	-	-	218,070	-	218,070	(36,193)	181,877
Current portion of estimated liability for self-insurance losses	11,807	-	-	-	-	-	-	9,667	21,474	110	21,584
Current portion of retirement plan benefits obligation	-	-	-	-	-	-	12,000	-	12,000	-	12,000
Compensation and paid leave payable	17,501	30,050	29,389	1,135	176	124	9,713	-	88,088	-	88,088
Other accrued liabilities	20,660	3,037	6,740	(76)	1,248	-	61,722	4,530	97,861	(403)	97,458
Total current liabilities	68,273	101,432	38,784	30,817	1,515	135	745,119	14,959	1,001,034	(411,137)	589,897
Long-term liabilities:											
Long-term debt, net of current maturities	534,613	-	-	9,597	-	-	2,000	-	546,210	(3,424)	542,786
Interest rate swap agreements	19,269	-	-	-	-	-	-	-	19,269	-	19,269
Asset retirement obligation	6,294	-	-	144	-	-	-	-	6,438	-	6,438
Estimated liability for self-insurance losses, net of current portion	10,449	2,407	44	-	-	-	5,844	50,747	69,491	-	69,491
Retirement plan benefits obligation, net of current	-	-	-	-	-	-	101,137	-	101,137	-	101,137
Other accrued liabilities	41,241	-	-	-	-	152	11,975	-	53,368	-	53,368
Total long-term liabilities	611,866	2,407	44	9,741	-	152	120,956	50,747	795,913	(3,424)	792,489
Total liabilities	680,139	103,839	38,828	40,558	1,515	287	866,075	65,706	1,796,947	(414,561)	1,382,386
Net assets:											
Common stock	-	-	-	-	-	-	-	1,800	1,800	(1,800)	-
Unrestricted	896,069	344,270	3,052	(9,200)	2,981	74,476	5,495	63,644	1,380,787	1,800	1,382,587
Temporarily restricted	-	-	-	56	-	10,247	-	-	10,303	-	10,303
Permanently restricted	-	-	-	3,592	-	2,118	-	-	5,710	-	5,710
Total net assets	896,069	344,270	3,052	(5,552)	2,981	86,841	5,495	65,444	1,398,600	-	1,398,600
Total liabilities and net assets	$ 1,576,208	$ 448,109	$ 41,880	$ 35,006	$ 4,496	$ 87,128	$ 871,570	$ 131,150	$ 3,195,547	$ (414,561)	$ 2,780,986

See accompanying notes to supplementary schedules and independent auditors' report.

The Carle Foundation **Schedule 2**

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

Year Ended December 31, 2015

(Dollars in thousands)

	Foundation Division	Hospital	Health Care	Hoopeston	Windsor	Development	CHA Holding	Health Systems	Subtotal	Eliminations and Reclassifications	Consolidated Foundation
Revenue:											
Patient service revenue (net of contractual allowances)	$ -	$ 733,032	$ 215,094	$ 46,491	$ -	$ -	$ -	$ -	$ 994,617	$ (261,954)	$ 732,663
Benefit from (provision for) bad debts	-	8,536	2,926	(370)	-	-	-	-	11,092	-	11,092
Net patient service revenue	-	741,568	218,020	46,121	-	-	-	-	1,005,709	(261,954)	743,755
Net premium revenue–health insurance	-	-	-	-	-	-	1,701,442	-	1,701,442	(436)	1,701,006
Other revenue:											
Rental income	792	8,094	-	20	7,445	-	-	-	16,351	-	16,351
Net premium expense–general and professional liability	-	-	-	-	-	-	-	2,874	2,874	(2,874)	-
Net assets released from restrictions	-	-	-	3	-	1,684	-	-	1,687	-	1,687
Gain (loss) on the disposal of property and equipment	(92)	93	(4)	-	-	-	-	-	(3)	-	(3)
Internal fees	217,770	5,529	8	-	-	-	-	-	223,307	(223,307)	-
Other	4,118	5,470	9,311	517	102	308	11,943	1,052	32,821	(2,389)	30,432
Total revenue	222,588	760,754	227,335	46,661	7,547	1,992	1,713,385	3,926	2,984,188	(490,960)	2,493,228
Expenses:											
Salaries and wages	76,563	166,449	210,241	14,238	1,996	823	44,357	-	514,667	(183)	514,484
Employee benefits	23,251	43,974	27,660	4,176	533	196	20,312	-	120,102	(2,777)	117,325
Medical benefits of insured	-	-	-	-	-	-	1,558,514	-	1,558,514	(262,339)	1,296,175
Patient care and other supplies	5,182	138,692	10,018	4,583	214	6	766	-	159,461	(5)	159,456
Purchased services	25,888	20,943	2,016	2,306	212	110	53,673	-	105,148	(5,235)	99,913
General and administrative	83,488	194,890	16,745	23,653	2,235	4,576	12,107	-	337,694	(217,766)	119,928
Insurance	2,020	1,903	2,477	484	49	1	702	11,290	18,926	(2,874)	16,052
Depreciation and amortization	33,672	17,314	1,086	2,058	692	4	11,107	-	65,933	-	65,933
Interest and financing expense	19,988	85	28	355	345	-	7,029	-	27,830	(3,442)	24,388
Real estate and other taxes	587	12,736	(72)	403	375	-	34,337	-	48,366	-	48,366
Change in fair value of derivative instruments	(1,495)	-	-	-	-	-	-	-	(1,495)	-	(1,495)
Total expenses	269,144	596,986	270,199	52,256	6,651	5,716	1,742,904	11,290	2,955,146	(494,621)	2,460,525
Income (loss) from operations	(46,556)	163,768	(42,864)	(5,595)	896	(3,724)	(29,519)	(7,364)	29,042	3,661	32,703
Nonoperating gains:											
Investment income	58,774	3	-	16	1	6,384	26,516	4,540	96,234	(3,661)	92,573
Excess (deficiency) of revenue over expenses, before noncontrolling interest and income taxes	12,218	163,771	(42,864)	(5,579)	897	2,660	(3,003)	(2,824)	125,276	-	125,276
Noncontrolling interest in net loss of consolidated subsidiary	-	-	-	-	-	-	(105)	-	(105)	-	(105)
Provision for income taxes	2,535	37	-	1	2	-	14,609	-	17,184	-	17,184
Excess (deficiency) of revenue over expenses	$ 9,683	$ 163,734	$ (42,864)	$ (5,580)	$ 895	$ 2,660	$ (17,507)	$ (2,824)	$ 108,197	$ -	$ 108,197

See accompanying notes to supplementary schedules and independent auditors’ report.

(Continued)

The Carle Foundation **Schedule 2, Continued**

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

Year Ended December 31, 2015

(Dollars in thousands)

	Foundation Division	Hospital	Health Care	Hoopeston	Windsor	Development	CHA Holding	Health Systems	Subtotal	Eliminations and Reclassifications	Consolidated Foundation
Unrestricted net assets:											
Excess (deficiency) of revenue over expenses	$ 9,683	$ 163,734	$ (42,864)	$ (5,580)	$ 895	$ 2,660	$ (17,507)	$ (2,824)	$ 108,197	$ -	$ 108,197
Change in net unrealized gains and losses on other-than-trading securities	(56,744)	-	-	-	-	(6,654)	-	(4,586)	(67,984)	-	(67,984)
Equity transfer from (to) affiliates and unconsol subs	143,212	(181,322)	18,640	-	(1,807)	1,208	20,000	69	-	-	-
Pension related changes other than net period pension costs	-	-	-	-	-	-	10,989	-	10,989	-	10,989
Other	-	-	-	-	-	-	-	-	-	-	-
Increase (decrease) in unrestricted net assets	96,151	(17,588)	(24,224)	(5,580)	(912)	(2,786)	13,482	(7,341)	51,202	-	51,202
Temporarily restricted net assets:											
Contributions	-	-	-	-	-	1,229	-	-	1,229	-	1,229
Investment income	-	-	-	4	-	315	-	-	319	-	319
Change in net unrealized gains and losses on other-than-trading securities	-	-	-	(3)	-	(261)	-	-	(264)	-	(264)
Net assets released from restrictions	-	-	-	(3)	-	(1,684)	-	-	(1,687)	-	(1,687)
Decrease in temporarily restricted net assets	-	-	-	(2)	-	(401)	-	-	(403)	-	(403)
Permanently restricted net assets:											
Contributions	-	-	-	-	-	249	-	-	249	-	249
Change in value of beneficial interest in perpetual trust	-	-	-	5	-	-	-	-	5	-	5
Increase in permanently restricted net assets	-	-	-	5	-	249	-	-	254	-	254
Change in net assets	96,151	(17,588)	(24,224)	(5,577)	(912)	(2,938)	13,482	(7,341)	51,053	-	51,053
Net assets, beginning of year	799,918	361,858	27,276	25	3,893	89,779	(7,987)	72,785	1,347,547	-	1,347,547
Net assets, end of year	$ 896,069	$ 344,270	$ 3,052	$ (5,552)	$ 2,981	$ 86,841	$ 5,495	$ 65,444	$ 1,398,600	$ -	$ 1,398,600

See accompanying notes to supplementary schedules and independent auditors' report.

Carle Foundation Hospital **Schedule 3**

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

Year Ended December 31, 2015

(Dollars in thousands)

	Hospital Division	Medical Supply	DASC	Risk Management	eValiData	Subtotal	Eliminations and Reclassifications	Total Hospital
Revenue:								
Patient service revenue (net of contractual allowances)	$ 729,957	$ 601	$ 2,795	$ -	$ -	$ 733,353	$ (321)	$ 733,032
Benefit from (provision for) bad debts	8,806	(219)	(51)	-	-	8,536	-	8,536
Net patient service revenue	738,763	382	2,744	-	-	741,889	(321)	741,568
Other revenue:								
Rental income	405	8,007	-	-	-	8,412	(318)	8,094
Gain on the disposal of property and equipment	2	91	-	-	-	93	-	93
Internal fees	3,825	-	-	1,364	340	5,529	-	5,529
Other	5,452	9	-	7	2	5,470	-	5,470
Total revenue	748,447	8,489	2,744	1,371	342	761,393	(639)	760,754
Expenses:								
Salaries and wages	163,438	1,676	655	535	145	166,449	-	166,449
Employee benefits	43,121	481	191	156	25	43,974	-	43,974
Patient care and other supplies	134,860	3,770	393	277	7	139,307	(615)	138,692
Purchased services	20,514	249	26	77	77	20,943	-	20,943
General and administrative	192,042	1,425	1,142	244	61	194,914	(24)	194,890
Insurance	1,818	66	11	8	-	1,903	-	1,903
Depreciation and amortization	16,451	714	140	-	9	17,314	-	17,314
Interest and financing expense	14	36	35	-	-	85	-	85
Real estate and other taxes	12,736	-	-	-	-	12,736	-	12,736
Total expenses	584,994	8,417	2,593	1,297	324	597,625	(639)	596,986
Income from operations	163,453	72	151	74	18	163,768	-	163,768
Nonoperating gains:								
Investment income	-	3	-	-	-	3	-	3
Excess of revenue over expenses before income taxes	163,453	75	151	74	18	163,771	-	163,771
Provision for income taxes	-	-	-	37	-	37	-	37
Excess of revenue over expenses	$ 163,453	$ 75	$ 151	$ 37	$ 18	$ 163,734	$ -	$ 163,734
Unrestricted net assets								
Equity transfer from (to) affiliates	(181,775)	594	(202)	69	(8)	(181,322)	-	(181,322)
Change in unrestricted net assets	(18,322)	669	(51)	106	10	(17,588)	-	(17,588)

See accompanying notes to supplementary schedules and independent auditors' report.

Carle Health Care Incorporated **Schedule 4**

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

Year Ended December 31, 2015

(Dollars in thousands)

	Physician Group	Arrow	Surgicenter	Other Entities	Total Health Care
Revenue:					
Patient service revenue (net of contractual allowances)	$ 191,631	$ 7,359	$ 16,039	$ 65	$ 215,094
Benefit from (provision for) bad debts	3,196	(134)	(136)	-	2,926
Net patient service revenue	194,827	7,225	15,903	65	218,020
Other revenue:					
Internal fees	1	-	7	-	8
Other	7,610	292	-	1,409	9,311
Total revenue	202,438	7,517	15,910	1,474	227,339
Expenses:					
Salaries and wages	204,200	3,498	1,724	819	210,241
Employee benefits	25,885	974	517	284	27,660
Patient care and other supplies	6,006	443	3,540	29	10,018
Purchased services	1,373	496	136	11	2,016
General and administrative	11,564	1,420	3,080	681	16,745
Insurance	2,202	234	24	17	2,477
Depreciation and amortization	323	389	312	62	1,086
Interest and financing expense	-	28	-	-	28
Real estate and other taxes	-	-	(34)	(38)	(72)
Loss on the disposal of property and equipment	-	-	4	-	4
Total expenses	251,553	7,482	9,303	1,865	270,203
Excess (deficiency) of revenue over expenses	$ (49,115)	$ 35	$ 6,607	$ (391)	$ (42,864)
Unrestricted net assets:					
Equity transfer from (to) affiliates	35,564	(196)	(10,499)	(6,229)	18,640
Change in unrestricted net assets	$ (13,551)	$ (161)	$ (3,892)	$ (6,620)	$ (24,224)

See accompanying notes to supplementary schedules and independent auditors' report.

Carle Development Foundation **Schedule 5**

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

Year Ended December 31, 2015

(Dollars in thousands)

	Philanthropy Center	Community Health	Total Development
Other revenue:			
Net assets released from restrictions	$ 1,684	$ -	$ 1,684
Other	308	-	308
Total revenue	1,992	-	1,992
Expenses:			
Salaries and wages	823	-	823
Employee benefits	196	-	196
Patient care and other supplies	6	-	6
Purchased services	110	-	110
General and administrative	1,958	2,618	4,576
Insurance	1	-	1
Depreciation	4	-	4
Total expenses	3,098	2,618	5,716
Loss from operations	(1,106)	(2,618)	(3,724)
Nonoperating gains:			
Investment income	682	5,702	6,384
Excess (deficiency) of revenue over expenses	(424)	3,084	2,660
Unrestricted net assets:			
Change in net unrealized gains and losses on other-than-trading securities	(768)	(5,886)	(6,654)
Equity transfer from affiliate	1,208	-	1,208
Increase (decrease) in unrestricted net assets	16	(2,802)	(2,786)
Temporarily restricted net assets:			
Contributions	1,229	-	1,229
Investment income	315	-	315
Change in net unrealized gains and losses on other-than-trading securities	(261)	-	(261)
Net assets released from restrictions	(1,684)	-	(1,684)
Decrease in temporarily restricted net assets	(401)	-	(401)
Permanently restricted net assets:			
Contributions	249	-	249
Increase in permanently restricted net assets	249	-	249
Change in net assets	$ (136)	$ (2,802)	$ (2,938)

See accompanying notes to supplementary schedules and independent auditors' report.

CHA Holding, Inc. **Schedule 6**

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

Year Ended December 31, 2015

(Dollars in thousands)

	CHA Holding	HA Connect	HA Northwest	Carle Holding	Health Alliance	Subtotal	Eliminations and Reclassifications	Total CHA Holding
Revenue:								
Net premium revenue - health insurance	$ -	$ 545,949	$ 30,088	$ -	$ 1,125,405	$ 1,701,442	$ -	$ 1,701,442
* Gain (loss) on the disposal of property and equipment	-	-	-	-	8,013	8,013	(8,013)	-
Other revenue	-	19	646	-	46,541	47,206	(35,263)	11,943
Total revenue	-	545,968	30,734	-	1,179,959	1,756,661	(43,276)	1,713,385
Expenses:								
Salaries and wages	-	-	-	-	44,357	44,357	-	44,357
Employee benefits	-	-	-	9,121	11,191	20,312	-	20,312
Medical benefits of insured	-	520,568	24,966	-	1,012,980	1,558,514	-	1,558,514
Patient care and other supplies	-	-	-	-	766	766	-	766
Purchased services	-	31,546	5,860	238	51,292	88,936	(35,263)	53,673
General and administrative	-	-	-	50	12,057	12,107	-	12,107
Insurance	-	-	3	-	699	702	-	702
Depreciation and amortization	-	650	-	-	10,858	11,508	(401)	11,107
Interest and financing expense	-	184	2	-	7,028	7,214	(185)	7,029
Real estate and other taxes	-	275	105	-	33,957	34,337	-	34,337
Total expenses	-	553,223	30,936	9,409	1,185,185	1,778,753	(35,849)	1,742,904
Loss from operations	-	(7,255)	(202)	(9,409)	(5,226)	(22,092)	(7,427)	(29,519)
Nonoperating gains:								
Investment income	185	154	28	(63)	26,397	26,701	(185)	26,516
Excess (deficiency) of revenue over expenses before noncontrolling interest and income taxes	185	(7,101)	(174)	(9,472)	21,171	4,609	(7,612)	(3,003)
Noncontrolling interest in net income of consolidated subsidiary	-	-	(105)	-	-	(105)	-	(105)
Provision for income taxes	74	(2,427)	88	(13)	16,887	14,609	-	14,609
Excess (deficiency) of revenue over expenses	111	(4,674)	(157)	(9,459)	4,284	(9,895)	(7,612)	(17,507)
Unrestricted net assets:								
Change in net unrealized gains and losses on other-than-trading securities	(5,005)	-	-	9,489	-	4,484	(4,484)	-
Pension related changes other than net period pension costs, net of deferred taxes	-	-	-	10,989	-	10,989	-	10,989
Health Alliance dividend	-	-	-	-	(13,284)	(13,284)	13,284	-
Equity transfer from affiliates	20,000	20,000	-	-	-	40,000	(20,000)	20,000
Other	-	(174)	-	-	5,205	5,031	(5,031)	-
Change in unrestricted net assets	$ 15,106	$ 15,152	$ (157)	$ 11,019	$ (3,795)	$ 37,325	$ (23,843)	$ 13,482

* Gain resulting from sale of CMS contract of Medicare Advantage lives

See accompanying notes to supplementary schedules and independent auditors' report.

The Carle Foundation **Schedule 7**

Supplementary Information - Combining Balance Sheet

December 31, 2015

(Dollars in thousands)

Assets	Obligated Group	Obligated Group Unconsolidated Subsidiaries	Combined Obligated Group	Hoopeston	Development	CHA Holding	Health Systems	Eliminations and Reclassifications	Consolidated Foundation
Current assets:									
Cash and cash equivalents	$ 82,802	$ 281	$ 83,083	$ 4,034	$ -	$ 105,191	$ -	-	$ 192,308
Investments	202,510	-	202,510	-	-	164,243	-	-	366,753
Assets limited as to use or restricted	18,573	-	18,573	-	-	2,147	9,667	-	30,387
Patient receivables, net	134,752	4,088	138,840	5,305	-	-	-	(36,193)	107,952
Premiums receivable	-	-	-	-	-	366,457	-	-	366,457
Intercompany receivables	-	-	-	-	773	-	-	(773)	-
Reinsurance recoverable	-	-	-	-	-	7,878	2,690	-	10,568
Other receivables	130,019	61	130,080	243	84	77,867	-	(122,076)	86,198
Inventories	9,215	-	9,215	-	-	-	-	-	9,215
Prepaid expenses	12,351	182	12,533	168	3	1,529	222	(403)	14,052
Total current assets	590,222	4,612	594,834	9,750	860	725,312	12,579	(159,445)	1,183,890
Property and equipment, net	554,910	2,612	557,522	16,614	472	1,810	-	-	576,418
Investments and other assets:									
Investments, net of current portion	644,575	-	644,575	-	8,938	267	-	-	653,780
Assets limited as to use or restricted, net of current portion	-	-	-	4,157	76,833	5,354	110,850	-	197,194
Investment in unconsolidated subsidiaries	15,078	(15,078)	-	-	-	-	-	-	-
Interest rate swap agreements	4,656	-	4,656	-	-	-	-	-	4,656
Reinsurance recoverable, net of current portion	-	-	-	-	-	-	7,721	-	7,721
Intangible assets and goodwill	-	9,485	9,485	4,445	-	117,442	-	-	131,372
Deferred taxes	-	-	-	-	-	21,385	-	-	21,385
Other assets	251,940	-	251,940	40	25	-	-	(247,435)	4,570
Total investments and other assets	916,249	(5,593)	910,656	8,642	85,796	144,448	118,571	(247,435)	1,020,678
Total assets	$ 2,061,381	$ 1,631	$ 2,063,012	$ 35,006	$ 87,128	$ 871,570	$ 131,150	$ (406,880)	$ 2,780,986

See accompanying notes to supplementary schedules and independent auditors' report.

The Carle Foundation **Schedule 7, Continued**

Supplementary Information - Combining Balance Sheet

December 31, 2015

(Dollars in thousands)

Liabilities and Net Assets	Obligated Group	Obligated Group Unconsolidated Subsidiaries	Combined Obligated Group	Hoopeston	Development	CHA Holding	Health Systems	Eliminations & Reclassifications	Consolidated Foundation
Current liabilities:									
Accounts payable	$ 17,729	383	$ 18,112	$ 446	$ 11	$ 4,402	$ -	$ -	$ 22,971
Intercompany payables	-	-	-	26,844	-	289,212	762	(316,818)	-
Short-term borrowings	-	-	-	-	-	150,000	-	(50,000)	100,000
Current maturities of long-term debt	12,328	-	12,328	571	-	-	-	(152)	12,747
Estimated third-party payor settlements	50,784	491	51,275	1,897	-	-	-	-	53,172
Medical claims payable	-	-	-	-	-	218,070	-	(36,193)	181,877
Current portion of estimated liability for self-insurance losses	11,807	-	11,807	-	-	-	9,667	110	21,584
Current portion of retirement plan benefits obligation	-	-	-	-	-	12,000	-	-	12,000
Compensation and paid leave payable	76,617	499	77,116	1,135	124	9,713	-	-	88,088
Other accrued liabilities	31,588	97	31,685	(76)	-	61,722	4,530	(403)	97,458
Total current liabilities	200,853	1,470	202,323	30,817	135	745,119	14,959	(403,456)	589,897
Long-term liabilities:									
Long-term debt, net of current maturities	534,613	-	534,613	9,597	-	2,000	-	(3,424)	542,786
Interest rate swap agreements	19,269	-	19,269	-	-	-	-	-	19,269
Asset retirement obligation	6,294	-	6,294	144	-	-	-	-	6,438
Estimated liability for self-insurance losses, net of current portion	12,856	44	12,900	-	-	5,844	50,747	-	69,491
Retirement plan benefits obligation, net of current	-	-	-	-	-	101,137	-	-	101,137
Other accrued liabilities	41,241	-	41,241	-	152	11,975	-	-	53,368
Total long-term liabilities	614,273	44	614,317	9,741	152	120,956	50,747	(3,424)	792,489
Total liabilities	815,126	1,514	816,640	40,558	287	866,075	65,706	(406,880)	1,382,386
Net assets:									
Common stock	-	-	-	-	-	-	1,800	(1,800)	-
Unrestricted	1,246,255	117	1,246,372	(9,200)	74,476	5,495	63,644	1,800	1,382,587
Temporarily restricted	-	-	-	56	10,247	-	-	-	10,303
Permanently restricted	-	-	-	3,592	2,118	-	-	-	5,710
Total net assets	1,246,255	117	1,246,372	(5,552)	86,841	5,495	65,444	-	1,398,600
Total liabilities and net assets	$ 2,061,381	$ 1,631	$ 2,063,012	$ 35,006	$ 87,128	$ 871,570	$ 131,150	$ (406,880)	$ 2,780,986

See accompanying notes to supplementary schedules and independent auditors' report.

The Carle Foundation **Schedule 8**

Supplementary Information - Combining Statement of Operations

Year Ended December 31, 2015

(Dollars in thousands)

	Obligated Group	Obligated Group Unconsolidated Subsidiaries	Combined Obligated Group	Hoopeston	Development	CHA Holding	Health Systems	Eliminations and Reclassifications	Consolidated Foundation
Revenue:									
Patient service revenue (net of contractual allowances)	$ 924,728	$ 23,398	$ 948,126	$ 46,491	$ -	$ -	$ -	$ (261,954)	$ 732,663
Benefit from (provision for) bad debts	11,732	(270)	11,462	(370)	-	-	-	-	11,092
Net patient service revenue	936,460	23,128	959,588	46,121	-	-	-	(261,954)	743,755
Net premium revenue - patient care	-	-	-	-	-	1,701,442	-	(436)	1,701,006
Other revenue:									
Rental income	16,331	-	16,331	20	-	-	-	-	16,351
Net premium expense–general and professional liability	-	-	-	-	-	-	2,874	(2,874)	-
Net assets released from restrictions	-	-	-	3	1,684	-	-	-	1,687
Gain (loss) on the disposal of property and equipment	1	(4)	(3)	-	-	-	-	-	(3)
Internal fees	-	1,711	1,711	-	-	-	-	(1,711)	-
Other	50,846	301	51,147	517	308	11,943	1,052	(34,535)	30,432
Total revenue	1,003,638	25,136	1,028,774	46,661	1,992	1,713,385	3,926	(301,510)	2,493,228
Expenses:									
Salaries and wages	449,347	5,902	455,249	14,238	823	44,357	-	(183)	514,484
Employee benefits	93,653	1,672	95,325	4,176	196	20,312	-	(2,684)	117,325
Medical benefits of insured	-	-	-	-	-	1,558,514	-	(262,339)	1,296,175
Patient care and other supplies	149,830	4,267	154,097	4,583	6	766	-	4	159,456
Purchased services	48,273	786	49,059	2,306	110	53,673	-	(5,235)	99,913
General and administrative	103,205	4,805	108,010	23,653	4,576	12,107	-	(28,418)	119,928
Insurance	6,183	266	6,449	484	1	702	11,290	(2,874)	16,052
Depreciation and amortization	52,054	710	52,764	2,058	4	11,107	-	-	65,933
Interest and financing expense	20,418	28	20,446	355	-	7,029	-	(3,442)	24,388
Real estate and other taxes	13,660	(34)	13,626	403	-	34,337	-	-	48,366
Change in fair value of derivative instruments	(1,495)	-	(1,495)	-	-	-	-	-	(1,495)
Total expenses	935,128	18,402	953,530	52,256	5,716	1,742,904	11,290	(305,171)	2,460,525
Income (loss) from operations	68,510	6,734	75,244	(5,595)	(3,724)	(29,519)	(7,364)	3,661	32,703
Nonoperating gains:									
Investment income	58,778	-	58,778	16	6,384	26,516	4,540	(3,661)	92,573
Gain on unconsolidated subsidiaries	6,642	(6,642)	-	-	-	-	-	-	-
Nonoperating gains, net	65,420	(6,642)	58,778	16	6,384	26,516	4,540	(3,661)	92,573
Excess (deficiency) of revenue over expenses, before noncontrolling interest and income taxes	133,930	92	134,022	(5,579)	2,660	(3,003)	(2,824)	-	125,276
Noncontrolling interest in net loss of consolidated subsidiary	-	-	-	-	-	(105)	-	-	(105)
Provision for income taxes	2,537	37	2,574	1	-	14,609	-	-	17,184
Excess (deficiency) of revenue over expenses	$ 131,393	$ 55	$ 131,448	$ (5,580)	$ 2,660	$ (17,507)	$ (2,824)	$ -	$ 108,197

See accompanying notes to supplementary schedules and independent auditors’ report.

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

Organization:

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

a. The Carle Foundation Hospital (Hospital) comprises the following:
   - Hospital Division, which includes operation of a licensed 393-bed hospital, a certified home health agency, and a certified hospice
   - Carle Medical Supply (Medical Supply), a provider of medical equipment and supplies to the general public and hospital patients
   - Danville Surgery Center and outpatient surgical recovery centers located in Champaign and Danville, Illinois (DASC)

b. Carle Health Care Incorporated (Health Care) comprises the following:
   - Carle Physician Group (Physician Group), which operates as a private, multispecialty, group medical practice
   - Airlife, which operates an air medical transport service and The Caring Place day care center (Other Entities)

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

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

a. Obligated Group Unconsolidated Subsidiaries comprises the following:
   - Champaign Surgicenter, LLC (Surgicenter), a free-standing ambulatory surgery center located in Champaign, Illinois
   - Arrow Ambulance, LLC (Arrow), which operates an ambulance transport
   - Carle Risk Management Company (Risk Management), which provides professional liability insurance claims processing and management services to the Foundation
   - eValiData, Inc. (eValiData), which provides physician credentialing services to the Foundation and external organizations

b. Non-Obligated Group Affiliates comprises the following:
   - Hoopeston Community Memorial Hospital (Hoopeston) operates a 24-bed Critical Access Hospital and Rural Health Clinics.
   - The Carle Development Foundation (Development) operates the Carle Center for Philanthropy (Philanthropy Center), which is engaged in fund-raising activities and is the sole member of Carle Community Health Corporation (Community Health), which is engaged in funding charitable, scientific, and educational community-based health care initiatives.

Organization (Continued):

- CHA Holding, Inc. (CHA Holding) is the sole stockholder of Carle Holding Company, Inc. (Carle Holding), the sole member of Health Alliance Connect, Inc. (HA Connect), and has a 60% membership interest in Health Alliance Northwest Holding, Inc. (HANW Holding). Carle Holding is the sole owner of Health Alliance Medical Plans, Inc. and its subsidiaries (Health Alliance), which is a licensed life, accident, and health insurance company. HA Connect provides health care services to its enrollees, which include beneficiaries of governmental programs, such as Medicaid Family Health Plan, Medicaid ACA Adult, Medicaid Seniors and Persons with Disabilities, Medicare Advantage, Medicare-Medicaid Alignment Initiative, and Dual Special Needs Plan. HANW Holding is a noninsurance company in the state of Washington established for the purpose of owning Health Alliance Northwest Health Plan, Inc. (HANW Health Plan), a Washington health care contractor.
- Health Systems Insurance, Limited (Health Systems), an offshore captive insurance company, established to underwrite the general and professional liability risks of the Foundation

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