RECEIVED

JUL 3 1 2015

HEALTH FACILITIES &
SERVICES REVIEW BOARD

Carle

Carle Foundation Hospital

611 West Park Street, Urbana, IL 61801-2595

July 31, 2015

Collin Anderson
(217) 383-8364
Collin.Anderson@Carle.com

Mr. Michael Constantino
Illinois Health Facilities and Services Review Board
525 West Jefferson Street
Springfield, Illinois 62761

Re: 15-031

Dear Mr. Constantino:

Thank you for your email inquiry on 7/28/15. I appreciate your review of this project. In response to your specific inquiries please note the following:

- With regard to alternatives considered, please find attached a revised version of Attachment- 13.

- With regard to project costs, in responding to your inquiry, we realized that we didn't appropriately categorize project costs and we have included an updated Project Costs and Sources of Funds worksheet along with an updated Attachment-7. We inadvertently imbedded bond issuance and interest costs into overall project costs. Also, on closer examination we concluded that certain of the costs we had included in other costs to be capitalized are better categorized elsewhere. In the attached revised project costs and sources of funds worksheet and itemized project costs (Attachment-7), the expected bond issuance cost of $541,500 and net interest expense ($758,500) have been itemized. As you can see, the total project cost is not changing.

- Please find attached a letter attesting that Carle will achieve and maintain target utilization by two years after project completion. The original will be sent via FedEx.

- Please find attached Carle's most recent audited financial statement for the period ending December 31, 2014.

- In connection with the cost of bond issue, Carle expects a cost of 2% which is the standard cost for any issue under current market conditions. We have also included as Attachment-36 the anticipated terms of the debt financing.

- Finally, please find attached a copy of the Standard & Poor's Rating Services Research report dated January 5, 2015 which discusses the rating agency's rationale supporting the A bond rating as referenced in the bond rating letter.

Please feel free to contact me as needed.

Sincerely,

Collin Anderson
Business Development & Regulatory Coordinator
Carle Foundation Hospital

Alternatives to the Proposed Project

The Applicants propose to expand their existing two story outpatient medical office building located at 1701 W. Curtis Road in Champaign, Illinois. They believe that the proposed project is the most effective and least costly alternative to the other alternatives considered when balancing access and quality with costs. The following narrative consists of a comparison of the proposed project to alternative options.

The Applicants have considered a number of alternatives as follows:

A) Proposing a project of greater or lesser scope and cost.

There are several options in this category.

Project of Lesser Scope: Do Nothing ($0)

This option would not address the growing importance of outpatient primary care and specialty services described throughout this application and would, therefore, result in a deterioration of patient access over time. Furthermore, doing nothing would not improve patient access to preventative services and ongoing supervision of chronic medical conditions which are more effectively managed with consistent monitoring. As a result, if patient demand for physician services is not met, health care costs will not be reduced.

Under this option, patient access and the cost of providing care would be adversely affected. For these reasons, this alternative was rejected.

Project of Lesser Scope: Decrease Project Costs by Reducing Scale ($20,000,000)

The Applicants believe that the Project is conservative given current and anticipated demand for services. If the scope of the Project was contracted, additional expansions at this site or other Carle locations would be required in the not too distant future to accommodate projected demand. Multiple smaller projects can ultimately be more costly than a single project.

Under this option, project costs would be reduced in the short term, but would increase in the long term. For this reason, this alternative was rejected.

Project of Greater Scope: Build an Additional Facility Rather than Expanding Existing Location ($30,000,000)

This alternative was considered since capacity may again be an issue within five years. However, due to future uncertainties, the Applicants opted for a more measured approach. If volumes continue to grow as anticipated, the Applicants will add additional space in the future at one or more of its ambulatory care locations.

Alternatives to the Proposed Project

B) Pursuing a joint venture or similar arrangement with one or more providers or entities to meet all or a portion of the project's intended purposes; developing alternative settings to meet all or a portion of the project's intended purposes.

In the past, Carle has pursued strategic partnerships for special service lines such as inpatient rehab services, but the project involves core services and would not be appropriate for joint venture arrangements.

For this reason, this alternative was rejected.

C) Utilizing other health care resources that are available to serve all or a portion of the population proposed to be served by the project.

Expand Windsor Road Primary Care Clinic ($30,000,000)

Carle considered renovating its other primary care clinic in Champaign-Urbana (Windsor Rd.) instead of or in addition to its Curtis Road Clinic. However, after careful consideration, Carle ultimately decided to add all of the additional capacity at the Curtis Rd. location. If Carle were to split the renovated space between both locations, it would incur additional construction expense. A second renovation would also result in additional disruptions due to construction noise and debris. Conversely, an analysis of population growth within the community clearly showed that southwest Champaign near the Curtis Road location will be a source of significant population growth moving forward.

Under this option, project cost would increase and patient satisfaction would be adversely impacted or fewer patients would gain access to services. For these reasons, this alternative was rejected.

D) Expand the existing two story outpatient medical office building located at 1701 W. Curtis Road (Proposed). ($28,500,000)

The chosen option will improve patient access by ensuring adequate office space to meet forecasted volumes. It will also improve operational efficiency and reduce healthcare costs.

For all of these reasons, this option is the one chosen for the proposed project.

Project Costs			
USE OF FUNDS	**CLINICAL**	**NONCLINICAL**	**TOTAL**
Preplanning Costs			
Preliminary Design	$133,614	$124,070	$257,684
Precon Budgets	$59,172	$62,035	$121,207
Total	**$192,786**	**$186,105**	**$378,891**
Site Survey and Soil Investigation	**$66,807**	**$66,807**	**$133,614**
Site Preparation	**$544,000**	**$648,982**	**$1,192,982**
Off Site Work	**$190,877**	**$811,228**	**$1,002,105**
New Construction Contracts	**$10,464,842**	**$4,309,053**	**$14,773,895**
Modernization Contracts	**$1,008,786**	**$305,404**	**$1,314,189**
Contingencies			
New Construction	$994,160	$409,360	$1,403,520
Modernization	$144,456	$39,531	$183,987
Total	**$1,138,616**	**$448,891**	**$1,587,507**
Architectural Fees			
New Construction	$668,070	$453,333	$1,121,404
Modernization	$90,667	$47,719	$138,386
Total	**$758,737**	**$501,053**	**$1,259,789**
Consulting and Other Fees			
IDPH Permits	$23,860	$23,860	$47,719
City Permits	$124,070	$124,070	$248,140
Special Inspections	$71,579	$119,298	$190,877
Commissioning	$47,719	$66,807	$114,526
CON Fees/Expenses	$95,439	$95,439	$190,877
Consultants	$114,526	$176,561	$291,088
Code Review	$47,719	$71,579	$119,298

IT Planning	$66,807	$95,439	$162,246
Security Planning	$28,632	$28,632	$57,263
Total	**$620,351**	**$801,684**	**$1,422,035**
Movable or Other Equipment (not in construction contracts)			
Equipment General	$1,192,982	$954,386	$2,147,368
Furniture	$286,316	$429,474	$715,789
Secuirty Access/Cameras	$47,719	$82,554	$130,274
IT/Telecom	$171,789	$310,175	$481,965
Signs /Wayfinding	$40,561	$64,536	$105,097
Lab Equipment	$95,439	$82,077	$177,516
Equipment Certification	$0	$47,719	$47,719
Radiology Equipment Testing	$47,719	$0	$47,719
Total	**$1,882,526**	**$1,970,922**	**$3,853,448**
Bond Issuance Expense (project related)	**$335,816**	**$205,684**	**$541,500**
Net Interest Expense During Construction (project related)	**$470,391**	**$288,109**	**$758,500**
Fair Market Value of Leased Space or Equipment	**$0**	**$0**	**$0**
Other Costs To Be Capitalized	**$0**	**$281,544**	**$281,544**
Surface Parking Lots, Temporary Roads & Lighting	$0	$281,544	$281,544
Acquisition of Building or Other Property (excluding land)	**$0**	**$0**	**$0**
TOTAL USES OF FUNDS	**$17,674,535**	**$10,825,465**	**$28,500,000**

Project Costs and Sources of Funds

Complete the following table listing all costs (refer to Part 1120.110) associated with the project. When a project or any component of a project is to be accomplished by lease, donation, gift, or other means, the fair market or dollar value (refer to Part 1130.140) of the component must be included in the estimated project cost. If the project contains non-reviewable components that are not related to the provision of health care, complete the second column of the table below. Note, the use and sources of funds must equal.

Project Costs and Sources of Funds			
USE OF FUNDS	**CLINICAL**	**NONCLINICAL**	**TOTAL**
Preplanning Costs	$192,786	$186,105	$378,891
Site Survey and Soil Investigation	$66,807	$66,807	$133,614
Site Preparation	$544,000	$648,982	$1,192,982
Off Site Work	$190,877	$811,228	$1,002,105
New Construction Contracts	$10,464,842	$4,309,053	$14,773,895
Modernization Contracts	$1,008,786	$305,404	$1,314,189
Contingencies	$1,138,616	$448,891	$1,587,507
Architectural/Engineering Fees	$758,737	$501,053	$1,259,789
Consulting and Other Fees	$620,351	$801,684	$1,422,035
Movable or Other Equipment (not in construction contracts)	$1,882,526	$1,970,922	$3,853,448
Bond Issuance Expense (project related)	$335,816	$205,684	$541,500
Net Interest Expense During Construction (project related)	$470,391	$288,109	$758,500
Fair Market Value of Leased Space or Equipment	$0	$0	$0
Other Costs To Be Capitalized	$0	$281,544	$281,544
Acquisition of Building or Other Property (excluding land)	$0	$0	$0
TOTAL USES OF FUNDS	**$17,674,535**	**$10,825,465**	**$28,500,000**
SOURCE OF FUNDS	**CLINICAL**	**NONCLINICAL**	**TOTAL**
Cash and Securities	$883,727	$541,273	$1,425,000
Pledges			
Gifts and Bequests			
Bond Issues (project related)	$16,790,808	$10,284,192	$27,075,000
Mortgages			
Leases (fair market value)			
Governmental Appropriations			
Grants			
Other Funds and Sources			
TOTAL SOURCES OF FUNDS	**$17,674,535**	**$10,825,465**	**$28,500,000**

NOTE: ITEMIZATION OF EACH LINE ITEM MUST BE PROVIDED AT ATTACHMENT-7, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

1120.140 Economic Feasibility
C. Reasonableness of Project and Related Costs

The Applicants propose to expand their existing two story outpatient medical office building.

The table below shows the cost and gross square foot allocation for all clinical departments impacted by the proposed project.

Cost and Gross Square Feet by Department of Service									
Department (list below)	A	B	C	D	E	F	G	H	Total Cost (G + H)
	Cost / sf		Gross sf		Gross sf		Const $ (A x C)	Mod $ (B x E)	
	New	Mod	New	Circ	Mod	Circ			
Medical Office Building	$183.98	$132.13	59,600		8,000		$10,965,000	$1,041,675	$12,006,675
Contingency	$17.48	$18.92	59,600		8,000		$1,057,000	$151,360	$1,208,360
TOTALS	$201.45	$151.05	59,600		8,000		$12,022,000	$1,193,035	$13,215,035

The values in column C reflect the total gross square footage

Circulation is 23.1% of the gross square footage.

The following is documentation regarding whether the estimated project costs are reasonable and in compliance with the state standards, as defined in Section 1120.140 (C) of the Administrative Code,

1. Preplanning costs are 1.33% of the sum of new construction, modernization, contingency, and equipment costs, which is under the state standard of 1.8%. Therefore this item is compliant with the state standard.

2. Site survey, soil investigation, or site preparation costs are 4.84% of construction and contingency costs, which is under the state standard of 5.0%. Therefore this item is compliant with the state standard.

3. Off-site work costs total $190,877. There is no state standard for off-site work.

4. New construction and contingency costs are $192.27 per gsf, compared with the 3rd quartile of the RS Means standard of $221.45/gsf. Therefore this item is compliant with the state standard.

5. Modernization and contingency costs are $144.16 per gsf, compared with the 3rd quartile of the RS Means standard of $155.02/gsf. Therefore this item is compliant with the state standard.

1120.140 Economic Feasibility
C. Reasonableness of Project and Related Costs

6. The new construction contingency is 9.5% of new construction contracts, compared with the state standard of 10% for projects in the schematics stage. Therefore this item is compliant with the state standard.

7. The modernization contingency is 14.3% of modernization contracts, compared with the state standard of 15% for projects in the schematics stage. Therefore this item is compliant with the state standard.

8. New Construction Architectural and Engineering Fees are 5.8% of the sum of new construction contracts plus contingencies. This is within the state standard of 4.94-7.42% for a new construction budget under $15,000,000. Therefore this item is compliant with the state standard.

9. Modernization Architectural and Engineering Fees are 7.9% of the sum of modernization contracts plus contingencies. This is within the state standard of 6.90-10.36% for a modernization budget under $1,250,000. Therefore this item is compliant with the state standard.

10. Consulting and Other Fees total $620,351. There is no state standard for Consulting and Other Fees.

11. Movable or Other Equipment (Not in Construction Contracts) costs total $1,882,526. There is no applicable state standard for Movable and Other Equipment for this project.

12. Bond issuance expense totals $335,816. There is no applicable state standard for bond issuance expense.

13. Net Interest Expense during Construction totals $470,391.There is no applicable state standard for Net Interest Expense.

14. There is no Fair Market Value of Leased Space or Equipment associated with the proposed project.

15. Other Costs to Be Capitalized are $0. There is no state standard for Other Costs to Be Capitalized.

16. There is no Acquisition of Building or Other Property cost associated with the proposed project. Therefore this item is not applicable.

Carle

Carle Foundation Hospital
611 West Park Street, Urbana, IL 61801-2595

Kathryn J. Olson
Chair
Illinois Health Facilities and Services Review Board
525 West Jefferson Street, 2nd Floor
Springfield, Illinois 62761

Re: Projected Utilization Assurance

Dear Chair Olson:

In determining the space required for general x-ray procedures, Carle assessed its historical utilization for the last three years and expects at least 14,074 x-ray procedures in the second full fiscal year of operation. Carle Foundation Hospital attests that these estimates were made in reliance on current trends in utilization for the services currently provided by Carle and they are made in good faith as we believe these trends will continue.

Sincerely,

Stephanie Beever

The Carle Foundation
Carle Foundation Hospital

Subscribed and sworn to me
This 31 day of July, 2015

Diana L Quigg

Notary Public

OFFICIAL SEAL
DIANA L. QUIGG
NOTARY PUB... STATE OF ILLINOIS
MY COMMISSION EXPIRES 2/11/2018

The Carle Foundation

Consolidated Financial Statements and Supplementary Schedules
December 31, 2014 and 2013

(With Independent Auditors' Report Thereon)

(This page has been intentionally left blank.)

Table of Contents

KPMG

KPMG LLP
Aon Center
Suite 5500
200 East Randolph Drive
Chicago, IL 60601-6436

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, 2014 and 2013, 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, 2014 and 2013, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP is a Delaware limited liability partnership,
the U.S. member firm of KPMG International Cooperative
("KPMG International"), a Swiss entity.

KPMG

Other Matter

Our audits were 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 13, 2015

The Carle Foundation
Consolidated Balance Sheets
December 31, 2014 and 2013
(Dollars in thousands)

Assets		**2014**	2013
Current assets:			
Cash and cash equivalents		$ **55,657**	$ 42,888
Investments	(Notes 3, 4, and 5)	**425,879**	393,725
Assets limited as to use or restricted	(Notes 3, 4, and 5)	**29,400**	29,996
Patient receivables, net	(Notes 8 and 19)	**107,085**	109,359
Premiums receivable	(Note 19)	**340,423**	318,182
Reinsurance recoverable	(Note 15)	**7,379**	2,874
Other receivables		**53,922**	42,299
Inventories		**9,424**	7,027
Prepaid expenses		**10,680**	10,654
Total current assets		**1,039,849**	957,004
Property and equipment, net	(Note 9)	**560,390**	536,206
Investments and other assets:			
Investments, net of current portion	(Notes 3, 4, and 5)	**648,135**	595,246
Assets limited as to use or restricted, net of current portion	(Notes 3, 4, and 5)	**210,367**	228,931
Interest rate swap agreements	(Notes 4 and 14)	**3,181**	3,907
Reinsurance recoverable, net of current portion	(Note 15)	**8,398**	21,054
Intangible assets and goodwill	(Note 10)	**141,893**	152,689
Deferred taxes	(Note 11)	**21,638**	-
Other assets		**4,862**	5,434
Total investments and other assets		**1,038,474**	1,007,261
Total assets		**$ 2,638,713**	$ 2,500,471

(Continued)

Liabilities and Net Assets		2014	2013
Current liabilities:			
Accounts payable		$ 25,024	$ 18,175
Short-term borrowings	(Note 13)	100,000	100,000
Current maturities of long-term debt	(Note 13)	7,955	38,599
Estimated third-party payor settlements	(Note 6)	44,854	32,519
Medical claims payable	(Note 12)	140,960	113,358
Current portion of estimated liability for self-insurance losses	(Note 15)	16,716	20,669
Deferred taxes	(Note 11)	6,561	9,052
Current portion of retirement plan benefits obligation	(Note 16)	12,000	12,000
Compensation and paid leave payable		81,716	80,964
Other accrued liabilities		62,758	58,622
Total current liabilities		498,544	483,958
Long-term liabilities:			
Long-term debt, net of current maturities	(Note 13)	553,586	596,495
Interest rate swap agreements	(Notes 4 and 14)	19,289	11,875
Asset retirement obligation	(Note 2)	6,547	6,664
Deferred taxes	(Note 11)	-	12,339
Estimated liability for self-insurance losses, net of current portion	(Note 15)	75,372	101,272
Retirement plan benefits obligation, net of current portion	(Note 16)	116,116	36,803
Other accrued liabilities		21,712	15,693
Total long-term liabilities		792,622	781,141
Total liabilities		1,291,166	1,265,099
Net assets:			
Unrestricted		1,331,385	1,219,027
Temporarily restricted		10,706	11,009
Permanently restricted		5,456	5,336
Total net assets		1,347,547	1,235,372
Total liabilities and net assets		$ 2,638,713	$ 2,500,471

The Carle Foundation
Consolidated Statements of Operations and Changes in Net Assets
Years Ended December 31, 2014 and 2013
(Dollars in thousands)

		2014	2013
Revenue:			
Patient service revenue (net of contractual allowances)		$ 723,392	$ 698,799
Provision for bad debts	(Note 7)	(13,635)	(41,120)
Net patient service revenue	(Notes 2 and 6)	709,757	657,679
Net premium revenue–health insurance		1,296,242	1,129,087
Other revenue:			
Rental income		15,556	14,485
Net assets released from restrictions		1,597	1,169
Gain (loss) on the disposal of property and equipment	(Note 1)	(2,824)	2,066
Other		34,573	35,292
Total revenue		2,054,901	1,839,778
Expenses:			
Salaries and wages		477,841	431,037
Employee benefits	(Note 15 and 16)	97,999	92,767
Medical benefits of insured		942,232	778,489
Patient care and other supplies		141,157	133,877
Purchased services		78,069	64,615
General and administrative		87,674	81,864
Insurance	(Note 15)	2,109	8,008
Depreciation and amortization	(Note 10)	62,058	54,739
Interest and financing expense	(Note 13)	26,239	27,485
Real estate and other taxes	(Notes 6 and 17)	36,790	20,768
Change in fair value of derivative instruments	(Note 14)	8,140	(11,818)
Total expenses		1,960,308	1,681,831
Income from operations		94,593	157,947
Nonoperating gains:			
Investment income	(Note 3)	80,492	91,226
Excess of revenue over expenses, before noncontrolling interest and income taxes		175,085	249,173
Noncontrolling interest in net income of consolidated subsidiaries		62	1,453
Provision for income taxes	(Note 11)	201	16,006
Excess of revenue over expenses		$ 174,822	$ 231,714

See accompanying notes to consolidated financial statements.

(Continued)

		2014	2013
Unrestricted net assets:			
Excess of revenue over expenses		$ 174,822	$ 231,714
Change in net unrealized gains and losses on other-than-trading securities	(Note 3)	(2,952)	42,488
Pension related changes other than net period pension costs, net of deferred taxes–$31,960 (2014) and ($23,937) (2013)	(Note 16)	(59,376)	47,078
Other		(136)	-
Increase in unrestricted net assets		112,358	321,280
Temporarily restricted net assets:			
Contributions		1,067	1,210
Investment Income	(Note 3)	195	208
Change in net unrealized gains and losses on other-than-trading securities	(Note 3)	(25)	129
Net assets released from restrictions		(1,597)	(1,169)
Other		57	-
Increase (decrease) in temporarily restricted net assets		(303)	378
Permanently restricted net assets:			
Contributions		107	131
Change in value of beneficial interest in perpetual trust		13	9
Increase in permanently restricted net assets		120	140
Change in net assets		112,175	321,798
Net assets, beginning of year		1,235,372	913,574
Net assets, end of year		$ 1,347,547	$ 1,235,372

See accompanying notes to consolidated financial statements.

The Carle Foundation
Consolidated Statements of Cash Flows
Years Ended December 31, 2014 and 2013
(Dollars in thousands)

	2014	2013
Cash flows from operating activities:		
Change in net assets	**$ 112,175**	$ 321,798
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	**62,059**	54,739
Loss on disposal of property and equipment	**(175)**	933
Provision for bad debts	**13,635**	41,120
Amortization of deferred financing costs and original issue discount/premium	**943**	296
Change in value of beneficial interest of perpetual trust	**(13)**	-
Net realized and unrealized gains and losses on investments	**(40,479)**	(100,626)
Accretion on asset retirement obligation	**(117)**	(33)
Change in fair value of derivative instruments	**8,140**	(11,818)
Loss on purchase of membership interest in Champaign Surgicenter, LLC (Surgicenter)	**2,999**	-
Gain on sale of membership interest in Surgicenter	**-**	(2,999)
Donated capital and permanently restricted contributions	**(64)**	(131)
Change in retirement plan benefits obligation	**79,313**	(79,620)
Changes in assets and liabilities:		
(Increase) decrease in:		
Receivables	**(45,418)**	(54,532)
Reinsurance recoverable	**8,151**	2,254
Inventories	**(2,397)**	(885)
Prepaid expenses	**(26)**	(3,811)
Increase (decrease) in:		
Accounts payable and accrued expenses	**20,757**	8,039
Medical claims payable	**27,602**	(38,622)
Third-party payor settlements	**12,335**	5,834
Self-insurance liability	**(29,853)**	(7,846)
Deferred taxes	**(36,468)**	26,420
Net cash provided by operating activities	**193,099**	160,510

See accompanying notes to consolidated financial statements.

(Continued)

	2014	2013
Cash flows from investing activities:		
Proceeds from maturities and sales of investments	$ 153,315	$ 330,621
Purchases of investments	(178,513)	(381,248)
Proceeds from sale of property and equipment	925	2,023
Purchase and construction of property and equipment	(76,197)	(119,075)
Proceeds from sale of membership interest in Surgicenter	-	6,000
Purchase of membership interest in Surgicenter	(6,000)	-
(Increase) decrease in other assets, excluding amortization of deferred financing costs	(480)	4,344
Net cash used in investing activities	(106,950)	(157,335)
Cash flows from financing activities:		
Proceeds from short-term borrowings	364,000	345,000
Payments on short-term borrowings	(364,000)	(312,037)
Proceeds from long-term debt	26,095	-
Payments on long-term debt	(99,539)	(40,769)
Donated capital and permanently restricted contributions	64	131
Net cash used in financing activities	(73,380)	(7,675)
Net increase (decrease) in cash and cash equivalents	12,769	(4,500)
Cash and cash equivalents:		
Beginning	42,888	47,388
Ending	$ 55,657	$ 42,888
Supplemental disclosures of cash flow information:		
Cash payments for interest	$ 24,163	$ 29,631
Net cash payment for taxes	9,411	10,252

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 413 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. Until May 31, 2013, Health Care operated Carle Foundation Physician Services (Physician Services) a physician practice. Effective June 1, 2013, physicians and other professional staff who had provided services under Physician Services began providing those services as Physician Group providers. 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 the dissolution of the partnership, Surgicenter distributed \$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 seven 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. In 2014, Carle began the restructuring of its insurance business operations. The initial step of the restructuring process was the creation of CHA Holding, Inc. (CHA Holding), a taxable not-for-profit entity. The Foundation is the sole member of CHA Holding. The Foundation subsequently contributed Carle Holding Company, Inc. (Carle Holding), its membership interest in Health Alliance Northwest Holding, Inc. (HANW Holding), and Health Alliance Connect, Inc. (HA Connect) 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 is a taxable entity acquired through the Foundation acquisition of the Clinic on April 1, 2010. Carle Holding 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 325,300 and 280,000 members at December 31, 2014 and 2013, 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. Health Care Horizons, Inc. (HCH), which was acquired by Health Alliance on July 1, 2008, had engaged in the business of processing health and medical claims but ceased operations by the end of 2012. A formal plan of liquidation of HCH and its subsidiaries was completed on March 31, 2014.

   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.

   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 include beneficiaries of governmental programs, such as Medicaid Family Health Plan, Medicaid ACA Adult, Medicaid Seniors and Persons with Disabilities, Medicare-Medicaid Alignment Initiative and Dual Special Needs Plan. HA Connect had approximately 70,900 members as of December 31, 2014. Health Alliance sold the Medicare-Medicaid Alignment Initiative and the Medicaid Seniors and Persons with Disabilities membership lives to HA Connect in 2014, effectively January 1, 2015. Membership in these two programs totaled approximately 11,800 and 5,000 at December 31, 2014 and 2013, respectively.

   CHA Holding, Carle Holding, Health Alliance, HAMW, HANW Holding, and HA Connects 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, was established to underwrite the Foundation's general and professional liability risks and, beginning in 2012, its 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 Measurements*, 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 $2,739 and $2,804 at December 31, 2014 and 2013, 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 10.0% at December 31, 2014 and 2013.

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.

Note 2. Summary of Significant Accounting Policies (Continued)

The investments held by Health Alliance 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.

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, including both charity care and bad debt, is recorded and determined 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 prior to 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, 2014 and 2013, the Foundation recorded insignificant amounts of loss on impairment 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 Alliance. These 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, 2014 and 2013.

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 $6,547 and $6,664 at December 31, 2014 and 2013, 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, minimum 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, 2014 and 2013 is as follows:

	2014	2013
Gross patient service charges	$ 2,598,719	$ 2,434,009
Less:		
Discounts, allowances, and estimated contractual adjustments under third-party reimbursement programs	1,875,327	1,735,210
Provision for bad debts	13,635	41,120
Net patient service revenue	$ 709,757	$ 657,679
Percentage of net patient service revenue to gross revenue	27.3%	27.0%

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 its Community Care Discount Program (charity care 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, 2014, and 2013, the Foundation recognized $4,880 and $960, respectively, as other revenue related to EHR incentives, which has been received or is expected to be received based on certifications prepared by management under the appropriate guidelines for stage 1 and stage 2 attestation.

Note 2. Summary of Significant Accounting Policies (Continued)

Insurance-Health Group: Health Group has negotiated contracts with hospitals, physicians, and other health care providers to satisfy the necessary medical needs of eligible enrollees (members). The contracts are generally structured to pay providers based on capitated amounts per member per month, discounted fee for service, per discharge, and per diem reimbursement arrangements. Health Group recognizes premiums from members as revenue in the period to which health care coverage relates. Amounts billed and collected in advance of the period of coverage are recorded 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, 2014 and 2013.

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.

The Foundation's estimates for self-insurance comprise estimates for losses reported by the Foundation, a provision for incurred but not reported losses, and adverse loss development determined by the Foundation on the basis of a report prepared by its actuaries. The Foundation 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 Foundation'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.

(Continued)

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 revenues 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, 2014 and 2013.

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. In general, the statute of limitations remains open for tax returns filed for the fiscal year ended June 30, 2010 and for the calendar years ended December 31, 2010 through 2013 for the various not-for-profit entities. In general, the statute of limitations remains open for tax returns filed for the calendar years ended December 31, 2010 through 2013 for the various for-profit entities.

Reclassifications: To be consistent with the classifications adopted for the years ended December 31, 2014, certain balances on the consolidated financial statements for the years ended December 31, 2013 have been reclassified with no effect on revenues, expenses, or net assets.

New accounting pronouncements: In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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, 2016 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.

(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, 2014 and 2013 are as follows:

	2014	2013
Investments not included in assets limited as to use or restricted	$ 1,074,014	$ 988,971
Assets limited as to use or restricted:		
Deposits for self-insurance	132,807	123,224
Assets designated by Board for community health expenditures	67,926	66,474
Executive benefit plans	19,512	16,789
Donor-restricted investments	15,069	15,622
Deposits for statutory requirements of DOI	3,203	2,695
Deposits limited by bond indentures or debt covenants	1,250	2,143
Assets limited by IFA for capital expenditures	-	31,980
Total assets limited as to use or restricted	239,767	258,927
Total investments and assets limited as to use or restricted	$ 1,313,781	$ 1,247,898

(Dollars in thousands)

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

The composition of investments and assets limited as to use or restricted as of December 31, 2014 and 2013 is as follows:

	2014		2013	
	Cost	Carrying Value	Cost	Carrying Value
Cash and cash equivalents	$ 51,620	$ 51,620	$ 67,561	$ 67,561
Certificates of deposit	743	743	740	740
Fixed income securities	529,311	560,394	508,374	533,059
Marketable equity securities	305,599	390,416	271,899	370,113
Real asset investments	45,154	42,989	41,607	40,837
Pledge receivable–restricted	2,456	2,456	3,565	3,565
Alternative investments:				
Private equity funds of funds	58,863	71,055	46,033	52,788
Hedge fund of funds	66	97	138	189
	$ 993,812	1,119,770	$ 939,917	1,068,852
Investments in joint ventures		3,360		3,138
Trading securities:				
Cash and cash equivalents		5,331		4,879
Fixed income securities		93,032		86,967
Marketable equity securities		69,189		63,700
Mutual funds:				
Executive benefit plans		19,512		16,789
Beneficial interest in farm trust		3,587		3,573
		$ 1,313,781		$ 1,247,898

The gross unrealized gains (losses) on investments and assets limited as to use or restricted as of December 31, 2014 and 2013 are as follows:

	2014	2013
Gross unrealized gains	$ 141,546	$ 137,954
Gross unrealized losses	(15,588)	(9,019)
	$ 125,958	$ 128,935

(Dollars in thousands)

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

Investment income for the years ended December 31, 2014 and 2013 comprises the following:

	2014	2013
Interest and dividend income	$ 39,948	$ 35,803
Net realized gains on sales of investments	36,614	48,895
Net realized and unrealized gains on trading securities	6,842	9,114
Investment management fees	(2,717)	(2,378)
	$ 80,687	$ 91,434

Investment income has been recorded in the consolidated statements of operations and of changes in net assets for the years ended December 31, 2014 and 2013 as follows:

	2014	2013
Nonoperating gains:		
Investment income	$ 80,492	$ 91,226
Other changes in temporarily restricted net assets:		
Investment income	195	208
	$ 80,687	$ 91,434

Note 4. Fair Value Measurements

The carrying amount reported in the consolidated balance sheets for the Foundation's financial instruments approximates fair value because of the short maturities of these instruments. The Foundation's financial instruments consist of 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' net assets 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.

(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, 2014 and 2013:

	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

(Dollars in thousands)

Note 4. Fair Value Measurements (Continued)

	2013			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	$ 42,888	$ -	$ -	$ 42,888
Investments and assets limited as to use or restricted:				
Cash and cash equivalents	72,440	-	-	72,440
Certificates of deposit	740	-	-	740
Fixed income securities				
U.S. government and agencies	25,825	38,750	-	64,575
Mortgage-backed and asset-backed securities	-	32,581	-	32,581
Corporate and other	-	70,079	-	70,079
Mutual funds	452,791	-	-	452,791
Marketable equity securities				
United States	318,622	844	-	319,466
Non-U.S. developed markets	47,730	57,598	-	105,328
Non-U.S. emerging markets	9,019	-	-	9,019
Real asset investments:				
Mutual funds	40,837	-	-	40,837
Mutual funds–executive benefit plans	16,789	-	-	16,789
Private equity funds of funds	-	-	52,788	52,788
Hedge fund of funds	-	-	189	189
Interest rate swap agreements	-	3,907	-	3,907
Total assets measured at fair value	$ 1,027,681	$ 203,759	$ 52,977	$ 1,284,417
Liabilities:				
Interest rate swap agreements	$ -	$ 11,875	$ -	$ 11,875
Other accrued liabilities–executive benefit plans	-	16,789	-	16,789
Total liabilities measured at fair value	$ -	$ 28,664	$ -	$ 28,664

Accounting Standards Update (ASU) No. 2010-06 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, 2014 and 2013.

(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, 2014 and 2013:

	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	5,437	(20)	5,417
Balance at December 31, 2014	$ 71,055	$ 97	$ 71,152

	2013		
	Private Equity	Hedge Fund of Funds	Total
Balance at December 31, 2012	$ 40,349	$ 340	$ 40,689
Purchases and funding of capital commitments	12,531	-	12,531
Sales and redemptions	(5,723)	(167)	(5,890)
Realized gains, interest, and dividends	4,396	39	4,435
Change in unrealized appreciation	1,235	(23)	1,212
Balance at December 31, 2013	$ 52,788	$ 189	$ 52,977

The following information pertains to those alternative investments recorded at net asset value as of December 31, 2014 and 2013:

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

(Dollars in thousands)

Note 4. Fair Value Measurements (Continued)

	2013				
	Fair Value	Unfunded Commitment	Remaining Life	Redemption Frequency	Redemption Notice Period
Commingled funds investing in:					
Non-U.S. developed markets equity (a)	$ 57,598	NA	NA	Monthly	None
Private equity funds of funds (b)	52,788	$ 55,991	to 2023	NA	NA
Hedge fund of funds (c)	189	NA	NA	Quarterly	90 days
Total	$ 110,575				

(a) 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.

(b) The Foundation has ten 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 $119,000 by 2025. The remaining commitment at December 31, 2014 and 2013 is $47,958 and $55,991, 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 one to twelve years.

(c) 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, 2014 and 2013, 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, 2014 and 2013 are as follows:

	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

	2013					
	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	$ 17,608	$ 1,497	$ 5,512	$ 770	$ 23,120	$ 2,267
Fixed income securities	124,866	4,572	201,676	619	326,542	5,191
Real asset funds	40,837	770	-	-	40,837	770
Alternative investments	1,407	292	1,870	499	3,277	791
	$ 184,718	$ 7,131	$ 209,058	$ 1,888	$ 393,776	$ 9,019

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.

(Continued)

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, 2014 and 2013 includes approximately $15,632 and $5,580, respectively, of favorable retroactively determined settlements from third-party payors related to prior years.

For the years ended December 31, 2014 and 2013, approximately 64.7% and 60.8%, 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, 2014 and 2013, approximately 32.8% and 32.2%, respectively, of the Foundation's net patient service revenue was earned under the Medicare and Medicare Advantage programs. The revenues received by the Hospital from Health Group for Medicare Advantage have 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 June 30, 2009.

Medicaid: For the years ended December 31, 2014 and 2013, approximately 19.7% and 19.3%, respectively, of the Foundation's net patient service revenue was earned under the State Medicaid programs. 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, 2014 and 2013, the Foundation recognized total reimbursement revenue under the Programs of approximately $30,095 and $36,936, respectively, which is included in net patient service revenue, and incurred assessments of approximately $12,813 and $14,299, respectively, which is included in real estate and other taxes expense in the consolidated statements of operations. CMS approved a new supplemental payment to hospitals for services provided to newly eligible Medicaid beneficiaries under the Affordable Care Act. The new supplemental payment to hospitals was retroactive to March 1, 2014. For the year ended December 31, 2014, the Foundation recognized total reimbursement revenue of $5,629 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, 2014 and 2013, approximately 12.2% and 9.3%, 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 charity care policy, patients meeting certain criteria receive care without charge or with a significant reduction in charges. 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 $38,949 and $44,306 for the years ended December 31, 2014 and 2013, respectively.

Historically, when patients successfully satisfy the prescribed requirements of the Community Care Discount program, any applicable accounts receivable in bad debt status have also been reclassified under the Community Care Discount program. In 2014, The Foundation implemented a tool to assist in improving the efficiency of various patient accounting financial assistance and collection efforts, including identifying patients and guarantors eligible to receive community care discounts. While reclassifications of bad debt accounts receivable to community care discount occurs as a course of routine operations for services provided in previous Fiscal Years, in 2014, with information from the tool, the Foundation reclassified $10,747 out of bad debt expense and into community care discounts related to service dates in 2013 and prior.

(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 service access 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, 2014 and 2013 are as follows:

	2014	2013
Patient receivables, gross	$ 611,196	$ 580,743
Less:		
Allowance for estimated contractual adjustments	(448,279)	(416,983)
Allowance for doubtful accounts	(55,832)	(54,401)
Patient receivables, net	$ 107,085	$ 109,359

Accounts receivable are reduced by an allowance for estimated contractual adjustments and an allowance for doubtful accounts. In evaluating the collectability 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 decreased from 53.2% of self-pay accounts receivable at December 31, 2013, to 52.2% of self-pay accounts receivable at December 31, 2014. The Foundation's self-pay write-offs were $34,360 and $41,121 for the years ended December 31, 2014 and 2013, respectively. 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, 2014 and 2013 comprises the following:

	2014	2013
Land and improvements	$ 54,709	$ 49,597
Buildings and improvements	614,816	585,933
Furniture and equipment	320,732	304,161
Construction in progress	17,460	13,191
	1,007,717	952,882
Less: accumulated depreciation	(447,327)	(416,676)
	$ 560,390	$ 536,206

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 $18,500, which includes a $7,704 Guaranteed Maximum Purchase construction contract for which $843 remained unexpended as of December 31, 2014. 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 $11,133 Guaranteed Maximum Purchase construction contract for which the entire amount remained unexpended as of December 31, 2014. Occupancy is anticipated in January 2016. As of December 31, 2014, the balance of construction in progress related to this project was immaterial.

In September 2014, the Board of Trustees approved $12,450 for expansion and renovation of the Inpatient Rehabilitation Unit. 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. Construction is scheduled to begin in spring 2015 with occupancy anticipated in late 2016. As of December 31, 2014, the balance of construction in progress related to this project was immaterial.

In December 2014, the Board of Trustees approved $23,100 for the design, construction, furnishing, and occupancy of a 46,000 square foot Orthopedic and Sports Medicine building. This facility will accommodate the planned addition of ten 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 is required with the application. If approval is received at the April 2015 Illinois Health Facilities and Services Review Board hearing, construction will begin in late summer 2015 with occupancy slated to occur in the fall of 2016.

(Dollars in thousands)

Note 9. Property and Equipment (Continued)

In 2013, the Foundation completed a significant construction project to expand and modernize the Foundation's hospital facility. The project cost of $188,500, inclusive of bond financing and issuance expenses, was capitalized in October 2013. Also in 2013, the Foundation completed the construction of a new medical office building in Mattoon, Illinois. The cost for the medical office building was approximately $11,500 and substantially all costs related to this project were capitalized in December 2013. Capitalized interest expense was $3,808 for the year ended December 31, 2013

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. Total future operating lease commitments under long-term, noncancelable equipment, and office space leases, exclusive of related-party leases, as of December 31, 2014 are as follows:

Year ending December 31:	
2015	$ 6,039
2016	5,546
2017	3,675
2018	2,027
2019	857
Thereafter	1,401
	$ 19,545

Total equipment lease expense under long-term lease agreements and month-to-month leases was approximately $1,165 and $4,762 for the years ended December 31, 2014 and 2013, respectively. Total office space lease expense under long-term lease agreements was approximately $5,961 and $5,186 for the years ended December 31, 2014 and 2013, 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 Alliance and are as follows at December 31, 2014 and 2013:

	2014		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intangible assets:			
State of Illinois contract	$ 41,500	$ 19,712	$ 21,788
Subscriber relationships	49,960	23,732	26,228
Provider network	6,700	3,182	3,518
Trade name	9,800	4,655	5,145
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

	2013		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intangible assets:			
State of Illinois contract	$ 41,500	$ 15,563	$ 25,937
Subscriber relationships	49,960	18,735	31,225
Provider network	6,700	2,512	4,188
Trade name	9,800	3,675	6,125
Subtotal intangible assets	107,960	40,485	67,475
Goodwill	85,214	-	85,214
Total intangible assets and goodwill	$ 193,174	$ 40,485	$ 152,689

(Continued)

(Dollars in thousands)

Note 10. Intangible Assets and Goodwill (Continued)

The total amortization expense related to the intangible assets was $10,796 for the years ended December 31, 2014 and 2013. This is included in depreciation and amortization expense on the consolidated statements of operations. Estimated amortization expense as of December 31, 2014 is as follows:

Year ending December 31:		
2015	$	10,796
2016		10,796
2017		10,796
2017		10,796
2018		10,796
Thereafter		2,699
	$	56,679

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, 2014 and 2013. 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 insignificant UBIT liabilities as of December 31, 2014 and 2013. UBIT expense of $411 and $379 were recorded for the years ended December 31, 2014 and 2013, 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 receivable as of December 31, 2014 and 2013 of $6,112 and $774 respectively, for its for-profit entities. For these entities, income tax expense for the years ended December 31, 2014 and 2013 consisted of the following:

	2014	2013
Current income tax expense	$ 4,298	$ 13,134
Deferred income tax expense	(4,508)	2,493
Income tax expense	$ (210)	$ 15,627

Income tax expense for the for-profit entities attributable to revenues, 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, 2014 and 2013, as a result of the following:

	2014	2013
Computed "expected" tax expense	$ (4,488)	$ 8,940
Increase in income tax expense resulting from:		
State income taxes, net of federal tax benefits	1,499	2,668
Nondeductible expenses and other	2,779	4,019
	$ (210)	$ 15,627

(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, 2014 and 2013 are as follows:

	2014	2013
Deferred tax assets:		
Retirement plan benefits obligation	$ 45,544	$ 14,207
Net operating loss	6,882	7,483
Retiree health insurance reserve	2,369	1,626
Accrued compensation and paid leave	2,048	1,753
Claims settlement reserves	1,703	1,172
Other	8,027	2,488
	66,573	28,729
Less: valuation allowance	(13,029)	(9,999)
Total deferred tax assets	53,544	18,730
Deferred tax liabilities:		
Intangibles	22,692	27,138
Unrealized gains and losses on investments	11,567	10,692
Other	4,208	2,291
Total deferred tax liabilities	38,467	40,121
Net deferred tax assets (liabilities)	$ 15,077	$ (21,391)

The net deferred tax assets (liabilities) identified above are classified on the consolidated balance sheets as of December 31, 2014 and 2013 as follows:

	2014	2013
Current	$ (6,561)	$ (9,052)
Long-term	21,638	(12,339)
	$ 15,077	$ (21,391)

(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 $13,029 and $9,999 as of December 31, 2014 and 2013, respectively, related to deemed ineligibility under states' unitary filing methodology. Of this valuation allowance, $6,882 and $7,483 relates primarily to future tax benefits associated with state net operating loss carry forwards as the years ended December 31, 2014 and 2013, respectively. The state net operating loss carry forwards at December 31, 2014 total approximately $136,611 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 the medical claims payable related to covered medical services for the years ended December 31, 2014 and 2013 is summarized as follows:

	2014	2013
Medical claims payable at beginning of period	$ 113,358	$ 151,980
Incurred benefits related to the:		
Current year	936,475	781,634
Prior years	(6,577)	(13,948)
Total incurred	929,898	767,686
Paid benefits related to the:		
Current year	796,069	665,624
Prior years	106,227	140,684
Total paid	902,296	806,308
Medical claims payable at end of period	$ 140,960	$ 113,358

The recorded incurred benefits above excludes primarily reinsurance recoveries, pharmacy rebates, incentive payments, network management fees, capitation, and withholds in the amount of $12,332 and $10,680 for the years ended December 31, 2014 and 2013, respectively.

The movement in incurred benefits during the years ended December 31, 2014 and 2013 for prior years reflect 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, 2014 and 2013 is as follows:

	Final Maturity	2014	2013
IFA borrowings:			
Series 2009A; fixed rate, 4.375% to 5.50%	2017	$ 22,565	$ 55,455
Series 2009B; variable rate, 0.02% at 12/31/14	2033	25,000	25,000
Series 2009C; variable rate, 0.02% at 12/31/14	2033	25,000	25,000
Series 2009D; variable rate, 0.02% at 12/31/14	2033	55,000	55,000
Series 2009E; variable rate, 0.02% at 12/31/14	2033	55,000	55,000
Series 2011A; fixed rate, 4.00% to 6.00%	2041	234,735	234,735
Series 2011B; variable rate, 0.85% at 12/31/14	2033	50,000	50,000
Series 2011C; variable rate, 0.71% at 12/31/14	2033	50,000	50,000
Series 2014A; variable rate, 0.55% at 12/31/14	2020	26,095	-
Less: unamortized discounts and premiums		(1,308)	(1,200)
Subtotal IFA borrowings		542,087	548,990
Promissory note payable - JP Morgan	2015	-	35,896
Installment note - Champaign Primary Care Center	2022	12,359	12,699
Farm Credit Services - Hoopeston	2031	6,711	6,943
Promissory notes payable	2015	-	30,000
Capital lease obligations - Hoopeston	Various	384	566
Total debt outstanding		561,541	635,094
Current portion		(7,955)	(38,599)
Long-term portion		$ 553,586	$ 596,495

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, Physician Services, 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 majority of the bond proceeds were 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 2012 through 2017, principal of $42,000 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, 2014, the expiration dates were March 18, 2015 and April 5, 2016, for the respective banks. On March 2, 2015, the Obligated Group executed extension agreements for the letters of credit issued by The Northern Trust Company to March 18, 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 majority of the bond proceeds were, or will be, 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.

Promissory note payable - JPMorgan: On December 21, 2012, Carle Holding Company, Inc. entered into a loan with JPMorgan Chase Bank, N.A. for $66,919 at an interest rate of LIBOR plus 1.30%, the proceeds of which were used to refinance outstanding promissory notes of the same amount. Interest was due monthly and annual principal shall to be repaid in installments of approximately $31,022 beginning April 1, 2013 and annually thereafter, with a final payment of principal due on April 1, 2015. The notes were secured by the guaranty of collection of the Foundation. This obligation was fully paid in December 2014.

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.

(Dollars in thousands)

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

Promissory notes payable: Carle Holding issued promissory notes totaling approximately $161,315 to the former shareholders in connection with an acquisition in 2010. The notes bore interest at the rate of 5.00% and were scheduled to be repaid in five annual installments. The first of four installments of approximately $31,022 began on April 1, 2011 and installments were scheduled to continue annually thereafter. On December 21, 2012, Carle Holding prepaid $66,919 of the notes through proceeds from a bank loan refinancing and used its indemnification offset provision to eliminate $2,352 of the then outstanding principal balance. The notes were secured by the outstanding stock of Health Alliance and the guaranty of the Foundation. The remaining balances of the promissory notes and this obligation were fully paid in December 2014.

Aggregate maturities of long-term debt (net of original issue discount) as of December 31, 2014 are as follows assuming that the Series 2009 Bonds are successfully remarketed:

Year ending December 31:		
2015	$	7,955
2016		8,322
2017		8,656
2018		9,060
2019		9,506
Later years		518,042
	$	561,541

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 2014, up to a total of $160,000 of payments would have been accelerated and due in 2016 and 2017.

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, 2014 was $610,628 compared to a carrying value of $561,541 and the fair value as of December 31, 2013 was $663,475 compared to a carrying value of $635,094.

(Dollars in thousands)

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

The composition of interest and financing expense for the years ended December 31, 2014 and 2013 is as follows:

	2014	2013
Interest on IFA revenue bonds	$ 16,546	$ 17,371
Net interest expense on derivative instruments	2,735	2,806
Interest on short-term borrowings	2,350	5,699
Interest on credit facility and promissory notes	1,398	2,470
Finance and letter of credit fees	1,205	807
Interest on installment notes	1,159	1,259
Other	950	881
	26,343	31,293
Less: capitalized interest	(104)	(3,808)
	$ 26,239	$ 27,485

Line of credit – Health Alliance: In November 2013, Health Alliance renewed a $100,000 secured 364-day syndicated revolving credit agreement with PNC Bank, N.A., 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. 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, 2014 and 2013. Borrowings under this agreement at December 31, 2014 and 2013 were both $100,000, with a Prime-based rate of 4.75% at both December 31, 2014 and 2013.

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.

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.

(Continued)

(Dollars in thousands)

Note 14. Interest Rate Swap Agreements (Continued)

The interest rate swap agreements as of December 31, 2014 and 2013 are as follows:

Counter-Party	Maturity Date	Foundation Pays	Foundation Receives	Notional Value 2014	Fair Value 2014	Fair Value 2013	Change in Fair Value of Derivative Instruments 2014	Change in Fair Value of Derivative Instruments 2013
PNC Bank	2/15/2035	3.537%	65% of 1-Month LIBOR + 0.12%	$ 61,625	$ (15,022)	$ (8,418)	$ (6,604)	$ 8,308
Citibank, N.A.	2/15/2028	3.347%	65% of 1-Month LIBOR + 0.12%	35,425	(4,268)	(3,458)	(810)	2,645
Goldman Sachs Mitsui Marine Derivative Products, L.P.	12/15/2028	SIFMA Municipal Swap Index	67% of 3-Month LIBOR + 0.60% (until 12/15/11), then 92.39% of 3-month LIBOR	50,000	1,336	1,506	(170)	493
Barclays Bank PLC	03/01/2029	SIFMA Municipal Swap Index	67% of 3-Month LIBOR + 0.60% (until 8/31/15), then 93.53% of 3-month LIBOR	50,000	1,846	2,402	(556)	372
				$ 197,050	$ (16,108)	$ (7,968)	$ (8,140)	$ 11,818
Recorded on the consolidated balance sheets as:								
Asset					$ 3,181	$ 3,907		
Liability					(19,289)	(11,875)		
					$ (16,108)	$ (7,968)		

(Continued)

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.

Health Systems suspended premium charges related to professional and general liability coverage from August 1, 2010 through January 31, 2013 to the Foundation's insured entities to help reduce Health Systems excess capital.

Effective February 2007, 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 $40,000 per occurrence with a combined annual aggregate of $40,000. The excess insurance is procured through three commercial insurers. Prior to February 2007, Health Systems provided similar coverage except the primary layer was $4,000 per occurrence with no annual aggregate. Prior to 2005, the Health Systems primary layer contained varied annual aggregates.

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, 2014 and 2013 was $9,872 and $23,902, respectively. Additionally, Health Alliance 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 Alliance reinsurance recoverable as of December 31, 2014 and 2013 was $4,900 and $26 respectively. The Foundation had reinsurance recoverable for paid losses of $1,005 and $0 as of December 31, 2014 and 2013, 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. HSIL 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, 2014 and 2013 of $12,901 and $15,131, respectively. The coverage discussed above is currently arranged through January 31, 2015. There are no assurances that the Foundation and Health Systems will be able to renew existing policies on similar terms.

The Foundation has elected to self-insure a portion of its employee health insurance cost. The Foundation is self-insured annually up to $550 per enrollee and with an unlimited maximum life-time benefit (covering services from both in-network and out-of-network providers) effective January 1, 2013. Claims in excess of $550 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, 2014 and 2013 and the associated expenses on the consolidated statements of operations for the years ended December 31, 2014 and 2013 are as follows:

	Liability		Expense	
	2014	2013	2014	2013
Health insurance	$ 16,915	$ 15,332	$ 43,581	$ 41,142
Professional, general, and other	75,173	106,609	2,109	8,008
	92,088	121,941	$ 45,690	$ 49,150
Less: reinsurance recoverable - unpaid losses	(9,872)	(23,902)		
Insurance reserves, net of reinsurance recoverable - unpaid losses	$ 82,216	$ 98,039		

Movement in the provision for outstanding losses on professional and general liability and workers' compensation insurance for the years ended December 31, 2014 and 2013 is summarized as follows:

	2014	2013
Outstanding loss provision at beginning of period	$ 106,609	$ 114,767
Less: provision for unasserted claims	(15,131)	(16,923)
Balance at beginning of period (excluding provision for unasserted claims)	91,478	97,844
Incurred losses (net of recoverables)	(1,539)	3,663
Paid losses (net of recoveries)	(13,637)	(8,334)
Net losses	(15,176)	(4,671)
Less: reinsurance recoverable - unpaid losses at beginning of period	(23,902)	(25,597)
Add: reinsurance recoverable - unpaid losses at ending of period	9,872	23,902
Net balance at end of period (excluding provision for unasserted claims)	62,272	91,478
Add: provision for unasserted claims	12,901	15,131
Balance at end of period	$ 75,173	$ 106,609

The movement in incurred losses during the years ended December 31, 2014 and 2013 in relation to prior periods is as a result of changes in underlying estimates and assumptions inherent in the loss reserving process.

(Continued)

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

The Foundation has established a provision for outstanding professional and general liability losses based upon recommendations made by the Foundation's independent actuary. In the actuarial report dated January 30, 2015, estimated professional and general liability risks at December 31, 2014, the required discounted outstanding losses at a 65% confidence level and at a discount rate of 3% for all policy years as of December 31, 2014 and a discount rate of 4% for all policy years as of December 31, 2013 were $51,637 and $64,340, respectively. The Foundation estimated, based on the actuary's report that at December 31, 2014 and 2013, the Foundation's outstanding losses for all policy years on an undiscounted basis were $55,393 and $64,108, respectively. Independent actuarial reports are received semiannually at June 30 and December 31. 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 has been adjusted to reflect this amount in accounts payable, with a corresponding reduction in the estimated liability for unpaid losses.

Additionally, effective February 1, 2012, The Foundation established a provision for outstanding workers' compensation liability losses based upon recommendations made by the actuary at December 31, 2014 and 2013 of $3,258 and $3,236, respectively, for all claims with a date of loss after January 31, 2012.

Note 16. Pension Plans

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

Foundation (excluding Hoopeston): 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.

Hoopeston: Effective 2014, Hoopeston follows the same contribution rules as the Foundation. Prior to 2014, the Foundation could contribute on a discretionary basis a percentage of an employee's salary to the plan, but did not elect to do so in 2013. The Foundation did, however, match 50.0% of employee contributions up to a maximum match of one thousand dollars for any eligible employee contributing to a 403(b) plan.

Total expense incurred by the Foundation under the defined contribution plan for the years ended December 31, 2014 and 2013 was $23,458 and $20,515 respectively. The total liabilities at December 31, 2014 and 2013 are $17,727 and $15,237, 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, 2014 and 2013, which are when actuarial reports were prepared:

	2014	2013
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 341,139	$ 379,824
Interest cost	15,546	14,042
Actuarial loss (gain)	96,396	(41,349)
Benefits paid	(12,727)	(11,378)
Benefit obligation at end of year	440,354	341,139
Change in plan assets:		
Fair value of plan assets at beginning of year	292,336	251,401
Actual return on plan assets	20,629	40,313
Employer contribution	12,000	12,000
Benefits paid	(12,727)	(11,378)
Fair value of plan assets at end of year	312,238	292,336
Funded status at end of year, recognized on the balance sheet	$ (128,116)	$ (48,803)
Unrecognized loss not yet recognized in net periodic pension costs at end of year	$ 122,087	$ 30,751
Accumulated benefit obligation at end of year	$ 440,354	$ 341,139

The Society of Actuaries recently 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, 2014. Actuarial impacts, including the impact of updated mortality tables, resulted in a $96,396 increase in Projected Benefit Obligations from December 31, 2013 levels.

Components of net periodic benefit cost for the years ended December 31, 2014 and 2013 are as follows:

	2014	2013
Interest cost	$ 15,546	$ 14,041
Expected return on plan assets	(15,569)	(18,789)
Amortization of loss	-	8,143
Net periodic benefit cost	$ (23)	$ 3,395

(Dollars in thousands)

Note 16. Pension Plans (Continued)

The discount rates used to determine benefit obligations at December 31, 2014 and 2013 were 3.79% and 4.65%, respectively.

The weighted average assumptions used to determine net periodic benefit cost for the years ended December 31, 2014 and 2013 are as follows:

	2014	2013
Discount rate	4.65%	3.76%
Expected return on plan assets	5.35%	7.50%

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, 2014 and 2013 are as follows:

	2014		2013	
	Target Allocation	Actual Allocation	Target Allocation	Actual Allocation
Equity securities	60-80%	70%	60-80%	71%
Debt securities	20-40%	26%	20-40%	24%
Other	0-10%	4%	0-10%	5%
	100%	100%	100%	100%

(Dollars in thousands)

Note 16. Pension Plans (Continued)

The following tables summarize the plan's assets as of December 31, 2014 and 2013 within the fair value hierarchy (Note 4). All the plan assets were either Level 1 or Level 2.

	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		

	2013		
	Total	Level 1	Level 2
Fixed income securities:			
Mutual funds	$ 69,566	$ 38,816	$ 30,750
Marketable equity securities:			
United States	137,724	102,611	35,113
Non-U.S. developed markets	56,895	23,932	32,963
Non-U.S. emerging markets	14,087	14,087	-
	278,272	$ 179,446	$ 98,826
Cash and cash equivalents	14,064		
Total fair value of plan assets	$ 292,336		

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, 2015.

(Dollars in thousands)

Note 16. Pension Plans (Continued)

Following are the estimated future benefit payments as of December 31, 2014:

Year ending December 31:	
2015	14,376
2016	15,819
2017	16,990
2018	18,343
2019	19,628
2020-2024	114,240

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, 2014 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 Alliance 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 $126,350 and $130,132 for the years ended December 31, 2014 and 2013, respectively. Health Alliance 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. The IRS has presented Carle Holding a notice of proposed adjustment 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 is in error, and has prepared and submitted a response to the IRS providing support that refutes the IRS's position. As of the date of this report, management believes Carle Holding will prevail upon appeal and that this matter will not have a material adverse effect on the Foundation's balance sheet and statement of operations.

(Continued)

Note 17. Commitments and Contingencies (Continued)

In addition, the Foundation, Hospital, and Health Care have undergone IRS examinations for the periods ended June 30, 2010 and December 31, 2010, the results of which await final review by the IRS. As of the date of this report, management does not anticipate a material impact on the Foundation's balance sheet and statement of operations as a result of these audits.

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. For the year ended December 31, 2014, the Foundation incurred $16,921 of insurance activity taxes imposed under the Affordable Care Act.

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. During the year ended 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. As of December 31, 2014, Health Group has written health insurance subject to the ACA assessment, expects to conduct health insurance business in 2015, and estimates their portion of the annual health insurance industry fee to be payable on September 30, 2015 to be $23,168.

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, 2014, a reasonable estimate for the ACA risk adjustment was unable to be determined.

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

The additions or reductions to premium revenue resulting from the risk corridors program are recognized over the contractual period of coverage, to the extent that such additions or reductions are reasonably estimable. As of December 31, 2014, a reasonable estimate for the ACA risk corridors was unable to be determined.

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

Note 17. Commitments and Contingencies (Continued)

The ACA transitional reinsurance assessments accrued as other expense in 2014 was $10,682. In 2014, $4,123 was accrued as distributions for enrollees in individual plans and recorded as other receivables and 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.

The Budget Control Act of 2011 (BCA) mandated significant reductions and spending caps on the federal budget for federal fiscal years 2012 through 2021. The BCA also created a joint select committee on deficit reduction (the Super Committee) to develop a plan to further reduce the federal deficit. Since the Super Committee failed to act before the mandatory deadline, a 2% reduction in Medicare spending, among other reductions, was to take effect January 1, 2013 in a process known as Sequestration. The BCA also required a 26.5% reduction in the sustainable growth rate formula regarding physician reimbursement under Medicare to be effective January 1, 2013.

On January 2, 2013, the President signed into law the American Taxpayer Relief Act (ATRA), which delayed Sequestration until March 1, 2013 and is now in effect as of March 1, 2013 and will continue until Congress takes further action. The ATRA delayed the reduction in physician reimbursement until the end of 2013. As such only the 2% reduction for nonphysician payments was effective April 1, 2013.

It is not currently possible to determine the impact of the reduction during Sequestration, as well as 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 constitutionality of this legislation is being challenged in a lawsuit filed in November 2012 in the Circuit Court of Cook County. 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.

(Continued)

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 Foundation will receive scheduled payments, which began in 2013 and continue through 2018, but also allowed 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 continue as they have indicated they are not interested in negotiating any settlement.

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.

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, 2014 and 2013, the total statutory net worth of Health Group was approximately $179,131 and $200,773, respectively. Its authorized control level RBC was approximately $37,001 and $31,991 at December 31, 2014 and 2013, 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 twelve months. Health Alliance paid a dividend of $17,400 to Carle Holding during the period ended December 31, 2014. No dividend was paid in 2013.

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 $553,991 and $569,630 for the years ended December 31, 2014 and 2013, respectively. Premium receivables due from the State at December 31, 2014 and 2013 totaled $291,816 and $308,045, respectively. In addition, interest receivable from the State for premiums past due is approximately $5,780 and $10,404, at December 31, 2014 and 2013, respectively. Health Alliance has a contract with the State of Illinois through June 30, 2016 with five additional one-year renewals.

(Dollars in thousands)

Note 19. Concentrations of Credit Risk (Continued)

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, 2014 and 2013 is as follows:

	2014	2013
Commercial insurance and other	44%	38%
Medicare	30%	28%
Medicaid	18%	21%
Private Pay	8%	13%
	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.

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, 2014 and 2013 are as follows:

	2014	2013
Health care services	$ 1,871,295	$ 1,598,706
General and administrative	87,674	81,864
Fundraising expenses	1,339	1,261
	$ 1,960,308	$ 1,681,831

Note 21. Subsequent Events

Subsequent events have been evaluated through April 13, 2015, the date of the issuance of these financial statements. Through that date, there was one event requiring disclosure. On March 12, 2015, a Memorandum of Understanding (MOU) between The Carle Foundation and the Board of Trustees of the University of Illinois for the development of a College of Medicine at its Urbana-Champaign campus became effective. Under this MOU, the Foundation has committed to contribute $100,000 in ten equal installments, and to contribute an additional $1,500 per year on an ongoing basis, all subject to certain terms and conditions, which are to be agreed upon by both parties and memorialized through the execution of Definitive Agreements, on or before January 1, 2016.

The Carle Foundation **Schedule 1**

Supplementary Information - Consolidating Balance Sheet

December 31, 2014

(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	$ 37,388	$ 21	$ 4,549	$ 4,118	$ 27	$ -	$ 14,355	$ -	$ 60,458	$ (4,801)	$ 55,657
Investments	261,225	-	-	-	-	-	164,654	-	425,879	-	425,879
Assets limited as to use or restricted	17,834	-	-	-	-	-	2,374	9,192	29,400	-	29,400
Patient receivables, net	-	106,068	25,261	6,588	-	-	-	-	137,917	(30,832)	107,085
Premiums receivable	-	-	-	-	-	-	340,423	-	340,423	-	340,423
Intercompany receivables	10,167	69,101	10,385	-	-	1,117	-	-	90,770	(90,770)	-
Reinsurance recoverable	-	-	-	-	-	-	4,900	2,479	7,379	-	7,379
Other receivables	2,884	2,763	371	227	9	214	47,527	-	53,995	(73)	53,922
Inventories	-	9,424	-	-	-	-	-	-	9,424	-	9,424
Prepaid expenses	4,633	4,786	617	297	5	2	1,089	341	11,770	(1,090)	10,680
Total current assets	334,131	192,163	41,183	11,230	41	1,333	575,322	12,012	1,167,415	(127,566)	1,039,849
Property and equipment, net	459,535	74,216	4,216	16,042	4,603	469	1,309	-	560,390	-	560,390
Investments and other assets:											
Investments, net of current portion	638,202	-	-	-	743	8,925	265	-	648,135	-	648,135
Assets limited as to use or restricted, net of current portion	-	-	-	4,199	-	79,351	3,203	123,614	210,367	-	210,367
Interest rate swap agreements	3,181	-	-	-	-	-	-	-	3,181	-	3,181
Reinsurance recoverable, net of current portion	-	-	-	-	-	-	-	8,398	8,398	-	8,398
Intangible assets and goodwill	-	-	9,485	4,445	-	-	127,963	-	141,893	-	141,893
Deferred taxes	-	-	-	-	-	-	21,638	-	21,638	-	21,638
Other assets	8,380	195,033	-	43	-	15	-	-	203,471	(198,609)	4,862
Total investments and other assets	649,763	195,033	9,485	8,687	743	88,291	153,069	132,012	1,237,083	(198,609)	1,038,474
Total assets	$ 1,443,429	$ 461,412	$ 54,884	$ 35,959	$ 5,387	$ 90,093	$ 729,700	$ 144,024	$ 2,964,888	$ (326,175)	$ 2,638,713

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

(Continued)

The Carle Foundation **Schedule 1, Continued**

Supplementary Information - Consolidating Balance Sheet

December 31, 2014

(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	$ 2,754	$ 19,837	$ 1,109	$ 326	$ 78	$ 22	$ 5,699	$ -	$ 29,825	$ (4,801)	$ 25,024
Intercompany payables	-	-	-	22,803	-	-	244,418	6,827	274,048	(274,048)	-
Short-term borrowings	-	-	-	-	-	-	100,000	-	100,000	-	100,000
Current maturities of long-term debt	7,507	-	-	591	-	-	-	-	8,098	(143)	7,955
Estimated third-party payor settlements	-	43,987	213	654	-	-	-	-	44,854	-	44,854
Medical claims payable	-	-	-	-	-	-	175,802	-	175,802	(34,842)	140,960
Current portion of estimated liability for self-insurance losses	10,960	-	-	-	-	-	-	5,692	16,652	64	16,716
Deferred taxes	-	-	-	-	-	-	6,561	-	6,561	-	6,561
Current portion of retirement plan benefits obligation	-	-	-	-	-	-	12,000	-	12,000	-	12,000
Compensation and paid leave payable	16,070	29,681	26,063	1,088	172	116	8,526	-	81,716	-	81,716
Other accrued liabilities	12,876	3,255	179	105	1,244	-	51,788	2,140	71,587	(8,829)	62,758
Total current liabilities	50,167	96,760	27,564	25,567	1,494	138	604,794	14,659	821,143	(322,599)	498,544
Long-term liabilities:											
Long-term debt, net of current maturities	546,939	-	-	10,223	-	-	-	-	557,162	(3,576)	553,586
Interest rate swap agreements	19,289	-	-	-	-	-	-	-	19,289	-	19,289
Asset retirement obligation	6,403	-	-	144	-	-	-	-	6,547	-	6,547
Estimated liability for self-insurance losses, net of current portion	10,063	2,794	44	-	-	-	5,891	56,580	75,372	-	75,372
Retirement plan benefits obligation, net of current	-	-	-	-	-	-	116,116	-	116,116	-	116,116
Other accrued liabilities	10,650	-	-	-	-	176	10,886	-	21,712	-	21,712
Total long-term liabilities	593,344	2,794	44	10,367	-	176	132,893	56,580	796,198	(3,576)	792,622
Total liabilities	643,511	99,554	27,608	35,934	1,494	314	737,687	71,239	1,617,341	(326,175)	1,291,166
Net assets:											
Common stock	-	-	-	-	-	-	-	1,800	1,800	(1,800)	-
Unrestricted	799,918	361,858	27,276	(3,619)	3,893	77,261	(7,987)	70,985	1,329,585	1,800	1,331,385
Temporarily restricted	-	-	-	58	-	10,648	-	-	10,706	-	10,706
Permanently restricted	-	-	-	3,586	-	1,870	-	-	5,456	-	5,456
Total net assets	799,918	361,858	27,276	25	3,893	89,779	(7,987)	72,785	1,347,547	-	1,347,547
Total liabilities and net assets	$ 1,443,429	$ 461,412	$ 54,884	$ 35,959	$ 5,387	$ 90,093	$ 729,700	$ 144,024	$ 2,964,888	$ (326,175)	$ 2,638,713

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, 2014
(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)	$ -	$ 695,142	$ 238,762	$ 36,146	$ -	$ -	$ -	$ -	$ 970,050	$ (246,658)	$ 723,392
Provision for bad debts	1	(10,645)	(1,457)	(1,534)	-	-	-	-	(13,635)	-	(13,635)
Net patient service revenue	1	684,497	237,305	34,612	-	-	-	-	956,415	(246,658)	709,757
Net premium revenue–health insurance	-	-	-	-	-	-	1,296,475	-	1,296,475	(233)	1,296,242
Other revenue:											
Rental income	695	7,325	-	19	7,517	-	-	-	15,556	-	15,556
Net premium expense–general and professional liability	-	-	-	-	-	-	-	10,056	10,056	(10,056)	-
Net assets released from restrictions	-	-	-	5	-	1,592	-	-	1,597	-	1,597
Gain (loss) on disposal of property and equipment	(6)	187	(2,999)	(6)	-	-	-	-	(2,824)	-	(2,824)
Internal fees	198,134	5,103	40	-	-	-	-	-	203,277	(203,277)	-
Other	3,408	9,882	6,669	997	111	4,829	15,984	1,005	42,885	(8,312)	34,573
Total revenue	202,232	706,994	241,015	35,627	7,628	6,421	1,312,459	11,061	2,523,437	(468,536)	2,054,901
Expenses:											
Salaries and wages	71,008	162,122	193,972	13,070	2,001	834	35,080	-	478,087	(246)	477,841
Employee benefits	14,704	43,097	26,694	3,738	541	198	11,475	-	100,447	(2,448)	97,999
Medical benefits of insured	-	-	-	-	-	-	1,189,280	-	1,189,280	(247,048)	942,232
Patient care and other supplies	4,648	117,866	9,292	3,406	221	10	5,714	-	141,157	-	141,157
Purchased services	26,497	17,417	1,287	2,089	222	97	40,165	-	87,774	(9,705)	78,069
General and administrative	31,950	179,648	21,766	13,813	1,897	4,631	33,179	51	286,935	(199,261)	87,674
Insurance	302	5,252	6,860	503	61	2	-	(815)	12,165	(10,056)	2,109
Depreciation and amortization	31,619	15,601	1,181	1,763	686	5	11,203	-	62,058	-	62,058
Interest and financing expense	21,548	104	35	383	421	-	5,733	-	28,224	(1,985)	26,239
Real estate and other taxes	654	12,450	72	333	417	1	22,863	-	36,790	-	36,790
Change in fair value of derivative instruments	8,140	-	-	-	-	-	-	-	8,140	-	8,140
Total expenses	211,070	553,557	261,159	39,098	6,467	5,778	1,354,692	(764)	2,431,057	(470,749)	1,960,308
Income (loss) from operations	(8,838)	153,437	(20,144)	(3,471)	1,161	643	(42,233)	11,825	92,380	2,213	94,593
Nonoperating gains:											
Investment income	46,669	8	-	16	2	5,070	25,807	5,133	82,705	(2,213)	80,492
Excess (deficiency) of revenue over expenses, before noncontrolling interest and income taxes	37,831	153,445	(20,144)	(3,455)	1,163	5,713	(16,426)	16,958	175,085	-	175,085
Noncontrolling interest in net income (loss) of consolidated subsidiary	-	-	189	-	-	-	(127)	-	62	-	62
Provision (benefit) for income taxes	349	86	-	8	-	-	(242)	-	201	-	201
Excess (deficiency) of revenue over expenses	$ 37,482	$ 153,359	$ (20,333)	$ (3,463)	$ 1,163	$ 5,713	$ (16,057)	$ 16,958	$ 174,822	$ -	$ 174,822

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, 2014

(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	$ 37,482	$ 153,359	$ (20,333)	$ (3,463)	$ 1,163	$ 5,713	$ (16,057)	$ 16,958	$ 174,822	$ -	$ 174,822
Change in net unrealized gains and losses on other-than-trading securities	(6,644)	-	-	-	-	(747)	-	4,439	(2,952)	-	(2,952)
Pension related changes other than net period pension costs, net of deferred taxes	-	-	-	-	-	-	(59,376)	-	(59,376)	-	(59,376)
Equity transfer from (to) affiliates and unconsol subs	28,007	(62,605)	14,658	-	(1,398)	1,338	20,000	-	-	-	-
Other	-	-	-	(57)	-	-	(79)	-	(136)	-	(136)
Increase (decrease) in unrestricted net assets	58,845	90,754	(5,675)	(3,520)	(235)	6,304	(55,512)	21,397	112,358	-	112,358
Temporarily restricted net assets:											
Contributions	-	-	-	-	-	1,067	-	-	1,067	-	1,067
Investment income	-	-	-	2	-	193	-	-	195	-	195
Change in net unrealized gains and losses other-than-trading securities	-	-	-	3	-	(28)	-	-	(25)	-	(25)
Net assets released from restrictions	-	-	-	(5)	-	(1,592)	-	-	(1,597)	-	(1,597)
Other	-	-	-	57	-	-	-	-	57		
Decrease in temporarily restricted net assets	-	-	-	57	-	(360)	-	-	(303)	-	(360)
Permanently restricted net assets:											
Contributions	-	-	-	-	-	107	-	-	107	-	107
Change in value of beneficial interest in perpetual trust	-	-	-	13	-	-	-	-	13	-	13
Increase in permanently restricted net assets	-	-	-	13	-	107	-	-	120	-	120
Change in net assets	58,845	90,754	(5,675)	(3,450)	(235)	6,051	(55,512)	21,397	112,175	-	112,175
Net assets, beginning of year	741,073	271,104	32,951	3,475	4,128	83,728	47,525	51,388	1,235,372	-	1,235,372
Net assets, end of year	$ 799,918	$ 361,858	$ 27,276	$ 25	$ 3,893	$ 89,779	$ (7,987)	$ 72,785	$ 1,347,547	$ -	$ 1,347,547

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, 2014

(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)	$ 691,918	$ 912	$ 2,502	$ -	$ -	$ 695,332	$ (190)	$ 695,142
Provision for bad debts	(10,463)	(248)	66	-	-	(10,645)	-	(10,645)
Net patient service revenue	681,455	664	2,568	-	-	684,687	(190)	684,497
Other revenue:								
Rental income	320	7,311	-	-	-	7,631	(306)	7,325
Gain on disposal of property and equipment	37	150	-	-	-	187	-	187
Internal fees	3,625	-	-	1,478	-	5,103	-	5,103
Other	9,844	37	-	-	1	9,882	-	9,882
Total revenue	695,281	8,162	2,568	1,478	1	707,490	(496)	706,994
Expenses:								
Salaries and wages	159,228	1,577	625	564	128	162,122	-	162,122
Employee benefits	42,230	457	193	171	46	43,097	-	43,097
Patient care and other supplies	114,751	3,202	402	6	1	118,362	(496)	117,866
Purchased services	17,030	249	31	26	81	17,417	-	17,417
General and administrative	176,766	1,329	1,060	630	(137)	179,648	-	179,648
Insurance	5,092	123	28	9	-	5,252	-	5,252
Depreciation and amortization	14,730	668	193	1	9	15,601	-	15,601
Interest and financing expense	17	44	43	-	-	104	-	104
Real estate and other taxes	12,450	-	-	-	-	12,450	-	12,450
Total expenses	542,294	7,649	2,575	1,407	128	554,053	(496)	553,557
Income (loss) from operations	152,987	513	(7)	71	(127)	153,437	-	153,437
Nonoperating gains:								
Investment income	-	8	-	-	-	8	-	8
Excess (deficiency) of revenue over expenses before income taxes	152,987	521	(7)	71	(127)	153,445	-	153,445
Provision for income taxes	-	55	-	31	-	86	-	86
Excess (deficiency) of revenue over expenses	152,987	466	(7)	40	(127)	153,359	-	153,359
Unrestricted net assets								
Equity transfer from (to) affiliates	(62,112)	(466)	(133)	(26)	132	(62,605)	-	(62,605)
Change in unrestricted net assets	$ 90,875	$ -	$ (140)	$ 14	$ 5	$ 90,754	$ -	$ 90,754

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, 2014

(Dollars in thousands)

	Physician Group	Physician Services	Arrow	Surgicenter	Other Entities	Total Health Care
Revenue:						
Patient service revenue (net of contractual allowances)	$ 217,258	$ -	$ 7,255	$ 14,193	$ 56	$ 238,762
Provision for bad debts	(548)	-	(749)	(160)	-	(1,457)
Net patient service revenue	216,710	-	6,506	14,033	56	237,305
Other revenue:						
Loss on disposal of property and equipment	-	-	-	-	(2,999)	(2,999)
Internal fees	32	-	-	2	6	40
Other	5,046	-	283	-	1,340	6,669
Total revenue	221,788	-	6,789	14,035	(1,597)	241,015
Expenses:						
Salaries and wages	188,020	-	3,534	1,632	786	193,972
Employee benefits	24,878	-	995	536	285	26,694
Patient care and other supplies	5,862	-	516	2,889	25	9,292
Purchased services	542	-	476	93	176	1,287
General and administrative	17,636	-	973	2,549	608	21,766
Insurance	6,660	-	135	45	20	6,860
Depreciation and amortization	375	-	436	316	54	1,181
Interest and financing expense	-	-	35	-	-	35
Real estate and other taxes	-	-	-	65	7	72
Total expenses	243,973	-	7,100	8,125	1,961	261,159
Excess (deficiency) of revenue over expenses, before noncontrolling interest	(22,185)	-	(311)	5,910	(3,558)	(20,144)
Noncontrolling interest in net income of consolidated subsidiary	-	-	-	189	-	189
Excess (deficiency) of revenue over expenses	(22,185)	-	(311)	5,721	(3,558)	(20,333)
Unrestricted net assets:						
Equity transfer from (to) affiliates	**12,810**	(40)	**397**	(2,083)	3,574	**14,658**
Change in unrestricted net assets	$ (9,375)	$ (40)	$ 86	$ 3,638	$ 16	$ (5,675)

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, 2014
(Dollars in thousands)

	Philanthropy Center	Community Health	Total Development
Other revenue:			
Net assets released from restrictions	$ 1,592	$ -	$ 1,592
Other	4,829	-	4,829
Total revenue	6,421	-	6,421
Expenses:			
Salaries and wages	834	-	834
Employee benefits	198	-	198
Patient care and other supplies	10	-	10
Purchased services	97	-	97
General and administrative	2,013	2,618	4,631
Insurance	2	-	2
Depreciation	5	-	5
Real estate and other taxes	1	-	1
Total expenses	3,160	2,618	5,778
Income (loss) from operations	3,261	(2,618)	643
Nonoperating gains:			
Investment income	296	4,774	5,070
Excess of revenue over expenses	3,557	2,156	5,713
Unrestricted net assets:			
Change in net unrealized gains and losses on other-than-trading securities	(43)	(704)	(747)
Equity transfers	1,338	-	1,338
Increase in unrestricted net assets	4,852	1,452	6,304
Temporarily restricted net assets:			
Contributions	1,067	-	1,067
Investment income	193	-	193
Change in net unrealized gains and losses other-than-trading securities	(28)	-	(28)
Net assets released from restrictions	(1,592)	-	(1,592)
Decrease in temporarily restricted net assets	(360)	-	(360)
Permanently restricted net assets:			
Contributions	107	-	107
Increase in permanently restricted net assets	107	-	107
Change in net assets	$ 4,599	$ 1,452	$ 6,051

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

CHA Holding, Inc. **Schedule 6**

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

Year Ended December 31, 2014

(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	$ -	$ 31,458	$ 23,759	$ -	$ 1,241,258	$ 1,296,475	$ -	$ 1,296,475
Other revenue	-	-	571	-	15,413	15,984	-	15,984
Total revenue	-	31,458	24,330	-	1,256,671	1,312,459	-	1,312,459
Expenses:								
Salaries and wages	-	-	-	-	35,080	35,080	-	35,080
Employee benefits	-	-	-	1,994	9,481	11,475	-	11,475
Medical benefits of insured	-	35,863	19,732	-	1,133,685	1,189,280	-	1,189,280
Patient care and other supplies	-	-	-	1	5,713	5,714	-	5,714
Purchased services	-	4,770	3,428	163	31,804	40,165	-	40,165
General and administrative	-	-	1,694	50	31,435	33,179	-	33,179
Depreciation and amortization	-	-	-	-	11,203	11,203	-	11,203
Interest and financing expense	-	-	-	1,399	4,334	5,733	-	5,733
Real estate and other taxes	-	-	-	-	22,863	22,863	-	22,863
Total expenses	-	40,633	24,854	3,607	1,285,598	1,354,692	-	1,354,692
Loss from operations	-	(9,175)	(524)	(3,607)	(28,927)	(42,233)	-	(42,233)
Nonoperating gains:								
Investment income	-	3	35	(74)	25,843	25,807	-	25,807
Deficiency of revenue over expenses before noncontrolling interest and income taxes	-	(9,172)	(489)	(3,681)	(3,084)	(16,426)	-	(16,426)
Noncontrolling interest in net income of consolidated subsidiary	-	-	(127)	-	-	(127)	-	(127)
Provision (benefit) for income taxes	-	(3,777)	(171)	(1,293)	4,999	(242)	-	(242)
Deficiency of revenue over expenses	-	(5,395)	(191)	(2,388)	(8,083)	(16,057)	-	(16,057)
Unrestricted net assets:								
Change in net unrealized gains and losses on other-than-trading securities	(5,665)	-	-	(8,083)	-	(13,748)	13,748	-
Pension related changes other than net period pension costs, net of deferred taxes	-	-	-	(59,376)	-	(59,376)	-	(59,376)
Health Alliance dividend	-	-	-	-	(17,400)	(17,400)	17,400	-
Equity transfer from affiliates	20,000	17,000	3,000	-	-	40,000	(20,000)	20,000
Other	-	-	(79)	-	-	(79)	-	(79)
Change in unrestricted net assets	$ 14,335	$ 11,605	$ 2,730	$ (69,847)	$ (25,483)	$ (66,660)	$ 11,148	$ (55,512)

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

The Carle Foundation **Schedule 7**

Supplementary Information - Combining Balance Sheet

December 31, 2014

(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	$ 33,966	$ 4,393	$ 38,359	$ 4,118	$ -	$ 14,355	$ -	(1,175)	$ 55,657
Investments	261,225	-	261,225	-	-	164,654	-	-	425,879
Assets limited as to use or restricted	17,834	-	17,834	-	-	2,374	9,192	-	29,400
Patient receivables, net	127,799	3,530	131,329	6,588	-	-	-	(30,832)	107,085
Premiums receivable	-	-	-	-	-	340,423	-	-	340,423
Intercompany receivables	-	-	-	-	1,117	-	-	(1,117)	-
Reinsurance recoverable	-	-	-	-	-	4,900	2,479	-	7,379
Other receivables	95,680	-	95,680	227	214	47,527	-	(89,726)	53,922
Inventories	9,424	-	9,424	-	-	-	-	-	9,424
Prepaid expenses	9,893	148	10,041	297	2	1,089	341	(1,090)	10,680
Total current assets	555,821	8,071	563,892	11,230	1,333	575,322	12,012	(123,940)	1,039,849
Property and equipment, net	539,710	2,860	542,570	16,042	469	1,309	-	-	560,390
Investments and other assets:									
Investments, net of current portion	638,945	-	638,945	-	8,925	265	-	-	648,135
Assets limited as to use or restricted, net of current portion	-	-	-	4,199	79,351	3,203	123,614	-	210,367
Investment in unconsolidated subsidiaries	19,131	(19,131)	-	-	-	-	-	-	-
Interest rate swap agreements	3,181	-	3,181	-	-	-	-	-	3,181
Reinsurance recoverable, net of current portion	-	-	-	-	-	-	8,398	-	8,398
Intangible assets and goodwill	-	9,485	9,485	4,445	-	127,963	-	-	141,893
Deferred taxes	-	-	-	-	-	21,638	-	-	21,638
Other assets	203,413	-	203,413	43	15	-	-	(198,609)	4,862
Total investments and other assets	864,670	(9,646)	855,024	8,687	88,291	153,069	132,012	(198,609)	1,038,474
Total assets	$ 1,960,201	$ 1,285	$ 1,961,486	$ 35,959	$ 90,093	$ 729,700	$ 144,024	$ (322,549)	$ 2,638,713

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

(Continued)

The Carle Foundation

Supplementary Information - Combining Balance Sheet

December 31, 2014

(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	$ 19,735	417	$ 20,152	$ 326	$ 22	$ 5,699	$ -	$ (1,175)	$ 25,024
Intercompany payables	-	-	-	22,803	-	244,418	6,827	(274,048)	-
Short-term borrowings	-	-	-	-	-	100,000	-	-	100,000
Current maturities of long-term debt	7,507	-	7,507	591	-	-	-	(143)	7,955
Estimated third-party payor settlements	43,987	213	44,200	654	-	-	-	-	44,854
Medical claims payable	-	-	-	-	-	175,802	-	(34,842)	140,960
Current portion of estimated liability for self-insurance losses	10,960	-	10,960	-	-	-	5,692	64	16,716
Deferred taxes	-	-	-	-	-	6,561	-	-	6,561
Current portion of retirement plan benefits obligatior	-	-	-	-	-	12,000	-	-	12,000
Compensation and paid leave payable	71,504	482	71,986	1,088	116	8,526	-	-	81,716
Other accrued liabilities	17,426	128	17,554	105	-	51,788	2,140	(8,829)	62,758
Total current liabilities	171,119	1,240	172,359	25,567	138	604,794	14,659	(318,973)	498,544
Long-term liabilities:									
Long-term debt, net of current maturities	546,939	-	546,939	10,223	-	-	-	(3,576)	553,586
Interest rate swap agreements	19,289	-	19,289	-	-	-	-	-	19,289
Asset retirement obligation	6,403	-	6,403	144	-	-	-	-	6,547
Estimated liability for self-insurance losses, net of current portion	12,857	44	12,901	-	-	5,891	56,580	-	75,372
Retirement plan benefits obligation, net of current	-	-	-	-	-	116,116	-	-	116,116
Other accrued liabilities	10,650	-	10,650	-	176	10,886	-	-	21,712
Total long-term liabilities	596,138	44	596,182	10,367	176	132,893	56,580	(3,576)	792,622
Total liabilities	767,257	1,284	768,541	35,934	314	737,687	71,239	(322,549)	1,291,166
Net assets:									
Common stock	-	-	-	-	-	-	1,800	(1,800)	-
Unrestricted	1,192,944	1	1,192,945	(3,619)	77,261	(7,987)	70,985	1,800	1,331,385
Temporarily restricted	-	-	-	58	10,648	-	-	-	10,706
Permanently restricted	-	-	-	3,586	1,870	-	-	-	5,456
Total net assets	1,192,944	1	1,192,945	25	89,779	(7,987)	72,785	-	1,347,547
Total liabilities and net assets	$ 1,960,201	$ 1,285	$ 1,961,486	$ 35,959	$ 90,093	$ 729,700	$ 144,024	$ (322,549)	$ 2,638,713

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, 2014

(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)	$ 912,432	$ 21,448	$ 933,880	$ 36,146	$ -	$ -	$ -	$ (246,634)	$ 723,392
Provision for bad debts	(11,192)	(909)	(12,101)	(1,534)	-	-	-	-	(13,635)
Net patient service revenue	901,240	20,539	921,779	34,612	-	-	-	(246,634)	709,757
Net premium revenue - patient care	-	-	-	-	-	1,296,475	-	(233)	1,296,242
Other revenue:									
Rental income	15,537	-	15,537	19	-	-	-	-	15,556
Net premium expense–general and professional liability	-	-	-	-	-	-	10,056	(10,056)	-
Net assets released from restrictions	-	-	-	5	1,592	-	-	-	1,597
Loss on disposal of property and equipment	(2,818)	-	(2,818)	(6)	-	-	-	-	(2,824)
Internal fees	-	1,480	1,480	-	-	-	-	(1,480)	-
Other	40,049	284	40,333	997	4,829	15,984	1,005	(28,575)	34,573
Total revenue	954,008	22,303	976,311	35,627	6,421	1,312,459	11,061	(286,978)	2,054,901
Expenses:									
Salaries and wages	423,245	5,858	429,103	13,070	834	35,080	-	(246)	477,841
Employee benefits	83,147	1,748	84,895	3,738	198	11,475	-	(2,307)	97,999
Medical benefits of insured	-	-	-	-	-	1,189,280	-	(247,048)	942,232
Patient care and other supplies	128,615	3,412	132,027	3,406	10	5,714	-	-	141,157
Purchased services	44,747	676	45,423	2,089	97	40,165	-	(9,705)	78,069
General and administrative	49,829	4,015	53,844	13,813	4,631	33,179	51	(17,844)	87,674
Insurance	12,286	189	12,475	503	2	-	(815)	(10,056)	2,109
Depreciation and amortization	48,325	762	49,087	1,763	5	11,203	-	-	62,058
Interest and financing expense	22,073	35	22,108	383	-	5,733	-	(1,985)	26,239
Real estate and other taxes	13,528	65	13,593	333	1	22,863	-	-	36,790
Change in fair value of derivative instruments	8,140	-	8,140	-	-	-	-	-	8,140
Total expenses	833,935	16,760	850,695	39,098	5,778	1,354,692	(764)	(289,191)	1,960,308
Income (loss) from operations	120,073	5,543	125,616	(3,471)	643	(42,233)	11,825	2,213	94,593
Nonoperating gains:									
Investment income	46,679	-	46,679	16	5,070	25,807	5,133	(2,213)	80,492
Gain on unconsolidated subsidiaries	5,410	(5,410)	-	-	-	-	-	-	-
Nonoperating gains, net	52,089	(5,410)	46,679	16	5,070	25,807	5,133	(2,213)	80,492
Excess (deficiency) of revenue over expenses, before noncontrolling interest and income taxes	172,162	133	172,295	(3,455)	5,713	(16,426)	16,958	-	175,085
Noncontrolling interest in net income and consolidated subsidiary	-	189	189	-	-	(127)	-	-	62
Provision for income taxes	404	31	435	8	-	(242)	-	-	201
Excess (deficiency) of revenue over expenses	$ 171,758	$ (87)	$ 171,671	$ (3,463)	$ 5,713	$ (16,057)	$ 16,958	$ -	$ 174,822

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, therefore, 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
   - Carle Foundation Physician Services, LLC (Physician Services), which operated a physician practice, until May 31, 2013
   - 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 is also 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-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.

The Carle Foundation

Expected Terms and Conditions of 2016 Bond Financing

The expected terms and conditions of the 2016 bond financing would be in accordance with the Master Trust Indenture. They would be in conformity with existing financial and operating covenants as follows:

Security

- Secured by pledges of gross receipts
- Negative pledge
- Obligated Group credit structure

Rate Covenant

- 1.1x Coverage Ratio
- Consultant's report required if coverage less than 1.1x but no event of default
- No Consultant's report required if days cash on hand not less than 100

Permitted Liens

- Senior lien basket not to exceed 25% of PP&E
- No limit on A/R liens arising as a result of sale or other transfer or financing on commercially reasonable terms
- Security interests in accounts securing short-term debt permitted as part of senior lien basket.

Additional Debt Test

- Pro forma debt-to-cap does not exceed 67%; OR
- 1-year historical pro forma MADS coverage of 1.25x (assuming new debt has been incurred); OR
- 1-year historical test (based on existing debt) of 1.1x and 1-year projected coverage (assuming new debt is issued) of 1.2x
- Up to 30% of Obligated Group Revenues without test
- Short-term debt limited to 30% of Revenues (included in 30% debt basket referenced above) with a 20 day clean down to 5%

Sale, Lease, Disposition of Property

- Certification that immediately after transaction, no default would exist under MTI and related documents and additional debt test could be satisfied for $1 additional debt

Admission/Withdrawal of Obligated Group Members

- Certification that immediately after transaction, no default would exist under MTI and related documents and additional debt test could be satisfied for $1 additional debt

Financial Statements

- Audited Obligated Group financial statements within 150 days of fiscal year end

Liquidity Covenant / Debt-to-Capitalization/Maximum Annual Debt Service

- None

STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

Research

Carle Foundation, IL Outlook Revised To Positive On Improved Financial Metrics

Primary Credit Analyst:
Martin D Arrick, New York (1) 212-438-7963; martin.arrick@standardandpoors.com

Secondary Contact:
Suzie R Desai, Chicago (1) 312-233-7046; suzie.desai@standardandpoors.com

NEW YORK (Standard & Poor's) Jan. 5, 2015--Standard & Poor's Ratings Services has revised its outlook to positive from stable and affirmed its 'A+' issuer credit rating (ICR) on the Carle Foundation (Carle FD), Ill. Standard & Poor's also affirmed its 'A+' long-term ratings and underlying ratings (SPURs) on debt issued by the Illinois Finance Authority for Carle FD.

Standard & Poor's also affirmed its 'AAA/A-1+' joint-criteria ratings on Carle FD's series 2009B and 2009C bonds based on the application of our joint criteria using our low correlation methodology. The long-term rating components reflect the long-term ratings on Carle FD and the letters of credit (LOCs) provided by Northern Trust Corp. We based the short-term rating component on the liquidity provided by Northern Trust Corp. The LOCs expire March 18, 2015.

Standard & Poor's also affirmed its 'AAA/A-1' joint-criteria ratings on Carle FD's series 2009D and 2009E bonds based on the application of our joint criteria using our low correlation methodology. The long-term rating components reflect the long-term ratings on Carle FD and the LOCs provided by JPMorgan Chase Bank. We based the short-term rating component on the liquidity provided by JPMorgan Chase Bank. The LOCs expire Aug. 5, 2016.

"The outlook revision reflects a sharp improvement in financial metrics as the final payment on the promissory note that Carle FD entered into when it acquired the Carle Clinic in 2010 was made," said Standard & Poor's credit analyst Martin Arrick.

© Standard & Poor's. All rights reserved. No reprint or dissemination without Standard & Poor's permission. See Terms of Use/Disclaimer on the last page. 1378087 | 300642892

The affirmations reflects a long record of improving market share in its core Champaign-Urbana hub, and a very strong balance sheet, combined with a second strong year of financial performance through nine months ended Sept. 30, 2014. The ratings also incorporates what we view as, an attractive, integrated business model with a large multi-special group practice incorporated into the obligated group, that positions Carle FD very well for health care reform and as the leading health care system in its broad 29-county service area and its local Champaign-Urbana market. Carle FD is reviewing its long-term capital plan and some additional debt is possible. While we believe Carle FD has debt capacity at the current level of financial performance, a higher rating is currently precluded pending receipt and analysis of the capital plan.

The extinguishment of the promissory note was made in late 2014, which reduced maximum annual debt service by almost half to $37,561, resulting in many improved financial metrics. In addition, the large tower project Carle FD has had under construction, opened in late 2013 since our last review and is contributing to Carle FD's long-term market share growth. In addition, the state of Illinois approved an additional 48 beds which came online in late 2014 as well.

The positive outlook reflects our view of Carle FD's strong and improving business position as an integrated health care system, improving market share, and sound balance sheet. We could consider a higher rating if current performance can be maintained, and we have a deeper understanding of Carle FD's long-term capital plan. If capital spending and additional debt can be managed within 'AA' category parameters, a higher rating is likely. Marginally weaker performance or very significant debt plans would likely result in a return to a stable outlook. We would base a lower rating on a material decline in Carle FD's overall financial profile including any material drop in liquidity or if MADS coverage dipped to below 2.5x.

Carle FD is a physician-led integrated health system that includes the 360-staffed-bed Carle Foundation Hospital and other subsidiaries including the Carle Physician Group, with more than 372 physicians practicing in 50 specialties at 19 different sites in 14 area communities, and the Health Alliance Medical Plan (HAMP), with roughly 334,000 members as of Nov. 30, 2014 and multiple product lines, which it acquired in April of 2010.

RELATED CRITERIA AND RESEARCH

Related Criteria

- USPF Criteria: U.S. Not-For-Profit Acute-Care Stand-Alone Hospitals, Dec. 15, 2014
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- USPF Criteria: Commercial Paper, VRDO, And Self-Liquidity, July 3, 2007
- USPF Criteria: Contingent Liquidity Risks, March 5, 2012
- USPF Criteria: Municipal Applications For Joint Support Criteria, June 25, 2007
- Criteria: Joint Support Criteria Update, April 22, 2009

© Standard & Poor's. All rights reserved. No reprint or dissemination without Standard & Poor's permission. See Terms of Use/Disclaimer on the last page.1378087 | 300642892

- General Criteria: Methodology: Industry Risk, Nov. 20, 2013

Related Research
- Glossary: Not-For-Profit Health Care Ratios, Oct. 26, 2011
- The Outlook For U.S. Not-For-Profit Health Care Providers Is Negative From Increasing Pressures, Dec. 10, 2013
- U.S. Not-For-Profit Health Care Stand-Alone Ratios: Operating Margin Pressure Signals More Stress Ahead, Aug. 13, 2014
- Health Care Providers And Insurers Pursue Value Initiatives Despite Reform Uncertainties, May 9, 2013
- Standard & Poor's Assigns Industry Risk Assessments To 38 Nonfinancial Corporate Industries, Nov. 20, 2013
- Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014
- Health Care Organizations See Integration And Greater Transparency As Prescriptions For Success, May 19, 2014
- U.S. Not-For-Profit Health Care: Competition And Reform Continue To Spur Mergers, Oct. 24, 2014

Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at www.spcapitaliq.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

© Standard & Poor's. All rights reserved. No reprint or dissemination without Standard & Poor's permission. See Terms of Use/Disclaimer on the last page.1378087 | 300642892

Copyright © 2015 by Standard & Poor's Financial Services LLC (S&P), a subsidiary of The McGraw-Hill Companies, Inc.All rights reserved.

No content (including ratings, credit-related analyses and data, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of S&P. The Content shall not be used for any unlawful or unauthorized purposes. S&P, its affiliates, and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or to make any investment decisions. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P's opinions and analyses do not address the suitability of any security. S&P does not act as a fiduciary or an investment advisor. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain credit-related analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.