E-037-16

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SEP 3 0 2016

HEALTH FACILITIES & SERVICES REVIEW BOARD

ILLINOIS HEALTH FACILITIES AND SERVICES REVIEW BOARD
APPLICATION FOR EXEMPTION FOR THE
CHANGE OF OWNERSHIP FOR AN EXISTING HEALTH CARE FACILITY

1. INFORMATION FOR EXISTING FACILITY

Current Facility Name Shelby Memorial Hospital
Address 200 South Cedar Street
City Shelbyville Zip Code 62565 County Shelby
Name of current licensed entity for the facility Shelby Memorial Hospital Association, Inc.
Does the current licensee: own this facility X OR lease this facility ____ (if leased, check if sublease ☐)
Type of ownership of the current licensed entity (check one of the following:) ____ Sole Proprietorship
X Not-for-Profit Corporation ____ For Profit Corporation ____ Partnership ____ Governmental
____ Limited Liability Company ____ Other, specify ____
Illinois State Senator for the district where the facility is located: Sen. Chapin Rose
State Senate District Number 51 Mailing address of the State Senator
Senator 51st District, M103F Capitol Building, Springfield, IL 62706
Illinois State Representative for the district where the facility is located: Rep. Adam Brown
State Representative District Number 102 Mailing address of the State Representative
314 Capitol Building, Springfield, IL 62706

2. OUTSTANDING PERMITS.

Does the facility have any projects for which the State Board issued a permit that will not be completed (refer to 1130.140 "Completion or Project Completion" for a definition of project completion) by the time of the proposed ownership change? Yes ☐ No ☒. If yes, refer to Section 1130.520(f), and indicate the projects by Project # NOT APPLICABLE

3. NAME OF APPLICANT (complete this information for each co-applicant and insert after this page).

Exact Legal Name of Applicant See following page (Page 2)
Address ____
City, State & Zip Code ____
Type of ownership of the current licensed entity (check one of the following:) ____ Sole Proprietorship
____ Not-for-Profit Corporation ____ For Profit Corporation ____ Partnership ____ Governmental
____ Limited Liability Company ____ Other, specify ____

4. NAME OF LEGAL ENTITY THAT WILL BE THE LICENSEE/OPERATING ENTITY OF THE FACILITY NAMED IN THE APPLICATION AS A RESULT OF THIS TRANSACTION.

Exact Legal Name of Entity to be Licensed HSHS Good Shepherd Hospital, Inc. (Name change)
Address 200 South Cedar Street
City, State & Zip Code Shelbyville, IL 62565
Type of ownership of the current licensed entity (check one of the following:) ____ Sole Proprietorship
X Not-for-Profit Corporation ____ For Profit Corporation ____ Partnership ____ Governmental
____ Limited Liability Company ____ Other, specify ____

5. BUILDING/SITE OWNERSHIP. NAME OF LEGAL ENTITY THAT WILL OWN THE "BRICKS AND MORTAR" (BUILDING) OF THE FACILITY NAMED IN THIS APPLICATION IF DIFFERENT FROM THE OPERATING/LICENSED ENTITY

Exact Legal Name of Entity That Will Own the Site HSHS Good Shepherd Hospital, Inc.
Address 200 South Cedar Street
City, State & Zip Code Shelbyville, Illinois 62565
Type of ownership of the current licensed entity (check one of the following:) ____ Sole Proprietorship
X Not-for-Profit Corporation ____ For Profit Corporation ____ Partnership ____ Governmental
____ Limited Liability Company ____ Other, specify ____

3. NAME OF APPLICANT (complete this information for each co-applicant and insert after this page).
Exact Legal Name of Applicant Hospital Sisters Health System
Address 4936 LaVerna Road
City, State & Zip Code Springfield, Illinois 62707
Type of ownership of the current licensed entity (check one of the following:) ____ Sole Proprietorship
X Not-for-Profit Corporation ____ For Profit Corporation ____ Partnership ____ Governmental
____ Limited Liability Company ____ Other, specify ____

3. NAME OF APPLICANT (complete this information for each co-applicant and insert after this page).
Exact Legal Name of Applicant Hospital Sisters Services, Inc.
Address 4936 LaVerna Road
City, State & Zip Code Springfield, Illinois 62707
Type of ownership of the current licensed entity (check one of the following:) ____ Sole Proprietorship
X Not-for-Profit Corporation ____ For Profit Corporation ____ Partnership ____ Governmental
____ Limited Liability Company ____ Other, specify ____

3. NAME OF APPLICANT (complete this information for each co-applicant and insert after this page).
Exact Legal Name of Applicant Shelby Memorial Hospital Association, Inc.
Address 200 South Cedar Street
City, State & Zip Code Shelbyville, Illinois 62565
Type of ownership of the current licensed entity (check one of the following:) ____ Sole Proprietorship
X Not-for-Profit Corporation ____ For Profit Corporation ____ Partnership ____ Governmental
____ Limited Liability Company ____ Other, specify ____

6. **TRANSACTION TYPE. CHECK THE FOLLOWING THAT APPLY TO THE TRANSACTION:**
   - o Purchase resulting in the issuance of a license to an entity different from current licensee;
   - o Lease resulting in the issuance of a license to an entity different from current licensee;
   - o Stock transfer resulting in the issuance of a license to a different entity from current licensee;
   - o Stock transfer resulting in no change from current licensee;
   - o Assignment or transfer of assets resulting in the issuance of a license to an entity different from the current licensee;
   - o Assignment or transfer of assets not resulting in the issuance of a license to an entity different from the current licensee;
   - ■ Change in membership or sponsorship of a not-for-profit corporation that is the licensed entity;
   - o Change of 50% or more of the voting members of a not-for-profit corporation's board of directors that controls a health care facility's operations, license, certification or physical plant and assets;
   - o Change in the sponsorship or control of the person who is licensed, certified or owns the physical plant and assets of a governmental health care facility;
   - o Sale or transfer of the physical plant and related assets of a health care facility not resulting in a change of current licensee;
   - o Any other transaction that results in a person obtaining control of a health care facility's operation or physical plant and assets, and explain in "Attachment 3 Narrative Description"

7. **APPLICATION FEE.** Submit the application fee in the form of a check or money order for $2,500 payable to the Illinois Department of Public Health and append as **ATTACHMENT #1.**

8. **FUNDING.** Indicate the type and source of funds which will be used to acquire the facility (e.g., mortgage through Health Facilities Authority; cash gift from parent company, etc.) and append as **ATTACHMENT #2.**

9. **ANTICIPATED ACQUISITION PRICE:** $ NOT APPLICABLE/MEMBERSHIP SUBSTITUTION

10. **FAIR MARKET VALUE OF THE FACILITY:** $ 20,516,000*
(to determine fair market value, refer to 77 IAC 1130.140)

11. **DATE OF PROPOSED TRANSACTION:** On or before January 16, 2017

12. **NARRATIVE DESCRIPTION.** Provide a narrative description explaining the transaction, and append it to the application as **ATTACHMENT #3.**

13. **BACKGROUND OF APPLICANT** (co-applicants must also provide this information). Corporations and Limited Liability Companies must provide a current Certificate of Good Standing from the Illinois Secretary of State. Limited Liability Companies and Partnerships must provide the name and address of each partner/ member and specify the percentage of ownership of each. Append this information to the application as **ATTACHMENT #4.**

14. **TRANSACTION DOCUMENTS.** Provide a copy of the complete transaction document(s) including schedules and exhibits which detail the terms and conditions of the proposed transaction (purchase, lease, stock transfer, etc). Applicants should note that the document(s) submitted should reflect the applicant's (and co-applicant's, if applicable) involvement in the transaction. The document must be signed by both parties and contain language stating that the transaction is contingent upon approval of the Illinois Health Facilities and Services Review Board. Append this document(s) to the application as **ATTACHMENT #5.**

15. FINANCIAL STATEMENTS. (Co-applicants must also provide this information) Provide a copy of the applicants latest audited financial statements, and append it to this application as ATTACHMENT #6. If the applicant is a newly formed entity and financial statements are not available, please indicate by checking YES ____, and indicate the date the entity was formed ______

* Unrestricted Net Assets as of 8/31/2016

16. **PRIMARY CONTACT PERSON.** Individual representing the applicant to whom all correspondence and inquiries pertaining to this application are to be directed. (Note: other persons representing the applicant not named below will need written authorization from the applicant stating that such persons are also authorized to represent the applicant in relationship to this application).

Name: Clare Connor Ranalli – Partner, McDermott Will & Emery
Address: 227 W. Monroe Street
City, State & Zip Code: Chicago, Illinois 60606
Telephone ( ) Ext. (312) 984-3365

17. **ADDITIONAL CONTACT PERSON. Consultant, attorney, other individual who is also authorized to discuss this application and act on behalf of the applicant.**

Name: Joshua Campos – Manager of Strategic Planning, Hospitals Sisters Health System
Address: 4936 LaVerna Road
City, State & Zip Code: Springfield, Illinois 62246
Telephone ( ) Ext. (217) 492-6156

ADDITIONAL CONTACT PERSON. Consultant, attorney, other individual who is also authorized to discuss this application and act on behalf of the applicant.

Name: Marilyn Sears – CEO, Shelby Memorial Hospital Association, Inc.
Address: 200 South Cedar Street
City, State & Zip Code: Shelbyville, Illinois 62565
Telephone ( ) Ext. (217) 774-3961

18. CERTIFICATION

I certify that the above information and all attached information are true and correct to the best of my knowledge and belief. I certify that the number of beds within the facility will not change as part of this transaction. I certify that no adverse action has been taken against the applicant(s) by the federal government, licensing or certifying bodies, or any other agency of the State of Illinois. I certify that I am fully aware that a change in ownership will void any permits for projects that have not been completed unless such projects will be completed or altered pursuant to the requirements in 77 IAC 1130.520(f) prior to the effective date of the proposed ownership change. I also certify that the applicant has not already acquired the facility named in this application or entered into an agreement to acquire the facility named in the application unless the contract contains a clause that the transaction is contingent upon approval by the State Board.

Signature of Authorized Officer Mary Starmann-Harrison

Typed or Printed Name of Authorized Officer Mary Starmann-Harrison

Title of Authorized Officer: President & Chief Executive Officer, Hospital Sisters Health System

Address: 4936 LaVerna Road

City, State & Zip Code: Springfield, Illinois 62707

Telephone (217) 523-5483 Date: 9/30/14

NOTE: **complete a separate signature page for each co-applicant and insert following this page.**

18. CERTIFICATION

I certify that the above information and all attached information are true and correct to the best of my knowledge and belief. I certify that the number of beds within the facility will not change as part of this transaction. I certify that no adverse action has been taken against the applicant(s) by the federal government, licensing or certifying bodies, or any other agency of the State of Illinois. I certify that I am fully aware that a change in ownership will void any permits for projects that have not been completed unless such projects will be completed or altered pursuant to the requirements in 77 IAC 1130.520(f) prior to the effective date of the proposed ownership change. I also certify that the applicant has not already acquired the facility named in this application or entered into an agreement to acquire the facility named in the application unless the contract contains a clause that the transaction is contingent upon approval by the State Board.

Signature of Authorized Officer Mary Starmann-Harr

Typed or Printed Name of Authorized Officer Mary Starmann-Harrison

Title of Authorized Officer: President & Chief Executive Officer, Hospital Sisters Services, Inc.

Address: 4936 LaVerna Road

City, State & Zip Code: Springfield, Illinois 62707

Telephone (217) 523-5483 Date: 9/30/16

NOTE: **complete a separate signature page for each co-applicant and insert following this page.**

18. CERTIFICATION

I certify that the above information and all attached information are true and correct to the best of my knowledge and belief. I certify that the number of beds within the facility will not change as part of this transaction. I certify that no adverse action has been taken against the applicant(s) by the federal government, licensing or certifying bodies, or any other agency of the State of Illinois. I certify that I am fully aware that a change in ownership will void any permits for projects that have not been completed unless such projects will be completed or altered pursuant to the requirements in 77 IAC 1130.520(f) prior to the effective date of the proposed ownership change. I also certify that the applicant has not already acquired the facility named in this application or entered into an agreement to acquire the facility named in the application unless the contract contains a clause that the transaction is contingent upon approval by the State Board.

Signature of Authorized Officer Marilyn Sears

Typed or Printed Name of Authorized Officer Marilyn Sears

Title of Authorized Officer: Chief Executive Officer, Shelby Memorial Hospital Association, Inc.

Address: 200 South Cedar Street

City, State & Zip Code: Shelbyville, Illinois 62565

Telephone (217) 774-3961 Date: Sept 29, 2016

NOTE: **complete a separate signature page for each co-applicant and insert following this page.**

Attachment #1

THE BACK OF THIS CHECK CONTAINS A SECURITY MARK* · DO NOT ACCEPT WITHOUT HOLDING AT AN ANGLE TO VERIFY SECURITY MARK*

Hospital Sisters Health System

Hospital Sisters Health System
3215 Executive Park Dr
Springfield, IL 62704-4514

BMO Harris Bank N.A.
Chicago, Illinois
02-2566/710

00025695

Date Sep/30/2016 Pay Amount $2,500.00***

Pay ****TWO THOUSAND FIVE HUNDRED AND XX/100 DOLLAR ****

To the Order of
ILLINOIS DEPT OF PUBLIC HEALTH
535 WEST JEFFERSON ST 4TH FL
SPRINGFIELD IL 62761-0001

Ann M. Carr

Authorized Signature

⑈00025695⑈ ⑆071000288⑆ 2785111⑈

Attachment #2

NOT APPLICABLE

There is no cost associated with this project.

Attachment #3

12. NARRATIVE DESCRIPTION. Provide a narrative description explaining the transaction, and append it to the application as **ATTACHMENT #3**.

Shelby Memorial Hospital (SMH) intends to fully integrate with Hospital Sisters Health System (HSHS) through Hospital Sisters Services, Inc. (HSSI) becoming the sole member of SMH (membership substitution). SMH will amend its corporate documents, as necessary, to recognize HSHS as its sole member with standard HSHS system reserved powers. The legal entity that is the licensee—Shelby Memorial Hospital Association, Inc.—will not change. Rather, its member will change and it will be re-named.

The principal purpose of full integration will be to continue to improve the ability of SMH to sustainably deliver high quality, cost-effective care to the residents of Shelbyville, Illinois and surrounding communities. Through integration and the anticipated future coordination between SMH and HSHS, the Parties will be able to deliver more comprehensive primary and specialty care to patients in the service area. As a fully integrated hospital within HSHS, SMH and HSHS together will be more effective in physician recruitment and the delivery of health care services.

SMH will become a Catholic hospital and will be re-named Good Shepherd Hospital at the time of closing. All health care services provided by SMH will be in accordance with the Ethical and Religious Directives for Catholic Health Care.

The Applicant will provide confirmation to the HFSRB, within 90 days of the proposed change of ownership, that the change occurred in accordance with the terms described herein.

Attachment #4

File Number 5163-355-5

STATE OF ILLINOIS
OFFICE OF
THE SECRETARY OF STATE

To all to whom these Presents Shall Come, Greeting:

I, Jesse White, Secretary of State of the State of Illinois, do hereby certify that I am the keeper of the records of the Department of Business Services. I certify that

HOSPITAL SISTERS HEALTH SYSTEM, A DOMESTIC CORPORATION, INCORPORATED UNDER THE LAWS OF THIS STATE ON DECEMBER 26, 1978, APPEARS TO HAVE COMPLIED WITH ALL THE PROVISIONS OF THE GENERAL NOT FOR PROFIT CORPORATION ACT OF THIS STATE, AND AS OF THIS DATE, IS IN GOOD STANDING AS A DOMESTIC CORPORATION IN THE STATE OF ILLINOIS.

In Testimony Whereof, *I hereto set my hand and cause to be affixed the Great Seal of the State of Illinois, this* 23RD *day of* SEPTEMBER *A.D.* 2016 .

Authentication #: 1626702392 verifiable until 09/23/2017
Authenticate at: http://www.cyberdriveillinois.com

Jesse White
SECRETARY OF STATE

File Number 5325-639-2

STATE OF ILLINOIS
OFFICE OF
THE SECRETARY OF STATE

To all to whom these Presents Shall Come, Greeting:

I, Jesse White, Secretary of State of the State of Illinois, do hereby certify that I am the keeper of the records of the Department of Business Services. I certify that

HOSPITAL SISTERS SERVICES, INC., A DOMESTIC CORPORATION, INCORPORATED UNDER THE LAWS OF THIS STATE ON NOVEMBER 04, 1983, APPEARS TO HAVE COMPLIED WITH ALL THE PROVISIONS OF THE GENERAL NOT FOR PROFIT CORPORATION ACT OF THIS STATE, AND AS OF THIS DATE, IS IN GOOD STANDING AS A DOMESTIC CORPORATION IN THE STATE OF ILLINOIS.

In Testimony Whereof, *I hereto set my hand and cause to be affixed the Great Seal of the State of Illinois, this* 23RD *day of* SEPTEMBER *A.D.* 2016 .

SEAL OF THE STATE OF ILLINOIS AUG. 26TH 1818

Authentication #: 1626702396 verifiable until 09/23/2017
Authenticate at: http://www.cyberdriveillinois.com

Jesse White
SECRETARY OF STATE

File Number 1379-024-8

STATE OF ILLINOIS
OFFICE OF THE SECRETARY OF STATE

To all to whom these Presents Shall Come, Greeting:

I, Jesse White, Secretary of State of the State of Illinois, do hereby certify that I am the keeper of the records of the Department of Business Services. I certify that

SHELBY MEMORIAL HOSPITAL ASSOCIATION, INC., A DOMESTIC CORPORATION, INCORPORATED UNDER THE LAWS OF THIS STATE ON JUNE 12, 1916, APPEARS TO HAVE COMPLIED WITH ALL THE PROVISIONS OF THE GENERAL NOT FOR PROFIT CORPORATION ACT OF THIS STATE, AND AS OF THIS DATE, IS IN GOOD STANDING AS A DOMESTIC CORPORATION IN THE STATE OF ILLINOIS.

In Testimony Whereof, *I hereto set my hand and cause to be affixed the Great Seal of the State of Illinois, this* 23RD *day of* SEPTEMBER *A.D.* 2016 .

SEAL OF THE STATE OF ILLINOIS AUG. 26TH 1818

Authentication #: 1626702340 verifiable until 09/23/2017
Authenticate at: http://www.cyberdriveillinois.com

Jesse White

SECRETARY OF STATE

Attachment #5

Not applicable per recent legislative changes. However, attached is a term sheet generally describing the transaction, and these terms will not generally change. The applicants understand a change to any material term will result in the need to notify HFSRB, and the possibility for the need to file a subsequent second Certificate of Exemption application.

TERM SHEET

FULL AFFILIATION OF SHELBY MEMORIAL HOSPITAL

PARTIES: Shelby Memorial Hospital Association, Inc. ("Shelby"), Hospital Sisters Health System ("HSHS") and Hospital Sisters Services, Inc.

NATURE OF TRANSACTION: Shelby Memorial Hospital Association, Inc. is an Illinois non-member NFP Corporation. If the transaction is approved, Shelby will have a member which will be Hospital Sisters Services, Inc. with certain standard reserve powers such as, by way of example, approval of changes to the mission, vision and values of Shelby; amendments to articles and bylaws of Shelby; appointment and removal of the board of directors of Shelby; approve the sale, alienation exchange, lease or encumbrance of an of the real, tangible or intangible property with value in excess of limits set forth by HSHS; approve debt in excess of limits set forth by HSHS, etc.

ACQUISITION PRICE: None. HSSI will assume all obligations and liabilities of Shelby upon becoming its sole member. HSHS and HSSI recognize the value of local health care services and intends to invest capital as necessary to provide and expand where reasonably appropriate Shelby's health care services to ensure high quality care and financial viability.

NAME CHANGE: HSHS intends to request a corporate name change so that Shelby Memorial Hospital Association, Inc. will, after the transaction, be named HSHS Good Shepherd Hospital, Inc.

CATHOLIC IDENTITY: HSHS intends to operate the hospital as a Catholic Hospital, subject to the Ethical and Religious Directives for Catholic Health Care.

EMPLOYEES AND PHYSICIANS: It is the intent of HSHS to employ those general employees and physicians currently employed by Shelby that meet HSHS credentialing requirements and employment qualifications. It is anticipated there will be little change in the Medical Staff or employment for those involved.

ACCESS: HSHS has a progressive charity care program and will continue to provide care to the uninsured and underinsured in the Shelby community, at both the hospital and physician clinic(s), regardless of ability to pay in accordance with the HSHS then current charity care policy.

CLOSING: The closing is contingent upon completion of due diligence and state and federal regulatory approvals, including receipt of a COE from the Illinois Health Facilities and Services Review Board. It is anticipated the membership substitution will occur on or before January 16, 2017.

Attachment #6

KPMG

HOSPITAL SISTERS HEALTH SYSTEM AND SUBSIDIARIES
Springfield, Illinois

Consolidated Financial Statements and Supplementary Information

June 30, 2015 and 2014

(With Independent Auditors' Report Thereon)

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

Independent Auditors' Report

The Board of Directors
Hospital Sisters Health System:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Hospital Sisters Health System and Subsidiaries, which comprise the consolidated balance sheets as of June 30, 2015 and 2014, and the related consolidated statements of operations and change in unrestricted net assets, 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 Hospital Sisters Health System and Subsidiaries as of June 30, 2015 and 2014, and the results of their operations, the changes in their net assets, and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

KPMG

Other Matters

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information included in schedules 1 through 6 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 audit 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
October 19, 2015

HOSPITAL SISTERS HEALTH SYSTEM AND SUBSIDIARIES
Springfield, Illinois

Consolidated Balance Sheets

June 30, 2015 and 2014

(Dollars in thousands)

Assets		2015	2014
Current assets:			
Cash and cash equivalents	$	140,061	122,197
Receivables:			
Patients' accounts, less allowance for uncollectible accounts of approximately $130,100 in 2015 and $118,700 in 2014		356,123	325,652
Due from third-party reimbursement programs		3,104	4,887
Other		34,064	38,527
Total receivables		393,291	369,066
Current portion of assets whose use is limited or restricted		250,636	214,898
Inventories		43,869	38,035
Prepaid expenses		22,866	20,878
Total current assets		850,723	765,074
Assets whose use is limited or restricted, net of current portion		1,785,891	1,749,958
Property, plant, and equipment, net		1,274,214	1,283,353
Assets held for sale		40,569	44,525
Other assets		69,808	73,545
	$	4,021,205	3,916,455
Liabilities and Net Assets			
Current liabilities:			
Current installments of long-term debt	$	26,565	18,494
Long-term debt subject to short-term remarketing agreements		155,345	169,508
Current portion of estimated self-insurance liabilities		40,606	26,896
Accounts payable		120,057	104,101
Accrued liabilities		148,321	145,617
Estimated payables under third-party reimbursement programs		62,476	60,586
Total current liabilities		553,370	525,202
Long-term debt, excluding current installments		505,791	485,193
Estimated self-insurance liabilities, net of current portion		61,717	76,335
Derivative instruments		48,734	43,052
Accrued benefit liability		317,480	210,621
Other noncurrent liabilities		47,700	45,550
Total liabilities		1,534,792	1,385,953
Net assets:			
Unrestricted		2,434,840	2,479,350
Temporarily restricted		25,754	26,695
Permanently restricted		25,819	24,457
Total net assets		2,486,413	2,530,502
	$	4,021,205	3,916,455

See accompanying notes to consolidated financial statements.

HOSPITAL SISTERS HEALTH SYSTEM AND SUBSIDIARIES
Springfield, Illinois

Consolidated Statements of Operations and Change in Unrestricted Net Assets

Years ended June 30, 2015 and 2014

(Dollars in thousands)

		2015	2014
Net patient service revenue	$	2,162,241	2,035,878
Provision for uncollectible accounts		(66,390)	(96,383)
Net patient service revenue less provision for uncollectible accounts		2,095,851	1,939,495
Other revenue:			
Investment return		209	1,812
Net assets released from restrictions used for operations		4,023	1,657
Other		94,150	102,804
Total revenue		2,194,233	2,045,768
Expenses:			
Sisters' services		1,073	1,202
Salaries and wages		804,716	748,546
Employee benefits		247,030	221,788
Professional fees		96,441	112,071
Supplies		304,008	279,665
Depreciation and amortization		167,947	148,004
Interest		13,490	8,472
Restructuring costs		—	1,800
Other		540,345	503,732
Total expenses		2,175,050	2,025,280
Income from operations		19,183	20,488
Nonoperating gains (losses):			
Investment return		34,928	212,803
Contributions of excess assets over liabilities for St. Clare Hospital		8,900	—
Discontinued operations – gain (loss) from operations		3,203	(3,820)
Change in fair value of interest rate swaps		(5,682)	(1,221)
Loss on conversion and early extinguishment of debt		(907)	—
Revenue and gains in excess of expenses and losses		59,625	228,250
Other changes in unrestricted net assets:			
Net assets released from restrictions used for the purchase of property, plant, and equipment		2,724	6,876
Change in pension funded status		(106,859)	41,273
Change in unrestricted net assets	$	(44,510)	276,399

See accompanying notes to consolidated financial statements.

HOSPITAL SISTERS HEALTH SYSTEM AND SUBSIDIARIES
Springfield, Illinois

Consolidated Statements of Changes in Net Assets

Years ended June 30, 2015 and 2014

(Dollars in thousands)

		2015	2014
Unrestricted net assets:			
Revenues and gains in excess of expenses and losses	$	59,625	228,250
Other changes in unrestricted net assets:			
Net assets released from restrictions used for the purchase of property, plant, and equipment		2,724	6,876
Change in pension funded status		(106,859)	41,273
Change in unrestricted net assets		(44,510)	276,399
Temporarily restricted net assets:			
Investment return		(179)	2,109
Contributions		5,985	7,632
Net assets released from restrictions		(6,747)	(8,533)
Change in temporarily restricted net assets		(941)	1,208
Permanently restricted net assets:			
Investment return		9	9
Contributions		1,353	1,377
Change in permanently restricted net assets		1,362	1,386
Change in net assets		(44,089)	278,993
Net assets at beginning of year		2,530,502	2,251,509
Net assets at end of year	$	2,486,413	2,530,502

See accompanying notes to consolidated financial statements.

HOSPITAL SISTERS HEALTH SYSTEM AND SUBSIDIARIES
Springfield, Illinois

Consolidated Statements of Cash Flows

Years ended June 30, 2015 and 2014

(Dollars in thousands)

		2015	2014
Cash flows from operating activities:			
Change in net assets	$	(44,089)	278,993
Adjustments to reconcile change in net assets to net cash from operating activities:			
Loss on conversion and early extinguishment of debt		907	—
Change in pension funded status		106,859	(41,273)
Income from equity basis investments		(2,238)	(4,193)
Cash received from equity basis investments, net		2,570	5,740
Net assets released from restrictions used for operations		4,023	1,657
Contributions of excess assets over liabilities for St. Clare Hospital		(8,900)	—
Restricted contributions and investment return		(7,168)	(11,127)
Amortization of bond issuance costs, included in interest expense		389	253
Depreciation and amortization, including $4,463 and $4,872, respectively, included in discontinued operations		172,410	151,683
Provision for uncollectible accounts		66,390	98,003
Change in net unrealized gain and losses on investments		39,486	(86,580)
Net realized gains on sale of investments		(56,445)	(105,423)
Change in the fair value of derivative instruments		5,682	1,221
Changes in assets and liabilities:			
Patients' accounts receivables		(93,486)	(129,077)
Other receivables		4,463	(14,892)
Inventories		(4,049)	2,016
Prepaid expenses		(1,844)	(573)
Net amounts due to third-party reimbursement programs		3,992	14,875
Accounts payable and accrued liabilities		15,134	1,688
Estimated self-insurance liabilities and other noncurrent liabilities		1,092	7,702
Net cash provided by operating activities		205,178	170,693
Cash flows from investing activities:			
Acquisition of property, plant, and equipment		(157,766)	(224,242)
Cash received from acquisition of St. Clare		2,152	—
Gross purchases of investments		(944,489)	(1,761,889)
Gross proceeds from sale or maturity of investments		893,551	1,796,885
Change in other assets		2,408	(7,137)
Net cash used in investing activities		(204,144)	(196,383)
Cash flows from financing activities:			
Repayment of long-term debt		(164,537)	(13,663)
Proceeds from issuance of debt		180,000	70,970
Payment of bond issuance cost		(1,778)	—
Net assets released from restrictions used for operations		(4,023)	(1,657)
Restricted contributions and investment return		7,168	11,127
Net cash provided by financing activities		16,830	66,777
Change in cash and cash equivalents		17,864	41,087
Cash and cash equivalents at beginning of year		122,197	81,110
Cash and cash equivalents at end of year	$	140,061	122,197

(Continued)

HOSPITAL SISTERS HEALTH SYSTEM AND SUBSIDIARIES
Springfield, Illinois

Consolidated Statements of Cash Flows

Years ended June 30, 2015 and 2014

(Dollars in thousands)

		2015	2014
Supplemental disclosure of cash flow information:			
Cash paid for interest, net of amounts capitalized	$	13,490	8,383
Supplemental disclosure of noncash transactions:			
Assets acquired under capital lease		7,806	2,198
Noncash transactions associated with acquisition of St. Clare Hospital:			
Patients' accounts receivable	$	3,375	—
Inventories		1,785	—
Prepaid expenses		144	
Investments		6,873	—
Property, plant, and equipment		9,355	—
Other assets		299	—
Estimated third-party payor settlements		319	—
Accounts payable and accrued expenses		(3,526)	—
Other long-term liabilities		(150)	—
Long-term debt		(8,627)	—

See accompanying notes to consolidated financial statements.

(1) Organization and Purpose

Hospital Sisters Health System (HSHS), an Illinois not-for-profit corporation, considers all wholly owned or controlled entities as subsidiaries for consolidated financial statement purposes. The accompanying consolidated financial statements include the accounts of HSHS and its subsidiaries. HSHS is the parent corporation for several subsidiary corporations and exerts control through various reserved powers. The subsidiary corporations and controlled entities presented in the accompanying consolidated financial statements include Hospital Sisters Services, Inc. (HSSI), HSHS System Services Center (the SSC), Hospital Sisters of St. Francis Foundation, Inc. (the Foundation), and Kiara, Inc. HSSI, an Illinois not-for-profit holding company, is the sole member of 14 hospitals in Illinois and Wisconsin, Hospital Sisters Healthcare – West, Inc. (HCW), HSHS Medical Group, Inc., and HSHS Wisconsin Medical Group, Inc. (collectively referred to as the Medical Group), Unity Limited Partnership, Kiara Clinical Integration Network (KCIN), Prairie Education & Research Cooperative (PERC), and Renaissance Quality Insurance, Ltd. (RQIL).

The hospitals are organized for the purpose of providing inpatient and outpatient healthcare services. HSSI formed the Medical Group for the purpose of affiliating with physicians. RQIL is a captive insurance company incorporated in the Cayman Islands to provide professional and general liability insurance coverage to HSHS and affiliates. Effective July 1, 2013, RQIL started providing workers compensation coverage for the 14 hospitals.

Other than St. Clare, Oconto Falls (SCO), the remaining 13 hospitals within HSSI have formed an Obligated Group for debt financing purposes through the use of a Master Trust Indenture (MTI) (note 12).

On September 1, 2014, HSSI became the sole corporate member of Community Memorial Hospital (CMH) in Oconto Falls, Wisconsin. Effective on the acquisition date, CMH became a Catholic entity and the hospital name was changed to St. Clare Memorial Hospital, Inc. Prior to the acquisition, two HSSI affiliates held a combined 24% minority interest in CMH. Revised governing documents are consistent with HSHS policies applicable to affiliates. HSSI will retain certain reserve powers over St. Clare Memorial Hospital, Inc. consistent with other HSSI subsidiaries. As a part of the change in sponsorship, HSHS recorded \$8,900 of contribution for the excess of fair value of assets over liabilities less their equity based investment in SCO of \$3,100 and acquired \$22,978 of total assets, \$10,978 of total liabilities, and \$12,000 of net assets. Annual revenue and expenses for SCO are estimated as \$40,500 and \$40,800, respectively.

The 14 hospitals, of which HSSI is the sole corporate member, are as follows:

Hospital	Location
	Illinois:
St. Elizabeth's Hospital	Belleville
St. Joseph's Hospital	Breese
St. Mary's Hospital	Decatur
St. Anthony's Memorial Hospital	Effingham
St. Joseph's Hospital	Highland
St. Francis Hospital	Litchfield
St. John's Hospital	Springfield
St. Mary's Hospital	Streator
	Wisconsin:
St. Joseph's Hospital	Chippewa Falls
Sacred Heart Hospital	Eau Claire
St. Mary's Hospital Medical Center	Green Bay
St. Vincent Hospital	Green Bay
St. Nicholas Hospital	Sheboygan
St. Clare Hospital	Oconto Falls

The SSC administers the Health Care Trust Fund. The SSC is supported by annual fees paid by the HSHS affiliated hospitals and certain other HSHS controlled entities to the SSC. The SSC utilizes these funds to provide centralized management and information services to the 14 affiliated hospitals and employee health administration. In addition, the SSC administers a centralized investment program and defined contribution pension plan on behalf of all HSHS entities.

The Foundation, an Illinois not-for-profit corporation, is an entity whose purpose is to solicit and administer philanthropic funds. The Foundation is structured into 14 separate divisions to administer restricted and unrestricted gifts and bequests at each of the respective hospital locations and the SSC.

Kiara, Inc., an Illinois for-profit corporation, provides a vehicle for joint ventures with physicians and an entry into those health related services, which do not qualify as tax-exempt services, such as pharmacy, durable medical equipment, nonaffiliated electronic health records (EHR) implementations, and real estate holdings. Kiara, Inc. is the sole stockholder of LaSante, Inc., LaSante Wisconsin, Inc., and Prairie Cardiovascular Consultants, Inc. (PCC). The operations of these three wholly owned subsidiaries are consolidated into the financial statements of Kiara, Inc. In connection with the acquisition of PCC, $1,686 was payable at June 30, 2014 and was a component of other noncurrent liabilities in the accompanying consolidated balance sheets.

Pursuant to a Membership Substitution Agreement, HSSI became the sole corporate member of PERC on October 1, 2013. As part of the change in sponsorship, HSHS acquired $3,886 of total assets, $2,121 of total liabilities, and $1,765 of unrestricted contributions. HSSI retains certain reserved powers over PERC consistent with other HSSI subsidiaries.

On June 22, 2015, the Board of Directors approved the intention to sell and donate certain assets associated with St. Mary's Hospital (SMS) in Streator, Illinois. As a result, these assets have been presented as assets held for sale in the accompanying consolidated balance sheets (note 9).

All significant intercompany transactions have been eliminated in consolidation.

(2) Summary of Significant Accounting Policies

The significant accounting policies of HSHS are as follows:

(a) Presentation

For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of healthcare services are reported as revenue and expenses. Peripheral or incidental transactions are reported as nonoperating gains or losses. Nonoperating gains or losses include investment return, other than that which is associated with self-insurance programs, or funds held by trustee under indenture agreements, loss on conversion and early extinguishment of debt, contributions of excess assets over liabilities for St. Clare Hospital, discontinued operation – gain (loss) from operations, and the change in fair value of the interest rate swap agreements.

(b) Use of Estimates

The preparation of consolidated 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 consolidated financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Significant estimates include allowances for contractual allowances and bad debts, third-party payor settlements, valuation of investments, recoverability of property, plant, and equipment, self-insurance liabilities, derivative instruments, accrued benefit liability, and other liabilities. Actual results could differ from those estimates.

(c) Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with a maturity of three months or less when purchased, excluding those amounts included as assets whose use is limited or restricted.

(d) Assets Whose Use is Limited or Restricted

Assets whose use is limited or restricted include assets set aside by the Board of Directors for future capital improvements, self-insurance funding, and for other purposes over which the board of directors retains control and may at its discretion subsequently use for other purposes; assets held by third-party trustees under indenture agreements; and funds temporarily or permanently restricted by donors. Management classifies the current portion of assets whose use is limited or restricted based on the approximate amount of the current portion of long-term debt and self-insurance.

Investments in equity securities with readily determinable values and all investments in debt securities are measured at fair value in the accompanying consolidated balance sheets. Investment return on assets associated with self-insurance programs or assets deposited in funds held by trustee under indenture agreements is reported as other revenue. Investment return from all other investments is reported as nonoperating gains – investment return, unless the income or loss is restricted by donor or law. Changes in net unrealized gains and losses on investments are included in revenue and gains in excess of expenses and losses as all investments are considered to be trading securities.

(e) Inventories

Inventories are stated at the lower of cost or market. Cost is determined on a first-in, first-out basis.

(f) Property, Plant, and Equipment

Property, plant, and equipment additions are stated at cost or fair value at the date of acquisition or donation. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method of accounting. Useful lives may be reassessed from time to time as facts and circumstances change in regards to how assets are being used. Interest cost incurred on borrowed funds during the period of construction of major projects are capitalized as a component of the cost of acquiring those assets. Capitalized interest is reduced by the amount of investment income earned on unexpended proceeds from project specific borrowings.

(g) Long-Lived Assets

Long-lived assets (including property, plant, and equipment) are periodically assessed for recoverability based on the occurrence of a significant adverse event or change in the environment in which HSHS operates or if the expected future cash flows (undiscounted and without interest) would become less than the carrying amount of the asset. An impairment loss would be recorded in the period such determination is made based on the fair value of the related entity. No impairments were recorded for the years ended June 30, 2015 and 2014.

(h) Other Assets – Joint Ventures

HSHS invests in various organizations that are not wholly owned or controlled by HSHS. Investments in affiliates in which HSHS has significant influence but does not control are reported on the equity method of accounting, which represents HSHS' equity in the underlying net book value. The equity method of accounting is discontinued when the investment is reduced to zero unless HSHS has guaranteed the obligations of the organization or is committed to provide additional capital support.

(i) *Loss Reserves*

HSHS is self-insured for professional and general liability, workers' compensation, and employee health claims. The provision for loss reserves include the ultimate cost for both reported losses and losses incurred, but not reported as of the respective consolidated balance sheet dates. HSHS reports the amount predicted to settle within one year as the current portion of estimated self-insurance liabilities with the corresponding investments held as current portion of assets whose use is limited or restricted. The long-term portion is reported as estimated self-insurance liabilities with the corresponding investments held as assets whose use is limited or restricted.

The liability for loss reserves represents an estimate of the ultimate net cost of all such amounts that are unpaid at the consolidated balance sheet dates. The liability is based on projections and the historical claim experience of HSHS and gives effect to estimates of trends. Although management believes the estimate of the liability for claims is reasonable, it is possible HSHS' actual incurred claims will not conform to the assumptions' inherent variability with respect to the significant assumptions utilized. The ultimate settlement of claims may vary from the liability for unpaid claims included in the accompanying consolidated financial statements.

(j) *Derivative Instruments*

HSHS accounts for derivatives and hedging activities in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) SubTopic 815-10, *Accounting for Derivative Instruments and Hedging Activities*, which requires that an entity recognize all derivatives as either assets or liabilities in the consolidated balance sheet and measure those instruments at fair value. HSHS is involved in various interest rate swaps. The fair value of the interest rate swap programs is included as derivative instruments in the accompanying consolidated balance sheets. For HSHS, the derivatives are not designated as hedge instruments, and therefore, settlements on derivative instruments and the change in fair values of the interest rate swap agreements are recognized in the consolidated statements of operations and change in unrestricted net assets as a component of nonoperating gains (losses).

(k) *Asbestos Removal Costs*

HSHS accounts for asbestos removal costs in accordance with ASC SubTopic 410-20, *Accounting for Conditional Asset Retirement Obligations*. ASC SubTopic 410-20 requires the current recognition of a liability when a legal obligation exists to perform an asset retirement obligation (ARO) in which the timing or method of settlement is conditional on a future event that may or may not be under the control of the entity. ASC SubTopic 410-20 requires an ARO liability be recorded at its net present value with recognition of a related long-lived asset in a corresponding amount. The ARO liability is accreted through periodic charges to depreciation expense. The initially capitalized ARO long-lived asset is depreciated over the corresponding long-lived asset's remaining useful life. HSHS is legally liable to remove asbestos from existing buildings prior to future remodeling or demolishing of the existing

(Continued)

hospital buildings. The estimated asbestos removal cost at June 30, 2015 and 2014 is $28,897 and $27,927, respectively, and is included within other noncurrent liabilities in the accompanying consolidated balance sheets. The net book value of the ARO long-lived asset at June 30, 2015 and 2014 is $258 and $334, respectively, and is included within other assets in the accompanying consolidated balance sheets.

(l) Donor-Restricted Net Assets

Net assets and activities are classified into three classes based on the existence or absence of donor-imposed restrictions: unrestricted, temporarily restricted, and permanently restricted. Temporarily restricted net assets represent those net assets whose use by HSHS has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by HSHS in perpetuity.

HSHS classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment, the original value of subsequent gifts to the permanent endowment, and accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument. Investment returns in excess of spending are classified as increases in temporarily restricted net assets until appropriated for expenditure by HSHS.

HSHS has established a spending policy, which is evaluated and approved by the Foundation's board every year. The approved spending rate for fiscal year 2015 and 2014 was 4.90%. In establishing this policy, the long-term expected return on the endowment is considered. This is consistent with HSHS' objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term.

Endowment funds are commingled with the pooled investment fund administered by HSHS. HSHS relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). HSHS targets a diversified asset allocation of 35.5% fixed income, 22.5% domestic equities, 17% international equities, 20% custom hedge funds, and 5% real assets to achieve its long-term return objectives within prudent risk constraints.

(m) Gifts, Bequests, and Grants

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received, which is then treated as cost. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations and change in unrestricted net assets as assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are recorded as unrestricted contributions. Unrestricted contributions are included in other revenue.

Gifts of long-lived assets such as property, plant, and equipment are reported as unrestricted gifts and bequests and are excluded from revenue and gains in excess of expenses and losses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted contributions. In the absence of explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

(n) Net Patient Service Revenue

Net patient service revenue are reported at the estimated net realizable amounts due from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors and amounts received under the Medicaid assessment tax programs. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

(o) Charity Care

HSHS provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Amounts determined to qualify as charity care are not reported as net patient service revenue, since HSHS does not pursue collection of such amounts.

(p) Revenue and Gains in Excess of Expenses and Losses

The consolidated statements of operations and change in unrestricted net assets include revenue and gains in excess of expenses and losses. Changes in unrestricted net assets that are excluded from revenue and gains in excess of expenses and losses, consistent with industry practice, include contributions of property, plant, and equipment (including assets acquired using contributions that by donor restrictions or grants were to be used for the purpose of acquiring such assets) and the change in pension funded status.

(q) Income Taxes

HSHS and the Foundation are Illinois not-for-profit organizations as described in Section 501(c) (3) of the Internal Revenue Code (the Code) and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. Kiara, Inc. is an Illinois for-profit corporation that recognizes income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax basis and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(Continued)

Kiara, Inc.'s tax effects of temporary differences that give rise to significant portions of the deferred tax assets at June 30, 2015 and 2014 are primarily the result of net operating loss carryforwards of $94,120 and $72,356 at June 30, 2015 and 2014, respectively, which expire at various future dates through 2034.

In assessing the realizability of 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 projected future taxable income and tax planning strategies in making this assessment. Based upon the level of historical taxable losses and projections for future taxable losses over the periods for which the deferred tax assets are deductible, management believes it is more likely than not Kiara, Inc. will not realize the majority of the benefits of these deductible differences. The deferred tax assets attributable to the net operating loss carryforwards not realized as of June 30, 2015 and 2014 have been fully reserved in the accompanying consolidated financial statements due to the uncertainty of realization.

HSHS recognizes the tax benefit from an uncertain tax position only if it is more likely than not the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. As of June 30, 2015 and 2014, HSHS does not have any liabilities for unrecognized tax benefits.

(r) ***Fair Value***

HSHS has adopted the provisions of ASC Topic 820, *Fair Value Measurement*, for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis. ASC Topic 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC Topic 820 also establishes a framework for measuring fair value and expands disclosures about fair value measurements.

In conjunction with the adoption of ASC Topic 820, HSHS adopted the measurement provisions of FASB Accounting Standards Update (ASU) 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, to certain investments in funds that do not have readily determinable fair values including private investments, hedge funds, real estate, and other funds. This guidance amends ASC Topic 820 and allows for the estimation of the fair value of investments in investment companies for which the investment does not have a readily determinable fair value using net asset value (NAV) per share or its equivalent.

(s) ***EHR Incentive Program***

The EHR Incentive Program (the 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. HSHS accounts for the Program using the grant model. HSHS applies the "ratable recognition" approach, which states that the grant income can be recognized ratably over the entire EHR reporting period once a "reasonable assurance" income recognition threshold is met. For the years ended June 30, 2015 and 2014, HSHS recognized $8,427 and $15,586, respectively, as other revenue related to EHR incentives, which have been received or are expected to be received based on certifications prepared by management under the appropriate guidelines.

(Dollars in thousands)

(t) ***Reclassification***

Certain 2014 amounts have been reclassified to conform to the 2015 consolidated financial statement presentation as a result of discontinued operations presentation (note 9).

(3) Community Benefit

Consistent with its mission, HSHS provides medical care to all patients regardless of their ability to pay. In addition, HSHS provides services intended to benefit the poor and underserved, including those persons who cannot afford health insurance because of inadequate resources and/or are uninsured or underinsured, and to enhance the health status of the communities in which it operates.

The following summary has been prepared in accordance with the Catholic Health Association of the United States' (CHA) policy document, *A Guide for Planning and Reporting Community Benefit*, released in May 2006. HSHS uses a cost-to-charge ratio to calculate the cost of charity care and the unpaid cost of Medicaid. The amounts in the following table reflect the quantifiable costs of HSHS' community benefit for the years ended June 30, 2015 and 2014:

	2015	2014
Benefits for the poor:		
Charity care at cost	$ 24,026	37,951
Unpaid cost of Medicaid and other public programs	129,546	92,685
Community health services	1,845	1,532
Other	2,826	2,042
	158,243	134,210
Benefits for the broader community:		
Community health services	5,100	4,680
Health professions education	18,298	17,883
Other	9,472	12,002
	32,870	34,565
Total community benefit	$ 191,113	168,775

Benefits for the poor represent the cost of services provided to persons who cannot afford healthcare because of inadequate resources and who are uninsured or underinsured.

Benefits for the broader community represent the cost of services provided to other needy populations that may not qualify as poor, but that need special services and support. It also includes the cost of services for the general benefit of the communities in which HSHS operates. Many programs are targeted toward populations that may be poor, but also include those areas that may need special health services and support. These programs are not financially self-supporting.

Charity care at cost represents the cost of services provided to patients who cannot afford healthcare services due to inadequate resources. All or a portion of a patient's services may be considered charity care for which no payment is anticipated in accordance with HSHS' established policies.

Unpaid cost of Medicaid and other public programs represents the cost of providing services to beneficiaries of public programs, including state Medicaid and indigent care programs, in excess of payments for those services. (See note 4 for an explanation of changes to the Medicaid reimbursement from the State of Illinois.)

Community health services are activities and services for which no patient bill exists although there may be nominal patient fees. These services are not expected to be financially self-supporting although some may be partially supported by outside grants or funding.

Health professions education includes the unreimbursed cost of training health professionals, such as medical residents, nursing students, technicians, and students, in allied health professions.

Other benefits include subsidized health services, in-kind donations, and other benefits.

In addition to the amounts reported above, HSHS committed significant resources in serving the Medicare population. The cost (determined using a cost-to-charge ratio) of providing services to primarily elderly beneficiaries of the Medicare program, in excess of governmental and managed care contract payments, was $183,772 and $171,288 for the years ended June 30, 2015 and 2014, respectively.

A related organization, the Foundation, funded $12,794 and $8,865 for charity care or other operating expenses on behalf of the hospitals during the years ended June 30, 2015 and 2014, respectively. The community benefits reported above are net of the contributions from the Foundation for such benefits.

HSHS also provides a significant amount of uncompensated care for patients, which is not included above, but is reported in the consolidated statements of operations and change in unrestricted net assets as a provision for uncollectible accounts. Many of those patients are uninsured or underinsured, but did not apply for, or qualify for, charity care.

St. Mary's Hospital, Streator, Illinois, provided $4,155 and $5,190 for benefits to the community during the years ended June 30, 2015 and 2014, respectively, which is included in discontinued operations.

(4) Net Patient Service Revenues

HSHS has agreements with third-party payors that provide for payment at amounts different from their established rates. A summary of the payment arrangements with major third-party payors is as follows:

Medicare – Inpatient acute care services rendered to Medicare program beneficiaries are generally paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Certain patient services related to Medicare beneficiaries are paid based upon a cost reimbursement method, prospectively determined rates, established fee screens, or a combination thereof. The hospitals are reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the hospitals and audits by the Medicare fiscal intermediary. Certain outpatient services performed by the hospitals are reimbursed at a prospectively determined rate per service based upon their ambulatory payment classification. Home health services performed by the hospitals are reimbursed at a prospectively determined rate per episodic treatment.

As of June 30, 2015, Medicare cost reports have been audited and final settled through June 30, 2010.

Medicaid – Inpatient services rendered to Medicaid program beneficiaries are reimbursed at prospectively determined rates per discharge. Outpatient services rendered to Medicaid program beneficiaries are reimbursed based upon per visit rates. Medicaid payment methodologies and rates for services are based on the amount of funding available to state Medicaid programs.

HSHS participates in the State of Illinois (the State) provider assessment program that assists in the financing of its Medicaid program. The program has been renewed by the State since its inception in 2004. Pursuant to this program, hospitals within the State are required to remit payment to the State Medicaid program under an assessment formula approved by the Centers for Medicare and Medicaid Services (CMS).

The hospitals have included their assessments of $25,743 for both 2015 and 2014 within other expenses in the accompanying consolidated statements of operations and change in unrestricted net assets. The assessment program also provides hospitals within the State with additional Medicaid reimbursement based on funding formulas also approved by CMS. The hospitals have included their additional reimbursement of $43,897 for both 2015 and 2014 within net patient service revenue in the accompanying consolidated statements of operations and change in unrestricted net assets.

As of and for the years ended June 30, 2015 and 2014, HSHS has included its assessment of $8,106 and $16,678, respectively, under the Illinois Enhanced Hospital Assessment Program, within other expenses in the accompanying consolidated statement of operations and change in unrestricted net assets. The Enhanced Hospital Assessment Program provides hospitals within the State with additional Medicaid reimbursement, based on funding formulas also approved by CMS. HSHS has included its additional related reimbursements for the years ended June 30, 2015 and 2014 of $13,519 and $27,366, respectively, within net patient service revenue in the accompanying consolidated statement of operations and change in unrestricted net assets.

(Dollars in thousands)

During 2015, CMS approved Illinois' request for 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 approved retroactive to March 1, 2014. Illinois will use same pro rata allocation as a percentage of the gross assessment payments under the existing Hospital Assessment Programs. HSHS has included its additional related reimbursements for the year ended June 30, 2015 of $18,030 within net patient service revenue in the accompanying 2015 consolidated statement of operations and change in unrestricted net assets.

During 2009, the State of Wisconsin enacted an assessment tax on the gross revenue of all Wisconsin hospitals, which is used to increase reimbursements made under its Medicaid program. During the years ended June 30, 2015 and 2014, the HSHS Wisconsin hospitals were assessed $20,640 and $20,834, respectively, related to this tax, which is included as a component of other expenses in the accompanying consolidated statements of operations and change in unrestricted net assets, and received $25,499 and $24,329, respectively, in supplemental Medicaid reimbursement, which is included as a component of net patient service revenues in the accompanying consolidated statements of operations and change in unrestricted net assets.

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

A summary of gross and net patient service revenue for the years ended June 30, 2015 and 2014 is as follows:

	2015	2014
Inpatient revenue	$ 2,492,017	2,343,084
Outpatient revenue	3,629,158	3,171,066
Less provisions for estimated contractual adjustments under third-party reimbursement programs	3,958,934	3,478,272
Net patient service revenue	$ 2,162,241	2,035,878

Net patient service revenue for the years ended June 30, 2015 and 2014 include $4,829 and $2,784, respectively, of favorable retrospectively determined prior year settlements with third-party payors.

(Dollars in thousands)

A summary of Medicare, Medicaid, and managed care/contracted payor utilization percentages, based upon gross patient service revenue, is as follows:

	2015	2014
Medicare	47%	48%
Medicaid	18	15
Managed care/contracted payor	31	32
Self-pay	1	3
Other	3	2

Patients' accounts receivable are reduced by an allowance for uncollectible accounts. In evaluating the collectibility of patients' accounts receivable, HSHS analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for uncollectible accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, HSHS analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (e.g., for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), HSHS 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 unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

HSHS' allowance for uncollectible accounts for self-pay patients increased from 80.4% of self-pay accounts receivable at June 30, 2014, to 83.6% of self-pay accounts receivable at June 30, 2015. HSHS' self-pay write-offs decreased $53,570 from $108,560 for fiscal year 2014 to $54,990 for fiscal year 2015 as a result of the expansion of Medicaid eligibility.

HSHS recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, HSHS recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of HSHS' uninsured patients will be unable or unwilling to pay for the services provided. Thus, HSHS records a significant provision for bad debts related to uninsured patients in the period the

(Continued)

(Dollars in thousands)

services are provided. Patient service revenue, net of contractual allowances and discounts (before the provision for bad debts), is recognized in the period from these major payor sources, as follows:

		2015	2014
Medicare	$	737,981	689,437
Medicaid		294,603	246,287
Managed care/contracted payor		1,034,681	964,106
Self-pay		30,567	76,698
Other		64,409	59,350
Net patient service revenue	$	2,162,241	2,035,878

(5) Concentration of Credit Risk

HSHS provides healthcare services through their inpatient and outpatient facilities located in Illinois and Wisconsin. HSHS grants credit to patients, substantially all of whom are local residents. HSHS does not require collateral or other security in extending credit to patients; however, they routinely obtain assignment of (or are otherwise entitled to receive) patients' benefits payable under their health insurance programs, plans, or policies (e.g., Medicare, Medicaid, Blue Cross, health maintenance organizations, and commercial insurance policies).

The mix of net receivables from patients and third-party payors as of June 30, 2015 and 2014 is as follows:

	2015	2014
Medicare	31%	28%
Medicaid	11	10
Managed care/contracted payor	47	46
Self-pay	5	9
Other	6	7

(6) Investment Composition and Fair Value Measurements

(a) *Overall Investment Objective*

The overall investment objective of HSHS is to invest its assets in a prudent manner that will achieve an expected rate of return, manage risk exposure, and focus on downside protection. HSHS' invested assets will maintain sufficient liquidity to fund a portion of HSHS' annual operating activities and structure the invested assets to maintain a high percentage of available liquidity. HSHS diversifies its investments among various asset classes incorporating multiple strategies and managers. The HSHS board approves the investment policy statement. The Investment Committee oversees the investment program in accordance with the investment policy statement.

(b) *Allocation of Investment Strategies*

To manage risk, HSHS invests in fixed income, domestic equities, international equities, custom hedge funds, and real assets. HSHS engages outside portfolio managers as follows: 6 fixed income managers, 13 domestic equity managers, 5 international managers, 2 custom hedge fund portfolio managers (K2 and Mesirow), and 1 real estate manager. Because of the inherent uncertainties for valuation of some holdings, the estimated fair values may differ from values that would have been used had a ready market existed.

The investment objective of the K2 Custom Solutions Hospital Sisters Fund is to achieve equity type returns with reduced volatility and risk. This is achieved through a diversified portfolio targeting allocations of long strategies and low volatility strategies and spread across 29 separate underlying funds.

The investment objective of the Mesirow Custom Solutions Hospital Sisters Fund is to achieve positive returns with low volatility and risk. This is achieved through a multimanager, multi-strategy, and diversified investment approach and spread across 31 separate underlying funds.

A summary of the strategies used by the hedge fund managers is as follows:

- *Commodities* include investment entities that may trade in agricultural, metal, and energy markets at various stages of the commodity cycle.
- *Event Driven* includes investment entities that focus on identifying and analyzing securities that may benefit from the occurrence of specific corporate events.
- *Global Macro* includes investment entities, which invest in products that may benefit from overall economic and political events of various countries.
- *Insurance-Linked* includes investment entities with an income-based strategy that invest across instruments, the value of which is driven by insurance-related events primarily related to property and life insurance. Risk is managed by diversifying over geography, insurance type, and sensitivity to incurred losses amongst other factors. The strategy is a tool to reduce overall investment risk as underlying insurance risk factors are less sensitive to general market factors.
- *Long/Short Equity* includes investment entities that invest both long and short, primarily in common stocks and debt instruments, based on the manager's perception of such securities being undervalued or overvalued by the market.
- *Multi-Strategy* includes investment entities that pursue multiple strategies to diversify risks and reduce volatility.
- *Relative Value* includes investment entities that utilize nondirectional strategies. Relative value investing involves trading around the mispricing of two related securities using various types of securities or instruments.

- *Specialist Credit* includes investment entities that seek to generate superior risk-adjusted returns from a combination of capital appreciation and current income by opportunistically investing and trading in a diversified portfolio of credit-related securities and other instruments.
- *Structured Credit* includes investment entities that invest across structured credit markets including agency and nonagency residential mortgage-backed securities, commercial mortgage-backed securities, and various asset-backed securities. Strategies can be trading oriented or directional, and may include a hedging component to offset market risks.

(c) Basis of Reporting

Assets whose use is limited or restricted are reported at estimated fair value. If an investment is held directly by HSHS and an active market with quoted prices exists, the market price of an identical security is used as reported fair value. Reported fair values for shares in common and preferred stock and fixed income are based on share prices reported by the funds as of the last business day of the fiscal year. HSHS' interests in alternative investment funds are generally reported at the NAV reported by the fund managers, which is used as a practical expedient to estimate the fair value of the HSHS' interest therein, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. As of June 30, 2015, HSHS had no plans or intentions to sell investments at amounts different from NAV.

(d) Fair Value of Financial Instruments

The following methods and assumptions were used by HSHS in estimating the fair value of its financial instruments:

- The carrying amount reported in the consolidated balance sheets for the following approximates fair value because of the short maturities of these instruments: cash and cash equivalents, receivables, accounts payable, accrued liabilities, and estimated payables under third-party reimbursement programs.
- Fair values of HSHS' investments held as assets whose use is limited or restricted are estimated based on prices provided by its investment managers and its custodian bank except pledges receivable and other, whereby carrying amounts approximate fair value. Fair value for cash and cash equivalents, corporate and preferred stocks, foreign securities, U.S. government securities, corporate bonds, municipal bonds, and commingled mutual funds are measured using quoted market prices at the reporting date multiplied by the quantity held. The carrying value equals fair value.
- HSHS has two hedge fund investments for which quoted market prices are not available. The estimated fair value of these hedge fund investments includes estimates, appraisals, assumptions, and methods provided by external financial advisers and reviewed by HSHS.
- Fair value of fixed rate long-term debt is estimated based on the quoted market prices for the same or similar issues or on the current rates offered to HSHS for debt of the same remaining maturities. For variable rate debt, carrying amounts approximate fair value. Fair value was

(Dollars in thousands)

estimated using quoted market prices based upon HSHS' current borrowing rates for similar types of long-term debt securities.

- Fair value of interest rate swaps is determined using pricing models developed based on the LIBOR swap rate and other observable market data by financial advisers. The value was determined after considering the potential impact of collateralization and netting agreements, adjusted to reflect nonperformance risk of both the counterparty and HSHS. The carrying value equals fair value.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although HSHS believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table presents the carrying amounts and estimated fair values of HSHS' financial instruments not carried at fair value at June 30, 2015:

		2015		2014	
		Carrying amount	Fair value	Carrying amount	Fair value
Long-term debt	$	687,701	684,863	673,195	673,845

(e) Fair Value Hierarchy

HSHS has adopted ASC Topic 820 for fair value measurements of financial assets and liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis. ASC Topic 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that HSHS has the ability to access at the measurement date.
- Level 2 inputs are 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 for substantially the full term of the assets or liabilities.
- Level 3 inputs are unobservable inputs for the asset or liability.

(Dollars in thousands)

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period. There were no transfers between Level 1, Level 2, or Level 3 for the fiscal years ended June 30, 2015 and 2014.

The following table summarizes HSHS' fair values of cash and cash equivalents, assets whose use is limited or restricted by major category and derivative instruments in the fair value hierarchy as of June 30, 2015, as well as related strategy, liquidity, and funding commitments:

	June 30, 2015				Redemption	Days'
	Level 1	Level 2	Level 3	Total	or liquidation	notice
Cash and cash equivalents	$ 140,061	—	—	140,061	Daily	One
Assets whose use is limited or restricted excluding accrued interest and other of $4,306 and pledges receivable and other of $23,684:						
Cash and cash equivalents	80,971	—	—	80,971	Daily	One
Common stocks	477,992	—	—	477,992	Daily	One
U.S. government securities	—	191,577	—	191,577	Daily	One
Taxable municipals	—	32,929	—	32,929	Daily	Two
Corporate bonds	—	144,863	—	144,863	Daily	Two
Foreign securities	355,643	21,150	—	376,793	Daily	Three
Commingled mutual funds	12,633	316,455	—	329,088	Daily	Three
Hedge funds:						
K2 multistrategy fund	—	—	284,267	284,267	See below	
Mariner multistrategy	—	—	88,057	88,057	See below	
Total financial assets	$ 1,067,300	706,974	372,324	2,146,598		
Liabilities:						
Derivative instruments	$ —	48,734	—	48,734		

(Dollars in thousands)

The table below sets forth a summary of changes in the fair value of the HSHS' Level 3 assets for the year ended June 30, 2015:

	Level 3 assets, year ended June 30, 2015		
	K2 fund	Mesirow fund	Total funds
Balance, beginning of year	$ 277,432	69,560	346,992
Purchases	—	15,500	15,500
Total net gains	6,835	2,997	9,832
Balance, end of year	$ 284,267	88,057	372,324

The following table summarizes HSHS' cash and cash equivalents and assets whose use is limited or restricted by major category in the fair value hierarchy as of June 30, 2014, as well as related strategy, liquidity, and funding commitments:

	June 30, 2014				Redemption or liquidation	Days' notice
	Level 1	Level 2	Level 3	Total		
Cash and cash equivalents	$ 122,197	—	—	122,197	Daily	One
Assets whose use is limited or restricted excluding accrued interest and other of $4,585 and pledges receivable and other of $29,393:						
Cash and cash equivalents	82,195	—	—	82,195	Daily	One
Common stocks	446,359	—	—	446,359	Daily	One
U.S. government securities	—	106,851	—	106,851	Daily	One
Taxable municipals	—	31,068	—	31,068	Daily	Two
Corporate bonds	—	138,213	—	138,213	Daily	Two
Foreign securities	347,370	17,824	—	365,194	Daily	Three
Commingled mutual funds	12,492	401,514	—	414,006	Daily	Three
Hedge funds:						
K2 multistrategy fund	—	—	277,432	277,432	See below	
Mesirow multistrategy	—	—	69,560	69,560	See below	
Total financial assets	$ 1,010,613	695,470	346,992	2,053,075		
Liabilities:						
Derivative instruments	$ —	43,052	—	43,052		

(Continued)

(Dollars in thousands)

The table below sets forth a summary of changes in the fair value of the HSHS' Level 3 assets for the year ended June 30, 2014:

		Level 3 assets, year ended June 30, 2014		
		K2 fund	Mesirow fund	Total funds
Balance, beginning of year	$	196,551	55,542	252,093
Purchases		63,000	10,000	73,000
Total net gains		17,881	4,018	21,899
Balance, end of year	$	277,432	69,560	346,992

The following table presents information about the redemption terms and restrictions as of June 30, 2015 and 2014 for the alternative investments:

K2 Custom Solutions Hospital Sisters Fund

		Fair value		Notice period (days) minimum maximum
		2015	2014	
Redemption terms:				
Monthly	$	63,040	69,302	15–90 days
Quarterly		170,647	191,480	30–90 days
Biannual		22,297	8,325	60–90 days
Annually		28,283	8,325	90 days
Total	$	284,267	277,432	

(Continued)

(Dollars in thousands)

Mesirow Custom Solutions Hospital Sisters Fund

		Fair value 2015	Fair value 2014	Notice period (days) minimum maximum
Redemption terms:				
Monthly	$	31,786	28,024	15–90 days
Quarterly		17,279	32,342	30–90 days
Biannual		35,381	6,299	60–90 days
Annually		3,611	2,895	90 days
Total	$	88,057	69,560	

A summary of assets whose use is limited or restricted as of June 30, 2015 and 2014 is as follows:

		2015	2014
Assets whose use is limited or restricted:			
By the board for capital improvements	$	1,769,762	1,692,347
Funds held by trustee for self-insurance		63,849	67,687
Funds held by RQIL		103,291	100,258
Funds temporarily restricted by donors		527	484
Investments held at the Foundation		99,098	104,080
Total assets whose use is limited or restricted	$	2,036,527	1,964,856

The composition of investment return for the years ended June 30, 2015 and 2014 is as follows:

		2015	2014
Investment return:			
Interest and dividend income	$	18,008	24,745
Net realized gains on sale of investments		56,445	105,423
Change in net unrealized gains and losses		(39,486)	86,580
Total investment return	$	34,967	216,748

(Continued)

(Dollars in thousands)

Investment returns are included in the accompanying consolidated statements of operations and change in unrestricted net assets and changes in net assets for the years ended June 30, 2015 and 2014 as follows:

		2015	2014
Other revenue – investment return	$	209	1,827
Nonoperating gains – investment return		34,928	212,803
Temporarily restricted net assets – investment return		(179)	2,109
Permanently restricted net assets – investment return		9	9
Total investment return	$	34,967	216,748

(7) Derivative Instruments

HSHS has interest-rate related derivative instruments to manage its exposure on its debt instruments. HSHS does not enter into derivative instruments for any purpose other than cash flow hedging purposes, and HSHS does not speculate using derivative instruments.

By using derivative financial instruments to hedge exposures to changes in interest rates, HSHS exposes itself to credit risk, tax risk, and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty owes HSHS, which creates credit risk for HSHS. When the fair value of a derivative contract is negative, HSHS owes the counterparty, and therefore, it does not possess credit risk. HSHS minimizes the credit risk in derivative instruments by entering into transactions with high-quality counterparties.

Tax risk is the adverse effect that HSHS takes on to the extent tax law changes impact the rates paid to a variable rate bondholder (either positively or negatively) that would affect the variable rate received from the counterparty under a LIBOR-based swap that may not match the tax-exempt equivalent rate being paid. HSHS minimizes the tax risk in derivative instruments by maintaining sufficient cash reserves to handle potential tax law changes.

Market risk is the adverse effect on the value of the derivative instrument that results from a change in interest rates. The market risk associated with interest rate contracts is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken.

HSHS is exposed to credit loss in the event of nonperformance by the counterparty to the interest rate swap agreements; however, this is not anticipated. During the years ended June 30, 2015 and 2014, HSHS was not required to post collateral.

HSHS maintains interest rate swap agreements, which effectively change the interest rate exposure on a portion of its variable rate bonds to a fixed rate. HSHS receives 86.1% of the three-month LIBOR ($76,750 notional amount) and 67% of the one-month LIBOR ($41,300 and $100,425 notional amounts) and pays a fixed rate of 4.02% ($76,750 notional amount) and 3.47% ($41,300 and $100,425 notional amounts). The interest rate swap agreements have notional amounts of $218,475 at June 30, 2015 and 2014, respectively, which will amortize through March 2036.

(Dollars in thousands)

HSHS also entered into a fixed spread basis swap in fiscal year 2008 that removes the tax risk from the bondholders and transfers the risk to HSHS. The premium that HSHS receives for taking on this risk is 67.00% of the one-month LIBOR plus a fixed spread of 48 basis points less the SIFMA Index rate. The fixed spread basis swap has a notional amount of $150,000 with a final maturity in May 2033.

The following is a summary of the swaps as of June 30, 2015:

Type of interest swap	Notional amount	Settlement value	Fair value
Fixed payor	$ 76,750	(17,755)	(16,723)
Fixed spread basis	150,000	(96)	221
Fixed payor	41,300	(9,955)	(9,385)
Fixed payor	100,425	(24,238)	(22,847)
		$ (52,044)	(48,734)

The following is a summary of the swaps as of June 30, 2014:

Type of interest swap	Notional amount	Settlement value	Fair value
Fixed payor	$ 76,750	(14,748)	(13,350)
Fixed spread basis	150,000	(4,855)	(3,333)
Fixed payor	41,300	(8,635)	(7,680)
Fixed payor	100,425	(21,014)	(18,689)
		$ (49,252)	(43,052)

(Dollars in thousands)

(8) Property, Plant, and Equipment

A summary of property, plant, and equipment at June 30, 2015 and 2014 is as follows:

		2015	2014
Land	$	56,974	58,172
Land improvements		39,619	40,051
Buildings and permanent fixtures		1,510,514	1,456,753
Equipment and furnishings		1,180,086	1,169,400
		2,787,193	2,724,376
Less accumulated depreciation		1,588,496	1,520,478
		1,198,697	1,203,898
Construction in progress		75,517	79,455
	$	1,274,214	1,283,353

As of June 30, 2015, construction in progress represents various building and remodeling projects. These projects, which have remaining contracted costs at June 30, 2015 of $175,246, will be financed with board-designated assets or from operations.

A reconciliation of total interest costs, as reported in the accompanying consolidated statements of operations and change in unrestricted net assets for 2015 and 2014, is as follows:

		2015	2014
Interest cost capitalized	$	—	2,766
Interest cost charged to expense		13,490	8,472
Total interest cost	$	13,490	11,238

(9) Discontinued Operations

SMS in Streator, Illinois is an inpatient hospital currently operated by HSSI. HSSI and SMS will be submitting a Certificate of Exemption application to the Health Facilities and Services Review Board for the State of Illinois to discontinue all services, both inpatient and outpatient at SMS.

SMS' long term assets of property, plant and equipment have been presented as assets held for sale in the accompanying consolidated balance sheets for $40,569 and $44,525 during the years ended June 30, 2015 and 2014, respectively. The operations of SMS are presented in the accompanying 2015 consolidated statement of operations and changes in unrestricted net assets as discontinued operations. HSHS's results of operations for the year ended June 30, 2014 have also been reclassified to reflect the discontinuance of SMS.

(Dollars in thousands)

A summary of the operating components of the gain (loss) from discontinued operations for SMS for the years ended June 30, 2015 and 2014 is as follows:

		2015	2014
Revenue	$	44,378	43,249
Expenses		41,175	47,069
Gain (loss) from discontinued operations	$	3,203	(3,820)

(10) Self-Insurance

(a) Workers' Compensation, Professional and General Liability

On July 1, 2013, the hospital workers' compensation self-insurance program was transferred to RQIL and over the course of the fiscal year 2014, the nonhospital subsidiaries that were previously commercially insured were added to RQIL. RQIL provides coverage in addition to workers' compensation, professional and general liability, but the associated liabilities for the other coverages are less than 1% of the total RQIL liabilities at June 2015 and at June 2014.

Under the System's Workers' Compensation, Professional and General Liability self-insurance program through RQIL, claims are reflected based upon actuarial estimation, including both reported and incurred but not reported claims, taking into consideration the severity of incidents and the expected timing of claim payments. At June 30, 2015 and 2014, funds held by RQIL were $103,291 and $100,258, respectively. The related current estimated self-insurance liabilities for June 30, 2015 and 2014 were $29,319 and $16,478, respectively. The related long-term estimated self-insurance liabilities for June 30, 2015 and 2014 were $61,717 and $76,335, respectively. At June 30, 2015 and 2014, the estimated self-insurance liability for all future claims payments reflects the actuarially determined outstanding losses at the undiscounted expected level. The amount included in expenses for 2015 and 2014 was $26,862 and $32,833, respectively, and is included in other expense in the consolidated statements of operations and change in unrestricted net assets. These calculations take into consideration any liability that may be covered under an extended reporting endorsement and considered "tail" liability.

HSHS is involved in litigation arising in the ordinary course of business. Reported claims are in various stages of litigation. Additional claims may be asserted against HSHS arising from services through June 30, 2015. It is the opinion of management that the estimated liabilities accrued at June 30, 2015 are adequate to provide for potential losses resulting from pending or threatened litigation.

(b) Employee Health

The HSHS self-insurance program provides health insurance for employees. HSHS has developed internal techniques for estimating costs. The amounts funded are administered by the trustee.

At June 30, 2015 and 2014, funds held by the trustee for health insurance liability for employees' self-insurance are $63,849 and $67,687, respectively, and are included in current and noncurrent assets whose use is limited or restricted. At June 30, 2015 and 2014, related estimated current self-insurance liabilities are $11,287 and $10,418, respectively.

(11) Pension

HSHS employees participate in The Hospital Sisters Health System Employees' Pension Plan (the Plan). This noncontributory defined benefit pension plan covers substantially all employees of HSHS who have completed 1,000 hours of employment during any calendar year subsequent to the commencement of employment. The Plan recognizes and funds the costs related to employee service using the projected unit credit actuarial cost method. The information below represents the aggregation of HSHS' pension financial status, which is determined by the consulting actuaries on a member-specific basis.

HOSPITAL SISTERS HEALTH SYSTEM AND SUBSIDIARIES
Springfield, Illinois

Notes to Consolidated Financial Statements

June 30, 2015 and 2014

(Dollars in thousands)

The following table sets forth the Plan's funded status, amounts recognized in HSHS' consolidated financial statements, and assumptions at June 30, 2015 and 2014:

		2015	2014
Change in benefit obligation:			
Benefit obligation at beginning of year	$	1,350,052	1,271,770
Service cost		54,409	47,117
Interest cost		63,934	65,606
Plan amendments		160	—
Actuarial loss		87,859	82,721
Expected expenses		(8,546)	(7,649)
Benefits paid		(33,277)	(109,513)
Benefit obligation at end of year	$	1,514,591	1,350,052
Change in plan assets:			
Fair value of plan assets at beginning of year	$	1,139,431	1,019,876
Actual gain on plan assets		35,707	179,208
Employer contributions		55,250	49,860
Benefits paid		(33,277)	(109,513)
Fair value of plan assets at end of year	$	1,197,111	1,139,431
Reconciliation of funded status:			
Funded status	$	(317,480)	(210,621)
Amounts recognized in the accompanying consolidated balance sheets:			
Accrued benefit liability		(317,480)	(210,621)
Amounts not yet reflected in net periodic benefit cost and included as an accumulated charge to unrestricted net assets:			
Prior service cost	$	(1,495)	(1,920)
Actuarial loss		(315,985)	(208,701)
	$	(317,480)	(210,621)

(Dollars in thousands)

		2015	2014
Changes recognized in unrestricted net assets:			
Net gain arising during the period	$	128,756	(23,259)
Prior service cost arising during the period		160	—
Amortization of prior service credit		(583)	(575)
Amortization or settlement recognition of net loss		(21,474)	(17,439)
Total recognized in unrestricted net assets	$	106,859	(41,273)
Total recognized in net periodic pension cost and unrestricted net assets	$	162,107	8,586
Estimated amounts that will be amortized from unrestricted net assets over the next fiscal year:			
Prior service credit		(581)	(575)
Net loss		(21,979)	(19,938)
Accumulated benefit obligation		1,386,244	1,237,243
Components of net periodic benefit cost:			
Service cost	$	54,409	47,117
Interest cost		63,934	65,606
Expected return on plan assets		(85,150)	(80,877)
Amortization of prior service cost		583	575
Amortization of net loss		21,474	17,439
Net periodic benefit cost	$	55,250	49,860

	2015	2014
Weighted average assumptions used to determine benefit obligations at June 30:		
Discount rate	4.86%	4.74%
Average rate of compensation increase	3.00	3.00
Measurement date	June 30, 2015	June 30, 2014
Weighted average assumptions used to determine net periodic benefit cost for the year ended June 30:		
Discount rate	4.74%	5.24%
Expected long-term return on plan assets	8.25	8.25
Average rate of compensation increase	3.00	3.00
Measurement date	June 30, 2014	June 30, 2013

The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual assets categories. The return is based exclusively on historical returns, without adjustments.

(Dollars in thousands)

The Mercer Bond Model was used to determine the discount rate used to measure liabilities of the Plan. HSHS concluded the Mercer Bond Model provided the best estimate of the interest rates at which the pension benefits could be effectively settled in accordance with ASC Section 715-30-55-25. The Mercer Bond Model discounts the Plan's cash flow and calculates the Plan's appropriate equivalent single discount rate for the given cash flow based on a hypothetical bond portfolio whose cash flows from coupons and maturities match year-by-year the projected liability benefit payments from the Plan.

HSHS expects to contribute to its pension plan for the 2016 fiscal year the following amount	$	92,372
The following benefit payments that reflect expected future service, as appropriate, are expected to be paid:		
2016		41,055
2017		47,787
2018		54,918
2019		62,005
2020		68,988
2021–2025		443,859

The expected benefits are based on the same assumptions used to measure HSHS' benefit obligation at June 30, 2015 and include estimated future employee service. In 2014, HSHS offered all participants of the plan terminated prior to June 30, 2014 a onetime option to take their full benefit in the form of a lump sum, which 1,643 deferred vested participants accepted for a total amount of $80,773.

As of June 30, 2015, HSHS adopted the new RP-2014 Mortality Table with generational improvements using projection scale MP-2014. As a result of the adoption, the projected benefit obligation increased by approximately $96,900.

The Plan has developed an Investment Policy Statement (the IPS), which is reviewed and approved by the HSHS Board of Directors. The IPS establishes goals and objectives of the fund, asset allocations, allowable and prohibited investments, socially responsible guidelines, and asset classifications. The IPS dictates that assets should be rebalanced back to target allocation on a quarterly basis. Investments are managed by independent managers. Management monitors the performance of these managers on a quarterly basis.

(Dollars in thousands)

The table below lists the target asset allocation and acceptable ranges and actual asset allocations as of June 30, 2015 and 2014:

Asset	Target allocation	Acceptable range	Actual allocation at June 30 2015	Actual allocation at June 30 2014
Equities	57%	30%–70%	55%	58%
Debt securities	30	20–70	27	28
Alternative investments	13	0–15	13	13
Cash and cash equivalents	—	0–6	5	1

(a) ***Overall Investment Objective***

The overall investment objective of the Plan is to invest the Plan's assets in a prudent manner to best serve the participants of the Plan. Plan investment assets are to produce investment results that achieve the Plan's actuarial assumed rate of return, protect the integrity of the Plan, assist HSHS in meeting the obligations to the Plan's participants, manage risk exposures, focus on downside protection, and to maintain enough liquidity in the portfolio to ensure timely cash outflows and beneficiary payments. The Plans' investments are diversified among various asset classes incorporating multiple strategies and managers to exceed a weighted benchmark return based upon policy asset allocation targets and standard index returns. Major investment decisions are authorized by the Board's Retirement Committee, which oversees the Plan's investment program in accordance with established guidelines.

(b) ***Allocation of Investment Strategies***

The Plan maintains a percent of assets in domestic and international equity stocks to achieve the expected rate of return. To manage risk exposure, up to 30% of the Plans' assets are invested in a liability driven investment strategy.

(c) ***Basis of Reporting***

Investments are reported at estimated fair value. If an investment is held directly by the Plan and an active market with quoted prices exists, the market price of an identical security is used as reported fair value. Reported fair values for shares in mutual funds registered with them are based on share prices reported by the funds as of the last business day of the fiscal year. The Plan's ownership in alternative investment funds are generally reported at the NAV reported by the fund managers, which is used as a practical expedient to estimate the fair value of the Plan's ownership therein, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. As of June 30, 2015, the Plan had no plans or intentions to sell investments at amounts different from NAV.

(Dollars in thousands)

The fair values of the Plan's assets at June 30, 2015, by asset category class, are as follows:

	June 30, 2015				Redemption or liquidation	Days' notice
	Level 1	Level 2	Level 3	Total		
Pension plan assets excluding accrued interest of $1,311:						
Cash and cash equivalents	$ 55,624	—	—	55,624	Daily	One
Common stocks	460,007	—	—	460,007	Daily	One
U.S. government securities	—	125,260	—	125,260	Daily	One
Commingled mutual funds	—	194,721	—	194,721	Daily	Three
Municipal bonds	—	1,231	—	1,231	Daily	Two
Corporate bonds, notes, and debentures	—	4,395	—	4,395	Daily	Two
Foreign securities	202,285	1,899	—	204,184	Daily	Three
Hedge funds:						
K2 multistrategy fund	—	—	33,161	33,161	Note 6(e)*	Note 6(e)*
Mesirow multistrategy fund	—	—	117,217	117,217	Note 6(e)*	Note 6(e)*
Total assets at fair value	$ 717,916	327,506	150,378	1,195,800		

* Liquidity terms are allocated the same as disclosed in note 6(a) for plan assets.

The table below sets forth a summary of changes in the fair value of the Plan's Level 3 assets for the year ended June 30, 2015:

	Level 3 assets, year ended June 30, 2015		
	K2 fund	Mesirow fund	Total funds
Balance, beginning of year	$ 32,363	112,282	144,645
Total net gains	798	4,935	5,733
Balance, end of year	$ 33,161	117,217	150,378

(Dollars in thousands)

The fair values of the Plan's assets at June 30, 2014, by asset category class, are as follows:

	June 30, 2014				Redemption or liquidation	Days' notice
	Level 1	Level 2	Level 3	Total		
Pension plan assets excluding accrued interest of $1,909:						
Cash and cash equivalents $	30,336	—	—	30,336	Daily	One
Common stocks	448,067	—	—	448,067	Daily	One
U.S. government securities	—	116,649	—	116,649	Daily	One
Commingled mutual funds	—	192,942	—	192,942	Daily	Three
Municipal bonds	—	2,781	—	2,781	Daily	Two
Corporate bonds, notes, and debentures	—	5,343	—	5,343	Daily	Two
Foreign securities	192,154	4,605	—	196,759	Daily	Three
Hedge funds:						
K2 multistrategy fund	—	—	32,363	32,363	Note 6(e)*	Note 6(e)*
Mesirow multistrategy fund	—	—	112,282	112,282	Note 6(e)*	Note 6(e)*
Total assets at fair value	$ 670,557	322,320	144,645	1,137,522		

* Liquidity terms are allocated the same as disclosed in note 6(e) for plan assets.

The table below sets forth a summary of changes in the fair value of the Plan's Level 3 assets for the year ended June 30, 2014:

	Level 3 assets, year ended June 30, 2014		
	K2 fund	Escrow fund	Total funds
Balance, beginning of year	$ 29,679	104,876	134,555
Total net gains	2,684	7,406	10,090
Balance, end of year	$ 32,363	112,282	144,645

(d) *Fair Value of Financial Instruments*

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2015 and 2014.

- Cash and cash equivalents: Valued at the carrying amount that approximates fair value because of the short-term maturity of these investments
- Common and preferred stocks, U.S. government securities, commingled mutual funds, and foreign securities: Valued at the closing price reported on the active market on which the individual securities are traded

(Continued)

- Municipal bonds, corporate bonds, notes, and debentures: Certain corporate bonds are valued at the closing price reported in the active market in which the bond is traded. Other corporate bonds are valued based on yields currently available on comparable securities of issuers with similar credit ratings. When quoted prices are not available for identical or similar bonds, the bond is valued under a discounted cash flows approach that maximizes observable inputs, such as current yields of similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity.

The Plan has certain hedge fund investments for which quoted market prices are not available. The estimated fair value of these hedge fund investments includes estimates, appraisals, assumptions, and methods provided by external financial advisers and reviewed by HSHS.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

(e) Fair Value Hierarchy

The Plan has adopted ASC SubTopic 715-20-50, *Compensation – Retirement Benefits: Defined Benefit Plans – General: Disclosures*, for fair value measurements of financial assets and financial 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 SubTopic 715-20-50 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value.

(12) Long-Term Debt

Under the terms of the Obligated Group MTI, each member of the Obligated Group is jointly and severally liable for all obligations issued thereunder. Bonds issued are unsecured general obligations, but carry covenants regarding withdrawals from the Obligated Group, issuance of additional debt, and creations of liens on property. Obligations outstanding under the Obligated Group MTI are issued through state health facility authorities and comprise both serial and term bonds with varying maturities.

On November 1, 2014, HSSI issued $180,000 in fixed rate debt Series 2014A bonds. HSSI received a bond premium of $27,358 and paid bond issue costs of $1,778, related to this issuance. These bonds are noncallable and mature in 2029. The proceeds of 2014A were used to refund prior outstanding bonds 2012D, 2012E, 2012F, and 2012J and a portion of 2012A, which were variable rate debt. As a result of this issuance, HSSI incurred a noncash loss of $907 for previously unamortized bond issue costs.

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Notes to Consolidated Financial Statements

June 30, 2015 and 2014

(Dollars in thousands)

As of June 30, 2015, long-term debt consisted of the following:

Series	Interest rates	Final maturity dates		2015
Fixed interest rate issues:				
2007A	5.00%	March 15, 2028	$	72,035
2012B	4.00% and 5.00%	August 15, 2021		62,430
2012C	5.00%	August 15, 2021		55,610
2014A	5.00%	November 15, 2029		180,000
Variable interest rate issues:				
2012A	Variable 0.87% at June 30, 2015	June 30, 2041		50,160
2012G	Variable 0.07% at June 30, 2015	August 1, 2041		31,645
2012H	Variable 0.07% to 0.10% at June 30, 2015	August 1, 2041		65,885
2012I	Variable 0.08% to 0.09% at June 30, 2015	August 1, 2041		89,460
Total fixed and variable interest debt				607,225
Other long-term debt				37,724
Plus unamortized bond issue premiums				42,752
Total debt				687,701
Less current installments				26,565
Less long-term debt subject to short-term remarketing agreements				155,345
Total long-term debt, excluding current installments			$	505,791

(Dollars in thousands)

As of June 30, 2014, long-term debt consisted of the following:

Series	Interest rates	Final maturity dates		2014
Fixed interest rate issues:				
2007A	5.00%	March 15, 2028	$	72,035
2012B	4.00% and 5.00%	August 15, 2021		69,755
2012C	3.00% and 5.00%	August 15, 2021		62,290
Variable interest rate issues:				
2012A	Variable 0.85% at June 30, 2014	June 30, 2041		91,270
2012D	Variable 0.06% at June 30, 2014	August 1, 2041		61,050
2012E	Variable 0.06% at June 30, 2014	August 1, 2041		41,550
2012F	Variable 0.05% at June 30, 2014	August 1, 2041		31,645
2012G	Variable 0.05% at June 30, 2014	August 1, 2041		31,645
2012H	Variable 0.08% to 0.10% at June 30, 2014	August 1, 2041		65,885
2012I	Variable 0.07% to 0.09% at June 30, 2014	August 1, 2041		89,460
2012J	Variable 0.09% at June 30, 2014	August 1, 2041		14,160
Total fixed and variable interest debt				630,745
Other long-term debt				23,013
Plus unamortized bond issue premiums				19,437
Total debt				673,195
Less current installments				18,494
Less long-term debt subject to short-term remarketing agreements				169,508
Total long-term debt, excluding current installments			$	485,193

(Dollars in thousands)

The Obligated Group's effective interest rates for variable debt for the years ended June 30, 2015 and 2014 are as follows:

	2015
Variable interest rate issues:	
2012A	0.87%
2012G	0.05
2012H	0.08
2012I	0.08

	2014
Variable interest rate issues:	
2012A	0.57%
2012D	0.05
2012E	0.05
2012F	0.05
2012G	0.05
2012H	0.11
2012I	0.10
2012J	0.11

Bond issue premiums and costs are amortized over the term of the related bonds using the bonds outstanding method. Bond issuance costs, net of amortization, are reported as other assets in the accompanying consolidated balance sheets.

HSSI has variable rate bonds, a portion of which has a put option available to the holder. If the put option is exercised, the bonds are presented to the bank, which in turn draws on the underlying direct pay letter of credit, if available. Self-liquidity bonds are backed by the financial assets of HSSI. The bond series and the underlying credit facility terms are described as follows as of June 30, 2015:

Series	Term
Series 2012 G	Equal quarterly installments on the first business day of each January, April, July, or October whichever occurs first on or following the 367th day after the purchase date and paid in full no later than the third anniversary of the purchase date
Series 2012 H and I	Self-liquidity – 270 days

(Dollars in thousands)

Scheduled principal repayments on long-term debt based on the variable rate demand notes being put back to HSHS and a corresponding draw being made on the underlying credit facility, if available, are as follows:

Year ending June 30:		
2016	$	181,910
2017		26,897
2018		27,488
2019		26,586
2020		27,163
Thereafter		354,905
	$	644,949

Scheduled principal repayments on the long-term debt based on the scheduled redemptions according to the Obligated Group MTI are as follows:

Year ending June 30:		
2016	$	26,565
2017		26,897
2018		27,488
2019		26,586
2020		27,163
Thereafter		510,250
	$	644,949

(Dollars in thousands)

(13) Capital Leases

HSHS leases certain equipment under capital leases. Included with property, plant, and equipment are $35,178 and $27,381 of assets held under capital leases and $12,145 and $10,130 of related accumulated amortization at June 30, 2015 and 2014, respectively. A summary of future minimum lease payments and the present value of future minimum lease payments related to capital leases at June 30, 2015 are as follows:

		Amount
Year:		
2016	$	6,096
2017		5,284
2018		4,530
2019		2,370
2020		1,570
Thereafter		14,264
Total future minimum lease payments		34,114
Less amount representing interest at rates ranging from 5.0% to 6.5%		9,782
Present value of future minimum lease payments		24,332
Less current portion of obligations under capital leases included in current installments of long-term debt		4,704
Obligations under capital leases, excluding current portion included in long-term debt, excluding current installments	$	19,628

(14) Functional Expenses

HSHS provides general healthcare services to residents within its respective geographic regions. Expenses related to providing these services for the years ended June 30, 2015 and 2014 are as follows:

		2015	2014
Healthcare services	$	1,684,563	1,568,691
General and administrative services		490,487	456,589
	$	2,175,050	2,025,280

(Dollars in thousands)

(15) Prevea

St. Vincent Hospital (St. Vincent) and St. Mary's Hospital Medical Center (St. Mary's) (collectively referred to as the Green Bay Hospitals), two members of the Obligated Group located in Green Bay, Wisconsin, each have a 25% interest in Prevea Health Systems, Inc. (Prevea). The Green Bay Hospitals held $21,989 (21,989 shares), at June 30, 2015 and 2014, of Prevea preferred stock. Prevea has 9,000 shares of authorized stock consisting of 900 shares of Class P voting common stock, 3,600 shares of Class P nonvoting, and 4,500 shares of Class H common stock.

With respect to all matters upon which shareholders are entitled to vote or give consent, the outstanding shares of Class P voting common stock constitute one voting group and the holders of outstanding shares of Class H common stock constitute a separate voting group. Each voting group gets 50% of the total voting privileges (with each entitled to elect one-half of the total authorized number of directors of the corporation). As of June 30, 2015 and 2014, there are 100 voting shares for the Hospitals (Class H) and 146 voting shares for Physicians (Class P). There are 457 nonvoting shares. The preferred stockholders of Prevea have liquidation preferences to common stockholders, as defined in the Articles of Incorporation of Prevea. The preferred stock entitles the Green Bay Hospitals to receive dividends equal to 7% of the face value of the preferred stock. Additionally, preferred stock dividends are cumulative. The Green Bay Hospitals' policy is to recognize preferred stock dividends when the dividends are declared. Dividends were declared and paid by Prevea totaling $250 in 2015 and $1,350 in 2014. The investment in Prevea is accounted for using the equity method. The carrying value of the Green Bay Hospitals' investment in Prevea, inclusive of preferred stock holdings, is reported as other assets in the accompanying consolidated balance sheets.

In September 2009, St. Vincent assumed operations of the Clinic's medical clinic locations, and is now operating these sites as St. Vincent doing business as Prevea Health receiving all of the Clinic's patient revenue and responsible for all of the operating expenses. The expenses directly related to Prevea Health, primarily for the leasing of all employees and doctors, for the years ended June 30, 2015 and 2014 are $217,981 and $198,573, respectively, included in other expenses in the consolidated statements of operations and change in unrestricted net assets.

During the years ended June 30, 2015 and 2014, the Green Bay Hospitals have $857 and $882, respectively, of notes receivable for cash advances to Prevea.

The following are Prevea's condensed unaudited financial statement data as of and for the years ended June 30, 2015 and 2014:

		2015	2014
Total assets	$	92,796	90,644
Total liabilities		51,219	49,673
Total equity		41,577	40,971
Total net revenue		265,012	228,959
Net income		611	5,824

The Green Bay Hospitals' equity portion in Prevea at June 30, 2015 and 2014 increased by $106 and $2,058, respectively, and is included in other operating income in the accompanying consolidated statements of operations and change in unrestricted net assets.

During fiscal year 2010, the Obligated Group replaced the St. Vincent guarantee whereby the Obligated Group agreed to guarantee the lesser of $10,500, or 39.92%, of the outstanding notes. In fiscal year 2014, the agreement changed, and now the Obligated Group is guaranteeing all outstanding debt. The Obligated Group will be paid 1.25% of the average outstanding principal amount of the outstanding notes. Included in the guarantee executed in December 2009 are $2,920 taxable variable rate demand notes of PHP Insurance Plan, Inc. (PHP). PHP, a former health maintenance organization, sold its insurance license, changed its corporate structure, and became Prevea Ventures, LLC (PV). Prevea is the sole corporate member of PV. At June 30, 2015 and 2014, the Clinic has notes outstanding with balances of $19,258 and $20,419, respectively. At June 30, 2015 and 2014, PV has notes outstanding of $2,170 and $2,267, respectively.

(16) Joint Ventures

Joint ventures are accounted for using the equity method of accounting and represent $6,686 and $11,445 of other long-term assets in the accompanying consolidated balance sheets at June 30, 2015 and 2014, respectively. The most significant of these investments, excluding Prevea (note 15), include:

- Protestant Memorial Medical Center and St. Elizabeth's Healthcare Services, LLP (held by St. Elizabeth's Hospital) – 50% ownership interest
- Northeast Wisconsin Radiation Therapy Services, LLC (held by St. Vincent and St. Mary's, Green Bay) – each hospital has a 25% ownership interest. St. Vincent hospital purchased the remaining 50% of the LLC on April 3, 2015. Then St. Mary's hospital transferred its 25% ownership interest to St. Vincent hospital. This service is an operating department of St. Vincent hospital as of April 3, 2015.
- Pain Center of Wisconsin (held by St. Vincent) – 50% ownership interest
- Surgery Center of Sheboygan, LLC (held by St. Nicholas Hospital) – HSHS purchased the remaining 50% during 2015 and it is a department of the St. Nicholas Hospital.
- Orange Cross Ambulance, Inc. (held by St. Nicholas Hospital) – 50% ownership interest
- Community Memorial Hospital – (held by St. Vincent (70%) and St. Mary's, Green Bay (30%)) – 24% ownership interest overall, beginning May 17, 2011. Effective September 1, 2014, CMH became a wholly owned subsidiary of HSSI.

For the years ended June 30, 2015 and 2014, HSHS recognized income of $2,132 and $2,135, respectively, in investments in affiliated companies. This activity is included as a component of other revenue in the accompanying consolidated statements of operations and change in unrestricted net assets. During 2015 and 2014, HSHS received cash distributions of $2,320 and $4,390, respectively, from the joint ventures.

(Dollars in thousands)

The following table summarizes the unaudited aggregated financial information of unconsolidated affiliated companies of HSHS as of June 30, 2015 and 2014:

		2015	2014
Total assets	$	14,491	43,412
Total liabilities		1,172	12,853
Total equity		13,319	30,559
Total net revenue		15,942	52,488
Net income		4,264	3,431

(17) Pledges Receivable

Pledges, net of a present value discount rate, determined in the year the pledge is made, and an allowance for uncollectible pledges are recorded as a component of assets whose use is limited or restricted in the accompanying consolidated financial statements based on their expected collection date.

Included in assets whose use is limited or restricted at June 30, 2015 and 2014 are the following unconditional promises to give:

		2015	2014
Unconditional promises to give	$	5,407	6,506
Less unamortized discount		189	190
		5,218	6,316
Less allowance for uncollectible pledges		140	168
Net pledges receivable	$	5,078	6,148
Amounts due in:			
Less than one year	$	4,057	2,600
One to five years		1,189	3,732
More than five years		161	174
Total	$	5,407	6,506

(Dollars in thousands)

(18) Temporarily and Permanently Restricted Assets

Temporarily restricted assets are available for the following purposes or periods at June 30, 2015 and 2014:

		2015	2014
Healthcare services	$	18,754	17,234
Capital expenditures		6,522	8,978
Catholic radio		260	271
College of nursing		218	212
	$	25,754	26,695

As of June 30, 2015 and 2014, HSHS has permanently restricted endowments as follows:

		2015	2014
Assets to be held in perpetuity, the income from which expendable to support nursing schools	$	3,044	3,179
Assets to be held in perpetuity, the income from which expendable to support specific operations of HSHS facilities		22,775	21,278
	$	25,819	24,457

As of June 30, 2015 and 2014, HSHS has unrestricted and temporarily restricted funds that represent the unspent accumulation of earnings for endowment funds as follows:

		2015	2014
Unspent income from which is expendable to support nursing schools	$	365	409
Unspent income from which is expendable to support specific operations of HSHS facilities		8,707	10,010
	$	9,072	10,419

(19) Commitments and Contingencies

(a) *Operating Leases*

HSHS occupies space in certain facilities and leases various pieces of equipment under long-term noncancelable operating lease arrangements. Total equipment rental, asset lease, and facility rental expense in 2015 and 2014 were $39,931 and $34,309, respectively.

(Dollars in thousands)

The following is a schedule by year of future minimum lease payments to be made under operating leases as of June 30, 2015 that have initial or remaining lease terms in excess of one year:

		Amount
Year ending June 30:		
2016	$	27,691
2017		21,485
2018		18,753
2019		15,157
2020		13,295
Thereafter		24,843

(b) Legal, Regulatory, and Other Contingencies and Commitments

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

(c) Litigation

HSHS is involved in litigation arising in the ordinary course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the HSHS's future consolidated financial position or results of operations.

(d) Unemployment

The Wisconsin hospitals of HSHS pledged a U.S. Treasury note as collateral for any unpaid unemployment compensation claims with a face value of $4,630 and $4,000 for 2015 and 2014, respectively, to the Wisconsin Unemployment Reserve Fund. The pledged U.S. Treasury note remained unused at June 30, 2015 and 2014.

(e) The Patient Protection and Affordable Care Act

In March 2010, the Patient Protection and Affordable Care Act of 2010 (the Affordable Care Act) was enacted. Some of the provisions of the Affordable Care Act took effect immediately, while others will take effect or will be phased in over time, ranging from a few months to ten years following approval. The Affordable Care Act was designed to make available, or subsidize the premium costs of, healthcare insurance for some of the millions of currently uninsured or underinsured consumers below certain income levels. An increase in utilization of healthcare services by those who are currently avoiding or rationing their healthcare was expected. Although bad debt expenses and/or charity care provided were expected to be reduced, increased utilization would be associated with increased variable and fixed costs of providing healthcare services, which may or may not be offset by increased revenues.

The Affordable Care Act contains more than 32 Sections related to healthcare fraud and abuse and program integrity. The potential for increased legal exposure related to the Affordable Care Act's enhanced compliance and regulatory requirements could increase operating expenses.

Key provisions of the Affordable Care Act include:

- Annual Medicare market basket updates for hospitals will be reduced based on productivity adjustments through September 30, 2019
- Payments under "Medicare Advantage" programs (Medicare managed care) will be reduced
- A value-based purchasing program was established to provide incentive payments or payment reductions to hospitals based on performance on quality and efficiency measures
- Commencing October 1, 2013, Medicare disproportionate share hospital (DSH) payments are reduced initially by 75%. DSH payments will be adjusted thereafter to account for the national rate of consumers who do not have healthcare insurance and receive care
- Expansion of Medicaid programs to a broader population
- The Hospital Readmissions Reduction Program, which began in October 2012, reduces Medicare payments to hospitals that have a high rate of potentially preventable readmissions of Medicare patients with certain clinical conditions to account for such excessive and "preventable" costs associated with hospital readmissions. As of October 1, 2014, Medicare payments to certain hospitals that experience high levels of hospital-acquired conditions are being reduced by 2%
- Introduced a requirement that healthcare insurers include quality improvement covenants in their contracts. Commencing January 1, 2015, healthcare insurers participating in the health insurance exchanges may contract only with hospitals that have implemented programs designed to ensure patient safety and enhance quality of care.

HSHS continues to analyze the Affordable Care Act to assess its effects on current and projected operations, financial performance, and financial condition.

(f) *Tax Exemption for Sales Tax and Property Tax*

Effective June 14, 2012, the Governor of Illinois signed into law, Public Act 97-0688, which creates new standards for state sales tax and property tax exemptions in Illinois. The law establishes new standards for the issuance of charitable exemptions, including requirements for a nonprofit hospital to certify annually that in the prior year, it provided an 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. HSHS certified in 2015 and 2014 and has not recorded a liability for related property taxes based upon management's current determination of qualified services provided.

(g) Investment Risk and Uncertainties

HSHS invests in various investment securities. Investment securities are exposed to various risks such as interest rate, credit, and overall market volatility risks. 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 will occur in the near term and that such change could materially affect the amounts reported in the accompanying consolidated balance sheets.

(h) Guarantee Agreement

During fiscal year 2014, the Obligated Group executed a Guarantee Agreement with JPMorgan Chase, NA to guaranty $10,000 of debt for Touchette Regional Hospital in East Saint Louis, Illinois. The Obligated Group will be paid a fee of 0.90% of the average outstanding principal amount of the outstanding debt. Relative to the Guarantee Agreement, no amounts have been paid or accrued as of June 30, 2015 and 2014.

(20) Subsequent Events

Effective July 1, 2015, HSHS elected to change its accounting methodology for recognizing pension expense on the Plan. Previous to the change, net actuarial gains or losses were recognized over the average remaining service life of employees in the plan. Further, a calculated value of plan assets reflecting changes in the fair value of plan assets was used for recognition. Under the new accounting method, actuarial gains or losses and the difference between actual and expected return on plan assets are recognized annually within benefits expense. The remaining components of pension expense: service and interest costs and the expected return on plan assets, will continue to be recorded as ongoing pension expense within benefits expense. While the historical method is acceptable, HSHS believes the new policy is preferable as it eliminates the delay in recognition of changes in fair value of plan assets and actuarial gains and losses into operating expense. The change will also be applied retrospectively to all periods presented. Had the impact been reflected within the consolidated 2015 and 2014 financial statements there would have been a mark-to-market adjustment within pension expense of $(133,244) and $18,777 in 2015 and 2014, respectively.

In connection with the preparation of the consolidated financial statements and in accordance with ASC Topic 855, *Subsequent Events*, HSHS evaluated subsequent events after the consolidated statements of financial position date of June 30, 2015 through October 19, 2015, which was the date the financial statements were issued.

HOSPITAL SISTERS HEALTH SYSTEM AND SUBSIDIARIES
Springfield, Illinois

Consolidating Balance Sheet Information

June 30, 2015

(Dollars in thousands)

Assets		HSHS – Obligated Group	St. Clare Oconto Falls, Wisconsin	[illegible]	Unity Limited Partnership	[illegible]
Current assets:						
Cash and cash equivalents	$	[illegible]	4,475	—	3,425	4,294
Receivables:						
Patients' accounts, less allowance for uncollectible accounts of approximately $130,105		332,436	4,346	—	1,367	—
Due from third-party reimbursement programs		3,394	—	—	—	—
Other		29,498	222	—	79	1,236
Total receivables		365,258	4,790	—	1,446	3,236
Current portion of assets whose use is limited or restricted		130,643	—	54,545	5,632	—
Inventories		49,319	1,979	—	—	—
Prepaid expenses		11,093	53	—	—	978
Total current assets		657,112	10,463	54,545	11,462	8,432
Assets whose use is limited or restricted, net of current portion		1,764,822	6,997	66,746	364	—
Property, plant, and equipment, net		1,091,936	5,630	—	4,717	4,338
Assets held for sale		83,333	—	—	—	—
Other assets		96,337	294	—	—	—
	$	3,673,323	[illegible]	[illegible]	17,543	12,770

Liabilities and Net Assets		HSHS – Obligated Group	St. Clare Oconto Falls, Wisconsin	[illegible]	Unity Limited Partnership	[illegible]
Current liabilities:						
Current installments of long-term debt	$	21,970	372	—	—	2
Long-term debt subject to short-term remarketing agreements		133,365	—	—	—	—
Current portion of estimated self-insurance liabilities		—	—	20,319	—	—
Accounts payable		86,347	5,052	5,884	1,476	7,864
Accrued liabilities		165,716	864	192	50	183
Estimated payables under third-party reimbursement programs		45,394	1,175	—	—	—
Total current liabilities		438,850	7,463	[illegible]	1,526	8,047
Long-term debt, excluding current installments		388,836	1,979	—	—	5,015
Estimated self-insurance liabilities, net of current portion		—	—	63,717	—	—
Derivative instruments		48,714	—	—	—	—
Accrued benefit liabilities		279,362	48	—	—	—
Other noncurrent liabilities		84,090	395	—	4,399	—
Total liabilities		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Net assets:						
Unrestricted		2,143,578	13,902	7,029	7,708	(642)
Temporarily restricted		71,648	32	—	—	—
Permanently restricted		26,095	56	—	—	—
Total net assets		2,241,021	14,000	7,029	7,708	(642)
Stockholder's equity		—	—	—	—	—
	$	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

See accompanying independent auditors' report.

(Continued)

Attachment #6

Schedule 1

[illegible]	System Office	[illegible] Medical Group	Health Care Trust Fund	[illegible] Plan	Foundation	[illegible], Inc.	[illegible]	Eliminations	Total
26	13,900	20,728	—	333	1,306	12,827	1,346	(1,340)	149,061
—	—	9,977	—	—	—	4,115	—	—	336,123
—	—	—	—	—	—	—	—	—	3,104
—	[illegible]	3,178	—	2,299	[illegible]	1,644	754	(21,179)	34,064
—	10,136	13,155	—	2,301	[illegible]	9,319	754	(13,679)	393,291
—	—	5,403	11,287	—	—	[illegible]	—	40,443	230,436
—	—	—	—	—	—	1,731	—	—	43,807
—	9,976	294	—	—	—	446	24	—	22,066
26	33,004	33,670	11,287	2,958	[illegible]	20,716	2,324	15,414	150,723
9,978	465,362	—	52,362	—	93,832	7,910	1,006	(303,839)	1,783,095
2,411	144,262	12,133	—	—	—	3,323	203	—	1,274,214
—	7,434	—	—	—	—	—	—	—	60,309
—	33,946	—	—	—	426	1,002	—	(40,577)	90,970
12,473	562,470	41,827	63,649	2,095	393,092	46,270	5,643	(474,590)	4,921,205
—	4,023	—	—	—		993	—	—	26,363
—	—	—	—	—	—	—	—	—	133,343
—	—	—	11,287	—	—	—	—		40,905
233	1,851	2,865	20,004	2,738	—	8,298	32	(36,306)	130,857
—	15,408	34,000	2,000	—	900,002	4,290	711	(303,887)	148,371
—	—	—	—	—	—	—	—	—	62,474
233	23,362	37,166	34,191	2,738	900,002	33,826	743	(339,203)	553,378
—	933,707	—	—	—	—	7,375	—	(236,464)	905,794
—	—	—	—	—	—	—	—	—	61,272
—	—	—	—	—	—	—	—	—	48,734
—	20,710	7,302	—	—	—	900	166	—	377,400
433	5,632	—	—	—	—	677	—	—	47,396
666	271,400	24,298	34,191	2,738	390,002	29,800	911	(579,447)	1,534,792
11,700	467,944	89,533	29,460	300	—	—	2,734	33,306	2,434,840
—	2,894	—	—	—	—	—	—	(40,043)	25,734
—	[illegible]	—	—	—	—	—	—	—	33,819
11,700	471,838	89,533	29,460	300	—	—	2,734	(44,737)	2,486,413
—	—	—	—	—	—	29,479	—	(29,414)	—
12,473	782,476	41,827	63,649	2,498	393,092	46,278	5,643	(474,590)	4,921,205

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HOSPITAL SISTERS HEALTH SYSTEM AND SUBSIDIARIES
Springfield, Illinois

Consolidating Statement of Operations and Changes in Unrestricted Net Assets

Year ended June 30, 2015

(Dollars in thousands)

	HSHS – Obligated Group	St. Clare Oconto Falls, Wisconsin	[illegible]	Unity Limited Partnership	[illegible]
Net patient service revenue	$ [illegible]	24,2[illegible]	–	17,341	–
Provision for uncollectible accounts	[illegible]	[illegible]	–	–	–
Net patient service revenue less provision for uncollectible accounts	1,948,955	23,448	–	17,741	–
Other revenue:					
Investment [illegible]	–	–	3,636	815	–
Net assets released from restrictions used for operations	1,366	–	–	–	–
Other	57,246	6,026	23,236	329	19,996
Total revenue	2,007,[illegible]	29,472	26,862	18,775	19,998
Expenses:					
Salaries' services	67	–	–	–	–
Salaries and wages	747,[illegible]	12,334	–	10,450	–
Employee benefits	195,[illegible]	3,861	–	3,003	–
Professional fees	73,[illegible]	[illegible]	–	354	77
Supplies	296,[illegible]	4,982	–	234	25
Depreciation and amortization	109,978	3,[illegible]	–	408	1,[illegible]
Interest	34,579	[illegible]	–	–	111
Other	440,730	5,305	26,862	4,223	12,[illegible]
Total expenses	1,[illegible],721	30,330	26,862	18,972	17,[illegible]
Income (loss) from operations	[illegible],140	(858)	–	(236)	(2,[illegible])
Nonoperating gains (losses):					
Investment return	22,[illegible]	[illegible]	–	–	(7)
Contributions of excess assets over liabilities for St. Clare Hospital	–	1,9[illegible]	–	–	–
Consolidated operations – gain from operations	1,2[illegible]	–	–	–	–
Change in fair value of interest rate swaps	(5,[illegible])	–	–	–	–
Loss on [illegible] and early extinguishment of debt	[illegible]				
Revenues and gains in excess (deficiency) of expenses and losses	138,[illegible]	1,[illegible]	–	(236)	(2,[illegible])
Other changes in unrestricted net assets:					
Net assets released from restrictions used for the purchase of property, plant, and equipment	4,511	–	–	–	–
Change in pension funded status	(93,329)	(49)	–	–	–
Transfers (to) from affiliates	[illegible]	[illegible]	–	–	–
Change in unrestricted net assets	$ (58,522)	11,[illegible]	–	(236)	(2,[illegible])

See accompanying independent auditors' report.

(Continued)

[illegible]	System Office	[illegible] Medical Group	Health Care Trust Fund	Fire Plan	Foundation	Mary, Inc.	FFHC	Eliminations	Total
—	—	73,5[illegible]	—	—	—	34,753	—	—	2,162,[illegible]
—	—	(1,[illegible])	—	—	—	([illegible])	—	—	([illegible])
—	—	72,268	—	—	—	34,446	—	—	2,[illegible]
—	—	—	1,311	3	—	203	—	(5,[illegible])	200
—	—	—	—	—	6,472	—	—	(3,779)	4,023
964	127,325	99,5[illegible]	[illegible]	273	2,929	29,[illegible]	3,401	([illegible])	[illegible]
964	127,325	[illegible]	[illegible]	272	9,[illegible]	[illegible]	3,[illegible]	([illegible])	2,[illegible]
—	1,035	—	—	—	—	—	—	—	1,073
—	42,220	[illegible]	—	—	—	64,913	2,004	—	[illegible]
—	18,018	33,441	134,775	861	—	12,580	472	(437,142)	342,[illegible]
17	5,412	11,899	—	—	—	940	625	—	[illegible]
48	266	3,926	—	—	—	1,200	32	(5,233)	[illegible]
498	10,570	2,569	—	—	—	1,441	79	—	[illegible]
—	493	—	—	—	—	266	—	(2,133)	11,[illegible]
323	49,790	23,[illegible]	—	—	16,112	8,563	935	([illegible])	501,[illegible]
785	[illegible]	364,[illegible]	134,775	913	16,512	97,563	4,[illegible]	([illegible])	2,[illegible]
803	(60,219)	(23,234)	2,133	36	(7,153)	(27,321)	1,275	34,[illegible]	95,[illegible]
968	33,670	91	—	—	1,291	—	23	(2,615)	34,[illegible]
—	—	—	—	—	—	—	—	—	[illegible]
—	—	—	—	—	—	—	—	—	3,[illegible]
—	—	—	—	—	—	—	—	—	(5,[illegible])
									[illegible]
331	(97,569)	(23,143)	2,133	33	(3,[illegible])	(27,723)	1,298	32,[illegible]	90,[illegible]
—	—	—	—	—	—	—	—	(3,337)	3,326
—	(8,[illegible])	(2,[illegible])	—	—	—	(1,[illegible])	([illegible])	—	([illegible])
—	34,[illegible]	[illegible]	—	—	3,[illegible]	29,[illegible]	—	([illegible])	—
[illegible]	(23,[illegible])	3,[illegible]	2,133	33	—	—	1,127	([illegible])	([illegible])

HOSPITAL SISTERS HEALTH SYSTEM AND SUBSIDIARIES
Springfield, Illinois

Consolidating Statement of Changes in Net Assets Information

Year ended June 30, 2015

(Dollars in thousands)

	HSHS – Obligated Group	St. Clare Chippewa Falls, Wisconsin	ROHL	Lory Limited Partnership	ACHN
Unrestricted net assets:					
Revenue and gains in excess (deficiency) of expenses and losses	$ 120,979	5,096	—	(216)	(2,[illegible])
Other changes in unrestricted net assets:					
Net assets released from restrictions used for the purchase of property, plant, and equipment	6,581	—	—	—	—
Change in pension funded status	(93,329)	(49)	—	—	—
Transfers (to) from affiliates	(48,[illegible])	5,[illegible]	—	—	—
Change in unrestricted net assets	(14,[illegible])	11,[illegible]	—	(2[illegible])	(2,[illegible])
Temporarily restricted net assets:					
Investment return	([illegible])	—	—	—	—
Contributions	1,997	35	—	—	—
Transfers (to) from affiliates	—	—	—	—	—
Net assets released from restrictions	(7,[illegible])	—	—	—	—
Change in temporarily restricted net assets	(7,[illegible])	35	—	—	—
Permanently restricted net assets:					
Investment return	9	—	—	—	—
Contributions	339	54	—	—	—
Transfers (to) from affiliates	—	—	—	—	—
Change in permanently restricted net assets	348	54	—	—	—
Change in net assets	(41,[illegible])	11,090	—	(216)	(2,[illegible])
Net assets at beginning of year	2,[illegible]	—	7,[illegible]	3,[illegible]	2,[illegible]
Net assets at end of year	$ 2,2[illegible]	11,090	7,[illegible]	[illegible]	[illegible]

See accompanying independent auditors' report.

(Continued)

BCW	System Office	HSHS Medical Group	Health Care Trust Fund	Flex Plan	Foundation	Kerry, Inc.	PFRC	Eliminations	Total
304	(47,349)	(23,163)	2,133	51	(5,061)	(22,121)	1,395	52,064	59,625
—	—	—	—	—	—	—	—	(3,857)	2,724
—	(8,996)	(2,616)	—	—	—	(1,099)	(168)	—	(105,839)
—	34,063	31,628	—	—	5,065	23,220	—	(55,109)	—
591	(22,482)	5,849	2,133	51	—	—	1,127	(5,151)	(44,395)
—	2,362	—	—	—	(179)	—	—	(1,617)	(179)
—	(1,112)	—	—	—	5,641	—	—	824	5,965
—	—	—	—	—	932	—	—	(970)	—
—	—	—	—	—	(6,452)	—	—	2,652	(6,561)
—	1,250	—	—	—	—	—	—	3,306	(901)
—	—	—	—	—	9	—	—	(9)	9
—	1,220	—	—	—	1,540	—	—	(1,541)	1,153
—	—	—	—	—	(1,409)	—	—	1,409	—
—	1,770	—	—	—	—	—	—	—	1,362
591	(20,232)	5,849	2,133	51	—	—	1,127	216	(44,089)
11,478	191,250	13,706	27,535	149	—	—	1,097	(24,951)	2,530,902
11,069	171,018	19,555	29,668	200	—	—	2,224	(24,735)	2,486,813

Schedule 3

HCSS	System Office	HSHS Medical Group	Health Care Trust Fund	[illegible] Plan	Foundations	[illegible], Inc.	[illegible]	Eliminations	Total
331	(47,389)	(23,163)	3,133	51	(3,969)	(27,121)	1,395	32,884	39,625
—	—	—	—	—	—	—	—	(3,857)	2,724
—	(3,996)	(2,616)	—	—	—	(1,009)	(400)	—	(159,159)
—	34,955	32,625	—	—	3,960	29,[illegible]	—	(34,182)	—
331	(22,952)	5,849	2,133	51	—	—	1,127	(5,335)	(44,589)
—	2,913	—	—	—	(179)	—	—	(1,627)	(179)
—	(1,112)	—	—	—	5,641	—	—	324	5,965
—	—	—	—	—	970	—	—	(970)	—
—	—	—	—	—	(6,432)	—	—	2,612	(4,367)
—	1,250	—	—	—	—	—	—	5,369	(60[illegible])
—	—	—	—	—	9	—	—	(9)	9
—	1,230	—	—	—	1,340	—	—	(1,863)	1,353
—	—	—	—	—	(1,349)	—	—	1,349	—
—	1,230	—	—	—	—	—	—	—	1,362
331	(20,232)	5,849	3,133	51	—	—	1,027	216	(44,089)
11,418	191,250	11,806	27,599	149	—	—	1,697	(34,955)	2,510,902
11,749	171,018	19,355	29,[illegible]	200	—	—	2,724	(34,737)	2,466,813

Attachment #6

HOSPITAL SISTERS HEALTH SYSTEM AND SUBSIDIARIES
Springfield, Illinois

Consolidating Balance Sheet Information

June 30, 2015

(Dollars in thousands)

Assets		St. Elizabeth's Belleville, Illinois	St. Joseph's Breese, Illinois	St. Mary's Decatur, Illinois	St. Anthony's Effingham, Illinois	St. Joseph's Highland, Illinois
Current assets:						
Cash and cash equivalents	$	3,321	6,390	7,304	11,517	[illegible]
Receivables:						
Patient accounts, less allowances for uncollectible accounts		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Due from third-party reimbursement programs		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Other		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total receivables		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Current portion of assets whose use is limited or restricted		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Inventories		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Prepaid expenses		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total current assets		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Assets whose use is limited or restricted, net of current portion		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Property, plant, and equipment, net		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Assets held for sale		—	—	—	—	—
Other assets		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
	$	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Liabilities and Net Assets						
Current liabilities:						
Current installments of long-term debt	$	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Long-term debt subject to short-term remarketing agreements		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Accounts payable		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Accrued liabilities		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Estimated payables under third-party reimbursement programs		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total current liabilities		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Long-term debt, excluding current installments		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Derivative instruments		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Accrued benefit liability		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Other noncurrent liabilities		[illegible]	[illegible]	[illegible]	[illegible]	—
Total liabilities		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Net assets:						
Unrestricted		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Temporarily restricted		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Permanently restricted		[illegible]	—	[illegible]	[illegible]	—
Total net assets		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
	$	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

See accompanying independent auditors' report.

(Continued)

Schedule 4

St. Francis Litchfield, Illinois	St. John's Springfield, Illinois	St. Mary's Streator, Illinois	St. Joseph's Chippewa Falls, Wisconsin	Sacred Heart Eau Claire, Wisconsin	St. Mary's Green Bay, Wisconsin	St. Vincent Green Bay, Wisconsin	St. Nicholas Sheboygan, Wisconsin	Hospital Sisters Services, Inc	Eliminations	Total
4,431	11,576	1,361	773	3,339	2,732	24,891	8,626	3,364	—	95,147
2,854	80,536	1,280	9,288	28,772	13,902	62,414	93,307	—	—	272,456
—	—	214	—	—	185	—	136	—	—	3,104
295	3,490	459	235	3,806	1,562	13,954	893	8,278	(1,498)	29,495
3,855	92,638	7,955	9,523	29,844	17,195	74,808	14,336	1,286	(1,498)	302,214
1,273	48,727	1,621	4,537	17,679	9,464	22,198	4,682	126	—	138,641
879	11,880	750	350	5,738	2,836	6,016	1,864	—	—	40,219
235	3,792	292	112	524	145	2,747	214	—	—	11,097
9,177	188,064	14,447	15,365	55,987	30,331	129,860	29,443	1,136	(1,498)	623,332
37,664	325,777	38,224	104,408	453,880	72,836	340,360	48,876	—	—	1,264,822
24,459	367,725	—	31,832	183,738	82,634	144,438	45,734	—	—	1,077,903
—	—	20,115	—	—	—	—	—	—	—	20,115
44	9,582	248	57	386	8,088	43,373	771	8,378	—	74,137
61,373	786,534	76,654	151,193	674,893	399,399	871,531	125,118	15,257	(1,498)	3,623,325
165	8,736	442	813	3,887	3,336	2,997	833	—	—	21,970
1,880	41,536	3,479	3,964	14,983	8,308	19,483	4,113	—	—	175,345
1,423	54,441	3,934	3,224	25,086	8,655	25,175	2,276	—	(3,498)	96,242
1,883	56,867	2,736	7,496	8,532	3,703	32,346	3,347	4,414	—	102,786
2,857	12,599	2,643	825	5,726	5	211	27	—	—	63,266
7,991	173,575	10,256	12,124	46,324	39,237	78,414	13,535	4,414	(1,498)	400,659
9,880	236,597	1,452	14,193	30,359	22,892	36,634	15,028	—	—	386,850
880	2,347	835	2,634	12,899	2,515	19,256	1,321	—	—	48,754
6,547	98,796	11,116	17,422	29,363	16,999	55,237	8,906	—	—	279,582
1,095	9,878	5,901	—	1,894	238	851	276	1,080	—	34,499
37,441	477,190	32,722	46,373	120,493	92,738	301,474	39,702	7,358	(1,498)	1,342,304
34,368	309,773	40,279	94,576	477,798	270,841	463,967	76,587	7,733	—	2,144,128
2,874	25,986	2,073	3,711	3,665	4,521	5,030	6,378	—	—	73,488
1,264	2,579	93	6,429	6,936	2,299	2,812	1,996	—	—	24,971
37,898	338,927	43,555	104,716	488,403	277,661	471,809	85,181	7,733	—	2,242,012
39,794	786,534	76,654	151,193	674,893	399,399	873,533	125,118	15,257	(1,498)	3,623,325

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Attachment #6

HOSPITAL SISTERS HEALTH SYSTEM AND SUBSIDIARIES
Springfield, Illinois

Consolidating Statement of Operations Information

Year ended June 30, [illegible]

(Dollars in thousands)

		St. Elizabeth's Belleville, Illinois	St. Joseph's Breese, Illinois	St. Mary's Decatur, Illinois	St. Anthony's Effingham, Illinois	St. Joseph's Highland, Illinois	St. Francis Litchfield, Illinois
Net patient service revenue	$	169,517	53,825	141,800	127,766	39,978	43,211
Provision for uncollectible accounts		(16,293)	(1,414)	(3,627)	(1,592)	(2,083)	(5,017)
Net patient service revenue less provision for uncollectible accounts		153,224	52,414	138,173	126,311	36,925	[illegible]
Other revenue:							
Net assets released from restrictions used for operations		—	—	—	—	—	12
Other		6,225	1,153	4,314	4,118	477	972
Total revenue		159,450	53,567	142,487	130,429	37,402	[illegible]
Expenses:							
Purchased services		—	—	—	—	—	—
Salaries and wages		55,812	18,358	41,420	34,999	11,302	16,722
Employee benefits		19,065	7,120	14,910	14,875	4,298	4,232
Professional fees		6,150	1,329	3,530	3,638	1,720	2,342
Supplies		23,685	4,172	19,729	17,490	3,875	3,687
Depreciation and amortization		8,376	2,951	9,195	6,961	1,625	2,413
Interest		2,966	94	734	482	2,454	471
Other		59,475	13,154	41,985	21,799	10,332	5,825
Total expenses		175,792	47,584	131,215	108,151	36,907	32,929
Income (loss) from operations		(16,342)	6,183	7,272	22,248	491	6,697
Nonoperating gains (losses):							
Investment return		46	1,116	136	4,332	291	541
Discontinued operations – gain from operations		—	—	—	—	—	—
Change in fair value of interest rate swaps		(3)	(803)	2	(996)	(3)	(248)
Loss on extinguishment and early extinguishment of debt		(53)	(15)	(45)	(27)	(24)	(9)
Revenues and gains in excess (deficiency) of expenses and losses		(16,309)	7,419	7,363	25,344	365	6,994
Other changes in unrestricted net assets:							
Net assets released from restrictions used for the purchase of property, plant, and equipment		636	31	833	341	131	99
Transfers (to) from affiliates		(9,386)	(1,264)	(6,764)	(2,985)	(1,826)	(837)
Changes in pension-related costs		(9,398)	(2,471)	(3,108)	(4,471)	(1,964)	(2,471)
Change in unrestricted net assets	$	(32,178)	3,477	(1,683)	19,214	(2,756)	3,785

See accompanying independent auditors' report.

(Continued)

Schedule 5

St. John's Springfield, Illinois	St. Mary's Streator, Illinois	St. Joseph's Chippewa Falls, Wisconsin	Sacred Heart Eau Claire, Wisconsin	St. Mary's Green Bay, Wisconsin	St. Vincent Green Bay, Wisconsin	St. Nicholas Sheboygan, Wisconsin	Hospital Sisters Services, Inc.	Eliminations	Total
[illegible]	—	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	—	—	[illegible]
[illegible]	—	[illegible]	[illegible]	(2,799)	[illegible]	[illegible]	—	—	[illegible]
[illegible]	—	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	—	—	[illegible]
1,312	—	6	16	—	—	—	—	—	[illegible]
[illegible]	—	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	—	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
42	—	—	—	—	25	—	—	—	67
[illegible]	—	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	—	—	[illegible]
[illegible]	—	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	—	—	[illegible]
[illegible]	—	3,970	[illegible]	[illegible]	[illegible]	[illegible]	—	(1,318)	[illegible]
[illegible]	—	4,445	[illegible]	[illegible]	[illegible]	[illegible]	—	—	[illegible]
[illegible]	—	[illegible]	[illegible]	5,436	[illegible]	[illegible]	—	—	[illegible]
[illegible]	—	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	—	—	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	2	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	2	[illegible]	[illegible]
[illegible]	(1,347)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	312	—	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	575	6	—	[illegible]
—	[illegible]	—	—	—	—	—	—	—	[illegible]
(231)	(41)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]			[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	—	—	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	—	[illegible]
[illegible]	6	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	—	—	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	—	—	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	—	—	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	—	[illegible]

HOSPITAL SISTERS HEALTH SYSTEM AND SUBSIDIARIES
Springfield, Illinois

Consolidating Statement of Changes in Net Assets Information

Year ended June 30, 2015

(Dollars in thousands)

		St. Elizabeth's Belleville, Illinois	St. Joseph's Breese, Illinois	St. Mary's Decatur, Illinois	St. Anthony's Effingham, Illinois	St. Joseph's Highland, Illinois	St. Francis Litchfield, Illinois
Unrestricted net assets:							
Revenues and gains in excess (deficiency) of expenses and losses	$	(14,350)	7,339	7,386	25,514	504	6,994
Other changes in unrestricted net assets:							
Net assets released from restrictions used for the purchase of property, plant, and equipment		850	71	835	341	121	59
Transfer (to) from affiliates		(9,086)	(4,244)	(6,764)	(2,580)	(1,620)	(837)
Changes in pension funded status		(9,596)	(2,471)	[illegible]	(4,465)	(1,965)	(2,471)
Change in unrestricted net assets		(32,179)	3,477	[illegible]	18,714	(2,956)	3,745
Temporarily restricted net assets:							
Investment return		(47)	(13)	(55)	(84)	(14)	(25)
Contributions		37	48	807	(540)	(138)	92
Net assets released from restrictions		[illegible]	[illegible]	[illegible]	[illegible]	(121)	(71)
Change in temporarily restricted net assets		[illegible]	[illegible]	3	[illegible]	[illegible]	(4)
Permanently restricted net assets:							
Investment return		—	—	—		—	—
Contributions		32	—	—	—	—	—
Change in permanently restricted net assets		32	—	—	—	—	—
Change in net assets		(32,990)	3,644	(2,890)	18,419	(2,579)	3,741
Net assets at beginning of year		[illegible]	115,585	[illegible]	114,294	1,144	54,149
Net assets at end of year	$	[illegible]	119,229	[illegible]	[illegible]	[illegible]	[illegible]

See accompanying independent auditors' report.

(Continued)

St. John's Springfield, Illinois	St. Mary's Streator, Illinois	St. Joseph's Chippewa Falls, Wisconsin	Sacred Heart Eau Claire, Wisconsin	St. Mary's Green Bay, Wisconsin	St. Vincent Green Bay, Wisconsin	St. Nicholas Sheboygan, Wisconsin	Hospital Sisters Services, Inc.	Eliminations	Total
(2,511)	2,196	9,440	49,632	7,714	21,775	6,237	318	—	130,929
835	6	1,437	421	564	1,070	30	—	—	4,581
(32,881)	(1,374)	(3,623)	(2,039)	(3,471)	(5,407)	[illegible]	—	—	(68,302)
(22,331)	[illegible]	[illegible]	[illegible]	[illegible]	(17,529)	[illegible]	—	—	[illegible]
[illegible]	[illegible]	[illegible]	35,917	[illegible]	[illegible]	2,628	318	—	[illegible]
(232)	(7)	(94)	[illegible]	(50)	[illegible]	(54)	—	—	(793)
[illegible]	(7)	111	18	(10)	[illegible]	204	—	—	1,097
(2,107)	[illegible]	(1,443)	(477)	[illegible]	[illegible]	[illegible]	—	—	[illegible]
[illegible]	[illegible]	(1,426)	[illegible]	[illegible]	[illegible]	[illegible]	—	—	[illegible]
—	—	—	9	—	—	—	—	—	9
37	(3)	39	473	—	(237)	30	—	—	339
37	(3)	39	482	—	(237)	30	—	—	348
[illegible]	[illegible]	[illegible]	35,996	[illegible]	[illegible]	2,699	318	—	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	83,862	7,439	—	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	—	[illegible]

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Attachment #6

Shelby Memorial Hospital Association, Inc.

Independent Auditor's Report and Consolidated Financial Statements

August 31, 2015 and 2014

Shelby Memorial Hospital Association, Inc.

August 31, 2015 and 2014

Contents

BKD LLP
CPAs & Advisors

bkd.com

Independent Auditor's Report

Board of Directors
Shelby Memorial Hospital Association, Inc.
Shelbyville, Illinois

We have audited the accompanying consolidated financial statements of Shelby Memorial Hospital Association, Inc. (the "Association"), which comprise the balance sheets as of August 31, 2015 and 2014, and the related statements of operations, 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 accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's 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 auditor's 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 Association'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 Association'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

Praxity

Board of Directors
Shelby Memorial Hospital Association, Inc.
Page 2

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Shelby Memorial Hospital Association, Inc. as of August 31, 2015 and 2014, and the results of their operations, the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information listed in the table of contents 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 audit 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.

BKD, LLP

St. Louis, Missouri
November 2, 2015

Shelby Memorial Hospital Association, Inc.
Consolidated Balance Sheets
August 31, 2015 and 2014

Assets

	2015	2014
Current Assets		
Cash	$ 214,157	$ 441,611
Patient accounts receivable, net of allowance; 2015 - $855,000, 2014 - $777,000	2,291,608	2,745,357
Estimated amounts due from third-party payers	115,000	-
Electronic health records incentive payment receivable	-	274,683
Supplies and prepaid expenses	426,878	434,293
Total current assets	3,050,643	3,895,944
Assets Limited As To Use		
Restricted held by trustee for debt	1,326,392	1,326,191
Investments	17,037,567	19,974,044
Farm Land Held for Investment	473,600	473,600
Property and Equipment, At Cost		
Land and land improvements	991,652	991,652
Buildings	15,495,319	15,466,999
Equipment	15,253,451	15,136,945
	31,740,422	31,595,596
Less accumulated depreciation	22,762,283	21,459,794
	8,978,139	10,135,802
Other Assets		
Excess insurance coverage receivable	210,000	100,968
Other	99,254	112,162
	309,254	213,130
Total assets	$ 31,175,595	$ 36,018,711

See Notes to Consolidated Financial Statements

Liabilities and Net Assets

	2015	2014
Current Liabilities		
Accounts payable	$ 441,401	$ 365,238
Estimated amounts due to third-party payers	-	410,000
Accrued expenses and other	590,110	562,795
Current maturities of long-term debt	7,800,000	300,000
Total current liabilities	8,831,511	1,638,033
Professional Liability Reserve	210,000	81,002
Long-term Debt	-	7,800,000
Total liabilities	9,041,511	9,519,035
Net Assets		
Unrestricted	21,960,354	26,331,098
Temporarily restricted	113,730	108,578
Permanently restricted	60,000	60,000
Total net assets	22,134,084	26,499,676
Total liabilities and net assets	$ 31,175,595	$ 36,018,711

Shelby Memorial Hospital Association, Inc.

Consolidated Statements of Operations

Years Ended August 31, 2015 and 2014

	2015	2014
Unrestricted Revenues, Gains and Other Support		
Patient service revenue (net of contractual discounts and allowances)	$ 13,531,099	$ 14,360,370
Provision for uncollectible accounts	(1,096,049)	(1,466,910)
Net patient service revenue	12,435,050	12,893,460
Electronic health records incentive payment	-	322,658
Other	218,818	203,914
Net assets released from restrictions used for operations	57,986	71,348
Total unrestricted revenues, gains and other support	12,711,854	13,491,380
Expenses		
Salaries and wages	6,924,586	6,707,219
Employee benefits	1,717,857	1,746,594
Purchased services and professional fees	2,663,011	2,656,082
Supplies and other	3,787,326	3,765,574
Depreciation	1,364,479	1,319,121
Interest	363,297	405,835
Total expenses	16,850,556	16,600,425
Operating Loss	(4,138,702)	(3,109,045)
Other Income (Expense)		
Contributions	13,031	39,082
Farm income	89,294	109,617
Investment return	(366,114)	2,849,529
Total other income (expense)	(263,789)	2,998,228
Deficiency of Revenues Over Expenses	(4,402,491)	(110,817)
Net assets released from restrictions used for purchase of equipment	31,747	40,598
Decrease in Unrestricted Net Assets	$ (4,370,744)	$ (70,219)

See Notes to Consolidated Financial Statements

Shelby Memorial Hospital Association, Inc.

Consolidated Statements of Changes in Net Assets

Years Ended August 31, 2015 and 2014

	2015	2014
Decrease in Unrestricted Net Assets	$ (4,370,744)	$ (70,219)
Temporarily Restricted Net Assets		
Contributions	36,899	33,516
Farm income	57,986	38,315
Net assets released from restrictions	(89,733)	(111,946)
Increase (decrease) in temporarily restricted net assets	5,152	(40,115)
Change in Net Assets	(4,365,592)	(110,334)
Net Assets, Beginning of Year	26,499,676	26,610,010
Net Assets, End of Year	$ 22,134,084	$ 26,499,676

See Notes to Consolidated Financial Statements

Shelby Memorial Hospital Association, Inc.

Consolidated Statements of Cash Flows

Years Ended August 31, 2015 and 2014

	2015	2014
Operating Activities		
Change in net assets	$ (4,365,592)	$ (110,334)
Items not requiring (providing) cash		
Depreciation	1,364,479	1,319,121
Restricted contribution and investment income received	(94,885)	(71,831)
Net gain on equipment disposal	(4,109)	(2,887)
Net unrealized loss on investments	2,812,786	880,574
Provision for uncollectible accounts	1,096,049	1,466,910
Changes in		
Patient accounts receivable	(645,300)	(1,625,259)
Estimated settlements with third-party payers	(525,000)	100,000
Supplies and prepaid expenses	7,415	3,644
Other assets	10,165	(19,921)
Electronic health records incentive payment receivable	274,683	400,242
Excess insurance coverage receivable and professional liability reserve	19,966	(19,966)
Accounts payable and accrued expenses	103,478	(842,812)
Net cash provided by operating activities	54,135	1,177,481
Investing Activities		
Purchase of investments	(6,074,194)	(7,442,405)
Sale of investments	6,197,684	7,212,220
Purchases of property and equipment	(199,964)	(326,104)
Net cash used in investing activities	(76,474)	(556,289)
Financing Activities		
Principal payments on note payable and long-term debt	(300,000)	(800,000)
Proceeds from restricted contributions and investment income	94,885	71,831
Net cash used in financing activities	(205,115)	(728,169)
Increase (Decrease) in Cash	(227,454)	193,023
Cash, Beginning of Year	441,611	248,588
Cash, End of Year	$ 214,157	$ 441,611
Supplemental Cash Flows Information		
Interest paid	$ 363,107	$ 403,324

See Notes to Consolidated Financial Statements

Shelby Memorial Hospital Association, Inc.
Notes to Consolidated Financial Statements
August 31, 2015 and 2014

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Shelby Memorial Hospital Association, Inc. (the "Association") primarily earns revenues by providing inpatient, outpatient and extended care services to patients in the Shelbyville, Illinois area. It also operates a home health agency and provides physician services in the same geographic area.

Principles of Consolidation

The consolidated financial statements include the accounts of Shelby Memorial Hospital Association, Inc. and Shelby Memorial Hospital Foundation (the "Foundation"). The Association is the sole corporate member of the Foundation. The Foundation was organized to support and encourage health care services in the Shelby County area by providing financial and fundraising assistance. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Investments, Investment Return and Assets Limited as to Use

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. Certain investments consist of bank certificates of deposit, which are carried at cost, which approximates fair value. Other investments are valued at the lower of cost or fair value at time of donation, if acquired by contribution or fair value. Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value and realized gains and losses on other investments.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets. Other investment return is reflected in the consolidated statements of operations and changes in net assets as unrestricted, temporarily restricted, or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

Assets limited as to use include assets held by a trustee under a bond indenture and loan agreements.

Shelby Memorial Hospital Association, Inc.

Notes to Consolidated Financial Statements

August 31, 2015 and 2014

Patient Accounts Receivable

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the Association analyzes its past history and identifies trends for each of its major payer sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for uncollectible accounts. Management regularly reviews data about these major payer sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts.

For receivables associated with services provided to patients who have third-party coverage, the Association analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for uncollectible accounts, if necessary, (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payer has not yet paid, or for payers who are known to be having financial difficulties that make the realization of amounts due unlikely).

For receivables associated with self-pay balances, which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill, the Association records a significant provision for uncollectible accounts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates, or the discounted rates if negotiated or provided by policy, and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

The Association's allowance for doubtful accounts for self-pay patients increased from 83 percent of self-pay accounts receivable at August 31, 2014, to 89 percent of self-pay accounts receivable at August 31, 2015.

Supplies

Supply inventories are stated at the lower of cost, determined using the first-in, first-out method or market.

Property and Equipment

Property and equipment acquisitions are recorded at cost and are depreciated on a straight-line basis over the estimated useful life of each asset. The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Land improvements	8 - 10 years
Buildings	10 - 40 years
Equipment	2 - 20 years

Shelby Memorial Hospital Association, Inc.

Notes to Consolidated Financial Statements

August 31, 2015 and 2014

Donations of property and equipment are reported at fair value as an increase in unrestricted net assets unless use of the assets is restricted by the donor. Monetary gifts that must be used to acquire property and equipment are reported as restricted support. The expiration of such restrictions is reported as an increase in unrestricted net assets when the donated asset is placed in service.

Long-lived Asset Impairment

The Association evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimate future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. No asset impairment was recognized during the years ended August 31, 2015 and 2014.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Association has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Association in perpetuity.

Net Patient Service Revenue

The Association has agreements with third-party payers that provide for payments to the Association at amounts different from its established rates. Patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and include estimated retroactive revenue adjustments. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such amounts are revised in future periods as adjustments become known.

Charity Care

The Association provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Association does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue. The Association's direct and indirect costs of services furnished under the Association's charity care policy were approximately $155,500 and $320,800 for 2015 and 2014, respectively. The cost of charity care provided is determined by computing a ratio of cost (total operating expense) to gross charges and then multiplying that ratio by the gross uncompensated charges associated with providing care to charity patients.

Shelby Memorial Hospital Association, Inc.

Notes to Consolidated Financial Statements

August 31, 2015 and 2014

Contributions

Unconditional promises to give cash and other assets are accrued at estimated fair value at the date each promise is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported as an increase in unrestricted net assets. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions. Conditional contributions are reported as liabilities until the condition is eliminated or the contributed assets are returned to the donor.

Electronic Health Record Incentive Payments

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records technology (EHR). Payments under the Medicare program are generally made for up to four years based on a statutory formula. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services. Payment under both programs are contingent on the hospital continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year is determined based upon an audit by the administrative contractor. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The Association recognized revenue ratably over the reporting period starting at the point when management is reasonably assured it will meet all of the meaningful use objectives and any other specific grant requirements applicable for the reporting period.

In 2014, the Association recorded revenue of approximately $323,000, which is included within operating revenues in the statement of operations. In 2015, the Association did not receive additional payments.

Employee Health Claims

Substantially all of the Association's employees are eligible to participate in the Association's health insurance plan. The Association is self-insured for health claims of participating employees and dependents up to limits provided for in an agreement with its insurance plan administrator. A provision is accrued for self-insured employee health claims including both claims reported and claims incurred but not yet reported. The accrual is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims, and other economic and social factors. It is reasonably possible that the Association's estimate will change by a material amount in the near term.

Shelby Memorial Hospital Association, Inc.

Notes to Consolidated Financial Statements

August 31, 2015 and 2014

Professional Liability Claims

The Association recognizes an accrual for claim liabilities based on estimated ultimate losses and costs associated with settling claims and a receivable to reflect the estimated insurance recoveries, if any. Professional liability claims are described more fully in Note 9.

Income Taxes

The Association has been recognized as exempt from income taxes under Section 501 of the *Internal Revenue Code* and a similar provision of state law. However, the Association is subject to federal income tax on any unrelated business taxable income.

The Association files tax returns in the U.S. federal jurisdiction. With a few exceptions, the Association is no longer subject to U.S. federal examinations by tax authorities for years before 2012.

Affordable Care Act Compliance

As part of the *Affordable Care Act*, hospitals exempt from the tax under Section 501(c)(3) of the Code are required to comply with the new requirements under new Code Section 501(r). Code Section 501(r) requires exempt hospitals prepare and implement a community health needs assessment, implement a financial assistance policy, implement an emergency care policy, limit charges to individuals eligible for financial assistance and refrain from certain collection actions for patients that may qualify for financial assistance. Failure to comply with these requirements could result in a hospital not being recognized as exempt under Code Section 501(c)(3). The IRS has not issued guidance on how they intend to enforce the provisions related to Code Section 501(r). The Association believes it has taken reasonable steps to comply with Code Section 501(r) and has recorded no provision relative to the Association's compliance or non-compliance with Code Section 501(r). However, this could change materially in the near-term.

Deficiency of Revenues Over Expenses

The consolidated statements of operations include deficiency of revenues over expenses. Changes in unrestricted net assets which are excluded from deficiency of revenues over expenses, consistent with industry practice, include contributions of long-lived assets including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets

Reclassifications

Certain reclassifications have been made to the 2014 consolidated financial statements to conform to the 2015 consolidated financial statement presentation. These reclassifications had no effect on the change in net assets.

Subsequent Events

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the consolidated financial statements were available to be issued.

Note 2: Net Patient Service Revenue

The Association recognizes patient service revenue associated with services provided to patients who have third-party payer coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, the Association recognizes revenue on the basis of its standard rates for services provided. On the basis of historical experience, a significant portion of the Association's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Association records a significant provision for uncollectible accounts related to uninsured patients in the period the services are provided. This provision for uncollectible accounts is presented on the statement of operations as a component of net patient service revenue.

The Association has agreements with third-party payers that provide for payments to the Association at amounts different from its established rates. These payment arrangements include:

Medicare - Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to patient classification systems based on clinical, diagnostic and other factors. Inpatient skilled nursing services are paid at prospectively determined per diem rates that are based on the patients' acuity. The Association is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Association and audits thereof by the Medicare fiscal intermediary. The Association's Medicare cost reports have been audited by the Medicare administrative contractor through August 31, 2012.

The Medicare program designated the Association as a sole community hospital for Medicare reimbursement purposes. This designation increases the payment the Association receives for inpatient acute care services provided by Medicare beneficiaries.

During the years ended August 31, 2015 and 2014, net patient service revenue increased by approximately $314,000 and $329,000 for 2015 and 2014, respectively, due to Medicare Low-Volume Adjustments.

Medicaid - Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed at prospectively determined rates.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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

Patient service revenue, net of contractual allowances and discounts (but before the provision for uncollectible accounts), recognized in the years ended August 31, 2015 and 2014, was:

	2015	2014
Medicare	$ 4,242,000	$ 5,637,000
Medicaid	1,028,000	1,607,000
Other third-party payers	7,340,000	5,886,000
Patients	921,000	1,230,000
	$ 13,531,000	$ 14,360,000

Illinois Hospital Medicaid Assessment Program

The state of Illinois enacted legislation that provides for an assessment program intended to qualify for federal matching funds under the Illinois Medicaid program. Under the hospital assessment program, each hospital is assessed tax based on that hospital's adjusted gross hospital revenue. The assessments in part fund additional Medicaid payments. The legislation provides that none of the assessment funds are to be collected and no additional Medicaid payments are to be paid until the program receives the required federal government approval through the Centers for Medicare and Medicaid Services.

In October 2013, the U.S. Centers for Medicare and Medicaid Services notified the Illinois Department of Healthcare and Family Services of its approval of the Enhanced Hospital Assessment Program effective July 1, 2012, which is anticipated to generate an additional annual net benefit for Illinois hospitals under the Hospital Assessment Program. The annual net benefit to the Hospital due to the approval of this program is $110,000.

The effect of these programs in the consolidated statements of operations and changes in net assets for the years ended August 31, 2015 and 2014, are as follows:

	2015	2014
Additional Medicaid payments included in net patient service revenue	$ 728,924	$ 982,532
Taxes assessed and included in supplies and other	$ 385,701	$ 531,950

The hospital assessment programs contain sunset provisions effective June 30, 2018, and there is no assurance these programs will not be discontinued or materially modified.

Note 3: Concentrations of Credit Risk

The Association grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payer agreements. The mix of receivables from patients and third-party payers at August 31, 2015 and 2014, was:

	2015	2014
Medicare	16%	22%
Medicaid	10%	11%
Other third-party payers	49%	46%
Patients	25%	21%
	100%	100%

Note 4: Disclosures About Fair Value of Assets

Fair value is 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. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value

Level 1 Quoted prices in active markets for identical assets

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets

Level 3 Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets

Recurring Measurements

The following tables present the fair value measurements of assets recognized in the accompanying consolidated balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at August 31, 2015 and 2014.

Shelby Memorial Hospital Association, Inc.

Notes to Consolidated Financial Statements

August 31, 2015 and 2014

	2015			
		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds	$ 1,587,195	$ 1,587,195	$ -	$ -
Certificates of deposit	$ 40,000	$ -	$ 40,000	$ -
Equity securities				
Consumer discretionary	$ 521,786	$ 521,786	$ -	$ -
Consumer staples	$ 581,391	$ 581,391	$ -	$ -
Energy	$ 576,787	$ 576,787	$ -	$ -
Financials	$ 1,124,983	$ 1,124,983	$ -	$ -
Health care	$ 754,759	$ 754,759	$ -	$ -
Industrials	$ 956,748	$ 956,748	$ -	$ -
Information technology	$ 994,178	$ 994,178	$ -	$ -
Materials	$ 161,791	$ 161,791	$ -	$ -
Telecommunication services	$ 66,179	$ 66,179	$ -	$ -
Utilities	$ 208,045	$ 208,045	$ -	$ -
Mutual funds				
Small cap	$ 610,458	$ 610,458	$ -	$ -
Mid cap	$ 490,247	$ 490,247	$ -	$ -
International	$ 2,850,501	$ 2,850,501	$ -	$ -
Fixed income	$ 734,803	$ 734,803	$ -	$ -
Real estate	$ 355,954	$ 355,954	$ -	$ -
Other	$ 421,391	$ 421,391	$ -	$ -
Corporate debt securities	$ 2,824,885	$ -	$ 2,824,885	$ -
U.S. government agency securities	$ 1,576,917	$ -	$ 1,576,917	$ -
Municipal debt securities	$ 751,154	$ -	$ 751,154	$ -

	2014			
		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds	$ 3,366,602	$ 3,366,602	$ -	$ -
Certificates of deposit	$ 40,000	$ -	$ 40,000	$ -
Equity securities				
Consumer discretionary	$ 606,470	$ 606,470	$ -	$ -
Consumer staples	$ 685,113	$ 685,113	$ -	$ -
Energy	$ 856,837	$ 856,837	$ -	$ -
Financials	$ 1,248,940	$ 1,248,940	$ -	$ -
Health care	$ 949,869	$ 949,869	$ -	$ -
Industrials	$ 1,112,787	$ 1,112,787	$ -	$ -
Information technology	$ 1,596,728	$ 1,596,728	$ -	$ -
Materials	$ 213,292	$ 213,292	$ -	$ -
Telecommunication services	$ 153,345	$ 153,345	$ -	$ -
Utilities	$ 236,898	$ 236,898	$	$ -
Mutual funds				
Small cap	$ 777,274	$ 777,274	$ -	$ -
Mid cap	$ 639,901	$ 639,901	$ -	$ -
International	$ 2,129,180	$ 2,129,180	$ -	$ -
Fixed income	$ 966,622	$ 966,622	$ -	$ -
Real estate	$ 363,378	$ 363,378	$ -	$ -
Corporate debt securities	$ 2,195,908	$ -	$ 2,195,908	$ -
U.S. government agency securities	$ 1,827,937	$ -	$ 1,827,937	$ -
Municipal debt securities	$ 903,196	$ -	$ 903,196	$ -

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended August 31, 2015.

Investments

Where quoted market prices are available in an active market, investments are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of investments with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, cumulative loss projections and cash flows. Such investments are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, investments are classified within Level 3 of the hierarchy, however, no Level 3 investments exist at August 31, 2015 and 2014.

Shelby Memorial Hospital Association, Inc.

Notes to Consolidated Financial Statements

August 31, 2015 and 2014

Note 5: Investments and Investment Return

A summary of the composition of investments and assets limited as to use at August 31, 2015 and 2014, follows:

Investments

	2015	2014
Cash	$ 169,448	$ 405,298
Money market funds	260,803	2,040,411
Certificates of deposit	40,000	40,000
Equity securities		
Consumer discretionary	521,786	606,470
Consumer staples	581,391	685,113
Energy	576,787	856,837
Financials	1,124,983	1,218,940
Health care	754,759	949,869
Industrials	956,748	1,112,787
Information technology	994,178	1,596,728
Materials	161,794	233,292
Telecommunication services	66,179	153,315
Utilities	208,045	236,898
Corporate debt securities	2,824,885	2,195,908
Mutual funds		
Small cap	610,458	777,274
Mid cap	490,247	639,901
International	2,850,501	2,129,180
Fixed income	734,803	966,622
Real estate	355,954	363,378
Other	421,391	-
U.S. government agency securities	1,576,917	1,827,937
Municipal debt securities	751,154	903,196
Other	4,356	4,660
	$ 17,037,567	$ 19,974,044

Assets Limited As To Use

	2015	2014
Money market funds	$ 1,326,392	$ 1,326,191

Shelby Memorial Hospital Association, Inc.
Notes to Consolidated Financial Statements
August 31, 2015 and 2014

Investment Return

Total investment return is comprised of the following:

	2015	2014
Interest and dividend income	$ 648,892	$ 654,288
Net realized gains on sales of investments	1,797,780	3,075,815
Net unrealized losses on investments	(2,812,786)	(880,574)
	$ (366,114)	$ 2,849,529

Total investment return is reflected in the consolidated statements of operations and changes in net assets as follows:

	2015	2014
Unrestricted net assets		
Other nonoperating income (loss)	$ (366,114)	$ 2,849,529

Farm Land Held for Investment

At August 31, 2015 and 2014, the Association held 584 acres of donated farm land with a carrying value of $473,600. The carrying amount is the fair value of the farms at the date of the donation. Farm income is reported separately from investment income in the statements of operations and changes in net assets.

Note 6: Long-term Debt

	2015	2014
Series 2010 Capital Improvement and Refunding Revenue Bonds	$ 7,800,000	$ 8,100,000
Less current maturities	7,800,000	300,000
	$ -	$ 7,800,000

The Series 2010 Capital Improvement and Refunding Revenue Bonds (Series 2010 Bonds) in the original amount of $9,000,000 are dated December 1, 2010, and bear interest at 3.34 percent. Beginning in February 2013, the Association was below the required Debt Service Coverage ratio and as a result, the bond interest rate increased to 6.34 percent. On October 31, 2013, Comerica Bank (the "Bank") and the Association finalized several amendments to the Series 2010 Bond documents which provided for ongoing changes to the covenant agreements and waiver of certain covenants in effect as of August 31, 2013, and again at August 31, 2014. The amendments established a remediation plan, which redefined the covenant requirement for Debt Service Coverage and set the interest rate at 4.59 percent. In addition, the amendments established Cash to Debt ratio covenant, minimum funding requirements on a debt service reserve account, and obtaining Critical Access Hospital (CAH) designation for Medicare purposes on or before September 1, 2015. As of August 31, 2015, the Association had not met some of the financial covenants, nor had it obtained CAH designation, constituting an event of default.

The Bonds are payable in annual installments. All outstanding Bonds may be redeemed on any date at face value.

The City of Shelbyville ("City") issued the Series 2010 Bonds on behalf of the Association. The proceeds of the Bonds were loaned to the Association under a loan agreement dated December 1, 2010. The Series 2010 Bonds are secured by the gross receipts, accounts receivable and assets restricted under the loan agreement. The Bonds have not been guaranteed by the City.

The Bonds were purchased by the Bank under a five-year purchase term ending December 1, 2015. The Bank will tender the bonds for payment in full at the end of this term. The term may be extended at the request of the City. The Bank has no obligation to extend the purchase term and any extension is conditional upon the terms and conditions of the Bank at the Bank's sole discretion.

The City has no obligation to continue the loan after December 1, 2015, except as agreed to by the City and the Association and with an unqualified approving opinion of bond counsel. The continued loan will bear interest for the applicable term as agreed to in the amended loan agreement.

The loan agreement requires that certain funds be established with the trustee. Accordingly, these funds are included as assets limited as to use held by trustee in the consolidated balance sheets. The loan agreement also requires the Association to comply with certain restrictive covenants including minimum insurance coverage, restrictions on incurrence of additional debt and maintenance of certain leverage, liquidity and debt service ratios.

The Series 2010 Bonds were issued to refund the Series 1999 Bonds and to partially finance the medical office building construction project.

Maturities of long-term debt at August 31, 2015, are:

	Historical	Bank Purchase Term
2016	$ 300,000	$ 7,800,000
2017	300,000	-
2018	300,000	-
2019	300,000	-
2020	300,000	-
Thereafter	6,300,000	-
	$ 7,800,000	$ 7,800,000

Note 7: Temporarily and Permanently Restricted Net Assets Including Endowment

Temporarily restricted net assets are available for the following purposes:

	2015	2014
Renovations and equipment purchases	$ 53,730	$ 48,578
Operations of the Association	60,000	60,000
	$ 113,730	$ 108,578

Permanently restricted net assets are restricted as follows:

	2015	2014
Investments to be held in perpetuity endowment; income to be used for operations and maintenance of the Association	$ 60,000	$ 60,000

During 2015 and 2014, net assets were released from donor restrictions for improvements of nursing and operations in the amount of $57,986 and $71,348, respectively. During 2015 and 2014, net assets of $31,729 and $40,598, respectively, were released to purchase equipment.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the Association is required to retain as a fund of perpetual duration pursuant to donor stipulation or the *State of Illinois Prudent Management of Institutional Funds Act*. Deficiencies of this nature are reported in unrestricted net assets. There were no deficiencies resulting from unfavorable market fluctuations in 2015 or 2014.

Interest from the donor restricted endowment funds are to be used for the general operations of the Association. These funds are invested in certificates of deposit.

Note 8: Professional Liability Claims

The Association has joined together with other providers of health care services to form the Illinois Compensation Trust, a risk pool (the "Pool") currently operating as common risk management and insurance programs for their members. The Association pays annual premiums to the Pool for its employee injuries insurance coverage. The Pool's governing agreements specify that the Pool will be self-sustaining through member premiums and will reinsure through commercial carriers for claims in excess of specified stop-loss amounts.

Excess insurance coverage receivable was $210,000 and $100,968 at August 31, 2015 and 2014, respectively, and is included in other assets in the accompanying consolidated balance sheets. The provision for losses related to professional liability risks are presented separately as a non-current professional liability reserve in the consolidated balance sheets and was $210,000 and $81,002 for 2015 and 2014, respectively. Professional liability reserve estimates represent the estimated ultimate cost of all reported and unreported losses incurred through the respective consolidated balance sheet dates. The reserve for unpaid losses and loss expenses are estimated using individual case-basis valuations. Those estimates are subject to the effects of trends in loss severity and frequency. The estimates are continually reviewed and adjustments are recorded as experience develops or new information becomes known. The time period required to resolve these claims can vary depending upon whether the claim is settled or litigated. The estimation of the timing of payments beyond a year can vary significantly. Although considerable variability is inherent in professional liability reserve estimates, we believe the reserves for losses and loss expenses are adequate based on information currently known. It is reasonably possible that this estimate could change materially in the near term

Note 9: Self-funded Health Plan

Substantially all of the Association's employees and their dependents are eligible to participate in the Association's employee health insurance plan. The Association is self-insured for health claims of participating employees and dependents. Commercial stop-loss insurance coverage is purchased for individuals in excess of $95,000. A provision is accrued for self-insured employee health claims including both claims reported and claims incurred but not yet reported. The accrual is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims, and other economic and social factors. It is reasonably possible that the Association's estimate will change by a material amount in the near term.

Note 10: Pension Plan

The Association has a defined contribution pension plan covering substantially all employees, which allows for employee and employer contributions. The Association will match up to 4 percent of pretax annual compensation if a minimum of 3 percent is contributed. Eligible employees are immediately vested in their contributions and become 100 percent vested in the employer portion after six years. Forfeited balances of terminated employees' non-vested amounts are used to reduce future contributions. Pension expense was approximately $203,000 and $196,000 for the years ended August 31, 2015 and 2014, respectively.

Shelby Memorial Hospital Association, Inc.
Notes to Consolidated Financial Statements
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Note 11: Functional Expenses

The Association provides general health care services to residents within its geographic area. Expenses related to providing these services are as follows:

	2015	2014
Health care services	$ 12,795,875	$ 12,783,077
General and administrative	4,054,681	3,817,348
	$ 16,850,556	$ 16,600,425

Note 12: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerability due to certain concentrations. Those matters include the following:

Allowance for Net Patient Service Revenue Adjustments

Estimates of allowances for adjustments included in net patient service revenue are described in Notes 1 and 2.

Employee Health Claims

Estimates related to the accrual for employee health claims are described in Notes 1 and 9.

Professional Liability Claims

Estimates related to the accrual for professional liability claims are described in Notes 1 and 8

Admitting Physicians

The Association is served by a limited number of admitting physicians whose patients account for substantially all of the Association's net patient service revenue.

Investments

The Association invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. 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 will occur in the near term and that such change could materially affect the amounts reported in the accompanying consolidated balance sheets.

Supplementary Information

Shelby Memorial Hospital Association, Inc.

Consolidated Balance Sheet – with Consolidating Information

August 31, 2015

Assets

	Association	Foundation	Eliminations	Consolidated
Current Assets				
Cash	$ 65,262	$ 148,895	$ -	$ 214,157
Patient accounts receivable, net	2,294,608	-	-	2,294,608
Estimated amounts due from third-party payers	115,000	-	-	115,000
Electronic health records receivable	-	-	-	-
Supplies and prepaid expenses	426,878	-	-	426,878
Due from Foundation	4,727	-	4,727	-
Total current assets	2,906,475	148,895	4,727	3,050,643
Assets Limited As To Use				
Restricted held by trustee for debt	1,326,392	-	-	1,326,392
Investments	15,981,776	1,055,791	-	17,037,567
Farm Land Held for Investment	473,600	-	-	473,600
Property and Equipment, At Cost				
Land and land improvements	991,652	-	-	991,652
Buildings	15,495,319	-	-	15,495,319
Equipment	15,253,451	-	-	15,253,451
	31,740,422	-	-	31,740,422
Less accumulated depreciation	22,762,283	-	-	22,762,283
	8,978,139	-	-	8,978,139
Other Assets				
Excess insurance coverage receivable	210,000	-	-	210,000
Other	99,254	-	-	99,254
	309,254	-	-	309,254
Total assets	$ 29,975,636	$ 1,204,686	$ 4,727	$ 31,175,595

See Independent Auditor's Report

Attachment #6

Liabilities and Net Assets

	Association	Foundation	Eliminations	Consolidated
Current Liabilities				
Accounts payable	$ 441,401	$ -	$ -	$ 441,401
Accrued expenses and other	590,110	-	-	590,110
Current maturities of long-term debt	7,800,000	-	-	7,800,000
Due to Association	-	4,727	4,727	-
Total current liabilities	8,831,511	4,727	4,727	8,831,511
Professional Liability Reserve	210,000	-	-	210,000
Total liabilities	9,041,511	4,727	4,727	9,041,511
Net Assets				
Unrestricted	20,834,125	1,126,229	-	21,960,354
Temporarily restricted	60,000	53,730	-	113,730
Permanently restricted	40,000	20,000	-	60,000
Total net assets	20,934,125	1,199,959	-	22,134,084
Total liabilities and net assets	$ 29,975,636	$ 1,204,686	$ 4,727	$ 31,175,595

Shelby Memorial Hospital Association, Inc.

Consolidated Schedule of Operations – with Consolidating Information

Year Ended August 31, 2015

	Association	Foundation	Eliminations	Consolidated
Unrestricted Revenues, Gains and Other Support				
Patient service revenue (net of contractual discounts and allowances)	$ 13,531,099	$ -	$ -	$ 13,531,099
Provision for uncollectible accounts	(1,096,049)	-	-	(1,096,049)
Net patient service revenue	12,435,050	-	-	12,435,050
Other	218,818	-	-	218,818
Net assets released from restrictions used for operations	57,986	-	-	57,986
Total unrestricted revenues, gains and other support	12,711,854	-	-	12,711,854
Expenses				
Salaries and wages	6,924,586	-	-	6,924,586
Employee benefits	1,747,857	-	-	1,747,857
Purchased services and professional fees	2,647,012	15,999	-	2,663,011
Supplies and other	3,787,204	122	-	3,787,326
Depreciation	1,364,479	-	-	1,364,479
Interest	363,297	-	-	363,297
Contributions	-	27,647	(27,647)	-
Total expenses	16,834,435	43,768	(27,647)	16,850,556
Operating Income (Loss)	(4,122,581)	(43,768)	27,647	(4,138,702)
Other Income (Expense)				
Contributions	40,678	-	(27,647)	13,031
Farm income	89,294	-	-	89,294
Investment return	(341,663)	(24,451)	-	(366,114)
Total other expense	(211,691)	(24,451)	(27,647)	(263,789)
Deficiency of Revenues Over Expenses	(4,334,272)	(68,219)	-	(4,402,491)
Net assets released from restrictions used for purchase of equipment	-	31,747	-	31,747
Decrease in Unrestricted Net Assets	$ (4,334,272)	$ (36,472)	$ -	$ (4,370,744)

See Independent Auditor's Report