Consolidated Financial Statements and Supplementary Information

Edward-Elmhurst Healthcare
(d/b/a Edward-Elmhurst Health)
Fiscal Years Ended June 30, 2017 and 2016
With Report of Independent Auditors

Ernst & Young LLP

Building a better working world

Edward-Elmhurst Healthcare
(d/b/a Edward-Elmhurst Health)

Consolidated Financial Statements
and Supplementary Information

Fiscal Years Ended June 30, 2017 and 2016

Contents

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Report of Independent Auditors

The Board of Trustees
Edward-Elmhurst Healthcare

We have audited the accompanying consolidated financial statements of Edward-Elmhurst Healthcare (d/b/a Edward-Elmhurst Health), which comprise the consolidated balance sheets as of June 30, 2017 and 2016, and the related consolidated statements of operations and changes in net assets and cash flows for the fiscal 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 financial statements in conformity 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 financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Edward-Elmhurst Healthcare (d/b/a Edward-Elmhurst Health) at June 30, 2017 and 2016, and the consolidated results of its operations and its cash flows for the fiscal years then ended in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

October 2, 2017

Edward-Elmhurst Healthcare
(d/b/a Edward-Elmhurst Health)

Consolidated Balance Sheets
(Dollars in Thousands)

	June 30 2017	June 30 2016
Assets		
Current assets:		
Cash and cash equivalents	**$ 74,520**	$ 23,279
Assets limited as to use	**5,023**	4,627
Patient accounts receivable, less allowances for doubtful accounts of $31,569 and $27,620	**274,667**	226,926
Estimated amounts due from third-party payors	**6,088**	6,913
Inventories	**21,188**	19,031
Prepaid expenses and other current assets	**40,550**	56,760
Total current assets	**422,036**	337,536
Assets limited as to use, less current portion:		
Externally designated investments under debt agreements	**4,115**	14,666
Externally designated for self-insurance	**114,605**	103,516
Board-designated investments	**746,528**	709,897
	865,248	828,079
Other assets:		
Goodwill and other intangible assets, net	**60,321**	60,347
Investments in affiliates and other	**62,540**	66,342
Reinsurance recoverable for reinsured losses	**7,240**	7,835
	130,101	134,524
Land, buildings and equipment:		
Land and improvements	**129,905**	129,928
Buildings and improvements	**1,135,908**	1,105,173
Furniture and equipment	**544,023**	490,420
Construction-in-progress	**31,554**	41,029
	1,841,390	1,766,550
Less allowances for depreciation	**855,616**	788,948
	985,774	977,602
Total assets	**$ 2,403,159**	$ 2,277,741

	June 30	
	2017	**2016**
Liabilities and net assets		
Current liabilities:		
Accounts payable	**$ 41,931**	$ 36,656
Accrued expenses	**130,065**	123,410
Estimated amounts due to third-party payors	**257,188**	213,110
Current maturities of long-term debt	**14,440**	12,585
Total current liabilities	**443,624**	385,761
Long-term debt, less current maturities	**692,957**	699,675
Professional and general liability	**69,100**	62,393
Reserve for reinsured losses	**7,240**	7,835
Pension plan liability	**41,351**	59,869
Other liabilities	**58,985**	78,063
Total liabilities	**1,313,257**	1,293,596
Net assets:		
Unrestricted net assets of Edward-Elmhurst Health	**1,060,229**	955,289
Noncontrolling interest	**15,797**	14,166
Total unrestricted net assets	**1,076,026**	969,455
Temporarily restricted net assets	**13,021**	13,835
Permanently restricted net assets	**855**	855
Total net assets	**1,089,902**	984,145
Total liabilities and net assets	**$ 2,403,159**	$ 2,277,741

See accompanying notes.

Edward-Elmhurst Healthcare
(d/b/a Edward-Elmhurst Health)

Consolidated Statements of Operations and Changes in Net Assets

(Dollars in Thousands)

	Year Ended June 30	
	2017	**2016**
Revenues		
Net patient service revenue before provision for bad debts	**$ 1,284,979**	$ 1,219,931
Provision for bad debts	**(38,793)**	(35,334)
Net patient service revenue	**1,246,186**	1,184,597
Other operating revenue	**126,303**	63,774
	1,372,489	1,248,371
Expenses		
Salaries and wages	**545,234**	505,065
Employee benefits	**106,854**	102,488
Medical fees	**66,731**	60,474
Purchased services	**98,995**	89,164
Supplies and other	**425,825**	352,723
Depreciation and amortization	**68,441**	67,642
Interest	**20,047**	19,733
Medicaid tax	**38,615**	33,392
	1,370,742	1,230,681
Operating income	**1,747**	17,690
Nonoperating		
Realized gains and investment income, net	**11,937**	27,414
Unrealized gains (losses) on investments, net	**86,290**	(41,357)
Change in fair value of interest rate swaps	**15,872**	(10,861)
Cash settlements on interest swaps	**(5,156)**	(6,671)
Loss on extinguishment of debt	**(16,103)**	–
Other nonoperating losses, net	**(341)**	(1,263)
	92,499	(32,738)
Excess (deficit) of revenues and gains over (under) expenses and losses	**94,246**	(15,048)
Less: noncontrolling interest	**(1,631)**	(2,012)
Excess (deficit) of revenues and gains over (under) expenses and losses attributable to controlling interest	**92,615**	(17,060)

Edward-Elmhurst Healthcare
(d/b/a Edward-Elmhurst Health)

Consolidated Statements of Operations and Changes in Net Assets (continued)

(Dollars in Thousands)

	Year Ended June 30 2017	2016
Unrestricted net assets, controlling interest		
Excess (deficit) of revenues and gains over (under) expenses and losses	**$ 92,615**	$ (17,060)
Net assets released from restrictions and used for purchase of fixed assets	**1,560**	–
Postretirement benefit plan adjustments	**12,400**	(18,675)
Distributions to owners	**(1,812)**	(1,615)
Amortization of loss on discontinuation of hedge accounting	**177**	177
Increase (decrease) in unrestricted net assets, controlling interest	**104,940**	(37,173)
Unrestricted net assets, noncontrolling interest		
Excess of revenues and gains over expenses and losses	**1,631**	2,012
Amounts disposed in business sale	**–**	(2,742)
Increase (decrease) in unrestricted net assets, noncontrolling interest	**1,631**	(730)
Temporarily restricted net assets, controlling interest		
Contributions	**1,827**	2,656
Net assets released from restrictions and used for operations	**(1,081)**	(1,504)
Net assets released from restrictions and used for purchase of fixed assets	**(1,560)**	–
Redesignation of donor intent	**–**	2
(Decrease) increase in temporarily restricted net assets, controlling interest	**(814)**	1,154
Permanently restricted net assets, controlling interest		
Redesignation of donor intent	**–**	(2)
Increase (decrease) in permanently restricted net assets, controlling interest	**–**	(2)
Increase (decrease) in net assets	**105,757**	(36,751)
Net assets at beginning of fiscal year	**984,145**	1,020,896
Net assets at end of fiscal year	**$ 1,089,902**	$ 984,145

See accompanying notes.

Edward-Elmhurst Healthcare
(d/b/a Edward-Elmhurst Health)

Consolidated Statements of Cash Flows
(Dollars in Thousands)

	Year Ended June 30	
	2017	**2016**
Operating activities		
Increase (decrease) in net assets	**$ 105,757**	$ (36,751)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization	**68,441**	67,642
Provision for bad debts	**38,793**	35,334
Change in fair value of interest rate swaps	**(15,872)**	10,861
Restricted contributions	**(1,827)**	(2,656)
Loss on extinguishment of debt	**16,103**	–
Net loss on disposal of fixed assets	**52**	444
Change in funded status of pension plan	**(12,400)**	18,675
Net assets released from restriction	**2,641**	1,504
Unrealized (gains) losses on non-trading securities	**(14,423)**	2,447
Noncontrolling interest disposed in business sale	**–**	2,742
Changes in operating assets and liabilities:		
Patient accounts receivable	**(86,534)**	(59,519)
Inventories, prepaid expenses and other current assets	**14,053**	(12,990)
Accounts payable and accrued expenses	**12,309**	3,718
Other assets and liabilities	**(15,386)**	11,190
Trading securities	**(23,142)**	10,839
Estimated amounts due from/to third-party payors	**44,903**	22,132
Net cash provided by operating activities	**133,468**	75,612
Investing activities		
Additions to land, buildings and equipment, net	**(77,044)**	(78,668)
Cash received in business sale	**–**	1,020
Distributions to noncontrolling owners	**(1,812)**	(1,615)
Investments in affiliates and other	**1,457**	(8,070)
Net cash used in investing activities	**(77,399)**	(87,333)
Financing activities		
Principal payments under bond obligations	**(12,585)**	(13,581)
Proceeds from issuance of long-term debt	**288,175**	–
Repayment of long-term debt	**(90,165)**	–
Defeasance of debt, net	**(206,391)**	–
Change in collateral posted under swap agreements	**16,952**	(2,456)
Restricted contributions	**1,827**	2,656
Net assets released from restriction for operations	**(1,081)**	(1,504)
Net assets released from restriction for purchase of fixed assets	**(1,560)**	–
Net cash used in financing activities	**(4,828)**	(14,885)
Net increase (decrease) in cash and cash equivalents	**51,241**	(26,606)
Cash and cash equivalents at beginning of fiscal year	**23,279**	49,885
Cash and cash equivalents at end of fiscal year	**$ 74,520**	$ 23,279
Supplemental disclosure of cash flow information		
Interest paid	**$ 19,778**	$ 18,597

See accompanying notes.

1. Organization and Basis of Consolidation

The accompanying consolidated financial statements represent the accounts of Edward-Elmhurst Healthcare d/b/a Edward-Elmhurst Health (the Corporation) and its various affiliates. Significant intercompany transactions have been eliminated in consolidation.

Affiliates of the Corporation, except for the entities indicated by an asterisk (*) below, are not-for-profit organizations that are exempt from federal taxation pursuant to Section 501(c)(3) of the Internal Revenue Code of 1986, as amended. The Corporation, formerly known as Edward Health Services Corporation, is an Illinois not-for-profit corporation that was organized in 1987 to coordinate the health care and related activities of the Edward-Elmhurst Health System (EEH System). In addition to exercising overall control over the EEH System, the Corporation provides administrative and operational support to organizations in the EEH System.

Edward Hospital (EH) is an Illinois not-for-profit corporation. EH offers various health care services on both an inpatient and outpatient basis in Naperville and Plainfield, Illinois, including radiation, oncology, neurosciences, occupational medicine, emergency services and immediate care services. EH is currently licensed for 357 acute care beds, 235 medical-surgical beds, 7 pediatric beds, 64 intensive care beds, 39 obstetrics/gynecology beds and 12 Level II neonatal intensive care beds.

Edward Ambulance Services LLC (EAS) is an Illinois limited liability company, of which EH owns a 55.0% ownership interest. EAS provides emergency and nonemergency medical and life support services in the Naperville, Illinois area on a 24/7 basis. The primary purpose of EAS is to promote the health of the community.

Elmhurst Memorial Hospital d/b/a Elmhurst Hospital (EMH) is an Illinois not-for-profit corporation. EMH offers a variety of health care services on both an inpatient and outpatient basis in Elmhurst, Illinois, including behavioral health, cancer, emergency services, gastroenterology, immediate care, laboratory, neurosciences, orthopedics, pediatrics and surgery. EMH is currently licensed for 259 total acute care beds, 198 medical-surgical beds, 6 pediatric beds, 35 intensive care beds and 20 obstetrics/gynecology beds.

1. Organization and Basis of Consolidation (continued)

Edward Health Ventures (EHV) is an Illinois not-for-profit corporation that participates in joint ventures and other activities intended to benefit the EEH System. EHV's activities fall within the following areas: (1) provision of non-acute health care services through the operation of Edward Medical Group (including Sandwich Family Practice and Yorkville Family Practice), Elmhurst Memorial Medical Group, and Linden Oaks Medical Group, which are groups of employed physicians in various specialties; (2) real estate management through the ownership of medical office buildings, participation in partnerships that are owners of medical office buildings, or leasing of medical office space, with the purpose of making office space available to EEH affiliates and physicians on the EH, EMH, and Linden Oaks Hospital Medical Staff; (3) real estate ownership for the purpose of developing locations for the provision of health care services by EEH System entities.

Elmhurst Memorial Healthcare (EMHC) is an Illinois not-for-profit corporation that supports certain Elmhurst affiliates, including EMH. EEH is the sole corporate member of EMHC. EMHC also contracts with several physician groups to provide services at EMH.

Naperville Psychiatric Ventures d/b/a Linden Oaks Hospital (LOH) is an Illinois general partnership, the partners of which are EHV (which owns a 99% equity interest) and EEH (which owns a 1% equity interest). LOH owns and operates a 108-bed acute care psychiatric hospital offering inpatient and outpatient mental health and substance abuse services to adults and adolescents. LOH also provides behavioral health services at EMH. LOH is located on the EH Naperville campus.

Edward Health and Fitness Center (EHFC) is an Illinois not-for-profit corporation. It owns and operates two fitness centers, one of which is located on the EH campus in Naperville and a second center is located in Woodridge at Seven Bridges. EHV is the sole corporate member of EHFC.

Edward Foundation is an Illinois not-for-profit corporation, which provides fundraising and other assistance to EH and other tax-exempt organizations in the EEH System. EEH is the sole corporate member of the Edward Foundation.

Elmhurst Memorial Hospital Foundation (Elmhurst Foundation) is an Illinois not-for-profit corporation which provides fundraising and other assistance to EMH. EMH is the sole corporate member of the Elmhurst Foundation.

1. Organization and Basis of Consolidation (continued)

EEH, SPC (the Captive) is a Cayman segregated portfolio company formed to provide claims made by health care professionals and occurrence-based general liability insurance to the Corporation and its subsidiaries, joint ventures (those owned 50% or more) and closely affiliated entities. The Captive is owned 100% by the Corporation and consists of two cells: Cell A, primarily covering EEH System's hospitals and Cell B, primarily covering physicians.

*__Elmhurst Memorial Health Technologies, LLC__ (HTI) is an Illinois limited liability company with no significant operating activities. Effective July 1, 2016, the operating activities of HTI moved under EMH. EMHC is the sole member and corporate manager of HTI.

*__Edward Management Corporation__ (EMC) was an Illinois for-profit corporation that was a wholly owned subsidiary of EHV. Effective November 16, 2016, EMC was dissolved and all remaining assets were transferred to EHV.

*__Residential Home Health Illinois, LLC__ (RHHI) is an Illinois limited liability company providing home care services, of which the Corporation owns a 60.0% ownership interest. RHHI provides a wide array of home care services in DuPage and surrounding counties, and this ownership was purchased in order to ensure a wider home health service area of coverage.

***Midwest Endoscopy Center, LLC** Midwest Endoscopy Center, LLC is an Illinois limited liability company that owns and operates a licensed ambulatory surgical treatment center in Naperville, Illinois. EHV owns 55.0% of the shares in the company and various qualified physicians own the remaining shares.

*__Westmont Surgery Center, LLC, d/b/a Salt Creek Surgery Center__ (Westmont) is an Illinois limited liability company that owns and operates a license ambulatory surgical treatment center in Westmont, Illinois. As of May 2, 2016, EHV owns 30% of the shares.

***Illinois Health Partners, LLC** (IHP) is an Illinois limited liability company that provides both certain risk contracting services with managed care organizations and clinical integration services on behalf of its provider members. Effective October 1, 2016, EEH is the sole owner of IHP (previously a 50/50 joint venture with DuPage Medical Group). Revenues attributable to IHP of $55,495 since the October 1, 2016 acquisition date are reported as other operating revenue in the

1. Organization and Basis of Consolidation (continued)

accompanying 2017 consolidated statement of operations and changes in net assets. Had the acquisition occurred effective July 1, 2015, the accompanying consolidated statements of operations and changes in net assets would have included revenues attributable to IHP of $76,081 and $128,384 for the fiscal years ended June 30, 2017 and 2016, respectively.

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of consolidated financial statements in conformity with United States generally accepted accounting principles (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although estimates are considered to be fairly stated at the time the estimates are made, actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with a maturity of three months or less when purchased, excluding amounts whose use is limited by board designation or other arrangements under trust agreements.

Patient Accounts Receivable

The Corporation evaluates the collectability of its patient accounts receivable based on the length of time the receivable is outstanding, payor class, and the anticipated future uncollectable amounts based on historical experience. Patient accounts receivable are charged to the allowance for doubtful accounts when they are deemed uncollectable.

Patient service revenue is reduced by the provision for bad debts, and patient accounts receivable are reduced by an allowance for doubtful accounts. These amounts are based on management's assessment of historical and expected net collections for each major payor source, considering

2. Summary of Significant Accounting Policies (continued)

business and economic conditions, trends in health care coverage, and other collection indicators. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. On the basis of historical experience, a significant portion of the Corporation's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Corporation records a significant provision for bad debts in the period services are provided related to self-pay patients, including both uninsured patients and patients with deductible and co-payment balances due for which third-party coverage exists for a portion of their balance. For receivables associated with patients who have third-party coverage, the Corporation analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary. Accounts receivable are written off after collection efforts have been followed in accordance with the Corporation's policies.

The Corporation's allowances for doubtful accounts were 11% and 12% of total accounts receivable at June 30, 2017 and 2016, respectively. The Corporation's combined allowance for doubtful accounts and charity care covered 75% and 84% of self-pay accounts receivable at June 30, 2017 and 2016, respectively. The Corporation's write-offs to the allowances for doubtful accounts were $34,717 and $34,126 for the fiscal years ended June 30, 2017 and 2016, respectively.

Assets Limited as to Use and Investment Income

Assets limited as to use include assets set aside by the Board of Trustees (the Board) for future capital improvements, which the Board, at its discretion, may subsequently use for other purposes. In addition, assets limited as to use include assets externally designated by reinsurers for the self-insured professional and general liability and assets held by trustees under debt agreements. Assets limited as to use are classified as current assets to the extent they are required to satisfy obligations classified as current liabilities in the accompanying consolidated balance sheets.

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value based on quoted market prices for those or similar investments, with the exception of certain hedge funds, collective investment fund and a private real estate fund that are accounted for in accordance with the equity method of accounting, which is not a fair value measurement. Dividends, realized gains and losses, and unrealized gains and losses are reported as nonoperating gains and losses in the consolidated statements of operations and changes in net assets.

2. Summary of Significant Accounting Policies (continued)

Interest Rate Swaps

Interest rate swaps are measured at fair value based on quoted market interest rates. Gains and losses resulting from changes in market interest rates are reported as change in fair value of interest rate swaps in the consolidated statements of operations and changes in net assets.

The accounting for changes in the fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated as part of a hedging relationship and, further, on the type of hedging relationship. For derivative instruments that are designated as hedging instruments, the Corporation must designate the hedging instrument based upon the exposure being hedged as a fair value hedge, cash flow hedge, or a hedge of a net investment in a foreign operation.

For derivative instruments that are designated and qualify as a cash flow hedge (i.e., hedging the exposure of variability in expected future cash flows that is attributable to a particular risk), the gain or loss is recorded as a change in unrestricted net assets, whereas for derivative instruments not designated as hedging instruments, the gain or loss is recognized in current earnings during the period of change. At June 30, 2017 and 2016, the Corporation had no derivative instruments that are designated and qualify as a fair value hedge or hedge of a net investment in a foreign currency.

Inventories

Inventories are stated at the lower of cost (first-in, first-out method) or market.

Deferred Financing Costs

Debt issuance and financing costs are presented in the balance sheet as a direct deduction from the carrying amount of debt liability and amortized over the life of the debt issue using methods that approximate the effective interest method.

(Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

Land, Buildings and Equipment

Land, buildings and equipment are carried at cost, except donated assets, which are recorded at fair market value as of the date of donation. The Corporation has capitalized internally developed software costs of $59,097 and $40,617 (and related accumulated amortization of $9,565 and $8,728) at June 30, 2017 and 2016, respectively, which are recorded in furniture and equipment in the consolidated balance sheets. Total non-depreciable assets (consisting of various parcels of land) totaled $80,323 at June 30, 2017 and 2016. There were no significant improvements to leased facilities and equipment during 2017 and 2016.

The Corporation records depreciation expense, including amortization of assets recorded under capital leases, using the straight-line method over the estimated useful lives of the assets, which have the following ranges:

	Years
Buildings	20–100
Building improvements	3–40
Furniture and equipment	3–20

Total depreciation expense during 2017 and 2016 was $68,136 and $66,828, respectively, and is included in depreciation and amortization in the accompanying consolidated statements of operations and changes in net assets.

Interest expense, including interest capitalized during 2017 and 2016, was $20,716 and $20,400, respectively. Interest capitalized during 2017 and 2016 was $669 and $667, respectively.

At June 30, 2017, the Corporation had commitments totaling $17,321 related to construction and modernization projects.

2. Summary of Significant Accounting Policies (continued)

Asset Impairments

Long-lived and intangible assets are reviewed for impairment whenever events or business conditions indicate the carrying amount of such assets may not be fully recoverable. Initial assessments of recoverability are based on estimates of undiscounted future net cash flows associated with an asset or group of assets. When impairment is indicated, the carrying amount of these long-lived assets is reduced to fair value based on discounted net cash flows or other estimated fair values. No significant impairments of long-lived and intangible assets were recorded during the fiscal years ending June 30, 2017 and 2016.

Goodwill is assessed for impairment on an annual basis at the reporting unit level. If fair value of the reporting unit is less than the carrying value, an impairment loss equal to the difference between the implied fair value of the reporting unit goodwill and the carrying value of the reporting unit goodwill is recognized. There was no impairment of goodwill during the fiscal years ended June 30, 2017 and 2016.

Intangible Assets

The acquisition of a business entity can result in the recording of intangible assets. Acquired definite-lived intangible assets are amortized over the useful lives of the assets. Indefinite-lived intangible assets (including goodwill) are carried at acquisition value, less any impairment reductions.

The weighted-average amortization period of intangibles subject to amortization is approximately 8.6 and 9.1 years as of June 30, 2017 and 2016, respectively.

Investment in Affiliates

The Corporation accounts for its investments in less-than-majority owned and controlled affiliates using either the cost basis or the equity method of accounting. Income from these investments is reported in either other operating revenue or nonoperating gain (loss) in the consolidated statements of operations and changes in net assets, depending on the nature of the underlying investment.

2. Summary of Significant Accounting Policies (continued)

Noncontrolling Interest

The consolidated financial statements include all assets, liabilities, revenues, and expenses of less-than-100% owned or controlled entities of the Corporation, in accordance with relevant accounting guidance. The Corporation has separately reflected a noncontrolling interest for the portion of net assets not owned or controlled by the Corporation within the consolidated balance sheets.

Contributions

Unconditional promises to give cash and other assets are reported at fair value at the date the pledge is received to the extent estimated to be collectible by the Corporation. Pledges received with donor restrictions that limit the use of the donated assets are reported as either temporarily or permanently restricted support. 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 changes in net assets as net assets are released from restrictions.

Temporarily restricted net assets are used to differentiate resources, the use of which is restricted by donors or grantors to a specific time period or purpose, from resources on which no restrictions have been placed or that arise from the general operations of the Corporation. Temporarily restricted gifts are recorded as an addition to temporarily restricted net assets in the period received. Resources restricted by donors for specific operating purposes are reported as revenue to the extent expended within the period.

Permanently restricted net assets consist of amounts held in perpetuity, as designated by donors. Earnings on investments of endowment funds are included in revenue unless restricted by donors.

Net Patient Service Revenue

The Corporation has agreements with various third-party payors that provide for payments to the Corporation at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts received

(Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

or due from patients, third-party payors, and others for services rendered. These amounts include estimated adjustments under certain reimbursement agreements with third-party payors, which are subject to audit by the applicable administering agency. These adjustments are accrued on an estimated basis and are adjusted in future periods as final settlements are determined (see Note 4). Patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts), recognized in the period from these major payor services, is as follows for the fiscal years ended June 30, 2017 and 2016 :

	2017			**2016**		
	Third-Party Payors	**Self-Pay**	**Total All Payors**	**Third-Party Payors**	**Self-Pay**	**Total All Payors**
Net patient service revenue before provision for bad debts	**$ 1,178,189**	**$106,790**	**$ 1,284,979**	$ 1,136,147	$ 83,784	$ 1,219,931

Charity Care

The Corporation provides care to all patients regardless of their ability to pay. Charity care provided by the Corporation is excluded from net patient service revenue and is estimated using an overall cost to charge ratio. The cost of providing charity care was $18,962 and $19,588 for the fiscal years ended June 30, 2017 and 2016, respectively.

Advertising Costs

The Corporation expenses the production costs of advertising as incurred. Advertising expenses were $4,395 and $4,208 for the fiscal years ended June 30, 2017 and 2016, respectively, and are included in supplies and other expense in the accompanying consolidated statements of operations and changes in net assets.

2. Summary of Significant Accounting Policies (continued)

Excess (Deficit) of Revenues and Gains Over (Under) Expenses and Losses

The consolidated statements of operations and changes in net assets include excess (deficit) of revenues and gains over (under) expenses and losses attributable to controlling interest. Changes in unrestricted net assets, which are excluded from excess (deficit) of revenues and gains over (under) expenses and losses attributable to controlling interest, include net assets released from restrictions and used for purchase of fixed assets, postretirement benefit plan adjustments, distributions to owners, and amortization of loss on discontinuation of hedge accounting.

Income Taxes

The Corporation, EH, EAS, EHV, EHFC, Edward Foundation, LOH, EMHC, EMH and Elmhurst Foundation are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code on income related to their exempt purposes. Accordingly, there is no material provision for income tax for these entities.

There is presently no tax imposed by the government of the Cayman Islands on the Captive. Cell B of the Captive provides coverage for certain affiliates, employed physicians of the Corporation, and certain independent physicians; and is treated as a United States corporation under Section 953(d) of the Internal Revenue Code for federal income tax purposes. As of June 30, 2017 and 2016, there is no material provision for income taxes relating to the Captive. The only taxes payable by the Captive for the original segregated portfolio cell (Cell A) are withholding taxes of other countries applicable to certain investment income relating to Cell A.

For the fiscal year ended June 30, 2017, HTI had a current year loss of $27 for financial statement purposes. At June 30, 2017, $947 of net operating losses (NOLs) was available to be carried forward, expiring in the years 2020 through 2037. The deferred tax asset related to the NOLs is offset by a valuation allowance, as realization of the tax benefits of the NOL carryforward is not assured. For the fiscal year ended June 30, 2016, HTI had a net operating loss of $256 for financial statement purposes.

2. Summary of Significant Accounting Policies (continued)

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606), which supersedes the revenue recognition requirements in Accounting Standards Codification (ASC) 605, *Revenue Recognition*. ASU 2014-09 is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. ASU 2014-09 also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments. The pronouncement is effective for annual reporting periods after December 15, 2017, including interim periods within such reporting period and is to be applied using one of two retrospective application methods, with early adoption permitted. The Corporation is evaluating the effect this guidance will have on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842), which supersedes existing guidance on accounting for leases in Topic 840, *Leases*. ASU 2016-02 generally requires all leases to be recognized in the consolidated balance sheets. The provisions of ASU 2016-02 are effective for reporting periods beginning after December 15, 2018. Early adoption is permitted. The provisions of ASU 2016-02 are to be applied using a modified retrospective approach. The Corporation is evaluating the effect this guidance will have on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 will change certain financial statement requirements for not-for-profit (NFP) entities in the scope of Topic 958 in an effort to make the information more meaningful to users and make reporting less complex. NFP entities will no longer be required to distinguish between resources with temporary and permanent restrictions on the face of the financial statements. Additionally, NFP entities will be required to present expenses by their natural and functional classification and present investment returns net of external and direct internal investment expenses. This new guidance is effective for fiscal years beginning after December 15, 2017 and interim periods within fiscal years beginning after December 15, 2018. This guidance is to be applied retrospectively and early adoption is permitted. The Corporation is evaluating the effect this guidance will have on its consolidated financial statements.

2. Summary of Significant Accounting Policies (continued)

For the year ended June 30, 2017, the Corporation adopted ASU 2015-03, *Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs,* The ASU requires the debt issuance costs be presented in the balance sheet as a direct deduction from the carrying amount of debt liability, consistent with debt discounts or premiums. Debt issuance costs at June 30, 2016 have been reclassified in the accompanying consolidated balance sheet accordance with the ASU.

For the year ended June 30, 2017, the Corporation adopted ASU 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent).* The ASU removes the requirement to categorize in the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. Investments for which fair value is measured using the net asset value per share practical expedient have been removed from the fair value hierarchy tables at June 30, 2017 and 2016, respectively, in according with the ASU (see Note 7).

Reclassifications

Certain reclassifications were made to the fiscal year 2016 financial statements to conform with the classification used in fiscal year 2017. These reclassifications had no impact on excess (deficit) of revenues and gains over (under) expenses and losses or on net assets, as previously reported.

3. General and Professional Liability Claims

The Corporation was a party to an agreement with the Illinois Provider Trust (IPT) for primary and excess coverage of the Corporation’s general and professional liability claims through December 31, 2004 on a claims-made basis. Effective January 1, 2005, the Captive began providing claims-made health care professional liability and occurrence-based general liability coverage to the Corporation and its majority-owned affiliates at various layers. The Captive provides retroactive coverage to the effective dates of the claims-made primary and excess coverages available through IPT (January 2003 and January 2002, respectively). In January 2007, the Captive began providing professional liability coverage to certain employed physicians of EH and EHV. The Corporation has recorded an undiscounted tail coverage liability representing incurred but not reported claims of $13,902 and $12,908 at June 30, 2017 and 2016, respectively. The Corporation is also covered by an excess/reinsurance liability policy with limits of $80,000 in

3. General and Professional Liability Claims (continued)

the aggregate, beginning January 1, 2009 and renewing annually through December 31, 2017. Prior to 2009, the reinsurance aggregate was $60,000, except for fiscal years 2005 and 2006, during which the reinsurance aggregate was $45,000. The Corporation also has a self-insured loss aggregate of $12,000 per policy year, effective January 1, 2008 through December 31, 2017. Effective July 15, 2013, EMH became covered under the Captive and the reinsurance policy, when its self-insured retention liabilities were moved to the Captive via a loss portfolio transfer. Separate excess insurance policies provide excess coverage for the reported loss portfolio transfer losses.

As of July 1, 2013, the Captive opened a second segregated portfolio cell and transferred the physician liabilities and certain general liability exposures into Cell B. The Corporation and its insured affiliates remained in the Captive's Cell A. Effective November 13, 2015, Cell B issued professional liability insurance to a closely aligned physician group and its physicians. Effective July 1, 2015, Cell B began providing professional liability coverage for the following affiliates: Elmhurst Clinic, LLC; Elmhurst Medical Associates, LLC; and Elmhurst Primary Care Associates, LLC. Elmhurst Primary Care Associates, LLC joined Elmhurst Clinic, LLC effective January 1, 2016.

The Captive's Cell A self-insurance liability amounts of $32,377 and $34,543 for reported claims for the fiscal years ended June 30, 2017 and 2016, respectively, are reported in the accompanying consolidated balance sheets on an undiscounted basis. The Captive's Cell B self-insurance liability amounts of $22,822 and $14,942 for reported claims for the fiscal years ended June 30, 2017 and 2016, respectively, are reported in the accompanying consolidated balance sheets based on an annual discount rate of 4.0%.

Annual premiums deposited in the Captive are based on actuarial valuations. The premiums for primary coverage under IPT are subject to retrospective adjustments based on the loss experience of the Corporation and other IPT members, subject to certain maximum limitations. No retrospective premium adjustments were assessed to the Corporation during fiscal years ended June 30, 2017 and 2016. The Corporation concluded its remaining open exposures with IPT during the fiscal year ended June 30, 2016.

3. General and Professional Liability Claims (continued)

Actuarial estimates are subject to uncertainty, including changes in claim reporting patterns, claim settlement patterns, judicial decisions, legislation, and economic conditions. The actual claim payments could be materially different from the estimates. The Corporation recorded $21,006 and $19,239 of general and professional liability expense in June 30, 2017 and 2016, respectively. The Corporation is a defendant in various lawsuits arising in the ordinary course of business. Although the outcome of these lawsuits cannot be predicted with certainty, management believes the ultimate disposition of such matters will not have a material effect on the Corporation's consolidated financial condition or results of operations.

Effective January 1, 2017, the Captive added medical stop loss insurance coverage to Cell A. The Corporation is self-insured for employee and dependent medical claims up to $750 with the Captive insuring amounts greater than $300. The Captive reinsures claims in excess of $750.

4. Contractual Arrangements With Third-Party Payors

The Medicare and Medicaid programs pay EH and EMH for inpatient and outpatient services at predetermined rates based on treatment diagnosis. Medicare reimbursement for certain outpatient and extended care services rendered by LOH is primarily based on allowable costs, which are subject to retroactive audit and adjustment. Changes in the Medicare and Medicaid programs or reduction of funding levels for the programs could have an adverse effect on future amounts recognized as net patient service revenue.

The laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Payment for services provided to health maintenance organization and preferred provider organization (HMO/PPO) patients is made at predetermined fixed rates. Payment for services provided to Blue Cross program patients is based on allowable reimbursable costs and is subject to retroactive audit and adjustment.

(Dollars in Thousands)

4. Contractual Arrangements With Third-Party Payors (continued)

Net patient revenues received under the HMO/PPO and Medicare payment arrangements account for 60% and 33%, respectively, of total net patient service revenue for the fiscal year ended June 30, 2017 and 60% and 29%, respectively, of total net patient service revenue for the fiscal year ended June 30, 2016. A provision has been made in the consolidated financial statements for contractual adjustments, representing the difference between standard charges for services and actual or estimated payment.

EH, EMH, LOH, EHV and EMHC grant credit without collateral to their patients, most of whom are local residents and are insured under third-party arrangements. The mix of net receivables from patients and third-party payors is as follows at June 30, 2017 and 2016:

	2017	**2016**
Medicare	**22%**	21%
Medicaid	**13**	8
Managed care HMO/PPO	**20**	22
Managed care Blue Cross HMO/PPO	**18**	20
Commercial	**11**	10
Self-pay and other	**16**	19
	100%	100%

Adjustments arising from reimbursement arrangements with third-party payors are accrued on an estimated basis in the period in which the services are rendered. Estimates for cost report settlements and contractual allowances can differ from actual reimbursement based on the results of subsequent reviews and cost report audits. Changes in third-party payor settlements that relate to prior years are reported in net patient service revenue in the consolidated statements of operations and changes in net assets. The impact of such items resulted in a decrease in net patient service revenue in the amount of $2,880 in 2017 and an increase in net patient service revenue in the amount of $7,338 in 2016.

4. Contractual Arrangements With Third-Party Payors (continued)

The Corporation recognized Illinois hospital assessment revenue and assessment expense in the amounts of $46,646 and $38,615, respectively, resulting in an increase of $8,031 in the Corporation's operating income for the year ended June 30, 2017. The Corporation recognized Illinois hospital assessment revenue and assessment expense in the amounts of $36,572 and $33,392, respectively, resulting in an increase of $3,180 in the Corporation's operating income for the year ended June 30, 2016. Illinois hospital assessment revenues are reported in net patient service revenue before provision for bad debts, and Illinois hospital assessment expense are reported as Medicaid tax in the accompanying consolidated statements of operations and changes in net assets.

The Corporation recognized unrestricted contributions of $1,701 and $1,264 during 2017 and 2016, respectively, from the Illinois Hospital Research and Educational Foundation (IHREF), representing financial assistance to certain hospitals participating in the Illinois Medicaid Provider Tax program. These amounts have been recorded as other operating revenue in the accompanying consolidated statements of operations and changes in net assets for the fiscal years ended June 30, 2017 and 2016.

5. Investments in Affiliates

The Corporation and its affiliates have noncontrolling interests in various joint ventures, which are accounted for using the equity or cost method, depending on the level of economic interest and control.

Residential Hospice Illinois, LLC (Hospice) is an Illinois limited liability company providing hospice services, of which the Corporation owns a 42.5% ownership interest. The Corporation accounts for its ownership interest in the organization on the equity method.

Elmhurst Outpatient Surgery Center, LLC (EOSC) is an Illinois limited liability company that owns and operates an outpatient surgery center located in Elmhurst, Illinois. EMH owns 58.3% of the interests in EOSC and accounts for its interest on the equity method.

5. Investments in Affiliates (continued)

Elmhurst Physician Hospital Organization, LLC (Elmcare) is an Illinois limited liability company, of which EMH has a 50.0% ownership interest. Elmcare contracts on behalf of physicians and EMH with managed care organizations, such as health maintenance organizations and preferred provider organizations, and with area employers. Effective January 1, 2014, nearly all Elmcare contracts were terminated and/or assigned to IHP. EMH accounts for its ownership interest in the organization on the cost method.

CyberKnife Center of Chicago, LLC (CyberKnife) is an Illinois limited liability company that provides non-invasive stereotactic radiosurgery treatments to cancer patients at EMH's Center for Cancer Care, which is located at its main campus. EMH owns a 40.0% ownership interest in the organization and accounts for its interest on the equity method.

Northern Illinois Surgery Center Limited Partnership is an Illinois limited partnership operating an ambulatory surgery center located in Naperville, Illinois. EHV owns a 33.3% ownership interest in the organization and accounts for its interest on the equity method.

DMG Surgical Center, LLC (DMGSC) is an Illinois limited liability company, of which EHV owns a 12.5% ownership interest. DMGSC owns and operates a licensed freestanding, multi-specialty ambulatory surgical treatment center located in Lombard, Illinois. EHV accounts for ownership interest on the equity method.

Plainfield Surgery Center, LLC (PSC) is an Illinois limited liability company that owns and operates a surgery center located in Plainfield, Illinois. EHV owns a 26.0% ownership interest in the organization and accounts for its interest on the equity method.

SmartChoice MRI, LLC is a magnetic resonance imaging (MRI) company headquartered in Wisconsin with stand-alone, low-cost outpatient MRI locations throughout Wisconsin and Illinois. EHV became a minority owner, owning approximately 10.0% equity in the company, on March 23, 2016. EHV accounts for the investment on the cost basis.

(Dollars in Thousands)

5. Investments in Affiliates (continued)

Illinois Health Partners ACO, LLP (IHP ACO) is an Illinois limited liability company that was previously a wholly owned subsidiary of IHP and is now a 50/50 joint venture with DuPage Medical Group. IHP ACO is an accountable care organization that participates in the Medicare Shared Savings Program and holds other similar commercial payor arrangements on behalf of IHP's provider members. The Corporation accounts for its ownership interest in the organization on the equity method.

MPG-EEH North Elmhurst Holdings, LLC is a joint venture formed in conjunction with a construction company, to build, maintain, and operate a medical office building in Elmhurst, Illinois. EHV owns 45.7% of the company. The Corporation accounts for its ownership interest in the organization on the equity method.

Net income from the equity-method investments of $2,289 and $3,185 is included in other operating revenue in the accompanying consolidated statements of operations and changes in net assets for the fiscal years ended June 30, 2017 and 2016, respectively.

Summarized unaudited financial results for the investments in affiliates accounted for under the equity method as of and for the fiscal years ended June 30, 2017 and 2016, are as follows:

	2017	2016
Assets	**$ 87,721**	$ 118,446
Liabilities	**17,365**	51,044
Net income	**10,899**	37,511

(Dollars in Thousands)

6. Investments

The Corporation's investments at June 30, 2017 and 2016, are summarized as follows:

	2017	2016
Assets limited as to use, current portion	**$ 5,023**	$ 4,627
Assets limited as to use, less current portion:		
Externally designated investments under debt agreements	**4,115**	14,666
Externally designated for self-insurance	**114,605**	103,516
Board-designated investments	**746,528**	709,897
	865,248	828,079
Prepaid expenses and other current assets	**151**	17,175
Investments in affiliates and other	**14,355**	14,468
	$ 884,777	$ 864,349

A summary of the composition of the Corporation's investment portfolio at June 30, 2017 and 2016, are as follows:

	2017	2016
Cash and cash equivalents	**$ 5,159**	$ 22,103
Mutual funds-equity	**489,198**	457,528
Mutual funds-fixed income	**258,859**	256,716
U.S. government and agency obligations	–	2,337
Municipal bonds	**1,065**	3,320
Corporate bonds	–	6,272
Alternative investments	**130,496**	116,073
	$ 884,777	$ 864,349

(Dollars in Thousands)

6. Investments (continued)

Return on investments for the fiscal years ended June 30, 2017 and 2016, are as follows:

	2017	**2016**
Investment return:		
Interest and dividend income	**$ 14,998**	$ 18,149
Realized (losses) gains on investments, net	**(3,061)**	9,265
Unrealized gains (losses) on investments, net	**86,290**	(41,357)
Total investment return	**$ 98,227**	$ (13,943)
Reported as:		
Realized gains and investment income, net	**$ 11,937**	$ 27,414
Unrealized gains (losses) on investments, net	**86,290**	(41,357)
	$ 98,227	$ (13,943)

Returns on investments are reported net of investment-related expenses, including custodial fees and investment advisory fees, totaling $1,964 and $1,919 for the fiscal years ended June 30, 2017 and 2016, respectively.

7. Fair Value Measurements

ASC 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 participants at the measurement date and establishes a framework for measuring fair value.

ASC 820 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- Level 1 – Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

(Dollars in Thousands)

7. Fair Value Measurements (continued)

- Level 2 – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instruments.

- Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The following table presents the financial instruments carried at fair value as of June 30, 2017, by caption, on the consolidated balance sheet by the ASC 820 valuation hierarchy defined above:

	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents[(a)]	$ 74,520	$ –	$ –	$ 74,520
Assets limited as to use, current portion:				
Mutual funds – equity[(b)]	3,826	–	–	3,826
Mutual funds – fixed income[(b)]	132	–	–	132
U.S. government and agency obligations[(c)]	–	–	–	–
Municipal bonds[(c)]	–	1,065	–	1,065
	3,958	1,065	–	5,023
Externally designated investments under debt agreements:				
Cash and cash equivalents[(a)]	4,115	–	–	4,115
Externally designated for self-insurance:				
Mutual funds – equity[(b)]	43,713	–	–	43,713
Mutual funds – fixed income[(b)]	70,892	–	–	70,892
	114,605	–	–	114,605

(Dollars in Thousands)

7. Fair Value Measurements (continued)

	Level 1	Level 2	Level 3	Total
Assets (continued)				
Board-designated investments:				
Cash and cash equivalents[(a)]	$ –	$ 299	$ –	$ 299
Mutual funds – equity[(b)]	428,880	–	–	428,880
Mutual funds – fixed income[(b)]	186,853	–	–	186,853
Total board-designated investments	615,733	299	–	616,032
Prepaid expenses and other current assets:				
Cash and cash equivalents[(a)]	–	151	–	151
Investments in affiliates and other:				
Cash and cash equivalents[(a)]	594	–	–	594
Mutual funds – equity[(b)]	12,779	–	–	12,779
Mutual funds – fixed income[(b)]	982	–	–	982
	14,355	–	–	14,355
Total	$ 827,286	$ 1,515	$ –	$ 828,801
Liabilities				
Interest rate swap agreements[(d)]	$ –	$ (37,157)	$ –	$ (37,157)

(Dollars in Thousands)

7. Fair Value Measurements (continued)

The following table presents the financial instruments carried at fair value as of June 30, 2016 by caption, on the consolidated balance sheet by the ASC 820 valuation hierarchy defined above:

	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents[(a)]	$ 23,279	$ –	$ –	$ 23,279
Assets limited as to use, current portion:				
Cash and cash equivalents[(a)]	–	–	–	–
Mutual funds – equity[(b)]	3,234	–	–	3,234
Mutual funds – fixed income[(b)]	143	–	–	143
U.S. government and agency obligations[(c)]	–	–	–	–
Municipal bonds[(c)]	–	1,250	–	1,250
	3,377	1,250	–	4,627
Externally designated investments under debt agreements:				
Cash and cash equivalents[(a)]	3,987	–	–	3,987
U.S. government and agency obligations[(c)]	–	2,337	–	2,337
Municipal bonds[(c)]	–	2,070	–	2,070
Corporate bonds[(c)]	–	6,272	–	6,272
	3,987	10,679	–	14,666
Externally designated for self-insurance:				
Mutual funds – equity[(b)]	50,891	–	–	50,891
Mutual funds – fixed income[(b)]	52,625	–	–	52,625
	103,516	–	–	103,516
Board-designated investments:				
Cash and cash equivalents[(a)]	327	–	–	327
Mutual funds – equity[(b)]	391,137	–	–	391,137
Mutual funds – fixed income[(b)]	202,360	–	–	202,360
Total board-designated investments	593,824	–	–	593,824

(Dollars in Thousands)

7. Fair Value Measurements (continued)

	Level 1	Level 2	Level 3	Total
Assets (continued)				
Prepaid expenses and other current assets:				
Cash and cash equivalents[(a)]	17,175	–	–	17,175
Investments in affiliates and other:				
Cash and cash equivalents[(a)]	614	–	–	614
Mutual funds – equity[(b)]	12,266	–	–	12,266
Mutual funds – fixed income[(b)]	1,588	–	–	1,588
	14,468	–	–	14,468
Total	$ 759,626	$ 11,929	$ –	$ 771,555
Liabilities				
Interest rate swap agreements[(d)]	$ –	$ (53,030)	$ –	$ (53,030)

(a) Pricing for money market funds is based on the open market and is valued on a daily basis.

(b) Pricing for mutual funds – equity and mutual funds – fixed income is based on the open market and are valued on a daily basis.

(c) Pricing for U.S. government and agency obligations, municipal bonds, and corporate bonds is based on market prices provided by recognized broker dealers.

(d) Pricing is based on discounted cash flows to reflect a credit spread to the London Interbank Offered Rate (LIBOR) discount curve in order to reflect "nonperformance" risk. The credit spread adjustment is derived from how other comparable entities' bonds price and trade in the market.

There were no transfers into or out of Level 1, Level 2 or Level 3 during the fiscal years ended June 30, 2017 and 2016.

The carrying values of cash and cash equivalents, patient accounts receivable, accounts payable, other accrued expenses, and estimated amounts due to/from third-party payors approximate their fair values at June 30, 2017, due to the short-term nature of these financial instruments.

7. Fair Value Measurements (continued)

Alternative investments measured using the net asset value per share practical expedient were $130,496 and $116,073 at June 30, 2017 and 2016, respectively, which were invested in a combination of funds of hedge funds, a collective investment fund, and a private real estate fund with quarterly liquidity requiring 65-95 days' notice for redemption. The Corporation has passed any lock-up periods related to these investments. These alternative investments with no public market activity are accounted for in accordance with the equity method of accounting, which is not a fair value of measurement. As of June 30, 2017, the Corporation has a firm commitment to invest $25,000 in additional private-equity alternative investments that will be called over time by the Corporation's investment managers.

The valuation for the estimated fair value of the Corporation's long-term debt is completed by a third-party service and is primarily driven by the Municipal Market Data (MMD) index and current market credit spreads against the MMD index. MMD is an index which is updated daily and reflects current borrowing rates in the tax-exempt bond market. A number of factors including, but not limited, to any one or more of the following variables affect MMD and credit spreads against MMD: (i) general interest rate and market conditions; (ii) macroeconomic environment; (iii) underlying credit ratings on the Corporation's outstanding debt; (iv) investor opinions about the Corporation and its outstanding debt; (v) if applicable, third-party credit enhancement provided on the Corporation's debt; and (vi) trades for comparable or similarly rated securities in the secondary market. Based on the inputs in determining the estimated fair value of the debt of the Corporation, this liability would be considered Level 2. The estimated fair value of long-term debt (including current portion) was $706,401 and $740,261 at June 30, 2017 and 2016, respectively.

(Dollars in Thousands)

8. Long-Term Debt

Long-term debt consists of the following at June 30, 2017 and 2016:

	2017	2016
Illinois Finance Authority Revenue Bonds, Series 2017A (Edward-Elmhurst Healthcare):		
Serial Bonds, interest at 2.0% to 5.0%, due in varying annual installments from 2018 to 2037	**$ 173,460**	$ –
Term Bonds, interest at 5.0%, due in 2020	**24,130**	–
Illinois Finance Authority Revenue Refunding Bonds, Series 2017B (Edward-Elmhurst Healthcare):		
Variable Rate Securities, interest payable monthly at a floating rate (1.285% at June 30, 2017), and principal due in varying annual installments from 2018 to 2040	**47,605**	–
Illinois Finance Authority Revenue Refunding Bonds, Series 2017C (Edward-Elmhurst Healthcare):		
Variable Rate Securities, interest payable monthly at a floating rate (1.41% at June 30, 2017), and principal due in varying annual installments from 2019 to 2034	**42,980**	–
Illinois Finance Authority Revenue Bonds, Series 2012A (Edward):		
Serial Bonds, interest at 1.86% due in varying annual installments from 2013 to 2018	**3,505**	3,325
Term Bonds, interest at 5.0%, due in 2020	**7,545**	11,050
Illinois Finance Authority Revenue Bonds, Series 2009A (Edward):		
Variable Rate Securities, interest payable monthly at a floating rate (0.42% at June 30, 2016), and principal due in varying annual installments from 2011 to 2034; fully advance refunded February 2017	**–**	42,880

(Dollars in Thousands)

8. Long-Term Debt (continued)

	2017	2016
Illinois Finance Authority Revenue Bonds, Series 2008A (Edward):		
Serial Bonds, interest at 6.0%, due in varying annual installments from 2021 to 2026; fully advance refunded February 2017	**$ –**	$ 15,375
Term Bonds, interest at 6.0%, due in 2028; fully advance refunded February 2017	**–**	6,150
Term Bonds, interest at 6.25%, due in 2033; fully advance refunded February 2017	**–**	8,450
Term Bonds, interest at 5.50%, due in 2040; fully advance refunded February 2017	**–**	56,125
Illinois Finance Authority Revenue Bonds, Series 2008B-1 (Edward):		
Variable Rate Securities, interest payable monthly at a floating rate (0.42% at June 30, 2016), and principal due in varying annual installments from 2010 to 2040; fully advance refunded February 2017	**–**	48,560
Illinois Finance Authority Revenue Bonds, Series 2008B-2 (Edward):		
Variable Rate Securities, interest payable monthly at a floating rate (0.95% and 0.42% at June 30, 2017 and 2016, respectively), and principal due in varying annual installments from 2010 to 2040	**47,385**	48,560
Illinois Finance Authority Revenue Bonds, Series 2008C (Edward):		
Variable Rate Securities, interest payable monthly at a floating rate (0.95% and 0.42% at June 30, 2017 and 2016, respectively), and principal due in varying annual installments from 2010 to 2040	**8,610**	9,170
Illinois Finance Authority Taxable Revenue Bonds, Series 2013A (Elmhurst):		
Term Bonds, interest at 4.545%, due in 2018	**76,025**	76,025

(Dollars in Thousands)

8. Long-Term Debt (continued)

	2017	2016
Illinois Finance Authority Taxable Revenue Bonds, Series 2013B (Elmhurst):		
Variable Rate Securities, interest payable monthly at a floating rate (3.0% and 1.75% at June 30, 2017 and 2016, respectively), and principal due in varying annual installments from 2015 to 2023	**$ 29,250**	$ 30,500
Illinois Finance Authority Revenue Bonds, Series 2013C (Elmhurst):		
Variable Rate Securities, interest payable monthly at a floating rate (1.2854% and 1.269% at June 30, 2017 and 2016, respectively), and principal due in varying annual installments from 2015 to 2048	**110,000**	115,000
Illinois Finance Authority Revenue Bonds, Series 2013D (Elmhurst):		
Variable Rate Securities, interest payable monthly at a floating rate (1.2854% and 1.0697% at June 30, 2017 and 2016, respectively), and principal due in varying annual installments from 2018 to 2048	**75,000**	75,000
Illinois Finance Authority Revenue Bonds, Series 2008A (Elmhurst):		
Term Bonds, interest at 5.625%, due in 2037; fully advance refunded February 2017	**–**	124,815
Illinois Finance Authority Revenue Bonds, Series 2008D (Elmhurst):		
Variable Rate Securities, interest payable monthly at a floating rate (0.9% and 0.42% at June 30, 2017 and 2016 respectively), and principal due in varying annual installments from 2037 to 2048	**50,000**	50,000
Other long-term borrowings	**156**	260
	695,651	721,245

(Dollars in Thousands)

8. Long-Term Debt (continued)

	2017	2016
Less current maturities	**$ (14,440)**	$ (12,585)
Less bond issue costs	**(2,640)**	(4,629)
Unamortized premium (discount), net of bonds payable	**14,386**	(4,356)
Long-term debt	**$ 692,957**	$ 699,675

The Edward-Elmhurst Health Obligated Group's long-term debt is issued pursuant to the Second Amended and Restated Master Trust Indenture (MTI) dated as of February 1, 2017, and subsequently amended and supplemented. The MTI replaced the previously separate master trust indentures of the Edward and Elmhurst Obligated Groups and establishes the Edward-Elmhurst Health Obligated Group, consisting of the Corporation, EH, EHV, LOH, Elmhurst Memorial Healthcare, and EMH. All members of the Edward-Elmhurst Health Obligated Group are jointly and severally obligated to pay all debt under the master trust indenture and are required to maintain their status as tax-exempt, not-for-profit health care providers.

Annual maturities, assuming remarketing of the Series 2008B-2, 2008C, and 2008D obligations, on the debt (including mandatory sinking fund deposits) for each of the next five years are as follows:

2018	$ 14,440
2019	91,565
2020	16,140
2021	15,975
2022	16,255

The Edward-Elmhurst Health Obligated Group has entered into three credit agreements, two of which expire on September 30, 2019 and one of which expires February 14, 2020, with banks under the terms of which the banks agree to make liquidity loans to the Edward-Elmhurst Health Obligated Group in the amount necessary to purchase the variable rate demand direct obligations if not remarketed. The maximum amount of the liquidity loans would be principal of $105,995 at June 30, 2017, plus accrued interest. The liquidity loans would be payable quarterly in equal installments over a period of 3 years, with the initial payment being due 367 days after being drawn down.

8. Long-Term Debt (continued)

Under the terms of the MTI, various amounts are held on deposit with a trustee for bond redemption, interest payments, and certain construction expenditures. In addition, the MTI requires the Edward-Elmhurst Health Obligated Group to maintain certain financial ratios and places restrictions on various activities, such as the transfer of assets and incurrence of additional indebtedness.

In February, 2017, the Edward-Elmhurst Health Obligated Group issued Series 2017A Revenue Bonds through the Illinois Finance Authority. The proceeds were used to advance refund Series 2008A (Edward) and 2008A (Elmhurst) obligations; to reimburse the Corporation for a portion of the costs of the planning, design, acquisition, construction, renovation, improvement, expansion and equipping of certain of its healthcare facilities; and to pay certain costs relating to the issuance of the Series 2017A Bonds. Also in February, 2017, the Edward-Elmhurst Health Obligated Group issued Series 2017B and 2017C Revenue Refunding Bonds through private placements, the proceeds of which were used to advance refund Series 2008B-1 (Edward) and 2009A (Edward) obligations. A loss on early extinguishment of debt of $16,103 was recorded as a component of other non-operating losses, net in the accompanying 2017 consolidated statement of operations and changes in net assets.

9. Derivative Instruments

The Corporation has interest rate-related derivative instruments to manage its exposure on its variable-rate and fixed-rate debt instruments and does not enter into derivative instruments for any purpose other than risk management purposes. The Corporation actively manages its interest cost and seeks to achieve the lowest interest cost consistent with an acceptable level of risk given varying interest rate environments. By using derivative financial instruments to manage the risk of changes in interest rates, the Corporation exposes itself to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contracts. When the fair value of a derivative contract is positive, the counterparty owes the Corporation, which creates credit risk for the Corporation. When the fair value of a derivative contract is negative, the Corporation owes the counterparty and, therefore, it does not possess credit risk. The Corporation minimizes the credit risk in derivative instruments by entering into transactions that require the counterparty to post collateral for the benefit of the Corporation, based on the credit rating of the

(Dollars in Thousands)

9. Derivative Instruments (continued)

counterparty and the fair value of the derivative contract. Market risk is the adverse effect on the value of the financial instrument that results from a change in interest rates. The market risk associated with interest rate changes is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken. Management also mitigates risk through periodic reviews of their derivative positions in the context of their total blended cost of capital.

The Corporation has not experienced any financial losses or changes in counterparty collateral posting requirements due to changes in the credit ratings or risk profiles of its derivative counterparties for fiscal years ended June 30, 2017 and 2016.

The Corporation maintains interest rate swap programs to achieve two primary objectives: (i) limit the variability on its variable rate demand revenue bonds and (ii) lower total interest cost by earning income from spreads between taxable and tax-exempt interest rates. The notional amount under each interest rate swap agreement is reduced over the term of the respective agreement to correspond with reductions in various outstanding bond series.

The following is a summary of the market values of the outstanding positions under these interest swap agreements at June 30, 2017:

Bond Series	Notional Amount	Maturity Date	Rate Paid	Rate Received	Fair Value
2017B	$ **47,135**	February 2040	**3.96%**	61.8% of one-month LIBOR plus 0.31%	**$ (10,948)**
2008B-2	**28,281**	February 2040	**4.05%**	61.8% of one-month LIBOR plus 0.31%	**(6,839)**
2008B-2	**18,854**	February 2040	**3.93%**	61.8% of one-month LIBOR plus 0.31%	**(4,325)**
2017C	**30,000**	February 2031	**3.61%**	67.0% of one-month LIBOR	**(5,366)**
N/A	**50,000**	June 2022	**SIFMA**	76.2% of one-month LIBOR	**(66)**
N/A	**42,000**	January 2038	**4.14%**	SIFMA	**(10,256)**
N/A	**30,000**	Jan-35	**4.25%**	SIFMA	**(7,953)**

(Dollars in Thousands)

9. Derivative Instruments (continued)

Bond Series	Notional Amount	Maturity Date	Rate Paid	Rate Received	Fair Value
N/A	**42,000**	January 2038	**SIFMA**	67% of one-month LIBOR + 0.76%	**1,862**
N/A	**48,000**	January 2038	**SIFMA**	67% of one-month LIBOR + 0.74%	**2,000**
N/A	**30,000**	January 2035	**SIFMA**	67% of one-month LIBOR + 0.66%	**1,041**
N/A	**77,000**	January 2038	**SIFMA**	61.3% of one-month LIBOR + 0.73%	**2,033**
N/A	**63,000**	January 2038	**SIFMA**	61.3% of one-month LIBOR + 0.73%	**1,660**

The following is a summary of the market values of the outstanding positions under these interest swap agreements at June 30, 2016:

Bond Series	Notional Amount	Maturity Date	Rate Paid	Rate Received	Fair Value
2008B-1	$ 48,305	February 2040	3.96%	61.8% of one-month LIBOR plus 0.31%	$ (15,510)
2008B-2	28,983	February 2040	4.05%	61.8% of one-month LIBOR plus 0.31%	(9,616)
2008B-2	19,322	February 2040	3.93%	61.8% of one-month LIBOR plus 0.31%	(6,141)
2009A	30,000	February 2031	3.59%	67.0% of one-month LIBOR	(7,741)
N/A	50,000	June 2022	SIFMA	76.2% of one-month LIBOR	(155)
N/A	42,000	January 2038	4.14%	SIFMA	(15,049)
N/A	N/A	May 2016	4.14%	SIFMA	–
N/A	30,000	May 2035	4.15%	SIFMA	(11,391)
N/A	42,000	January 2038	SIFMA	67% of one-month LIBOR + 0.76%	2,308
N/A	48,000	January 2038	SIFMA	67% of one-month LIBOR + 0.76%	2,667
N/A	30,000	January 2035	SIFMA	67% of one-month LIBOR + 0.76%	1,772
N/A	77,000	January 2038	SIFMA	61.3% of one-month LIBOR + 0.73%	3,210
N/A	63,000	January 2038	SIFMA	61.3% of one-month LIBOR + 0.73%	2,616

(Dollars in Thousands)

9. Derivative Instruments (continued)

The Corporation recognizes all of its derivative instruments as either a net asset or liability in the consolidated balance sheets at fair value.

The fair value of derivative instruments at June 30, 2017 and 2016, is as follows:

Derivatives Not Designated as Hedging Instruments Under ASC 815	Location on Consolidated Balance Sheets	2017	2016
Interest rate swap agreements	Investments in affiliates and other assets	**$ 8,596**	$ 12,573
Interest rate swap agreements	Other liabilities	**(45,753)**	(65,603)
		$ (37,157)	$ (53,030)

The effects of derivative instruments on the consolidated statement of operations and changes in net assets for the fiscal years ended June 30, 2017 and 2016, are as follows:

Derivatives Not Designated as Hedging Instruments Under ASC 815	Location of Gain (Loss)Recognized in Non-operating Gains in the Consolidated Statement of Operations and Changes in Net Assets	2017	2016
Interest rate swap agreements	Change in fair value of interest rate swaps	**$ 15,872**	$ (10,681)
Interest rate swap agreements	Cash settlements on interest rate swaps	**$ (5,156)**	$ (6,671)

For the fiscal year ended June 30, 2017, the Corporation recorded $15,872 in non-operating gains, which relates to a gain of $13,581 due to the change in the swaps' value and a gain of $2,291 to reflect the fair value of the credit adjustment related to the uncollateralized portion of the swap

(Dollars in Thousands)

9. Derivative Instruments (continued)

balance. For the fiscal year ended June 30, 2016, the Corporation recorded $10,681 in non-operating losses, which relates to a loss of $13,016 due to the change in the swaps' value and a gain of $2,155 to reflect the fair value of the credit adjustment related to the uncollaterialized portion of the swap balance. During fiscal years ended June 30, 2017 and 2016, the Corporation recognized a loss of $177 relating to the amortization of previously dedesignated hedges.

Certain of the Corporation's derivative instruments contain provisions that require the Corporation's debt under each of the obligated groups to separately maintain a certain long-term credit rating from each of the major credit rating agencies. If the Corporation's debt were to fall below these thresholds, the counterparties to the derivative instruments could request either immediate additional collateralization or ongoing full overnight collateralization on derivative instruments in net liability positions. The aggregate fair values of all derivative instruments with credit-risk-related contingent features that are in a liability position on June 30, 2017 and 2016 is $45,753 and $65,603, respectively.

No collateral was posted at June 30, 2017 relating to the Edward-Elmhurst Health Obligated Group's derivative instruments. If ratings fell below the current levels and the credit risk-related contingent features underlying these agreements were triggered on June 30, 2017, the Corporation would be required to post total collateral as outlined in the table below to its counterparties.

	Collateral Requirement
Edward Obligated Group's Bond Rating	
S&P/Moody's:	
A/A2 (Current)	$ –
A-/A3	6,650
BBB+/Baa1	22,628
BBB/Baa2	47,781
BBB-/Baa3 and below	51,598

10. Employee Retirement Plans

Effective January 1, 2015, the Corporation maintains a 401(k) defined-contribution retirement plan covering substantially all Corporation employees. The employer contributions include a discretionary basic contribution based upon a percentage of the employee's compensation and a matching contribution based upon the amount of the employee's contribution.

Edward and Elmhurst also maintain additional defined contribution retirement plans for employees for service periods prior to January 1, 2015. The Corporation's pension expense under defined-contribution retirement plans was $14,558 and $17,163 in 2017 and 2016, respectively. The Corporation's contribution payments were $14,808 and $20,541 in 2017 and 2016, respectively.

Elmhurst also has a noncontributory retirement plan (the Plan) which qualifies as a pension plan under ASC Topic 715, *Compensation – Retirement Benefits*. The Plan covers substantially all full-time employees. Effective August 21, 2013, the Plan was amended to prevent new employees from entering the Plan after December 31, 2013, and to freeze accrued benefits as of December 31, 2013. Participants of the Plan remain eligible to earn vesting service towards their accrued benefits. It is Elmhurst's policy to make contributions in amounts calculated by the actuarial consultant to adequately fund benefit programs and meet Employee Retirement Income Security Act of 1974 (ERISA) requirements. The mortality table used to estimate the disclosure calculations for the fiscal years ended June 30, 2017 and 2016 was the Retirement Pensioner's Mortality Table (RP-2014). The generationally projected mortality improvement scale (MP-2016) was used with RP-2014 for the fiscal year ended June 30, 2017, which was updated from the generationally projected mortality improvement scale (MP-2015) used with RP-2014 for the fiscal year ended June 30, 2016.

(Dollars in Thousands)

10. Employee Retirement Plans (continued)

Information regarding the benefit obligations and assets of the Plan as of and for the fiscal years ended June 30, 2017 and 2016, respectively is as follows:

	2017	2016
Accumulated benefit obligation	**$ 226,453**	$ 237,476
Projected benefit obligation:		
Projected benefit obligation, beginning of year	**$ 237,476**	$ 217,437
Interest cost	**8,727**	9,571
Actuarial losses	**(11,195)**	18,794
Benefits paid	**(8,555)**	(8,326)
Projected benefit obligation, end of year	**$ 226,453**	$ 237,476
Change in plan assets:		
Fair value of plan assets, beginning of year	**$ 177,607**	$ 174,642
Actuarial return on plan assets	**12,050**	11,291
Benefits paid	**(8,555)**	(8,326)
Employer contributions	**4,000**	–
Fair value of plan assets, end of year	**185,102**	177,607
Funded status of the plan, end of year	**$ (41,351)**	$ (59,869)

The unfunded pension liability is reported as pension plan liability in the accompanying consolidated balance sheets.

Plan items not yet recognized as a component of periodic pension expense, but included as a separate component of unrestricted net assets at June 30, 2017 and 2016 are as follows:

	2017	2016
Unrecognized net actuarial loss	**$ 72,588**	$ 84,980

(Dollars in Thousands)

10. Employee Retirement Plans (continued)

Pension related changes other than net periodic pension cost that have been included as a change of unrestricted net assets consist of:

	2017	2016
Net actuarial (gain) loss	**$ (10,348)**	$ 20,108
Amortization of actuarial loss	**(2,044)**	(1,457)
	$ (12,392)	$ 18,651

	2017	2016
Assumptions:		
Discount rate used to determine benefit obligation	**4.00%**	3.75%
Discount rate used to determine net periodic benefit cost	**3.75**	4.5
Rate of increase in compensation levels used to determine benefit obligation and net periodic benefit cost	**N/A**	N/A
Expected long-term rate of return on assets used to determine benefit obligation and net periodic benefit cost	**7.5**	7.5

The estimated net actuarial loss that will be amortized as a component of net periodic benefit cost during fiscal 2018 is $1,643 for the Plan.

Elmhurst expects to make no contributions to the Plan during fiscal 2018.

(Dollars in Thousands)

10. Employee Retirement Plans (continued)

The allocation of pension plan assets at June 30, 2017 and 2016, is as follows:

	Target	2017 Actual	2016 Actual
Equity securities	33%	**33%**	31%
Fixed-income securities	57	**57**	56
Alternative investments	10	**10**	13
Total	100%	**100%**	100%

The Plan is managed in accordance with the policies established by the Edward-Elmhurst Healthcare Retirement Committee (the Retirement Committee). The investment policy includes specific guidelines for quality, asset concentration, asset mix, asset allocations and performance expectations. The pension fund investment allocations are periodically reviewed for compliance with the pension investment policy by the Retirement Committee. The expected long-term rate of return on plan assets is based on historical and projected rates of return for current and planned asset categories in the Plan's investment portfolio. Assumed projected rates of return for each asset category are selected after analyzing historical experience and future expectations of the returns and volatility for assets of that category using benchmark rates. Based on the target asset allocation among the asset categories, the overall expected rate of return for the portfolio is developed and adjusted for historical and expected experience of active portfolio management results compared to benchmark returns and for the effect of expenses paid from plan assets.

Expected future benefit payments for the plan years ending December 31 are as follows:

2018	$ 10,091
2019	10,415
2020	10,909
2021	11,398
2022	11,887
2023–2027	63,726

(Dollars in Thousands)

10. Employee Retirement Plans (continued)

Net periodic (benefit) cost for the fiscal years ended June 30, 2017 and 2016, include the following components:

	2017	2016
Interest cost	**$ 8,727**	$ 9,571
Expected return on plan assets	**(12,897)**	(12,606)
Amortization of actuarial loss	**2,044**	1,457
	$ (2,126)	$ (1,578)

The tables below present the balances of pension assets measured at fair value on a recurring basis at June 30, 2017:

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents[a]	**$ 734**	**$ –**	**$ –**	**$ 734**
Mutual funds – equity[b]	**60,338**	**–**	**–**	**60,338**
Mutual funds – fixed income[b]	**105,419**	**–**	**–**	**105,419**
Private real estate fund[c]	**–**	**–**	**18,611**	**18,611**
Total pension assets	**$ 166,491**	**$ –**	**$ 18,611**	**$ 185,102**

The tables below present the balances of pension assets measured at fair value on a recurring basis at June 30, 2016:

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents[a]	$ 779	$ –	$ –	$ 779
Mutual funds – equity[b]	54,547	–	–	54,547
Mutual funds – fixed income[b]	99,378	–	–	99,378
Private real estate fund[c]	–	–	22,903	22,903
Total pension assets	$ 154,704	$ –	$ 22,903	$ 177,607

(Dollars in Thousands)

10. Employee Retirement Plans (continued)

(a) Pricing for money market funds is based on the open market and is valued on a daily basis.

(b) Pricing for mutual funds – equity and mutual funds – fixed income is based on the open market and are valued on a daily basis.

(c) Pricing for private real estate funds is based on property-specific inputs, such as projected cash flows that are not derived from market data. This fund has quarterly liquidity requiring 65 days' notice for redemption

The following table presents a reconciliation for Level 3 assets measured at fair value on a recurring basis for the fiscal year ended June 30, 2017:

Beginning balance	$ 22,903
Unrealized gain, net	749
Purchases, sales, transfers and settlements, net	(5,041)
Ending balance	$ 18,611

The following table presents a reconciliation for Level 3 assets measured at fair value on a recurring basis for the fiscal year ended June 30, 2016:

Beginning balance	$ 20,205
Unrealized gain, net	2,698
Purchases, sales, transfers and settlements, net	–
Ending balance	$ 22,903

There were no transfers into or out of Level 1, Level 2, or Level 3 during the fiscal years ended June 30, 2017 and 2016.

Management's estimate of the fair value of hedge funds are based on information provided by the fund managers or general partners, which in turn is based on the most recent information available to the fund manager for the underlying investments.

(Dollars in Thousands)

11. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at June 30, 2017 and 2016:

	2017	2016
Temporarily restricted net assets:		
Pledges receivable (time restricted)	**$ 10,294**	$ 10,207
Oncology programs	**333**	303
Cardiovascular programs	**251**	249
Animal assisted therapy	**133**	142
Wellness programs	**51**	51
Employee hardship	**79**	81
Social services	**30**	30
Other special uses	**1,850**	2,772
Total temporarily restricted net assets	**$ 13,021**	$ 13,835

Permanently restricted net assets at June 30, 2017 and 2016, are summarized below, the income from which is expendable to support the following expenses:

	2017	2016
Permanently restricted net assets:		
Cardiovascular endowment	**$ 100**	$ 100
Animal assisted therapy endowment	**155**	155
Medical staff education endowment	**190**	190
Student scholarship endowment	**201**	201
Other special uses	**209**	209
Total permanently restricted net assets	**$ 855**	$ 855

(Dollars in Thousands)

11. Temporarily and Permanently Restricted Net Assets (continued)

Net assets were released from donor restrictions by incurring expenditures for the following purposes during the fiscal years ended June 30, 2017 and 2016:

	2017	2016
Net asset released from donor restrictions:		
Pledges received (time restricted)	**$ 500**	$ 500
Health care services and other	**383**	325
Hospital operations	**198**	679
3T MRI	**500**	–
Simulation lab	**1,000**	–
Renovation	**60**	–
Total net assets released from donor restrictions	**$ 2,641**	$ 1,504

Pledges receivable, which are included in the consolidated balance sheets in prepaid expenses and other current assets for the current portion and in investments in affiliates and other for the long-term portion, are due over the following time periods at June 30, 2017 and 2016:

	2017	2016
Less than one year	**$ 905**	$ 1,028
One through five years	**3,387**	2,538
Thereafter	**7,000**	7,750
Total pledges receivable	**11,292**	11,316
Less: discount and allowance	**(998)**	(1,109)
Net pledges receivable	**$ 10,294**	$ 10,207

12. Related-Party Transactions

During the fiscal year ended June 30, 2016, IHP paid the Corporation and its affiliates $29,156 for medical services. IHP paid the Corporation and its affiliates $8,492 in distributions during the fiscal year ended June 30, 2016. The Corporation and its affiliates had no other significant related-party transactions during 2017 and 2016.

(Dollars in Thousands)

13. Operating Lease Commitments

The Corporation leases office space and equipment under leases that are classified as operating leases. The future minimum lease payments for office space and equipment leases with initial or noncancelable lease terms in excess of one year are as follows:

Fiscal year ending June 30:	
2018	$ 18,941
2019	17,212
2020	16,509
2021	13,217
2022	10,268
Thereafter	48,667
	$ 124,814

Lease expense amounted to $17,843 and $16,898 for the fiscal years ended June 30, 2017 and 2016, respectively.

14. Functional Expenses

The Corporation provides general health care services to residents within its geographic location. Expenses related to this and general and administrative functions for the fiscal years ended June 30, 2017 and 2016 are as follows:

	2017	**2016**
Health care services	**$ 1,045,703**	$ 946,332
General and administrative	**325,039**	284,349
	$ 1,370,742	$ 1,230,681

(Dollars in Thousands)

15. Goodwill and Other Intangible Assets

Goodwill and other intangible assets for the Corporation at June 30, 2017 and 2016, was $60,321 and $60,347, net of accumulated amortization of $5,735 and $5,037, respectively. Intangible assets primarily consist of goodwill and noncompete agreements related to physician practice acquisitions. Intangible assets whose lives are indefinite, primarily goodwill, are not amortized and are evaluated for impairment at least annually, while intangible assets with definite lives, primarily noncompete agreements, are amortized over their expected useful lives.

	Goodwill	Definite-Lived Intangible Assets, Net	Total
July 1, 2015	$ 61,978	$ 2,785	$ 64,763
Additions	–	371	371
Amounts disposed in business sale	(3,630)	(475)	(4,105)
Amortization	–	(682)	(682)
July 1, 2016	58,348	1,999	60,347
Additions	**150**	**522**	**672**
Amounts disposed in business sale	**–**	**–**	**–**
Amortization	**–**	**(698)**	**(698)**
June 30, 2017	**$ 58,498**	**$ 1,823**	**$ 60,321**

16. Subsequent Events

The Corporation evaluated events and transactions occurring subsequent to June 30, 2017 through October 2, 2017, the date of issuance of the financial statements.

During this period, there were no other subsequent events requiring recognition or disclosure in the consolidated financial statements.

Supplementary Information

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Report of Independent Auditors on Supplementary Information

The Board of Trustees
Edward-Elmhurst Healthcare

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The supplementary information 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 use to prepare the 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 themselves, and then additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Ernst & Young LLP

October 2, 2017

Edward-Elmhurst Healthcare
(d/b/a Edward-Elmhurst Health)

Schedule of Charity Care and Other Unreimbursed Care

(Dollars in Thousands)

Years Ended June 30, 2017 and 2016

The Corporation maintains policies whereby patients in need of medical services are treated without regard to their ability to pay for such services. The Corporation maintains records to identify and monitor the level of charity care it provides. These records include the amount of estimated costs for services and supplies furnished under its charity care policies, using an overall cost to charge ratio, as well as the estimated difference between the cost of services provided to Medicaid and Medicare patients and the expected reimbursement from Medicaid and Medicare under which actual costs are spread to charges using workload units (salaries) and percentage of charges (supplies). In addition, the Corporation reports the actual or estimated cost associated with services provided to the community as charity care, net of any fees charged. The following information measures the level of charity care provided during the fiscal years ended June 30, 2017 and 2016:

	2017	2016
Charity care provided, at cost	**$ 18,962**	$ 19,588
Excess of allocated cost over reimbursement for services provided to Medicaid patients	**54,512**	46,945
Excess of allocated cost over reimbursement for services provided to Medicare patients	**102,419**	96,388
Community services provided, at cost	**15,768**	14,669
	$ 191,661	$ 177,590

Edward-Elmhurst Healthcare
(d/b/a Edward-Elmhurst Health)

Details of Consolidated Balance Sheet
(Dollars in Thousands)

June 30, 2017

	Consolidated Edward-Elmhurst Health	Eliminations	Obligated Group	Nom-Obligated Group
Assets				
Current assets:				
Cash and cash equivalents	$ 74,520	$ –	$ 57,288	$ 17,232
Assets limited as to use				
Patient accounts receivable, less allowances	5,023	–	–	5,023
doubtful accounts of $31,569	274,667	–	272,021	2,646
Estimated amounts due from third-party payors	6,088	–	6,088	–
Inventories	21,188	–	20,967	221
Prepaid expenses and other current assets	40,550	(17,766)	22,166	36,150
Total current assets	422,036	(17,766)	378,530	61,272
Assets limited as to use, less current portion:				
Externally designated investments under debt agreements	4,115	–	4,115	–
Externally designated for self-insurance	114,605	–	–	114,605
Board-designated investments	746,528	–	746,528	–
	865,248	–	750,643	114,605
Other assets:				
Goodwill and other intangible assets, net	60,321	–	55,524	4,797
Investments in affiliates and other	62,540	(70,370)	131,464	1,446
Reinsurance recoverable for reinsured losses	7,240	–	1,477	5,763
	130,101	(70,370)	188,465	12,006
Land, buildings, and equipment:				
Land and improvements	129,905	–	129,905	–
Buildings and improvements	1,135,908	–	1,111,476	24,432
Furniture and equipment	544,023	–	536,742	7,281
Construction-in-progress	31,554	–	31,084	470
	1,841,390	–	1,809,207	32,183
Less allowances for depreciation	855,616	–	836,271	19,345
	985,774	–	972,936	12,838
Total assets	$ 2,403,159	$ (88,136)	$ 2,290,574	$ 200,721

Edward-Elmhurst Healthcare
(d/b/a Edward-Elmhurst Health)

Details of Consolidated Balance Sheet (continued)
(Dollars in Thousands)

June 30, 2017

	Consolidated Edward-Elmhurst Health	Eliminations	Obligated Group	Nom-Obligated Group
Liabilities and net assets				
Current liabilities:				
Accounts payable	$ 41,931	$ (3,744)	$ 30,527	$ 15,148
Accrued expenses	130,065	(246)	121,018	9,293
Estimated amounts due to third-party payors	257,188	–	257,188	–
Current maturities of long-term debt	14,440	–	14,440	–
Total current liabilities	443,624	(3,990)	423,173	24,441
Long-term debt, less current maturities	692,957	–	692,801	156
Professional and general liability	69,100	–	13,765	55,335
Reserve for reinsured losses	7,240	–	1,477	5,763
Pension plan liability	41,351	–	41,351	–
Other liabilities	58,985	–	60,130	72,527
Total liabilities	1,313,257	(3,990)	1,232,697	158,222
Net assets:				
Unrestricted net assets of Edward-Elmhurst Health	1,060,229	(5,131)	1,036,736	28,624
Non-controlling interest	15,797	–	15,797	–
Total unrestricted net assets	1,076,026	(5,131)	1,052,533	28,624
Temporarily restricted net assets	13,021	(4,541)	4,541	13021
Permanently restricted net assets	855	(802)	803	854
Total net assets	1,089,902	(10,474)	1,057,877	42,499
Total liabilities and net assets	$ 2,403,159	$ (14,464)	$ 2,290,574	$ 200,721

Edward-Elmhurst Healthcare
(d/b/a Edward-Elmhurst Health)

Details of Consolidated Statement of Operations and Changes in Net Assets
(Dollars in Thousands)

June 30, 2017

	Consolidated Edward-Elmhurst Health	Eliminations	Obligated Group	Non-Obligated Group
Revenues				
Net patient service revenue before provision for bad debts	$ 1,284,979	$ (21,330)	$ 1,272,134	$ 34,175
Provision for bad debts	(38,793)	–	(37,058)	(1,735)
Net patient service revenue	1,246,186	(21,330)	1,235,076	32,440
Other operating revenue	126,303	(17,298)	51,617	91,984
	1,372,489	(38,628)	1,286,693	124,424
Expenses				
Salaries and wages	545,234	(697)	525,045	20,886
Employee benefits	106,854	(963)	103,207	4,610
Medical fees	66,731	–	66,731	–
Purchased services	98,995	(1,059)	95,659	4,395
Supplies and other	425,825	(35,909)	368,604	93,130
Depreciation and amortization	68,441	–	66,934	1,507
Interest	20,047	–	20,045	2
Medicaid tax	38,615	–	38,615	–
	1,370,742	(38,628)	1,284,840	124,530
Operating income (loss)	1,747	–	1,853	(106)
Nonoperating				
Realized gains and investment income, net	11,937	–	10,541	1,396
Unrealized gains on investments, net	86,290	–	78,515	7,775
Change in fair value of interest rate swaps	15,872	–	15,872	–
Cash settlements on interest swaps	(5,156)	–	(5,156)	–
Loss on extinguishment of debt	(16,103)	–	(16,103)	–
Other nonoperating losses, net	(341)	–	(65)	(276)
	92,499	–	83,604	8,895

Edward-Elmhurst Healthcare
(d/b/a Edward-Elmhurst Health)

Details of Consolidated Statement of Operations and Changes in Net Assets (continued)
(Dollars in Thousands)

June 30, 2017

	Consolidated Edward-Elmhurst Health	Eliminations	Obligated Group	Non-Obligated Group
Excess of revenue and gains over expenses and losses	$ 94,246	$ –	$ 85,457	$ 8,789
Less: noncontrolling interests	(1,631)	–	(1,631)	–
Excess of revenues and gains over expenses and losses attributable to controlling interest	92,615	–	83,826	8,789
Unrestricted net assets, controlling interest				
Excess of revenue and gains over expenses and losses	92,615	–	83,826	8,789
Net assets released from restriction and used for purchase of fixed assets	1,560	–	–	1,560
Postretirement benefit plan adjustments	12,400	–	12,400	–
Net asset transfers to/from affiliates	–	–	31,383	(31,383)
Distributions to owners	(1,812)	–	2,266	(4,078)
Amortization of loss on discontinuation of hedge accounting	177	–	177	–
Increase (decrease) in unrestricted net assets, controlling interest	104,940	–	130,052	(25,112)
Unrestricted net assets, non-controlling interest				
Excess of revenues and gains over expenses and losses	1,631	–	1,631	–
Increase in unrestricted net assets, non-controlling interest	1,631	–	1,631	–

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Edward-Elmhurst Healthcare
(d/b/a Edward-Elmhurst Health)

Details of Consolidated Statement of Operations and Changes in Net Assets (continued)

(Dollars in Thousands)

June 30, 2017

	Consolidated Edward-Elmhurst Health	Eliminations	Obligated Group	Non-Obligated Group
Temporarily restricted net assets, controlling interest				
Contributions	$ 1,827	$ (1,087)	$ 1,087	$ 1,827
Net assets released from restrictions and used for operations	(1,081)	1,749	(1,749)	(1,081)
Net assets released from restrictions and used for purchase of fixed assets	(1,560)	–	–	(1,560)
(Decrease) increase in temporarily restricted net assets, controlling interest	(814)	662	(662)	(814)
Increase (decrease) in net assets	105,757	662	131,021	(25,926)
Net assets at beginning of year	984,145	(11,136)	926,856	68,425
Net assets at end of year	$ 1,089,902	$ (10,474)	$ 1,057,877	$ 42,499

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