Consolidated Financial Statements and Supplementary Information

Advocate Health Care Network and Subsidiaries
Years Ended December 31, 2013 and 2012
With Reports of Independent Auditors

Ernst & Young LLP

Building a better working world

Advocate Health Care Network and Subsidiaries

Consolidated Financial Statements and Supplementary Information

Years Ended December 31, 2013 and 2012

Contents

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Report of Independent Auditors

The Board of Directors
Advocate Health Care Network

We have audited the accompanying consolidated financial statements of Advocate Health Care Network and subsidiaries, which comprise the consolidated balance sheets as of December 31, 2013 and 2012, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in 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 consolidated 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 consolidated 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 consolidated financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Advocate Health Care Network and subsidiaries at December 31, 2013 and 2012, and the results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

March 7, 2014

Advocate Health Care Network and Subsidiaries

Consolidated Balance Sheets

(Dollars in Thousands)

	December 31 2013	December 31 2012
Assets		
Current assets:		
Cash and cash equivalents	**$ 563,229**	$ 397,945
Short-term investments	**19,401**	21,528
Assets limited as to use	**89,660**	76,841
Patient accounts receivable, less allowances for uncollectible accounts of $181,254 in 2013 and $153,943 in 2012	**567,033**	530,719
Amounts due from primary third-party payors	**10,107**	11,294
Prepaid expenses, inventories, and other current assets	**256,322**	233,653
Collateral proceeds received under securities lending program	**19,165**	20,794
Total current assets	**1,524,917**	1,292,774
Assets limited as to use:		
Internally and externally designated investments limited as to use	**4,715,519**	4,224,383
Investments under securities lending program	**19,013**	21,014
	4,734,532	4,245,397
Prepaid pension expense and other noncurrent assets	**132,382**	116,305
Interest in health care and related entities	**152,103**	135,676
Reinsurance receivable	**172,318**	175,975
Deferred costs and intangible assets, less allowances for amortization	**51,231**	47,378
	5,242,566	4,720,731
Property and equipment – at cost:		
Land and land improvements	**251,296**	189,226
Buildings	**2,514,922**	2,209,485
Movable equipment	**1,358,608**	1,262,737
Construction-in-progress	**313,065**	136,740
	4,437,891	3,798,188
Less allowances for depreciation	**2,155,428**	2,034,494
	2,282,463	1,763,694
	$ 9,049,946	$ 7,777,199

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	December 31	
	2013	**2012**
Liabilities and net assets/shareholders' equity		
Current liabilities:		
Current portion of long-term debt	**$ 17,810**	$ 19,103
Long-term debt subject to short-term remarketing arrangements	**135,130**	187,795
Accounts payable	**291,306**	227,882
Accrued salaries and employee benefits	**423,897**	347,617
Accrued expenses	**120,526**	117,962
Amounts due to primary third-party payors	**274,780**	240,192
Current portion of accrued insurance and claims costs	**112,412**	95,093
Obligations to return collateral under securities lending program	**19,440**	21,069
Total current liabilities	**1,395,301**	1,256,713
Noncurrent liabilities:		
Long-term debt, less current portion	**1,452,109**	1,142,458
Pension plan liability	**23,737**	66,716
Accrued insurance and claims cost, less current portion	**678,470**	661,395
Accrued losses subject to reinsurance recovery	**172,318**	175,975
Obligations under swap agreements, net of collateral posted	**47,908**	84,814
Other noncurrent liabilities	**151,668**	124,215
	2,526,210	2,255,573
Total liabilities	**3,921,511**	3,512,286
Net assets/shareholders' equity:		
Unrestricted	**4,968,578**	4,128,166
Temporarily restricted	**111,335**	90,351
Permanently restricted	**47,566**	45,414
	5,127,479	4,263,931
Non-controlling interest	**956**	982
Total net assets/shareholders' equity	**5,128,435**	4,264,913
	$ 9,049,946	$ 7,777,199

See accompanying notes to consolidated financial statements.

Advocate Health Care Network and Subsidiaries

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

	Year Ended December 31	
	2013	**2012**
Unrestricted revenues, gains, and other support		
Net patient service revenue	**$ 4,468,468**	$ 4,105,671
Provision for uncollectible accounts	**(253,989)**	(212,305)
	4,214,479	3,893,366
Capitation revenue	**389,516**	390,985
Other revenue	**334,007**	311,347
	4,938,002	4,595,698
Expenses		
Salaries, wages, and employee benefits	**2,510,470**	2,349,690
Purchased services and operating supplies	**1,211,483**	1,127,788
Contracted medical services	**135,570**	149,009
Insurance and claims costs	**108,349**	99,892
Other	**404,988**	337,349
Depreciation and amortization	**211,648**	187,742
Interest	**55,299**	45,953
	4,637,807	4,297,423
Operating income	**300,195**	298,275
Nonoperating income (loss)		
Investment income	**287,727**	380,749
Change in fair value of interest rate swaps	**41,236**	(52)
Fair value of net assets acquired	**151,663**	–
Loss on refinancing of debt	**(46)**	(24)
Other nonoperating items, net	**(15,455)**	(7,292)
	465,125	373,381
Revenues in excess of expenses	**765,320**	671,656

Advocate Health Care Network and Subsidiaries

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

	Year Ended December 31	
	2013	**2012**
Unrestricted net assets		
Revenues in excess of expenses	**$ 765,320**	$ 671,656
Net assets released from restrictions		
and used for capital purchases	**4,201**	7,378
Postretirement benefit plan adjustments	**70,912**	4,444
Other	**(21)**	(57)
Increase in unrestricted net assets	**840,412**	683,421
Temporarily restricted net assets		
Contributions for medical education programs,		
capital purchases, and other purposes	**27,778**	21,869
Contribution of net assets of Sherman Hospital	**719**	–
Realized gains on investments	**2,959**	2,580
Unrealized gains on investments	**3,768**	6,304
Net assets released from restrictions and used		
for operations, medical education programs,		
capital purchases, and other purposes	**(14,240)**	(15,733)
Increase in temporarily restricted net assets	**20,984**	15,020
Permanently restricted net assets		
Contributions for medical education programs,		
capital purchases, and other purposes	**1,889**	6,951
Contribution of net assets of Sherman Hospital	**263**	–
Increase in permanently restricted net assets	**2,152**	6,951
Increase in net assets	**863,548**	705,392
Change in non-controlling interest	**(26)**	16
Net assets/shareholders’ equity at beginning of year	**4,264,913**	3,559,505
Net assets/shareholders’ equity at end of year	**$ 5,128,435**	$ 4,264,913

See accompanying notes to consolidated financial statements.

Advocate Health Care Network and Subsidiaries

Consolidated Statements of Cash Flows

(Dollars in Thousands)

	Year Ended December 31	
	2013	**2012**
Operating activities		
Increase in net assets	**$ 863,522**	$ 705,408
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation, amortization, and accretion	**208,828**	187,956
Provision for uncollectible accounts	**253,989**	212,305
Change in deferred income taxes	**(5,893)**	(1,044)
Losses on disposal of property and equipment	**5,909**	1,088
Loss on refinancing of debt	**46**	24
Change in fair value of interest rate swaps	**(41,236)**	52
Postretirement benefit plan adjustments	**(70,912)**	(4,444)
Contribution of certain net assets of Sherman Hospital, net of $12,280 cash received	**(152,645)**	–
Restricted contributions and gains on investments, net of assets released from restrictions used for operations	**(10,039)**	(8,355)
Changes in operating assets and liabilities:		
Trading securities	**(476,014)**	(538,587)
Patient accounts receivable	**(243,799)**	(233,392)
Amounts due to/from primary third-party payors	**5,035**	20,618
Accounts payable, accrued salaries and employee benefits, accrued expenses, and other noncurrent liabilities	**160,561**	(65,307)
Other assets	**409**	24,398
Accrued insurance and claims cost	**9,393**	9,451
Net cash provided by operating activities	**507,154**	310,171
Investing activities		
Purchases of property and equipment	**(385,695)**	(280,863)
Proceeds from sale of property and equipment	**2,590**	7,431
Cash acquired in the acquisition of Sherman Hospital	**12,280**	–
Purchases of investments designated as non-trading	**(352,931)**	(970,653)
Sales of investments designated as non-trading	**431,263**	887,970
Other	**(66,043)**	(21,925)
Net cash used in investing activities	**(358,536)**	(378,040)
Financing activities		
Proceeds from issuance of debt	**119,956**	162,881
Payments of long-term debt	**(144,014)**	(33,237)
Collateral received (posted) under swap agreements	**4,330**	(4,330)
Proceeds from restricted contributions and gains on investments	**36,394**	37,704
Net cash provided by financing activities	**16,666**	163,018
Increase in cash and cash equivalents	**165,284**	95,149
Cash and cash equivalents at beginning of year	**397,945**	302,796
Cash and cash equivalents at end of year	**$ 563,229**	$ 397,945

See accompanying notes to consolidated financial statements.

1. Organization and Summary of Significant Accounting Policies

Organization

Advocate Health Care Network (the System) is a nonprofit, faith-based health care organization dedicated to providing comprehensive health care services, including inpatient acute and non-acute care, primary and specialty physician services, and various outpatient services to communities in northern and central Illinois. Additionally, through long-term academic and teaching affiliations, the System trains resident physicians. The System is affiliated with the United Church of Christ and Evangelical Lutheran Church of America. Substantially all expenses of the System are related to providing health care services.

On June 1, 2013, the System and Sherman Hospital completed an affiliation agreement pursuant to which the System became the sole corporate member of Sherman Hospital. Additionally, on June 1, 2013, the name of Sherman Hospital was changed to Advocate Sherman Hospital (Sherman). Sherman is the sole member of various not-for-profit corporations or the shareholder of various business corporations engaged in the delivery of health care services or the provision of goods and services ancillary thereto, which include a rehabilitation and skilled nursing facility (Sherman West Court), a home health care company, and an employed physician medical group. The affiliation has been accounted for as an acquisition in accordance with the authoritative guidance on not-for-profit mergers and acquisitions and is described in Note 13. The operations of Sherman have been included in the System's consolidated financial statements since the affiliation date.

Mission and Community Benefit

As a faith-based health care organization, the mission, values, and philosophy of the System form the foundation for its strategic priorities. The System's mission is to serve the health care needs of individuals, families, and communities through a holistic philosophy rooted in the fundamental understanding of human beings as created in the image of God. The System's core values of compassion, equality, excellence, partnership, and stewardship guide its actions to provide health care services to its communities. Consistent with the values of compassion and stewardship, the System makes a major commitment to patients in need, regardless of their ability to pay. This care is provided to patients who meet the criteria established under the System's charity care policy. Patients eligible for consideration can earn up to 600% of the federal poverty level. Qualifying patients can receive up to 100% discounts from charges and extended payment plans. In 2013 and 2012, $475,849 and $396,815, respectively, of patient

1. Organization and Summary of Significant Accounting Policies (continued)

charges were forgone under this policy. The System's cost of providing charity care in 2013 and 2012, as determined using the 2012 Medicare cost-to-charge ratio, was $126,502 and $103,636, respectively.

The System is also involved in other numerous wide-ranging community benefit activities that include providing health education, immunizations for children, support groups, health screenings, health fairs, pastoral care, home-delivered meals, transportation services, seminars and speakers, crisis lines, publication of health magazines, medical residency and internships, research and language assistance, and other subsidized health services. These activities are provided free of charge or at a fee that is below the cost of providing them. The cost of these activities and the costs of uncompensated care for 2013 will be included in a community benefit report that will be filed with the Office of the Attorney General for the State of Illinois in June 2014.

Principles of Consolidation

Included in the System's consolidated financial statements are all of its wholly owned or controlled subsidiaries. All significant intercompany transactions have been eliminated in consolidation.

Use of Estimates

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

Cash Equivalents

The System considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

1. Organization and Summary of Significant Accounting Policies (continued)

Investments

The System has designated substantially all of its investments as trading. Certain debt-related investments are designated as non-trading. Investments in debt and equity securities with readily determinable fair values are measured at fair value using quoted market prices or other observable inputs. The non-trading portfolio consists mainly of cash equivalents, money market, and commercial paper. Investments in limited partnerships that invest in marketable securities and derivative products (hedge funds) are reported using the equity method of accounting based on information provided by the respective partnership. Investments in private equity limited partnerships with ownership percentages of 5% or greater are recorded on the equity method of accounting, while those with ownership percentages of 5% or less are recorded on the cost method of accounting. Investment income or loss (including realized gains and losses, interest, dividends, changes in equity of limited partnerships, and unrealized gains and losses) is included in investment income unless the income or loss is restricted by donor or law or is related to assets designated for self-insurance programs. Investment income on self-insurance trust funds is reported in other revenue. Unrealized gains and losses that are restricted by donor or law are reported as a change in temporarily restricted net assets.

Assets Limited as to Use

Assets limited as to use consist of investments set aside by the Board of Directors for future capital improvements and certain medical education and health care programs. The Board of Directors retains control of these investments and may, at its discretion, subsequently use them for other purposes. Additionally, assets limited as to use include investments held by trustees under debt agreements and self-insurance trusts.

Patient Service Revenue and Accounts Receivable

Patient accounts receivable are stated at net realizable value. The System evaluates the collectibility of its accounts receivable based on the length of time the receivable is outstanding, major payor sources of revenue, historical collection experience, and trends in health care insurance programs to estimate the appropriate allowance and provision for uncollectible accounts. For receivables associated with services provided to patients who have third-party coverage, the System analyzes contractually due amounts and provides an allowance for contractual allowances and an allowance and a provision for uncollectible accounts for patient

(Dollars in Thousands)

1. Organization and Summary of Significant Accounting Policies (continued)

responsibilities under such contracts that are deemed not realizable. For receivables associated with self-pay patients, the System records a significant provision for uncollectible accounts in the period of service on the basis of its past experience, which indicates that many patients do not pay the portion of their bill for which they are financially responsible. These adjustments are accrued on an estimated basis and are adjusted as needed in future periods.

The allowance for uncollectible accounts as a percentage of accounts receivable increased from 23% in 2012 to 24% in 2013 primarily due to an increase in self-pay accounts receivables compounded by decreases in Medicaid accounts receivables, net of contractual allowances. The decrease in Medicaid receivables was primarily due to the increased cash collections received from the State of Illinois during 2013. The System's combined allowance for uncollectible accounts receivable, uninsured discounts, and charity care covered 100% of self-pay accounts receivable at December 31, 2013 and 2012.

The System has agreements with third-party payors that provide for payments to the System at amounts different from its established rates. For uninsured patients who do not qualify for charity care, the System recognizes revenue at the time of service on the basis of its standard rates less the self-pay discount. Patient service revenue, net of contractual allowances, the provision for charity care, and other discounts (but before the provision for uncollectible accounts), is reported at the estimated net realizable amounts from patients, third-party payors, and others for service rendered, including estimated adjustments under reimbursement agreements with third-party payors, certain of which are subject to audit by administering agencies. These adjustments are accrued on an estimated basis and are adjusted as needed in future periods.

Patient service revenue, net of the provision for charity care, contractual allowances, and other discounts (but before the provision for uncollectible accounts), recognized in the period from these major payor sources is as follows for the years ended December 31:

Patient Service Revenue (Net of Contractual Allowances and Discounts)

	2013	2012
Third-party payors	**$ 4,040,300**	$ 3,708,644
Self-pay	**428,168**	397,027
Total all payors	**$ 4,468,468**	$ 4,105,671

1. Organization and Summary of Significant Accounting Policies (continued)

Inventories

Inventories, consisting primarily of medical supplies and pharmaceuticals, are stated at the lower of cost (first-in, first-out) or market value.

Reinsurance Receivables

Reinsurance receivables are recognized in a manner consistent with the liabilities relating to the underlying reinsured contracts.

Deferred Costs

Deferred costs consist primarily of noncurrent deferred tax assets and deferred bond issuance costs. Deferred bond issuance costs are amortized over the life of the bonds using the effective interest method.

Asset Impairment

The System considers whether indicators of impairment are present and performs the necessary tests to determine if the carrying value of an asset is appropriate. Impairment write-downs, except for those related to investments, are recognized in operating income at the time the impairment is identified.

Property and Equipment

Provisions for depreciation of property and equipment are based on the estimated useful lives of the assets ranging from 3 to 80 years using the straight-line method.

Asset Retirement Obligations

The System recognizes its legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development, or normal operations of long-lived assets when these obligations are incurred. The obligations are recorded as a noncurrent liability and are accreted to present value at the end of each period. When the obligation is incurred, an amount equal to the present value of the liability is added to the cost of the related asset and is

1. Organization and Summary of Significant Accounting Policies (continued)

depreciated over the life of the related asset. The obligations at December 31, 2013 and 2012, were $19,197 and $19,249, respectively.

Derivative Financial Instruments

The System has entered into derivative transactions to manage its interest rate risk. Derivative instruments are recorded as either assets or liabilities at fair value. Subsequent changes in a derivative's fair value are recognized in nonoperating income (loss).

General and Professional Liability Risks

The provision for self-insured general and professional liability claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those assets whose use by the System has been limited by donors to a specific time period or purpose. Permanently restricted net assets consist of gifts with corpus values that have been restricted by donors to be maintained in perpetuity. Temporarily restricted net assets and earnings on permanently restricted net assets are used in accordance with the donor's wishes primarily to purchase property and equipment or to fund medical education or other health care programs.

Assets released from restriction to fund purchases of property and equipment are reported in the consolidated statements of operations and changes in net assets as increases to unrestricted net assets. Those assets released from restriction for operating purposes are reported in the consolidated statements of operations and changes in net assets as other revenue. When restricted, earnings are recorded as temporarily restricted net assets until amounts are expended in accordance with the donor's specifications.

Capitation Revenue

The System has agreements with various managed care organizations under which the System provides or arranges for medical care to members of the organizations in return for a monthly payment per member. Revenue is earned each month as a result of agreeing to provide or arrange for their medical care.

1. Organization and Summary of Significant Accounting Policies (continued)

Other Nonoperating Items, Net

Other nonoperating items, net primarily consist of provisions for environmental remediation, contributions to charitable organizations, valuation adjustments for investments on the equity method of accounting, and income taxes.

Revenues in Excess of Expenses and Changes in Net Assets

The consolidated statements of operations and changes in net assets include revenues in excess of expenses as the performance indicator. Changes in unrestricted net assets, which are excluded from revenues in excess of expenses, primarily include contributions of long-lived assets (including assets acquired using contributions, which by donor restriction were to be used for the purposes of acquiring such assets) and postretirement benefit adjustments.

Grants

Grant revenue is recognized in the period it is earned based on when the applicable project expenses are incurred and project milestones are achieved. Grant payments received in advance of related project expenses are recorded as deferred revenue until the expenditure has been incurred. The System records grant revenue in other revenue in the consolidated statements of operations and changes in net assets.

Under certain provisions of the American Recovery and Reinvestment Act of 2009, federal incentive payments are available to hospitals, physicians, and certain other professionals when they adopt certified electronic health record (EHR) technology or become “meaningful users” of EHRs in ways that demonstrate improved quality, safety, and effectiveness of care. These incentive payments are being accounted for in the same manner as grant revenue.

New Accounting Pronouncement

In December 2011, the Financial Accounting Standards Board issued guidance that enhances disclosures about financial and derivative instruments that are either offset on the consolidated balance sheet or subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset on the consolidated balance sheet. Adoption of this new guidance on January 1, 2013, did not have a material effect on the System’s consolidated financial statements.

1. Organization and Summary of Significant Accounting Policies (continued)

Reclassifications in the Consolidated Financial Statements

Certain reclassifications were made to the 2012 consolidated financial statements to conform to the classifications used in 2013. There was no impact on previously reported 2012 net assets or revenues in excess of expenses.

2. Contractual Arrangements With Third-Party Payors

The System provides care to certain patients under payment arrangements with Medicare, Medicaid, Health Care Service Corporation, d/b/a Blue Cross and Blue Shield of Illinois (Blue Cross), and various other health maintenance and preferred provider organizations. Services provided under these arrangements are paid at predetermined rates and/or reimbursable costs, as defined. Reported costs and/or services provided under certain of the arrangements are subject to audit by the administering agencies. Changes in Medicare and Medicaid programs and reduction of funding levels could have a material adverse effect on the future amounts recognized as patient service revenue.

Amounts earned from the above payment arrangements accounted for 94% and 92% of the System's net patient service revenue in 2013 and 2012, respectively. For the years ended December 31, 2013 and 2012, the System earned 30% of net patient service revenue from Blue Cross; 11% and 10%, respectively, from the Medicaid program; and 25% and 26%, respectively, from the Medicare program. Provision has been made in the consolidated financial statements for contractual adjustments, representing the difference between the established charges for services and actual or estimated payment. The extreme complexity of laws and regulations governing the Medicare and Medicaid programs renders at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Changes in the estimates that relate to prior years' third-party payment arrangements resulted in increases in net patient service revenue of $20,899 and $1,510 for the years ended December 31, 2013 and 2012, respectively.

Also, in 2013 the Centers for Medicare and Medicaid Services approved the enhanced Medicaid assessment system retroactive to June 10, 2012. In 2013 the System recognized $26,601 in net patient service revenue and $15,871 in other operating expenses for the first 18 months covered by this system.

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

In connection with the State of Illinois' Hospital Assessment Program, including the enhanced Medicaid assessment system, the System recognized $224,082 and $145,198 of net patient service revenue and $154,873 and $106,219 of program assessment expense in other expense in 2013 and 2012, respectively.

In 2012, as part of the Medicare Rural Floor Budget Neutrality Act settlement, the System recognized $29,302 in net patient service revenue and $2,930 in operating expenses as part of purchased services and operating supplies. The System's concentration of credit risk related to accounts receivable is limited due to the diversity of patients and payors. The System grants credit, without collateral, to its patients, most of whom are local residents and insured under third-party payor arrangements. The System has established guidelines for placing patient balances with collection agencies, subject to terms of certain restrictions on collection efforts as determined by the System. Amounts due to/from primary third-party payors in the consolidated balance sheets primarily relate to the Blue Cross, Medicare, or Medicaid programs. At December 31, 2013 and 2012, 16% and 17%, respectively, of net patient accounts receivable were due under contracts with Blue Cross and 14% were due from the Medicaid program. Net patient accounts receivable due from the Medicare program were 11% and 10% at December 31, 2013 and 2012, respectively.

The System has entered into various capitated physician provider agreements, including Humana Health Plan, Inc. and Humana Insurance Company and their affiliates (collectively, Humana); Cigna-HealthSpring; and WellCare Health Plans, Inc. Capitation revenues received under the agreements with Humana amounted to 38% of the System's capitation revenue for the years ended December 31, 2013 and 2012. Capitation revenues received under Cigna-HealthSpring and WellCare Health Plans, Inc. agreements amounted to 26% of the System's capitation revenue for the years ended December 31, 2013 and 2012.

Provision has been made in the consolidated financial statements for the estimated cost of providing certain medical services under the aforementioned capitated arrangements. The System accrues a liability for reported, as well as an estimate for incurred but not recorded (IBNR), contracted medical services. The liability represents the expected ultimate cost of all reported and unreported claims unpaid at year-end. The System uses the services of a consulting actuary to determine the estimated cost of the IBNR claims. Adjustments to the estimates are

(Dollars in Thousands)

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

reflected in current year operations. At December 31, 2013 and 2012, the liabilities for unpaid medical claims amounted to $21,107 and $20,621, respectively, and are included in accrued expenses in the consolidated balance sheets.

3. Cash and Cash Equivalents and Investments (Including Assets Limited as to Use)

Investments (including assets limited as to use) and other financial instruments at December 31 are summarized as follows:

	2013	2012
Assets limited as to use:		
Designated for self-insurance programs	**$ 807,145**	$ 839,810
Internally and externally designated for capital improvements, medical education, and health care programs	**3,836,378**	3,243,800
Externally designated under debt agreements	**161,656**	217,614
Investments under securities lending program	**19,013**	21,014
	4,824,192	4,322,238
Other financial instruments:		
Cash and cash equivalents and short-term investments	**582,630**	419,473
	$ 5,406,822	$ 4,741,711

The composition and carrying value of assets limited as to use, short-term investments, and cash and cash equivalents at December 31 are set forth in the following table:

	2013	2012
Cash and short-term investments	**$ 956,883**	$ 648,201
Corporate bonds and other debt securities	**326,163**	426,203
United States government obligations	**199,689**	151,743
Government mutual funds	**502,072**	643,506
Bond and other debt security mutual funds	**479,855**	513,124
Commodity mutual funds	**4,631**	4,666
Hedge funds	**895,222**	695,862
Private equity limited partnership funds	**336,536**	289,820
Equity securities	**1,083,000**	1,028,242
Equity mutual funds	**605,553**	340,344
Guaranteed investment contract	**17,218**	–
	$ 5,406,822	$ 4,741,711

(Dollars in Thousands)

3. Cash and Cash Equivalents and Investments (Including Assets Limited as to Use) (continued)

The System regularly compares the net asset value (NAV), which is a proxy for the fair value of its private equity investments, to the recorded cost for potential other-than-temporary impairment. The NAV of these investments based on estimates determined by the investments' management was $378,429 and $310,837 at December 31, 2013 and 2012, respectively. In 2013 and 2012, the System identified and recorded $5,381 and $6,100, respectively, of impairment losses that are included in investment income in the consolidated statements of operations and changes in net assets.

At December 31, 2013 and 2012, the System has commitments to fund private equity investments an additional $364,934 and $442,301, respectively. The unfunded commitments at December 31, 2013, are expected to be funded over the next seven years.

Investment returns for assets limited as to use, cash and cash equivalents, and short-term investments comprise the following for the years ended December 31:

	2013	2012
Interest and dividend income	**$ 151,877**	$ 160,350
Net realized gains	**121,330**	93,763
Net unrealized gains	**69,520**	184,525
	$ 342,727	$ 438,638

Investment returns are included in the consolidated statements of operations and changes in net assets for the years ended December 31 as follows:

	2013	2012
Other revenue	**$ 48,273**	$ 49,005
Investment income	**287,727**	380,749
Realized and unrealized gains on investments – temporarily restricted net assets	**6,727**	8,884
	$ 342,727	$ 438,638

3. Cash and Cash Equivalents and Investments (Including Assets Limited as to Use) (continued)

As part of the management of the investment portfolio, the System has entered into an arrangement whereby securities owned by the System are loaned primarily to brokers and investment banks. The loans are arranged through a bank. Borrowers are required to post collateral in the form of highly rated government securities for securities borrowed equal to approximately 102% and 100% in 2013 and 2012, respectively, of the value of the security on a daily basis at a minimum. The bank is responsible for reviewing the creditworthiness of the borrowers. The System has also entered into an arrangement whereby the bank is responsible for the risk of borrower bankruptcy and default. At December 31, 2013 and 2012, the System loaned $19,013 and $21,014, respectively, in securities and accepted collateral for these loans in the amount of $19,440 and $21,069, respectively, of which $19,165 and $20,794, respectively, represent cash collateral and are included in current liabilities and current assets, respectively, in the accompanying consolidated balance sheets.

4. Fair Value Measurements

The System accounts for certain assets and liabilities at fair value. The hierarchy below lists three levels of fair value based on the extent to which inputs used in measuring fair value are observable in active markets. The System categorizes each of its fair value measurements in one of the three levels based on the highest level of input that is significant to the fair value measurement in its entirety. These levels are:

Level 1: Quoted prices in active markets for identified assets or liabilities.

Level 2: Inputs, other than quoted prices in active markets, that are observable either directly or indirectly.

Level 3: Unobservable inputs in which there is little or no market data, which then requires the reporting entity to develop its own assumptions about what market participants would use in pricing the asset or liability.

4. Fair Value Measurements (continued)

The following section describes the valuation methodologies the System uses to measure financial assets and liabilities at fair value. In general, where applicable, the System uses quoted prices in active markets for identical assets and liabilities to determine fair value. This pricing methodology applies to Level 1 investments such as domestic and international equities, United States Treasuries, exchange-traded mutual funds, and agency securities. If quoted prices in active markets for identical assets and liabilities are not available to determine fair value, then quoted prices for similar assets and liabilities or inputs other than quoted prices that are observable either directly or indirectly are used. These investments are included in Level 2 and consist primarily of corporate notes and bonds, foreign government bonds, mortgage-backed securities, commercial paper, and certain agency securities. The fair value for the obligations under swap agreements included in Level 2 is estimated using industry standard valuation models. These models project future cash flows and discount the future amounts to a present value using market-based observable inputs, including interest rate curves. The fair values of the obligation under swap agreements include fair value adjustments related to the System's credit risk.

The guaranteed investment contract (GIC) is included as a Level 2 investment. As described in Note 6, the Sherman Series 2007A Bonds require a debt service reserve fund that is invested in a GIC. This investment represents a privately negotiated agreement between Sherman and various banks. Although the investment is not traded on any market and is nontransferable for the duration of the bonds, the underlying assets are traded in active markets.

The System's investments are exposed to various kinds and levels of risk. Equity securities and equity mutual funds expose the System to market risk, performance risk, and liquidity risk for both domestic and international investments. Market risk is the risk associated with major movements of the equity markets. Performance risk is the risk associated with a company's operating performance. Fixed income securities and fixed income mutual funds expose the System to interest rate risk, credit risk, and liquidity risk. As interest rates change, the value of many fixed income securities is affected, including those with fixed interest rates. Credit risk is the risk that the obligor of the security will not fulfill its obligations. Liquidity risk is affected by the willingness of market participants to buy and sell particular securities. Liquidity risk tends to be higher for equities related to small capitalization companies and certain alternative investments. Due to the volatility in the capital markets, there is a reasonable possibility of subsequent changes in fair value resulting in additional gains and losses in the near term.

(Dollars in Thousands)

4. Fair Value Measurements (continued)

The following are assets and liabilities measured at fair value on a recurring basis at December 31, 2013:

		Fair Value Measurements at Reporting Date Using		
Description	**2013**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets				
Cash and short-term investments	$ 956,883	$ 952,558	$ 4,325	$ –
Corporate bonds and other debt securities	326,163	–	326,163	–
United States government obligations	199,689	–	199,689	–
Government mutual funds	502,072	410,712	91,360	–
Bond and other debt security mutual funds	479,855	290,815	189,040	–
Commodity mutual funds	4,631	–	4,631	–
Equity securities	1,083,000	1,083,000	–	–
Equity mutual funds	605,553	463,931	141,622	–
Guaranteed investment contract	17,218	–	17,218	–
Investments at fair value	4,175,064	$ 3,201,016	$ 974,048	$ –
Investments not at fair value	1,231,758			
Total investments	$ 5,406,822			
Collateral proceeds received under securities lending program	$ 19,165		$ 19,165	
Liabilities				
Obligations under swap agreements	$ (47,908)		$ (47,908)	
Net liability under swap agreements	$ (47,908)		$ (47,908)	
Obligations to return collateral under securities lending program	$ (19,440)		$ (19,440)	

(Dollars in Thousands)

4. Fair Value Measurements (continued)

The following are assets and liabilities measured at fair value on a recurring basis at December 31, 2012:

		Fair Value Measurements at Reporting Date Using		
Description	**2012**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets				
Cash and short-term investments	$ 648,201	$ 646,169	$ 2,032	$ –
Corporate bonds and other debt securities	426,203	–	426,203	–
United States government obligations	151,743	–	151,743	–
Government mutual funds	643,506	535,188	108,318	–
Bond and other debt security mutual funds	513,124	289,388	223,736	–
Commodity mutual funds	4,666	–	4,666	–
Equity securities	1,028,242	1,028,242	–	–
Equity mutual funds	340,344	248,234	92,110	–
Investments at fair value	3,756,029	$ 2,747,221	$ 1,008,808	$ –
Investments not at fair value	985,682			
Total investments	$ 4,741,711			
Collateral proceeds received under securities lending program	$ 20,794		$ 20,794	
Liabilities				
Obligations under swap agreements	$ (89,144)		$ (89,144)	
Collateral under swap agreements	4,330		4,330	
Net liability under swap agreements	$ (84,814)		$ (84,814)	
Obligations to return collateral under securities lending program	$ (21,069)		$ (21,069)	

4. Fair Value Measurements (continued)

The carrying values of cash and cash equivalents, accounts receivable and payable, accrued expenses, and short-term borrowings are reasonable estimates of their fair values due to the short-term nature of these financial instruments.

Investments not at fair value include hedge funds and private equity limited partnerships (alternative investments). The fair values of the alternative investments that do not have readily determinable fair values are determined by the general partner or fund manager taking into consideration, among other things, the cost of the securities or other investments, prices of recent significant transfers of like assets, and subsequent developments concerning the companies or other assets to which the alternative investments relate. Based on the inputs in determining the estimated fair value of these investments, these assets would be considered Level 3.

The valuation for the estimated fair value of long-term debt is completed by a third-party service and takes into account a number of factors including, but not limited to, any one or more of the following: (i) general interest rate and market conditions; (ii) macroeconomic and/or deal-specific credit fundamentals; (iii) valuations of other financial instruments that may be comparable in terms of rating, structure, maturity, and/or covenant protection; (iv) investor opinions about the respective deal parties; (v) size of the transaction; (vi) cash flow projections, which in turn are based on assumptions about certain parameters that include, but are not limited to, default, recovery, prepayment, and reinvestment rates; (vii) administrator reports, asset manager estimates, broker quotations, and/or trustee reports, and (viii) comparable trades, where observable. Based on the inputs in determining the estimated fair value of debt, this liability would be considered Level 2. The estimated fair value of long-term debt based on quoted market prices for the same or similar issues was $1,573,401 and $1,385,228 at December 31, 2013 and 2012, respectively, which included consideration of third-party credit enhancements, of which there was no effect.

(Dollars in Thousands)

5. Interest in Health Care and Related Entities

During 2000, in connection with the acquisition of a medical center, the System acquired an interest in the net assets of the Masonic Family Health Foundation (the Foundation), an independent organization, under the terms of an asset purchase agreement (the Agreement). The use of substantially all of the Foundation's net assets is designated to support the operations and/or capital needs of one of the System's medical facilities. Additionally, 90% of the Foundation's investment yield, net of expenses, on substantially all of the Foundation's investments is designated for the support of one of the System's medical facilities. The Foundation must pay the System, annually, 90% of the investment yield or an agreed-upon percentage of the beginning of the year net assets.

The interest in the net assets of this organization amounted to $91,400 and $82,700 as of December 31, 2013 and 2012, respectively, which is reflected in interest in health care and related entities in the consolidated balance sheets. The System's interest in the investment yield is reflected in the consolidated statements of operations and changes in net assets and amounted to $13,348 and $8,959 for the years ended December 31, 2013 and 2012, respectively. Cash distributions received by the System from the Foundation under terms of the Agreement amounted to $4,531 and $3,998 during the years ended December 31, 2013 and 2012, respectively. In addition to the amounts distributed under the Agreement, the Foundation contributed $931 and $445 to the System for program support of one of its medical facilities during the years ended December 31, 2013 and 2012, respectively.

The System has a 50% membership and governance interest in Advocate Health Partners (d/b/a Advocate Physician Partners) (APP), which has been accounted for on an equity basis. The System's carrying value in this interest was $0 at December 31, 2013 and 2012. Financial information relating to this interest as of and for the years ended December 31, 2013 and 2012, is as follows:

	2013	2012
Assets	**$ 144,491**	$ 162,604
Liabilities	**145,085**	158,888
Revenues in excess of expenses	**–**	–

5. Interest in Health Care and Related Entities (continued)

The System contracts with APP for certain operational and administrative services. Total expenses incurred for these services were $25,291 and $22,271 in 2013 and 2012, respectively, which is included in purchased services and operating supplies and other in the consolidated statements of operations and changes in net assets. At December 31, 2013 and 2012, the System had an accrued liability to APP for those services for $1,226 and $1,703, respectively, which is included in accrued expenses in the consolidated balance sheets.

APP purchased claims processing and certain management services from the System in the amounts of $8,810 and $7,773 in 2013 and 2012, respectively, which is included in other revenue in the consolidated statements of operations and changes in net assets. Under terms of an agreement with the System, APP reimburses the System for salaries, benefits, and other expenses that are incurred by the System on APP's behalf. The amount billed for these services in 2013 and 2012 was $23,018 and $20,775, respectively, which is included in other revenue in the consolidated statements of operations and changes in net assets. The System had a receivable from APP at December 31, 2013 and 2012, for claims processing and management services of $5,155 and $4,557, respectively, which is included in prepaid expenses, inventories, and other current assets in the consolidated balance sheets.

(Dollars in Thousands)

6. Long-Term Debt

Long-term debt, net of unamortized original issue discount or premium, consisted of the following at December 31:

	2013	2012
Revenue bonds and revenue refunding bonds, Illinois Finance Authority Series:		
1993C, 6.00% to 7.00%, principal payable in varying annual installments through April 2018	**$ 19,857**	$ 22,298
2003A (weighted-average rate of 4.38% during 2013 and 2012), principal payable in varying annual installments through November 2022; interest based on prevailing market conditions at time of remarketing	**21,930**	24,130
2003C (weighted-average rate of 0.22% and 0.30% during 2013 and 2012, respectively), principal payable in varying annual installments through November 2022; interest based on prevailing market conditions at time of remarketing	**21,225**	23,430
2007A Sherman, 5.50%, principal payable in varying annual installments through August 2037	**176,970**	–
2008A (weighted-average rate of 4.76% and 2.03% during 2013 and 2012, respectively), principal payable in varying annual installments through November 2030; interest based on prevailing market conditions at time of remarketing	**141,306**	144,712
2008C (weighted-average rate of 0.37% and 0.45% during 2013 and 2012, respectively), principal payable in varying annual installments through November 2038; interest based on prevailing market conditions at time of remarketing	**343,270**	343,270
2008D, 5.00% to 6.50%, principal payable in varying annual installments through November 2038	**156,125**	160,107
2010A, 5.50%, principal payable in varying annual installments through April 2044	**37,277**	37,287
2010B, 5.38%, principal payable in varying annual installments through April 2044	**52,192**	52,186
2010C, 5.38%, principal payable in varying annual installments through April 2044	**25,536**	25,533

(Dollars in Thousands)

6. Long-Term Debt (continued)

	2013	2012
Revenue bonds and revenue refunding bonds, Illinois Finance Authority Series (continued):		
2010D, 4.00% to 5.25%, principal payable in varying annual installments through April 2038	**$ 110,289**	$ 116,464
2011A, 3.00% to 5.00%, principal payable in varying annual installments through April 2041	**38,511**	41,366
2011B (weighted-average rate of 0.21% and 0.28% during 2013 and 2012, respectively), principal payable in varying annual installments through April 2051, subject to a put provision that provides for a cumulative seven-month notice and remarketing period; interest tied to a market index plus a spread	**70,000**	70,000
2011C (weighted-average rate of 0.83% and 0.87% during 2013 and 2012, respectively), principal payable in varying annual installments through April 2049, subject to a put provision at the end of the initial seven-year period; interest tied to a market index plus a spread	**50,000**	50,000
2011D (weighted-average rate of 0.93% and 0.97% during 2013 and 2012, respectively), principal payable in varying annual installments through April 2049, subject to a put provision at the end of the initial 10-year period; interest tied to a market index plus a spread	**50,000**	50,000
2012, 4.00% to 5.00%, principal payable in varying annual installments through June 2047	**149,852**	149,991
2013A, 3.00% to 5.00%, principal payable in varying annual installments through June 2031	**102,946**	–
Capital lease obligations	**30,711**	31,113
Other	**7,052**	7,469
	1,605,049	1,349,356
Less current portion of long-term debt	**17,810**	19,103
Less long-term debt subject to short-term remarketing arrangements	**135,130**	187,795
	$ 1,452,109	$ 1,142,458

Maturities of long-term debt, capital leases, and sinking fund requirements, assuming remarketing of the variable rate demand revenue refunding bonds, for the five years ending December 31, 2018, are as follows: 2014 – $17,810; 2015 – $20,074; 2016 – $19,722; 2017 – $20,933; and 2018 – $23,082.

The System's unsecured variable rate revenue bonds, Series 2003A of $21,930, Series 2003C of $21,225, Series 2008C-3B of $21,975, and Series 2011B of $70,000, while subject to a long-term amortization period, may be put to the System at the option of the bondholders in

6. Long-Term Debt (continued)

connection with certain remarketing dates. To the extent that bondholders may, under the terms of the debt, put their bonds within a maximum of 12 months after December 31, 2013, the principal amount of such bonds has been classified as a current obligation in the accompanying consolidated balance sheets. Management believes the likelihood of a material amount of bonds being put to the System is remote. However, to address this possibility, the System has taken steps to provide various sources of liquidity, including assessing alternate sources of financing, including lines of credit and/or unrestricted assets as a source of self-liquidity.

The System has standby bond purchase agreement with banks to provide liquidity support for the Series 2008C Bonds. In the event of a failed remarketing of a Series 2008C Bond upon its tender by an existing holder and subject to compliance with the terms of the standby bond purchase agreement, the standby bank would provide the funds for the purchase of such tendered bonds, and the System would be obligated to repay the bank for the funds it provided for such bond purchase (if such bond is not subsequently remarketed), with the first installment of such repayment commencing on the date one year and one day after the bank purchases the bond. As of December 31, 2013 and 2012, there were no bank purchased bonds outstanding. The agreements expire in August 2015, August 2016, and August 2017.

All System outstanding bonds are secured by obligations issued under the Amended and Restated Master Trust Indenture dated as of September 1, 2011, with Advocate Health Care Network, Advocate Health and Hospitals Corporation, Advocate Condell, and Advocate North Side (the Obligated Group or Restricted Affiliates) and U.S. Bank National Association, as master trustee (the System Master Indenture). Under the terms of the bond indentures and other arrangements, various amounts are to be on deposit with trustees, and certain specified payments are required for bond redemption and interest payments. The System Master Indenture and other debt agreements, including a bank credit agreement, also place restrictions on the System and require the System to maintain certain financial ratios.

On August 8, 2013, the Illinois Finance Authority, for the benefit of the System, issued its Revenue Bonds, Series 2013A, in the amount of $96,905. The proceeds of the Series 2013A Bonds were used, together with other funds available to the System, to finance, refinance, or reimburse the System for a portion of the costs related to the acquisition, construction, renovation, and equipping of certain capital projects and to pay certain costs of issuing the Series 2013A Bonds.

6. Long-Term Debt (continued)

On November 29, 2012, the Illinois Finance Authority, for the benefit of the System, issued its Revenue Bonds, Series 2012, in the amount of $145,620. The proceeds of the Series 2012 Bonds were used, together with other funds available to the System, to finance, refinance, or reimburse the System for a portion of the costs related to the acquisition, construction, renovation, and equipping of certain capital projects and to pay certain costs of issuing the Series 2012 Bonds.

In 2013, the Series 2008A-1 Bonds and Series 2008A-2 Bonds, which currently bear interest at a fixed interest rate set for a specified period, were remarketed at a premium for an approximate seven-year period, and a portion of the outstanding par was redeemed in the amount of $9,095 and $7,735, respectively.

The System maintains an interest rate swap program on certain of its variable rate debt as described in Note 7.

Neither Sherman, Sherman West Court, nor any other of the subsidiaries of Sherman are members of the Obligated Group or Restricted Affiliates under the System Master Indenture. Sherman and Sherman West Court are the members of an obligated group (Sherman Obligated Group) created pursuant to a master trust indenture dated as of August 1, 1991, as supplemented and amended (Sherman Master Indenture) with The Bank of New York Mellon Trust Company, N.A., as master trustee. As part of the affiliation with the System on June 1, 2013, the System did not assume the liability for or otherwise guarantee any bonds (Sherman Bonds) previously issued for the benefit of the Sherman Obligated Group.

On July 5, 2013, Sherman retired $105,700 of the Sherman Bonds (Series 1997 bonds) with proceeds of an intercompany loan from the System. Sherman remains obligated for the repayment of $170,000 Illinois Finance Authority Revenue Bonds, Series 2007A issued for its benefit and evidenced by and secured as provided under the Sherman Master Indenture.

The Sherman Series 2007A Bonds are secured by a direct note obligation issued by Sherman under the Sherman Master Indenture, a mortgage and security agreement on certain of Sherman's real and personal property, as well as a security interest in unrestricted receivables of Sherman. The related bond indenture requires a debt service reserve fund, which is held by the bond trustee for the benefit of the Sherman Series 2007A Bonds. The debt service reserve fund had a balance of $17,218 at December 31, 2013, and is presented as assets limited as to use on the consolidated balance sheet.

6. Long-Term Debt (continued)

Interest paid, net of capitalized interest, amounted to $56,038 and $42,726 in 2013 and 2012, respectively. The System capitalized interest of $5,065 and $2,621 in 2013 and 2012, respectively.

At December 31, 2013, the System had lines of credit with banks aggregating to $200,000. These lines of credit provide for various interest rates and payment terms and expire as follows: $25,000 in February 2014, $50,000 in December 2014, $75,000 in March 2015, and $50,000 in November 2016. These lines of credit may be used to redeem bonded indebtedness, to pay costs related to such redemptions, for capital expenditures, or for general working capital purposes. At December 31, 2013, no amounts were outstanding on these lines of credit.

In February 2014, a $25,000 line of credit was extended to February 2015.

7. Derivatives

The System has interest rate-related derivative instruments to manage exposure of its variable rate debt instruments and does not enter into derivative instruments for any purpose other than risk management purposes. By using derivative financial instruments to manage the risk of changes in interest rates, the System 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 System, which creates credit risk for the System. When the fair value of a derivative contract is negative, the System owes the counterparty, and therefore, it does not possess credit risk. The System minimizes the credit risk in derivative instruments by entering into transactions that require the counterparty to post collateral for the benefit of the System based on the credit rating of the counterparty and the fair value of the derivative contract. Market risk is the adverse effect on the value of a 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. The System also mitigates risk through periodic reviews of its derivative positions in the context of its total blended cost of capital.

(Dollars in Thousands)

7. Derivatives (continued)

At December 31, 2013, the System maintains an interest rate swap program on its Series 2008C variable rate demand revenue bonds. These bonds expose the System to variability in interest payments due to changes in interest rates. The System believes that it is prudent to limit the variability of its interest payments. To meet this objective and to take advantage of low interest rates, the System entered into various interest rate swap agreements to manage fluctuations in cash flows resulting from interest rate risk. These swaps convert the variable rate cash flow exposure on the variable rate demand revenue bonds to synthetically fixed cash flows. The notional amount under each interest rate swap agreement is reduced over the term of the respective agreement to correspond with reductions in the principal outstanding under various bond series. The following is a summary of the outstanding positions under these interest rate swap agreements at December 31, 2013 and 2012:

Bond Series	Notional Amount	Maturity Date	Rate Received	Rate Paid
2008C-1	$ 129,900	November 1, 2038	61.7% of LIBOR + 26 bps	3.60%
2008C-2	108,425	November 1, 2038	61.7% of LIBOR + 26 bps	3.60
2008C-3	88,000	November 1, 2038	61.7% of LIBOR + 26 bps	3.60

The swaps are not designated as hedging instruments, and therefore, hedge accounting has not been applied. As such, unrealized changes in fair value of the swaps are included as a component of nonoperating income (loss) in the consolidated statements of operations and changes in net assets as changes in the fair value of interest rate swaps. The net cash settlement payments, representing the realized changes in fair value of the swaps, are included as interest expense in the consolidated statements of operations and changes in net assets.

(Dollars in Thousands)

7. Derivatives (continued)

The fair value of derivative instruments is as follows:

	December 31	
	2013	**2012**
Consolidated balance sheet location		
Obligations under swap agreements	**$ (47,908)**	$ (89,144)
Collateral posted under swap agreements	**–**	4,330
Obligations under swap agreements, net	**$ (47,908)**	$ (84,814)

Amounts recorded in the consolidated statements of operations and changes in net assets for the derivatives are as follows:

	Year Ended December 31	
	2013	**2012**
Consolidated statement of operations and changes in net assets location		
Net cash payments on interest rate swap agreements (interest expense)	**$ 10,518**	$ 10,359
Change in the fair value of interest rate swaps (nonoperating)	**$ 41,236**	$ (52)

The aggregate fair value of all swap instruments with credit risk-related contingent features that are in a liability position was $47,908 and $89,144 at December 31, 2013 and 2012, respectively, for which the System has posted collateral of $0 and $4,330 at December 31, 2013 and 2012, respectively. The swap instruments contain provisions that require the System’s debt to maintain an investment grade credit rating from certain major credit rating agencies. If the System’s debt were to fall below investment grade on the valuation date, it would be in violation of these provisions and the counterparty to the derivative instruments could request immediate payment or demand immediate and ongoing full overnight collateralization on derivative instruments in net liability positions. If the credit risk-related contingent features underlying these swap agreements were triggered on December 31, 2013, the System would be required to post $47,908 in collateral with the counterparties.

(Dollars in Thousands)

8. Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at December 31:

	2013	2012
Net assets currently available for:		
Purchases of property and equipment	**$ 10,617**	$ 6,120
Medical education and other health care programs	**70,757**	67,111
Net assets available for future periods:		
Purchases of property and equipment	**17,598**	5,723
Medical education and other health care programs	**12,363**	11,397
	$ 111,335	$ 90,351

Permanently restricted net assets generate investment income, which is used to benefit the following purposes at December 31:

	2013	2012
Net assets currently producing investment income:		
Purchases of property and equipment	**$ 1,000**	$ 1,000
Medical education and other health care programs	**36,558**	35,166
Net assets available to produce investment income in future periods:		
Medical education and other health care programs	**10,008**	9,248
	$ 47,566	$ 45,414

(Dollars in Thousands)

9. Retirement Plans

The System maintains defined benefit pension plans, the Advocate Health Care Network Pension Plan and Condell Health Network Retirement Plan (the Plans), which cover a majority of its employees (associates). The Condell Health Network Retirement Plan was frozen effective January 1, 2008, to new participants, and participants ceased to accrue additional pension benefits. The System may elect to terminate the Condell Health Network Retirement Plan in the future subject to the provisions set forth in Employee Retirement Income Security Act of 1974.

A summary of changes in the plan assets, projected benefit obligation, and the resulting funded status of the Advocate Health Care Network Pension Plan is as follows:

	2013	2012
Change in plan assets:		
Plan assets at fair value at beginning of year	**$ 727,394**	$ 609,722
Actual return on plan assets	**77,242**	84,756
Employer contributions	**31,680**	63,550
Benefits paid	**(35,847)**	(30,634)
Plan assets at fair value at end of year	**$ 800,469**	$ 727,394
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	**$ 761,361**	$ 687,118
Service cost	**43,989**	38,541
Interest cost	**30,183**	33,401
Actuarial (loss) gain	**(24,999)**	32,935
Benefits paid	**(35,847)**	(30,634)
Projected benefit obligation at end of year	**$ 774,688**	$ 761,361
Plan assets greater (less) than projected benefit obligation	**$ 25,781**	$ (33,967)
Accumulated benefit obligation at end of year	**$ 702,689**	$ 685,791

(Dollars in Thousands)

9. Retirement Plans (continued)

A summary of changes in the plan assets, projected benefit obligation, and the resulting funded status of the Condell Health Network Retirement Plan is as follows:

	2013	2012
Change in plan assets:		
Plan assets at fair value at beginning of year	**$ 40,720**	$ 43,796
Actual return on plan assets	**3,909**	5,383
Employer contributions	**270**	5,465
Benefits paid	**(5,231)**	(13,924)
Plan assets at fair value at end of year	**$ 39,668**	$ 40,720
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	**$ 73,469**	$ 74,772
Interest cost	**2,726**	3,417
Actuarial (loss) gain	**(7,559)**	9,203
Benefits paid	**(5,231)**	(13,923)
Projected benefit obligation at end of year	**$ 63,405**	$ 73,469
Plan assets less than projected benefit obligation	**$ (23,737)**	$ (32,749)
Accumulated benefit obligation at end of year	**$ 63,405**	$ 73,469

(Dollars in Thousands)

9. Retirement Plans (continued)

The Condell Health Network Retirement Plan paid lump sums totaling $3,864 and $12,421 in 2013 and 2012, respectively. These amounts are greater than the sum of the plan's service cost and interest cost for 2013 and 2012. As a result, the System recognized a settlement charge in the amount of $771 and $4,101 in 2013 and 2012, respectively.

	2013	2012
Net Plans' pension expense consists of the following for the years ended December 31:		
Service cost	**$ 43,989**	$ 38,541
Interest cost	**32,909**	36,818
Expected return on plan assets	**(55,734)**	(54,706)
Amortization of:		
Prior service credit	**(4,823)**	(4,823)
Recognized actuarial loss	**17,412**	12,496
Settlement/curtailment	**771**	4,101
Net Plans' pension expense	**$ 34,524**	$ 32,427

The amount of actuarial loss and prior service cost (credit) included in other changes in unrestricted net assets expected to be recognized in net periodic pension cost during the fiscal year ending December 31, 2014, is $10,284 and $4,823, respectively.

For the defined benefit plans previously described, changes in plans assets and benefit obligations recognized in unrestricted net assets during 2013 and 2012 include an actuarial loss of $76,159 and $9,891, respectively, and net prior service credit of $4,823 in both years.

Included in unrestricted net assets at December 31 are the following amounts that have not yet been recognized in net pension expense:

	2013	2012
Unrecognized prior credit	**$ (23,417)**	$ (28,240)
Unrecognized actuarial loss	**161,366**	237,525
	$ 137,949	$ 209,285

(Dollars in Thousands)

9. Retirement Plans (continued)

Employer contributions were paid from employer assets. No plan assets are expected to be returned to the employer. All benefits paid under the Plans were paid from the Plans' assets. The System anticipates making $18,650 in contributions to the Plans' assets during 2014. Expected associate benefit payments are 2014 – $50,330; 2015 – $53,920; 2016 – $60,910; 2017 – $62,440; 2018 – $67,770; and 2019 through 2023 – $378,900.

The Plans' asset allocation and investment strategies are designed to earn returns on plan assets consistent with a reasonable and prudent level of risk. Investments are diversified across classes, economic sectors, and manager style to minimize the risk of loss. The System uses investment managers specializing in each asset category and, where appropriate, provides the investment manager with specific guidelines that include allowable and/or prohibited investment types. The System regularly monitors manager performance and compliance with investment guidelines.

The System's target and actual pension asset allocations for the Advocate Health Care Network Pension Plan are as follows:

		Actual Asset Allocation	
Asset Category	**Target**	**2013**	**2012**
Domestic and international equity securities	**42.5%**	**47.5%**	44.6%
Private equity limited partnerships and hedge funds	**17.5**	**17.2**	16.5
Fixed income securities	**30.0**	**25.6**	29.3
Real estate	**10.0**	**8.7**	8.5
Cash and cash equivalents	**–**	**1.0**	1.1
	100.0%	**100.0%**	100.0%

Within the domestic and international equity portfolio, investments are diversified among large and mid-capitalizations (15%), non-large capitalizations (2.5%), and international and emerging markets (25%).

9. Retirement Plans (continued)

Fair value methodologies for Level 1 and Level 2 are consistent with the inputs described in Note 4. Real estate commingled funds for which an active market exists are included in Level 2. Fair value for Level 3 represents the Plans' ownership interests in the NAVs of the respective private equity partnerships, hedge funds, and real estate commingled funds for which active markets do not exist. The System opted to use the NAV per share, or its equivalent, as a practical expedient for fair value of the Plans' interest in hedge funds and private equity funds. The alternative investment assets consist of marketable securities as well as securities and other assets that do not have readily determinable fair values. The fair values of the alternative investments that do not have readily determinable fair values are determined by the general partner or fund manager taking into consideration, among other things, the cost of the securities or other investments, prices of recent significant transfers of like assets, and subsequent developments concerning the companies or other assets to which the alternative investments relate. There is inherent uncertainty in such valuations, and the estimated fair values may differ from the values that would have been used had a ready market for these investments existed. Private equity partnerships and real estate commingled funds typically have finite lives ranging from 5 to 10 years, at the end of which all invested capital is returned. For hedge funds the typical lockup period is one year, after which invested capital can be redeemed on a quarterly basis with at least 30 days' but no more than 90 days' notice. The Plans' investment assets are exposed to the same kinds and levels of risk as described in Note 4.

At December 31, 2013 and 2012, the System, on behalf of the Plans, has commitments to fund private equity investments an additional $56,196 and $48,974, respectively. The unfunded commitments at December 31, 2013, are expected to be funded over the next seven years.

(Dollars in Thousands)

9. Retirement Plans (continued)

The following are the Plans' financial instruments at December 31, 2013, measured at fair value on a recurring basis by the valuation hierarchy defined in Note 4:

	Fair Value Measurements at Reporting Date Using			
Description	**Fair Value**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Cash and cash equivalents	$ 10,133	$ 8,119	$ 2,014	$ –
Equity securities:				
Small cap	2,442	–	2,442	–
Large cap	66,677	57,074	9,603	–
Value equity	43,439	43,261	178	–
Growth equity	58,214	58,214	–	–
U.S. equity	14,655	13,683	972	–
International equity	154,819	53,793	101,026	–
International equity – emerging	64,609	61,005	3,604	–
Fixed income securities:				
Core plus bonds	157,704	144,985	12,719	–
Long duration bonds	57,534	–	57,534	–
High-yield bonds	1,823	–	1,823	–
Emerging market bonds	990	–	990	–
Other types of investments:				
Hedge funds	69,639	–	–	69,639
Private equity funds	67,541	–	–	67,541
Real estate	69,918	–	52,405	17,513
Total	$ 840,137	$ 440,134	$ 245,310	$ 154,693

(Dollars in Thousands)

9. Retirement Plans (continued)

The table below sets forth a summary of changes in the fair value of the Plans' Level 3 assets for 2013:

	Hedge Funds	Private Equity	Real Estate
Fair value at January 1, 2013	**$ 50,201**	**$ 68,868**	**$ 17,207**
Net purchases and sales	**12,604**	**(9,558)**	**(8)**
Realized gains and losses	**–**	**6,213**	**891**
Unrealized gains and losses	**6,834**	**2,018**	**(577)**
Fair value at December 31, 2013	**$ 69,639**	**$ 67,541**	**$ 17,513**

The following are the Plans' financial instruments at December 31, 2012, measured at fair value on a recurring basis by the valuation hierarchy defined in Note 4:

	Fair Value Measurements at Reporting Date Using			
Description	**Fair Value**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Cash and cash equivalents	$ 13,053	$ 8,403	$ 4,650	$ –
Equity securities:				
Small cap	2,450	–	2,450	–
Large cap	52,555	42,842	9,713	–
Value equity	39,673	37,887	1,786	–
Growth equity	54,226	52,176	2,050	–
U.S. equity	17,613	16,862	751	–
International equity	117,811	39,984	77,827	–
International equity – emerging	64,885	60,983	3,902	–
Fixed income securities:				
Core plus bonds	159,168	145,930	13,238	–
Long duration bonds	62,987	–	62,987	–
High-yield bonds	1,831	–	1,831	–
Emerging market bonds	1,018	–	1,018	–
Other types of investments:				
Hedge funds	50,201	–	–	50,201
Private equity funds	68,868	–	–	68,868
Real estate	61,775	–	44,568	17,207
Total	$ 768,114	$ 405,067	$ 226,771	$ 136,276

(Dollars in Thousands)

9. Retirement Plans (continued)

The table below sets forth a summary of changes in the fair value of the Plans' Level 3 assets for 2012:

	Hedge Funds	Private Equity	Real Estate
Fair value at January 1, 2012	$ 43,083	$ 53,737	$ 16,130
Net purchases and sales	4,256	8,269	(370)
Realized gains and losses	–	3,017	275
Unrealized gains and losses	2,862	3,845	1,172
Fair value at December 31, 2012	$ 50,201	$ 68,868	$ 17,207

Assumptions used to determine benefit obligations at the measurement date are as follows:

	2013	**2012**
Discount rate	**4.70%**	3.85%
Assumed rate of return on assets	**7.25**	7.50
Weighted-average rate of increase in future compensation (age-based table)	**4.15**	4.15

Assumptions used to determine net pension expense for the fiscal years are as follows:

	2013	**2012**
Discount rate	**3.85%**	4.75%
Assumed rate of return on assets	**7.50**	7.75
Weighted-average rate of increase in future compensation (age-based table)	**4.15**	4.80

The assumed rate of return on plan assets is based on historical and projected rates of return for asset classes in which the portfolio is invested. The expected return for each asset class was then weighted based on the target asset allocation to develop the overall expected rate of return on assets for the portfolio. This resulted in the selection of the 7.25% and 7.50% assumption for 2013 and 2012, respectively.

9. Retirement Plans (continued)

In addition to the defined benefit pension plans, the System sponsors various defined contribution plans. The System contributed $40,641 and $34,797 in 2013 and 2012, respectively, which are included in salaries, wages, and employee benefits expense in the consolidated statements of operations and changes in net assets.

10. General and Professional Liability Risks

The System is self-insured for substantially all general and professional liability risks. The self-insurance programs combine various levels of self-insured retention with excess commercial insurance coverage. In addition, various umbrella insurance policies have been purchased to provide coverage in excess of the self-insured limits. Revocable trust funds, administered by a trustee and a captive insurance company, have been established for the self-insurance programs. Actuarial consultants have been retained to determine the estimated cost of claims, as well as to determine the amount to fund into the irrevocable trust and captive insurance company.

The estimated cost of claims is actuarially determined based on past experience, as well as other considerations, including the nature of each claim or incident and relevant trend factors. Accrued insurance liabilities and contributions to the revocable trust were determined using a discount rate of 3.50% for 2013 and 2012. Accrued insurance liabilities for the System’s captive insurance company were determined using a discount rate of 3.00% for 2013 and 2012. Total accrued insurance liabilities would have been $60,048 and $53,308 greater at December 31, 2013 and 2012, respectively, had these liabilities not been discounted.

The System is a defendant in certain litigation related to professional and general liability risks. Although the outcome of the litigation cannot be determined with certainty, management believes, after consultation with legal counsel, that the ultimate resolution of this litigation will not have any material adverse effect on the System’s operations or financial condition.

11. Legal, Regulatory, and Other Contingencies and Commitments

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. During the last few years, as a result of nationwide investigations by governmental agencies, various health care organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, exclusion from the Medicare and Medicaid programs, and revocation of federal or state tax-exempt status. Moreover, the System expects that the level of review and audit to which it and other health care providers are subject will increase.

Various federal and state agencies have initiated investigations, which are in various stages of discovery, relating to reimbursement, billing practices, and other matters of the System. There can be no assurance that regulatory authorities will not challenge the System’s compliance with these laws and regulations, and it is not possible to determine the impact, if any, such claims or penalties would have on the System. As a result, there is a reasonable possibility that recorded amounts will change by a material amount in the near term. To foster compliance with applicable laws and regulations, the System maintains a compliance program designed to detect and correct potential violations of laws and regulations related to its programs.

In 2013 four desktop computers were stolen during a burglary at one of the System’s administrative support locations. The computers did not contain patient medical records but did contain certain patient information, including names, addresses, Social Security numbers, and limited billing and clinical information. Affected patients were notified and offered free credit monitoring and identify theft protection. This matter is under investigation by various government agencies, and the System has received notice that it has been named in certain lawsuits regarding this matter. The System continues to monitor and investigate these matters. Although the outcome of these investigations and litigation cannot be determined with certainty, management is not in possession of any information to suggest that the costs relating to the resolution of this incident will have a material adverse effect on the System’s operations or financial condition.

The System is committed to constructing additions and renovations to its medical facilities and implementing information technology projects, which are expected to be completed in future years. The estimated cost of these commitments is $638,828, of which $378,391 has been incurred as of December 31, 2013.

(Dollars in Thousands)

11. Legal, Regulatory, and Other Contingencies and Commitments (continued)

Future minimum rental commitments at December 31, 2013, for all noncancelable leases with original terms of more than one year are $40,374, $35,837, $29,987, $26,380, and $19,804 for the years ending December 31, 2014 through 2018, respectively, and $75,650 thereafter.

Rent expense, which is included in other expenses, amounted to $69,340 and $70,077 in 2013 and 2012, respectively.

12. Income Taxes and Tax Status

Certain subsidiaries of the System are for-profit corporations. Significant components of the for-profit subsidiaries' deferred tax (liabilities) assets are as follows at December 31:

	2013	2012
Deferred tax assets		
Allowance for uncollectible accounts	**$ 6,654**	$ 4,346
Other accrued expenses	**39**	39
Reserves for incurred but not reported claims	**76**	255
Accrued insurance	**6,028**	7,699
Accrued compensation and employee benefits	**2,862**	4,745
Third-party settlements	**848**	848
Prepaid and other assets	**380**	380
Net operating losses	**27,602**	15,078
Total deferred tax assets	**44,489**	33,390
Less valuation allowance	**26,074**	12,354
Net deferred tax assets, included in deferred costs and intangible assets and prepaid expenses, inventories, and other assets	**18,415**	21,036
Deferred tax liabilities		
Property and equipment	**(6,316)**	(7,165)
Other accrued expenses	**(7,208)**	(3,647)
Deferred gain on acquisition	**(5,736)**	(4,827)
Total deferred tax liabilities, included in other noncurrent liabilities	**(19,260)**	(15,639)
Net deferred tax (liability) asset	**$ (845)**	$ 5,397

(Dollars in Thousands)

12. Income Taxes and Tax Status (continued)

As of December 31, 2013, the for-profit corporations had $63,314 of federal and $77,020 of state net operating loss carryforwards with unutilized amounts expiring between 2019 and 2033.

During 2013 the valuation allowance increased by $13,720. This change is due to additional net operating loss carryforwards from the acquisition of a for-profit entity. The valuation allowance as of the end of 2013 primarily consists of net operating losses that are unlikely to be realized.

Significant components of the for-profit subsidiaries' provision (credit) for income taxes are as follows for the years ended December 31:

	2013	2012
Current:		
Federal	**$ 784**	$ (1,012)
State	**240**	(309)
Deferred	**6,242**	(1,144)
	$ 7,266	$ (2,465)

Federal and state income taxes paid relating to the System's for-profit corporations were $2,392 and $7,284 in 2013 and 2012, respectively.

The System and all other controlled or wholly owned subsidiaries are exempt from income taxes under Internal Revenue Code Section 501(c)(3). They do, however, operate certain programs that generate unrelated business income. The current tax (credit) provision recorded on this income was $(3,030) and $1,378 for the years ended December 31, 2013 and 2012, respectively. Federal, state, and local governments are increasingly scrutinizing the tax status of not-for-profit hospitals and health care systems.

13. Sherman Affiliation

Sherman owns and operates a 255-bed acute care hospital located in Elgin, Illinois. Sherman is the sole member of various not-for-profit corporations or the shareholder of various business corporations engaged in the delivery of health care services or the provision of goods and services ancillary thereto, which include a rehabilitation and skilled nursing facility (Sherman West Court), a home health care company, and an employed physician medical group with approximately 35 physicians.

(Dollars in Thousands)

13. Sherman Affiliation (continued)

The Sherman affiliation was accounted for under the purchase accounting guidance and a contribution of $151,663 was recorded in the consolidated statement of operations and changes in net assets for the year ended December 31, 2013. This contribution reflected the fair value of the unrestricted net assets of Sherman on the date of the affiliation. The total increase in net assets attributable to the affiliation, which included the fair value of temporarily and permanently restricted net assets contributed, was $152,645. No goodwill was recorded as a result of this transaction. In valuing these assets and liabilities, fair values were based on, but not limited to professional appraisals, discounted cash flows, replacement costs, and actuarially determined values.

The fair value of assets and liabilities of Sherman contributed at June 1, 2013, consists of the following:

Cash and cash equivalents	$ 12,280
Investments	123,355
Other current assets	65,949
Property and equipment	318,398
Other long-term assets	29,601
Total assets	549,583
Current liabilities, excluding the current portion of long-term debt	69,412
Long-term debt	284,217
Other long-term liabilities	43,309
Total liabilities	396,938
Increase in net assets	$ 152,645

Total operating revenue and operating income from the date of affiliation for Sherman of $170,246 and $5,033, respectively, have been included in the consolidated statements of operations and changes in net assets.

(Dollars in Thousands)

13. Sherman Affiliation (continued)

Following are the unaudited pro forma results for the year ended December 31, 2013 and 2012. These results reflect the addition of Sherman's unaudited results for the period January 1 to May 31, 2013, and the year ended December 31, 2012, to the System's results for the years ended December 31, 2013 and 2012, respectively. These results do not include the addition to revenues in excess of expenses that would have occurred on January 1, 2012, for the contribution of Sherman's unrestricted net assets.

	December 31	
	2013	**2012**
Total operating revenue	**$ 5,062,920**	$ 4,886,189
Operating income	**301,479**	298,380
Revenues in excess of expenses	**771,600**	677,360

The pro forma information provided is a compilation of results only and should not be construed to accurately reflect what the actual results would have been had the affiliation been consummated on January 1, 2012, and is not intended to project the System's results of operations for any future periods.

14. Subsequent Events

The System evaluated events occurring between January 1, 2014 and March 7, 2014, which is the date when the consolidated financial statements were issued.

Supplementary Information

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Building a better working world

Report of Independent Auditors on Supplementary Information

The Board of Directors
Advocate Health Care Network

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statement as a whole. The accompanying details of consolidated balance sheet and details of consolidated statement of operations and changes in net assets and shareholders' equity are presented for the purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. 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

March 7, 2014

Advocate Health Care Network and Subsidiaries

Details of Consolidated Balance Sheet
(Dollars in Thousands)

December 31, 2013

	Consolidated	Eliminations	Advocate Health Care Network	Advocate Health and Hospitals Corporation and Subsidiaries	Advocate Network Services, Incorporated and Subsidiaries	Advocate Charitable Foundation	Advocate Insurance SPC	Sherman Health Insurance Co.	Advocate Sherman Hospital and Subsidiaries
Assets									
Current assets:									
Cash and cash equivalents	$ 563,229	$ –	$ 30,949	$ 478,172	$ 37,527	$ 1	$ 69	$ 395	$ 16,116
Short-term investments	19,401	–	–	–	–	19,401	–	–	–
Assets limited as to use	89,660	–	–	76,933	139	–	12,588	–	–
Patient accounts receivable, less allowances for uncollectible accounts	567,033	(564)	–	506,802	23,875	–	–	–	36,920
Amounts due from primary third-party payors	10,107	–	–	10,107	–	–	–	–	–
Intercompany accounts receivable	–	(88,198)	7,126	45,005	8,532	638	257	21,101	5,539
Prepaid expenses, inventories, and other current assets	256,322	–	–	158,422	29,566	37,334	13,676	11	17,313
Collateral proceeds received under securities lending program	19,165	–	–	19,165	–	–	–	–	–
Total current assets	1,524,917	(88,762)	38,075	1,294,606	99,639	57,374	26,590	21,507	75,888
Assets limited as to use:									
Internally and externally designated investments limited as to use	4,715,519	–	309,470	3,995,215	72,523	122,629	89,669	–	126,013
Investments under securities lending program	19,013	–	–	19,013	–	–	–	–	–
Investment in subsidiaries	–	(184,316)	184,316	–	–	–	–	–	–
Accounts receivable from Advocate Health Care Network and subsidiaries	–	(91,380)	91,380	–	–	–	–	–	–
Prepaid pension expense and other noncurrent assets	132,382	(943)	–	128,818	–	4,507	–	–	–
Interest in health care and related entities	152,103	–	–	124,833	24,624	–	–	–	2,646
Reinsurance receivable	172,318	–	–	8,064	–	–	151,805	–	12,449
Deferred costs and intangible assets, less allowances for amortization	51,231	(5,414)	–	41,036	11,598	–	–	–	4,011
	5,242,566	(282,053)	585,166	4,316,979	108,745	127,136	241,474	–	145,119
Property and equipment – at cost:									
Land and land improvements	251,296	–	–	203,561	13,117	–	–	–	34,618
Buildings	2,514,922	–	–	2,207,731	60,990	355	–	–	245,846
Movable equipment	1,358,608	–	–	1,256,761	62,891	1,444	–	–	37,512
Construction-in-progress	313,065	–	–	309,790	516	–	–	–	2,759
	4,437,891	–	–	3,977,843	137,514	1,799	–	–	320,735
Less allowances for depreciation	2,155,428	–	–	2,056,331	85,674	1,637	–	–	11,786
	2,282,463	–	–	1,921,512	51,840	162	–	–	308,949
	$ 9,049,946	$ (370,815)	$ 623,241	$ 7,533,097	$ 260,224	$ 184,672	$ 268,064	$ 21,507	$ 529,956

Advocate Health Care Network and Subsidiaries

Details of Consolidated Balance Sheet (continued)

(Dollars in Thousands)

	Consolidated	Eliminations	Advocate Health Care Network	Advocate Health and Hospitals Corporation and Subsidiaries	Advocate Network Services, Incorporated and Subsidiaries	Advocate Charitable Foundation	Advocate Insurance SPC	Sherman Health Insurance Co.	Advocate Sherman Hospital and Subsidiaries
Liabilities and net assets and shareholders' equity									
Current liabilities:									
Current portion of long-term debt	$ 17,810	$ –	$ –	$ 17,285	$ 359	$ –	$ –	$ –	$ 166
Long-term debt subject to short-term remarketing arrangements	135,130	–	–	135,130	–	–	–	–	–
Accounts payable	291,306	–	–	277,372	6,189	142	55	–	7,548
Accrued salaries and employee benefits	423,897	–	–	394,146	12,962	1,689	–	–	15,100
Accrued expenses	120,526	(564)	–	94,999	4,769	286	11,822	1	9,213
Amounts due to primary third-party payors	274,780	–	–	242,138	2,612	–	–	–	30,030
Current portion of accrued insurance and claims costs and subsidiaries	112,412	–	–	78,614	1,881	–	26,068	–	5,849
Notes and accounts payable to Advocate Health Care Network and subsidiaries	–	(88,198)	21,009	14,304	10,455	2,961	1,215	13,864	24,390
Obligations to return collateral under securities lending program	19,440	–	–	19,440	–	–	–	–	–
Total current liabilities	1,395,301	(88,762)	21,009	1,273,428	39,227	5,078	39,160	13,865	92,296
Noncurrent liabilities:									
Long-term debt, less current portion	1,452,109	–	–	1,268,612	5,458	–	–	–	178,039
Notes and accounts payable to Advocate Health Care Network and subsidiaries	–	(91,380)	–	–	–	–	–	–	91,380
Pension plan liability	23,737	–	–	23,737	–	–	–	–	–
Accrued insurance and claims cost, less current portion	678,470	–	–	633,425	8,775	–	35,716	–	554
Accrued losses subject to reinsurance recovery	172,318	–	–	8,064	–	–	151,805	–	12,449
Obligations under swap agreements, net of collateral posted	47,908	–	–	47,908	–	–	–	–	–
Other noncurrent liabilities	151,668	(943)	124	105,225	44,156	2,697	–	–	409
	2,526,210	(92,323)	124	2,086,971	58,389	2,697	187,521	–	282,831
Total liabilities	3,921,511	(181,085)	21,133	3,360,399	97,616	7,775	226,681	13,865	375,127
Net assets/shareholders' equity:									
Unrestricted	4,968,578	13,425	602,108	4,171,618	–	19,281	–	7,522	154,624
Temporarily restricted	111,335	–	–	1,080	–	110,050	–	–	205
Permanently restricted	47,566	–	–	–	–	47,566	–	–	–
Common stock	–	(13)	–	–	1	–	–	12	–
Additional paid-in capital	–	(177,271)	–	–	177,163	–	–	108	–
Non-controlling interest	956	–	–	–	956	–	–	–	–
Retained (deficit) earnings/partnership losses	–	(25,871)	–	–	(15,512)	–	41,383	–	–
Total net assets/shareholders' equity	5,128,435	(189,730)	602,108	4,172,698	162,608	176,897	41,383	7,642	154,829
	$ 9,049,946	$ (370,815)	$ 623,241	$ 7,533,097	$ 260,224	$ 184,672	$ 268,064	$ 21,507	$ 529,956

Advocate Health Care Network and Subsidiaries

Details of Consolidated Statement of Operations and Changes in Net Assets and Shareholders' Equity

(Dollars in Thousands)

December 31, 2013

	Consolidated	Eliminations	Advocate Health Care Network	Advocate Health and Hospitals Corporation and Subsidiaries	Advocate Network Services, Incorporated and Subsidiaries	Advocate Charitable Foundation	Advocate Insurance SPC	Sherman Health Insurance Co.	Advocate Sherman Hospital and Subsidiaries
Unrestricted revenues, gains, and other support									
Net patient service revenue	$ 4,468,468	$ (8,041)	$ –	$ 4,092,747	$ 205,705	$ –	$ –	$ –	$ 178,057
Provision for uncollectible accounts	(253,989)	–	–	(225,401)	(13,296)	–	–	–	(15,292)
	4,214,479	(8,041)	–	3,867,346	192,409	–	–	–	162,765
Capitation revenue	389,516	–	–	325,415	64,101	–	–	–	–
Other revenue	334,007	(68,344)	1,582	307,377	52,342	1,561	31,359	649	7,481
	4,938,002	(76,385)	1,582	4,500,138	308,852	1,561	31,359	649	170,246
Expenses									
Salaries, wages, and employee benefits	2,510,470	–	6	2,298,349	126,121	7,882	–	–	78,112
Purchased services and operating supplies	1,211,483	(42,735)	–	1,057,398	145,344	1,133	191	31	50,121
Contracted medical services	135,570	(8,027)	–	131,886	11,711	–	–	–	–
Insurance and claims costs	108,349	(21,974)	(2)	119,135	(428)	6	9,492	–	2,120
Other	404,988	(2,077)	–	365,616	19,886	2,736	3,309	14	15,504
Depreciation and amortization	211,648	(1,299)	–	193,290	7,414	60	–	–	12,183
Interest	55,299	(1,362)	–	49,258	230	–	–	–	7,173
	4,637,807	(77,474)	4	4,214,932	310,278	11,817	12,992	45	165,213
Operating income (loss)	300,195	1,089	1,578	285,206	(1,426)	(10,256)	18,367	604	5,033
Nonoperating income (loss)									
Investment income (loss)	287,727	(1,306)	17,297	252,832	12,098	–	2,019	(430)	5,217
Change in fair value of interest rate swaps	41,236	–	–	41,236	–	–	–	–	–
Fair value of net assets acquired	151,663	(1,701)	–	2,167	–	–	–	7,348	143,849
Loss on refinancing of debt	(46)	–	–	(46)	–	–	–	–	–
Other nonoperating items, net	(15,455)	(3,496)	1,500	(7,970)	(5,418)	(38)	–	–	(33)
Revenues in excess of (less than) expenses	765,320	(5,414)	20,375	573,425	5,254	(10,294)	20,386	7,522	154,066
Unrestricted net assets									
Net assets released from restrictions and used for capital purchases	3,054	–	–	2,809	–	–	–	–	245
Net assets released from grants used for capital purposes	1,147	–	–	834	–	–	–	–	313
Contribution of net assets of Sherman Hospital	–	(120)	–	–	–	–	–	120	–
Transfers to/from Advocate Health Care Network and subsidiaries	–	–	194,200	(170,000)	–	10,800	(35,000)	–	–
Postretirement benefit plan adjustments	70,912	–	–	70,912	–	–	–	–	–
Other	(21)	–	–	(2)	1	(20)	–	–	–
Increase (decrease) in unrestricted net assets	840,412	(5,534)	214,575	477,978	5,255	486	(14,614)	7,642	154,624

Advocate Health Care Network and Subsidiaries

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

	Consolidated	Eliminations	Advocate Health Care Network	Advocate Health and Hospitals Corporation and Subsidiaries	Advocate Network Services, Incorporated and Subsidiaries	Advocate Charitable Foundation	Advocate Insurance SPC	Sherman Health Insurance Co.	Advocate Sherman Hospital and Subsidiaries
Temporarily restricted net assets									
Contributions for medical education programs, capital purchases, and other purposes	$ 27,778	$ –	$ –	$ (13)	$ –	$ 27,791	$ –	$ –	$ –
Contribution of net assets of Sherman Hospital	719	–	–	–	–	514	–	–	205
Realized gains on investments	2,959	–	–	15	–	2,944	–	–	–
Unrealized gains on investments	3,768	–	–	5	–	3,763	–	–	–
Net assets released from restriction and used for operations, medical education programs, capital purchases, and other purposes	(14,240)	–	–	–	–	(14,240)	–	–	–
Increase in temporarily restricted net assets	20,984	–	–	7	–	20,772	–	–	205
Permanently restricted net assets									
Contributions for medical education programs, capital purchases, and other purposes	1,889	–	–	–	–	1,889	–	–	–
Contribution of net assets of Sherman Hospital	263	–	–	–	–	263	–	–	–
Increase in permanently restricted net assets	2,152	–	–	–	–	2,152	–	–	–
Increase (decrease) in net assets	863,548	(5,534)	214,575	477,985	5,255	23,410	(14,614)	7,642	154,829
Change in non-controlling interest	(26)	–	–	–	(26)	–	–	–	–
Net assets/shareholders' equity at beginning of year	4,264,913	(184,196)	387,533	3,694,713	157,379	153,487	55,997	–	–
Net assets/shareholders' equity at end of year	$ 5,128,435	$ (189,730)	$ 602,108	$ 4,172,698	$ 162,608	$ 176,897	$ 41,383	$ 7,642	$ 154,829

Advocate Health and Hospitals Corporation and Subsidiaries

Details of Consolidated Balance Sheet
(Dollars in Thousands)

December 31, 2013

	Consolidated	Eliminations	Advocate Health and Hospitals Corporation	Advocate Northside Health System	Advocate Condell Medical Center	Midwest Heart Specialists	EHS Home Health Care Services, Inc. and Subsidiary	Eliminations	EHS Home Health Care Service, Inc.	Advocate Hospice
Assets										
Current assets:										
Cash and cash equivalents	$ 478,172	$ –	$ 384,503	$ 32,983	$ 44,230	$ 3,033	$ 13,423	$ –	$ 10,904	$ 2,519
Assets limited as to use	76,933	–	76,933	–	–	–	–	–	–	–
Patient accounts receivable, less allowances for uncollectible accounts	506,802	(105)	411,649	60,017	29,409	–	5,832	–	3,422	2,410
Amounts due from primary third-party payors	10,107	–	7,111	1,930	1,066	–	–	–	–	–
Accounts receivable from Advocate Health Care Network and subsidiaries	45,005	–	41,745	2,046	167	–	1,047	–	1,041	6
Intercompany accounts receivable	–	(63,421)	38,095	20,019	4,793	52	462	(330)	676	116
Prepaid expenses, inventories, and other current assets	158,422	–	131,025	20,271	6,403	484	239	–	219	20
Collateral proceeds received under securities lending program	19,165	–	19,165	–	–	–	–	–	–	–
Total current assets	1,294,606	(63,526)	1,110,226	137,266	86,068	3,569	21,003	(330)	16,262	5,071
Assets limited as to use:										
Internally and externally designated investments limited as to use	3,995,215	–	3,885,355	51,990	41,658	6,163	10,049	–	7,349	2,700
Investments under securities lending program	19,013	–	19,013	–	–	–	–	–	–	–
Prepaid pension expense and other noncurrent assets	128,818	–	128,818	–	–	–	–	–	–	–
Interest in health care and related entities	124,833	(15,869)	48,170	92,455	–	77	–	–	–	–
Reinsurance receivable	8,064	–	7,602	–	462	–	–	–	–	–
Deferred costs and intangible assets, less allowances for amortization	41,036	–	39,580	104	–	1,352	–	–	–	–
	4,316,979	(15,869)	4,128,538	144,549	42,120	7,592	10,049	–	7,349	2,700
Property and equipment – at cost:										
Land and land improvements	203,561	–	107,227	41,430	54,904	–	–	–	–	–
Buildings	2,207,731	–	1,833,786	136,202	236,899	–	844	–	844	–
Movable equipment	1,256,761	–	1,135,113	64,322	52,965	–	4,361	–	4,296	65
Construction-in-progress	309,790	–	258,094	49,138	2,558	–	–	–	–	–
	3,977,843	–	3,334,220	291,092	347,326	–	5,205	–	5,140	65
Less allowances for depreciation	2,056,331	–	1,865,835	112,654	73,296	–	4,546	–	4,510	36
	1,921,512	–	1,468,385	178,438	274,030	–	659	–	630	29
	$ 7,533,097	$ (79,395)	$ 6,707,149	$ 460,253	$ 402,218	$ 11,161	$ 31,711	$ (330)	$ 24,241	$ 7,800

Advocate Health and Hospitals Corporation and Subsidiaries

Details of Consolidated Balance Sheet (continued)

(Dollars in Thousands)

	Consolidated	Eliminations	Advocate Health and Hospitals Corporation	Advocate Northside Health System	Advocate Condell Medical Center	Midwest Heart Specialists	EHS Home Health Care Services, Inc. and Subsidiary	Eliminations	EHS Home Health Care Service, Inc.	Advocate Hospice
Liabilities and net assets										
Current liabilities:										
Current portion of long-term debt	$ 17,285	$ –	$ 16,785	$ –	$ 500	$ –	$ –	$ –	$ –	$ –
Long-term debt subject to short-term remarketing arrangements	135,130	–	135,130	–	–	–	–	–	–	–
Accounts payable	277,372	–	231,202	27,725	13,297	455	4,693	–	3,247	1,446
Accrued salaries and employee benefits	394,146	–	350,553	22,934	14,680	–	5,979	–	5,120	859
Accrued expenses	94,999	(105)	84,377	7,270	2,359	292	806	–	701	105
Amounts due to primary third-party payors	242,138	–	165,604	33,491	36,428	–	6,615	–	6,580	35
Current portion of accrued insurance and claims costs	78,614	–	78,614	–	–	–	–	–	–	–
Notes and accounts payable to Advocate Health Care Network and subsidiaries	14,304	–	10,724	2,112	390	–	1,078	–	1,002	76
Intercompany payables	–	(63,421)	25,256	28,435	8,278	105	1,347	(330)	977	700
Obligations to return collateral under securities lending program	19,440	–	19,440	–	–	–	–	–	–	–
Total current liabilities	1,273,428	(63,526)	1,117,685	121,967	75,932	852	20,518	(330)	17,627	3,221
Noncurrent liabilities:										
Long-term debt, less current portion	1,268,612	–	1,238,432	–	30,180	–	–	–	–	–
Pension plan liability	23,737	–	–	–	23,737	–	–	–	–	–
Accrued insurance and claims cost, less current portion	633,425	–	633,425	–	–	–	–	–	–	–
Accrued losses subject to reinsurance recovery	8,064	–	7,602	–	462	–	–	–	–	–
Obligations under swap agreements, net of collateral posted	47,908	–	47,908	–	–	–	–	–	–	–
Other noncurrent liabilities	105,225	–	100,038	4,748	108	331	–	–	–	–
	2,086,971	–	2,027,405	4,748	54,487	331	–	–	–	–
Total liabilities	3,360,399	(63,526)	3,145,090	126,715	130,419	1,183	20,518	(330)	17,627	3,221
Net assets:										
Unrestricted	4,171,618	–	3,560,979	333,538	271,799	(5,891)	11,193	–	6,614	4,579
Temporarily restricted	1,080	–	1,080	–	–	–	–	–	–	–
Additional paid-in capital	–	(15,869)	–	–	–	15,869	–	–	–	–
Total net assets	4,172,698	(15,869)	3,562,059	333,538	271,799	9,978	11,193	–	6,614	4,579
	$ 7,533,097	$ (79,395)	$ 6,707,149	$ 460,253	$ 402,218	$ 11,161	$ 31,711	$ (330)	$ 24,241	$ 7,800

Advocate Health and Hospitals Corporation and Subsidiaries

Details of Consolidated Statement of Operations and Changes in Net Assets and Shareholders' Equity

(Dollars in Thousands)

December 31, 2013

	Consolidated	Eliminations	Advocate Health and Hospitals Corporation	Advocate Northside Health System	Advocate Condell Medical Center	Midwest Heart Specialists	EHS Home Health Care Services, Inc. and Subsidiary	Eliminations	EHS Home Health Care Service, Inc.	Advocate Hospice
Unrestricted revenues, gains, and other support										
Net patient service revenue	$ 4,092,747	$ (1,333)	$ 3,218,111	$ 465,980	$ 326,385	$ –	$ 83,604	$ –	$ 64,503	$ 19,101
Provision for uncollectible accounts	(225,401)	–	(173,912)	(30,585)	(19,896)	–	(1,008)	–	(1,024)	16
	3,867,346	(1,333)	3,044,199	435,395	306,489	–	82,596	–	63,479	19,117
Capitation revenue	325,415	–	323,156	1,890	–	–	369	–	369	–
Other revenue	307,377	(61,632)	319,240	29,301	15,232	857	4,379	(2,097)	6,379	97
	4,500,138	(62,965)	3,686,595	466,586	321,721	857	87,344	(2,097)	70,227	19,214
Expenses										
Salaries, wages, and employee benefits	2,298,349	–	1,893,953	214,169	128,778	–	61,449	–	52,082	9,367
Purchased services and operating supplies	1,057,398	(56,941)	860,161	123,078	116,220	390	14,490	(2,097)	8,925	7,662
Contracted medical services	131,886	(1,333)	133,219	–	–	–	–	–	–	–
Insurance and claims costs	119,135	(431)	99,759	14,720	4,879	8	200	–	134	66
Other	365,616	(4,260)	308,949	38,880	17,110	24	4,913	–	4,093	820
Depreciation and amortization	193,290	–	160,658	14,079	16,513	1,622	418	–	410	8
Interest	49,258	–	46,767	–	2,491	–	–	–	–	–
	4,214,932	(62,965)	3,503,466	404,926	285,991	2,044	81,470	(2,097)	65,644	17,923
Operating income (loss)	285,206	–	183,129	61,660	35,730	(1,187)	5,874	–	4,583	1,291
Nonoperating income (loss)										
Investment income	252,832	–	231,928	15,198	3,876	1,013	817	–	572	245
Change in fair value of interest rate swaps	41,236	–	41,236	–	–	–	–	–	–	–
Fair value of net assets acquired	2,167	–	1,701	–	–	–	466	–	466	–
Loss on refinancing of debt	(46)	–	(46)	–	–	–	–	–	–	–
Other nonoperating items, net	(7,970)	–	(7,225)	120	(958)	93	–	–	–	–
Revenues in excess of (less than) expenses	573,425	–	450,723	76,978	38,648	(81)	7,157	–	5,621	1,536
Unrestricted net assets										
Net assets released from restrictions and used for capital purposes	2,809	–	2,047	460	302	–	–	–	–	–
Net assets released from grants used for capital purposes	834	–	648	–	186	–	–	–	–	–
Transfers to/from Advocate Health Care Network and subsidiaries	(170,000)	–	(47,000)	(75,000)	(40,000)	–	(8,000)	–	(5,000)	(3,000)
Postretirement benefit plan adjustments	70,912	–	59,317	–	11,595	–	–	–	–	–
Other	(2)	–	(2)	–	–	–	–	–	–	–
Increase (decrease) in unrestricted net assets	**477,978**	**–**	**465,733**	**2,438**	**10,731**	**(81)**	**(843)**	**–**	**621**	**(1,464)**

Advocate Health and Hospitals Corporation and Subsidiaries

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

(Dollars in Thousands)

	Consolidated	Eliminations	Advocate Health and Hospitals Corporation	Advocate Northside Health System	Advocate Condell Medical Center	Midwest Heart Specialists	EHS Home Health Care Services, Inc. and Subsidiary	Eliminations	EHS Home Health Care Service, Inc.	Advocate Hospice
Temporarily restricted net assets										
Contributions for medical education programs, capital purchases, and other purposes	$ (13)	$ –	$ (13)	$ –	$ –	$ –	$ –	$ –	$ –	$ –
Realized gains on investments	15	–	15	–	–	–	–	–	–	–
Unrealized gains on investments	5	–	5	–	–	–	–	–	–	–
Increase in temporarily restricted net assets	7	–	7	–	–	–	–	–	–	–
Increase (decrease) in net assets	477,985	–	465,740	2,438	10,731	(81)	(843)	–	621	(1,464)
Net assets at beginning of year	3,694,713	(15,869)	3,096,319	331,100	261,068	10,059	12,036	–	5,993	6,043
Net assets at end of year	$ 4,172,698	$ (15,869)	$ 3,562,059	$ 333,538	$ 271,799	$ 9,978	$ 11,193	$ –	$ 6,614	$ 4,579

Advocate Sherman Hospital and Subsidiaries

Details of Consolidated Balance Sheet

(Dollars in Thousands)

December 31, 2013

	Consolidated	Eliminations	Advocate Sherman Hospital	Sherman West Court	Health Visions, Inc.	Sherman Choice
Assets						
Current assets:						
Cash and cash equivalents	$ 16,116	$ –	$ 10,196	$ 2,021	$ 650	$ 3,249
Patient accounts receivable, less allowances for uncollectible accounts	36,920	–	35,939	981	–	–
Accounts receivable from Advocate Health Care Network and subsidiaries	5,539	–	2,289	13	3,237	–
Intercompany accounts receivable	–	(9,339)	9,299	40	–	–
Prepaid expenses, inventories, and other current assets	17,313	–	17,088	14	–	211
Total current assets	75,888	(9,339)	74,811	3,069	3,887	3,460
Assets limited as to use:						
Internally and externally designated investments limited as to use	126,013	–	125,953	60	–	–
Intercompany accounts receivable	–	(4,150)	4,150	–	–	–
Interest in health care and related entities	2,646	(2,130)	4,776	–	–	–
Reinsurance receivable	12,449	–	12,449	–	–	–
Deferred costs and intangible assets, less allowances for amortization	4,011	–	4,011	–	–	–
	145,119	(6,280)	151,339	60	–	–
Property and equipment – at cost:						
Land and land improvements	34,618	–	33,504	1,114	–	–
Buildings	245,846	–	243,330	2,516	–	–
Movable equipment	37,512	–	37,442	70	–	–
Construction-in-progress	2,759	–	2,759	–	–	–
	320,735	–	317,035	3,700	–	–
Less allowances for depreciation	11,786	–	11,675	111	–	–
	308,949	–	305,360	3,589	–	–
	$ 529,956	$ (15,619)	$ 531,510	$ 6,718	$ 3,887	$ 3,460

Advocate Sherman Hospital and Subsidiaries

Details of Consolidated Balance Sheet (continued)

(Dollars in Thousands)

	Consolidated	Eliminations	Advocate Sherman Hospital	Sherman West Court	Health Visions, Inc.	Sherman Choice
Liabilities and net assets						
Current liabilities:						
Current portion of long-term debt	$ 166	$ –	$ 166	$ –	$ –	$ –
Current portion of intercompany long-term debt	–	(277)	–	277	–	–
Accounts payable	7,548	–	7,211	291	46	–
Accrued salaries and employee benefits	15,100	–	14,666	434	–	–
Accrued expenses	9,213	–	5,592	154	7	3,460
Amounts due to primary third-party payors	30,030	–	30,030	–	–	–
Current portion of accrued insurance and claims costs	5,849	–	5,849	–	–	–
Notes and accounts payable to Advocate Health Care Network and subsidiaries	24,390	–	22,723	2	1,663	2
Intercompany payables	–	(9,062)	40	510	8,496	16
Total current liabilities	92,296	(9,339)	86,277	1,668	10,212	3,478
Noncurrent liabilities:						
Long-term debt, less current portion	178,039	–	178,039	–	–	–
Long-term intercompany debt, less current portion	–	(4,150)	–	4,150	–	–
Notes and accounts payable to Advocate Health Care Network and subsidiaries	91,380	–	91,380	–	–	–
Accrued insurance and claims cost, less current portion	554	–	554	–	–	–
Accrued losses subject to reinsurance recovery	12,449	–	12,449	–	–	–
Other noncurrent liabilities	409	–	409	–	–	–
	282,831	(4,150)	282,831	4,150	–	–
Total liabilities	375,127	(13,489)	369,108	5,818	10,212	3,478
Net assets:						
Unrestricted	154,624	–	162,257	840	(8,455)	(18)
Temporarily restricted	205	–	145	60	–	–
Common stock	–	(1)	–	–	1	
Additional paid-in capital	–	(2,129)	–	–	2,129	–
Total net assets	154,829	(2,130)	162,402	900	(6,325)	(18)
	$ 529,956	$ (15,619)	$ 531,510	$ 6,718	$ 3,887	$ 3,460

Advocate Sherman Hospital and Subsidiaries

Details of Consolidated Statement of Operations and Changes in Net Assets and Shareholders' Equity

(Dollars in Thousands)

December 31, 2013

	Consolidated	Eliminations	Advocate Sherman Hospital	Sherman West Court	Health Visions, Inc.	Sherman Choice
Unrestricted revenues, gains, and other support						
Net patient service revenue	$ 178,057	$ –	$ 171,879	$ 5,744	$ 434	$ –
Provision for uncollectible accounts	(15,292)	–	(15,213)	(103)	24	–
	162,765	–	156,666	5,641	458	–
Other revenue	7,481	(156)	7,600	37	–	–
	170,246	(156)	164,266	5,678	458	–
Expenses						
Salaries, wages, and employee benefits	78,112	–	73,898	3,525	689	–
Purchased services and operating supplies	50,121	(156)	48,909	1,110	240	18
Insurance and claims costs	2,120	–	1,856	201	63	–
Other	15,504	–	15,005	197	302	–
Depreciation and amortization	12,183	–	12,072	111	–	–
Interest	7,173	(37)	7,151	59	–	–
	165,213	(193)	158,891	5,203	1,294	18
Operating income (loss)	5,033	37	5,375	475	(836)	(18)
Nonoperating income (loss)						
Investment income (loss)	5,217	(37)	5,254	–	–	–
Fair value of net assets acquired	143,849	(2,130)	151,103	365	(5,489)	–
Other nonoperating items, net	(33)	–	(33)	–	–	–
Revenues in excess of (less than) expenses	154,066	(2,130)	161,699	840	(6,325)	(18)
Net assets released from restrictions and used for capital purposes	245	–	245	–	–	–
Net assets released from grants used for capital purposes	313	–	313	–	–	–
Increase (decrease) in unrestricted net assets	154,624	(2,130)	162,257	840	(6,325)	(18)
Temporarily restricted net assets						
Contribution of net assets of Sherman Hospital	205	–	145	60	–	–
Increase in temporarily restricted net assets	205	–	145	60	–	–
Increase (decrease) in net assets	154,829	(2,130)	162,402	900	(6,325)	(18)
Net assets at end of year	$ 154,829	$ (2,130)	$ 162,402	$ 900	$ (6,325)	$ (18)

Advocate Northside Health System and Subsidiaries

Details of Consolidated Balance Sheet
(Dollars in Thousands)

December 31, 2013

	Consolidated	Eliminations	Advocate Northside Health System	HispanoCare, Inc.
Assets				
Current assets:				
Cash and cash equivalents	$ 32,983	$ –	$ 32,459	$ 524
Patient accounts receivable, less allowances for uncollectible accounts	60,017	–	60,017	–
Amounts due from primary third-party payors	1,930	–	1,930	–
Accounts receivable from Advocate Health Care Network and subsidiaries	2,046	–	573	1,473
Intercompany accounts receivable	20,019	(1,455)	21,474	–
Prepaid expenses, inventories, and other current assets	20,271	–	20,271	–
Total current assets	137,266	(1,455)	136,724	1,997
Assets limited as to use:				
Internally and externally designated investments limited as to use	51,990	–	51,990	–
Interest in health care and related entities	92,455	–	92,455	–
Deferred costs and intangible assets, less allowances for amortization	104	–	104	–
	144,549	–	144,549	–
Property and equipment – at cost:				
Land and land improvements	41,430	–	41,430	–
Buildings	136,202	–	136,202	–
Movable equipment	64,322	–	64,315	7
Construction-in-progress	49,138	–	49,138	–
	291,092	–	291,085	7
Less allowances for depreciation	112,654	–	112,649	5
	178,438	–	178,436	2
	$ 460,253	$ (1,455)	$ 459,709	$ 1,999

Advocate Northside Health System and Subsidiaries

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

	Consolidated	Eliminations	Advocate Northside Health System	HispanoCare, Inc.
Liabilities and net assets				
Current liabilities:				
Accounts payable	$ 27,725	$ –	$ 27,715	$ 10
Accrued salaries and employee benefits	22,934	–	22,913	21
Accrued expenses	7,270	–	7,270	–
Amounts due to primary third-party payors	33,491	–	33,491	–
Notes and accounts payable to Advocate Health Care Network and subsidiaries	2,112	–	2,033	79
Intercompany payables	28,435	(1,455)	28,435	1,455
Total current liabilities	121,967	(1,455)	121,857	1,565
Noncurrent liabilities:				
Other noncurrent liabilities	4,748	–	4,748	–
	4,748	–	4,748	–
Total liabilities	126,715	(1,455)	126,605	1,565
Net assets:				
Unrestricted	333,538	–	333,104	434
Total net assets	333,538	–	333,104	434
	$ 460,253	$ (1,455)	$ 459,709	$ 1,999

Advocate Northside Health System and Subsidiaries

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

December 31, 2013

	Consolidated	Eliminations	Advocate Northside Health System	HispanoCare, Inc.
Unrestricted revenues, gains, and other support				
Net patient service revenue	$ 465,980	$ –	$ 465,980	$ –
Provision for uncollectible accounts	(30,585)	–	(30,585)	–
	435,395	–	435,395	–
Capitation revenue	1,890	–	1,890	–
Other revenue	29,301	–	29,144	157
	466,586	–	466,429	157
Expenses				
Salaries, wages, and employee benefits	214,169	–	213,985	184
Purchased services and operating supplies	123,078	–	123,062	16
Insurance and claims costs	14,720	–	14,720	–
Other	38,880	–	38,741	139
Depreciation and amortization	14,079	–	14,078	1
	404,926	–	404,586	340
Operating income (loss)	61,660	–	61,843	(183)
Nonoperating income (loss)				
Investment income	15,198	–	15,197	1
Other nonoperating items, net	120	–	76	44
Revenues in excess of (less than) expenses	76,978	–	77,116	(138)
Unrestricted net assets				
Net assets released from restrictions and used for capital purposes	460	–	460	–
Transfers to/from Advocate Health Care Network and subsidiaries	(75,000)	–	(75,175)	175
Increase in unrestricted net assets	2,438	–	2,401	37
Unrestricted net assets at beginning of year	331,100	–	330,703	397
Unrestricted net assets at end of year	$ 333,538	$ –	$ 333,104	$ 434

Evangelical Services Corporation and Subsidiaries
d/b/a Advocate Network Services, Inc. and Subsidiaries

Details of Consolidated Balance Sheet
(Dollars in Thousands)

December 31, 2013

	Consolidated	Eliminations	Advocate Network Services, Inc.	High Technology, Inc.	Advocate Home Care Products, Inc.	Dreyer Clinic, Inc.	Advocate Health Centers, Inc.	BroMenn Medical Group
Assets								
Current assets:								
Cash and cash equivalents	$ 37,527	$ –	$ 15,664	$ 3,054	$ 4,384	$ 9,312	$ 1,094	$ 4,019
Assets limited as to use	139	–	–	–	–	–	–	139
Patient accounts receivable, less allowances for uncollectible accounts	23,875	–	–	1,963	2,683	15,814	–	3,415
Accounts receivable from Advocate Health Care Network and subsidiaries	8,532	–	6,360	335	1,136	59	403	239
Intercompany accounts and notes receivable	–	(29,803)	20,842	536	7	6,595	1,763	60
Prepaid expenses, inventories, and other current assets	29,566	–	21,933	99	1,142	5,534	144	714
Total current assets	99,639	(29,803)	64,799	5,987	9,352	37,314	3,404	8,586
Assets limited as to use:								
Internally and externally designated investments limited as to use	72,523	–	16,564	24,709	18,765	–	10,048	2,437
Intercompany notes receivable	–	(48,965)	–	48,965	–	–	–	–
Investments and other noncurrent assets	–	(166,758)	166,758	–	–	–	–	–
Interest in health care and related entities	24,624	–	7,310	–	–	1,569	–	15,745
Deferred costs and intangible assets, less allowances for amortization	11,598	–	5,801	–	–	5,797	–	–
	108,745	(215,723)	196,433	73,674	18,765	7,366	10,048	18,182
Property and equipment – at cost:								
Land and land improvements	13,117	–	6,138	1,004	–	5,488	–	487
Buildings	60,990	–	2,382	9,717	428	46,219	–	2,244
Movable equipment	62,891	–	8,184	19,053	7,911	23,701	–	4,042
Construction-in-progress	516	–	–	196	–	309	–	11
	137,514	–	16,704	29,970	8,339	75,717	–	6,784
Less allowances for depreciation	85,674	–	11,089	22,789	6,002	43,643	–	2,151
	51,840	–	5,615	7,181	2,337	32,074	–	4,633
	$ 260,224	$ (245,526)	$ 266,847	$ 86,842	$ 30,454	$ 76,754	$ 13,452	$ 31,401

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Evangelical Services Corporation and Subsidiaries
d/b/a Advocate Network Services, Inc. and Subsidiaries

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

	Consolidated	Eliminations	Advocate Network Services, Inc.	High Technology, Inc.	Advocate Home Care Products, Inc.	Dreyer Clinic, Inc.	Advocate Health Centers, Inc.	BroMenn Medical Group
Liabilities and shareholder's equity								
Current liabilities:								
Current portion of long-term debt	$ 359	$ –	$ –	$ –	$ –	$ 359	$ –	$ –
Current portion of intercompany long-term debt	–	(818)	–	–	–	283	–	535
Accounts payable	6,189	–	2,444	283	1,080	1,757	47	578
Accrued salaries and employee benefits	12,962	–	3,908	855	710	6,737	1	751
Accrued expenses	4,769	–	385	876	37	1,922	910	639
Amounts due to primary third-party payors	2,612	–	–	–	919	1,693	–	–
Current portion of accrued insurance and claims costs	1,881	–	–	–	–	–	1,742	139
Notes and accounts payable to Advocate Health Care Network and subsidiaries	10,455	–	6,140	601	1,228	1,029	32	1,425
Intercompany payables	–	(28,985)	8,424	671	792	19,006	42	50
Total current liabilities	39,227	(29,803)	21,301	3,286	4,766	32,786	2,774	4,117
Noncurrent liabilities:								
Long-term debt, less current portion	5,458	–	–	–	–	5,458	–	–
Long-term intercompany debt, less current portion	–	(48,965)	–	–	–	–	–	48,965
Accrued insurance and claims cost, less current portion	8,775	–	–	–	–	–	7,425	1,350
Other noncurrent liabilities	44,156	–	38,123	114	102	5,509	–	308
	58,389	(48,965)	38,123	114	102	10,967	7,425	50,623
Total liabilities	97,616	(78,768)	59,424	3,400	4,868	43,753	10,199	54,740
Shareholders' equity:								
Common stock	1	(5,163)	1	3,250	50	1,862	–	1
Additional paid-in capital	177,163	(193,581)	177,163	22,294	9,098	34,017	87,081	41,091
Non-controlling interest	956	–	–	–	–	956	–	–
Retained (deficit) earnings	(15,512)	31,986	30,259	57,898	16,438	(3,834)	(83,828)	(64,431)
Total shareholders' equity	162,608	(166,758)	207,423	83,442	25,586	33,001	3,253	(23,339)
	$ 260,224	$ (245,526)	$ 266,847	$ 86,842	$ 30,454	$ 76,754	$ 13,452	$ 31,401

Evangelical Services Corporation and Subsidiaries
d/b/a Advocate Network Services, Inc. and Subsidiaries

Details of Consolidated Statement of Operations and Changes in Net Assets and Shareholders' Equity

(Dollars in Thousands)

December 31, 2013

	Consolidated	Eliminations	Advocate Network Services, Inc.	High Technology, Inc.	Advocate Home Care Products, Inc.	Dreyer Clinic, Inc.	Advocate Health Centers, Inc.	BroMenn Medical Group
Unrestricted revenues, gains, and other support								
Net patient service revenue	$ 205,705	$ –	$ –	$ 22,944	$ 23,955	$ 130,864	$ (432)	$ 28,374
Provision for uncollectible accounts	(13,296)	–	–	(1,388)	(3,331)	(7,494)	1,783	(2,866)
	192,409	–	–	21,556	20,624	123,370	1,351	25,508
Capitation revenue	64,101	–	–	–	1,559	60,990	1,549	3
Other revenue	52,342	(4,008)	35,330	116	4,205	8,268	277	8,154
	308,852	(4,008)	35,330	21,672	26,388	192,628	3,177	33,665
Expenses								
Salaries, wages, and employee benefits	126,121	–	26,253	7,486	6,210	71,997	(660)	14,835
Purchased services and operating supplies	145,344	(4,008)	5,629	9,333	15,012	92,105	202	27,071
Contracted medical services	11,711	–	–	–	–	11,926	(215)	–
Insurance and claims costs	(428)	–	29	332	138	880	(2,868)	1,061
Other	19,886	–	2,656	1,181	1,899	11,084	77	2,989
Depreciation and amortization	7,414	–	518	1,587	704	3,923	–	682
Interest	230	(3,909)	2	–	–	260	377	3,500
	310,278	(7,917)	35,087	19,919	23,963	192,175	(3,087)	50,138
Operating (loss) income	(1,426)	3,909	243	1,753	2,425	453	6,264	(16,473)

Evangelical Services Corporation and Subsidiaries
d/b/a Advocate Network Services, Inc. and Subsidiaries

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

(Dollars in Thousands)

	Consolidated	Eliminations	Advocate Network Services, Inc.	High Technology, Inc.	Advocate Home Care Products, Inc.	Dreyer Clinic, Inc.	Advocate Health Centers, Inc.	BroMenn Medical Group
Nonoperating income (loss)								
Investment income (loss)	$ 12,098	$ (3,909)	$ 4,459	$ 7,080	$ 3,488	$ 6	$ 45	$ 929
Other nonoperating items, net	(5,418)	–	(9,493)	(2,839)	(2,069)	(459)	4,577	4,865
Revenues in excess of (less than) expenses	5,254	–	(4,791)	5,994	3,844	–	10,886	(10,679)
Unrestricted net assets								
Transfers to/from Advocate Health Care Network and subsidiaries	–	(67,989)	30,000	–	(30,000)	6,489	55,000	6,500
Other	1	–	–	–	–	–	–	1
Increase (decrease) in unrestricted net assets	5,255	(67,989)	25,209	5,994	(26,156)	6,489	65,886	(4,178)
Change in non-controlling interest	(26)	–	–	–	–	(26)	–	–
Decrease in non-controlling interest	(26)	–	–	–	–	(26)	–	–
Total change in shareholders' equity	5,229	(67,989)	25,209	5,994	(26,156)	6,463	65,886	(4,178)
Shareholders' equity at beginning of year	157,379	(98,769)	182,214	77,448	51,742	26,538	(62,633)	(19,161)
Shareholders' equity at end of year	$ 162,608	$ (166,758)	$ 207,423	$ 83,442	$ 25,586	$ 33,001	$ 3,253	$ (23,339)

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