

E-004-15

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

RECEIVED

MAY 20 2015

ORIGINAL

HEALTH FACILITIES &
SERVICES REVIEW BOARD

1. INFORMATION FOR EXISTING FACILITY

Current Facility Name Memorial Hospital-East
Address 1401 Cross Street
City Shiloh, IL Zip Code 62229 County St. Clair
Name of current licensed entity for the facility Metro-East Services, Inc.
Does the current licensee: own this facility OR lease this facility _____ (if leased, check if sublease
Type of ownership of the current licensed entity (check one of the following:)
 Sole Proprietorship
 Not-for-Profit Corporation For Profit Corporation Partnership Governmental
 Limited Liability Company Other, specify _____
Illinois State Senator for the district where the facility is located: Sen. James F. Clayborne, Jr.
State Senate District Number 57 Mailing address of the State Senator
329A Capitol Building Springfield, IL 62706
Illinois State Representative for the district where the facility is located: Rep. Eddie Lee Jackson
State Representative District Number 114 Mailing address of the State Representative
200-7S Stratton Office Building Springfield, IL 62706

2. OUTSTANDING PERMITS. Does the facility have any projects for which the State Board issued a permit that will not be completed (refer to 1130.140 "Completion or Project Completion" for a definition of project completion) by the time of the proposed ownership change? Yes No . If yes, refer to Section 1130.520(f), and indicate the projects by Project # 11-017-obligated and on schedule

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

Exact Legal Name of Applicant PLEASE SEE FOLLOWING PAGE
Address _____
City, State & Zip Code _____
Type of ownership of the current licensed entity (check one of the following:)
 Sole Proprietorship
 Not-for-Profit Corporation For Profit Corporation Partnership Governmental
 Limited Liability Company Other, specify _____

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

Exact Legal Name of Entity to be Licensed Metro-east Services, Inc.
Address 1401 Cross Street
City, State & Zip Code Shiloh, IL 62229
Type of ownership of the current licensed entity (check one of the following:)
 Sole Proprietorship Not-
for-Profit Corporation For Profit Corporation Partnership Governmental Limited Liability
Company Other, specify _____

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

Exact Legal Name of Entity That Will Own the Site Metro-East Services, Inc.
Address 4500 Memorial Drive
City, State & Zip Code Shiloh, IL 62229
Type of ownership of the current licensed entity (check one of the following:)
 Sole Proprietorship
 Not-for-Profit Corporation For Profit Corporation Partnership Governmental
 Limited Liability Company Other, specify _____

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

Exact Legal Name of Applicant Metro-East Services, Inc. d/b/a/ Memorial Hospital-East
Address 4500 Memorial Drive
City, State & Zip Code Belleville, IL 62226 (temporary mailing address)
Type of ownership of the current licensed entity (check one of the following:) Sole Proprietorship
 Not-for-Profit Corporation For Profit Corporation Partnership Governmental
Limited Liability Company Other, specify _____

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

Exact Legal Name of Applicant Memorial Group, Inc.
Address 4500 Memorial Drive
City, State & Zip Code Belleville, IL 62226
Type of ownership of the current licensed entity (check one of the following:) Sole Proprietorship
 Not-for-Profit Corporation For Profit Corporation Partnership Governmental
Limited Liability Company Other, specify _____

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

Exact Legal Name of Applicant BJC Healthcare
Address 4901 Forest Park Avenue
City, State & Zip Code St. Louis, MO 63108
Type of ownership of the current licensed entity (check one of the following:) Sole Proprietorship
 Not-for-Profit Corporation For Profit Corporation Partnership Governmental
Limited Liability Company Other, specify _____

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

Exact Legal Name of Applicant Memorial Regional Health Services, Inc.
Address 4500 Memorial Drive
City, State & Zip Code Belleville, IL 62226
Type of ownership of the current licensed entity (check one of the following:) Sole Proprietorship
 Not-for-Profit Corporation For Profit Corporation Partnership Governmental
Limited Liability Company Other, specify _____

6. TRANSACTION TYPE. CHECK THE FOLLOWING THAT APPLY TO THE TRANSACTION:

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

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

8. FUNDING. Indicate the type and source of funds which will be used to acquire the facility (e.g., mortgage through Health Facilities Authority; cash gift from parent company, etc.) and append as **ATTACHMENT #2**. **not applicable**

9. ANTICIPATED ACQUISITION PRICE: \$ not applicable

10. FAIR MARKET VALUE OF THE FACILITY: \$ 124,560,931

(to determine fair market value, refer to 77 IAC 1130.140)

11. DATE OF PROPOSED TRANSACTION: November 1, 2015

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

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

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

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

Applicant Memorial Regional Health Services, Inc. was formed as an Illinois not-for-profit corporation On May 15, 2015.

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

Name: Jacob M. Axel President Axel & Associates, Inc.
Address: 675 North Court Suite 210
City, State & Zip Code: Palatine, IL 60067
Telephone: (847) 776-7101

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

Name: Mark J. Turner President & CEO Memorial Group, Inc.
Address: 4500 Memorial Drive
City, State & Zip Code: Belleville, IL 62226
Telephone: (618) 257-5642

18. CERTIFICATION

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

Signature of Authorized Officer *Mark J. Turner*

Typed or Printed Name of Authorized Officer MARK J. TURNER

Title of Authorized Officer: PRESIDENT

Address: 4500 MEMORIAL DRIVE

City, State & Zip Code: BELLEVILLE, IL. 62226

Telephone (618) 257-5642 Date: 05.15.15

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

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

Name: Jacob M. Axel President Axel & Associates, Inc.
Address: 675 North Court Suite 210
City, State & Zip Code: Palatine, IL 60067
Telephone: (847) 776-7101

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

Name: Mark J. Turner President & CEO Memorial Group, Inc.
Address: 4500 Memorial Drive
City, State & Zip Code: Belleville, IL 62226
Telephone: (618) 257-5642

18. CERTIFICATION

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

Signature of Authorized Officer *Mark J. Turner*

Typed or Printed Name of Authorized Officer MARK J. TURNER

Title of Authorized Officer: PRESIDENT

Address: 4500 MEMORIAL DRIVE

City, State & Zip Code: BELLEVILLE, IL. 62226

Telephone (618) 257-5642 Date: 05-15-15

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

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

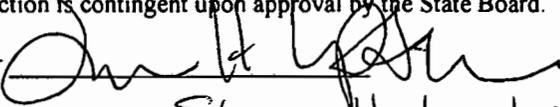
Name: Jacob M. Axel President Axel & Associates, Inc.
Address: 675 North Court Suite 210
City, State & Zip Code: Palatine, IL 60067
Telephone: (847) 776-7101

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

Name: Mark J. Turner President & CEO Memorial Group, Inc.
Address: 4500 Memorial Drive
City, State & Zip Code: Belleville, IL 62226
Telephone: (618) 257-5642

18. CERTIFICATION

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

Signature of Authorized Officer: 

Typed or Printed Name of Authorized Officer: Steven H. Lipstein

Title of Authorized Officer: President and CEO

Address: BJC HealthCare 4901 Forest Park Ave, Suite 1200

City, State & Zip Code: St. Louis MO 63108

Telephone: (314) 286-2030 Date: 5-13-15

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

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

Name: _____ Jacob M. Axel President Axel & Associates, Inc. _____
Address: _____ 675 North Court Suite 210 _____
City, State & Zip Code: _____ Palatine, IL 60067 _____
Telephone _____ (847) 776-7101 _____

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

Name: _____ Mark J. Turner President & CEO Memorial Group, Inc. _____
Address: _____ 4500 Memorial Drive _____
City, State & Zip Code: _____ Belleville, IL 62226 _____
Telephone _____ (618) 257-5642 _____

18. CERTIFICATION

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

Signature of Authorized Officer: Mark J. Turner

Typed or Printed Name of Authorized Officer: MARK J. TURNER

Title of Authorized Officer: PRESIDENT

Address: 4500 MEMORIAL DRIVE

City, State & Zip Code: BELLEVILLE, IL 62226

Telephone (618) 257-5642 Date: 05.15.15

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

NARRATIVE DESCRIPTION

Memorial Group, Inc. (“MGI”) and BJC Healthcare (“BJC”) propose to enter into a strategic affiliation, which meets the HFSRB’s definition of “change of ownership/change of control.” MGI is the parent of Protestant Memorial Medical Center, Inc. (d/b/a Memorial Hospital in Belleville, Illinois) and Metro-East Services, Inc. (d/b/a Memorial Hospital-East in Shiloh, Illinois.) Memorial Hospital-East was approved by the HFSRB on June 28, 2011, that project has been obligated, construction is on schedule, and an April 2016 opening is anticipated. BJC operates a regional health care delivery system in Missouri and southern Illinois.

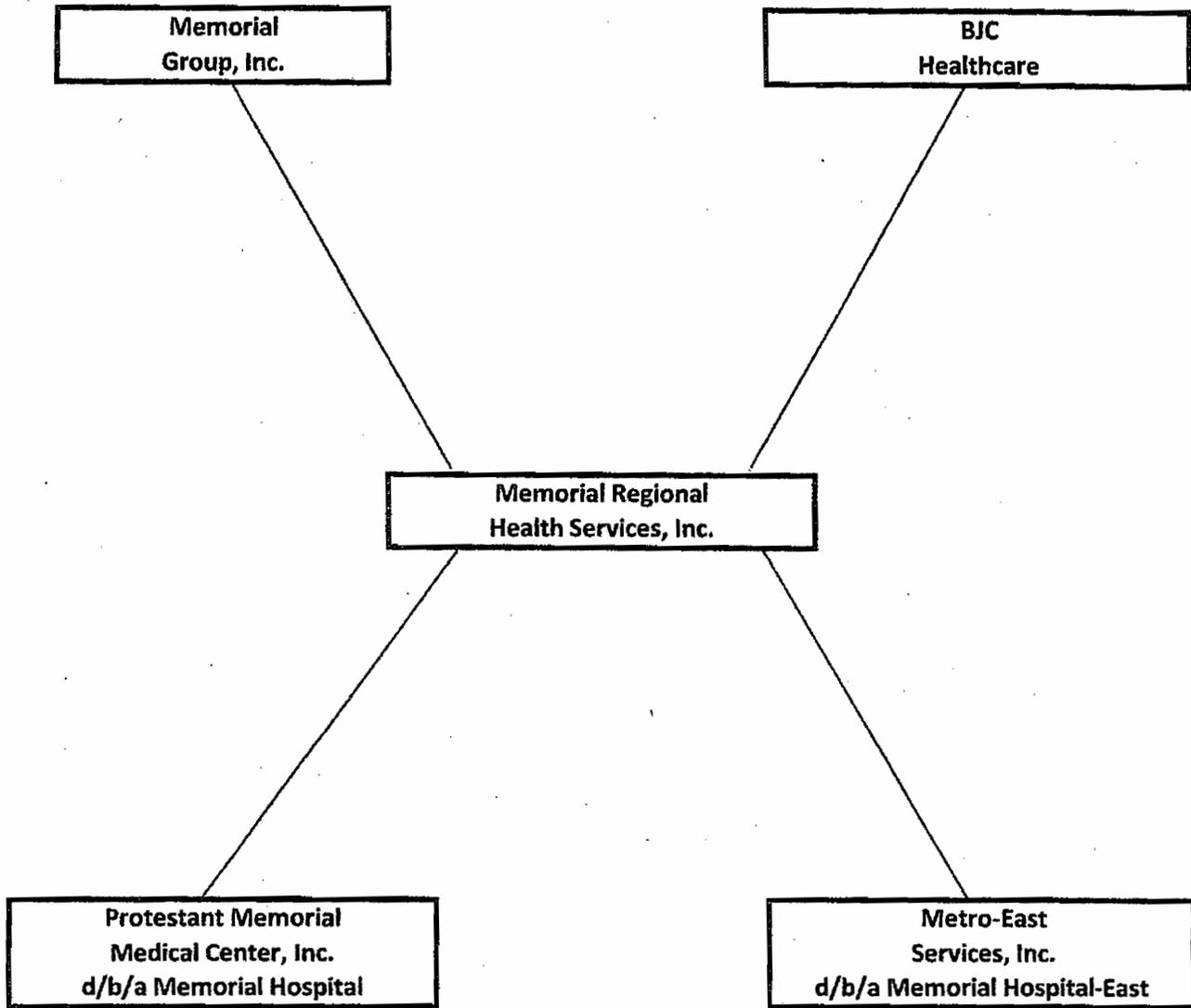
The proposed strategic affiliation would be structured as a membership addition whereby, MGI and BJC would be the two corporate members of Memorial Regional Health Services, Inc., an Illinois not-for-profit corporation (“MRHS”). MRHS will serve as the parent corporation of Memorial Hospital and Memorial Hospital-East. The hospitals will retain their not-for-profit status, the licensee of Memorial Hospital will not change, and the licensee of Memorial Hospital-East will be Metro-East Services, Inc. as identified in its 2011 CON Permit letter.

MRHS will be governed by a Board of Directors, with equal representation from MGI and BJC. MGI and BJC will each hold certain reserved powers, as identified in the definitive agreement, with respect to the governance and operation of MRHS. In addition to the MRHS Board, each hospital will be governed by a Board of Directors, which will retain certain responsibilities with respect to the individual hospitals.

The proposed strategic affiliation will improve the manner in which health care services are provided to the residents of the Metro-East region traditionally served by Memorial Hospital. Among the benefits to be realized are:

- a stronger regional health delivery system
- improved access to the clinical expertise of an academic referral center
- shared clinical and non-clinical “best practices”
- economies of scale, reducing costs for both patients and providers.

PROPOSED ORGANIZATIONAL STRUCTURE



ATTESTATION

With the filing of this Certificate of Exemption ("COE") application, the applicants attest to the following as related to Memorial Hospital and Memorial Hospital-East:

1. The categories of service and number of beds as reflected in *the Inventory of Health Care Facilities* will not substantially change for either of the above-identified hospitals for at least 12 months following the completion date of the change of ownership/change of control.
2. A transaction document signed by all required parties will be provided, and that document will contain a provision that execution is subject to HFSRB issuance of a COE, and that transaction document will contain the conditions and terms of the change of ownership/change of control. Consistent with a technical assistance conference with HFSRB staff, HFSRB review of this project will occur following the filing of that transaction document with HFSRB staff.
3. No adverse action has been taken against any applicant by the federal government, licensing or certifying bodies, or any other agency of the State of Illinois against any Illinois health care facility owned or operated by an applicant, directly or indirectly, within three years preceding the filing of the applications.
4. A bond rating sufficient to meet HFSRB requirements is held by an applicant.
5. Ownership and control of the above-identified hospitals is intended to be maintained for a minimum of three years.
6. Any projects for which Permits have been issued have been completed, are obligated, or will be completed or altered in accordance with the provisions of Section 1130.520.
7. Memorial Hospital will not adopt a more restrictive charity care policy than the policy that was in effect one year prior to the transaction; and the charity care policy will remain in effect for a two-year period following the change of ownership/change of control transaction.
8. Memorial Hospital-East will not adopt a more restrictive charity care policy than the policy in effect at Memorial Hospital one year prior to the transaction; and the charity care policy will remain in effect for a two-year period following the change of ownership/change of control transaction.
9. Failure to complete the projects in accordance with applicable provisions of Section 1130.500(d) no later than 24 months from the date of exemption approval (or by a later date established by HFSRB upon a finding that the project has proceeded with due diligence) and failure to comply with the material change requirements of this Section will invalidate the exemption.

MOODY'S INVESTORS SERVICE

Rating Action: Moody's assigns Aa2 to BJC Health System's (MO) Series 2015 bonds; Aa2 affirmed; outlook stable

Global Credit Research - 05 Mar 2015

\$891M pro forma rated debt outstanding

New York, March 05, 2015 --

Moody's Rating

Issue: Series 2015 Fixed Rate Revenue Bonds (Tax-Exempt); Rating: Aa2; Sale Amount: \$150,000,000; Expected Sale Date: 03-19-2015; Rating Description: Revenue: Other

Opinion

Moody's Investors Service assigns a Aa2 rating to BJC Health System's (BJC) proposed \$150 million of Series 2015 tax-exempt fixed rate revenue bonds. The bonds mature in 2045. Concurrent with this action, BJC's Aa2 long-term rating and VMIG 1 and P-1 short-term ratings are affirmed. The outlook remains stable.

SUMMARY RATING RATIONALE

The assignment and affirmation of the Aa2 rating is attributable to BJC's leading market share position in the St. Louis metropolitan area, track-record of double-digit operating cash flow margins, strong liquidity and debt coverage ratios, and national reputation as a leading academic medical center (AMC), the latter of which is anchored by the long-standing affiliation with Washington University's (rated Aaa) School of Medicine. BJC's challenges include a somewhat high Medicaid load, sizable indirect debt, and reliance on cash flows primarily from one metro area.

OUTLOOK

The stable outlook reflects our expectation that BJC will continue to generate good operating margins and sustain strong liquidity and debt coverage ratios.

WHAT COULD MAKE THE RATING GO UP

- Significantly greater diversity of cash flows among multiple markets.
- Sustained superior operating margins.
- Stronger liquidity and debt coverage ratios.

WHAT COULD MAKE THE RATING GO DOWN

- Sustained weakening of operating margins.
- Notably thinner liquidity or debt coverage ratios.
- Weakening of relationship with Washington University.
- Material increase in debt without commensurate increase in cash flow or cash.

OBLIGOR PROFILE

BJC owns and operates 11 hospitals in Missouri and Illinois, most of which are located in the St. Louis metropolitan area. The system is anchored by its two academic hospitals, Barnes-Jewish Hospital and St. Louis Children's Hospital. BJC has a long-standing strong affiliation with Washington University's School of Medicine. In February 2015, management announced plans for BJC to acquire Mineral Area Regional Medical Center (MARMC). MARMC is a 135 bed hospital located in Farmington, MO, where BJC's Parkland Health Center is located. MARMC currently is owned by for-profit Capella Healthcare.

LEGAL SECURITY

Bonds are secured by a joint and several obligation of the Obligated Group. The Obligated Group includes all owned hospital operating entities. Under certain circumstances, substitution of the master trust indenture (MTI) is permitted. A financial covenant of maintaining a minimum debt service coverage of 1.1 times is included in bond documents.

USE OF PROCEEDS

Proceeds from BJC's planned \$150 million Series 2015 bond issuance are expected to provide funds to support the system's capital spending plans. Later in the year, BJC expects to defease the Series 2005A fixed rate bonds (\$84.5 million outstanding at FYE 2014) with cash.

PRINCIPAL METHODOLOGIES

The principal methodology used in this rating was Not-for-Profit Healthcare Rating Methodology published in March 2012. The additional methodology used in this rating was Rating Methodology for Municipal Bonds and Commercial Paper Supported by a Borrower's Self-Liquidity published in January 2012. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

Mark Pascaris
Vice President - Senior Analyst
Public Finance Group
Moody's Investors Service, Inc.
100 N Riverside Plaza
Suite 2220
Chicago, IL 60606
U.S.A.
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

Lisa Martin
Senior Vice President
Public Finance Group
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

MOODY'S
INVESTORS SERVICE

13

© 2015 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND ITS RATINGS AFFILIATES ("MIS") ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND CREDIT RATINGS AND RESEARCH PUBLICATIONS PUBLISHED BY MOODY'S ("MOODY'S PUBLICATIONS") MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS FOR RETAIL INVESTORS TO CONSIDER MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS IN MAKING ANY INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in

14

preparing the Moody's Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moody.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

For Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657 AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail clients. It would be dangerous for "retail clients" to make any investment decision based on MOODY'S credit rating. If in doubt you should contact your financial or other professional adviser.

15

For Japan only: MOODY'S Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of MOODY'S Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.



To all to whom these Presents Shall Come, Greeting:

I, Jesse White, Secretary of State of the State of Illinois, do hereby certify that

METRO-EAST SERVICES, INC., A DOMESTIC CORPORATION, INCORPORATED UNDER THE LAWS OF THIS STATE ON MARCH 17, 2011, APPEARS TO HAVE COMPLIED WITH ALL THE PROVISIONS OF THE GENERAL NOT FOR PROFIT CORPORATION ACT OF THIS STATE, AND AS OF THIS DATE, IS IN GOOD STANDING AS A DOMESTIC CORPORATION IN THE STATE OF ILLINOIS.

In Testimony Whereof, *I hereto set my hand and cause to be affixed the Great Seal of the State of Illinois, this 15TH day of MAY A.D. 2015 .*



Authentication #: 1513501354

Authenticate at: <http://www.cyberdrivellinois.com>

Jesse White

SECRETARY OF STATE ATTACHMENT 4



To all to whom these Presents Shall Come, Greeting:

I, Jesse White, Secretary of State of the State of Illinois, do hereby certify that

MEMORIAL GROUP, INC., A DOMESTIC CORPORATION, INCORPORATED UNDER THE LAWS OF THIS STATE ON OCTOBER 08, 1985, APPEARS TO HAVE COMPLIED WITH ALL THE PROVISIONS OF THE GENERAL NOT FOR PROFIT CORPORATION ACT OF THIS STATE, AND AS OF THIS DATE, IS IN GOOD STANDING AS A DOMESTIC CORPORATION IN THE STATE OF ILLINOIS.

In Testimony Whereof, I hereto set
*my hand and cause to be affixed the Great Seal of
the State of Illinois, this 13TH
day of MAY A.D. 2015*



Authentication #: 1513301138

Authenticate at: <http://www.cyberdriveillinois.com>

Jesse White

SECRETARY OF STATE ATTACHMENT 4

STATE OF MISSOURI



Jason Kander
Secretary of State

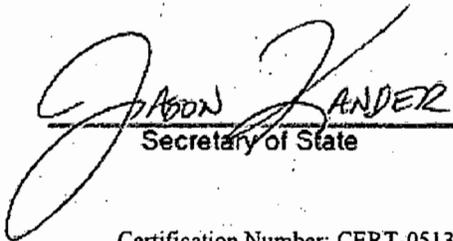
CORPORATION DIVISION
CERTIFICATE OF GOOD STANDING

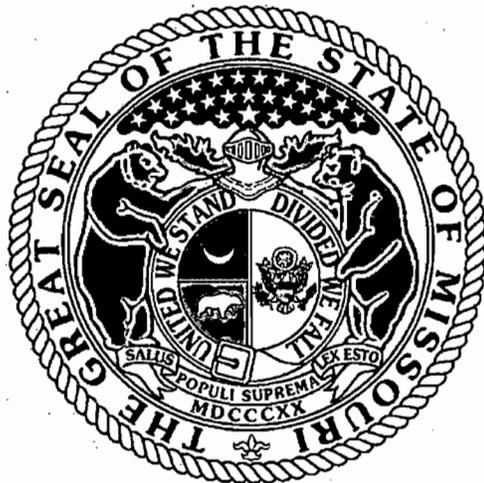
I, JASON KANDER, Secretary of State of the State of Missouri, do hereby certify that the records in my office and in my care and custody reveal that

BJC HEALTH SYSTEM
N00045883

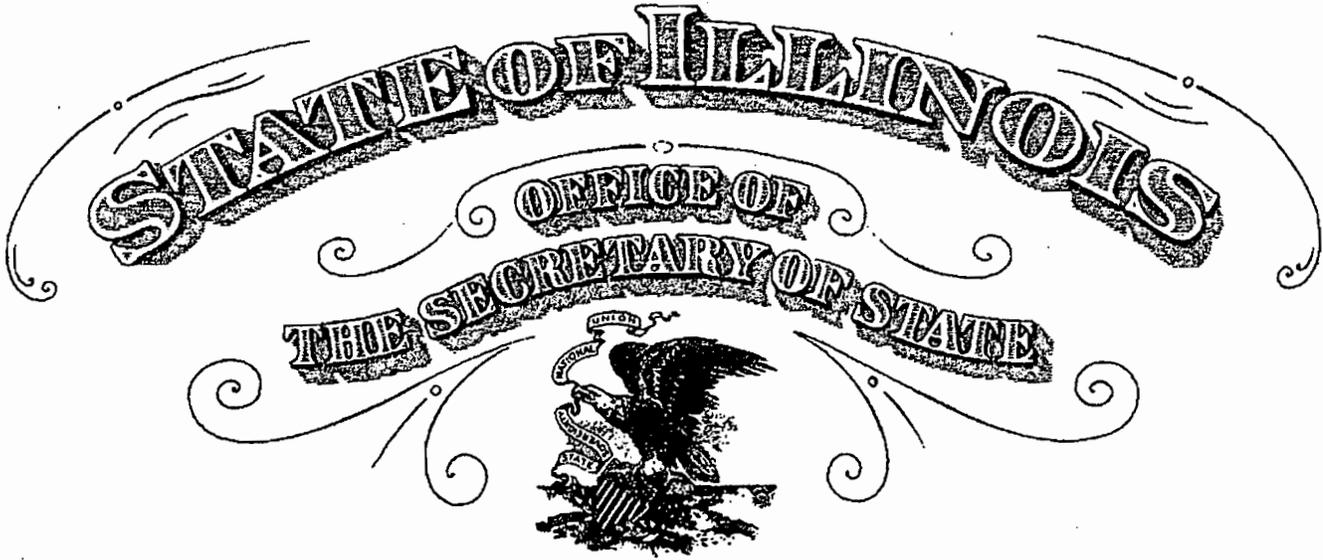
was created under the laws of this State on the 11th day of May, 1992, and is in good standing, having fully complied with all requirements of this office.

IN TESTIMONY WHEREOF, I hereunto set my hand and cause to be affixed the GREAT SEAL of the State of Missouri. Done at the City of Jefferson, this 13th day of May, 2015.


Secretary of State



Certification Number: CERT-05132015-0078



To all to whom these Presents Shall Come, Greeting:

I, Jesse White, Secretary of State of the State of Illinois, do hereby certify that

MEMORIAL REGIONAL HEALTH SERVICES, INC., A DOMESTIC CORPORATION, INCORPORATED UNDER THE LAWS OF THIS STATE ON MAY 14, 2015, APPEARS TO HAVE COMPLIED WITH ALL THE PROVISIONS OF THE GENERAL NOT FOR PROFIT CORPORATION ACT OF THIS STATE, AND AS OF THIS DATE, IS IN GOOD STANDING AS A DOMESTIC CORPORATION IN THE STATE OF ILLINOIS.

In Testimony Whereof, I hereto set my hand and cause to be affixed the Great Seal of the State of Illinois, this 15TH day of MAY A.D. 2015



Jesse White

Authentication #: 1513501348
Authenticate at: <http://www.cyberdriveillinois.com>

SECRETARY OF STATE ATTACHMENT 4

TRANSACTION DOCUMENT

Consistent with a technical assistance conference held with HFSRB staff on May 7, 2015, the applicants will provide the HFSRB staff a copy of the signed transaction document at a future date. That document will include a provision acknowledging the need for this Certificate of Exemption application to be approved by the HFSRB prior to the proposed transaction's effective date. Further, it is understood by the applicants that HFSRB staff will require sufficient time to review the transaction document, prior to action by the HFSRB.

CONSOLIDATED FINANCIAL STATEMENTS

BJC HealthCare
Years Ended December 31, 2014 and 2013
With Report of Independent Auditors

Ernst & Young LLP



Building a better
working world

ATTACHMENT 6

BJC HealthCare

Consolidated Financial Statements

Years Ended December 31, 2014 and 2013

Contents

Report of Independent Auditors.....1

Consolidated Financial Statements

Consolidated Balance Sheets.....3

Consolidated Statements of Operations and Changes in Net Assets.....4

Consolidated Statements of Cash Flows.....6

Notes to Consolidated Financial Statements.....7



Ernst & Young LLP
The Plaza in Clayton
Suite 1300
190 Carondelet Plaza
St. Louis, MO 63105-3434

Tel: +1 314 290 1000
Fax: +1 314 290 1882
ey.com

Report of Independent Auditors

The Board of Directors
BJC HealthCare

We have audited the accompanying consolidated financial statements of BJC HealthCare (BJC), which comprise the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

ATTACHMENT 6



Building a better
working world

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of BJC HealthCare at December 31, 2014 and 2013, and the consolidated results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

February 24, 2015

25

BJC HealthCare

Consolidated Balance Sheets
(Dollars in Millions)

	December 31	
	2014	2013
Assets		
Current assets:		
Cash and cash equivalents	\$ 56.3	\$ 99.6
Accounts receivable:		
Patients (less allowances for uncollectible accounts – \$99.7 in 2014 and \$67.2 in 2013)	570.5	549.8
Other	23.6	28.6
Other current assets	226.9	212.8
Total current assets	<u>877.3</u>	<u>890.8</u>
Investments	5,213.0	4,702.1
Property and equipment, net	2,047.0	2,030.6
Other noncurrent assets	182.8	172.2
Total assets	<u>\$ 8,320.1</u>	<u>\$ 7,795.7</u>
Liabilities and net assets		
Current liabilities:		
Current maturities of long-term debt	\$ 15.8	\$ 15.6
Long-term debt subject to self-liquidity	538.1	541.5
Other current liabilities	734.4	724.8
Total current liabilities	<u>1,288.3</u>	<u>1,281.9</u>
Noncurrent liabilities:		
Long-term debt	957.7	770.1
Self-insurance liabilities	146.9	150.5
Pension/postretirement liabilities	615.2	254.2
Other noncurrent liabilities	251.5	162.3
Total noncurrent liabilities	<u>1,971.3</u>	<u>1,337.1</u>
Total liabilities	<u>3,259.6</u>	<u>2,619.0</u>
Net assets:		
Unrestricted	4,622.6	4,745.8
Temporarily restricted	244.9	240.2
Permanently restricted	193.0	190.7
Total net assets	<u>5,060.5</u>	<u>5,176.7</u>
Total liabilities and net assets	<u>\$ 8,320.1</u>	<u>\$ 7,795.7</u>

See accompanying notes.

BJC HealthCare

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

	Year Ended December 31	
	2014	2013
Unrestricted revenues:		
Patient service revenue (net of allowances and discounts)	\$ 4,136.0	\$ 3,897.9
Provision for bad debts	(207.6)	(145.8)
Net patient service revenue	3,928.4	3,752.1
Other operating revenue	170.6	156.3
Total unrestricted revenues	<u>4,099.0</u>	<u>3,908.4</u>
Expenses:		
Salaries and benefits	1,819.7	1,849.2
Supplies and other	1,710.6	1,643.5
Depreciation and amortization	300.0	239.6
Interest rate swap settlements, net	17.6	16.8
Interest	18.6	13.3
Total expenses	<u>3,866.5</u>	<u>3,762.4</u>
Operating income	232.5	146.0
Investment earnings	177.0	287.2
Unrealized (losses) gains on interest rate swap contracts, net	(70.2)	73.9
Other nonoperating expense, net	(69.7)	(16.6)
Excess of revenues over expenses	<u>269.6</u>	<u>490.5</u>

BJC HealthCare

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

	Year Ended December 31	
	2014	2013
Unrestricted net assets:		
Excess of revenues over expenses	\$ 269.6	\$ 490.5
Pension and other postretirement liability adjustment	(394.1)	295.2
Net assets released for property acquisitions	1.3	2.3
Other	-	0.1
(Decrease) increase in unrestricted net assets	(123.2)	788.1
Temporarily restricted net assets:		
Contributions, bequests, and grants	14.8	18.4
Investment earnings	14.9	31.7
Net assets released from restrictions	(25.7)	(26.3)
Other	0.7	1.0
Increase in temporarily restricted net assets	4.7	24.8
Permanently restricted net assets:		
Contributions and bequests	1.8	12.8
Investment earnings	0.7	3.4
Other	(0.2)	0.6
Increase in permanently restricted net assets	2.3	16.8
(Decrease) increase in net assets	(116.2)	829.7
Net assets at beginning of year	5,176.7	4,347.0
Net assets at end of year	\$ 5,060.5	\$ 5,176.7

See accompanying notes.

BJC HealthCare

Consolidated Statements of Cash Flows
(Dollars in Millions)

	Year Ended December 31	
	2014	2013
Operating activities		
(Decrease) increase in net assets	\$ (116.2)	\$ 829.7
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:		
Change in unrealized losses (gains) on interest rate swaps	70.2	(73.9)
Restricted contributions	(16.6)	(31.2)
Depreciation and amortization	300.0	239.6
Provision for bad debts	207.6	145.8
Pension and other postretirement liability adjustment	394.1	(295.2)
Increase in patient accounts receivable, net	(228.3)	(129.5)
(Increase) decrease in other current assets	(33.7)	3.8
Increase in other current liabilities	35.3	76.5
Investments classified as trading, net	(6.1)	(309.2)
(Increase) decrease in other assets	(10.6)	12.1
Decrease in self-insurance liabilities	(4.8)	(9.5)
Decrease in other noncurrent liabilities	(23.2)	(22.2)
Net cash provided by operating activities	567.7	436.8
Investing activities		
Purchases of property and equipment, net	(316.4)	(333.4)
Sales of interests in alternative investments	359.4	143.3
Purchases of interests in alternative investments	(864.2)	(600.6)
Net cash used in investing activities	(821.2)	(790.7)
Financing activities		
Payments of debt	(15.6)	(236.9)
Proceeds from issuance of debt	209.2	571.0
Restricted contributions	16.6	31.2
Net cash provided by financing activities	210.2	365.3
Net (decrease) increase in cash and cash equivalents	(43.3)	11.4
Cash and cash equivalents, beginning of year	99.6	88.2
Cash and cash equivalents, end of year	\$ 56.3	\$ 99.6

See accompanying notes.

BJC HealthCare

Notes to Consolidated Financial Statements (Dollars in Millions)

December 31, 2014 and 2013

1. Organization and Summary of Significant Accounting Policies

Nature of Organization

BJC HealthCare (BJC or the System) is a regional healthcare delivery system operating in Missouri and southern Illinois. BJC is the sole corporate member of Barnes-Jewish Hospital (Barnes-Jewish), Christian Health Services Development Corporation (Christian), Missouri Baptist Medical Center (MBMC), St. Louis Children's Hospital (Children's), and Progress West Hospital (PWH) (collectively, the Institutions).

BJC is a Missouri not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and has received an Internal Revenue Service (IRS) determination letter stating that it is exempt from federal income taxes on its related income pursuant to Section 501(a) of the Code. The Institutions are also Missouri not-for-profit corporations as described in Section 501(c)(3) of the Code, and each has received IRS determination letters stating that they are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code.

CH Allied Services, Inc. (CHAS), an affiliate of Christian, leases and operates Boone Hospital Center (BHC) in Columbia, Missouri. The owner and lessor of BHC is the Board of Trustees of Boone County Hospital (BHC Lessor). The financial position and results of operations of BHC are included in BJC's consolidated financial statements. The lease agreement (the Lease) extends to December 31, 2020, with continuing five-year terms thereafter unless the Lease is terminated. Either party has the option to terminate the Lease during the current term or any successive five-year term by giving notice two years prior to the end of the then-current term. If the Lease is terminated, certain assets recorded in BJC's consolidated financial statements will revert to the BHC Lessor, and BJC will record a charge equal to the amount of BHC's unrestricted net assets due to a change in control over the assets. At December 31, 2014, unrestricted net assets of BHC included in the consolidated financial statements totaled \$153.8.

Consolidation

All significant intercompany transactions and account balances have been eliminated in the consolidated financial statements.

BJC HealthCare

Notes to Consolidated Financial Statements (continued) (Dollars in Millions)

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

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with original, short-term maturities of less than 90 days.

Investments and Investment Earnings

Investments include assets held by trustees under indenture, under the Lease, self-insurance agreements, foundation assets and unrestricted investments set aside by the Board of Directors (Board) over which it retains control and may, at its discretion, subsequently use for other purposes. Investments in equity and debt securities are measured at fair value.

For purposes of recognizing investment earnings as a component of excess of revenues over expenses, all investments, except for alternative investments, are considered to be trading securities. Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is included in excess of revenues over expenses unless the income or loss is restricted by donor or law. Gains and losses with respect to disposition of marketable securities are based on the average cost method. Investment earnings related to temporarily and permanently restricted net assets are added to or deducted from the appropriate net asset balance based on donor intent.

Within established investment policy guidelines, BJC may enter into various exchange-traded and over-the-counter derivative contracts for economic hedging purposes, including futures, options, swaps, and forward contracts. BJC has not designated its derivatives related to marketable securities as hedges, and the change in fair value of these derivatives is recognized in excess of revenues over expenses.

BJC HealthCare

Notes to Consolidated Financial Statements (continued) (Dollars in Millions)

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

BJC invests in alternative investments, generally through limited liability corporations (LLCs) and limited liability partnerships (LLPs), which are reported using the equity method of accounting based on information provided by the respective LLCs and LLPs.

The values provided by the respective organizations are based on historical cost, appraisals, or other estimates that require varying degrees of judgment. Management has utilized the best available information for reported values, which in some instances are valuations as of an interim date not more than 90 days before year-end. Generally, the net asset value of BJC's holdings reflects net contributions to the organization and an allocated share of realized and unrealized investment income and expenses. Returns from equity method investments, whether realized or unrealized, are included in investment earnings in excess of revenues over expenses.

Investment securities purchased and sold are reported based on trade date. Due to the difference between the trade date and the settlement date, BJC reports receivables for securities sold but not settled and reports liabilities for securities purchased but not settled. These receivables and payables are settled from within the investment portfolio and are presented on a net basis within investments in the consolidated balance sheets.

Securities Lending Program

BJC participates in securities-lending transactions with its investment custodian whereby a portion of its securities are loaned to selected, established brokerage firms in return for securities from the brokers as collateral for the securities loaned, usually on a short-term basis of up to 60 days. Collateral provided by the brokerage firms generally approximates 103% of the fair value of the securities on loan and is adjusted for daily market fluctuations. BJC earns a rebate on the loaned securities and has risk of loss on the collateral received.

The fair value of collateral held for loaned securities is reported as securities lending program investments. A corresponding obligation exists for repayment of such collateral upon settlement of the lending transaction and is included in other current liabilities in the consolidated balance sheets.

BJC HealthCare

Notes to Consolidated Financial Statements (continued)

(Dollars in Millions)

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

BJC also participates in a securities lending arrangement in the investment portfolio of its sponsored defined benefit pension plan as more fully described in Note 11.

Interest Rate Swaps

BJC uses interest rate swap contracts in managing its capital structure. BJC recognizes these derivative instruments as either assets or liabilities in the consolidated balance sheets at fair value. BJC does not account for any of its interest rate swap contracts as hedges, and accordingly, realized and unrealized gains and losses are reflected in excess of revenues over expenses in the accompanying consolidated statements of operations and changes in net assets. BJC also does not offset fair value amounts recognized for derivative instruments and fair value amounts recognized for cash collateral posted.

Inventory

Inventories, which consist principally of medical supplies and pharmaceuticals, are stated at the lower of cost or market. Cost is principally determined using average costs.

Property and Equipment

Property and equipment are recorded at cost, if purchased, or at fair value at the date of donation, if donated. Depreciation is provided on a straight-line basis over the estimated useful lives of the property. BJC follows the American Hospital Association guidelines for assigning useful lives to property and equipment purchased. BJC capitalizes certain internally developed software costs in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 350-44, *Internal-Use Software*. Interest cost incurred in connection with borrowings to finance major construction and facility expansion is capitalized during the construction period and subsequently amortized over the lives of the related assets.

Asset Impairment

BJC considers whether indicators of impairment are present and performs the necessary test to determine if the carrying value of an asset is appropriate. Impairment write-downs are recognized in operating income at the time the impairment is identified.

BJC HealthCare

Notes to Consolidated Financial Statements (continued) (Dollars in Millions)

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

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by BJC has been limited by donors primarily for research and education, special programs, patient care, operations, and property and equipment for a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained in perpetuity; the income from these funds is used primarily for special programs, operations, research and education, and patient care or added back to the corpus in accordance with donor restrictions.

Net Patient Service Revenue and Patient Accounts Receivable

Patient service revenue is reported net of contractual allowances and discounts at estimated net realizable amounts from patients, third-party payors, and others for services rendered and includes estimated retroactive adjustments due to audits, reviews, investigations, and significant regulatory actions. Net patient service revenue is reported net of provision for bad debts. Provisions for third-party payor settlements and adjustments are estimated in the period the related services are provided and adjusted in future periods as additional information becomes available and as final settlements are determined.

The provision for bad debts is based upon management's judgmental assessment of historical and expected net collections considering business and general economic conditions in its service area, trends in healthcare coverage, and other collection indicators. Throughout the year, management assesses the adequacy of the allowance for uncollectible accounts based upon its review of accounts receivable payor composition and aging, taking into consideration recent write-off experience by payor category, payor agreement rate changes, and other factors. The results of these assessments are used to make modifications to the provision for bad debts and to establish an appropriate allowance for uncollectible accounts receivables. For third-party payors, the provision is determined by analyzing contractually due amounts from payors who are known to be having financial difficulties. For self-pay patients, the provision is based on an analysis of past experience related to patients unwilling to pay standard rates charged. The difference between the standard rate charged (less the negotiated discounted rate) and the amount actually collected after reasonable collection efforts have been exhausted are charged off against the allowance for uncollectible accounts. BJC follows established guidelines for placing certain past-due patient balances with external collection agencies.

BJC HealthCare

Notes to Consolidated Financial Statements (continued)
(Dollars in Millions)

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

Contributions, Bequests, and Pledges

Unrestricted contributions and bequests are reported in other nonoperating expense, net when pledged. Restricted contributions and bequests are reported as additions to the appropriate restricted net asset balance. Restricted pledges are recorded at fair value in the year notification is received as an addition to the appropriate restricted net asset balance. Management believes these are Level 2 fair value measurements (as defined in Note 10) recorded on a nonrecurring basis. Pledges receivable totaling \$23.0 and \$28.0 are included in other current assets and other noncurrent assets at December 31, 2014 and 2013, respectively. These pledges are recorded at their net present value based on the expected timing of pledge fulfillment using an average credit adjusted discount rate of 3.8% in 2014 and 3.1% in 2013, which approximates fair value at the date the pledge is received. Management believes total pledges will be received as follows:

	<u>2014</u>	<u>2013</u>
Within one year	\$ 4.2	\$ 7.4
One to five years	4.4	6.1
After five years	<u>26.1</u>	<u>26.9</u>
	34.7	40.4
Less present value factor	(11.4)	(12.1)
Less allowance for uncollectible pledges	<u>(0.3)</u>	<u>(0.3)</u>
	<u>\$ 23.0</u>	<u>\$ 28.0</u>

Performance Indicator

BJC's performance indicator is excess of revenues over expenses, which includes all changes in unrestricted net assets other than contributions of long-lived assets, and pension and other postretirement liability adjustments.

BJC HealthCare

Notes to Consolidated Financial Statements (continued) (Dollars in Millions)

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

Operating and Nonoperating Income

BJC's primary mission is to meet the healthcare needs in its service areas through a broad range of general and specialized healthcare services, including inpatient acute care, outpatient services, physician services, and other healthcare services. Activities directly associated with the furtherance of this purpose are considered to be operating activities. Other activities that result in gains or losses peripheral to BJC's primary mission are considered to be nonoperating. All unrestricted activities of BJC's wholly owned affiliated Foundations (Foundations), including contribution and grant activity, are classified as nonoperating.

Income Taxes

The authoritative guidance in ASC 740, *Income Taxes*, creates a single model to address uncertainty in tax positions and clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. Under the requirements of this guidance, tax-exempt organizations could be required to record an obligation as the result of a tax position they have historically taken on various tax exposure items. BJC has not recognized a liability for uncertain tax positions.

Functional Expenses

BJC's accounting policies conform to U.S. generally accepted accounting principles applicable to healthcare organizations. Substantially all expenses are related to providing healthcare services to the community.

BJC HealthCare

Notes to Consolidated Financial Statements (continued) (Dollars in Millions)

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

Adoption of New Accounting Standards

In May 2014, the FASB and IASB issued *Revenue from Contracts with Customers*, which replaces all existing IFRS and U.S. GAAP revenue requirements. BJC is currently evaluating the effects of the standard on its financial statements. The standard is not effective for BJC until December 31, 2017.

In August 2014, the FASB issued ASU 2014-15, *Presentation of Financial Statements – Going Concern (Subtopic 205-40)*, that requires management to evaluate whether there are conditions and events that raise substantial doubt about an entity's ability to continue as a going concern. This standard is not effective for BJC until December 31, 2016.

2. Net Patient Service Revenue and Uncompensated Care

BJC provides healthcare services through inpatient, outpatient, and ambulatory care facilities. Services provided to certain patients are covered by various governmental and third-party payment programs, including Medicare and Medicaid at contractual rates generally below BJC's established rates. Revenue from Medicare and Medicaid programs accounted for approximately 45% and 44% of BJC's patient service revenue (net of contractual allowances and discounts) for the year ended December 31, 2014 and 2013, respectively. The composition of patient service revenue (net of contractual allowances and discounts) by third-party payor is as follows:

	2014	2013
Medicare	\$ 1,292.7	\$ 1,171.0
Medicaid	564.1	539.0
Managed Care	2,036.0	1,927.6
Self-pay	108.7	119.2
Other	134.5	141.1
	<u>\$ 4,136.0</u>	<u>\$ 3,897.9</u>

BJC HealthCare

Notes to Consolidated Financial Statements (continued)

(Dollars in Millions)

2. Net Patient Service Revenue and Uncompensated Care (continued)

BJC grants credit to patients and generally does not require collateral or other security in extending credit to patients. However, BJC routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits payable under their health insurance programs, plans, or policies (e.g., Medicare, Medicaid, managed care payors, and commercial insurance policies). As of December 31, 2014 and 2013, 34% and 33%, respectively, of patient accounts receivable, net, were collectible from governmental payors. The remaining 66% and 67% of patient accounts receivable, net, in 2014 and 2013, respectively, were collectible primarily from managed care and commercial insurance payors.

As of December 31, 2014 and 2013, BJC expects to collect approximately 18% of all amounts due from self-pay patients (including patients without insurance and patients with deductibles and copayment balances due for which third-party coverage exists for part of the bill). In 2014, BJC's provision for bad debts increased \$61.8 due to lower collection rates from self-pay patients, a policy revision related to the definition of charity care, and an increase in receivables due from self-pay patients. As a result, BJC increased its allowance for uncollectible accounts from \$67.2 as of December 31, 2013, to \$99.7 as of December 31, 2014.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Noncompliance with Medicare and Medicaid laws and regulations can make BJC subject to significant regulatory action, including substantial fines and penalties, as well as exclusion from the Medicare and Medicaid programs. The 2014 and 2013 net patient service revenue decreased by \$4.2 and increased by \$5.8, respectively, due to changes in estimated payment related to third-party payors and certain historical cost report periods. Operating income for 2014 and 2013 decreased by \$2.9 and increased by \$5.9, respectively, as a result of these changes in estimated payment.

BJC HealthCare

Notes to Consolidated Financial Statements (continued) (Dollars in Millions)

2. Net Patient Service Revenue and Uncompensated Care (continued)

Under Section 302 of the Tax Relief and Health Care Act of 2006, Congress required the Secretary of the Department of Health and Human Services to institute a permanent and national Recovery Audit program to recoup overpayments associated with services for which payment is made under part A or B of title XVIII of the Social Security Act. Under the Recovery Audit program, BJC, like other healthcare providers, experiences withholding of payments from the Medicare program for a variety of circumstances that result in uncertainty in the estimated realization of both current receivables and previously collected amounts. Accordingly, BJC estimates the impact, on a net basis, of amounts that may be withheld or recouped under the Recovery Audit program and amounts previously withheld or recouped inappropriately that are due to BJC. The 2014 and 2013 net patient service revenue increased by \$50.4 and decreased by \$32.4, respectively, due to the Recovery Audit contractor program. Operating income for 2014 and 2013 increased by \$39.4 and decreased by \$22.5, respectively, due to the Recovery Audit contractor program.

Uncompensated Care

In support of its mission, BJC provides charity care to patients who lack financial resources and are deemed to be medically indigent. Policies have been established that define charity care and provide guidelines for assessing a patient's ability to pay. Evaluation procedures for charity care qualification have been established for those situations when previously unknown financial circumstances are revealed or when incurred charges are significant when compared to the individual patient's income and/or net assets. Charity care also includes services for which the patient may not participate in the charity care process, but are otherwise deemed to meet the System's financial assistance policy. Because BJC does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as net patient service revenue. In addition, BJC provides services to other medically indigent patients under various state Medicaid programs, which pay providers amounts that are less than the costs incurred for the services provided to the recipients.

In response to the Affordable Care Act, BJC revised the financial assistance policy in 2014, increasing the income guidelines, reducing the duration of eligibility and requiring additional supporting documentation. As a result, financial assistance decreased and bad debt expense increased. The estimated cost of charity care was \$120.2 and \$148.9 in 2014 and 2013, respectively. Costs are estimated using the ratio of BJC's costs to its charges and applying to gross charity charges. These ratios are then used to determine the cost of each account that qualifies for charity care.

BJC HealthCare

Notes to Consolidated Financial Statements (continued)

(Dollars in Millions)

3. Electronic Health Record Incentive Program

The American Recovery and Reinvestment Act of 2009 included provisions for implementing health information technology under the Health Information Technology for Economic and Clinical Health Act (HITECH). The provisions were designed to increase the use of electronic health record (EHR) technology and establish the requirements for a Medicare and Medicaid incentive payment program beginning in 2011 for eligible providers that adopt and meaningfully use certified EHR technology. BJC accounts for meaningful use incentive payments under a gain contingency model. Medicare EHR incentive payments are recognized as revenues when eligible providers demonstrate meaningful use of certified EHR technology and the cost report information for the full cost report year that will determine the full calculation of incentive payment is available. Medicaid EHR incentive payments are recognized as revenues when an eligible provider demonstrates meaningful use of certified EHR technology. BJC recognized \$18.9 and \$27.2 of meaningful use revenue in 2014 and 2013, respectively. The revenue is recorded in other operating revenue in the consolidated statements of operations and changes in net assets. As a result, BJC's operating income increased \$16.9 and \$23.9 in 2014 and 2013, respectively. BJC's attestation of compliance with the meaningful use criteria is subject to audit by the federal government or its designee. Additionally, EHR incentive payments are subject to retrospective adjustment upon final settlement of the applicable cost report from which payments were initially calculated.

4. Affiliation Agreement With Washington University

BJC has an affiliation agreement with Washington University (the University) that expires on December 31, 2023, but which may be canceled upon one-year written notice by either party. Under the terms of the affiliation agreement, the University trains and supervises medical residents and manages certain clinical and research activities of BJC. The annual expense for these services provided by the University under the affiliation agreement is based on a fixed payment (\$7.8 in 2014 and \$7.7 in 2013) plus a payment based on the combined net operating income of Barnes-Jewish, Barnes-Jewish West County Hospital (one of Barnes-Jewish's wholly owned affiliates), and Children's. Amounts expensed as supplies and other in the consolidated statements of operations and changes in net assets for these services under the affiliation agreement totaled \$102.3 and \$95.6 in 2014 and 2013, respectively. Payments to the University under the affiliation agreement are made on a semiannual basis.

BJC HealthCare

Notes to Consolidated Financial Statements (continued)
(Dollars in Millions)

4. Affiliation Agreement With Washington University (continued)

In addition to the affiliation agreement, BJC has supplemental agreements with the University whereby BJC pays the University for certain purchased services and leased facilities and equipment. These supplemental agreements have varying terms with fixed and variable payment arrangements. Amounts expensed as supplies and other for these services totaled \$125.2 and \$121.0 in 2014 and 2013, respectively.

In addition, BJC received \$19.0 and \$18.8 from the University in 2014 and 2013, respectively, for certain purchased services and leased facilities and equipment.

Through the Foundations, BJC provides support to the University through various grant processes. These expenses are included in other nonoperating expense, net and net assets released from restrictions and total \$86.9 and \$28.9 in 2014 and 2013, respectively. Grants payable are included in other current and other noncurrent liabilities totaling \$159.8 and \$160.6 at December 31, 2014 and 2013, respectively. Management believes total grants payable will be paid as follows:

	<u>2014</u>	<u>2013</u>
Within one year	\$ 89.1	\$ 109.8
One to five years	60.5	50.8
After five years	10.2	-
	<u>\$ 159.8</u>	<u>\$ 160.6</u>

41

BJC HealthCare

Notes to Consolidated Financial Statements (continued)
(Dollars in Millions)

5. Investments

The following is a summary of investments included in the consolidated balance sheets:

	2014	2013
Unrestricted investments	\$ 4,080.9	\$ 3,527.4
Held at foundations	883.5	875.2
Assets limited as to use:		
Under self-insurance arrangements	72.7	75.8
Under the Lease	57.9	52.4
Under indenture agreements	131.2	185.7
	<u>5,226.2</u>	<u>4,716.5</u>
Less amounts included in other current assets	(13.2)	(14.4)
	<u>\$ 5,213.0</u>	<u>\$ 4,702.1</u>

The following is a summary of the composition of investments as of December 31:

	2014	2013
Cash and short-term investments	\$ 224.1	\$ 228.4
Income securities:		
U.S. government and agency obligations	411.7	515.2
Corporate debt securities	849.6	917.8
Asset-backed and securitized bonds and notes	381.3	467.6
Other fixed-income funds	255.7	8.5
Equity securities	1,121.3	1,202.4
Alternative investments:		
Hedge funds	1,148.2	904.7
Private equity and credit funds	815.2	461.0
Other	5.5	6.5
Accrued interest and dividends receivable	13.5	11.8
	<u>5,226.1</u>	<u>4,723.9</u>
Less amounts included in other current assets	(13.2)	(14.4)
	<u>5,212.9</u>	<u>4,709.5</u>
Amounts due to brokers	(33.7)	(32.7)
Amounts due from brokers	33.8	25.3
	<u>\$ 5,213.0</u>	<u>\$ 4,702.1</u>

BJC HealthCare

Notes to Consolidated Financial Statements (continued)

(Dollars in Millions)

5. Investments (continued)

BJC's investments are exposed to various kinds and levels of risk. Income securities expose BJC to interest rate risk, credit risk, and liquidity risk. As interest rates change, the value of many fixed-income securities with fixed interest rates is affected. Credit risk is the risk that the obligor of the security will not fulfill its obligation. Liquidity risk is affected by the willingness of market participants to buy and sell given securities.

Equity securities expose BJC to market risk, performance risk, and liquidity risk. Market risk is the risk associated with major movements of the equity markets, both domestic and international. Performance risk is the risk associated with a particular company's operating performance. Liquidity risk, as previously defined, tends to be higher for international and small domestic capitalization equity companies.

Alternative investments have similar risks as income and equity securities although there may be additional risks. These securities consist principally of non-controlling interests in limited liability partnerships (LLP) and limited liability corporations (LLC). Because these funds are invested through LLCs and LLPs, the underlying net asset value of the investments is based on valuations provided by the managers. Nearly all of the hedge fund manager valuations are independently priced or verified by third-party administrators. Private equity and credit investments have restrictions on the timing of withdrawals, up to ten years from initial investment date, which may reduce liquidity. Certain hedge fund investments also have restrictions on the timing of withdrawals, up to three years from initial investment date, which may reduce liquidity. BJC has unfunded commitments of \$927.2 to private equity and credit funds as of December 31, 2014.

BJC holds options, swaps, and currency forwards as part of our investment strategy. This economic hedging is based on investment portfolio exposure to long-only equities, foreign exchange, and fixed income. No leverage is utilized for this hedging activity. These contracts are subject to counterparty credit risk, the risk that contractual obligations of the counterparties (including BJC) will not be fulfilled. Counterparty credit risk is managed by requiring high credit standards for BJC's counterparties, as well as collateral posting requirements. The counterparties to these contracts are financial institutions that carry investment-grade credit ratings. These contracts contain collateral provisions applicable to both parties that mitigate credit risk above a specified mark-to-market posting threshold that is based on a fixed dollar amount. Pursuant to the collateral posting requirements under the contracts at December 31, 2014 and 2013, BJC posted \$8.5 and \$1.4, respectively.

BJC HealthCare

Notes to Consolidated Financial Statements (continued)
(Dollars in Millions)

5. Investments (continued)

At December 31, 2014 and 2013, the notional value of income and equity derivatives were approximately \$533.3 and \$490.6, respectively. The fair value of income and equity derivatives in an asset position was \$8.7 and \$4.8 at December 31, 2014 and 2013, respectively, while the fair value of derivatives in a liability position was \$0 and \$2.6 at December 31, 2014 and 2013, respectively. BJC recognized a loss of \$11.8 and \$41.6 in 2014 and 2013; respectively, which are recorded in investment earnings within the consolidated statements of operations and changes in net assets. These derivatives are included in investments in the consolidated balance sheets at December 31, 2014 and 2013.

At December 31, 2014 and 2013, investments include the fair value of securities on loan of \$45.8 and \$69.6, respectively. Accepted collateral for these securities on loan at December 31, 2014 and 2013 totaled \$47.3 and \$72.0, respectively, and is included in other current assets.

Investment earnings for the years ended December 31 is summarized as follows:

	<u>2014</u>	<u>2013</u>
Interest and dividends	\$ 79.9	\$ 87.3
Net realized gains	171.4	185.1
Net unrealized (losses) gains	(58.7)	49.9
Total investment earnings	<u>\$ 192.6</u>	<u>\$ 322.3</u>
Included in investment earnings	\$ 177.0	\$ 287.2
Included in temporarily and permanently restricted net assets	15.6	35.1
Total investment earnings	<u>\$ 192.6</u>	<u>\$ 322.3</u>

BJC HealthCare

Notes to Consolidated Financial Statements (continued)

(Dollars in Millions)

6. Property and Equipment

A summary of property and equipment, net, as of December 31 is as follows:

	2014	2013
Land and land improvements	\$ 165.8	\$ 157.3
Building and improvements	1,806.8	1,805.9
Equipment	3,081.7	2,892.0
	5,054.3	4,855.2
Less accumulated depreciation	(3,247.3)	(2,992.9)
	1,807.0	1,862.3
Construction-in-progress	240.0	168.3
	\$ 2,047.0	\$ 2,030.6

At December 31, 2014, BJC had outstanding contracts totaling \$414.7 for all construction-related activities, including architecture and engineering, that result in capital projects. The estimated remaining cost to complete these contracts totals \$200.2 as of December 31, 2014. Net interest capitalized in 2014 and 2013 totaled \$2.5 and \$2.2, respectively.

BJC evaluates long-lived assets used in operations for impairment as events and changes in circumstances indicate that the carrying amount of such assets might not be recoverable. Assets are grouped at the lowest level for which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets, which generally is at the hospital level.

During 2014, BJC evaluated the carrying value of long-lived assets at one of its hospitals that has experienced recent operating losses as a result of reduced Medicare and Medicaid reimbursement, increasing self-pay revenues, and general market decline. Based on this evaluation, BJC determined that the full carrying value of the hospital's long-lived assets was no longer recoverable and recorded an impairment charge of \$37.4, included in depreciation and amortization expense, to reduce the property and equipment to estimated fair value. Fair value was based on a market approach, comparing the asset group to similar assets that have been sold or offered for sale, adjusted for differences such as historical financial condition and performance, expected economic benefits, and physical characteristics, all of which constitute unobservable Level 3 inputs. Management believes the assumptions used are consistent with those a market participant would use.

BJC HealthCare

Notes to Consolidated Financial Statements (continued)
(Dollars in Millions)

7. Other Current Assets and Liabilities

Other current assets consist of the following as of December 31:

	<u>2014</u>	<u>2013</u>
Inventory	\$ 86.2	\$ 76.7
Due from third-party payors	43.8	19.7
Prepaid expenses	35.9	29.7
Current portion of self-insurance trust	13.2	14.4
Receivable under securities lending program	47.3	72.0
Other	0.5	0.3
	<u>\$ 226.9</u>	<u>\$ 212.8</u>

Other current liabilities consist of the following as of December 31:

	<u>2014</u>	<u>2013</u>
Accounts payable	\$ 106.8	\$ 95.7
Accrued payroll and related liabilities	237.5	237.4
Accrued expenses and other	102.2	77.3
Due to third-party payors	18.5	15.6
Due to Washington University	208.9	212.4
Payable under securities lending program	47.3	72.0
Self-insurance liabilities	13.2	14.4
	<u>\$ 734.4</u>	<u>\$ 724.8</u>

BJC HealthCare

Notes to Consolidated Financial Statements (continued)

(Dollars in Millions)

8. Long-term Debt

Long-term debt consists of the following at December 31:

	2014	2013
Series 2011A-B variable rate term bonds, privately placed, puttable starting in 2021 at which time bonds can be remarketed or redeemed, interest (0.86% at December 31, 2014) set at prevailing market rates, due through 2046	\$ 200.0	\$ 200.0
Series 2012A-E and Series 2013B variable rate term bonds, privately placed, puttable starting in 2023 at which time bonds can be remarketed or redeemed, interest (0.74% to 0.86% at December 31, 2014) set at prevailing market rates, due through 2048	371.0	371.0
Series 2005B and Series 2008A-E variable rate demand bonds subject to self-liquidity, interest (0.02% to 0.05% at December 31, 2014) set at prevailing rates, due through 2050	441.5	442.0
Series 2013C variable rate demand bonds subject to self-liquidity and a put provision that provides for a seven-month notice and remarketing period, interest (0.11% at December 31, 2014) set at prevailing market rates, due through 2050	100.0	100.0
Series 1993A, Series 2005A, Series 2013A, and Series 2014 fixed rate debt, interest rates from 3.23% to 4.94%, due through 2044	384.5	199.6
Other	14.6	14.6
	<u>1,511.6</u>	<u>1,327.2</u>
Less current maturities of long-term debt	(15.8)	(15.6)
Less long-term debt subject to self-liquidity arrangements	(538.1)	(541.5)
	<u>\$ 957.7</u>	<u>\$ 770.1</u>

BJC HealthCare

Notes to Consolidated Financial Statements (continued)

(Dollars in Millions)

8. Long-term Debt (continued)

BJC maintains an Obligated Group structure under its Master Indenture agreement (the Master Indenture), dated as of April 4, 2006. The Obligated Group members are jointly and severally liable for all notes issued under the Master Indenture and represent those organizations that own or operate the principal healthcare facilities of BJC.

The Master Indenture permits BJC to issue Master Notes thereunder to evidence or secure additional indebtedness on behalf of the Obligated Group. The Obligated Group members are responsible for making all payments required with respect to obligations under the Master Indenture. The aggregate par amount of obligations outstanding under the Master Indenture (other than obligations that have been legally defeased and that are not considered to be outstanding) totaled \$1,497.0 and \$1,312.6 at December 31, 2014 and 2013, respectively. The Master Indenture imposes various covenants and conditions on BJC, including covenants related to debt service coverage, additional indebtedness, permitted liens, and the use and maintenance of facilities. Management believes BJC is in compliance with these covenants and conditions as of December 31, 2014.

At December 31, 2014 and 2013, BJC had \$541.5 and \$542.0, respectively, of variable rate demand bonds that are supported by self-liquidity. The variable rate demand bonds, while subject to long-term amortization periods, may be tendered to BJC at the option of bondholders subject to certain notice period requirements. If the variable rate demand bonds subject to self-liquidity are not remarketed upon the exercise of put options, management would utilize internal or external sources to provide the necessary liquidity. Such bonds, less current maturities, are included as long-term debt subject to self-liquidity in current liabilities in the consolidated balance sheets.

BJC HealthCare

Notes to Consolidated Financial Statements (continued) (Dollars in Millions)

8. Long-term Debt (continued)

In September 2013, \$100.0 of tax-exempt Series 2013A fixed rate bonds were issued by the Health and Educational Facilities Authority of the State of Missouri on behalf of BJC. The proceeds of these bonds were used to reimburse BJC for the payment of certain capital expenditures. This private placement matures in 2042.

In October 2013, \$100.0 of tax-exempt Series 2013B variable rate term bonds were issued by the Health and Educational Facilities Authority of the State of Missouri on behalf of BJC. The proceeds of these bonds will be used to reimburse BJC for the payment of certain capital expenditures. This private placement matures in 2048.

In October 2013, \$100.0 of tax-exempt Series 2013C variable rate demand bonds were issued by the Health and Educational Facilities Authority of the State of Missouri on behalf of BJC. These bonds are backed by self-liquidity and the proceeds will be used to reimburse BJC for the payment of certain capital expenditures. These bonds mature in 2050.

In March 2014, \$200.0 of tax-exempt Series 2014 fixed rate bonds were issued by the Health and Educational Facilities Authority of the State of Missouri on behalf of BJC at a premium of \$9.2. The proceeds of these bonds will be used to reimburse BJC for the payment of certain capital expenditures. These bonds mature in 2044. In 2014, the System incurred \$1.5 in costs related to new issuances, which will be amortized over the life of the bonds.

BJC is party to a 30-year loan agreement for \$14.6 with a direct lender through the U.S. Department of the Treasury Community Development Financial Institutions (CDFI) Fund New Markets Tax Credit (NMTC) program for reimbursement of certain capital expenditures. The loan has a bilateral put/call option that becomes effective in 2020. Using the loan proceeds, BJC concurrently loaned \$10.3 to a newly created not-for-profit Special Purpose Entity (SPE). Amounts receivable from the SPE and payable by BJC are included in other noncurrent assets and long-term debt, respectively.

BJC HealthCare

Notes to Consolidated Financial Statements (continued) (Dollars in Millions)

8. Long-term Debt (continued)

At December 31, 2014, BJC has a general operating line of credit of \$300.0. This facility has a five-year term expiring May 2018. In addition, BJC initiated a \$100.0 hybrid dedicated bank line of credit in May 2013. This facility has a three-year term expiring May 2016 and has the dual function of supporting general operating requirements and tenders associated with the variable rate demand bonds. No amounts are outstanding under the lines of credit at December 31, 2014 or 2013.

Scheduled principal payments on long-term debt, including obligations subject to short-term remarketing as due according to their long-term amortization schedule are as follows:

Year ending December 31:	<u>Scheduled</u>
2015	\$ 15.8
2016	16.5
2017	25.5
2018	26.5
2019	27.5

The amount of interest paid, net of interest capitalized, totaled \$14.5 and \$14.0 in 2014 and 2013, respectively.

9. Interest Rate Swaps

BJC uses interest rate swap contracts to manage interest rate risk associated with its variable rate debt obligations. BJC is a party to multiple interest rate swap contracts that effectively convert various variable rate bonds to fixed rates. Interest rate swap contracts between BJC and third parties (counterparties) provide for the periodic exchange of payments between the parties based on changes in a defined index, typically 68% of the one-month or three-month LIBOR rate, and a fixed rate. These contracts are subject to counterparty credit risk, the risk that contractual obligations of the counterparties (including BJC) will not be fulfilled. Concentrations of credit risk relate to groups of counterparties that have similar economic or industry characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

BJC HealthCare

Notes to Consolidated Financial Statements (continued)

(Dollars in Millions)

9. Interest Rate Swaps (continued)

Counterparty credit risk is managed by requiring high credit standards for BJC's counterparties and, in certain cases, collateral posting requirements. The counterparties to these contracts are financial institutions that carry investment-grade credit ratings.

Certain interest rate swap contracts contain collateral provisions applicable to both parties to mitigate credit risk above a specified mark-to-market posting threshold that is based on either a fixed dollar amount or on each counterparty's credit rating.

Pursuant to the collateral posting requirements under the swap contracts, at December 31, 2014 and 2013, BJC posted \$38.4 and \$7.1, respectively, as collateral, which is reported as other noncurrent assets in the consolidated balance sheets. BJC does not anticipate nonperformance by its counterparties.

At December 31, 2014 and 2013, the notional amount of BJC's outstanding interest rate swap contracts is \$817.8 and \$689.6, respectively.

During October 2014, BJC issued an interest swap contract with PNC Bank, N.A. with a notional amount of \$130.0, which will mature in 2050.

The fair value of BJC's outstanding interest rate swaps at December 31 is as follows:

Derivatives Not Designated as Hedging Instruments	Balance Sheet Location	2014	2013
Interest rate swap contracts	Other noncurrent liabilities	\$ (104.0)	\$ (50.1)
Interest rate swap contracts	Other noncurrent assets	-	16.3

BJC HealthCare

Notes to Consolidated Financial Statements (continued)

(Dollars in Millions)

9. Interest Rate Swaps (continued)

The effects of BJC's interest rate swaps in the consolidated statements of operations and changes in net assets for the years ended December 31 are as follows:

Derivatives Not Designated as Hedging Instruments	Location of (Loss) Gain on Derivatives Recognized in Excess of Revenues Over Expenses	Amount of Loss (Gain) on Derivatives Recognized in Excess of Revenues Over Expenses	
		2014	2013
Interest rate swap contracts	Unrealized (loss) gain on interest rate swap contracts	\$ (70.2)	\$ 73.9
Interest rate swap contracts	Interest rate swap settlements, net	(17.6)	(16.8)

BJC HealthCare

Notes to Consolidated Financial Statements (continued) (Dollars in Millions)

10. Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Fair Value Measurements and Disclosures Topic of the FASB ASC establish a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement).

Certain of BJC's financial assets and financial liabilities are measured at fair value on a recurring basis, including money market, fixed income and equity instruments, and interest rate swap contracts. The three levels of the fair value hierarchy and a description of the valuation methodologies used for instruments measured at fair value are as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities as of the reporting date. Level 1 primarily consists of financial instruments such as money market securities and listed equities.

Level 2 – Pricing inputs other than quoted prices included in Level 1 that are either directly observable or that can be derived or supported from observable data as of the reporting date. Instruments in this category include certain U.S. government agency and sponsored entity debt securities and interest rate swap contracts and derivatives.

Level 3 – Pricing inputs include those that are significant to the fair value of the financial asset or financial liability and are not observable from objective sources. In evaluating the significance of inputs, BJC generally classifies assets or liabilities as Level 3 when their fair value is determined using unobservable inputs that individually, or when aggregated with other unobservable inputs, represent more than 10% of the fair value of the assets or liabilities. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value.

BJC HealthCare

Notes to Consolidated Financial Statements (continued)
(Dollars in Millions)

10. Fair Value Measurements (continued)

The fair value of financial assets and liabilities measured at fair value on a recurring basis was determined using the following inputs at December 31, 2014:

	Fair Value Measurements at Using			
	Fair Market Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Investments:				
Cash and short-term investments	\$ 224.1	\$ 224.1	\$ —	\$ —
Income securities:				
U.S. government and agency obligations	411.7	—	411.7	—
Corporate debt securities	849.6	—	849.6	—
Asset-backed and securitized bonds and notes	381.3	—	371.3	10.0
Other fixed-income funds	255.7	—	255.7	—
Equity securities	1,121.3	647.7	473.6	—
Other	5.5	—	5.5	—
Total investments	3,249.2	871.8	2,367.4	10.0
Collateral received under securities lending program	47.3	—	47.3	—
Deferred compensation agreements	27.7	27.7	—	—
	<u>\$ 3,324.2</u>	<u>\$ 899.5</u>	<u>\$ 2,414.7</u>	<u>\$ 10.0</u>
Liabilities				
Liability under interest rate swap contracts	\$ 104.0	\$ —	\$ 104.0	\$ —

BJC HealthCare

Notes to Consolidated Financial Statements (continued)

(Dollars in Millions)

10. Fair Value Measurements (continued)

The fair value of financial assets and liabilities measured at fair value on a recurring basis was determined using the following inputs at December 31, 2013:

	<u>Fair Value Measurements at Using</u>			
	<u>Fair Market Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Assets				
Investments:				
Cash and short-term investments	\$ 228.4	\$ 228.4	\$ -	\$ -
Income securities:				
U.S. government and agency obligations	515.2	-	515.2	-
Corporate debt securities	917.8	-	917.8	-
Asset-backed and securitized bonds and notes	467.6	-	204.3	263.3
Other fixed-income funds	8.5	-	8.5	-
Equity securities	1,202.4	686.7	515.7	-
Other	6.5	-	6.5	-
Total investments	3,346.4	915.1	2,168.0	263.3
Collateral received under securities lending program				
	72.0	-	72.0	-
Asset under interest rate swap contracts	16.3	-	16.3	-
Deferred compensation agreements	25.4	25.4	-	-
	\$ 3,460.1	\$ 940.5	\$ 2,256.3	\$ 263.3
Liabilities				
Liability under interest rate swap contracts	\$ (50.1)	\$ -	\$ (50.1)	\$ -

The tables above exclude hedge funds, private equity funds, private credit funds, accrued interest, dividend receivable, and other, totaling \$1,976.9 and \$1,377.5 at December 31, 2014 and 2013, respectively, which are included in investments on the consolidated balance sheets but are not measured at fair value.

BJC HealthCare

Notes to Consolidated Financial Statements (continued)
(Dollars in Millions)

10. Fair Value Measurements (continued)

The following table is a rollforward of assets classified in Level 3 of the valuation hierarchy defined above:

	Asset-Backed and Securitized Bonds and Notes
	<u> </u>
Fair value at January 1, 2013	\$ 208.8
Purchases	230.0
Settlements	(193.5)
Investment earnings	18.0
Transfers in and out/of Level 3	—
Fair value at December 31, 2013	<u>263.3</u>
Purchases	103.3
Settlements	(231.3)
Investment earnings	18.4
Transfers in and/or out of Level 3	(143.7)
Fair value at December 31, 2014	<u><u>\$ 10.0</u></u>

The fair values of the securities included in Level 1 were determined through quoted market prices. The fair values of Level 2 securities (primarily income securities) were determined through evaluated bid prices based on recent trading activity, and other relevant information, including market interest rate curves and referenced credit spreads, or estimated prepayment rates provided by third-party pricing services where quoted market values are not available. Any securities with fewer than two received broker quotes are categorized as Level 3 assets. The fair values for interest rate swap contracts were derived through observable market data obtained from a pricing vendor. With regards to the equity option and currency futures derivatives, which are included in other Level 2 securities, observable market data is used to build an implied volatility figure which is input into a Black-Scholes model to determine fair value.

BJC HealthCare

Notes to Consolidated Financial Statements (continued) (Dollars in Millions)

10. Fair Value Measurements (continued)

The fair values of the interest rate swap contracts are determined based on the present value of expected future cash flows using discount rates appropriate with the risks involved. The valuations reflect a credit spread adjustment to the LIBOR discount curve in order to reflect the credit value adjustment for nonperformance risk. The BJC credit spread adjustment is derived from other comparably rated entities' bonds priced in the market, while the counterparty credit spread adjustment is based on respective credit default swap spreads. Due to the volatility of the capital markets, there is a reasonable possibility of changes in fair value and additional gains (losses) in the near term subsequent to December 31, 2014.

Level 3 assets of \$10.0 include certain asset-backed and securitized notes and bonds. These underlying securities trade less frequently than other income instruments, which generate potential liquidity risk. In the event pricing cannot be obtained through quoted prices in active markets, these securities are priced using an option-adjusted discounted cash flow model.

BJC transfers assets in and/or out of Level 3 as significant inputs, including performance attributes, used for the fair value measurement become observable or unobservable. There were no significant transfers into or out of Level 1, Level 2, or Level 3 that occurred between January 1, 2013 and December 31, 2013. BJC transferred \$143.7 of securitized notes and bonds from Level 3 to Level 2 in 2014 by obtaining additional observable market inputs in the form of multiple corroborating broker quotes. BJC recognizes transfers as of the end of the reporting period.

The carrying value of cash and cash equivalents, accounts receivable, and current liabilities are reasonable estimates of their fair value due to the short-term nature of these financial instruments. The value of pledges receivable is estimated by management to approximate fair value as of the date the pledge is received. The fair value of BJC's fixed rate bonds is based on quoted market prices for the same or similar issues and approximates \$407.7 and \$204.1 as of December 31, 2014 and 2013, respectively, and represents a Level 2 measurement. The fair value of BJC's variable rate bonds approximates the carrying amount of \$1,112.5 and \$1,113.0 as of December 31, 2014 and 2013, respectively, and excludes the impact of third-party credit enhancements.

BJC HealthCare

Notes to Consolidated Financial Statements (continued) (Dollars in Millions)

11. Postretirement Benefits

BJC sponsors the BJC Defined Contribution Plan, a 401(k) defined contribution plan that covers substantially all employees. Employer contributions to this plan are based on a percentage of participating employees' contributions to a related 403(b) plan. BJC contributed \$17.4 and \$16.8 to this plan during 2014 and 2013, respectively, which is included in salaries and benefits in the consolidated statements of operations and changes in net assets.

BJC sponsors a defined-benefit pension plan (the Plan) covering substantially all full-time employees who have met certain age requirements and have completed one year of service. Benefits are based on years of service and employee earnings. BJC's minimum funding policy is to contribute annually amounts actuarially determined to fund the benefits of the plans. In 2014 and 2013, BJC had no minimum required pension contributions.

The following table sets forth the funded status of the Plan and accrued pension cost as of December 31 as actuarially determined:

	2014	2013
Change in projected benefit obligation		
Projected benefit obligation at beginning of year	\$ 1,844.8	\$ 1,926.6
Service cost	85.9	94.4
Interest cost	94.7	85.9
Actuarial loss (gain)	373.0	(224.4)
Benefits paid	(45.0)	(37.7)
Projected benefit obligation at end of year	2,353.4	1,844.8
Change in plan assets		
Fair value of plan assets at beginning of year	1,595.2	1,382.2
Actual earnings on plan assets	83.5	128.5
Employer contributions	109.1	122.2
Benefits paid	(45.0)	(37.7)
Fair value of plan assets at end of year	1,742.8	1,595.2
Unfunded status	\$ (610.6)	\$ (249.6)
Accumulated benefit obligation at end of year	\$ 2,061.6	\$ 1,588.4
(Unfunded) funded status (based on accumulated benefit obligation)	\$ (318.8)	\$ 6.8

BJC HealthCare

Notes to Consolidated Financial Statements (continued)
(Dollars in Millions)

11. Postretirement Benefits (continued)

The unfunded status is included in pension/postretirement liabilities in the consolidated balance sheets. BJC has other postretirement plans with unfunded benefit obligations of \$4.6 and \$4.6 at December 31, 2014 and 2013, respectively.

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

	<u>2014</u>	<u>2013</u>
Unrecognized actuarial losses	\$ 723.2	\$ 329.2
Unrecognized prior service cost	0.3	0.4
	<u>\$ 723.5</u>	<u>\$ 329.6</u>

Changes in plan assets and benefit obligations recognized in unrestricted net assets for the year ended December 31 are as follows:

	<u>2014</u>	<u>2013</u>
Unrecognized actuarial gains (losses)	\$ 411.2	\$ (246.5)
Amortization of actuarial losses	(17.1)	(47.8)
Amortization of prior service cost	(0.2)	(0.5)
	<u>\$ 393.9</u>	<u>\$ (294.8)</u>

The pension and other postretirement liability adjustment of \$394.1 for the year ended December 31, 2014, on the consolidated statements of operations and changes in net assets includes \$0.2 related to the other postretirement plans.

The prior service cost and actuarial loss included in unrestricted net assets and expected to be recognized in net periodic pension cost during the year ending December 31, 2015, total \$0.1 and \$48.3, respectively. The impact of the change in discount rate on the projected benefit obligation of the Plan was an increase of approximately \$297.5 at December 31, 2014. Additionally, BJC adopted the new RP-2014 mortality tables set forth by the Society of Actuaries during 2014, which represents the first update of mortality table data since 2000.

BJC HealthCare

Notes to Consolidated Financial Statements (continued)
(Dollars in Millions)

11. Postretirement Benefits (continued)

The updated tables reflect a pattern of increases in life expectancies compared with existing tables, resulting in greater benefit costs, obligations and contributions for plan sponsors. The adoption of the new mortality tables increased the projected benefit obligation by approximately \$167.7.

No plan assets are expected to be returned to BJC during the year ending December 31, 2015.

	<u>2014</u>	<u>2013</u>
Weighted-average assumptions used to determine benefit obligations for the year ended December 31		
Discount rate	4.40%	5.25%
Rate of increase in compensation levels	3.50	4.00
Weighted-average assumptions used to determine expense for the year ended December 31		
Discount rate	5.25%	4.50%
Rate of compensation increases	4.00	4.00
Expected long-term rate of return	7.75	7.75

BJC determines the long-term rate of return for plan assets in consultation with its external investment advisor. BJC reviews historical market performance by investment asset class along with current economic outlooks for asset class performance in order to estimate its long-term rate of return assumption. Peer data and historical returns are reviewed to check for reasonableness of BJC's long-term rate of return assumption.

	<u>2014</u>	<u>2013</u>
Components of net periodic benefit cost:		
Service cost	\$ 85.9	\$ 94.4
Interest cost	94.7	85.9
Expected earnings on plan assets	(121.8)	(106.4)
Amortization of prior service cost	0.2	0.5
Recognized net actuarial loss	17.1	47.8
Net periodic benefit cost	<u>\$ 76.1</u>	<u>\$ 122.2</u>

BJC HealthCare

Notes to Consolidated Financial Statements (continued) (Dollars in Millions)

11. Postretirement Benefits (continued)

BJC's goal is to maintain parity between the duration of assets and liabilities to meet the anticipated growth of plan liabilities. The plan's assets are invested in a portfolio designed to preserve principal and obtain competitive investment earnings and long-term investment growth, consistent with actuarial assumptions, with a reasonable and prudent level of risk. Diversification is achieved by allocating funds to various asset classes and investment styles and by retaining multiple investment managers with complementary philosophies, styles, and approaches. Derivatives may be used to gain market exposure in an efficient and timely manner; however, derivatives may not be used to leverage the portfolio beyond the market value of the underlying investments. Plan assets may also be loaned to established brokerage firms in return for securities collateral. At December 31, 2014 and 2013, plan assets on loan included in the fair value of plan assets totaled \$7.8 and \$4.5, respectively. The fair values of accepted collateral of \$8.1 and \$4.7, respectively, were recorded net of an equal obligation to return the collateral upon completion of the lending arrangement.

BJC's defined benefit pension plan asset allocation by asset category is as follows:

<u>Asset Category</u>	<u>Target Asset Allocation</u>	<u>Plan Assets at December 31</u>	
		<u>2014</u>	<u>2013</u>
Cash	0.0%	3.1%	0.1%
Growth	50.0	55.1	62.2
Income	25.0	22.8	25.4
Illiquid	25.0	19.0	12.3
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

The growth asset category consists of public equities and hedge funds. The income category is made up of fixed income funds and securities. Lastly, the illiquid asset category includes limited partnership investments in private equity funds, private credit funds, and illiquid real asset funds.

BJC HealthCare

Notes to Consolidated Financial Statements (continued)
(Dollars in Millions)

11. Postretirement Benefits (continued)

The fair value of pension plan assets was determined using the following inputs at December 31, 2014:

	<u>Fair Value Measurements at Using</u>			
	<u>Fair Market Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Cash and short-term investments	\$ 75.3	\$ 75.3	\$ -	\$ -
Income securities:				
U.S. government and agency obligations	57.7	-	57.7	-
Corporate debt securities	296.9	-	296.9	-
Asset-backed and securitized bonds and notes	74.6	-	64.7	9.9
Equity securities	565.7	401.1	164.6	-
Alternative investments:				
Hedge funds	333.3	-	-	333.3
Private equity and credit funds	330.1	-	-	330.1
Other	9.2	5.2	4.0	-
	<u>\$ 1,742.8</u>	<u>\$ 481.6</u>	<u>\$ 587.9</u>	<u>\$ 673.3</u>

BJC HealthCare

Notes to Consolidated Financial Statements (continued)
(Dollars in Millions)

11. Postretirement Benefits (continued)

The fair value of pension plan assets was determined using the following inputs at December 31, 2013:

	<u>Fair Value Measurements at Using</u>			
	<u>Fair Market Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Cash and short-term investments	\$ 20.7	\$ 20.7	\$ -	\$ -
Income securities:				
U.S. government and agency obligations	25.4	-	25.4	-
Corporate debt securities	212.4	-	212.4	-
Asset-backed and securitized bonds and notes	146.9	-	44.6	102.3
Equity securities	649.0	427.5	221.5	-
Alternative investments:				
Hedge funds	344.6	-	-	344.6
Private equity and credit funds	194.8	-	-	194.8
Other	1.4	1.2	0.2	-
	<u>\$ 1,595.2</u>	<u>\$ 449.4</u>	<u>\$ 504.1</u>	<u>\$ 641.7</u>

BJC HealthCare

Notes to Consolidated Financial Statements (continued)

(Dollars in Millions)

11. Postretirement Benefits (continued)

The following table is a rollforward of the pension plan assets classified in Level 3 of the valuation hierarchy defined above:

	Asset-Backed and Securitized Bonds and Notes	Hedge Funds	Private Equity and Credit
Fair value at January 1, 2013	\$ 79.9	\$ 250.4	\$ 147.8
Purchases, sales and settlements, net	15.1	71.7	24.7
Actual earnings on plan assets	7.3	22.5	22.3
Transfers in and/or out of Level 3	-	-	-
Fair value at December 31, 2013	102.3	344.6	194.8
Purchases, sales and settlements, net	(64.7)	(22.3)	110.8
Actual earnings on plan assets	8.2	11.0	24.5
Transfers in and/or out of Level 3	(35.9)	-	-
Fair value at December 31, 2014	<u>\$ 9.9</u>	<u>\$ 333.3</u>	<u>\$ 330.1</u>

Fair value methodologies for Level 1 and Level 2 assets are consistent with the inputs described in Note 10. BJC transfers assets in and/or out of Level 3 as significant inputs, including performance attributes, used for the fair value measurement become observable or unobservable. There were no significant transfers between Level 1, Level 2, or Level 3 that occurred between January 1, 2013 and December 31, 2013. BJC transferred \$35.9 of securitized notes and bonds from Level 3 to Level 2 in 2014 by obtaining additional observable market inputs in the form of multiple corroborating broker quotes. BJC recognizes transfers as of the end of the reporting period.

Private equity and private credit investments have restrictions on the timing of withdrawals, up to ten years from initial investment date, which may reduce liquidity. Certain hedge fund investments also have restrictions on the timing of withdrawals, up to one year from initial investment date, which may reduce liquidity. These investments represent the Plan's ownership interest in the net asset value (NAV) of the respective partnership.

64

BJC HealthCare

Notes to Consolidated Financial Statements (continued)
(Dollars in Millions)

11. Postretirement Benefits (continued)

Level 3 securities consist of limited partnership interests in hedge funds, private equity, and private credit. ASC Subtopic 820-10 allows for the use of a practical expedient for the estimation of the fair value of investments in investment companies for which the investment does not have a readily determinable fair value. The NAV per share, or its equivalent, was used as a practical expedient for fair value of the Plan's interest in hedge funds and private equity and credit funds. Valuations provided by the respective fund's management consider variables such as the financial performance of underlying investments, recent sales prices of underlying investments, and other pertinent information. At December 31, 2014, the Plan has commitments to fund \$465.6 in alternative investments.

The Level 3 assets also consist of certain asset-backed and securitized bonds and notes of \$9.9 at December 31, 2014, and trade less frequently than other income instruments which generates potential liquidity risk. In the event pricing cannot be obtained through quoted prices in active markets, these securities are priced using an option-adjusted discount cash flow model. Any securities with fewer than two received broker quotes are categorized as Level 3 assets. A summary of expected cash flows for contributions and amounts to be paid to the Plan's participants and beneficiaries is as follows:

Expected employer contribution in 2015	\$	129.0
Expected benefit payments:		
2015	\$	56.4
2016		64.2
2017		72.9
2018		81.5
2019		90.9
2020-2024		611.3

BJC HealthCare

Notes to Consolidated Financial Statements (continued)

(Dollars in Millions)

12. Professional and General Liability Insurance

BJC self-insures for professional and general liability claims to the extent of certain self-insured limits. Substantially all BJC services are covered under the self-insurance program. Effective November 15, 2006, self-insured retentions were between \$5.0 and \$8.0 per occurrence with no aggregate. BJC purchased a claims-made policy providing \$2.0 in coverage effectively reducing the self-insured retention for professional liability to \$3.0 from November 15, 2006, to the present for its hospitals, excluding Barnes-Jewish and Children's, which have a self-insured retention of \$8.0. This claims-made policy was renewed through November 2015. In addition, various umbrella insurance policies have been purchased to provide coverage in excess of self-insured limits. The estimated cost of claims is actuarially determined based upon past experience, and discounted using a discount rate of 3% in 2014 and 4% in 2013. The reserve includes provisions for asserted and unasserted claims and incidents that have occurred but have not been reported. BJC has a revocable self-insurance trust of \$72.7 and \$75.8 as of December 31, 2014 and 2013, respectively, which is used for the payment of professional and general liability claim settlements and expenses. During 2014 and 2013, \$20.8 and \$17.9, respectively, of professional and general liability expenses were included in supplies and other in the consolidated statements of operations and changes in net assets. In addition, at December 31, 2014 and 2013, BJC recorded net insurance receivables of \$12.5 and \$13.9, respectively, included in other noncurrent assets in the consolidated balance sheets.

13. Operating Leases

Lease expense for the years ended December 31, 2014 and 2013, totaled \$69.1 and \$73.1, respectively.

Future minimum lease payments under noncancelable operating leases with terms of one year or more are as follows:

Year ending December 31:	
2015	\$ 32.1
2016	26.5
2017	25.0
2018	24.0
2019	22.0
Thereafter	146.1
	<u>\$ 275.7</u>

BJC HealthCare

Notes to Consolidated Financial Statements (continued) (Dollars in Millions)

14. Contingencies

The U.S. Department of Justice and other federal agencies are increasing resources dedicated to regulatory investigations and compliance audits of healthcare providers. BJC is not exempt from these regulatory efforts and has received correspondence from federal agencies with regard to such initiatives. In consultation with legal counsel, management estimates these matters will be resolved without material adverse effect on BJC's consolidated financial position or consolidated results of operations. BJC has an established formal corporate compliance function designed to monitor compliance with applicable laws and regulations.

BJC is involved as both plaintiff and defendant in litigation arising in the ordinary course of business. In the opinion of management, after consultation with legal counsel, these matters will be resolved without a material adverse effect on BJC's consolidated financial position, operating results or cash flows.

In October 2013, a petition was filed against BJC in the Circuit Court of the City of St. Louis, Missouri, alleging violations of wage and hour laws, breach of contract and unjust enrichment claims. The suit seeks to certify a class of former and current non-exempt (hourly) employees. No class has been certified. The parties have exchanged written discovery. At this time, there have been no rulings and no class has been certified. Management believes it has substantial defenses and intends to contest the allegations of the Petition, but at this early stage cannot predict the potential outcome of the case.

15. Temporarily and Permanently Restricted Net Assets

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

	<u>2014</u>	<u>2013</u>
Healthcare services:		
Research and education	\$ 102.2	\$ 97.2
Special programs	78.8	78.4
Patient care	33.8	32.4
Operations	26.4	27.3
Property and equipment	3.7	4.9
	<u>\$ 244.9</u>	<u>\$ 240.2</u>

BJC HealthCare

Notes to Consolidated Financial Statements (continued)
(Dollars in Millions)

15. Temporarily and Permanently Restricted Net Assets (continued)

Permanently restricted net assets at December 31 are summarized below, the income from which is expendable to support the following:

	2014	2013
Healthcare services:		
Special programs	\$ 78.5	\$ 77.4
Operations	44.6	44.1
Research and education	44.4	43.3
Patient care	25.5	25.9
	<u>\$ 193.0</u>	<u>\$ 190.7</u>

16. Endowments

The Foundations' endowments consist of approximately 578 individual funds established for a variety of purposes. The Foundations' endowments include both donor-restricted endowment funds and funds designated by the Foundations' Boards of Directors to function as endowments. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions in accordance with U.S. GAAP.

The Foundations have interpreted Missouri's enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (the Missouri Statute) as requiring the preservation of the fair value of the original gift as of the gift date of a donor-restricted endowment fund, absent explicit donor stipulations to the contrary.

As a result of this interpretation, the Foundations classify as permanently restricted net assets: (a) the original value of gifts donated to a permanent endowment, (b) the original value of subsequent gifts to a permanent endowment, and (c) accumulations to a permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the permanent endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundations in a manner consistent with the standards prescribed by the Missouri Statute.

BJC HealthCare

Notes to Consolidated Financial Statements (continued)
(Dollars in Millions)

16. Endowments (continued)

In accordance with the Missouri Statute, when investing, reinvesting, purchasing, acquiring, exchanging, selling, managing property, appropriating appreciation, developing and applying investment and spending policies, and accumulating income, the Board of Directors of each affiliated foundation shall act with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in like capacity and familiar with these matters would use in the conduct of an enterprise of like character and with like aims to accomplish the purposes of the institution receiving the benefit of the institutional endowment fund.

In exercising such judgment, the Foundations' Boards of Directors shall consider the following factors in making a determination to appropriate or accumulate donor-restricted funds:

- The duration and preservation of the fund
- The purposes of the Foundation and the endowment fund
- General economic conditions
- The possible effects of inflation and deflation
- The expected total return from income and appreciation of investments
- The investment policies of the Foundation

At December 31, 2014, the endowment net asset composition by type of fund consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ —	\$ 110.7	\$ 144.4	\$ 255.1
Board-designated endowment funds	132.9	—	—	132.9
Total funds	\$ 132.9	\$ 110.7	\$ 144.4	\$ 388.0

BJC HealthCare

Notes to Consolidated Financial Statements (continued)

(Dollars in Millions)

16. Endowments (continued)

At December 31, 2013, the endowment net asset composition by type of fund consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 108.2	\$ 143.4	\$ 251.6
Board-designated endowment funds	128.4	-	-	128.4
Total funds	<u>\$ 128.4</u>	<u>\$ 108.2</u>	<u>\$ 143.4</u>	<u>\$ 380.0</u>

For the years ended December 31, 2014 and 2013, the changes in the endowment net assets are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, January 1, 2013	\$ 118.4	\$ 92.0	\$ 141.9	\$ 352.3
Investment return:				
Investment income	2.4	4.1	-	6.5
Net appreciation	10.2	18.7	0.4	29.3
Total investment return	12.6	22.8	0.4	35.8
Contributions	-	-	1.2	1.2
Appropriations, net of recoveries	(4.2)	(6.7)	-	(10.9)
Other changes	1.6	0.1	(0.1)	1.6
Endowment net assets, December 31, 2013	128.4	108.2	143.4	380.0
Investment return:				
Investment income	1.7	2.8	-	4.5
Net appreciation	4.0	7.3	0.2	11.5
Total investment return	5.7	10.1	0.2	16.0
Contributions	-	-	0.9	0.9
Appropriations, net of recoveries	(4.3)	(7.6)	-	(11.9)
Other changes	3.1	-	(0.1)	3.0
Endowment net assets, December 31, 2014	<u>\$ 132.9</u>	<u>\$ 110.7</u>	<u>\$ 144.4</u>	<u>\$ 388.0</u>

BJC HealthCare

Notes to Consolidated Financial Statements (continued) (Dollars in Millions)

16. Endowments (continued)

Return Objectives and Risk Parameters

The Foundations have adopted investment and spending policies for endowment assets that attempt to provide a stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Foundations' Boards of Directors, the endowment net assets are invested in a manner that is intended to produce results that exceed the price and yield results of their relevant benchmarks while assuming a reasonable level of investment risk. The Foundations expect its endowment funds, over time, to generate a total annualized rate of return, net of fees, 5% greater than the rate of inflation, as measured by the Consumer Price Index (CPI), over a rolling five-year period. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

The Foundations rely on a total return strategy in which investment earnings are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends, net of fees).

Spending Policy

The Foundations have adopted a policy in which earnings are allocated annually for spending ranging from 4% to 5% of the 36-month rolling average market value of the endowment fund investment pool.

In establishing this policy, the Foundations consider the long-term expected return on the endowment whereby the current policy allows the endowment assets to grow at an average of CPI annually and to provide additional annual support for endowment administration of 1%.

17. Subsequent Events

BJC evaluated events and transactions occurring subsequent to December 31, 2014 through February 24, 2015, the date the consolidated financial statements were issued. During this period, there were no subsequent events that required recognition in the consolidated financial statements.

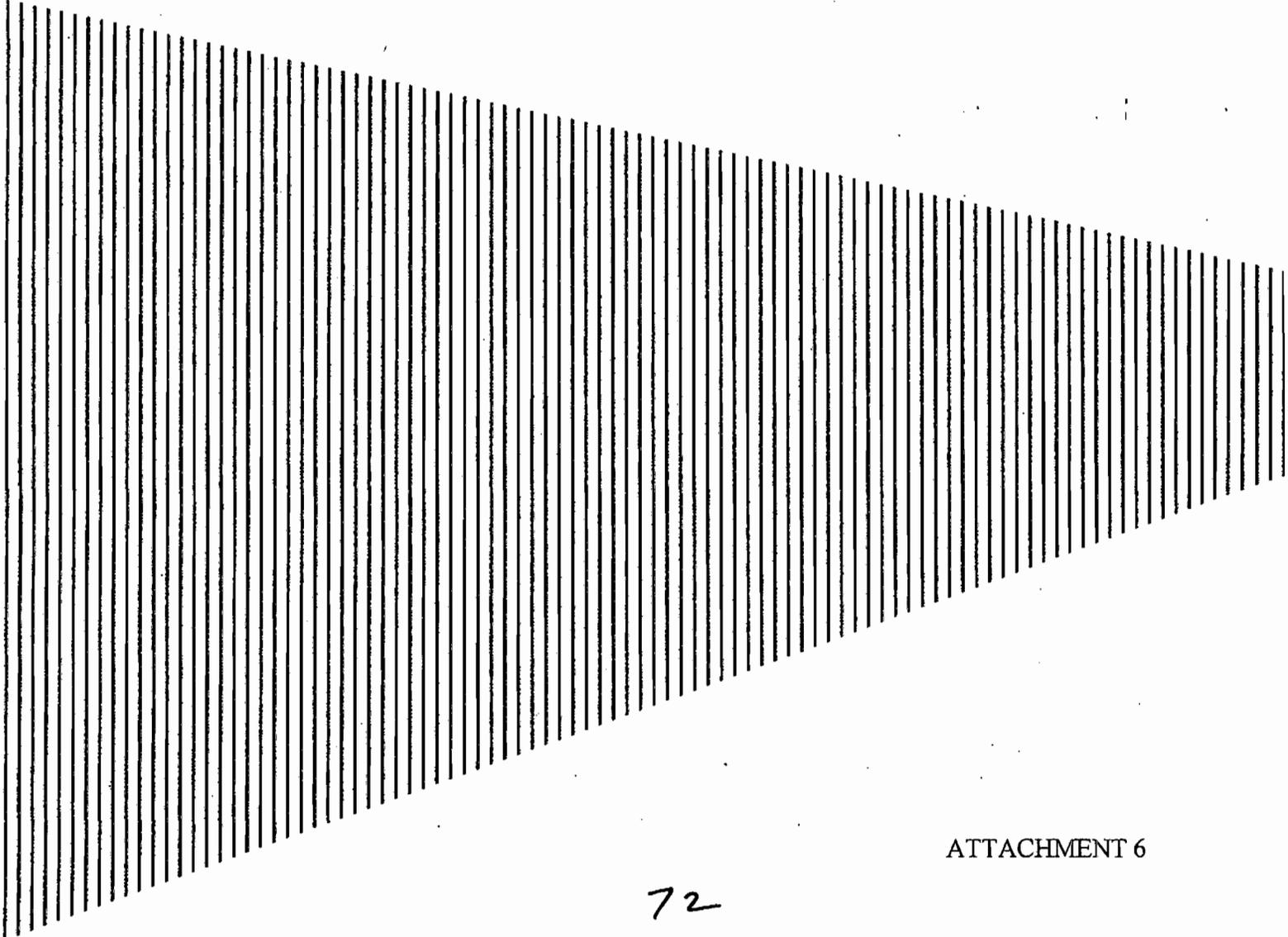
About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

© 2015 Ernst & Young LLP.
All Rights Reserved.

ey.com



Memorial Group, Inc. and Affiliates
Auditor's Report and Consolidated Financial Statements
December 31, 2014 and 2013

Memorial Group, Inc. and Affiliates
December 31, 2014 and 2013

Contents

Independent Auditor's Report..... 1

Consolidated Financial Statements

Balance Sheets..... 3
Statements of Operations and Changes in Net Assets..... 4
Statements of Cash Flows 5
Notes to Financial Statements 6

Independent Auditor's Report on Supplementary Information 23

Supplementary Information

2014 Consolidated Balance Sheet – With Consolidating Information..... 24
2014 Consolidated Statement of Operations and
Changes in Net Assets – With Consolidating Information..... 25

Independent Auditor's Report

Board of Directors
Memorial Group, Inc. and Affiliates
Belleville, Illinois

We have audited the accompanying consolidated financial statements of Memorial Group, Inc. and Affiliates (the "Group") which comprise the balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group'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 Group'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.

Board of Directors
Memorial Group, Inc. and Affiliates
Page 2

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Memorial Group, Inc. and Affiliates as of December 31, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BKD, LLP

St. Louis, Missouri
April 17, 2015

Memorial Group, Inc. and Affiliates

Consolidated Balance Sheets

December 31, 2014 and 2013

Assets	2014	2013
Current Assets		
Cash	\$ 36,770,496	\$ 17,386,208
Patient accounts and other receivables, net of allowance for uncollectible receivables of \$10,936,529 in 2014 and \$12,261,472 in 2013	48,439,546	51,583,037
Supplies	2,966,177	3,025,143
Prepaid expenses	5,581,854	5,739,122
Estimated balance due from third-party payers	-	565,696
Total current assets	93,758,073	78,299,206
Assets Limited As To Use	194,256,964	228,467,956
Property and Equipment, Net of Accumulated Depreciation	160,480,050	129,335,071
Other	7,321,947	7,364,587
Total assets	\$ 455,817,034	443,466,820
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	\$ 19,898,522	\$ 11,516,651
Current maturities of long-term debt	280,000	490,000
Accrued wages and related payroll taxes	24,434,584	25,432,935
Estimated amounts due to third-party payers	110,230	-
Estimated self-insurance costs, current	4,176,000	3,709,383
Total current liabilities	48,899,336	41,148,969
Estimated Self-insurance Costs, Net of Current Portion	46,964,916	45,184,890
Long-term Debt	155,942,719	156,222,719
Total liabilities	251,806,971	242,556,578
Net Assets – Unrestricted	204,010,063	200,910,242
Total liabilities and net assets	\$ 455,817,034	\$ 443,466,820

ATTACHMENT 6

Memorial Group, Inc. and Affiliates
Consolidated Statements of Operations and Changes in Net Assets
Years Ended December 31, 2014 and 2013

	2014	2013
Unrestricted Revenues and Other Support		
Patient service revenue (net of contractual discounts and allowances)	\$ 307,524,652	\$ 311,344,288
Provision for uncollectible accounts	(11,274,224)	(19,909,933)
Net patient service revenue less provision for uncollectible accounts	296,250,428	291,434,355
Other	6,947,771	6,301,393
	303,198,199	297,735,748
Expenses		
Salaries and wages	132,580,271	141,953,485
Employee benefits	41,862,557	49,599,337
Specialists' fees	11,048,242	4,537,350
Medical and other supplies	42,608,695	42,209,277
Utilities	3,219,194	3,276,590
Repairs and maintenance	8,130,779	7,514,813
Insurance	8,527,665	22,521,618
Other expense	35,606,381	40,918,200
Depreciation	17,798,161	18,804,876
Interest	2,390,399	952,331
	303,772,344	332,287,877
Operating Loss	(574,145)	(34,552,129)
Other Income (Expense)		
Investment return	2,660,566	5,328,647
Other	-	(4,704)
Donations	1,013,400	747,366
Extinguishment of debt	-	(709,966)
	3,673,966	5,361,343
Excess (Deficiency) of Revenues Over Expenses	3,099,821	(29,190,786)
Unrestricted Net Assets, Beginning of Year	200,910,242	230,101,028
Unrestricted Net Assets, End of Year	\$ 204,010,063	\$ 200,910,242

ATTACHMENT 6

Memorial Group, Inc. and Affiliates
Consolidated Statements of Cash Flows
Years Ended December 31, 2014 and 2013

	2014	2013
Operating Activities		
Change in unrestricted net assets	\$ 3,099,821	\$ (29,190,786)
Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities		
Depreciation	17,798,161	18,804,876
Loss on extinguishment of debt	-	709,966
Net change in investee partnerships	42,640	(520,642)
Net gains in assets limited as to use	(339,977)	(3,309,133)
Changes in assets and liabilities		
Patient accounts and other receivables, net	3,143,491	5,972,480
Estimated balance due from/due to third-party payers	565,696	843,149
Supplies	58,966	188,124
Prepaid expenses	157,268	(1,707,868)
Accounts payable and accrued expenses	1,807,937	(1,720,746)
Accrued wages and related payroll taxes	(998,351)	1,008,574
Estimated self-insurance costs	2,246,643	17,680,290
Net cash provided by operating activities	27,582,295	8,758,284
Investing Activities		
Net proceeds from (purchases of) assets limited as to use	34,550,969	(122,899,918)
Purchase of property and equipment	(42,258,976)	(16,102,755)
Net cash used in investing activities	(7,708,007)	(139,002,673)
Financing Activities		
Proceeds from the issuance of long-term debt	-	156,002,753
Principal payments on long-term debt	(490,000)	(29,330,000)
Net cash provided by (used in) financing activities	(490,000)	126,672,753
Net Increase (Decrease) in Cash	19,384,288	(3,571,636)
Cash, Beginning of Year	17,386,208	20,957,844
Cash, End of Year	\$ 36,770,496	\$ 17,386,208
Supplemental Cash Flows Information		
Interest paid (net of amount capitalized)	\$ 1,378,619	\$ 196,862
Property and equipment in accounts payable and accrued expenses	\$ 7,762,323	\$ 1,078,159

ATTACHMENT 6

Memorial Group, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2014 and 2013

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

Nature of Operations

The consolidated financial statements are prepared on the accrual basis of accounting and include the accounts of Memorial Group, Inc. ("MGI") and the affiliated entities (the "Related Affiliates"), Protestant Memorial Medical Center, Inc., Memorial Foundation, Inc., Southwest Illinois Health Ventures, Inc., Memorial Captive Insurance Company-Arizona, Memorial Captive Insurance Company-Cayman, Memorial Medical Group, LLC and Metro-East Services, Inc. All entities are located in Belleville, Illinois except for Memorial Captive Insurance Company-Arizona which is domiciled in Phoenix, Arizona and Memorial Captive Insurance Company-Cayman which is domiciled in the Cayman Islands.

MGI is the parent corporation of the Related Affiliates. MGI is the sole corporate member of Protestant Memorial Medical Center, Inc., Memorial Foundation, Inc., Southwest Illinois Health Ventures, Inc., Memorial Medical Group, LLC and Metro-East Services, Inc. Memorial Captive Insurance Company-Arizona and Memorial Captive Insurance Company-Cayman are wholly-owned subsidiaries of MGI.

Protestant Memorial Medical Center, Inc. (the "Medical Center") includes the accounts of its two operating units, Memorial Hospital and Memorial Care Center, which provide health care services to residents of southwestern Illinois.

Memorial Foundation, Inc. ("MFI") is organized to support the health care services of the Medical Center through financial and fundraising assistance.

Southwest Illinois Health Ventures, Inc. ("SIHVI") owns and operates medical office buildings, is a partner in a partnership organized to operate a cancer treatment center and is a partner in a partnership organized to operate a YMCA fitness facility.

Memorial Captive Insurance Company-Arizona ("MCIC-Arizona") and Memorial Captive Insurance Company-Cayman ("MCIC-Cayman") ("Memorial Captive Insurance Companies") are captive insurance companies that insure a portion of the Medical Center's professional liability and re-insures the professional liability for participating physicians who are on the medical staff of the Medical Center. On December 31, 2012, MCIC-Arizona entered into an Assignment and Assumption Agreement and a Reinsurance Assignment and Reinsurance Assumption Agreement with the Medical Center, MCIC-Cayman and Lexington Insurance Company. Under both agreements, MCIC-Arizona transferred, assigned and delegated to MCIC-Cayman, and MCIC-Cayman assumed, on a novation basis, all of MCIC-Arizona's rights, interest, duties, obligations, responsibilities and liabilities as if MCIC-Cayman were originally the insurer or reinsurer. As of December 31, 2012, MCIC-Arizona is no longer writing or assuming any insurance risks and is considered dormant by the state of Arizona.

Memorial Medical Group, LLC ("MMG") is organized to employ physicians for the MGI integrated health care delivery system through a number of limited liability companies which MMG is the sole member.

Memorial Group, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2014 and 2013

Note 1: Nature of Operations and Summary of Significant Accounting Policies
(Continued)

Metro-East Services, Inc. ("Metro-East") was formed in 2011 as an Illinois not-for-profit corporation and is expected to become the owner and operator of Memorial Hospital East ("MHE") a 94-bed acute care hospital under construction in Shiloh, Illinois. Metro-East currently has no operations.

Several members of the Board of Directors of MGI and the Related Affiliates serve in this capacity for more than one of these corporations.

The Medical Center, MGI, MFI, SIHVI, MMG and Metro-East comprise the Obligated Group listed in the 2011 and 2013 bond series trust indentures (see Note 6).

All significant interaffiliate accounts and transactions have been eliminated in the consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash

At December 31, 2014, MGI's cash accounts exceeded federally insured limits by approximately \$32,106,000.

Patient Accounts Receivable

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

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

ATTACHMENT 6

Memorial Group, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2014 and 2013

Note 1: Nature of Operations and Summary of Significant Accounting Policies
(Continued)

Patient Accounts Receivable (Continued)

The Medical Center and MMG allowance for doubtful accounts for self-pay patients decreased from 89 percent of self-pay accounts receivable at December 31, 2013, to 82 percent of self-pay accounts receivable at December 31, 2014. In addition, the Medical Center and MMG write-offs decreased from approximately \$23,708,000 for the year ended December 31, 2013, to approximately \$18,888,000 for the year ended December 31, 2014. The decrease in write-offs are largely attributed to the state of Illinois participating in the Medicaid expansion program, coupled with efforts made at enrollment of self-pay and charity patients into either the Insurance Exchange or Medicaid program in 2014.

The Medical Center and MMG grants credit without collateral to its patients. The percentage of receivables from patients and third-party payers at December 31, are:

	2014	2013
Medicare	50%	41%
Medicaid	10%	14%
Other third-party payers	30%	33%
Self-pay	10%	12%
	100%	100%

Supplies

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

Property and Equipment

Property and equipment are stated at cost. Depreciation is computed by the straight-line method over estimated useful lives. The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Land improvements	3 - 20 years
Buildings	10 - 40 years
Fixed equipment	3 - 25 years
Movable equipment	3 - 15 years

The Medical Center capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing specifically for the project. Total interest capitalized and incurred during the year ended December 31, 2014, was \$9,273,714.

ATTACHMENT 6

Memorial Group, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2014 and 2013

Note 1: Nature of Operations and Summary of Significant Accounting Policies
(Continued)

Net Patient Service Revenue

The Medical Center and MMG have agreements with third-party payers that provide for payments to the Medical Center and MMG at amounts different from their established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Investments and Investment Return

Investments include marketable equity and debt securities which are carried at fair value. Total investment return includes dividend, interest and other investment income and realized and unrealized gains and losses on investments. Net changes in unrealized gains and losses are recorded as increases or decreases in investment return included in unrestricted net assets.

Income Taxes

MGI and the Related Affiliates, except MCIC-Arizona, MCIC-Cayman and MMG, have been recognized as qualified not-for-profit, tax-exempt organizations under Section 501(c)(3) of the *Internal Revenue Code* and a similar provision of state law. However, the Medical Center is subject to federal income on any unrelated business taxable income. MCIC-Arizona and MCIC-Cayman are taxable corporations. MMG is an Illinois limited liability company that is a disregarded entity for federal income tax purposes.

MGI and the Related Affiliates file tax returns in the U.S. federal and state jurisdictions and are no longer subject to U.S. federal and state examinations by tax authorities for years before 2011 except for MCIC-Cayman. Tax years 2012 and forward are open and subject to examination for MCIC-Cayman.

Affordable Care Act Compliance

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

Memorial Group, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2014 and 2013

Note 2: Net Patient Service Revenue and Other Operating Revenue

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

The Medical Center and MMG have agreements with third-party payers that provide for payments at amounts different from their established rates. These payment arrangements include:

Medicare. Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors.

The Medical Center is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Medical Center and audits thereof by the Medicare administrative contractor. The Medical Center's Medicare cost reports have been audited by the Medicare administrative contractor through December 31, 2011.

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

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates may differ materially from those recorded at December 31, 2014.

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

Patient service revenue, net of contractual allowances and discounts (but before the provision for uncollectible accounts), recognized in the years ended December 31, 2014 and 2013, was:

	2014	2013
Medicare	\$ 100,980,506	\$ 102,648,819
Medicaid	30,421,633	33,031,296
Other third-party payers	169,672,311	162,532,414
Self-pay	6,450,202	13,131,759
Total	\$ 307,524,652	\$ 311,344,288

ATTACHMENT 6

84

Memorial Group, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2014 and 2013

Note 2: Net Patient Service Revenue and Other Operating Revenue (Continued)

Charity Care

The Medical Center and MMG provide care without charge or at amounts less than its established rates to patients meeting certain criteria under their charity care policy. Because the Medical Center and MMG do not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue. The Medical Center and MMG's direct and indirect costs for services furnished under their charity care policy aggregated approximately \$2,612,068 and \$5,004,000 in 2014 and 2013, respectively. The cost of charity care provided is determined by multiplying the ratio of cost to gross charges (as computed in the most recent Medicare cost report) by total charges of patients that received at least some charity care to determine total cost for those patients. Then a ratio of each patient's charity charges to total charges is calculated and multiplied by the total cost to arrive at charity care cost.

Illinois Hospital Medicaid Assessment Program

The state of Illinois implemented a hospital assessment program beginning July 1, 2008, that qualified for federal matching funds through the Illinois Medicaid program. Under the program, each hospital is assessed taxes based on that hospital's adjusted gross hospital revenue. Under the provisions of the program, the Medical Center anticipates annual net patient service revenue of approximately \$11,127,000, and annual assessment payments by the Medical Center of approximately \$10,166,000. The hospital assessment program contains a sunset provision effective June 30, 2018, and there is no assurance that the program will not be discontinued or materially modified. In October 2013, the U.S. Center for Medicare and Medicaid Services approved the Enhanced Hospital Assessment Program effective July 1, 2012. The annual net benefit to the Medical Center for the assessment program decreased \$439,000 due to the approval of the Enhanced Program.

In 2010, the state implemented regulations providing for outpatient assistance adjustment payments to hospitals meeting certain qualifying criteria. The adjustment payments are effective July 1, 2009 through June 30, 2018. In 2011, the state implemented further regulations providing for additional outpatient assistance adjustment payments effective July 1, 2011 to June 30, 2018. In October 2013, the Enhanced Assessment Program approved by the U.S. Centers for Medicare and Medicaid increased the Medical Center's outpatient assistance adjustment payments \$558,000 annually effective July 1, 2012. In 2014 and 2013, the Medical Center recorded net patient service revenue of approximately \$2,402,000 and \$2,648,000, respectively, from these adjustment payments.

Memorial Group, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2014 and 2013

Note 2: Net Patient Service Revenue and Other Operating Revenue (Continued)

The effects of these programs in the statements of operations and changes in net assets for the years ended December 31 are as follows:

	2014	2013
Additional Medicaid payments included in net patient service revenue	\$ 13,529,031	\$ 15,177,609
Taxes assessed and included in other expense	\$ 10,163,979	\$ 11,814,064

Electronic Health Records Incentive Program

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

The Medical Center and MMG recognize revenue during the reporting period at the point when management is reasonably assured it will meet all of the meaningful use objectives and any other specific grant requirements applicable for the reporting period. The Medical Center completed second year requirements under both the Medicare and Medicaid programs in 2013 and third year requirements in 2014 and recorded revenue of approximately \$2,500,000 in 2013 and \$1,563,000 in 2014 which is included in other revenue within operating revenues in the consolidated statements of operations and changes in net assets. MMG recorded revenue of approximately \$90,000 in 2013 for meeting second year requirements.

Note 3: Assets Limited as to Use

Board-designated Assets

Board-designated assets represent funds set aside for the acquisition of depreciable assets and other capital-related purposes.

Self-insurance Fund and Memorial Captive Insurance Companies

The Medical Center maintains a trust fund for the purpose of funding self-insured professional and general liability losses. Funding of the trust is based upon actuarial estimates of the potential liability and the lag time in the payment of claims. Investment income is retained by the trust and reinvested.

56

Memorial Group, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2014 and 2013

Note 3: Assets Limited as to Use (Continued)

Held by Trustee Under Bond Indenture

Investments held by trustee under bond indenture represent funds received from the issuance of the Series 2013 bonds that are restricted for use on qualifying project expenditures under the bond indenture agreement.

Auxiliary Fund

The Auxiliary Fund provides educational assistance to students pursuing health-related careers and is administered by the Auxiliary.

Memorial Medical Group

Memorial Medical Group's assets represent restricted funds for deferred compensation assets for employed physicians in MMG.

Assets Limited as to Use Include:

	2014	2013
Board-designated Assets		
Money market accounts	\$ 263,054	\$ 1,205,410
U.S. government-sponsored enterprises	258,619	631,348
U.S. Treasury obligations	1,760,297	-
Corporate obligations	396,320	364,812
Fixed income mutual funds	28,758,398	27,573,346
Equity securities		
Mutual funds		
Large cap funds	15,918,850	15,014,120
International funds	21,519,637	21,614,766
Other mutual funds	376,439	66,192

Memorial Group, Inc. and Affiliates

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

Note 3: Assets Limited as to Use (Continued)

	2014	2013
Common stock		
Information technology	\$ 92,898	\$ 158,966
Industrials	90,791	181,982
Consumer staples	115,908	108,127
Health care	72,613	67,517
Consumer discretionary	16,497	56,053
Energy	78,422	126,640
Financials	189,945	352,803
Other	168,259	304,925
Other assets	112,067	112,067
Amortized premium/discount and accrued income receivable	3,180	2,736
	70,192,194	67,941,810
Self-insurance Fund		
Money market accounts	73,232	62,486
U.S. government-sponsored enterprises	283,018	306,416
Corporate obligations	1,011,424	1,164,361
Fixed income mutual funds	299,673	46,736
Equity securities		
Mutual funds		
International funds	158,336	80,551
Other mutual funds	524,849	262,963
Common stock		
Information technology	104,566	142,214
Industrials	47,062	137,168
Consumer staples	42,437	60,505
Health care	76,521	95,473
Energy	19,824	57,919
Financials	83,508	139,752
Other	229,730	246,548
Amortized premium/discount and accrued income receivable	(18,221)	(21,690)
	2,935,959	2,781,402

Memorial Group, Inc. and Affiliates

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

Note 3: Assets Limited as to Use (Continued)

	2014	2013
Held by Trustee Under Bond Indenture		
Money market accounts	\$ 8,978,466	\$125,454,063
U.S. government-sponsored enterprises	26,992,182	-
Corporate obligations	49,367,133	-
	85,337,781	125,454,063
Memorial Captive Insurance Companies		
Money market accounts	286,866	370,123
U.S. government-sponsored enterprises	926,333	509,400
U.S. Treasury obligations	3,610,160	4,450,237
Corporate obligations	5,970,247	5,276,178
Fixed income mutual funds	827,315	427,483
Equity securities		
Mutual funds		
Large cap funds	8,146,977	5,194,358
International funds	7,579,620	6,866,838
Amortized premium/discount and accrued income receivable	65,061	66,369
	27,412,579	23,160,986
Memorial Medical Group		
Money market accounts	275,428	310,650
Fixed income mutual funds	283,804	277,822
Equity securities		
Mutual funds		
Large cap funds	1,322,775	1,345,226
International funds	360,880	454,722
Retirement income funds	3,934,307	4,442,648
Other mutual funds	923,013	952,104
	7,100,207	7,783,172

Memorial Group, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2014 and 2013

Note 3: Assets Limited as to Use (Continued)

	<u>2014</u>	<u>2013</u>
Auxiliary Fund		
Money market accounts	\$ 55,200	\$ 66,901
Certificates of deposit	1,071,546	1,071,619
Other assets	151,498	208,003
	<u>1,278,244</u>	<u>1,346,523</u>
	<u>\$194,256,964</u>	<u>\$228,467,956</u>

Total investment return is comprised of the following:

	<u>2014</u>	<u>2013</u>
Interest and dividend income	\$ 2,320,589	\$ 2,019,514
Net realized gains and losses on sales of securities	352,349	2,698,286
Realized investment return	2,672,938	4,717,800
Net change in unrealized gains and losses	(12,372)	610,847
Total investment return	<u>\$ 2,660,566</u>	<u>\$ 5,328,647</u>

Note 4: Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

ATTACHMENT 6

Memorial Group, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2014 and 2013

Note 4: Disclosures About Fair Value of Assets and Liabilities (Continued)

Recurring Measurements

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended December 31, 2014.

Investments

Where quoted market prices are available in an active market, investments are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of investments with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such investments are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, investments are classified within Level 3 of the hierarchy. There were no investments classified as Level 3 at December 31, 2014 or 2013.

The following tables present the fair value measurements of assets and liabilities recognized in the accompanying consolidated balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2014 and 2013, less accrued interest, bank deposits and other assets of the Auxiliary:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2014				
Money market accounts	\$ 9,932,246	\$ 9,932,246	\$ -	\$ -
U.S. Treasury obligations	\$ 5,370,457	\$ 5,370,457	\$ -	\$ -
U.S. government-sponsored enterprises	\$ 28,460,150	\$ -	\$ 28,460,150	\$ -
Corporate obligations	\$ 56,745,123	\$ -	\$ 56,745,123	\$ -
Fixed income mutual funds	\$ 30,169,190	\$ 30,169,190	\$ -	\$ -
Equity securities				
Mutual funds				
Large cap funds	\$ 25,388,602	\$ 25,388,602	\$ -	\$ -
International funds	\$ 29,618,473	\$ 29,618,473	\$ -	\$ -
Retirement income funds	\$ 3,934,307	\$ 3,934,307	\$ -	\$ -
Other funds	\$ 1,824,301	\$ 1,824,301	\$ -	\$ -

Memorial Group, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2014 and 2013

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2014				
Common stock				
Information technology	\$ 197,464	\$ 197,464	\$ -	\$ -
Services	\$ 270,603	\$ 270,603	\$ -	\$ -
Consumer staples	\$ 158,345	\$ 158,345	\$ -	\$ -
Health care	\$ 149,134	\$ 149,134	\$ -	\$ -
Financials	\$ 273,453	\$ 273,453	\$ -	\$ -
Other	\$ 379,983	\$ 379,983	\$ -	\$ -
Certificates of deposit	\$ 1,071,546	\$ -	\$ 1,071,546	\$ -
December 31, 2013				
Money market accounts	\$ 127,469,633	\$ 127,469,633	\$ -	\$ -
U.S. Treasury obligations	\$ 4,450,237	\$ 4,450,237	\$ -	\$ -
U.S. government-sponsored enterprises	\$ 1,447,164	\$ -	\$ 1,447,164	\$ -
Corporate obligations	\$ 6,805,351	\$ -	\$ 6,805,351	\$ -
Fixed income mutual funds	\$ 28,325,387	\$ 28,325,387	\$ -	\$ -
Equity securities				
Mutual funds				
Large cap funds	\$ 21,553,704	\$ 21,553,704	\$ -	\$ -
International funds	\$ 29,016,877	\$ 29,016,877	\$ -	\$ -
Retirement income funds	\$ 4,442,648	\$ 4,442,648	\$ -	\$ -
Other funds	\$ 1,281,259	\$ 1,281,259	\$ -	\$ -
Common stock				
Information technology	\$ 301,180	\$ 301,180	\$ -	\$ -
Industrials	\$ 319,150	\$ 319,150	\$ -	\$ -
Financials	\$ 492,555	\$ 492,555	\$ -	\$ -
Services	\$ 278,984	\$ 278,984	\$ -	\$ -
Other	\$ 844,723	\$ 844,723	\$ -	\$ -
Certificates of deposit	\$ 1,071,619	\$ -	\$ 1,071,619	\$ -

Fair Value of Financial Instruments

The following method was used to estimate the fair value of all other financial instruments recognized in the accompanying consolidated balance sheets at amounts other than fair value.

Long-term Debt

The fair value of long-term debt is estimated using discounted cash flow analysis, based on changes in long-term treasury rates from the date of debt issuance to December 31, 2014. Due to the nature of the valuation inputs, the long-term debt is classified within Level 2 of the hierarchy.

ATTACHMENT 6

Memorial Group, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2014 and 2013

Note 4: Disclosures About Fair Value of Assets and Liabilities (Continued)

The following table presents estimated fair values of the financial instruments at December 31, 2014 and 2013:

	2014		2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Investments	\$ 193,941,379	\$ 193,941,379	\$ 228,100,472	\$ 228,100,472
Financial Liabilities				
Long-term debt	\$ 155,942,719	\$ 213,373,916	\$ 156,222,719	\$ 156,222,719

Note 5: Property and Equipment

	2014	2013
Land	\$ 10,294,225	\$ 10,279,850
Land improvements	7,183,656	6,041,566
Buildings	105,042,973	103,951,695
Fixed equipment	71,665,670	69,048,666
Movable equipment	123,156,909	121,640,725
Alterations and projects in progress	50,261,764	11,004,724
	<u>367,605,197</u>	<u>321,967,226</u>
Less accumulated depreciation	207,125,147	192,632,155
	<u>\$ 160,480,050</u>	<u>\$ 129,335,071</u>

In December 2013, MGI began the construction of Memorial Hospital East, an approximately 207,000 square foot, 94-bed acute care hospital located in Shiloh, Illinois. MGI and Metro-East received Certificate of Need approval for the project from the Illinois Health Facilities and Services Review Board which provides for a total project cost of \$124,560,931. Memorial Hospital East is anticipated to begin operations in 2016.

Memorial Group, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2014 and 2013

Note 6: Long-term Debt

	2014	2013
Revenue Bonds 2013	\$ 163,360,000	\$ 163,850,000
Less original issue discount	7,137,281	7,137,281
Less current maturities	280,000	490,000
	\$ 155,942,719	\$ 156,222,719

The 2013 Revenue Bonds (the "2013 Bonds") consist of Southwestern Illinois Development Authority (the "Authority") Hospital Facility Revenue Bonds issued to MGI in the original par amount of \$163,850,000, dated December 6, 2013, and bear an average interest rate of 7.337 percent. Proceeds of \$28,660,000 were used, in part, to refund the outstanding 2011 Revenue Bonds (the "2011 Bonds"). Of the total outstanding, \$13,809,757 was allocated to the Medical Center with the remaining allocated to SIHVI.

The 2013 Bonds are payable in annual installments starting November 1, 2014 through November 1, 2048. The 2013 Bonds may be redeemed in future years subject to optional, mandatory and extraordinary redemption provisions. Of the total indebtedness, \$15,586,237 was allocated to the Medical Center and \$16,763,777 was allocated to SIHVI with the remaining amount allocated to MGI.

The 2013 Bonds are not an indebtedness or obligation of the Authority. The Bonds are secured solely by a security interest in the gross revenues of the Obligated Group as well as a mortgage and security interest in certain real estate of the Obligated Group.

The indenture agreement requires that certain funds be established with the Trustee. Accordingly, these funds are included in assets limited as to use restricted under bond indenture in the December 31, 2014 and 2013, consolidated balance sheet. The indenture agreement also requires the Obligated Group to comply with certain restrictive covenants.

The Authority issued the 2011 Bonds in the original amount of \$30,000,000 on July 1, 2011. The 2011 Bonds bore interest at 2.7738 percent and were issued to MGI with annual installments payable in August of each year. The advance refunding of the 2011 Bonds resulted in an extinguishment of debt charge of \$709,966 as the Obligated Group was released early from its obligation. Of this charge, \$344,278 was allocated to the Medical Center with the remainder charged to SIHVI.

94

Memorial Group, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2014 and 2013

Note 6: Long-term Debt (Continued)

Aggregate annual maturities of long-term debt at December 31, 2014, are:

2015	\$ 280,000
2016	1,445,000
2017	1,520,000
2018	1,600,000
2019	1,695,000
Thereafter	<u>156,820,000</u>
	<u>\$ 163,360,000</u>

Note 7: Pension Plan

The Medical Center and MMG have pension plans covering full and part time employees who have completed one year of service, attained age 21 and have at least 1,000 hours of service within one year. The plans are defined-contribution money-purchase plans. The total pension expense was \$4,185,429 and \$5,660,203 for the years ended December 31, 2014 and 2013, respectively. It is the policy of the Medical Center and MMG to fund total pension expense incurred. Upon two years of credited service, the employee obtains a 20 percent vested interest; in each of the succeeding four years of credited service, the employee obtains an additional 20 percent vested interest.

Note 8: Professional and General Liability

The Medical Center maintains a self-insurance program to provide for losses related to professional and general liability claims. Memorial Captive Insurance Companies insure a portion of the Medical Center's professional liability and re-insure professional liability for some of MMG physicians and non-employed affiliated physicians and physician entities who utilize the Medical Center's health care facilities. A provision for expected losses is recorded based upon the Medical Center's and Memorial Captive Insurance Companies estimate of the potential liability for asserted and unasserted claims and unreported incidents. During 2014 and 2013, MGI and the Related Affiliates charged \$1,621,570 and \$18,049,898 to operations, respectively, as the Medical Center's estimated loss for all asserted and unasserted claims and unreported incidents. During 2014 and 2013, MMG charged \$436,855 and \$579,029, respectively, to operations for professional liability coverage provided by insurance companies other than Memorial Captive Insurance Companies. Additionally, during 2014 and 2013, Memorial Captive Insurance Companies charged \$2,615,575 and \$3,325,743 to operations, respectively, as the covered MMG physicians and non-employed physicians' estimated loss for all asserted and unasserted claims and unreported incidents. The ultimate resolution of these matters may result in amounts that differ materially from those recorded at December 31, 2014.

ATTACHMENT 6

95

Memorial Group, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2014 and 2013

Note 9: Functional Expenses

MGI and the Related Affiliates' expenses as presented in the federal tax Form 990 are as follows:

	2014	2013
Program services	\$260,883,481	\$287,895,944
Management and general	42,706,557	44,106,694
Fundraising	182,306	285,239
	<u>\$303,772,344</u>	<u>\$332,287,877</u>

Note 10: Subsequent Events

In January 2015, the U.S. Centers for Medicare and Medicaid Services (CMS) notified the Illinois Department of Healthcare and Family Services of its approval of supplemental payments ("ACA Access Payments") to the Medical Center for services provided to newly eligible Medicaid beneficiaries in 2014 under the *Affordable Care Act*. The program, which CMS approved retroactive to March 1, 2014, is anticipated to generate an additional annual net benefit for Illinois hospitals.

The benefit to the Medical Center for patient activity from March 1, 2014 to December 31, 2014, is approximately \$2,331,000, with payments starting in February 2015. These retroactive ACA Access Payments will be recognized within the 2015 financial statements of the Medical Center as CMS approval was not granted until January 9, 2015. Payments for future periods will be based on the actual patient activity for newly eligible Medicaid activity at the Medical Center.

Effective January 23, 2015, the affiliated entity Memorial Captive Insurance Company-Arizona was dissolved.

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

Supplementary Information

Independent Auditor's Report on Supplementary Information

Board of Directors
Memorial Group, Inc. and Affiliates
Belleville, Illinois

Our 2014 audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying Consolidated Statements – With Consolidating Information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

BKD, LLP

St. Louis, Missouri
April 17, 2015

Memorial Group, Inc. and Affiliates

Consolidated Balance Sheet – With Consolidating Information

December 31, 2014

	Memorial Group, Inc.	Protestant Memorial Medical Center, Inc.	Memorial Foundation, Inc.	Southwest Illinois Health Ventures, Inc.	Memorial Medical Group, LLC	Obligated Group Total	Memorial Captive Insurance Company Arizona	Memorial Captive Insurance Company Cayman	Eliminations	Consolidated
Assets										
Current Assets										
Cash	\$ 25,469	\$ 30,585,901	\$ 878,770	\$ 3,599,525	\$ 558,529	\$ 35,648,194	\$ 270,386	\$ 851,916	\$ -	\$ 36,770,496
Patient accounts and other receivables, net	-	44,254,007	-	-	4,182,502	48,436,509	-	3,037	-	48,439,546
Supplies	-	2,834,468	-	-	131,709	2,966,177	-	-	-	2,966,177
Prepaid expenses	1,765,442	3,543,952	-	224,475	47,985	5,581,854	-	-	-	5,581,854
Estimated balance due from third-party payers	-	-	-	-	-	-	-	-	-	-
Due from affiliates	-	13,093,974	-	-	-	(13,093,974)	-	-	-	-
Total current assets	1,790,911	94,312,302	878,770	3,824,000	4,920,725	92,632,734	270,386	854,953	-	93,758,073
Assets Limited As To Use										
Interest in the Net Assets of Memorial Foundation, Inc.	110,860,943	36,606,647	12,276,588	-	7,100,207	166,844,385	-	27,412,579	-	194,256,964
Due from Insurance Affiliate	-	13,131,080	-	-	-	-	-	-	-	-
Property and Equipment, Net	58,857,485	60,901,794	-	39,750,365	970,406	160,480,050	-	-	(17,172,629)	160,480,050
Other	-	-	-	7,321,947	-	7,321,947	-	-	-	7,321,947
Total assets	\$ 171,509,339	\$ 222,124,452	\$ 13,155,358	\$ 50,896,312	\$ 12,991,338	\$ 444,451,745	\$ 270,386	\$ 28,267,532	\$ (17,172,629)	\$ 455,817,034

ATTACHMENT 6

Liabilities and Net Assets											
	Memorial Group, Inc.	Protestant Memorial Medical Center, Inc.	Memorial Foundation, Inc.	Southwest Illinois Health Ventures, Inc.	Memorial Medical Group, LLC	Eliminations	Obligated Group Total	Memorial Captive Insurance Company Arizona	Memorial Captive Insurance Company Cayman	Eliminations	Consolidated
Current Liabilities											
Accounts payable and accrued expenses	\$ 9,004,568	\$ 9,538,405	\$ 7,994	\$ 161,318	\$ 1,155,998	\$ -	\$ 19,868,283	\$ -	\$ 30,239	\$ -	\$ 19,898,522
Current maturities of long-term debt	-	134,904	-	145,096	-	-	280,000	-	-	-	280,000
Accrued wages and related payroll taxes	183,157	14,197,399	4,843	15,712	10,033,473	-	24,434,584	-	-	-	24,434,584
Balance due from third-party payors	-	110,230	-	-	-	-	110,230	-	-	-	110,230
Estimated self-insurance costs, current	-	3,996,000	-	-	180,000	-	4,176,000	-	-	-	4,176,000
Due to affiliates	399,449	-	11,441	4,060	12,325,735	(13,093,974)	(353,289)	-	353,289	-	-
Total current liabilities	9,587,174	27,976,938	24,278	326,186	23,695,206	(13,093,974)	48,515,808	-	383,528	-	48,899,336
Estimated Self-Insurance Costs, Net of Current Portion	-	-	-	-	-	-	20,162,542	-	26,802,374	-	46,964,916
Estimated Professional Liability Claims	-	-	-	-	-	-	17,172,629	-	-	(17,172,629)	-
Long-term Debt	124,362,705	15,215,251	-	16,364,763	-	-	155,942,719	-	-	-	155,942,719
Total liabilities	133,949,879	80,527,360	24,278	16,690,949	23,695,206	(13,093,974)	241,795,698	-	27,185,902	(17,172,629)	251,806,971
Net Assets											
Unrestricted	37,559,460	128,466,012	13,131,080	34,205,363	(10,703,868)	-	202,658,047	270,386	1,081,630	-	204,010,063
Temporarily restricted	-	13,131,080	-	-	-	(13,131,080)	-	-	-	-	-
Total net assets	37,559,460	141,597,092	13,131,080	34,205,363	(10,703,868)	(13,131,080)	202,658,047	270,386	1,081,630	-	204,010,063
Total liabilities and net assets	\$ 171,509,339	\$ 222,124,452	\$ 13,155,358	\$ 50,896,312	\$ 12,991,338	\$ (26,225,054)	\$ 444,451,745	\$ 270,386	\$ 28,267,532	\$ (17,172,629)	\$ 455,817,034

Memorial Group, Inc. and Affiliates

Consolidated Statement of Operations and Changes in Net Assets – With Consolidating Information Year Ended December 31, 2014

	Memorial Group, Inc.	Protestant Memorial Medical Center, Inc.	Memorial Foundation, Inc.	Southwest Illinois Health Ventures, Inc.	Memorial Medical Group, LLC	Eliminations	Obligated Group Total	Memorial Captive Insurance Company Arizona	Memorial Captive Insurance Company Cayman	Eliminations	Consolidated
Unrestricted Revenue and Other Support											
Patient service revenue (net of contractual discounts and allowances)	\$ -	\$ 268,677,507	\$ -	\$ -	\$ 38,870,431	\$ (23,286)	\$ 307,524,652	\$ -	\$ -	\$ -	\$ 307,524,652
Provision for uncollectible accounts	-	(11,276,742)	-	-	2,518	-	(11,274,224)	-	-	-	(11,274,224)
Net patient service revenue less provision for uncollectible accounts	-	257,400,765	-	-	38,872,949	(23,286)	296,250,428	-	-	-	296,250,428
Other	-	4,118,235	-	5,457,229	108,914	(3,803,313)	5,881,065	-	5,939,199	(4,872,493)	6,947,771
	-	2,615,190,000	-	5,457,229	38,981,863	(3,826,599)	302,131,493	-	5,939,199	(4,872,493)	303,198,199
Expenses											
Salaries and wages	922,446	92,912,658	103,414	524,128	37,754,898	261,477	132,479,021	-	-	101,250	132,580,271
Employee benefits	176,721	34,872,099	21,888	97,632	6,573,308	87,159	41,828,807	-	-	33,750	41,862,557
Specialists' fees	-	11,379,873	-	-	(308,345)	(23,286)	11,048,242	-	-	-	11,048,242
Medical and other supplies	-	40,631,649	-	-	1,977,046	-	42,608,695	-	-	-	42,608,695
Utilities	-	2,017,622	-	824,974	376,598	-	3,219,194	-	-	-	3,219,194
Repairs and maintenance	-	7,395,442	-	329,296	206,041	-	8,130,779	-	-	-	8,130,779
Insurance	96,963	5,025,673	2,700	72,433	2,211,431	-	7,409,200	-	5,990,958	(4,872,493)	8,527,665
Other expense	1,339,068	31,962,546	225,335	403,668	5,365,879	(4,297,385)	34,999,111	5,660	736,610	(135,000)	35,606,381
Depreciation	25,594	14,736,721	-	2,216,392	819,454	-	17,798,161	-	-	-	17,798,161
Interest	-	1,151,694	-	1,238,705	-	-	2,390,399	-	-	-	2,390,399
	2,560,792	242,285,977	353,337	5,707,228	54,976,310	(3,972,035)	301,911,609	5,660	6,727,568	(4,872,493)	303,772,344
Operating Income (Loss)	\$ (2,560,792)	\$ 19,233,023	\$ (353,337)	\$ (249,999)	\$ (15,994,447)	\$ 145,436	\$ 219,884	\$ (5,660)	\$ (788,369)	\$ -	\$ (574,145)

ATTACHMENT 6

	Memorial Group, Inc.	Protestant Medical Center, Inc.	Memorial Medical Foundation, Inc.	Southwest Illinois Health Ventures, Inc.	Memorial Medical Group, LLC	Eliminations	Obligated Group Total	Memorial Captive Insurance Company Arizona	Memorial Captive Insurance Company Cayman	Eliminations	Consolidated
Other Income (Expense)											
Investment return	\$ 648,117	\$ 865,754	\$ 283,777	\$ -	\$ -	\$ (49,056)	\$ 1,748,592	\$ -	\$ 911,974	\$ -	\$ 2,660,566
Donations	-	19,322	1,090,458	-	-	(96,380)	1,013,400	-	-	-	1,013,400
Excess (Deficiency) of Revenues Over Expenses	648,117	885,076	1,374,235	-	-	(145,436)	2,761,992	-	911,974	-	3,673,966
Transfers from (to) affiliates, net	(1,912,675)	20,118,099	1,020,898	(249,999)	(15,994,447)	-	2,981,876	(5,660)	123,605	-	3,099,821
Increase (Decrease) in Unrestricted Net Assets	(2,185,000)	2,185,000	-	-	-	-	-	-	-	-	-
Temporarily Restricted Net Assets - Change in Interest in Net Assets of Memorial Foundation, Inc.	(4,097,675)	22,303,099	1,020,898	(249,999)	(15,994,447)	-	2,981,876	(5,660)	123,605	-	3,099,821
Change in Total Net Assets	(4,097,675)	23,323,997	1,020,898	(249,999)	(15,994,447)	(1,020,898)	2,981,876	(5,660)	123,605	-	3,099,821
Net Assets, Beginning of Year	41,657,135	118,273,095	12,110,182	34,455,362	5,290,579	(12,110,182)	199,676,171	276,046	958,025	-	200,910,242
Net Assets, End of Year	\$ 37,559,460	\$ 141,597,092	\$ 13,131,080	\$ 34,205,363	\$ (10,703,868)	\$ (13,131,080)	\$ 202,658,047	\$ 270,386	\$ 1,081,630	\$ -	\$ 204,010,063

Other Income (Expense)
Investment return
Donations

Excess (Deficiency) of Revenues Over Expenses

Transfers from (to) affiliates, net

Increase (Decrease) in Unrestricted Net Assets

Temporarily Restricted Net Assets - Change in Interest in Net Assets of Memorial Foundation, Inc.

Change in Total Net Assets

Net Assets, Beginning of Year

Net Assets, End of Year