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E-050-14

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OCT 31 2014

HEALTH FACILITIES & SERVICES REVIEW BOARD

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

APPLICANT: *UNIVERSITY OF WISCONSIN HOSPITALS AND CLINICS AUTHORITY* (Page 1 of 3)

1. **INFORMATION FOR EXISTING FACILITY**

Current Facility Name SwedishAmerican Medical Center/Belvidere
Address 1625 South State Street
City Belvidere Zip Code 61008 County Boone
Name of current licensed entity for the facility SwedishAmerican Hospital d/b/a SwedishAmerican Medical Center/Belvidere
Does the current licensee: own this facility Yes OR lease this facility _____ (if leased, check if sublease □)
Type of ownership of the current licensed entity (check one of the following:) _____ Sole Proprietorship
__X__ Not-for-Profit Corporation _____ For Profit Corporation _____ Partnership _____ Governmental
_____ Limited Liability Company _____ Other, specify _____
Illinois State Senator for the district where the facility is located: Sen. Dave Syverson
State Senate District Number 35th Mailing address of the State Senator 200 South Wyman Street, Suite 302, Rockford, IL 61101
Illinois State Representative for the district where the facility is located: Rep. Joe Sosnowski
State Representative District Number 69th Mailing address of the State Representative 305 Amphitheater Drive, Rockford, IL 61107

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 X. If yes, refer to Section 1130.520(f), and indicate the projects by Project # _____

3. **NAME OF APPLICANT** (complete this information for each co-applicant and insert after this page).
Exact Legal Name of Applicant University of Wisconsin Hospitals and Clinics Authority
Address 600 Highland Avenue, H4/828
City, State & Zip Code Madison, WI 53792-8360
Type of ownership of the current licensed entity (check one of the following:) _____ Sole Proprietorship
__X__ Not-for-Profit Corporation _____ For Profit Corporation _____ Partnership ___ Governmental _____
Limited Liability Company _____ Other, specify _____

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 SwedishAmerican Hospital d/b/a SwedishAmerican Medical Center/Belvidere
Address 1401 East State Street
City, State & Zip Code Rockford, IL 61104
Type of ownership of the current licensed entity (check one of the following:) _____ Sole Proprietorship
__X__ Not-for-Profit Corporation _____ For Profit Corporation _____ Partnership _____ Governmental
_____ Limited Liability Company _____ Other, specify _____

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

Exact Legal Name of Entity That Will Own the Site SwedishAmerican Hospital
Address 1401 East State Street
City, State & Zip Code Rockford, IL 61104
Type of ownership of the current licensed entity (check one of the following:) _____ Sole Proprietorship
__X__ Not-for-Profit Corporation _____ For Profit Corporation _____ Partnership _____ Governmental
_____ Limited Liability Company _____ Other, specify _____

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

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

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

9. **ANTICIPATED ACQUISITION PRICE:** Not Applicable. See Attachment #2.

10. **FAIR MARKET VALUE OF THE FACILITY:** $179,500,000* *Average of Discounted Cash Flow Analysis (to determine fair market value, refer to 77 IAC 1130.140)

11. **DATE OF PROPOSED TRANSACTION:** 12/31/2014

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 _____

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: Daniel J. Lawler
Address: Barnes & Thornburg LLP
City, State & Zip Code: One North Wacker Drive, Suite 4400, Chicago, IL 60606
Telephone (312-214-4861) Ext. _____

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

Name: Tom Myers, VP Marketing & Strategic Planning, SwedishAmerican Health System
Address: 1401 East State Street
City, State & Zip Code: Rockford, IL 61104
Telephone (815-961-2030) Ext. _____

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 Ronald T. Sliwinski

Title of Authorized Officer: President/CEO, University of Wisconsin Hospitals and Clinics Authority

Address: 600 Highland Avenue, H4/828

City, State & Zip Code: Madison, WI 53792-8360

Telephone (608) 263-8025 Date: 10/30/14

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

The Applicants' responses to Section 1130.500 and Section 1130.520 of the Review Board's rules are included in ATTACHMENT #7.

CO-APPLICANT: *UNIVERSITY HEALTH CARE, INC.* (Page 1 of 3)

1. **INFORMATION FOR EXISTING FACILITY**

Current Facility Name SwedishAmerican Medical Center/Belvidere
Address 1625 South State Street
City Belvidere Zip Code 61008 County Boone
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Type of ownership of the current licensed entity (check one of the following:) _____ Sole Proprietorship
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State Senate District Number 35th Mailing address of the State Senator 200 South Wyman Street, Suite 302, Rockford, IL 61101
Illinois State Representative for the district where the facility is located: Rep. Joe Sosnowski
State Representative District Number 69th Mailing address of the State Representative 305 Amphitheater Drive, Rockford, IL 61107

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 X. If yes, refer to Section 1130.520(f), and indicate the projects by Project # _____

3. **NAME OF APPLICANT** (complete this information for each co-applicant and insert after this page).
Exact Legal Name of Applicant University Health Care, Inc.
Address 301 South Westfield Road, Suite 320
City, State & Zip Code Madison, WI 53717
Type of ownership of the current licensed entity (check one of the following:) _____ Sole Proprietorship
X Not-for-Profit Corporation _____ For Profit Corporation _____ Partnership ___ Governmental _____
Limited Liability Company _____ Other, specify _____

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.**

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Address 1401 East State Street
City, State & Zip Code Rockford, IL 61104
Type of ownership of the current licensed entity (check one of the following:) _____ Sole Proprietorship
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Address 1401 East State Street
City, State & Zip Code Rockford, IL 61104
Type of ownership of the current licensed entity (check one of the following:) _____ Sole Proprietorship
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   - o Assignment or transfer of assets resulting in the issuance of a license to an entity different from the current licensee;
   - o Assignment or transfer of assets not resulting in the issuance of a license to an entity different from the current licensee;
   - o Change in membership or sponsorship of a not-for-profit corporation that is the licensed entity;
   - o Change of 50% or more of the voting members of a not-for-profit corporation's board of directors that controls a health care facility's operations, license, certification or physical plant and assets;
   - o Change in the sponsorship or control of the person who is licensed, certified or owns the physical plant and assets of a governmental health care facility;
   - o Sale or transfer of the physical plant and related assets of a health care facility not resulting in a change of current licensee;
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7. **APPLICATION FEE.** Submit the application fee in the form of a check or money order for $2,500 payable to the Illinois Department of Public Health and append as **ATTACHMENT #1.**

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

9. **ANTICIPATED ACQUISITION PRICE:** Not Applicable. See Attachment #2.

10. **FAIR MARKET VALUE OF THE FACILITY: $179,500,000*** *Average of Discounted Cash Flow Analysis (to determine fair market value, refer to 77 IAC 1130.140)

11. **DATE OF PROPOSED TRANSACTION:** 12/31/2014

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 _____

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: Daniel J. Lawler
Address: Barnes & Thornburg LLP
City, State & Zip Code: One North Wacker Drive, Suite 4400, Chicago, IL 60606
Telephone (312-214-4861) Ext. _____

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

Name: Tom Myers, VP Marketing & Strategic Planning, SwedishAmerican Health System
Address: 1401 East State Street
City, State & Zip Code: Rockford, IL 61104
Telephone (815-961-2030) Ext. _____

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 Michael E. Dallman

Typed or Printed Name of Authorized Officer Michael E. Dallman

Title of Authorized Officer: President, University Health Care, Inc.

Address: 301 South Westfield Road, Suite 320

City, State & Zip Code: Madison, WI 53717

Telephone (608) 821-4106 Date: 10/28/14

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

The Applicants' responses to Section 1130.500 and Section 1130.520 of the Review Board's rules are included in Attachment #7.

CO-APPLICANT: *UNIVERSITY OF WISCONSIN MEDICAL FOUNDATION, INC.* (Page 1 of 3)

1. **INFORMATION FOR EXISTING FACILITY**

Current Facility Name SwedishAmerican Medical Center/Belvidere
Address 1625 South State Street
City Belvidere Zip Code 61008 County Boone
Name of current licensed entity for the facility SwedishAmerican Hospital d/b/a SwedishAmerican Medical Center/Belvidere
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State Senate District Number 35th Mailing address of the State Senator 200 South Wyman Street, Suite 302, Rockford, IL 61101
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State Representative District Number 69th Mailing address of the State Representative 305 Amphitheater Drive, Rockford, IL 61107

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 X. If yes, refer to Section 1130.520(f), and indicate the projects by Project # _____

3. **NAME OF APPLICANT** (complete this information for each co-applicant and insert after this page).
Exact Legal Name of Applicant University of Wisconsin Medical Foundation, Inc.
Address 7974 UW Health Court
City, State & Zip Code Middleton, WI 53562
Type of ownership of the current licensed entity (check one of the following:) _____ Sole Proprietorship
X Not-for-Profit Corporation _____ For Profit Corporation _____ Partnership ___ Governmental _____
Limited Liability Company _____ Other, specify _____

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.**

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9. **ANTICIPATED ACQUISITION PRICE:** Not Applicable. See Attachment #2.

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Name: Daniel J. Lawler
Address: Barnes & Thornburg LLP
City, State & Zip Code: One North Wacker Drive, Suite 4400, Chicago, IL 60606
Telephone (312-214-4861) Ext. _____

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Name: Tom Myers, VP Marketing & Strategic Planning, SwedishAmerican Health System
Address: 1401 East State Street
City, State & Zip Code: Rockford, IL 61104
Telephone (815-961-2030) Ext. _____

18. **CERTIFICATION.**

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Signature of Authorized Officer Jess Grossman

Typed or Printed Name of Authorized Officer Dr. Jeffrey Grossman

Title of Authorized Officer: CEO, University of Wisconsin Medical Foundation, Inc.

Address: 7974 UW Health Court

City, State & Zip Code: Middleton, WI 53562

Telephone (608) 263-7103 Date: 10-28-14

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

The Applicants' responses to Section 1130.500 and Section 1130.520 of the Review Board's rules are included in Attachment #7.

CO-APPLICANT: *SWEDISHAMERICAN HEALTH SYSTEM CORPORATION* (Page 1 of 3)

1. **INFORMATION FOR EXISTING FACILITY**

Current Facility Name SwedishAmerican Medical Center/Belvidere
Address 1625 South State Street
City Belvidere Zip Code 61008 County Boone
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Type of ownership of the current licensed entity (check one of the following:) _____ Sole Proprietorship
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State Senate District Number 35th Mailing address of the State Senator 200 South Wyman Street, Suite 302, Rockford, IL 61101
Illinois State Representative for the district where the facility is located: Rep. Joe Sosnowski
State Representative District Number 69th Mailing address of the State Representative 305 Amphitheater Drive, Rockford, IL 61107

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 X. If yes, refer to Section 1130.520(f), and indicate the projects by Project # _____

3. **NAME OF APPLICANT** (complete this information for each co-applicant and insert after this page).
Exact Legal Name of Applicant SwedishAmerican Health System Corporation
Address 1313 East State Street
City, State & Zip Code Rockford, IL 61104
Type of ownership of the current licensed entity (check one of the following:) _____ Sole Proprietorship
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Exact Legal Name of Entity That Will Own the Site SwedishAmerican Hospital
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City, State & Zip Code Belvidere, IL 61008
Type of ownership of the current licensed entity (check one of the following:) _____ Sole Proprietorship
__X__ Not-for-Profit Corporation _____ For Profit Corporation _____ Partnership _____ Governmental
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7. **APPLICATION FEE.** Submit the application fee in the form of a check or money order for $2,500 payable to the Illinois Department of Public Health and append as **ATTACHMENT #1.**

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

9. **ANTICIPATED ACQUISITION PRICE:** Not Applicable. See Attachment #2.

10. **FAIR MARKET VALUE OF THE FACILITY: $179,500,000*** *Average of Discounted Cash Flow Analysis (to determine fair market value, refer to 77 IAC 1130.140)

11. **DATE OF PROPOSED TRANSACTION:** 12/31/2014

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 _____

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: Daniel J. Lawler
Address: Barnes & Thornburg LLP
City, State & Zip Code: One North Wacker Drive, Suite 4400, Chicago, IL 60606
Telephone (312-214-4861) Ext. _____

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

Name: Tom Myers, VP Marketing & Strategic Planning, SwedishAmerican Health System
Address: 1401 East State Street
City, State & Zip Code: Rockford, IL 61104
Telephone (815-961-2030) Ext. _____

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 Dr. William Gorski

Title of Authorized Officer: President/CEO, SwedishAmerican Health System Corporation

Address: 1313 East State Street

City, State & Zip Code: Rockford, IL 61104

Telephone (815) 489-4003 Date: 10/28/14

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

The Applicants' responses to Section 1130.500 and Section 1130.520 of the Review Board's rules are included in Attachment #7.

CO-APPLICANT: *SWEDISHAMERICAN HOSPITAL d/b/a SWEDISHAMERICAN MEDICAL CENTER/BELVIDERE*

1. INFORMATION FOR EXISTING FACILITY

Current Facility Name SwedishAmerican Medical Center/Belvidere
Address 1625 South State Street
City Belvidere Zip Code 61008 County Boone
Name of current licensed entity for the facility SwedishAmerican Hospital d/b/a SwedishAmerican Medical Center/Belvidere
Does the current licensee: own this facility Yes OR lease this facility _____ (if leased, check if sublease □)
Type of ownership of the current licensed entity (check one of the following:) _____ Sole Proprietorship
X Not-for-Profit Corporation _____ For Profit Corporation _____ Partnership _____ Governmental
_____ Limited Liability Company _____ Other, specify _____
Illinois State Senator for the district where the facility is located: Sen. Dave Syverson
State Senate District Number 35th Mailing address of the State Senator 200 South Wyman Street, Suite 302, Rockford, IL 61101
Illinois State Representative for the district where the facility is located: Rep. Joe Sosnowski
State Representative District Number 69th Mailing address of the State Representative 305 Amphitheater Drive, Rockford, IL 61107

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 X. If yes, refer to Section 1130.520(f), and indicate the projects by Project # _____

3. NAME OF APPLICANT (complete this information for each co-applicant and insert after this page).
Exact Legal Name of Applicant SwedishAmerican Medical Center/Belvidere
Address1625 South State Street
City, State & Zip Code Belvidere, IL 61008
Type of ownership of the current licensed entity (check one of the following:) _____ Sole Proprietorship
X Not-for-Profit Corporation _____ For Profit Corporation _____ Partnership __ Governmental _____
Limited Liability Company _____ Other, specify _____

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 SwedishAmerican Hospital d/b/a SwedishAmerican Medical Center/Belvidere
Address 1401 East State Street
City, State & Zip Code Rockford, IL 61104
Type of ownership of the current licensed entity (check one of the following:) _____ Sole Proprietorship
X Not-for-Profit Corporation _____ For Profit Corporation _____ Partnership _____ Governmental
_____ Limited Liability Company _____ Other, specify _____

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

Exact Legal Name of Entity That Will Own the Site SwedishAmerican Hospital
Address 1401 East State Street
City, State & Zip Code Rockford, IL 61104
Type of ownership of the current licensed entity (check one of the following:) _____ Sole Proprietorship
__X__ Not-for-Profit Corporation _____ For Profit Corporation _____ Partnership _____ Governmental
_____ Limited Liability Company _____ Other, specify _____

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

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

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

9. **ANTICIPATED ACQUISITION PRICE:** Not Applicable. See Attachment #2.

10. **FAIR MARKET VALUE OF THE FACILITY:** $179,500,000* *Average of Discounted Cash Flow Analysis (to determine fair market value, refer to 77 IAC 1130.140)

11. **DATE OF PROPOSED TRANSACTION:** 12/31/2014

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

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Name: Daniel J. Lawler
Address: Barnes & Thornburg LLP
City, State & Zip Code: One North Wacker Drive, Suite 4400, Chicago, IL 60606
Telephone (312-214-4861) Ext. _____

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Name: Tom Myers, VP Marketing & Strategic Planning, SwedishAmerican Health System
Address: 1401 East State Street
City, State & Zip Code: Rockford, IL 61104
Telephone (815-961-2030) Ext. _____

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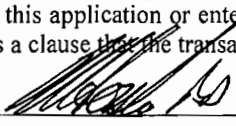
I certify that the above information and all attached information are true and correct to the best of my knowledge and belief. I certify that the number of beds within the facility will not change as part of this transaction. I certify that no adverse action has been taken against the applicant(s) by 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 Dr. William Gorski

Title of Authorized Officer: President/CEO, SwedishAmerican Hospital d/b/a SwedishAmerican Medical Center/Belvidere

Address: 1313 East State Street

City, State & Zip Code: Rockford, IL 61104

Telephone (815) 489-4003 Date: 10/29/14

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

The Applicants' responses to Section 1130.500 and Section 1130.520 of the Review Board's rules are included in Attachment #7.

Attachment #1

APPLICATION FEE

This Attachment #1 contains the application fee in the form of a check for $2,500 payable to the Illinois Department of Public Health.

Attachment #2

FUNDING

No funds will be used to acquire the facility. The transaction consists of University Health Care, Inc. becoming the sole corporate member of SwedishAmerican Health System Corporation, which is the sole corporate member of the facility.

Attachment #3

NARRATIVE DESCRIPTION

The proposed transaction involves University Health Care, Inc. (UHC) becoming the sole corporate member of SwedishAmerican Health System Corporation (SwedishAmerican). UHC has as its two corporate members University of Wisconsin Hospitals and Clinics Authority (UWHCA) and University of Wisconsin Medical Foundation, Inc. (UWMF). UWHCA, UWMF and UHC are collectively referred to herein as UW Health.[1] Together with the University of Wisconsin School of Medicine and Public Health (UWSMPH)[2], UWHCA and UWMF comprise an academic medical center based in Madison, Wisconsin.

SwedishAmerican is, and will remain, the sole corporate member of SwedishAmerican Medical Center/Belvidere in Belvidere. SwedishAmerican Hospital is, and will remain, the owner and licensee of both SwedishAmerican Medical Center/Belvidere and SwedishAmerican Hospital in Rockford. A separate change of ownership application is being submitted for SwedishAmerican Hospital in Rockford in connection with this transaction.

UHC and SwedishAmerican have had a formal affiliation since 2010. That affiliation led to the development of the SwedishAmerican Regional Cancer Center as to which the Review Board approved a Certificate of Need in April 2012 (Project No. 12-013). That project was completed in June 2014. SwedishAmerican also participates in telestroke and electronic Intensive Care Unit (e-ICU) services with UW Health.

Upon regulatory approval and completion of the transaction, SwedishAmerican will become a critical partner in UW Health's community healthcare delivery model, which is responsive to the major healthcare changes occurring regionally and nationally. The parties believe the healthcare sector must fundamentally reposition itself to meet the goals of improving quality, improving the health of the populations served, and reducing the per capita cost of health care. The primary objectives of this transaction are to:

i) Create a system with the required scale to manage effectively population health while maintaining the core values of local control for healthcare decisions, care coordination and innovation.

ii) Form an integrated health care delivery system capable of serving the full continuum of health needs to the communities served that thrives in the emerging value-based payment/care delivery operating environment.

iii) Create a patient-centered health care system that combines the resources of an academic health center and community-based health care system that is nationally recognized for patient experience, exceptional outcomes, and affordability.

iv) Partner with health systems located in contiguous markets in southern Wisconsin and Northern Illinois to develop a geographically cohesive care network.

The transaction will provide Rockford and the surrounding region with greater access to the breakthrough research, advanced medical specialties and community health initiatives that have earned UW Health national recognition. It will also allow SwedishAmerican to reduce its costs, more effectively coordinate patient care and have increased access to capital and technology.

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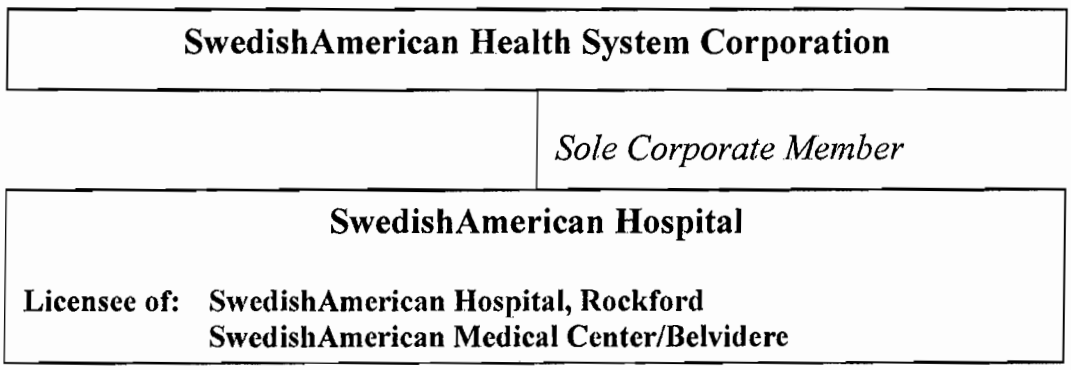
[1] See Attachments #4a, #4b and #4c for additional background on UWHCA, UHC and UWMF.

[2] UWSMPH will have no ownership interest in or operational control of the hospital.

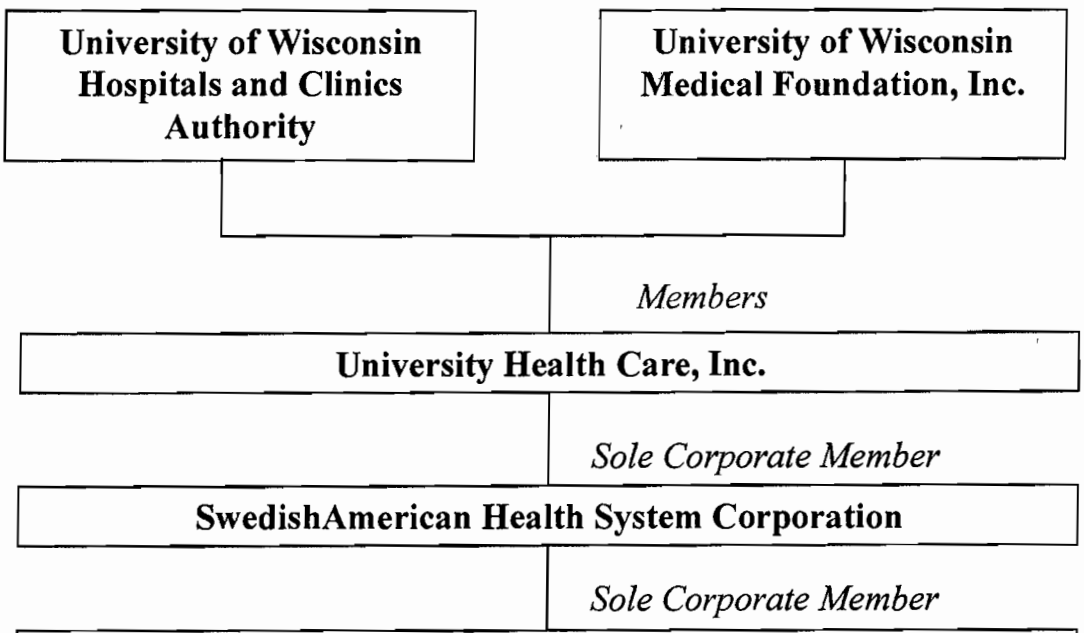
Dr. William Gorski, the current CEO of SwedishAmerican will continue to serve as the system's CEO after the transaction. Following the transaction, the initial composition of the Board of Directors of SwedishAmerican will be comprised of no more than 25 directors. Two directors shall come from UW Health and the SwedishAmerican Board will nominate the remaining 23 directors. All directors are to be appointed by UHC as the sole corporate member of SwedishAmerican. At least a majority of the directors of SwedishAmerican will be either independent community members from SwedishAmerican's service area or physician-members of the medical staff of the SwedishAmerican Hospitals. The initial composition of the UHC Board shall be comprised of nine directors: six shall come from UW Health, and three shall come from SwedishAmerican. In the event other community hospitals or health systems become part of UW Health with UHC as their sole corporate member, such systems may also have representation on the UHC Board.

The current and post-transaction legal structure of SwedishAmerican Hospital is included in this Attachment #3. The applicants' respective organizational charts are included in Attachment #7.

Current Facility Organizational Chart



Post-Transaction Facility Organizational Chart



Attachment #4

BACKGROUND OF THE APPLICANTS

4a. University of Wisconsin Hospitals and Clinics Authority: Wisconsin statute establishing Authority as a public body corporate and politic

4b. University Health Care, Inc.: Wisconsin Certificate of Good Standing and Authorization to Conduct Business in Illinois

4c. University of Wisconsin Medical Foundation, Inc.: Wisconsin Certificate of Good Standing

4d. SwedishAmerican Health System Corporation: Illinois Certificate of Good Standing

4e. SwedishAmerican Hospital: Illinois Certificate of Good Standing

4f. SwedishAmerican Medical Center/Belvidere: Hospital Profile CY 2013

4g. SwedishAmerican Medical Center/Belvidere: Current IDPH License

BACKGROUND OF THE APPLICANTS

4a. University of Wisconsin Hospitals and Clinics Authority

Until June 29, 1996, UW Hospital and Clinics was operated as a unit of the Board of Regents of the University of Wisconsin System (the "Board of Regents"), an agency of the State of Wisconsin and the governing body of UW-Madison. In 1995, UWHCA was created as a public body corporate and politic by legislation in the State of Wisconsin, and UWHCA took over the operation of the existing UW Hospital and Clinics on June 29, 1996. UWHCA operates an acute care hospital with 592 beds, numerous specialty clinics, and ambulatory facilities, and a home health program for the following purposes: (i) delivering high-quality health care to patients using the hospitals and to those seeking care from its programs, including a commitment to provide such care for the medically indigent; (ii) providing an environment suitable for instructing medical and other health professions students, physicians, nurses and members of other health-related disciplines; (iii) sponsoring and supporting research in the delivery of health care to further the welfare of the patients treated and applying the advances in health knowledge to alleviate human suffering, promote health and prevent disease; and (iv) assisting health programs and personnel throughout the State of Wisconsin and region in the delivery of health care.

The Wisconsin statutes creating UWHCA and describing its powers and duties are included with this Attachment #4a.

West's Wisconsin Statutes Annotated
Authorities and Public Corporations (Ch. 231 to 235)
Chapter 233. University of Wisconsin Hospitals and Clinics Authority (Refs & Annos)

W.S.A. 233.02

233.02. University of Wisconsin Hospitals and Clinics Authority: creation; organization of board of directors

(1) There is created a public body corporate and politic to be known as the "University of Wisconsin Hospitals and Clinics Authority". The board of directors shall consist of the following members:

(a) Six members nominated by the governor, and with the advice and consent of the senate appointed, for 5-year terms.

(am) Each cochairperson of the joint committee on finance or a member of the legislature designated by that cochairperson.

(b) Three members of the board of regents appointed by the president of the board of regents.

(c) The chancellor of the University of Wisconsin-Madison or his or her designee.

(d) The dean of the University of Wisconsin-Madison Medical School.

(e) A chairperson of a department at the University of Wisconsin-Madison Medical School, appointed by the chancellor of the University of Wisconsin-Madison.

(f) A faculty member of a University of Wisconsin-Madison health professions school, other than the University of Wisconsin-Madison Medical School, appointed by the chancellor of the University of Wisconsin-Madison.

(g) The secretary of administration or his or her designee.

(2) A vacancy on the board of directors shall be filled in the same manner as the original appointment to the board of directors for the remainder of the unexpired term, if any.

(3) A member of the board of directors may not be compensated for his or her services but shall be reimbursed for actual and necessary expenses, including travel expenses, incurred in the performance of his or her duties.

(4) No cause of action of any nature may arise against and no civil liability may be imposed upon a member of the board of directors for any act or omission in the performance of his or her powers and duties under this chapter, unless the person asserting liability proves that the act or omission constitutes willful misconduct.

(8) The members of the board of directors shall annually elect a chairperson and may elect other officers as they consider appropriate. Eight members of the board of directors constitute a quorum for the purpose of conducting the business and exercising the powers of the authority, notwithstanding the existence of any vacancy. The members of the board of directors specified under sub. (1)(c) and (g) may not be the chairperson of the board of directors for purposes of 1995 Wisconsin Act 27, section 9159(2). The board of directors may take action upon a vote of a majority of the members present, unless the bylaws of the authority require a larger number.

(9) The board of directors shall appoint a chief executive officer who shall not be a member of the board of directors and who shall serve at the pleasure of the board of directors. The chief executive officer shall receive such compensation as the board of directors fixes. The chief executive officer or other person designated by resolution of the board of directors shall keep a record of the proceedings of the authority and shall be custodian of all books, documents and papers filed with the authority, the minute book or journal of the authority and its official seal. The chief executive officer or other person may cause copies to be made of all minutes and other records and documents of the authority and may give certificates under the official seal of

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the authority to the effect that such copies are true copies, and all persons dealing with the authority may rely upon such certificates.

Credits

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W. S. A. 233.02, WI ST 233.02
Current through 2013 Act 380, published 4/25/2014

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West's Wisconsin Statutes Annotated
Authorities and Public Corporations (Ch. 231 to 235)
Chapter 233. University of Wisconsin Hospitals and Clinics Authority (Refs & Annos)

W.S.A. 233.03

233.03. Powers of authority

The authority shall have all the powers necessary or convenient to carry out the purposes and provisions of this chapter. In addition to all other powers granted by this chapter, the authority may:

(1) Adopt bylaws and policies and procedures for the regulation of its affairs and the conduct of its business.

(2) Sue and be sued; have a seal and alter the seal at pleasure; have perpetual existence; maintain an office; negotiate and enter into leases; accept gifts or grants, but not including research grants in which the grant investigator is an employee of the board of regents; accept bequests or loans; accept and comply with any lawful conditions attached to federal financial assistance; and make and execute other instruments necessary or convenient to the exercise of the powers of the authority.

(5) Procure insurance on its debt obligations.

(7) Subject to s. 233.10 and ch. 40 and 1995 Wisconsin Act 27, section 9159(4) , employ any agent, employee or special advisor that the authority finds necessary and fix his or her compensation and provide any employee benefits, including an employee pension plan.

(8) Appoint any technical or professional advisory committee that the authority finds necessary and define the duties, and provide reimbursement for the expenses, of the committee.

(9)(a) With any other person, establish, govern and participate in the operation and financing of any corporation or partnership that provides health-related services, if the articles of incorporation of any such corporation conform with par. (b) and if the corporation or partnership provides the secretary of administration, the legislative fiscal bureau and the legislative audit bureau access to examine any books, records or other documents maintained by the corporation or partnership and relating to its expenditures, revenues, operations or structure. The authority may provide administrative and financial services to any such corporation or partnership.

(b) The articles of incorporation of any corporation under par. (a) shall provide that the secretary of administration, the legislative fiscal bureau and the legislative audit bureau have the access required under par. (a).

(10) Enter into procurement contracts with the board of regents or joint contracts with the board of regents for procurements from 3rd parties and may enter into other contracts, rental agreements and cooperative agreements and other necessary arrangements with the board of regents which may be necessary and convenient for the missions, purposes, objects and uses of the authority authorized by law.

(11) Issue bonds in accordance with ss. 233.20 to 233.26.

(12) Seek financing from, and incur indebtedness to, the Wisconsin Health and Educational Facilities Authority.

(13) Construct or improve facilities that are on state-owned land, if approval requirements under s. 16.85(14) are met and if the state agency having authority to approve construction or improvement projects on the land approves the project.

(15) Acquire, design, construct or improve any facility that is not located on state-owned land.

(16) Buy, sell and lease real estate.

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W. S. A. 233.03, WI ST 233.03
Current through 2013 Act 380, published 4/25/2014

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West's Wisconsin Statutes Annotated
Authorities and Public Corporations (Ch. 231 to 235)
Chapter 233. University of Wisconsin Hospitals and Clinics Authority (Refs & Annos)

W.S.A. 233.04

233.04. Duties of authority

The authority shall do all of the following:

(1) By October 1, 1997, and annually thereafter, submit to the chief clerk of each house of the legislature under s. 13.172(2), the president of the board of regents, the secretary of administration and the governor a report on the patient care, education, research and community service activities and accomplishments of the authority and an audited financial statement, certified by an independent auditor, of the authority's operations.

(2) Subject to s. 233.10, develop and implement a personnel structure and other employment policies for employees of the authority.

(3) Contract for any legal services required for the authority.

(3b)(a) Except as provided in par. (b), maintain, control and supervise the use of the University of Wisconsin Hospitals and Clinics, for the purposes of:

1. Delivering high-quality health care to patients using the hospitals and to those seeking care from its programs, including a commitment to provide such care for the medically indigent.

2. Providing an environment suitable for instructing medical and other health professions students, physicians, nurses and members of other health-related disciplines.

3. Sponsoring and supporting research in the delivery of health care to further the welfare of the patients treated and applying the advances in health knowledge to alleviate human suffering, promote health and prevent disease.

4. Assisting health programs and personnel throughout the state and region in the delivery of health care.

(b) Paragraph (a) does not apply unless a lease agreement under sub. (7) or (7g) and an affiliation agreement under sub. (7m) or (7p) are in effect that comply with all applicable requirements of those provisions. In the event either of these agreements are not in effect, the on-campus facilities and any improvements, modifications or other facilities specified in sub. (7)(c) shall transfer to the board of regents.

(5) Establish the authority's annual budget and monitor the fiscal management of the authority.

(6) Procure liability insurance covering its officers, employees and agents and procure insurance against any loss in connection with its property and other assets.

(7) Subject to s. 233.05(1) and 1995 Wisconsin Act 27, section 9159(2)(k), negotiate and enter into a lease agreement with the board of regents to lease the on-campus facilities beginning on June 29, 1996, for an initial period of not more than 30 years. The lease agreement shall include all of the following:

(a) A provision that requires the authority to pay the state an amount determined under this paragraph for the lease of the on-campus facilities that are leased under the agreement. The amount of the rental payment for the on-campus facilities may not be less than the greater of the following:

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1. An amount equal to the debt service accruing during the term of the lease agreement on all outstanding bonds issued by the state for the purpose of financing the acquisition, construction or improvement of on-campus facilities that are leased under the agreement, regardless of whether these bonds are issued before or after the lease agreement is entered into. The definition of "bond" under s. 233.01(4) does not apply to this subdivision.

2. A nominal amount determined by the parties to be necessary to prevent the lease agreement from being unenforceable because of a lack of consideration.

(b) A provision that requires the authority to conduct its operations in such a way so that it will not adversely affect the exclusion of interest on bonds issued by the state from gross income under 26 USC 103 for federal income tax purposes.

(c) A provision that gives the state ownership of all of the following:

1. Any improvements or modifications made by the authority to on-campus facilities that are leased to the authority under the lease agreement.

2. Any facility that the authority constructs on state-owned land.

(d) A provision that specifies an amount and that exempts any construction or improvement project on state-owned land that costs less than the amount from review and approval under s. 16.85(14).

(e) Any provision necessary to ensure that the general management and operation of the on-campus facilities are consistent with the mission and responsibilities of the University of Wisconsin System specified in ss. 36.01 and 36.09.

(g) A provision that protects the board of regents from all liability associated with the management, operation, use or maintenance of the on-campus facilities. No such provision shall make the authority liable for the acts or omissions of any officer, employee or agent of the board of regents, including any student who is enrolled at an institution within the University of Wisconsin System, unless the officer, employee or agent acts at the direction of the authority.

(h) A provision on a mechanism for the resolution of disputes.

(7g)(a) Submit any modification, extension or renewal of the lease agreement under sub. (7) to the joint committee on finance. No extension or renewal of the lease agreement may be for a period of more than 30 years. Modification, extension or renewal of the agreement may be made as proposed by the authority and the board of regents only upon approval of the committee.

(b) If the committee does not approve an extension or renewal of the agreement, the on-campus facilities and any improvements, modifications or other facilities specified in sub. (7)(c) shall transfer to the board of regents.

(c) This subsection does not apply to an automatic extension of the lease agreement under s. 233.05(1).

(7m) Subject to 1995 Wisconsin Act 27, section 9159(2)(k), negotiate and enter into an affiliation agreement with the board of regents. The affiliation agreement shall take effect on June 29, 1996. The initial period of the affiliation agreement shall run concurrently with the initial period of the lease agreement under sub. (7), and the affiliation agreement shall include all of the following:

(a) A provision that ensures the authority retains cash reserves at a level not lower than the level recommended by the independent auditor specified under sub. (1).

(b) Provisions that ensure support of the educational, research and clinical activities of the University of Wisconsin-Madison by the authority.

(c) A provision that requires the development of standards relating to the selection and financing by the authority of any corporation or partnership that provides health-related services. The standards shall be consistent with the missions of the authority and the board of regents.

(d) A provision that requires the board of regents to make reasonable charges for any services provided by the board of regents to the authority.

(e) A provision establishing a mechanism for the resolution of disputes.

(7p)(a) Submit any modification, extension or renewal of the affiliation agreement under sub. (7m) to the joint committee on finance. No extension or renewal of the affiliation agreement may be for a period of more than 30 years. Modification, extension or renewal of the agreement may be made as proposed by the authority and the board of regents only upon approval of the committee.

(b) If the committee does not approve an extension or renewal of the agreement, the on-campus facilities and any improvements, modifications or other facilities specified in sub. (7)(c) shall transfer to the board of regents.

(c) This subsection does not apply to an automatic extension of the affiliation agreement under s. 233.05(2).

(9) Provide, on a monthly basis, the secretary of administration with such financial and statistical information as is required by the secretary of administration.

(10) If Children's Hospital and Health System ceases to operate a poison control center under s. 255.35, administer a statewide poison control program.

Credits

<<For credits, see Historical Note field.>>

W. S. A. 233.04, WI ST 233.04
Current through 2013 Act 380, published 4/25/2014

End of Document

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BACKGROUND OF THE APPLICANTS

4b. University Health Care, Inc.

University Health Care, Inc. (UHC) is a not-for-profit corporation organized to promote medical education, research and public service.

UHC's Wisconsin Certificate of Good Standing and its Authority to Conduct Business in Illinois are included with this Attachment #4b.

United States of America

State of Wisconsin

DEPARTMENT OF FINANCIAL INSTITUTIONS

Division of Corporate & Consumer Services

To All to Whom These Presents Shall Come, Greeting:

I, GEORGE PETAK, Administrator of the Division of Corporate and Consumer Services, Department of Financial Institutions, do hereby certify that

UNIVERSITY HEALTH CARE, INC.

is a domestic corporation or a domestic limited liability company organized under the laws of this state and that its date of incorporation or organization is June 2, 1983.

I further certify that said corporation or limited liability company has, within its most recently completed report year, filed an annual report required under ss. 180.1622, 180.1921, 181.1622 or 183.0120 Wis. Stats., and that it has not filed articles of dissolution.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed the official seal of the Department on September 2, 2014.

GEORGE PETAK, Administrator
Division of Corporate and Consumer Services
Department of Financial Institutions

Effective July 1, 1996, the Department of Financial Institutions assumed the functions previously performed by the Corporations Division of the Secretary of State and is the successor custodian of corporate records formerly held by the Secretary of State.

DFI/Corp/33

To validate the authenticity of this certificate

Visit this web address: http://www.wdfi.org/apps/ccs/verify/

Enter this code: **142178-3AE39ADF**

OFFICE OF THE SECRETARY OF STATE

JESSE WHITE • Secretary of State

SEPTEMBER 19, 2014 6974-869-4

C T CORPORATION SYSTEM
208 SO LASALLE ST, SUITE 814
CHICAGO, IL 60604-1101

RE UNIVERSITY HEALTH CARE, INC.

DEAR SIR OR MADAM:

ENCLOSED YOU WILL FIND THE AUTHORITY OF THE ABOVE NAMED CORPORATION TO CONDUCT AFFAIRS IN THIS STATE.

PAYMENT OF THE FILING FEE IS HEREBY ACKNOWLEDGED.

CERTAIN NOT FOR PROFIT CORPORATIONS ORGANIZED AS A CHARITABLE CORPORATION ARE REQUIRED TO REGISTER WITH THE OFFICE OF THE ATTORNEY GENERAL. UPON RECEIPT OF THE ENCLOSED AUTHORITY, YOU MUST CONTACT THE CHARITABLE TRUST DIVISION, OFFICE OF THE ATTORNEY GENERAL, 100 W. RANDOLPH, 3RD FLOOR, CHICAGO, ILLINOIS 60601, TELEPHONE (312) 814-2595.

SINCERELY,

JESSE WHITE
SECRETARY OF STATE
DEPARTMENT OF BUSINESS SERVICES
CORPORATION DIVISION
TELEPHONE (217) 782-6961

FORM NFP 113.15 (rev. Dec. 2003)
APPLICATION FOR AUTHORITY
TO CONDUCT AFFAIRS IN
ILLINOIS (Foreign Corporations)
General Not For Profit Corporation Act

Secretary of State
Department of Business Services
Springfield, IL 62756
217-782-1834
www.cyberdriveillinois.com

Remit payment in the form of a cashier's check, certified check, money order or an Illinois attorney's or CPA's check payable to Secretary of State.

FILED

SEP 19 2014

JESSE WHITE
SECRETARY OF STATE

File # 6974-8694 Filing Fee: $50 Approved: Bc

Submit in duplicate — Type or Print clearly in black ink — Do not write above this line

1. a. Corporate Name: University Health Care, Inc.

   b. Assumed Corporate Name (Complete only if the new corporate name is not available in this state.):

   By electing this assumed name, the Corporation hereby agrees NOT to use its corporate name in the transaction of business in Illinois. Form NFP 104.15 is attached.

2. a. State or Country of Incorporation: WISCONSIN

   b. Date of Incorporation: 6-2-1983

   c. Period of Duration: Perpetual

3. a. Address of Principal Office, wherever located: 301 S. Westfield Road Suite 320 Madison, WI 53717

   b. Address of Principal Office in Illinois: NA

4. Name and Address of Registered Agent and Registered Office in Illinois:

   Registered Agent: C T Corporation System
   First Name — Middle Name — Last Name

   Registered Office: 208 S LaSalle St Suite 814
   Number — Street — Suite # (P.O. Box alone is unacceptable)

   Chicago, IL 60604 Cook
   City — ZIP Code — County

5. States and Countries in which Corporation is admitted or qualified to conduct affairs: WISCONSIN

6. Names and respective addresses of Corporation's officers and directors:

	Street Address	City	State	ZIP
President	SEE ATTACHED			
Secretary				
Director				
Director				
Director				

If there are additional officers or more than three directors, please attach list.

Printed by authority of the State of Illinois. June 2003 - 5M - G 100.1x

IL037 - 11/14/2003 C:\Program Files

#4b

7. Purpose(s) for which the Corporation is organized and proposes to pursue in the conduct of affairs in this State:
For more space, attach additional sheets of this size.

SEE ATTACHED

8. This application must be accompanied by an originally certified copy of the Articles of Incorporation and any amendments or mergers, duly authenticated within the last 90 days by the proper officer of the state or country wherein the corporation is incorporated.

9. The undersigned Corporation has caused this statement to be signed by a duly authorized officer who affirms, under penalties of perjury, that the facts stated herein are true and correct. All signatures must be in BLACK INK.

Dated September 9th 2014 University Health Chs., Inc.
Month & Day Year Exact Name of Corporation

Michael L. Dallman
Any Authorized Officer's Signature

Michael Dallman, President
Name and Title (type or print)

A Corporation that is to function as a club, as defined in Section 1-3.24 of the Liquor Control Act of 1934, must insert in its purpose clause a statement that it will comply with the State and local laws and ordinances relating to alcoholic liquors.

Printed by authority of the State of Illinois, June 2006 - 5M - IL 160.14

Attachment #6

Name	Title	Street	City	State	Zip
Michael E. Dallman	President	301 S. Westfield Road Ste. 320	Madison	WI	53717
Kenneth J. Mount	Secretary	750 Highland Ave.	Madison	WI	53705
Michael D. Buhl	Treasurer	600 Highland Ave. H5/803	Madison	WI	53792
Michael D. Buhl	Director	600 Highland Ave. H5/803	Madison	WI	53792
Peter Christman	Director	7974 UW Health court	Middleton	WI	53562
Michael E. Dallman	Director	301 S. Westfield Road Ste. 320	Madison	WI	53717
Robert Golden M.D.	Director	750 Highland Ave.	Madison	WI	53705
Jeffrey E. Grossman	Director	600 Highland Ave. H4/863	Madison	WI	53792
Ron Sliwinski	Director	600 Highland Ave. H4/810	Madison	WI	53792
Kenneth J. Mount	Director	750 Highland Ave	Madison	WI	53705

Attachement #7

The corporation is organized and is to be operated exclusively for charitable, educational and scientific purposes; including, for such purposes, the making of distributions to organizations that qualify as exempt organizations under § 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Code"), and more specifically:

(1) to promote medical education, research and public service by the University of Wisconsin Medical School (the "UW Medical School"), its faculty, the University of Wisconsin Medical Foundation (the "Foundation") and the University of Wisconsin Hospital and Clinics Authority ("UWHCA");

(2) to assist the University of Wisconsin-Madison (the "University"), the UW Medical School, the Foundation and UWHCA by engaging in activities as a partner with the University and its departments, the Foundation, or its successors, and any corporations created by the University or the Foundation; and

(3) to these ends the Corporation itself, and through its interests in subsidiaries or affiliates, shall devote its efforts, assets and earnings exclusively for the benefit of the UW Medical School, the Foundation and UWHCA.

BACKGROUND OF THE APPLICANTS

4c. University of Wisconsin Medical Foundation, Inc.

University of Wisconsin Medical Foundation, Inc. (UWMF) is a not-for-profit corporation formed for the purpose of supporting the academic, research and clinical missions of UWSMPH. It does this by (1) serving as the clinical practice plan for UWSMPH faculty physicians; (2) operating primary care and specialty care outpatient clinics; (3) providing educational opportunity opportunities for medical students, post-graduate trainees, and others; (4) providing financial support to UWSMPH's research, academic and clinical programs.

UWMF's Wisconsin Certificate of Good Standing is included with this Attachment #4c.

United States of America

State of Wisconsin

DEPARTMENT OF FINANCIAL INSTITUTIONS

Division of Corporate & Consumer Services

To All to Whom These Presents Shall Come, Greeting:

I, GEORGE PETAK, Administrator of the Division of Corporate and Consumer Services, Department of Financial Institutions, do hereby certify that

UNIVERSITY OF WISCONSIN MEDICAL FOUNDATION, INC.

is a domestic corporation or a domestic limited liability company organized under the laws of this state and that its date of incorporation or organization is May 2, 1995.

I further certify that said corporation or limited liability company has, within its most recently completed report year, filed an annual report required under ss. 180.1622, 180.1921, 181.1622 or 183.0120 Wis. Stats., and that it has not filed articles of dissolution.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed the official seal of the Department on September 2, 2014.

GEORGE PETAK, Administrator
Division of Corporate and Consumer Services
Department of Financial Institutions

Effective July 1, 1996, the Department of Financial Institutions assumed the functions previously performed by the Corporations Division of the Secretary of State and is the successor custodian of corporate records formerly held by the Secretary of State.

DFI/Corp/33

To validate the authenticity of this certificate

Visit this web address: http://www.wdfi.org/apps/ccs/verify/

Enter this code: **142179-2157C448**

BACKGROUND OF THE APPLICANTS

4d. SwedishAmerican Health System Corporation

SwedishAmerican Health System Corporation's Illinois Certificate of Good Standing is included in this Attachment #4d.

ATTACHMENT #4d

File Number 5269-562-7

STATE OF ILLINOIS

OFFICE OF THE SECRETARY OF STATE

To all to whom these Presents Shall Come, Greeting:

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

SWEDISHAMERICAN HEALTH SYSTEM CORPORATION, A DOMESTIC CORPORATION, INCORPORATED UNDER THE LAWS OF THIS STATE ON MARCH 31, 1982, 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* 3RD *day of* SEPTEMBER *A.D.* 2014 .

Jesse White

SECRETARY OF STATE

Authentication #: 1424602354

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

BACKGROUND OF THE APPLICANTS

4e. SwedishAmerican Hospital

SwedishAmerican Hospital's Illinois Certificate of Good Standing is included in this Attachment #4e.

File Number 1167-170-5

STATE OF ILLINOIS

OFFICE OF THE SECRETARY OF STATE

To all to whom these Presents Shall Come, Greeting:

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

SWEDISHAMERICAN HOSPITAL, A DOMESTIC CORPORATION, INCORPORATED UNDER THE LAWS OF THIS STATE ON JUNE 06, 1911, 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* 3RD *day of* SEPTEMBER *A.D.* 2014 .

Jesse White

SECRETARY OF STATE

Authentication #: 1424602318

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

BACKGROUND OF THE APPLICANTS

4f. SwedishAmerican Medical Center/Belvidere: Hospital Profile CY 2013

ATTACHMENT #4f

Ownership, Management and General Information

ADMINISTRATOR NAME:	Dawna Menke
ADMINSTRATOR PHONE	815-544-1390
OWNERSHIP:	SWEDISH AMERICAN HOSPITAL
OPERATOR:	SWEDISH AMERICAN HOSPITAL
MANAGEMENT:	Not for Profit Corporation (Not Church-R
CERTIFICATION:	
FACILITY DESIGNATION:	(Not Answered)
ADDRESS	1625 South State Street **CITY:** Belvidere **COUNTY:** Boone County

Patients by Race

White	100.0%
Black	0.0%
American Indian	0.0%
Asian	0.0%
Hawaiian/ Pacific	0.0%
Unknown	0.0%

Patients by Ethnicity

Hispanic or Latino:	0.0%
Not Hispanic or Latino:	100.0%
Unknown:	0.0%

IDPH Number:	5504
HPA	B-01
HSA	1

Facility Utilization Data by Category of Service

Clinical Service	Authorized CON Beds 12/31/2013	Peak Beds Setup and Staffed	Peak Census	Admissions	Inpatient Days	Observation Days	Average Length of Stay	Average Daily Census	CON Occupancy Rate %	Staffed Bed Occupancy Rate %
Medical/Surgical	37	7	1	4	12	16	7.0	0.1	0.2	1.1
0-14 Years				*0*	*0*					
15-44 Years				*0*	*0*					
45-64 Years				*0*	*0*					
65-74 Years				*0*	*0*					
75 Years +				*4*	*12*					
Pediatric	2	0	0	0	0	0	0.0	0.0	0.0	0.0
Intensive Care	0	0	0	0	0	0	0.0	0.0	0.0	0.0
Direct Admission				*0*	*0*					
Transfers				*0*	*0*					
Obstetric/Gynecology	0	0	0	1	2	0	2.0	0.0	0.0	0.0
Maternity				*0*	*0*					
Clean Gynecology				*1*	*2*					
Neonatal	0	0	0	0	0	0	0.0	0.0	0.0	0.0
Long Term Care	0	0	0	0	0	0	0.0	0.0	0.0	0.0
Swing Beds			0	0	0		0.0	0.0		
Acute Mental Illness	0	0	0	0	0	0	0.0	0.0	0.0	0.0
Rehabilitation	0	0	0	0	0	0	0.0	0.0	0.0	0.0
Long-Term Acute Care	0	0	0	0	0	0	0.0	0.0	0.0	0.0
Dedcated Observation	*0*					*0*				
Facility Utilization	**39**			**5**	**14**	**16**	**6.0**	**0.1**	**0.2**	

(Includes ICU Direct Admissions Only)

Inpatients and Outpatients Served by Payor Source

	Medicare	*Medicaid*	*Other Public*	*Private Insurance*	*Private Pay*	*Charity Care*	*Totals*
Inpatients	**100.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**	
	5	0	0	0	0	0	**5**
Outpatients	**23.4%**	**31.3%**	**0.7%**	**35.6%**	**5.3%**	**3.7%**	
	5545	7397	156	8435	1254	881	**23,668**

Financial Year Reported: 6/1/2012 *to* 5/31/2013

Inpatient and Outpatient Net Revenue by Payor Source

	Medicare	*Medicaid*	*Other Public*	*Private Insurance*	*Private Pay*	*Totals*	*Charity Care Expense*
Inpatient Revenue ($)	**71.3%**	**0.0%**	**0.0%**	**28.7%**	**0.0%**	**100.0%**	
	27,819	0	0	11,179	0	38,998	0
Outpatient Revenue ($)	**10.9%**	**5.1%**	**1.1%**	**58.4%**	**24.5%**	**100.0%**	
	1,983,008	925,862	199,255	10,640,836	4,472,853	18,221,814	440,366

Total Charity Care Expense
440,366

Total Charity Care as % of Net Revenue
2.4%

Birthing Data

Number of Total Births:	0
Number of Live Births:	0
Birthing Rooms:	0
Labor Rooms:	0
Delivery Rooms:	0
Labor-Delivery-Recovery Rooms:	0
Labor-Delivery-Recovery-Postpartum Rooms:	0
C-Section Rooms:	0
CSections Performed:	0

Newborn Nursery Utilization

	Level I	Level II	Level II+
Beds	0	0	0
Patient Days	0	0	0
Total Newborn Patient Days			0

Laboratory Studies

Inpatient Studies	88
Outpatient Studies	33,271
Studies Performed Under Contract	8

Organ Transplantation

Kidney:	0
Heart:	0
Lung:	0
Heart/Lung:	0
Pancreas:	0
Liver:	0
Total:	0

Surgery and Operating Room Utilization

Surgical Specialty	Operating Rooms				Surgical Cases		Surgical Hours			Hours per Case	
	Inpatient	Outpatient	Combined	Total	Inpatient	Outpatient	Inpatient	Outpatient	Total Hours	Inpatient	Outpatient
Cardiovascular	0	0	0	0	0	0	0	0	0	0.0	0.0
Dermatology	0	0	0	0	0	0	0	0	0	0.0	0.0
General	0	0	2	2	0	45	0	59	59	0.0	1.3
Gastroenterology	0	0	0	0	0	0	0	0	0	0.0	0.0
Neurology	0	0	0	0	0	0	0	0	0	0.0	0.0
OB/Gynecology	0	0	0	0	0	79	0	115	115	0.0	1.5
Oral/Maxillofacial	0	0	0	0	0	0	0	0	0	0.0	0.0
Ophthalmology	0	0	0	0	0	0	0	0	0	0.0	0.0
Orthopedic	0	0	0	0	0	154	0	225	225	0.0	1.5
Otolaryngology	0	0	0	0	0	0	0	0	0	0.0	0.0
Plastic Surgery	0	0	0	0	0	0	0	0	0	0.0	0.0
Podiatry	0	0	0	0	1	90	4	99	103	4.0	1.1
Thoracic	0	0	0	0	0	0	0	0	0	0.0	0.0
Urology	0	0	0	0	0	0	0	0	0	0.0	0.0
Totals	**0**	**0**	**2**	**2**	**1**	**368**	**4**	**498**	**502**	**4.0**	**1.4**

SURGICAL RECOVERY STATIONS Stage 1 Recovery Stations 3 Stage 2 Recovery Stations 6

Dedicated and Non-Dedicated Procedure Room Utilization

Procedure Type	Procedure Rooms				Surgical Cases		Surgical Hours			Hours per Case	
	Inpatient	Outpatient	Combined	Total	Inpatient	Outpatient	Inpatient	Outpatient	Total Hours	Inpatient	Outpatient
Gastrointestinal	0	0	0	0	0	0	0	0	0	0.0	0.0
Laser Eye Procedures	0	0	0	0	0	0	0	0	0	0.0	0.0
Pain Management	0	0	0	0	0	0	0	0	0	0.0	0.0
Cystoscopy	0	0	0	0	0	0	0	0	0	0.0	0.0
Multipurpose Non-Dedicated Rooms											
ANESTHESIA	0	0	1	1	1	1	2	1	3	2.0	1.0
	0	0	0	0	0	0	0	0	0	0.0	0.0
	0	0	0	0	0	0	0	0	0	0.0	0.0

Emergency/Trauma Care

Certified Trauma Center	No
Level of Trauma Service	Level 1 (Not Answered) / Level 2 Not Answered
Operating Rooms Dedicated for Trauma Care	0
Number of Trauma Visits:	3,531
Patients Admitted from Trauma	61
Emergency Service Type:	Stand-By
Number of Emergency Room Stations	4
Persons Treated by Emergency Services:	9,839
Patients Admitted from Emergency:	1,035
Total ED Visits (Emergency+Trauma):	**13,370**

Free-Standing Emergency Center

Beds in Free-Standing Centers	0
Patient Visits in Free-Standing Centers	0
Hospital Admissions from Free-Standing Center	0

Outpatient Service Data

Total Outpatient Visits	**28,013**
Outpatient Visits at the Hospital/ Campus:	28,013
Outpatient Visits Offsite/off campus	0

Cardiac Catheterization Labs

Total Cath Labs (Dedicated+Nondedicated labs):	0
Cath Labs used for Angiography procedures	0
Dedicated Diagnostic Catheterization Lab	0
Dedicated Interventional Catheterization Labs	0
Dedicated EP Catheterization Labs	0

Cardiac Catheterization Utilization

Total Cardiac Cath Procedures:	**0**
Diagnostic Catheterizations (0-14)	0
Diagnostic Catheterizations (15+)	0
Interventional Catheterizations (0-14):	0
Interventional Catheterization (15+)	0
EP Catheterizations (15+)	0

Cardiac Surgery Data

Total Cardiac Surgery Cases:	**0**
Pediatric (0 - 14 Years):	0
Adult (15 Years and Older):	0
Coronary Artery Bypass Grafts (CABGs) performed of total Cardiac Cases :	0

Diagnostic/Interventional Equipment	Owned	Contract	Examinations Inpatient	Outpt	Contract	Therapeutic Equipment	Owned	Contract	Therapies/ Treatments
General Radiography/Fluoroscopy	2	0	6	8,756	0	*Lithotripsy*	0	0	0
Nuclear Medicine	0	0	0	0	0	*Linear Accelerator*	0	0	0
Mammography	1	0	0	1,454	0	Image Guided Rad Therapy			0
Ultrasound	1	0	1	2,517	0	Intensity Modulated Rad Thrp			0
Angiography	0	0				High Dose Brachytherapy	0	0	0
Diagnostic Angiography			0	0	0	*Proton Beam Therapy*	0	0	0
Interventional Angiography			0	0	0	*Gamma Knife*	0	0	0
Positron Emission Tomography (PET)	0	0	0	0	0	*Cyber knife*	0	0	0
Computerized Axial Tomography (CAT)	1	0	0	3,516	0				
Magnetic Resonance Imaging	0	1	0	0	150				

Source: 2013 Annual Hospital Questionnaire, Illinois Department of Public Health, Health Systems Development.

BACKGROUND OF THE APPLICANTS

4g. SwedishAmerican Medical Center/Belvidere: Current IDPH License

ATTACHMENT #4g

HF104759

Illinois Department of PUBLIC HEALTH

LICENSE, PERMIT, CERTIFICATION, REGISTRATION

The person, firm or corporation whose name appears on this certificate has complied with the provisions of the Illinois statutes and/or rules and regulations and is hereby authorized to engage in the activity as indicated below.

LaMar Hasbrouck, MD, MPH
Acting Director

Issued under the authority of the Illinois Department of Public Health

EXPIRATION DATE	CATEGORY	I.D. NUMBER
01/13/2015		0005504

General Hospital

Effective: 01/14/2014

SwedishAmerican Medical Center Belvidere
1625 South State Street
Belvidere, IL 61008

The face of this license has a colored background. Printed by Authority of the State of Illinois • P.O. #4012320 10M 3/12

← DISPLAY THIS PART IN A CONSPICUOUS PLACE

Exp. Date 01/13/2015

Lic Number 0005504

Date Printed 01/08/2014

SwedishAmerican Medical Center Belv

1625 South State Street
Belvidere, IL 61008

FEE RECEIPT NO.

Attachment #5

TRANSACTION DOCUMENTS

5a: Letter of Intent

5b: Definitive Agreement

The attached Letter of Intent is executed. The attached Definitive Agreement is awaiting final revision and approval by the parties' respective Boards that is expected to occur by November 6, 2014. The applicants will submit an executed copy of the Definitive Agreement upon its approval and signature.

TRANSACTION DOCUMENTS

5a: Letter of Intent

UWHealth

uwhealth.org

LETTER OF INTENT

THIS LETTER OF INTENT (this "Letter") is entered into this 28th day of April, 2014 ("Effective Date"), by and between University Health Care, Inc. ("UHC"), a Wisconsin nonprofit corporation, University of Wisconsin Hospitals and Clinics Authority ("UWHCA"), a body corporate and politic established under Wisc. Stat. Ch. 233, University of Wisconsin Medical Foundation ("UWMF"), a Wisconsin nonprofit corporation, and SwedishAmerican Health System ("SAHS"). UHC, UWHCA, UWMF and SAHS are referred to hereafter individually as a "Party" and collectively as the "Parties".

PREAMBLE

SAHS, UHC, UWHCA and UWMF enter this partnership with tremendous respect for each other and a firm belief that both institutions are critical members of their respective communities. The Parties share a common goal of establishing an integrated organization with long term viability which provides enhanced opportunities for physicians and employees while improving the health status of the communities they serve.

Academic medicine and healthcare delivery are undergoing fundamental change affecting economics, clinical programs, research, and education. Disciplined action and new business models will be required to lead in the changing environment. While there are a broad range of sweeping implications, the Parties believe the healthcare delivery sector must fundamentally reposition itself to meet the triple aim goals of improving quality, improving the health of populations, and reducing the per capita cost of health care. The Parties seek to enter into an affiliation that will:

i) Create a system with the required scale to manage effectively population health while maintaining our core values of local control for healthcare decisions, care coordination and innovation.

ii) Form an integrated health care delivery system capable of serving the full continuum of health needs to the communities we serve, and thriving in the emerging value-based payment / care delivery operating environment.

iii) Create a patient-centered health care system that combines the resources of an academic health center and community-based health care systems to create a best of class healthcare system that is nationally recognized for patient experience, exceptional outcomes, and affordability.

iv) Partner with health systems located in contiguous markets in southern Wisconsin and Northern Illinois to develop a geographically cohesive care network.

RECITALS

WHEREAS, UHC has as corporate members ("UHC Members") the University of Wisconsin School of Medicine and Public Health ("UWSMPH" or the "University"), UWHCA, and UWMF (UWSMPH, UWHCA, UWMF and UHC are collectively referred to hereafter as "UW Health").

WHEREAS, UWSMPH is the medical school operated by University of Wisconsin that for over 100 years has been recognized as a leader in educational, research and service;

WHEREAS, UWHCA operates the hospital and clinics associated with UW Health; WHEREAS, UWMF was created, and is operated, to benefit and support UWSMPH and the University of Wisconsin-Madison;

WHEREAS, the organizations comprising UW Health operate a fully integrated academic health system ("UW Health System");

WHEREAS, UW Health has adopted the following Mission, Vision and Strategic Plan with respect to its regional objectives:

> Mission: To develop a community-focused healthcare delivery model that will build upon the existing relationship between SAHS and UW Health while utilizing UW Health's clinical, education and research missions to deploy population health best practices and offer communities outstanding coordinated clinical care;
>
> Vision: Through strategic partnerships with select community-based health systems like SAHS, who possess a long standing history of community service, UW Health will develop an integrated health network that will focus on providing the right care, at the right place, at the right cost;
>
> Strategic Plan: UW Health will initially focus on strategic partnerships with health systems located in contiguous markets in Wisconsin and Northern Illinois to develop a geographically cohesive care network. As the population health model is further refined, UHC will partner with organizations wherever mutually beneficial opportunities present themselves to reach a population of 2-3 million covered lives;

WHEREAS, SAHS is the owner and operator of the SAHS Hospital, a licensed and Joint Commission accredited acute care hospital and network of related healthcare facilities;

WHEREAS, UW Health recognizes SAHS's over 100 year history of delivering excellent care to Northern Illinois communities;

WHEREAS, SAHS recognizes UW Health's over 100 year history of delivering excellent care to the state of Wisconsin;

WHEREAS, the Parties agree that as the paradigm of healthcare shifts, a provider's history and understanding of their local community's health would become increasingly important to long-term survival;

WHEREAS, the Board of Directors of SAHS has determined that it is in SAHS's best interest and in the best interest of the SAHS community and the patients which it serves, to explore a transaction whereby UHC will become the sole corporate member of SAHS (the "Proposed Transaction");

WHEREAS, the Board of Directors of various UW Health entities have determined that it is in UW Health's best interest to explore the Proposed Transaction; and

WHEREAS, SAHS and UW Health intend that, as a result of the Proposed Transaction, SAHS will be fully integrated into the UW Health System and that this integration will:

- Become the preferred provider in our communities for patients, payers, hospitals, and physician groups;
- Improve the health status of the populations and communities we serve

- Provide a comprehensive array of services through the effective use of resources of a combined entity;
- Explore additional partnerships with other provider organizations who share the same vision;
- Foster the academic and research missions to improve patient care;
- Lower costs while strengthening quality and clinical service capabilities;
- Thrive in a changing healthcare environment, by embracing the notion that successful health systems need to move beyond an acute care focused model to a value-based model that requires assuming the responsibility and risk for the health of the populations served;
- Create a sustainable financial platform to generate the capital required to invest in infrastructure, programs, services and communities;
- Become an employer of choice in the communities we serve; and
- Effectively utilize the efficiencies of scale in system operations while recognizing community systems as the hub for patient care;

WHEREAS, each of the Parties continues to engage in internal analyses of the benefits of the Proposed Transaction;

NOW, THEREFORE, the Parties acknowledge the following intentions with respect to the Proposed Transaction:

1. Proposed Transaction. The Parties anticipate that the Proposed Transaction shall reflect the following:

a. UHC to become Sole Corporate Member of SAHS. Effective upon Closing (as defined hereafter in Section 22), UHC shall become the sole corporate member of SAHS. SAHS's Articles of Incorporation and Bylaws will be amended to reflect the foregoing.

b. Governance and Management of UHC.

i. Composition of the Initial UHC Board. Effective upon Closing, the UHC Board of Directors (the "UHC Board") shall be comprised of eleven (11) individuals as follows: six (6) Directors shall come from UW Health ("UW Health Directors"); and three (3) directors will come from SAHS (the "SAHS Directors). It is anticipated that the remaining two (2) directors will be appointed by another community health system, which will have UHC as its sole member. The initial three (3) SAHS Directors shall be the Chair of the SAHS Board and two (2) additional Directors designated by the current SAHS Board of Directors.

ii. Composition of the UHC Board after Closing. As new community health system partners join UHC, the following changes to the UHC Board may occur as determined by the UHC Members:

A. In the event that other community health systems join UHC, these community health systems will receive a certain number of seats on the UHC Board to be determined in a manner that maintains the voice of all community health systems that are part of UHC, weighted by metrics (such as relative net patient revenue, contribution margin, assets) to be set forth in the Definitive Agreement. As a result, the number of UHC Board seats may be increased to provide representation for the new community health system partners, and/or the number of UW Health Directors and/or SAHS Directors may be reduced; provided, however, that there shall be at least three (3) SAHS Directors for a minimum of seven (7) years after Closing and at least one (1) SAHS Director after the seven (7) year period.

B. Under no circumstances shall the UW Health Members represent less than one half plus one seat on the UHC Board.

C. The composition of the UHC Board, including appointees by the UHC Members and SAHS shall reflect the range of core competencies and diversity required for a successful health system board.

iii. Authority of the UHC Board. Subject to the powers reserved to the UHC Members, the UHC Board shall have the authority and responsibility for the management and operation of UHC.

iv. Reserve Powers of the UHC Members. The UHC Members shall have the following reserve powers:

A. The approval and removal of officers and Directors of UHC;

B. The approval of UHC's strategic plans, budgets and quality and safety measures;

C. The approval of changes to UHC's organizational documents and changes that would affect its not-for-profit and/or tax-exempt status;

D. The approval of material transactions, including without limitation mergers, consolidations, and sale of substantially all of the assets of UHC;

E. The approval of UHC's incurrence of debt, all accounting policies and financial auditors, compliance policies, and material contracts; and

F. Creation and/or dissolution of UHC's operating units or subsidiaries, and approval of significant asset or clinical service acquisition, addition, or elimination.

c. Governance and Management of SAHS.

i. Composition of Board of Directors of SAHS upon Closing. The Board of Directors of SAHS ("SAHS Board"), for a period of seven (7) years after Closing, shall be comprised of no more than twenty-five (25) Directors. Two (2) Directors shall come from UW Health and be appointed by UHC (the "UHC Directors") and

SAHS Board shall nominate the remaining twenty-three (23) Directors, to be appointed by UHC as the corporate member. A majority of these twenty-three (23) shall be either independent community members whose primary residences are in the SAHS Service Area (as defined in Attachment A) ("Community Directors"), or physicians in good standing on the active medical staff of SAHS. In the event that any of those members nominated by the SAHS Board are not acceptable to the UHC Board, the UHC Board and the SAHS Board will meet to come to a mutually acceptable slate of appointees, and if the UHC Board and the SAHS Board cannot agree, UHC will appoint the members. After this seven (7) year period after the Closing, UHC as the sole corporate member of SAHS, shall have the exclusive rights to modify the composition and structure of the SAHS Board, but at all times, at least one-half of the SAHS Board shall be Community Directors or physicians in good standing on the active medical staff of SAHS, unless the SAHS Board agrees that an alternative board composition is in the best interest of SAHS.

ii. Reserve Powers of UHC as the Sole Member of SAHS. As the sole corporate member of SAHS, UHC shall have the following reserve powers:

A. The approval / removal of Directors on the SAHS Board;

B. The approval and removal of the President / CEO of SAHS;

C. The approval of SAHS' strategic plans, budgets and quality and safety measures;

D. Approval of annual unbudgeted capital expenditures above one-hundred thousand dollars ($100,000) for new lines of business, above two-hundred fifty thousand dollars ($250,000) for existing lines of business and any such cumulative expenditures exceeding one-million dollars ($1,000,000) per year after the Closing;

E. The approval of changes to SAHS' organizational documents and changes that would affect its not-for-profit and/or tax-exempt status;

F. The approval of material transactions, including without limitation mergers, consolidations, and sale of substantially all of the assets;

G. The approval of SAHS' incurrence of debt exceeding certain limits to be set forth in the Definitive Agreement, all accounting policies and financial auditors, compliance policies, material third-party contracts as defined in the Definitive Agreement; and

H. Creation and dissolution of any operating units or subsidiaries of SAHS, and approval of any significant asset or clinical service acquisition, addition, or elimination.

iii. Authority of the SAHS Board. Subject to the powers reserved to UHC as the sole corporate member of SAHS, the SAHS Board shall have the authority and responsibility for the following:

A. Adopt vision, mission and values statements and develop policies consistent with UW Health's vision, mission and values;

B. Approve amendments to the Articles of Incorporation or Bylaws of SAHS;

C Approve amendments to the Medical Staff Bylaws of SAHS;

D. Recommend any new President / CEO of SAHS, it being understood that UHC shall have the right to remove the President / CEO of SAHS,

E. Conduct periodic evaluations of the President / CEO of SAHS, in conjunction with UHC, and make recommendations to UHC regarding his/her performance and employment;

F. Participate in the development of a strategic plan for SAHS consistent with the strategic plan for UW Health and subject to UHC approval;

G. Identify and recommend new clinical services;

H. Review and have input into any recommended substantive changes in the services provided by SAHS;

I. Review and recommend operating and capital budgets, including recommendations with respect to expenditures to fulfill commitments made in the Definitive Agreement;

J. Participate in annual review of the strategic plan and goals of SAHS and monitor progress toward achievement of those strategic goals;

K. Ensure compliance with all licensure and accreditation requirements, including, but not limited to, credentialing of physicians and other providers and other medical staff related matters;

L. Implement standards for patient care and oversee quality improvement consistent with UW Health's quality and patient safety policies;

M. Provide oversight of risk management programs relating to patient care and safety;

N. Foster community relationships and identify community service opportunities;

O. Evaluate and make recommendations regarding recruitment needs to ensure adequate medical staff capacity to continue to meet community needs.

iv. SAHS Management. SAHS Management (as defined hereafter in Section 11) will report to the President/CEO of SAHS and the President/CEO of SAHS will report to both the SAHS Board and UHC Board.

d. Management Council. UHC shall create and maintain a management council ("Management Council") for overall planning, coordination of operations, and integration of all of the components of UW Health System, including UWHCA, UWMF, SAHS, and other community health systems that join UHC, and the contemplated UW Health community physician division. The Management Council will be maintained for a period of at least three (3) years following the Closing of the Proposed Transaction. The members of the Management Council shall include members of senior leadership from all of the

constituent organizations of UW Health System, including the CEO of SAHS and one (1) other designee of SAHS as determined by the CEO of SAHS.

2. Commitment to Quality, Safety and Patient Satisfaction.

a. The Parties will strive to provide high-quality, accessible, safe, coordinated, cost-efficient and innovative healthcare services across the care continuum of preventive, wellness, ambulatory, hospital and post-acute services and to:

i. Develop and implement a detailed set of performance criteria based on regional and national benchmarks to measure quality scores across the organization;

ii. Provide quality clinical services and implement programs designed to improve the patient experience, care coordination and clinical quality; and

iii. Effectively utilize systems, best practices, and processes across the system to assure the efficiencies of scale are realized.

b. The Parties will jointly work to position the System to manage effectively population health and maximize the patient's role through a shared-decision making and value-based model.

3. Clinical Programs & Services. The Parties, through the shared governance structure of UHC, will evaluate, enhance, develop and coordinate the provision of services across the communities it serves to ensure seamless access to high quality, cost-effective health care services.

a. Provision of Services Locally: The Parties believe that healthcare should be delivered locally whenever clinically appropriate and the Parties commit to develop a detailed set of mutually-agreeable criteria to codify the appropriate access points and resources for healthcare services in the communities served.

i. Joint Planning and Development: The Parties agree to jointly plan and develop services deemed necessary to provide seamless access to high quality, low cost care in the community. Upon mutual agreement, UHC will work with SAHS to provide sufficient support and resources necessary for such planning and development

ii. Clinical Protocols: As a member of UW Health, SAHS will have access to and the opportunity to participate in UW Health's clinical protocols, research, education and training, clinical trials and care management tools

iii. By virtue of the affiliation, SAHS will have access to UW Health's expertise and resources in order to attract patients

4. Commitment to On-going Capital Needs. UHC and the UHC Members are committed to supporting the ongoing maintenance and strategic capital requirements of SAHS.

a. During the first five (5) years after Closing, UHC will maintain SAHS's current policy of maintaining capital investments at least at the level of depreciation, not including depreciation on the $130 Million of new investments described in Paragraph 4.c.

b. UHC will develop an initial capital allocation process during the due diligence process.

c. In addition, UHC and the UHC Members recognize the ition, UHC and the UHC Members recognize the desirability of additional capital investment in SAHS to ensure that SAHS continues to be the preferred provider of healthcare to the local community. To that end, UHC and the UHC Members commit to investing One hundred thirty million ($130,000,000) dollars in new investments over and above those identified in subparagraph a. above into SAHS and related investments supporting SAHS during the first five (5) years after Closing ("Capital Commitment"). UHC and SAHS will mutually identify such opportunities for investment. Such potential investments include, but are not limited to:

i. Provide the capital and resources to obtain an Illinois insurance/HMO license for Unity Health Insurance and commence operations as an Illinois insurer;

ii. Renovate SAHS's hospital inpatient tower

iii. Rationalize the outpatient clinic infrastructure through the construction of two integrated clinics; and

iv. EPIC installation and integration throughout the system, which shall be commenced within one (1) year after Closing and completed as soon as the project can reasonably be completed.

d. For the purpose of this Section 4, UHC's Capital Commitment may also include investment in the start-up costs of new clinical services and/or the back-stopping of the costs of physicians providing services or starting practices in the community. The Capital Commitment will be funded in the following order: (i) first, by SAHS's operating cash flow; (ii) second, from SAHS's available cash, subject to maintaining bond covenants; and (iii) third, by additional capital contributions of the UHC Members.

5 Inclusion of SAHS into the Obligated Group. Within three (3) years after Closing, UHC, UWHCA, and UWMF will exert their best efforts, subject to market and other conditions, to having a fully integrated debt structure and a combined Obligated Group that includes SAHS, provided that such an integrated debt structure does not increase the cost of any such borrowings.

6. Charity Care and Community Obligations. The Parties shall maintain community benefit programs and reinvestment in the SAHS Service Area to address the critical health care needs of the SAHS Service Area. UHC shall maintain a culture of community service and leadership that exemplifies UW Health's high expectations, corporate behaviors, and core values. UHC, subject to diligence, shall maintain and enhance charity care in the community in accordance with current SAHS policies and UW Health's charity care policies. UHC shall support SAHS's commitment to (1) the SAHS behavioral health services at SAHS and (2) SAHS's partnering with the Crusader Clinic. UHC shall support maintaining SAHS's existing family practice residency program with the University Of Illinois College Of Medicine at Rockford's Family Medicine Residency Program that operates at the Family Health Center

7. SAHS as Northern Illinois Hub. UW Health will recognize SAHS as its hub provider in the SAHS Service Area.

a. As hub provider, SAHS will provide the highest levels of service by UW Health-affiliated providers in the SAHS Service Area and will be the primary conduit through which patients from the SAHS Service Area access UW Health.

b. UW Health will not enter into new affiliations within the SAHS Service Area, or institute new

services or expand existing services in the SAHS Service Area (directly or through other affiliates providing services in the SAHS Service Area) without first consulting with SAHS about the impact on SAHS and the overall strategic impact for the integrated UW Health system within the SAHS Service Area.

8. Payor Contracting and Managed Care. As a part of UW Health, UHC will centralize payor contracting for SAHS within the larger UW Health third party payor contracting process. UHC and SAHS will jointly develop a payor/managed care strategy for the SAHS Service Area. If deemed financially and operationally appropriate through the joint planning process, UW Health will commit to having Unity Health Insurance apply for and apply best efforts to obtain an Illinois insurance/HMO license. UW Health also will work with SAHS to help manage risk and the population, and to develop the necessary managed care models for SAHS. UHC and SAHS will work together to develop attractive narrow network offerings including both SAHS and UW Health on a cost competitive basis. SAHS would have access to and be included in UW Health's managed care infrastructure

9. Population Health Management. UHC will work with SAHS to implement an effective population health management strategy in the SAHS Service Area to improve patient care and wellness and the population health of SAHS patients and members of the SAHS Service Area. UHC will work to either include SAHS in the UW Health ACO or help develop a SAHS Service Area ACO. UHC will help enhance the care management capabilities at SAHS and provide the tools and infrastructure available within UHC. UW Health will provide SAHS access to and participating in UW Health's risk sharing models and analytics, and UHC will have access to SAHS' population health management tools and infrastructure

10. Commitment to SAHS Physicians. The Parties are committed to maintaining multiple approaches to partnering with clinicians as well as maintaining an open medical staff for SAHS.

a. As a result of the affiliation, there are no anticipated changes in the structure of SAHS' medical staff including, but not limited to the following.

   i. Existing relationships with the University Of Illinois College Of Medicine or other professional academic relationships. In addition, the SAHS medical staff will not be required to accept a UWSMPH faculty appointment, but will be considered for a UWSMPH Faculty appointment if so desired by individual physicians and the physicians meet the requirements and agree to the commitments required.

   ii. Employment agreements with SAHS.

b. The Parties' relationship with their respective clinicians is of critical importance to the long-term success of the partnership. As such, UW Health shall work with SAHS' clinicians to evaluate and pursue clinical integration, when doing so offers opportunities for advancement in quality and cost-effectiveness of care.

11. Management. Certain members of the current senior leadership team at SAHS including Bill Gorski, M.D. and Don Haring have employment agreements with SAHS. Subject to diligence, all employment and severance agreement will remain in effect after Closing. Additionally, UHC will work with Bill Gorski and the SAHS Board between the signing of the LOI and the signing of the Definitive Agreements to identify additional members of management that may require employment agreement for retention purposes and extend these agreements as / if needed. Both Parties acknowledge the benefits of physician leadership, and UHC will commit to expanding and enhancing physician leadership programs to SAHS.

12. Employees. UHC has a strong commitment to SAHS employees grounded in respect for each employee as an individual. UHC will have a respectful and collaborative work environment in which patients, visitors, co-workers, clients, clinicians and volunteers all are valued. Each active SAHS employee in good standing at Closing will continue in his or her position on the same terms, including salary, seniority and benefits, after Closing. Any employment agreements will be honored, subject to their determination by UHC that existing agreements are reasonable, relative to market terms. Active SAHS employees will have access to additional opportunities for career development within the UW Health system. The Parties agree that employment decisions for SAHS position will continue to be made locally and will continue to reflect market conditions.

13. Information Technology. The Parties' goal is to have a fully-integrated, technology-enabled care delivery network that will promote seamless care delivery and data exchange across the system and throughout the care continuum. The Parties will work in a coordinated fashion to achieve seamless integration, coordinated operations, and efficiency within the framework of population health management. UW Health is committed to enhancing and expanding SAHS' IT platform and capabilities to ensure SAHS continues to abide by Meaningful Use standards and continually enhances patient safety and privacy.

14. Marketing and Branding. The Parties recognize the long-term importance of developing a single message and brand image for UW Health and also recognize the great equity, consumer recognition and pride inherent in the "UW Health" and "SAHS Health System" brands. Subject to approval, UHC will make available the "UW Health" brand available to SAHS, and both Parties agree to collectively research and develop a brand strategy for SAHS, in which it will be determined whether a "driver" strategy is supported (where the SAHS name is prominent) or an "endorser" strategy is supported (where the SAHS name is secondary). UHC will work closely with SAHS to develop a public relations campaign that highlights the strong commitment from UW Health to the SAHS Service Area.

15. Dissolution Parameters. During the first five (5) years after the Closing, in the event that UHC determines to divest itself of the assets included in this transaction, the parties will work together under a mediation/arbitration process to be further discussed and set forth in the Definitive Agreement to provide SAHS with a fair opportunity to reacquire control over the assets included in this transaction for a fair value that fully reimburses UHC for all investments it has made in those assets.

a. Prior to Closing, the parties will meet to discuss any other affiliations or transactions that UHC might be in the process of negotiating for the purpose of responding to concerns that SAHS might have as to whether such transactions will have an adverse impact on SAHS.

b. The Parties recognize and understand that SAHS desires to become a part of the UW Health system and that maintenance of the culture of the UW Health system is vitally important to SAHS. The parties also recognize and understand that in the future, the UW Health system may desire to integrate in some fashion with other health systems not currently a part of UW Health. UHC commits to consult with SAHS regarding any proposed large system to system transaction with another health system. If during the first five (5) years after the Closing (1) there is a proposed large system to system transaction involving UW Health under which UW Health is acquired by or becomes integrated into another system in a manner that causes UW Health to lose its identity and ability to control the mission, vision and values of the UW Health system; or (2) there is a corporate UHC transaction which changes the control over UHC and has an adverse impact on SAHS, SAHS will be provided with the same fair opportunity describes at the beginning of Section 15 above, provided however, that prior to any such re-acquisition, the parties will meet and negotiate in good faith any concerns that SAHS may have in connection with such transaction.

16. Material Covenants. For a period of five (5) years after Closing, UHC covenants that:

a. UHC will not take any actions to restrict or reduce the present scope of SAHS activities in sponsoring community events or community development initiatives unless such changes are approved by the SAHS Board

b. UHC will not take any actions to restrict or reduce the present scope of SAHS activities in providing community services/programs that have substantial community benefit unless such changes are approved by the SAHS Board

c. UHC recognizes the desire of SAHS to continue supporting the SAHS Service Area by maintaining banking relationships, vendor and supplier relationships in the SAHS Service Area. UHC will support the maintenance of such relationships as long as such relationships are cost competitive and do not breach any GPO or other covenants or obligations

d. UHC will not take any actions to lessen the financial assistance and charity care policies of SAHS without the approval of the SAHS Board

17. SAHS Foundation Enforcement. The SAHS Foundation shall continue to have as its purpose supporting health care services and programs at SAHS. The parties agree that the SAHS Foundation shall have the right for a period of five (5) years to enforce on behalf of SAHS the commitments set forth in Paragraphs 4, 6, 7 and 16 of this LOI. During such time, the Board of SAHS Foundation shall remain independent. The Foundation shall have no other standing except to enforce those commitments and for only the period of time set forth herein. The SAHS Foundation shall not engage in, or support, interests that are competitive with SAHS or UW Health. In addition, the SAHS Foundation shall have rigorous prohibitions against conflict of interest.

18. Confidentiality. The Parties agree that the Confidentiality and Non-Disclosure Agreement, dated November 2013 (the "Confidentiality Agreement"), remains in full force and effect, and shall govern the various matters provided for therein.

19. Due Diligence. This Letter is subject to and contingent upon due diligence review by all of the Parties. Upon execution of this Letter by all of the Parties, UHC, UW Health, and SAHS will conduct and cooperate in reasonable due diligence regarding the Proposed Transaction. Following the execution of this letter by all of the Parties, UHC, UW Health, and SAHS will promptly begin due diligence and will use reasonable efforts to complete such due diligence within ninety (90) days.

20. Exclusivity. During the Term (as defined hereafter in Section 24) of this Letter of Intent,

a. SAHS (a "Restricted Party") shall not directly or indirectly, through any officer, director, trustee, agent or otherwise solicit, make, entertain, discuss or negotiate the terms of any offer or proposal from or to any person or entity or enter into any agreement (whether absolute, binding, conditional or contingent), other than this Agreement relating in any way to any (i) investment in the Restricted Party or any entity controlling, controlled by or under common control of the Restricted Party (collectively for purposes of this Section 20, a "Restricted Party"), (ii) acquisition of direct or indirect control of the Restricted Party, (iii) disposition of all or any material portion of the Restricted Party's assets or businesses, (iv) acquisition by the Restricted Party of any third party's assets or businesses, or (v) affiliation management agreement, joint operating agreement, merger, consolidation or other business combination involving the Restricted Party (each, a "Proposal"); or

otherwise cooperate in any way with, or assist or participate in, facilitate or encourage, any effort or attempt by any person or entity, other than in accordance with the terms of this Agreement, to do or seek any of the foregoing;

b. SAHS shall not directly or indirectly, through any officer, director, trustee, agent or otherwise continue (and if currently engaged, shall immediately cease) any discussions ornegotiations ongoing with any person or entity, other than pursuant to the terms of this Agreement, with respect to any Proposal; and

c. UHC and UW Health shall not directly or indirectly through any officer, director, trustee, agent or otherwise solicit, make, entertain, discuss or negotiate the terms of any offer or proposal from or to any person or entity or enter into any agreement (whether absolute, binding, conditional or contingent), other than this Agreement relating to services to be provided in the SAHS Service Area in any way to any (i) investment in the SAHS Service Area, (ii) acquisition of direct or indirect control of any entity providing services in the SAHS Service Area, or (iii) affiliation, management agreement, joint operating agreement, merger, consolidation or other business combination involving services provided in the SAHS Service Area or otherwise cooperate in any way with, or assist or participate in, facilitate or encourage, any effort or attempt by any person or entity, other than in accordance with the terms of this Agreement, to do or seek any of the foregoing, except that the parties recognize and agree that (1) UHC and UW Health may maintain any present service arrangements they may have in the SAHS Service Area, including services arrangements at FHN Freeport Hospital; and (2) UHC and UW Health has been in discussions with Rockford Memorial Hospital regarding the establishment of a community pediatric program, and such discussions shall not be precluded by this section.

The foregoing notwithstanding, the term "Proposal" shall not include (i) any offer or proposal related to the recruitment of physicians or acquisition or divestiture of a physician practice in the ordinary course of business or (ii) any offer or proposal relating solely to a managed care contracting arrangement.

21. Definitive Agreements. This Letter and the Proposed Transaction is subject to, and contingent upon, the negotiation, approval, execution, and delivery of all necessary definitive agreements and related documents, including without limitation the member substitution agreement and other agreements, certificates, documents and instruments, including the amended organizational documents of SAHS (the "Definitive Agreement"). Upon execution of this Letter by all of the Parties, the Parties will negotiate diligently and in good faith the terms and conditions of the Definitive Agreement based upon this Letter. In addition, the Definitive Agreement shall contain such other terms and conditions, including covenants, representations and warranties, customary for transactions of this nature, as well as such other terms and conditions as agreed to by the Parties. The Parties intend that the Definitive Agreement be approved and executed as soon after completion of due diligence as reasonably possible.

22. Closing. The closing of the Proposed Transaction (the "Closing") will take place as soon after all required regulatory and other approvals for the Proposed Transaction have been obtained, unless otherwise mutually agreed by the Parties. The Parties anticipate that the Closing of the Proposed Transaction shall take place on or about December 31, 2014, or such later or earlier date as shall be agreed by the parties in the Definitive Agreement.

23. Conditions to Closing. The Parties acknowledge that this Letter represents their current understanding with respect to the Proposed Transaction, does not contain all matters upon which agreements must be reached and creates no legal obligations on the part of any Party hereto except as specifically provided in Section 28 below. The Parties also acknowledge that the Proposed Transaction will

be subject to closing conditions customary for this type of transaction. Matters that either will be closing conditions or resolved prior to executing the definitive agreement include the following:

a. Satisfactory completion of legal, financial and other due diligence of SAHS by UHC;

b. Successful negotiation of the Definitive Agreements, as evidenced by their execution by the parties thereto;

c. Receipt of any necessary approvals of the Attorney General of the State of Wisconsin, the Attorney General of the State of Illinois and any other department or authority of the State of Wisconsin, the State of Illinois or the United States of America;

d. Receipt of any other necessary regulatory approvals including, without limitation, and if determined necessary, termination of the waiting period under the Hart Scott Rodino Antitrust Improvements Act of 1976 ("HSR Act").

e. Approval by the Board of Directors of SAHS, UHC and the UW Health Parties as appropriate.

24. Term. The term of this Letter shall commence as of the Effective Date and shall continue until the earlier of the following: (a) execution by the Parties of the Definitive Agreement; (b) September 1st, 2014, unless otherwise agreed to in writing by the Parties; or (c) any Party's termination of this Letter by providing five (5) day's prior written notice to all of the other Parties. The Confidentiality Agreement shall survive the termination or expiration of this Letter.

25. Governing Law. This Letter shall be governed by, and construed in accordance with, the laws of the State of Wisconsin without reference to principles of choice of law thereunder. Jurisdiction over any actions to enforce this Letter will be vested in the courts of the State of Wisconsin.

26. Expenses. Except as otherwise agreed in writing, each Party shall be responsible for paying its own expenses relating to the Proposed Transaction, including, without limitation, expenses of legal counsel, accountants, and other advisors, incurred at any time in connection with pursuing or consummating the Proposed Transaction.

27. Counterparts. This Letter may be executed in one or more counterparts, and by the different Parties hereto in separate counterparts, each of which when executed shall be deemed to be an original but all of which taken together shall constitute one and the same document.

28. Binding Nature. Upon execution of this Letter by all of the Parties, Sections 17 – 20 and 24–27 (the "Binding Provisions") shall constitute the legally binding and enforceable agreement of the Parties in recognition of the significant costs to be borne by each of the Parties in pursuing the Proposed Transaction and further in consideration of the mutual undertaking as to the matters described therein. Other than the Binding Provisions, this Letter is not intended to, and shall not, create or constitute any legally binding obligation or commitment of any Party or among the Parties. This Letter does set forth the intention of the Parties with respect to the Proposed Transaction. Nothing contained in the Letter shall create any obligation on the part of any Party to enter into the Definitive Agreement. Any modification or waiver of the Binding Provisions must be in writing and executed by all of the Parties.

(SIGNATURES ON FOLLOWING PAGE)

UWHealth
uwhealth.org

IN WITNESS WHEREOF, the authorized representatives of the Parties have entered into this Letter of Intent as of the Effective Date.

UHC
By: _____

Michael Dallman
President

UWHCA
By _____

Donna Katen-Bahensky
President / CEO

SAHS
By: _____

Dr. William Gorski,
President / CEO

UWMF
By: _____

Dr. Robert Golden
Board Chair

UWHealth

uwhealth.org

Attachment A

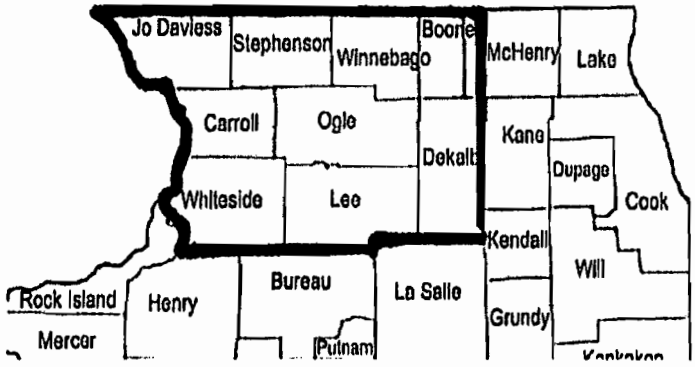
SAHS Service Area

The SAHS Service Area is comprised of the following area in Northern Illinois:

All of the following Illinois counties:

Boone
Carroll
DeKalb
Jo Daviess
Lee
Ogle
Stephenson
Whiteside
Winnebago

Plus the Western portion of McHenry County extending from the Common Border of Boone and McHenry County to the Northerly extension of the Common Border of DeKalb and Kane Counties into and through McHenry County.



TRANSACTION DOCUMENTS

5b: Definitive Agreement

UNIVERSITY HEALTH CARE, INC.

and

UNIVERSITY OF WISCONSIN HOSPITALS AND CLINICS AUTHORITY

and

UNIVERSITY OF WISCONSIN MEDICAL FOUNDATION, INC.

and

SWEDISHAMERICAN HEALTH SYSTEM CORPORATION

MEMBER SUBSTITUTION AGREEMENT

Effective as of _____, 2014

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MEMBER SUBSTITUTION AGREEMENT

This Member Substitution Agreement (this "**Agreement**") is made as of the ____ day of _____, 2014 (the "**Effective Date**"), by and among **UNIVERSITY HEALTH CARE, INC.** ("**UHC**"), a Wisconsin nonprofit corporation, **UNIVERSITY OF WISCONSIN HOSPITALS AND CLINICS AUTHORITY** ("**UWHCA**"), a public body corporate and politic established under Wis. Stat. Ch. 233, **UNIVERSITY OF WISCONSIN MEDICAL FOUNDATION, INC.** ("**UWMF**"), a Wisconsin nonstock, nonprofit corporation, and **SWEDISHAMERICAN HEALTH SYSTEM CORPORATION** ("**SAHSC**"), an Illinois nonprofit corporation. UHC, UWHCA, UWMF and SAHSC are referred to hereafter individually as a "**Party**", and collectively as the "**Parties**".

RECITALS:

WHEREAS, UHC has as corporate members UWHCA and UWMF ("**UHC Members**") (UWHCA, UWMF and UHC are collectively referred to hereafter as "**UW Health**");

WHEREAS, the University of Wisconsin School of Medicine and Public Health ("**UWSMPH**") is the medical school operated by the University of Wisconsin that for over 100 years has been recognized as a leader in education, research and service;

WHEREAS, UWHCA operates hospitals and clinics associated with UW Health;

WHEREAS, UWMF was created, and is operated, to benefit and support UWSMPH and the University of Wisconsin-Madison;

WHEREAS, the organizations comprising UW Health operate an integrated academic health system;

WHEREAS, UW Health has adopted the following Mission, Vision and Strategic Plan with respect to its regional objectives in connection with this Agreement:

> **Mission:** To develop a community-focused healthcare delivery model that will build upon the existing relationship between SAHSC and UW Health while utilizing UW Health's clinical, education and research missions to deploy population health best practices and offer communities outstanding coordinated clinical care;
>
> **Vision:** Through strategic partnerships with select community-based health systems like SAHSC, who possess a long standing history of community service, UW Health will develop an integrated health network that will focus on providing the right care, at the right place, at the right cost;
>
> **Strategic Plan:** UW Health will initially focus on strategic partnerships with health systems located in contiguous markets in Wisconsin and Northern Illinois to develop a geographically cohesive care network. As the population health model is further refined, subject to the terms of Section 2.11 (SAHSC as Northern Illinois Hub), UW Health may partner with organizations wherever mutually

beneficial opportunities present themselves to reach a large population of covered lives;

WHEREAS, SAHSC is the sole member of SwedishAmerican Hospital ("SAH");

WHEREAS, SAH is the owner and operator of two (2) licensed and Joint Commission accredited acute care hospitals with a single medical staff and Medicare Provider Number (the "**Hospitals**") and a network of related health care services;

WHEREAS, UW Health recognizes SAHSC's over 100 year history of delivering excellent care to Northern Illinois communities;

WHEREAS, SAHSC recognizes UW Health's long history of delivering excellent care to the State of Wisconsin;

WHEREAS, the Parties agree that as the paradigm of healthcare shifts, a provider's history and understanding of their local community's health would become increasingly important to long-term survival;

WHEREAS, the Board of Directors of SAHSC (the "**SAHSC Board**") has determined that it is in SAHSC's best interest and in the best interest of the SAHSC community and the patients which it serves, to undertake a transaction whereby UHC will become the sole corporate member of SAHSC (the "**Transaction**");

WHEREAS, the Board of Directors of the various UW Health entities have determined that it is in UW Health's best interest to undertake the Transaction;

WHEREAS, as a result of this Transaction, UHC, UWHCA, UWMF and SAHSC shall comprise an integrated academic health system called the **"UW Health System",** and the other community health systems that are contemplated to join UHC will be a part of the UW Health System in the future;

WHEREAS, SAHSC and UW Health intend that, as a result of the Transaction, SAHSC will be fully integrated into the UW Health System and that this integration will:

- Have the UW Health System become the preferred provider in the communities served for patients, payers, hospitals, and physician groups;
- Improve the health status of the populations and communities served;
- Provide a comprehensive array of services through the effective use of resources of a combined entity;
- Explore additional partnerships with other provider organizations who share the same vision;
- Foster the academic and research missions to improve patient care;

- Lower costs while strengthening quality and clinical service capabilities;

- Thrive in a changing healthcare environment, by embracing the notion that successful health systems need to move beyond an acute care focused model to a value-based model that requires assuming the responsibility and risk for the health of the populations served;

- Create a sustainable financial platform to generate the capital required to invest in infrastructure, programs, services and communities;

- Have UW Health System become an employer of choice in the communities served; and

- Effectively utilize the efficiencies of scale in system operations while recognizing community systems as the hub for patient care.

NOW, THEREFORE, in consideration of the mutual covenants and undertakings set forth in this Agreement and other good and valuable consideration, the sufficiency and receipt of which is acknowledged, the Parties agree that the recitals set forth above are a material part of this Agreement and further agree as follows:

ARTICLE I.
DEFINITIONS

Certain terms are used in this Agreement as specifically defined herein. These definitions are set forth or referred to in Article XIII hereof.

ARTICLE II.
MEMBER SUBSTITUTION; GOVERNANCE; MANAGEMENT; AND OTHER COMMITMENTS AND COVENANTS

2.1 **Member Substitution.** Upon the terms and conditions stated herein, and in reliance upon the representations, warranties and covenants set forth in this Agreement, including the funding commitments of UW Health set forth in Section 2.8, on the Closing Date, UHC shall become the sole corporate member of SAHSC (the "**Member Substitution**").

2.1.1 Pre-Closing Actions. The Member Substitution shall be effected as follows by actions taken on or prior to the Closing Date, but effective on the Closing Date.

(a) SAHSC shall adopt Amended and Restated Articles of Incorporation in the form attached hereto as Exhibit 2.1.1(a) ("**Restated SAHSC Articles**") providing among other things, that UHC is the sole corporate member of SAHSC.

(b) SAHSC shall adopt Amended and Restated Bylaws in the form attached hereto as Exhibit 2.1.1(b) ("**Restated SAHSC Bylaws**").

(c) As determined by the mutual agreement of the Parties, except for the SwedishAmerican Foundation ("SAF") Bylaws which shall be amended in accordance with the terms of Section 2.20 (SAF Enforcement), each of SAHSC's Subsidiaries shall, as needed, adopt Amended and Restated Articles of Incorporation and/or Bylaws (or Articles of Organization and Operating Agreements, as applicable) consistent with the Amended and Restated Articles of Incorporation and Bylaws adopted by SAHSC pursuant to Section 2.1.1(a) & (b) above ("**Restated SAHSC Subsidiary Articles**" and "**Restated SAHSC Subsidiary Bylaws**").

(d) UHC shall adopt Amended and Restated Bylaws in the form attached hereto as Exhibit 2.1.1(d) ("**Restated UHC Bylaws**").

2.1.2 Repurposing of UHC. The Parties understand and agree that UHC will be reorganized prior to Closing in order to more effectively hold the membership interests contemplated hereunder. Such repurposing may include, but not be limited to, the spin off of certain assets, liabilities and services into a new entity controlled by the UHC Members. The form and extent of such repurposing will be at the discretion of the UHC Members, unless otherwise dictated by the terms herein.

2.2 Governance of UHC.

2.2.1 Composition of the UHC Board at Closing. Effective upon Closing, the UHC Board of Directors (the "**UHC Board**") shall be comprised of nine (9) individuals as follows: six (6) directors shall be appointed by UW Health ("**UW Health Directors**"); and three (3) directors shall be appointed by SAHSC (the "**SAHSC Directors**"). The initial three (3) SAHSC Directors shall be the Chair of the SAHSC Board as of the Closing Date, and two (2) additional directors designated by the SAHSC Board.

2.2.2 Composition of the UHC Board after Closing. SAHSC Directors of the UHC Board shall always be approved, appointed and removed by the SAHSC Board. As new community health system partners join UHC, the following changes to the UHC Board may occur as determined by the UHC Members:

(a) In the event that other community health systems join UHC, these community health systems may receive a certain number of seats on the UHC Board to be determined in a manner that maintains the voice of all, and provides a fair distribution of seats on the UHC Board among, the community health systems that are part of UHC, weighted by metrics (such as relative net patient revenue, contribution margin, and/or assets) as determined by the UHC Board. As a result, the number of UHC Board seats may be increased to provide representation for the new community health system partners, and/or the number of UW Health Directors and/or SAHSC Directors may be increased or reduced; provided, however, that there shall be at least three (3) SAHSC Directors for a minimum of seven

(7) years after the Closing Date and at least one (1) SAHSC Director after the seven (7) year period. On or before the seventh anniversary date of the Closing Date, SAHSC shall remove that number of SAHSC Directors necessary to comply with this Section 2.2.2(a).

(b) Under no circumstances shall the UW Health Directors represent less than one-half (1/2) plus one (1) of the seats on the UHC Board.

(c) The composition of the UHC Board, including appointees by the UHC Members and SAHSC, shall reflect the range of core competencies and diversity required for a successful health system board.

2.2.3 Authority of the UHC Board. Subject to the powers reserved to the UHC Members, the UHC Board shall have the authority and responsibility for the management and operation of UHC.

2.2.4 Reserve Powers of the UHC Members. The UHC Members shall have the following reserve powers, the exercise of which shall be subject to the terms and requirements of this Agreement:

(a) The approval and removal of officers and directors of UHC;

(b) The approval of UHC's strategic plans, budgets and quality and safety measures;

(c) The approval of changes to UHC's organizational documents and changes that would affect its not-for-profit and/or tax-exempt status;

(d) The approval of material transactions, including without limitation mergers, consolidations, and sale of substantially all of the assets of UHC;

(e) The approval of UHC's incurrence of debt, all accounting policies and financial auditors, compliance policies, and material contracts; and

(f) Creation and/or dissolution of UHC's operating units or subsidiaries, and approval of significant asset or clinical service acquisitions, additions, or eliminations.

2.3 Governance of SAHSC.

2.3.1 Composition of SAHSC Board Upon and After Closing. The SAHSC Board, for a period of seven (7) years after the Closing Date, shall be comprised of no more than twenty-five (25) directors. Two (2) directors shall represent UW Health and be appointed by UHC. The SAHSC Board shall nominate the remaining twenty three (23) directors, to be appointed by UHC as the corporate member. At least a majority of the directors on the SAHSC Board shall be either independent community members whose primary residences are in the SAHSC Service Area (as defined in Exhibit 2.3.1 and as may be amended on the mutual agreement of

UHC and the SAHSC Board) ("**Community Directors**"), or physicians in good standing on the active medical staff of the Hospitals; provided, however, that a majority of such physicians shall have their primary residences in the SAHSC Service Area. In the event any of those members nominated by the SAHSC Board are not acceptable to the UHC Board, the UHC Board and the SAHSC Board will meet to come to a mutually acceptable slate of appointees; and if the UHC Board and the SAHSC Board cannot agree, UHC will appoint the Directors. After seven (7) years from the Closing Date, UHC, as the sole corporate member of SAHSC, shall have the exclusive right to modify the composition and structure of the SAHSC Board, but at all times, (a) at least one-half (1/2) of the SAHSC Board shall be Community Directors or physicians in good standing on the active medical staff of the Hospitals, nominated by the SAHSC Board, (b) a majority of such physicians shall have their primary residences in the SAHSC Service Area, unless the SAHSC Board agrees that an alternative board composition is in the best interest of SAHSC.

2.3.2 Reserve Powers of UHC as the Sole Member of SAHSC. Effective upon Closing, as the sole corporate member of SAHSC, UHC shall have the following reserve powers, the exercise of which shall be subject to the terms and requirements of this Agreement:

(a) The approval/removal of directors on the SAHSC Board;

(b) The approval and removal of the President/CEO of SAHSC;

(c) The approval of SAHSC's strategic plans, annual budgets and quality and safety measures;

(d) Approval of annual unbudgeted capital expenditures above One Hundred Thousand Dollars ($100,000) for new lines of business, above Two Hundred-Fifty Thousand Dollars ($250,000) for existing lines of business and any such cumulative expenditures exceeding One Million Dollars ($1,000,000) per year after the Closing;

(e) The approval of changes to SAHSC's organizational documents and changes that would affect its not-for-profit and/or tax-exempt status;

(f) The approval of all plans of mergers or consolidations of SAHSC; or the sale, lease, exchange, mortgage, pledge or other disposition of all or substantially all of the assets of SAHSC; or a voluntary dissolution of SAHSC;

(g) The approval of SAHSC's incurrence of debt exceeding certain limits as set forth in the Restated SAHSC Bylaws, all accounting policies and financial auditors, contracts with competitors of UW Health or SAHSC that could result in a Material Adverse Effect and compliance policies; and

(h) Creation and dissolution of any operating units, or Subsidiaries, of SAHSC, and approval of clinical service acquisition, addition, or elimination.

2.3.3 Authority of the SAHSC Board. Effective upon Closing, subject to the powers reserved to UHC as the sole corporate member of SAHSC, the SAHSC Board shall have the authority and responsibility for the following:

(a) Adopt vision, mission and values statements and develop policies consistent with UW Health's vision, mission and values;

(b) Approve amendments to the Restated Articles of Incorporation or Bylaws of SAHSC;

(c) Recommend any new President/CEO of SAHSC, it being understood that UHC shall have the right to approve and remove the President/CEO of SAHSC;

(d) Conduct periodic evaluations of the President/CEO of SAHSC, in conjunction with UHC, and make recommendations to UHC regarding his/her performance and employment;

(e) Participate in the development of a strategic plan for SAHSC consistent with the strategic plan for UW Health and subject to UHC approval;

(f) Identify and recommend new clinical services;

(g) Review and have input into any recommended substantive changes in the services provided by SAHSC;

(h) Review and recommend operating and capital budgets, including recommendations with respect to expenditures to fulfill commitments made in the Transaction Agreements;

(i) Participate in annual review of the strategic plan and goals of SAHSC and monitor progress toward achievement of those strategic goals;

(j) Ensure compliance with all licensure and accreditation requirements, including, but not limited to, credentialing of physicians and other providers and other medical staff related matters;

(k) Implement standards for patient care and oversee quality improvement consistent with UW Health's quality and patient safety policies;

(l) Provide oversight of risk management programs relating to patient care and safety;

(m) Foster community relationships and identify community service opportunities;

(n) Evaluate and make recommendations regarding recruitment needs to ensure adequate medical staff capacity to continue to meet community needs; and

(o) The approval/removal/appointment of the SAHSC Directors on the UHC Board.

2.3.4 Authority of the SAH Board. The SAH Board of Directors (the "**SAH Board**") shall approve the Medical Staff Bylaws of the Hospitals. The SAH Board shall also have such other authority as is required to be exercised by the governing body (i) of a licensee under the Illinois Hospital Licensing Act; (ii) to maintain accreditation by The Joint Commission, and (iii) pursuant to Legal Requirements.

2.4 **SAHSC Management.** As of the Effective Date, William Gorski, M.D., President/CEO, and Don Haring, Chief Financial Officer, each will have employment agreements with SAHSC. Such employment agreements will remain in effect after Closing based on the same terms and conditions in effect as of the Effective Date. SAHSC management will report to the President/CEO of SAHSC and the President/CEO of SAHSC will report to both the SAHSC Board and UHC Board.

2.5 **Management Council.** No later than six (6) months after the Closing Date, UHC shall create a management council ("**Management Council**") for overall planning, coordination of operations, and integration of all of the components of the UW Health System, including UWHCA, UWMF, SAHSC, other community health systems that join UHC, and the contemplated UW Health community physician division. The Management Council will be maintained for a period of at least three (3) years following its creation. The members of the Management Council shall include members of senior leadership from each of the constituent organizations of UW Health System, including the CEO of SAHSC and two (2) other designees of SAHSC as determined by the CEO of SAHSC.

2.6 **Commitment to Quality, Safety and Patient Satisfaction.**

2.6.1 Quality Care. The Parties will strive to provide high-quality, accessible, safe, coordinated, cost-efficient and innovative healthcare services across the care continuum of preventive, wellness, ambulatory, hospital and post-acute services and to:

(a) Develop and implement a detailed set of performance criteria based on regional and national benchmarks to measure quality scores across the organization;

(b) Provide quality clinical services and implement programs designed to improve the patient experience, care coordination and clinical quality; and

(c) Effectively utilize systems, best practices, and processes across the system to assure the efficiencies of scale are realized.

2.6.2 Population Health. The Parties will jointly work to position the UW Health System to manage effectively the health of the population they serve and maximize the patient's role through a shared decision-making and value-based model.

2.7 Clinical Programs and Services. The Parties, through the shared governance structure of UHC, will evaluate, enhance, develop and coordinate the provision of services across the communities they serve to ensure seamless access to high quality, cost-effective health care services.

2.7.1 Provision of Services Locally. The Parties believe that healthcare should be delivered locally whenever clinically appropriate and the Parties commit to develop a detailed set of mutually agreeable criteria to codify the appropriate access points and resources for healthcare services in the communities served.

(a) Joint Planning and Development: The Parties agree to jointly plan and develop services deemed necessary to provide seamless access to high quality, low cost care in the community. UHC will work with SAHSC, SAH, and SAHSC's Subsidiaries to provide sufficient support and resources necessary for such planning and development.

(b) Clinical Protocols: As a member of UW Health System, SAHSC, and thereby SAH, and SAHSC's Subsidiaries will have access to and the opportunity to participate in UW Health's clinical protocols, research, education and training, clinical trials and care management tools.

(c) By virtue of the affiliation, SAHSC, SAH, and SAHSC's Subsidiaries will have access to UW Health's expertise and resources in order to attract patients.

2.7.2 Services Commitment.

(a) Consistent with the requirements set forth by the Illinois Health Facilities and Services Review Board (the "**HFSRB**"), the UHC Members, UHC, SAHSC and SAH will not substantially change the categories of service or the number of beds at the Hospitals for a period of at least twelve (12) months following the Closing Date.

(b) Consistent with the requirements set forth by the HFSRB, the UHC Members, UHC and SAHSC agree that for a period of not less than three (3) years immediately following the Closing Date, the UHC Members, UHC, SAHSC and SAH shall not convey, merge, consolidate, convert or sell the Hospitals.

2.8 **Commitment to On-Going Capital Needs.** UHC and the UHC Members are committed to supporting the ongoing maintenance and strategic capital requirements of SAHSC.

2.8.1 Capital Investment at Level of Depreciation. During the first five (5) full fiscal years after the Closing Date, UHC and the UHC Members will assure funding for SAHSC's current policy of maintaining SAH's Routine Capital Expenditures at least at the level of depreciation, not including depreciation on the $130 Million of new investments described in Section 2.8.3 (Additional Capital Investments) hereof.

2.8.2 Capital Allocation Process. UHC and SAHSC understand the need to deploy a fair, deliberate, and flexible capital allocation process to ensure that the commitments of UHC and the UHC Members under Sections 2.8.1 (Capital Investment at Level of Depreciation) and 2.8.3 (Additional Capital Investments) hereof accomplish their intended purposes. The Parties acknowledge that market dynamics and strategic initiatives will largely influence the array of capital projects to be funded. Capital projects will be presented to the UHC Board by the SAHSC Board and/or management as part of the budgeting process or based on an agreed upon process for off-cycle projects. Within five (5) years of the Closing Date, UW Health will have developed a process for the evaluation of capital needs on a system-wide basis, including the provision for routine maintenance/ replacement expenditures. Other than the capital expenditures under Sections 2.8.1 (Capital Investment at Level of Depreciation) and 2.8.3 (Additional Capital Investment), capital needs and requests will be evaluated and prioritized on a system-wide basis.

2.8.3 Additional Capital Investment. UHC and the UHC Members recognize the desirability of additional capital investment in SAHSC to ensure that SAHSC is the preferred provider of healthcare to the SAHSC Service Area. To that end, in addition to the Routine Capital Expenditures (as described in Section 2.8.1), UHC and the UHC Members shall fund One Hundred Thirty Million Dollars ($130,000,000) in Program Capital Expenditures, Program Investments, and Operating Losses (collectively the **"Capital Commitment"**), with the Parties intending that the Capital Commitment be fulfilled during the first five (5) full fiscal years after the Closing Date. In the event the SAHSC Board does not recommend and the UHC Board does not approve the expenditure of the entire One Hundred Thirty Million Dollars ($130,000,000.00) before the expiration of the fifth (5th) full fiscal year following the Closing, and/or such expenditures are not completed before the expiration of the fifth (5th) full fiscal year following the Closing, then UHC and the UHC Members agree to satisfy the Capital Commitment as soon as practicable thereafter, upon the recommendation(s) of the SAHSC Board.

2.8.4 Funding Order. The Routine Capital Expenditures and the Capital Commitment will be funded in the following order: (i) first, by SAHSC's operating cash flow; (ii) second, from SAHSC's available cash, and (iii) third, by additional capital contributions of UHC or the UHC Members. UHC and the UHC Members may

fund their contributions to the Routine Capital Expenditures and the Capital Commitment in any manner in which UHC and the UHC Members deem reasonable in their sole discretion. The obligation of UHC and the UHC Members to fund the Routine Capital Expenditures and the Capital Commitment is hereby and will be guaranteed by UWHCA. Any debt incurred by SAH or SAHSC to meet all or a portion of the Routine Capital Expenditures or the Capital Commitment will be subject to the mutual agreement and approval of SAHSC, UHC and UWHCA.

Notwithstanding the foregoing, as long as the SAH Master Trust Indenture or the SAH Bond Loan Agreements remain outstanding and SAH remains subject to the terms and covenants therein: (i) SAH's available cash will not be expended in an amount that causes an event of default, as defined in the SAH Master Trust Indenture or the SAH Bond Loan Agreements; (ii) SAH's available cash will not be expended in an amount that causes SAH's days cash on hand (as defined in the SAH Master Trust Indenture) to fall below one hundred fifty (150) (this condition will expire the earlier of five (5) years from the Closing Date or the date on which SAH becomes a member of the UW Health integrated debt structure; and, (iii) SAH's incurrence of debt will be subject to the debt limitations under the SAH Master Trust Indenture or SAH Bond Loan Agreements. Additionally, it is not intended that the assets of SAF be used to fund the Routine Capital Expenditures or the Capital Commitment, and therefore "SAHSC's operating cash flow" and "SAHSC's available cash" shall not include any SAF cash or assets.

2.8.5 Capital Commitment Report. Within one hundred and twenty (120) days after the end of each SAHSC fiscal year during which UW Heath is required to assure funding for the Routine Capital Expenditures and invest in the Capital Commitments, SAHSC shall deliver a reasonably comprehensive written report (the **"Capital Commitment Report"**) to the UHC Board, the SAHSC Board and the SAF Board of Directors (the **"SAF Board"**) which details the progress made by UHC and the UHC Members in satisfaction of their obligations set forth in Section 2.8.1 (Capital Investment at Level of Depreciation) and Section 2.8.3 (Additional Capital Investment).

2.8.6 Access to Books and Records. Until UHC and the UHC Members have fulfilled their obligations under this Agreement related to the Routine Capital Expenditures and the Capital Commitment, SAF shall be given reasonable access to the books and records of SAHSC and its Subsidiaries to the extent reasonably necessary to verify the information and computations contained in each Capital Commitment Report.

2.9 Inclusion of SAHSC and/or SAH in the Credit Group. Within three (3) years after the Closing Date, UHC, UWHCA, and UWMF will exert their best efforts, subject to market and other conditions, to having an integrated debt structure and a unified obligated group or credit group for borrowing purposes that includes SAHSC and/or SAH, provided that such an integrated debt structure does not increase the cost of any such borrowings or result in the need to refund or prepay any existing outstanding indebtedness resulting in

less favorable terms and provisions than the current outstanding debt of UWHCA and/or UWMF.

2.10 **Charity Care and Community Obligations.** The Parties shall maintain community benefit programs and reinvest in the SAHSC Service Area to address the critical health care needs of the SAHSC Service Area. UW Health shall maintain SAHSC's and SAH's culture of community service and leadership that exemplifies UW Health's high expectations, corporate behaviors, and core values. UW Health shall maintain or enhance charity care in the SAHSC Service Area in accordance with current SAHSC and SAH policies and UW Health's charity care policies, provided SAHSC's and SAH's provision of care and financial assistance remains consistent with all applicable legal requirements and the requirements of Section 2.19.4 (Charity Care). Notwithstanding anything contained in this Agreement, consistent with the requirements of the HFSRB, SAH shall not adopt a charity care policy that is more restrictive than the policy in effect during the year prior to Closing for at least twenty-four (24) months after the Closing Date. For a period of not less than five (5) years from the Closing Date, UW Health shall support SAHSC's commitment to (i) the behavioral health services at SAHSC and SAH; (ii) SAHSC's and SAH's partnering with the Crusaders Central Clinic Association, doing business as Crusader Community Health; and (iii) SAH's existing family practice residency program with the University of Illinois College of Medicine at Rockford's Family Medicine Residency Program that operates at the Family Health Center.

2.11 **SAHSC as Northern Illinois Hub.** UW Health and the UW Health System will recognize SAHSC and SAH as its hub provider in the SAHSC Service Area.

2.11.1 Conduit to UW Health. As hub provider, SAHSC and SAH will provide the highest levels of service by UW Health-affiliated providers in the SAHSC Service Area and will be the primary conduit through which patients from the SAHSC Service Area access UW Health.

2.11.2 Right of First Consultation. UW Health will not enter into new affiliations within the SAHSC Service Area, or institute new services or expand existing services in the SAHSC Service Area (directly or through other affiliates providing services in the SAHSC Service Area) without first consulting with SAHSC about the impact on SAHSC and SAH, and the overall strategic impact for the integrated UW Health System within the SAHSC Service Area.

2.12 **Payor Contracting and Managed Care.** As a part of the UW Health System, UHC will centralize payor contracting for SAHSC and SAH within the larger UW Health System third party payor contracting process. After Closing, UHC and SAHSC will jointly develop a payor/managed care strategy for the SAHSC Service Area. If deemed financially and operationally appropriate through the joint planning process, UW Health will commit to having Unity Health Insurance apply for, and apply best efforts to obtain, an Illinois insurance and/or HMO license. UW Health also will work with SAHSC and SAH to help manage risk and the population, and to develop the necessary managed care models for SAHSC and SAH. UHC, SAHSC and SAH will work together to develop attractive narrow network offerings including SAHSC, SAH and UW Health on a cost

competitive basis. SAHSC and SAH will have access to and be included in UW Health's managed care infrastructure.

2.13 Population Health Management. UW Health will work with SAHSC and SAH to implement an effective population health management strategy in the SAHSC Service Area to improve overall patient care and wellness and the health of patients and members served by SAHSC and SAH in the SAHSC Service Area. UW Health will work to either include SAHSC and SAH in the UW Health ACO or help develop a SAHSC Service Area ACO. UW Health will help enhance the care management capabilities at SAHSC and SAH and provide the tools and infrastructure available within UW Health. UW Health will provide SAHSC access to and participation in UW Health's risk sharing models and analytics, and UHC will have access to SAHSC's population health management tools and infrastructure.

2.14 Commitment to SAHSC/SAH Physicians. The Parties are committed to maintaining multiple approaches to partnering with clinicians as well as maintaining an open medical staff for the Hospitals. Moreover, the Parties acknowledge the benefits of physician leadership, and UW Health will commit to expanding and enhancing physician leadership programs at SAHSC and SAH.

2.14.1 No Change to Medical Staff. As a result of the Transaction, there are no anticipated changes in the structure of the Hospitals' medical staff including, but not limited to the following:

(a) Existing relationships with the University of Illinois College of Medicine or other professional academic relationships. In addition, members of the Hospitals' medical staff will not be required to accept a UWSMPH faculty appointment, but will be considered for a UWSMPH faculty appointment if so desired by individual physicians, provided the physicians meet the UWSMPH requirements for faculty appointments and agree to the commitments required thereunder.

(b) Employment and independent contractor agreements with SAH, except for compliance purposes.

2.14.2 Maintenance of Clinical Relationships. The Parties' relationship with their respective clinicians is of critical importance to the long-term success of the partnership. As such, UW Health shall work with SAH's clinicians to evaluate and pursue clinical integration, when doing so offers opportunities for advancement in quality and cost-effectiveness of care.

2.15 Employees and Employee Benefit Plans.

2.15.1 Employees. UW Health has a strong commitment to employees of SAHSC and its Subsidiaries, grounded in respect for each employee as an individual. UW Health will have, and will ensure SAHSC and its Subsidiaries have, a respectful and collaborative work environment in which patients, visitors, co-workers, clients, clinicians and volunteers all are valued. The Parties anticipate that each

employee of SAHSC and its Subsidiaries at Closing will continue in his or her position on the same terms, including salary, seniority and benefits, after Closing. Provided, however, nothing in this Agreement shall be deemed to grant or create any employment rights or contracts to or with any employee of SAHSC or its Subsidiaries, to affect or limit SAHSC's or its Subsidiaries' normal prerogatives with respect to their employees, or to create or grant any third-party beneficiary rights or claims to any employee of SAHSC or its Subsidiaries. SAHSC and its Subsidiaries may maintain their existing employment agreements subject to the determination by UHC post Closing that such agreements are reasonable, relative to SAHSC Market Terms. In the event UHC determines, after consultation with SAHSC or its Subsidiaries, that any employment agreement is not reasonable, relative to SAHSC Market Terms, UHC will allow SAHSC or its Subsidiaries to modify or terminate such employment agreement, as appropriate and in accordance with its terms and conditions. Active SAHSC employees will have access to additional opportunities for career development within all components of UW Health. Except for the approval and removal of the President/CEO of SAHSC pursuant to Section 2.3.2(b) (Reserve Powers of UHC as the Sole Member of SAHSC), the Parties agree that all decisions regarding employees of SAHSC and its Subsidiaries will continue to be made locally by SAHSC and will continue to reflect SAHSC Market Terms.

2.15.2 Consolidation. The parties agree that in connection with any employment decisions necessitated by the consolidation of existing UW Health System operations and operations of SAHSC or its Subsidiaries, all such employment decisions will be made based upon the best interests of UW Health System after consultation with SAHSC.

2.15.3 Severance Policies. For a period of at least three (3) years following the Closing, SAHSC may maintain its Severance Pay Policy (Policy 10-951.252) and its SAHSC Severance Policy for Leadership Employees, as such policies exist as of Closing. Prior to Closing, SAHSC shall amend the SAHSC Severance Policy for Leadership Employees to (i) extend the period of time in which an employee may resign for "Good Reason"; (ii) add a material reduction of benefits to the "Good Reason" an employee may resign; and (iii) modify the relocation language.

2.15.4 Employee Benefit Plans. To the extent that any employee benefit plan maintained by UW Health System is made available to any employee of SAHSC or its Subsidiaries on or after the Closing, UW Health System shall cause to be granted to such employee credit for all service with SAHSC or any Subsidiary (and their predecessors) prior to the Closing for purposes of eligibility to participate and vesting where length of service is relevant (including, but not limited to, for purposes of annual leave/paid time off accrual, retirement and severance pay entitlement). Similarly, in the event that employees of SAHSC or its Subsidiaries are transitioned from Plans maintained by SAHSC or its Subsidiaries to employee benefit plans maintained by UW Health System on or after the Closing, UW Health System will waive waiting periods.

2.15.5 Old Plans vs. New Plans. In addition, and without limiting the generality of the foregoing, if at any time following the Closing any new employee benefit plan is instituted by UW Health System for employees of SAHSC or its Subsidiaries (a "**New Plan**") that replaces coverage under a comparable SAHSC Plan in which such employees participated immediately prior to the Closing (an "**Old Plan**"): (i) each employee of SAHSC or its Subsidiaries shall be immediately eligible to participate, without any waiting time, in any and all such New Plan; (ii) for purposes of each New Plan providing medical, dental, pharmaceutical, vision and/or disability benefits to any employee of SAHSC or its Subsidiaries, (a) UW Health System shall cause all waiting periods, evidence of insurability requirements, and actively-at-work or similar requirements of the New Plan to be waived for such employee and his or her covered dependents to the extent such requirements had been met under the Old Plan which the New Plan replaced, and (b) to the extent reasonably possible, UW Health System shall cause any eligible expenses incurred by such employee and his or her covered dependents during the portion of the plan year of the Old Plan ending on the date such employee's participation in the corresponding New Plan begins to be given full credit under the New Plan for purposes of satisfying all deductible, coinsurance and maximum out-of-pocket requirements applicable to such employee and his or her covered dependents for the applicable plan year as if such amounts had been paid in accordance with the New Plan, and (c) UW Health System shall credit the accounts of such employees of SAHSC and its Subsidiaries under any New Plan which is a flexible spending plan with any unused and unforfeited balance in the account of such employee under the applicable Old Plan, and (iii) for purposes of each New Plan providing any annual leave time or paid time off accrued but unused by an employee of SAHSC or its Subsidiaries as of immediately prior to the effective date of the New Plan shall be credited to such employee upon his or her participation in the New Plan, either through compensation for the amount of time accrued, or by recognizing such accrued time and allowing the accrued time to roll over from year to year until it has been used. In no event shall such employees of SAHSC and its Subsidiaries forfeit any accrued annual leave or accrued paid time off as a result of participation in an employee benefit plan maintained by UW Health System.

2.16 **Information Technology.** The Parties' goal is to have a fully-integrated, technology-enabled care delivery network that will promote best-practices care delivery and data exchange across the UW Health System and throughout the patient care continuum. The Parties will work in a coordinated fashion, and pursuant to all Legal Requirements, to achieve best-practices integration, coordinated operations, and efficiency within the framework of population health management. UW Health is committed to enhancing and expanding SAHSC's and its Subsidiaries' IT platform and capabilities to ensure SAHSC and its Subsidiaries, as applicable, continue to abide by Meaningful Use Program standards and continually enhance patient safety and privacy.

2.17 **Marketing and Branding.** The Parties recognize the long-term importance of developing a single message and brand image for the UW Health System and also recognize the great equity, consumer recognition and pride inherent in the "UW Health"

and "SwedishAmerican Health System" brands. Subject to approval of the University of Wisconsin as required by the existing Limited License Agreement, UW Health will make the "UW Health" brand available to SAHSC and its Subsidiaries, and both Parties agree to collectively research and develop a brand strategy for SAHSC and its Subsidiaries, in which it will be determined whether a "driver" strategy is supported (where the "SwedishAmerican Health System" name is prominent) or an "endorser" strategy is supported (where the "SwedishAmerican Health System" name is secondary). UW Health will work closely with SAHSC and its Subsidiaries to develop a public relations campaign that highlights the strong commitment from UW Health to the SAHSC Service Area.

2.18 **Unwind Parameters.** During the first five (5) years after the Closing Date, in the event that UHC determines to divest itself of the assets included in this Transaction, the Parties will work together under the process set forth in Section 2.18.3 (Right to Unwind) and Section 2.18.4 (Unwind Process), with a fair opportunity for SAHSC to reacquire control over the assets included in this Transaction for a fair value that fully reimburses UHC for all investments it has made in those assets.

2.18.1 Effect of Other Affiliations. After the Effective Date, but prior to Closing, the Parties will meet to discuss any other affiliations or transactions that UHC might be in the process of negotiating for the purpose of responding to concerns that SAHSC might have as to whether such transactions will have an adverse impact on SAHSC and its Subsidiaries. Such discussions will be subject to any Confidentiality/Non-Disclosure Agreements to which UHC or a UHC Member is a party.

2.18.2 Culture. The Parties recognize and understand that SAHSC and its Subsidiaries desire to become part of the UW Health System and that maintenance of the culture of the UW Health System is vitally important to SAHSC. The Parties also recognize and understand that in the future, the UW Health System may desire to integrate in some fashion with other health systems not currently a part of UW Health. UW Health commits to consult with SAHSC and SAF regarding any proposed large "system-to-system" transaction with another health system. If during the first five (5) years after the Closing Date (i) there is a proposed large system to system transaction involving UW Health under which UHC and/or a UHC Member is acquired by or becomes integrated into another system in a manner that causes UHC and/or a UHC Member to lose its identity and ability to control the mission, vision and values of the UW Health System; or (ii) there is a corporate UHC and/or a UHC Member transaction which is a UW Change of Control and has a Material Adverse Effect on SAHSC and/or its Subsidiaries, SAF will be provided with the same fair opportunity to unwind SAHSC and its Subsidiaries described in Section 2.18.3 (Right to Unwind) and Section 2.18.4 (Unwind Process), provided however, that prior to any such re-acquisition, the Parties will meet and negotiate in good faith any concerns that SAF, SAHSC and its Subsidiaries may have in connection with such transaction.

2.18.3 Right to Unwind.

(a) In the event that, within five (5) years from and after the Closing Date, UHC and/or a UHC Member enters into an agreement (an "**Unwind Event**") to (i) divest the assets of SAHSC and its Subsidiaries to an organization that is not controlled by the UW Health System, or (ii) undertake a UW Change of Control, then SAF shall have the right to initiate the unwinding of this Agreement and to establish SAHSC, SAH and the then-existing Subsidiaries (or the operations previously conducted by SAHSC, SAH and the Subsidiaries in the SAHSC Service Area, if such operations have been transferred to UW Health entities or their affiliates) either as independently-governed entities or as an organized integrated health care delivery system which has no membership relationship or other affiliation with UW Health (an "**Unwind Transaction**"). UW Health has the obligation to provide written notice to SAF within ten (10) business days of the occurrence of an Unwind Event describing the Unwind Event in reasonable detail.

(b) If, upon receiving notice of or otherwise becoming aware of the occurrence of an Unwind Event, SAF desires to effect an Unwind Transaction, it shall send to UW Health a notice describing its intent to effect an Unwind Transaction (an "**Unwind Notice**"). Such an Unwind Notice shall be provided by SAF within thirty (30) days of SAF's receipt of UW Health's notice of the occurrence of an Unwind Event. Failure to provide a timely Unwind Notice shall constitute a waiver of SAF's right to effect an Unwind Transaction. If UW Health reasonably and in good faith disputes that an Unwind Event has occurred, it shall provide SAF an Initial Notice within ten (10) business days following delivery of the Unwind Notice by SAF, and thereafter the Parties shall attempt in good faith to resolve the dispute pursuant to Article XII (Dispute Resolution).

2.18.4 Unwind Process.

(a) If an Unwind Event has occurred and SAF has sent an Unwind Notice, the Parties shall take such actions as may be necessary or appropriate to effect an Unwind Transaction within one hundred eighty (180) days following the Unwind Date (or such other date upon which the Parties may agree), utilizing the process described in this Section 2.18.4 (Unwind Process). As used herein, "**Unwind Date**" shall mean the date upon which SAF delivers an Unwind Notice or such later date on which any reasonable, good faith disputes described in Section 2.18.3(b) (Right to Unwind) are resolved or adjudicated.

(b) Within fifteen (15) days following the Unwind Notice, SAF shall appoint to a committee (the "**Unwind Committee**") three (3) members of the SAF Board who do not serve on the UHC Board (the "**SAF Unwind Members**") and UW Health shall appoint to the Unwind Committee three

(3) members of the UHC Board (the "**UHC Unwind Members**"). Within fifteen (15) days following its formation, the Unwind Committee shall select an independent "**Restructuring Expert**"; provided, however that if the Unwind Committee cannot agree upon an independent Restructuring Expert within such timeframe, then, within ten (10) days of the expiration of such time period, the SAF Unwind Members (acting as a group) and the UHC Unwind Members (acting as a group) each shall select a Restructuring Expert, and the two Restructuring Experts so selected shall agree upon a third Restructuring Expert (the three Restructuring Experts to comprise an "**Expert Panel**"). The Restructuring Expert (or Expert Panel, as applicable) shall assist the Unwind Committee to identify, agree upon and implement the actions that are necessary or appropriate to effect an Unwind Transaction within the time periods described herein, including, without limitation: (i) the equitable transfer of assets, including, without limitation, the equitable allocation of the ownership and financial obligations relating to operations previously conducted by SAHSC and its Subsidiaries (with the assumption that no Party will be allocated assets or entities as part of the Unwind Transaction unless it also is allocated the outstanding debt that was used for the acquisition of assets or entities, or any capital improvements that relate, in whole or in part, to such assets or entities; cash; accounts receivable; investments, real estate and equipment; (ii) the transfer and equitable allocation of liabilities (including payroll, taxes, accounts payable and intercompany loans and accounts payable); (iii) the refunding by SAHSC or its Subsidiaries of any bonds issued after the Closing to finance or refinance SAH which are at the time secured by UW Health commitments or guarantees or the entering by SAHSC or its Subsidiaries into contractual obligations (reasonably acceptable to UW Health) to reimburse UW Health for any payments made to pay such bonds or to make any other payments under the documents relating to such bonds, and the allocation, assumption and/or refinancing of indebtedness and credit supports; (iv) the transfer of professional and non-professional employees and contractors; (v) the assignment, termination, renewal, amendment or renegotiation of material contracts; (vi) the maintenance of payor relationships; (vii) the creation of new corporate entities and the application for tax exempt status; (viii) the securing of licenses and regulatory approvals; (ix) the implementation of amendments to governance documents; (x) the removal of officers and directors and the reconstitution of boards; (xi) the implementation of changes to signage, stationary and branding; (xii) the licensure of intellectual property rights, (xiii) confidentiality of proprietary information; and (xiv) the provision of transition services to be valued at fair market value designed to replace centralized corporate services or functions that were consolidated at UW Health, all for a sufficient period of time (but in no event more than one hundred eighty (180) days after the effective date of the Unwind Transaction) to allow SAHSC and its Subsidiaries to develop such services and functions independently.

(c) Within ninety (90) days following the Unwind Date, the Unwind Committee shall identify and agree upon the actions that are necessary or appropriate to effectuate a Unwind Transaction (including, without limitation, those set forth in Section 2.18.4(b) (Unwind Process). If the Unwind Committee cannot identify or agree upon all actions necessary to effectuate the Unwind Transaction, the open action items shall be submitted to the Restructuring Expert (or Expert Panel, as applicable) for resolution. Within thirty (30) days of submission, the Restructuring Expert (or Expert Panel, as applicable) shall issue a report (the "**Unwind Report**") which: (i) restates any agreed finding of the Unwind Committee; (ii) describes in detail any other actions that are necessary or appropriate to effect the Unwind Transaction within the time frames described herein (and the parties responsible therefore); (iii) sets forth the Restructuring Expert's (or Expert panel's, as applicable) conclusions, recommendations and findings with respect to all such actions; and (iv) allocates as between the Parties the costs associated with effecting the Unwind Transaction. As used herein, "**Unwind Transaction Commencement Date**" means the date on which the Unwind Committee identifies and agrees upon the actions that are necessary or appropriate to effectuate a Unwind Transaction, or if applicable, the date upon which the Restructuring Expert or Expert Panel, as applicable, issues the Unwind Report. If SAF does not wish to proceed with the Unwind Transaction as set forth in the Unwind Report, SAF shall give written notice to this effect to UW Health within fifteen (15) business days of the Unwind Transaction Commencement Date. If no such notice is given, the Parties shall be bound by the conclusions, recommendations and findings in the Unwind Report and shall take such actions described therein in order to effect a Unwind Transaction in accordance with the time periods described herein. Notwithstanding any provision contained in this Agreement, unless SAF has given notice as described above, UHC, any UHC Member and/or SAF shall be entitled to enforce the conclusions, recommendations and findings within the Unwind Report in a federal or state court of competent jurisdiction.

(d) The costs of the Unwind Transaction (including the cost of the Restructuring Expert and, if applicable, the cost of the Expert Panel) shall be allocated between the Parties as agreed upon by the Unwind Committee or as specified in the Unwind Report.

(e) Following the Unwind Date and until an Unwind Transaction is consummated, the Parties shall: (i) operate and permit each other to operate, SAHSC and its Subsidiaries and all other operations within the SAHSC Service Area exclusively in the ordinary course of their business, consistent with past practices and the terms of this Agreement; and (ii) take such actions as may be necessary or appropriate to preserve the goodwill of SAHSC and their Subsidiaries, including their physician, employee and payor relationships.

(f) In the event that a Unwind Transaction otherwise approved pursuant to this Section 2.18.4 (Unwind Process) cannot be effectuated by SAF because of the inability of SAHSC and/or its Subsidiaries to refund any bonds or other obligations issued or incurred to finance or refinance SAHSC and its Subsidiaries which are at the time secured by UW Health commitments or guaranties within no more than ninety (90) days following the Unwind Transaction Commencement Date, UW Health shall provide full contractual operational control of the assets, subject to the Unwind Transaction, to SAHSC and its Subsidiaries, and SAHSC and/or its Subsidiaries shall take all commercially reasonable actions necessary (i) to assume the obligations to pay such bonds and other obligations, (ii) to enter into such contractual arrangements as may be reasonably required by UW Health to secure its obligations to pay such bonds and other obligations, including securing such payments under its financing documents by a first lien on the gross receipts, revenues and other assets of SAH and other operations attributable to SAH, and (iii) to pay the debt service and other payments of such bonds and other obligations as the same become due.

(g) The UHC Board shall have the right to exclude the SAHSC Directors from the portions of the UHC Board meetings in which matters relating to the Unwind Transaction or to a dispute of a nature and kind that triggers the process set forth in these Sections 2.18.3 (Right to Unwind) and 2.18.4 (Unwind Process).

2.19 Material Covenants. For a period of five (5) years after the Closing Date, UW Health covenants that:

2.19.1 Sponsorships/Community Development. UW Health will not take any actions to restrict or reduce the present scope of the activities of SAHSC and its Subsidiaries in sponsoring community events or community development initiatives unless such changes are reasonably approved by the SAHSC Board.

2.19.2 Community Services/Programs. UW Health will not take any actions to restrict or reduce the present scope of the activities of SAHSC and its Subsidiaries in providing community services/programs that have substantial community benefit unless such changes are approved by the SAHSC Board. The SAHSC Board shall reasonably determine what constitutes "substantial" in the preceding sentence.

2.19.3 Service Provider Relationships. UW Health recognizes the desire of SAHSC and its Subsidiaries to continue supporting the SAHSC Service Area by maintaining banking relationships, and vendor and supplier relationships in the SAHSC Service Area. UW Health will support the maintenance of such relationships as long as such relationships are cost competitive and do not breach any GPO or other covenants or obligations of UW Health.

2.19.4 Charity Care. UHC will not take any actions to lessen the financial assistance and charity care policies of SAHSC and SAH without the approval of the SAHSC Board, provided SAH's provision of care and financial assistance remains consistent with all legal requirements and the provisions set forth in Section 2.10 (Charity Care and Community Obligations).

2.20 SAF Enforcement. SAF shall continue to have as its purpose supporting health care services and programs of SAH in the SAHSC Service Area. So long as SAF shall have the enforcement rights set forth below, (i) SAF's assets will remain separate from any other entity; (ii) SAF shall be solely controlled by the SAF Board and not controlled by any of the Parties or their successors or assigns; and (iii) the SAF Board shall consist solely of individuals who are residents of the SAHSC Service Area and who are independent of UW Health. The Parties agree that, for a period of five (5) years from the Closing Date (or in the case of the Capital Commitment, until it is satisfied), SAF shall have, and SAF's assets may be used for, the (a) right to enforce on behalf of SAHSC the commitments, covenants, and obligations of UHC and/or any UHC Member set forth in Section 2.2 (Governance of UHC), Section 2.3 (Governance of SAHSC), Section 2.8 (Commitment to On-Going Capital Needs), Section 2.10 (Charity Care and Community Obligations), Section 2.11 (SAHSC as Northern Illinois Hub), and Section 2.19 (Material Covenants); (b) unwinding rights set forth in Section 2.18 (Unwind Parameters), and (c) rights set forth in Section 5.2 (Capital Commitment Offset). SAF shall have no other standing, except as set forth in the preceding sentence. SAF's enforcement remedies will be limited to equitable relief, including but not limited to specific performance; no monetary damages or other legal remedies will be available. Any dispute with regard to such enforcement rights will be settled in accordance with the Dispute Resolution process set forth in Article XII hereof. SAF shall not engage in, or support, interests that are competitive with SAHSC or UW Health. In addition, SAF shall have rigorous prohibitions against conflict of interest.

2.21 Continuation of Existing Agreements between SAH and UW Health. Except for the Affiliation Agreement, which will terminate as of the Closing Date, and the Cancer Center Agreement, which will be amended as of the Closing Date, all existing agreements between SAH and/or SAHSC and UW Health (and its affiliates) shall remain in full force and effect upon and after the Closing Date. Within one (1) year of the Closing Date, the Parties agree to review all existing agreements, contracts, schedules, amendments, and any other document contemplated by this Section 2.21 (Continuation of Existing Agreements between SAH and UW Health) to determine whether the agreement should be amended for any general purpose or as a result of the Transaction.

ARTICLE III.
REPRESENTATIONS AND WARRANTIES OF SAHSC

SAHSC hereby represents and warrants to UW Health, except as expressly set forth as to the matter in question on any of the Exhibits or Schedules hereto, as follows:

3.1 Organization, Tax Status, etc.

3.1.1 Due Organization and Authorization. Except for SARI Insurance Company which is duly organized, validly existing and in good standing under the laws of Vermont, SAHSC, and each of its Subsidiaries, is duly organized, validly existing and in good standing under the laws of Illinois, which is the jurisdiction of its incorporation. SAHSC has all requisite power and authority to execute, deliver and perform this Agreement and all other agreements delivered pursuant to this Agreement (the "**Transaction Agreements**"). The execution and delivery of the Transaction Agreements and the performance of the obligations of SAHSC and any of its Subsidiaries thereunder have been duly authorized by all necessary corporate action.

3.1.2 Governing Documents. Copies of the Articles and Bylaws (and as applicable, the Articles of Organization and Operating Agreements) of SAHSC and its Subsidiaries have heretofore been made available to UW Health, are true, complete and correct, have been duly adopted and are in full force and effect.

3.1.3 Tax Status and Standing. SAHSC and each of its tax-exempt Subsidiaries listed on Exhibit 3.1.3 have received a determination letter from the IRS confirming its tax-exempt status and that it is not a private foundation as described in Section 509(a) of the Code ("**Tax-Exempt Public Charity Status**") and such letter has not been modified or revoked. There is no challenge, investigation or inquiry that the IRS has made regarding the Tax-Exempt Public Charity Status of SAHSC or any of its Subsidiaries.

3.2 Financial Statements, Change in Condition.

3.2.1 Financial Statements.

(a) SAHSC has provided to UW Health the audited consolidated balance sheets of SAHSC and, except for SARI Insurance Company and the TriRivers Entities, each of its Subsidiaries (to the extent separately audited) as of May 31, 2013 and May 31, 2014, and the related statements of operations and changes in net assets, and statements of cash flows for the fiscal years then ended, including the notes thereto (the "**Financial Statements**"). There are no management letters for the Financial Statements. The Financial Statements were prepared in accordance with GAAP (except as may be expressly indicated therein or in the notes thereto) and present fairly in all material respects the financial position of SAHSC and, except for SARI Insurance Company and the TriRivers Entities, its Subsidiaries at the dates thereof and the results of their operations and cash flows for the periods then ended, each as certified by the unqualified opinion of the independent auditor that prepared such Financial Statement.

(b) SAHSC has provided to UW Health the unaudited balance sheets of SAHSC and, except for SARI Insurance Company and the TriRivers Entities, its Subsidiaries (to the extent separately maintained) as of the month ended September 30, 2014, and for each month in fiscal year 2014 that is available as of the Closing Date, and the unaudited statements of income, unaudited statements of revenues and expenses, and statements of cash flow of SAHSC and its Subsidiaries for the month ended September 30, 2014, and for each month in fiscal year 2015 that is available as of the Closing Date ("**Interim Financial Statements**"). The Interim Financial Statements were prepared in accordance with GAAP, consistent with methods used to prepare the audited Financial Statements, subject to normal year-end adjustments (which will not have a Material Adverse Effect on SAHSC) and the absence of notes thereto.

3.2.2 Absence of Certain Change of Events. Except as set forth in Exhibit 3.2.2, since the date of the latest Interim Financial Statements, SAHSC and its Subsidiaries have conducted their Business in the ordinary course and consistent with past practice. Except as set forth on Exhibit 3.2.2, since the date of the latest Interim Financial Statements, neither SAHSC nor any of its Subsidiaries have: (i) incurred any obligation or liability (whether absolute, accrued, contingent or otherwise) greater than $1,000,000 in each instance except in the ordinary course of business and consistent with past practice; (ii) experienced any change or other occurrence having a Material Adverse Effect on SAHSC; (iii) made any material change in any accounting principle or practice or in its methods of applying any such principle or practice; (iv) suffered any damage, destruction or loss, whether or not covered by insurance that has had a Material Adverse Effect on SAHSC; (v) mortgaged, pledged or subjected to any lien, charge or other encumbrance, or granted to third parties any rights in, any assets, tangible or intangible, of SAHSC or its Subsidiaries, except in the ordinary course of business and consistent with past practice; (vi) sold or transferred any assets of SAHSC or its Subsidiaries, except in the ordinary course of business and consistent with past practice, or canceled or compromised any debts or waived any claims or rights, except in the ordinary course of business and consistent with past practice; (vii) made any payments to officers, employees, or agents of SAHSC or its Subsidiaries exceeding $25,000 not in the ordinary course of business or consistent with past practice; (viii) except in the ordinary course of business and consistent with past practice, granted any increase in the compensation payable or to become payable to any of SAHSC's or its Subsidiaries' current employees or any bonus or other similar benefit, or instituted, increased, augmented or improved a Plan; or (ix) entered into an agreement to do any of the foregoing.

3.3 **Title to Assets, etc.** Except as set forth in Exhibit 3.3, SAHSC and its Subsidiaries have good and lawful title to, or in the case of leased or licensed property, have valid leases or licenses under which they enjoy peaceful and undisturbed possession of, all of their properties and assets (whether real or tangible personal), including without limitation all properties and assets reflected on the Financial Statements and Interim Financial Statements (except as sold or otherwise disposed of since the date of the Interim

Financial Statements in the ordinary course of business and consistent with past practice). Such properties and assets include, without limitation, all properties and assets used in the business of SAHSC and its Subsidiaries as now conducted. All such assets and properties, other than assets and properties in which SAHSC or any of its Subsidiaries have leasehold interests or licenses from related parties, as of September 26, 2014, are free and clear of all Liens other than those set forth on Exhibit 3.3 or as have been incurred since September 26, 2014, in the ordinary course of business.

3.4 **Material Contracts.** SAHSC has delivered to UW Health correct and complete copies of the Material Contracts set forth on Exhibit 3.4 hereof. SAHSC represents and warrants with respect to the Material Contracts that:

(a) Each such Material Contract constitutes valid and legally binding obligations of SAHSC and/or its Subsidiaries and is enforceable in accordance with their terms;

(b) Each such Material Contract constitutes the entire agreement by and between the respective parties thereto with respect to the subject matter thereof;

(c) All material obligations required to be performed by SAHSC or a Subsidiary under the terms of each Material Contract have been performed and no act or omission by SAHSC or a Subsidiary has occurred or failed to occur which, with the giving of notice, the lapse of time or both would constitute a Default under such Material Contract and each of such Material Contracts is now, and will be upon and after the Closing Date, in full force and effect;

(d) Except as expressly set forth on Exhibit 3.4(d), the Transaction contemplated hereunder shall not give rise to termination or amendment rights on the part of the other party thereto, nor trigger any obligation on the part of SAHSC or any of its Subsidiaries to provide pre- or post-closing notice of the Transaction;

(e) Except as expressly set forth on Exhibit 3.4(e), no Material Contract subjects SAHSC or any of its Subsidiaries to exclusive arrangements, or arrangements that include non-competition or non-solicitation provisions;

(f) Except as expressly set forth on Exhibit 3.4(f), no Material Contract imposes any obligation on SAHSC, or any Subsidiary, constituting a guarantee of any liability of any Person, other than an obligation of SAHSC constituting a guaranty of the liability of a wholly-owned Subsidiary; or

(g) Except as expressly set forth on Exhibit 3.4(g), SAHSC has not entered into any compensation arrangements with any officer, director or trustee of SAHSC or a Subsidiary or any member of any such person's immediate family.

3.4.1 Insurance. SAHSC and its Subsidiaries (i) have insurance contracts in full force and effect with insurers, licensed to write insurance in the State of Illinois, including, professional liability and comprehensive general liability coverage with contractual liability riders for SAHSC's and its Subsidiaries' employees, agents, officers and trustees; and/or (ii) participate in a self-insurance fund to provide coverage for the risks described in subparagraph (i) and such self-insurance is funded at levels that are actuarially sound and is organized and operated in accordance with all applicable Legal Requirements. The amount, scope, and identity of each insurer for SAHSC and its Subsidiaries are set forth in Exhibit 3.4.1. SAHSC and its Subsidiaries have paid in full all premiums due and owing prior to the date hereof with respect to their respective insurance contracts. Except as disclosed in Exhibit 3.4.1, none of the insurance contracts of SAHSC or its Subsidiaries shall expire or otherwise terminate as a result of the Member Substitution.

3.5 Operations in Conformity With Legal Requirements, etc.

3.5.1 Generally.

3.5.1.1 Violation or Default. Except as disclosed in Exhibit 3.5.1.1 or as otherwise disclosed in writing to UW Health counsel, in the three (3) years prior to the Closing Date, a Material Adverse Effect on SAHSC or any of its Subsidiaries has not occurred due to an instance of non-compliance with all applicable Legal Requirements in operations of SAHSC and its Subsidiaries. In the three (3) years prior to the Closing Date, SAHSC has not received any written notice that the operations of SAHSC do not comply with all applicable Legal Requirements where such non-compliance would have a Material Adverse Effect on SAHSC.

3.5.1.2 Legal Proceedings. Except as set forth in Exhibit 3.5.1.2, there are no criminal, civil or administrative proceedings relating to any Legal Requirement pending or, to the Knowledge of SAHSC, threatened against SAHSC, or any of its Subsidiaries, in connection with the operation of SAHSC.

3.5.2 Patents, Trademarks. SAHSC and its Subsidiaries own or are licensed or otherwise have the right to use all trademarks, trade names, service marks, copyrights, patents, patent rights, franchises, proprietary knowledge and licenses used in, or necessary to conduct, the Business of SAHSC and its Subsidiaries as now conducted. A list of active federally registered trademarks, copyrights and patents owned by SAHSC and its Subsidiaries is set forth on Exhibit 3.5.2. Except as set forth in Exhibit 3.5.2, the consummation of the transactions contemplated thereby, will not alter or impair any of such rights. To the Knowledge of SAHSC, neither SAHSC nor its Subsidiaries has been alleged to have infringed, nor has it infringed, any trademark, trade name, service mark, copyright, patent, patent right or other proprietary right of any Person.

3.5.3 Governmental Permits. SAHSC and its Subsidiaries possess all permits, licenses, authorizations, certificates, accreditations, registrations, provider numbers, assignments, consents, rights and privileges necessary under laws applicable to the conduct of their Business ("**Permits**"), the absence of which could result in a Material Adverse Effect. Except as set forth in Exhibit 3.5.3, neither SAHSC nor any of its Subsidiaries have engaged in any activity which would cause the loss, limitation, restriction, revocation or suspension of any of the Permits; and to the Knowledge of SAHSC, no such action, proceeding, claim or notification with respect to any loss, limitation, restriction, revocation or suspension of any of the Permits is pending or threatened and no notification thereof has been received by SAHSC or any of its Subsidiaries.

3.5.4 Medicare and Medicaid Programs/Fraud and Abuse and Stark Law.

(a) SAH is eligible to receive payment under the Medicare and Medicaid programs. Neither SAHSC nor any Subsidiary other than SAH receives payment under the Medicare or Medicaid programs. SAH is not in violation of any program compliance matters which would have a Material Adverse Effect on the Transaction. SAH has timely filed, in a materially complete and correct manner, all requisite claims and other reports required to be filed in connection with all state and federal Medicare and Medicaid programs. In addition, except as expressly set forth on Exhibit 3.4(h), SAH qualifies to participate (and, to the Knowledge of SAHSC, there is no fact or circumstance that would prevent SAH from continuing to participate post-Closing) in Illinois' Assessment-Funded Supplemental Payment Programs for Hospitals and Illinois' General Revenue-Funded Supplemental Payments.

(b) Except as provided in a Side Letter addressed to counsel for UW Health, neither SAHSC nor any of its Subsidiaries has been convicted of, charged with or, to the Knowledge of SAHSC, investigated or is under investigation for any activity which is prohibited under the Federal Health Care Program Anti-Kickback Statute, 42 U.S.C. § 1320a-7b(b), and the regulations promulgated thereunder.

(c) Except as provided in a Side Letter addressed to counsel for UW Health, neither SAHSC nor any of its Subsidiaries: (i) has established or maintains a "financial relationship" as that term is defined by the Stark Law, with any physician or with an immediate family member of any physician who makes referrals to SAHSC or any of its Subsidiaries for designated health services, unless such financial relationship or referral, as applicable, meets an exception to the Stark Law; or, (ii) to the Knowledge of SAHSC, is under investigation for an arrangement alleged to be a financial relationship or referral that does not meet an exception to the Stark Law.

(d) Except as provided in a Side Letter addressed to counsel for UW Health, SAHSC and its Subsidiaries have paid or caused to be paid or have

properly reflected in the Interim Financial Statements all known and undisputed refunds, overpayments, discounts or adjustments which have become due pursuant to any filed cost reports or related to the Business and have no liability to Medicare, Medicaid, or any other governmental or private payor for any refund, overpayment, discount, or adjustment for services provided, and no interest or penalties are accruing with respect thereto. To the Knowledge of SAHSC, there is no basis for any claim or request for recoupment or reimbursement by any governmental entity or other provider reimbursement entity in connection with the Business.

3.5.5 Environmental Matters. Except as disclosed in Exhibit 3.5.5:

(a) SAHSC and its Subsidiaries are and have during the preceding three (3) years been in compliance with all applicable Environmental Laws.

(b) SAHSC and its Subsidiaries have obtained, and are and have during the preceding three (3) years been in compliance with the conditions of, all Environmental Permits.

(c) SAHSC and its Subsidiaries have filed all required applications, notices and other documents necessary to effect the timely renewal or issuance of all Environmental Permits for the conduct of their Business in the manner now conducted.

(d) To the Knowledge of SAHSC, there are no circumstances or conditions present at the present or former assets or Property of SAHSC or any of its Subsidiaries during the period of its ownership, occupancy, leasehold or tenancy that constitute a Release of a Hazardous or Chemical Substance.

(e) Neither SAHSC nor its Subsidiaries (i) has, within the past three (3) years, received or been subject to, any order, decree, judgment, complaint, agreement, claim, citation, or written notice or (ii) is subject to any judicial or administrative proceeding or, to the Knowledge of SAHSC, any pending or threatened investigation indicating that SAHSC or any of its Subsidiaries is or may be: (1) in violation of any Environmental Law; or (2) responsible for the Release of any Hazardous or Chemical Substance; or, (3) liable for any Environmental Liabilities and Costs.

(f) Exhibit 3.5.5(f) lists all Property presently or previously in the last three (3) years leased, owned, operated or used by SAHSC or any of its Subsidiaries that have within them, or have been used by SAHSC or any of its Subsidiaries for the storage or disposal of, Hazardous or Chemical Substances (and the location within that Property of the same).

(g) To the Knowledge of SAHSC, Exhibit 3.5.5(g) sets forth a list of all underground storage tanks owned or operated at any time by SAHSC or any of its Subsidiaries. To the Knowledge of SAHSC, except as disclosed in Exhibit 3.5.5(g), no such tank is leaking or has leaked at any time in the

past, and there is no material pollution or material contamination of the environment caused by or contributed to a Release of a Hazardous or Chemical Substance from any such tank.

(h) Exhibit 3.5.5(h) lists all environmental audits, inspections, assessments, investigations or similar reports in SAHSC's possession relating to the non-compliance of the Owned Properties with applicable Environmental Laws.

3.5.6 ERISA Matters.

(a) For purposes of this Section 3.5.6, the term "**Employee Benefit Plan**" means all Plans of which SAHSC, any SAHSC Subsidiary, or an ERISA Subsidiary of SAHSC is or was a Plan Sponsor, or to which SAHSC, any SAHSC Subsidiary, or an ERISA Subsidiary of SAHSC otherwise contributes or has contributed, or in which SAHSC, a SAHSC Subsidiary or an ERISA Subsidiary of SAHSC otherwise participates or has participated.

(b) Exhibit 3.5.6 contains a summary listing of all Plans. SAHSC has made available to UW Health current, true and complete copies of all Plans that have been reduced to writing (together with all amendments and related trust documents, IRS determination letters or opinion letters, and the three (3) most recent years of correspondence with or written notices from the IRS or the Department of Labor, insurance contracts, custodial agreements, administration agreements, investment, management or advisory agreements, summary plan descriptions, and employee handbooks or similar employee communications) and a summary of the material terms of all Plans that have not been reduced to writing, the three (3) most recently filed IRS Form 5500s for each plan for which such filing is due, with schedules attached and non-discrimination testing results for the three (3) most recent plan years.

(c) SAHSC does not maintain and has never maintained or been required to contribute to a defined benefit Pension Plan or a Multiemployer Plan, except as set forth in Exhibit 3.5.6, and (i) each of the Plans which is intended to be qualified under Section 401(a) or Section 408 of the Code is so qualified; (ii) each of the Plans which is intended to be described in Section 125, 129 or 403(b) of the Code has satisfied all Code requirements applicable to such Plans; (iii) each Plan, including any associated trust, fund, custodial account or annuity contract, has been administered and maintained in all respects in accordance with the terms of the Plan and with applicable law; (iv) there has been no failure to satisfy applicable minimum funding requirements with respect to any Plan; (v) there are no pending or, to the Knowledge of SAHSC, threatened, disputes or claims with respect to any Plan, other than claims for benefits in the normal course; (vi) no Plan is the subject of any examination or audit by a

government agency or is the subject of any filing under a government-sponsored amnesty, voluntary compliance or similar program; (vii) with respect to each Pension Plan other than a Plan subject to Title IV of ERISA, the current fair market value of the assets of each such Pension Plan equals or exceeds the value of all accrued benefits, and with respect to each Plan subject to Title IV of ERISA, the current value of the assets of each Plan exceeds the projected benefit obligation of such plan determined on a plan termination basis; (viii) no "reportable event" (as that term is defined in Section 4043 of ERISA), other than any such event for which the reporting requirements have been waived by regulation, has occurred; (ix) each Plan that is intended to be exempt from federal income tax under Section 501(c)(9) of the Code is so exempt; and, (x) except as set forth in Exhibit 3.5.6, SAHSC has made all contributions and paid all premiums required to have been paid prior to, or otherwise accruing with respect to periods prior to the Closing with respect to each Plan.

(d) Except as specifically described in Exhibit 3.5.6, no Employee Benefit Plan provides for benefits in the nature of medical, life or disability care or insurance following retirement or other termination of employment.

(e) Each Employee Benefit Plan which is a group health plan complies with and, within the three (3) most recent years, has been in compliance with, the requirements contained in Sections 601 through 608 of ERISA and Sections 104, 105, 106 and 4980B of the Code. To the Knowledge of SAHSC, no act or omission has occurred with respect to any Employee Benefit Plan that would give rise, directly or indirectly, to liability under ERISA (including without limitation the fiduciary liability or prohibited transaction provisions thereof) or under the Code.

(f) Exhibit 3.5.6 lists each Plan to which SAHSC is a party that is a "nonqualified deferred compensation plan" within the meaning of Section 409A of the Code and the regulations promulgated hereunder. Each such nonqualified deferred compensation Employee Benefit Plan complies and has complied with, and is and has been operated and administered in compliance with the requirements of Section 409A of the Code, the regulations promulgated hereunder and any other IRS guidance issued thereunder.

3.5.7 Real and Personal Property. With respect to all Property owned or leased by SAHSC or any of its Subsidiaries, together with the Improvements thereon and all interests therein and rights appurtenant thereto:

3.5.7.1 Title. SAHSC or one of its Subsidiaries is the legal fee simple or leasehold titleholder of the Property and has good, marketable and insurable title to the Owned Locations free and clear of all mortgages and security interests, Leases, licenses, options to purchase, rights of first refusal, liens, covenants, conditions, restrictions, rights-of-way,

easements, judgments and other matters of record affecting title to the Owned Locations, except those in favor of SAHSC or its Subsidiaries or those specified in Exhibit 3.5.7.1. All Improvements lie within the boundaries of the Property and do not encroach upon the property, or otherwise conflict with the property rights, of any other Person. Except as set forth in Exhibit 3.5.7.1, the Property complies with all Legal Requirements and all zoning requirements. Neither SAHSC nor any of its Subsidiaries has received any notifications from any governmental agency or authority or insurance company recommending improvements to the Property or any other actions relative to the Property.

3.5.7.2 Leases. Listed in Exhibit 3.5.7.2 are all of the contracts, including all amendments and modifications thereto, pursuant to which SAHSC or any of its Subsidiaries occupies all or any portion of the Leased Locations and pursuant to which SAHSC or any of its Subsidiaries is required to make annual rental payments in excess of One Hundred Twenty Thousand Dollars ($120,000) in the case of a single Lease during the remaining term thereof. With respect to each Leased Location that has an Occupancy Lease, SAHSC or its applicable Subsidiary has a valid Occupancy Lease under which it enjoys peaceful and undisturbed possession of such location. To the Knowledge of SAHSC, there is no Lease Default by SAHSC or its Subsidiaries or by the landlord under any of the Occupancy Leases, and, to the Knowledge of SAHSC, there are no existing conditions which, with the giving of notice or the lapse of time, or both, would constitute such a Lease Default by SAHSC or its Subsidiaries.

3.6 **Labor Relations.** No employees of SAHSC or any of its Subsidiaries are represented by a labor union, and, to the Knowledge of SAHSC, no petition has been filed by any employee or group of employees with any labor relations board seeking recognition of a bargaining representative.

3.7 **Litigation.** Other than as set forth in Exhibit 3.5.1.1 and Exhibit 3.5.1.2, there is no claim, arbitration or litigation, at law or in equity, nor, to the Knowledge of SAHSC, any investigation by any foreign, federal, state or municipal board or other governmental or administrative agency, in each case either pending or, to the Knowledge of SAHSC, threatened against SAHSC or its Subsidiaries, or against any of their trustees, officers, agents, or employees in their capacities as trustees, officers, agents or employees of SAHSC or any Subsidiary that would have a Material Adverse Effect on SAHSC or any of its Subsidiaries.

3.8 **Taxes.** Except as set forth in Exhibit 3.8, SAHSC and each of its Subsidiaries has duly and timely filed all foreign, federal, state and local tax returns (including, without limitation, tax information returns) which are required to be filed, and all such returns are true, correct and complete in all material respects as filed, and were prepared in good faith and in accordance with applicable tax rules and regulations. All Tax Liabilities of SAHSC and its Subsidiaries which are due and payable have been paid. The accruals and

reserves on the Financial Statements in respect of Tax Liabilities are sufficient to provide for all unpaid Tax Liabilities of SAHSC and its Subsidiaries with respect to the period through and including the date of the Financial Statements; SAHSC and its Subsidiaries have paid or made adequate provision on their respective books for the payment of all Tax Liabilities with respect to periods after the date of the Financial Statements; and there has been no material change since the date of the Interim Financial Statements in the provision for unpaid Tax Liabilities on the books of SAHSC or any of its Subsidiaries. The federal and state income tax returns of SAHSC and its Subsidiaries have not, within the preceding three (3) years, been audited by any governmental authority, and neither SAHSC nor any of its Subsidiaries have received any written notice of deficiency or assessment of additional taxes.

3.9 Violation of Other Instruments, Consents, etc.

(a) Except as set forth in Exhibit 3.9(a), neither the execution and delivery of the Transaction Agreements, nor the consummation of any of the transactions contemplated thereby, will (i) constitute a breach of or a Default under any Material Contract of SAHSC or any of its Subsidiaries, (ii) result in acceleration in the time for performance of any obligation of SAHSC or any of its Subsidiaries under any Material Contract of SAHSC or any of its Subsidiaries, (iii) result in the creation of any Lien upon any asset of SAHSC or any of its Subsidiaries, (iv) require any unobtained consent, waiver or amendment to any Material Contract of SAHSC or any of its Subsidiaries, (v) give rise to any severance payment, right of termination or any other right or cause of action under any Material Contract of SAHSC or any of its Subsidiaries, or (vi) violate or give rise to a Default or any other right or cause of action under any Legal Requirement.

(b) Except as set forth in Exhibit 3.9(b), no consent, waiver, approval or authorization of, or filing, registration or qualification with, any governmental or regulatory authority is required to be made or obtained by SAHSC, in connection with the execution, delivery or performance of this Agreement or any other Transaction Agreement by SAHSC.

3.10 Medical Staff. Except as disclosed in Exhibit 3.10, or to UW Health's counsel, or as it relates to routine action as a result of failure to comply with timely preparation of medical records, no member of the Hospitals' medical staff is subject to a pending disciplinary proceeding under the Medical Staff Bylaws or rules of the Hospitals. All disciplinary actions, the imposition of restrictions or conditions, revocation or non-renewal of rights and privileges for reasons requiring reporting to state or federal authorities, including the National Practitioner Data Bank and the Healthcare Integrity and Protection Data Bank, that are required to be made by the Hospitals during the two (2) years prior to the Closing have been made. There is no litigation, at law or in equity, or any proceeding before or investigation by any federal or state judicial or administrative body pending or, to the Knowledge of SAHSC, threatened with respect to denial or

revocation of privileges or medical staff membership of any of the Hospitals' medical staff members.

3.11 **Meaningful Use**. All physicians employed by SAHSC or a Subsidiary of SAHSC who are eligible to participate in the Medicare and/or Medicaid Meaningful Use Incentive Payment Program codified at 42 U.S.C. § 1395w-4 and subsequent published regulations and commentary ("**Meaningful Use Program**"), are registered as Eligible Professionals and are utilizing Certified Electronic Health Record Technology in a manner to achieve and successfully attest to the Meaningful Use Program on an annual basis in order to receive the related Meaningful Use Program incentive payments and/or avoid any Meaningful Use Program payment adjustments or penalties. Further, each Hospital which is eligible to participate in the Meaningful Use Program, is registered as an Eligible Hospital, and is utilizing Certified Electronic Health Record Technology in a manner to achieve and successfully attest to the Meaningful Use Program on an annual basis in order to receive the related Meaningful Use Program incentive payments and/or avoid any Meaningful Use Program payment adjustments or penalties. Except as set forth on Exhibit 3.11, no Hospital, or physician employed by SAHSC or a Subsidiary, has received a notice of audit from the Department of Health and Human Services, the State of Illinois, or any authorized third party agent regarding the Meaningful Use incentive program. For purposes of this Section 3.11, the terms "**Eligible Professional**," "**Certified Electronic Health Record Technology**," and "**Eligible Hospital**" shall have the meanings described in 42 U.S.C. § 1395w-4 and subsequent published regulations and commentary.

3.12 **No Other Agreements**. Neither SAHSC nor any of its Subsidiaries has any agreement, absolute or contingent, with any other Person to sell all or any portion of the Business of SAHSC or any of its Subsidiaries, or any capital stock or assets (other than sales of assets in the ordinary course of business) of SAHSC or its Subsidiaries, or, to effect any change of control, merger, consolidation, affiliation or other reorganization of SAHSC or its Subsidiaries to enter into any agreement with respect thereto.

3.13 **Finder's or Broker's Fees**. No broker, investment banker, financial advisor or other Person, is entitled to any broker's, finder's, financial advisor's or other similar fee or commission in connection with the transactions contemplated by this Agreement based upon arrangements made by or on behalf of SAHSC or its Subsidiaries.

ARTICLE IV.
REPRESENTATIONS AND WARRANTIES OF UHC

UHC hereby represents and warrants to SAHSC, except as expressly set forth as to the matter in question on any of the Exhibits hereto, as follows:

4.1 **Organization, Tax Status.**

4.1.1 Due Organization and Authorization. Each of UHC and the UHC Members is duly formed, validly existing and in good standing under the laws of Wisconsin, and has, as applicable, all requisite power and authority to execute, deliver and

perform all Transaction Agreements, to perform all the transactions contemplated thereby, to hold properties, rights and assets and to carry on the business of UW Health now conducted by them. The execution and delivery of the Transaction Agreements and the performance of the obligations of UW Health thereunder have been duly authorized by all necessary action by the UHC Board and of each UHC Member.

4.1.2 Qualification. Each of UHC and UWMF is duly qualified to do business as a foreign corporation or organization and is in good standing as such in each jurisdiction in which it is required to be so qualified, including, but not limited to, the State of Illinois.

4.1.3 Governing Documents. A copy of the Articles and Restated UHC Bylaws of the UHC Members have heretofore been made available to SAHSC, are true, complete and correct, have been duly adopted and are in full force and effect.

4.1.4 Tax Status and Standing. Each of UHC and UWHCA has received a determination letter from the IRS confirming its Tax-Exempt Public Charity Status and no such letter has been modified or revoked. There is no challenge, investigation or inquiry that the IRS has made regarding the Tax-Exempt Public Charity Status of UHC and UWHCA.

4.2 Violation of Other Instruments, Consents, etc.

(a) Neither the execution and delivery of the Transaction Agreements, nor the consummation of any of the transactions contemplated thereby, will (i) constitute a breach of or a Default under any Material Contract of UHC or a UHC Member, (ii) result in acceleration in the time for performance of any obligation of UHC or a UHC Member under any Material Contract of UHC or a UHC Member, (iii) result in the creation of any Lien upon any asset of UHC or a UHC Member, (iv) require any unobtained consent, waiver or amendment to any Material Contract of UHC or a UHC Member, (v) give rise to any severance payment, right of termination or any other right or cause of action under any Material Contract of UHC or a UHC Member, or (vi) violate or give rise to a Default or any other right or cause of action under any Legal Requirement.

(b) Except as set forth in Exhibit 4.2(b), no consent, waiver, approval or authorization of, or filing, registration or qualification with, any governmental or regulatory authority is required to be made or obtained by UHC or a UHC Member, in connection with the execution, delivery or performance of this Agreement or any other Transaction Agreement by UHC or a UHC Member.

4.3 Finder's or Broker's Fees. No broker, investment banker, financial advisor or other Person is entitled to any broker's, finder's, financial advisor's or other similar fee or

commission in connection with the transactions contemplated by this Agreement based upon arrangements made by or on behalf of UHC or a UHC Member.

4.4 **Litigation.** Except as set forth on Exhibit 4.4, there is no claim, arbitration or litigation, at law or in equity, nor any proceeding before or any investigation by any foreign, federal, state or municipal board or other governmental or administrative agency, in each case either pending or, to the Knowledge of UHC and each UHC Member, threatened against UHC or a UHC Member. Neither UHC nor a UHC Member has received written notice of any judgment, decree or order of any foreign, federal, state or municipal court, board or other governmental or administrative agency or any arbitrator which has been issued against it, or any other Person, which would have a Material Adverse Effect on UHC or a UHC Member, as applicable.

4.5 **Financial Statements, Change in Condition.**

4.5.1 Financial Statements.

(a) UHC and the UHC Members have provided SAHSC their audited consolidated statements of net assets as of December 31, 2012 and December 31, 2013 (and in the case of UWHCA, as of June 30, 2013 and June 30, 2014), and the related statements of revenues, expenses and changes in net assets and statements of cash flows and management letters for the fiscal years then ended, including the notes thereto (the "**UW Health Financial Statements**").

(b) The UW Health Financial Statements were prepared in accordance with GAAP, or GASB in the case of UWHCA (except as may be expressly indicated therein or in the notes thereto) and present fairly in all material respects the financial position of UHC and the UHC Members at the dates thereof and the results of its operations and cash flows for the periods then ended, each as certified by the unqualified opinion of the independent auditor that prepared such UW Health Financial Statements.

(c) UHC and the UHC Members have provided to SAHSC the unaudited balance sheets of UHC and the UHC Members (to the extent separately maintained) as of the month ended April 30, 2014, and for each month in fiscal year 2015 that is available as of the Closing Date, and the unaudited statements of income and statements of cash flow of UHC and the UHC Members for the month ended April 30, 2014, and for each month in fiscal year 2015 that is available as of the Closing Date ("**UW Health Interim Financial Statements**"). The UW Health Interim Financial Statements were prepared in accordance with GAAP (or GASB in the case of UWHCA), consistent with methods used to prepare the audited UW Health Financial Statements, subject to normal year-end adjustments (which will not have a Material Adverse Effect on UW Health) and the absence of notes thereto.

4.5.2 Absence of Undisclosed Liabilities. UW Health does not have any liabilities or obligations of any nature, whether accrued, absolute, contingent or otherwise, which would be required under GAAP to be reflected in the UW Health Financial Statements or the notes thereto, except as expressly set forth or reserved against in the UW Health Financial Statements or disclosed in the notes to the UW Health Financial Statements for the period then ended or incurred since the date of the UW Health Financial Statements in the ordinary course of business and consistent with past practice.

4.5.3 Absence of Certain Change of Events. Except as set forth in Exhibit 4.5.3, since June 30, 2014, UW Health has conducted its business in the ordinary course and consistent with past practice. Since June 30, 2014, UW Health has not: (i) experienced any change or other occurrence; (ii) made any material change in any accounting principle or practice or in its methods of applying any such principle or practice; (iii) suffered any damage, destruction or loss, whether or not covered by insurance; (iv) mortgaged, pledged or subjected to any lien, charge or other encumbrance, or granted to third parties any rights in, any assets, tangible or intangible, of UHC and/or any UHC Member; (v) sold or transferred any assets of UHC and/or any UHC Member, except in the ordinary course of business and consistent with past practice, or canceled or compromised any debts or waived any claims or rights, except in the ordinary course of business and consistent with past practice; or (vi) entered into an agreement to do any of the foregoing.

4.6 Operations in Conformity With Legal Requirements, etc.

4.6.1 Generally.

4.6.1.1 Violation or Default. Except as disclosed in Exhibit 4.6.1.1, in the three (3) years prior to the Closing Date, a Material Adverse Effect on UW Health has not occurred due to an instance of non-compliance with all applicable Legal Requirements in the operations of UW Health. In the three (3) years prior to the Closing Date, UW Health has not received any written notice that the operations of UW Health do not comply with all applicable Legal Requirements where such non-compliance would have a Material Adverse Effect on UW Health.

4.6.1.2 Legal Proceedings. Except as set forth in Exhibit 4.6.1.2, there are no criminal, civil or administrative proceedings relating to any Legal Requirement pending or, to the Knowledge of UW Health, threatened against UHC or any UHC Member, in connection with the operation of UW Health.

ARTICLE V.
NON-SURVIVAL OF REPRESENTATIONS AND WARRANTIES

5.1 Survivability. None of the representations and warranties in this Agreement or in any instrument delivered pursuant to this Agreement shall survive the Closing. All other

commitments, covenants or agreements of the parties which by their terms apply, or are to be performed in whole or in part after the Closing, shall survive the Closing.

5.2 **Capital Commitment Offset.** Subject to the provisions of this Section 5.2 (Capital Commitment Offset), SAHSC agrees and acknowledges that the Capital Commitment may be reduced (a "**Capital Commitment Offset**") to the extent that there are any SAHSC Liabilities identified within three (3) years of the Closing Date (i) not reserved for or, if reserved, in excess of the stated reserve for such item in the Interim Financial Statements, (ii) not incurred or accrued in the ordinary course of business, (iii) not subject to or in excess of insured limits, including the limits of the self-insured trust, of SAHSC and its Subsidiaries, and (iv) in excess of $1,500,000 in each instance and in the aggregate exceeding $5,000,000 ("**Unreserved Liabilities**"). UW Health may only exercise the Capital Commitment Offset in the event any one instance of an Unreserved Liability exceeds $1,500,000, and then only for the amount in excess of $1,500,000, or in the event the aggregate of any Unreserved Liabilities exceeds $5,000,000, and then only for the amount in excess of $5,000,000. Promptly upon UW Health determining that it desires an Unreserved Liability to be a Capital Commitment Offset, UW Health shall provide written notice (the "**Offset Notice**") to the SAHSC Board and SAF of the SAHSC Liabilities subject to the proposed Capital Commitment Offset. Such Offset Notice shall include the facts, circumstances and accounting data UW Health believes supports its position that such SAHSC Liabilities are an Unreserved Liability which should be a Capital Commitment Offset. Within thirty (30) days of the later of the SAHSC Board's or SAF's receipt of the Offset Notice, SAF shall notify UHC that SAF (a) agrees that such SAHSC Liabilities are an Unreserved Liability which should be a Capital Commitment Offset and then such SAHSC Liabilities will be treated as a Capital Commitment Offset; or (b) disputes that such SAHSC Liabilities are an Unreserved Liability which should be a Capital Commitment Offset (a "**Capital Commitment Offset Dispute**"). SAF's notification to UHC of a Capital Commitment Offset Dispute shall be treated as an Initial Notice pursuant to Section 12.1 (Informal Dispute Resolution). SAF and UW Health will follow the dispute procedures set forth in Article XII (Dispute Resolution) to resolve the Capital Commitment Offset Dispute.

ARTICLE VI.
ADDITIONAL COVENANTS OF THE PARTIES

6.1 **Certain Pre-Closing Matters.**

6.1.1 Access to Premises and Information. On and prior to the Closing Date, consistent with the Antitrust Protocol adopted by the Parties, upon the reasonable advance request of either SAHSC or UHC, whichever the case may be, the other Party will permit the requesting Party and its representatives to have reasonable and customary access during normal business hours to the premises and the books and records of the other Party, at the requesting Party's cost, to make copies of such financial and operating data and other information with respect to the businesses and properties of the other Party and its subsidiaries as the requesting Party shall reasonably request. Each Party will use commercially reasonable efforts to make available such additional information relating to its business and properties as

may be reasonably requested by another Party. The Parties acknowledge that the foregoing shall be conducted in a manner which will avoid unreasonable disruption to the operations of the other Party and its subsidiaries, shall not require a Party to provide any access or make available any information that is subject to the Antitrust Protocol, any attorney-client or similar privilege or protection or that may not be disclosed pursuant to any Legal Requirement. Any information obtained by a Party pursuant to this Section will be subject to Section 6.2 (Confidentiality) and the Common Interest/Joint Defense Agreement.

6.1.2 HSR Filing. No less than thirty (30) days prior to the Closing Date, UHC and SAHSC shall make (or cause to be made) any required filings with the Federal Trade Commission and the United States Department of Justice pursuant to the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act") with respect to the Transaction contemplated hereby (including a request for early termination of the pre-merger notification waiting period thereunder). The Parties will cooperate with one another in connection with such filings and in resolving any investigation or inquiry of any of the Federal Trade Commission, the United States Department of Justice or any other governmental or regulatory authority in connection with any such filing. UHC shall pay the required fee in connection with the HSR Act filing.

6.1.3 Certificate of Need. No less than sixty (60) days prior to the Closing Date, SAHSC shall prepare and submit to the HFSRB the appropriate application for either a Certificate of Need Permit or an Exemption Permit, whichever the case may be. The Parties will cooperate with one another in connection with such filing and in resolving any inquiry by the HFSRB. SAHSC will bear the costs and fees associated with the Certificate of Need or Exemption Permit.

6.1.4 Additional Governmental Consents and Approvals. SAHSC shall prepare and submit in a timely fashion all additional notices and requests for any approvals or consents by appropriate federal, state and local governmental agencies necessary for SAHSC and its Subsidiaries to consummate the Member Substitution and other transactions contemplated under the Transaction Agreements, including, without limitation, the consents and approvals listed on Exhibit 3.9(b). UW Health shall prepare and submit in a timely fashion all additional notices and requests for any approvals or consents by appropriate federal, state and local governmental agencies necessary for UW Health to consummate the Member Substitution and other transactions contemplated under the Transaction Agreements, including, without limitation, the consents and approvals listed on Exhibit 4.2(b). UW Health and SAHSC shall work cooperatively to prepare the notices and requests described above.

6.1.5 Conduct of Business Prior to Closing. Except as set forth on Exhibit 6.1.5, or as otherwise expressly provided in this Agreement or as approved in writing by UHC, from the Effective Date until the Closing Date:

(a) SAHSC and each of its Subsidiaries (i) shall have carried on its Business in substantially the same manner as heretofore carried on, and (ii) shall have conducted its Business in compliance (and without waiver, variance or extensions except as has been disclosed to UHC in writing) with all material statutory and regulatory requirements of any federal, state, or local authority.

(b) Neither SAHSC nor any of its Subsidiaries will acquire or dispose of any asset, tangible or intangible, other than in the ordinary course of business consistent with its prior practices, or pursuant to a Material Contract identified on Exhibit 3.4.

(c) Except in the ordinary course of its business and consistent with prior practice, neither SAHSC nor any of its Subsidiaries will: (i) increase the compensation payable or to become payable to any of its directors, trustees, officers, or employees other than reasonable annual increases consistent with its prior practices, or pursuant to a Material Contract identified on Exhibit 3.4 or an Employee Benefit Plan identified on Exhibit 3.5.6; (ii) enter into any new or amend or alter any Employee Benefit Plan; (iii) establish, adopt, or enter into any collective bargaining agreement; or (iv) except as may be required by GAAP, change its accounting methods, principles or practices in any material respect.

(d) Except in the ordinary course of its business or pursuant to a Material Contract identified on Exhibit 3.4, neither SAHSC nor any of its Subsidiaries will enter into or assume any Indebtedness or any mortgage, pledge or conditional sale, nor permit any Liens of any kind to attach to any Property, whether now owned or hereafter acquired.

6.1.6 Solicitation of Other Offers. From the Effective Date until the earlier of the Closing Date or the termination of this Agreement pursuant to Article IX (Termination), neither SAHSC nor any of its Subsidiaries will enter into negotiations, transactions or contracts with any Person without the prior written consent of UHC concerning any merger, change of control, consolidation, reorganization, affiliation, sale of any portion of the Business or assets (other than sales of assets in the ordinary course of business), management agreement, or similar transactions, involving SAHSC or any of its Subsidiaries.

6.1.7 UW and SAHSC Service Area. UW Health shall not directly or indirectly through any officer, director, trustee, agent or otherwise solicit, make, entertain, discuss or negotiate the terms of any offer or proposal from or to any person or entity or enter into any agreement (whether absolute, binding, conditional or contingent), other than this Agreement relating to services to be provided in the SAHSC Service Area in any way concerning any (i) investment in the SAHSC Service Area, (ii) acquisition or direct or indirect control of any entity providing services in the SAHSC Service Area, or (iii) affiliation, management agreement, joint operating agreement, merger, consolidation or other business combination

involving services provided in the SAHSC Service Area or otherwise cooperate in any way with, or assist or participate in, facilitate or encourage, any effort or attempt by any person or entity, other than in accordance with the terms of this Agreement, to do or seek any of the foregoing, except that the parties recognize and agree that (a) UW Health may maintain any service arrangements they may have in the SAHSC Service Area as of the Effective Date, including services arrangements at FHN Memorial Hospital; (b) UW Health has been in discussions with Rockford Memorial Hospital regarding the establishment of a community pediatric program, and such discussions shall not be precluded by this section; and, (c) UWMF may enter into physician coverage/service agreements within the SAHSC Service Area, provided such agreements are disclosed to SAHSC.

6.1.8 Notice of Breach. From the Effective Date to the Closing, each Party shall, promptly upon becoming aware thereof, give reasonably detailed written notice to the other Parties of the occurrence of any event which would cause or constitute a breach, or would have caused or constituted a breach, had such event occurred or been known to that Party prior to the Effective Date, of any of their covenants, agreements, representations, or warranties contained in this Agreement or in any document delivered in accordance with the terms hereof; provided, however, that the provision of such notice shall not constitute a waiver or modification of any rights of the non-notifying Parties in respect thereof; provided further, that any supplement or amendment of an Exhibit pursuant to Section 6.1.9 (Supplemental Disclosure) will not be considered a breach subject to the provisions of this Section.

6.1.9 Supplemental Disclosure. From the Effective Date until the Closing, each Party shall have the continuing right and obligation to promptly supplement or amend the Exhibits and to supplement any information therein contained or representation herein contained with respect to any matter arising or discovered after the Effective Date which, if existing or known as of the Effective Date, would have been required to be set forth or described in the Exhibits or the absence of which would make any representation or warranty of the Party (to the extent required to be made as of the Closing Date), untrue, incomplete or misleading. Notwithstanding anything contained in this Agreement, a Party may amend, restate, or otherwise modify Exhibits within ten (10) business days prior to the Closing Date without the other Party's approval, so long as such amendment, restatement, or modification does not (i) make any representation or warranty of a Party materially untrue, incomplete, or misleading when given as of the Effective Date, or (ii) have a Material Adverse Effect on a Party or the Transaction.

6.1.10 Expenses of Transaction. Except as otherwise expressly set forth in this Agreement, whether or not the transactions provided for herein are consummated, each Party will bear its own expenses, costs and fees incurred in connection with the preparation, negotiation and execution of this Agreement and the other Transaction Agreements, the compliance herewith and the consummation of the transactions contemplated hereby and thereby.

6.1.11 UHC Board Appointments. Subject to Closing, the SAHSC Board shall appoint the initial SAHSC Directors to the UHC Board.

6.1.12 Modification of Cancer Center Agreement. Prior to the Closing, SAH and UHC shall mutually agree upon an amendment to the Cancer Center Agreement (the **"Cancer Center Amendment"**) which will modify the terms of the Cancer Center Agreement due to the Transaction. Such modifications shall include, but not be limited to, (i) elimination, as of the Closing Date, of the Management Fee and the Co-Management and Shared Risk Payment (as such terms are defined in the Cancer Center Agreement), (ii) the elimination, as of the Closing Date, of any payments pursuant to Section 7.5 of the Cancer Center Agreement, and (iii) effective as of the Closing Date, UHC or a UHC Member shall charge SAH only pro rata actual direct costs for any services provided by UHC or a UHC Member.

6.1.13 Termination of Affiliation Agreement. SAH and UHC shall mutually agree upon a written agreement terminating the Affiliation Agreement.

6.1.14 Amendment of the SAHSC Leadership Severance Policy. SAHSC shall amend the SAHSC Severance Policy for Leadership Employees pursuant to Section 2.15.3 (Severance Policies).

6.2 Confidentiality.

6.2.1 General; Public Statements. The Parties agree that the terms and conditions of this Agreement will remain confidential unless required to disclose pursuant to a Legal Requirement. No Party will distribute this Agreement or any part of this Agreement or reveal any of the terms of this Agreement to any Person other than their employees, agents, subsidiaries, legal counsel, accountants, or other consultants on a need-to-know basis. The Parties acknowledge and agree, however, that this Agreement will be summarized in mutually agreed upon statements to inform the Parties' respective interested constituencies about the nature of the transactions contemplated by this Agreement. The Parties shall mutually agree upon any proposed public statements concerning this Agreement and the transactions contemplated hereby.

6.2.2 Confidential and Proprietary Information. The Parties acknowledge that UHC inadvertently did not execute the Mutual Confidentiality Agreement. Therefore, the substantive provisions of the Mutual Confidentiality Agreement are set forth in this Section 6.2 and incorporated in this Agreement. In connection with the consummation of the transactions contemplated by this Agreement, each Party will disclose and has disclosed certain proprietary information to the other Party on a confidential basis. All information that is disclosed by one Party to the other in connection with the consummation of the transactions contemplated by this Agreement, including all information disclosed on or after the Parties jointly engaged Kaufmann Hall as a professional advisor on November 13, 2013, shall automatically be deemed proprietary and subject to this Agreement, unless otherwise confirmed in writing by the disclosing Party. With respect to

information disclosed under this Agreement, the Party to whom the Information is disclosed and its Representatives shall: (i) hold the Information in confidence, exercising a degree of care not less than the care used by such Party to protect its own proprietary or confidential information that it does not wish to disclose, and in no event less than a reasonable degree of care; (ii) restrict disclosure of the Information solely to those Representatives with a need to know and not disclose it to any other Person; (iii) not reproduce any such Information without the written consent of disclosing Party, unless reproduction of such Information is necessary for use in connection with continuing discussions by the parties concerning the Transaction, nor without any and all notices or legends that appear on or in the original; (iv) use the Information only in connection with continuing discussions by the parties concerning the Transaction; (v) not disclose such Information to any third party without prior written approval of the other Party; and (vi) each Party shall be responsible for any breach of this Agreement by its respective Representatives and shall take all reasonably necessary measures to restrain its Representatives from unauthorized disclosure or use of Information.

6.2.3 Return of Confidential Information. Information shall be deemed the property of the disclosing Party and, within five (5) business days upon written request from the disclosing Party, or upon termination of this Agreement pursuant to Article IX (Termination), the other Parties will return all such Information received in tangible form, as well as all reproductions thereof, to the disclosing Party or, if agreed to by the disclosing Party, will destroy all such Information and certify destruction thereof to the disclosing Party. If any Party loses or makes any unauthorized disclosure of the other Party's Information, it shall notify such other Party immediately and use its best efforts to retrieve the lost or wrongfully-disclosed Information.

6.2.4 Exclusion from Confidential Information. The Party or Parties to whom Information is disclosed shall have no obligation to preserve the proprietary nature of any Information which: (i) was previously known to such Party or Parties to be free of any obligation to keep it confidential; (ii) is, or becomes, publicly available by means other than unauthorized disclosure; (iii) is developed by, or on behalf of, such Party or Parties independent of any Information furnished under this Agreement; (iv) is received from a third party whose disclosure does not violate any preexisting confidentiality obligation; or (v) is required to be disclosed by Legal Requirement. Unless such notice is prohibited by law, if a Party is so required to disclose Information of another Party, the Party required to disclose the Information shall (a) promptly provide advance written notice to the other Party of any such disclosure, request(s), or requirement(s) in order to provide the other Party with an opportunity to object to, seek or take action to obtain an appropriate protective order, or implement any other appropriate remedy and/or other relief to guard against the disclosure, and/or (b) disclose only such Information as, in the reasonable opinion of its legal advisors, is required in order to comply with its Legal Requirement.

6.2.5 Wisconsin Public Records and Property Laws. Notwithstanding the above, copies of materials in the hands of the UW Health Parties may be subject to the Wisconsin Public Records & Property Laws. Notwithstanding any other provisions of this Agreement, compliance with such public records laws shall not be considered a violation of this Agreement. If a UW Health Party receives a public records request for SAHSC information that the UW Health Party believes is not exempt from disclosure under the laws, the UW Health Parties will send SAHSC written notice of the request before releasing the information, so that SAHSC has an opportunity promptly to litigate the disclosure. If such UW Health Party's determination of exemption is challenged, such UW Health Party will send SAHSC written notice of this challenge, so that SAHSC has an opportunity promptly to litigate the challenge. UW Health Parties are not compelled by this Agreement to litigate any public records disclosure issue.

6.2.6 Miscellaneous. Each Party retains the right, in its sole discretion, to determine whether to disclose its Information to any other Party and disclosure of Information of any nature shall not obligate the disclosing Party to disclose any further Information nor shall it imply any license or grant of rights with respect thereto. Each Party acknowledges that no Party makes any representation or warranty (express or implied) as to the accuracy or completeness of any Information, except as otherwise provided herein. Each party hereby expressly disclaims any and all liability that may be based, in whole or in part, on any Information, errors therein or omissions therefrom. Nothing contained in this Agreement shall be construed as granting, or conferring any rights by license or otherwise in any Information disclosed, or under any trademark, patent, copyright, mask work or any other intellectual property right of any Party. None of the Information which may be disclosed or exchanged by the Parties shall constitute any representation, warranty, assurance, guarantee or inducement by any Party to another of any kind, and, in particular, with respect to the non-infringement of trademarks, patents, copyrights, mask works or any other intellectual property right. Each Party agrees that the disclosing Party may be irreparably injured by a breach of this Section by the receiving Party or its Representatives and that the disclosing Party may be entitled to equitable relief, including injunctive relief and specific performance, in the event of any breach of the provisions of this Section. Such remedies shall not be deemed to be the exclusive remedies of a breach of this Section, but shall be in addition to all other remedies available at law or in equity.

6.3 **Efforts; Further Assurances.** Prior to the Closing, each of the Parties will use commercially reasonable efforts to bring about the fulfillment of each of the conditions precedent to the obligations of each Party hereto as set forth in this Agreement, and to, prior to Closing and, if the Agreement is not terminated pursuant to Article IX (Termination), then also after Closing, do each and every act and thing as may be necessary or reasonably desirable to consummate the transactions contemplated in this Agreement and to consummate, as reasonably practicable, the Member Substitution on the terms herein, including obtaining the written consents of any third parties that are necessary to comply with the provisions of this Agreement. None of SAHSC, SAHSC's

Subsidiaries, UHC or a UHC Member, shall take any action that is likely to impair their ability to consummate the transactions contemplated in this Agreement, nor shall they omit to take any action the omission of which is likely to impair such ability.

ARTICLE VII.
THE CLOSING

7.1 **The Closing.** The closing of the Member Substitution under this Agreement (the "**Closing**") shall take place at SAH, on December 31, 2014, or at such other time or at such other place or date mutually agreed to by the Parties, (such date being referred to herein as the "**Closing Date**"), and shall be effective as of 12:01 am Central Time, January 1, 2015.

ARTICLE VIII.
CONDITIONS OF EACH PARTY'S OBLIGATION TO CLOSE

The respective obligations of the Parties to consummate the Member Substitution hereunder are subject to the satisfaction, by the Party specified below, at or prior to the Closing, of all of the following conditions, compliance with which, or the occurrence of which, may be waived, except as may be provided by any Legal Requirements, in whole or in part by the Party for which the condition or obligation is being performed in its sole discretion:

8.1 **Representations, Warranties and Covenants.**

8.1.1 Continued Accuracy of Representations and Warranties. The representations and warranties of each of the Parties contained, respectively, in Articles III and IV of this Agreement, shall be true and correct as of the Closing with the same force and effect as if made at and as of the Closing (except to the extent that any such representation or warranty is made as of a specified date, in which case such representation or warranty shall have been true and correct in all respects as of such specified date); provided, that Exhibits to this Agreement necessary to make the representations of the Parties true and correct as of the Closing Date may be delivered by the Parties between the Effective Date and the Closing Date pursuant to Section 6.1.9 (Supplemental Disclosure).

8.1.2 Performance of Agreements. The Parties shall have performed and satisfied all covenants and conditions required by this Agreement and each of the other Transaction Agreements to be performed or satisfied by the Party at or prior to the Closing.

8.1.3 Certificates. Each Party shall furnish a certificate (or certificates), signed by an officer of such Party and dated as of the Closing Date, to the effect that the conditions specified in Sections 8.1.1 and 8.1.2 hereof have been satisfied by such Party.

8.2 **HSR Approval.** The pre-merger notification waiting period under the HSR Act shall have expired or been earlier terminated.

8.3 **CON.** SAHSC shall have obtained a determination from the HSFRB issuing either a Certificate of Need Permit or an Exemption Permit, whichever the case may be, allowing the Transaction to close.

8.4 **Litigation.** The consummation of the Member Substitution and the transactions contemplated by this Agreement and the Transaction Agreements shall not be prohibited by any Legal Requirement. No action or proceeding shall have been instituted by a public authority at or prior to the Closing before any court, arbitrator or other governmental body pertaining to the Member Substitution or any transactions contemplated by this Agreement or the Transaction Agreements, the results of which could prevent or make illegal the consummation of any such transactions.

8.5 **Additional Governmental Consents and Approvals.** SAHSC shall have filed all additional notices and obtained all other consents and approvals from appropriate federal, state and local governmental agencies listed on Exhibit 3.9(b). UHC shall have filed all additional notices and obtained all other consents and approvals from appropriate federal, state and local governmental agencies listed on Exhibit 4.2(b).

8.6 **Third Party Consents.** Unless otherwise waived by UHC, SAHSC shall have obtained any consent, amendment, approval or waiver relating to the Material Contracts set forth on Exhibit 3.4(d).

8.7 **Certificate of Amendment.** SAHSC shall deliver to UHC duly executed and acknowledged Restated SAHSC Articles, Restated SAHSC Bylaws, Restated SAHSC Subsidiary Articles and Restated SAHSC Subsidiary Bylaws (including Restated SAF Bylaws), in a form suitable for filing with the Office of the Secretary of State of Illinois. UHC shall deliver to SAHSC duly executed and acknowledged Restated UHC Bylaws.

8.8 **Corporate Actions.** Subject to Closing, all necessary corporate actions will have been taken by SAHSC, certain Subsidiaries and UHC to adopt the Amended & Restated Articles and Bylaws, including approval of the governing body of each Party. Subject to Closing, all necessary corporate actions will have been taken by SAF to amend its Bylaws to reflect the provisions set forth in Section 2.20 (SAF Enforcement). Copies of resolutions will be provided by SAHSC, UHC and the UHC Members approving and authorizing the Transaction and the execution and delivery of the Agreement and the other Transaction Agreements.

8.9 **Material Adverse Effect.** Since the Effective Date, no Material Adverse Effect shall have occurred in respect to SAHSC or UHC.

8.10 **UHC Board Appointments.** SAHSC shall provide evidence that the SAHSC Board has appointed the initial SAHSC Directors to the UHC Board.

8.11 **Cancer Center Amendment.** SAH and UHC will execute the Cancer Center Amendment.

8.12 **Termination of Affiliation Agreement.** UHC and SAH will execute a written agreement terminating the Affiliation Agreement.

8.13 **Amendment of the SAHSC Leadership Severance Policy.** SAHSC will amend the SAHSC Severance Policy for Leadership Employees pursuant to Section 2.15.3 (Severance Policies).

8.14 **Completion of Due Diligence.** UHC shall have completed to its satisfaction legal, financial and other due diligence of SAHSC.

ARTICLE IX.
TERMINATION

9.1 **Termination or Abandonment.** This Agreement may be terminated and abandoned at any time prior to the Closing:

(a) by mutual written consent of the Parties; or

(b) by written notice from any Party if the Closing has not been consummated on or prior to March 31, 2015 (the "**Outside Date**"); provided, however, that the right to terminate this Agreement pursuant to this Section 9.1(b) shall not be available to any Party whose failure (unless such failure is beyond the reasonable control and best efforts of such Party) to fulfill any of its obligations contained in this Agreement has been the cause of, or resulted in, the failure of the Closing to have occurred on or prior to the Outside Date.

9.2 **Effect of Termination.** In the event of the termination of this Agreement pursuant to the foregoing provisions of this Article IX, this Agreement shall become void and have no further effect, with no liability on the part of any Party or its Subsidiaries in respect thereof, except that Section 6.1.10 (Expenses of Transaction), Section 6.2 (Confidentiality), this Section 9.2 (Effect of Termination), Article X (Notices), and Article XI (Miscellaneous) will survive and the Common Interest/Joint Defense Agreement will survive termination of this Agreement.

ARTICLE X.
NOTICES

Any notice or other communication required or permitted hereunder shall be in writing, and shall be deemed to have been given (i) one (1) business day after dispatch by a nationally recognized overnight delivery service, (ii) five (5) business days after the date when placed in the United States mail, registered or certified, postage prepaid, or (iii) upon delivery when personally delivered to the following address or addresses (or at such other addresses designated by the parties in writing from time to time):

If to SAHSC or the SAHSC Board

SwedishAmerican Health System Corporation
1401 East State Street
Rockford, IL 61104
Attention: William R. Gorski, M.D.
President and CEO

Copy to:	Holmstrom & Kennedy, P.C. 800 North Church Street P.O. Box 589 Rockford, IL 61105 Attention: Philip R. Frankfort, Esq.
If to SAF:	SwedishAmerican Foundation 1415 East State Street Suite 100 Rockford, IL 61104 Attention: Laura Wilkinson Director
Copy to:	Holmstrom & Kennedy, P.C. 800 North Church Street P.O. Box 589 Rockford, IL 61105 Attention: Philip R. Frankfort, Esq.
If to UHC:	University Health Care, Inc. 301 South Westfield Road, Suite 320 Madison, WI 53717 Attention: Michael E. Dallman President
Copy to:	Daniel P. Brzozowski, Esq. Corporate Counsel University Health Care, Inc. 301 South Westfield Road, Suite 320 Madison, WI 53717
If to UWHCA:	University of Wisconsin Hospitals and Clinics Authority 600 Highland Avenue, H4/841 Madison, WI 53792-8360 Attention: Ronald T. Sliwinski President/CEO
Copy to:	Kelly C. Wilson, Esq. Senior Vice President, General Counsel and Secretary University of Wisconsin Hospital and Clinics 600 Highland Avenue, H4/828 Madison, WI 53792-8360

If to UWMF: University of Wisconsin Medical Foundation
7974 UW Health Court
Middleton, WI 53562
Attention: Peter Christman
Chief Operating Officer

Copy to: Steven P. Means, Esq.
General Counsel
Vice President of Legal Services and Compliance
University of Wisconsin Medical Foundation
7974 UW Health Court
Middleton, WI 53562

ARTICLE XI.
MISCELLANEOUS

11.1 **Entire Agreement.** This Agreement and the other Transaction Agreements, constitute the entire agreement among the Parties hereto with respect to the subject matter described herein and supersede all prior agreements (including the Letter of Intent, dated April 28, 2014, among the Parties), representations, understandings, negotiations and discussions, whether oral or written, respecting the subject matter hereof; provided, however, the Common Interest/Joint Defense Agreement shall not be superseded and shall remain in full force and effect in accordance with its terms.

11.2 **Amendment or Modification, etc.** The Parties may not amend, modify or waive any provision of this Agreement except in such manner as may be agreed upon by a written instrument executed by each Party. No waiver of any provision of this Agreement shall be deemed or shall constitute a waiver of any other provision of this Agreement (whether or not similar), nor shall such waiver constitute a continuing waiver unless otherwise expressly provided.

11.3 **Headings.** Section and subsection headings are not to be considered part of the Transaction Agreements, are included solely for convenience and are not intended to be full or accurate descriptions of the content thereof.

11.4 **Exhibits, Transactions Contemplated by Agreement.** Exhibits, agreements, schedules, annexes and documents referred to in the Transaction Agreements are an integral part thereof.

11.5 **Severability.** In the event that any provision of the Transaction Agreements would, under applicable law, be invalid or unenforceable, such provision shall, to the extent permitted under applicable law, be construed by modifying or limiting it so as to be valid and enforceable to the maximum extent possible under applicable law so long as its validity or enforceability will not have a Material Adverse Effect on a Party. The provisions of the Transaction Agreements are severable, and in the event that any provision thereof should be held invalid or unenforceable in any respect, it shall not invalidate, render unenforceable or otherwise affect any other provision thereof if the

provision held invalid or unenforceable in any respect does not have a Material Adverse Effect on any Party.

11.6 Counterparts and E-Mail. The Transaction Agreements may be executed in any number of counterparts, each of which shall be deemed an original, but all of which together shall constitute but one and the same instrument. For purposes of execution of this Agreement, the Parties shall treat any signed document that is scanned and transmitted by e-mail as an original document so long as the signed document with the original signature is promptly sent to the other Party via United States Mail or nationally recognized overnight courier.

11.7 Construction of Schedules and Exhibits. The listing, description or disclosure of any item or matter in any Schedule or Exhibit hereto or the furnishing or availability for review of any document referred to herein, in any Transaction Agreement, or in any such Schedule or Exhibit shall not be construed to modify, qualify or disclose an exception to any representation or warranty, unless and only to the extent that the listing or description of the existence or non-existence of the item, matter or document specifically and expressly relates to a particular representation or warranty.

11.8 Third Party Beneficiaries. The Parties agree that this Agreement and all of the Transaction Agreements do not confer any benefits, rights or remedies upon any Person other than the Parties and their respective successors and assigns. Provided, however, SAF shall be deemed an express third party beneficiary of SAHSC for a period of five (5) years from the Closing Date (or in the case of the Capital Commitment, until it is satisfied) with respect to (i) the enforcement of those commitments of UHC and/or any UHC Member set forth in Section 2.2 (Governance of UHC), Section 2.3 (Governance of SAHSC), Section 2.8 (Commitment to On-Going Capital Needs), Section 2.10 (Charity Care and Community Obligations), Section 2.11 (SAHSC as Northern Illinois Hub), Section 2.19 (Material Covenants), and Section 2.20 (SAF Enforcement); (ii) the unwinding rights set forth in Section 2.18 (Unwind Parameters); and (iii) the rights set forth in Section 5.2 (Capital Commitment Offset).

11.9 Assignment. No Party shall have the right to assign or otherwise transfer this Agreement without the prior written consent of the other Parties. Subject to the foregoing sentence, all of the terms and provisions of this Agreement shall be binding upon and shall inure to the benefit of the Parties and their permitted transferees, successors and permitted assigns.

11.10 Governing Law. This Agreement shall be governed by and construed in accordance with the domestic substantive laws of the State of Wisconsin, without giving effect to any choice or conflict of law provision or rule that would cause the application of the domestic substantive laws of any other jurisdiction. Except as set forth in Article XII (Dispute Resolution) and Section 2.18.4(c) (Unwind Process), venue regarding any action hereunder will rest in the state and federal courts of Dane County, Wisconsin, and each Party consents to the jurisdiction thereof.

11.11 **UW Health Obligations**. The liability of each of UHC, UWHCA and UWMF under this Agreement and the Transaction Agreements will be joint and several with UHC, UWHCA and UWMF. Where in this Agreement provision is made for any action to be taken or not taken by any of UHC, UWHCA or UWMF, UHC, UWHCA and UWMF jointly and severally undertake to cause UHC, UWHCA and UWMF to take or not take such action, as the case may be. Without limiting the generality of the foregoing, UHC, UWHCA, and UWMF shall be jointly and severally liable for the Routine Capital Expenditures and the Capital Commitments.

11.12 **Non-Discrimination.** SAHSC shall not discriminate against any employee or applicant for employment because of age, race, religion, color, handicap, sex, physical condition, developmental disability (as defined in Wis. Stat. § 51.01(v)), sexual orientation (as defined in Wis. Stat. § 111.32(13m)), or national origin and, except with respect to sexual orientation, SAHSC will take affirmative action to ensure equal employment opportunities, all in accordance with Wis. Stat. § 16.765.

ARTICLE XII.
DISPUTE RESOLUTIONS

After the Closing Date, the provisions of this Article XII (Dispute Resolution) will apply to any disputes between SAF and UHC and/or any UHC Members related to (i) the fulfillment of the commitments, covenants and obligations of UHC and/or the UHC Members set forth in Section 2.2 (Governance of UHC), Section 2.3 (Governance of SAHSC), Section 2.8 (Commitment to On-Going Capital Needs), Section 2.10 (Charity Care and Community Obligations), Section 2.11 (SAHSC as Northern Illinois Hub), Section 2.19 (Material Covenants), and Section 2.20 (SAF Enforcement); (ii) whether or not an Unwinding Event has occurred; and (iii) a Capital Commitment Offset Dispute (collectively the "**Disputed Issues**").

12.1 **Informal Dispute Resolution**. Upon SAF, UHC or any UHC Member's receipt of a written notice of a Disputed Issue ("**Initial Notice**"), which sets forth the nature of the Disputed Issue, the facts and circumstances which the sender believes supports its position, and the relief sought, SAF and UW Health shall convene a working group ("**Working Group**") within ten (10) business days to discuss and attempt to resolve the Disputed Issue ("**First Level Dispute Process**"). The Working Group shall be comprised of an equal number of persons representing SAHSC and SAF, on the one hand, and UW Health, on the other hand. The Working Group shall include at least one (1) vice president (or an executive of a level greater than vice president) representing each of UW Health, on the one hand, and SAHSC or SAF, on the other hand, and shall meet in good faith to settle the Disputed Issue. The initial discussions of the Working Group will occur within fifteen (15) business days of the receipt of the Initial Notice of the Disputed Issue. If the Disputed Issue is not satisfactorily resolved through the First Level Dispute Process, (i) SAF and UW Health may, at any time, mutually submit the Disputed Issue to mediation pursuant to Section 12.2 (Mediation); or (ii) SAF or UW Health may, at any time, submit the Disputed Issue to arbitration pursuant to Section 12.3 (Arbitration).

12.2 **Mediation**. If SAF and UW Health mutually agree, any Disputed Issue that has not been resolved through the First Level Dispute Process may be mutually submitted by SAF and UW Health to mediation under the American Health Lawyers Association Alternative Dispute Resolution Service Rules of Procedure for Mediation, in the County of Dane, Wisconsin. Unless otherwise agreed by SAF and UW Health, the mediation shall be conducted by an attorney with at least ten (10) years of experience concentrated in health law, acceptable to SAF and UW Health. The costs of the mediator will be shared equally by UW Health and SAF, but otherwise each of SAF and UW Health shall be responsible for its own costs in connection with the mediation. If the matter is not resolved by mediation within sixty (60) days after the initial request for mediation (or such longer period of time as mutually agreed-upon by SAF and UW Health), then the matter shall be decided by arbitration pursuant to Section 12.3 (Arbitration) below.

12.3 **Arbitration.**

12.3.1 Arbitration Decision. All disputes, claims and demands related to the Disputed Issues under Article XII (Dispute Resolution) that have not been resolved by the First Level Dispute Process or by mediation pursuant to Section 12.2 (Mediation) shall be settled by arbitration before a single arbitrator pursuant to the rules of the American Health Lawyers Association ("**AHLA**") in the County of Dane, Wisconsin; provided, however, that (i) any decision pursuant to such arbitration (the "**Arbitration Decision**") shall include the written opinion of the arbitrator giving the reason for the Arbitration Decision and the arbitrator's findings of fact and conclusions of law on which the Arbitration Decision was made; and (ii) SAF's and UW Health's remedies pursuant to any Arbitration Decision will be limited to equitable relief, including, but not limited to, specific performance, and no monetary damages or other legal remedies will be available. The Arbitration Decision shall be final and binding upon SAF and UW Health and, upon the request of SAF or UW Health, shall be entered and enforced as a final judgment or order through any federal or state court of competent jurisdiction.

12.3.2 Arbitrator Selection. The arbitrator shall be selected by the joint agreement of SAF and UW Health, but if they do not so agree within twenty (20) days of the date of a request for arbitration, the selection shall be made as follows, if permitted under the then-applicable rules of the AHLS dispute resolution procedures: SAF shall select one arbitrator and UW Health shall select a second arbitrator. The two arbitrators shall then select a third arbitrator. The three arbitrators collectively shall settle pursuant to the rules of the AHLA all disputes, claims and demands between SAHSC and SAF, on the one hand, and UW Health, on the other hand, which relate to the Disputed Issues brought before them. If the then-applicable rules of the AHLA dispute resolution procedures specify a different method for selection of an arbitrator or a panel of arbitrators, the AHLA rules shall be conclusive and binding upon SAF and UW Health and shall be enforceable in any federal or state court of competent jurisdiction.

12.3.3 Arbitration Expenses. SAF and UW Health shall each pay their own expenses of arbitration except for the reasonable attorneys' fees incurred pursuant to this Section 12.3 (Arbitration) by the prevailing party, which fees shall be paid for by the losing party. If there are three arbitrators, SAF shall pay for the expenses of the arbitrator it selects, UW Health shall pay for the expenses of the arbitrator it selects, and the expenses of the third arbitrator shall be divided equally between SAF and UW Health and paid accordingly. If there is only one arbitrator, the expenses of the arbitrator shall be divided equally between SAF and UW Health and paid accordingly.

12.3.4 Miscellaneous. In the event that any part of this Agreement to arbitrate claims as set forth above is held to be in conflict with a mandatory provision of applicable law, the conflicting rule shall be deemed to be automatically modified to comply with the mandatory provision of applicable law and will not otherwise affect the remaining provisions of this Section 12.3 (Arbitration). Nothing set forth in this Section 12.3 (Arbitration) shall prevent SAF and UW Health from settling any Disputed Issue by mediation or by mutual agreement at any time.

ARTICLE XIII
DEFINITIONS

13.1 Terms Defined Herein. For the purposes of this Agreement, the terms defined in this Article XIII shall refer to either SAHSC or UW Health and their respective subsidiaries, as the case may be and as the context of the provision requires. The following terms defined elsewhere in this Agreement in the Sections set forth below shall have the respective meanings therein defined:

(a) The term "**Affiliation Agreement**" shall mean the Affiliation Agreement by and between UHC and SAH dated March 1, 2010.

(b) The term "**Authority**" shall mean the Illinois Finance Authority.

(c) The term "**Business**" shall mean the business and operations of SAHSC and/or its Subsidiaries, or of UW Health, as the context requires.

(d) The term "**Cancer Center Agreement**" shall mean the Cancer Center Clinical Co-Management and Shared Risk Agreement, made as of March 1, 2013, by and between SAH and UHC.

(e) The term "**Code**" shall mean the federal Internal Revenue Code of 1986 or any successor statute, and the rules and regulations thereunder, and in the case of any referenced section of any such statute, rule or regulation, any successor section thereof, collectively and as from time to time amended and in effect.

(f) The term "**Common Interest/Joint Defense Agreement**" shall mean the Common Interest/Joint Defense Agreement, retroactive to November 13, 2013, among the Parties, Hall Render Killian Heath & Lyman, P.C. and Holmstrom & Kennedy, P.C.

(g) A "**Default**" means (i) any default in the payment of interest or principal when the same becomes due and payable, or (ii) any event or occurrence which constitutes or gives rise to, or with the lapse of time or the giving of notice or both would constitute or give rise to, a default or right of acceleration under the terms of a Material Contract.

(h) The term "**Direct Expenses**" means those variable costs of direct cost centers that are revenue-producing departments and indirect cost centers whereby expenses are variable and based on patient or census related.

(i) The term "**Employer**" shall mean SAHSC and its Subsidiaries, or any Person that would be treated as a single employer with SAHSC or any of its Subsidiaries under the provisions of Sections 414(b), (c), (m) or (o) of the Code.

(j) The term "**Environmental Law**" shall mean any federal, state, local or common law, regulation or Legal Requirement relating to pollution, or protection or cleanup of the environment, including, without limitation, the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended ("**CERCLA**"), the Resource Conservation and Recovery Act of 1976, as amended ("**RCRA**"), the Federal Clean Air Act, as amended, the Federal Clean Water Act, as amended, the Occupational Safety and Health Act, as amended, and any other law or Legal Requirement, as now or hereinafter in effect, relating to: (i) the Release, containment, removal, remediation, response, cleanup or abatement of any Hazardous or Chemical Substance; (ii) the manufacture, generation, formulation, processing, labeling, distribution, introduction into commerce, use, treatment, handling, storage, recycling, disposal or transportation of any Hazardous or Chemical Substance; (iii) exposure of persons, including employees, to any Hazardous or Chemical Substance; or, (iv) the physical structure or condition of a building, facility, fixture or other structure, including, without limitation, those relating to the management, use, storage, disposal, cleanup or removal of asbestos, asbestos-containing materials, polychlorinated biphenyls or any other Hazardous or Chemical Substance. In the event that any Environmental Law is amended so as to broaden the meaning of any term defined thereby, such broader meaning shall apply subsequent to the effective date of such amendment and, provided further, to the extent that the laws of the State of Illinois establish a meaning for "hazardous substance", "release", "solid waste", or "disposal" (or "disposed") which is broader than that specified in either CERCLA or RCRA, such broader meaning shall apply.

(k) The term "**Environmental Liabilities and Costs**" shall mean all losses incurred, whether directly or indirectly: (i) pursuant to or in order to comply with any Environmental Law; (ii) as a result of a Release of any Hazardous or Chemical Substance; or, (iii) as a result of any environmental, health or safety conditions present at, created by or arising out of the past or present operations of SAHSC and/or its Subsidiaries or of any prior operator of a facility or site at which SAHSC and/or its Subsidiaries now own, operate or occupy.

(l) The term "**Environmental Permit**" shall mean any Permit or authorization from any authority required under, issued pursuant to, or authorized by any Environmental Law.

(m) The term "**ERISA**" shall mean the federal Employee Retirement Income Security Act of 1974 or any successor statute, and the rules and regulations thereunder, and in the case of any referenced section of any such statute, rule or regulation, any successor section thereto, collectively and as from time to time amended and in effect.

(n) The term "**ERISA Subsidiary**" shall mean, with respect to SAHSC or a SAHSC Subsidiary, any other Person that, together with SAHSC or a SAHSC Subsidiary, would be treated as a single employer under Section 414 of the Code.

(o) The term "**Generally Accepted Accounting Principles**" or "**GAAP**" shall mean generally accepted accounting principles, as defined by the Financial Accounting Standards Board and as consistently applied and consistently followed, subject to normal year-end audit adjustments.

(p) The term "**Governmental Accounting Standards Board**" or "**GASB**" shall mean the independent organization that establishes and improves governmental auditing standards for U.S. state and local governments.

(q) The term "**Hazardous or Chemical Substance**" shall mean any substance, material or waste, which is identified, regulated or limited under any Environmental Law, as now and hereinafter in effect, or other comparable laws or, even if not so identified, regulated or limited, poses a hazard to the health or safety of the occupants of the Property. The term includes but is not limited to any: (i) pollutant, contaminant, chemical, raw material, intermediate, product, by-product, slag, construction debris; (ii) industrial, solid, toxic or hazardous substance, material or waste, (iii) oil or petroleum or any fraction thereof; (iv) asbestos or asbestos-containing material; (v) polychlorinated biphenyl; (vi) chlorofluorocarbons; (vii) medical waste and, (viii) urea formaldehyde foam insulation.

(r) The term "**Improvements**" shall mean buildings, structures and other improvements made to the Property of SAHSC and its Subsidiaries.

(s) The term "**Indebtedness**" shall mean all obligations, contingent or otherwise, which in accordance with GAAP would be required to be presented upon the obligor's balance sheet as liabilities, but in any event including liabilities secured by any Lien existing on property owned or acquired by the obligor or an Subsidiary thereof, whether or not the liability secured thereby shall have been assumed, capitalized Lease obligations and all guarantees, endorsements and other contingent obligations in respect of Indebtedness of others.

(t) The term "**Indirect Expenses**" means those expenses of cost centers that are overhead (non-revenue producing or support departments) and fixed expenses that are facility related.

(u) The term "**Information**" shall mean such proprietary information disclosed in connection with discussions relating to the transactions contemplated by this Agreement, including any and all technical and non-technical information, including without limitation, financial, accounting or marketing reports, business plans, product information, operational methods, customer and/or patient lists, pricing policies, marketing techniques, suppliers, personnel, analyses, forecasts, predictions, projections, intellectual property and trade secrets. "Information" may take the form of documentation, drawings, specifications, software, technical data, and other forms, and may be communicated orally, in writing, by electronic or other media, by visual observation and by other means. "Information" includes any reports, analyses, studies or other materials, whether prepared by the receiving Party or otherwise, that contains or is based upon proprietary information covered by this Agreement.

(v) The term "**Knowledge**" shall mean: (i) with respect to SAHSC, the actual knowledge of Dr. William Gorski, Don Daniels, and Donald Haring; and, (ii) with respect to UW Health, the actual knowledge of the CEO, COO and CFO of each of UHC and the UHC Members.

(w) The term "**Lease Default**" shall mean (i) any default in any payment under the Occupancy Lease; or (ii) any event or occurrence which constitutes or gives rise to, or with the lapse of time or the giving of notice or both would constitute or give rise to, a default or right of acceleration under the terms of the Occupancy Lease.

(x) The term "**Leases**" shall mean any leases, subleases, licenses and other occupancy agreements or arrangements, including all amendments thereto and modifications thereof.

(y) The term "**Leased Locations**" shall mean all or any portion of Properties which SAHSC and its Subsidiaries are the tenant.

(z) The term "**Legal Requirement**" shall mean any federal, state, local or foreign law, statute, standard, ordinance, code, order, rule, regulation, resolution, promulgation, or any order, judgment, or decree of any court, arbitrator, tribunal or governmental authority, or any similar provision having the force and effect of law.

(aa) The term "**Lien**" shall mean any mortgage, pledge, lien, charge, security interest or other similar encumbrance of any kind upon any property or assets of any character, or upon the income or profits therefrom. The term "**Lien**" shall not mean (a) the lien of current taxes, payments of which are not yet delinquent, (b) carriers', warehousemen's, materialmen's and similar liens for monies not yet

due, or (c) liens arising from purchase money security interests provided that each lien arising from a purchase money security interest shall at all times be confined to the item or items purchased and secured by such lien.

(bb) The term "**Limited License Agreement**" shall mean the Limited License Agreement, effective as of May 15, 1997, by and between the Board of Regents of the University of Wisconsin System, UWHCA, UWMF, UHC, and the University Community Clinics.

(cc) The term "**Material Adverse Effect**" shall mean an event, occurrence, effect, change or development that has or will result in a loss (i) as to SAHSC, in the amount of One Million Dollars ($1,000,000) as to each instance or Five Million Dollars ($5,000,000) in the aggregate, and (ii) as to UW Health, in the amount of Five Million Dollars ($5,000,000) as to each instance or Twenty-Five Million Dollars ($25,000,000) in the aggregate; provided, however, that none of the following shall constitute a Material Adverse Effect: (a) the execution of this Agreement or the public disclosure or consummation of the transactions contemplated by this Agreement or any of the Transaction Agreements, including the loss or departure of employees, physicians or other providers, or the termination, reduction or any other adverse development in such Party's relationship with any of its customers, suppliers or other business partners, (b) any action or inaction of such Party or any of its Subsidiaries required or contemplated by this Agreement or any Transaction Agreement, or taken or not taken upon the express written request of the other Party; (c) (1) financial, banking, credit, securities or commodities markets in the U.S. or any location in which such Party operates, or (2) general economic conditions in the industries and markets in which such Party operates, including the health care market or hospitals generally or locally; (d) acts of war (whether or not declared) or terrorism (or the escalation of the foregoing) or natural disasters or other force majeure events; (e) any matter which a Party is aware on the Closing Date; and (f) the effect of any changes in Legal Requirements or accounting rules or standards or interpretation of such Legal Requirements or accounting rules or standards; provided, further, that, the exceptions set forth in clauses (c), (d) and (f) shall apply even to the extent that such matters have a disproportionate effect on such Party relative to other comparable companies in the industry in which such Party operates.

(dd) The term "**Material Contracts**" shall mean, with respect to any Person or Persons, all written contracts, agreements, deeds, mortgages, Leases, licenses, or other instruments, to which any such Person is a party or otherwise subject or bound or to which any asset of any such Person is subject involving payments reasonably expected to be in excess of One Million Dollars ($1,000,000) per contract year that cannot be terminated without cause by SAHSC or a Subsidiary without penalty.

(ee) The term "**Medical Staff Bylaws**" shall mean the bylaws adopted by the organized medical staff of the Hospitals.

(ff) The term "**Multiemployer Plan**" shall mean any Pension Plan which is a "multiemployer plan" within the meaning of Section 4001(a)(3) of ERISA.

(gg) The term "**Mutual Confidentiality Agreement**" shall mean the Mutual Confidentiality and Nondisclosure Agreement, dated as of January 1, 2014, by and among SAHSC, UWSMPH, UWMF, and UWHCA.

(hh) The term "**Occupancy Leases**" shall mean Leases of SAHSC or a Subsidiary relating to a Leased Location involving annual payments in excess of $120,000.

(ii) The term "**Operating Loss**" means with respect to any Program Investment made pursuant to Section 2.8.3 (Additional Capital Investment) hereof, the amount by which the actual Direct Expenses (less depreciation) plus incremental Indirect Expenses attributable to such Program Investment exceed the actual operating revenues associated with such Program Investment for a period of no more than two (2) years following initiation, provided that the Direct Expenses and/or incremental Indirect Expenses shall not be double counted through system overhead.

(jj) The term "**Owned Locations**" shall mean Property in which SAHSC and its Subsidiaries is the legal fee simple titleholder.

(kk) The term "**Pension Plan**" shall have the meaning given in ERISA Section 3(2)(A).

(ll) The term "**Person**" shall mean an individual, partnership, corporation, limited liability company, limited liability partnership, company, association, trust, joint venture, unincorporated organization, entity, or a government, governmental department or agency or political subdivision thereof.

(mm) The term "**Plan**" shall mean any Pension Plan, Welfare Plan or other plan, contract, policy, practice or other arrangement or understanding, whether or not reduced to writing, which the Employer currently or within the last three (3) years has maintained, contributed to, or has been obligated to contribute to, or under which the Employer pays or has or may have liability for premiums or benefits, and which provides or is intended to provide pension, profit sharing, deferred compensation, bonus, stock purchase, stock option, medical, dental, life insurance, disability, fringe benefits, or other employee benefits of any kind with respect to one or more employees or former employees of the Employer or their dependents or beneficiaries.

(nn) The term "**Plan Sponsor**" shall have the meaning given in ERISA Section 3(16)(B).

(oo) The term "**Program Capital Expenditures**" means capital expenditures requested by the SAHSC Board and, if necessary, pursuant to Section 2.3.2(c) and (d) (Reserve Powers of UHC as the Sole Member of SAHSC), approved by UHC, that are not Routine Capital Expenditures.

(pp) The term "**Program Investment**" means a financial investment not considered a capital expenditure, in a program designed to enhance SAHSC's status as a regional health system, as requested by the SAHSC Board and, if necessary, pursuant to Section 2.3.2(g) (Reserve Powers of UHC as the Sole Member of SAHSC), approved by UHC. The term "Program Investment" includes non-capital expenditures made to support (i) SAH's physician integration platform (including, but not limited to, physician-driven practice support and acquisitions, physician recruitment, PHO development, deployment of population health management capabilities, clinical integration, and accountable care product development), (ii) development, enhancement and growth of existing and new service and product lines, (iii) ambulatory care growth and development, and (iv) other strategic services growth to meet continual, and anticipated enhanced, competitive marketplace developments. In contrast financial investments in programs requested by UHC (rather than by SAHSC), which include, but are not limited to, those determined by UHC to be needed to support or enhance UW Health programs or services in Madison, or UW Health programs and services not in the SAHSC Service Area, are not Program Investments.

(qq) The term "**Property**" shall mean all real property owned, leased or otherwise occupied by SAHSC and its Subsidiaries or in which SAHSC or any of its Subsidiaries have any rights or interest of any nature.

(rr) The term "**Release**" shall mean any spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, leaching, dumping, or disposing of any Hazardous or Chemical Substance into the environment of any kind whatsoever (including the abandonment or discarding of barrels, containers, tanks or other receptacles containing or previously containing any Hazardous or Chemical Substance).

(ss) The term "**Representatives**" shall mean the controlled affiliates of each Party, and the respective directors, officers, employees, attorneys, consultants and other agents and advisors of each Party or their controlled affiliates.

(tt) The term "**Routine Capital Expenditures**" means capital expenditures requested by SAH and approved by the SAHSC Board as part of an annual capital budget or supplemental budget, and, if necessary, pursuant to Section 2.3.2(c) and (d) (Reserve Powers of UHC as the Sole Member of SAHSC), approved by UHC, that repair or replace property, plant, or equipment to maintain existing functionality or that establish new functionality. Routine Capital Expenditures do not include capital expenditures made in connection with a Program Investment.

(uu) The term "**SAH Bond Loan Agreements**" shall mean the following loan agreements: (i) the Loan Agreement, dated as of December 1, 2004, between the Authority and SAH, (ii) the Loan Agreement, dated as of April 1, 2010, among the Authority, SAH and Riverside Community Bank, (iii) the Loan Agreement, dated as of September 1, 2012, between the Authority and SAH; and, (iii) any and

all other agreements with banks, credit enhancers and purchasers related to such loan agreements.

(vv) The term "**SAH Master Trust Indenture**" shall mean the Master Trust Indenture, dated as of October 15, 1993, among SAH, SAF and The Bank of New York Mellon Trust Company, N.A., as successor master trustee, as supplemented and amended.

(ww) The term "**SAHSC Liabilities**" shall mean all liabilities and obligations of SAHSC and/or its Subsidiaries arising or accruing prior to the Closing Date, whether fixed or contingent, recorded or unrecorded, known or unknown, and whether or not set forth on the Exhibits to this Agreement, including without limitation, liabilities and obligations for or under (i) Environmental Liabilities and Costs; (ii) all Indebtedness; (iii) all contractual obligations; (iv) claims resulting from the failure to obtain consents of third parties to the Transaction, to the extent required; (v) acts or omissions of SAHSC, its Subsidiaries or their respective directors, officers, employees and agents claimed to violate any local, state or federal law or regulation; (vi) Medicare, Medicaid or other third party payer programs, including recapture or recoupment of previously paid or reimbursed expenses or claims; (vii) any federal, state or local investigations or, or claims or actions against SAHSC or any of its Subsidiaries, or their employees, medical staff, agents, vendors or representatives; and (viii) medical malpractice or professional liability with respect to health care services rendered by SAHSC or any of its Subsidiaries or their respective contractors and employees, on an occurrence basis.

(xx) The term "**SAHSC Market Terms**" shall mean the prevailing market terms in the SAHSC Service Area.

(yy) The term "**SAHSC Severance Policy for Leadership Employees**" shall mean the severance policy for SAHSC leadership employees adopted by the executive compensation committee of the SAHSC Board.

(zz) The term "**Stark Law**" shall mean the Ethics in Patient Referrals Act, as amended, 42 U.S.C. 1395nn, et seq. and the regulations promulgated thereunder.

(aaa) The term "**Subsidiary**" shall mean any entity, directly or indirectly, controlled by, or under common control with SAHSC. For purposes of this definition, the term "**Control**" (including the correlative meanings of the terms "**Controlled By**" and "**Under Common Control With**" means the possession, direct or indirect, of the power to direct or cause the direction of the management policies of an entity, whether through corporate membership, the ownership of voting securities, Board appointments, by contract, or otherwise. For the absence of doubt, (i) any organization whose financial statements are consolidated with those of SAHSC in accordance with GAAP shall be deemed a Subsidiary of SAHSC; and (ii) any organization whose financial statements are not consolidated with those of SAHSC in accordance with GAAP and which has fifty percent (50%) or less of its

ownership interests held by SAH, SwedishAmerican Realty Corporation or SwedishAmerican Health Management Corporation shall not be a Subsidiary of SAHSC. Notwithstanding anything set forth in this paragraph, "**Subsidiary**" shall include the TriRivers Entities.

(bbb) The term "**Tax Liabilities**" shall mean liabilities for all federal, state, local or foreign taxes, payments in lieu of taxes, and other governmental assessments and imposts arising under or imposed by any Legal Requirement, including without limitation all interest, penalties and additions assessed with respect to any of the foregoing and any taxes later determined by the IRS and or state or local taxing authorities to be due.

(ccc) The term "**TriRivers Entities**" shall collectively mean the Three Rivers Partners, LLC; TriLightNet, LLC; TriRivers Health Information Technology, LLC; and TriRivers Data Center Solutions, LLC.

(ddd) The term "**UW Change of Control**" shall mean for UHC and/or any UHC Member, the acquisition by any Person of more than fifty percent (50%) of the assets, voting control, membership interests, board membership, or similar interests of UHC and/or any UHC Member or any entity that directly or indirectly controls UHC and/or any UHC Member, excepting any internal reorganization of UHC or a UHC Member.

(eee) The term "**Welfare Plan**" shall mean each welfare plan (whether or not defined in Section 3(1) of ERISA) established or maintained, or to which any contributions are or were made, by an Employer.

[Signature Page Follows]

IN WITNESS WHEREOF, the Parties hereto, intending to be legally bound by the terms hereof, have executed this Agreement as of the Effective Date.

SWEDISHAMERICAN HEALTH SYSTEM CORPORATION
"SAHSC"

By:_____
Name: William R. Gorski, M.D.
Title: President/CEO

UNIVERSITY HEALTH CARE, INC.
"UHC"

By:_____
Name: Michael E. Dallman
Title: President

UNIVERSITY OF WISCONSIN HOSPITALS AND CLINICS AUTHORITY
"UWHCA"

By:_____
Name: Ronald T. Sliwinski
Title: President/CEO

UNIVERSITY OF WISCONSIN MEDICAL FOUNDATION, INC.
"UWMF"

By:_____
Name: Robert Golden, M.D.
Title: Chairman of the Board

Attachment #6

FINANCIAL STATEMENTS

6a: Audited Financial Statement of University of Wisconsin Hospitals and Clinics Authority (June 30, 2014 and 2013)

6b: Audited Financial Statement of University Health Care, Inc. and Subsidiaries (December 31, 2013 and 2012)

6c: Audited Financial Statement of University of Wisconsin Medical Foundation, Inc. (June 30, 2014)

6d: Audited Financial Statement of SwedishAmerican Health System Corporation and Subsidiaries (May 31, 2014)

6e: Audited Financial Statement of SwedishAmerican Hospital and Subsidiary (May 31, 2014)

FINANCIAL STATEMENTS

6a: Audited Financial Statement of University of Wisconsin Hospitals and Clinics Authority (June 30, 2014 and 2013)

ATTACHMENT #6a

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UNIVERSITY OF WISCONSIN HOSPITALS AND CLINICS AUTHORITY

Basic Financial Statements and
Required Supplementary Information

June 30, 2014 and 2013

(With Independent Auditors' Report Thereon)

UNIVERSITY OF WISCONSIN HOSPITALS
AND CLINICS AUTHORITY

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KPMG LLP
Suite 900
10 South Broadway
St. Louis, MO 63102-1761

Independent Auditors' Report

The Board of Directors
University of Wisconsin Hospitals
and Clinics Authority:

Report on the Financial Statements

We have audited the accompanying financial statements of the University of Wisconsin Hospitals and Clinics Authority (the Hospital), a component unit of the State of Wisconsin, as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University of Wisconsin Hospitals and Clinics Authority as of June 30, 2014 and

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KPMG

2013, and the changes in financial position and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

U.S. generally accepted accounting principles require that management's discussion and analysis on pages 3-16 and the schedule of plan funding progress on page 53 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 9, 2014 on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

KPMG LLP

St. Louis, Missouri
October 9, 2014

UNIVERSITY OF WISCONSIN HOSPITALS AND CLINICS AUTHORITY

Management's Discussion and Analysis

June 30, 2014 and 2013

This section of the annual financial report for the University of Wisconsin Hospitals and Clinics Authority (the Hospital) presents management's analysis of the Hospital's performance during the fiscal years that ended on June 30, 2014 and 2013, and is designed to focus on the current fiscal year activity, resulting changes, and currently known facts; therefore, please read it in conjunction with the Hospital's financial statements.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Hospital's financial statements, and the notes to the financial statements.

The statements of net position and the statements of revenues, expenses, and changes in net position, and cash flows, reported on the accrual basis, provide an indication of the Hospital's financial health. The statements of net position include all of the Hospital's assets, deferred outflows of resources, and liabilities, as well as an indication about which assets can be utilized for general purposes and which are restricted by external donors or for other purposes. The statements of revenues, expenses, and changes in net position report all of the revenues and expenses during the period indicated. The statements of cash flows report the cash provided and used by operating activities, as well as other cash sources such as investment income and other cash uses, such as repayment of bonds and capital additions. The notes to financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

Financial Highlights – Fiscal Year 2014

- The Hospital's net position increased by approximately $108.1 million.
- Net patient service revenues increased by $94.4 million, or 7.7%. Total operating revenues increased by $96.1 million, or 7.6%, and total operating expenses increased by $111.2 million, or 9.7%.
- Operating income for the year was $93.6 million.
- Total nonoperating revenue (expense) increased by a net amount of $34.5 million or 142.3%. The more significant components of this net change are favorable investment experience and a decrease in payments to the University of Wisconsin School of Medicine and Public Health (UWSMPH).
- The excess of revenues over expenses before capital grants, gifts and donations and additions to permanent endowments increased $19.4 million or 23.0%.

Financial Highlights – Fiscal Year 2013

- The Hospital's net position increased by approximately $87.0 million.
- Net patient service revenues increased by $51.6 million, or 4.4%. Total operating revenues increased by $56.7 million, or 4.7%, and total operating expenses increased by $75.2 million, or 7.0%.
- Operating income for the year was $108.6 million.
- Total nonoperating revenue (expense) increased by a net amount of $1.4 million or 5.6%. The more significant components of this net change are a decrease in interest expense, favorable investment and

interest rate swap experience and an increase in payments to the University of Wisconsin School of Medicine and Public Health (UWSMPH).

- The excess of revenues over expenses before capital grants, gifts and donations and additions to permanent endowments decreased $17.1 million or 16.8%.

Hospital Highlights – Fiscal Year 2014

- The Hospital is ranked the top hospital in the state for the third consecutive year, is among the nation's top 50 hospitals in nine medical specialties for the second year in a row, and ranked as high-performing in three additional specialty areas in the U.S. News and World Report *America's Best Hospitals 2014-2015*. American Family Children's Hospital was again ranked among the nation's top 50 pediatric hospitals in four medical and surgical specialties.

- In January 2014, the AFCH became the first children's hospital in the world to offer new lower-dose radiation technology with the opening of an imaging pavilion and multi-specialty pediatric hybrid suite, including space for catheterization, angioplasty and operating rooms.

- In February 2014, the Hospital was redesignated as a Magnet Nursing organization. Magnet is the highest and most prestigious credential a health care organization can achieve for nursing excellence and quality patient care. Fewer than 7% of all registered hospitals in the United States receive Magnet designation or re-designation, including only 10 in Wisconsin.

- On April 29, 2014, the entities of UW Health and SwedishAmerican Health System in Rockford, IL approved a letter of intent by which SwedishAmerican will merge with UW Health system. The formal affiliation that UW Health has had with SwedishAmerican since 2010 led to the development of the new SwedishAmerican Regional Cancer Center that opened to patients in October 2013.

- In May 2014, the Hospital opened a 14-bed state-of-the-art Level IV Neonatal Intensive Care Unit (NICU) at the American Family Children's Hospital (AFCH), which is only one of two Level IV NICUs in the state. The unit provides services to premature and full-term neonatal infants requiring complex surgical interventions and/or subspecialty medical care.

- Also in May 2014, the Hospital opened a 12-bed Pediatric Universal Care Unit at AFCH, which includes rooms to serve children whose needs are higher than those of a general care unit, but not as acute as those in the Pediatric Intensive Care Unit (PICU).

- In June 2014, the Hospital opened a new autopsy suite and morgue, which will provide a modern space for pathology learning and autopsies.

Hospital Highlights – Fiscal Year 2013

- The Hospital is ranked the top hospital in the state for the second consecutive year, is among the nation's top 50 hospitals in nine medical specialties, and ranked as high-performing in four additional specialty areas in the U.S. News and World Report *America's Best Hospitals 2013-2014*. American Family

Children's Hospital was again ranked among the nation's top 50 pediatric hospitals, this time in six medical and surgical specialties.

- On December 28, 2012, the Hospital formed a new company, the Inntowner LLC, and purchased the Madison Best Western Inntowner Hotel. The hotel will provide a housing option for regional patients prior to and following their hospital stay, including those who need to remain in proximity to the Hospital for post-discharge care.

- In March 2013, the Hospital issued $272,595,000 of Hospital Revenue Bonds, Series 2013A. The bond proceeds are designated to finance qualified capital projects and to refund a portion of the outstanding Series 2008A Bonds and Series 2009B Bonds, the remainder of the Series 2009C Bonds and a partial termination of the Series 2009B interest rate swap agreement. The capital projects include a new comprehensive acute and ambulatory care facility on the east side of Madison, construction and equipment of a two-story addition to the American Family Children's Hospital and construction and equipping of a new autopsy and pathology suite. Those projects are under way and are scheduled for completion at various dates through 2015.

- In March 2013, Moody's Investor Services upgraded the hospital's rating on outstanding rated debt from A1 to Aa3 with a stable outlook.

- In April 2013, the Hospital opened the UW Health Digestive Health Center (DHC) on Madison's near west side. The opening of the DHC created the region's finest multi-disciplinary outpatient clinic serving patients with diseases of the digestive tract, liver and pancreas.

- The Hospital receives certain administrative and other general services from the University of Wisconsin and provides direct financial support for educational, research and clinical activities of the University through an Affiliation Agreement. In addition to the historic Affiliation Agreement transfers, the Hospital board of directors approved in fiscal year 2013 the provisions of an Annual Academic Advancement Agreement (AAA) to establish guidelines as to when the Hospital will provide additional financial support for the education/clinical programs and outcomes research associated with UWSMPH. Under the AAA, if the operating margin of the Hospital for any fiscal year exceeds a defined threshold, initially established as 5%, and days cash-on-hand exceeds a defined threshold, initially established as 180 days, the Hospital will make a distribution to UWSMPH. Included in nonoperating expense and accrued expenses is $35,639,000 representing the expected payment for the 2013 fiscal year.

- The Hospital was one of the first in the Upper Midwest and in the first group in the nation to receive the Comprehensive Stroke Center Certification from The Joint Commission and the American Heart Association/American Stroke Association in November 2012.

- In August 2012, the Hospital formed, along with the University of Wisconsin Medical Foundation, a new entity known as UW Health Accountable Care Organization, Inc. As of January 1, 2013, the organization became one of approximately 250 across the country awarded the opportunity to participate in the Medicare Shared Savings Program (MSSP). The ACO MSSP participant organizations coordinate care for assigned Medicare beneficiaries and have an opportunity to receive incentive payments for identifiable share cost savings.

Financial Analysis and Results of Operations

At June 30, 2014, the Hospital's assets exceeded liabilities by $969.9 million, which is an increase in total net position of $108.1 million, or 12.5%, from the prior fiscal year-end.

At June 30, 2013, the Hospital's assets exceeded liabilities by $861.8 million, which is an increase in total net position of $87.0 million, or 11.2%, from the prior fiscal year-end.

Table 1 summarizes assets, deferred outflows of resources, liabilities, and net position at June 30 (in thousands):

Table 1
Net Position

	June 30, 2014	June 30, 2013	Dollar change	Percentage change
Current and other assets	$ 1,145,159	1,191,636	(46,477)	(3.9)%
Capital assets	609,117	455,283	153,834	33.8
Total assets	1,754,276	1,646,919	107,357	6.5
Deferred outflows of resources	16,745	18,560	(1,815)	(9.8)
Total assets and deferred outflows of resources	$ 1,771,021	1,665,479	105,542	6.3
Long-term debt	$ 468,045	483,789	(15,744)	(3.3)
Other liabilities	333,105	319,871	13,234	4.1
Total liabilities	801,150	803,660	(2,510)	(0.3)
Net position:				
Net investment in capital assets	283,267	197,200	86,067	43.6
Restricted	10,760	15,998	(5,238)	(32.7)
Unrestricted	675,844	648,621	27,223	4.2
Total net position	969,871	861,819	108,052	12.5
Total liabilities and net position	$ 1,771,021	1,665,479	105,542	6.3

Table 1
Net Position

	June 30, 2013	June 30, 2012	Dollar change	Percentage change
Current and other assets	$ 1,191,636	871,067	320,569	36.8%
Capital assets	455,283	392,567	62,716	16.0
Total assets	1,646,919	1,263,634	383,285	30.3
Deferred outflows of resources	18,560	14,718	3,842	26.1
Total assets and deferred outflows of resources	$ 1,665,479	1,278,352	387,127	30.3
Long-term debt	$ 483,789	234,904	248,885	106.0
Other liabilities	319,871	268,653	51,218	19.1
Total liabilities	803,660	503,557	300,103	59.6
Net position:				
Net investment in capital assets	197,200	176,402	20,798	11.8
Restricted	15,998	13,771	2,227	16.2
Unrestricted	648,621	584,622	63,999	10.9
Total net position	861,819	774,795	87,024	11.2
Total liabilities and net position	$ 1,665,479	1,278,352	387,127	30.3

At June 30, 2014, the Hospital's cash and investments decreased $75.8 million or 8.1% compared to June 30, 2013. The majority of the decrease in fiscal 2014 cash and investments is attributable to purchases of property and equipment (including construction of a new comprehensive acute and ambulatory care facility on the east side of Madison), repayments of long-term debt, interest paid, payments to UWSMPH for the AAA agreement, increases in accounts receivable and in accounts payable.

At June 30, 2013, the Hospital's cash and investments increased $305.6 million or 48.3% compared to June 30, 2012. The majority of the increase in fiscal 2013 cash and investments is attributable to increases from operating activities and proceeds from long-term debt, offset by purchases of property, plant and equipment, repayments of long-term debt and interest paid.

As of June 30, 2014, the Hospital reports the net present value of pledges receivable totaling $1.5 million for the American Family Children's Hospital in accordance with Governmental Accounting Standards Board (GASB) Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. The net present value of pledges as of June 30, 2013 was $2.3 million.

Pension-related liabilities include $64.7 million and $71.6 million at June 30, 2014 and 2013, respectively, of unfunded prior service liabilities for participants in the Wisconsin Retirement System. In December 2003, the

State issued annual appropriation bonds and used the proceeds to retire its unfunded past service pension obligation with the Wisconsin Retirement System, including the portion attributable to certain Hospital employees. The Hospital is required to annually reimburse the State for its share of ongoing debt service associated with the bonds, and in 2003, the Hospital recorded a liability for its estimated pro-rata share of the principal based on an understanding of the terms of repayment at that time. In 2014, based on the State's methodology for allocating responsibility for ongoing debt service to State entities, the Hospital recorded an adjustment of $1.1 million to pension-related liabilities and other nonoperating expense.

Other liabilities also include $28.8 million and $24.5 million at June 30, 2014 and 2013, respectively, representing a postemployment benefit obligation for retiree health insurance and $8.7 million and $9.4 million at June 30, 2014 and 2013, respectively, for the fair market value of the derivative instruments.

Table 2 compares 2014 revenues and expenses to 2013 and 2013 revenues and expenses to 2012, and shows the increase in net position (in thousands).

Table 2
Condensed Schedule of Revenues, Expenses, and Changes in Net Position

	June 30		Dollar change	Percentage change
	2014	2013		
Operating revenues:				
Net patient service revenues	$ 1,327,707	1,233,280	94,427	7.7%
Other operating revenue	26,077	24,367	1,710	7.0
Total operating revenues – net	1,353,784	1,257,647	96,137	7.6
Operating expenses:				
Salaries and benefits	639,992	588,190	51,802	8.8
Medical materials and supplies	295,188	253,118	42,070	16.6
Purchased services and agency costs	160,855	151,513	9,342	6.2
Depreciation and amortization	50,085	44,121	5,964	13.5
Other	114,061	112,073	1,988	1.8
Total operating expenses	1,260,181	1,149,015	111,166	9.7
Operating income	93,603	108,632	(15,029)	(13.8)
Nonoperating revenues (expenses):				
Investment income and change in fair value	30,307	20,245	10,062	49.7

Table 2
Condensed Schedule of Revenues, Expenses, and Changes in Net Position

	June 30 2014	June 30 2013	Dollar change	Percentage change
Interest expense	$ (10,669)	(10,110)	(559)	5.5%
Payments to the UWSMPH for capital expenditure support	(15,272)	(42,648)	27,376	(64.2)
Other	5,874	8,281	(2,407)	(29.1)
Total nonoperating revenues (expenses), net	10,240	(24,232)	34,472	(142.3)
Excess of revenues over expenses before capital grants, gifts and donations and additions to permanent endowments	$ 103,843	84,400	19,443	23.0
Capital grants, gifts and donations	4,195	2,678	1,517	56.6
Additions to permanent endowments	14	(54)	68	(125.9)
Increase in net position	108,052	87,024	21,028	24.2
Net assets-beginning of year	861,819	774,795	87,024	11.2
Net assets-end of year	$ 969,871	861,819	108,052	12.5

Table 2
Condensed Schedule of Revenues, Expenses, and Changes in Net Position

	June 30 2013	June 30 2012	Dollar change	Percentage change
Operating revenues:				
Net patient service revenues	$ 1,233,280	1,181,671	51,609	4.4%
Other operating revenue	24,367	19,258	5,109	26.5
Total operating revenues – net	1,257,647	1,200,929	56,718	4.7
Operating expenses:				
Salaries and benefits	588,190	564,278	23,912	4.2
Medical materials and supplies	253,118	233,119	19,999	8.6
Purchased services and agency costs	151,513	135,298	16,215	12.0

Table 2
Condensed Schedule of Revenues, Expenses, and Changes in Net Position

	June 30		Dollar change	Percentage change
	2013	2012		
Depreciation and amortization	$ 44,121	43,606	515	1.2%
Other	112,073	97,491	14,582	15.0
Total operating expenses	1,149,015	1,073,792	75,223	7.0
Operating income	108,632	127,137	(18,505)	(14.6)
Nonoperating revenues (expenses):				
Investment income and change in fair value	20,245	12,718	7,527	59.2
Interest expense	(10,110)	(25,668)	15,558	(60.6)
Payments to the UWSMPH for capital expenditure support	(42,648)	(11,600)	(31,048)	267.7
Other	8,281	(1,114)	9,395	(843.4)
Total nonoperating revenues (expenses), net	(24,232)	(25,664)	1,432	(5.6)
Excess of revenues over expenses before capital grants, gifts and donations and additions to permanent endowments	84,400	101,473	(17,073)	(16.8)
Capital grants, gifts and donations	2,678	3,987	(1,309)	(32.8)
Additions to permanent endowments	(54)	514	(568)	(110.5)
Increase in net position	87,024	105,974	(18,950)	(17.9)
Net assets-beginning of year	774,795	668,821	105,974	15.8
Net assets-end of year	$ 861,819	774,795	87,024	11.2

Operating Revenues

Net patient service revenue in 2014 increased $94.4 million, or 7.7% from the prior year. The primary reasons for the growth in revenue are the increases in the number of patients cared for and third-party payor reimbursement increases which averaged 2.9% during the year offset by an increase in the provision for charity care and bad debts. Inpatient volume, measured by admissions, increased approximately 500, or 1.7%, and outpatient volume, measured by visits, increased approximately 7,900 or 1.3%. Patient days increased approximately 2,700 or 1.9%. The Hospital's case-mix index (CMI), which is a measure of patient acuity, calculated on an MS-DRG basis was 2.02 in 2014 and 2.00 in 2013.

Sources of net patient service revenue by payor category for fiscal years 2014 and 2013 are depicted below:

Table 3
Payor Mix

	Fiscal year		Percentage change
	2014	2013	
Medicare	25.1%	26.0%	(3.5)%
Medicaid	7.6	7.0	8.6
Indemnity	4.1	4.3	(4.7)
Managed care	52.8	52.6	0.4
Private pay and other	10.4	10.1	3.0
	100.0%	100.0%	

Net patient service revenue in 2013 increased $51.6 million, or 4.4% from the prior year. The primary reasons for the growth in revenue are the increases in the number of patients cared for and third-party payor reimbursement increases which averaged 2.9% during the year offset by an increase in the provision for charity care and bad debts. Inpatient volume, measured by admissions, increased approximately 800, or 2.9%, and outpatient volume, measured by visits, stayed at approximately the same level as the prior year. Patient days increased approximately 4,800 or 3.5%. The Hospital's case-mix index (CMI), which is a measure of patient acuity, calculated on an MS-DRG basis was 2.00 in 2013 and 1.94 in 2012.

Sources of net patient service revenue by payor category for fiscal years 2013 and 2012 are depicted below:

Table 3
Payor Mix

	Fiscal year		Percentage change
	2013	2012	
Medicare	26.0%	25.4%	2.4%
Medicaid	7.0	7.7	(9.1)
Indemnity	4.3	4.6	(6.5)
Managed care	52.6	53.0	(0.8)
Private pay and other	10.1	9.3	8.6
	100.0%	100.0%	

Other operating revenue, which includes nonpatient revenue such as cafeteria sales, other auxiliary services and, commencing in 2014, revenues from Inntowner LLC, increased approximately $1.7 million to $26.1 million in 2014 or 7.0% and increased approximately $5.1 million to $24.4 million, or 26.5% in 2013.

Operating Expenses

Operating expenses increased by $111.2 million, or 9.7%, in 2014 compared to the prior year. The categories of expenses that caused the majority of the increase were salaries and wages, employee benefits and medical

materials and supplies. Salaries and wages expense increased 6.1% from 2013 due to wage rate increases and increases in FTEs. Employee benefits increased 15.9% from 2013 due to increases in FTE's, rates, payment received in 2013 for a FICA resident reimbursement and change in the workers compensation reserve. The increase in medical materials and supplies compared to the prior year was primarily in pharmaceuticals due to the increase in high cost specialty drugs. The increase in purchased services is due to additional commitments to the UWSMPH and University of Wisconsin Medical Foundation (UWMF) pursuant to an affiliation agreement.

Operating expenses increased by $75.2 million, or 7.0%, in 2013 compared to the prior year. The categories of expenses that caused the majority of the increase were salaries and wages, medical materials and supplies, purchased services and agency costs and other expenses. Salaries and wages expense increased 6.3% from 2012 due to wage rate increases and increases in FTEs. The increase in medical materials and supplies compared to the prior year was primarily in pharmaceuticals and medical/surgical supplies. The increase in purchased services is due to: additional commitments to the UWSMPH and University of Wisconsin Medical Foundation (UWMF) pursuant to an affiliation agreement; debt issuance costs for the Series 2013A bonds that as of 2013, with the early adoption of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, now classifies debt issuance costs as an expense when incurred; and organ acquisition fees. Other expenses increased $10.3 million or 14.4% primarily in purchases of minor equipment and building rental due to the opening of DHC.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of income from the Hospital's cash and long-term investments, interest expense on long-term debt, the change in fair market value of interest rate swaps, the equity interest in gain or loss from joint ventures, noncapital grants and contributions, other, net and payments to UWSMPH. Investment income, including the change in fair value of investments, increased from $17.4 million in 2013 to $30.5 million in 2014, and increased from $12.3 million in 2012 to $17.4 million in 2013, as depicted in the following chart (amounts are in thousands):

Table 4
Investment Earnings by Asset Category

		2014	2013	2012
Interest and dividend income:				
Equity investments	$	3,663	3,427	3,395
Fixed-income investments		8,982	13,286	11,584
Total investment income		12,645	16,713	14,979
Net increase (decrease) in fair value of investments		17,862	663	(2,718)
Total	$	30,507	17,376	12,261

Equity interest in income of joint ventures remained relatively stable at $3.3 million in 2013 and 2014. The change in fair value of the interest rate swap agreements resulted in $(0.2) million expense in 2014 and $2.9 million income in 2013.

Interest expense was $10.7 million in 2014, $10.1 million in 2013 and $25.7 million in 2012. The increase in 2014 is due to a slight increase in rates from bonds that were moved from variable to fixed rates in 2013. Interest expense in 2013 includes interest on the Series 2013A bond financing. The decrease from 2012 to 2013 is primarily due to a nonrecurring financial statement adjustment in 2012 to retroactively record additional interest expense for several prior years associated with pension-related obligations.

Capital Assets

At June 30, 2014, the Hospital had $609.1 million, net of accumulated depreciation and amortization, invested in capital assets. This represents a net increase of $153.8 million, or 33.8%, over 2013. The net change is due to completion of the buildout of American Family Children's Hospital (AFCH), buildout of the NICU and Pediatric Universal Care Unit, Autopsy and Pathology Suite, shell space for additional AFCH expansion and ongoing construction of a new facility on the east side of Madison, offset by depreciation expense.

At June 30, 2013, the Hospital had $455.3 million, net of accumulated depreciation and amortization, invested in capital assets. This represents a net increase of $62.7 million, or 16.0%, over 2012. The net change is due to purchase of new capital assets in 2013, including the Inntowner LLC's land, buildings and equipment, offset by depreciation expense.

Table 5 shows a summary of capital assets, net of accumulated depreciation and amortization, at June 30, 2014, 2013, and 2012 and major additions by year for the years ended June 30, 2014, 2013, and 2012 (in thousands).

Table 5
Capital Assets at Year-End (Net of Accumulated Depreciation and Amortization)

		2014	2013	2012
Land	$	24,405	21,564	17,064
Buildings and land improvements		328,846	295,004	285,413
Equipment		129,020	103,700	77,539
Construction in progress		126,846	35,015	12,551
Total	$	609,117	455,283	392,567

Major Additions by Year

	2014	2013	2012
Land acquisition	$ 2,841	4,500	—
Buildings and improvements:			
Buildout of AFCH NICU and Pediatric Universal Care Unit	9,442	—	—
Autopsy and Pathology Suite	13,085	—	—
Shell space for expansion of additional AFCH floors	15,379	—	—
AFCH Diagnostic and Therapy unit	6,415	—	—
Operating room expansion	632	12,960	—
Inntowner building/remodeling	648	7,804	—
Additional fire alarm strobes and system upgrade	2,950	—	—
Plumbing and water treatment	607	—	—
Improvements to new leased facility (Digestive Health Center)	—	2,356	—
Inpatient unit remodeling	—	1,128	2,031
Remodeled pediatric space in ED	—	767	—
Remodeled outpatient clinic	725	—	1,594
Receiving dock renovation and expansion	—	—	1,289
Reprocessing renovation	—	—	505
Equipment:			
Nurse call upgrade	1,190	—	—
Enterprise licensing	1,509	—	—
Patient telemonitoring system	1,541	—	—
Monoplane x-ray systems	3,988	—	—
Air handling unit	1,977	—	—
Tomotherapy systems	4,591	—	—
Inntowner room remodeling equipment	1,123	—	—
Linear accelerator	—	3,920	—
IV Infusion pumps and pump system	—	3,717	—
Magnetic Resonance Imaging (MRI) machine	—	2,873	—
Biplane imaging system	1,825	2,724	1,562
Inntowner equipment	—	2,200	—
Computer-assisted Tomography (CT) machine	—	2,139	—
Microsoft licensing	—	1,336	—
DaVinci HD Robot surgical system	—	—	1,698
Vital sign monitors	—	—	1,559

Construction in progress at June 30, 2014 consists principally of costs incurred for the construction of a new comprehensive acute and ambulatory care facility on the east side of Madison, expansion of an operating room, isolation fan upgrade and room remodeling.

For more information about the Hospital's capital asset activity, please see note 6 to the financial statements. Ongoing capital requirements will be funded primarily from operations and the remaining proceeds of a 2013

tax-exempt bond financing. The Hospital's total capital budget for 2015 is $211.2 million compared to $202.5 million in 2014. The 2015 budget includes $62.0 million that was deferred from 2014 to 2015.

Long-Term Debt

At June 30, 2014, the Hospital had $451.6 million in long-term debt, excluding current installments, compared to $468.6 million at June 30, 2013 – a decrease of 3.6% due to principal payments on the State of Wisconsin general obligation and refunding bonds, Series 2008A, Series 2009B, Series 2011A, Series 2013A, GE Equipment Loan, Equipment Financing agreement and capital leases.

Table 6 below provides the detail of outstanding long-term debt, excluding current installments, as of June 30, 2014, 2013, and 2012 (in thousands):

Table 6
Outstanding Long-Term Debt – at Year-End

	2014	2013	2012
State of Wisconsin general obligation and refunding bonds	$ 267	559	1,222
Authority Fixed Rate Revenue Bonds, Series 2008A	13,130	14,905	47,685
Authority Variable Rate Demand Revenue Bonds, Series 2009B	30,820	30,875	52,695
Authority Fixed Rate Adjustable Revenue Bonds, Series 2009C	—	—	4,394
Authority Fixed Rate Adjustable Revenue Bonds, Series 2011A	51,945	54,145	56,245
Authority Fixed Rate Adjustable Revenue Bonds, Series 2011B	61,000	61,000	61,000
Authority Fixed Rate Adjustable Revenue Bonds, Series 2013A	266,525	269,765	—
Equipment Loan	511	2,002	3,425
Equipment Financing Agreement	4,466	8,932	—
Capital Leases	4,120	6,247	—
Premium on Series 2013A Bonds	18,857	20,216	—
Premium on Series 2002B Bonds	—	—	48
Total	$ 451,641	468,646	226,714

The Series 2013A and Series 2008A bonds carry ratings of Aa3 by Moody's and A+ from Standard & Poor's. The Series 2009B bonds are secured by an irrevocable transferable direct pay letter-of-credit agreement issued by US Bank and these bonds carry an underlying Aa3 rating from Moody's and A+ from Standard & Poor's. They also carry a long-term rating of AAA from Moody's and Standard & Poor's based on the joint criteria with the letter-of-credit provider. Series 2011A bonds and Series 2011B bonds are supported by direct bank purchase agreements with a commercial bank and, as such, are not rated.

Current legislation requires the Hospital to obtain approval of additional bond issuance from its board of directors, notify the State Joint Committee on Finance and the Department of Administration about its debt issuance plans and maintain an unenhanced bond rating in the category of "A" or better from Standard & Poor's Corporation and Moody's Investor Service, Inc. For more information about the Hospital's outstanding debt, please see note 7 to the financial statements.

Economic Factors and Next Year's Budgets and Rates

The Hospital's senior leadership team considered many variables in developing the 2015 budget and rates. Among those were: the expected payments from the Federal Medicare and State Medicaid Programs, which represent a substantial portion of the Hospital's business, and whose rate increases have historically not kept pace with cost inflation; the increase in the percentage of the Hospital's patients now covered under capitation-based contracts; anticipated salary increases and staff additions; expected cost increases for medical supplies and pharmaceuticals; and other expected cost increases affecting key contracted services. The 2015 budget, as approved by the Hospital's board of directors, projects income from operations of $69.8 million, resulting in an operating margin of 5.0%. Net income is budgeted at $87.4 million representing a total margin of 6.2%. The 2015 budget calls for volume increases of 1.5% for inpatient admissions, 3.0% for inpatient days, and 1.3% for outpatient clinic visits.

Requests for Information

This financial report is designed to provide a general overview of University of Wisconsin Hospitals and Clinics Authority's financial results for all those with an interest in the Hospital's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Chief Financial Officer, 600 Highland Avenue, Mail Drop # 8370, Madison, Wisconsin 53792.

UNIVERSITY OF WISCONSIN HOSPITALS AND CLINICS AUTHORITY

Statements of Net Position

June 30, 2014 and 2013

(In thousands)

Assets	2014	2013
Current assets:		
Cash and cash equivalents	$ 60,260	66,270
Patient accounts receivable, net of estimated uncollectible accounts of $39,000 in 2014 and $34,000 in 2013	163,776	142,671
Other receivables	16,963	14,336
Inventories of supplies	15,754	9,083
Prepaid expenses	7,242	6,794
Total current assets	263,995	239,154
Noncurrent cash and investments:		
Designated by board for capital replacement and debt retirement	157,337	157,078
Held by trustee for capital projects and other purposes	125,452	207,148
Restricted by donors	6,865	11,281
Principal of permanent endowments	2,397	2,383
Other long-term investments	510,727	494,674
Total noncurrent cash and investments	802,778	872,564
Capital assets:		
Nondepreciable, including construction-in-progress	154,555	59,431
Depreciable, net	454,562	395,852
Total capital assets, net	609,117	455,283
Investments in joint ventures	62,874	56,908
Pledges receivable	1,489	2,317
Other assets	14,023	20,693
Total assets	1,754,276	1,646,919
Deferred Outflows of Resources		
Accumulated decrease in fair value of derivative instruments	4,160	5,048
Deferred loss on debt refunding	12,585	13,512
Total deferred outflows of resources	16,745	18,560
Total assets and deferred outflows of resources	$ 1,771,021	1,665,479

See accompanying notes to basic financial statements.

Liabilities and Net Position	2014	2013
Current liabilities:		
Current installments of long-term debt	$ 16,404	15,143
Accounts payable	67,629	35,371
Accrued expenses	112,195	127,639
Estimated payables to Medicare and Medicaid	51,088	51,416
Total current liabilities	247,316	229,569
Long-term debt, less current installments	451,641	468,646
Other long-term liabilities	8,706	9,394
Other postemployment benefit obligation	28,791	24,460
Pension-related liabilities	64,696	71,591
Total liabilities	801,150	803,660
Net position:		
Net investment in capital assets	283,267	197,200
Restricted – expendable for donor specified purposes	8,363	13,615
Restricted – nonexpendable	2,397	2,383
Unrestricted	675,844	648,621
Total net position	969,871	861,819
Total liabilities and net position	$ 1,771,021	1,665,479

UNIVERSITY OF WISCONSIN HOSPITALS AND CLINICS AUTHORITY

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2014 and 2013

(In thousands)

	2014	2013
Operating revenues:		
Net patient service revenue (net of provision for bad debts of $34,563 in 2014 and $27,399 in 2013)	$ 1,327,707	1,233,280
Other operating revenues	26,077	24,367
Total operating revenues, net	1,353,784	1,257,647
Operating expenses:		
Salaries and wages	453,924	427,686
Employee benefits	186,068	160,504
Other expenses	84,377	81,805
Repairs, maintenance, and utilities	29,684	30,268
Purchased services and agency costs	160,855	151,513
Medical materials and supplies	295,188	253,118
Depreciation and amortization	50,085	44,121
Total operating expenses	1,260,181	1,149,015
Operating income	93,603	108,632
Nonoperating revenues (expenses):		
Investment income	12,645	16,713
Net increase (decrease) in fair value of investments	17,862	663
Interest expense	(10,669)	(10,110)
Equity interest in income/loss of joint ventures	3,257	3,268
Net increase (decrease) in fair value of derivative instruments	(200)	2,869
Other, net	2,617	5,013
Contributions to University of Wisconsin School of Medicine and Public Health	(15,272)	(42,648)
Total nonoperating revenues (expenses), net	10,240	(24,232)
Excess of revenues over expenses before capital grants, gifts, and donations and additions to permanent endowments	103,843	84,400
Capital grants, gifts and donations	4,195	2,678
Additions (deductions) to permanent endowments	14	(54)
Increase in net position	108,052	87,024
Net position – beginning of the year	861,819	774,795
Net position – end of the year	$ 969,871	861,819

See accompanying notes to basic financial statements.

UNIVERSITY OF WISCONSIN HOSPITALS AND CLINICS AUTHORITY

Statements of Cash Flows

Years ended June 30, 2014 and 2013

(In thousands)

	2014	2013
Cash flows from operating activities:		
Cash received from and on behalf of patients	$ 1,306,602	1,240,472
Payments to suppliers	(531,628)	(482,646)
Payments to employees	(633,888)	(581,024)
Net cash provided by operating activities	141,086	176,802
Cash flows from noncapital financing activities:		
Noncapital grants, contributions and other adjustments	1,064	1,447
Payments for pension-related liabilities	(4,439)	(4,021)
Additions (deductions) to permanent endowment	14	(54)
Payment to University of Wisconsin School of Medicine and Public Health	(36,306)	(7,009)
Net cash used in noncapital financing activities	(39,667)	(9,637)
Cash flows from capital and related financing activities:		
Capital grants, gifts, and donations received	5,018	3,051
Proceeds from long-term debt	—	293,010
Repayment of principal on long-term debt	(15,065)	(71,275)
Interest paid on long-term debt	(17,932)	(10,639)
Financing costs	—	1,130
Loss on bond refinancing	—	(6,434)
Purchases of capital assets	(178,224)	(90,831)
Proceeds from sale of capital assets	173	18
Net cash provided by (used in) capital and related financing activities	(206,030)	118,030
Cash flows from investing activities:		
Proceeds from sales of investments	107,658	23,983
Purchases of investments	(10,258)	(209,345)
Investment income received/fees paid	996	(31)
Increase in investment in joint venture	(2,709)	239
Other, net	61	3,724
Net cash provided by (used in) in investing activities	95,748	(181,430)
Net increase (decrease) in cash and cash equivalents	(8,863)	103,765
Cash and cash equivalents:		
Beginning of year	165,926	62,161
End of year	$ 157,063	165,926

(Continued)

UNIVERSITY OF WISCONSIN HOSPITALS AND CLINICS AUTHORITY

Statements of Cash Flows

Years ended June 30, 2014 and 2013

(In thousands)

	2014	2013
Reconciliation of cash and cash equivalents to statement of net position:		
Cash and cash equivalents in current assets	$ 60,260	66,270
Cash equivalents in noncurrent cash and investments	96,803	99,656
Total cash and cash equivalents	$ 157,063	165,926
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 93,603	108,632
Adjustments to reconcile operating income to net cash provided by operating activities:		
Provision for bad debts	34,563	27,399
Depreciation and amortization	50,085	44,121
Amortization on bond premium and deferred loss on bond refinancing	248	341
Change in other postemployment benefit obligation	4,331	3,742
Changes in assets and liabilities:		
Patient accounts receivable	(55,668)	(20,207)
Other receivables	(2,628)	(2,884)
Inventories of supplies	(6,671)	(608)
Prepaid expenses	(448)	(534)
Other assets	(268)	(423)
Accounts payable	21,587	(5,230)
Accrued expenses	2,680	3,118
Estimated payables to Medicare and Medicaid	(328)	19,335
Total adjustments	47,483	68,170
Net cash provided by operating activities	$ 141,086	176,802

Noncash investing, capital and financing activities:

The Hospital held investments at June 30, 2014 and 2013 with fair values of $705,975 and $772,908, respectively. During 2014 and 2013, the net increase in the fair value of these investments was $17,862 and $663, respectively.

The Hospital has recorded pledges of $1,489 in 2014 and $2,317 in 2013 related to the American Family Children's Hospital Campaign.

See accompanying notes to basic financial statements.

(1) Summary of Organization and Significant Accounting Policies

The University of Wisconsin Hospitals and Clinics Authority (the Hospital) is an academic medical center operating an acute care hospital with 545 available beds, numerous specialty clinics, and four ambulatory facilities providing comprehensive health care to patients, education programs, research, and community service primarily to residents of southern Wisconsin.

Prior to fiscal year 1997, the Hospital was a unit of the University of Wisconsin – Madison (the University). Beginning in fiscal year 1997, in accordance with legislation passed by the Wisconsin State Legislature, the Hospital restructured as a Public Authority, a public body corporate and politic created by Wisconsin Statutes. This legislation provided, among other things, for the Board of Regents of the University of Wisconsin System (Board of Regents) to execute various agreements with the Hospital. The State of Wisconsin (the State) appoints the majority of the board of directors of the Hospital. Based on statutorily mandated relationships with State governmental units, the Hospital is included as a discretely presented component unit in the State's basic financial statements.

Under the terms of a Lease Agreement, the Hospital leases the facilities that were occupied by the Hospital as of June 29, 1996, for a nominal annual amount for an initial term of 30 years to be renewed annually with automatic extensions of one additional year on each July 1 until action is taken to stop the extensions. In addition, the Hospital is required to repay the State's outstanding debt obligations on the leased facilities. The leased facilities are included with the Hospital's capital assets (note 6), and the debt obligations on the leased facilities are included with the Hospital's long-term debt (note 7).

An Affiliation Agreement (the Agreement) requires the Hospital to continue to support the educational, research, and clinical activities of the University, including the University of Wisconsin School of Medicine and Public Health (UWSMPH) and the University of Wisconsin Schools of Nursing and Pharmacy (note 4). Subject to a Contractual Services Agreement and Operating and Service Agreement between the Board of Regents and the Hospital, the two parties have entered into contracts with each other for the continuation of the provision of services in support of programs and operations.

On December 28, 2012, the Hospital formed a new company, The Inntowner LLC, and purchased the Madison Best Western Inntowner Hotel. The hotel provides a short-term housing option for regional patients prior to and following their hospital stay, including those who need to remain in proximity to the Hospital for post-discharge care.

The significant accounting policies of the Hospital are as follows:

(a) Basis of Accounting

The accounting policies of the Hospital conform to accounting principles generally accepted in the United States of America as applicable to governmental entities. The accounts of the Hospital, which are reported similar to an enterprise fund, are used to account for the Hospital's activities that are financed and operated in a manner similar to a private business enterprise. Accordingly, the Hospital maintains its records on the accrual basis of accounting. Revenues from operations, investments, and other sources are recorded when earned. Expenses, including depreciation and amortization, are recorded when incurred.

Nonexchange transactions, in which the Hospital receives value without directly giving equal value in return, include grants and contributions. Revenues from grants and contributions are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year the resources are required to be used or the fiscal year in which use is first permitted, and expenditure requirements, in cases where the resources are provided to the Hospital on a reimbursement basis.

(b) Cash and Cash Equivalents

Cash and cash equivalents are defined as highly liquid investments purchased with an original maturity of three months or less.

(c) Inventories of Supplies

The inventories of supplies are valued at the lower of cost (first-in, first-out) or market.

(d) Investments and Investment Income

Investments in equity securities with readily determinable fair values and all investments in debt securities are recorded at fair value based upon quoted market prices. The pooled investment funds on deposit with the University of Wisconsin Foundation in its "Pooled Expendable Fund" are recorded at cost, plus accrued earnings to date. The University of Wisconsin Foundation assumes the market risk for the Hospital's investment in the University of Wisconsin Foundation – Expendable Fund. The pooled investment funds on deposit with the University of Wisconsin Foundation in its "Pooled Endowment Fund" are recorded using net asset value as a practical expedient in estimating fair value, based on information provided by the University of Wisconsin Foundation. The estimated values are reviewed and evaluated by the Hospital. Interest, dividends, and changes in the fair value of investments are included in nonoperating revenue.

Investments in joint ventures, in which the Hospital has the ability to exercise significant but not a controlling influence over the ventures' operating and financial policies, are recorded using the equity method of accounting.

(e) Capital Assets

Capital assets are stated at cost. Capital assets under capital leases are stated at the present value of minimum lease payments. Donated capital assets are recorded at fair market value at the date of donation, which then becomes the asset's historical cost. Depreciation or amortization on capital assets is calculated on the straight-line method over the shorter of the estimated useful life or the period of the lease term. Gains (losses) on sales of capital assets are recorded as nonoperating revenues (expenses). Additions, replacements, major repairs, and renovations are capitalized. Costs of repairs and maintenance are expensed as incurred. The estimated useful life of capital assets is as follows:

Buildings and improvements	20 – 40 years
Equipment	3 – 10 years

(f) Costs of Borrowing

Prior to 2013, costs incurred in connection with the issuance of long-term debt were deferred and amortized on a straight-line basis over the term of the bonds, which approximated the interest-yield method. In 2013, the Hospital elected to early adopt GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Under the new provisions, long-term debt issuance costs are recognized as an expense in the period incurred. Although accounting changes adopted to conform to Statement No. 65 should generally be applied retroactively by restating prior years' financial statements, it has been determined that the effects of such restatement would be immaterial. An adjustment of $979,000 is reflected in operating expense in the statement of revenues, expenses and changes in net position for the year ended June 30, 2013 to reflect the prior years' impact.

(g) Contributions

From time to time, the Hospital receives contributions from individuals and private organizations. Revenues from contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted for a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported as capital grants, gifts, and donations.

Endowments are provided to the Hospital on a voluntary basis by individuals and private organizations. Permanent endowments require that the principal or corpus of the endowment be retained in perpetuity. If a donor has not provided specific instructions, the net appreciation of the investments of endowment funds are recorded with investment income in nonoperating revenue.

(h) Net Position

Net position of the Hospital is classified into four components:

Net Investment in Capital Assets – which consists of capital assets, net of accumulated depreciation and amortization, reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets and deferred outflows or inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt.

Restricted, Expendable – which must be used for a particular purpose, as specified by creditors or contributors external to the Hospital.

Restricted, Nonexpendable – which equals the principal portion of permanent endowments.

When the Hospital has both restricted and unrestricted resources available to finance a particular program, generally it is the Hospital's policy to use the restricted resources before the unrestricted resources.

Unrestricted Net Position – which are remaining net position, deferred outflows of resources, liabilities, and deferred inflows of resources that do not meet the definitions of net investment in capital assets or restricted net position.

(i) Operating and Nonoperating Revenues and Expenses

The Hospital's statements of revenues, expenses, and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing healthcare services – the Hospital's principal activity. Nonexchange revenues, including contributions received for purposes other than capital asset acquisition support payments to related organizations, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide healthcare services. Nonexchange expenses, including interest expense and other expenses incidental to the Hospital's principal activity, are reported as nonoperating expenses.

(j) Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered. Reimbursable amounts from third-party payors are estimated in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

Net patient service revenue includes revenue derived from agreements with various managed care organizations to provide medical services to subscribing participants. Under certain of these agreements, the Hospital receives fixed monthly capitation payments (generally, adjusted annually) based on the number of each managed care organization's participants, regardless of services actually performed by the Hospital. The Hospital recognizes, in the year of contractual commitment, any losses on these contracts when it is probable that expected medical and maintenance expense under a group of existing contracts would exceed anticipated premiums and recoveries on these contracts. In other agreements, the managed care organizations make fee for service payments to the Hospital for certain covered services based primarily upon discounted fee schedules.

(k) Charity Care

The Hospital has a policy of providing healthcare services, without charge or at amounts less than established rates, to those unable to pay all or a portion of their charges and who meet certain eligibility criteria established in the Hospital's charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as patient service revenue.

(l) Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental, and accident benefits. The Hospital is self-insured for workers' compensation (note 13). The estimated provision for self-insured workers' compensation includes the ultimate cost for both reported losses and losses incurred but not reported as of the respective statement of net position dates. Commercial insurance coverage is purchased for other claims arising from such matters. The primary commercial insurance for professional liability is a full deductible policy (note 12). Settled claims have not exceeded this commercial coverage in any of the two preceding years.

(m) Compensated Absences

The Hospital's employees earn vacation days at varying rates depending on years of service. Employees may accumulate vacation time up to a specified maximum. Employees are paid for accumulated vacation time if they terminate employment. Consistent with the compensated absences reporting standards of GASB Statement No. 16, *Accounting for Compensated Absences*, an accrual for certain salary-related payments associated with compensated absences is included in accrued expenses.

(n) Income Taxes

The Hospital qualifies as a Section 501(c)(3) not-for-profit institution of the Internal Revenue Code (the Code) and, therefore, is exempt from federal income taxes pursuant to Section 501(a) of the Code. The Hospital is, however, subject to federal income taxes on any unrelated business income under the provisions of Section 511 of the Code. The Hospital is exempt from state income taxes under Section 71.26(b)(e) of Wisconsin Statutes.

(o) 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 and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(p) Derivative Instruments

The Hospital's derivative instruments represent interest rate swaps that are used as part of its risk management strategy to manage exposure to fluctuations in interest rates and to manage the overall cost of its debt. Interest rate swaps are used to hedge identified and approved exposures and are not used for speculative purposes.

The Hospital records derivative instruments on the statement of net position as either an asset or liability measured at their fair market values. The Hospital records the changes in fair market value of ineffective derivative instruments on the statements of revenues, expenses and changes in net position. The Hospital records the changes in fair market value of effective derivative instruments on the statements of net position as deferred outflows of resources

(q) Pension-Related Liabilities

The Hospital has certain post-retirement obligations for its current and former employees that are reflected as pension-related liabilities in its financial statements. The first such obligation relates to pension plan enhancements that occurred between 1982 and 1990 that created a prior service pension obligation for all State of Wisconsin agencies covered under the Wisconsin Retirement System. The second component relates to a sick leave conversion program that allows retiring State agency employees to convert unused sick leave at the time of their retirement to pay for post-retirement health insurance. The State legislature adopted provisions in 1984 which mandated advance funding

of this sick leave conversion program and gave rise to a second unfunded obligation. Each State agency was assigned a portion of these obligations reflecting the actuarially computed share associated with its employees. At the time these events occurred, the Hospital was deemed an agency of the State and was assigned a portion of these obligations. The Hospital has been funding these obligations following an amortization period that runs through 2030.

In December 2003, the State of Wisconsin Department of Administration issued Annual Appropriation Bonds to allow it to accelerate the funding of a substantial portion of these obligations for many of its agencies, including a portion attributable to a subset of Hospital employees that at the time were still deemed to be State employees. The Hospital is responsible for reimbursing the State for its portion of the annual debt service related to the bonds. That liability is also included as a component of pension-related liabilities on the Hospital's statement of net position.

Since 2003, the State has refinanced and entered into swap arrangements for various portions of the Annual Appropriation Bonds. As a result, the debt service associated with those bonds varies over time. In addition, the percentage of the debt service allocable to the Hospital varies over time based on the State's methodology for allocating that liability to its various agencies. The Hospital adjusts its records, as necessary, whenever its allocated share of the outstanding debt service changes. Any adjustment representing additional interest is reported as interest expense and any portion attributable to principal is reported as other nonoperating expense.

(r) Reclassification

Certain prior year financial statement amounts have been reclassified to conform to the current year presentation.

(2) Restricted Net Position and Endowments

Restricted expendable net position as of June 30, 2014 and 2013 are available for the following purposes (in thousands):

		2014	2013
Capital purposes	$	3,774	9,977
Research and general		4,589	3,638
Total expendable restricted net position	$	8,363	13,615

Restricted nonexpendable net position as of June 30, 2014 and 2013 represents the principal amounts of permanent endowments restricted to investment in perpetuity. Investment earnings for the Hospital's permanent endowments are expendable for purposes restricted by the donors primarily for patient assistance purposes.

(3) Designated Unrestricted Net Position

Included in the $675,844,000 and $648,621,000 of unrestricted net position reported as of June 30, 2014 and 2013, respectively, are $157,337,000 and $157,078,000, respectively, that have been designated by the

Hospital's board of directors for capital replacement and debt retirement. Designated funds remain under the control of the board of directors, which may, at its discretion, later designate the funds for other purposes.

(4) Transactions with Related Parties

The Hospital receives certain administrative and other general services from the University and provides direct support for the educational, research, and clinical activities of the University through the Agreement. Direct costs associated with these services and support approximated $61,490,000 and $61,338,000 in 2014 and 2013, respectively. The Hospital committed to support certain UWSMPH and University of Wisconsin School of Nursing capital expenditures as incurred, with the remaining $1,899,000 as of June 30, 2014, of the commitment to be paid as the capital projects commence in agreed-upon installments. At June 30, 2014 and 2013, the Hospital had $2,645,000 and $2,658,000 in receivables, respectively, and $6,092,000 and $4,504,000 in payables, respectively, with the University.

In addition to the historic Affiliation Agreement transfers, the Hospital's board of directors approved, in fiscal year 2013, the provisions of an Annual Academic Advancement Agreement (AAA) to establish guidelines as to when the Hospital will provide additional financial support to UWSMPH for education/clinical programs and outcomes research. Under the original AAA provisions, if the operating margin of the Hospital for any fiscal year exceeded a defined threshold, initially established as 5%, and days cash-on-hand exceeds a defined threshold, initially established as 180 days, the Hospital would make a distribution to UWSMPH. During fiscal year 2014, the AAA was amended such that the operating income representing the operating margin between 5% and 6% is distributed entirely to UWSMPH. Amounts in excess of 6% are partially distributed to UWSMPH. Included in nonoperating expense and accrued expenses is an estimated payment due to UWSMPH of $14,605,000 and $35,639,000, respectively, representing the expected payment for the 2014 and 2013 fiscal year.

University Health Care, Inc. (UHC) is a Wisconsin nonstock, not-for-profit corporation. UHC primarily is engaged in furthering the teaching, research, and service functions of the Hospital, UWSMPH, and the University of Wisconsin Medical Foundation (UWMF), each of which are members of UHC. UHC owns 100% of the equity interest of Unity Health Plans and its acquisition was funded 60% by the Hospital and 40% by UWMF. By resolution of UHC and agreement by its members, the Hospital and UWMF shall indirectly hold 60% and 40%, respectively, of the equity and ownership rights of Unity Health Plans. The UWSMPH shall have no ownership rights or funding obligations in and to Unity Health Plans. The super majority rights for governance of Unity Health Plans do not grant control to either the Hospital or UWMF. As such, the Hospital's investment in Unity Health Plans through UHC is accounted for by the equity method. At June 30, 2014 and 2013, the Hospital had $1,186,000 and $1,648,000 in receivables, respectively, with Unity Health Plans and UHC. The Hospital received payments of $78,809,000 and $64,218,000 for the years ended June 30, 2014 and 2013, respectively, from UHC under a capitation agreement with Unity Health Plans. Through February 1, 2013, Unity Health Plans assumed the risk in the event of hospital utilization in excess of capitation payments. Under the terms of a risk-sharing contract amendment effective February 1, 2013, UHC has assumed the benefits and risks for any excess or deficiency of premiums compared to health care expenses of Unity. The first measurement period under the new provisions is February 1, 2013 to December 31, 2013. Based on results through June 30, 2014 and 2013, the Hospital recorded an estimated receivable amount of $3,726,000 and $1,500,000, respectively.

e-Care of Wisconsin, LLC, was formed in May 2008 as a limited liability company. UHC is the sole member of the LLC. The board of managers of e-Care of Wisconsin, LLC consists of three appointees from the Hospital and two appointees each from UWMF and UHC; as such, the Hospital's investment is accounted for on the equity basis. Capital contributions to the LLC are funded 70% by the Hospital and 30% by UWMF as per resolution of the board of directors of UHC.

UHC was audited by other auditors as of December 31, 2013 and 2012, and for the years then ended. A summary of certain financial data for UHC as of and for the years ended December 31, 201 and 2012 is as follows (in thousands):

	2013	2012
Total assets	$ 199,943	164,877
Unrestricted net assets	72,738	68,544
Total revenue	651,197	497,363
Revenues over/(under) expenses	1,634	(517)

Wisconsin Therapies, Inc., a not-for-profit corporation in which the Hospital has a 50% interest, was organized for the purpose of forming a limited liability company with Chartwell Midwest. Wisconsin Therapies, Inc. is a holding company that has no assets, liabilities, or operations. The limited liability company is called Chartwell Wisconsin Enterprises, LLC, and is the sole member in Chartwell Midwest Wisconsin, LLC, and a single-member limited liability company providing tertiary home care, infusion therapy and other home health services to acutely and chronically ill patients primarily in Wisconsin. The Hospital's investment in the company is adjusted for equity in undistributed earnings of Chartwell Wisconsin Enterprises, LLC.

Wisconsin Dialysis, Inc. is a not-for-profit corporation, which is owned 45%, 45%, and 10% among the Hospital, Meriter Hospital Inc., and UWMF, respectively. The investment is being accounted for by the equity method. At June 30, 2014 and 2013, the Hospital had $200,000 and $56,000 in receivables, respectively, from Wisconsin Dialysis, Inc.

The Hospital has a one-third membership interest in Madison Surgery Center Inc. The other members include Meriter Hospital, Inc. and UWMF. The investment is being accounted for by the equity method.

Madison United Healthcare Linen, Ltd. provides laundry services to hospitals, long-term care facilities and clinics. The Hospital is a 46.1% member, along with two other hospitals. The investment is being accounted for by the equity method.

Madison Environmental Resourcing, Inc. provides waste treatment and disposal of solid waste material for member organizations operating in the healthcare industry. The Hospital is a 40.9% member, together with Meriter Hospital, Inc. and St. Mary's Hospital. The investment is being accounted for by the equity method.

Generations Fertility Care, Inc. is a joint venture fertility business owned equally by the Hospital, UWMF and Meriter Hospital, Inc. The investment is being accounted for by the equity method.

Investments in joint ventures as of June 30, 2014 and 2013 comprise of the following (in thousands):

		2014	2013
University Health Care, Inc.	$	43,080	38,463
e-Care of Wisconsin, LLC		800	998
Wisconsin Therapies, Inc.		1,840	1,429
Wisconsin Dialysis, Inc.		4,483	3,490
Madison Surgery Center, Inc.		7,641	7,441
Madison United Healthcare Linen, Ltd.		4,112	4,137
Madison Environmental Resourcing, Inc.		745	692
Generations Fertility Care, Inc.		115	258
Madison Rehabilitation Hospital		58	—
	$	62,874	56,908

(5) Deposits and Investments

(a) Deposits

Custodial credit risk for deposits is the risk that in the event of a financial institution failure, the Hospital's deposits will not be returned. Deposits included in current cash and cash equivalents as of June 30, 2014 and 2013 are presented in the table below (in thousands):

		2014	2013
Bank balances:			
FDIC – Insured	$	559	559
Uninsured, collateralized, or collateralized by securities held by the pledging institution or by its trust department or agent in other than the Hospital's name		65,970	76,667
Petty cash		44	47
Total bank balances	$	66,573	77,273
Carrying amount	$	60,260	66,270

Additional amounts on deposit with the Hospital's investment advisor for investment in fixed-income securities included in noncurrent cash and investments are $8,966,000 and $16,901,000 as of June 30, 2014 and 2013, respectively. These amounts are uninsured and uncollateralized. Other restricted deposits held with a trustee and included in noncurrent cash and investments are $2,141,000 and $1,366,000 as of June 30, 2014 and 2013, respectively.

(b) Investments

The board of directors has authorized management to invest in debt and equity securities through the following:

Fixed-income securities – investments in U.S. Treasury bonds and notes, corporate bonds and other government bonds managed by an investment advisor. Amounts are recorded at fair value based on quoted market prices.

University of Wisconsin Foundation – Expendable Fund – pooled investments recorded at cost, plus accrued earnings to date. The Foundation assumes the market risk for investments in this fund.

University of Wisconsin Foundation – Endowment Fund – pooled investments recorded using net asset value as a practical expedient in estimating fair value.

Noncurrent cash and investments comprise at June 30, 2014 and 2013, as follows (in thousands):

	2014	2013
Cash equivalents:		
Money market – investment advisor	$ 8,966	16,901
Funds held with trustee money market fund	900	900
Funds held with trustee commercial paper	86,885	81,812
Other	52	43
Fixed income mutual fund	151,027	149,826
Fixed income securities	224,689	218,771
Fixed income securities held with trustee	37,667	124,436
Pooled investment funds on deposit with the University of Wisconsin Foundation:		
Pooled Expendable Fund	162,614	167,114
Pooled Endowment Fund	129,978	112,761
Total	$ 802,778	872,564

Investments held in the Pooled Endowment Fund at the Foundation consist of the following as of June 30, 2014 and 2013:

	2014	2013
Cash	3%	3%
Fixed income	16	17
Equity	58	54
Private equity	21	23
Real estate assets	2	3
	100%	100%

The Hospital may redeem its investments held with the Foundation with a 30-day notice, subject to certain fund availability restrictions.

(c) Investment Risk Factors

There are many factors that can affect the value of investments. Some, such as custodial risk, concentration of credit risk, and foreign currency risk may affect both equity and fixed-income securities. Equity securities respond to factors such as economic conditions, individual company earnings performance, and market liquidity, while fixed-income securities are particularly sensitive to credit risks and changes in interest rates.

(d) Credit Risk

Credit risk is the risk that the Hospital will not recover its investments due to the failure of the counterparty to fulfill its obligation. The Hospital does not have an investment policy over credit risk. Investments in fixed-income securities are subject to credit risk as of June 30, 2014 and 2013 as determined through a nationally recognized rating agency, Moody's, are presented in the table below (in thousands):

		2014	2013
Aaa	$	108,393	110,713
Aa1		4,890	9,246
Aa2		6,446	24,134
Aa3		10,936	44,949
A1		19,167	21,904
A2		11,091	27,580
A3		14,986	18,111
Baa1		20,422	23,000
Baa2		30,421	29,794
Baa3		12,900	11,375
Ba1		3,317	2,935
Ba3		345	326
Not rated		19,042	19,140
Total	$	262,356	343,207

Investments in the pooled expendable fund and the pooled endowment fund are not subject to credit risk as the Foundation is not rated.

(e) Interest Rate Risk

Interest rate risk is the risk that the fair value of the Hospital's investments will decrease as a result of an increase in interest rates. Concentration of credit risk is the risk of loss attributed to the magnitude of the Hospital's investment in a single issuer or investment. The Hospital does not have an investment policy over interest rate risk. Maturities related to the Hospital's fixed-income investments as of June 30, 2014 and 2013 are presented in the tables below (in thousands):

	2014			
	Total	< 1 year	2 – 5 years	> 5 years
U.S. Treasury bonds and notes	$ 115,420	20,459	66,208	28,753
Corporate bonds	145,217	35,184	72,911	37,122
Other government bonds	1,719	—	320	1,399
Total	$ 262,356	55,643	139,439	67,274

	2013			
	Total	< 1 year	2 – 5 years	> 5 years
U.S. Treasury bonds and notes	$ 55,568	—	5,797	49,771
Corporate bonds	234,633	98,237	100,793	35,603
Other government bonds	53,006	10,823	31,092	11,091
Total	$ 343,207	109,060	137,682	96,465

(6) Capital Assets

Capital asset additions, retirements, and balances for the year ended June 30, 2014 are as follows (in thousands):

	Balance, June 30, 2013	Additions and transfers	Retirements	Balance, June 30, 2014
Capital assets not being depreciated:				
Land	$ 21,564	2,841	—	24,405
Land improvements	2,852	452	—	3,304
Construction in progress	35,015	91,831	—	126,846
Total	59,431	95,124	—	154,555

	Balance, June 30, 2013	Additions and transfers	Retirements	Balance, June 30, 2014
Capital assets being depreciated:				
Buildings and improvements	$ 553,267	55,469	—	608,736
Equipment	317,204	53,592	(9,812)	360,984
Total	870,471	109,061	(9,812)	969,720
Less accumulated depreciation and amortization for:				
Buildings and improvements	261,115	22,079	—	283,194
Equipment	213,504	28,006	(9,546)	231,964
Total	474,619	50,085	(9,546)	515,158
Total capital assets being depreciated – net	395,852	58,976	(266)	454,562
Total capital assets	$ 455,283	154,100	(266)	609,117

Construction in progress at June 30, 2014 consists principally of costs incurred for construction of a new comprehensive acute and ambulatory care facility on the east side of Madison, operating room expansion, and isolation fan upgrade. The construction projects are being financed through a combination of operating funds, philanthropy and the 2013 bond financing (see note 7). During 2014, interest expense of approximately $8,770,000, net of interest income of approximately $956,000, was capitalized.

Capital asset additions, retirements, and balances for the year ended June 30, 2013 are as follows (in thousands):

	Balance, June 30, 2012	Additions and transfers	Retirements	Balance, June 30, 2013
Capital assets not being depreciated:				
Land	$ 17,064	4,500	—	21,564
Land improvements	2,277	575	—	2,852
Construction in progress	12,551	22,464	—	35,015
Total	31,892	27,539	—	59,431

	Balance, June 30, 2012	Additions and transfers	Retirements	Balance, June 30, 2013
Capital assets being depreciated:				
Buildings and improvements	$ 523,402	29,988	(123)	553,267
Equipment	280,718	49,828	(13,342)	317,204
Total	804,120	79,816	(13,465)	870,471
Less accumulated depreciation and amortization for:				
Buildings and improvements	240,266	20,972	(123)	261,115
Equipment	203,179	23,149	(12,824)	213,504
Total	443,445	44,121	(12,947)	474,619
Total capital assets being depreciated – net	360,675	35,695	(518)	395,852
Total capital assets	$ 392,567	63,234	(518)	455,283

Construction in progress at June 30, 2013 consists principally of costs incurred for construction of a new comprehensive acute and ambulatory care facility on the east side of Madison, construction and equipping of a two story addition to American Family Children's Hospital for a pediatric ICU and NICU, build-out and equipping of the Diagnostic and Therapy unit in American Family Children's Hospital, equipping of a new Autopsy and Pathology suite and fire alarm system upgrade. The construction projects are being financed through a combination of operating funds, philanthropy and the 2013 bond financing (see note 7). During 2013, interest expense of approximately $2,586,000, net of interest income of approximately $(713,000), respectively, was capitalized.

Total remaining commitments on capital asset purchases and the renovation and construction projects approximated $55,239,000 million at June 30, 2014.

The creation of the American Family Children's Hospital represented the Hospital's first major facility funded in partnership with private donors. Building on a $10 million founding gift from American Family Insurance Corp., a $41 million campaign for the construction of the new Children's Hospital, began in 2003. Additional campaigns totaling $14.9 million have been subsequently initiated. As of June 30, 2014, $51.9 million has been received and $1.5 million and $2.3 million, respectively, of net present value pledges receivable were reflected in the financial statements as of June 30, 2014 and 2013, respectively.

(7) Long-Term Debt

Changes in long-term debt for the years ended June 30, 2014 and 2013 are as follows (in thousands):

	Balance, June 30, 2013	Additions	Payments and amortization	Balance, June 30, 2014	Amounts due within one year
Amounts payable to the State under capital lease agreements for:					
General Obligation Bonds	$ 168	—	161	7	—
Refunding Bonds	1,054	—	512	542	282
Total payable to the state	1,222	—	673	549	282
Hospital Revenue Bonds:					
Series 2002B	—	—	—	—	—
Series 2008A	16,430	—	1,525	14,905	1,775
Series 2009B	30,925	—	50	30,875	55
Series 2009C	—	—	—	—	—
Series 2011A	56,245	—	2,100	54,145	2,200
Series 2011B	61,000	—	—	61,000	—
Series 2013A	272,595	—	2,830	269,765	3,240
Capital Leases	8,332	—	1,996	6,336	2,216
Premium on long-term debt	20,216	—	679	19,537	680
Hospital Equipment Loan	16,824	—	5,891	10,933	5,956
Total long-term debt including premium	483,789	—	15,744	468,045	16,404
Series 2000 Refunding deferred outflows of resources	$ (4,919)	—	(312)	(4,607)	—
Series 1997 Refunding deferred outflows of resources	(200)	—	(14)	(186)	—
Series 2004 Refunding deferred outflows of resources	(376)	—	(17)	(359)	—
Series 2002A Refunding deferred outflows of resources	(524)	—	(27)	(497)	—
Series 2005 Refunding deferred outflows of resources	(331)	—	(21)	(310)	—
Series 2008B Refunding deferred outflows of resources	(431)	—	(21)	(410)	—
Series 2009A Refunding deferred outflows of resources	(439)	—	(23)	(416)	—

	Balance, June 30, 2013	Additions	Payments and amortization	Balance, June 30, 2014	Amounts due within one year
Series 2008A Refunding deferred outflows of resources	$ (6,120)	—	(477)	(5,643)	—
Series 2009C Refunding deferred outflows of resources	(172)	—	(15)	(157)	—
Total deferred loss on debt refunding in deferred outflows of resources	$ (13,512)	—	(927)	(12,585)	—

	Balance, June 30, 2012	Additions	Payments and amortization	Balance, June 30, 2013	Amounts due within one year
Amounts payable to the State under capital lease agreements for:					
General Obligation Bonds	$ 192	—	24	168	25
Refunding Bonds	2,318	—	1,264	1,054	638
Total payable to the state	2,510	—	1,288	1,222	663
Hospital Revenue Bonds:					
Series 2002B	1,505	—	1,505	—	—
Series 2008A	48,815	—	32,385	16,430	1,525
Series 2009B	54,825	—	23,900	30,925	50
Series 2009C	4,669	—	4,669	—	—
Series 2011A	56,745	—	500	56,245	2,100
Series 2011B	61,000	—	—	61,000	—
Series 2013A	—	272,595	—	272,595	2,830
Capital Leases	—	8,767	435	8,332	2,085
Premium on long-term debt	48	20,415	247	20,216	—
Hospital Equipment Loan	4,787	15,999	3,962	16,824	5,890
Total long-term debt including premium	$ 234,904	317,776	68,891	483,789	15,143
Series 2000 Refunding deferred outflows of resources	$ (5,231)	—	(312)	(4,919)	—
Series 1997 Refunding deferred outflows of resources	(214)	—	(14)	(200)	—
Series 2004 Refunding deferred outflows of resources	(394)	—	(18)	(376)	—
Series 2002A Refunding deferred outflows of resources	(551)	—	(27)	(524)	—

	Balance, June 30, 2012	Additions	Payments and amortization	Balance, June 30, 2013	Amounts due within one year
Series 2005 Refunding deferred outflows of resources	$ (353)	—	(22)	(331)	—
Series 2008B Refunding deferred outflows of resources	(451)	—	(20)	(431)	—
Series 2009A Refunding deferred outflows of resources	(463)	—	(24)	(439)	—
Series 2008A Refunding deferred outflows of resources	—	(6,259)	(139)	(6,120)	—
Series 2009C Refunding deferred outflows of resources	—	(175)	(3)	(172)	—
Total deferred loss on debt refunding in deferred outflows of resources	$ (7,657)	(6,434)	(579)	(13,512)	—

The amounts payable to the State under capital lease agreements represent portions of the respective obligations for which repayment has been assigned to the Hospital in connection with the financing of the Hospital's facilities and equipment (note 1).

In October 2002, the Hospital issued $68,500,000 of Hospital Revenue Bonds, Series 2002 (Series 2002 Bonds) consisting of $55,600,000 Series 2002A Short-term Adjustable Securities and $12,900,000 Series 2002B Fixed Interest Rate Bonds. The bond proceeds were designated to finance-qualified capital projects. In March 2009, the Hospital refunded $55,600,000 of the outstanding Series 2002A bonds with Variable Rate Demand Revenue Bonds, Series 2009A. The refunding of the Series 2002A bonds resulted in the recognition of a deferred outflow of resources of $641,000. Prior to the adoption of GASB Statement No. 63 and No. 65, the deferred outflow of resources was classified as a deferred loss. With the early adoption of GASB Statement No. 63 and 65, the deferred loss, which was an offset to long-term debt, has been reclassified to deferred outflows of resources on the statement of net position. Principal payments on the remaining Series 2002B Bonds was $1,505,000 paid in April 2013. Interest rates for the Series 2002B Bonds range from 5.25% to 5.50% and payable semiannually on April 1 and October 1 of each year. The effective annual interest rate of the Series 2002B Bonds was 5.50% in 2013.

In September 2005, the Hospital issued $59,770,000 of Variable Rate Demand Hospital Revenue Bonds, Series 2005 (Series 2005 Bonds). The bond proceeds were designated to refund a portion of the then outstanding Series 2000 Bonds. As a result of advanced refunding, the Hospital recognized a deferred loss of $7,339,000, which is being amortized to interest expense over the term of the debt. There are no amounts outstanding on the defeased bonds at June 30, 2014 and 2013. In March 2009, the Hospital refunded $58,095,000 of the outstanding Series 2005 bonds with Variable Rate Demand Hospital Revenue Bonds, Series 2009B and transferred the April 2009 principal payment of $495,000 into escrow. The refunding of the Series 2005 Bonds resulted in the recognition of a deferred outflow of resources of $423,000.

In May 2008, the Hospital issued $50,375,000 of Fixed Rate Bonds, Series 2008A (Series 2008A Bonds) through a private placement. The bond proceeds were used to refund $50,000,000 of Variable Rate Demand Hospital Revenue Bonds, Series 1997, resulting in the recognition of a deferred outflow of resources of $271,000, which is being amortized to interest expense over the term of the debt. Principal payments on the remaining Series 2008A Bonds, ranging from $1,010,000 to $2,020,000, are due annually from April 2015 through April 2023. Interest is payable semiannually. The effective interest rate of the Series 2008A Bonds was 5.00% in 2014 and 2013. In March 2013, the Hospital refunded $31,760,000 of the outstanding Series 2008A Bonds with Fixed Rate Demand Hospital Revenue Bonds, Series 2013A. The refunding of the Series 2008A Bonds resulted in the recognition of a deferred outflow of resources of $6,259,000.

In June 2008, the Hospital issued $61,000,000 of Variable Rate Demand Revenue Refunding Bonds, Series 2008B Bonds, secured by an irrevocable transferable direct pay letter of credit issued by a commercial bank. The bonds proceeds were used to refund $60,000,000 of Hospital Revenue Bonds consisting of Short-term Adjustable Rate Securities, Series 2004, resulting in the recognition of a deferred outflow of resources of $465,000, which is being amortized to interest expense over the term of the debt. In May 2011, the Hospital refunded $61,000,000 of the outstanding Series 2008B bonds with Revenue Refunding Bonds, Series 2011B. The refunding of the Series 2008B bonds resulted in the recognition of a deferred outflow of resources of $474,000.

In September 2008, the Hospital entered into an equipment financing agreement with GE Government Finance, Inc in the amount of $9,283,424. Principal and interest payments are made monthly commencing on November 1, 2008, for seven years. The effective annual interest rate was 4.40% in 2014 and 2013.

In March 2009, the Hospital issued $57,070,000 of Variable Rate Demand Revenue Refunding Bonds, Series 2009A (Series 2009A Bonds), secured by an irrevocable transferable direct pay letter of credit issued by a commercial bank. The bond proceeds were used to refund $55,600,000 of the outstanding Hospital Revenue Bonds consisting of Short-Term Adjustable Rate Securities, Series 2002A. In May 2011, the Hospital refunded the outstanding $57,070,000 of the Series 2009A bonds with Revenue Refunding Bonds, Series 2011A and the balance of the Series 2009A Interest Fund. The refunding of the Series 2009A bonds resulted in the recognition of a deferred outflow of resources of $488,000.

In March 2009, the Hospital also issued $59,345,000 of Variable Rate Demand Revenue Refunding Bonds, Series 2009B (Series 2009B Bonds). The bond proceeds were used to refund $58,095,000 of Variable Rate Demand Revenue Refunding Bonds, Series 2005. Principal payments on the remaining Series 2009B Bonds, ranging from $50,000 to $8,195,000, are due annually from April 2015 through April 2029. Series 2009B Bonds bear interest at a weekly rate determined by a remarketing agent. Interest is payable monthly. In 2014 and 2013, the effective annual interest rate was 0.10%. In March 2013, the Hospital refunded $21,770,000 of the outstanding Series 2009B Bonds with Fixed Rate Demand Hospital Revenue Bonds, Series 2013A.

The Series 2009B Bonds are secured by an irrevocable transferable direct pay letter of credit issued by a commercial bank. The letter-of-credit-agreement had a stated expiration date of March 2014. On July 31, 2013, it was extended through March 2019. In the event of a draw under the letter of credit, it does not require any principal payments within the first year; interest payments are due monthly. Outstanding

principal payments under the letter of credit would revert to a term out loan after the first year. Any obligations under the term out loans are repayable in equal quarterly installments based on a four-year straight-line amortization commencing on the 367th day after the draw with final payments of the outstanding balances on the earliest to occur of: (a) the date on which the letter of credit is replaced or substituted; (b) five (5) years following the date of the draw preceding such Term Out Loan; (c) the date the bonds are successfully remarketed; or (d) the date on which all amounts due have been accelerated pursuant to the letters-of-credit. The letter-of-credit agreements include a material adverse effect clause. The agreements provide specific details as to what constitutes a material adverse effect and that a material adverse effect could constitute an event of default under the letter of credit. At June 30, 2014 and 2013, there were no amounts outstanding under the letter of credit.

In June 2009, the Hospital issued $5,300,000 of Fixed Rate Hospital Revenue Bonds, Series 2009C (Series 2009C Bonds) through a private placement. The bond proceeds were designated to finance qualified capital projects. The effective annual interest rate on the Series 2009C Bonds was 1.20% in 2014 and 4.30% in 2013. In March 2013, the Hospital refunded all of the outstanding Series 2009C Bonds with Fixed Rate Demand Hospital Revenue Bonds, Series 2013A. The refunding of the Series 2009C Bonds resulted in the recognition of a deferred outflow of resources of $192,000.

In May 2011, the Hospital issued $56,745,000 of Revenue Refunding Bonds, Series 2011A to a commercial bank in the form of a direct bond purchase agreement. The bond proceeds were used to refund $57,070,000 of Variable Rate Demand Revenue Bonds, Series 2009A. Principal payments on the remaining Series 2011A Bonds, ranging from $2,200,000 to $3,900,000, are due annually from April 2015 through April 2032. Series 2011A bonds bear interest at 74% of LIBOR, plus 1.04%, payable monthly. In 2014 and 2013, the effective interest rate was 1.20%.

In May 2011, the Hospital also issued $61,000,000 of Revenue Refunding Bonds, Series 2011B to a commercial bank in the form of a direct bond purchase agreement. The bond proceeds were used to refund $61,000,000 of Variable Rate Demand Revenue Bonds, Series 2008B. Principal payments on the remaining Series 2011B Bonds, ranging from $9,950,000 to $15,275,000, are due annually in April 2030 through April 2034. Series 2011B bonds bear interest at 74% of LIBOR, plus 1.04%, payable monthly. The effective interest rate was 1.20% in 2014 and 1.30% in 2013. The 2011B bond documents include a material adverse effect clause. The bond documents provide specific details as to what constitutes a material adverse effect and that a material adverse effect could constitute an event of default.

In March 2013, the Hospital issued $272,595,000 of Fixed Rate Hospital Revenue Bonds, Series 2013A. The bond proceeds are designated to finance qualified capital projects and to refund a portion of the outstanding Series 2008A Bonds and Series 2009B Bonds, the remainder of the outstanding Series 2009C Bonds, and a partial termination of the Series 2009B interest swap agreement. The Series 2013A Bonds were sold at a premium totaling $20,415,000. The premium will be amortized to interest expense on a straight-line basis over the life of the bonds which approximates the interest yield. Principal payments on the Series 2013A Bonds, ranging from $1,240,000 to $24,955,000 are due annually beginning in April 2014 and continuing through April 2043. Interest is payable semi-annually at rates ranging from 3.00% to 5.00%. The effective interest rate was 4.00% in 2014 and 3.90% in 2013.

In March 2013, the Hospital entered into an interest-free equipment financing agreement with GE Capital Corporation in the amount of $15,998,641. Principal payments are due annually commencing in April 2013 for 3 years.

The Hospital is obligated under capital leases covering equipment that expire at various dates during the next five years. At June 30, 2014, the Hospital had $8,707,000 of gross amount of equipment recorded and related accumulated depreciation of $2,384,000, recorded under capital leases.

The Series 2008A Bonds, Series 2009B Bonds, Series 2011A Bonds, Series 2011B Bonds, and Series 2013A Bonds are collateralized by a security interest in substantially all of the Hospital's revenue. The borrowing agreements contain various covenants and restrictions, including compliance with the terms and conditions of a Lease Agreement (note 1) and provisions limiting the amount of additional indebtedness that may be incurred. Management believes that the Hospital is in compliance with all debt covenants and has not incurred a material adverse effect as defined at June 30, 2014 and 2013.

State of Wisconsin statutes require the Hospital to obtain approval of additional bond issuance from its board of directors, maintain an unenhanced bond rating in the category of "A" or better from Standard & Poor's Corporation and Moody's Investor Service, Inc., and notify the State Joint Committee on Finance. The Hospital's current ratings from Standard &Poor's and Moody's are A+ and Aa3, respectively.

In October 2002, the Hospital entered into an interest rate swap in order to convert a portion of the Series 2002A Short-term Adjustable Rate Securities to fixed rates. The notional amount of this swap agreement was $18,750,000 and $20,850,000 at June 30, 2014 and 2013, respectively, and matures on April 1, 2022. This swap had been applied to the Series 2009A with the refunding of the Series 2002A bonds and is now applied to the Series 2011A bonds with the refunding of the Series 2009A bonds. The terms of the swap agreement are for the Hospital to pay the counterparty a fixed rate of 3.85% per annum, payable semiannually, and the Hospital to receive a floating rate of 70% of one-month London InterBank Offered Rate (LIBOR) per annum, payable monthly. The effective interest rate received by the Hospital was .10% in 2014 and .20% in 2013. The fair value of the swap agreement was $(2,096,005) and $(2,539,626) at June 30, 2014 and 2013, respectively.

In November 2004, the Hospital entered into an interest rate swap in order to convert a portion of the Series 1997 Variable Rate Demand Bonds to fixed rates. This swap had been applied to the 2008B bonds with the refunding of Series 1997 bonds and is now applied to the Series 2011B bonds with the refunding of Series 2008B bonds. The notional amount of this swap agreement was $22,250,000 and $24,150,000 at June 30, 2014 and 2013, respectively, and matures on April 1, 2021. The terms of the swap agreement are for the Hospital to pay the counterparty a fixed rate of 3.45% per annum, payable semiannually, and the Hospital to receive a floating rate of 70% of one-month LIBOR per annum, payable monthly. The effective interest rate received by the Hospital was 0.10% in 2014 and 0.20% in 2013. The fair value of the swap agreement was $(2,064,000) and $(2,508,391) at June 30, 2014 and 2013, respectively.

In September 2005, the Hospital entered into an interest rate swap in order to convert the Series 2005 Variable Rate Demand Hospital Revenue Bonds to fixed rate. This swap has been applied to the Series 2009B with the refunding of the Series 2005 Bonds. In March 2013, a portion of the swap in the amount of $21,770,000 was unwound in connection with the Series 2013A financing. The notional amount

of the swap agreement was $29,860,000 at June 30, 2014 and 2013, and matures on April 1, 2029. The Hospital paid $2,629,336 in connection with the partial termination. The terms of the swap agreement are for the Hospital to pay the counterparty a fixed rate of 3.31% per annum, payable monthly, and the Hospital to receive a floating rate of 58.3% of one-month LIBOR per annum plus 0.36%, payable monthly. In 2014 and 2013, the effective interest rate received by the Hospital was .50%. The fair value of the swap agreement was $(4,546,389) and $(4,346,418) at June 30, 2014 and 2013, respectively.

The fair values of the swap agreements were estimated considering the projected cash flows associated with the swaps, and the fair values are reflected in other long-term liabilities on the financial statements.

In 2012, the Hospital determined that the derivative instruments associated with the Series 2011A and Series 2011B bonds have been effective since inception, the year the Hospital adopted Statement No. 53. The changes in fair market value of the effective swaps of $(888,000) and $(2,013,000) for the years ended June 30, 2014 and 2013, respectively, are reflected as adjustments to deferred outflows of resources.

There are collateral posting provisions on the swap agreement. The collateral amount required is determined based on the fair value of the swap, less the applicable threshold of $7,000,000 at the Hospital's current rating. Collateral valuations are performed daily, based on the official market closing curve. While the counterparty holds the collateral, the funds will earn the overnight Federal Funds interest rate, payable monthly. No collateral was required as of June 30, 2014 and 2013.

The Hospital will be exposed to variable rates if the counterparty to the swap defaults or if the swaps are terminated. The swap agreements include bilateral additional termination event provisions. Under the provisions, either party has the option, but not the obligation, to terminate the swap transaction if the other party gets downgraded below certain thresholds. Neither the Hospital nor the counterparties have been downgraded below these thresholds at June 30, 2014 and 2013. The swaps expose the Hospital to basis risk should the relationship between LIBOR and variable rate converge, changing the synthetic rate on the bonds. As of June 30, 2014 and 2013, the Hospital was not exposed to credit risk because each of the swaps had a negative fair value. However, should interest rates change and any one of the fair value of the swaps become positive, the Hospital would be exposed to credit risk in the amount of the swap's fair value.

Aggregate scheduled principal and interest repayments on long-term debt as stated under the actual debt terms, including the effect of the swaps based on the effective interest rate at June 30, 2014 are as follows (in thousands):

Year ending June 30	Principal	Interest	Interest rate swap – net	Total
2015	$ 15,724	14,328	2,299	32,351
2016	14,459	13,983	2,136	30,578
2017	9,747	13,692	1,960	25,399
2018	10,007	13,378	1,771	25,156
2019	9,267	13,022	1,575	23,864
2020 – 2024	52,903	59,446	5,151	117,500
2025 – 2029	65,950	50,439	2,885	119,274
2030 – 2034	79,815	45,415	—	125,230
2035 – 2039	96,655	32,702	—	129,357
2040 – 2044	93,981	9,504	—	103,485
Subtotal	448,508	265,909	17,777	732,194
Premium on long-term debt	19,537	—	—	19,537
Total debt	$ 468,045	265,909	17,777	751,731

Should a situation arise in which the Series 2009B variable rate bonds were put back to the Hospital and the Hospital made a draw on the commercial bank letter of credit, the timing of scheduled principal payments on long-term debt would change as depicted below (in thousands):

2015	$ 15,724
2016	22,114
2017	17,392
2018	17,652
2019	16,912
2020 – 2024	50,408
2025 – 2029	37,855
2030 – 2034	79,815
2035 – 2039	96,655
2040 – 2044	93,981
Total	$ 448,508

(8) Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for reimbursement at amounts different from the Hospital's established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the Hospital's established rates for services and amounts reimbursed by third-party payors. A summary of the basis of reimbursements with major third-party payors is as follows:

(a) Medicare

Inpatient acute care services rendered to Medicare beneficiaries and defined capital costs 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. Outpatient services are reimbursed based on prospectively determined rates with separate payment classifications established for each distinct service rendered within the encounter. Inpatient nonacute services, medical education, and certain organ acquisition costs related to Medicare beneficiaries are paid based upon cost-reimbursement methods, established fee screens, or a combination thereof. The Hospital is reimbursed for cost-reimbursement items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits by the Medicare fiscal intermediary. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2010. The estimated receivables and payables to Medicare included in the financial statements include those cost reports that are subject to audit by the Medicare fiscal intermediary.

Net patient service revenue for the years ended June 30, 2014 and 2013 included approximately $7,422,000 and $4,704,000, respectively, of retrospectively determined settlements from third-party payors and changes in estimates.

(b) Medicaid

Inpatient services rendered to Medicaid beneficiaries are reimbursed similar to the method for Medicare inpatient acute care services. Differences from the Medicare method pertain to reimbursements for organ transplants, capital costs, and medical education costs. Medicaid outpatient services are paid on a predetermined rate per visit.

Laws and regulations governing Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The impact of any change in estimates is recorded in the year the change is determined. In management's opinion, the ultimate disposition of these uncertainties will not have a material adverse effect on the financial position of the Hospital or results of operations.

(c) Other

The Hospital has also entered into reimbursement agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for reimbursements under these agreements includes capitation, prospectively determined rates per discharge, discounts from established rates, and prospectively determined per diem rates.

Capitation revenue with third-party payors comprised approximately 11.5% and 10.0% of net patient service revenue during the years ended June 30, 2014 and 2013, respectively.

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of net patient service revenue and net patient accounts receivable at June 30, 2014 and 2013 is summarized as follows:

	2014	2013
Net patient service revenue:		
Medicare	25.1%	26.0%
Medicaid	7.6	7.0
Managed care	52.8	52.6
Indemnity	4.1	4.3
Private pay and other	10.4	10.1
	100.0%	100.0%
Net patient accounts receivable:		
Medicare	24.0%	25.4%
Medicaid	9.2	9.1
Managed care	39.6	41.7
Indemnity	12.2	8.7
Other	15.0	15.1
	100.0%	100.0%

(9) Charity Care

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy. The approximate level of charity care provided (based on charges) during the years ended June 30, 2014 and 2013 was $61,919,000 and $60,866,000, respectively.

(10) Pension Plan

Virtually all Hospital employees participate in the Wisconsin Retirement System (WRS), a cost sharing, multiple employer, defined-benefit public employee retirement system governed by Chapter 40 of the Wisconsin Statutes. All permanent employees expected to work over 600 hours per year are eligible to participate in the WRS. The 2011 Wisconsin Act 10, which was implemented in August 2011, contained provisions that affected the retirement program. The WRS employee contribution rate for general employees was changed from 5.0% to 5.8% of their salary and it prohibited employers from paying the WRS employee required contribution for all WRS employees who did not have a collective bargaining agreement in place prior to the effective date of Act 10. The WRS employee contribution rate was changed to 6.65% effective January 2013 and 7.00% in January 2014. Prior to Act 10, the Hospital employees participating in WRS were categorized as either Hospital Board or Hospital Authority employees. Covered general employees were required by statute to contribute 5.0% of their salary to the plan; however, the Hospital funded these contributions to the plan on behalf of the employees. The Hospital was required to contribute the remaining amounts necessary to pay the projected cost of defined future benefits related to current service on a pay-as-you-go basis, as determined from the State of Wisconsin Department of

Employee Trust Funds. Act 10 also eliminated the separate category of Board employees and all are now Hospital Authority employees.

The payroll for employees covered by WRS for the year ended June 30, 2014 was $433,253,000; the employer's total payroll was $452,395,000. The total required contributions, paid by both the employer and the employees, for the year ended June 30, 2014 were $70,866,000. The payroll for employees covered by WRS for the year ended June 30, 2013, was $408,353,000; the employer's total payroll was $426,967,000. The total required contributions, paid by both the employer and the employees, for the year ended June 30, 2013 were $61,289,000.

Employees who retire at or after age 65 are entitled to receive a retirement benefit. Employees may retire at age 55 and receive reduced benefits. Retirement benefits are calculated as 1.6% of final average earnings for each year of creditable service. Final average earnings is the average of the employee's three highest years' earnings. Employees terminating covered employment before becoming eligible for a retirement benefit may withdraw their contributions and, by doing so, forfeit all rights to any subsequent benefit. For employees beginning participation on or after January 1, 1990, and no longer actively employed on or after April 24, 1998, creditable service in each of five years is required for eligibility for a retirement annuity. Participants employed prior to 1990 and on or after April 24, 1998 are immediately vested.

Although projected benefits for current service are funded on a pay-as-you go basis, the Hospital has recorded liabilities related to the unfunded prior service costs and sick leave conversion credits.

The Hospital is required to make periodic payments to the WRS in respect of the employer's share of the unfunded prior service liability and sick leave conversion credit of the WRS related to prior service costs. The statutorily required payments are based upon a percentage of covered wages. This percentage was designed to amortize the unfunded liability over 40 years, with 19 years remaining in 2014. The Hospital's total obligation is increased each year by an amount of interest, currently equal to 7.2% of the amount of the unfunded liability. The Hospital's liability for unfunded prior service liability and sick leave conversion credit, payable to WRS, was $17,764,000 and $22,204,000, as of June 30, 2014 and 2013, respectively.

For employees that were classified as Hospital Board employees prior to the enactment of Act 10, the Hospital's liability for unfunded prior service and sick leave is payable to the State Department of Administration. In December 2003, the State Department of Administration issued annual appropriation bonds and used the proceeds to retire the State's portion (including the then Hospital Board employees) of the unfunded pension liability with WRS. The Hospital is required to reimburse the State for the Hospital's pro rata share of the associated debt service. The Hospital has recognized a liability of $49,319,000 as of June 30, 2014, of which $2,387,000 is payable in 2014 and is recorded in accrued expenses and $46,932,000 is recorded in pension-related liabilities, payable in annual principal and interest payments to the State over approximately 18 years. In 2014, the liability was decreased by $1.1 million based on updated information provided by the State based on its methodology for allocating responsibility for ongoing debt service to State entities and is recorded as miscellaneous nonoperating expense.

The Hospital's liability was $50,371,000 as of June 30, 2013, of which $983,000 was payable in 2014 and is recorded in accrued expenses and $49,388,000 was recorded in pension-related liabilities.

The total pension-related liabilities for the Hospital as of June 30, 2014 and 2013 total $67,083,000 and $72,575,000, respectively, including current portion. The liability is made up of the amounts payable to both the State and the WRS, as discussed above. Copies of the separately issued WRS financial report, that includes financial statements and required supplementary information, may be obtained by writing to Department of Employee Trust Funds, 801 West Badger Road, P.O. Box 7931, Madison, Wisconsin 53707-7931.

(11) Retiree Health Insurance Plan

(a) Plan Description

The Hospital is a part of the State's Health Insurance Program, which is an employer-sponsored program offering group medical coverage to eligible employees and retirees of the State and participating local government employers. Created under Chapter 40 of the Wisconsin State Statutes, the State Department of Employee Trust Funds and the Group Insurance Board have program administration and oversight responsibilities under Wis. Stat. Sections 15.165(2) and 40.03(6).

Under this agent multiple-employer plan, retired employees of the Hospital are allowed to pay the same healthcare premium as active employees, creating an implicit rate subsidy for retirees. This implicit rate subsidy, which is calculated to cover pre-age 65 retirees (since at age 65, retirees are required to enroll in Medicare when eligible), is treated as an other postemployment benefit (OPEB). Retirees over age 65 may purchase Medicare supplemental and prescription benefit coverage through the plan.

The Department of Employee Trust funds issues a publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to Department of Employee Trust Funds, 801 West Badger Road, PO Box 7931, Madison, Wisconsin 53707-7931.

(b) Funding Policy

The health insurance plan is currently on a "pay-as-you-go-basis." GASB Statement No. 45 does not address funding of the OPEB obligation and the Hospital does not intend to fund it. Current employees are not required to contribute to the retiree healthcare plan. Retirees electing to participate in the plan pay 100% of premiums directly to the plan either out-of-pocket or with their accumulated sick leave conversion credits.

(c) Annual OPEB Cost

The Hospital's 2014 and 2013 OPEB cost (expense), dollar amount of contributions, and components of OPEB cost were as follows (in thousands):

	2014	2013
Annual Required Contribution (ARC)	$ 5,903	5,298
Interest on the net OPEB obligation	1,039	881
ARC adjustment with interest	(1,231)	(995)
Annual OPEB cost	5,711	5,184
Employer contribution implicit rate adjustment	(1,380)	(1,442)
Change in the net OPEB obligation	4,331	3,742
Net OPEB obligation beginning balance	24,460	20,718
Net OPEB obligation ending balance	$ 28,791	24,460

The Hospital's annual OPEB cost, percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation are as follows:

Fiscal year ended	Annual OPEB cost	Percent of annual OPEB contributed	Net OPEB obligation
6/30/2014	$ 5,711	24.1%	$ 28,791
6/30/2013	5,184	27.8	24,460
6/30/2012	5,507	18.3	20,718

(d) Funded Status and Funding Progress

As permitted by GASB 45, the Hospital obtains biannual actuarial valuations of its plan.

The Hospital does not fund the plan, and consequently the funded status was $0 as of July 1, 2013 (the most recent actuarial valuation).

	2014
Actuarial accrued liability (AAL)	$ 37,332
Actuarial value of plan assets	—
Unfunded actuarial accrued liability (UAAL)	$ 37,332
Funded ratio (actuarial value of plan assets/AAL)	—%
Covered payroll (active plan members)	$ 433,253

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents the transition year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

(e) Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of the valuation and the historical pattern of sharing the benefit costs between employer and plan members to that point. In the actuarial valuation for fiscal year 2013-2014, the projected unit credit method was used. Actuarial calculations reflect a long-term perspective. The actuarial assumptions included a 4.25% discount rate and an annual healthcare cost trend rate of 7.5% for 2014-2015, 7.0% for 2016-2017 and 6.5% for 2018-2019, reduced by decrements to an ultimate rate of 5.5% after 8 years. The unfunded actuarial accrued liability is being amortized as a 30-year level percentage of pay amortization periods on a closed basis for the initial UAAL. The remaining amortization period was 24 years at June 30, 2014.

(12) Malpractice Insurance

The Hospital has occurrence-based coverage for claims incurred July 1, 2002 through June 30, 2003, and has claims-made or tail coverage under various policies for claims made before and after that period. Losses in excess of the professional liability insurance are fully covered through the Hospital's mandatory participation in the Injured Patient and Families Compensation Fund of the State of Wisconsin. The Injured Patient and Families Compensation Fund has coverage limits of $1,000,000 per claim and $3,000,000 in aggregate per year and pays that portion of a medical malpractice claim, which is in excess of the legal primary insurance limit prescribed under law, or the maximum liability limit for which the health provider is insured, whichever limit is greater. The Fund may pay claims in excess of the primary limits if the Fund is named in legal action. Most qualified health care providers permanently practicing or operating in the State of Wisconsin are required to pay, unless exempt, Injured Patient and Families Compensation Fund operating fees. Risk of loss is retained by the fund. Noneconomic damages are capped in the State of Wisconsin. The Hospital has recorded in the financial statements its best estimate for the ultimate cost discounted at 3% of professional liability claims, including incurred but not reported claims.

(13) Liabilities for Workers' Compensation Claims

A reconciliation of changes in the aggregate liabilities for workers' compensation claims for the years ended June 30, 2014 and 2013 is as follows (in thousands):

	Amount of claims liabilities beginning of year	Incurred claims and changes in estimates	Payments on claims	Amount of claims liabilities end of year
2014	$ 8,900	4,247	(3,514)	9,633
2013	9,665	1,757	(2,522)	8,900

Workers' compensation claim expense is included with employee benefits expense in the statements of revenues, expenses, and changes in net position and accrued expenses in the statements of net position.

(14) Commitments and Contingencies

(a) Leases

The Hospital leases buildings, equipment, and helicopter transport services under operating leases. Rental expense for cancelable and noncancelable operating leases was approximately $17,784,000 and $15,938,000 for 2014 and 2013, respectively, and is included in other expenses.

Future minimum payments under noncancelable operating leases and license agreements (with initial or remaining lease terms in excess of one year) and future minimum capital lease payments as of June 30, 2014, are as follows (in thousands):

	Operating leases	Capital leases
2015	$ 14,300	2,739
2016	12,020	2,280
2017	9,023	1,673
2018	7,132	1,532
2019	6,665	—
2020–2024	13,455	—
2025–2029	8,506	—
Total future minimum lease payments	$ 71,101	8,224

	Operating leases	Capital leases
Less amount representing interest	$ —	1,888
Present value of future minimum lease payments	71,101	6,336
Less current portion of obligations under capital leases	—	2,216
Obligations under capital leases, excluding current portion	$ 71,101	4,120

(b) Regulatory Investigations

The U.S. Department of Justice and other federal agencies are increasing resources dedicated to regulatory investigation and compliance audits of health care providers. The Hospital is subject to these regulatory efforts. Management is currently unaware of any regulatory matters, which will have a material adverse effect on the Hospital's financial position or results of operations.

(c) Other

The Hospital is subject to various legal proceedings and claims, which are incidental to its normal business activities. In the opinion of management, the amount of ultimate liability with respect to these actions will not have a material adverse effect on the Hospital's financial position or results of operations.

(15) Noncurrent Liabilities

The activity in the Hospital's noncurrent liabilities for the years ended June 30, 2014 and 2013 is set forth below (amounts in thousands):

	Balance at June 30, 2013	Increases	Decreases	Balance at June 30, 2014
Long-term debt, less current installments	$ 468,646	—	17,005	451,641
Net OPEB obligation	24,460	4,331	—	28,791
Pension-related liabilities	71,591	—	6,895	64,696
Other long-term liabilities (interest rate swaps)	9,394	—	688	8,706

	Balance at June 30, 2012	Increases	Decreases	Balance at June 30, 2013
Long-term debt, less current installments	$ 226,714	317,776	75,844	468,646
Net OPEB obligation	20,718	3,742	—	24,460
Pension-related liabilities	75,838	—	4,247	71,591
Other long-term liabilities (interest rate swaps)	16,906	—	7,512	9,394

REQUIRED SUPPLEMENTARY INFORMATION

UNIVERSITY OF WISCONSIN HOSPITALS AND CLINICS AUTHORITY

Schedule of Plan Funding Progress

June 30, 2014

(In thousands)

Actuarial valuation date	Actuarial value of assets	Actuarial accrued liability (AAL)	Unfunded actuarial accrued liability (UAAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
7/1/2009	$ —	39,246	39,246	—%	$ 346,287	11.3%
7/1/2011	—	35,639	35,639	—	387,110	9.2
7/1/2013	—	37,332	37,332	—	433,253	8.6

See accompanying independent auditors' report.

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#6a

FINANCIAL STATEMENTS

6b: Audited Financial Statement of University Health Care, Inc. and Subsidiaries (December 31, 2013 and 2012)

ATTACHMENT #6b

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Consolidated Financial Statements and Report of Independent Certified Public Accountants and Supplementary Information

University Health Care, Inc. and Subsidiaries

December 31, 2013 and 2012

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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Board of Directors and Stockholders
University Health Care, Inc. and Subsidiaries

We have audited the accompanying consolidated financial statements of University Health Care, Inc. (a Wisconsin not-for-profit corporation) and Subsidiaries, which comprise the consolidated statements of financial position as of December 31, 2013 and 2012, and the related consolidated statements of activities 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 entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the

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effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of University Health Care, Inc. and Subsidiaries as of December 31, 2013 and 2012, and the results of their activities and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information is presented for purposes of additional analysis, rather than to present the financial position, results of operations, and cash flows of the individual entities, and is not a required part of the consolidated financial statements. Such supplementary 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. These additional procedures included comparing and reconciling the 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 consolidating information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Grant Thornton LLP

Appleton, Wisconsin
April 18, 2014

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UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
December 31,

ASSETS	2013	2012
CURRENT ASSETS		
Cash and cash equivalents	$ 64,604,071	$ 23,321,701
Marketable securities	26,083,220	12,249,111
Accounts receivable, net	33,109,443	47,074,861
Prepaid expenses	772,530	623,233
Deferred income taxes	3,293,124	1,563,332
Total current assets	127,862,388	84,832,238
MARKETABLE SECURITIES	53,446,958	54,716,566
PROPERTY AND EQUIPMENT - AT COST		
Buildings and improvements	7,499,722	7,457,680
Leasehold improvements	108,852	108,852
Furniture and equipment	21,327,718	22,269,732
	28,936,292	29,836,264
Less accumulated depreciation and amortization	16,123,371	14,421,042
	12,812,921	15,415,222
Projects in process	588,637	856,435
Land	926,643	926,643
	14,328,201	17,198,300
OTHER ASSETS		
Investment in affiliates	1,026,784	4,717,581
Goodwill, less accumulated amortization of $2,011,352 in 2013 and 2012	2,689,087	2,689,087
Other, less accumulated amortization of $136,000 in 2013	590,015	722,993
	4,305,886	8,129,661
	$ 199,943,433	$ 164,876,765

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS	2013	2012
CURRENT LIABILITIES		
Current maturities of long-term debt	$ 322,040	$ 672,030
Accounts payable	22,915,699	8,978,384
Claims payable	38,834,656	34,065,804
Unearned revenue	60,400,466	48,034,208
Accrued liabilities	3,456,485	2,071,143
Total current liabilities	125,929,346	93,821,569
LONG-TERM DEBT, less current maturities	460,466	476,922
DEFERRED INCOME TAX LIABILITY	815,839	2,034,706
UNRESTRICTED NET ASSETS	72,737,782	68,543,568
	$ 199,943,433	$ 164,876,765

UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF ACTIVITIES
Years ended December 31,

	2013	2012
Revenues		
Insurance premiums	$ 629,734,581	$ 477,778,143
Programs and other support		
University of Wisconsin Hospital and Clinics Authority	8,941,486	7,511,469
University of Wisconsin Medical Foundation	4,539,972	3,728,980
University of Wisconsin School of Medicine and Public Health	887,796	1,050,000
	14,369,254	12,290,449
Investment income	1,822,300	2,490,033
Other income	5,270,668	4,804,854
Total revenues	651,196,803	497,363,479
Operating expenses		
Health care and capitation costs	584,227,038	442,506,586
Staff salaries, wages and benefits	27,188,356	23,666,445
Purchased services and office expenses	23,842,150	21,431,137
Occupancy and equipment expense	8,229,770	7,472,349
Advertising and promotion	4,976,540	3,488,707
Amortization expense	136,000	-
	648,599,854	498,565,224
Operating income (loss)	2,596,949	(1,201,745)
Other expense		
Interest expense	33,190	36,122
Increase (decrease) in net assets before change in net unrealized gains on investments and income tax expense (benefit)	2,563,759	(1,237,867)
Income tax expense (benefit)		
Current	3,110,217	(2,126,141)
Deferred	(2,180,854)	1,405,583
	929,363	(720,558)
Increase (decrease) in net assets before change in net unrealized gains on investments	1,634,396	(517,309)
Change in net unrealized gains on investments, net of deferred taxes of $(767,805) in 2013 and $257,255 in 2012	(1,190,182)	226,917
INCREASE (DECREASE) IN NET ASSETS	444,214	(290,392)
Net contributions	3,750,000	9,750,000
Net assets at beginning of year	68,543,568	59,083,960
Net assets at end of year	$ 72,737,782	$ 68,543,568

UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31,

	2013	2012
Cash flows from operating activities		
Increase (decrease) in net assets	$ 444,214	$ (290,392)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities		
Depreciation and amortization	5,244,047	4,469,840
Share in net loss of affiliates	177,930	270,021
Gain on sales of investments	(61,793)	(896,521)
Change in unrealized gains on investments	1,957,987	(484,172)
Impairment of investments	37,746	40,630
(Gain) loss on sales of property and equipment	(1,836)	185
Deferred income taxes	(2,948,659)	1,662,839
Changes in operating assets and liabilities		
Accounts receivable	13,965,418	(10,763,390)
Prepaid expenses	(149,297)	133,804
Other assets	(3,022)	(705,787)
Accounts payable	13,937,315	1,365,338
Claims payable	4,768,852	6,842,370
Unearned revenue	12,366,258	9,666,273
Accrued liabilities	1,385,342	(732,109)
Net cash provided by operating activities	51,120,502	10,578,929
Cash flows from investing activities		
Purchases of property and equipment	(2,251,412)	(3,046,379)
Proceeds from sales of property and equipment	15,300	-
Purchases of marketable securities	(35,601,276)	(26,930,609)
Proceeds from sales and maturities of marketable securities	21,102,835	23,864,882
Investment in affiliates	(237,133)	(3,978,003)
Sale of affiliate	3,750,000	-
Net cash used in investing activities	(13,221,686)	(10,090,109)
Cash flows from financing activities		
Capital contributions from sponsors	7,500,000	9,750,000
Capital distributions to sponsors	(3,750,000)	-
Issuance of long-term debt	342,515	-
Payments of long-term debt	(708,961)	(245,457)
Net cash provided by financing activities	3,383,554	9,504,543
NET INCREASE IN CASH AND CASH EQUIVALENTS	41,282,370	9,993,363
Cash and cash equivalents at beginning of year	23,321,701	13,328,338
Cash and cash equivalents at end of year	$ 64,604,071	$ 23,321,701

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Organization

The accompanying consolidated financial statements include the accounts of University Health Care, Inc. (UHC), Unity Health Plans Insurance Corporation (Unity), Health Professionals of Wisconsin, Inc. (HPW) and e-Care of Wisconsin, LLC (ECARE) (collectively, the Company).

UHC is a non-stock, not-for-profit corporation organized under Chapter 181 of the Wisconsin Statutes to promote medical education, research and public service by the University of Wisconsin School of Medicine and Public Health (UWSMPH) and its faculty, the University of Wisconsin Medical Foundation (UWMF) and the University of Wisconsin Hospital and Clinics Authority (UWHC).

Unity is a for-profit stock corporation which offers a variety of health maintenance organization, preferred provider organization and point-of-service medical products to employer groups and individuals in the state of Wisconsin. Unity is a wholly-owned subsidiary of UHC.

HPW is a for-profit stock corporation which owns real property leased to UWMF and UWHC, along with an additional non-related party entity. HPW is a wholly-owned subsidiary of UHC.

ECARE is a single member limited liability company which monitors intensive care beds of customer hospitals. UHC is the sole member.

A summary of the Company's significant accounting policies applied in the preparation of the accompanying consolidated financial statements follows.

2. Principles of Consolidation

UHC consolidates the accounts and transactions of its wholly-owned subsidiaries, Unity, HPW and ECARE. All significant intercompany balances and transactions have been eliminated in consolidation.

3. Use of Estimates

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

3. Use of Estimates - continued

Claims payable consists of unpaid claims reported to the Company and a liability for health care claims incurred before December 31 which have not yet been reported to the Company by that date. Estimated claims payable are based on historical trends and current cost projections, which are reviewed by an independent actuary as of the date of the consolidated financial statements. Management believes that the estimate is a reasonable approximation of the incurred but not reported medical claims. However, it is reasonably possible that the claims presented for payment may not follow past trends and, therefore, may be more or less than the approximate $38,835,000 and $34,066,000 recorded on the consolidated financial statements as of December 31, 2013 and 2012, respectively.

4. Cash and Cash Equivalents

The Company considers all highly liquid debt instruments purchased with original maturities of three months or less to be cash equivalents. The carrying amount of cash equivalents approximates fair value due to the short maturities of these investments.

5. Depreciation and Amortization

Depreciation and amortization of property and equipment are computed by both straight-line and accelerated methods over the estimated useful lives as follows:

Buildings and improvements	7 to 39 years
Leasehold improvements	Lesser of lease terms or 10 years
Furniture and equipment	3 to 10 years

Projects in process are not depreciated until placed into service.

6. Goodwill

Management evalutes goodwill for impairment on an annual basis or at an interim period if events occur or circumstances change that would more likely than not reduce the fair value below the carrying amount. When evaluating whether goodwill is impaired, the Company utilizes a discounted cash flow model to determine the fair value of the goodwill and compares the fair value to the carrying amount. The Company determined there was no impairment in 2013 or 2012.

7. Revenue Recognition

Premiums are recognized in the period for which services are covered. The Company records premium amounts billed in advance of a coverage period in unearned revenue.

Programs and other support is recognized when due from UWSMPH, UWMF, and UWHC.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

8. Health Care and Capitation Costs

Health care and capitation costs consist of amounts paid or due to hospital and physician providers. Health care and capitation costs are reported net of recoveries of approximately $4,480,000 and $3,046,000 for the years ended December 31, 2013 and 2012, respectively. Recoveries consist mainly of drug company volume discounts, subrogation and reinsurance. Changes in estimates of claims costs resulting from the continuous review process and differences between estimates and payments for claims are recognized in the period in which the estimates are changed or payments are made.

9. Income Taxes

Unity and HPW use the liability method in accounting for income taxes. Deferred income taxes are established for temporary differences in the reporting of marketable securities, allowance for doubtful accounts, depreciation and amortization, accrued compensation, claims payable and unearned premium for financial statement and income tax purposes.

Deferred tax balances are adjusted to reflect tax rates, based on currently enacted tax laws, that will be in effect in the years in which the temporary differences are expected to reverse.

The Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more likely than not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the relevant tax authority. The Company has applied the uncertain tax position guidance to all tax positions for which the statute of limitations remained open. There are no material unrecognized tax benefits taken or expected to be taken in a tax return that have been recorded on the Company's financial statements for the years ended December 31, 2013 and 2012 as it was determined that all tax positions taken meet the more likely than not threshold.

Unity and HPW file corporate income tax returns in the United States federal jurisdiction and in the State of Wisconsin. Tax years open to examination by tax authorities under federal and state statute of limitations for these entities include calendar years 2010 through 2013 and 2009 through 2013, respectively. UHC is exempt from income tax, though it is subject to tax on income unrelated to its exempt purposes, unless that income is otherwise excluded by the Internal Revenue Code. UHC files a federal informational return each year. Beginning in 2011, UHC determined that it was necessary to file a federal and state income tax return due to unrelated business income. Calendar years 2011 through 2013 are open to examination under federal and state statute of limitations. All years prior to 2011 will remain open to examination for both federal and state purposes for UHC as the statute of limitations does not run for income tax returns not filed. ECARE is a wholly-owned disregarded entity of UHC. As such, ECARE does not have a federal or a state income tax filing requirement.

The Company recognizes, if necessary, interest and penalties related to unrecognized tax benefits in the provision for income taxes. There were no interest or penalties related to income taxes that have been accrued or recognized as of and for the years ended December 31, 2013 and 2012.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

10. Concentrations

The Company has cash and cash equivalents deposited in financial institutions in which the balances exceed the federal government agency (FDIC) insured limit. The Company has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk.

Revenue from the State of Wisconsin accounts for 45% and 44% of total premium revenues for the years ended December 31, 2013 and 2012, respectively.

11. Advertising Costs

The Company expenses advertising costs as they are incurred. Advertising expenses were approximately $1,500,000 and $1,773,000 for the years ended December 31, 2013 and 2012, respectively.

12. Collaborative Arrangements

The Company evaluates whether an arrangement is a collaborative arrangement at its inception based on the facts and circumstances specific to the arrangement. For those collaborative arrangements where it is determined that the Company is not the principal participant, costs incurred and revenue generated from third parties are recorded on a net basis in the consolidated statement of activities. See note L.

13. New Accounting Pronouncements

In July 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-06, *Fees Paid to the Federal Government by Health Insurers - a consensus of the FASB Emerging Issues Task Force*, to address the accounting for the annual fee to be levied on health insurers starting in 2014 by The Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act. This guidance is effective for calendar years beginning after December 31, 2013. See note R.

NOTE B - DISCLOSURES ABOUT THE FAIR VALUES OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each classification of financial instruments for which it was practicable to do so:

Cash and cash equivalents: The carrying amount for cash and cash equivalents is cost which approximates fair value due to the short maturities of these instruments.

NOTE B - DISCLOSURES ABOUT THE FAIR VALUES OF FINANCIAL INSTRUMENTS - Continued

Receivables and current liabilities: Receivables are reflected at net realizable value based on anticipated losses due to potentially uncollectible balances, which approximates fair value. Accounts payable and accrued liabilities are reflected at cost, which approximates fair value because of the short-term duration of these instruments.

Debt: The carrying amount of long-term debt approximates estimated fair value based on borrowing rates currently available to the Company for bank loans with similar terms and maturities.

NOTE C - ACCOUNTS RECEIVABLE

Accounts receivable are due upon receipt of invoice. Receivables are stated net of any allowance for doubtful accounts. The Company determines its allowance for doubtful accounts by considering the number of days past due, collection history, and the general economy and industry as a whole. The Company writes-off accounts receivable when they become uncollectible and payments subsequently received are credited to the allowance for doubtful accounts.

The following is a summary of the accounts receivable balance as of December 31:

	2013	2012
Premiums receivable	$ 27,395,341	$ 40,836,848
Health care receivables	2,131,515	3,489,636
Investment income receivables	499,426	510,107
Income tax receivables	-	601,979
Due from related parties (note L)	2,820,974	1,931,006
Other	322,187	239,285
	33,169,443	47,608,861
Less allowance for doubtful accounts	60,000	534,000
	$ 33,109,443	$ 47,074,861

NOTE D - MARKETABLE SECURITIES

The Company classifies its marketable securities as available-for-sale and these securities are reported at fair value. Quoted market prices and model-based pricing are used to determine the fair value of marketable securities.

Unrealized and realized gains and losses are credited or charged to operations. Premiums and discounts on debt securities purchased are amortized and accreted, respectively, using the effective interest method.

NOTE D - MARKETABLE SECURITIES - Continued

Investment securities are exposed to various risks including, but not limited to, interest rate, market and credit risks. Due to the level of risks associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term.

A schedule of marketable securities held for investment at amortized cost, together with market value and the respective gross unrealized gains and losses, is as follows as of December 31:

	2013			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Market value
U.S. Treasury securities	$ 16,293,369	$ 365,394	$ 166,173	$ 16,492,590
U.S. government agency obligations	4,241,037	19,452	1,530	4,258,959
Mortgage-backed securities				
U.S. government issued	5,395,784	34,342	58,504	5,371,622
Non U.S. government issued	2,219,802	92,164	21,516	2,290,450
Other debt securities				
Domestic	17,896,141	1,133,314	181,927	18,847,528
Foreign	11,145,847	420,395	75,912	11,490,330
Mutual funds	20,865,765	-	87,066	20,778,699
	$ 78,057,745	$ 2,065,061	$ 592,628	$ 79,530,178

	2012			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Market value
U.S. Treasury securities	$ 19,051,044	$ 824,260	$ -	$ 19,875,304
U.S. government agency obligations	5,599,377	86,081	-	5,685,458
Mortgage-backed securities				
U.S. government issued	4,351,185	125,620	1,383	4,475,422
Non U.S. government issued	2,765,698	178,051	12,561	2,931,188
Other debt securities				
Domestic	15,415,052	1,510,463	905	16,924,610
Foreign	7,973,640	714,201	-	8,687,841
Mutual funds	8,379,261	6,593	-	8,385,854
	$ 63,535,257	$ 3,445,269	$ 14,849	$ 66,965,677

NOTE D - MARKETABLE SECURITIES - Continued

The Company includes all mutual funds and debt securities with a contractual maturity date in one year or less within current assets on the consolidated statements of financial position.

The amortized cost and estimated market value of debt securities, by contractual maturities, are as follows as of December 31, 2013:

	Amortized cost	Estimated market value
In one year or less	$ 5,191,318	$ 5,304,522
After one year through five years	31,354,348	32,686,504
After five years through ten years	18,095,431	18,142,388
After ten years through twenty years	332,911	344,039
After twenty years	2,217,972	2,274,026
	$ 57,191,980	$ 58,751,479

The proceeds, gross realized gains and losses from the sale of marketable securities and impairment of marketable securities for the years ended December 31 are summarized as follows:

	2013	2012
Proceeds	$ 21,102,835	$ 23,864,882
Gross realized gains	$ 179,601	$ 906,561
Gross realized losses	(117,808)	(10,040)
Net realized gain	$ 61,793	$ 896,521
Impairment of marketable securities	$ (37,746)	$ (40,630)

Investment income consists of the following for the years ended December 31:

	2013	2012
Interest	$ 2,054,099	$ 1,992,409
Net realized gain	61,793	896,521
Share in loss of investees, net	(177,930)	(270,021)
Investment manager fees	(77,916)	(88,246)
Impairment loss	(37,746)	(40,630)
	$ 1,822,300	$ 2,490,033

NOTE D - MARKETABLE SECURITIES - Continued

The following tables summarize the investments in debt securities in an unrealized loss position at December 31, 2013 and 2012 by indicating the length of time these individual securities have been in a continuous unrealized loss position.

	2013					
	Less than 12 months		12 months or longer		Total	
	Market value	Unrealized losses	Market value	Unrealized losses	Market value	Unrealized losses
U.S. Treasury securities	$ 9,161,543	$166,173	$ -	$ -	$ 9,161,543	$166,173
U.S. government agency obligations	621,251	1,530	-	-	621,251	1,530
Mortgage-backed securities	4,158,124	58,504	525,877	21,516	4,684,001	80,020
Other debt securities						
Domestic	5,310,938	181,927	-	-	5,310,938	181,927
Foreign	3,667,722	75,912	-	-	3,667,722	75,912
Mutual funds	20,778,699	87,066	-	-	20,778,699	87,066
	$43,698,277	$571,112	$525,877	$ 21,516	$44,224,154	$592,628

	2012					
	Less than 12 months		12 months or longer		Total	
	Market value	Unrealized losses	Market value	Unrealized losses	Market value	Unrealized losses
Other debt securities						
Domestic	$ 669,200	$ 905	$ -	$ -	$ 669,200	$ 905
Mortgage-backed securities	1,258,327	13,944	-	-	1,258,327	13,944
	$ 1,927,527	$ 14,849	$ -	$ -	$ 1,927,527	$ 14,849

The total unrealized losses represent less than 1% of the aggregate fair value of the portfolio as of December 31, 2013. The total unrealized losses are comprised of 47 individual securities. Of the securities in a loss position, one security has been in a loss position for more than 12 months.

NOTE D - MARKETABLE SECURITIES - Continued

The Company reviews its investment portfolio to ensure that investments that may be other than temporarily impaired are identified and that any impairment is charged against earnings in the proper period. Holdings have been reviewed and the Company has concluded that there were other-than-temporary impairments totaling approximately $38,000 and $41,000 as of December 31, 2013 and 2012, respectively. Issuers have continued to satisfy all contractual obligations and are expected to continue to do so. The Company believes that all other securities in an unrealized loss position are not impaired and the Company intends to hold such securities until recovery.

NOTE E - LINE OF CREDIT

The Company had an unsecured line of credit of $5,000,000 from US Bank which expired on September 30, 2013. Interest on any borrowings under this line of credit was at the one-month LIBOR rate plus 2.00%. There were no borrowings under this line of credit during 2013 or 2012.

NOTE F - LONG-TERM DEBT

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

	2013	2012
Note payable to BMO Harris Bank, interest rate of 3.45%, collateralized by assets of HPW, payable in monthly installments of $6,232, including interest, remaining balance due in May 2018	$ 305,583	$ 409,191
Finance agreement with IBM for purchased software totaling $803,000, interest imputed at a rate of 3%, payable in monthly installments of $22,307, due in October 2015	476,923	739,761
	782,506	1,148,952
Less current maturities	322,040	672,030
	$ 460,466	$ 476,922

Interest expense totaled $33,190 and $36,122 for the years ended December 31, 2013 and 2012, respectively.

NOTE F - LONG-TERM DEBT - Continued

Following is a schedule of future maturities of long-term debt as of December 31, 2013:

Years ending December 31,	
2014	$ 322,040
2015	287,496
2016	69,842
2017	72,336
2018	30,792
	$ 782,506

NOTE G - CLAIMS PAYABLE

The activity relating to claims payable is as follows:

	2013	2012
Balance at January 1,	$ 34,065,804	$ 27,223,434
Claims incurred related to		
Current year	324,517,417	262,195,028
Prior year	(6,295,458)	(1,463,599)
Total claims incurred	318,221,959	260,731,429
Claims paid related to		
Current year	(287,741,486)	(230,319,984)
Prior year	(25,711,621)	(23,569,075)
Total medical claims paid	(313,453,107)	(253,889,059)
Balance at December 31,	$ 38,834,656	$ 34,065,804

Included in the claims payable liability at December 31, 2013 and 2012 is a $0 and $165,000 premium deficiency reserve related to expected losses for 2014 and 2013, respectively. The liability for reported and estimated claims at January 1, 2013 and 2012 developed favorably in 2013 and 2012 due primarily to lower than anticipated claims.

NOTE H - EMPLOYEE BENEFIT PLANS

All Unity employees are eligible to participate in a Unity-sponsored 401(k) plan. Employees are eligible to participate as of the first of the month following 60 days of employment. Under this plan, employees may contribute a percentage of their compensation on a pre-tax basis. Employee contributions of up to 6% are matched by a 100% employer contribution. In addition, at the discretion of the Unity Board of Directors, plan participants may receive an additional contribution of up to 4% of eligible compensation. In 2013, a 4% discretionary contribution was authorized by the Unity Board of Directors. In 2012, no discretionary contribution was made. For the years ended December 31, 2013 and 2012, approximately $621,000 and $551,000, respectively, was contributed to the 401(k) plan related to the employer matching and discretionary contributions.

NOTE I - COMMITMENTS AND CONTINGENCIES

1. Leases

The Company leases office space and equipment under non-cancellable operating lease arrangements expiring on various dates through 2018. Total minimum lease payments under these lease obligations at December 31, 2013 are approximately as follows:

Years ending December 31,	
2014	$ 420,000
2015	386,000
2016	69,000
2017	11,000
2018	7,000
	$ 893,000

The Company also has various leases for office space and equipment that are on a month-to-month basis. Total rent expense for operating leases was approximately $822,000 and $669,000 for 2013 and 2012, respectively.

HPW leases property to UWMF and UWHC, both related parties, and an additional non-related party entity under various leasing arrangements that expire at various dates through May 2018. The terms of the leases call for monthly payments ranging from $4,653 to $19,148 during 2013. Subsequent to 2013, rental payments will be increased by no less than 2% annually. Rental income was $536,582 and $527,207 for the years ended December 31, 2013 and 2012, respectively.

NOTE J - FUNCTIONAL EXPENSES

Expenses that can be specifically identified with a program service are assigned to that function. Other expenses are allocated to the appropriate function based on the use of departmental information within the Company. Following is a summary of expenses for the years ended December 31, reported on a functional basis:

	2013	2012
Program services	$ 596,911,967	$ 454,678,939
General and administrative	51,687,887	43,886,285
	$ 648,599,854	$ 498,565,224

NOTE K - INCOME TAXES

UHC has received a determination letter dated October 23, 1984 from the Internal Revenue Service stating that it is an organization described in Section 510(c)(3) of the Internal Revenue Code (the Code) and is exempt from federal income taxes under Section 501(a) of the Code. Accordingly, no provision for federal income taxes has been made in the accompanying consolidated financial statements for UHC.

Unity and HPW are taxable organizations and recorded an income tax payable of approximately $1,123,000 as of December 31, 2013 and income tax receivable of approximately $602,000 as of December 31, 2012. The current provision for income tax expense (benefit) was approximately $3,110,000 and ($2,126,000) for 2013 and 2012, respectively.

Deferred income tax assets (liabilities) consist of the following at December 31:

	2013	2012
Current		
Allowance for doubtful accounts	$ 25,140	$ 31,425
Unearned premiums	3,169,987	847,294
Discounted unpaid losses	237,212	207,835
Accrued vacation	376,383	344,121
Premium deficiency reserve	-	69,135
Unrealized gains on marketable securities	(576,246)	(1,344,051)
HIRSP	108,955	1,235,711
Other	(48,307)	171,862
Non-current		
Depreciation and amortization	(1,189,869)	(2,034,706)
Other	374,030	-
	2,477,285	(471,374)
Current deferred income tax assets	3,293,124	1,563,332
Long-term deferred income tax liability	$ (815,839)	$ (2,034,706)

NOTE K - INCOME TAXES - Continued

All current deferred income tax assets at December 31, 2013 and 2012 are deemed to be fully realizable by management.

NOTE L - RELATED PARTIES

UHC holds a 33.33% interest in UW Cancer Center Johnson Creek, LLC (LLC). This investment is accounted for on the equity method and the carrying amount is $568,594 and $524,551 as of December 31, 2013 and 2012, respectively. UHC recognized a gain of $44,043 and a loss of $44,878 for the years ended December 31, 2013 and 2012, respectively. LLC is owned by UHC, Fort Atkinson Memorial Health Services and UW Health Partners Watertown Regional Medical Center, Inc., each having a one-third membership interest. Its purpose is to acquire, hold, own and lease assets to be used by health care providers for their provision of cancer care services.

UHC has guaranteed 33.33% of the outstanding balance on a construction loan which LLC used to construct a medical clinic. The remaining portion of the outstanding balance is guaranteed by the other two members of LLC. The total loan equaled $4,325,000, of which $2,808,023 and $2,987,102 is outstanding as of December 31, 2013 and 2012, respectively. The portion guaranteed by UHC will be reduced upon the occurrence of certain events as defined in the guaranty agreement. As of December 31, 2013 and 2012, there is no accrual for this guarantee as it is not probable UHC will have to make payments under this guarantee.

As of December 31, 2013 and 2012, UHC accounts receivable included amounts due from LLC of $2,000 and $5,000, respectively.

Condensed unaudited financial information of LLC follows:

	2013	2012
As of December 31,		
Total assets	$ 4,733,000	$ 4,730,000
Total liabilities	3,027,000	3,156,000
Years ended December 31,		
Net income (loss)	132,000	(135,000)

UHC holds a 50% interest in Watertown Network, LLC (WN). This investment is accounted for on the equity method and the carrying amount is $63,600 and $55,680 as of December 31, 2013 and 2012, respectively. UHC has recognized gains of $7,920 and $2,860 for the years ended December 31, 2013 and 2012, respectively. WN is owned by UHC and UW Health Partners Watertown Regional Medical Center, Inc., each having a one-half ownership interest.

NOTE L - RELATED PARTIES - Continued

Condensed unaudited financial information of WN follows:

	2013	2012
As of December 31,		
Total assets	$ 219,000	$ 190,000
Total liabilities	92,000	78,000
Years ended December 31,		
Net income	15,800	5,700

UHC entered into a Joint Operating Agreement (JOA) with UW Health Partners Watertown Regional Medical Center, Inc. (WRMC). As part of the agreement, UHC holds a 50% interest in the JOA. This investment is accounted for on the equity method and the carrying amount is $394,590 and $387,350 as of December 31, 2013 and 2012, respectively. UHC has recognized and funded losses of $229,893 and $228,000 for the years ended December 31, 2013 and 2012, respectively.

During 2012, UHC entered into a membership interest purchase agreement to aquire a 50% membership interest in Chartwell Wisconsin Enterprises, LLC. UHC paid $3,750,000 for this membership interest, which was recorded in investment in affiliates on the consolidated statements of financial position. During 2013, UHC's membership interest was purchased by UWMF for a purchase price of $3,750,000.

During 2012, UHC entered into a co-management agreement with Beloit Health System, Inc. (BHS) to assist with the development of an expanded program to provide cancer and oncology care, including the development of an outpatient cancer center by BHS (BHS Cancer Center). For the management services to be provided, UHC will receive a monthly management fee equal to 25% of the BHS Cancer Center net revenues, defined as revenues billed and collected less direct expenses incurred in connection with the BHS Cancer Center operations. If the BHS Cancer Center net revenue is less than zero, UHC is responsible to pay BHS 25% of net loss. UHC paid a one-time, non-refundable fee of $680,000 to participate in this agreement. This fee has been capitalized and is included in other assets in the consolidated statements of financial position. The fee will be amortized over five years, the initial term of the agreement. For the year ended December 31, 2013, amortization expense of $136,000 was recognized. For the year ended December 31, 2013 and 2012, there was no revenue or expenses recorded in the consolidated statements of activities attributable to operations associated with this collaborative agreement.

The Company has employee services agreements with UWHC and UWMF. Under the terms of the agreements, UHC pays UWHC and UWMF for the use of their respective personnel for services performed as stated in the agreements. The amount paid by UHC is equal to that of the salary and benefits of the personnel multiplied by the percentage of their time devoted to UHC during the applicable period. The amounts paid to UWHC and UWMF under the terms of these agreements are recorded in staff salaries, wages and benefits in the consolidated statements of activities. During the years ended December 31, 2013 and 2012, $8,451,395 and $8,637,208, respectively, was paid to UWHC and UWMF for these services.

NOTE L - RELATED PARTIES - Continued

In addition, the Company has managed care contracting service agreements with UWHC and UWMF. Under the terms of this agreement, UHC incurred capitation costs of $193,854,653 and $133,079,964 in 2013 and 2012, respectively.

At December 31, 2013 and 2012, UHC accounts receivable included amounts due from UWMF of approximately $961,000 and $851,000, respectively, and from UWHC of $1,860,000 and $1,080,000, respectively. Included in accounts payable at December 31, 2013 and 2012 are approximately $949,000 and $850,000, respectively, due to UWMF and $2,030,000 and $625,000, respectively, due to UWHC.

HPW leases certain properties to UWHC and UWMF. See note I.

NOTE M - REGULATORY ENVIRONMENT

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include matters such as reimbursement for patient services, Medicare and Medicaid fraud and abuse, accreditation, etc. Government activity concerning possible fraud and abuse issues involving health care insurers and providers has increased, violations of which could possibly result in exclusion penalties, as well as significant repayments for patient services previously billed and received. Management believes that the Company is in material compliance with fraud and abuse regulations, as well as other applicable government laws.

NOTE N - SUPPLEMENTAL CASH FLOW INFORMATION

	2013	2012
Supplemental disclosure of cash flow information		
Taxes paid	$ 1,607,330	$ 648,559
Interest paid	16,628	32,440

Non-cash investing and financing activity
During 2012, the Company entered into a financing agreement to purchase $803,000 of hardware and software.

NOTE O - INSURANCE ACCOUNTING PRACTICES

Unity, which is domiciled in Wisconsin, also prepares statutory basis financial statements in accordance with accounting practices prescribed or permitted by the Office of the Commissioner of Insurance of the State of Wisconsin (OCI). The National Association of Insurance Commissioners' (NAIC) *Accounting Practices and Procedures Manual*, version effective March 1, 2013 (NAIC SAP), has been adopted as a component of prescribed or permitted practices by the State of Wisconsin. Such practices differ in certain respects from accounting principles generally accepted in the United States of America, primarily in the non-recording of certain assets and the valuation of debt securities.

NOTE O - INSURANCE ACCOUNTING PRACTICES - Continued

The State of Wisconsin requires that insurance companies domiciled in the State of Wisconsin prepare their statutory basis financial statements in accordance with NAIC SAP, subject to any deviations prescribed or permitted by the State of Wisconsin insurance commissioner. Management represents that the Company does not use any prescribed or permitted accounting practices that deviate from NAIC SAP.

As of and for the years ended December 31, 2013 and 2012, differences between the financial statements prepared on the statutory basis and those prepared in accordance with accounting principles generally accepted in the United States of America were mainly the result of the non-recording of certain assets, deferred income tax assets, and the method of accounting for debt securities.

Without prior approval of the OCI, dividends to Unity's shareholders are limited by the laws of the State of Wisconsin. For the years ending December 31, 2013 and 2012, there were no dividends paid.

The State of Wisconsin insurance regulations require the companies to maintain a minimum compulsory surplus based upon a percentage of premiums written. As of December 31, 2013, Unity is required to maintain a compulsory surplus reserve or total minimum net worth, determined in accordance with accounting practices prescribed or permitted by the OCI, of at least $19,808,970. Unity's net assets, determined in accordance with statutory accounting principles, as of December 31, 2013 (excluding the security surplus reserve deposit of $6,357,857), are $49,468,603. In addition, Unity is subject to risk-based capital (RBC) requirements promulgated by the NAIC. The RBC requirements establish minimum levels of capital and surplus based on the insurance operations of the companies. As of December 31, 2013, Unity had capital and surplus which management believes is in compliance with these requirements.

NOTE P - FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value which are the following:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Inputs other than Level 1 that are observable either directly or indirectly, 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 that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

NOTE P - FAIR VALUE MEASUREMENTS - Continued

The following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value, as well as the general classification pursuant to the valuation hierachy. There has been no change in the valuation methodology for the years ended December 31, 2013 and 2012.

U.S. Treasury securities, U.S. government agency obligations and other debt securities: When quoted prices are available in an active market, U.S. Treasury securities, U.S. government agency obligations and other debt securities are classified within Level 1 of the fair value hierarchy. Quoted prices in inactive markets are classified within Level 2. If quoted market prices are not available or accessible, then fair values are estimated using pricing models, matrix pricing, or discounted cash flow models. The fair values of corporate debt securities estimated using pricing models or matrix pricing based on observable prices of corporate debt securities that trade in inactive markets are generally classified within Level 2 of the fair value hierarchy. The significant inputs include coupon rate, maturity, and consideration of the credit ratings of the securities.

Mortgage-backed securities: Fair values for Level 2 mortgage-backed securities are estimated using a market approach, including a pricing model with observable inputs. The significant inputs include the applicable interest rate and maturity. Mortgage-backed securities are classified within Level 3 when market activity is significantly limited or when there is less transparency around inputs to the valuation.

Mutual funds: Quoted market prices in active markets are used to determine the fair value of mutual funds and are classified within level 1 of the fair value hierarchy.

The following table summarizes the Company's financial assets measured at fair value on a recurring basis as of December 31:

	2013			
	Level 1	Level 2	Level 3	Total
U.S. Treasury securities	$ -	$ 16,492,590	$ -	$ 16,492,590
U.S. government agency obligations	-	4,258,959	-	4,258,959
Mortgage-backed securities				
U.S. government issued	-	5,371,622	-	5,371,622
Non U.S. government issued	-	2,290,450	-	2,290,450
Other debt securities				
Domestic	-	18,847,528	-	18,847,528
Foreign	-	11,490,330	-	11,490,330
Mutual funds	20,778,699	-	-	20,778,699
Total	$ 20,778,699	$ 58,751,479	$ -	$ 79,530,178

NOTE P - FAIR VALUE MEASUREMENTS - Continued

	2012			
	Level 1	Level 2	Level 3	Total
U.S. Treasury securities	$ -	$ 19,875,304	$ -	$ 19,875,304
U.S. government agency obligations	-	5,685,458	-	5,685,458
Mortgage-backed securities				
U.S. government issued	-	4,475,422	-	4,475,422
Non U.S. government issued	-	2,931,188	-	2,931,188
Other debt securities				
Domestic	-	16,924,199	411	16,924,610
Foreign	-	8,687,841	-	8,687,841
Mutual funds	8,385,854	-	-	8,385,854
Total	$ 8,385,854	$ 58,579,412	$ 411	$ 66,965,677

The following table presents additional information about assets measured at fair value on a recurring basis that have been measured using significant unobservable inputs (Level 3) as of December 31:

	2013	2012
Beginning balance	$ 411	$ 411
Write-off of investment	(411)	-
Ending balance	$ -	$ 411

The Company's policy is to recognize transfers in and transfers out as of the actual date of the event or change in circumstances that caused the transfer. There were no transfers in and out of Level 3 for the years ending December 31, 2013 or 2012.

NOTE Q - REINSURANCE

Unity has a reinsurance contract that protects against catastrophic in-patient claims. The deductible as of December 31, 2013 is $500,000. Unity paid reinsurance premiums of approximately $995,000 and $961,000 for the years ended December 31, 2013 and 2012, respectively. Recoveries from this contract for the year ended December 31, 2013 and 2012 totaled approximately $337,000 and $292,000, respectively. Reinsurance premiums and recoveries are included in health care and capitation costs on the consolidated statements of activities.

Reinsurance contracts do not relieve Unity from its obligations to subscribers. Unity remains liable to its subscribers for the portion reinsured to the extent that the reinsurance company does not meet the obligations assumed under the reinsurance contract.

NOTE R - SUBSEQUENT EVENTS

The Company evaluated its December 31, 2013 consolidated financial statements for subsequent events through April 18, 2014, the date that the financial statements were available to be issued. The Company is not aware of any subsequent events which would require recognition or disclosure in the financial statements, other than described below.

On January 1, 2014, the Company will be subject to an annual fee under section 9010 of the Affordable Care Act (ACA). This annual fee will be allocated to individual health insurers based on the ratio of the amount of the entity's net premiums written during the previous calendar year to the amount of health insurance for any U.S. health risk that is written during the preceding calendar year. A health insurance entity's portion of the annual fee becomes payable once the entity provides health insurance for any U.S. health risk for each calendar year on or after January 1, 2014. As of December 31, 2013, the Company has written health insurance subject to the ACA assessment, expects to conduct health insurance business in 2014, and estimates their portion of the annual health insurance fee to be payable on September 30, 2014 to be approximately $12,419,000.

SUPPLEMENTARY INFORMATION

UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
December 31, 2013

ASSETS	University Health Care, Inc.	Unity Health Plans Insurance Corporation	Health Professionals of Wisconsin, Inc.	eCare of Wisconsin, LLC	Eliminations	Consolidated total
CURRENT ASSETS						
Cash and cash equivalents	$ 1,037,686	$ 62,568,832	$ 591,799	$ 405,754	$ -	$ 64,604,071
Marketable securities	-	26,083,220	-	-	-	26,083,220
Accounts receivable, net	17,194,469	29,998,418	165,636	75,350	(14,324,430)	33,109,443
Prepaid expenses	351,703	395,119	4,436	21,272	-	772,530
Deferred income taxes	-	3,293,124	-	-	-	3,293,124
Total current assets	18,583,858	122,338,713	761,871	502,376	(14,324,430)	127,862,388
MARKETABLE SECURITIES	-	53,446,958	-	-	-	53,446,958
PROPERTY AND EQUIPMENT - AT COST						
Buildings and improvements	-	3,749,051	3,750,671	-	-	7,499,722
Leasehold improvements	1,339	-	-	107,513	-	108,852
Furniture and equipment	7,143,666	11,562,960	84,929	2,536,163	-	21,327,718
	7,145,005	15,312,011	3,835,600	2,643,676	-	28,936,292
Less accumulated depreciation and amortization	2,755,588	9,905,699	2,136,478	1,325,606	-	16,123,371
	4,389,417	5,406,312	1,699,122	1,318,070	-	12,812,921
Projects in process	355,256	-	-	233,381	-	588,637
Land	-	-	926,643	-	-	926,643
	4,744,673	5,406,312	2,625,765	1,551,451	-	14,328,201
OTHER ASSETS						
Investment in affiliates	64,250,538	-	-	-	(63,223,754)	1,026,784
Goodwill, less accumulated amortization of $2,011,352	2,689,087	-	-	-	-	2,689,087
Other, less accumulated amortization of $136,000	544,000	46,015	-	-	-	590,015
	67,483,625	46,015	-	-	(63,223,754)	4,305,886
	$ 90,812,156	$ 181,237,998	$ 3,387,636	$ 2,053,827	$ (77,548,184)	$ 199,943,433

LIABILITIES AND NET ASSETS	University Health Care, Inc.	Unity Health Plans Insurance Corporation	Health Professionals of Wisconsin, Inc.	eCare of Wisconsin, LLC	Eliminations	Consolidated total
CURRENT LIABILITIES						
Current maturities of long-term debt	$ 256,889	$ -	$ 65,151	$ -	$ -	$ 322,040
Accounts payable	17,520,663	19,429,252	112,509	177,705	(14,324,430)	22,915,699
Claims payable	-	38,834,656	-	-	-	38,834,656
Unearned revenue	-	60,061,747	-	338,719	-	60,400,466
Accrued liabilities	76,788	3,370,834	-	8,863	-	3,456,485
Total current liabilities	17,854,340	121,696,489	177,660	525,287	(14,324,430)	125,929,346
LONG-TERM DEBT, less current maturities	220,034	-	240,432	-	-	460,466
DEFERRED INCOME TAX LIABILITY	-	815,839	-	-	-	815,839
COMMON STOCK	-	1,000	669,715	-	(670,715)	-
UNRESTRICTED NET ASSETS	72,737,782	58,724,670	2,299,829	1,528,540	(62,553,039)	72,737,782
	$ 90,812,156	$ 181,237,998	$ 3,387,636	$ 2,053,827	$ (77,548,184)	$ 199,943,433

UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
December 31, 2012

ASSETS	University Health Care, Inc.	Unity Health Plans Insurance Corporation	Health Professionals of Wisconsin, Inc.	eCare of Wisconsin, LLC	Eliminations	Consolidated total
CURRENT ASSETS						
Cash and cash equivalents	$ 175,984	$ 22,614,964	$ 362,979	$ 167,774	$ -	$ 23,321,701
Marketable securities	-	12,249,111	-	-	-	12,249,111
Accounts receivable, net	2,794,818	44,903,179	245,363	206,337	(1,074,836)	47,074,861
Prepaid expenses	162,017	434,833	4,595	21,788	-	623,233
Deferred income taxes	-	1,563,332	-	-	-	1,563,332
Total current assets	3,132,819	81,765,419	612,937	395,899	(1,074,836)	84,832,238
MARKETABLE SECURITIES	-	54,716,566	-	-	-	54,716,566
PROPERTY AND EQUIPMENT - AT COST						
Buildings and improvements	-	3,707,009	3,750,671	-	-	7,457,680
Leasehold improvements	1,339	-	-	107,513	-	108,852
Furniture and equipment	5,536,547	14,127,390	69,632	2,536,163	-	22,269,732
	5,537,886	17,834,399	3,820,303	2,643,676	-	29,836,264
Less accumulated depreciation and amortization	1,543,784	9,777,913	2,036,356	1,062,989	-	14,421,042
	3,994,102	8,056,486	1,783,947	1,580,687	-	15,415,222
Projects in process	544,814	97,421	-	214,200	-	856,435
Land	-	-	926,643	-	-	926,643
	4,538,916	8,153,907	2,710,590	1,794,887	-	17,198,300
OTHER ASSETS						
Investment in affiliates	61,667,064	-	-	-	(56,949,483)	4,717,581
Goodwill, less accumulated amortization of $2,011,352	2,689,087	-	-	-	-	2,689,087
Other	680,000	42,993	-	-	-	722,993
	65,036,151	42,993	-	-	(56,949,483)	8,129,661
	$ 72,707,886	$ 144,678,885	$ 3,323,527	$ 2,190,786	$ (58,024,319)	$ 164,876,765

LIABILITIES AND NET ASSETS	University Health Care, Inc.	Unity Health Plans Insurance Corporation	Health Professionals of Wisconsin, Inc.	eCare of Wisconsin, LLC	Eliminations	Consolidated total
CURRENT LIABILITIES						
Current maturities of long-term debt	$ 262,839	$ -	$ 409,191	$ -	$ -	$ 672,030
Accounts payable	3,360,191	6,415,687	101,386	175,956	(1,074,836)	8,978,384
Claims payable	-	34,065,804	-	-	-	34,065,804
Unearned revenue	-	47,686,220	-	347,988	-	48,034,208
Accrued liabilities	64,366	2,005,499	-	1,278	-	2,071,143
Total current liabilities	3,687,396	90,173,210	510,577	525,222	(1,074,836)	93,821,569
LONG-TERM DEBT, less current maturities	476,922	-	-	-	-	476,922
DEFERRED INCOME TAX LIABILITY	-	2,034,706	-	-	-	2,034,706
COMMON STOCK	-	1,000	669,715	-	(670,715)	-
UNRESTRICTED NET ASSETS	68,543,568	52,469,969	2,143,235	1,665,564	(56,278,768)	68,543,568
	$ 72,707,886	$ 144,678,885	$ 3,323,527	$ 2,190,786	$ (58,024,319)	$ 164,876,765

UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF ACTIVITIES
Year ended December 31, 2013

	University Health Care, Inc.	Unity Health Plans Insurance Corporation	Health Professionals of Wisconsin, Inc.	eCare of Wisconsin, LLC	Eliminations	Consolidated total
Revenues						
Insurance premiums and capitation fees	$193,854,653	$629,734,581	$ -	$ -	$(193,854,653)	$629,734,581
Programs and other support						
University of Wisconsin Hospital and Clinics Authority	8,941,486	-	-	-	-	8,941,486
University of Wisconsin Medical Foundation	4,539,972	-	-	-	-	4,539,972
University of Wisconsin School of Medicine and Public Health	887,796	-	-	-	-	887,796
	14,369,254	-	-	-	-	14,369,254
Investment income (loss)	(403,353)	1,999,805	1,542	-	224,306	1,822,300
Other income	984,990	279,174	536,582	4,103,060	(633,138)	5,270,668
Total revenues	208,805,544	632,013,560	538,124	4,103,060	(194,263,485)	651,196,803
Operating expenses						
Health care and capitation costs	193,854,653	584,227,038	-	-	(193,854,653)	584,227,038
Staff salaries, wages and benefits	5,074,892	18,284,581	-	3,828,883	-	27,188,356
Purchased services and office expenses	7,013,696	16,656,451	66,972	248,408	(143,377)	23,842,150
Occupancy and equipment expense	2,216,087	5,636,858	205,297	661,289	(489,761)	8,229,770
Advertising and promotion	48,017	4,927,019	-	1,504	-	4,976,540
Amortization expense	136,000	-	-	-	-	136,000
	208,343,345	629,731,947	272,269	4,740,084	(194,487,791)	648,599,854
Operating income (loss)	462,199	2,281,613	265,855	(637,024)	224,306	2,596,949
Other expense						
Interest expense	17,985	-	16,628	-	(1,423)	33,190
Increase (decrease) in net assets before change in net unrealized gains on investments and income tax expense (benefit)	444,214	2,281,613	249,227	(637,024)	225,729	2,563,759
Income tax expense (benefit)						
Current	-	3,017,584	92,633	-	-	3,110,217
Deferred	-	(2,180,854)	-	-	-	(2,180,854)
	-	836,730	92,633	-	-	929,363
Increase (decrease) in net assets before change in net unrealized gains on investments	444,214	1,444,883	156,594	(637,024)	225,729	1,634,396
Change in net unrealized gains on investments, net	-	(1,190,182)	-	-	-	(1,190,182)
INCREASE (DECREASE) IN NET ASSETS	444,214	254,701	156,594	(637,024)	225,729	444,214
Contributions (distributions), net	3,750,000	6,000,000	-	500,000	(6,500,000)	3,750,000
Net assets at beginning of year	68,543,568	52,469,969	2,143,235	1,665,564	(56,278,768)	68,543,568
Net assets at end of year	$ 72,737,782	$ 58,724,670	$ 2,299,829	$1,528,540	$ (62,553,039)	$ 72,737,782

UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF ACTIVITIES
Year ended December 31, 2012

	University Health Care, Inc.	Unity Health Plans Insurance Corporation	Health Professionals of Wisconsin, Inc.	eCare of Wisconsin, LLC	Eliminations	Consolidated total
Revenues						
Insurance premiums and capitation fees	$133,079,964	$477,778,143	$ -	$ -	$(133,079,964)	$477,778,143
Programs and other support						
University of Wisconsin Hospital and Clinics Authority	7,511,469	-	-	-	-	7,511,469
University of Wisconsin Medical Foundation	3,728,980	-	-	-	-	3,728,980
University of Wisconsin School of Medicine and Public Health	1,050,000	-	-	-	-	1,050,000
	12,290,449	-	-	-	-	12290449
Investment income	(1,710,570)	2,759,464	2,154	-	1,438,985	2,490,033
Other income	767,792	152,063	527,207	3,832,419	(474,627)	4,804,854
Total revenues	144,427,635	480,689,670	529,361	3,832,419	(132,115,606)	497,363,479
Operating expenses						
Health care and capitation costs	133,079,964	442,506,586	-	-	(133,079,964)	442,506,586
Staff salaries, wages and benefits	4,564,097	15,327,558	-	3,774,790	-	23,666,445
Purchased services and office expenses	5,342,960	15,929,058	62,908	251,496	(155,285)	21,431,137
Occupancy and equipment expense	1,615,657	5,302,584	201,880	671,570	(319,342)	7,472,349
Advertising and promotion	109,513	3,379,194	-	-	-	3,488,707
	144,712,191	482,444,980	264,788	4,697,856	(133,554,591)	498,565,224
Operating income (loss)	(284,556)	(1,755,310)	264,573	(865,437)	1,438,985	(1,201,745)
Other expense						
Interest expense	5,836	-	32,440	-	(2,154)	36,122
Increase (decrease) in net assets before change in net unrealized gains on investments and income tax expense (benefit)	(290,392)	(1,755,310)	232,133	(865,437)	1,441,139	(1,237,867)
Income tax expense (benefit)						
Current	-	(2,204,311)	78,170	-	-	(2,126,141)
Deferred	-	1,405,583	-	-	-	1,405,583
	-	(798,728)	78,170	-	-	(720,558)
Increase (decrease) in net assets before change in net unrealized gains on investments	(290,392)	(956,582)	153,963	(865,437)	1,441,139	(517,309)
Change in net unrealized gains on investments, net	-	226,917	-	-	-	226,917
INCREASE (DECREASE) IN NET ASSETS	(290,392)	(729,665)	153,963	(865,437)	1,441,139	(290,392)
Contributions (distributions), net	9,750,000	5,000,000	-	1,000,000	(6,000,000)	9,750,000
Net assets at beginning of year	59,083,960	48,199,634	1,989,272	1,531,001	(51,719,907)	59,083,960
Net assets at end of year	$ 68,543,568	$ 52,469,969	$ 2,143,235	$1,665,564	$ (56,278,768)	$ 68,543,568

FINANCIAL STATEMENTS

6c: Audited Financial Statement of University of Wisconsin Medical Foundation, Inc. (June 30, 2014)

University of Wisconsin Medical Foundation, Inc.

Financial Report
(With Independent Auditor's Report Thereon)
June 30, 2014

McGladrey

Assurance • Tax • Consulting

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McGladrey

Independent Auditor's Report

The Board of Directors
University of Wisconsin Medical Foundation, Inc.
Madison, Wisconsin

Report on the Financial Statements
We have audited the accompanying financial statements of University of Wisconsin Medical Foundation, Inc. (the Foundation), which comprise the balance sheets as of June 30, 2014 and 2013; the related statements of operations and changes in net assets, and cash flows for the years then ended; and the related notes to the financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these 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 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 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 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 reasonable basis for our audit opinion.

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 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.

McGladrey LLP

Minneapolis, Minnesota
October 13, 2014

Member of the RSM International network of independent accounting, tax and consulting firms.

University of Wisconsin Medical Foundation, Inc.

Balance Sheets
June 30, 2014 and 2013

Assets	**2014**	2013
Current Assets		
Cash and cash equivalents	**$ 153,775,529**	$ 105,158,260
Accounts receivable, less allowance for doubtful accounts of $2,795,975 and $3,552,280 in 2014 and 2013, respectively	**53,694,792**	46,450,217
Inventories	**4,796,237**	4,688,406
Receivables from related parties	**13,120,871**	7,992,689
Prepaid expenses and other current assets	**2,899,348**	3,105,385
Total current assets	**228,286,777**	167,394,957
Investments	**57,322,895**	152,536,252
Assets Limited as to Use, designated by Board	**120,000,000**	-
Investments in Unconsolidated Affiliates	**45,134,232**	40,993,930
Property and Equipment	**57,437,203**	59,454,673
Other Assets	**623,554**	661,066
Total assets	**$ 508,804,661**	$ 421,040,878
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	**$ 6,424,914**	$ 7,081,210
Accrued expenses	**82,792,419**	69,736,941
Payables to related parties	**54,051,501**	32,187,254
Amount due to Medical School Development Fund	**7,735,749**	7,591,499
Amount due to Research and Development Fund	**279,932**	434,090
Current portion of long-term obligations	**2,785,000**	-
Total current liabilities	**154,069,515**	117,030,994
Long-Term Obligations	**40,330,000**	44,600,000
Total liabilities	**194,399,515**	161,630,994
Commitments and Contingencies		
Net Assets		
Unrestricted	**194,405,146**	259,409,884
Unrestricted, designated by Board	**120,000,000**	-
Total net assets	**314,405,146**	259,409,884
Total liabilities and net assets	**$ 508,804,661**	$ 421,040,878

See Notes to Financial Statements.

University of Wisconsin Medical Foundation, Inc.

Statements of Operations and Changes in Net Assets
Years Ended June 30, 2014 and 2013

	2014	2013
Unrestricted revenue:		
Patient service revenue (net of contractual allowances and discounts)	$ 446,108,845	$ 413,788,902
Less provision for bad debts	9,070,471	11,179,086
Net patient service revenue	437,038,374	402,609,816
Premium revenue	173,075,872	170,901,472
Other revenue	94,405,740	86,393,906
Total unrestricted revenue	704,519,986	659,905,194
Expenses:		
Compensation and benefits	437,667,860	399,380,684
Operating expenses paid through the University of Wisconsin, principally compensation and benefits	84,663,806	85,306,824
Other operating expenses	72,800,803	68,216,643
Purchased services	19,281,328	36,520,958
Medical School Development Fund	30,943,000	30,366,000
Research and Development Fund	24,277,070	15,491,861
University Health Care, Inc. support	4,595,479	2,885,722
Depreciation and amortization	6,573,999	6,850,367
Interest	1,107,552	1,163,238
Total expenses	681,910,897	646,182,297
Operating income	22,609,089	13,722,897
Other income (expenses):		
Equity in net earnings of unconsolidated affiliates	3,660,302	3,051,082
Investment income	7,683,370	5,486,257
Change in unrealized gains (losses) on investments	17,540,535	6,742,830
Unrealized gain (loss) on derivative financial instrument	552,738	586,788
Other, net	2,949,228	3,054,926
Other income	32,386,173	18,921,883
Revenue in excess of expenses	54,995,262	32,644,780
Unrestricted net assets at beginning of year	259,409,884	226,765,104
Unrestricted net assets at end of year	$ 314,405,146	$ 259,409,884

See Notes to Financial Statements.

University of Wisconsin Medical Foundation, Inc.

Statements of Cash Flows
Years Ended June 30, 2014 and 2013

	2014	2013
Cash Flows From Operating Activities		
Revenue in excess of expenses	$ 54,995,262	$ 32,644,780
Adjustments to reconcile revenue in excess of expenses to net cash provided by operating activities:		
Depreciation and amortization	6,573,999	6,850,367
Equity in net earnings of unconsolidated affiliates	(3,660,302)	(3,051,082)
Gain (loss) on sale of property and equipment	3,318	(565,325)
Unrealized (gain) loss on derivative financial instrument	(552,738)	(586,788)
Unrealized (gains) losses on investments	(17,592,569)	(6,742,830)
Provision for bad debts	9,070,471	11,179,086
Changes in operating assets and liabilities:		
Accounts receivable	(16,315,046)	(8,388,878)
Inventories	(107,831)	(569,004)
Investments classified as trading	(7,194,074)	(14,665,663)
Accounts payable	(656,296)	998,937
Accrued expenses	13,608,216	(1,906,826)
Receivables from and payables to related parties	16,597,419	(7,758,304)
Amount due to Medical School Development Fund	144,250	141,500
Other	206,037	(4,592,411)
Net cash provided by operating activities	55,120,116	2,987,559
Cash Flows From Investing Activities		
Investments in unconsolidated affiliates	(3,250,000)	(6,362,500)
Distributions received from unconsolidated affiliates	2,770,000	4,250,000
Purchases of property and equipment	(4,931,112)	(3,799,926)
Proceeds from the sale of property and equipment	393,265	1,279,198
Net cash used in investing activities	(5,017,847)	(4,633,228)
Cash Flows From Financing Activities		
Principal payments of long-term obligations	(1,485,000)	-
Net cash used in financing activities	(1,485,000)	-
Net increase (decrease) in cash and cash equivalents	48,617,269	(1,645,669)
Cash and Cash Equivalents at Beginning of Year	105,158,260	106,803,929
Cash and Cash Equivalents at End of Year	$ 153,775,529	$ 105,158,260
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	$ 1,057,007	$ 1,188,147
Supplemental Disclosure of Noncash Investing Activities		
Fair value of donated land received	$ 233,346	$ -

See Notes to Financial Statements.

University of Wisconsin Medical Foundation, Inc.

Notes to Financial Statements

Note 1. Business Description and Significant Accounting Policies

Business description: The University of Wisconsin Medical Foundation, Inc. (the Foundation) is a nonstock, not-for-profit corporation. It was created on January 1, 1996, by organizing 14 separate Departmental Practice Plan Associations of the University of Wisconsin Medical School (DPPAs) into one entity. As a result, the Foundation performs all functions previously performed by the DPPAs.

An agreement with the Board of Regents of the University of Wisconsin System was executed upon creation of the Foundation. The organization, operation and distributions of the Foundation are subject to the provisions of the agreement.

The Foundation was formed for the purposes of: (1) providing education to medical students, practicing physicians, health care providers and personnel, patients and the general public; (2) supporting medical research in the field of clinical medicine; and (3) promoting the delivery of patient care. Medical care is primarily provided in the southern half of the state of Wisconsin. The Foundation operates exclusively for the benefit of, and to support the purposes and operations of, the University of Wisconsin School of Medicine and Public Health (the Medical School) and the University of Wisconsin–Madison (the University). The Foundation also provides support to, and receives support from, the University of Wisconsin Hospital and Clinics Authority (UWHCA), which has an affiliation agreement with the Board of Regents of the University.

Expenses consist primarily of direct and indirect costs related to the operation of patient care clinics and to provide support in accordance with the purposes for which the Foundation was formed.

Basis of accounting and use of estimates: The accompanying financial statements have been prepared on the accrual basis of accounting. 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 amounts reported in the financial statements and accompanying notes. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein.

Cash and cash equivalents: Cash and cash equivalents include highly liquid investments with a maturity of three months or less. The majority of cash and cash equivalents are invested in one financial institution and exceed depository insurance limits. The Foundation has not experienced any losses on deposit accounts with the financial institution.

Accounts receivable and related allowances: The Foundation grants credit to patients in return for health care services rendered to said patients, substantially all of whom are local residents of the communities served. The Foundation generally does not require collateral or other security in extending credit to patients; however, it 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, HMOs and commercial insurance policies). For receivables associated with services provided to patients who have third-party coverage, the Foundation analyzes contractually due amounts and provides an allowance for contractual discounts, if necessary. At June 30, 2014 and 2013, approximately 23 percent and 21 percent of net accounts receivable were collectible from governmental payers (including Medicare and Medicaid), with approximately 64 percent and 65 percent of net accounts receivable, respectively, collectible from commercial insurance and managed care payers.

Note 1. Business Description and Significant Accounting Policies (Continued)

After satisfaction of amounts due from insurance and government payers, the Foundation follows established guidelines for placing past-due patient balances with collection agencies. Patient accounts that are uncollected, including those placed with collection agencies, are assessed for their likelihood of requiring an allowance for doubtful accounts in accordance with collection policies of the Foundation and, in certain cases, are reclassified to charity care if deemed to otherwise meet the Foundation's charity care policy. The provision for doubtful accounts is based upon management's assessment of historical and expected net collections considering business and economic conditions, trends in health care coverage, and other collection indicators. Periodically throughout the year, management assesses the adequacy of the allowance for doubtful accounts based upon the payer composition and aging of receivables as of the reporting date with consideration of the historical payment and write-off experience by payer category. The results of these reviews are then used to make any modifications to the provision for doubtful accounts to maintain an appropriate allowance for doubtful accounts. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

The Foundation's allowance for doubtful accounts for self-pay patients increased from 74 percent of self-pay accounts receivable at June 30, 2013, to 76 percent of self-pay accounts receivable at June 30, 2014. The increase was the result of negative trends experienced in the collection of amounts from self-pay patients in 2014. In addition, the Foundation's self-pay write-offs decreased $372,000 from $5,275,000 for 2013 to $4,903,000 for 2014. This decrease is a result of a decline in the total self-pay accounts receivable balance from prior year. The Foundation does not maintain a material allowance for doubtful accounts from third-party payers, nor did it have significant write-offs from third-party payers.

Inventories: Inventories, consisting primarily of medical supplies and pharmaceuticals to be used for patient care, are stated at the lower of cost or market. Cost is determined principally by the first-in, first-out method.

Deferred financing expenses: Costs of issuing long-term debt are amortized over the respective terms of the loans using a method that approximates the effective-interest method.

Property and equipment: Property and equipment are stated at cost. The Foundation capitalizes property and equipment that have a cost in excess of $5,000 and a useful life greater than two years. Depreciation, including amounts amortized under capital leases, is provided by a combination of straight-line and accelerated methods over the estimated useful lives, which range from three to 40 years.

Asset impairment: The Foundation periodically evaluates the carrying value of its long-lived assets for impairment when indicators of impairment are identified. These evaluations are primarily based on the estimated recoverability of the assets' carrying value. Impairment write-downs are recognized in operating income at the time the impairment is identified. There were no asset impairment charges recorded during the years ended June 30, 2014 and 2013.

Investments: Investments in equity and debt securities are measured at fair value. The cost of securities sold is based on the specific-identification method. Management determines the appropriate classification of securities at the time they are acquired and evaluates the appropriateness of such classification at each balance sheet date. For 2014 and 2013, all investments are considered to be trading securities. All investment returns are included in other income (expenses) in the statements of operations and changes in net assets. In addition, cash flows from the purchases and sales of marketable securities designated as trading are reported as a component of operating activities in the accompanying statements of cash flows.

University of Wisconsin Medical Foundation, Inc.

Notes to Financial Statements

Note 1. Business Description and Significant Accounting Policies (Continued)

Assets limited as to use and net assets designated by Board: Assets limited as to use consist of unspent funds which have been internally designated by the Foundation's Board of Directors for supporting the clinical, teaching and research missions of the clinical departments ($60,000,000) in addition to supporting strategic initiatives of the Foundation and of the clinical departments ($60,000,000).

Revenue in excess of expenses: The statements of operations and changes in net assets include revenue in excess of expenses which is the performance indicator. Operating revenue includes revenue generated from direct patient care, premium revenue, and related support services. Operating expense includes compensation and benefits paid to physicians and employees, purchased services, medical education, research and development costs, depreciation and amortization, and interest. Gains or losses not directly related to the ongoing operations of the Foundation, or that occur infrequently, are reported as other income (expenses). Other income (expenses) primarily consists of investment income, rents, realized and unrealized gains and losses, contributions, and equity in net earnings of unconsolidated affiliates.

Income taxes: The Foundation has been determined to qualify as exempt from federal income tax under Internal Revenue Code (the Code) Section 501(a) as an organization described in Section 501(c)(3) of the Code. The Foundation follows the Financial Accounting Standards Board (FASB) guidance on income taxes, Accounting for Uncertainty in Income Taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, the Foundation may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. Examples of tax positions include the tax-exempt status of Foundation and various positions related to the potential sources of unrelated business taxable income (UBIT). The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement.

Most of the income earned by the Foundation is exempt from taxation as income related to the mission of the organization. However, the Foundation does earn an immaterial amount of unrelated business income and recognized income tax expense of approximately $115 and $95,000 for the years ended June 30, 2014 and 2013, respectively, within other, net in the statements of operations and changes in net assets.

The Foundation files Form 990 in the U.S. federal jurisdiction and the State of Wisconsin. With few exceptions, the Foundation is no longer subject to examination by the Internal Revenue Service for the years 2010 and earlier.

Derivative financial instrument: The Foundation has entered into an interest rate swap agreement with a bank to manage its risk associated with changes in interest rates. The Foundation records its derivative instrument as either an asset or liability in the accompanying balance sheets at fair value. The Foundation's derivative is not designated as a hedge. Accordingly, the unrealized derivative gain or loss related to the financial instrument is included in unrealized gain (loss) on derivative financial instrument in the statements of operations and changes in net assets.

Accountable care organization: In 2013, the Foundation, UWHCA and the Medical School formed UW Health ACO, Inc., an accountable care organization (ACO), to participate in the Medicare Shared Savings Program (MSSP). The original term of the MSSP is three years. The ACO participants coordinate care for assigned Medicare fee-for-service members. Based on the terms of the agreement with Medicare, the ACO has the potential to receive a portion of the cost savings for services provided to assigned members.

University of Wisconsin Medical Foundation, Inc.

Notes to Financial Statements

Note 1. Business Description and Significant Accounting Policies (Continued)

The ACO has assets of $839,000 and $741,000 and liabilities of $551,000 and $438,000 at June 30, 2014 and 2013, respectively.

Note 2. Net Patient Service and Premium Revenue

The Foundation has agreements with third-party payers that provide for payments to the Foundation at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, discounted charges, and per diem payments. The Foundation 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 Foundation recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of the Foundation's uninsured patients will be unwilling to pay for the services provided. Thus, the Foundation records a significant provision for bad debts related to uninsured patients in the period the services are provided. Provisions for estimated third-party adjustments are estimated in the period the related services are rendered and are adjusted in future periods as actual payments are determined.

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

	Years Ended June 30	
	2014	2013
Patient service revenue (net of contractual allowances):		
Self-pay	$ 6,782,500	$ 7,548,053
Third party payers	439,326,345	406,240,849
	$ 446,108,845	$ 413,788,902

The Foundation provides health care services to enrollees of insurance plans offered by three issuers that pay on a capitated basis. The health care services covered by these plans are determined as a percentage of the member premiums, which transfers most insurance risk to the Foundation for services provided by the Foundation, under provider reimbursement agreements. Premium revenue is recognized in the year in which the health care coverage is provided.

Premium revenue consists of capitation payments from the following:

	Years Ended June 30	
	2014	2013
Physicians Plus Insurance Corporation (PPIC)	$ 26,661,455	$ 47,613,000
Unity Health Insurance (Unity)	112,799,346	92,497,223
Group Health Cooperative (GHC)	33,615,071	30,791,249
	$ 173,075,872	$ 170,901,472

University of Wisconsin Medical Foundation, Inc.

Notes to Financial Statements

Note 3. Charity Care and Community Benefit

Charity care represents patient care services rendered at reduced or no fees due to the inability of patients to pay for their medical care. The Foundation's hardship policy for charity care includes patients that currently have Medicaid coverage but who are unable to pay for services provided prior to approval of Medicaid eligibility. Because the Foundation does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. In addition to providing charity care, the Foundation provides other programs and services for the general community. These programs and services consist of health promotion and education, health clinics, screenings and counseling.

The Foundation measures charity care as an estimated cost of patient care. That estimate is made by calculating a ratio of cost to gross charges, applied to the uncompensated charges associated with providing charity care to patients. The total estimated cost of charity care provided by the Foundation was approximately $9,194,000 and $7,822,000 for the years ended June 30, 2014 and 2013, respectively. In addition, the Foundation estimated a community benefit expense using direct and indirect costs associated with general community programs and services. There was approximately $3,671,000 and $1,442,000 in estimated community benefit expense provided during 2014 and 2013, respectively.

Note 4. Investments

The Foundation invests in mutual funds and common trust funds that include underlying investments in debt and equity securities of domestic and international publicly traded companies, obligations of the U.S. government, domestic government agencies, foreign governments, money market funds and other assets. Such investments are inherently exposed to various risks, such as interest rate, market and credit risks. Due to the levels of risks associated with these investments and the level of uncertainty related to potential changes in the value of such investments, it is at least reasonably possible that changes in risk factors in the near term could affect the carrying value of the investments and the related amounts reported in the Foundation's financial statements, and such amounts could be material.

University of Wisconsin Medical Foundation, Inc.

Notes to Financial Statements

Note 4. Investments (Continued)

The composition of investments at June 30, 2014 and 2013, is set forth in the following table:

	2014		2013	
	Cost	Fair Value	Cost	Fair Value
Mutual funds:				
Double Line Core Fixed Income	$ 21,719,769	$ 21,163,350	$ 18,393,231	$ 17,633,324
GMO Benchmark-Free Allocation	11,272,616	12,961,031	10,043,940	10,791,835
Vanguard Total Stock Market	28,918,765	41,118,976	37,433,869	43,585,540
Vanguard Total International Stock Index	37,465,112	45,734,138	37,858,173	39,184,678
Vanguard Total Bond Market Index	27,773,212	27,318,175	20,841,899	19,983,881
Held in mutual funds	127,149,474	148,295,670	124,571,112	131,179,258
Common trust funds:				
Brandywine Global Opportunistic Fixed Income	13,075,089	13,890,618	12,731,732	12,426,530
LSV Micro Cap	4,244,378	4,721,639	-	-
Wellington Diversified Inflation Hedges	10,139,712	10,414,968	10,059,701	8,930,464
Held in common trust funds	27,459,179	29,027,225	22,791,433	21,356,994
Total investments	$ 154,608,653	177,322,895	$ 147,362,545	152,536,252
Less assets limited as to use		120,000,000		-
Investments		$ 57,322,895		$ 152,536,252

Investment returns for the years ended June 30 are summarized as follows:

	2014	2013
Investment income:		
Interest and dividends	$ 4,559,495	$ 4,446,914
Net realized gain	3,290,072	1,112,200
Investment management fees	(166,197)	(72,857)
Investment income	7,683,370	5,486,257
Net unrealized gain (loss)	17,540,535	6,742,830
Total investment return	$ 25,223,905	$ 12,229,087

University of Wisconsin Medical Foundation, Inc.

Notes to Financial Statements

Note 5. Investments in Unconsolidated Affiliates

Investments in entities where the Foundation controls 50 percent or less of the entity's operations and does not have operational control are recorded under the equity method of accounting. The following presents interests in unconsolidated entities recorded under the equity method of accounting:

	Investments Recorded in Balance Sheet as of June 30		Effect on Other Income for the Years Ended June 30	
	2014	2013	2014	2013
Madison Medical Center (MMC)	$ 4,844,270	$ 4,733,748	$ 430,521	$ 433,836
Madison Surgery Center (MSC)	4,450,678	4,161,479	2,089,199	2,968,286
University Health Care, Inc. (UHC)	28,094,148	25,097,614	46,534	(364,826)
Wisconsin Sleep, Inc. (WISLP)	1,866,880	1,638,461	478,419	174,345
Transformation Surgery Center, Inc. (TSC)	773,367	675,470	97,897	(93,038)
Generations Fertility Care, Inc. (GFC)	134,447	263,484	(429,037)	(496,266)
Chartwell Wisconsin Enterprises, LLC (CHA)	3,974,627	3,652,898	721,731	302,898
Wisconsin Dialysis, Inc. (WDI)	826,998	583,437	243,561	125,847
Other	168,817	187,339	(18,523)	-
	$ 45,134,232	$ 40,993,930	$ 3,660,302	$ 3,051,082

The Foundation's investment interest percentage in its unconsolidated affiliates is as follows:

	Corporate Form	Ownership Interest
MMC	Limited Liability Partnership (LLP)	46.5%
MSC	501 (c)(3) Organization	33.0%
UHC	Not-for-profit, Nonstock Corporation	40.0%
WISLP	501 (c)(3) Organization	50.0%
TSC	501 (c)(3) Organization	50.0%
GFC	501 (c)(3) Organization	33.0%
CHA	Limited Liability Company (LLC)	50.0%
WDI	501 (c)(3) Organization	10.0%

Summarized financial information for MMC, MSC, UHC, WISLP, TSC, GFC, CHA, WDI and others is as follows at June 30, 2014:

Assets	$ 130,404,284
Liabilities	(19,155,007)
Net assets	$ 111,249,277

University of Wisconsin Medical Foundation, Inc.

Notes to Financial Statements

Note 6. Property and Equipment

Property and equipment are summarized as follows at June 30:

	2014	2013
Land and improvements	$ 8,612,392	$ 8,203,072
Buildings and leasehold improvements	65,568,897	65,539,217
Medical and office equipment	50,078,747	55,078,989
	124,260,036	128,821,278
Less accumulated depreciation	(66,822,833)	(69,366,605)
	$ 57,437,203	$ 59,454,673

Note 7. Long-Term Obligations

Long-term obligations as of June 30 are as follows:

	2014	2013
Wisconsin Health and Educational Facilities Authority Variable Rate Demand Revenue Bonds, Series 2000, variable interest at 0.1% as of June 30, 2014, due in installments through May 2030	$ 43,115,000	$ 44,600,000

The owners of the Series 2000 Bonds may elect to have their bonds purchased on any business day at a price equal to the original purchase price (par) plus any accrued interest. Pursuant to a remarketing agreement between the Foundation and a remarketing agent, the remarketing agent has agreed to offer for sale and use its best efforts to sell the Series 2000 Bonds if optionally or mandatorily tendered for purchase.

Through a Credit Agreement, the Foundation has a transferable irrevocable, direct pay letter of credit with a bank (JPMorgan Chase Bank), under the terms of which the bank agrees to loan to the Foundation the amount necessary to purchase the Series 2000 Bonds if not remarketed. The maximum amount of the liquidity loans would be the principal ($43,115,000 for the Series 2000 Bonds at June 30, 2014), plus accrued interest. The Foundation has provided the trustee of the Series 2000 Bonds with this letter of credit. In the event of a liquidity drawing on the Credit Agreement, principal is payable in equal quarterly installments over a three-year amortization period. The interest rate on draws is one percent plus the higher of (i) the prime rate, (ii) one-month LIBOR plus 2.5 percent, or (iii) 7.5 percent. The transferable, irrevocable, direct pay letter expires July 15, 2018. The letter of credit is collateralized by real estate owned by the Foundation.

Also, through the Credit Agreement, the Foundation has a revolver note from a bank under which it may borrow up to $10,000,000 at variable interest rates based on prime or LIBOR. Borrowings under the revolver note are due upon maturity in July 2015. The revolver note may be renewed annually upon approval from the bank. No borrowings were outstanding at June 30, 2014 or 2013, under the revolver note.

University of Wisconsin Medical Foundation, Inc.

Notes to Financial Statements

Note 7. Long-Term Obligations (Continued)

The Credit Agreement requires maintenance of certain debt service coverage ratios, cash balances, and compliance with various other restrictive covenants. At June 30, 2014 and 2013, management believes the Foundation was in compliance with such covenants.

Scheduled principal payments on long-term obligations for the next five years and thereafter are as follows, assuming that the Series 2000 Bonds are able to be successfully remarketed as described above:

Years Ending June 30,	
2015	$ 2,785,000
2016	2,785,000
2017	2,785,000
2018	2,785,000
2019	2,785,000
Thereafter	29,190,000
	$ 43,115,000

In February 2009, the Foundation entered into an interest rate swap agreement to manage exposure to interest rate risk on a portion of its outstanding debt. The interest rate swap agreement converts a notional amount of the Foundation's floating-rate debt to a fixed rate of 3.794 percent until May 2016, thus reducing the impact of interest rate changes on future interest expense until expiration of the interest rate swap agreement. This involves the receipt of floating-rate amounts in exchange for fixed-rate interest payments over the life of the interest rate swap agreement, without an exchange of underlying principal amount.

Information regarding the outstanding interest rate swap agreement is as follows:

	Notional Amount	Receives	Fair Value
June 30, 2014	$ 17,850,000	SIFMA 0.060%	$ (1,144,787)
June 30, 2013	18,600,000	SIFMA 0.079%	(1,697,526)

The floating rate is equal to the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index.

University of Wisconsin Medical Foundation, Inc.

Notes to Financial Statements

Note 8. Fair Value Measurements

Accounting guidance provides a framework for measuring fair value of certain assets and liabilities and requires certain disclosures about fair value measurements. As defined in *FASB Accounting Standards Codification* (ASC) Topic 820, Fair Value Measurements and Disclosures, 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. ASC 820 establishes 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 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy defined by ASC 820 and a description of the valuation methodologies used for instruments measured at fair value are as follows:

Level 1: Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities as of the reporting date.

Level 2: Pricing inputs are 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.

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. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value.

The Foundation's assets and liabilities measured at fair value on a recurring basis are investments and the interest rate swap agreement. The fair values of the Foundation's investments in mutual funds included in Level 1 were determined through unadjusted, quoted prices in active markets. The fair values of the Level 2 investments in common trust funds are recorded at net asset value, which is based on the fair value of the funds' underlying investments at year-end. The fair value of the Level 2 interest rate swap agreement was determined through observable broker quotes and matrix prices derived principally from observable market data. Due to the volatility of the capital markets, there is a reasonable possibility of significant changes in fair value and additional gains (losses) occurring subsequent to June 30, 2014.

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

University of Wisconsin Medical Foundation, Inc.

Notes to Financial Statements

Note 8. Fair Value Measurements (Continued)

The following tables set forth, by level within the fair value hierarchy, the Foundation's financial assets and liabilities measured at fair value on a recurring basis at June 30, 2014 and 2013:

	Fair Value Measurements at Reporting Date Using			
June 30, 2014	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets:				
Mutual funds:				
DoubleLine Core Fixed Income	$ 21,163,350	$ 21,163,350	$ -	$ -
GMO Benchmark Free Allocation	12,961,031	12,961,031	-	-
Vanguard Total International Stock Index	45,734,138	45,734,138	-	-
Vanguard Total Bond Market Index	27,318,175	27,318,175	-	-
Vanguard Total Stock Market Index	41,118,976	41,118,976	-	-
Common trust funds:				
Wellington Diversified Inflation Hedges	10,414,968	-	10,414,968	-
Brandywine Global Opportunistic Fixed Income	13,890,618	-	13,890,618	-
LSV Micro Cap	4,721,639	-	4,721,639	-
Total financial assets	$ 177,322,895	$ 148,295,670	$ 29,027,225	$ -
Financial liabilities:				
Interest rate swap contract	$ 1,144,787	$ -	$ 1,144,787	$ -

	Fair Value Measurements at Reporting Date Using			
June 30, 2013	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets:				
Mutual funds:				
DoubleLine Core Fixed Income	$ 17,633,324	$ 17,633,324	$ -	$ -
GMO Benchmark Free Allocation	10,791,835	10,791,835	-	-
Vanguard Total International Stock Index	39,184,678	39,184,678	-	-
Vanguard Total Bond Market Index	19,983,881	19,983,881	-	-
Vanguard Total Stock Market Index	43,585,540	43,585,540	-	-
Common trust funds:				
Wellington Diversified Inflation Hedges	8,930,464	-	8,930,464	-
Brandywine Global Opportunistic Fixed Income	12,426,530	-	12,426,530	-
Total financial assets	$ 152,536,252	$ 131,179,258	$ 21,356,994	$ -
Financial liabilities:				
Interest rate swap contract	$ 1,697,526	$ -	$ 1,697,526	$ -

University of Wisconsin Medical Foundation, Inc.

Notes to Financial Statements

Note 8. Fair Value Measurements (Continued)

The following tables disclose the fair value and redemption frequency for those assets whose fair value is estimated using the net asset value per share as of June 30, 2014 and 2013:

	2014			
	Fair Value Estimated Using Net Asset Value Per Share			
	Fair Value	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Wellington Diversified Inflation Hedges (1)	$ 10,414,968	$ -	Monthly	9 days
Brandywine Global Opportunistic Fixed Income (2)	13,890,618	-	Daily	10 days
LSV Micro Cap (3)	4,721,639	-	Monthly	7 days
	$ 29,027,225	$ -		

	2013			
	Fair Value Estimated Using Net Asset Value Per Share			
	Fair Value	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Wellington Diversified Inflation Hedges (1)	$ 8,930,464	$ -	Monthly	9 days
Brandywine Global Opportunistic Fixed Income (2)	12,426,530	-	Daily	10 days
	$ 21,356,994	$ -		

(1) The objective of the fund is to provide returns consistent with the U.S. Consumer Price Index plus 5 percent over the long term by investing in areas that offer strong relative performance in rising inflation environments. In order to evaluate value added from tactical asset allocation and security selection, a custom benchmark, composed of the weighted blend of benchmarks of the component investment approaches, is also used as a secondary, reference benchmark.

(2) The objective of the fund is to achieve interest income and long-term capital appreciation by investing in U.S. fixed-income instruments and non-U.S. developed and emerging markets sovereign debt securities. The fund concentrates its investments in bonds of countries having the best value in the form of high real interest rates.

(3) The objective of this fund is to outperform the Russell Microcap Value Index, by investing in a portfolio of micro-cap and small-cap U.S. equities.

The carrying amounts for cash, accounts receivable, and accounts payable approximate their fair values due to the short-term nature of these accounts. The carrying amount of the long-term obligations (Level 2) approximates fair value because of the variable interest rate associated with the obligations.

Note 9. Related Parties

The Foundation reimburses the Medical School and the University for operating supplies and for salaries paid to administrative and professional staff who also work for the Foundation. Total operating expenses pursuant to this arrangement are $84,663,806 and $85,306,824 for the years ended June 30, 2014 and 2013, respectively. Total payables to the Medical School and the University were approximately $3,993,000 and $3,427,000 at June 30, 2014 and 2013, respectively. In addition, support is provided to the Medical School and the University annually (see Note 11).

Note 9. Related Parties (Continued)

The Foundation entered into a letter of understanding with UHC, which allows UHC to enter into managed care contracts on behalf of the Foundation subject to the Foundation president's approval of Foundation reimbursement. Such an arrangement has been entered into for the benefit of providing physician services for Unity and GHC enrollees. The Foundation provided reimbursement of $4,595,479 and $2,885,722 to UHC for certain administrative operations for the years ended June 30, 2014 and 2013, respectively, which is included in University Health Care, Inc. support in the statements of operations and changes in net assets.

The Foundation also received support of approximately $51,744,000 and $46,679,000 in 2014 and 2013, respectively, from UWHCA for personnel services provided by staff to UWHCA and support of regional activities, which is included in other revenue in the statements of operations and changes in net assets.

Note 10. Retirement Plans and Profit Sharing Plan

The Foundation has a money purchase pension plan (the Plan) covering substantially all Foundation physicians. Physician employees contribute a percentage of their salaries, up to defined limits, to the Plan.

The Foundation has a qualified, defined contribution retirement plan and a profit sharing plan for substantially all full-time nonphysician employees upon completion of one year of service. Contributions are based on a percentage of participants' salaries and wages. Total defined contribution retirement plan and profit sharing expense was approximately $9,448,800 and $9,275,500 for the years ended June 30, 2014 and 2013, respectively.

Note 11. Commitments and Contingencies

The Foundation is subject to various legal proceedings and claims, which are incidental to its normal business activities. In the opinion of the Foundation's management, the ultimate liability with respect to these actions will not materially affect the operations or net assets of the Foundation.

Under the terms of the Medical School Development Fund (MSDF) Agreement between the Foundation and the Medical School, the Foundation will contribute certain predetermined amounts to the MSDF. Total expenses pursuant to these arrangements were $30,943,000 and $30,366,000 for the years ended June 30, 2014 and 2013, respectively, of which $7,735,749 and $7,591,499 were due to the MSDF at June 30, 2014 and 2013, respectively.

The Foundation is required under the Board of Regents Agreement to make contributions to a departmental Research and Development Fund (RDF). A minimum of 2.5 percent of net departmental professional receipts must be transferred to special accounts at the University of Wisconsin Foundation (the UWF). The funds in the special accounts are to be used to support departmental research as determined by the Medical School's Departmental Executive Committee. Total RDF expenses pursuant to this arrangement were $24,277,070 and $15,491,861 for the years ended June 30, 2014 and 2013, respectively, of which $279,932 and $434,090 were due to the RDF as of June 30, 2014 and 2013, respectively.

The Foundation rents certain equipment, office and clinical space under noncancelable lease agreements. Total rental expense was approximately $13,064,500 and $11,395,800 for the years ended June 30, 2014 and 2013, respectively, and is included in other operating expenses in the statements of operations and changes in net assets.

University of Wisconsin Medical Foundation, Inc.

Notes to Financial Statements

Note 11. Commitments and Contingencies (Continued)

Included among the Foundation's operating leases is certain office space that is leased from MMC. Under the lease agreement with MMC, the Foundation is subject to contingent rentals based on the amount of MMC total rental and general administrative expenses over $540,000. The amount of these contingent rental expenses was $716,000 and $684,000 for the years ended June 30, 2014 and 2013, respectively. Total rental expense from MMC, including contingent rental expenses, for the years ended June 30, 2014 and 2013, was approximately $1,772,800 and $1,745,400, respectively.

A schedule of future minimum rental payments on operating leases for the next five years and thereafter is as follows:

Years Ending June 30,	
2015	$ 9,844,448
2016	9,641,735
2017	8,721,095
2018	7,676,574
2019	6,590,908
Thereafter	28,572,312
	$ 71,047,072

The Foundation subleases clinical space to WISLP, TSC and GFC. Income from subleases was $1,103,174 and $1,209,500 for the years ended June 30, 2014 and 2013, respectively. A schedule of rental income from subleases for the next five years and thereafter is as follows:

Years Ending June 30,	
2015	$ 1,142,865
2016	1,167,012
2017	1,191,673
2018	1,216,861
2019	1,195,150
Thereafter	2,492,273
	$ 8,405,834

Health care legislation: The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, and reimbursement for patient services. Government activity has continued with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Foundation is in compliance with fraud and abuse, as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

Note 11. Commitments and Contingencies (Continued)

The Centers for Medicare & Medicaid Services (CMS) implemented a project using recovery audit contractors (RACs) as part of CMS' further efforts to assure accurate payments. The project uses the RACs to search for potentially inaccurate Medicare payments that may have been made to health care providers and that were not detected through existing CMS program integrity efforts. Once a RAC identifies a claim it believes is inaccurate, it makes a deduction from or addition to the provider's Medicare reimbursement in an amount estimated to equal the overpayment or underpayment. The Foundation will deduct from revenue amounts assessed under the RAC audits at the time a notice is received until such time that estimates of net amounts due can be reasonably estimated. The Foundation does not anticipate incurring significant RAC assessments; however, the outcomes of such assessments are unknown and cannot be reasonably estimated.

The Health Information Technology for Economic and Clinic Health (HITECH) portion of the American Recovery and Reinvestment Act of 2009 includes $27 billion in incentives through Medicare and Medicaid reimbursement systems to foster electronic health record (EHR) adoption. In order to be eligible for EHR incentive funding, eligible hospitals and professionals must use a certified EHR, report quality measures, and achieve "meaningful use," as defined by HITECH. During 2014 and 2013, the Foundation achieved the criteria for stage one meaningful use under Medicare and Medicaid and recognized revenue of approximately $6,915,000 and $9,241,000, respectively, which is included in other revenue in the statements of operations and changes in net assets. Additionally, the Foundation's compliance with the meaningful use criteria is subject to audit by the federal government.

Note 12. Professional Liability Insurance

The Foundation has professional liability insurance covering nonphysician employees for claim losses up to $1,000,000 per occurrence and $3,000,000 per policy year. Losses in excess of this coverage are covered by a $10,000,000 excess liability policy. All Foundation-employed physicians are considered State of Wisconsin employees and, as such, have professional liability coverage through the State of Wisconsin Self-Funded Liability Program. Accrued expenses include a reporting endorsement of $231,258 and $530,249 as of June 30, 2014 and 2013, respectively.

Note 13. Subsequent Events

All of the effects of subsequent events that provide additional evidence about conditions that existed at the balance sheet date, including the estimates inherent in the process of preparing the financial statements, are recognized in the financial statements. The Foundation does not recognize subsequent events that provide evidence about conditions that did not exist at the balance sheet date but existed before the financial statements are available to be issued. In some cases, unrecognized subsequent events are disclosed to prevent the financial statements from being misleading.

In 2014, the Foundation, UWHCA, and University Health Care, Inc. (UHC) entered into an affiliation Letter of Intent with SwedishAmerican Health System (SAHS). The parties share a common goal of establishing an integrated organization with long term viability which provides enhanced opportunities for physicians and employees while improving the health status of the communities they serve. The definitive agreement is currently being negotiated. It is anticipated that the affiliation with SAHS will occur in January 2015.

The Foundation has evaluated events and transactions occurring subsequent to June 30, 2014, and through October 13, 2014, the date of issuance of the financial statements. During this period there were no events, other than the event discussed above, requiring recognition or disclosure in the financial statements.

University of Wisconsin Medical Foundation, Inc.

Notes to Financial Statements

Note 14. New Accounting Pronouncements

Accounting standards not yet adopted: Accounting Standards Update (ASU) No. 2013-06, *Not-for-Profit Entities (Topic 958)—Services Received from Personnel of an Affiliate*, will be effective for the Foundation on July 1, 2014. ASU No. 2013-06 provides guidance for a recipient not-for-profit entity to recognize all services received from personnel of an affiliate that directly benefit the not-for-profit entity.

ASU No. 2014-09, *Revenue from Contracts with Customers*, will be effective for the Foundation on July 1, 2017. This standard update requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects consideration to which the entity expects to be entitled in exchange for those goods or services. ASU No. 2014-09 will supersede the revenue recognition requirements in *FASB Accounting Standards Codification* (ASC) Topic 605, Revenue Recognition, and creates ASC Topic 606, Revenue from Contracts with Customers.

The Foundation's management has not yet determined the effect the above ASUs will have on the Foundation's financial statements.

FINANCIAL STATEMENTS

6d: Audited Financial Statement of SwedishAmerican Health System Corporation and Subsidiaries (May 31, 2014)

SwedishAmerican Health System Corporation and Subsidiaries

Consolidated Financial Report
May 31, 2014

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McGladrey

Independent Auditor's Report

To the Board of Directors
SwedishAmerican Health System Corporation
Rockford, Illinois

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of SwedishAmerican Health System Corporation and Subsidiaries (the "Corporation") which comprise the consolidated balance sheets as of May 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 entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of SwedishAmerican Health System Corporation and Subsidiaries as of May 31, 2014 and 2013, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

McGladrey LLP

Rockford, Illinois
September 2, 2014

Member of the RSM international network of independent accounting, tax and consulting firms.

SwedishAmerican Health System Corporation and Subsidiaries

Consolidated Balance Sheets
May 31, 2014 and 2013
(Dollars in thousands)

Assets	2014	2013
Current Assets		
Cash and cash equivalents	$ 29,353	$ 26,546
Short-term investments	4,000	2,834
Current portion assets limited as to use:		
Externally designated under bond agreements	-	3,489
Internally designated for self-insurance fund	3,300	-
Patient accounts receivable, less allowances for uncollectible accounts of $25,982 in 2014 and $28,235 in 2013	68,816	62,146
Inventories	7,914	6,530
Prepaid expenses and other assets	8,997	10,371
Total current assets	122,380	111,916
Other Assets		
Assets limited as to use:		
Bond project fund, less current portion	-	15,187
Internally designated for self-insurance fund, less current portion	12,646	14,286
Internally designated for deferred compensation agreements	8,922	10,405
Investments	197,846	172,208
Beneficial interest in trust assets	4,617	4,274
Contribution receivable from lead trust	289	281
Deferred bond issuance costs, net of accumulated amortization of $2,576 in 2014 and $2,293 in 2013	3,123	3,406
Goodwill	7,800	7,800
Intangible asset	9,001	9,001
Notes receivable and other assets	6,395	7,267
	250,639	244,115
Property and Equipment, net	215,083	199,665
Total assets	$ 588,102	$ 555,696

See Notes to Consolidated Financial Statements.

Liabilities and Net Assets	2014	2013
Current Liabilities		
Accounts payable	$ 10,832	$ 10,035
Accrued expenses and other	36,526	35,354
Self-insurance	3,300	-
Estimated settlements due to third-party payors	35,705	30,023
Current maturities of long-term debt	5,642	5,797
Total current liabilities	92,005	81,209
Noncurrent Liabilities		
Long-term debt, less current maturities	140,134	145,775
Self-insurance, less current portion	14,755	16,509
Deferred compensation agreements	8,922	10,405
Other	295	267
	164,106	172,956
Total liabilities	256,111	254,165
Contingencies and Commitments (Notes 1, 6, 7, 10 and 13)		
Net Assets		
Unrestricted	322,346	292,389
Temporarily restricted	3,492	3,321
Permanently restricted	6,153	5,821
Total net assets	331,991	301,531
Total liabilities and net assets	$ 588,102	$ 555,696

SwedishAmerican Health System Corporation and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets
Years Ended May 31, 2014 and 2013
(Dollars in thousands)

	2014	2013
Unrestricted revenues, gains and other support		
Net patient service revenue	$ 433,025	$ 415,980
Provision for bad debts	(35,315)	(30,745)
Net patient service revenue less provision for bad debts	397,710	385,235
Public Aid assessment revenue	37,405	22,586
Other revenue	16,638	14,361
Net assets released from restrictions - used for operating purposes	90	46
	451,843	422,228
Expenses		
Salaries and employee benefits	218,876	215,241
Supplies and purchased services	109,743	102,194
Professional fees	25,728	23,471
Management fees	4,336	6,681
Depreciation and amortization	22,231	20,843
Interest	5,690	4,677
Utilities	3,695	3,559
Repairs and maintenance	13,592	11,807
Insurance	10,025	10,621
Public Aid assessment expense	14,408	7,650
Other	6,722	5,846
	435,046	412,590
Operating income	16,797	9,638
Nonoperating income (expense)		
Investment income	15,037	14,367
Income tax (provision)	(905)	(173)
Foundation - other, net	(1,252)	(1,352)
Other	(46)	637
	12,834	13,479
Revenue in excess of expenses	$ 29,631	$ 23,117

(Continued)

SwedishAmerican Health System Corporation and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets (Continued)
Years Ended May 31, 2014 and 2013
(Dollars in thousands)

	2014	2013
Unrestricted net assets		
Revenue in excess of expenses	$ 29,631	$ 23,117
Net assets released from restrictions used for property and equipment	326	204
Increase in unrestricted net assets	29,957	23,321
Temporarily restricted net assets		
Contributions and other	716	1,668
Investment income	166	86
Net change in unrealized gains and losses on investments	172	238
Change in value of split-interest agreements	35	31
Net assets released from restrictions used for operating and capital purposes	(416)	(250)
Net assets released from restrictions used for nonoperating purposes	(502)	(348)
Increase in temporarily restricted net assets	171	1,425
Permanently restricted net assets		
Contributions and other	9	(15)
Change in beneficial interest in perpetual trust	323	347
Increase in permanently restricted net assets	332	332
Increase in net assets	30,460	25,078
Net assets, beginning of year	301,531	276,453
Net assets, end of year	$ 331,991	$ 301,531

See Notes to Consolidated Financial Statements.

SwedishAmerican Health System Corporation and Subsidiaries

Consolidated Statements of Cash Flows
Years Ended May 31, 2014 and 2013
(Dollars in thousands)

	2014	2013
Cash Flows From Operating Activities		
Increase in net assets	$ 30,460	$ 25,078
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization on operating assets	22,222	20,843
Depreciation on nonoperating assets	107	110
Provision for bad debts	35,315	30,745
Deferred taxes	687	(170)
Net change in unrealized gains and losses on investments	(6,470)	(4,381)
Net change in fair value of beneficial interest in perpetual trust	(519)	(520)
Restricted contributions	(725)	(1,653)
Changes in net cash from:		
(Increase) in patient accounts receivable	(41,985)	(13,892)
Decrease (increase) in inventories and other assets	146	(2,543)
Increase in accounts payable, accrued expenses, and other liabilities	3,475	2,525
Increase in estimated settlements due to third-party payors	5,682	5,297
Net cash provided by operating activities	48,395	61,439
Cash Flows From Investing Activities		
Purchases of property and equipment, net	(39,105)	(38,069)
Purchases of investments and assets limited as to use	(115,275)	(148,352)
Sales and maturities of investments and assets limited as to use	113,440	98,917
Investment in affiliates	21	(196)
Distribution of beneficial interest in perpetual trust	176	195
Net cash used in investing activities	(40,743)	(87,505)
Cash Flows From Financing Activities		
Proceeds from bond issuance	-	41,833
Bond issuance costs paid	-	(725)
Principal payments on long-term debt	(5,570)	(5,406)
Restricted contributions received	725	1,653
Net cash (used in) provided by financing activities	(4,845)	37,355
Increase in cash and cash equivalents	2,807	11,289
Cash and cash equivalents, beginning of year	26,546	15,257
Cash and cash equivalents, end of year	$ 29,353	$ 26,546

(Continued)

SwedishAmerican Health System Corporation and Subsidiaries

Consolidated Statements of Cash Flows (Continued)
Years Ended May 31, 2014 and 2013
(Dollars in thousands)

	2014	2013
Supplemental Schedule of Noncash Investing and Financing Activities		
Purchases of property and equipment in accounts payable	$ 284	$ 1,699

See Notes to Consolidated Financial Statements.

Note 1. Organization and Significant Accounting Policies

SwedishAmerican Health System Corporation (SAHS) and Subsidiaries (collectively, the Corporation), a not-for-profit organization, coordinates the collective efforts of its affiliates in pursuing various activities, including providing health care and promoting health-related scientific research and education in Rockford, Illinois, and the surrounding area.

The consolidated financial statements include the accounts and transactions of SAHS and the following organizations, which are affiliates of SAHS:

- SwedishAmerican Hospital (Hospital) – A Section 501(c)(3) not-for-profit hospital organized to provide and promote health care to the public for patients who primarily reside in Rockford, Illinois, and the surrounding area.
- SwedishAmerican Foundation (Foundation) – A Section 501(c)(3) organization whose purpose is to conduct programs and fundraising that support and benefit SAHS. The Foundation is consolidated with the Hospital.
- State and Charles, Inc. – A taxable subsidiary of SAHS whose purpose is to serve as a holding company.
- SwedishAmerican Realty Corporation (Realty) – A tax-exempt subsidiary under Section 501(c)(2) of the Internal Revenue Code that serves as a real estate holding company.
- SwedishAmerican Health Management Corporation (SAHM) – A taxable subsidiary of SAHS whose purpose is to provide nonpatient health-related services to other organizations.
- LSG Building Corporation – A taxable subsidiary of SAHS whose purpose is to serve as a real estate holding company.

All significant intercompany transactions have been eliminated in consolidation.

SAHS also has an immaterial unconsolidated wholly-owned subsidiary which is SARI Insurance Company (SARI). SARI is a captive insurance company that provides the Corporation with excess liability coverage.

On April 28, 2014, the Corporation entered into a non-binding letter of intent with University Health Care, Inc. (UHC), University of Wisconsin Hospitals and Clinics Authority (UWHCA), and University of Wisconsin Medical Foundation (UWMF), pursuant to which UHC will become the sole member of the Corporation. UHC is a Wisconsin nonprofit corporation tax-exempt under section 501(c)(3), whose current members are UWHCA, UWMF and University of Wisconsin School of Medicine and Public Health. The parties are presently engaged in due diligence review and are negotiating a binding definitive agreement.

A summary of significant accounting policies is as follows:

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 at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. The use of estimates and assumptions in the preparation of the accompanying consolidated financial statements is primarily related to the determination of net patient accounts receivable, settlements with third-party payors, the self-insurance accrual and the net future cash flows used in the calculation of fair value of the intangible asset. Although estimates are considered to be fairly stated at the time that the estimates are made, actual results could differ.

Note 1. Organization and Significant Accounting Policies (Continued)

Cash and cash equivalents: All investments that are not limited as to use with an original maturity of three months or less when purchased are reflected as cash and cash equivalents.

Throughout the year, the Corporation may have amounts on deposit with financial institutions in excess of those insured by the FDIC. The Corporation has not experienced any losses in such accounts.

Patient accounts receivable and due from/to third-party payors: The collection of receivables from third-party payors and patients is the Corporation's primary source of cash for operations and is critical to its operating performance. The primary collection risks relate to uninsured patient accounts and patient accounts for which the primary insurance payor has paid, but patient responsibility amounts (deductibles and copayments) remain outstanding. Patient receivables, where a third-party payor is responsible for paying the amount, are carried at a net amount determined by the original charge for the service provided, less an estimate made for contractual adjustments or discounts provided to third-party payors.

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

The Corporation's allowance for uncollectible accounts for self-pay patients decreased from 84% of self-pay accounts receivable at May 31, 2013, to 77% of self-pay accounts receivable at May 31, 2014. In addition, the Corporation's self-pay write-offs increased $4,126 from $38,246 for fiscal 2013 to $42,372 for fiscal 2014. The increase in write-offs is related to price increases and volume. As a percentage of gross patient service revenue, self-pay write-offs have remained consistent. The Corporation has not changed its charity care or uninsured discount policies during fiscal years 2013 or 2014. The Corporation did not have significant write-offs from third-party payors.

Recoveries of receivables previously written off are recorded when received. The past due status of receivables is determined on a case-by-case basis depending on the payor responsible. The Corporation generally does not charge interest on past due accounts. Receivables or payables related to estimated settlements on various contracts in which the Corporation participates are reported as third-party payor receivables or payables.

Note 1. Organization and Significant Accounting Policies (Continued)

Assets limited as to use and investments: Assets limited as to use include cash and investments internally designated by the Board of Directors for capital replacement and expansion, self-insurance, and deferred compensation agreements, which the Board, at its discretion, may subsequently use for other purposes. Amounts required to meet current liabilities of the Corporation have been classified in the consolidated balance sheets as current assets. Assets limited as to use and investments not restricted by donors are designated as trading securities.

Investment income (including realized gains and losses on investments, interest, and dividends) is included in revenue in excess of expenses unless the income is restricted by donor or law. Unrealized gains and losses on investment assets held are included as investment income in revenue in excess of expenses unless the unrealized gains and losses are restricted by donor or law.

Inventories: Inventories are stated at the lower of cost, determined by the first-in, first-out method, or market.

Beneficial interest in trust assets: The Corporation has a beneficial interest in several perpetual trusts, which is measured by the Corporation's share of the fair value of the underlying trusts' net assets. The change in the Corporation's share of the fair value of the trusts' net assets as of each fiscal year-end is recognized as an adjustment to beneficial interest in trust assets and as a change in unrestricted, temporarily restricted, or permanently restricted net assets, depending on the underlying donor restriction.

Deferred bond issuance costs: Costs incurred in connection with the issuance or refinancing of long-term debt are deferred and amortized over the term of the related financing using the bonds outstanding method.

Property and equipment: Property and equipment are stated at cost and are depreciated using the straight-line method over the estimated useful lives of the assets. Interest costs incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

The estimated useful lives of depreciable property and equipment range from 5 to 25 years for land improvements, 10 to 40 years for buildings, and 3 to 20 years for furniture and fixtures.

Intangible asset: The intangible asset consists of an acute care bed license for the Corporation's Belvidere, Illinois, facility. The asset is carried at cost and has an indefinite useful life. The intangible asset is tested for impairment at least annually and more frequently if events and circumstances indicate the asset may be impaired. The impairment test consists of a comparison of the fair value of the intangible asset with its carrying value. If the carrying value of the intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to the excess. The Corporation also evaluates the remaining useful life of the intangible asset each reporting period to determine whether events and circumstances continue to support an indefinite useful life. If the intangible asset is subsequently determined to have a finite useful life, the asset will be amortized prospectively over its remaining estimated useful life. During 2014, the Corporation determined that no impairment existed and an indefinite useful life was appropriate.

Note 1. Organization and Significant Accounting Policies (Continued)

Goodwill: The Corporation's goodwill was recorded as a result of certain business combinations. Goodwill is recorded at cost less amortization that had accumulated as of June 1, 2010 when goodwill became nonamortizable due to the adoption of new guidance provided by the Financial Accounting Standards Board (FASB). Effective June 1, 2010, the Corporation tests its recorded goodwill for impairment on an annual basis, or more often if indicators of potential impairment exist, by determining if the carrying value of each reporting unit exceeds its estimated fair value. The Corporation determines the fair value of its reporting units utilizing the discounted cash flows model. During 2014, the Corporation determined that no impairment existed. There are no accumulated impairment losses associated with the recorded goodwill balances.

Impairment of long-lived assets: The Corporation reviews the carrying value of its long-lived assets, excluding goodwill and indefinite-lived intangible assets, whenever events or changes in circumstances indicate that the carrying value of an asset may no longer be appropriate. The Corporation assesses recoverability of the carrying value of the asset by estimating the future net cash flows expected to result from the asset, including eventual disposition. If the future net cash flows are less than the carrying value of the asset, an impairment loss is recorded equal to the difference between the asset's carrying value and fair value. Impairment losses related to investments are recognized in unrestricted investment income. All other impairment write-downs are recognized in operating income at the time the impairment is identified. No impairment was identified during 2014 or 2013.

Self-insurance: The provision for the self-insured general and professional liability claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported. The provision is actuarially determined.

Donor-restricted gifts: Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. The gifts are reported as either temporarily or permanently restricted net assets if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions.

Temporarily and permanently restricted net assets: Temporarily restricted net assets are assets whose use has been restricted by donors to a specific time period or purpose. Assets released from restrictions that are used for the purchase of property and equipment or capital purposes are reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions used for property and equipment. Assets released from restrictions that are used for operating purposes are reported in the consolidated statements of operations and changes in net assets as unrestricted revenues, gains, and other support. Restricted earnings are recorded as temporarily restricted net assets until amounts are expended in accordance with donors' specifications.

Permanently restricted net assets are subject to donor-imposed stipulations requiring that they be maintained permanently by the Corporation. Earnings on the permanently restricted net assets are recorded as investment income within temporarily restricted net assets in accordance with donor intent, or until appropriated if donor intent is not expressed.

Note 1. Organization and Significant Accounting Policies (Continued)

Net patient service revenue: The Corporation has agreements with third-party payors that provide for payments to the Corporation at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts due from patients, third-party payors, and others for services rendered, including estimated adjustments under reimbursement agreements with third-party payors, certain of which are subject to audit by administering agencies. Those adjustments are accrued on an estimated basis and are adjusted in future periods as final settlements are determined.

Medicare and Medicaid Electronic Health Records (EHR) Incentive Programs: The American Recovery and Reinvestment Act of 2009 provides for Medicare and Medicaid Incentive Programs beginning in Federal fiscal year 2011 for eligible acute care hospitals that are meaningful users of certified EHR technology, as defined by the Federal Register. The Hospital has implemented certified EHR technology that has enabled it to demonstrate its meaningful use and to qualify for the Medicare incentive program. The initial incentive payment received for the Medicare EHR incentive program is an estimate based upon data from prior year's cost report. The final settlement will be determined after the submission of the current annual cost report and subsequent audit by the fiscal intermediary. The Hospital's compliance with the meaningful use criteria is also subject to audit by the Federal government. The EHR Incentive Programs are expected to continue through September 30, 2016, and the incentive payments will be calculated annually. Beginning in 2015, hospitals that are not meaningful users of certified EHR technology will be subject to a potential decrease in their Medicare and Medicaid payments. The Hospital accounts for EHR incentive funds using the grant accounting model. Under this model, the Hospital records EHR incentive revenue when it is reasonably assured that it will meet the meaningful use criteria for the required reporting period and that the grant will be received.

For the years ended May 31, 2014 and 2013, the Hospital recorded Medicare EHR incentive revenue of approximately $2,865 and $4,165, respectively. For the years ended May 31, 2014 and 2013, the Hospital recorded approximately $370 and $0 of Medicaid EHR incentive revenue, respectively. All of these amounts are reported in other operating revenue in the accompanying consolidated statements of operations and changes in net assets.

Charity care, uncompensated care and community benefits: The Corporation provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Corporation does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The Corporation's policy is to provide medically necessary health services regardless of the patient's ability to pay for such services. The Corporation maintains records to identify and monitor the level of charity care it provides.

Operating income: The consolidated statements of operations and changes in net assets include an intermediate measure of operations, operating income, which represents the activity of the ongoing operations of the Corporation. Nonoperating income (expense), excluded from operating income, consists primarily of nonrecurring transactions and transactions that are outside of the Corporation's primary health care activities. All of the Foundation's activity is considered to be nonoperating.

Revenue in excess of expenses: The consolidated statements of operations and changes in net assets include revenue in excess of expenses. Changes in unrestricted net assets, which are excluded from revenue in excess of expenses, consistent with industry practice, include unrealized gains and losses on investments, other than trading securities, contributions of long-lived assets, including assets acquired using contributions, which by donor restriction were to be used for the purposes of acquiring such assets, discontinued operations, and the cumulative effects of changes in accounting principles.

Note 1. Organization and Significant Accounting Policies (Continued)

Donated services: A number of volunteers have donated services to the Corporation's program services and fundraising campaigns during the year; however, the value of these donated services is not reflected in the financial statements since the services do not require specialized skills.

Income taxes: For the for-profit subsidiaries, deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

SAHS, Hospital and Foundation have received determination letters from the Internal Revenue Service (IRS) stating they are tax-exempt under Section 501(c)(3) of the Internal Revenue Code (the Code). Realty has received a determination letter from the IRS stating that it is tax-exempt under section 501(c)(2) of the Code.

SAHS, Hospital, Foundation and Realty each file a Form 990 (Return of Organization Exempt from Income Tax), and State and Charles, Inc., LSG Building Corporation, and SAHM each file Form 1120 (U.S. Corporation Income Tax Return) annually. When these returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would ultimately be sustained. Examples of tax positions common to health systems include such matters as the following: tax-exempt status of each entity, the continued tax-exempt status of bonds issued by the obligated group, the nature, characterization and taxability of joint venture income and various positions relative to potential sources of unrelated business taxable income (UBTI). UBTI is reported on Internal Revenue Service Form 990-T, as appropriate. The benefit of a tax position is recognized in the consolidated financial statements in the period during which, based on all available evidence, management believes that it is more likely than not that the tax position will be sustained upon examination, including the resolution of appeals or litigation processes, if any.

Tax positions are not offset or aggregated with other positions. Tax positions that meet the "more likely than not" recognition threshold are measured as the largest amount of tax benefit that is more than 50% likely to be realized on settlement with the applicable taxing authority. The portion of the benefits associated with the tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying consolidated balance sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination. At May 31, 2014 and 2013, there were no unrecognized tax benefits identified or recorded as liabilities.

The Forms 990, Forms 990-T and Forms 1120 filed by the Corporation are subject to examination for up to three years from the extended due date of each return. These returns are no longer subject to examination for tax years ended before May 31, 2011.

Note 1. Organization and Significant Accounting Policies (Continued)

Property and sales taxes: On June 14, 2012, the Governor of Illinois signed into law legislation that governs property and sales tax exemption for not-for-profit hospitals. The law took effect on the date it was signed. Under the law, in order to maintain its property and sales tax exemption, the value of specified services and activities of a not-for-profit hospital must equal or exceed the estimated value of the hospital's property tax liability, as determined under a formula in the law. The specified services are those that address the health care needs of low-income or underserved individuals or relieve the burden of government with regard to health care services, and include: the cost of free or discounted services provided pursuant to the hospital's financial assistance policy; other unreimbursed costs of addressing the health needs of low-income and underserved individuals; direct or indirect financial or in-kind subsidies of State and local governments; the unreimbursed cost of treating Medicaid and other means-tested program recipients; the unreimbursed cost of treating dual-eligible Medicare/Medicaid patients; and other activities that the Illinois Department of Revenue determines relieve the burden of government or address the health of low-income or underserved individuals. Management believes that the Hospital meets the requirements under the law to maintain its property and sales tax exemption.

Reclassifications: Certain amounts in the 2013 consolidated financial statements were reclassified to conform with the 2014 presentation, with no effect on revenue in excess of expenses or net assets. The operations of SwedishAmerican Foundation were reclassified to nonoperating in the 2013 consolidated financial statements to conform with the 2014 presentation.

Pending accounting pronouncements: ASU 2012-05, *Statement of Cash Flows (Topic 230) – Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows.* The amendments in the ASU require not-for-profit organizations to classify cash receipts from the sale of donated financial assets consistently with cash donations received in the statement of cash flows if those cash receipts were from the sale of donated financial assets that upon receipt were directed without any not-for-profit imposed limitations for sale and were converted nearly immediately into cash. The amendments of this ASU are effective prospectively to fiscal years, and interim periods within those years, beginning after June 15, 2013. Retrospective application to all prior periods presented upon the date of adoption is permitted. Early adoption from the beginning of the fiscal year of adoption is permitted.

ASU 2013-04, *Liabilities (Topic 405): Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date.* ASU 2013-04 provides guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this ASU is fixed at the reporting date, expect for obligations addressed within existing guidance in U.S. generally accepting accounting principles (GAAP). The guidance requires an entity to measure those obligations as the sum of the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors and any additional amount the reporting entity expects to pay on behalf of its co-obligors. The guidance in this ASU also requires an entity to disclose the nature and amount of the obligation as well as other information about those obligations. The amendments in this ASU are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The amendments in this ASU should be applied retrospectively to all prior periods presented for those obligations resulting from joint and several liability arrangements within the ASU's scope that exist at the beginning of the entity's fiscal year of adoption. An entity may elect to use hindsight for the comparative periods (if it changed its accounting as a result of adopting the amendments in this ASU) and should disclose that fact. Early adoption is permitted.

Note 1. Organization and Significant Accounting Policies (Continued)

ASU 2013-06, *Not-for-Profit Entities (Topic 958): Services Received from Personnel of an Affiliate.* The amendments of ASU 2013-06 require the recipient not-for-profit entity to recognize all services received from personnel of an affiliate that directly benefit the recipient not-for-profit entity. Those services should be measured at the cost recognized by the affiliate for the personnel providing those services. However, if measuring a service received from personnel of an affiliate at cost will significantly overstate or understate the value of the service received, the recipient not-for-profit entity may elect to recognize that service received at either (1) the cost recognized by the affiliate for the personnel providing that service or (2) the fair value of that service. The amendments in this ASU are effective prospectively for fiscal years beginning after June 15, 2014, and interim and annual periods thereafter. A recipient not-for-profit entity may apply the amendments using a modified retrospective approach under which all prior periods presented upon the date of adoption should be adjusted, but no adjustment should be made to the beginning balance of net assets of the earliest period presented. Early adoption is permitted.

ASU 2014-09, *Revenue from Contracts with Customers (Topic 606).* This ASU provides a robust framework for addressing revenue recognition issues and, upon its effective date, replaces most existing revenue recognition guidance, including industry-specific guidance, in current U.S. GAAP. The ASU is effective for the Corporation for annual reporting periods beginning after December 15, 2016 using either a retrospective method or a modified retrospective method.

Management of the Corporation is currently evaluating the effect that the above guidance will have on the Corporation's consolidated financial statements.

Subsequent events: The Corporation has evaluated subsequent events for potential recognition and/or disclosure through September 2, 2014, the date the consolidated financial statements were issued. Refer to Note 17 for further information related to subsequent events.

Note 2. Contractual Arrangements with Third-Party Payors

The Corporation provides care to certain patients under Medicare and Medicaid programs. The Medicare program pays for substantially all inpatient and outpatient services at predetermined rates under its corresponding prospective payment system based on treatment diagnosis. The Medicaid program reimburses the Corporation for inpatient and outpatient services at predetermined rates. Changes in the Medicare and Medicaid programs and reductions of funding levels could have an adverse effect on the future amounts recognized as net patient service revenue.

The Corporation has also entered into payment arrangements with certain managed care organizations. The basis for payment to the Corporation under these agreements includes prospectively determined rates per discharge, daily rates and discounts from established charges.

Medicare, Medicaid, and managed care arrangements account for 27%, 12%, and 39% of net patient service revenue for the year ended May 31, 2014, respectively, and 28%, 11%, and 42% for the year ended May 31, 2013, respectively. Provision has been made in the consolidated financial statements for estimated contractual adjustments, representing the difference between the standard charges for services and actual or estimated payment.

The Corporation grants credit without collateral to its patients, most of whom are local residents and are insured under third-party arrangements. Major components of net patient accounts receivable, before allowances for uncollectible accounts, include 13% from Medicare, 18% from Medicaid, and 35% from managed care contracts at May 31, 2014, and 14% from Medicare, 12% from Medicaid, and 36% from managed care contracts at May 31, 2013.

Note 2. Contractual Arrangements with Third-Party Payors (Continued)

Estimates for cost report settlements and contractual allowances can differ from actual reimbursements based on the results of subsequent reviews and cost report audits. Changes in estimated third-party valuation allowances that relate to prior years are reported in revenue in excess of expenses in the consolidated statements of operations and changes in net assets. The impact of such items on revenue in excess of expenses was an increase of approximately $1,260 and $2,637 for the years ended May 31, 2014 and 2013, respectively.

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. Management believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

The Hospital participates in the State of Illinois hospital assessment tax program which is administered by the Illinois Department of Public Aid. The provider assessment program payments are in effect for the state fiscal years ending each June 30. Under the current Program, the Hospital received additional Medicaid reimbursement from the State and paid a related assessment tax. On October 22, 2013, the State received CMS approval to enhance the Program retroactively to June 10, 2012. Total assessment revenue recognized by the Hospital related to this Program amounted to $37,405 and $22,586 during the years ended May 31, 2014 and 2013, respectively. Total assessment tax incurred by the Hospital related to this Program amounted to $14,408 and $7,650 during the years ended May 31, 2014 and 2013, respectively. Of these amounts, approximately $7,975 of revenue and approximately $3,620 of expense relate to the period from June 10, 2012 to May 31, 2013. These amounts are shown in the consolidated statements of operations and changes in net assets as Pubic Aid assessment revenue and Public Aid assessment expense. In connection with the Program, the Hospital made voluntary contributions to the Illinois Hospital Research and Educational Foundation (IHREF) of $243 and $193 during each of the years ended May 31, 2014 and 2013, which are included in other expense in the consolidated statements of operations and changes in net assets. Under the current Program, the Hospital expects the net revenue from the Program for the years ending May 31, 2015 through 2018 to be approximately $18,768 and for the year ending May 31, 2019 to be approximately $1,564.

Illinois Medicaid reform: On June 16, 2014, the Governor of Illinois signed legislation to reform Illinois Medicaid. The legislation codifies Medicaid rate reform and payment system changes proposed by the Illinois Department of Healthcare and Family Services (HFS). It includes protections to prevent future rate reductions by HFS and a transition period of four years until June 30, 2018. It extended the current and enhanced Medicaid Hospital Tax Assessment Program (Programs) through June 30, 2018, and includes new funding to hospitals which will be used to attract additional Federal matching funds. If the State receives approval from the Centers for Medicare and Medicaid Services (CMS) to further enhance the Program, the Hospital expects the additional annual net revenue to be $6,200 for the years ending May 31, 2015 through 218 and $517 for the year ending May 31, 2019. Such payments are subject to change and are contingent upon CMS approval of the enhanced hospital tax assessment program.

Note 3. Charity, Uncompensated Care and Community Benefits

In the ordinary course of business, the Corporation renders medically necessary health services to patients who are financially unable to pay for such care. Unreimbursed charges written off by the Corporation relating to uncompensated care provided to indigent patients under the Medicaid program and other patients who are unable to pay for services provided amounted to the following for the years ended May 31, 2014 and 2013:

	2014	2013
Medicaid allowances	$ 243,648	$ 229,473
Provision for bad debts	35,315	30,745

The Corporation provides care to those patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. The Corporation maintains records to identify and monitor the level of charity care it provides. Charity care is measured based on the Corporation's estimated cost of providing charity care. That estimate is made by calculating the departmental ratio of cost to gross charges, and applying that ratio to uncompensated charges associated with providing charity care to patients. The cost of charity care provided was $10,153 and $13,656 for the years ended May 31, 2014 and 2013, respectively. The decrease in the cost of charity care was attributable to more patients having Medicaid or other insurance coverage under the Affordable Care Act.

In addition, the Corporation, in furtherance of its commitment to the community, also incurs significant time and commits significant resources to meet otherwise unfulfilled needs. Many of these activities are sponsored with the knowledge that they will not be self-supporting or independently financially viable. These programs, oriented to the economically disadvantaged, medically underserved, or elderly, as well as to the community at large, include health screening and assessments, prevention, prenatal and nutritional services, and care for children.

On April 1, 2009, the Illinois Hospital Uninsured Patient Discount Act (the Act) became law. The Act requires hospitals to provide certain mandated discounts from charges to the uninsured in Illinois. Charges are to be discounted up to 135% of cost for eligible uninsured Illinois residents, based on income and federal poverty guidelines. Furthermore, a hospital may not collect more than 25% of an eligible uninsured family's gross income in any 12-month period. The Corporation's charity care policy complies with the uncompensated care mandated under the Act.

Note 4. Assets Limited as to Use and Investments

The composition of assets limited as to use and investments is as follows at May 31:

	2014	2013
Mutual funds	$ 37,608	$ 34,941
Certificates of deposit	387	384
Money market funds	1,236	880
Corporate bonds and notes	29,349	47,480
Government and agency obligations	106,980	94,723
Equity securities	51,067	39,906
Other	87	95
	$ 226,714	$ 218,409

These amounts are included on the consolidated balance sheets as follows:

	2014	2013
Short-term investments	$ 4,000	$ 2,834
Assets limited as to use:		
Bond project fund	-	18,676
Internally designated for self-insurance fund	15,946	14,286
Internally designated for deferred compensation agreements	8,922	10,405
Investments	197,846	172,208
	$ 226,714	$ 218,409

Total unrestricted investment income from assets limited as to use, investments, and cash and cash equivalents consists of the following for the years ending May 31:

	2014	2013
Investment income - unrestricted:		
Interest and dividend income	$ 5,935	$ 5,845
Net realized gain from sale of investments	3,494	4,999
Net change in unrealized gains and losses on trading securities	6,296	4,143
Investment fee expense	(688)	(620)
	$ 15,037	$ 14,367

Note 5. Endowment Funds

The Corporation's endowment consists of 15 individual funds established for a variety of purposes. Its endowment includes donor-restricted endowment funds. As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Note 5. Endowment Funds (Continued)

On June 30, 2009, the Governor of the State of Illinois signed into law the Uniform Prudent Management of Institutional Funds Act (UPMIFA). UPMIFA differs from laws previously in place in a few key areas. It eliminates the historic dollar value rule with respect to endowment fund spending, it updates the prudence standard for the management and investment of charitable funds, and it amends the provisions governing the release and modification of restrictions on charitable funds. The passing of the UPMIFA law was determined to have no significant impact on the Corporation's classification of net assets or its policy.

Interpretation of Relevant Law

The Board of Directors of the Corporation has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent any explicit donor stipulations to the contrary. As a result of this interpretation, the Corporation classified as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the 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 donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those assets have been appropriated for expenditure by the Corporation in a manner consistent with the standard of prudence prescribed in UPMIFA. In accordance with UPMIFA, the Corporation considers the following factors in making a determination to appropriate or accumulate earnings on donor-restricted endowment funds:

1. The duration and preservation of the fund;
2. The purpose of the Corporation and the donor-restricted endowment fund;
3. General economic conditions;
4. The possible effect of inflation and deflation;
5. The expected total return from income and the appreciation of investments;
6. Other resources of the Corporation; and
7. The investment policies of the Corporation.

The Corporation's endowment net asset composition by type of fund is as follows at May 31:

	2014				2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted	$ -	$ 941	$ 2,010	$ 2,951	$ -	$ 751	$ 2,001	$ 2,752

Note 5. Endowment Funds (Continued)

The changes in endowment net assets for the Corporation were as follows for the years ended May 31:

	2014				2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ -	$ 761	$ 2,001	$ 2,752	$ -	$ 517	$ 2,016	$ 2,533
Investment return:								
Investment gain	-	161	-	161	-	84	-	84
Net unrealized appreciation	-	172	-	172	-	238	-	238
Total investment return	-	333	-	333	-	322	-	322
Contributions and other	-	1	9	10	-	-	(15)	(15)
Appropriation of endowment assets for expenditure	-	(144)	-	(144)	-	(88)	-	(88)
Endowment net assets, end of year	$ -	$ 941	$ 2,010	$ 2,951	$ -	$ 751	$ 2,001	$ 2,752

Funds with Deficiencies

At May 31, 2014 and 2013, there were no endowment funds with deficiencies.

Return Objectives and Risk Parameters

The Corporation has adopted investment and spending policies for endowment assets to preserve capital while earning market rates without undue risk. Endowment assets include those assets of donor-restricted funds that the Corporation must hold in perpetuity or for a donor-specified period(s). Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to preserve the principal and provide liquidity of amounts over the principal while assuming a moderate level of investment risk.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Corporation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Corporation's policy is to invest endowment funds in both fixed income and equity securities with a maximum amount of equity securities at 70%. Management believes this strategy will help to achieve the Corporation's long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Corporation's spending policy is that income from donor-restricted funds will be spent on the intended service, program, or purpose, within a reasonable time period.

Note 6. Property and Equipment and Commitments

Property and equipment consist of the following at May 31:

	2014	2013
Land and improvements	$ 34,700	$ 28,038
Buildings	160,274	135,022
Furniture and equipment	289,012	268,492
Construction in progress	8,571	32,364
	492,557	463,916
Less: accumulated depreciation	277,474	264,251
	$ 215,083	$ 199,665

At May 31, 2014, the Corporation has commitments totaling approximately $3,689 for a variety of construction projects and equipment purchases. Depreciation expense during the years ended May 31, 2014 and 2013 was $22,287 and $20,908, respectively, of which $107 and $110 are included in other nonoperating income (expense) on the consolidated statements of operations and changes in net assets for the years ended May 31, 2014 and 2013, respectively.

Note 7. Notes Payable and Long-Term Debt

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

	2014	2013
Illinois Finance Authority Revenue Bonds, Series 2004, coupon rates of 3.75% to 5.00%, yields of 4.39% and 4.78%, principal payable in varying installments due November 15 of each year through 2031	$ 79,970	$ 82,815
Illinois Finance Authority Revenue Bonds, Series 2010, fixed rate of 4.05%, $625 principal payable semiannually of each year through April 15, 2030	20,000	21,250
Illinois Finance Authority Revenue Bonds, Series 2012, coupon rates of 4.00% to 5.00%, yields of 4.16% and 4.39%, principal payable in term bonds due November 15, 2034, 2039 and 2043	41,445	41,445
Term note payable with a bank, collateralized by land, interest at 3.30%, payable in monthly installments of $102	1,897	3,040
Capitalized equipment lease	-	332
Sub-total	143,312	148,882
Unamortized bond premium	2,464	2,690
	145,776	151,572
Less current maturities	(5,642)	(5,797)
	$ 140,134	$ 145,775

Effective December 24, 2004, the Illinois Finance Authority, on behalf of the Hospital, issued $100,995 of fixed rate Revenue Bonds, Series 2004 (Series 2004 Bonds). The proceeds of the Series 2004 Bonds were used, together with other available funds, to pay or reimburse the Hospital for certain costs of acquiring, constructing, renovating, remodeling, and equipping certain health facilities of the Hospital, including, but not limited to, construction and equipping of a new four-story freestanding cardiac hospital facility and the renovation of the Hospital's existing inpatient/outpatient surgery area and cardiac catheterization laboratory, to pay previously outstanding debt obligations, and to pay certain expenses incurred in connection with the issuance of the Series 2004 Bonds.

Effective April 19, 2010, the Illinois Finance Authority, on behalf of the Hospital, issued $25,000 of direct fixed rate Revenue Bonds, Series 2010 (Series 2010 Bonds). The proceeds of the bonds were used to repay a $25,000 note payable to a bank.

Note 7. Notes Payable and Long-Term Debt (Continued)

Effective September 27, 2012, the Illinois Finance Authority, on behalf of the Hospital, issued $41,445 of fixed rate Revenue Bonds, Series 2012 (Series 2012 Bonds). The proceeds of the Series 2012 Bonds were used, together with other available funds, to pay or reimburse the Hospital for certain costs of acquiring, constructing, renovating, and equipping of a comprehensive regional outpatient cancer care facility, and to pay certain expenses incurred in connection with the issuance of the Series 2012 Bonds.

The Series 2004, 2010 and 2012 Bonds were issued pursuant to a Master Trust Indenture, as supplemented, which contains various covenants, including achievement of specified financial ratios and limitations on additional debt. Among other covenants in connection with the loan agreements for the Series 2004, 2010 and 2012 Bonds, the Hospital has agreed to limit disposals of assets and transfers of cash to non-obligated affiliates. The bonds are secured by unrestricted receivables of the obligated group as defined in the Master Trust Indenture. The obligated group consists of the Hospital and the Foundation. The Series 2004 bonds are guaranteed by a bond insurer. As a provision of the Master Trust Indenture, the obligated group will execute a mortgage with respect to certain real and personal property and grant a security interest in its gross revenues, as defined in the Master Trust Indenture, if certain covenants are not maintained.

Interest payments for the years ended May 31, 2014 and 2013 totaled $6,835 and $6,380, respectively.

Interest cost incurred for the years ended May 31, 2014 and 2013 totaled $6,952 and $6,542, respectively. The amount of interest capitalized for the years ended May 31, 2014 and 2013 totaled $1,191 and $1,820, respectively.

Maturities required on long-term debt at May 31, 2014 due in future years are as follows:

Year Ending May 31,	Long-Term Debt
2015	$ 5,422
2016	5,100
2017	4,540
2018	4,665
2019	4,835
Thereafter	118,750
	$ 143,312

Note 8. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets, $3,492 in 2014 and $3,321 in 2013, are available for medical education and other health care programs and property and equipment.

Permanently restricted net assets, $6,153 in 2014 and $5,821 in 2013, are investments to be held in perpetuity and beneficial interests in perpetual trusts, the income from which is expendable to support health care services and is reported as increases in temporarily restricted net assets.

Note 9. Fair Value Disclosures

Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1 – Quoted market prices in active markets for identical assets or liabilities.
Level 2 – Observable market based inputs or unobservable inputs that are corroborated by market data.
Level 3 – Unobservable inputs that are not corroborated by market data.

The following is a description of the valuation methodology used for the Corporation's assets carried at fair value:

Investment Securities – Level 1

The fair value of investment securities that are considered Level 1 is the market value based on quoted prices, when available, or market prices provided by recognized broker dealers.

Corporate Bonds and Notes – Level 2

The fair value of corporate bonds and notes that are considered Level 2 is determined using a discounted cash flow model and inputs such as stated coupon, yield and maturity date as well as LIBOR or Treasury yield plus a credit spread based on other market data.

Government and Agency Obligations – Level 2

The fair value of government and agency obligations that are considered Level 2 is determined based on the quoted yield on a Treasury security that is most similar to the security being valued, adjusted for variances in the maturity, coupon and other features.

Beneficial Interest in Trust Assets – Level 3

The fair value of the beneficial interest in trust assets represents the Corporation's proportionate interest in the value of the trusts. The fair values of the trusts were provided by the respective trustees.

In determining the appropriate levels, the Corporation performs a detailed analysis of the assets and liabilities carried at fair value in the consolidated financial statements. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

Note 9. Fair Value Disclosures (Continued)

Fair Value on a Recurring Basis

The tables below present the balances of assets measured at fair value on a recurring basis by level within the hierarchy as of May 31, 2014 and 2013:

	May 31, 2014			
	Total	Level 1	Level 2	Level 3
Assets				
Investments and Assets Limited as to Use:				
Mutual funds - equity securities				
Large-cap	$ 9,902	$ 9,902	$ -	$ -
Medium-cap	933	933	-	-
Small-cap	9,904	9,904	-	-
International	11,802	11,802	-	-
Mutual funds - debt securities				
U.S. Government Agency	3,910	3,910	-	-
Corporate bonds	1,157	1,157	-	-
Corporate bonds and notes	29,349	12,327	17,022	-
Government and agency obligations	106,980	85,584	21,396	-
Equity securities large-cap	51,067	51,067	-	-
Other	87	-	87	-
Beneficial interest in trust assets	4,617	-	-	4,617
	$ 229,708	$ 186,586	$ 38,505	$ 4,617

	May 31, 2013			
	Total	Level 1	Level 2	Level 3
Assets				
Investments and Assets Limited as to Use:				
Mutual funds - equity securities				
Large-cap	$ 9,803	$ 9,803	$ -	$ -
Medium-cap	867	867	-	-
Small-cap	9,048	9,048	-	-
International	9,664	9,664	-	-
Mutual funds - debt securities				
U.S. Government Agency	3,568	3,568	-	-
Corporate bonds	1,991	1,991	-	-
Corporate bonds and notes	47,480	33,711	13,769	-
Government and agency obligations	94,723	84,304	10,419	-
Equity securities large-cap	39,906	39,906	-	-
Other	95	-	95	-
Beneficial interest in trust assets	4,274	-	-	4,274
	$ 221,419	$ 192,862	$ 24,283	$ 4,274

Note 9. Fair Value Disclosures (Continued)

The changes in Level 3 assets measured at fair value on a recurring basis are summarized as follows:

	Beneficial Interest in Trust Assets	
	2014	2013
Balance, beginning	$ 4,274	$ 3,949
Distributions	(176)	(195)
Increase in value of beneficial interest in trust assets	519	520
Balance, ending	$ 4,617	$ 4,274

The following methods and assumptions were used by the Corporation to estimate the fair value of other financial instruments:

- The carrying values of cash and cash equivalents, patient accounts receivable, notes receivable and other assets, accounts payable, accrued expenses and other, notes payable and estimated settlements due to third-party payors are reasonable estimates of their fair value due to the short-term nature of these financial instruments.

- The estimated fair value of long-term debt is based on current traded value. The fair value (including current maturities) is $141,026 and $150,696 at May 31, 2014 and 2013, respectively, and is considered a Level 2 estimate.

Note 10. Operating Leases

The Corporation has non-cancelable operating leases for data processing, medical and office equipment and leased space. The future minimum rental payments of these leases are as follows:

Year Ending May 31,	
2015	$ 6,216
2016	5,472
2017	4,950
2018	3,882
2019	2,896
Thereafter	15,627
	$ 39,043

Rental expense for the years ended May 31, 2014 and 2013 totaled $13,816 and $12,692, respectively, of which $5 is included in other nonoperating income (expense) on the consolidated statements of operations and changes in net assets for the years ended May 31, 2014 and 2013.

Note 11. Benefit Plans

The Corporation has two defined-contribution pension plans covering substantially all employees. Contributions depend upon employee earnings, length of service, and employee contributions. The Corporation's contributions to these plans totaled $7,746 and $7,801 for the years ended May 31, 2014 and 2013, respectively.

Note 11. Benefit Plans (Continued)

In addition, the Corporation sponsors a defined-benefit health care plan that provides postretirement medical benefits to the Corporation's and certain of its affiliates' employees and their dependents through age 70. Eligibility requirements are 20 years of service and the attainment of age 55. Effective January 1, 2000, retiree premiums cover the entire cost of coverage.

Note 12. Deferred Compensation Agreements

The Corporation has deferred compensation plans for certain executives and physicians. The physician plans are currently frozen. Both the executive and physician plans are recorded as an asset and a liability on the Corporation's consolidated balance sheets. Activity primarily consists of distributions to participants and investment return. There is no corporate contribution to the physician plans. The corporate contribution to the executive plan was approximately $531 and $480 for the years ended May 31, 2014 and 2013, respectively.

Note 13. Insurance and Contingencies

The Corporation is self-insured for general liability and professional liability claims up to certain specified limits arising from incidents occurring after February 1, 1976. The Corporation carries claims-made professional and general liability insurance up to certain specified limits for claims in excess of self-insured retention. Such coverage has been arranged through November 15, 2014. The Corporation carries claims-made professional liability insurance up to certain specified limits for its employed physicians. Such coverage has been arranged through April 1, 2015.

Accruals for self-insured professional liability risks are included in long-term liabilities on the consolidated balance sheets. The amounts are determined by assessing asserted and unasserted claims identified by management's incident reporting system and are estimated by an independent consulting actuary based on industry and the Corporation's own historical reporting patterns using a discount rate of 5% at both May 31, 2014 and 2013. Although the ultimate settlement of these accruals may vary from these estimates, management believes that the amounts provided in the consolidated financial statements are adequate. The insurance accruals could be adversely affected if actual payments of claims exceed management's projected estimates of claims.

If accrued losses had not been discounted, the estimated liability would be approximately $3,566 and $3,192 higher than the amounts recorded in the consolidated balance sheets as of May 31, 2014 and 2013, respectively.

The Corporation is funding its self-insured risks with a bank based on a report of consulting actuaries.

The Corporation is a defendant in various lawsuits arising in the ordinary course of business. Although the outcome of the lawsuits cannot be determined with certainty, management believes the ultimate disposition of such matters will not have a material effect on the Corporation's financial condition.

Litigation: The Hospital is subject to various lawsuits that have arisen in the ordinary course of business. Although the ultimate outcome of these suits cannot be determined at this time, it is the opinion of management that the disposition of such lawsuits will not have a material adverse effect on the Hospital's financial condition.

Note 13. Insurance and Contingencies (Continued)

Regulatory Investigations: The U.S. Department of Justice, other federal agencies and the Illinois Department of Public Aid routinely conduct regulatory investigations and compliance audits of health care providers. The Hospital is subject to these regulatory efforts. Management is currently unaware of any regulatory matters which may have a material effect on the Hospital's financial position or results from operations.

CMS Recovery Audit Contractor Program: Congress passed the Medicare Modernization Act in 2003, which among other things established a demonstration of The Medicare Recovery Audit Contractor (RAC) program. The RACs identified and corrected a significant amount of improper overpayments to providers. In 2006, Congress passed the Tax Relief and Health Care Act of 2006 which authorized the expansion of the RAC program to all 50 states. CMS began rolling out this program in early 2010 in Illinois. The Hospital has recorded a reserve for estimated amounts that will be repaid under the RAC program based on the Hospital's RAC program experience to date.

Patient Protection and Affordable Care and Reconciliation Act: On March 23, 2010, President Barack Obama signed into law the most sweeping health care reform legislation since the advent of Medicare. The law promised to expand insurance coverage to an additional 32 million Americans, reduce the growth of Medicare expenditures, dramatically reform insurance markets, and continue the march toward value-based payment. The Reconciliation Act amends various provisions of the Patient Protection and Affordable Care Act and adds some new provisions that were not included originally. To date, this federal health care reform legislation has not materially affected the Corporation's consolidated financial statements.

Note 14. Income Taxes

SwedishAmerican Health Management Corporation (SAHM) is a for-profit corporation. SAHM is a subsidiary of State and Charles, Inc. and is treated as a consolidated group for federal and state tax purposes. State and Charles, Inc. is a taxable subsidiary of the Corporation. These combined taxable companies have operating loss carryforwards totaling approximately $7,673 at May 31, 2014, which expire as follows: $3,789 in 2020, $2,507 in 2021, and $1,377 in 2022. State and Charles, Inc. has operating income, which management expects will continue into the future. A valuation allowance was recorded as of May 31, 2014. Although SAHM is generating income, it is anticipated that the full tax benefit will not be realized before the operating loss carryforwards begin to expire.

Net deferred tax assets, included in notes receivable and other assets in the consolidated balance sheets, consist of the following components as of May 31:

	2014	2013
Deferred tax assets–net operating loss carryforwards	$ 3,069	$ 3,300
Valuation allowance	(460)	-
Net deferred tax assets	$ 2,609	$ 3,300

Note 14. Income Taxes (Continued)

The components of the income tax (provision) for the years ended May 31 are as follows:

	2014	2013
Current	$ (214)	$ (3)
Deferred	(691)	(170)
Total income tax (provision)	$ (905)	$ (173)

Note 15. Functional Expenses

The Corporation provides general health care services to residents within its geographic location. Expenses related to these functions for the years ended May 31, 2014 and 2013 are as follows:

	2014	2013
Direct patient services	$ 425,260	$ 403,733
Support services	9,786	8,857
	$ 435,046	$ 412,590

Certain costs have been allocated between direct patient services and support services. All of the Foundation's expenses are considered to be fundraising and these expenses were $1,888 and $2,023 for the years ended May 31, 2014 and 2013, respectively.

Note 16. Investments in Nonconsolidated Affiliates and Related Party Transactions

The Corporation has equity interests in the following organizations:

- The Featherstone Partnership, L.P., which operates a standalone surgery center located in Rockford, Illinois. The Corporation's interest is 29%.
- Northern Illinois Vein Clinic, a general partnership, which was formed to own and operate radio frequency equipment to treat vein conditions. The Corporation's interest is 50%.
- Ephraim, LLC, which was formed to own and operate an office building in Rockford, Illinois. The Corporation's interest is 33%.
- SwedishAmerican Health Alliance, a corporation, which was formed as a contracting agent for preferred provider contracts between the Hospital, physicians and consumers. The Corporation's interest is 50%.
- Three Rivers Partners, LLC, an Illinois limited liability company, was formed to establish an information technology consortium or cooperative servicing the Corporation and another health system. The Corporation's interest is 50%.
- TriLightNet, LLC, which was formed to manage a fiber optic network. Three Rivers Partners, LLC is the sole member.
- TriRivers Health Information Technology LLC, which was formed to manage a health information exchange network (HIE). Three Rivers Partners, LLC is the sole member.

Note 16. Investments in Nonconsolidated Affiliates and Related Party Transactions (Continued)

Aggregate unaudited financial information relating to these investments is as follows as of and for the years ended:

	December 31,		May 31,	
	2013	2012	2014	2013
Assets	$ 5,806	$ 5,946	$ 16,938	$ 15,737
Liabilities	5,710	5,611	9,285	8,318
Net income (loss)	(341)	(223)	2,215	1,781

The Corporation's investment in nonconsolidated affiliates totaled $2,969 and $2,912 at May 31, 2014 and 2013, respectively, and is included in notes receivable and other assets on the consolidated balance sheets. The Corporation's interest in the earnings of nonconsolidated affiliates totaled $578 and $562 for the years ended May 31, 2014 and 2013, respectively, and is included in other nonoperating income (expense) on the consolidated statements of operations and changes in net assets.

During the years ended May 31, 2014 and 2013, the Corporation realized revenue of approximately $1,125 and $959, respectively, primarily from the sale of services and rental of property to its affiliates. During the years ended May 31, 2014 and 2013, the Corporation purchased services of approximately $5,754 and $3,971, respectively, from one of its affiliates.

Note 17. Subsequent Event

On July 1, 2014, the Corporation acquired all of the issued and outstanding shares of common stock of Physician's Care Network, Inc.

McGladrey

Independent Auditor's Report
on the Supplementary Information

To the Board of Directors
SwedishAmerican Health System Corporation
Rockford, Illinois

We have audited the consolidated financial statements of SwedishAmerican Health System Corporation and Subsidiaries as of and for the years ended May 31, 2014 and 2013, and have issued our report thereon which contains an unmodified opinion on those consolidated financial statements. See page 1. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information is presented for purposes of additional analysis rather than to present the financial position and results of operations of the individual companies 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 2014 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.

McGladrey LLP

Rockford, Illinois
September 2, 2014

Member of the RSM International network of independent accounting, tax and consulting firms.

SwedishAmerican Health System Corporation and Subsidiaries

Consolidating Balance Sheet
May 31, 2014
(Dollars in thousands)

Assets	Consolidated	Eliminations	Swedish-American Hospital and Subsidiaries	Swedish-American Health System Corporation	Swedish-American Realty Corporation	LSG Building Corporation	Swedish-American Health Management Corporation	State and Charles, Inc.
Current Assets								
Cash and cash equivalents	$ 29,353	$ -	$ 29,353	$ -	$ -	$ -	$ -	$ -
Short-term investments	4,000	-	4,000	-	-	-	-	-
Current portion assets limited as to use:								
Internally designated for self-insurance fund	3,300	-	3,300	-	-	-	-	-
Patient accounts receivable, less allowances for uncollectible accounts	68,816	-	68,412	-	-	-	404	-
Inventories	7,914	-	7,914	-	-	-	-	-
Prepaid expenses and other assets	8,997	-	7,954	1,012	26	-	5	-
Total current assets	122,380	-	120,933	1,012	26	-	409	-
Other Assets								
Assets limited as to use:								
Internally designated for self-insurance fund, less current portion	12,646	-	12,646	-	-	-	-	-
Internally designated for deferred compensation agreements	8,922	-	8,922	-	-	-	-	-
Investments	197,846	-	197,846	-	-	-	-	-
Beneficial interest in trust assets	4,617	-	4,617	-	-	-	-	-
Contribution receivable from lead trust	289	-	289	-	-	-	-	-
Due from affiliated organizations	-	(16,420)	-	-	6,996	-	9,424	-
Deferred bond issuance costs, net	3,123	-	3,123	-	-	-	-	-
Goodwill	7,800	-	7,800	-	-	-	-	-
Intangible asset	9,001	-	9,001	-	-	-	-	-
Notes receivable and other assets	6,395	(30,221)	2,627	31,078	297	-	2,613	1
	250,639	(46,641)	246,871	31,078	7,293	-	12,037	1
Property and Equipment, net	215,083	-	196,450	-	17,415	1,149	69	-
Total assets	$ 588,102	$ (46,641)	$ 564,254	$ 32,090	$ 24,734	$ 1,149	$ 12,515	$ 1

(continued)

SwedishAmerican Health System Corporation and Subsidiaries

Consolidating Balance Sheet (Continued)
May 31, 2014
(Dollars in thousands)

Liabilities and Net Assets	Consolidated	Eliminations	Swedish-American Hospital and Subsidiaries	Swedish-American Health System Corporation	Swedish-American Realty Corporation	LSG Building Corporation	Swedish-American Health Management Corporation	State and Charles, Inc.
Current Liabilities								
Accounts payable	$ 10,832	$ -	$ 10,787	$ -	$ 34	$ -	$ 11	$ -
Accrued expenses and other	36,526	-	35,109	-	1,274	3	140	-
Self-insurance	3,300	-	3,300	-	-	-	-	-
Estimated settlements due to third-party payors	35,705	-	35,705	-	-	-	-	-
Current maturities of long-term debt	5,642	-	4,460	-	1,182	-	-	-
Total current liabilities	92,005	-	89,361	-	2,490	3	151	-
Noncurrent Liabilities								
Long-term debt, less current maturities	140,134	-	139,419	-	715	-	-	-
Self-insurance, less current portion	14,755	-	14,755	-	-	-	-	-
Due to affiliated organizations	-	(16,420)	10,086	6,239	-	95	-	-
Deferred compensation agreements	8,922	-	8,922	-	-	-	-	-
Other	295	-	295	-	-	-	-	-
	164,106	(16,420)	173,477	6,239	715	95	-	-
Total liabilities	256,111	(16,420)	262,838	6,239	3,205	98	151	-
Net Assets								
Unrestricted	322,346	(16,805)	291,771	25,851	21,529	-	-	-
Temporarily restricted	3,492	-	3,492	-	-	-	-	-
Permanently restricted	6,153	-	6,153	-	-	-	-	-
Capital stock	-	(3)	-	-	-	1	1	1
Additional paid-in capital	-	(30,218)	-	-	-	1,092	-	29,126
Retained earnings (deficit)	-	16,805	-	-	-	(42)	12,363	(29,126)
Total net assets	331,991	(30,221)	301,416	25,851	21,529	1,051	12,364	1
Total liabilities and net assets	$ 588,102	$ (46,641)	$ 564,254	$ 32,090	$ 24,734	$ 1,149	$ 12,515	$ 1

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SwedishAmerican Health System Corporation and Subsidiaries

Consolidating Statement of Operations
Year Ended May 31, 2014
(Dollars in thousands)

	Consolidated	Eliminations	Swedish-American Hospital and Subsidiaries	Swedish-American Health System Corporation	Swedish-American Realty Corporation	LSG Building Corporation	Swedish-American Health Management Corporation	State and Charles, Inc.
Unrestricted revenues, gains and other support								
Net patient service revenue	$ 433,025	$ (1)	$ 433,026	$ -	$ -	$ -	$ -	$ -
Provision for bad debts	(35,315)	-	(35,315)	-	-	-	-	-
Net patient service revenue less provision for bad debts	397,710	(1)	397,711	-	-	-	-	-
Public Aid assessment revenue	37,405	-	37,405	-	-	-	-	-
Other revenue	16,638	(10,574)	13,451	-	7,440	-	6,321	-
Net assets released from restrictions - used for operating purposes	90	-	90	-	-	-	-	-
	451,843	(10,575)	448,657	-	7,440	-	6,321	-
Expenses								
Salaries and employee benefits	218,876	102	216,473	268	10	-	2,023	-
Supplies and purchased services	109,743	(9,638)	111,994	1	4,013	-	3,373	-
Professional fees	25,728	-	25,521	130	26	-	51	-
Management fees	4,336	(42)	4,262	-	116	-	-	-
Depreciation and amortization	22,231	-	21,371	-	832	-	28	-
Interest	5,690	-	5,606	-	84	-	-	-
Utilities	3,695	-	3,225	-	469	-	1	-
Repairs and maintenance	13,592	(997)	13,845	-	555	-	189	-
Insurance	10,025	-	9,946	-	58	-	21	-
Public Aid assessment expense	14,408	-	14,408	-	-	-	-	-
Other	6,722	-	5,856	32	824	5	5	-
	435,046	(10,575)	432,507	431	6,987	5	5,691	-
Operating income (loss)	16,797	-	16,150	(431)	453	(5)	630	-
Nonoperating income (expense)								
Investment income	15,037	-	14,953	-	84	-	-	-
Income tax (provision)	(905)	-	(174)	-	-	-	(731)	-
Foundation - other, net	(1,252)	-	(1,252)	-	-	-	-	-
Other	(46)	-	29	39	(114)	-	-	-
	12,834	-	13,556	39	(30)	-	(731)	-
Revenue in excess of (less than) expenses	$ 29,631	$ -	$ 29,706	$ (392)	$ 423	$ (5)	$ (101)	$ -

FINANCIAL STATEMENTS

6e: Audited Financial Statement of SwedishAmerican Hospital and Subsidiary (May 31, 2014)

ATTACHMENT #6e

SwedishAmerican Hospital and Subsidiary

Consolidated Financial Report
May 31, 2014

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McGladrey

Independent Auditor's Report

To the Board of Trustees
SwedishAmerican Hospital
Rockford, Illinois

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of SwedishAmerican Hospital and Subsidiary (the "Hospital") which comprise the consolidated balance sheets as of May 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 entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of SwedishAmerican Hospital and Subsidiary as of May 31, 2014 and 2013, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

McGladrey LLP

Rockford, Illinois
September 2, 2014

Member of the RSM International network of independent accounting, tax and consulting firms.

SwedishAmerican Hospital and Subsidiary

Consolidated Balance Sheets
May 31, 2014 and 2013
(Dollars in thousands)

Assets	2014	2013
Current Assets		
Cash and cash equivalents	$ 29,353	$ 26,546
Short-term investments	4,000	2,834
Current portion assets limited as to use:		
Externally designated under bond agreements	-	3,489
Internally designated for self-insurance fund	3,300	-
Patient accounts receivable, less allowances for uncollectible accounts of $25,928 in 2014 and $28,181 in 2013	68,412	61,625
Inventories	7,914	6,530
Prepaid expenses and other assets	7,954	9,344
Total current assets	120,933	110,368
Other Assets		
Assets limited as to use:		
Bond project fund, less current portion	-	15,187
Internally designated for self-insurance fund, less current portion	12,646	14,286
Internally designated for deferred compensation agreements	8,922	10,405
Investments	197,846	172,208
Beneficial interest in trust assets	4,617	4,274
Contribution receivable from lead trust	289	281
Deferred bond issuance costs, net of accumulated amortization of $2,576 in 2014 and $2,293 in 2013	3,123	3,406
Goodwill	7,800	7,800
Intangible asset	9,001	9,001
Notes receivable and other assets	2,627	2,811
	246,871	239,659
Property and Equipment, net	196,450	181,518
Total assets	$ 564,254	$ 531,545

See Notes to Consolidated Financial Statements.

Liabilities and Net Assets	2014	2013
Current Liabilities		
Accounts payable	$ 10,787	$ 10,019
Accrued expenses and other	35,109	34,093
Self-insurance	3,300	-
Estimated settlements due to third-party payors	35,705	30,023
Current maturities of long-term debt	4,460	4,654
Total current liabilities	89,361	78,789
Noncurrent Liabilities		
Long-term debt, less current maturities	139,419	143,878
Self-insurance, less current portion	14,755	16,509
Due to affiliated organizations	10,086	10,816
Deferred compensation agreements	8,922	10,405
Other	295	267
	173,477	181,875
Total liabilities	262,838	260,664
Contingencies and Commitments (Notes 1, 6, 7, 10 and 13)		
Net Assets		
Unrestricted	291,771	261,739
Temporarily restricted	3,492	3,321
Permanently restricted	6,153	5,821
Total net assets	301,416	270,881
Total liabilities and net assets	$ 564,254	$ 531,545

SwedishAmerican Hospital and Subsidiary

Consolidated Statements of Operations and Changes in Net Assets
Years Ended May 31, 2014 and 2013
(Dollars in thousands)

	2014	2013
Unrestricted revenues, gains and other support		
Net patient service revenue	$ 433,026	$ 415,980
Provision for bad debts	(35,315)	(30,745)
Net patient service revenue less provision for bad debts	397,711	385,235
Public Aid assessment revenue	37,405	22,586
Other revenue	13,451	10,987
Net assets released from restrictions - used for operating purposes	90	46
	448,657	418,854
Expenses		
Salaries and employee benefits	216,473	212,901
Supplies and purchased services	111,994	104,465
Professional fees	25,521	23,324
Management fees	4,262	6,601
Depreciation and amortization	21,371	19,993
Interest	5,606	4,555
Utilities	3,225	3,133
Repairs and maintenance	13,845	12,144
Insurance	9,946	10,547
Public Aid assessment expense	14,408	7,650
Other	5,856	5,058
	432,507	410,371
Operating income	16,150	8,483
Nonoperating income (expense)		
Investment income	14,953	14,245
Income tax (provision) benefit	(174)	8
Foundation - other, net	(1,252)	(1,352)
Other	29	670
	13,556	13,571
Revenue in excess of expenses	$ 29,706	$ 22,054

(Continued)

SwedishAmerican Hospital and Subsidiary

Consolidated Statements of Operations and Changes in Net Assets (Continued)
Years Ended May 31, 2014 and 2013
(Dollars in thousands)

	2014	2013
Unrestricted net assets		
Revenue in excess of expenses	$ 29,706	$ 22,054
Net assets released from restrictions used for property and equipment	326	199
Increase in unrestricted net assets	30,032	22,253
Temporarily restricted net assets		
Contributions and other	716	1,668
Investment income	166	86
Net change in unrealized gains and losses on investments	172	238
Change in value of split-interest agreements	36	31
Net assets released from restrictions used for operating and capital purposes	(416)	(250)
Net assets released from restrictions used for nonoperating purposes	(502)	(348)
Increase in temporarily restricted net assets	171	1,425
Permanently restricted net assets		
Contributions and other	9	(15)
Change in beneficial interest in perpetual trust	323	347
Increase in permanently restricted net assets	332	332
Increase in net assets	30,535	24,010
Net assets, beginning of year	270,881	246,871
Net assets, end of year	$ 301,416	$ 270,881

See Notes to Consolidated Financial Statements.

SwedishAmerican Hospital and Subsidiary

Consolidated Statements of Cash Flows
Years Ended May 31, 2014 and 2013
(Dollars in thousands)

	2014	2013
Cash Flows From Operating Activities		
Increase in net assets	$ 30,535	$ 24,010
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization on operating assets	21,363	19,993
Depreciation on nonoperating assets	107	110
Provision for bad debts	35,315	30,745
Net change in unrealized gains and losses on investments	(6,470)	(4,381)
Net change in fair value of beneficial interest in perpetual trust	(519)	(520)
Restricted contributions	(725)	(1,653)
Changes in net cash from:		
(Increase) in patient accounts receivable	(42,102)	(13,985)
Decrease (increase) in inventories and other assets	160	(2,984)
Increase in accounts payable, accrued expenses, and other liabilities	3,290	2,575
Increase in estimated settlements due to third-party payors	5,682	5,297
(Decrease) increase in due to affiliated organizations, net	(730)	481
Net cash provided by operating activities	45,906	59,688
Cash Flows From Investing Activities		
Purchases of property and equipment, net	(37,760)	(37,557)
Purchases of investments and assets limited as to use	(115,275)	(148,352)
Sales and maturities of investments and assets limited as to use	113,440	98,917
Investment in affiliates	22	(63)
Distributions from beneficial interest in perpetual trust	176	195
Net cash used in investing activities	(39,397)	(86,860)
Cash Flows From Financing Activities		
Proceeds from bond issuance	-	41,833
Bond issuance costs paid	-	(725)
Principal payments on long-term debt	(4,427)	(4,300)
Restricted contributions received	725	1,653
Net cash (used in) provided by financing activities	(3,702)	38,461
Increase in cash and cash equivalents	2,807	11,289
Cash and cash equivalents, beginning of year	26,546	15,257
Cash and cash equivalents, end of year	$ 29,353	$ 26,546

(Continued)

SwedishAmerican Hospital and Subsidiary

Consolidated Statements of Cash Flows (Continued)
Years Ended May 31, 2014 and 2013
(Dollars in thousands)

	2014	2013
Supplemental Schedule of Noncash Investing and Financing Activities		
Purchases of property and equipment in accounts payable	$ 284	$ 1,699

See Notes to Consolidated Financial Statements.

Note 1. Organization and Significant Accounting Policies

SwedishAmerican Hospital and Subsidiary (Hospital) is a not-for-profit hospital organized to provide and promote health care to the public for patients who primarily reside in Rockford, Illinois, and the surrounding area. It is controlled by a parent company, SwedishAmerican Health System Corporation (Corporation).

The consolidated financial statements include the accounts and transactions of SwedishAmerican Hospital and SwedishAmerican Foundation (Foundation). The purpose of the Foundation is to conduct programs and fundraising that support and benefit SwedishAmerican Hospital.

All significant intercompany transactions have been eliminated in consolidation.

Through its relationship with the Corporation, the Hospital is also an affiliate of the following organizations:

- State and Charles, Inc. – A taxable subsidiary of the Corporation whose purpose is to serve as a holding company.
- SwedishAmerican Realty Corporation – A tax-exempt subsidiary under Section 501(c)(2) of the Internal Revenue Code that serves as a real estate holding company.
- SwedishAmerican Health Management Corporation (SAHM) – A taxable subsidiary of the Corporation whose purpose is to provide nonpatient health-related services to other organizations.
- LSG Building Corporation – A taxable subsidiary of the Corporation whose purpose is to serve as a real estate holding company.

On April 28, 2014, the Corporation entered into a non-binding letter of intent with University Health Care, Inc. (UHC), University of Wisconsin Hospitals and Clinics Authority (UWHCA), and University of Wisconsin Medical Foundation (UWMF), pursuant to which UHC will become the sole member of the Corporation. UHC is a Wisconsin nonprofit corporation tax-exempt under section 501(c)(3), whose current members are UWHCA, UWMF and University of Wisconsin School of Medicine and Public Health. The parties are presently engaged in due diligence review and are negotiating a binding definitive agreement.

A summary of significant accounting policies is as follows:

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 at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. The use of estimates and assumptions in the preparation of the accompanying consolidated financial statements is primarily related to the determination of net patient accounts receivable, settlements with third-party payors, the self-insurance accrual and the net future cash flows used in the calculation of fair value of the intangible asset and goodwill. Although estimates are considered to be fairly stated at the time that the estimates are made, actual results could differ.

Cash and cash equivalents: All investments that are not limited as to use with an original maturity of three months or less when purchased are reflected as cash and cash equivalents.

Throughout the year, the Hospital may have amounts on deposit with financial institutions in excess of those insured by the FDIC. The Hospital has not experienced any losses in such accounts.

Note 1. Organization and Significant Accounting Policies (Continued)

Patient accounts receivable and due from/to third-party payors: The collection of receivables from third-party payors and patients is the Hospital's primary source of cash for operations and is critical to its operating performance. The primary collection risks relate to uninsured patient accounts and patient accounts for which the primary insurance payor has paid, but patient responsibility amounts (deductibles and copayments) remain outstanding. Patient receivables, where a third-party payor is responsible for paying the amount, are carried at a net amount determined by the original charge for the service provided, less an estimate made for contractual adjustments or discounts provided to third-party payors.

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

The Hospital's allowance for uncollectible accounts for self-pay patients decreased from 84% of self-pay accounts receivable at May 31, 2013, to 77% of self-pay accounts receivable at May 31, 2014. In addition, the Hospital's self-pay write-offs increased $4,126 from $38,246 for fiscal 2013 to $42,372 for fiscal 2014. The increase in write-offs is related primarily to price increases. As a percentage of gross patient service revenue, self-pay write-offs have remained consistent. The Hospital has not changed its charity care or uninsured discount policies during fiscal years 2013 or 2014. The Hospital did not have significant write-offs from third-party payors.

Recoveries of receivables previously written off are recorded when received. The past due status of receivables is determined on a case-by-case basis depending on the payor responsible. The Hospital generally does not charge interest on past due accounts. Receivables or payables related to estimated settlements on various contracts in which the Hospital participates are reported as third-party payor receivables or payables.

Assets limited as to use and investments: Assets limited as to use include cash and investments internally designated by the Board of Trustees for capital replacement and expansion, self-insurance, and deferred compensation agreements, which the Board, at its discretion, may subsequently use for other purposes. Amounts required to meet current liabilities of the Hospital have been classified in the consolidated balance sheets as current assets. Assets limited as to use and investments not restricted by donors are designated as trading securities.

Note 1. Organization and Significant Accounting Policies (Continued)

Investment income (including realized gains and losses on investments, interest, and dividends) is included in revenue in excess of expenses unless the income is restricted by donor or law. Unrealized gains and losses on investment assets held are included as investment income in revenue in excess of expenses unless the unrealized gains and losses are restricted by donor or law.

Inventories: Inventories are stated at the lower of cost, determined by the first-in, first-out method, or market.

Beneficial interest in trust assets: The Hospital has a beneficial interest in several perpetual trusts, which is measured by the Hospital's share of the fair value of the underlying trusts' net assets. The change in the Hospital's share of the fair value of the trusts' net assets as of each fiscal year-end is recognized as an adjustment to beneficial interest in trust assets and as a change in unrestricted, temporarily restricted, or permanently restricted net assets, depending on the underlying donor restriction.

Deferred bond issuance costs: Costs incurred in connection with the issuance or refinancing of long-term debt are deferred and amortized over the term of the related financing using the bonds outstanding method.

Property and equipment: Property and equipment are stated at cost and are depreciated using the straight-line method over the estimated useful lives of the assets. Interest costs incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

The estimated useful lives of depreciable property and equipment range from 5 to 25 years for land improvements, 10 to 40 years for buildings, and 3 to 20 years for furniture and fixtures.

Intangible asset: The intangible asset consists of an acute care bed license for the Hospital's Belvidere, Illinois, facility. The asset is carried at cost and has an indefinite useful life. The intangible asset is tested for impairment at least annually and more frequently if events and circumstances indicate the asset may be impaired. The impairment test consists of a comparison of the fair value of the intangible asset with its carrying value. If the carrying value of the intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to the excess. The Hospital also evaluates the remaining useful life of the intangible asset each reporting period to determine whether events and circumstances continue to support an indefinite useful life. If the intangible asset is subsequently determined to have a finite useful life, the asset will be amortized prospectively over its remaining estimated useful life. During 2014, the Hospital determined that no impairment existed and an indefinite useful life was appropriate.

Goodwill: The Hospital's goodwill was recorded as a result of certain business combinations. Goodwill is recorded at cost less amortization that had accumulated as of June 1, 2010 when goodwill became nonamortizable due to the adoption of new guidance provided by the Financial Accounting Standards Board (FASB). Effective June 1, 2010, the Hospital tests its recorded goodwill for impairment on an annual basis, or more often if indicators of potential impairment exist, by determining if the carrying value of each reporting unit exceeds its estimated fair value. The Hospital determines the fair value of its reporting units utilizing the discounted cash flows model. During 2014, the Hospital determined that no impairment existed. There are no accumulated impairment losses associated with the recorded goodwill balances. No impairment was identified during 2014 or 2013.

Note 1. Organization and Significant Accounting Policies (Continued)

Impairment of long-lived assets: The Hospital reviews the carrying value of its long-lived assets, excluding goodwill and indefinite-lived intangible assets, whenever events or changes in circumstances indicate that the carrying value of an asset may no longer be appropriate. The Hospital assesses recoverability of the carrying value of the asset by estimating the future net cash flows expected to result from the asset, including eventual disposition. If the future net cash flows are less than the carrying value of the asset, an impairment loss is recorded equal to the difference between the asset's carrying value and fair value. Impairment losses related to investments are recognized in unrestricted investment income. All other impairment write-downs are recognized in operating income at the time the impairment is identified. No impairment was identified during 2014 or 2013.

Self-insurance: The provision for the self-insured general and professional liability claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported. The provision is actuarially determined.

Donor-restricted gifts: Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. The gifts are reported as either temporarily or permanently restricted net assets if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions.

Temporarily and permanently restricted net assets: Temporarily restricted net assets are assets whose use has been restricted by donors to a specific time period or purpose. Assets released from restrictions that are used for the purchase of property and equipment or capital purposes are reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions used for property and equipment. Assets released from restrictions that are used for operating purposes are reported in the consolidated statements of operations and changes in net assets as unrestricted revenues, gains, and other support. Restricted earnings are recorded as temporarily restricted net assets until amounts are expended in accordance with donors' specifications.

Permanently restricted net assets are subject to donor-imposed stipulations requiring that they be maintained permanently by the Hospital. Earnings on the permanently restricted net assets are recorded as investment income within temporarily restricted net assets in accordance with donor intent, or until appropriated if donor intent is not expressed.

Net patient service revenue: The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts due from patients, third-party payors, and others for services rendered, including estimated adjustments under reimbursement agreements with third-party payors, certain of which are subject to audit by administering agencies. Those adjustments are accrued on an estimated basis and are adjusted in future periods as final settlements are determined.

Note 1. Organization and Significant Accounting Policies (Continued)

Medicare and Medicaid Electronic Health Records (EHR) Incentive Programs: The American Recovery and Reinvestment Act of 2009 provides for Medicare and Medicaid Incentive Programs beginning in Federal fiscal year 2011 for eligible acute care hospitals that are meaningful users of certified EHR technology, as defined by the Federal Register. The Hospital has implemented certified EHR technology that has enabled it to demonstrate its meaningful use and to qualify for the Medicare Incentive program. The initial incentive payment received for the Medicare EHR incentive program is an estimate based upon data from prior year's cost report. The final settlement will be determined after the submission of the current annual cost report and subsequent audit by the fiscal intermediary. The Hospital's compliance with the meaningful use criteria is also subject to audit by the Federal government. The EHR Incentive Programs are expected to continue through September 30, 2016, and the incentive payments will be calculated annually. Beginning in 2015, hospitals that are not meaningful users of certified EHR technology will be subject to a potential decrease in their Medicare and Medicaid payments. The Hospital accounts for EHR incentive funds using the grant accounting model. Under this model, the Hospital records EHR incentive revenue when it is reasonably assured that it will meet the meaningful use criteria for the required reporting period and that the grant will be received.

For the years ended May 31, 2014 and 2013, the Hospital recorded Medicare EHR incentive revenue of approximately $2,865 and $4,165, respectively. For the years ended May 31, 2014 and 2013, the Hospital recorded approximately $370 and $0 of Medicaid EHR incentive revenue, respectively. All of these amounts are reported in other operating revenue in the accompanying consolidated statements of operations and changes in net assets.

Charity care, uncompensated care and community benefits: The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The Hospital's policy is to provide medically necessary health services regardless of the patient's ability to pay for such services. The Hospital maintains records to identify and monitor the level of charity care it provides.

Operating income: The consolidated statements of operations and changes in net assets include an intermediate measure of operations, operating income, which represents the activity of the ongoing operations of the Hospital. Nonoperating income (expense), excluded from operating income, consists primarily of nonrecurring transactions and transactions that are outside of the Hospital's primary health care activities. All of the Foundation's activity is considered to be nonoperating.

Revenue in excess of expenses: The consolidated statements of operations and changes in net assets include revenue in excess of expenses. Changes in unrestricted net assets, which are excluded from revenue in excess of expenses, consistent with industry practice, include unrealized gains and losses on investments other than trading securities, contributions of long-lived assets, including assets acquired using contributions, which by donor restriction were to be used for the purposes of acquiring such assets, discontinued operations, and the cumulative effects of changes in accounting principles.

Note 1. Organization and Significant Accounting Policies (Continued)

Income taxes: The Hospital and Foundation have received determination letters from the Internal Revenue Service stating they are tax-exempt under Section 501(c)(3) of the Internal Revenue Code.

The Hospital and Foundation each file a Form 990 (Return of Organization Exempt from Income Tax) annually. When these returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would ultimately be sustained. Examples of tax positions common to hospitals and foundations include such matters as the following: tax-exempt status of each entity, the continued tax-exempt status of bonds issued by the obligated group, the nature, characterization and taxability of joint venture income and various positions relative to potential sources of unrelated business taxable income (UBTI). UBTI is reported on Internal Revenue Service Form 990-T, as appropriate. The benefit of a tax position is recognized in the consolidated financial statements in the period during which, based on all available evidence, management believes that it is more likely than not that the tax position will be sustained upon examination, including the resolution of appeals or litigation processes, if any.

Tax positions are not offset or aggregated with other positions. Tax positions that meet the "more likely than not" recognition threshold are measured as the largest amount of tax benefit that is more than 50% likely to be realized on settlement with the applicable taxing authority. The portion of the benefits associated with the tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying consolidated balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination. At May 31, 2014 and 2013, there were no unrecognized tax benefits identified or recorded as liabilities.

Forms 990 and Form 990-T filed by the Hospital and the Foundation are subject to examination for up to three years from the extended due date of each return. Forms 990 filed by the Hospital and the Foundation are no longer subject to examination for tax years ended before May 31, 2011.

Property and sales taxes: On June 14, 2012, the Governor of Illinois signed into law legislation that governs property and sales tax exemption for not-for-profit hospitals. The law took effect on the date it was signed. Under the law, in order to maintain its property and sales tax exemption, the value of specified services and activities of a not-for-profit hospital must equal or exceed the estimated value of the hospital's property tax liability, as determined under a formula in the law. The specified services are those that address the health care needs of low-income or underserved individuals or relieve the burden of government with regard to health care services, and include: the cost of free or discounted services provided pursuant to the hospital's financial assistance policy; other unreimbursed costs of addressing the health needs of low-income and underserved individuals; direct or indirect financial or in-kind subsidies of State and local governments; the unreimbursed cost of treating Medicaid and other means-tested program recipients; the unreimbursed cost of treating dual-eligible Medicare/Medicaid patients; and other activities that the Illinois Department of Revenue determines relieve the burden of government or address the health of low-income or underserved individuals. Management believes that the Hospital meets the requirements under the law to maintain its property and sales tax exemption.

Donated services: A number of volunteers have donated services to the Hospital's program services and fundraising campaigns during the year; however, the value of these donated services is not reflected in the consolidated financial statements since the services do not require specialized skills.

Note 1. Organization and Significant Accounting Policies (Continued)

Reclassifications: Certain amounts in the 2013 consolidated financial statements were reclassified to conform with the 2014 presentation, with no effect on revenue in excess of expenses or net assets. The operations of SwedishAmerican Foundation were reclassified to nonoperating in the 2013 consolidated financial statements to conform with the 2014 presentation.

Pending accounting pronouncements: ASU 2012-05, *Statement of Cash Flows (Topic 230) – Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows.* The amendments in the ASU require not-for-profit organizations to classify cash receipts from the sale of donated financial assets consistently with cash donations received in the statement of cash flows if those cash receipts were from the sale of donated financial assets that upon receipt were directed without any not-for-profit imposed limitations for sale and were converted nearly immediately into cash. The amendments of this ASU are effective prospectively to fiscal years, and interim periods within those years, beginning after June 15, 2013. Retrospective application to all prior periods presented upon the date of adoption is permitted. Early adoption from the beginning of the fiscal year of adoption is permitted.

ASU 2013-04, *Liabilities (Topic 405): Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date.* ASU 2013-04 provides guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this ASU is fixed at the reporting date, expect for obligations addressed within existing guidance in U.S. generally accepted accounting principles (GAAP). The guidance requires an entity to measure those obligations as the sum of the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors and any additional amount the reporting entity expects to pay on behalf of its co-obligors. The guidance in this ASU also requires an entity to disclose the nature and amount of the obligation as well as other information about those obligations. The amendments in this ASU are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The amendments in this ASU should be applied retrospectively to all prior periods presented for those obligations resulting from joint and several liability arrangements within the ASU's scope that exist at the beginning of the entity's fiscal year of adoption. An entity may elect to use hindsight for the comparative periods (if it changed its accounting as a result of adopting the amendments in this ASU) and should disclose that fact. Early adoption is permitted.

ASU 2013-06, *Not-for-Profit Entities (Topic 958): Services Received from Personnel of an Affiliate.* The amendments of ASU 2013-06 require the recipient not-for-profit entity to recognize all services received from personnel of an affiliate that directly benefit the recipient not-for-profit entity. Those services should be measured at the cost recognized by the affiliate for the personnel providing those services. However, if measuring a service received from personnel of an affiliate at cost will significantly overstate or understate the value of the service received, the recipient not-for-profit entity may elect to recognize that service received at either (1) the cost recognized by the affiliate for the personnel providing that service or (2) the fair value of that service. The amendments in this ASU are effective prospectively for fiscal years beginning after June 15, 2014, and interim and annual periods thereafter. A recipient not-for-profit entity may apply the amendments using a modified retrospective approach under which all prior periods presented upon the date of adoption should be adjusted, but no adjustment should be made to the beginning balance of net assets of the earliest period presented. Early adoption is permitted.

Note 1. Organization and Significant Accounting Policies (Continued)

ASU 2014-09, *Revenue from Contracts with Customers (Topic 606).* This ASU provides a robust framework for addressing revenue recognition issues and, upon its effective date, replaces most existing revenue recognition guidance, including industry-specific guidance, in current U.S. GAAP. The ASU is effective for the Hospital for annual reporting periods beginning after December 15, 2016 using either a retrospective method or a modified retrospective method.

Management of the Hospital is currently evaluating the effect that the above guidance will have on the Hospital's consolidated financial statements.

Subsequent events: The Hospital has evaluated subsequent events for potential recognition and/or disclosure through September 2, 2014, the date the consolidated financial statements were issued.

Note 2. Contractual Arrangements with Third-Party Payors

The Hospital provides care to certain patients under Medicare and Medicaid programs. The Medicare program pays for substantially all inpatient and outpatient services at predetermined rates under its corresponding prospective payment system based on treatment diagnosis. The Medicaid program reimburses the Hospital for inpatient and outpatient services at predetermined rates. Changes in the Medicare and Medicaid programs and reductions of funding levels could have an adverse effect on the future amounts recognized as net patient service revenue.

The Hospital has also entered into payment arrangements with certain managed care organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, daily rates and discounts from established charges.

Medicare, Medicaid, and managed care arrangements account for 27%, 12%, and 39% of net patient service revenue for the year ended May 31, 2014, respectively, and 28%, 11%, and 42% for the year ended May 31, 2013, respectively. Provision has been made in the consolidated financial statements for estimated contractual adjustments, representing the difference between the standard charges for services and actual or estimated payment.

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party arrangements. Major components of net patient accounts receivable, before allowances for uncollectible accounts, include 13% from Medicare, 18% from Medicaid, and 35% from managed care contracts at May 31, 2014, and 14% from Medicare, 12% from Medicaid, and 36% from managed care contracts at May 31, 2013

Estimates for cost report settlements and contractual allowances can differ from actual reimbursements based on the results of subsequent reviews and cost report audits. Changes in estimated third-party valuation allowances that relate to prior years are reported in revenue in excess of expenses in the consolidated statements of operations and changes in net assets. The impact of such items on revenue in excess of expenses was an increase of approximately $1,260 and $2,637 for the years ended May 31, 2014 and 2013, respectively.

Note 2. Contractual Arrangements with Third-Party Payors (Continued)

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. Management believes that the Hospital is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

The Hospital participates in the State of Illinois hospital assessment tax program which is administered by the Illinois Department of Public Aid. The provider assessment program payments are in effect for the state fiscal years ending each June 30. Under the current Program, the Hospital received additional Medicaid reimbursement from the State and paid a related assessment tax. On October 22, 2013, the State received CMS approval to enhance the Program retroactively to June 10, 2012. Total assessment revenue recognized by the Hospital related to this Program amounted to $37,405 and $22,586 during the years ended May 31, 2014 and 2013, respectively. Total assessment tax incurred by the Hospital related to this Program amounted to $14,408 and $7,650 during the years ended May 31, 2014 and 2013, respectively. Of these amounts, approximately $7,975 of revenue and approximately $3,620 of expense relate to the period from June 10, 2012 to May 31, 2013. These amounts are shown in the consolidated statements of operations and changes in net assets as Pubic Aid assessment revenue and Public Aid assessment expense. In connection with the Program, the Hospital made voluntary contributions to the Illinois Hospital Research and Educational Foundation (IHREF) of $243 and $193 during each of the years ended May 31, 2014 and 2013, which are included in other expense in the consolidated statements of operations and changes in net assets. Under the current Program, the Hospital expects the net revenue from the Program for the years ending May 31, 2015 through 2018 to be approximately $18,768 and for the year ending May 31, 2019 to be approximately $1,564.

Illinois Medicaid reform: On June 16, 2014, the Governor of Illinois signed legislation to reform Illinois Medicaid. The legislation codifies Medicaid rate reform and payment system changes proposed by the Illinois Department of Healthcare and Family Services (HFS). It includes protections to prevent future rate reductions by HFS and a transition period of four years until June 30, 2018. It extended the current and enhanced Medicaid Hospital Tax Assessment Program (Programs) through June 30, 2018, and includes new funding to hospitals which will be used to attract additional Federal matching funds. If the State receives approval from the Centers for Medicare and Medicaid Services (CMS) to further enhance the Program, the Hospital expects the additional annual net revenue to be $6,200 for the years ending May 31, 2015 through 218 and $517 for the year ending May 31, 2019. Such payments are subject to change and are contingent upon CMS approval of the enhanced hospital tax assessment program.

Note 3. Charity, Uncompensated Care and Community Benefits

In the ordinary course of business, the Hospital renders medically necessary health services to patients who are financially unable to pay for such care. Unreimbursed charges written off by the Hospital relating to uncompensated care provided to indigent patients under the Medicaid program and other patients who are unable to pay for services provided amounted to the following for the years ended May 31, 2014 and 2013:

	2014	2013
Medicaid allowances	$ 243,648	$ 229,473
Provision for bad debts	35,315	30,745

The Hospital provides care to those patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. The Hospital maintains records to identify and monitor the level of charity care it provides. Charity care is measured based on the Hospital's estimated cost of providing charity care. That estimate is made by calculating the departmental ratio of cost to gross charges, and applying that ratio to uncompensated charges associated with providing charity care to patients. The cost of charity care provided was $10,153 and $13,656 for the years ended May 31, 2014 and 2013, respectively. The decrease in the cost of charity care was attributable to more patients having Medicaid or other insurance coverage under the Affordable Care Act.

In addition, the Hospital, in furtherance of its commitment to the community, also incurs significant time and commits significant resources to meet otherwise unfulfilled needs. Many of these activities are sponsored with the knowledge that they will not be self-supporting or independently financially viable. These programs, oriented to the economically disadvantaged, medically underserved, or elderly, as well as to the community at large, include health screening and assessments, prevention, prenatal and nutritional services, and care for children.

On April 1, 2009, the Illinois Hospital Uninsured Patient Discount Act (the Act) became law. The Act requires hospitals to provide certain mandated discounts from charges to the uninsured in Illinois. Charges are to be discounted up to 135% of cost for eligible uninsured Illinois residents, based on income and federal poverty guidelines. Furthermore, a hospital may not collect more than 25% of an eligible uninsured family's gross income in any 12-month period. The Hospital's charity care policy complies with the uncompensated care mandated under the Act.

Note 4. Assets Limited as to Use and Investments

The composition of assets limited as to use and investments is as follows at May 31:

	2014	2013
Mutual funds	$ 37,608	$ 34,941
Certificates of deposit	387	384
Money market funds	1,236	880
Corporate bonds and notes	29,349	47,480
Government and agency obligations	106,980	94,723
Equity securities	51,067	39,906
Other	87	95
	$ 226,714	$ 218,409

These amounts are included on the consolidated balance sheets as follows:

	2014	2013
Short-term investments	$ 4,000	$ 2,834
Assets limited as to use:		
Bond project fund	-	18,676
Internally designated for self-insurance fund	15,946	14,286
Internally designated for deferred compensation agreements	8,922	10,405
Investments	197,846	172,208
	$ 226,714	$ 218,409

Total unrestricted investment income from assets limited as to use, investments, and cash and cash equivalents consists of the following for the years ended May 31:

	2014	2013
Investment income - unrestricted:		
Interest and dividend income	$ 5,851	$ 5,723
Net realized gain from sale of investments	3,494	4,999
Net change in unrealized gains and losses on trading securities	6,296	4,143
Investment fee expense	(688)	(620)
	$ 14,953	$ 14,245

Note 5. Endowment Funds

The Hospital's endowment consists of 15 individual funds established for a variety of purposes. Its endowment includes donor-restricted endowment funds. As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

On June 30, 2009, the Governor of the State of Illinois signed into law the Uniform Prudent Management of Institutional Funds Act (UPMIFA). UPMIFA differs from laws previously in place in a few key areas. It eliminates the historic dollar value rule with respect to endowment fund spending, it updates the prudence standard for the management and investment of charitable funds, and it amends the provisions governing the release and modification of restrictions on charitable funds. The passing of the UPMIFA law was determined to have no significant impact on the Hospital's classification of net assets or its policy.

Interpretation of Relevant Law

The Board of Trustees of the Hospital has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent any explicit donor stipulations to the contrary. As a result of this interpretation, the Hospital classified as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the 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 donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those assets have been appropriated for expenditure by the Hospital in a manner consistent with the standard of prudence prescribed in UPMIFA. In accordance with UPMIFA, the Hospital considers the following factors in making a determination to appropriate or accumulate earnings on donor-restricted endowment funds:

1. The duration and preservation of the fund;
2. The purpose of the Hospital and the donor-restricted endowment fund;
3. General economic conditions;
4. The possible effect of inflation and deflation;
5. The expected total return from income and the appreciation of investments;
6. Other resources of the Hospital; and
7. The investment policies of the Hospital.

The Hospital's endowment net asset composition by type of fund is as follows at May 31:

	2014				2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted	$ -	$ 941	$ 2,010	$ 2,951	$ -	$ 751	$ 2,001	$ 2,752

Note 5. Endowment Funds (Continued)

The changes in endowment net assets for the Hospital were as follows for the years ended May 31:

	2014				2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ -	$ 751	$ 2,001	$ 2,752	$ -	$ 517	$ 2,016	$ 2,533
Investment return:								
Investment gain	-	161	-	161	-	84	-	84
Net unrealized appreciation	-	172	-	172	-	238	-	238
Total investment return	-	333	-	333	-	322	-	322
Contributions and other	-	1	9	10	-	-	(15)	(15)
Appropriation of endowment assets for expenditure	-	(144)	-	(144)	-	(88)	-	(88)
Endowment net assets, end of year	$ -	$ 941	$ 2,010	$ 2,951	$ -	$ 751	$ 2,001	$ 2,752

Funds with Deficiencies

At May 31, 2014 and 2013, there were no endowment funds with deficiencies.

Return Objectives and Risk Parameters

The Hospital has adopted investment and spending policies for endowment assets to preserve capital while earning market rates without undue risk. Endowment assets include those assets of donor-restricted funds that the Hospital must hold in perpetuity or for a donor-specified period(s). Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to preserve the principal and provide liquidity of amounts over the principal while assuming a moderate level of investment risk.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Hospital relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Hospital's policy is to invest endowment funds in both fixed income and equity securities with a maximum amount of equity securities at 70%. Management believes this strategy will help to achieve the Hospital's long-term return objectives within prudent risk constraints.

Note 5. Endowment Funds (Continued)

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Hospital's spending policy is that income from donor-restricted funds will be spent on the intended service, program, or purpose, within a reasonable time period.

Note 6. Property and Equipment and Commitments

Property and equipment consist of the following at May 31:

	2014	2013
Land and improvements	$ 16,768	$ 10,280
Buildings	143,393	119,046
Furniture and equipment	281,438	261,079
Construction in progress	8,469	32,364
	450,068	422,769
Less: accumulated depreciation	253,618	241,251
	$ 196,450	$ 181,518

At May 31, 2014, the Hospital has commitments totaling approximately $3,689 for a variety of construction projects and equipment purchases. Depreciation expense during the years ended May 31, 2014 and 2013 was $21,428 and $20,058, respectively, of which $107 and $110 are included in other nonoperating income (expense) on the consolidated statements of operations and changes in net assets for the years ended May 31, 2014 and 2013, respectively.

Note 7. Notes Payable and Long-Term Debt

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

	2014	2013
Illinois Finance Authority Revenue Bonds, Series 2004, coupon rates of 3.75% to 5.00%, yields of 4.39% and 4.78%, principal payable in varying installments due November 15 of each year through 2031	$ 79,970	$ 82,815
Illinois Finance Authority Revenue Bonds, Series 2010, fixed rate of 4.05%, $625 principal payable semiannually of each year through April 15, 2030	20,000	21,250
Illinois Finance Authority Revenue Bonds, Series 2012, coupon rates of 4.00% to 5.00%, yields of 4.16% and 4.39%, principal payable in term bonds due November 15, 2034, 2039 and 2043	41,445	41,445
Capitalized equipment lease	-	332
Sub-total	141,415	145,842
Unamortized bond premium	2,464	2,690
	143,879	148,532
Less current maturities	(4,460)	(4,654)
	$ 139,419	$ 143,878

Effective December 24, 2004, the Illinois Finance Authority, on behalf of the Hospital, issued $100,995 of fixed rate Revenue Bonds, Series 2004 (Series 2004 Bonds). The proceeds of the Series 2004 Bonds were used, together with other available funds, to pay or reimburse the Hospital for certain costs of acquiring, constructing, renovating, remodeling, and equipping certain health facilities of the Hospital, including, but not limited to, construction and equipping of a new four-story freestanding cardiac hospital facility and the renovation of the Hospital's existing inpatient/outpatient surgery area and cardiac catheterization laboratory, to pay previously outstanding debt obligations, and to pay certain expenses incurred in connection with the issuance of the Series 2004 Bonds.

Effective April 19, 2010, the Illinois Finance Authority, on behalf of the Hospital, issued $25,000 of direct fixed rate Revenue Bonds, Series 2010 (Series 2010 Bonds). The proceeds of the bonds were used to repay a $25,000 note payable to a bank.

Effective September 27, 2012, the Illinois Finance Authority, on behalf of the Hospital, issued $41,445 of fixed rate Revenue Bonds, Series 2012 (Series 2012 Bonds). The proceeds of the Series 2012 Bonds were used, together with other available funds, to pay or reimburse the Hospital for certain costs of acquiring, constructing, renovating, and equipping of a comprehensive regional outpatient cancer care facility, and to pay certain expenses incurred in connection with the issuance of the Series 2012 Bonds.

Note 7. Notes Payable and Long-Term Debt (Continued)

The Series 2004, 2010 and 2012 Bonds were issued pursuant to a Master Trust Indenture, as supplemented, which contains various covenants, including achievement of specified financial ratios and limitations on additional debt. Among other covenants in connection with the loan agreements for the Series 2004, 2010 and 2012 Bonds, the Hospital has agreed to limit disposals of assets and transfers of cash to non-obligated affiliates. The bonds are secured by unrestricted receivables of the obligated group as defined in the Master Trust Indenture. The obligated group consists of the Hospital and the Foundation. The Series 2004 bonds are guaranteed by a bond insurer. As a provision of the Master Trust Indenture, the obligated group will execute a mortgage with respect to certain real and personal property and grant a security interest in its gross revenues, as defined in the Master Trust Indenture, if certain covenants are not maintained.

Interest payments for the years ended May 31, 2014 and 2013 totaled $6,750 and $6,258, respectively.

Interest cost incurred for the years ended May 31, 2014 and 2013 totaled $6,867 and $6,420, respectively. The amount of interest capitalized for the years ended May 31, 2014 and 2013 totaled $1,191 and $1,820, respectively.

Maturities required on long-term debt at May 31, 2014 due in future years are as follows:

Year Ending May 31,	Long-Term Debt
2015	$ 4,240
2016	4,385
2017	4,540
2018	4,665
2019	4,835
Thereafter	118,750
	$ 141,415

Note 8. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets, $3,492 in 2014 and $3,321 in 2013, are available for medical education and other health care programs and property and equipment.

Permanently restricted net assets, $6,153 in 2014 and $5,821 in 2013, are investments to be held in perpetuity and beneficial interests in perpetual trusts, the income from which is expendable to support health care services and is reported as increases in temporarily restricted net assets.

Note 9. Fair Value Disclosures

Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1 – Quoted market prices in active markets for identical assets or liabilities.
Level 2 – Observable market based inputs or unobservable inputs that are corroborated by market data.
Level 3 – Unobservable inputs that are not corroborated by market data.

The following is a description of the valuation methodology used for the Hospital's assets carried at fair value:

Investment Securities – Level 1

The fair value of investment securities that are considered Level 1 is the market value based on quoted prices, when available, or market prices provided by recognized broker dealers.

Corporate Bonds and Notes – Level 2

The fair value of corporate bonds and notes that are considered Level 2 is determined using a discounted cash flow model and inputs such as stated coupon, yield and maturity date as well as LIBOR or Treasury yield plus a credit spread based on other market data.

Government and Agency Obligations – Level 2

The fair value of government and agency obligations that are considered Level 2 is determined based on the quoted yield on a Treasury security that is most similar to the security being valued, adjusted for variances in the maturity, coupon and other features.

Beneficial Interest in Trust Assets – Level 3

The fair value of the beneficial interest in trust assets represents the Hospital's proportionate interest in the value of the trusts. The fair values of the trusts were provided by the respective trustees.

In determining the appropriate levels, the Hospital performs a detailed analysis of the assets and liabilities carried at fair value in the consolidated financial statements. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

Note 9. Fair Value Disclosures (Continued)

Fair Value on a Recurring Basis

The tables below present the balances of assets measured at fair value on a recurring basis by level within the hierarchy as of May 31, 2014 and 2013:

	May 31, 2014			
	Total	Level 1	Level 2	Level 3
Assets				
Investments and Assets Limited as to Use:				
Mutual funds - equity securities				
Large-cap	$ 9,902	$ 9,902	$ -	$ -
Medium-cap	933	933	-	-
Small-cap	9,904	9,904	-	-
International	11,802	11,802	-	-
Mutual funds - debt securities				
U.S. Government Agency	3,910	3,910	-	-
Corporate bonds	1,157	1,157	-	-
Corporate bonds and notes	29,349	12,327	17,022	-
Government and agency obligations	106,980	85,584	21,396	-
Equity securities large-cap	51,067	51,067	-	-
Other	87	-	87	-
Beneficial interest in trust assets	4,617	-	-	4,617
	$ 229,708	$ 186,586	$ 38,505	$ 4,617

	May 31, 2013			
	Total	Level 1	Level 2	Level 3
Assets				
Investments and Assets Limited as to Use:				
Mutual funds - equity securities				
Large-cap	$ 9,803	$ 9,803	$ -	$ -
Medium-cap	867	867	-	-
Small-cap	9,048	9,048	-	-
International	9,664	9,664	-	-
Mutual funds - debt securities				
U.S. Government Agency	3,568	3,568	-	-
Corporate bonds	1,991	1,991	-	-
Corporate bonds and notes	47,480	33,711	13,769	-
Government and agency obligations	94,723	84,304	10,419	-
Equity securities large-cap	39,906	39,906	-	-
Other	95	-	95	-
Beneficial interest in trust assets	4,274	-	-	4,274
	$ 221,419	$ 192,862	$ 24,283	$ 4,274

Note 9. Fair Value Disclosures (Continued)

The changes in Level 3 assets measured at fair value on a recurring basis are summarized as follows:

	Beneficial Interest in Trust Assets	
	2014	2013
Balance, beginning	$ 4,274	$ 3,949
Distributions	(176)	(195)
Increase in value of beneficial interest in trust assets	519	520
Balance, ending	$ 4,617	$ 4,274

The following methods and assumptions were used by the Hospital to estimate the fair value of other financial instruments:

- The carrying values of cash and cash equivalents, patient accounts receivable, notes receivable and other assets, accounts payable, accrued expenses and other, notes payable and estimated settlements due to third-party payors are reasonable estimates of their fair value due to the short-term nature of these financial instruments.
- The estimated fair value of long-term debt is based on current traded value. The fair value (including current maturities) is $139,129 and $147,655 at May 31, 2014 and 2013, respectively, and is considered a Level 2 estimate.
- The fair value of due to affiliated organizations is not determinable, as fixed payment terms have not been established. The instruments are noninterest-bearing.

Note 10. Operating Leases

The Hospital has non-cancelable operating leases for data processing, medical and office equipment and leased space. The future minimum rental payments of these leases are as follows:

Year Ending May 31,	
2015	$ 3,326
2016	2,732
2017	2,348
2018	2,170
2019	1,404
Thereafter	11,050
	$ 23,030

Rental expense for the years ended May 31, 2014 and 2013 totaled $10,212 and $9,100, respectively, of which $5 is included in other nonoperating income (expense) on the consolidated statements of operations and changes in net assets for the years ended May 31, 2014 and 2013.

Note 11. Benefit Plans

The Hospital has two defined-contribution pension plans covering substantially all employees. Contributions depend upon employee earnings, length of service, and employee contributions. The Hospital's contributions to these plans totaled $7,668 and $7,722 for the years ended May 31, 2014 and 2013, respectively.

In addition, the Hospital sponsors a defined-benefit health care plan that provides postretirement medical benefits to the Hospital's and certain of its affiliates' employees and their dependents through age 70. Eligibility requirements are 20 years of service and the attainment of age 55. Effective January 1, 2000, retiree premiums cover the entire cost of coverage.

Note 12. Deferred Compensation Agreements

The Hospital has deferred compensation plans for certain executives and physicians. The physician plans are currently frozen. Both the executive and physician plans are recorded as an asset and a liability on the Hospital's consolidated balance sheets. Activity primarily consists of distributions to participants and investment return. There is no corporate contribution to the physician plans. The corporate contribution to the executive plan was approximately $531 and $480 for the years ended May 31, 2014 and 2013, respectively.

Note 13. Insurance and Contingencies

The Hospital is self-insured for general liability and professional liability claims up to certain specified limits arising from incidents occurring after February 1, 1976. The Hospital carries claims-made professional and general liability insurance up to certain specified limits for claims in excess of self-insured retention. Such coverage has been arranged through November 15, 2014. The Hospital carries claims-made professional liability insurance up to certain specified limits for its employed physicians. Such coverage has been arranged through April 1, 2015.

Accruals for self-insured professional liability risks are included in long-term liabilities on the consolidated balance sheets. The amounts are determined by assessing asserted and unasserted claims identified by management's incident reporting system and are estimated by an independent consulting actuary based on industry and the Hospital's own historical reporting patterns using a discount rate of 5% at both May 31, 2014 and 2013. Although the ultimate settlement of these accruals may vary from these estimates, management believes that the amounts provided in the consolidated financial statements are adequate. The insurance accruals could be adversely affected if actual payments of claims exceed management's projected estimates of claims.

If accrued losses had not been discounted, the estimated liability would be approximately $3,566 and $3,192 higher than the amounts recorded in the consolidated balance sheets as of May 31, 2014 and 2013, respectively.

The Hospital is funding its self-insured risks with a bank based on a report of consulting actuaries.

Litigation: The Hospital is a defendant in various lawsuits arising in the ordinary course of business. Although the outcome of the lawsuits cannot be determined with certainty, management believes the ultimate disposition of such matters will not have a material effect on the Hospital's financial condition.

Note 13. Insurance and Contingencies (Continued)

Regulatory Investigations: The U.S. Department of Justice, other federal agencies and the Illinois Department of Public Aid routinely conduct regulatory investigations and compliance audits of health care providers. The Hospital is subject to these regulatory efforts. Management is currently unaware of any regulatory matters which may have a material effect on the Hospital's financial position or results from operations.

CMS Recovery Audit Contractor Program: Congress passed the Medicare Modernization Act in 2003, which among other things established a demonstration of The Medicare Recovery Audit Contractor (RAC) program. The RACs identified and corrected a significant amount of improper overpayments to providers. In 2006, Congress passed the Tax Relief and Health Care Act of 2006 which authorized the expansion of the RAC program to all 50 states. CMS began rolling out this program in early 2010 in Illinois. The Hospital has recorded a reserve for estimated amounts that will be repaid under the RAC program based on the Hospital's RAC program experience to date.

Patient Protection and Affordable Care and Reconciliation Act: On March 23, 2010, President Barack Obama signed into law the most sweeping health care reform legislation since the advent of Medicare. The law promised to expand insurance coverage to an additional 32 million Americans, reduce the growth of Medicare expenditures, dramatically reform insurance markets, and continue the march toward value-based payment. The Reconciliation Act amends various provisions of the Patient Protection and Affordable Care Act and adds some new provisions that were not included originally.

Note 14. Related Party Transactions

During the years ended May 31, 2014 and 2013, the Hospital realized revenue of approximately $1,532 and $1,364, respectively, primarily from the sale of services and materials to its parent and affiliates and the rental of property to its affiliates. During the years ended May 31, 2014 and 2013, the Hospital incurred net expenses of approximately $14,034 and $12,301, respectively, primarily from the purchases of services and rental of property from its affiliates, of which $52 is included in other nonoperating income (loss) on the consolidated statements of operations and changes in net assets for the years ended May 31, 2014 and 2013.

Note 15. Functional Expenses

The Hospital provides general health care services to residents within its geographic location. Expenses related to these functions for the years ended May 31, 2014 and 2013 are as follows:

	2014	2013
Direct patient services	$ 423,346	$ 401,468
Support services	9,161	8,903
	$ 432,507	$ 410,371

Certain costs have been allocated between direct patient services and support services. All of the Foundation's expenses are considered to be fundraising and these expenses were $1,888 and $2,023 for the years ended May 31, 2014 and 2013, respectively.

Note 16. Investments in Nonconsolidated Affiliates

The Hospital has equity interests in the following organizations:

- The Featherstone Partnership, L.P., which operates a standalone surgery center located in Rockford, Illinois. The Hospital's interest is 29%.
- Northern Illinois Vein Clinic, a general partnership, which was formed to own and operate radio frequency equipment to treat vein conditions. The Hospital's interest is 50%.

Aggregate unaudited financial information relating to these investments is as follows as of and for the years ended May 31, 2014 and 2013:

	2014	2013
Assets	$ 9,446	$ 9,460
Liabilities	3,508	3,679
Net income	2,137	1,700

The Hospital's investment in nonconsolidated affiliates totaled $1,780 and $1,757 at May 31, 2014 and 2013, respectively, and is included in notes receivable and other assets on the consolidated balance sheets. The Hospital's interest in the earnings of nonconsolidated affiliates totaled $652 and $596 for the years ended May 31, 2014 and 2013, respectively, and is included in other nonoperating income (expense) on the consolidated statements of operations and changes in net assets.

McGladrey

Independent Auditor's Report on the Supplementary Information

To the Board of Trustees
SwedishAmerican Hospital
Rockford, Illinois

We have audited the consolidated financial statements of SwedishAmerican Hospital and Subsidiary as of and for the years ended May 31, 2014 and 2013, and have issued our report thereon which contains an unmodified opinion on those consolidated financial statements. See page 1. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information is presented for purposes of additional analysis rather than to present the financial position and results of operations of the individual companies 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 2014 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.

McGladrey LLP

Rockford, Illinois
September 2, 2014

Member of the RSM International network of independent accounting, tax and consulting firms.

SwedishAmerican Hospital and Subsidiary

Consolidating Balance Sheet
May 31, 2014
(Dollars in thousands)

Assets	Consolidated	Eliminations	SwedishAmerican Hospital	SwedishAmerican Foundation
Current Assets				
Cash and cash equivalents	$ 29,353	$ -	$ 29,142	$ 211
Short-term investments	4,000	-	4,000	-
Current portion assets limited as to use:				
Internally designated for self-insurance fund	3,300	-	3,300	-
Patient accounts receivable, less allowances for uncollectible accounts	68,412	-	68,412	-
Inventories	7,914	-	7,914	-
Prepaid expenses and other assets	7,954	-	7,524	430
Total current assets	120,933	-	120,292	641
Other Assets				
Assets limited as to use:				
Internally designated for self-insurance fund, less current portion	12,646	-	12,646	-
Internally designated for deferred compensation agreements	8,922	-	8,922	-
Investments	197,846	-	186,125	11,721
Beneficial interest in trust assets	4,617	-	-	4,617
Contribution receivable from lead trust	289	-	-	289
Deferred bond issuance costs, net	3,123	-	3,123	-
Goodwill	7,800	-	7,800	-
Intangible asset	9,001	-	9,001	-
Notes receivable and other assets	2,627	-	2,170	457
Interest in net assets of recipient organization	-	(18,834)	18,834	-
	246,871	(18,834)	248,621	17,084
Property and Equipment, net	196,450	-	194,571	1,879
Total assets	$ 564,254	$ (18,834)	$ 563,484	$ 19,604

(Continued)

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#6e

SwedishAmerican Hospital and Subsidiary

Consolidating Balance Sheet (Continued)
May 31, 2014
(Dollars in thousands)

Liabilities and Net Assets	Consolidated	Eliminations	SwedishAmerican Hospital	SwedishAmerican Foundation
Current Liabilities				
Accounts payable	$ 10,787	$ -	$ 10,734	$ 53
Accrued expenses and other	35,109	-	34,511	598
Self-insurance	3,300	-	3,300	-
Estimated settlements due to third-party payors	35,705	-	35,705	-
Current maturities of long-term debt	4,460	-	4,460	-
Total current liabilities	89,361	-	88,710	651
Noncurrent Liabilities				
Long-term debt, less current maturities	139,419	-	139,419	-
Self-insurance, less current portion	14,755	-	14,755	-
Due to affiliated organizations	10,086	-	9,967	119
Deferred compensation agreements	8,922	-	8,922	-
Other	295	-	295	-
	173,477	-	173,358	119
Total liabilities	262,838	-	262,068	770
Net Assets				
Unrestricted	291,771	(9,189)	291,771	9,189
Temporarily restricted	3,492	(3,492)	3,492	3,492
Permanently restricted	6,153	(6,153)	6,153	6,153
Total net assets	301,416	(18,834)	301,416	18,834
Total liabilities and net assets	$ 564,254	$ (18,834)	$ 563,484	$ 19,604

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#6e

SwedishAmerican Hospital and Subsidiary

Consolidating Statement of Operations
Year Ended May 31, 2014
(Dollars in thousands)

	Consolidated	Eliminations	SwedishAmerican Hospital	SwedishAmerican Foundation
Unrestricted revenues, gains and other support				
Net patient service revenue	$ 433,026	$ -	$ 433,026	$ -
Provision for bad debts	(35,315)	-	(35,315)	-
Net patient service revenue less provision for bad debts	397,711	-	397,711	-
Public Aid assessment revenue	37,405	-	37,405	-
Other revenue	13,451	-	13,451	-
Net assets released from restrictions - used for operating purposes	90	-	90	-
	448,657	-	448,657	-
Expenses				
Salaries and employee benefits	216,473	-	216,473	-
Supplies and purchased services	111,994	1	111,993	-
Professional fees	25,521	(8)	25,529	-
Management fees	4,262	-	4,262	-
Depreciation and amortization	21,371	-	21,371	-
Interest	5,606	-	5,606	-
Utilities	3,225	-	3,225	-
Repairs and maintenance	13,845	-	13,845	-
Insurance	9,946	-	9,946	-
Public Aid assessment expense	14,408	-	14,408	-
Other	5,856	-	5,856	-
	432,507	(7)	432,514	-
Operating income	16,150	7	16,143	-
Nonoperating income (expense)				
Investment income	14,953	-	13,682	1,271
Income tax (provision)	(174)	-	(174)	-
Foundation - other, net	(1,252)	(7)	-	(1,245)
Other	29	-	29	-
	13,556	(7)	13,537	26
Change in interest in recipient organization	-	(26)	26	-
Revenue in excess of expenses	$ 29,706	$ (26)	$ 29,706	$ 26

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#6e

Attachment #7

RESPONSE TO SECTIONS 1130.500 and 1130.520

7a: Evidence of "A" Bond Rating for University of Wisconsin Hospitals and Clinics Authority

7b: Evidence of "A" Bond Rating for SwedishAmerican Health System Corporation

7c: Organizational Chart for UW Health Co-applicants

7d: Organizational Chart for SwedishAmerican Co-applicants

7e: Certifications and Affirmations required by Sections 1130.500 and 1130.520

RESPONSE TO SECTIONS 1130.500 and 1130.520

7a: Evidence of "A" Bond Rating for University of Wisconsin Hospitals and Clinics Authority

ATTACHMENT #7a

STANDARD
&POOR'S
RATINGS SERVICES

130 East Randolph Street
Suite 2900
Chicago, IL 60601
tel 312 233-7001
reference no.: 1246309

February 14, 2013

University of Wisconsin Hospital & Clinics
600 Highland Avenue
Room H5/803A
Madison, WI 53792-837
Attention: Mr. Michael Buhl, Chief Financial Officer

Re: ***US$290,000,000 University of Wisconsin Hospital and Clinics Authority Hospital Revenue and Refunding Bonds, Series 2013A, dated: March 14, 2013, due: April 01, 2043***

Dear Mr. Buhl:

Pursuant to your request for a Standard & Poor's rating on the above-referenced issuer, we have reviewed the information submitted to us and, subject to the enclosed *Terms and Conditions*, have assigned a rating of "A+". Standard & Poor's views the outlook for this rating as stable. A copy of the rationale supporting the rating is enclosed.

The rating is not investment, financial, or other advice and you should not and cannot rely upon the rating as such. The rating is based on information supplied to us by you or by your agents but does not represent an audit. We undertake no duty of due diligence or independent verification of any information. The assignment of a rating does not create a fiduciary relationship between us and you or between us and other recipients of the rating. We have not consented to and will not consent to being named an "expert" under the applicable securities laws, including without limitation, Section 7 of the Securities Act of 1933. The rating is not a "market rating" nor is it a recommendation to buy, hold, or sell the obligations.

This letter constitutes Standard & Poor's permission to you to disseminate the above-assigned rating to interested parties. Standard & Poor's reserves the right to inform its own clients, subscribers, and the public of the rating.

Standard & Poor's relies on the issuer/obligor and its counsel, accountants, and other experts for the accuracy and completeness of the information submitted in connection with the rating. This rating is based on financial information and documents we received prior to the issuance of this letter. Standard & Poor's assumes that the documents you have provided to us are final. If any subsequent changes were made in the final documents, you must notify us of such changes by sending us the revised final documents with the changes clearly marked.

To maintain the rating, Standard & Poor's must receive all relevant financial information as soon as such information is available. Placing us on a distribution list for this information would

facilitate the process. You must promptly notify us of all material changes in the financial information and the documents. Standard & Poor's may change, suspend, withdraw, or place on CreditWatch the rating as a result of changes in, or unavailability of, such information. Standard & Poor's reserves the right to request additional information if necessary to maintain the rating.

Please send all information to:

Standard & Poor's Ratings Services
Public Finance Department
55 Water Street
New York, NY 10041-0003

Standard & Poor's is pleased to be of service to you. For more information on Standard & Poor's, please visit our website at www.standardandpoors.com. If we can be of help in any other way, please call or contact us at nypublicfinance@standardandpoors.com.Thank you for choosing Standard & Poor's and we look forward to working with you again.

Sincerely yours,

Standard & Poor's

Standard & Poor's Ratings Services
a Standard & Poor's Financial Services LLC business.

sp
enclosures
cc: Mr. Josh Neaman, Vice President
Kaufman Hall

MOODY'S
INVESTORS SERVICE

7 World Trade Center
250 Greenwich Street
New York, NY 10007
www.moodys.com

February 15, 2013

Mr. Michael Buhl
Chief Financial Officer
University of Wisconsin Hospital & Clinics Authority
600 Highland Avenue
Room H5 / 803
Madison, WI 53792

Dear Mr. Buhl:

We wish to inform you that Moody's Investors Service has assigned Aa3 rating to University of Wisconsin Hospitals and Clinics Authority's Series 2013A fixed rate bonds to be issued by UWHCA and upgraded the rating on UWHCA's outstanding rated debt to Aa3 from A1. The rating outlook is stable.

Moody's will monitor these ratings and reserves the right, at its sole discretion, to revise or withdraw these ratings at any time.

The ratings as well as any other revisions or withdrawals thereof will be publicly disseminated by Moody's through the normal print and electronic media and in response to verbal requests to Moody's rating desk.

In order for us to maintain the currency of our rating, we request that you provide ongoing disclosure, including annual and quarterly financial and statistical information.

Should you have any questions regarding the above, please do not hesitate to contact me.

Sincerely,

Beth I. Wexler
Vice President/Senior Credit Officer
Phone: 212-553-1384
Fax: 212-298-7155
Email: beth.wexler@moodys.com

BIW:ri

cc: Mr. Bob O'Keefe, University of Wisconsin Hospital & Clinics Authority
Mr. Josh Neeman, Kaufman, Hall & Associates
Ms. Lisa Rogers, JP Morgan

RESPONSE TO SECTIONS 1130.500 and 1130.520

7b: Evidence of "A" Bond Rating for SwedishAmerican Health System Corporation

ATTACHMENT #7b

FitchRatings

FITCH AFFIRMS SWEDISHAMERICAN HEALTH SYSTEM'S (IL) REVS AT 'A'; OUTLOOK STABLE

Fitch Ratings-Chicago-20 August 2014: Fitch Ratings has affirmed the 'A' rating on the following bonds issued by the Illinois Finance Authority on behalf of SwedishAmerican Health System (SAHS):

--Approximately $41.4 million revenue bonds, series 2012;
--Approximately $82.8 million revenue bonds, series 2004.

SECURITY
Debt payments are secured by a pledge of the gross revenues of the obligated group.

KEY RATING DRIVERS

MERGER WITH UW HEALTH: In April 2014, SAHS signed a formal agreement to merge with University of Wisconsin Health (UW Health, revenue bonds not rated by Fitch). SAHS has been clinically affiliated with UW Health for the last four years, which was formalized in the oncology service line with the development of a collaborative regional cancer center that opened in the fall of 2013. Fitch views the relationship and the letter of intent (LOI) favorably and expects that SAHS will be able to further enhance its service offerings through its enhanced partnership with UW Health.

IMPROVING LIQUIDITY: Unrestricted cash and investments have grown over 30% since fiscal 2012 and at May 31, 2014 (interim results) equaled $230.1 million, which translates to 204.4 days cash on hand and 157.8% cash-to-debt; both ahead of the respective 'A' category medians.

IMPROVED 2014 OPERATING PROFITABILITY: In fiscal 2014 (unaudited) operating and operating EBITDA margins improved to 4.1% and 10.3%, respectively, compared to operating and operating EBITDA margins of 1.7% and 7.5% in the prior year. Excluding $4.3 million of prior year provider tax receipts, operating margin would be 3.2%, which remains in-line with the 'A' category median of 3.2%.

LEADING MARKET POSITION: SAHS controls about 41.1% of the market share in the very competitive primary service area. The other two providers in the area include Rockford Memorial Health System, and St. Anthony's Medical Center (part of OSF Healthcare, rated 'A').

MODERATE DEBT BURDEN: SAHS' debt burden as measured by maximum annual debt service (MADS) as a percent of revenue is modest at 2.7% in fiscal 2014 when compared to the 'A' category median of 3.1%. Furthermore, improved profitability generated strong debt service coverage of 4.9x in fiscal 2014.

RATING SENSITIVITIES

MAINTAIN CURRENT FINANCIAL POSITION: Fitch expects SAHS' operating profitability and liquidity position to remain in line with 'A' category medians.

CREDIT PROFILE
Located in Rockford, IL, about 70 miles west of Chicago, SAHS is a full-service acute care provider with 369 licensed beds (including beds at SAHS' facility in Belvidere). SAHS had total operating revenues of $451.8 million in fiscal 2014 (interim results).

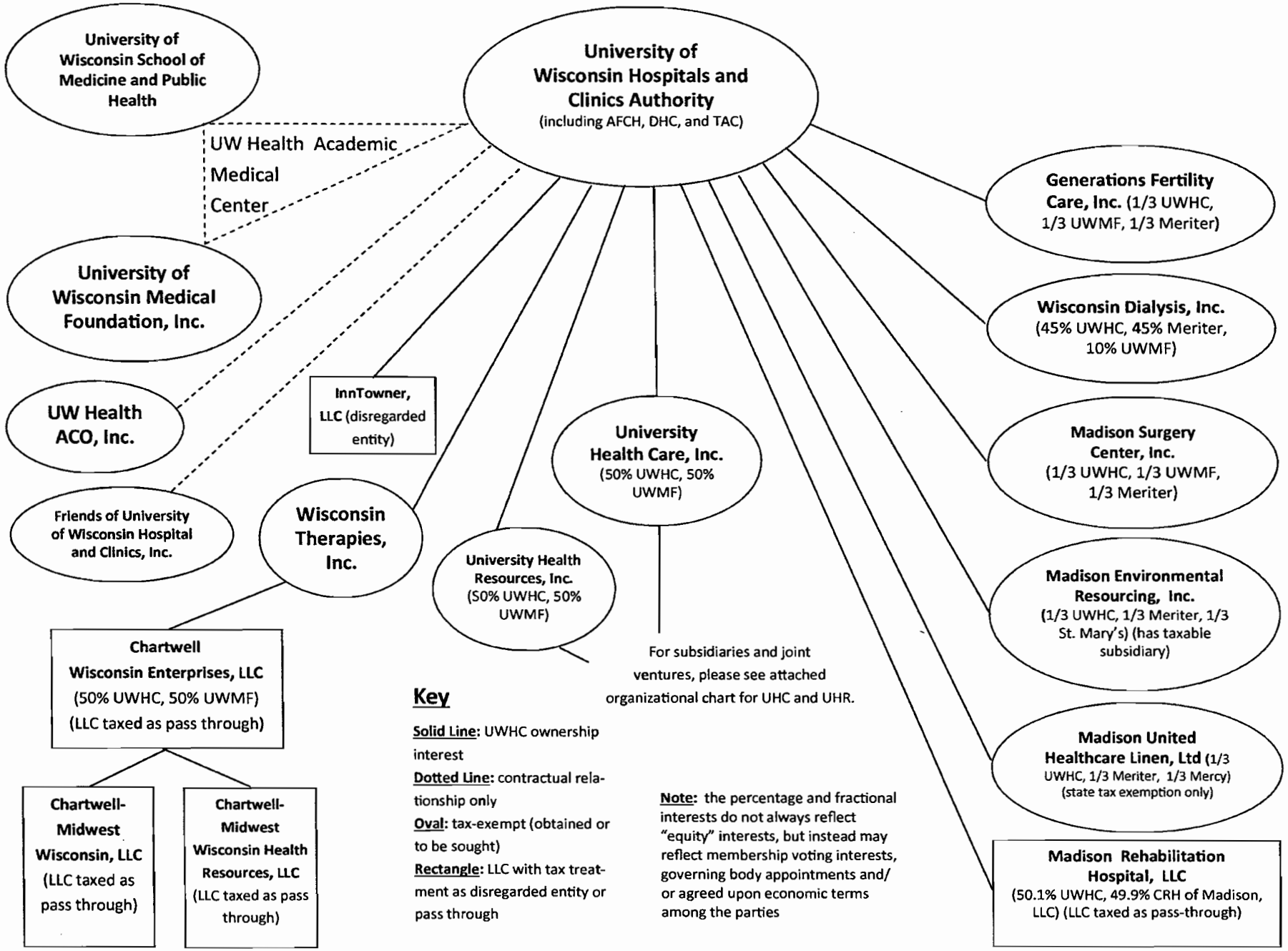
RESPONSE TO SECTIONS 1130.500 and 1130.520

7c: Organizational Chart for UW Health Co-applicants

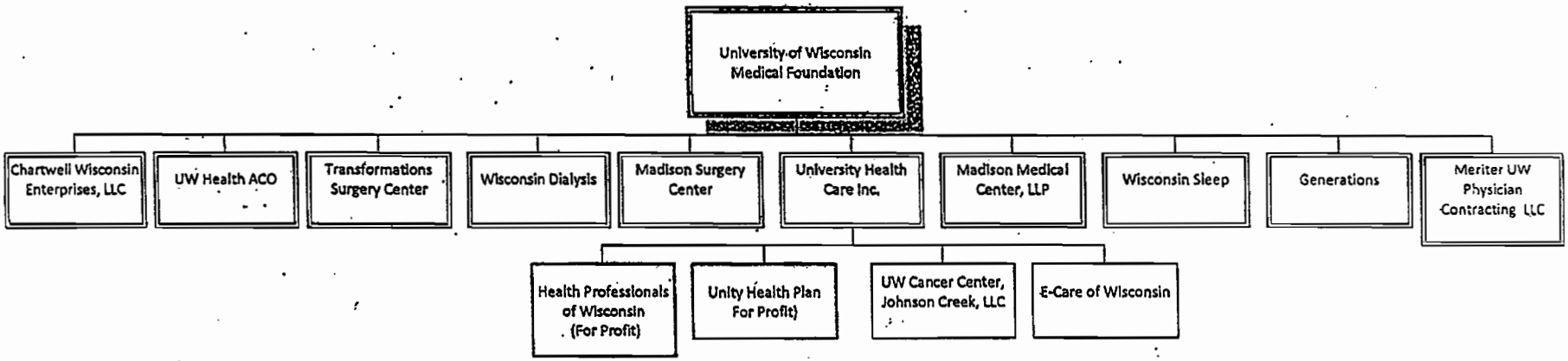
ATTACHMENT #7c

University of Wisconsin Hospitals and Clinics Authority (UWHC) Organization Chart

Expected as of December 31, 2014



UWHC operates its flagship hospital as well as the American Family Children's Hospital (AFCH), UW Health at the American Center (TAC), the Digestive Health Center (DHC), and UWHC clinics.


University of Wisconsin Medical Foundation
Chartwell Wisconsin Enterprises, LLC
UW Health ACO
Transformations Surgery Center
Wisconsin Dialysis
Madison Surgery Center
University Health Care Inc.
Madison Medical Center, LLP
Wisconsin Sleep
Generations
Meriter UW Physician Contracting LLC
Health Professionals of Wisconsin (For Profit)
Unity Health Plan For Profit)
UW Cancer Center, Johnson Creek, LLC
E-Care of Wisconsin

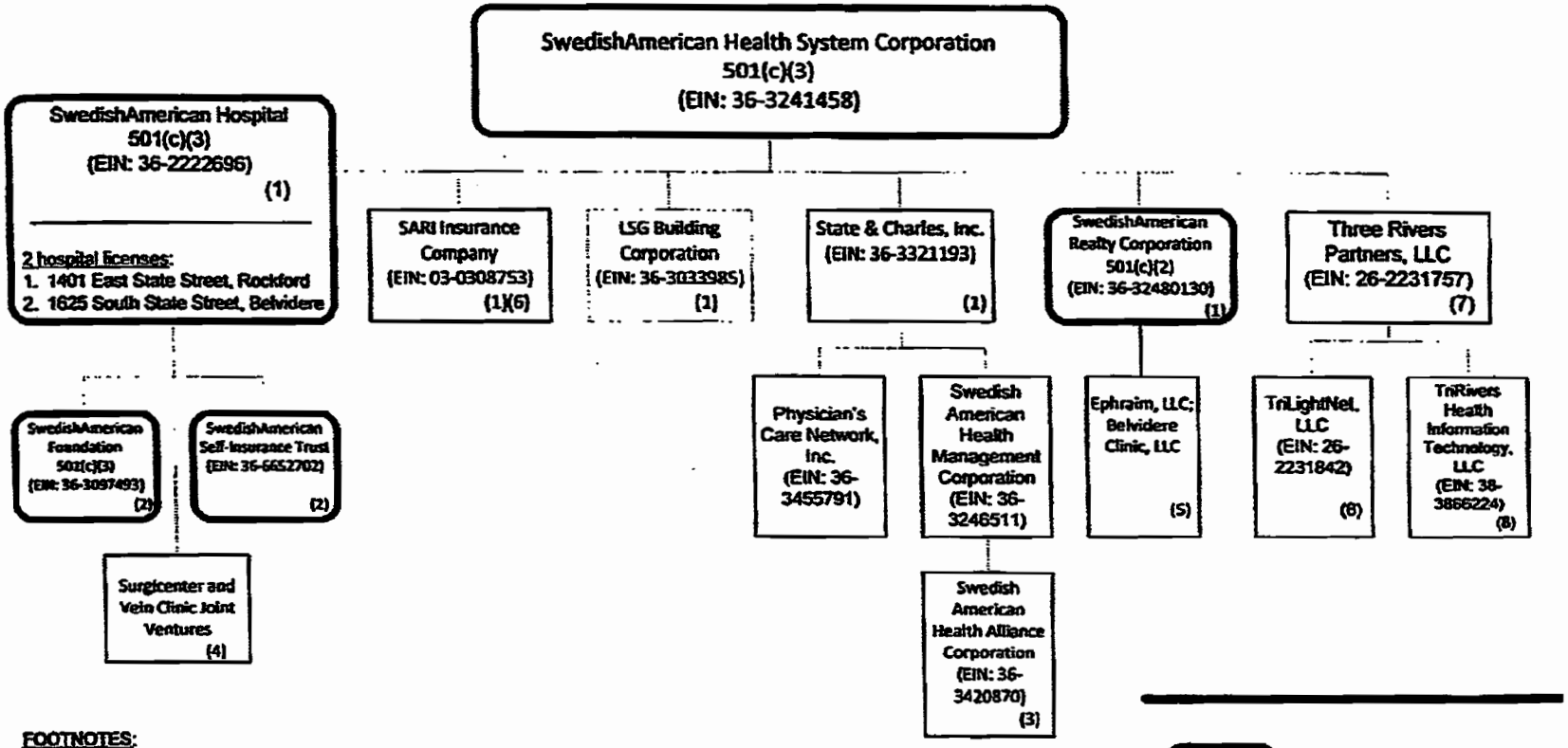
RESPONSE TO SECTIONS 1130.500 and 1130.520

7d: Organizational Chart for SwedishAmerican Co-applicants

ATTACHMENT #7d

SWEDISHAMERICAN HEALTH SYSTEM – LEGAL STRUCTURE

(July 2014)



FOOTNOTES:

1. Appointment of Board of Directors is controlled by SwedishAmerican Health System Corporation (SAHSC).
2. Appointment of Board of Directors of SwedishAmerican Foundation is controlled by SwedishAmerican Hospital (SAH) and power to amend or revoke the self-insurance trust, or replace the trustee, is held by SAH.
3. SwedishAmerican Health Management Corporation owns a one-half (1/2) interest.
4. Surgicenter is a limited partnership (The Featherstone Partnership, L.P.), and SAH is a limited partner, with a 33.33% interest. The Vein Clinic Joint Venture is a limited liability company (Northern Illinois Vein Clinic, LLC) and SAH owns a 50%interest in the LLC.
5. Ephraim, L.L.C. is a limited liability company and SwedishAmerican Realty Corporation (SAR) owns a 33-1/3% interest. Belvidere Clinic, L.L.C. is a limited liability company and SAR owns a 15% liquidation interest.
6. A Vermont captive insurance company.
7. Three Rivers Partners, LLC is a limited liability company and SAHSC owns a 50%interest in the LLC.
8. TriLightNet, LLC and TriRivers Health Information Health Information Technology, LLC are limited liability companies. Three Rivers Partners, LLC is their sole member.

Prepared by Holmstrom & Kennedy, P.C. (July 2014)
KB/SAHSC7-2014.vsd

RESPONSE TO SECTIONS 1130.500 and 1130.520

7e: Certifications and Affirmations required by Sections 1130.500 and 1130.520

ATTACHMENT #7e

CERTIFICATIONS AND AFFIRMATIONS
OF
UNIVERSITY OF WISCONSIN HOSPITALS AND CLINICS AUTHORITY

The undersigned representative of University of Wisconsin Hospitals and Clinics Authority in connection with the change of ownership application relating to SwedishAmerican Medical Center/Belvidere located at 16251 South State Street, Belvidere, IL 61008 (the "Facility") hereby states as follows:

1. I certify that no adverse action has been taken against University of Wisconsin Hospitals and Clinics Authority by the federal government, licensing or certifying bodies, or any other agency of the State of Illinois against any health care facility owned or operated by University of Wisconsin Hospitals and Clinics Authority, directly or indirectly, within three years preceding the filing of this application of change of ownership exemption.

2. I affirm that University of Wisconsin Hospitals and Clinics Authority intends to cause University Health Care, Inc. to maintain ownership and control of the Facility for a minimum of three years.

3. I affirm that the Facility will not adopt a more restrictive charity care policy than the policy that was in effect one year prior to the change of ownership transaction, and affirm that the compliant charity care policy will remain in effect for a two-year period following the change of ownership transaction.

4. I affirm that the failure to complete the project in accordance with the applicable provisions of Section 1130.500(d) no later than 24 months from the date of exemption approval (or by later date established by the Illinois Health Facilities and Services Review Board 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.

5. I verify that University of Wisconsin Hospitals and Clinics Authority has not received any permits issued by the Illinois Health Facilities and Services Review Board and has no outstanding compliance requirements with respect to any permits.

6. I verify that the categories of service and number of beds reflected in the Inventory of Health Care Facilities will not substantially change for at least 12 months following the project's complete date.

Name: Ronald T. Sliwinski
Title: President/CEO
University of Wisconsin Hospitals and Clinics Authority

Subscribed and sworn to
this 30th day of October, 2014

My commission
expires 02/04/2018

ATTACHMENT #7e

CERTIFICATIONS AND AFFIRMATIONS
OF
UNIVERSITY HEALTH CARE, INC.

The undersigned representative of University Health Care, Inc. in connection with the change of ownership application relating to SwedishAmerican Medical Center/Belvidere located at 1625 South State Street, Belvidere, IL 61008 (the "Facility") hereby states as follows:

1. I certify that no adverse action has been taken against University Health Care, Inc. by the federal government, licensing or certifying bodies, or any other agency of the State of Illinois against any health care facility owned or operated by University Health Care, Inc., directly or indirectly, within three years preceding the filing of this application of change of ownership exemption.

2. I affirm that University Health Care, Inc. intends to maintain ownership and control of the Facility for a minimum of three years.

3. I affirm that the Facility will not adopt a more restrictive charity care policy than the policy that was in effect one year prior to the change of ownership transaction, and affirm that the compliant charity care policy will remain in effect for a two-year period following the change of ownership transaction.

4. I affirm that the failure to complete the project in accordance with the applicable provisions of Section 1130.500(d) no later than 24 months from the date of exemption approval (or by later date established by the Illinois Health Facilities and Services Review Board 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.

5. I verify that University Health Care, Inc. has not received any permits issued by the Illinois Health Facilities and Services Review Board and has no outstanding compliance requirements with respect to any permits.

6. I verify that the categories of service and number of beds reflected in the Inventory of Health Care Facilities will not substantially change for at least 12 months following the project's complete date.

Michael E. Dallman

Name: Michael E. Dallman
Title: President
University Health Care, Inc.

Daniel P Brz

Subscribed and sworn to
this 30th day of October, 2014

DANIEL P. BRZOZOWSKI
Notary Public
State of Wisconsin

ATTACHMENT #7e

CERTIFICATIONS AND AFFIRMATIONS
OF
UNIVERSITY OF WISCONSIN MEDICAL FOUNDATION, INC.

The undersigned representative of University of Wisconsin Medical Foundation, Inc. in connection with the change of ownership application relating to SwedishAmerican Medical Center/Belvidere located at 1625 South State Street, Belvidere, IL 61008 (the "Facility") hereby states as follows:

1. I certify that no adverse action has been taken against University of Wisconsin Medical Foundation, Inc. by the federal government, licensing or certifying bodies, or any other agency of the State of Illinois against any health care facility owned or operated by University of Wisconsin Medical Foundation, Inc., directly or indirectly, within three years preceding the filing of this application of change of ownership exemption.

2. I affirm that University of Wisconsin Medical Foundation, Inc. intends to cause University Health Care, Inc. to maintain ownership and control of the Facility for a minimum of three years.

3. I affirm that the Facility will not adopt a more restrictive charity care policy than the policy that was in effect one year prior to the change of ownership transaction, and affirm that the compliant charity care policy will remain in effect for a two-year period following the change of ownership transaction.

4. I affirm that the failure to complete the project in accordance with the applicable provisions of Section 1130.500(d) no later than 24 months from the date of exemption approval (or by later date established by the Illinois Health Facilities and Services Review Board 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.

5. I verify that University of Wisconsin Medical Foundation, Inc. has not received any permits issued by the Illinois Health Facilities and Services Review Board and has no outstanding compliance requirements with respect to any permits.

6. I verify that the categories of service and number of beds reflected in the Inventory of Health Care Facilities will not substantially change for at least 12 months following the project's complete date.

Jeff Grossman

Name: Dr. Jeffrey Grossman
Title: CEO
University of Wisconsin Medical Foundation, Inc.

Subscribed and sworn to
this 28th day of October, 2014

ATTACHMENT #7e