Pursuant to continuing disclosure requirements for Catholic Health Initiatives, attached is the Consolidated Financial Statements and Supplemental Information for Catholic Health Initiatives for the Years Ended June 30, 2015 and 2014. This information is being provided to comply with the requirement to provide the Repository, not later than ninety (90) days after the end of the fourth quarter of the Corporations fiscal year, June 30, the unaudited condensed balance sheet and consolidated statement of operations.

If you have any questions please contact:

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Dated: September 25, 2015

Consolidated Financial Statements and Supplemental Information

Catholic Health Initiatives
Years Ended June 30, 2015 and 2014
With Reports of Independent Auditors

Ernst & Young LLP

Building a better working world

Catholic Health Initiatives

Consolidated Financial Statements
and Supplemental Information

Years Ended June 30, 2015 and 2014

Contents

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Report of Independent Auditors

The Board of Stewardship Trustees
Catholic Health Initiatives

We have audited the accompanying consolidated financial statements of Catholic Health Initiatives, which comprise the consolidated balance sheets as of June 30, 2015 and 2014, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Catholic Health Initiatives at June 30, 2015 and 2014, and the consolidated results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

September 17, 2015

Catholic Health Initiatives

Consolidated Balance Sheets
(In Thousands)

	June 30	
	2015	**2014**
Assets		
Current assets:		
Cash and equivalents	**$ 948,369**	$ 1,042,748
Net patient accounts receivable, less allowances for bad debts of $903,127 and $874,633 at June 30, 2015 and 2014, respectively	**2,050,923**	1,968,135
Other accounts receivable	**345,056**	284,873
Current portion of investments and assets limited as to use	**75,829**	24,732
Inventories	**300,629**	266,754
Assets held for sale	**291,906**	390,152
Prepaid and other	**169,513**	197,083
Total current assets	**4,182,225**	4,174,477
Investments and assets limited as to use:		
Internally designated for capital and other funds	**5,461,568**	5,310,967
Mission and Ministry Fund	**135,808**	137,099
Capital Resource Pool	**330,678**	515,338
Held by trustees	**65,284**	53,347
Held for insurance purposes	**890,109**	828,078
Restricted by donors	**299,147**	289,228
Total investments and assets limited as to use	**7,182,594**	7,134,057
Property and equipment, net	**9,493,351**	8,807,991
Investments in unconsolidated organizations	**1,133,026**	608,031
Intangible assets and goodwill, net	**567,344**	553,462
Notes receivable and other	**444,752**	491,484
Total assets	**$ 23,003,292**	$ 21,769,502

	June 30	
	2015	**2014**
Liabilities and net assets		
Current liabilities:		
Compensation and benefits	**$ 719,328**	$ 671,463
Third-party liabilities, net	**127,884**	124,257
Accounts payable and accrued expenses	**1,637,479**	1,437,434
Liabilities held for sale	**145,491**	132,837
Variable-rate debt with self-liquidity	**163,300**	521,455
Commercial paper and current portion of debt	**1,247,007**	711,063
Total current liabilities	**4,040,489**	3,598,509
Pension liability	**732,580**	496,358
Self-insured reserves and claims	**681,258**	634,718
Other liabilities	**1,187,676**	831,388
Long-term debt	**7,399,274**	7,091,634
Total liabilities	**14,041,277**	12,652,607
Net assets:		
Net assets attributable to CHI	**8,150,235**	8,289,188
Net assets attributable to noncontrolling interests	**445,687**	469,296
Unrestricted	**8,595,922**	8,758,484
Temporarily restricted	**268,317**	265,639
Permanently restricted	**97,776**	92,772
Total net assets	**8,962,015**	9,116,895
Total liabilities and net assets	**$ 23,003,292**	$ 21,769,502

See accompanying notes.

Catholic Health Initiatives

Consolidated Statements of Operations

(In Thousands)

	Year Ended June 30	
	2015	**2014**
Revenues:		
Net patient services revenues before provision for doubtful accounts	**$ 14,196,120**	$ 13,148,495
Provision for doubtful accounts	**(850,531)**	(950,310)
Net patient services revenues	**13,345,589**	12,198,185
Other operating revenues:		
Insurance premium revenues	**416,365**	171,465
Donations	**38,522**	31,202
Changes in equity of unconsolidated organizations	**47,503**	26,913
Gains on business combinations	**436,340**	421,955
Hospital ancillary revenues	**324,587**	287,152
Other	**592,284**	430,337
Total other operating revenues	**1,855,601**	1,369,024
Total operating revenues	**15,201,190**	13,567,209
Expenses:		
Salaries and wages	**5,983,193**	5,470,466
Employee benefits	**1,133,927**	1,050,803
Purchased services, medical professional fees, medical claims, and consulting	**2,321,193**	1,906,868
Supplies	**2,541,692**	2,307,968
Utilities	**223,302**	193,462
Rentals, leases, maintenance, and insurance	**882,327**	866,704
Depreciation and amortization	**815,381**	689,198
Interest	**269,745**	228,459
Other	**860,672**	845,360
Total operating expenses before restructuring, impairment, and other losses	**15,031,432**	13,559,288
Income from operations before restructuring, impairment, and other losses	**169,758**	7,921
Restructuring, impairment, and other losses	**166,645**	117,314
Income (loss) from operations	**3,113**	(109,393)
Nonoperating gains (losses):		
Investment income, net	**199,698**	846,723
Loss on defeasance of bonds	**(20,184)**	(5,625)
Realized and unrealized losses on interest rate swaps	**(77,217)**	(39,424)
Other nonoperating gains (losses)	**4,052**	(55,367)
Total nonoperating gains	**106,349**	746,307
Excess of revenues over expenses	**109,462**	636,914
Excess (deficiency) of revenues over expenses attributable to noncontrolling interest	**15,829**	(5,686)
Excess of revenues over expenses attributable to CHI	**$ 93,633**	$ 642,600

See accompanying notes.

Catholic Health Initiatives

Consolidated Statements of Changes in Net Assets

(In Thousands)

	Unrestricted Net Assets					
	Attributable to CHI	Attributable to Non-Interests	Total	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total Net Assets
Balances, July 1, 2013	$ 7,769,310	$ 175,663	$ 7,944,973	$ 214,524	$ 86,628	$ 8,246,125
Excess of revenues over expenses	642,600	(5,686)	636,914	–	–	636,914
Net loss from discontinued operations	(17,715)	–	(17,715)	–	–	(17,715)
Change in pension funded status	(47,282)	(809)	(48,091)	–	–	(48,091)
Temporarily and permanently restricted contributions	–	–	–	50,957	523	51,480
Net assets released from restriction for capital	20,776	–	20,776	(20,776)	–	–
Net assets released from restriction for operations	–	–	–	(17,887)	–	(17,887)
Investment (loss) income	(40)	–	(40)	14,701	2,218	16,879
Temporarily and permanently restricted assets from acquisitions	–	–	–	24,197	2,003	26,200
Baylor JV noncontrolling interest	–	286,125	286,125	12,600	–	298,725
Other changes in net assets	(78,461)	14,003	(64,458)	(12,677)	1,400	(75,735)
Net increase in net assets	519,878	293,633	813,511	51,115	6,144	870,770
Balances, June 30, 2014	8,289,188	469,296	8,758,484	265,639	92,772	9,116,895
Excess of revenues over expenses	**93,633**	**15,829**	**109,462**	**–**	**–**	**109,462**
Net loss from discontinued operations	**(89,329)**	**–**	**(89,329)**	**–**	**–**	**(89,329)**
Change in pension funded status	**(135,282)**	**(444)**	**(135,726)**	**–**	**–**	**(135,726)**
Temporarily and permanently restricted contributions	**–**	**–**	**–**	**40,946**	**630**	**41,576**
Net assets released from restriction for capital	**17,715**	**–**	**17,715**	**(17,715)**	**–**	**–**
Net assets released from restriction for operations	**–**	**–**	**–**	**(24,796)**	**–**	**(24,796)**
Investment income	**40**	**–**	**40**	**5,586**	**342**	**5,968**
Temporarily and permanently restricted assets from acquisitions	**–**	**–**	**–**	**7,760**	**2,387**	**10,147**
Other changes in net assets	**(25,730)**	**(38,994)**	**(64,724)**	**(9,103)**	**1,645**	**(72,182)**
Net (decrease) increase in net assets	**(138,953)**	**(23,609)**	**(162,562)**	**2,678**	**5,004**	**(154,880)**
Balances, June 30, 2015	**$ 8,150,235**	**$ 445,687**	**$ 8,595,922**	**$ 268,317**	**$ 97,776**	**$ 8,962,015**

See accompanying notes.

Catholic Health Initiatives

Consolidated Statements of Cash Flows

(In Thousands)

	Year Ended June 30	
	2015	**2014**
Operating activities		
(Decrease) increase in net assets	**$ (154,880)**	$ 870,770
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	**815,381**	689,198
Provision for bad debts	**850,531**	950,310
Changes in equity of unconsolidated organizations	**(47,503)**	(26,913)
Net gains on business combinations	**(436,340)**	(421,955)
Net gains on sales of facilities and investments in unconsolidated organizations	**(112,047)**	(17,116)
Noncash operating expenses related to restructuring, impairment, and other losses	**45,422**	85,709
Loss on defeasance of bonds	**20,184**	5,625
Decrease (increase) in fair value of interest rate swaps	**33,680**	(10,200)
Increase (decrease) in unfunded pension liability	**95,553**	(1,488)
Net changes in current assets and liabilities:		
Net patient and other accounts receivable	**(862,485)**	(1,147,685)
Other current assets	**14,151**	(55,976)
Current liabilities	**40,821**	278,147
Noncontrolling interest issued	**–**	(298,725)
Other changes	**23,859**	24,362
Net cash provided by operating activities, before net change in investment, and assets limited as to use	**326,327**	924,063
Net decrease in investments and assets limited as to use	**230,119**	239,686
Net cash provided by operating activities	**556,446**	1,163,749
Investing activities		
Purchases of property, equipment, and other capital assets	**(1,089,611)**	(1,478,741)
Net cash on contributions and acquisitions	**7,982**	11,280
Net cash proceeds from asset sales	**295,804**	71,639
Distributions from investments in unconsolidated organizations	**77,800**	45,991
Cash from net repayments of notes receivable	**12,266**	12,004
Other changes	**22,507**	19,715
Net cash used in investing activities	**(673,252)**	(1,318,112)
Financing activities		
Proceeds from issuance of debt and bank loans	**832,109**	1,899,065
Costs associated with issuance of debt	**–**	(11,354)
Repayment of debt	**(763,590)**	(1,276,815)
Swap cash collateral posted	**(46,092)**	(23,011)
Net cash provided by financing activities	**22,427**	587,885
(Decrease) increase in cash and equivalents	**(94,379)**	433,522
Cash and equivalents at beginning of year	**1,042,748**	609,226
Cash and equivalents at end of year	**$ 948,369**	$ 1,042,748
Supplemental disclosures of cash flow information		
Cash paid during the year for interest, including amounts capitalized	**$ 321,211**	$ 272,627

See accompanying notes.

1. Summary of Significant Accounting Policies

Organization

Catholic Health Initiatives (CHI), established in 1996, is a tax-exempt Colorado corporation and has been granted an exemption from federal income tax under Section 501(c)(3) of the Internal Revenue Code. CHI sponsors market-based organizations (MBOs) and other facilities operating in 18 states and includes 101 hospitals, including 4 academic medical centers, and 30 critical access facilities; community health service organizations; accredited nursing colleges; home health agencies; and other facilities that span the inpatient and outpatient continuum of care. CHI also has an offshore captive insurance company, First Initiatives Insurance, Ltd. (FIIL).

The mission of CHI is to nurture the healing ministry of the Church, supported by education and research. Fidelity to the Gospel urges CHI to emphasize human dignity and social justice as CHI creates healthier communities.

Principles of Consolidation

CHI consolidates all direct affiliates in which it has sole corporate membership or ownership (Direct Affiliates) and all entities in which it has greater than 50% equity interest with commensurate control. All significant intercompany accounts and transactions are eliminated in consolidation.

Fair Value of Financial Instruments

Financial instruments consist primarily of cash and equivalents, patient accounts receivable, notes receivable, and accounts payable. The carrying amounts reported in the consolidated balance sheets for these items approximate fair value.

Cash and Equivalents

Cash and equivalents include all deposits with banks and investments in interest-bearing securities with maturity dates of 90 days or less from the date of purchase. In addition, cash and equivalents include deposits in short-term funds held by professional managers. The funds generally invest in high-quality, short-term debt securities, including U.S. government securities, securities issued by domestic and foreign banks, such as certificates of deposit and bankers' acceptances, repurchase agreements, asset-backed securities, high-grade commercial paper, and corporate short-term obligations.

1. Summary of Significant Accounting Policies (continued)

Net Patient Accounts Receivable and Net Patient Services Revenues

Net patient accounts receivable have been adjusted to the estimated amounts expected to be collected. These estimated amounts are subject to further adjustments upon review by third-party payors.

The provision for bad debts is based upon management's assessment of historical and expected net collections, taking into consideration historical business and economic conditions, trends in health care coverage, and other collection indicators. Management routinely assesses the adequacy of the allowances for uncollectible accounts based upon historical write-off experience by payor category. The results of these reviews are used to modify, as necessary, the provision for bad debts and to establish appropriate allowances for uncollectible net patient accounts receivable. After satisfaction of amounts due from insurance, CHI follows established guidelines for placing certain patient balances with collection agencies, subject to the terms of certain restrictions on collection efforts as determined by each facility. The provision for bad debts is presented on the consolidated statement of operations as a deduction from patient services revenues (net of contractual allowances and discounts) since CHI accepts and provides medically necessary health care to all patients, without regard to the patient's financial ability to pay.

During fiscal years 2015 and 2014, CHI added approximately $134.3 million and $76.4 million, respectively, in net patient and other accounts receivable due to the acquisition of various new subsidiaries — see Note 4, *Acquisitions, Affiliations, and Divestitures*. Effective January 1, 2014, the Affordable Care Act came into effect, which in certain states has caused a slight shift in payor mix whereby patients who used to be classified as charity now qualify for Medicaid. CHI has not experienced significant changes in write-off trends, and there have been no significant changes to its charity care policy.

1. Summary of Significant Accounting Policies (continued)

Details of CHI's allowance activity are as follows (in thousands):

	Reserve for Contractual Allowance	Allowance for Bad Debt	Reserve for Charity	Total Accounts Receivable Allowances
Balance at July 1, 2013	$ (2,832,410)	$ (822,290)	$ (566,232)	$ (4,220,932)
Additions	(28,200,985)	(950,310)	(1,133,227)	(30,284,522)
Reductions	27,536,244	897,967	1,269,303	29,703,514
Balance at June 30, 2014	(3,497,151)	(874,633)	(430,156)	(4,801,940)
Additions	**(33,438,680)**	**(850,531)**	**(809,064)**	**(35,098,275)**
Reductions	**33,223,143**	**822,037**	**935,085**	**34,980,265**
Balance at June 30, 2015	**$ (3,712,688)**	**$ (903,127)**	**$ (304,135)**	**$ (4,919,950)**

CHI records net patient services revenues in the period in which services are performed. CHI has agreements with third-party payors that provide for payments at amounts different from its established rates. The basis for payment under these agreements includes prospectively determined rates, cost reimbursement and negotiated discounts from established rates, and per diem payments.

Net patient services revenues are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments due to future audits, reviews, and investigations, and excluding estimated amounts considered uncollectible. The differences between the estimated and actual adjustments are recorded as part of net patient services revenues in future periods as the amounts become known, or as years are no longer subject to such audits, reviews, or investigations.

Investments and Assets Limited as to Use

Investments and assets limited as to use include assets set aside by CHI for future long-term purposes, including capital improvements and self-insurance. In addition, assets limited as to use include amounts held by trustees under bond indenture agreements, amounts contributed by donors with stipulated restrictions, and amounts held for Mission and Ministry programs.

1. Summary of Significant Accounting Policies (continued)

CHI has designated its investment portfolio as trading as the portfolio is actively managed to achieve investment returns. Accordingly, unrealized gains and losses on marketable securities are reported within excess of revenues over expenses. In addition, cash flows from the purchases and sales of marketable securities are reported as a component of operating activities in the accompanying consolidated statements of cash flows.

Direct investments in equity securities with readily determinable fair values and all direct investments in debt securities have been measured at fair value in the accompanying consolidated balance sheets. Investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in excess of revenues over expenses unless the income or loss is restricted by donor or law.

Investments in limited partnerships and limited liability companies are recorded using the equity method of accounting (which approximates fair value as determined by the net asset values of the related unitized interests) with the related changes in value in earnings reported as investment income in the accompanying consolidated financial statements.

Inventories

Inventories, primarily consisting of pharmacy drugs and medical and surgical supplies, are stated at the lower of cost (first-in, first-out method) or market.

Assets and Liabilities Held for Sale

A long-lived asset or disposal group of assets and liabilities that is expected to be sold within one year is classified as held for sale. For long-lived assets held for sale, an impairment charge is recorded if the carrying amount of the asset exceeds its fair value less costs to sell. Such valuations include estimates of fair values generally based upon firm offers, discounted cash flows, and incremental direct costs to transact a sale (Level 2 and Level 3 inputs).

1. Summary of Significant Accounting Policies (continued)

Property and Equipment

Property and equipment are stated at historical cost or, if donated or impaired, at fair value at the date of receipt or impairment. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. During fiscal year 2014, CHI conducted a study to reassess the estimated remaining useful lives of its buildings and building improvements. As a result of this study, CHI prospectively adjusted the estimated remaining useful lives of these assets, which resulted in a reduction to depreciation expense of $23.5 million in 2014. Buildings and improvements are depreciated over estimated useful lives of 5 to 84 years, and equipment and land improvements over 3 to 40 years.

For property and equipment under capital lease, amortization is determined over the shorter period of the lease term or the estimated useful life of the property and equipment.

Interest cost incurred during the period of construction of major capital projects is capitalized as a component of the cost of acquiring those assets. Capitalized interest of $33.2 million and $44.7 million was recorded in fiscal years 2015 and 2014, respectively.

Costs incurred in the development and installation of internal-use software are expensed if they are incurred in the preliminary project stage or post-implementation stage, while certain costs are capitalized if incurred during the application development stage. Amounts capitalized are amortized over the useful life of the developed asset following project completion.

Investments in Unconsolidated Organizations

Investments in unconsolidated organizations are accounted for under the cost or equity method of accounting, as appropriate, based on the relative percentage of ownership or degree of influence over that organization. The income or loss on equity method investments is recorded in the consolidated statements of operations as changes in equity of unconsolidated organizations.

Intangible Assets and Goodwill

Intangible assets are comprised primarily of trade names, which are amortized over estimated useful lives ranging from 10 to 25 years using the straight-line method. The weighted average useful life of trade names is 21 years.

1. Summary of Significant Accounting Policies (continued)

Goodwill is not amortized but is subject to annual impairment tests during the third quarter of the fiscal year, as well as more frequent reviews whenever circumstances indicate a possible impairment may exist. Impairment testing of goodwill is done at the MBO level by comparing the fair value of the MBO's net assets against the carrying value of the MBO's net assets, including goodwill. Each MBO is defined as a reporting unit for purposes of impairment testing. The fair value of net assets is generally estimated based on a quantitative analysis of discounted cash flows. The fair value of goodwill is determined by assigning fair values to assets and liabilities and calculating any remaining fair value as the implied fair value of goodwill. As a result of its impairment testing in fiscal year 2014, CHI determined that the implied fair value of certain MBOs' goodwill was less than the carrying value. A goodwill impairment charge of $15.0 million is reflected in the consolidated statement of operations for fiscal year 2014. No impairment of goodwill was identified in fiscal year 2015.

Changes in the carrying amount of goodwill and intangibles are as follows (in thousands):

	2015	**2014**
Intangible assets, beginning of year	**$ 215,838**	$ 97,684
Current year acquisitions	**23,153**	130,124
Purchase price allocation adjustments for prior year's acquisitions and other adjustments	**–**	(11,970)
Intangible assets, end of year	**238,991**	215,838
Accumulated amortization, beginning of year	**(25,229)**	(25,467)
Intangible amortization expense	**(11,221)**	(7,931)
Other adjustments	**(1,691)**	8,169
Accumulated amortization, end of year	**(38,141)**	(25,229)
Intangible assets, net	**200,850**	190,609
Goodwill, beginning of year	**362,853**	292,534
Current year acquisitions	**3,641**	16,725
Impairments	**–**	(15,040)
Purchase price allocation adjustments for prior year's acquisitions and other adjustments	**–**	68,634
Goodwill, end of year	**366,494**	362,853
Total intangible assets and goodwill, net	**$ 567,344**	$ 553,462

1. Summary of Significant Accounting Policies (continued)

Intangible assets and goodwill increased during fiscal year 2015 due to the various acquisitions discussed in Note 4, *Acquisitions, Affiliations, and Divestitures*. During fiscal year 2014, certain adjustments to the 2013 purchase price allocations were recorded to intangible assets and goodwill, including the correction to the values assigned to various CHI St. Luke's Medical Center buildings, resulting in a $78.5 million increase in goodwill.

Notes Receivable and Other Assets

Other assets consist primarily of notes receivable, pledges receivable, deferred compensation assets, long-term prepaid service contracts, deposits, and other long-term assets. Notes receivable from related entities at June 30, 2015 and 2014, include balances from Bethesda Hospital, Inc. (Bethesda), the non-CHI joint operating agreement (JOA) partner in the Cincinnati, Ohio, JOA.

A summary of notes receivable and other assets is as follows as of June 30 (in thousands):

	2015	2014
Notes receivable:		
From related entities	**$ 162,656**	$ 176,338
Other	**16,518**	14,962
Long-term pledge receivables	**31,666**	36,898
Reinsurance recoverable on unpaid losses and loss adjustment expense	**30,330**	29,109
Deferred compensation assets	**50,335**	51,684
Other long-term assets	**153,247**	182,493
Total notes receivable and other	**$ 444,752**	$ 491,484

Bethesda is a Designated Affiliate in the CHI credit group under the Capital Obligation Document (COD). As conditions of joining the CHI credit group, Bethesda has agreed to certain covenants related to corporate existence, insurance coverage, exempt use of bond-financed facilities, maintenance of certain financial ratios, and compliance with limitations on the incurrence of additional debt. Based upon management's review of the creditworthiness of Bethesda and its compliance with the covenants and limitations, no allowances for uncollectible notes receivable were recorded at June 30, 2015 or 2014.

1. Summary of Significant Accounting Policies (continued)

Net Assets

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

Unconditional promises to receive cash and other assets are reported at fair value at the date the promise is received. Conditional promises and indications of donors' intentions to give are reported at fair value at the date the conditions are met or the gifts are received. All unrestricted contributions are included in the excess of revenue over expenses as donation revenues. Other gifts are reported as either temporarily or permanently restricted 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 donations revenue when restricted for operations or as unrestricted net assets when restricted for property and equipment.

Performance Indicator

The performance indicator is the excess of revenues over expenses, which includes all changes in unrestricted net assets other than changes in the pension liability funded status, net assets released from restrictions for property acquisitions, cumulative effect of changes in accounting principles, discontinued operations, contributions of property and equipment, and other changes not required to be included within the performance indicator under generally accepted accounting principles.

Operating and Nonoperating Activities

CHI's primary mission is to meet the health care needs in its market areas through a broad range of general and specialized health care services, including inpatient acute care, outpatient services, physician services, long-term care, and other health care services. Activities directly associated with the furtherance of this purpose are considered to be operating activities. Other activities that result in gains or losses peripheral to CHI's primary mission are considered to be

1. Summary of Significant Accounting Policies (continued)

nonoperating. Nonoperating activities include investment earnings, gains or losses from bond defeasance, net interest cost and changes in fair value of interest rate swaps, and the nonoperating component of JOA income share adjustments. Any infrequent and nonreciprocal contribution that CHI makes to enter a new market community or to expand upon existing affiliations is also classified as nonoperating.

To standardize CHI's financial reporting and be more consistent across the health care industry, CHI has classified all of its investment earnings as nonoperating in fiscal year 2015. Previously, earnings from fixed-income investments held by FIIL were classified as operating. For comparability, investment earnings of $101.9 million reported in fiscal year 2014 were reclassified from operating to nonoperating.

Charity Care

As an integral part of its mission, CHI accepts and provides medically necessary health care to all patients without regard to the patient's financial ability to pay. Services to patients are classified as charity care in accordance with standards established across all MBOs. Charity care represents services rendered for which partial or no payment is expected, and includes the cost of providing services to persons who cannot afford health care due to inadequate resources and/or who are uninsured or underinsured. CHI determines the cost of charity care on the basis of an MBO's total cost as a percentage of total charges applied to the charges incurred by patients qualifying for charity care under CHI's policy. This amount is not included in net patient services revenues in the accompanying consolidated statements of operations. The estimated cost of charity care provided was $211.9 million and $254.5 million in 2015 and 2014, respectively, for continuing operations, and $0.8 million and $0.6 million in 2015 and 2014, respectively, for discontinued operations. The decline in charity care provided was due primarily to changes in payor mix as a result of the Affordable Care Act.

Other Operating Revenues

Other operating revenues include services sold to external health care providers, gains on acquisitions of subsidiaries, cafeteria sales, rental income, retail pharmacy and durable medical equipment sales, auxiliary and gift shop revenues, electronic health records incentive payments, gains and losses on the sales of assets, the operating portion of revenue-sharing income or expense associated with Direct Affiliates that are part of JOAs, and revenues from other miscellaneous sources.

1. Summary of Significant Accounting Policies (continued)

Other operating revenues also include insurance premium revenues from Prominence Health, a consolidated CHI subsidiary that provides Medicare Advantage and commercial insurance products to its members in six states. Insurance premiums are recognized as revenues in the period in which the enrolled members are entitled to receive health care services or other insurance benefits.

Derivative and Hedging Instruments

CHI uses derivative financial instruments (interest rate swaps) in managing its capital costs. These interest rate swaps are recognized at fair value on the consolidated balance sheets. CHI has not designated its interest rate swaps related to CHI's long-term debt as hedges. The net interest cost and change in the fair value of such interest rate swaps are recognized as components of nonoperating gains (losses) in the accompanying consolidated statements of operations. It is CHI's policy to net the value of collateral on deposit with counterparties against the fair value of its interest rate swaps in other liabilities on the consolidated balance sheets.

Functional Expenses

CHI provides health care services, including inpatient, outpatient, ambulatory, long-term care, and community-based services, to individuals within the various geographic areas supported by its facilities. Support services include administration, finance and accounting, information technology, public relations, human resources, legal, mission services, and other functions that provide support for all of CHI. Support services expenses as a percentage of total operating expenses were approximately 6.1% and 6.2% in 2015 and 2014, respectively.

Restructuring, Impairment, and Other Losses

CHI periodically evaluates property, equipment, goodwill, and certain other intangible assets to determine whether assets may have been impaired. Management determined there were certain goodwill impairments, and property and equipment impairments in both 2015 and 2014 to the extent that the fair values (estimated based upon discounted cash flows – Level 3 inputs) of those assets were less than the underlying carrying values.

1. Summary of Significant Accounting Policies (continued)

During the years ended June 30, 2015 and 2014, CHI recorded total charges of $266.4 million and $117.5 million, respectively, relating to asset and goodwill impairments, and changes in business operations, including reorganization and severance costs. Of this amount, $166.6 million and $117.3 million was from continuing operations and reported in the accompanying consolidated statements of operations for 2015 and 2014, respectively, and $99.3 million and $0.2 million was reported as discontinued operations in the accompanying consolidated statements of changes in net assets for 2015 and 2014, respectively.

Income Taxes

CHI is a tax-exempt Colorado corporation and has been granted an exemption from federal income tax under Section 501(c)(3) of the Internal Revenue Code. CHI owns certain taxable subsidiaries and engages in certain activities that are unrelated to its exempt purpose and therefore subject to income tax.

Management reviews its tax positions annually and has determined that there are no material uncertain tax positions that require recognition in the accompanying consolidated financial statements.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses. Actual results could vary from the estimates.

Meaningful Use of Certified Electronic Health Record Technology Incentive Payments

The American Recovery and Reinvestment Act of 2009 provides for Medicare and Medicaid incentive payments beginning in 2011 to certain hospitals and professionals that implement and achieve meaningful use of certified electronic health record (EHR) technology in ways that demonstrate improved quality and effectiveness of care. Eligibility for annual Medicare incentive payments is dependent on providers demonstrating meaningful use of EHR technology in each period over a four-year period. An initial Medicaid incentive payment is available to providers that adopt, implement, or upgrade certified EHR technology. However, in order to receive additional Medicaid incentive payments in subsequent years, providers must demonstrate continued meaningful use of EHR technology.

1. Summary of Significant Accounting Policies (continued)

CHI accounts for meaningful use incentive payments under the gain contingency model. Medicare EHR incentive payments are recognized as revenues when eligible providers demonstrate meaningful use of certified EHR technology and the cost report information for the full cost report year that will determine the full calculation of the incentive payment is available. Medicaid EHR incentive payments are recognized as revenues when an eligible provider demonstrates meaningful use of certified EHR technology. CHI recognized $75.1 million and $39.1 million of Medicare meaningful use revenues and $13.1 million and $18.0 million of Medicaid meaningful use revenues in its accompanying consolidated statements of operations for fiscal years 2015 and 2014, respectively.

New Accounting Pronouncements and Adoption of New Accounting Standards

Revenue Recognition

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. (ASU) 2014-09, *Revenue from Contracts with Customers, (Topic 606)* to clarify the principles for recognizing revenue and to improve financial reporting by creating common revenue recognition guidance for GAAP and International Financial Reporting Standards. The core principle of the new guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 was originally effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period, but has now been delayed one year. Early application is not permitted. CHI is evaluating the guidance in ASU 2014-09 and the impact that the adoption of this update will have on its consolidated financial statements.

Discontinued Operations

In May 2014, the FASB issued ASU 2014-08, *Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*, to change the requirements for reporting discontinued operations. The amendment defines a discontinued operation to include a component of an entity or a group of components of an entity or a business or nonprofit activity, then proceeds to highlight that a discontinued operation would be required to be reported in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on an entity’s operations and financial results. This amendment also requires expanded

1. Summary of Significant Accounting Policies (continued)

disclosures on discontinued operations. ASU 2014-08 should be applied prospectively for all disposals (or classifications as held for sale) of components of an entity that occur within annual periods beginning on or after December 15, 2014. This amendment is not applicable to a component of an entity, or a business or nonprofit activity, that was classified as held for sale prior to the effective date.

Presentation of Debt Issuance Costs

In April 2015, the FASB issued ASU 2015-03, *Interest — Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*, which requires a certain presentation of debt issuance costs on the balance sheet. The amendment specifies that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs was not affected by this amendment. CHI adopted the presentation provisions of ASU 2015-03 in 2015, and reclassified $43.0 million of debt issuance costs as of June 30, 2014, to long-term debt for a comparable balance sheet presentation — see Note 9, *Debt Obligations*.

Reclassifications

Certain reclassifications were made to the 2014 consolidated financial statement presentation to conform to the 2015 presentation.

2. Community Benefit (Unaudited)

In accordance with its mission and philosophy, CHI commits substantial resources to sponsor a broad range of services to both the poor and the broader community. Community benefit provided to the poor includes the cost of providing services to persons who cannot afford health care due to inadequate resources and/or who are uninsured or underinsured. This type of community benefit includes the costs of traditional charity care; unpaid costs of care provided to beneficiaries of Medicaid and other indigent public programs; services such as free clinics and meal programs for which a patient is not billed or for which a nominal fee has been assessed; and cash and in-kind donations of equipment, supplies, or staff time volunteered on behalf of the community.

2. Community Benefit (Unaudited) (continued)

Community benefit provided to the broader community includes the costs of providing services to other populations that may not qualify as poor but may need special services and support. This type of community benefit includes the costs of services such as health promotion and education, health clinics, and screenings, all of which are not billed or can be operated only on a deficit basis; unpaid portions of training health professionals such as medical residents, nursing students and students, in allied health professions; and the unpaid portions of testing medical equipment and controlled studies of therapeutic protocols.

A summary of the cost of community benefit provided to both the poor and the broader community is as follows (in thousands):

	2015	2014
Cost of community benefit:		
Cost of charity care provided	**$ 211,860**	$ 254,518
Unpaid cost of public programs, Medicaid, and other indigent care programs	**537,296**	446,315
Nonbilled services	**31,875**	28,122
Cash and in-kind donations	**4,031**	4,071
Education research	**110,319**	101,592
Other benefit	**73,256**	62,119
Total cost of community benefit from continuing operations	**968,637**	896,737
Total cost of community benefit from discontinued operations	**12,026**	13,140
Total cost of community benefit	**980,663**	909,877
Unpaid cost of Medicare from continuing operations	**605,041**	767,687
Unpaid cost of Medicare from discontinued operations	**24,760**	25,175
Total unpaid cost of Medicare	**629,801**	792,862
Total cost of community benefit and unpaid cost of Medicare	**$ 1,610,464**	$ 1,702,739

2. Community Benefit (Unaudited) (continued)

The summary above has been prepared in accordance with the Catholic Health Association of the United States (CHA) publication, *A Guide for Planning & Reporting Community Benefit.* Community benefit is measured on the basis of total cost, net of any offsetting revenues, donations, or other funds used to defray cost. During fiscal years 2015 and 2014, CHI received $0.8 million and $4.0 million, respectively, in funds used to subsidize charity care provided.

The total cost of community benefit from continuing and discontinued operations was 6.3% and 6.4% of total expenses before operating expenses related to restructuring, impairment, and other losses in 2015 and 2014, respectively. The total cost of community benefit and the unpaid cost of Medicare from continuing and discontinued operations was 10.3% and 12.1% of total expenses before operating expenses related to restructuring, impairment, and other losses in 2015 and 2014, respectively.

3. Joint Operating Agreements and Investments in Unconsolidated Organizations

Joint Operating Agreements

CHI participates in JOAs with hospital-based organizations in three separate market areas. The agreements generally provide for, among other things, joint management of the combined operations of the local facilities included in the JOAs through Joint Operating Companies (JOC). CHI retains ownership of the assets, liabilities, equity, revenues and expenses of the CHI facilities that participate in the JOAs. The financial statements of the CHI facilities managed under all JOAs are included in the CHI consolidated financial statements. Transfers of assets from facilities owned by the JOA participants generally are restricted under the terms of the agreements.

As of June 30, 2015 and 2014, CHI holds a 65% and 70% interest, respectively, in a JOC based in Colorado, and a 50% interest in two other JOCs associated with other JOAs. In July 2015, CHI received proceeds of $6.8 million in exchange for the 5% investment in the JOC based in Colorado. CHI's interests in the JOCs are included in investments in unconsolidated organizations and totaled $199.0 million and $199.4 million at June 30, 2015 and 2014, respectively. CHI recognizes its investment in all JOCs under the equity method of accounting. The JOCs provide varying levels of services to the related JOA sponsors, and operating expenses of the JOCs are allocated to each sponsoring organization. The JOCs had total assets of $651.7 million and $607.7 million at June 30, 2015 and 2014, respectively, and net assets of $359.7 million and $347.2 million, respectively.

3. Joint Operating Agreements and Investments in Unconsolidated Organizations (continued)

Investments in Unconsolidated Organizations

Conifer Health Solutions (Conifer)

As of June 30, 2015 and 2014, CHI holds a $535.3 million equity method investment in Conifer and a $19.3 million cost method investment in Conifer, respectively. Effective in January 2015, CHI modified its existing multi-year agreement with Conifer to provide revenue cycle services for CHI acute care operations, and increased its equity ownership from a 2.0% to a 23.8% ownership. The term of the existing agreement was extended for an additional ten years from the original maturity date, and additional acute care facilities and services were added to the scope of the agreement. The fair market value of CHI's incremental 21.8% ownership interest was determined based upon a third-party valuation of Conifer. Such investment value has been recorded with a corresponding amount as deferred income in other liabilities in the accompanying consolidated balance sheets. As of June 30, 2015, CHI has a deferred income balance related to the Conifer agreement of $486.7 million, which is being amortized straight line over the remaining agreement term expiring in January 2033, offsetting revenue cycle services fees paid to Conifer and reflected in purchased services expense.

CHI now accounts for its investment in Conifer under the equity method of accounting. CHI's financial results were not retrospectively adjusted to present its investment in Conifer under the equity method of accounting since inception as the prior period amounts were not material to the CHI consolidated balance sheets or statements of operations.

As a result of CHI recording its incremental equity ownership in Conifer at fair value, the carrying amount of its investment in Conifer as of June 30, 2015, was $272.3 million greater than CHI's equity interest in the underlying net assets of Conifer, due to the difference in the carrying amounts of the tangible and intangible assets of $205.6 million, and goodwill of $66.7 million. The basis differences in tangible and intangible assets are being amortized over the average useful lives of the underlying assets, ranging from 8 to 25 years, as a reduction of CHI's equity earnings in Conifer.

3. Joint Operating Agreements and Investments in Unconsolidated Organizations (continued)

Preferred Professional Insurance Corporation (PPIC)

Effective in September 2014, CHI sold its investment in PPIC, an unconsolidated affiliate of CHI, which provided professional liability insurance and other related services to preferred physician and other health care providers associated with its owners. Gross proceeds on the sale were $48.9 million, plus the distribution of a $21.5 million extraordinary dividend, which resulted in a gain on sale of approximately $10.0 million reflected in the accompanying consolidated statement of operations for fiscal year 2015. As of June 30, 2014, CHI's investment in PPIC had a book value of $60.5 million, representing a 27% interest in PPIC.

MedSynergies Inc. (MSI)

Effective in October 2014, CHI sold its ownership in MSI, a national physician management services organization, for gross proceeds of $121.1 million, which resulted in a gain of $69.0 million reported in other revenue in the accompanying consolidated statement of operations for the year ended June 30, 2015.

Other Entities

The summarized financial positions and results of operations for the other entities accounted for under the equity method of accounting as of and for the years ended June 30, excluding the investments described above, are as follows (in thousands):

	2015							
	Medical Office Buildings	Outpatient and Diagnostic Services	Ambulatory Surgery Centers	Physician Practices	Hospital Based Services	ACO/ CCO/ CIN	Other Investees	Total
Total assets	$ 9,069	$ 271,498	$ 67,281	$ 28,766	$ 374,186	$ 133,151	$ 149,985	$ 1,033,936
Total debt	5,525	15,221	12,393	10,833	60,536	–	29,962	134,470
Net assets	3,089	208,056	46,062	15,274	260,905	73,329	77,343	684,058
Net patient services revenues	–	270,583	134,147	40,690	357,598	–	133,954	936,972
Total revenues, net	1,853	374,989	133,515	44,193	309,403	85,514	193,431	1,142,898
Excess of revenues over expenses	291	67,581	36,937	5,024	44,215	5,448	10,582	170,078

3. Joint Operating Agreements and Investments in Unconsolidated Organizations (continued)

	2014							
	Medical Office Buildings	Outpatient and Diagnostic Services	Ambulatory Surgery Centers	Physician Practices	Hospital Based Services	ACO/ CCO/ CIN	Other Investees	Total
Total assets	$ 17,593	$ 270,241	$ 71,266	$ 31,985	$ 119,181	$ 96,337	$ 147,363	$ 753,966
Total debt	14,906	11,707	11,117	13,552	24,605	30,554	22,970	129,411
Net assets	2,560	204,956	49,572	14,839	87,064	65,784	90,145	514,920
Net patient services revenues	–	254,294	151,907	41,686	100,253	–	127,268	675,408
Total revenues, net	2,674	349,029	152,301	44,498	83,719	149,695	188,845	970,761
Excess of revenues over expenses	(54)	26,614	39,951	4,031	22,993	10,262	14,251	118,048

4. Acquisitions, Affiliations, and Divestitures

The following table is a summary of the business combinations that occurred in fiscal year 2015 (in thousands):

	St. Alexius	Sylvania	Total
Fiscal year 2015			
Purchase consideration:			
Cash	**$ 10,000**	**$ 74,375**	**$ 84,375**
Other liabilities	**1,436**	**–**	**1,436**
Business combination gains	**153,803**	**282,537**	**436,340**
	$ 165,239	**$ 356,912**	**$ 522,151**
Fiscal year 2015			
Purchase price allocation:			
Cash and investments	**$ 95,065**	**$ 340,746**	**$ 435,811**
Patient and other accounts receivable	**46,033**	**88,271**	**134,304**
Other current assets	**8,118**	**12,273**	**20,391**
Property and equipment	**127,956**	**351,327**	**479,283**
Intangible assets	**–**	**13,350**	**13,350**
Other assets	**23,491**	**89,586**	**113,077**
Current liabilities	**(27,087)**	**(49,714)**	**(76,801)**
Pension liability	**–**	**(140,670)**	**(140,670)**
Other liabilities	**(1,347)**	**(50,584)**	**(51,931)**
Debt	**(104,227)**	**(290,289)**	**(394,516)**
Restricted net assets	**(2,763)**	**(7,384)**	**(10,147)**
	$ 165,239	**$ 356,912**	**$ 522,151**

4. Acquisitions, Affiliations, and Divestitures (continued)

St. Alexius Medical Center (St. Alexius)

Effective October 1, 2014, St. Alexius located in Bismarck, North Dakota, became a direct affiliate of CHI. In conjunction with this affiliation, CHI contributed $10.0 million to an endowment fund with a third party as consideration for the transaction. The transaction resulted in the recognition of a $153.8 million gain calculated as the fair value of assets acquired and liabilities assumed, less purchase consideration determined based upon Level 3 inputs, including estimated future cash flows and probability-weighted performance assumptions. St. Alexius is a 306-bed acute medical center offering a full line of inpatient and outpatient services. Besides the main campus in Bismarck, North Dakota, St. Alexius also owns and operates hospitals and clinics in Garrison, North Dakota, and Turtle Lake, North Dakota. Excluding the contribution gain, St. Alexius reported $243.1 million in operating revenues and $0.3 million of excess of revenues over expenses to the CHI consolidated results of operations for the period October 1, 2014 through June 30, 2015.

Sylvania Franciscan Health (Sylvania)

Effective November 1, 2014, CHI paid $74.4 million to become the sole sponsor of Sylvania. The transaction resulted in the recognition of a $282.5 million gain calculated as the fair value of assets acquired and liabilities assumed, less purchase consideration determined based upon Level 3 inputs, including estimated future cash flows and probability-weighted performance assumptions. Sylvania's hospitals and facilities in Texas and Ohio provide comprehensive primary and critical care services, while the long-term care facilities in Texas, Kentucky, and Ohio provide both residential and rehabilitation services. Excluding the contribution gain, Sylvania reported $334.7 million in operating revenues and $36.2 million of excess of revenues over expenses to the CHI consolidated results of operations for the period November 1, 2014 through June 30, 2015.

4. Acquisitions, Affiliations, and Divestitures (continued)

The following table is a summary of the business combinations and affiliation that occurred in fiscal year 2014 (in thousands):

	Harrison	CHI St. Luke's/ Baylor	Mercy Hot Springs	Memorial	Other	Total
Fiscal year 2014						
Purchase consideration:						
Cash	$ –	$ –	$ 59,650	$ –	$ 3,759	$ 63,409
Equity interest in acquisition	–	–	–	–	3,471	3,471
Gain on business combinations	289,030	–	61,839	53,245	17,841	421,955
Noncontrolling interest	–	298,725	–	–	–	298,725
	$ 289,030	$ 298,725	$ 121,489	$ 53,245	$ 25,071	$ 787,560
Fiscal year 2014						
Purchase price allocation:						
Cash and investments	$ 217,515	$ –	$ 79	$ 78,798	$ 37,333	$ 333,725
Patient and other accounts receivable	50,556	–	–	21,254	4,638	76,448
Other current assets	11,780	63,200	6,010	7,231	3,269	91,490
Property and equipment	199,127	215,800	126,225	125,863	5,309	672,324
Intangible assets	21,028	79,000	–	2,000	6,096	108,124
Goodwill	–	16,725	–	–	–	16,725
Other assets	8,883	–	133	1,338	3,143	13,497
Current liabilities	(65,858)	–	(4,019)	(21,734)	(10,481)	(102,092)
Pension liability	(19,349)	–	–	–	–	(19,349)
Other liabilities	(9,178)	(76,000)	–	(22,391)	(23,214)	(130,783)
Debt	(120,122)	–	(6,939)	(118,266)	(1,022)	(246,349)
Restricted net assets	(5,352)	–	–	(20,848)	–	(26,200)
	$ 289,030	$ 298,725	$ 121,489	$ 53,245	$ 25,071	$ 787,560

4. Acquisitions, Affiliations, and Divestitures (continued)

Harrison Medical Center (Harrison)

Effective August 1, 2013, Harrison was acquired by CHI for no consideration, resulting in the recognition of a $289.0 million gain calculated as the fair value of assets acquired and liabilities assumed determined based upon Level 3 inputs, including estimated future cash flows and probability-weighted performance assumptions. Harrison is located in Bremerton, Washington, and operates two acute care facilities in the area as well as provides emergency services and a range of general and specialized services to adjacent areas. Excluding the contribution gain, Harrison reported $369.8 million in operating revenues and $33.9 million of excess of revenues over expenses in the CHI consolidated results of operations for the period August 1, 2013 through June 30, 2014.

Mercy Hot Springs

Effective April 1, 2014, Mercy Health, based in St. Louis, Missouri, transferred ownership of its Hot Springs, Arkansas, facility, including its hospital and physician clinic (Mercy Hot Springs), to CHI for net proceeds of $59.7 million. A $61.8 million gain was recognized, calculated as the fair value of assets acquired and liabilities assumed, determined based upon Level 3 inputs, including estimated future cash flows and probability-weighted performance assumptions, less consideration paid. Mercy Hot Springs is a 282-bed acute-care hospital, providing an emergency department with a Level 2 Trauma Center designation, a 90-physician clinic organization, and a comprehensive range of medical services. Excluding the contribution gain, Mercy Hot Springs reported $63.6 million in operating revenues and $2.2 million of deficiency of revenues over expenses in the CHI consolidated results of operations for the period April 1, 2014 through June 30, 2014.

Memorial Health System of East Texas (Memorial)

Effective June 1, 2014, Memorial was acquired by CHI for no consideration, resulting in the recognition of a $53.2 million gain calculated as the fair value of assets acquired and liabilities assumed determined based upon Level 3 inputs, including estimated future cash flows and probability-weighted performance assumptions. Memorial is a private, nonprofit hospital system with hospitals in Lufkin, Livingston, and San Augustine, Texas. Excluding the contribution gain, Memorial reported $16.1 million in operating revenues and $0.9 million of deficiency of revenues over expenses in the CHI consolidated results of operations for the period June 1, 2014 through June 30, 2014.

4. Acquisitions, Affiliations, and Divestitures (continued)

CHI St. Luke's/Baylor College of Medicine

Effective January 1, 2014, CHI St. Luke's Medical Center (CHI St. Luke's) acquired certain assets of Baylor College of Medicine (Baylor) in exchange for a 35% noncontrolling interest in the combined operations of certain of the operations of CHI St. Luke's. The parties have agreed to build and operate a new, acute-care, open-staff hospital on Baylor's McNair Campus and to share in the operations 65% by CHI St. Luke's and 35% by Baylor. CHI St. Luke's and Baylor also entered into an academic affiliation agreement whereby Baylor will provide certain clinical programs and services to certain of the CHI St. Luke's hospital facilities.

Had CHI owned St. Alexius, Sylvania, Harrison, Mercy Hot Springs, and Memorial as of the beginning of each fiscal year, CHI's unaudited pro forma results for the years ended June 30 would have been as follows (in thousands):

	2015 Pro Forma Total CHI	2014 Pro Forma Total CHI
Operating revenues	**$ 15,455,142**	$ 14,762,059
Operating income (loss) before restructuring	**157,229**	(2,823)
Excess of revenues over expenses	**105,590**	678,804

Unaudited pro forma information is not necessarily indicative of the historical results that would have been obtained had the transaction actually occurred on those dates, nor of future results.

Discontinued Operations

As of June 30, 2015, CHI received $110.0 million for the sale of the Reading, Pennsylvania, MBO (Reading MBO) to Penn State Hershey plus $3.0 million in estimated working capital settlements, in advance of the closing that is effective July 1, 2015. In accordance with Accounting Standards Codification Topic (ASC) 205-20, *Discontinued Operations*, and ASC 360-10, *Property, Plan, and Equipment — Overall*, the results of operations of the Reading MBO are reported as discontinued operations and are included in the consolidated statements of changes in net assets. Assets held for sale consist primarily of net patient accounts receivable, net property, and other long-term assets. Liabilities held for sale consist primarily of accounts payable, third-party liabilities, and external debt. Based upon the purchase price, the Reading MBO recognized an estimated impairment loss of $46.0 million in March 2015 to adjust the carrying value of property and equipment to its net realizable value.

4. Acquisitions, Affiliations, and Divestitures (continued)

In 2012, CHI committed to a plan to sell the Denville, New Jersey, MBO (Denville MBO) to Prime Healthcare Services, which was approved in July 2015 to be effective September 30, 2015. In accordance with ASC 205-20, the results of operations of the Denville MBO are reported as discontinued operations and are included in the consolidated statements of changes in net assets. Assets held for sale consist primarily of net patient accounts receivable, net property, and other long-term assets. Liabilities held for sale consist primarily of accrued compensation and benefits, accounts payable, and deferred revenues.

In September 2014, the original Denville MBO sales agreement was modified to reduce the purchase price to $62.0 million and to remove the long-term care assets from the sales agreement. As a result of this modification, the Denville MBO recognized an impairment loss of $51.1 million to adjust the carrying value of property and equipment to its net realizable value.

Related to discontinued operations, CHI recorded a deficiency of revenues over expenses of $89.3 million and $17.7 million for the years ended June 30, 2015 and 2014, respectively, which is reported as discontinued operations in the accompanying consolidated statements of changes in net assets. Operating results of discontinued operations for the years ended June 30 are as follows (in thousands):

	2015	2014
Total operating revenues	**$ 536,141**	$ 515,857
Total operating expenses	**(527,502)**	(539,898)
Restructuring and other losses	**(99,314)**	(200)
Nonoperating gains	**1,346**	6,526
Deficiency of revenues over expenses	**$ (89,329)**	$ (17,715)

The accompanying consolidated statements of cash flows for the years ended June 30, 2015 and 2014, included $13.9 million as a source of cash and $23.4 million as a use of cash from discontinued operations, respectively.

5. Net Patient Services Revenues

Net patient services revenues are derived from services provided to patients who are either directly responsible for payment or are covered by various insurance or managed care programs. CHI receives payments from the federal government on behalf of patients covered by the Medicare program, from state governments for Medicaid and other state-sponsored programs, from certain private insurance companies and managed care programs, and from patients themselves. A summary of payment arrangements with major third-party payors follows:

Medicare – Inpatient acute care and certain outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge or procedure. These rates vary according to patient classification systems based on clinical, diagnostic, and other factors.

Certain CHI facilities have been designated as critical access hospitals and, accordingly, are reimbursed their cost of providing services to Medicare beneficiaries. Professional services rendered by physicians are paid based on the Medicare allowable fee schedule.

Medicaid – Inpatient services rendered to Medicaid program beneficiaries are primarily paid under the traditional Medicaid plan at prospectively determined rates per discharge. Certain outpatient services are reimbursed based on a cost reimbursement methodology, fee schedules, or discounts from established charges.

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

CHI's Medicare, Medicaid, and other payor utilization percentages, based upon net patient services revenues before provision for doubtful accounts, are summarized as follows:

	2015	**2014**
Medicare	**33%**	32%
Medicaid	**11**	8
Managed care	**40**	41
Self-pay	**5**	8
Commercial and other	**11**	11
	100%	100%

5. Net Patient Services Revenues (continued)

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Estimated settlements related to Medicare and Medicaid of $124.5 million and $117.9 million at June 30, 2015 and 2014, respectively, are included in third-party liabilities. Net patient services revenues from continuing operations increased by $56.0 million and $59.0 million in fiscal years 2015 and 2014, respectively, due to favorable changes in estimates related to prior-year settlements.

6. Investments and Assets Limited as to Use

CHI's investments and assets limited as to use as of June 30 are reported in the accompanying consolidated balance sheets as presented in the following table (in thousands):

	2015	2014
Cash and equivalents	**$ 284,470**	$ 433,778
CHI Investment Program	**5,835,141**	5,808,387
Marketable equity securities	**350,083**	389,614
Marketable fixed-income securities	**763,959**	463,036
Hedge funds and other investments	**24,770**	63,974
	7,258,423	7,158,789
Less current portion	**(75,829)**	(24,732)
	$ 7,182,594	$ 7,134,057

Net unrealized gains in investments and assets limited to use at June 30, 2015 and 2014, were $459.3 million and $668.6 million, respectively.

CHI attempts to reduce its market risk by diversifying its investment portfolio using cash equivalents, fixed-income securities, marketable equity securities, and alternative investments.

Most of the U.S. Treasury, money market funds, and corporate debt obligations as well as exchange-traded marketable securities held directly by CHI and by the CHI Investment Program (the Program) have an actively traded market. However, CHI also invests in commercial paper, mortgage-backed or other asset-backed securities, alternative investments (hedge funds, private equity investments, real estate funds, funds of funds, etc.),

6. Investments and Assets Limited as to Use (continued)

collateralized debt obligations, municipal securities, and other investments that have potential complexities in valuation based upon the current conditions in the credit markets. For some of these instruments, evidence supporting the determination of fair value may not come from trading in active primary or secondary markets. Because these investments may not be readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had an active market for such investments existed. Such differences could be material. However, management reviews the CHI investment portfolio on a regular basis and seeks guidance from its professional portfolio managers related to U.S. and global market conditions to determine the fair value of its investments. CHI believes the carrying amount of these financial instruments in the consolidated financial statements is a reasonable estimate of fair value.

The majority of all CHI long-term investments are held in the Program. The Program is structured under a Limited Partnership Agreement with CHI as managing general partner and numerous limited partners, most of which are sponsored by CHI. The partnership provides a vehicle whereby virtually all entities associated with CHI, as well as certain other unrelated entities, can optimize investment returns while managing investment risk. Entities participating in the Program that are not consolidated in the accompanying financial statements have the ability to direct their invested amounts and liquidate and/or withdraw their interest without penalty as soon as practicable based on market conditions but within 180 days of notification. The Limited Partnership Agreement permits a simple-majority vote of the noncontrolling limited partners to terminate the partnership. Accordingly, CHI recognizes only the portion of Program assets attributable to CHI and its sponsored affiliates. Program assets attributable to CHI and its Direct Affiliates represented 88% and 90% of total Program assets at June 30, 2015 and 2014, respectively.

The Program asset allocation at June 30 is as follows:

	2015	**2014**
Equity securities	**46%**	44%
Fixed-income securities	**30**	31
Alternative investments	**22**	23
Cash and equivalents	**2**	2
	100%	100%

6. Investments and Assets Limited as to Use (continued)

The CHI Finance Committee (the Committee) of the Board of Stewardship Trustees is responsible for determining asset allocations among fixed-income, equity, and alternative investments. At least annually, the Committee reviews targeted allocations and, if necessary, makes adjustments to targeted asset allocations. Given the diversity of the underlying securities in which the Program invests, management does not believe there is a significant concentration of credit risk.

The Program allocation to alternative investments is based upon contractual commitment levels to various funds. These commitments are drawn by the fund managers as opportunities arise to invest the capital. As of June 30, 2015, the Program had committed to invest $675.5 million in 36 funds, of which $581.6 million had been invested. The remaining $93.9 million will be invested when, and if, requested by the funds. Alternative investments within the Program have limited liquidity. As of June 30, 2015, illiquid investments not available for redemption totaled $390.8 million, and investments available for redemption within 180 days at the request of the Program totaled $857.9 million.

Investment income comprises the following for the years ended June 30 (in thousands):

	2015	2014
Dividend and interest income	**$ 134,815**	$ 139,022
Net realized gains	**275,958**	345,545
Net unrealized (losses) gains	**(211,075)**	362,156
Total investment income from continuing operations	**199,698**	846,723
Total investment income from discontinued operations	**1,345**	6,526
Total investment income	**$ 201,043**	$ 853,249

Direct expenses of the Program are less than 0.4% of total assets. Fees paid to the alternative investment managers are not included in the total expense calculation as they are not a direct expense of the Program.

7. Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820, *Fair Value Measurement*, 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 inputs) and the lowest priority to unobservable inputs (Level 3 inputs).

The three levels of the fair value hierarchy and a description of the valuation methodologies used for instruments measured at fair value are as follows:

> Level 1 – Valuation is based upon quoted prices (unadjusted) for identical assets or liabilities in active markets.
>
> Level 2 – Valuation is based upon quoted prices for similar assets and liabilities in active markets or other inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial asset or liability.
>
> Level 3 – Valuation is based upon other unobservable inputs that are significant to the fair value measurement.

Certain of CHI's alternative investments are made through limited liability companies (LLCs) and limited liability partnerships (LLPs). These LLCs and LLPs provide CHI with a proportionate share of the investment gains (losses). CHI accounts for its ownership in the LLCs and LLPs under the equity method. CHI also accounts for its ownership in the Program under the equity method. As such, these investments are excluded from the scope of ASC 820.

7. Fair Value of Assets and Liabilities (continued)

Financial assets and liabilities measured at fair value on a recurring basis were determined using the market approach based upon the following inputs at June 30 (in thousands):

	2015			
	Fair Value Measurements at Reporting Date Using			
		(Level 1)	(Level 2)	(Level 3)
	Fair Value as of June 30	Quoted Prices in Active Markets	Other Observable Inputs	Unobservable Inputs
Assets				
Assets limited as to use:				
Cash and short-term investments	$ 284,470	$ 204,808	$ 79,662	$ –
Equity securities	350,083	350,083	–	–
Fixed-income securities	763,959	138,204	625,755	–
Other investments	2,456	–	–	2,456
Deferred compensation assets:				
Cash and short-term investments	12,969	12,969	–	–
	$ 1,413,937	$ 706,064	$ 705,417	$ 2,456
Liabilities				
Interest rate swaps	$ 299,984	$ –	$ 299,984	$ –
Contingent consideration	174,018	–	–	174,018
Deferred compensation liability	12,969	12,969	–	–
	$ 486,971	$ 12,969	$ 299,984	$ 174,018

7. Fair Value of Assets and Liabilities (continued)

	2014			
	Fair Value Measurements at Reporting Date Using			
		(Level 1)	(Level 2)	(Level 3)
	Fair Value as of June 30	Quoted Prices in Active Markets	Other Observable Inputs	Unobservable Inputs
Assets				
Assets limited as to use:				
Cash and short-term investments	$ 433,778	$ 353,249	$ 80,529	$ –
Equity securities	389,614	389,614	–	–
Fixed-income securities	463,036	97,433	365,603	–
Other investments	2,518	–	–	2,518
Deferred compensation assets:				
Cash and short-term investments	13,911	13,911	–	–
	$ 1,302,857	$ 854,207	$ 446,132	$ 2,518
Liabilities				
Interest rate swaps	$ 256,750	$ –	$ 256,750	$ –
Contingent consideration	203,236	–	–	203,236
Deferred compensation liability	13,911	13,911	–	–
	$ 473,897	$ 13,911	$ 256,750	$ 203,236

The fair values of the instruments included in Level 1 were determined through quoted market prices. Level 1 instruments include money market funds, mutual funds, and marketable debt and equity securities. The fair values of Level 2 instruments were determined through evaluated bid prices based on recent trading activity and other relevant information, including market interest rate curves and referenced credit spreads; estimated prepayment rates, where applicable, are used for valuation purposes and are provided by third-party services where quoted market values are not available. Level 2 instruments include corporate fixed-income securities, government bonds, mortgage and asset-backed securities, and interest rate swaps. The fair values of Level 3 securities are determined primarily through information obtained from the relevant counterparties for such investments. Information on which these securities' fair values are based is generally not readily available in the market. The fair value of the contingent liabilities was determined based on estimated future cash flows and probability-weighted performance assumptions, discounted to net present value. The contingent consideration liability balance at June 30, 2015, was also adjusted to reflect $41.3 million of payments made since June 30, 2014, and $29.2 million for changes in payment assumptions and discount rates.

8. Property and Equipment

A summary of property, equipment, and software is as follows as of June 30 (in thousands):

	2015	2014
Land and improvements	**$ 729,824**	$ 667,649
Buildings and improvements	**7,592,137**	6,741,000
Equipment	**5,228,099**	4,837,931
Software	**909,486**	290,908
	14,459,546	12,537,488
Less accumulated depreciation and amortization	**(6,057,317)**	(5,419,354)
	8,402,229	7,118,134
Construction-in-progress	**1,091,122**	1,689,857
	$ 9,493,351	$ 8,807,991

CHI evaluates whether events and circumstances have occurred that indicate the remaining useful life of property, equipment, and certain other intangible assets may not be recoverable. Management determined there were impairment issues in both 2015 and 2014 to the extent that the undiscounted cash flows estimated to be generated by certain assets were less than the underlying carrying value. CHI recorded $44.4 million and $59.6 million in impairment losses in continuing operations for 2015 and 2014, respectively, resulting from charges related to estimated fair value deficiencies (based upon projected discounted cash flows) at various MBOs.

CHI incurs a variety of direct and indirect costs to develop internal-use software. In order for software to be considered internal use, it must be acquired, internally developed, or modified solely to meet CHI's needs and no plan exists or is being developed to sell the software externally during the software's development or modification. Unamortized software costs at June 30, 2015 and 2014, were $805.2 million and $257.5 million, respectively. For the fiscal years ended June 30, 2015 and 2014, CHI recorded $71.0 million and $18.9 million, respectively, related to amortization of internal-use software. Amortization of internal-use software begins when the software is placed in service, and is based on the expected useful life of the software, which is generally between 2 and 15 years.

9. Debt Obligations

The following is a summary of debt obligations as of June 30 (in thousands):

	Interest Rates at June 30, 2015	2015	2014
CHI debt issued under the COD			
Variable-rate bonds:			
Series 1997B	–%	**$ –**	$ 7,700
Series 2000B, maturing 2027	0.13	**21,400**	22,700
Series 2002B, maturing 2032	0.13–0.28	**91,400**	94,700
Series 2004B, maturing through 2044	0.13–0.16	**180,700**	180,700
Series 2004C, maturing through 2044	0.11–0.17	**163,300**	163,300
Series 2008A, maturing 2037	0.13	**120,175**	120,225
Series 2008C, maturing 2042	0.13	**50,000**	50,000
Series 2011B, maturing 2030	0.13	**158,155**	158,155
Series 2011C, maturing 2046	0.12	**119,000**	121,000
Series 2013B, maturing 2027	0.07	**200,000**	200,000
Series 2013C, maturing 2046	0.13	**100,000**	100,000
Series 2013E Taxable, maturing 2046	0.18	**125,000**	125,000
Series 2013F Taxable, maturing 2046	0.18	**75,000**	75,000
Fixed-rate bonds:			
Series 2002A, maturing 2017	5.50	**1,790**	2,615
Series 2004A, maturing through 2034	4.75–5.00	**146,285**	146,605
Series 2006A, maturing 2041	4.00–5.00	**270,635**	270,635
Series 2006C, maturing through 2041	3.85–5.10	**250,000**	250,000
Series 2008C, maturing through 2041	4.00–4.10	**105,000**	105,000
Series 2008D, maturing through 2038	5.00–6.38	**465,965**	471,450
Series 2009A, maturing 2039	4.00–5.25	**699,725**	724,140
Series 2009B, maturing through 2039	1.88–5.00	**217,720**	217,720
Series 2011A, maturing 2041	3.25–5.25	**467,570**	486,090
Series 2012A, maturing 2035	4.00–5.00	**266,620**	268,980
Series 2012 Taxable, maturing 2042	1.60–4.35	**1,500,000**	1,500,000
Series 2013A, maturing 2045	5.00–5.75	**600,600**	600,600
Series 2013D Taxable, maturing 2023	2.60–4.20	**540,000**	540,000

9. Debt Obligations (continued)

	Interest Rates at June 30, 2015	2015	2014
CHI debt issued under the COD (continued)			
Bank lines of credit, maturing 2016	0.77%	**$ 200,000**	$ –
Commercial paper, maturing 2015	0.29	**741,085**	482,362
Unamortized debt premium and discount		**27,882**	30,821
Unamortized debt issuance costs		**(38,141)**	(42,958)
Total CHI debt issued under the COD		**7,868,166**	7,472,540
Other debt			
St. Leonard Master Trust Indenture debt, maturing through 2040	6.00–6.63	**42,727**	–
Sylvania Master Trust Indenture debt, maturing through 2032	2.84–6.00	**98,492**	–
Note payable issued to Episcopal Health Foundation, maturing 2020	4.75	**199,258**	230,225
Capital leases		**191,316**	202,252
Other debt		**410,922**	419,135
Total debt obligations		**8,810,881**	8,324,152
Less amounts classified as current:			
Variable-rate debt with self-liquidity		**(163,300)**	(521,455)
Commercial paper and current portion of debt		**(1,247,007)**	(711,063)
Long-term debt		**$ 7,400,574**	$ 7,091,634

9. Debt Obligations (continued)

The fair value of debt obligations was approximately $9.0 billion at June 30, 2015. Management has determined the carrying values of the variable-rate bonds are representative of fair values as of June 30, 2015, as the interest rates are set by the market participants. The fair value of the fixed-rate tax-exempt bond obligations as of June 30, 2015, is determined by applying credit spreads for similar tax-exempt obligations in the marketplace, which are then used to calculate a price/yield for the outstanding obligations (Level 2 inputs).

A summary of scheduled principal payments, based upon stated maturities, on debt obligations for the next five years is as follows (in thousands):

	Amounts Due
Year ending June 30:	
2016	$ 1,410,307
2017	134,591
2018	408,540
2019	456,583
2020	168,690

CHI issues the majority of its debt under the COD and is the sole obligor. Bondholder security resides both in the unsecured promise by CHI to pay its obligations and in its control of its Direct and Designated Affiliates. Covenants include a minimum CHI debt service coverage ratio and certain limitations on secured debt. The Direct Affiliates of CHI, defined as Participants under the COD, have agreed to certain covenants related to corporate existence, maintenance of insurance, and exempt use of bond-financed facilities.

St. Joseph Regional Health Center of Bryan, Texas, is a member of the Sylvania Obligated Group, along with certain other consolidated subsidiaries of Sylvania. Under the Sylvania Master Trust Indenture, each member of the Sylvania Obligated Group is jointly and severally liable for payment of certain debt or other obligations evidenced or secured by notes issued under the Sylvania Master Trust Indenture (the Sylvania Master Indenture Debt). In addition, the Sylvania Obligated Group has agreed to certain operational and financial restrictions to limit additional indebtedness and guarantees, maintain specific financial ratios, and fulfill various sinking fund requirements in various trustee-held accounts, among other covenants.

Debt issued under the St. Leonard Master Trust Indenture is secured by the property of St. Leonard in Centerville, Ohio, and a pledge of gross revenues.

9. Debt Obligations (continued)

During April 2015, CHI reoffered $358.2 million of existing par value Windows variable-rate bonds (Windows), converting them into Floating Rate Notes Hard Put bonds. As a result of the debt extinguishment, CHI wrote off the $2.5 million balance of the original debt issuance costs.

In April 2015, CHI defeased $26.4 million par value bonds originally obtained as part of CHI's acquisition of Sylvania in November 2014. The bond defeasance was funded by the issuance of $27.7 million of commercial paper, and resulted in a loss on defeasance of $1.8 million.

In March 2015, CHI defeased $84.4 million par value bonds originally obtained as part of CHI's acquisition of St. Alexius in October 2014. The bond defeasance was funded by the issuance of $81.6 million of commercial paper, and resulted in a loss on defeasance of $8.6 million.

In November 2014, CHI defeased $105.0 million par value bonds originally obtained as part of CHI's acquisition of CHI St. Luke's Health Memorial in June 2014. The bond defeasance was funded by the issuance of $109.2 million of commercial paper, and resulted in a loss on defeasance of $7.2 million.

During the second quarter of fiscal year 2014, CHI redeemed $881.8 million of various subsidiary bonds and bank notes, which resulted in a loss on redemption of $10.0 million. The debt redemptions were funded by proceeds from CHI bonds issued in the period of redemption.

CHI has two types of external liquidity facilities: those that are dedicated to specific series of variable-rate demand bonds (VRDB) and those that are not dedicated to a particular series of VRDBs but may be used to support CHI's obligations to fund tenders of VRDBs and pay the maturing principal of commercial paper. Liquidity facilities that are dedicated to specific series of bonds were $882.7 million and $897.0 million at June 30, 2015 and 2014, respectively, of which $58.7 million and $8.2 million, respectively, are classified as current debt. The remaining $1.2 billion and $888.8 million at June 30, 2015 and 2014, respectively, are reported as long-term debt due to the repayment terms on any associated drawings extending beyond the subsequent fiscal year under the terms of the specific agreements.

9. Debt Obligations (continued)

Liquidity facilities not dedicated for specific series of VRDBs but used to support CHI's obligations to fund tenders and to pay maturing principal of commercial paper were $420.0 million at both June 30, 2015 and 2014. At June 30, 2015 and 2014, $741.1 million and $482.4 million, respectively, of commercial paper was classified as current due to maturities of less than one year, and $163.3 million and $521.5 million of VRDBs and Windows variable-rate bonds (Windows), respectively, were also classified as current due to the holder's ability to put such VRDBs and Windows back to CHI without liquidity facilities dedicated to these bonds.

At June 30, 2015, CHI had a $55.0 million credit facility with Bank of New York Mellon, of which $53.0 million was designated for the benefit of third parties, principally in support of the self-insurance programs administered by FIIL. At June 30, 2015 and 2014, no amounts were outstanding under this credit facility. Effective in June 2015, CHI also had a $200.0 million bank line of credit with Morgan Stanley that was fully drawn at June 30, 2015.

At June 30, 2015 and 2014, CHI was a party to 16 and 13 fixed-payer interest rate swap agreements, respectively, with notional amounts totaling $1.5 billion and $1.4 billion, respectively. Additionally at June 30, 2015, CHI was a party to 1 basis interest rate swap agreement with a notional amount of $30.0 million, and 33 total return interest rate swap agreements with notional amounts totaling $231.5 million. CHI utilizes various interest rate swap contracts to manage the risk of increased interest rates payable of certain variable-rate bonds. Generally, it is CHI policy that all counterparties have an AA rating or better. The swap agreements require CHI to provide collateral if CHI's liability, determined on a mark-to-market basis, exceeds a specified threshold that varies based upon the rating on CHI's long-term indebtedness. The fixed-payer swap agreements convert CHI's variable-rate debt to fixed-rate debt. The swaps have varying maturity dates ranging from 2015 to 2047. The fair value of the swaps is estimated based on the present value sum of anticipated future net cash settlements until the swaps' maturities. At June 30, 2015 and 2014, the fair value was $300.0 million and $256.7 million, respectively. During fiscal year 2015, a change in CHI's debt ratings resulted in an increase to its cash collateral postings. Cash collateral balances of $176.4 million and $130.5 million at June 30, 2015 and 2014, respectively, are netted against the fair value of the swaps, and the net amount is reflected in other liabilities. The change in the fair value of these agreements was a net loss of $33.7 million and a net gain of $10.2 million in 2015 and 2014, respectively, reflected in realized and unrealized losses on interest rate swaps in the accompanying consolidated statements of operations.

10. Retirement Plans

CHI Pension Plan

Certain noncontributory, defined benefit retirement plans (Retirement Plans) sponsored by CHI and its direct affiliates were frozen as of December 31, 2013 and 2014, and benefits earned by employees through that time period remain in the Retirement Plans. Employees continue to receive interest credits and, if applicable, vesting credits. Beginning January 1, 2014, CHI introduced a new 401(k) Retirement Savings Plan — see *CHI 401(k) Retirement Savings Plan* below for additional information.

Benefits in the Retirement Plans are based on compensation, retirement age, and years of service. Vesting occurs over a five-year period. Substantially all of the Retirement Plans are qualified as church plans and are exempt from certain provisions of both the Employee Retirement Income Security Act of 1974 and Pension Benefit Guaranty Corporation premiums and coverage. Funding requirements are determined through consultation with independent actuaries.

CHI recognizes the funded status (that is, the difference between the fair value of plan assets and the projected benefit obligations) of its Retirement Plans in the consolidated balance sheets, with a corresponding adjustment to net assets. Actuarial gains and losses that arise and are not recognized as net periodic pension cost in the same periods are recognized as a component of changes in net assets.

During fiscal year 2015, CHI acquired the pension plan assets and liabilities of Sylvania and during fiscal year 2014, of Harrison and Memorial (the Acquired plans), which are included below from the respective dates of acquisition.

10. Retirement Plans (continued)

A summary of the changes in the benefit obligation, fair value of plan assets, and funded status of the Retirement Plans at the June 30 measurement dates is as follows (in thousands):

	2015	2014
Changes in benefit obligation:		
Benefit obligation, beginning of year	**$ 4,473,629**	$ 3,877,485
Service cost	**24,022**	106,484
Interest cost	**192,412**	177,859
Actuarial loss	**14,178**	412,995
Acquired plans	**399,025**	165,506
Transfers	**(1,370)**	(3,728)
Curtailments	**–**	(267)
Settlements	**(14,121)**	(30,821)
Benefits paid	**(220,400)**	(230,258)
Expenses paid	**(1,998)**	(1,626)
Benefit obligation, end of year	**4,865,377**	4,473,629
Changes in plans' assets:		
Fair value of plans' assets, beginning of year	**3,977,271**	3,404,633
Actual return on the plans' assets, net of expenses	**117,281**	575,358
Employer contributions	**16,854**	123,763
Acquired plans	**259,140**	139,480
Transfers	**(1,323)**	(3,528)
Settlements	**(14,028)**	(30,551)
Benefits paid	**(220,400)**	(230,258)
Expenses paid	**(1,998)**	(1,626)
Fair value of the plans' assets, end of year	**4,132,797**	3,977,271
Funded status of plans	**$ (732,580)**	$ (496,358)
End-of-year values:		
Projected benefit obligation	**$ 4,865,377**	$ 4,473,629
Accumulated benefit obligation	**4,849,063**	4,467,063

10. Retirement Plans (continued)

Included in net assets at June 30, 2015, are unrecognized actuarial losses of $907.9 million that have not yet been recognized in net periodic pension cost. The actuarial losses included in net assets and expected to be recognized in net periodic pension cost during the fiscal year ending June 30, 2016, total $38.2 million.

The components of net periodic pension (income) expense are as follows (in thousands):

	2015	2014
Components of net periodic pension (income) expense:		
Service cost	**$ 24,022**	$ 106,484
Interest cost	**192,412**	177,859
Expected return on plans' assets	**(279,186)**	(247,121)
Actuarial losses	**41,828**	32,733
Amortization of prior service benefit	**–**	78
Curtailments	**–**	296
Settlements	**532**	301
	$ (20,392)	$ 70,630

	2015	2014
Weighted average assumptions:		
Discount rate, beginning of year	**4.15%**	4.58%
Discount rate, end of year	**4.29**	4.15
Expected return on plans' assets	**7.20**	7.60
Rate of compensation increase	**n/a**	n/a

The assumption for the expected return on the Retirement Plans' assets is based on historical returns and adherence to the asset allocations set forth in the Retirement Plans' investment policies. The expected return on the Retirement Plans' assets for determining pension cost was 7.60% and 7.75% in 2015 and 2014, respectively. The increase in the discount rate to 4.29% at June 30, 2015, decreased the pension benefit obligation by approximately $55.4 million. Effective in the current year, the Retirement Plans adopted the updated mortality tables issued by the Society of Actuaries in 2014, which increased the pension obligation by approximately $35.0 million.

10. Retirement Plans (continued)

CHI expects to contribute $17.8 million to the Retirement Plans in fiscal year 2016. A summary of expected benefits to be paid to the Retirement Plans' participants and beneficiaries is as follows (in thousands):

	Estimated Payments
Year ending June 30:	
2016	$ 362,305
2017	269,113
2018	275,979
2019	281,397
2020	290,285
2021–2024	1,536,317

A summary of the Retirement Plans' assets at June 30 is as follows (in thousands):

	2015	2014
Assets		
Plans' interest in the CHI Master Trust	**$ 3,774,748**	$ 3,589,196
Investments in securities	**379,336**	397,147
Receivables for securities sold	**5,848**	5,081
Foreign currency exchange contracts	**54,989**	27,600
Other receivables	**6,530**	2,960
Total assets	**4,221,451**	4,021,984
Liabilities		
Payable for securities purchased	**33,453**	16,329
Foreign currency exchange contracts	**55,188**	27,688
Other liabilities	**13**	696
Total liabilities	**88,654**	44,713
Total plans' assets	**$ 4,132,797**	$ 3,977,271

10. Retirement Plans (continued)

The Retirement Plans' financial instruments measured at fair value on a recurring basis were determined using the following inputs at June 30 (in thousands):

	2015			
	Fair Value Measurements at Reporting Date Using			
		(Level 1)	(Level 2)	(Level 3)
	Fair Value as of June 30	Quoted Prices in Active Markets	Other Observable Inputs	Unobservable Inputs
Assets				
Cash and short-term investments	**$ 50,639**	**$ 45,436**	**$ 5,203**	**$ –**
Equity securities	**8,004**	**191**	**7,813**	**–**
Fixed-income securities	**320,693**	**45,590**	**252,474**	**22,629**
Investments in securities	**379,336**	**91,217**	**265,490**	**22,629**
Foreign currency exchange contracts	**54,989**	**–**	**54,989**	**–**
Total assets	**$ 434,325**	**$ 91,217**	**$ 320,479**	**$ 22,629**
Liabilities				
Foreign currency exchange contracts	**$ 55,188**	**$ –**	**$ 55,188**	**$ –**
Total liabilities	**$ 55,188**	**$ –**	**$ 55,188**	**$ –**

	2014			
	Fair Value Measurements at Reporting Date Using			
		(Level 1)	(Level 2)	(Level 3)
	Fair Value as of June 30	Quoted Prices in Active Markets	Other Observable Inputs	Unobservable Inputs
Assets				
Cash and short-term investments	$ 36,345	$ 34,263	$ 2,082	$ –
Equity securities	29,216	25,929	3,287	–
Fixed-income securities	316,391	36,178	253,035	27,178
Alternative investments	15,195	–	–	15,195
Investments in securities	397,147	96,370	258,404	42,373
Foreign currency exchange contracts	27,600	–	27,600	–
Total assets	$ 424,747	$ 96,370	$ 286,004	$ 42,373
Liabilities				
Foreign currency exchange contracts	$ 27,688	$ –	$ 27,688	$ –
Total liabilities	$ 27,688	$ –	$ 27,688	$ –

10. Retirement Plans (continued)

For the years ended June 30, 2015 and 2014, the changes in fair value of the Retirement Plans' investments in securities, for which Level 3 inputs were used, are as follows (in thousands):

	Fixed-Income	Alternative Investments	Total
Investments at fair value at July 1, 2013	$ –	$ –	$ –
Purchases/contributions of investments	25,540	50,856	76,396
Sales/distributions of investments	(971)	(40,401)	(41,372)
Net change in unrealized appreciation on investments and effect of foreign currency translation	1,940	915	2,855
Net realized gains on investments	669	3,825	4,494
Investments at fair value at June 30, 2014	27,178	15,195	42,373
Purchases/contributions of investments	**23,465**	**–**	**23,465**
Sales/distributions of investments	**(27,316)**	**(15,453)**	**(42,769)**
Net change in unrealized depreciation on investments and effect of foreign currency translation	**(2,340)**	**(915)**	**(3,255)**
Net realized gains on investments	**1,642**	**1,173**	**2,815**
Investments at fair value at June 30, 2015	**$ 22,629**	**$ –**	**$ 22,629**

There were no significant transfers between Levels 1 and 2 during any period presented.

Certain of the Retirement Plans' investments are held in the CHI Master Trust, which was established for the investment of assets of the Retirement Plans. Each participating plan has an undivided interest in the CHI Master Trust. The CHI Master Trust assets are allocated among the participating plans by assigning to each plan those transactions (primarily contributions, benefit payments, and plan-specific expenses) that can be specifically identified and by allocating among all plans, in proportion to each plan's beneficial interest in the CHI Master Trust, income and expenses resulting from the collective investment of the assets of the CHI Master Trust.

10. Retirement Plans (continued)

The CHI Master Trust investment portfolio is designed to preserve principal and obtain competitive investment returns and long-term investment growth, consistent with actuarial assumptions, while minimizing unnecessary investment risk. Diversification is achieved by allocating assets to various asset classes and investment styles and by retaining multiple investment managers with complementary philosophies, styles, and approaches. Although the objective of the CHI Master Trust is to maintain asset allocations close to target, temporary periods may exist where allocations are outside of the expected range due to market conditions. The use of leverage is prohibited except as specifically directed in the alternative investment allocation. The portfolio is managed on a basis consistent with the CHI social responsibility guidelines.

A summary of the CHI Master Trust asset allocation targets, ranges by asset class and allocations by asset class within the CHI Master Trust at the measurement dates of June 30 is as follows:

	2015	**2014**	**Target**	**Range**
Equity securities	**46.9%**	47.0%	45.0%	35.0%–55.0%
Fixed-income securities	**34.8**	33.5	35.0	25.0–45.0
Alternative investments	**18.3**	19.5	20.0	10.0–30.0

The CHI Master Trust allocation to alternative investments is based upon contractual commitment levels to various funds. These commitments are drawn by the fund managers as opportunities arise to invest the capital. As of June 30, 2015, the CHI Master Trust had committed to invest $380.9 million in 26 funds, of which $358.3 million had been invested. The remaining $22.6 million will be invested when, and if, requested by the funds. Alternative investments within the CHI Master Trust have limited liquidity, and as of June 30, 2015, investments of $187.3 million are illiquid and not available for redemption and investments of $503.0 million are available for redemption within 180 days at the request of the CHI Master Trust.

10. Retirement Plans (continued)

A summary of the CHI Master Trust's assets at June 30 is as follows (in thousands). At June 30, 2015 and 2014, the Retirement Plans' interest in the net assets of the CHI Master Trust was approximately 99.9% and 99.6%, respectively.

	2015	2014
Assets		
Investments in securities	**$ 3,767,141**	$ 3,564,986
Receivables for securities sold	**32,915**	73,763
Foreign currency exchange contracts	**18,190**	22,132
Other receivables	**10,868**	11,621
Total assets	**3,829,114**	3,672,502
Liabilities		
Payable for securities purchased	**34,534**	45,133
Foreign currency exchange contracts	**17,892**	22,313
Other liabilities	**1,937**	1,838
Total liabilities	**54,363**	69,284
Total CHI Master Trust assets	**$ 3,774,751**	$ 3,603,218

The CHI Master Trust's financial instruments measured at fair value on a recurring basis were determined using the following inputs at June 30 (in thousands):

	2015			
	Fair Value Measurements at Reporting Date Using			
		(Level 1)	**(Level 2)**	**(Level 3)**
	Fair Value as of June 30	**Quoted Prices in Active Markets**	**Other Observable Inputs**	**Unobservable Inputs**
Assets				
Cash and short-term investments	**$ 132,940**	**$ 115,594**	**$ 17,346**	**$ –**
Equity securities	**1,702,746**	**1,698,849**	**3,897**	**–**
Fixed-income securities	**1,241,230**	**325,523**	**753,386**	**162,321**
Alternative investments	**690,225**	**–**	**–**	**690,225**
Investments in securities	**3,767,141**	**2,139,966**	**774,629**	**852,546**
Foreign currency exchange contracts	**18,190**	**–**	**18,190**	**–**
Total assets	**$ 3,785,331**	**$ 2,139,966**	**$ 792,819**	**$ 852,546**
Liabilities				
Foreign currency exchange contracts	**$ 17,892**	**$ –**	**$ 17,892**	**$ –**
Total liabilities	**$ 17,892**	**$ –**	**$ 17,892**	**$ –**

10. Retirement Plans (continued)

	2014			
	Fair Value Measurements at Reporting Date Using			
		(Level 1)	(Level 2)	(Level 3)
	Fair Value as of June 30	Quoted Prices in Active Markets	Other Observable Inputs	Unobservable Inputs
Assets				
Cash and short-term investments	$ 141,715	$ 119,921	$ 21,794	$ –
Equity securities	1,569,084	1,565,745	3,339	–
Fixed-income securities	1,150,552	311,331	739,605	99,616
Alternative investments	703,635	–	–	703,635
Investments in securities	3,564,986	1,996,997	764,738	803,251
Foreign currency exchange contracts	22,132	–	22,132	–
Total assets	$ 3,587,118	$ 1,996,997	$ 786,870	$ 803,251
Liabilities				
Foreign currency exchange contracts	$ 22,313	$ –	$ 22,313	$ –
Total liabilities	$ 22,313	$ –	$ 22,313	$ –

For the years ended June 30, 2015 and 2014, the changes in fair value of the CHI Master Trust's investments, for which Level 3 inputs were used, are as follows (in thousands):

	Fixed-income	Alternative Investments	Total
Investments at fair value at July 1, 2013	$ 6	$ 606,665	$ 606,671
Purchases/contributions of investments	120,770	69,902	190,672
Sales/distributions of investments	(21,447)	(49,410)	(70,857)
Net change in unrealized appreciation on investments and effect of foreign currency translation	227	50,874	51,101
Net realized gains on investments	60	25,604	25,664
Investments at fair value at June 30, 2014	99,616	703,635	803,251
Purchases/contributions of investments	**210,510**	**15,020**	**225,530**
Sales/distributions of investments	**(143,239)**	**(89,242)**	**(232,481)**
Net change in unrealized (depreciation) appreciation on investments and effect of foreign currency translation	**(2,816)**	**3,460**	**644**
Net realized (losses) gains on investments	**(1,750)**	**57,352**	**55,602**
Investments at fair value at June 30, 2015	**$ 162,321**	**$ 690,225**	**$ 852,546**

There were no significant transfers between Levels 1 and 2 during any period presented.

10. Retirement Plans (continued)

CHI 401(k) Retirement Savings Plan

Effective January 1, 2014, CHI introduced the CHI 401(k) Retirement Savings Plan (401(k) Savings Plan), which replaced the frozen Retirement Plans as an employee retirement benefit. Years of service under the Retirement Plans will automatically transfer to the 401(k) Savings Plan. An employee is fully vested in the plan for employer contributions after three years of service.

As part of the 401(k) Savings Plan, CHI matches 100% of the first 1% of eligible pay an employee contributes to the plan, and 50% of the next 5% of eligible pay contributed to the plan, for a maximum employer matching rate of 3.5% of eligible pay. On an annual basis and regardless of whether an employee participates in the 401(k) Savings Plan, CHI also contributes 2.5% of eligible pay to an employee's 401(k) Savings Plan account. This contribution is made if an employee reaches 1,000 hours in the first year of employment or every calendar year thereafter, and is employed on the last day of the calendar year. During the fiscal year ended June 30, 2015, CHI recorded $200.7 million of expense related to the 401(k) Savings Plan, and $78.4 million for the period from January 1 through June 30, 2014.

11. Concentrations of Credit Risk

CHI grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. CHI's exposure to credit risk on patient accounts receivable is limited by the geographical diversity of its MBOs. The mix of net patient accounts receivable at June 30 approximated the following:

	2015	**2014**
Medicare	**27%**	27%
Medicaid	**11**	12
Managed care	**34**	31
Self-pay	**8**	7
Commercial and other	**20**	23
	100%	100%

CHI maintains long-term investments with various financial institutions and investment management firms through its investment program, and its policy is designed to limit exposure to any one institution or investment. Management does not believe there are significant concentrations of credit risk at June 30, 2015 or 2014.

12. Commitments and Contingencies

Litigation

During the normal course of business, CHI may become involved in litigation. Management assesses the probable outcome of unresolved litigation and records estimated settlements. After consultation with legal counsel, management believes that any such matters will be resolved without material adverse impact to the consolidated financial position or results of operations of CHI.

Health Care Regulatory Environment

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 limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Management believes CHI is in compliance with all applicable laws and regulations of the Medicare and Medicaid programs. Compliance with such laws and regulations is complex and can be subject to future governmental interpretation as well as significant regulatory action, including fines, penalties, and exclusion from the Medicare and Medicaid programs. Certain CHI entities have been contacted by governmental agencies regarding alleged violations of Medicare practices for certain services. In the opinion of management after consultation with legal counsel, the ultimate outcome of these matters will not have a material adverse effect on CHI's consolidated financial position.

Operating Leases

CHI leases certain real estate and equipment under operating leases, which may include renewal options and escalation clauses. Future minimum lease payments required for the next five years and thereafter for all operating leases that have initial or remaining noncancelable lease terms in excess of one year at June 30, 2015, are as follows (in thousands):

	Amounts Due
Year Ending June 30:	
2016	$ 163,491
2017	135,767
2018	113,808
2019	88,430
2020	74,370
Thereafter	202,524
	$ 778,390

12. Commitments and Contingencies (continued)

Lease expense under operating leases for continuing operations for the years ended June 30, 2015 and 2014, totaled approximately $280.3 million and $281.7 million, respectively.

Capital Commitments

As of June 30, 2015, CHI has committed to fund approximately $1.4 billion of capital improvements over the next 3 to 17 years related to certain acquisitions and affiliations.

13. Insurance Programs

FIIL, a wholly owned captive insurance company of CHI, provides hospital professional liability, employment practices liability, miscellaneous professional liability, and commercial general liability coverage primarily to MBOs related to CHI either on a directly written basis or through reinsurance fronting relationships with commercial carriers such as PPIC. Policies written provide coverage with primary limits in the amount of $10.0 million for each and every claim in fiscal years 2015 and 2014. For the policy year July 1, 2014 to July 1, 2015, there is an annual policy aggregate of $85.0 million eroded by hospital professional liability and commercial general liability claims, subject to a $175,000 continuing underlying per-claim limit. Effective July 1, 2011, FIIL provided excess umbrella liability coverage for claims in excess of the underlying limits discussed above. The limits provided under such excess coverage are $200.0 million per claim and in the aggregate. FIIL reinsured 100% of the excess coverage layer with various commercial insurance companies. At June 30, 2015 and 2014, investments and assets limited as to use held for insurance purposes included $54.9 million and $58.0 million, respectively, held as collateral for the reinsurance fronting arrangement with PPIC.

FIIL provides workers' compensation coverage on a directly written basis for the current and prior fiscal years, and through reinsurance fronting relationships with commercial insurance carriers in the prior fiscal year. The limits of liability are $1 million per claim. FIIL did not reinsure this coverage for the policy year July 1, 2014 to July 1, 2015. Coverage of $350,000 in excess of $650,000 per claim for the policy year July 1, 2013 to July 1, 2014, was reinsured with an unrelated commercial carrier.

The liability for self-insured reserves and claims represents the estimated ultimate net cost of all reported and unreported losses incurred through June 30. The reserves for unpaid losses and loss adjustment expenses are estimated using individual case-based valuations, statistical analyses, and the expertise of an independent actuary.

13. Insurance Programs (continued)

The estimates for loss reserves are subject to the effects of trends in loss severity and frequency. Although considerable variability is inherent in such estimates, management believes that the reserves for unpaid losses and loss adjustment expenses are adequate. The estimates are reviewed periodically, with consultation from independent actuaries, and any adjustments to the loss reserves are reflected in current operations. As a result of these reviews of claims experience, estimated reserves were reduced by $58.4 million and $21.3 million in 2015 and 2014, respectively. The reserves for unpaid losses and loss adjustment expenses relating to the workers' compensation program were discounted, assuming a 4.0% annual return at June 30, 2015 and 2014, to a present value of $157.7 million and $159.1 million at June 30, 2015 and 2014, respectively, and represented a discount of $52.4 million and $52.3 million in 2015 and 2014, respectively. Reserves related to professional liability, employment practices, and general liability are not discounted.

FIIL holds $846.8 million and $759.5 million of investments held for insurance purposes as of June 30, 2015 and 2014, respectively. Distribution of amounts from FIIL to CHI is subject to the approval of the Cayman Islands Monetary Authority. CHI established a captive management operation (Captive Management Initiatives, Ltd.) based in the Cayman Islands, which currently manages FIIL as well as operations of other unrelated parties.

CHI, through its Welfare Benefit Administration and Development Trust, provides comprehensive health and dental coverage to certain employees and dependents through a self-insured medical plan. Accounts payable and accrued expenses include $61.1 million and $69.7 million for unpaid claims and claims adjustment expenses for CHI's self-insured medical plan at June 30, 2015 and 2014, respectively. Those estimates are subject to the effects of trends in loss severity and frequency. Although considerable variability is inherent in such estimates, management believes that the reserves for unpaid losses and loss adjustment expenses are adequate. The estimates are reviewed periodically and, as adjustments to the liability become necessary, such adjustments are reflected in current operations. CHI has stop-loss insurance to cover unusually high costs of care beyond a predetermined annual amount per enrolled participant.

14. Subsequent Events

CHI's management has evaluated events subsequent to June 30, 2015 through September 17, 2015, which is the date these consolidated financial statements were available to be issued. There have been no material events noted during this period that would either impact the results reflected herein or CHI's results going forward, except as disclosed below.

Debt – Effective in July 2015, the Sylvania Master Trust Indenture was discharged, and CHI issued obligations under the COD to support the repayment of the Sylvania Master Indenture Debt. There were no modifications made to the payment terms or holders of the Sylvania Master Indenture Debt.

Discontinued Operations – CHI completed the sale of the Reading MBO, effective July 1, 2015. CHI also completed the sale of the Denville MBO in July 2015, with an effective date of September 30, 2015. See Note 4, *Acquisitions, Affiliations, and Divestitures — Discontinued Operations* for additional information on the discontinued operations.

Acquisition – Effective August 1, 2015, a consolidated subsidiary of CHI entered into a joint operating and management agreement to assume the management and operations of Longmont United Hospital, a community hospital with specialty areas in women's and children's services, cardiology, comprehensive surgical services, cancer care, trauma services, transitional care, and acute medical services in the state of Colorado.

Supplemental Information

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Report of Independent Auditors on Supplemental Information

The Board of Stewardship Trustees
Catholic Health Initiatives

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements of Catholic Health Initiatives as a whole. The following consolidating financial information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in our audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Ernst & Young LLP

September 17, 2015

Catholic Health Initiatives

Consolidating Balance Sheet

(In Thousands)

June 30, 2015

	MBOs	Corporate	Prominence Health	FIIL	CHI Welfare Benefits Trust	Other	Eliminations and Adjustments	Consolidated
Assets								
Current assets:								
Cash and equivalents	$ 568,807	$ 281,075	$ 78,464	$ 164	$ 6,581	$ 13,278	$ –	$ 948,369
Net patient accounts receivable, less allowance for bad debts of $903,127	2,064,873	–	–	–	–	–	(13,950)	2,050,923
Other accounts receivable	297,658	367,600	21,369	6,378	10,443	16,934	(375,326)	345,056
Current portion of investments and assets limited as to use	6,832	51,395	17,602	–	–	–	–	75,829
Inventories	300,629	–	–	–	–	–	–	300,629
Assets held for sale	322,003	–	–	–	–	–	(30,097)	291,906
Prepaid and other	77,752	83,084	6,946	6	1,298	427	–	169,513
Total current assets	3,638,554	783,154	124,381	6,548	18,322	30,639	(419,373)	4,182,225
Investments and assets limited as to use:								
Internally designated for capital and other funds	5,015,522	336,242	–	–	109,804	–	–	5,461,568
Mission and Ministry Fund	–	160,808	–	–	–	–	(25,000)	135,808
Capital Resource Pool	–	330,678	–	–	–	–	–	330,678
Held by trustees	11,230	54,054	–	–	–	–	–	65,284
Held for insurance purposes	20,570	–	72,702	796,837	–	–	–	890,109
Restricted by donors	298,393	650	–	–	–	104	–	299,147
Total investments and assets limited as to use	5,345,715	882,432	72,702	796,837	109,804	104	(25,000)	7,182,594
Property and equipment, net	8,665,208	805,270	6,261	–	–	16,612	–	9,493,351
Investments in unconsolidated organizations	525,848	1,345,888	131	–	–	11,807	(750,648)	1,133,026
Intangible assets and goodwill, net	531,800	18,700	16,844	–	–	–	–	567,344
Notes receivable and other	186,627	4,042,861	1,908	26,108	–	4,533	(3,817,285)	444,752
Total assets	$ 18,893,752	$ 7,878,305	$ 222,227	$ 829,493	$ 128,126	$ 63,695	$ (5,012,306)	$ 23,003,292

Catholic Health Initiatives

Consolidating Balance Sheet (continued)

(In Thousands)

	MBOs	Corporate	Prominence Health	FIIL	CHI Welfare Benefits Trust	Other	Eliminations and Adjustments	Consolidated
Liabilities and net assets								
Current liabilities:								
Compensation and benefits	$ 569,243	$ 132,037	$ 10,903	$ –	$ 4,830	$ 12,512	$ (10,197)	$ 719,328
Third-party liabilities, net	127,884	–	–	–	–	–	–	127,884
Accounts payable and accrued expenses	1,391,486	490,469	29,354	5,787	61,133	35,256	(376,006)	1,637,479
Liabilities held for sale	145,491	–	–	–	–	–	–	145,491
Variable-rate debt with self-liquidity	–	163,300	–	–	–	–	–	163,300
Commercial paper and current portion of debt	210,725	1,195,355	448	–	–	–	(159,521)	1,247,007
Total current liabilities	2,444,829	1,981,161	40,705	5,787	65,963	47,768	(545,724)	4,040,489
Pension liability	177,947	554,633	–	–	–	–	–	732,580
Self-insured reserves and claims	11,886	4,222	63,434	601,716	–	–	–	681,258
Other liabilities	411,859	777,891	–	–	–	1,000	(3,074)	1,187,676
Long-term debt	4,338,868	6,732,469	–	–	–	10,700	(3,682,763)	7,399,274
Total liabilities	7,385,389	10,050,376	104,139	607,503	65,963	59,468	(4,231,561)	14,041,277
Net assets:								
Net assets attributable to CHI	10,814,541	(2,289,277)	118,088	221,990	62,163	3,919	(781,189)	8,150,235
Net assets attributable to noncontrolling interests	328,476	116,767	–	–	–	–	444	445,687
Unrestricted	11,143,017	(2,172,510)	118,088	221,990	62,163	3,919	(780,745)	8,595,922
Temporarily restricted	267,570	439	–	–	–	308	–	268,317
Permanently restricted	97,776	–	–	–	–	–	–	97,776
Total net assets	11,508,363	(2,172,071)	118,088	221,990	62,163	4,227	(780,745)	8,962,015
Total liabilities and net assets	$ 18,893,752	$ 7,878,305	$ 222,227	$ 829,493	$ 128,126	$ 63,695	$ (5,012,306)	$ 23,003,292

Catholic Health Initiatives

Consolidating Statement of Operations

(In Thousands)

Year Ended June 30, 2015

	MBOs	Corporate	Prominence Health	FIIL	CHI Welfare Benefits Trust	Other	Eliminations and Adjustments	Consolidated
Revenues:								
Net patient services	$ 13,554,958	$ –	$ –	$ –	$ –	$ –	$ (209,369)	$ 13,345,589
Other operating:								
Insurance premium revenues	38,743	–	377,624	–	–	–	(2)	416,365
Donations	38,500	15	–	–	–	7	–	38,522
Changes in equity of unconsolidated organizations	25,354	(116,306)	–	–	–	604	137,851	47,503
Gains on business combinations	436,340	–	–	–	–	–	–	436,340
Hospital ancillary revenues	320,716	635	–	–	–	3,236	–	324,587
Other	378,009	1,701,459	5,979	187,242	602,165	213,775	(2,496,345)	592,284
Total other operating revenues	1,237,662	1,585,803	383,603	187,242	602,165	217,622	(2,358,496)	1,855,601
Total operating revenues	14,792,620	1,585,803	383,603	187,242	602,165	217,622	(2,567,865)	15,201,190
Expenses:								
Salaries and wages	5,531,930	389,525	46,510	–	–	120,754	(105,526)	5,983,193
Employee benefits	1,254,285	63,178	6,397	36,958	607,954	34,846	(869,691)	1,133,927
Purchased services, medical professional fees, medical claims, and consulting	2,292,856	642,224	334,368	21,353	3,212	75,978	(1,048,798)	2,321,193
Supplies	2,532,776	7,725	773	–	–	418	–	2,541,692
Utilities	201,514	20,783	934	–	–	71	–	223,302
Rentals, leases, maintenance, and insurance	546,077	512,587	6,869	112,691	–	2,131	(298,028)	882,327
Depreciation and amortization	748,699	63,942	1,621	–	–	1,119	–	815,381
Interest	200,934	246,386	622	–	–	508	(178,705)	269,745
Other	1,002,345	42,140	9,230	433	8,911	2,582	(204,969)	860,672
Total operating expenses before restructuring, impairment, and other losses	14,311,416	1,988,490	407,324	171,435	620,077	238,407	(2,705,717)	15,031,432
Income (loss) from operations before restructuring, impairment, and other losses	481,204	(402,687)	(23,721)	15,807	(17,912)	(20,785)	137,852	169,758
Restructuring, impairment, and other losses	62,297	103,263	–	–	–	1,085	–	166,645
Income (loss) from operations	418,907	(505,950)	(23,721)	15,807	(17,912)	(21,870)	137,852	3,113
Nonoperating gains (losses):								
Investment income (loss), net	154,065	26,646	906	14,790	3,281	10	–	199,698
Loss on defeasance of bonds	(17,635)	(2,549)	–	–	–	–	–	(20,184)
Realized and unrealized gains (losses) on interest rate swaps	326	(77,543)	–	–	–	–	–	(77,217)
Other nonoperating gains (losses)	4,052	–	–	–	–	–	–	4,052
Total nonoperating gains (losses)	140,808	(53,446)	906	14,790	3,281	10	–	106,349
Excess (deficiency) of revenues over expenses	559,715	(559,396)	(22,815)	30,597	(14,631)	(21,860)	137,852	109,462
Excess (deficiency) of revenues over expenses attributable to noncontrolling interest	34,754	(19,615)	690	–	–	–	–	15,829
Excess (deficiency) of revenues over expenses attributable to CHI	$ 524,961	$ (539,781)	$ (23,505)	$ 30,597	$ (14,631)	$ (21,860)	$ 137,852	$ 93,633

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