Catholic Health Initiatives

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Annual Report

As of and for the fiscal year ended June 30, 2014

Information Concerning Catholic Health Inititatives and The CHI Reporting Group

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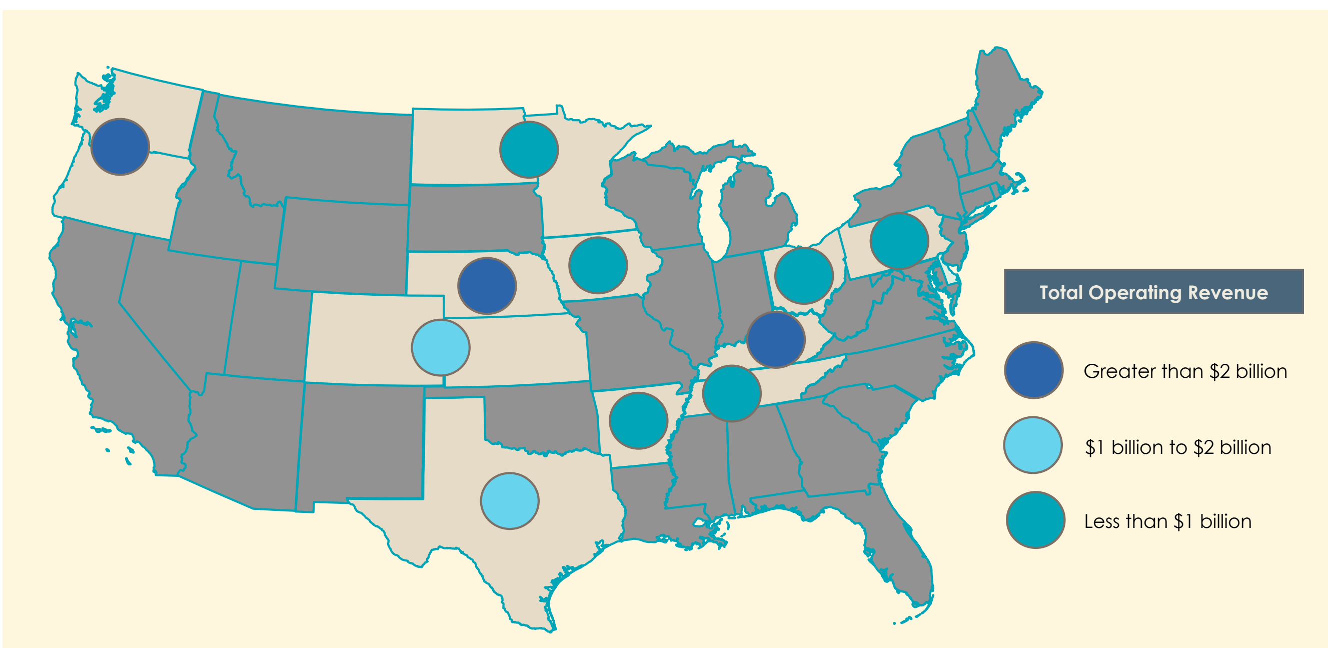
Certain of the discussions included in this Annual Report may include forward-looking statements. Such statements are generally identifiable by the terminology used such as "believes," "anticipates," "intends," "scheduled," "plans," "expects," "estimates," "budget" or other similar words. Such forward-looking statements are primarily included in PARTS II, III, IV and VII. These statements reflect the current views of management with respect to future events based on certain assumptions, and are subject to risks and uncertainties. Catholic Health Initiatives, a Colorado nonprofit corporation (the "Corporation"), undertakes no obligation to publicly update or review any forward-looking statement as a result of new information or future events.

References to "CHI" in this Annual Report are to the Corporation and all of the affiliates and subsidiaries consolidated with it pursuant to generally accepted accounting principles ("GAAP"). References to the Corporation are references only to the parent corporation, and should not be read to include any of the Corporation's affiliates and subsidiaries. References to the "CHI Reporting Group" include CHI and Bethesda Hospital, Inc.

PART I: Overview

The Corporation is the parent corporation of a group of nonprofit and for profit corporations and other organizations that comprise one of the nation's largest Catholic health care systems. Together with its affiliates and subsidiaries (collectively, "CHI"), the Corporation serves more than four million people each year through operations and facilities that span the continuum of care, including acute care hospitals; physician practices; long-term care; assisted- and residential-living facilities; community-based health services; home care; research and development; medical and nursing education; reference laboratory services; virtual health services; managed care programs; and insurance products. Certain of CHI's and Designated Affiliates acute care hospitals and certain skilled-nursing/assisted living facilities are listed in Exhibit A.

CHI was formed in 1996 through the consolidation of four national Catholic health care systems. The goal of the consolidation was to develop and nurture a national health ministry sponsored and governed by a religious-lay partnership and intended to transform health care delivery and to build healthy communities through the creation of new ministries across the nation. In doing so, they created a new model of sponsorship by engaging the laity as partners in bringing their shared mission of nurturing the healing ministry of the church. Today, CHI has facilities organized in 11 regions in 18 states, with a service area that covers approximately 46 million people, or 15% of the U.S. population, as set forth in the map below.



Since its inception, CHI's dedication to the Catholic ministry has been a driving force behind its mission, vision and values, which are described in more detail below.

CHI's Mission, Vision and Values

Mission	Vision	Core Values
The Mission of Catholic Health Initiatives is to nurture the healing ministry of the Church, supported by education and research. Fidelity to the Gospel urges us to emphasize human dignity and social justice as we create healthier communities.	CHI's vision is to live up to our name as "One CHI"— **Catholic**: Living our mission and core values **Health**: Improving the health of people and communities we serve **Initiatives**: Pioneering models and systems of care to enhance care delivery	CHI's core values define the organization and serve as its guiding principles: Reverence, Integrity, Compassion and Excellence.

Financial and operating highlights during CHI's fiscal year ended June 30, 2014 include:

Size / Location

- 92 Hospitals (24 critical access facilities), 18 hospitals under CHI management and 12 hospitals under joint venture/joint operating agreements
- 93,400 full and part time employees; over 3,400 employed providers
- 89 Home health agencies, 12 long-term care, 3 assisted living and 24 residential facilities
- Two community-based health ministries
- 18 States

Financial Highlights

- $21.8 billion in assets
- $1.0 billion operating EBIDA

$13.9 billion in revenue
$7.0 billion in cash

Statistics

- Acute inpatient days: 2.3 million
- Inpatient surgeries: 155,185
- Inpatient ER visits: 256,954

Outpatient Non-ER visits: 5.0 million
Outpatient Surgeries: 239,764
Outpatient ER visits: 1.8 million

PART II: Competitive Strengths

CHI's size, scale and geographic diversity allows for greater economies of scale and efficiencies, as well as providing a certain level of insulation from negative impacts in specific markets. CHI continues to seek to develop the depth of its current markets and expand to new markets to take advantage of the incentives and benefits of health care reform. For example, through the acquisition of the remaining portion of Alegent Creighton Health System ("Alegent") in fiscal year 2013, CHI is now the largest health system in Nebraska with in excess of $2 billion of total operating revenue and 15 hospitals in fiscal year 2014.

In addition, the June 1, 2013 acquisition of St. Luke's Health System Corporation ("SLHS"), which indirectly owns or controls six acute care facilities and multiple clinic facilities in the greater Houston area (the "St. Luke's System"), is an example of CHI's strategy to take advantage of affiliations, acquisitions and expansions into growing health care markets. As a result of the acquisition, CHI generated in excess of $1 billion in total operating revenue in Texas in fiscal year 2014. CHI's markets in Colorado, Kentucky and the Pacific Northwest also generated in aggregate over $6 billion in total operating revenue in fiscal year 2014.

Other strengths include:

- Strong geographic diversification, with a mix of facilities located in both rural and urban settings, helping to mitigate the effect of changes in reimbursement
- Diversification of operating cash flow, with no single region representing more than 18% of total operating revenue
- Established corporate management team
- Ability to successfully execute upon its strategic initiatives, improving operating performance through its Clinical and Operational Excellence strategy

PART III: Strategic Focus

The strategic focus of CHI is three fold: preparedness for *"The Next Era of Healthy Communities"* (described in more detail in Part IV); strategic growth; and improved operations. A more detailed description of this focus, together with highlighted achievements, follows.

NEXT ERA Preparation

- Enterprise Executive Reorganization
- Integrated Care Delivery—all markets developed and/or joined clinically integrated networks (CINs)
- Clinical and Operational Excellence
- Payment for Value—ensure relevance in new health care market
- Health plan and network commercialization
    - Prominence Health; QualChoice Holdings, Inc. and Soundpath Health

Strategic Growth

- Acquisition of St. Luke's- strategic entrance into growing market
- Acquisition of Alegent provides strategic & operational integration opportunities
- Colorado—expanding statewide network in 4th fastest growing state
- Pacific NW—Three acquisitions/affiliations and major progress toward CINs
- Continue to seek to fill out current markets and expand to new, high value markets

Operational Focus

- Investment in *"The Next Era of Healthy Communities"* capabilities
- Integration of physician division/partners
- Mitigate health care reform impact on core business
- Specific market integration and turnaround plans
- Financial improvement plan and evaluation of total overhead

PART IV: Strategic Initiatives—
The Next Era of Healthy Communities

The combination of government reforms, market dynamics, technology and social trends are producing significant changes to how health care is delivered. Management believes that these changes create an opportunity for CHI to apply its mission and build upon its core strengths to develop an overarching strategic vision that CHI calls *"The Next Era of Healthy Communities*." Management believes the fundamental changes implicit in *"The Next Era of Healthy Communities"* require a multi-faceted approach to achieve success in both the existing fee-for-service environment and in the new payment-for-value environment. The extension of CHI's overall strategic vision includes refining CHI's direction and business model, with the development of three strategic initiatives that are reflected at every level of the organization: *"Clinical and Operational Excellence," "Integrated Care Delivery"* and *"Payment for Value*."

CHI considers its commitment to research integral in supporting *"The Next Era of Healthy Communities".* The CHI Institute for Research and Innovation ("CIRI") operates to expand the state of care and foster partnerships with private, government and corporate entities to support its mission. Management believes its capabilities not only support access to advanced clinical research in the communities CHI serves, but also form a national laboratory where advances in consumer engagement, care delivery, precision medicine and health/outcome data analytics can be tested and developed.

Clinical and Operational Excellence ("COE")

CHI is focused on clinical operations improvements to increase productivity and sustain margins. This includes addressing clinical variability to reduce costs and improve quality of care. COE Phase I, which was developed to address the variability in patient outcomes, workforce productivity and clinical supply utilization, is generating financial improvement through: (1) implementing clinical standards throughout CHI; (2) developing national clinical programs to improve decision making and set care protocols, supply standards and utilization guidelines; and (3) implementing initiatives directed at enhancing efficiency and effectiveness in core support functions, which include finance; real estate, construction and facilities; supply chain; human resources; information technology; and revenue cycle operations. CHI is currently implementing COE Phase II, which consists of multiple initiatives including two main components: (1) reductions in national and regional overhead expense by consolidating support functions throughout CHI to achieve cost synergies and align functions with benchmark cost performance and (2) financial improvements in physician enterprise through improvement in continuum of care/ referral management activities and labor productivity.

ADVANCES:

During fiscal year 2014, Phase I COE results grew incrementally over the prior year, from $65 million in financial improvement in fiscal year 2013 to $208 million in fiscal year 2014. Management expects Phase I to continue to produce financial improvements and sustain $400 million in cost reductions per year once fully implemented in fiscal year 2016. CHI has a strategic relationship with Conifer Health Solutions ("Conifer") through which it has outsourced its revenue cycle services. CHI has a significant minority ownership position in Conifer.

CHI has formed a new company dedicated to providing best-in-class physician practice management services. CHI Physician Services LLC (internally referred to as "CHIPS") is a management services organization designed to deliver key business functions and physician management services through one centralized organization supporting employed hospital based physicians and ambulatory physician offices, nationwide.

CHIPS utilizes systems and processes developed by its partner, MedSynergies, a national physician management services organization. CHIPS provides key business functions to practices, including practice management, and staffing, charge entry, coding, revenue cycle, patient referral/scheduling services and business analytics. CHI had a significant minority position in MedSynergies prior to its October 28, 2014 sale to an affiliate of United Healthcare.

Integrated Care Delivery

CHI is implementing an integrated care model designed to improve services in relation to access, quality, user satisfaction and efficiency. This includes establishing networks throughout CHI that provide coordinated health care across the entire health care continuum. CHI's goal is to create clinically integrated networks ("CINs"), or collaborations of hospitals, physicians and other health care providers in each of its markets and expects it will be able to negotiate contracts with payers to deliver services focused on quality, performance, efficiency and value.

ADVANCES:

CHI has created twelve CINs in its markets that bring together physicians, hospitals and other care providers within a legal structure. CHI's physician-led CINs partner with providers and payers throughout their regions. Each CIN coordinates patient care, services and payment across a broad spectrum of functions, processes and settings. CIN providers work together to achieve higher quality and safety measures and improved patient experience, to reduce the cost of care and to participate in value-based purchasing and opportunities for shared savings.

CHI is implementing an information technology program known as "OneCare." The OneCare program is designed to improve patient safety, clinical outcomes and care coordination; enhance patient experiences; provide clinicians and staff with necessary tools and information; and eliminate duplication and waste. The OneCare program includes a universal, shared, electronic health record for each CHI patient. CHI has undertaken an aggressive implementation schedule, with electronic health records in place in 80% of its hospital facilities at the end of fiscal year 2014. CHI presently estimates that its investment in the OneCare program, including acquisitions that occurred after the initial program launch, will be approximately $2.5 billion ($1.6 billion in capital expenses and $0.9 billion in operating expenses), $1.7 billion of which has been expended from fiscal year 2010 through fiscal year 2014. CHI received $134.3 million in Medicare and Medicaid incentive payments with respect to its electronic health record implementation, beginning in fiscal year 2012 through fiscal year 2014.

Payment for Value

CHI is restructuring its service model around payment for value delivered, as measured by metrics of health care quality or the aggregate health of a population rather than by volume of visits, procedures or hospital stays. Related initiatives focusing on value-based payments are designed to provide CHI with the expertise and infrastructure necessary to effectively market and provide population health management services. This includes capitalizing on its size and market presence to undertake pilot projects in certain of its markets. Population health management services are expected to deliver value and reduce utilization and health care costs within the related population.

CHI anticipates that the transformation of the payment model will continue through the next several years, and expects that it will consider more upside and downside financial risk by working with payers, brokers, employers and other partners to develop new payment models, and assessing insurance vehicles and related products. This will likely include participation in risk-based and fee-for-value insurance products and programs to better serve defined populations, including seniors in Medicare Advantage products, newly eligible Medicaid recipients in expanded state programs, individuals on state health insurance exchanges, and employer and payer shared savings programs.

ADVANCES:

The CHI Iowa CIN, which is operated as an accountable care organization (the "Mercy ACO"), has generated health care cost savings in the Medicare Shared Savings Program ("MSSP") in its first year by improving care coordination and decreasing unwarranted medical care. On September 16, 2014, the Centers for Medicare and Medicaid Services ("CMS") issued quality and financial performance reports showing ACOs that have successfully improved quality of care for Medicare beneficiaries, which included the Mercy ACO. The Mercy ACO is the only Medicare ACO in Iowa and one of the only Medicare ACOs in the US to meet the established MSSP thresholds. The Mercy ACO realized a cost savings of $9 million for Medicare in fiscal year 2014 and is expected to receive payment from the Medicare program of approximately $4.4 million in fiscal year 2015. In addition, CHI's first bundled care program in Little Rock, Arkansas improved health care costs within CMS' Bundled Payments for Care Improvement Program ("BPCI"). CHI believes that these early successes in two key population health programs demonstrates CHI's emerging capabilities and readiness to create additional value and enhanced reimbursement by Medicare and Medicaid, commercial payers and other funding sources.

CHI assumed responsibility for managing the health of over 300,000 individuals during fiscal year 2014, including Medicare (MSSP, BPCI), commercial payers, Medicaid and its own employees by combining care management capabilities within its CINs. New roles, such as nurse health coaches who monitor individuals outside of the hospital and clinic settings, have allowed CHI's markets to improve cost and health status as well as the experience of care.

CHI has created Prominence Health, a wholly owned subsidiary, to implement value-based care delivery and reimbursement models. Prominence Health oversees CHI's growing portfolio of commercial and Medicare Advantage health-insurance plans, networks of care and related products and services in markets across CHI's service areas. CHI has also purchased health plans, including a majority interest in Soundpath Health, a Medicare Advantage plan in Federal Way, Washington, and QualChoice Holdings, Inc. ("QualChoice Holdings"), a commercial health plan based in Little Rock, Arkansas. QualChoice Holdings is now extending its reach through strategic geographic expansion, including third-party administration services and Medicare Advantage plans in new markets, including Kentucky, Nebraska, Ohio and Tennessee. In addition to operating health plans, Prominence Health will align and coordinate health care delivery systems and services across CHI's service areas. This includes benefits management, health delivery networks, health data analytics, corporate wellness programs, occupational health, disease and care management and patient relationship management services.

PART V: Strategic Affiliations/Acquisitions

CHI actively engages in ongoing monitoring and evaluation of potential facility expansion, relationships with academic health center partners, mergers, acquisitions, divestitures and affiliation opportunities consistent with its strategic goal of creating, maintaining and/or strengthening its CINs in key existing markets and, in certain cases, new markets. CHI's strategic vision is supported by targeted system growth in both organic and new markets, as evidenced by CHI's recent acquisition activity and strategic divestitures, certain of which are described below.

Sylvania Franciscan Health (Kentucky, Ohio, Texas). Effective November 1, 2014, the Corporation became the sole corporate member of Sylvania Franciscan Health ("SFH"), headquartered in Toledo, Ohio, which includes Franciscan Living Communities in Kentucky and Ohio; St. Joseph Health System in the Brazos Valley region of Texas; and the Trinity Health System region joint venture in eastern Ohio. The Sisters of St. Francis of Sylvania, Ohio, will continue to sponsor their other health and human services ministries, as well as their education ministry, Lourdes University. In addition, the Sisters of St. Francis of Sylvania, Ohio became the 13th participating congregation of CHI. As of and for the year ended December 31, 2013, SFH reported approximately $548.5 million in of total net assets and $657.1 million in total operating revenue. At December 31, 2013, SFH had approximately $327.6 million of indebtedness (the "SFH Indebtedness") outstanding. Neither the Corporation nor any of its affiliates (other than SFH and/or its affiliates) is obligated on the SFH indebtedness as a result of the transaction.

St. Alexius Medical Center (North Dakota). Effective October 1, 2014, the Corporation became the sole member of St. Alexius Medical Center ("St. Alexius"). St. Alexius owns a 306-bed, full-service, acute care medical center in Bismarck, North Dakota offering a full line of inpatient and outpatient medical services, including primary and specialty physician clinics; home health and hospice services; durable medical equipment services and a fitness and human performance center. In addition to the main campus located in Bismarck, St. Alexius owns and operates hospitals and clinics in Garrison and Turtle Lake, North Dakota and manages the hospital and clinics owned by Mobridge Regional Hospital in Mobridge, South Dakota. St. Alexius also owns and operates a primary care clinic in Mandan, North Dakota and specialty and primary care clinics in Minot, North Dakota. Management's goal with respect to the affiliation is to add a tertiary health system to enhance the health of the communities served by St. Alexius and CHI's other North Dakota affiliates, and to strengthen and enhance the CHI ministry serving central and western North Dakota. As of and for the year ended June 30, 2014, St. Alexius reported approximately $178.2 million of total net assets and $312.7 million in total operating revenue. At June 30, 2014 St. Alexius had approximately $101.2 million of indebtedness outstanding. Neither the Corporation nor any of its affiliates (other than St. Alexius) is obligated on such Indebtedness.

Memorial East Texas. Effective June 1, 2014, the Corporation and Memorial Health System of East Texas ("Memorial East Texas") completed an affiliation transaction pursuant to which the Corporation became the sole corporate member of Memorial East Texas. Memorial East Texas owns and operates Memorial Medical Center-Lufkin, a 271-licensed bed hospital located in Lufkin, Texas, Memorial Medical Center-Livingston, a 66-licensed bed hospital located in Livingston, Texas, and Memorial Specialty Hospital, a long-term acute care hospital and operates Memorial Medical Center–San Augustine, a critical access hospital located in San Augustine, Texas. As a result of the Memorial East Texas acquisition, CHI reported approximately $53.2 million in additional total net assets. On a pro forma basis, had CHI entered into the Memorial East Texas affiliation at the beginning of fiscal year 2014, Memorial East Texas would have contributed total operating revenues of $237.8 million for fiscal year 2014. Memorial East Texas currently has indebtedness outstanding in an aggregate principal amount of $114 million. Neither the Corporation nor any affiliates (other than Memorial East Texas and/or its affiliates) is obligated on such Indebtedness.

QualChoice Holdings, Inc. Effective May 1, 2014, a subsidiary of the Corporation purchased all of the outstanding capital stock (both common and preferred) of QualChoice Holdings. QualChoice Holdings, through its wholly-owned subsidiaries, QCA Health Plan, Inc. ("QCA") and QualChoice Life & Health Insurance Company ("QCLHIC"), is an operating Arkansas commercial health insurance company with its own claims processing capabilities. QCA and QCLHIC currently offer a wide range of insurance products and services. Products include individual and family health insurance, both in and outside the Arkansas marketplace, as well as Medicare Supplement Insurance. Services include pharmacy benefit management, FSA/HRA administration and COBRA administration.

Mercy Hot Springs (Arkansas). Effective April 1, 2014, St. Vincent Infirmary Medical Center d/b/a St. Vincent Health System ("St. Vincent") became the sole corporate member of Mercy Health Hot Springs Communities, which is the sole corporate member of Mercy Clinic Hot Springs Communities and Mercy Hospital Hot Springs ("Mercy Hot Springs"). Mercy Hot Springs owns and operates Mercy Hospital Hot Springs, a 309-licensed bed hospital located in Hot Springs, Arkansas. As a result of the Mercy Hot Springs acquisition, CHI reported approximately $121.5 million in additional total net assets in fiscal year 2014. On a pro forma basis, had CHI acquired Mercy Hot Springs at the beginning of fiscal year 2014, Mercy Hot Springs would have contributed total operating revenues of $301.3 million for fiscal year 2014.

Joint Venture with Baylor College of Medicine (Texas). Effective January 1, 2014, SLHS and St. Luke's Medical Center

("SLMC"), a Texas nonprofit corporation, entered into a joint venture agreement and related agreements (collectively, the "BCM Agreements") with Baylor College of Medicine, a Texas nonprofit corporation ("BCM"), to open a new, acute-care, open-staff hospital on BCM's McNair Campus in the central area of the Texas Medical Center, which is currently home to two outpatient facilities owned by BCM—the Baylor College of Medicine Medical Center and the Lee and Joe Jamal Specialty Care Center, and to provide for a 25-year academic affiliation between BCM and SLMC (collectively, the "BCM Transaction"). As a result of the transaction, BCM and SLHS became co-members of SLMC, with membership percentages of 35% and 65%, respectively. Through SLMC, BCM and SLHS will jointly operate the new hospital, which will eventually replace the current SLHS hospital in the Texas Medical Center. As contemplated in the BCM Agreements, BCM and SLHS have formed a new joint venture. The joint venture will serve as a vehicle for efforts by BCM and SLHS to create a health care network in the Houston region.

St. Luke's Health System (Texas). Effective June 1, 2013, the Corporation assumed control of SLHS, which is headquartered in Houston, Texas. SLHS directly or indirectly owns or controls six acute care facilities operating in the greater Houston area, including St. Luke's Hospital in the Texas Medical Center, its 850-bed flagship hospital ("SLMC"), five other acute care facilities: St. Luke's Sugar Land Hospital; St. Luke's Lakeside Hospital; St. Luke's Patients Medical Center; and St. Luke's Hospital at The Vintage and multiple clinics. These combined entities are referred to herein as the St. Luke's System. SLMC is affiliated with several nursing schools as well as with the Baylor College of Medicine, Texas Heart® Institute, Kelsey-Seybold Clinic, Texas Children's Hospital and MD Anderson Cancer Center.

Harrison Medical Center (Washington). Effective August 1, 2013, Franciscan Health System ("FHS"), an affiliate of the Corporation, assumed control of Harrison Medical Center ("Harrison"). Harrison owns and operates two acute care hospitals with a total of 297 licensed beds (260 available beds). The facilities are located in Bremerton and Silverdale, Washington. Harrison also owns and operates two urgent care/primary care clinics as well as specialty clinics.

Highline Medical Center (Washington). Effective April 1, 2013, FHS became the sole member of Highline Medical Center, which is located in Burien, Washington ("Highline"). Highline owns and operates a 154-bed acute care hospital, a 115-bed specialty center and more than 20 clinics in the State of Washington.

University Medical Center (Kentucky). On March 1, 2013, KentuckyOne Health, an affiliate of the Corporation, University Medical Center ("UMC") and the University of Louisville (the "University") entered into a joint operating agreement (the "Kentucky JOA"). The Kentucky JOA has a term of 20 years, whereby KentuckyOne Health will oversee most of the day to day operations of UMC, a 404-licensed bed facility and the primary adult teaching hospital for the University's school of medicine. UMC will retain ownership of its assets and will operate the Center for Women and Infants, which is specifically excluded from the Kentucky JOA. KentuckyOne Health, UMC and the University have also entered into an academic affiliation agreement with a term of 20 years, whereby KentuckyOne Health has committed to provide financial support to the University over the next 20 years .The new collaboration also includes the James Graham Brown Cancer Center, which is a division of UMC that offers advanced cancer treatment.

Alegent Sponsorship Transaction (Nebraska and Iowa). Effective November 1, 2012, the Corporation became the sole corporate member of Alegent, which includes fifteen hospitals and health systems throughout Nebraska. Through the acquisition of the remaining portion of Alegent in fiscal year 2013, CHI is now the largest health system in Nebraska with greater than of $2 billion of total operating revenues in fiscal year 2014.

Planned Divestitures

Saint Clare's Health System (New Jersey). In May 2013, the Corporation entered into an agreement with Prime Health Care Services–Saint Clare's, LLC to sell the assets of Saint Clare's Health System. The transaction is expected to close by the end of calendar year 2014, subject to customary closing conditions, including required regulatory approvals. The parties can give no assurance that the transaction will occur as proposed in the agreement. CHI recorded a deficiency of revenues over expenses of $(14.8) million and $(70.1) million for the fiscal years ended 2014 and 2013, respectively, relating to Saint Clare's Health System. Such deficiency is reported as discontinued operations in CHI's consolidated statements and changes in net assets.

PART VI: Selected Financial Data

The selected financial data that follows has been prepared by management, based on (i) CHI's audited financial statements as of and for the fiscal years ended June 30, 2014 and 2013, (ii) four months of certain Alegent entities' unaudited financial statements from July 1, 2012 to October 31, 2012, (iii) the unaudited consolidated financial schedules of SLHS for the eleven month period ended May 31, 2013 and (iv) the audited financial statements of Bethesda, Inc. and Subsidiaries for the fiscal years ended June 30, 2014 and 2013.

Certain financial and operating information is presented based on the "CHI Reporting Group", created under the Capital

Obligation Document. The CHI Reporting Group includes all entities that are consolidated with the Corporation under GAAP (as "Participants") and any entity that the Corporation chooses to include in the CHI Reporting Group (as "Designated Affiliates"). Currently, Bethesda Hospital, Inc. ("Bethesda") is the sole Designated Affiliate. Where indicated, selected financial and operating data is also presented based on CHI consolidated financial operating data, which does not include Bethesda. Bethesda accounted for 3.3% of the CHI Reporting Group's total operating revenue and 3.6% of the CHI Reporting Group's total assets as of and for the fiscal year ended June 30, 2014. The CHI Reporting Group and CHI consolidated financial information should be read in conjunction with the audited financial statements, related notes, and other financial information of CHI included in Appendix A of this Annual Report.

The results of operations for certain entities have been included in the CHI Reporting Group and CHI consolidated financial information for partial fiscal years. Such entities include Highline Medical Center (included for the period April 1, 2013 through June 30, 2013), the Kentucky JOA (included for the period from March 1, 2013 through June 30, 2013), certain entities within Alegent (included for the period from November 1, 2012 through June 30, 2013), SLHS (included for the period from June 1, 2013 through June 30, 2013), Harrison Medical Center (included for the period from August 1, 2013 through June 30, 2014), Memorial East Texas (included for the period from June 1, 2014 through June 30, 2014), Mercy Hot Springs (included for the period from April 1, 2014 through June 30, 2014) and QualChoice Holdings (included for the period from May 1, 2014 through June 30, 2014).

The selected pro forma financial data of the CHI Reporting Group that follows includes financial data derived from the unaudited financial schedules of SLHS for the eleven month period ended May 31, 2013 prepared by management. As discussed in more detail in Part V, CHI became the sole member of SLHS effective June 1, 2013.

The Corporation and other CHI entities have entered into joint operating agreements ("JOAs") with hospital-based organizations in three separate market areas, which generally provide for, among other things, joint management of the combined operations of the local facilities included in the JOAs through joint operating companies ("JOCs"). At June 30, 2014, CHI had a 70% interest in Centura Health (Colorado) and 50% interests in TriHealth, Inc. (Ohio) and Mercy (Iowa). These JOA interests are included in investments in unconsolidated organizations. The results of operations of the services and/or facilities owned by CHI and operated pursuant to JOAs are included in the consolidated financial statements of CHI. Income-share arrangements with the JOAs are included in the respective operating or non-operating revenue sections of the statements of operations consistent with CHI's revenue recognition policies. Certain joint venture agreements are not consolidated subsidiaries of the Corporation. The results of those operations are reflected in the consolidated financial statements of CHI under the line item "Changes in equity of unconsolidated organizations." Additional detail regarding CHI's JOAs can be found in note 3 to the audited financial statements included in Appendix A to this Annual Report.

A. The following table presents condensed combined statements of operations for the CHI Reporting Group for the fiscal years ended June 30, 2014 and 2013.

CHI Reporting Group **Condensed Combined Statements of Operations**	**June 30 2014 (Unaudited)**	**June 30 2013 (Unaudited)**
Revenues	*(In Thousands)*	
Net patient services revenues	$ 12,907,137	$ 10,587,038
Other	1,449,414	815,122
Total operating revenues	14,356,551	11,402,160
Expenses		
Salaries and employee benefits	6,834,433	5,697,005
Supplies, purchased services and other	6,443,817	4,919,522
Depreciation and amortization	721,216	592,216
Interest	236,070	165,161
Total operating expenses before restructuring	14,235,536	11,373,904
Income from operations before restructuring	121,015	28,256
Restructuring, impairment and other losses	117,514	59,343
Income (loss) from operations	3,501	(31,087)
Nonoperating gains (losses)	679,374	592,534
Excess of revenues over expenses	**$ 682,875**	**$ 561,447**

B. The following table provides condensed combined balance sheets for the CHI Reporting Group as of June 30, 2014 and 2013.

CHI Reporting Group Condensed Combined Balance Sheets	**June 30 2014 (Unaudited)**	**June 30 2013 (Unaudited)**
Assets	*(In Thousands)*	
Current assets:		
Cash and equivalents	$ 1,042,783	$ 614,476
Net patient accounts receivable	2,045,794	1, 793,924
Assets held for sale	202,066	215,777
Other current assets	817,211	665,655
Total current assets	4,107,854	3,289,832
Investments and assets limited as to use:		
Internally designated investments	6,265,268	6,291,760
Restricted investments	1,203,763	1,134,949
Total investments and assets limited as to use	7,469,031	7,426,709
Property and equipment, net	9,162,750	8,018,488
Other assets	1,700,444	1,143,688
Total assets	$ 22,440,079	$ 19,878,717
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	$ 2,386,991	$ 1,886,563
Liabilities held for sale	104,117	91,412
Current portion of debt	1,232,863	1,071,072
Total current liabilities	3,723,971	3,049,047
Other liabilities	2,010,434	1,853,742
Long-term debt	7,169,271	6,359,305
Total liabilities	12,903,676	11,262,094
Net assets:		
Unrestricted	9,165,242	8,304,271
Temporarily restricted	278,389	225,724
Permanently restricted	92,772	86,628
Total net assets	9,536,403	8,616,623
Total liabilities and net assets	$ 22,440,079	$ 19,878,717

C. The following table presents the pro forma unaudited combined statement of operations for the CHI Reporting Group and SLHS prepared by management, based on the unaudited combined results of the CHI Reporting Group for the fiscal year ended June 30, 2013, including SLHS for the period from June 1, 2013 through June 30, 2013, and the unaudited financial schedules of SLHS for the eleven month period ended May 31, 2013.

CHI Reporting Group Condensed Combined Statements of Operations	CHI Reporting Group (12 Months Ended June 30, 2013)	SLHS (11 Months Ended May 31, 2013)	Pro Forma CHI Reporting Group (12 Months Ended June 30, 2013)
Revenues			
Net patient services revenues			
Other	$ 10,587,038	$ 1,088,456	$ 11,675,494
Total operating revenues	815,122	47,839	862,961
	11,402,160	1,136,295	12,538,455
Expenses			
Salaries and employee benefits	5,697,005	536,029	6,233,034
Supplies, purchased services and other	4,919,522	484,127	5,403,649
Depreciation and amortization	592,216	80,557	672,773
Interest	165,161	23,375	188,536
Total operating expenses before restructuring	11,373,904	1,124,088	12,497,992
Income from operations before restructuring	28,256	12,207	40,463
Restructuring, impairment and other losses	59,343	7,498	66,841
(Loss) income from operations	(31,087)	4,709	(26,378)
Nonoperating gains (losses)	592,534	125,658	718,192
Excess of revenues over expenses	$ 561,447	$ 130,367	$ 691,814

PART VII: Management's Discussion and Analysis

1. SUMMARY OF OPERATING RESULTS—CHI AND THE CHI REPORTING GROUP

A. OPERATING EBIDA/INCOME FROM OPERATIONS

Combined operating EBIDA *((Loss) income from operations + Depreciation and amortization + Interest)* before restructuring for the CHI Reporting Group totaled $1.1 billion for fiscal year 2014 compared to $785.6 million in fiscal year 2013. The operating EBIDA margin (*(Loss) income from operations + Depreciation and amortization + Interest/Total operating revenues)* before restructuring percentage totaled 7.5% for 2014 compared to 6.9% in 2013. Combined income from operations before restructuring for the CHI Reporting Group totaled $121.0 million for 2014 compared to $28.3 million for 2013, or an operating margin *((Loss) income from operations/ Total operating revenues)* before restructuring percentage of 0.8% and 0.2% respectively. Results include business combination gains of $422.0 million in fiscal year 2014 and $76.4 million in fiscal year 2013.

Strategic affiliations completed in fiscal year 2014 included Harrison in the Pacific Northwest Region, Mercy Hot Springs in the Arkansas region, and Memorial East Texas in the Texas Region. Strategic affiliations completed in 2013 include: SLHS in the Texas Region, Highline in the Pacific Northwest Region, UMC in the Kentucky Region, and Alegent in the Nebraska Region.

The fiscal year 2014 strategic affiliations, excluding operating gains recognized as a result of business combinations, contributed operating revenues of $449.6 million, and operating EBIDA of $52.0 million to the fiscal year 2014 operations. The fiscal year 2013 acquisitions, excluding operating gains recognized as a result of business combinations, contributed operating revenues of $3.0 billion and operating EBIDA of $236.5 million to the fiscal year 2014 operations.

B. REVENUE/OPERATING EBIDA BY REGION

CHI is currently comprised of 30 market-based organizations or "MBOs," certain of which are operated under the terms of joint operating agreements, and multiple joint ventures. The operations of the MBOs are further organized by regions, which include: Pacific Northwest, Kentucky, Nebraska, Colorado, Texas, Ohio, Iowa, Tennessee, Arkansas, North Dakota/Minnesota and Pennsylvania.

The table below sets forth the total operating EBIDA before restructuring, total operating EBIDA margin before restructuring, and total operating revenues as a percentage of CHI of the regions that represent, in aggregate, over 96% of total operating revenue of CHI for the fiscal years ended June 30, 2014 and 2013.

Catholic Health Initiatives Consolidated Operations Summary **Region**	**FY 2014 Operating EBIDA before restructuring *(In Thousands)***	FY 2013 Operating EBIDA before restructuring *(In Thousands)*	**FY 2014 Operating EBIDA margin before restructuring**	FY 2013 Operating EBIDA margin before restructuring	**FY 2014 Operating revenues percentage of consolidated**	FY 2013 Operating revenues percentage of consolidated
Pacific Northwest	**$ 427,132**	$177,430	**17.6%**	11.3%	**17.5%**	14.6%
Kentucky	**(68,797)**	32,552	**(3.2)%**	1.7%	**15.7%**	17.6%
Nebraska	**212,446**	261,499	**9.8%**	13.7%	**15.6%**	17.8%
Colorado	**199,269**	174,173	**11.6%**	10.6%	**12.4%**	15.4%
Texas	**113,300**	(4,890)	**8.8%**	(5.1)%	**9.2%**	0.9%
Ohio	**85,024**	75,414	**9.2%**	8.1%	**6.7%**	8.6%
Iowa	**44,965**	31,592	**4.9%**	3.6%	**6.6%**	8.1%
Tennessee	**38,914**	39,534	**6.7%**	7.0%	**4.2%**	5.2%
Arkansas	**45,613**	(28,503)	**8.4%**	(7.2)%	**3.9%**	3.7%
North Dakota and Minnesota	**26,204**	24,175	**6.3%**	6.2%	**3.0%**	3.6%

2. CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in conformity with GAAP requires that management make assumptions, estimates and judgments affecting the amounts reported in the financial statements, including the notes thereto, and related disclosures of commitments and contingencies, if any. Management considers critical accounting policies to be those that require the more significant judgments and estimates in the preparation of its financial statements, including the following: recognition of net patient service revenues, which includes contractual allowances, bad debt and charity care reserves, and cost report settlements; impairment of goodwill, intangibles and long-lived assets; provisions for bad debts; valuations of investments; and reserves for losses and expenses related to health care professional and general liability risks. In making such judgments and estimates, management relies on historical experience and on other assumptions believed to be reasonable under the circumstances. A description of CHI's accounting policies can be found in the notes to the audited financial statements included in Appendix A to this Annual Report. Actual results could differ materially from the estimates.

3. DETAILED RESULTS OF OPERATIONS FISCAL YEARS 2014/2013—CHI AND THE CHI REPORTING GROUP

A. REVENUE/VOLUME TRENDS

Total operating revenues for the CHI Reporting Group increased 25.9% or $3.0 billion for fiscal year 2014 compared to the prior fiscal year, primarily attributable to recently completed acquisitions. Excluding the impacts of current and prior year acquisitions (same store basis), total operating revenues for CHI increased 1.8% or $176.6 million for fiscal year 2014 compared to the prior fiscal year.

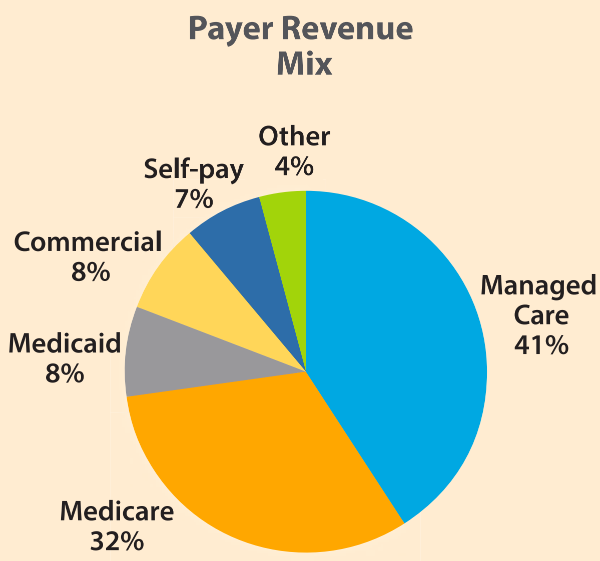
Fiscal year 2014 operating results increased in several regions within CHI. The Colorado Region continued strong operating performance and provided a 14% increase in operating EBIDA over fiscal year 2013. The Texas Region in fiscal year 2014 includes a full year of operations compared to one month in the prior fiscal year. The Ohio and Arkansas Regions also improved performance over fiscal year 2013, most notably in the Arkansas region where operations went from an operating EBIDA loss of $(28.5) million in fiscal year 2013 to a break-even operating EBIDA in fiscal year 2014 excluding acquisition gains. CHI's strategy in the Arkansas Region is to build scale and improve access, as evidenced by the recent acquisition of Mercy Hot Springs and ongoing discussions for further affiliations in that region. The Pacific Northwest and Nebraska Regions experienced short-term reductions in operating performance compared to historical trends due to temporary delays in the revenue cycle process as a result of conversions within the patient accounting billing system, as well as one time consulting and remediation costs related to the system conversions.

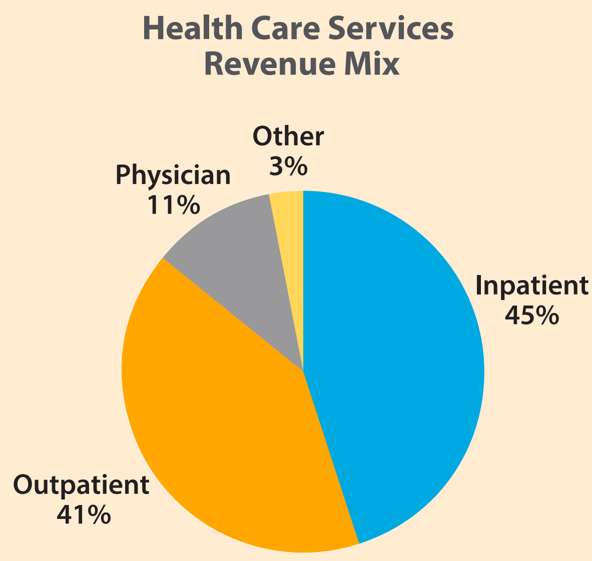
The Kentucky Region's operating performance continues to reflect a challenging statewide health care environment related to reimbursement, shifts in payer mix and market competition. Integration is the primary focus for the Kentucky Region through strategic clinical and operational initiatives that include revenue cycle services and yield; expenses; access to services and organic growth. During fiscal year 2014, an enterprise multi-disciplinary executive team was appointed to guide the Kentucky Region's strategic and financial turnaround activities (referred to as Strategic, Operational, Repositioning, and Transformation ("SORT"). SORT activities are focused in three major areas: growth, revenue improvement and expense management. Numerous opportunities are projected to yield substantial financial improvement in each of these three areas and are being aggressively implemented to ensure success and sustainability. This effort remains a high priority for management as KentuckyOne Health focuses on significantly improving its financial results. In fiscal year 2014, one of the major initiatives that came out of this work was a significant reduction in the labor force in order to align labor expenses with patient volumes. Additionally, a major emphasis is being placed on integration of services across the Downtown Louisville Medical Campus, in order to improve clinical programs and eliminate duplication and services as a result of the March 2013 partnership agreement with the University of Louisville Health Science Center, which was part of the Kentucky JOA transaction.

Total net patient services revenues for the CHI Reporting Group increased 21.9% or $2.3 billion for fiscal year 2014 compared to the prior fiscal year. Factors contributing to the increase are recently completed acquisitions and the impact of reimbursement increases, favorable shifts in payer mix due to ACO transitions across CHI's markets, and favorable shifts in service mix and acuity.

Same store net patient services revenues for CHI increased 2.3% or $205.2 million for fiscal year 2014 compared to the prior fiscal year. Same store CHI patient volume declines for fiscal year 2014 as compared to the prior fiscal year were as follows: Acute Admissions (2.6)% or (10,028), Acute Inpatient Days (3.2)% or (55,279), Inpatient Surgeries (2.9)% or (3,506), Inpatient ER Visits (1.4)% or (2,582), and Outpatient Non-ER Visits (2.7)% or (112,683). Same store CHI patient volume improvements for fiscal year 2014 as compared to the prior fiscal year were as follows: Outpatient Surgeries 4.2% or 7,759, and Outpatient ER Visits 0.4% or 5,541.

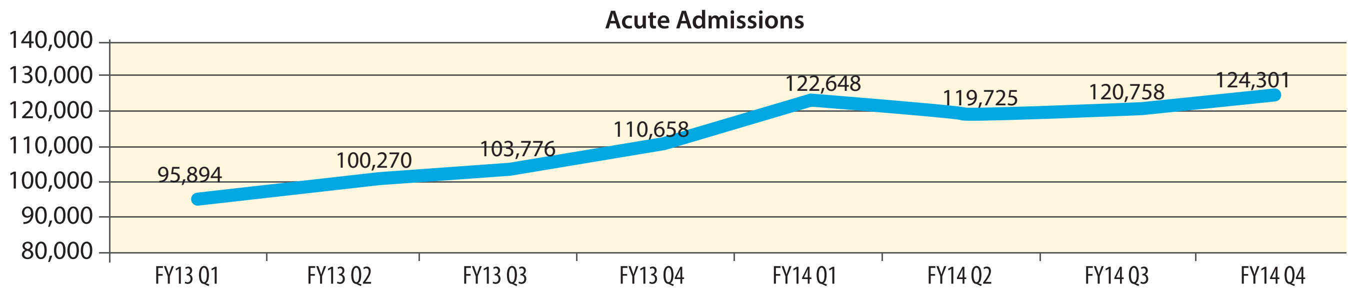
The following charts represent the payer revenue mix and health care services mix for CHI in fiscal year June 30, 2014.

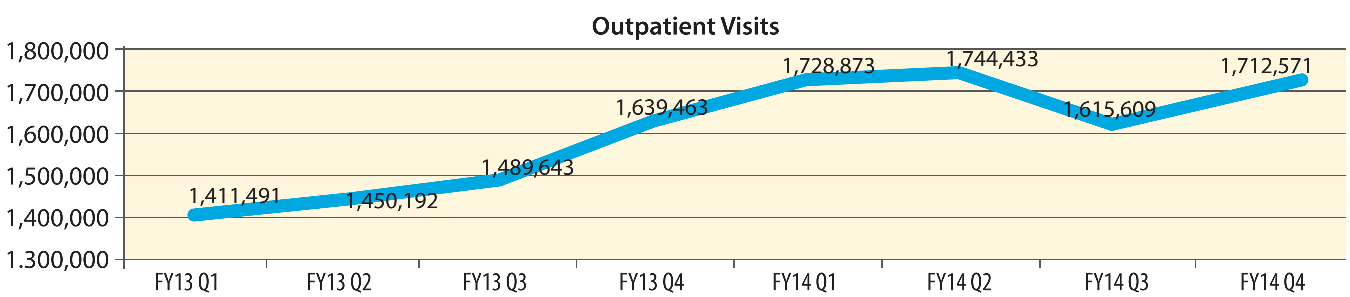




CHI Reporting Group Combined Revenues, Expenses and Key Utilization Statistics	June 30 FY 2014	June 30 FY 2013
Total net patient services revenues	$ 12.9 billion	$ 10.6 billion
Total operating revenues	$ 14.4 billion	$ 11.4 billion
Total operating expenses before restructuring	$ 14.2 billion	$ 11.4 billion
Operating EBIDA before restructuring	$ 1.1 billion	$ 785.6 million
Operating EBIDA margin before restructuring	7.5%	6.9%
Operating income before restructuring	$ 121.0 million	$ 28.3 million
Operating income margin before resructuring	0.8%	0.2%
Utilization Statistics—CHI Reporting Group		
Acute admissions	509,856	441,509
Acute inpatient days	2,403,145	2,046,103
Acute average length of stay in days	4.7	4.6
Long-term care days	395,379	409,324
Utilization Statistics—CHI		
Medicare case-mix index	1.7	1.7
Outpatient Non-ER visits	5,001,335	4,512,055
Inpatient Surgeries	155,185	129,648
Outpatient Surgeries	239,764	195,329
Inpatient ER visits	256,954	204,031
Outpatient ER visits	1,800,151	1,478,634

The following charts represent quarterly patient volume activity for CHI's consolidated operations and include the effects of the fiscal year 2013 and 2014 acquisitions.





B. OPERATING EXPENSES

Total operating expenses before restructuring for the CHI Reporting Group increased 25.2% or $2.9 billion for fiscal year 2014 as compared to the prior fiscal year. These increases are primarily attributable to recently completed acquisitions.

Same store total operating expenses before restructuring for CHI increased 4.8% or $466.7 million for fiscal year 2014 as compared to the prior fiscal year, primarily from expansion of services in several markets, new physician growth, wage inflation increases and the cost of key strategic initiatives undertaken by CHI, including implementation of OneCare.

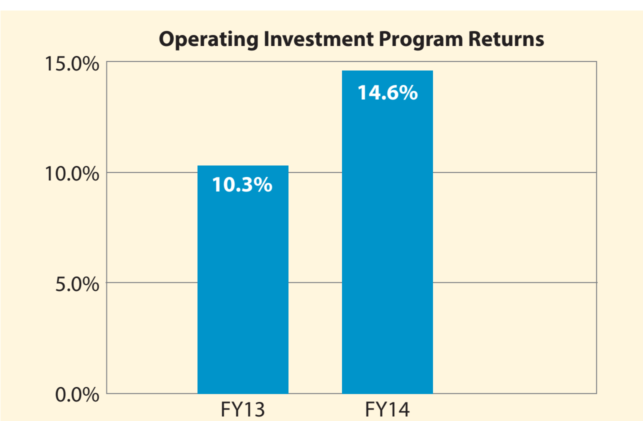
Salaries and benefits costs for the CHI Reporting Group in fiscal year 2014 accounted for 48.0% of total operating expenses before restructuring compared to 50.1% for the prior fiscal year. Total labor costs increased 20.0% or $1.1 billion for the CHI Reporting Group for fiscal year 2014 as compared to the prior fiscal year due to adding new employees from recently completed acquisitions. As a percentage of net patient services revenues, total labor costs for the CHI Reporting Group decreased modestly to 53.0% for fiscal year 2014 compared to 53.8% for the prior fiscal year.

Same store total labor costs for CHI increased 1.0% or $49.2 million for fiscal year 2014 as compared to the prior fiscal year due to increases in CHI's investment in the development of its OneCare technology which were slightly offset by the transition of approximately $117.3 million in total labor costs to external purchased services for certain billing functions, which have been outsourced.

C. SUMMARY OF RESTRUCTURING EXPENSES AND NON-OPERATING RESULTS

Restructuring expenses for the CHI Reporting Group for fiscal year 2014 were $(117.5) million compared to $(59.3) million in the prior year. These costs include asset impairments, and reorganization and severance costs at the Corporate office and in the Kentucky, Arkansas and Pacific Northwest Regions.

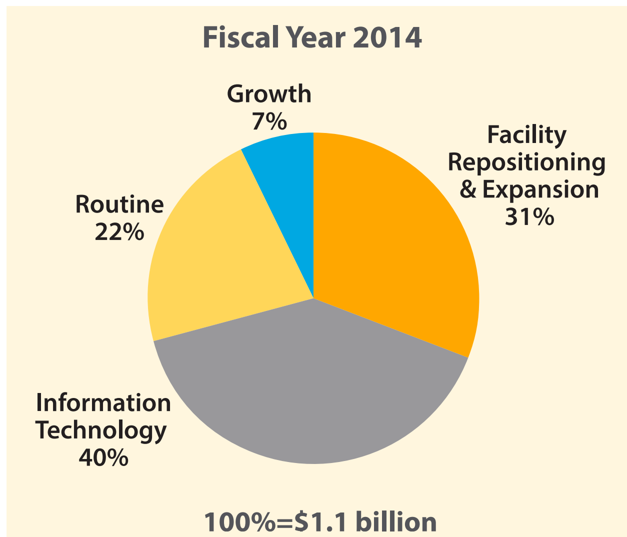
Non-operating gains for the CHI Reporting Group for fiscal year 2014 increased to $679.4 million from $592.5 million for the prior fiscal year due to overall strong performance of the CHI Operating Investment Program, as set forth below.



D. SUMMARY OF BALANCE SHEET—CHI AND THE CHI REPORTING GROUP

Total combined assets for the CHI Reporting Group increased 12.9% or $2.6 billion during fiscal year 2014, primarily attributable to $1.3 billion in current year acquisitions, $620.0 million of net debt proceeds from the fiscal year 2014 debt issuance and increases to the fair value of investments due to strong fiscal year 2014 investment returns.

Total cash and equivalents and unrestricted investments for the CHI Reporting Group increased 5.8% or $401.8 million during fiscal year 2014 as a result of the net debt proceeds from the fiscal year 2014 debt issuance and cash flows from operations. These increases were offset by CHI's continued capital investment and acquisition spending during fiscal year 2014. As set forth in the chart below, CHI's cash expenditures for capital additions at existing facilities were $1.1 billion during fiscal year 2014, including new hospital construction and expansion primarily in the Texas— CHI St. Luke's Health, Pacific Northwest, Ohio, Nebraska and Tennessee Regions, as well as continued implementation costs for the OneCare program.



Days of cash on hand for the CHI Reporting Group decreased to 197 days at June 30, 2014 from 234 at June 30, 2013. This decrease is partially attributable to the impact of acquisitions on the average operating expenses per day for fiscal year 2014, as well as the cash spent on capital additions.

Net patient accounts receivable for the CHI Reporting Group increased 14.0% or $251.9 million during fiscal year 2014, of which $76.4 million was attributable to current year acquisitions. Some of the increases were also due to planned changes in business office practices, including billing system conversions in several regions, increased follow-up on self-pay balances and conversion of eligible patients from self-pay to Medicaid or other payer sources. Days of net patient services revenues in net patient accounts receivable for the CHI Reporting Group decreased to 58 days at June 30, 2014 from 62 days at June 30, 2013.

The debt-to-capitalization ratio for the CHI Reporting Group increased to 47.8% at June 30, 2014 from 47.2% as of June 30, 2013. Such increase was driven primarily by the net incremental debt issued in fiscal year 2014.

Total net assets for the CHI Reporting Group increased 10.7% or $919.8 million during fiscal year 2014, primarily as a result of the fiscal year 2014 excess of revenues over expenses of $682.9 million and an increase of $298.7 million due to BCM's non-controlling interest in SLMC.

CHI Reporting Group Consolidated Balance Sheet Summary	**June 30, 2014**	**June 30, 2013**
Total assets	$ 22.4 billion	$ 19.9 billion
Total liabilities	$ 12.9 billion	$ 11.3 billion
Total net assets	$ 9.5 billion	$ 8.6 billion
Financial position and leverage ratios		
Total cash and unrestricted invesments	$ 7.3 billion	$ 6.9 billion
Days of cash on hand[(1)]	197	234
Total debt	$ 8.4 billion	$ 7.4 billion
Debt to capitalization[(2)]	47.8%	47.2%
Debt to cash flow[(3)]	22.6x	16.5x
Historical long-term debt service coverage ratio[(4)]	2.6x	3.8x

[(1)] (Cash and equivalents + Investments and assets limited as to use: Internally designated for capital and other funds, Mission and ministry fund, and Capital resource pool)/((Total operating expenses before restructuring, impairment and other losses—Depreciation and amortization)/actual number of days in a period).

[(2)] (Variable-rate debt with self-liquidity + Commercial paper and current portion of debt + Long-term debt)/(Variable-rate debt with self-liquidity + Commercial paper and current portion of debt + Long-term debt + Unrestricted net assets).

[(3)] (Variable-rate debt with self-liquidity + Commercial paper and current portion of debt + Long-term debt)/(Loss from operations + Depreciation and amortization + Non-cash restructuring, impairment and other losses—Unrealized business combinations gains included in Loss from operations—Unrealized investment gains included in Loss from operations). The calculation of Debt to Cash Flow for the CHI Reporting Group shown in this table differs from the historical presentation shown in the 2013 Annual Report and certain offering documents prepared in 2013. The revisions include the addition of non-cash amounts relating to gains on business combinations.

[(4)] The Historical Long-Term Debt Service Coverage Ratio for the CHI Reporting Group shown in this table differs from the historical presentation shown in the 2013 Annual Report and certain offering documents prepared in 2013. The revisions include the addition of non-cash amounts relating to gains on business combinations and the effect of certain payments under CHI's swaps. Taking into account the effect of those non-cash items and the swap payments resulted in a reduction in the calculation from 4.3x to 3.8x.

4. CONTRACTUAL OBLIGATIONS

A. INDEBTEDNESS

At June 30, 2014, CHI's outstanding indebtedness was comprised of the following:

Catholic Health Initiatives Indebtedness—June 30, 2014 ($millions)	Total Par Amount
Capital Obligation Debt	
Fixed Rate Bonds [1]	$ 5,410
Variable Rate Bonds[2]	$877
Long Term Rate Bonds[3]	$205
Direct Purchase Bonds[4]	$541
Commercial Paper Notes	$482
Total Capital Obligation Debt	**$ 7,516**
Non Capital Obligation Debt	
Other MBO Debt[5]	$ 429
Capital Leases	$ 204
EHF Note [6]	$ 230
Total Non Capital Obligation Debt	**$ 864**
Total CHI Debt	**$ 8,379**

[1] Includes unamortized original issue discount.

[2] Includes variable rate demand bonds and windows variable rate bonds that bear interest at variable rates (currently determined weekly) and are subject to optional tender for purchase by their holders.

[3] Long-term rate bonds bear interest at a fixed rate for a specified period and are subject to mandatory tender at the end of such period as set forth below.

[4] Direct purchase bonds are placed directly with holders, bear interest at variable rates determined monthly based upon a percentage of LIBOR plus a spread based upon the credit rating of CHI, and are subject to mandatory tender on dates certain as set forth below.

[5] Other MBO debt is comprised mostly of $178 million of SLHS debt as well as $114 million of Memorial East Texas debt, each secured by certain of its assets.

[6] Promissory note in the principal amount of $230 million given to Episcopal Health Foundation in connection with the assumption of control of SLHS, which matures on June 30, 2020. It bears interest at a fixed rate of 4% per annum and is payable in six annual installments that commenced on June 30, 2014.

The Corporation intends to issue an additional $100 million of its commercial paper notes in November 2014. If issued, the Corporation will use the proceeds from those commercial paper notes to retire certain long-term indebtedness of Memorial East Texas.

The required principal amortization of the total CHI long-term debt during fiscal year 2015 is $129 million (excludes $100 million of long-term rate bonds with mandatory tender date of November 12, 2014).

B. OBLIGATIONS REQUIRING SELF-LIQUIDITY

The Corporation's direct purchase bonds are subject to mandatory tender on scheduled mandatory tender dates. The Corporation's direct purchase agreements are publicly available, and can be accessed through the Digital Assurance Certification LLC website at www.dacbond.com and Municipal Securities Rulemaking Board ("MSRB") through the Electronic Municipal Market Access ("EMMA") website of the MSRB, which can be found at http://emma.msrb.org .

In the event that direct purchase bonds are not remarketed or refinanced on a scheduled mandatory tender date, as long as no event of default has occurred and is continuing, the Corporation is permitted by the terms of certain of its agreements with such holders to repay those bonds over a period of time that varies among agreements. The series, principal amount and scheduled mandatory tender dates for the direct purchase bonds are below.

Series	Principal Amount	Scheduled Mandatory Tender Date
Colorado 2011C	$ 121.0 million	November 10, 2018
Washington 2008A	$ 120.2 million	January 29, 2019
Taxable 2013F	$75.0 million	December 18, 2020
Colorado 2013C	$ 100.0 million	December 18, 2023
Taxable 2013E	$ 125.0 million	December 18, 2023
Total Direct Purchase Bonds	**$ 541.2 Million**	

On September 25, 2014, the Corporation converted $54.2 million of outstanding variable rate bonds to direct purchase bonds, with a mandatory tender date of September 15, 2020.

The Corporation's long-term rate bonds are subject to mandatory tender on the dates set forth below. Upon the mandatory tender of long-term bonds, management expects that it would analyze the then current market conditions and availability and relative cost of refinancing or restructuring alternatives prior to the applicable tender date, which could include, without limitation, conversion to another interest mode, refinancing or repayment.

Series	Par—6/30/14	Mandatory Tender Date
Colorado 2009B-3	$ 40.0 million	November 12, 2014*
Kentucky 2009B	$ 60.0 million	November 12, 2014*
Colorado 2008C-2	$ 27.5 million	November 12, 2015
Colorado 2008C-4	$ 27.5 million	November 12, 2015
Colorado 2008C-3	$ 50.0 million	November 12, 2015
Total Long-Term Rate Bonds	**$ 205.0 Million**	

*CHI expects to remarket the Colorado 2009B-3 and Kentucky 2009B Bonds on their mandatory tender date.

The Corporation's variable rate demand bonds are subject to optional and mandatory tender, including upon termination of any applicable liquidity or credit facility. Approximately $521.4 million of the Corporation's variable rate bonds are not supported by a dedicated credit facility.

In addition, the Corporation's commercial paper note program permits the issuance up to $881 million in aggregate principal amount outstanding at any time, which matures within a 270 day period. The Corporation has directed the dealers for its commercial paper to tranche the maturities so that no greater than approximately one-third of the outstanding balance matures in any one month, and no more than $100 million matures per dealer within any five business-day period. The Corporation has, from time to time, directed its dealers to deviate from such directions, and may do so again in the future.

The Corporation has received board authorization to enter into one or more short term borrowings, including lines of credit, in a principal amount not to exceed $500 million to finance, among other things, the costs associated with certain of its affiliations and acquisitions. CHI is in the process of evaluating options with respect to such borrowings or lines of credit.

C. SWAP AGREEMENTS

CHI utilizes various interest rate swap derivative contracts to manage the risk of increased interest rates payable on certain variable rate bonds and operating lease payments. The Corporation is currently party to seven floating-to-fixed swap agreements which, together with four SLHS Swaps, and two Memorial East Texas swaps, had an aggregate notional amount of $1.4 billion at June 30, 2014. The thirteen Swap Agreements have varying termination dates ranging from May 2025 to February 2047. The Swap Agreements require the Corporation, SLHS or Memorial East Texas as applicable, to provide collateral if its respective liability, determined on a mark-to-market basis, exceeds a specified threshold that varies based upon the rating on the Corporation's long-term indebtedness. Total cash collateral balances were $130.5 million at June 30, 2014. The Swap Agreements, excluding the Memorial East Texas Swaps, are secured by Obligations issued under the Capital Obligation Document.

The following table details the swaps as of June 30, 2014:

Swap Party	Outstanding Notional (6/30/2014)	Termination Date
CHI	$ 150.9 million	May 1, 2025
CHI	$ 100.0 million	September 1, 2036
CHI	$ 100.0 million	December 1, 2036
CHI	$ 259.5 million	March 1, 2032
CHI	$ 150.0 million	December 1, 2036
CHI	$ 130.0 million	September 1, 2036
CHI	$ 20.0 million	September 1, 2036
SLHS	$ 139.2 million	February 15, 2031
SLHS	$ 125.0 million	February 15, 2032
SLHS	$ 100.0 million	February 15, 2047
SLHS	$ 100.0 million	February 15, 2047
Memorial East Texas	$ 28.6 million	February 15, 2035
Memorial East Texas	$ 20.5 million	February 15, 2028
Total Notional Amount	**$ 1,423.9 million**	

D. CAPITAL OBLIGATION DOCUMENT

The obligations of the Corporation to pay amounts due on its commercial paper notes, revenue bonds and the swap agreements are secured by Obligations issued under the Capital Obligation Document. Obligations also secure the Corporation's obligation to provide funds for the purchase of indebtedness tendered for purchase or subject to mandatory tender for purchase and not remarketed. At June 30, 2014, the Corporation's outstanding indebtedness secured by Obligations issued under the Capital Obligation Document totaled $7.5 billion. Payment obligations under the Capital Obligation Document are limited to an Obligated Group (defined therein), which only includes the Corporation. Certain covenants under the Capital Obligation Document are tested based on the combination of the Obligated Group, Participants and Designated Affiliates. However, holders of Obligations have no recourse to Participants or Designated Affiliates or their property for payment thereof.

5. LIQUIDITY AND CAPITAL RESOURCES

A. CASH EQUIVALENTS AND INTERNALLY DESIGNATED INVESTMENTS

CHI holds highly liquid investments to enhance its ability to satisfy liquidity needs. Asset allocations are reviewed on a monthly basis and compared to investment allocation targets included within CHI's investment policy. At June 30, 2014 and 2013 the CHI Reporting Group had cash and equivalents and internally designated investments (including net unrealized gains and losses) as described in the table below.

(000s)	June 30, 2014	June 30, 2013
Cash and Equivalents	$ 1,042,783	$ 614,476
Internally Designated		
Investments	$ 6,265,268	$ 6,291,760
Total	$ 7,308,051	$ 6,906,236

CHI maintains an investment pool administered by the treasury services function of the Corporation (the "Program"). The Program is structured as a limited partnership with the Corporation as the managing general partner. The Corporation contracts with investment advisers to manage the investments within the Program. Substantially all CHI long-term investments are held in the Program. The Corporation requires all Participants to invest in the Program.

The Program consists of equity, fixed income and alternative investments (e.g., private equity, hedge funds and real estate interests). The asset allocation is established by the Finance Committee of the Board of Stewardship Trustees. At June 30, 2014, the allocation was 31% fixed income, 44% equities, 23% alternative investments and 2% cash and equivalents.

The fixed income securities are invested primarily in U.S. Treasuries and agency securities and high quality mortgage backed securities (including GNMA, FNMA and FHLMC). The 44% allocation to equities is comprised of 24% domestic equities and 20% international equities. At June 30, 2014, the domestic equity segment was invested in large, mid and small cap publicly traded securities.

B. LIQUIDITY ARRANGEMENTS

The Corporation maintains several liquidity facilities that are dedicated to fund tenders of its variable rate debt or used exclusively to support its obligations to fund tenders on its demand and long-term rate bonds and to pay the maturing principal of the commercial paper notes in the event remarketing proceeds are unavailable for such purpose. A listing of both dedicated self-liquidity lines and standby bond purchase agreements by financial institution, including termination dates are listed below. The Corporation's dedicated self-liquidity and standby bond purchase agreements can be found at http://emma.msrb.org.

CHI Dedicated Self-Liquidity Lines—June 30, 2014

Bank	Par	Expiration
PNC Bank	$ 125.0 Million	August 25, 2014[1]
Union Bank of CA	$ 75.0 Million	September 30, 2014[2]
J.P. Morgan	$ 50.0 Million	September 30, 2014[3]
Bank of New York Mellon	$ 60.0 Million	December 15, 2014
Bank of New York Mellon	$ 45.0 Million	December 15, 2015
Northern Trust	$ 65.0 Million	June 28, 2019
Total Self Liquidity Lines	**$ 420.0 Million**	

[1] Renewed exp. date of 08/24/2017
[2] Renewed exp. date of 09/28/2018
[3] Renewed exp. date of 09/30/2017

Standby Bond Purchase Agreements—June 30, 2014

Bank	Par	Expiration
J.P. Morgan	$ 53.2 Million	August 19, 2014[1]
J.P. Morgan	$ 54.2 Million	September 30, 2014[2]
U.S. Bank	$ 33.7 Million	November 1, 2014[3]
U.S. Bank	$ 50.0 Million	November 10, 2014[3]
U.S. Bank	$ 22.7 Million	October 30, 2015
Wells Fargo Bank	$ 52.8 Million	October 30, 2015
BLB	$ 7.7 Million	November 30, 2015
Bank of New York Mellon	$ 40.0 Million	December 15, 2015
Total SBPA	**$ 355.8 Million**	

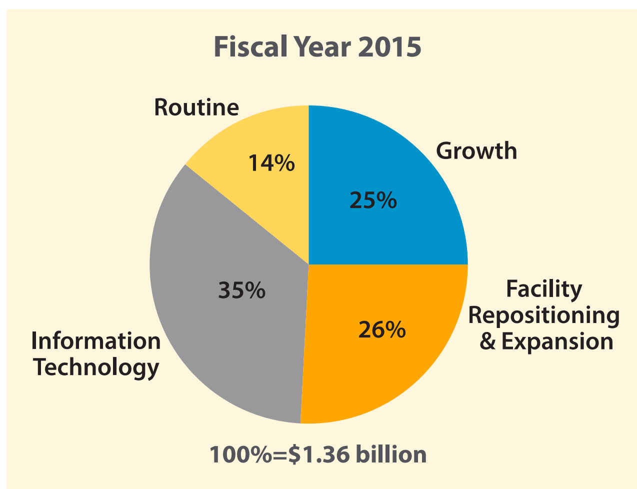
[1] Renewed; exp. date of 08/01/2016
[2] Converted to direct purchase bonds with a mandatory tender date of 9/15/2020
[3] Renewed; exp. date of 03/31/2015

6. LIQUIDITY REPORT

CHI posts a liquidity report monthly, which can be found at www.catholichealth.net and http://emma.msrb.org.

7. CAPITAL EXPENDITURES

CHI's capital budget for fiscal year 2015 is approximately $1.36 billion and reflects a significant capital allocation to costs to fund strategic growth initiatives as shown in the chart at right.



8. COVENANT COMPLIANCE

The following table presents Historical Long-Term Debt Service Coverage Ratio for the CHI Reporting Group for fiscal years ended June 30, 2014 and 2013.

CHI Reporting Group Historical Long-Term Debt Service Coverage[1] For Fiscal Year Ended June 30, 2014 and 2013	June 2014 CHI Reporting Group (in 000s)	June 2013 CHI Reporting Group (in 000s)
Income available for debt service:		
Total Revenues	$ 15,035,925	$ 11,994,694
Total Operating Expenses (includes restructuring)	14,353,050	11,433,247
Excess (Deficiency) of Revenues over Expenses	682,875	561,447
Add: Interest on Long-Term Indebtedness	225,418	163,745
Add: Depreciation and Amortization	721,216	592,216
Add: Non-Cash Restructuring, Impairment and Other Losses	85,709	4,872
Add: Gains on Business Combination contribution and bargain purchase	(421,955)	(76,425)
Add: Losses on Defeasance of Bonds and Escrow Restructuring	5,625	17,998
Add: Realized and Unrealized (Gains) on Interest Rate Swaps	(10,200)	(98,799)
Add: Net Unrealized (Gains)	(365,682)	(171,217)
Total Adjustments to Excess (Deficiency) of Revenues Over Expenses	240,131	432,390
Total income available for debt service	**923,006**	**993,837**
Debt service requirements on Long Term Indebtedness:		
Total CHI Principal Payments	89,601	64,138
Total CHI Interest Payments	270,068	194,148
Total Debt Service Requirements on Long Term Indebtedness:	359,669	258,286
Historical Long-Term Debt Service Coverage Ratio [1]	**2.6x**	**3.8x**

[1] The calculation of the Historical Long-Term Debt Service Coverage Ratio for the CHI Reporting Group shown in this table differs from the historical presentation shown in the 2013 Annual Report and certain offering documents prepared in 2013. The revisions include the addition of non-cash amounts relating to gains on business combinations and the effect of certain payments under CHI's swaps. Taking into account the effect of those non-cash items and the swap payments resulted in a reduction in the calculation from 4.3x to 3.8x.

9. PENSION OBLIGATIONS

CHI currently maintains noncontributory, defined benefit retirement plans (the "Plans") covering substantially all employees other than those of recently acquired entities. Benefits in the Plans are based on compensation, retirement age and years of service. Vesting occurs over a five-year period. Substantially all of the Plans are qualified as church plans and are exempt from certain provisions of both the Employee Retirement Income Security Act and Pension Benefit Guaranty Corporation premiums and coverage. Funding requirements are determined through consultation with independent actuaries. CHI recognized pension costs of $70.6 million and $228.8 million in fiscal years 2014 and 2013, respectively. The assumption for the expected return on the Plans' assets is based on historical returns and adherence to the asset allocations set forth in the Plans' investment policies. The Plans' assets are invested in a portfolio designed to preserve principal and obtain competitive investment returns and long-term investment growth, consistent with actuarial assumptions, while minimizing unnecessary investment risk. The expected return on the Plans' assets for determining pension cost was 7.60% in fiscal year 2014 and 7.75% in fiscal year 2013. A summary of the Plans' asset allocation targets, ranges by asset class and allocations by asset class at the measurement dates of June 30, 2014 and 2013 is as follows:

	June 30, 2014	June 30, 2013	Target	Range
Fixed-income securities	33.5%	25.6%	27.5%	17.5-37.5%
Equity securities	47.0%	55.1%	50%	40.0-60.0%
Alternative investments	19.5%	19.3%	22.5%	12.5-32.5%

At the June 30, 2014 measurement date, the projected benefit obligation in excess of the fair value of plan assets for the Plans was $496.4 million compared to $472.9 million at June 30, 2013.

CHI expects to contribute approximately $15.0 million to the Plans during the fiscal year ended June 30, 2015. For additional information regarding the Plans, see note 10 of the audited financial statements, which are included in Appendix A to this Annual Report.

In May 2013, the Corporation and two employees were named as defendants in a lawsuit challenging the "church plan" status of certain of CHI's defined benefit plans. See Pension Plan Litigation in Part X, Section A.

Effective December 31, 2013, employees that were covered by the Plans no longer accrue additional pension accrual credits, and any new employees are not entitled to benefits under the Plans. In place of the Plans, effective on January 1, 2014, CHI introduced a 401(k) Retirement Savings Plan (401(k) Savings Plan). Years of service under the Plans were automatically transferred to the 401(k) Savings Plan. An employee is fully vested in the Plan for employer contributions after three years of service.

10. COMMUNITY BENEFIT

In accordance with its mission and values, CHI commits substantial resources to sponsor a broad range of services to the poor as well as the broader community. Community benefit 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.

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. In addition, it includes all services that 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.

The cost to CHI of community benefit provided to the poor and the broader community (excluding unpaid Medicare costs) totaled $909.9 million and $762.0 million in the fiscal years ended June 30, 2014 and 2013, respectively.

11. BOND RATINGS

In October 2013, Standard & Poor's Rating Service revised its rating assigned to the Corporation's fixed rate unenhanced debt from AA- (stable outlook) to A+ (stable outlook); Moody's Investors Service, Inc. revised its rating assigned to the Corporation's fixed rate unenhanced debt from Aa3 (stable outlook) to A1 (negative outlook); and Fitch Ratings revised its rating assigned to the Corporation's fixed rate unenhanced debt from AA- (stable outlook) to A+ (stable outlook).

12. EMPLOYEES/PROFESSIONAL STAFF

At June 30, 2014, CHI employed over 3,400 providers (including mid-level practitioners and physicians in 77 specialties). More than 52% of these physicians were specialists. Approximately 12,000 providers practice in CHI's facilities. Physician growth and alignment are integral parts of CHI's growth strategy, which is discussed in more detail in Part IV. At June 30, 2014, CHI employed approximately 93,400 employees. Management believes that the salary levels and benefit packages for CHI employees are competitive. Salary and benefit packages are reviewed annually by the local and/or system board committees. Less than 10% of CHI's employees are represented by collective bargaining units.

13. ACCREDITATIONS AND LICENSES

CHI's hospital facilities, skilled nursing facilities and long-term care facilities have all of the necessary licenses to operate their facilities and necessary certifications and licenses for Medicare and Medicaid reimbursement.

PART VIII: Governance

A. CATHOLIC HEALTH INITIATIVES

Participating Congregations. As of November 1, 2014, there are thirteen Participating Congregations of CHI. CHI honors the traditions and services established by the foundresses of these congregations and continued by their participation. The Participating Congregations are: Benedictine Sisters of Mother of God Monastery, Watertown, South Dakota; Congregation of the Dominican Sisters of St. Catherine of Siena, Saratoga, CA; Franciscan Sisters of Little Falls, Minnesota; Dominican Sisters of Peace, Columbus, Ohio; Sisters of Charity of Cincinnati, Ohio; Sisters of Mercy, West Midwest Community, Omaha, Nebraska; Sisters of St. Francis of Philadelphia, Pennsylvania; Sisters of Presentation of the Blessed Virgin Mary of Fargo, North Dakota; The Congregation of the Sisters of Charity of Nazareth, Kentucky; Sisters of St. Francis of the Immaculate Heart of Mary of Hankinson, North Dakota; Sisters of the Holy Family of Nazareth, Des Plaines, Illinois; Sisters of St. Francis of Colorado Springs, Colorado; and Sisters of St. Francis of Sylvania, Ohio.

All rights of the Participating Congregations as stated in the Corporation bylaws are exercised through a representative appointed by each Participating Congregation. Such rights include (1) approving any substantial change in the mission or philosophical direction of CHI; (2) approving amendments to the Corporation's articles of incorporation or bylaws affecting any provision governing the qualification, rights or responsibilities of the Participating Congregations; (3) selecting and removing without cause a person to represent the Participating Congregation in exercising the rights and duties as described in the Corporation's bylaws; (4) participating in the distribution of assets upon the dissolution of the Corporation, in accordance with the Corporation's Bylaws; (5) participating in organizational advocacy efforts; (6) encouraging members of the Participating Congregations to participate in the ministries sponsored by the Corporation; and (7) participating through their representatives in meetings held twice a year.

Board of Stewardship Trustees. The Corporation's Bylaws provide for the governance of the Corporation by a Board of Stewardship Trustees of at least nine and no more than twenty-one appointed Trustees one of which is an ex officio Trustee with voting powers. All Trustees serve regular staggered terms of three years. The Board of Stewardship Trustees has the power and the authority to supervise, control, direct and manage the property, affairs, and activities of the Corporation, to determine the policies of the Corporation, to do or cause to be done any and all things for and on behalf of the Corporation, to exercise or cause to be exercised any or all of its powers, privileges, or franchises, and to seek the effectuation of CHI's objectives and purposes.

There are currently six committees of the Board of Stewardship Trustees, the Executive Committee, the Sponsorship and Governance Committee, the Finance Committee, the Human Resources Committee, the Quality and Safety Committee and the Audit and Compliance Committee.

The Board of Stewardship Trustees currently consists of fourteen elected Trustees plus the ex officio Trustee and meets in person five times a year. The Chief Executive Officer of the Corporation serves as the ex officio Trustee and is able to vote. The table below lists the current Trustees, their professional affiliations and the expiration of their terms in office.

B. GOVERNANCE OF PARTICIPANTS AND RELATIONSHIP WITH DESIGNATED AFFILIATE

Governance of Participants. Each Participant is governed by a Board of Directors, subject to the powers reserved to its corporate member. The corporate member or sole shareholder of each of the Participants (other than Centura Health and certain Participants that are parties to JOAs, as described immediately below) is the Corporation or a local "parent organization," the sole corporate member or sole shareholder of which is the Corporation. The Corporation as sole corporate member has the right to appoint and remove Participant board members, except as otherwise described herein.

Bethesda Designated Affiliate Agreement. Bethesda and its voting member, Bethesda, Inc., are parties to a Network Affiliation Agreement with the Corporation and The Good

Samaritan Hospital of Cincinnati, Ohio, an affiliate of the Corporation and a Participant. Bethesda is an Ohio nonprofit corporation that owns and operates an acute care facility in the metropolitan Cincinnati area. Bethesda (but none of its affiliates, including Bethesda, Inc.) is a Designated Affiliate, pursuant to an agreement (the "Bethesda Designated Affiliate Agreement"), between Bethesda and the Corporation. As a Designated Affiliate, the Corporation does not have corporate control over Bethesda and Bethesda's financial results are not included in the consolidated financial statements of the Corporation under GAAP. However, pursuant to the Network Affiliation Agreement, the Corporation has the right to nominate six members of Bethesda's 13-member Board of Trustees (subject to approval of those nominees by Bethesda, Inc.) and has the right to approve the appointment of Bethesda's CEO, who is also a Board member. The Bethesda Agreements provides that Bethesda will transfer to the Corporation, upon request of the Corporation, any amounts the Corporation determines are necessary for the Corporation to make Required Payments under (and as defined in) the Capital Obligation Document. Pursuant to the Bethesda Designated Affiliate Agreement, the Corporation has loaned funds to Bethesda to finance the acquisition and/or equipping and construction of certain facilities.

Certain Relationship and Control Mechanisms within the Corporation. The Corporation has the right, directly or indirectly, to appoint and remove a majority of the Board of Directors of each Participant, except for certain Participants affiliated with certain JOAs. In addition, the bylaws of substantially all nonprofit Participants that own and operate a substantial portion of the property of CHI and constitute a substantial portion of the revenues of CHI permit the Corporation to require such Participants to transfer assets to the Corporation to the extent necessary to accomplish CHI's goals and objectives. Furthermore, the bylaws of such Participants permit the Corporation to provide for the payment of all indebtedness of CHI in furtherance of CHI's goals and objectives, including indebtedness secured by the Capital Obligation Document. The Corporation's Board of Stewardship Trustees also maintains other powers over the Participants including approval of operating and capital budgets.

Joint Operating Agreements and Joint Ventures. As discussed above, the Corporation is a party to several joint ventures and JOAs. The JOAs create corporate entities or operating companies to operate health care facilities within a system or network. The Corporation shares certain reserved powers over those corporations or operating companies with the other health system or hospital corporation that is a party to the related joint operating agreement. Each JOA may contain limitations on the ability of CHI entities to transfer property to others, including transfers to CHI and to the other party to the agreement. Such limitations may limit the ability of the applicable Designated Affiliate or Participant to transfer property to CHI if so requested by CHI pursuant to the Capital Obligation Document.

PART IX: CHI Leadership

Under the leadership of the CEO, CHI has two levels of management, management at the market level and management at the national office level. CHI operations are overseen by two Presidents who serve as President, Health System Delivery and Chief Operating Officer; and President, Enterprise Business Lines and Chief Financial Officer. Key executives lead mission, strategy, clinical services, physician enterprise, legal services and human resources. CHI is organized in six geographic divisions (Fargo, Iowa, Nebraska, Pacific Northwest, Texas, East/Southeast), each led by a senior vice president of operations. CHI leverages expertise across the enterprise in areas such as mission, human resources, marketing and communications, finance, legal services, clinical effectiveness, supply chain, information technology, insurance, risk management, and strategy and business development. Several functions have been nationalized including information technology, legal services, clinical engineering and corporate responsibility. Day-to-day operations of the local markets is the responsibility of a local executive who reports to the division senior vice president of operations. CHI continues to evolve its operating model to include clinical leaders as it moves from a hospital-centric organization to one that provides a full continuum of care in support of the creation of healthier communities.

CHI has strong, experienced leadership teams with a solid understanding of the formation and ongoing management of partnership relationships. Short biographies of key employees are discussed below.

Kevin E. Lofton, FACHE, Chief Executive Officer (age 59). Mr. Lofton joined the Corporation in 1998 and has served in his current position since 2003. Prior to that time, he served as Executive Vice President and Chief Operating Officer of the Corporation from 1999 and as the Regional President responsible for MBOs in seven states from 1998 through 1999. Before joining the Corporation in February 1998, Mr. Lofton was the Chief Executive Officer of the University of Alabama Hospital in Birmingham. In previous positions, Mr. Lofton served as the Chief Executive Officer of Howard University Hospital in Washington, D.C., and Chief Operating Officer at University Medical Center in Jacksonville, Florida. Mr. Lofton served as the 2007 Chairman of the Board of the American Hospital Association and currently serves on the board and executive committee of the Catholic Health Association of the United States. Mr. Lofton received a bachelor's degree in management from Boston University and a master of health administration degree from Georgia State University.

Michael T. Rowan, President Health System Delivery and Chief Operating Officer (age 55). Mr. Rowan joined the Corporation in March 2004. In his current role, he provides strategic direction and management oversight for all of CHI's locally based health care services, national business lines, corporate information technology, performance excellence, physician practice management, clinical operations, corporate responsibility and mission. His accomplishments include leading initiatives to improve financial performance, such as a reorganization of system and local operations and ITS technology systems, an expense-reduction initiative and a revenue cycle improvement project. Prior to joining the Corporation, Mr. Rowan served as executive vice president and chief operating officer of St. John Health in Detroit, Michigan. In previous positions, Mr. Rowan served as president and chief executive officer of Humility of Mary Health Partners in Youngstown, Ohio; executive vice president and chief operating officer of Sarasota Memorial Health Care System, Sarasota, Florida; and vice president of Memorial Medical Center, Savannah, Georgia. Mr. Rowan received a master's degree in health services administration from the University of Michigan and a bachelor's degree from Miami University. He is a fellow of the American College of Healthcare Executives. Mr. Rowan has served on the boards of Centura Health of Colorado and the National Association of Health Services Executives. He serves on the Editorial Committee of Health Progress, and on the Board Nominating Committee of the Catholic Health Association of America.

J. Dean Swindle, President of Enterprise Business Lines and Chief Financial Officer (age 53). Mr. Swindle joined the Corporation in May 2010. Mr. Swindle has overall responsibility for financial strategy and planning, and corporate business services, including revenue cycle, supply chain, enterprise support centers, treasury services and payer strategy and operations. Prior to joining the Corporation, Mr. Swindle served as Senior Vice President of Finance, Executive Vice President and Chief Financial Officer and most recently as President, Ambulatory Services and Chief Financial Officer with Novant Health System, Winston-Salem, North Carolina. Mr. Swindle has also served as Vice President, Financial Services, at General Health System in Baton Rouge, Louisiana. He began his career with KPMG LLP in Jackson, Mississippi. Mr. Swindle earned a master of business administration from Duke University Fuqua School of Business in Durham, North Carolina, and a bachelor of business administration degree from Millsaps College, Jackson, Mississippi. He is a member of the Health care Financial Management Association and the American Institute of Certified Public Accountants.

John F. DiCola, Executive Vice President, Enterprise Strategic Development (age 63). Mr. DiCola has held his current position since 1997. His responsibilities include overseeing CHI's strategic plan, leading CHI's growth strategies and partnering efforts at national and market levels and managing CHI's strategic planning process. Mr. DiCola also has responsibility for CHI's research and development initiative and its national foundation. He led strategic planning and corporate development efforts for the Sisters of Charity Health Care Systems in Cincinnati and also served as a Senior Business and Strategy Adviser with Ernst and Whinney, a national health care consulting firm. Mr. DiCola has an undergraduate degree from the University of Notre Dame and a master's degree in health policy and administration from Indiana University.

Reverend Thomas R. Kopfensteiner, Executive Vice President, Mission (age 60). Father Kopfensteiner is Executive Vice President of Mission for the Corporation. Prior to joining the Corporation, he was most recently Associate Professor of Moral Theology and Chair of the Department of Theology at Fordham University, Bronx, NY. Fr. Kopfensteiner has written extensively in the area of moral theology and health care ethics. He has served as a board member and ethical consultant for several health care organizations. Fr. Kopfensteiner holds a doctorate in sacred theology from Gregorian University in Rome.

Mitch H. Melfi, Esq., Executive Vice President, Corporate Affairs and Chief Legal Officer (age 57). Prior to assuming his current position, Mr. Melfi served as Senior Vice President, Chief Risk Officer for the Corporation and as President and CEO of FIIL. He also served as Vice President for Risk/Claim Management and Associate General Counsel for the Sisters of Charity Health Care Systems, Inc. in Cincinnati, Ohio until it merged with two other Catholic health systems to form CHI. Mr. Melfi has spoken on various legal and risk management topics to physicians, nurses, risk managers and other allied health care professionals, and has provided consulting services in various areas of risk management and loss prevention. He taught at the College of Medicine at The Ohio State University and served as a guest lecturer at Capital University Law School. Mr. Melfi received his B.A. from The Ohio State University and his J.D. from Capital University Law School in Columbus, Ohio.

Stephen Moore, M.D., Senior Vice President and Chief Medical Officer (age 59). Dr. Stephen Moore is responsible for facilitating achievement of CHI's strategic 2020 vision of top performance in the areas of quality, patient safety, clinical evidence, and clinical efficiency. Dr. Moore joined the Corporation from Inova Health System, a six hospital system in Northern Virginia where he served as Executive Vice President, Clinical Quality and Patient Safety. In this position, he was responsible for operational areas of pharmacy, long-term care, assisted living facilities, home health as well as quality, patient and employee safety, case management, infection control, clinical efficiency, and hospice/end of life care. Dr. Moore currently is responsible for enterprise intelligence, patient safety, quality, physician leadership development, pharmacy, virtual health services, and joint clinical sponsorship of CHI's OneCare program. Dr. Moore earned his Board Certification in Family Medicine in 1986. Dr. Moore graduated from Tufts University School of Medicine and the University of Rochester Family Medicine Residency program. Dr. Moore has more than 14 years of full-time practice experience, spending six of those years in rural community health centers as a rural emergency room physician and nine years in private practice.

Kathleen Sanford, DBA, RN, CENP, FACHE, Senior Vice President and Chief Nursing Officer (age 61). Ms. Sanford joined the Corporation in 2006. She has over 40 years' experience in health care, including staff nursing, middle management, chief nurse executive, hospital administrator, and strategy executive roles. In addition to acute care leadership, she has worked in long term care; founded, initiated and managed a Medicare-certified home health agency; built and managed urgent care services; and managed employed physician office practices. A former Army Nurse, she retired as Chief Nurse of the Washington Army National Guard. She served as the 2006 President of the American Organization of Nurse Executives and in that role also participated in the Tri-Council for Nursing. She is currently editor-in-chief for Nursing Administration Quarterly (NAQ). As a former newspaper health care columnist and author for multiple publications, she has published more than 100 articles and the management book, "Leading with Love." Ms. Sanford has co-written a management book on Dyad Leadership with her Dyad Partner, the CHI Chief Medical Officer which is in production for release in spring 2015. Her education includes a bachelor's degree in nursing from the University of Maryland/Walter Reed Army Institute of Nursing, an M.A. in Human Resources Management from Pepperdine University, an M.B.A. from Pacific Lutheran University, and a Doctorate in Business from Nova Southeastern University. She is a Fellow in the Wharton School of Business Nursing Administration Program and a Fellow of the American College of Health care Executives.

Patricia G. Webb, Executive Vice President, Chief Administrative Officer and Chief Human Resources Officer (age 60). Ms. Webb joined the Corporation in January 2011. She has more than 25 years of experience in leading operations and human resource functions in non-union, union and multi-facility health care organizations. Prior to joining the Corporation, Ms. Webb was Senior Vice President and Chief Human Resources Officer at UMass Memorial Health Care, Worcester, MA. She has also served as human resources executive at Boston Medical Center, Boston, MA; Wake Medical Center, Raleigh, NC; and University Medical Center, Jacksonville, FL. Ms. Webb has a master's degree in business and human resources management from the University of North Florida, Jacksonville; and a bachelor's degree in management and marketing from Florida A&M University, Tallahassee. She is a Fellow in the American College of Health care Executives and participates frequently on national forums and panels.

T. Clifford Deveny, M.D., Senior Vice President, Physician Services and Clinical Integration (age 54). Dr. Deveny joined the Corporation in May 2011 and provides leadership and direction for physician services and clinical integration efforts. CHI's physician enterprise consists of twelve major market-based organizations that include nearly 3,500 providers practicing in almost 600 locations across the United States. National service-line development is underway in four specialties, with a focus on quality, care pathways and supply chain efficiency. Dr. Deveny also leads CHI's efforts in the development of clinically integrated networks, care management and ambulatory clinical quality. Dr. Deveny received his medical degree from the University of Toledo School of Medicine, Toledo, Ohio, and his bachelor's degree in chemistry from Denison University in Granville, Ohio. He is a member of several professional organizations, including the American College of Obstetricians and Gynecologists.

Paul W. Edgett, III, Executive Vice President, Growth & Business Acquisitions (age 54). Mr. Edgett joined the Corporation in August 1993 and provides leadership and direction for the acquisition of health systems, hospitals and related health services businesses and organizations that will help CHI achieve its growth goals while expanding the products and services CHI offers across the continuum of care. Previously, Mr. Edgett was senior vice president of St. Vincent Health System, Little Rock, Arkansas. Prior to that, he was assistant vice president for Methodist Hospitals of Dallas in Dallas, Texas. He has also worked for Voluntary Hospitals of America in Irving, Texas, and for Humana, Inc. in Mt. Prospect, Illinois. Mr. Edgett holds an MBA from the University of Colorado.

Conflicts of Interest. The Corporation maintains policies that require internal reporting of outside financial and fiduciary activities to protect its interests in circumstances that may result in a conflict between the personal interests of its employees and Trustees and those of CHI. Those policies put in place a general obligation for key employees and trustees to report potential conflicts of interest to the Board Chair (in the case of Trustees) or CHI Corporate Responsibility Officer and CHI Senior Vice President and Chief Human Resources Officer (in the case of employees), in addition to requiring annual disclosures.

PART X: Legal Proceedings

A. PENDING LITIGATION/REGULATORY MATTERS

CHI operates in a highly litigious industry. As a result, various lawsuits, claims and regulatory proceedings have been instituted or asserted against it from time to time. CHI has knowledge of certain pending suits against certain of its entities that have arisen in the ordinary course of business. In the opinion of management, CHI maintains adequate insurance and/or other financial reserves to cover the estimated potential liability for damages in these cases, or, to the extent such liability is uninsured, adverse decisions will not have a material adverse effect on the financial position or operations of CHI.

General Observation Relating to Status as Health Care System. CHI, like all major health care systems, periodically may be subject to investigations or audits by federal, state and local agencies involving compliance with a variety of laws and regulations. These investigations seek to determine compliance with, among other things, laws and regulations relating to Medicare and Medicaid reimbursement, including billing practices for certain services. Violation of such laws could result in substantial monetary fines, civil and/or criminal penalties and exclusion from participation in Medicare, Medicaid or similar programs.

Nationwide Review of Certain Hospital Charges. The Civil Division of the Department of Justice ("DOJ") contacted CHI in 2010 in connection with its nationwide review of whether, in certain cases, hospital charges to the federal government relating to implantable cardio-defibrillators ("ICDs") met the Centers for Medicare & Medicaid Services reimbursement criteria set forth in the Medicare National Coverage Determination 20.4. On September 12, 2014, in the interest of avoiding delay, uncertainty, inconvenience and expense of protracted litigation, and without any admission of liability, CHI reached an agreement in principle with the DOJ to settle this matter, contingent upon final approval of DOJ and the Office of Inspector General of the U.S. Department of Health and Human Services ("OIG"). Management believes that adequate reserves have been established to cover this matter and that the outcome of the pending settlement discussions will not have a material adverse effect on the financial position or results of operations of CHI.

St. Joseph Medical Center, Towson, Maryland. In 2010, the Corporation and one of its direct affiliates, St. Joseph Medical Center ("St. Joseph–Towson"), which owned and operated St. Joseph Medical Center in Towson, Maryland until its sale in 2012 to an unrelated party, were named as defendants in certain currently unresolved litigation. The litigation relates to alleged unnecessary cardiac stent procedures and involves several individual lawsuits variously pending in the Circuit Court for Baltimore County, the Circuit Court of Baltimore City, and the United States District Court for the District of Maryland. Management believes that adequate reserves have been established and that the outcome of the current litigation will not have a material adverse effect on the financial position or results of operations of CHI.

St. Joseph–London. Following a voluntary disclosure of compliance-related issues concerning cardiac stent cases performed at a CHI direct affiliate, St. Joseph London ("SJHS"), by a single, independent/non-employed interventional cardiologist, on January 22, 2014, SJHS entered into a settlement agreement with the federal government, the Commonwealth of Kentucky, and three relators and paid $16.5 million to resolve civil and administrative monetary claims raised in a qui tam lawsuit relating to certain diagnostic and therapeutic cardiac procedures performed at SJHS's facility and the financial relationship with certain cardiac physicians and physician groups. In addition, SJHS entered into a five-year corporate integrity agreement with the OIG that imposes certain compliance oversight obligations solely at SJHS' facility.

In addition to the qui tam lawsuit that formed the basis of the settlement described in the previous paragraph, the Commonwealth of Kentucky and the relators, numerous civil lawsuits have been filed against the Corporation and SJHS claiming damages for alleged unnecessary cardiac stent placements and other cardiac procedures. Both CHI and SJHS are vigorously defending these lawsuits. Management believes that adequate reserves have been established and that the outcome of the current litigation will not have a material adverse effect on the financial position or results of operations of CHI.

Pension Plan Litigation. In May 2013, the Corporation and two employees were named as defendants in a lawsuit challenging the "church plan" status of certain of CHI's defined benefit plans. Medina, et al. v. Catholic Health Initiatives, et. al., Civil No 13-1249 (District of Colorado). Subsequently, the Complaint was amended to name additional CHI-related defendants. The Complaint alleges that CHI's defined benefit plans (1) do not meet the definition of a "church plan" under the Employee Retirement Income Security Act ("ERISA"); (ii) were underfunded; and (iii) violated various provisions of ERISA applicable to covered defined benefit plans; or, alternatively, if CHI's defined benefit plans qualify for "church plan" status, the "church plan" exemption is an unconstitutional accommodation under the Establishment Clause of the First Amendment. On August 26, 2014, the District Court entered an Order denying the Plaintiff's Motion for Partial Summary Judgment and rejecting plaintiff's contention that the CHI Plan is not an exempt "church plan" under ERISA. While no assurance can be given that the outcome of this litigation will be favorable to CHI, at this time, Management does not believe that this matter, if decided adversely to CHI, would have a material adverse effect on the financial position or results of operations of CHI.

B. PROFESSIONAL LIABILITY AND OTHER INSURANCE COVERAGE

Professional liability, employment practices liability and general liability insurance for CHI are underwritten through First Initiatives Insurance Ltd. (FIIL), a wholly-owned, captive insurance company established by CHI on January 1, 1997. FIIL provides professional liability coverage of $10 million per claim, either on a direct written basis or through a reinsurance relationship with commercial carriers. Reserves for losses and loss adjustment expenses, including self-insured reserves and claims, are determined based on the expertise of independent actuaries. Through FIIL, CHI purchases excess liability insurance from commercial insurance carriers, which, in fiscal year 2014, is $200 million per claim. Additionally, CHI purchases $85 million aggregate protection on hospital professional liability and general liability claims within its retention level, subject to a $175,000 continuing per claim limit.

Workers' compensation coverage is underwritten primarily through FIIL, either on a direct written basis or through reinsurance relationships with commercial carriers. Unrelated commercial insurance carriers insure or reinsure losses in excess of $650,000 per claim.

Commercial deductible coverage such as property, automobile, directors and officers are underwritten primarily through FIIL on a direct written basis. Unrelated commercial insurance carriers insure losses in excess of the various deductible levels carried by FIIL.

C. COMPLIANCE

CHI has implemented a national integrated and risk-based compliance model, anchored by the mission, vision and core values of the organization. The Corporate Responsibility Program ("CRP") provides leadership, oversight and resources for the development, implementation and maintenance of a standard, mission-based corporate responsibility program, which centralizes all key compliance areas across CHI. The Corporation's goal for this national infrastructure is to provide consistent and effective compliance programs for all CHI facilities, aligning system resources and focusing on specialized expertise in highly technical areas.

The CRP Program includes:

- Providing risk specific and technical education to promote consistency, standardization, practice sharing and risk mitigation within CHI;
- Executing an annual risk assessment process focused on proactive identification and mitigation of compliance risk;
- Serving as compliance subject matter experts to include, but not limited to, the following compliance areas: general, physician, laboratory, clinical research, coding, use of data analytics in monitoring, managed care, senior services, homecare, hospice, DME and home infusion;
- Implementing an objective, system-wide CRP process to measure CRP effectiveness in support of the OIG and Federal Sentencing guidelines (which is further supported by CRP dashboards for reporting to local and national governance); and
- Overseeing the development, implementation and maintenance of an organization-wide information privacy and security program.

EXHIBIT A
List of Certain Facilities of CHI and Designated Affiliate

State/Market	Facilities[1]	Location	Acute Care Facility Licensed Beds	LTC Licensed Beds
Arkansas				
CHI St. Vincent				
	St. Vincent Hospital Hot Springs	Hot Springs	282	282
	St. Vincent Infirmary Medical Center	Little Rock	615	615
	St. Vincent Morrilton (CAH)	Morrilton	25	25
	St. Vincent Medical Center–North	Sherwood	69	69
	St. Vincent Rehabilitation Hospital (Joint Venture)	Sherwood	60	60
Colorado and Kansas				
Centura Health[2]				
	St. Thomas More Hospital	Canon City	55	55
	Progressive Care Center	Canon City		
	Medalion Retirement Community	Colorado Springs		
	Namaste Alzheimer Center	Colorado Springs		
	Penrose–St. Francis Medical Center	Colorado Springs	158	158
	Penrose Hospital	Colorado Springs	364	364
	The Gardens at St. Elizabeth	Denver		
	Mercy Regional Medical Center	Durango	82	82
	St. Anthony Summit Medical Center	Frisco	35	35
	OrthoColorado Hospital (Joint Venture)	Lakewood	48	48
	St. Anthony Hospital	Lakewood	224	224
	St. Mary-Corwin Medical Center	Pueblo	408	408
	The Villas at Sunny Acres	Thornton		
	St. Anthony North Hospital	Westminster	196	196
	St. Catherine Hospital	Garden City, KS	132	132
Iowa and Nebraska				
Mercy Health Network (Iowa)[3]				
	Mercy Medical Center–Centerville (CAH)	Centerville	25	25
	Mercy Franklin Center	Des Moines	32	32
	Mercy Medical Center	Des Moines	656	656
	Mercy Medical Center West Lakes	West Des Moines	146	146
CHI Health				
	Mercy Corning (CAH)	Corning (Iowa)	22	22
	Mercy Council Bluffs	Council Bluffs (Iowa)	278	278
	Missouri Valley (CAH)	Missouri Valley (Iowa)	25	25
	St. Francis	Grand Island (Nebraska)	159	159
	Good Samaritan	Kearney (Nebraska)	233	233
	Richard Young Behavioral Health	Kearney (Nebraska)	61	61

State/Market	Facilities(1)	Location	Acute Care Facility Licensed Beds	LTC Licensed Beds
	Nebraska Heart	Lincoln (Nebraska)	63	
	St. Elizabeth	Lincoln (Nebraska)	260	
	St. Mary's (CAH)	Nebraska City (Nebraska)	18	
	Bergan Mercy	Omaha (Nebraska)	464	
	Lasting Hope Recovery Center	Omaha (Nebraska)	64	
	Immanuel	Omaha (Nebraska)	356	201
	Creighton University Medical Center	Omaha (Nebraska)	334	
	Lakeside	Omaha (Nebraska)	157	
	Nebraska Spine Hospital (Joint Venture)	Omaha (Nebraska)	34	
	Midlands	Papillion (Nebraska)	121	
	Plainview (CAH)	Plainview (Nebraska)	16	
	Schuyler (CAH)	Schuyler (Nebraska)	25	
Kentucky				
KentuckyOne Health, Inc.				
	Flaget Memorial Hospital	Bardstown	40	12
	Saint Joseph–Berea (CAH)	Berea	25	
	Continuing Care Hospital	Lexington	55	
	Saint Joseph East, including Women's Hospital at Saint Joseph East	Lexington	185	
	Saint Joseph Hospital	Lexington	398	
	Saint Joseph–London	London	120	
	Frazier Rehabilitation and Neuroscience Center	Louisville	135	
	Jewish Hospital	Louisville	462	
	Our Lady of Peace	Louisville	414	
	Sts. Mary & Elizabeth Hospital	Louisville	298	
	University of Louisville Hospital(4)	Louisville	320	
	Saint Joseph–Martin (CAH)	Martin	25	
	Saint Joseph-Mount Sterling	Mount Sterling	42	
	Jewish Hospital Shelbyville	Shelbyville	70	
Minnesota				
CHI Albany Area Health				
	CHI Albany Area Health (Hospital) (CAH)	Albany	17	
CHI Lakewood Health				
	CHI Lakewood Health (Hospital) (CAH)	Baudette	15	44
CHI St. Francis Health				
	St. Francis Home	Breckenridge		80
	CHI St. Francis Health (Hospital) (CAH)	Breckenridge	25	
CHI St. Gabriel's Health				
	CHI St. Gabriel's Health (Hospital) (CAH)	Little Falls	25	
	St. Camillus Place	Little Falls		14

State/Market	Facilities[1]	Location	Acute Care Facility Licensed Beds	LTC Licensed Beds
CHI St. Joseph's Health				
	CHI St. Joseph's Health (Hospital) (CAH)	Park Rapids	54	
New Jersey				
Saint Clare's Health System[5]				
	Saint Clare's Hospital	Boonton Township	88	
	Saint Clare's Hospital	Denville	306	
	Franciscan Oaks	Denville		84
	Saint Clare's Hospital and The Dwelling Place	Dover	60	25
North Dakota				
CHI Carrington Health				
	CHI Carrington Health (Hospital) (CAH)	Carrington	25	
CHI Mercy Hospital				
	CHI Mercy Hospital (Hospital) (CAH)	Devils Lake	25	
CHI St. Joseph's Health				
	CHI St. Joseph's Health (Hospital) (CAH)	Dickinson	25	
CHI Villa Nazareth				
	CHI Villa Nazareth	Fargo		88
CHI Lisbon Health				
	CHI Lisbon Health (Hospital) (CAH)	Lisbon	25	
CHI Oakes Hospital				
	CHI Oakes Hospital (CAH)	Oakes	20	
CHI Mercy Health				
	CHI Mercy Health (Hospital) (CAH)	Valley City	25	
CHI Mercy Medical Center				
	CHI Mercy Medical Center (CAH)	Williston	25	
Ohio				
TriHealth, Inc.				
	Bethesda North Hospital[6]	Cincinnati	458	
	Good Samaritan Hospital[7]	Cincinnati	592	15
Premier Heath Partners				
	Good Samaritan Hospital, including the Dayton Heart & Vascular Hospital at Good Samaritan[8]	Dayton	491	
Oregon				
CHI St. Anthony Hospital				
	CHI St. Anthony Hospital (CAH)	Pendleton	49	
CHI Mercy Health				
	CHI Mercy Health Medical Center	Roseburg	174	
Pennsylvania				
CHI St. Joseph Health				
	St. Joseph Medical Center–Bern Township Campus	Reading	204	

State/Market	Facilities[1]	Location	Acute Care Facility Licensed Beds	LTC Licensed Beds
Tennessee				
CHI Memorial				
	Memorial Hospital	Chattanooga	336	
	Memorial Hospital Hixson	Hixson	69	
Texas				
CHI St. Luke's Health				
	The Vintage Hospital	Houston	106	
	Baylor St. Luke's Medical Center	Houston	850	
	Patients Medical Center	South Pasadena	61	
	Sugar Land Hospital	Sugar Land	100	
	Lakeside Hospital	The Woodlands	30	
	The Woodlands Hospital	The Woodlands	184	
CHI St. Luke's Health–Memorial				
	Memorial Livingston	Livingston	66	
	Memorial Lufkin	Lufkin	271	
	Memorial Specialty Hospital	Lufkin	26	
	Memorial San Augustine (CAH)	San Augustine	18	
Washington				
CHI Franciscan Health				
	Harrison Medical Center	Bremerton	297	
	Highline Medical Center	Burien	154	
	St. Elizabeth Hospital (CAH)	Enumclaw	38	
	St. Francis Hospital	Federal Way	124	
	St. Anthony Hospital	Gig Harbor	80	
	St. Clare Hospital	Lakewood	106	
	Harrison Medical Center	Silverdale	68	
	St. Joseph Medical Center	Tacoma	366	
	Regional Hospital	Tukwila	40	
Wisconsin				
CHI Franciscan Villa				
	CHI Franciscan Villa	South Milwaukee, WI		150

(1) (CAH) denotes a Critical Access Hospital.

(2) These facilities operated under the Centura Health (Colorado) Joint Operating Agreement.

(3) These facilities operated under the Mercy Health Network (Iowa) Joint Operating Agreement.

(4) This facility is managed and operated under the Joint Operating Agreement with KentuckyOne Health, Inc.

(5) MBO held for sale.

(6) Operated as a Designated Affiliate under the TriHealth Inc. (Ohio) Joint Operating Agreement.

(7) Operated under the TriHealth Inc. (Ohio) Joint Operating Agreement.

(8) Operated under the Premier Health Partners (Ohio) Joint Operating Agreement.

APPENDIX A

Catholic Health Initiatives Consolidated Financial Statements and Supplemental Information

Years ended June 30, 2014 and 2013

Consolidated Financial Statements and Supplemental Information

Catholic Health Initiatives
Years Ended June 30, 2014 and 2013
With Report of Independent Auditors

Ernst & Young LLP

Building a better working world

Catholic Health Initiatives

Consolidated Financial Statements
and Supplemental Information

Years Ended June 30, 2014 and 2013

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, 2014 and 2013, 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 consolidated financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the 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, 2014 and 2013, and the consolidated results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

September 17, 2014

Catholic Health Initiatives

Consolidated Balance Sheets
(In Thousands)

	June 30	
	2014	**2013**
Assets		
Current assets:		
Cash and equivalents	**$ 1,042,748**	$ 609,226
Net patient accounts receivable, less allowances for bad debt of $924,395 and $858,394 at 2014 and 2013, respectively	**1,997,468**	1,755,348
Other accounts receivable	**286,673**	197,917
Current portion of investments and assets limited as to use	**24,732**	11,697
Inventories	**271,664**	247,720
Assets held for sale	**202,066**	215,777
Prepaid and other	**197,668**	137,776
Total current assets	**4,023,019**	3,175,461
Investments and assets limited as to use:		
Internally designated for capital and other funds	**5,310,967**	5,452,023
Mission and ministry fund	**137,099**	121,109
Capital resource pool	**515,338**	416,938
Held by trustees	**53,574**	16,726
Held for insurance purposes	**828,078**	825,885
Restricted by donors	**296,472**	266,325
Total investments and assets limited as to use	**7,141,528**	7,099,006
Property and equipment, net	**8,942,520**	7,786,240
Deferred financing costs	**43,074**	36,557
Investments in unconsolidated organizations	**608,088**	416,816
Intangible assets and goodwill, net	**553,462**	364,751
Notes receivable and other	**500,886**	430,888
Total assets	**$ 21,812,577**	$ 19,309,719

	June 30	
	2014	**2013**
Liabilities and net assets		
Current liabilities:		
Compensation and benefits	**$ 679,575**	$ 600,837
Third-party liabilities, net	**123,804**	110,571
Accounts payable and accrued expenses	**1,446,233**	1,066,930
Liabilities held for sale	**104,117**	91,412
Variable-rate debt with self liquidity	**521,455**	321,455
Commercial paper and current portion of debt	**711,408**	749,617
Total current liabilities	**3,586,592**	2,940,822
Pension liability	**496,358**	472,852
Self-insured reserves and claims	**634,718**	616,652
Other liabilities	**831,615**	698,283
Long-term debt	**7,146,399**	6,334,985
Total liabilities	**12,695,682**	11,063,594
Net assets:		
Net assets attributable to CHI	**8,289,188**	7,769,310
Net assets attributable to noncontrolling interests	**469,296**	175,663
Unrestricted	**8,758,484**	7,944,973
Temporarily restricted	**265,639**	214,524
Permanently restricted	**92,772**	86,628
Total net assets	**9,116,895**	8,246,125
Total liabilities and net assets	**$ 21,812,577**	$ 19,309,719

See accompanying notes.

Catholic Health Initiatives

Consolidated Statements of Operations
(In Thousands)

	Year Ended June 30	
	2014	**2013**
Revenues:		
Net patient services revenues before provision for doubtful accounts	**$ 13,372,955**	$ 10,714,455
Provision for doubtful accounts	**(965,711)**	(821,465)
Net patient services revenues	**12,407,244**	9,892,990
Nonpatient:		
Donations	**32,366**	31,089
Changes in equity of unconsolidated organizations	**26,922**	19,056
Investment income used for operations	**101,874**	66,529
Gains on business combinations	**421,955**	76,425
Hospital nonpatient revenues	**294,021**	209,413
Insurance premium revenues	**171,465**	50,503
Other	**432,826**	362,220
Total nonpatient revenues	**1,481,429**	815,235
Total operating revenues	**13,888,673**	10,708,225
Expenses:		
Salaries and wages	**5,554,984**	4,424,404
Employee benefits	**1,072,850**	970,824
Purchased services, medical professional fees, consulting and legal	**1,945,579**	1,361,778
Supplies	**2,346,879**	1,832,984
Utilities	**197,479**	152,979
Rentals, leases, maintenance and insurance	**875,833**	616,683
Depreciation and amortization	**698,772**	555,064
Interest	**235,440**	164,353
Other	**857,334**	624,756
Total operating expenses before restructuring, impairment and other losses	**13,785,150**	10,703,825
Income from operations before restructuring, impairment and other losses	**103,523**	4,400
Restructuring, impairment, and other losses	**117,514**	59,343
Loss from operations	**(13,991)**	(54,943)
Nonoperating gains (losses):		
Investment income, net	**748,374**	488,824
Loss on defeasance of bonds	**(5,625)**	(17,998)
Realized and unrealized (losses) gains on interest rate swaps	**(39,424)**	65,843
Other nonoperating (losses) gains	**(55,367)**	7,977
Total nonoperating gains	**647,958**	544,646
Excess of revenues over expenses	**633,967**	489,703
Deficit of revenues over expenses attributable to noncontrolling interest	**5,686**	37
Excess of revenues over expenses attributable to CHI	**$ 639,653**	$ 489,740

See accompanying notes.

Catholic Health Initiatives

Consolidated Statements of Changes in Net Assets
(In Thousands)

	Unrestricted Net Assets					
	Attributable to CHI	Attributable to Noncontrolling Interests	Total	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total Net Assets
Balances, July 1, 2012	$ 6,922,466	$ 180,863	$ 7,103,329	$ 136,821	$ 68,033	$ 7,308,183
Excess of revenues over expenses	489,740	(37)	489,703	–	–	489,703
Net loss from discontinued operations	(108,594)	–	(108,594)	–	–	(108,594)
Decrease in pension funded status	483,468	2,082	485,550	–	–	485,550
Temporarily and permanently restricted contributions	–	–	–	33,056	(1,554)	31,502
Net assets released from restriction for capital	15,791	–	15,791	(15,791)	–	–
Net assets released from restriction for operations	–	–	–	(15,728)	–	(15,728)
Investment (loss) income	(45)	–	(45)	5,393	1,280	6,628
Temporarily and permanently restricted assets from acquisitions	–	–	–	74,253	19,171	93,424
Other changes in net assets	(33,516)	(7,245)	(40,761)	(3,480)	(302)	(44,543)
Net increase (decrease) in net assets	846,844	(5,200)	841,644	77,703	18,595	937,942
Balances, June 30, 2013	**7,769,310**	**175,663**	**7,944,973**	**214,524**	**86,628**	**8,246,125**
Excess of revenues over expenses	**639,653**	**(5,686)**	**633,967**	**–**	**–**	**633,967**
Net loss from discontinued operations	**(14,768)**	**–**	**(14,768)**	**–**	**–**	**(14,768)**
Increase 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**
Noncontrolling interest issued	**–**	**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**

See accompanying notes.

Catholic Health Initiatives

Consolidated Statements of Cash Flows
(In Thousands)

	Year Ended June 30	
	2014	**2013**
Operating activities		
Increase in net assets	**$ 870,770**	$ 937,942
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	**698,772**	555,064
Provision for bad debts	**965,711**	821,465
Changes in equity of unconsolidated organizations	**(26,922)**	(19,056)
Net gains on business combinations	**(421,955)**	(76,425)
Net gains on sales of facilities and investments in unconsolidated organizations	**(17,116)**	(9,544)
Noncash operating expenses related to restructuring, impairment and other losses	**85,709**	4,872
Loss on defeasance of bonds	**5,625**	17,998
Increase in fair value of interest rate swaps	**(10,200)**	(98,799)
Decrease in unfunded pension liability	**(1,488)**	(484,049)
Net changes in current assets and liabilities:		
Net patient and other accounts receivable	**(1,147,685)**	(1,067,716)
Other current assets	**(55,976)**	(6,725)
Current liabilities	**278,147**	89,868
Noncontrolling interest issued	**(298,725)**	–
Other changes	**(604)**	193,461
Net cash provided by operating activities, before net change in investments, and assets limited as to use	**924,063**	858,356
Net decrease in investments and assets limited as to use	**239,686**	474,258
Net cash provided by operating activities	**1,163,749**	1,332,614
Investing activities		
Purchases of property, equipment and other capital assets	**(1,478,741)**	(1,285,330)
Net cash on contributions and acquisitions	**70,851**	67,696
Purchase of CHI St. Vincent Hot Springs, net of cash acquired	**(59,571)**	–
Purchase of CHI St. Luke's Health System, net of cash acquired	**–**	(961,014)
Purchase of Alegent Creighton Health, net of cash acquired	**–**	(505,542)
Net cash proceeds from asset sales	**71,639**	218,002
Distributions from investments in unconsolidated organizations	**45,991**	35,224
Cash from net repayments of notes receivable	**12,004**	2,843
Other changes	**19,715**	35,306
Net cash used in investing activities	**(1,318,112)**	(2,392,815)
Financing activities		
Proceeds from issuance of debt and bank loans	**1,899,065**	1,591,465
Costs associated with issuance of debt	**(11,354)**	(12,170)
Repayment of debt	**(1,299,826)**	(313,840)
Proceeds from bank loans	**–**	–
Net cash provided by financing activities	**587,885**	1,265,455
Increase in cash and equivalents	**433,522**	205,254
Cash and equivalents at beginning of year	**609,226**	403,972
Cash and equivalents at end of year	**$ 1,042,748**	$ 609,226
Supplemental disclosures of cash flow information		
Cash paid during the year for interest, including amounts capitalized	**$ 272,627**	$ 199,413

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 (MBO) and other facilities operating in 18 states and includes 92 hospitals, including four academic medical centers, and 24 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.

1. Summary of Significant Accounting Policies (continued)

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.

Net Patient Accounts Receivable and Net Patient Services Revenues

Net patient accounts receivable has 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 statements of operations as a deduction from patient services revenues (net of contractual allowances and discounts) since CHI accepts and treats substantially all patients without regard to the ability to pay.

During fiscal year 2014 and 2013, CHI added approximately $76 million and $400 million, respectively, in net patient accounts receivable due to the acquisition of various new subsidiaries – see Note 4, *Acquisitions, Affiliations and Divestitures*. Effective on January 1, 2014, the Affordable Care Act came into effect, which in certain states has caused a slight shift in payor mix whereby patients that 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 is as follows (in thousands):

	Reserve for Contractual Allowance	Allowance for Bad Debt	Reserve for Charity	Total Accounts Receivable Allowances
Balance at July 1, 2012	$ (1,947,750)	$ (687,631)	$ (151,348)	$ (2,786,729)
Additions	(21,690,860)	(886,571)	(1,219,555)	(23,796,986)
Reductions	20,778,640	715,808	803,787	22,298,235
Balance at June 30, 2013	(2,859,970)	(858,394)	(567,116)	(4,285,480)
Additions	**(28,747,136)**	**(1,029,699)**	**(1,135,618)**	**(30,912,453)**
Reductions	**28,079,966**	**963,698**	**1,271,588**	**30,315,252**
Balance at June 30, 2014	**$ (3,527,140)**	**$ (924,395)**	**$ (431,146)**	**$ (4,882,681)**

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 and 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. 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 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).

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

1. Summary of Significant Accounting Policies (continued)

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 $44.7 million and $30.4 million was recorded in fiscal years 2014 and 2013, respectively. Costs incurred in the development and installation of internal-use software are typically 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 the 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 the estimated useful lives ranging from 10 to 25 years using the straight-line method. Amortization expense of $7.9 million and $5.2 million was recorded in 2014 and 2013, respectively. It is estimated that intangible asset amortization expense over the next five years will be $10.0 million per year.

Goodwill is not amortized but is subject to annual impairment tests 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 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

1. Summary of Significant Accounting Policies (continued)

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 one of its MBO's goodwill was less than the carrying value. A goodwill impairment charge of $15.0 million is reflected in the consolidated statements of operations for fiscal year 2014.

The changes in the carrying amount of goodwill and intangibles is as follows (in thousands):

	2014	2013
Intangible assets, beginning of year	**$ 97,684**	$ 52,834
Current year acquisitions	**130,124**	43,600
Purchase price allocation adjustments for prior year's acquisitions and other adjustments	**(11,970)**	1,250
Intangible assets, end of year	**215,838**	97,684
Accumulated amortization, beginning of year	**(25,467)**	(20,297)
Intangible amortization expense	**(7,931)**	(5,254)
Other adjustments	**8,169**	84
Accumulated amortization, end of year	**(25,229)**	(25,467)
Intangible assets, net	**190,609**	72,217
Goodwill, beginning of year	**292,534**	130,343
Current year acquisitions	**16,725**	146,142
Impairments	**(15,040)**	–
Purchase price allocation adjustments for prior year's acquisitions and other adjustments	**68,634**	16,049
Goodwill, end of year	**362,853**	292,534
Total intangible assets and goodwill, net	**$ 553,462**	$ 364,751

Intangible assets and goodwill increased during fiscal year 2014, 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 and goodwill, including the correction to the values assigned to various CHI St. Luke Medical Center buildings, resulting in a $78.5 million increase in goodwill.

1. Summary of Significant Accounting Policies (continued)

Notes Receivable and Other Assets

Other assets consist primarily of notes receivable, pledges receivable, deferred compensation assets, prepaid service contracts, deposits and other long-term assets. Notes receivable from related entities at June 30, 2014 and 2013, 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):

	2014	2013
Total notes receivable from related entities	**$ 175,466**	$ 188,275
Reinsurance recoverable on unpaid losses and loss adjustment expense	**29,109**	71,801
Deferred compensation assets	**51,684**	41,014
Other long-term assets	**244,627**	129,798
Total notes receivable and other	**$ 500,886**	$ 430,888

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, 2014 and 2013.

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.

1. Summary of Significant Accounting Policies (continued)

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, the 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. Earnings from fixed-income investments held by FIIL are also classified within operating activities as such earnings support FIIL operations. Other activities that result in gains or losses peripheral to CHI's primary mission are considered to be nonoperating. Nonoperating activities include all other investment earnings, gains/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 would make to enter a new market community or to expand upon existing affiliations is also classified as nonoperating.

1. Summary of Significant Accounting Policies (continued)

Charity Care

As an integral part of its mission, CHI accepts and treats all patients without regard to the 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 and changes in net assets. The estimated cost of charity care provided was $255.2 million and $320.7 million in 2014 and 2013, respectively, for continuing operations, and $1.9 million and $2.0 million in 2014 and 2013, 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 Nonpatient Revenues

Other nonpatient 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, premium revenues, and revenues from other miscellaneous sources.

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 is recognized as a component of nonoperating (losses) gains 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.

1. Summary of Significant Accounting Policies (continued)

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 are supported centrally for all of CHI. Support services expenses as a percentage of total operating expenses were approximately 6.2% and 4.5% in 2014 and 2013, 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 in 2014, and certain property and equipment impairments in both 2014 and 2013, 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.

During the years ended June 30, 2014 and 2013, CHI recorded total charges of $117.5 million and $155.3 million, respectively, relating to asset and goodwill impairments, and changes in business operations, including reorganization and severance costs. Of this amount, $117.5 million and $59.3 million were from continuing operations and reported in the consolidated statements of operations for 2014 and 2013, respectively, and $96.0 million was reported as discontinued operations in the consolidated statements of changes in net assets for 2013. No restructuring or impairment was recorded in 2014, for the discontinued operations.

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.

1. Summary of Significant Accounting Policies (continued)

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.

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 $39.1 million and $32.5 million of Medicare meaningful use revenues and $18.0 million and $8.2 million of Medicaid meaningful use revenues in its consolidated statements of operations for fiscal year 2014 and 2013, respectively.

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

2. Community Benefit (Unaudited) (continued)

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.

Community benefit provided to the broader community includes the costs of providing services to other populations who 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):

	2014	2013
Cost of community benefit:		
Cost of charity care provided	**$ 255,157**	$ 320,666
Unpaid cost of public programs, Medicaid, and other indigent care programs	**453,386**	289,436
Non-billed services	**28,242**	36,237
Cash and in-kind donations	**4,084**	3,904
Education research	**102,081**	48,186
Other benefit	**62,263**	55,427
Total cost of community benefit from continuing operations	**905,213**	753,856
Total cost of community benefit from discontinued operations	**4,664**	8,095
Total cost of community benefit	**909,877**	761,951
Unpaid cost of Medicare from continuing operations	**776,417**	392,485
Unpaid cost of Medicare from discontinued operations	**16,445**	27,055
Total unpaid cost of Medicare	**792,862**	419,540
Total cost of community benefit and the unpaid cost of Medicare	**$ 1,702,739**	$ 1,181,491

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 year 2014 and 2013, CHI received $4.0 million and $28.3 million, respectively, in funds used to subsidize charity care provided.

The total cost of community benefit from continuing and discontinued operations was 6.4% and 6.8% of total expenses before operating expenses related to restructuring, impairment and other losses in 2014 and 2013, respectively. The total cost of community benefit and the unpaid cost of Medicare from continuing and discontinued operations was 12.1% and 10.5% of total expenses before operating expenses related to restructuring, impairment and other losses in 2014 and 2013, 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, 2014 and 2013, CHI has a 70% interest in a JOC based in Colorado and has a 50% interest in two other JOCs associated with other JOAs. CHI's interests in the JOCs are included in investments in unconsolidated organizations and totaled $199.4 million and $103.2 million at June 30, 2014 and 2013, 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 $607.7 million and $483.9 million at June 30, 2014 and 2013, respectively, and net assets of $347.2 million and $160.9 million, respectively.

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

Investments in Unconsolidated Organizations

Conifer Health Solutions (Conifer) – As of June 30, 2014 and 2013, CHI holds a $19.3 million cost method investment in Conifer, acquired as part of an 11-year agreement with Conifer where Conifer provides revenue cycle services for CHI acute care operations. The agreement allows CHI to earn shares in Conifer as transition and other activities are completed, and such shares will be issued at specified future dates. As of June 30, 2014 and 2013, CHI has met certain transition milestones and has earned the right to additional future shares valued at $64.5 million and $19.1 million, respectively, which are reflected in notes receivable and other in the accompanying consolidated balance sheets. This earned value will be amortized as an offset to revenue cycle service fees paid to Conifer over the life of the agreement.

Preferred Professional Insurance Corporation (PPIC) – PPIC is an unconsolidated affiliate of CHI. PPIC provides professional liability insurance and other related services to preferred physician and other health care providers that are associated with its owners. CHI owns a 27% interest in PPIC and accounts for its investment under the equity method of accounting. The book value of the investment was $60.5 million and $56.0 million at June 30, 2014 and 2013, respectively. PPIC had net assets of $224.8 million and $208.0 million at December 31, 2013 and 2012, respectively.

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 periods ended June 30, excluding the investments described above, are as follows (in thousands):

	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
(Deficit) excess of revenues over expenses	(54)	26,614	39,951	4,031	22,993	10,262	14,251	118,048

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

	2013							
	Medical Office Buildings	Outpatient and Diagnostic Services	Ambulatory Surgery Centers	Physician Practices	Hospital Based Services	ACO/CCO /CIN	Other Investees	Total
Total assets	$ 34,746	$ 265,568	$ 65,084	$ 28,697	$ 115,036	$ 50,623	$ 110,002	$ 669,756
Total debt	33,106	24,408	11,998	12,535	27,605	14,534	18,335	142,521
Net assets	1,414	195,874	44,996	8,758	71,752	36,090	64,958	423,842
Net patient services revenues	–	260,204	138,577	34,197	95,749	–	72,165	600,892
Total revenues, net	6,309	353,484	142,775	37,065	95,161	51,767	163,511	850,072
Excess of revenues over expenses	872	34,633	44,385	4,241	18,296	3,314	7,806	113,547

4. Acquisitions, Affiliations and Divestitures

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

	Harrison	CHI St. Luke's/Baylor	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**

	Harrison	CHI St. Luke's/Baylor	Hot Springs	Memorial	Other	Total
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 – Effective August 1, 2013, Harrison Medical Center (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 $63.7 million in operating revenues and $2.2 million of deficit 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 – Effective June 1, 2014, Memorial Health System of East Texas (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 $16.2 million in operating revenues and $0.8 million of deficiency of revenues over expenses in the CHI consolidated results of operations for the period June 1, 2014 through June 30, 2014.

CHI St. Luke's/Baylor College of Medicine – Effective on 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,

4. Acquisitions, Affiliations and Divestitures (continued)

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.

The following table is a summary of the business combinations that occurred in fiscal year 2013:

	St. Luke's	Highline	UMC	Alegent	Total
Fiscal year 2013					
Purchase consideration:					
Cash	$ 1,000,000	$ –	$ –	$ 553,700	$ 1,553,700
Note payable	260,000	–	–	–	260,000
Contingent consideration	–	–	217,709	–	217,709
Equity interest in Alegent	–	–	–	33,934	33,934
Gain on business combinations	–	55,436	–	20,989	76,425
	$ 1,260,000	$ 55,436	$ 217,709	$ 608,623	$ 2,141,768

	St. Luke's	Highline	UMC	Alegent	Total
Fiscal year 2013					
Purchase price allocation:					
Cash and investments	$ 1,153,253	$ 57,133	$ 94,061	$ 496,309	$ 1,800,756
Patient and other accounts receivable	180,106	27,268	65,723	118,833	391,930
Other current assets	37,413	5,081	29,601	34,884	106,979
Property and equipment	1,046,341	137,148	176,004	474,996	1,834,489
Intangible assets	41,124	1,494	–	982	43,600
Goodwill	–	–	53,178	92,964	146,142
Other assets	25,600	17,745	9,367	63,798	116,510
Current liabilities	(175,081)	(34,087)	(76,202)	(206,630)	(492,000)
Pension liability	(3,559)	(12,307)	–	(48,216)	(64,082)
Other liabilities	(153,436)	(5,355)	(11,202)	(81,344)	(251,337)
Notes payable to CHI	–	–	–	(337,953)	(337,953)
Debt	(891,761)	(138,684)	(122,821)	–	(1,153,266)
	$ 1,260,000	$ 55,436	$ 217,709	$ 608,623	$ 2,141,768

4. Acquisitions, Affiliations and Divestitures (continued)

CHI St. Luke's Health System – Effective June 1, 2013, CHI acquired the operations of St. Luke's Health System (St. Luke's), a six-hospital system based in Houston, Texas, from Episcopal Health Foundation for cash and a note payable. For the month of June 2013, the operations of CHI St. Luke's contributed $95.2 million in operating revenues and $12.8 million of deficit of revenues over expenses to the CHI consolidated results of operations.

Highline Medical Center – Effective April 1, 2013, Highline Medical Center (Highline) was acquired by CHI for no consideration, resulting in the recognition of a $55.4 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. Highline is a 154-bed acute care hospital based in Burien, Washington. Excluding the contribution gain, Highline reported $48.3 million in operating revenues and $2.6 million in deficiency of revenues over expenses to the CHI consolidated results of operations for the period April 1 through June 30, 2013.

University Medical Center and University of Louisville Hospital – Effective March 1, 2013, KentuckyOne Health (a CHI MBO), University Medical Center (UMC) and the University of Louisville entered into a partnership, structured as a joint operating agreement between University Medical Center and KentuckyOne Health, whereby KentuckyOne Health controls substantially all of UMC's operations, which consist of the University of Louisville Hospital and the James Graham Brown Cancer Center (ULH). As part of the agreement, KentuckyOne Health has committed to provide financial support to the University of Louisville over the next 20 years. The fair value of the contingent consideration is adjusted annually by management and is based on Level 3 inputs including estimated future cash flows and probability-weighted performance assumptions, all discounted to net present value. Changes in any of the unobservable inputs alone or together would result in a lower (higher) fair value measurement. The fair value of the commitment based on significant unobservable inputs (Level 3) was $203.2 million at June 30, 2014, compared to an acquisition date value of $217.7 million. For the period from March 1 through June 30, 2013, the operations of ULH contributed $166.3 million of operating revenues and $11.8 million of excess of revenues over expenses to the CHI consolidated results of operations, prior to the effects of the JOA revenue-sharing arrangement.

4. Acquisitions, Affiliations and Divestitures (continued)

Alegent Creighton Health and Affiliates – Effective November 1, 2012, CHI became the sole corporate sponsor of Alegent based in Omaha, Nebraska. In addition to the operations of Bergan Mercy Health System and Affiliates (Bergan Mercy) previously owned and consolidated by CHI, CHI now consolidates the Alegent operations, which include the operations of Immanuel and the operations of Creighton University Medical Center. For the period from November 1, 2012 through June 30, 2013, incremental Alegent (excluding the Bergan Mercy component) contributed $611.1 million in operating revenues and $18.1 million of excess of revenues over expenses to the CHI consolidated results of operations. Upon CHI becoming the sole sponsor of Alegent in November 2012, CHI also recognized a $21.0 million gain in fiscal year 2013, due to the remeasurement of CHI's interest in the Alegent JOC. Such gain is reflected in other nonpatient revenues in the consolidated statements of operations.

On an unaudited pro forma basis, had CHI owned or been party to agreements with Harrison, Hot Springs and Memorial at the beginning of fiscal year 2014, these entities would have contributed $1.2 billion of operating revenues and $415.9 million of excess of revenues of expenses. Had CHI owned or been party to agreements with Harrison, Hot Springs, Memorial, St. Luke's, Highline, University Medical Center and Alegent at the beginning of fiscal year 2013, these entities would have contributed $3.6 billion in operating revenues and $190.6 million in excess of revenues over expenses. However, 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.

Texas Heart Institute Affiliation

Effective on January 1, 2014, CHI and Texas Heart Institute (THI) entered into a ten-year affiliation agreement to further develop research, education and patient care opportunities to reduce the toll of cardiovascular disease. Over the term of the agreement, CHI has committed to fund various programs sponsored by THI. The present value of these commitments was $96.1 million as of the affiliation agreement date, of which $74.1 million was recorded in fiscal year 2014, as other nonoperating (losses) gains in the consolidated statements of operations. As part of the valuation, CHI recorded $22 million in trade name intangibles, which will be amortized over the life of the agreement.

4. Acquisitions, Affiliations and Divestitures (continued)

Discontinued Operations

In 2012, CHI committed to a plan to sell the MBOs in Denville, New Jersey; Towson, Maryland; and Pierre, South Dakota. The Towson MBO was sold to the University of Maryland Medical System effective on December 1, 2012, for preliminary sales proceeds of $154.0 million. Contingent sales proceeds of $45.7 million have been placed in escrow pending final disposition of certain open items. A final determination is expected in fiscal year 2015. The Pierre MBO was sold to Avera Health effective January 1, 2013, for net sales proceeds of $50.0 million and a loss on disposition of $27.7 million. In May 2013, CHI agreed to sell the Denville MBO to Prime Healthcare Services for $100.0 million. The transaction is subject to governmental and Church approvals and is expected to close in fiscal year 2015. In accordance with Accounting Standards Codification (ASC) 205-20, *Discontinued Operations*, and ASC 360-10, *Impairment or Disposal of Long-Lived Assets*, the results of operations associated with these MBOs have been 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.

Related to discontinued operations, CHI recorded a deficiency of revenues over expenses of $14.8 million and $108.6 million for the years ended June 30, 2014 and 2013, respectively, which is reported as discontinued operations in the accompanying consolidated statements of changes in net assets. Included in fiscal year 2013 is an impairment loss of $64.8 million related to adjusting the carrying value of property and equipment at the Denville MBO to its net realizable value. Total operating revenues and deficiency of revenues over expenses included in the results of discontinued operations for the years ended June 30 are summarized below (in thousands):

	2014	**2013**
Total operating revenues	**$ 296,267**	$ 464,809
Total operating expenses	**(314,035)**	(485,949)
Restructuring and other losses	**–**	(95,924)
Nonoperating gains	**3,000**	8,470
Deficiency of revenues over expenses	**$ (14,768)**	$ (108,594)

4. Acquisitions, Affiliations and Divestitures (continued)

The consolidated statements of cash flows include the use of $18.5 million and $24.9 million of operating, investing and financing activities related to discontinued operations for the years ended June 30, 2014 and 2013, 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.

5. Net Patient Services Revenues (continued)

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

	2014	2013
Medicare	**32%**	32%
Medicaid	**8**	8
Managed care	**41**	40
Self-pay	**8**	8
Commercial and other	**11**	12
	100%	100%

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 $117.4 million and $103.0 million at June 30, 2014 and 2013, respectively, are included in third-party liabilities. Net patient services revenues from continuing operations increased by $63.2 million in 2014 and $38.3 million in 2013 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):

	2014	2013
Cash and equivalents	**$ 433,606**	$ 244,077
CHI Investment Program	**5,814,893**	4,911,135
Marketable equity securities	**390,751**	858,537
Marketable fixed-income securities	**463,036**	773,069
Hedge funds and other investments	**63,974**	323,885
	7,166,260	7,110,703
Less current portion	**(24,732)**	(11,697)
	$ 7,141,528	$ 7,099,006

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

Net unrealized gains in investments and assets limited to use at June 30, 2014 and 2013, were $668.6 million and $297.3 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 by CHI and 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 (such as hedge funds, private equity investments, real estate funds and funds of funds), 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 sponsored by CHI. The partnership provides a vehicle whereby virtually all entities associated with CHI, as well as certain other unrelated entities, can seek to 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 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 90% of total Program assets at June 30, 2014 and 2013.

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

The Program asset allocation at June 30 is as follows:

	2014	2013
Marketable equity securities	**44%**	43%
Marketable fixed-income securities	**31**	32
Alternative investments	**23**	24
Cash and equivalents	**2**	1
	100%	100%

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. Investment income is comprised of the following for the years ended June 30 (in thousands):

	2014	2013
Dividend and interest income	**$ 139,612**	$ 142,054
Net realized gains	**345,944**	262,067
Net unrealized gains	**364,692**	151,232
Total investment income from continuing operations	**$ 850,248**	$ 555,353
Included in nonpatient revenue	**$ 101,874**	$ 66,529
Included in nonoperating gains	**748,374**	488,824
Total investment income from continuing operations	**850,248**	555,353
Total investment income from discontinued operations	**3,000**	8,470
Total investment income	**$ 853,248**	$ 563,823

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 Measurements and Disclosures*, 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 (LLC) and limited liability partnerships (LLP). 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 CHI Investment 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):

	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	$ 433,606	$ 353,077	$ 80,529	$ –
Marketable equity securities	390,751	390,751	–	–
Marketable 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	–	–
	$ 1,303,822	$ 855,172	$ 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

7. Fair Value of Assets and Liabilities (continued)

	2013			
	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	$ 244,077	$ 197,385	$ 46,692	$ –
Marketable equity securities	858,537	858,537	–	–
Marketable fixed-income securities	773,069	123,996	649,073	–
Other investments	11,718	–	–	11,718
Deferred compensation assets:				
Cash and short-term investments	12,035	12,035	–	–
	$ 1,899,436	$ 1,191,953	$ 695,765	$ 11,718
Liabilities				
Interest rate swaps	$ 271,634	$ –	$ 271,634	$ –
Contingent consideration	205,169	–	–	205,169
Deferred compensation liability	12,035	12,035	–	–
	$ 488,838	$ 12,035	$ 271,634	$ 205,169

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

7. Fair Value of Assets and Liabilities (continued)

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.

8. Property and Equipment

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

	2014	2013
Land and improvements	**$ 672,103**	$ 596,548
Buildings and improvements	**6,880,281**	6,399,345
Equipment	**5,193,465**	4,612,302
	12,745,849	11,608,195
Less accumulated depreciation	**(5,494,054)**	(5,009,102)
	7,251,795	6,599,093
Construction in progress	**1,690,725**	1,187,147
	$ 8,942,520	$ 7,786,240

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 2014 and 2013, to the extent that the undiscounted cash flows estimated to be generated by certain assets were less than the underlying carrying value. CHI recorded $59.6 million and $4.9 million in impairment losses in continuing operations for 2014 and 2013, respectively, resulting from charges related to estimated fair value deficiencies (based upon projected discounted cash flows) at various MBOs.

9. Debt Obligations

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

	Interest Rates at June 30, 2014	**2014**	**2013**
CHI debt issued under the COD			
Variable-rate Bonds:			
Series 1997B, maturing through 2022	0.12%	**$ 7,700**	$ 9,200
Series 2000B, maturing 2027	0.10	**22,700**	24,000
Series 2002B, maturing 2032	0.10	**94,700**	97,800
Series 2004B, maturing through 2044	0.05–0.11	**180,700**	180,700
Series 2004C, maturing through 2044	0.04–0.07	**163,300**	163,300
Series 2008A, maturing 2036	0.11	**120,225**	120,260
Series 2008C, maturing 2041	0.1	**50,000**	50,000
Series 2011B, maturing 2046	0.06	**158,155**	158,155
Series 2011C, maturing 2046	0.1	**121,000**	123,000
Series 2013B, maturing 2035	0.06	**200,000**	–
Series 2013C, maturing 2023	0.11	**100,000**	–
Series 2013E Taxable, maturing 2045	0.15	**125,000**	–
Series 2013F Taxable, maturing 2045	0.15	**75,000**	–
Fixed-rate Bonds:			
Series 2002A, maturing 2017	5.5	**2,615**	3,400
Series 2004A, maturing through 2034	4.75–5.0	**146,605**	146,605
Series 2006A, maturing 2041	4.0–5.0	**270,635**	270,635
Series 2006C, maturing through 2041	3.85–5.1	**250,000**	250,000
Series 2008C, maturing through 2041	4.0–4.1	**105,000**	105,000
Series 2008D, maturing through 2038	5.0–6.38	**471,450**	471,450
Series 2009A, maturing 2039	3.75–5.25	**724,140**	748,760
Series 2009B, maturing through 2039	4.0–5.25	**217,720**	252,360
Series 2011A, maturing 2041	3.25–5.25	**486,090**	506,090
Series 2012A, maturing 2035	4.0–5.0	**268,980**	271,260
Series 2012 Taxable, maturing 2042	1.6–4.35	**1,500,000**	1,500,000
Series 2013A, maturing 2045	5.0–5.75	**600,600**	–
Series 2013D Taxable, maturing 2023	2.6–4.2	**540,000**	–
Commercial Paper		**482,362**	442,475
Unamortized debt premium		**55,660**	59,538
Unamortized debt discount		**(24,839)**	(11,192)
Total CHI debt issued under the COD		**7,515,498**	5,942,796

9. Debt Obligations (continued)

	Interest Rates at June 30, 2014	2014	2013
St. Luke's debt issued under Master Trust Indenture			
Variable-rate Bonds:			
Series 2005		–	132,600
Series 2008		–	100,000
Series 2012		–	150,220
Fixed-rate Bonds: Series 2009		–	150,798
Unsecured Bank Notes		–	99,798
Total St. Luke's debt issued under Master Trust Indenture		–	633,416
Note payable issued to Episcopal Health Foundation		**230,225**	260,000
Capital leases		**204,291**	106,899
Other debt		**429,248**	462,946
		8,379,262	7,406,057
Less: Amounts classified as current:			
Variable-rate debt with self-liquidity		**(521,455)**	(321,455)
Commercial paper and current portion of debt		**(711,408)**	(749,617)
Long-term debt		**$ 7,146,399**	$ 6,334,985

The fair value of debt obligations was approximately $8.6 billion at June 30, 2014. Management has determined the carrying values of the variable-rate bonds are representative of fair values as of June 30, 2014, 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, 2014, 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 long-term debt for the next five years is as follows (in thousands):

	Amounts Due
Year ending June 30:	
2015	$ 711,408
2016	248,420
2017	123,497
2018	404,908
2019	410,543

9. Debt Obligations (continued)

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.

During the second quarter of fiscal year 2014, CHI issued $900.6 million of par value tax exempt bonds and $740.0 million of par value taxable bonds. Of the total proceeds, $881.8 million was used to redeem various St. Luke's bonds and bank notes, Harrison bonds, and Highline bonds, resulting in a total loss on defeasance of $10.0 million.

In October 2012, CHI issued $1.5 billion of par value long-term, fixed-rate, taxable bonds. Proceeds were used to finance a wide array of strategic initiatives, including affiliations in key areas.

As a result of redeeming the various St. Luke's obligations, the St. Luke's Health System Obligated Group and Master Trust Indenture were dissolved. Prior to December 31, 2013, St. Luke's had been a member of the St. Luke's Health System Obligated Group, and together with various of its consolidated subsidiaries, were the obligors under each of the St. Luke's bond issues. Obligated Group members were jointly and severally obligated to pay the notes issued under the Master Trust Indenture. Notes issued under the Master Trust Indenture were equally and ratably secured by a pledge of the accounts receivable of St. Luke's Medical Center and St. Luke's Woodlands Hospital.

As part of the December 2012 divestiture of CHI's facilities in Towson, Maryland, $113.5 million of Series 2006A bonds were legally defeased, resulting in a loss on defeasance of $18.0 million.

9. Debt Obligations (continued)

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 $897.0 million and $605.0 million at June 30, 2014 and 2013, respectively, of which $8.2 million and $7.9 million, respectively, are classified as current debt. The remaining $888.8 million and $597.1 million at June 30, 2014 and 2013, 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.

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 and $390.0 million at June 30, 2014 and 2013, respectively. At June 30, 2014 and 2013, respectively, $482.4 million and $442.5 million of commercial paper were classified as current due to maturities of less than one year, and $521.5 million and $321.5 million, respectively, of VRDBs and Windows variable-rate bonds (Windows) 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, 2014, CHI had a $55.0 million credit facility with Bank of New York Mellon. Letters of credit totaling $47.6 million have been issued for the benefit of third parties, principally in support of the self-insurance programs administered by FIIL. At June 30, 2014 and 2013, no amounts were outstanding under this credit facility.

CHI was a party to 13 floating-to-fixed interest rate swap agreements with notional amounts totaling $1.4 billion and $1.6 billion at June 30, 2014 and 2013, respectively. 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. These fixed-payor swap agreements convert CHI's variable-rate debt to fixed-rate debt. The swaps have varying maturity dates ranging from 2025 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, 2014 and 2013, the fair value was $256.7 million and $271.6 million, respectively.

9. Debt Obligations (continued)

During fiscal year 2014, a change in CHI's debt ratings resulted in an increase to its cash collateral postings. Cash collateral balances of $130.5 million and $107.5 million at June 30, 2014 and 2013, 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 gain of $10.2 million and $98.9 million in 2014 and 2013, respectively.

10. Retirement Plans

The non-contributory, defined benefit retirement plans (Retirement Plans) sponsored by CHI and its direct affiliates were frozen as of December 31, 2013. Benefits earned by employees through December 31, 2013, will remain in the Retirement Plans, and employees will 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 Plans are qualified as church plans and are exempt from certain provisions of both the Employee Retirement Income Security Act 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 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 2014 and 2013, CHI acquired the pension plan assets and liabilities of Harrison and Memorial, and Alegent and CHI St. Luke's (the Acquired plans), respectively, which are included below.

10. Retirement Plans (continued)

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

	2014	2013
Change in benefit obligation:		
Benefit obligation, beginning of year	**$ 3,877,485**	$ 3,601,231
Service cost	**106,484**	205,037
Interest cost	**177,859**	151,763
Actuarial loss (gain)	**412,995**	(170,282)
Acquired plans	**165,506**	387,189
Transfers	**(3,728)**	–
Curtailments	**(267)**	(134,233)
Settlements	**(30,821)**	(17,931)
Benefits paid	**(230,258)**	(144,838)
Expenses paid	**(1,626)**	(451)
Benefit obligation, end of year	**4,473,629**	3,877,485
Change in the Plans' assets:		
Fair value of the Plans' assets, beginning of year	**3,404,633**	2,708,411
Actual return on the Plans' assets, net of expenses	**575,358**	309,522
Employer contributions	**123,763**	203,564
Acquired plans	**139,480**	346,273
Transfers	**(3,528)**	–
Settlements	**(30,551)**	(17,848)
Benefits paid	**(230,258)**	(144,838)
Expenses paid	**(1,626)**	(451)
Fair value of the Plans' assets, end of year	**3,977,271**	3,404,633
Funded status of the Plans	**$ (496,358)**	$ (472,852)
End-of-year values:		
Projected benefit obligation	**$ 4,473,629**	$ 3,877,485
Accumulated benefit obligation	**4,467,063**	3,844,708

10. Retirement Plans (continued)

During fiscal year 2014 and 2013, the Plans experienced two curtailment events. Plan design changes for certain Plans resulted in future service reductions in fiscal year 2014, and employee transitions in fiscal year 2013 resulted in an adjustment to the benefit obligation as of June 30, 2013.

Included in net assets at June 30, 2014, are unrecognized actuarial losses of $772.7 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, 2015, is $42.0 million.

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

	2014	2013
Components of net periodic pension expense:		
Service cost	**$ 106,484**	$ 205,037
Interest cost	**177,859**	151,763
Expected return on the Plans' assets	**(247,121)**	(220,236)
Actuarial losses	**32,733**	91,606
Amortization of prior service benefit	**78**	174
Curtailments	**296**	367
Settlements	**301**	45
	$ 70,630	$ 228,756
Weighted-average assumptions:		
Discount rate, beginning of year	**4.58%**	4.06%
Discount rate, end of year	**4.15**	4.58
Expected return on Plans' assets	**7.60**	7.75
Rate of compensation increase	**n/a**	3.75

The assumption for the expected return on the Plans' assets is based on historical returns and adherence to the asset allocations set forth in the Plans' investment policies. The expected return on the Plans' assets for determining pension cost was 7.60% in 2014 and 7.75% in 2013. The decrease in the discount rate to 4.15% at June 30, 2014, increased the pension benefit obligation by approximately $283.3 million.

10. Retirement Plans (continued)

A summary of the Plans' asset allocation targets, ranges by asset class and allocations by asset class at the measurement dates of June 30 is as follows:

	2014	2013	Target	Range
Fixed-income securities	**33.5%**	25.6%	27.5%	17.5–37.5%
Equity securities	**47.0**	55.1	50.0	40.0–60.0
Alternative investments	**19.5**	19.3	22.5	12.5–32.5

The Plans' assets are invested in a portfolio 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 Plans 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. Alternative investments of $234 million are illiquid and not available for redemption at the Plans' request.

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

	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**
Cash and short-term investments	**$ 223,904**	**$ 201,206**	**$ 22,698**	**$ –**
Marketable equity securities	**1,634,181**	**1,630,703**	**3,478**	**–**
Marketable fixed-income securities	**1,371,165**	**324,247**	**943,170**	**103,748**
Alternative investments	**748,021**	**–**	**–**	**748,021**
	$ 3,977,271	**$ 2,156,156**	**$ 969,346**	**$ 851,769**

10. Retirement Plans (continued)

	2013			
	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
Cash and short-term investments	$ 115,586	$ 102,360	$ 13,226	$ –
Marketable equity securities	1,715,087	1,715,087	–	–
Marketable fixed-income securities	916,766	220,833	695,933	–
Alternative investments	657,194	–	–	657,194
	$ 3,404,633	$ 2,038,280	$ 709,159	$ 657,194

A summary of the changes in the fair value of the Plans' investments for which Level 3 inputs were used at the June 30 measurement dates is as follows (in thousands):

	2014	**2013**
Beginning investments at fair value	**$ 657,194**	$ 505,720
Purchases of investments	**189,680**	91,868
Proceeds from sale of investments	**(70,488)**	(47,376)
Net change in unrealized appreciation on investments and effect of foreign currency translation	**50,834**	12,778
Net realized gains on investments	**25,531**	25,424
Acquired plan investments	**–**	53,540
Net transfers (out of) into Level 3	**(982)**	15,240
Ending investments at fair value	**$ 851,769**	$ 657,194

10. Retirement Plans (continued)

CHI expects to contribute $15.0 million to the Plans in fiscal year 2015. A summary of expected benefits to be paid to the Plans' participants and beneficiaries is as follows (in thousands):

	Estimated Payments
Year ending June 30:	
2015	$ 235,323
2016	220,122
2017	236,598
2018	245,390
2019	256,854
2020–2024	1,443,265

CHI 401(k) Retirement Savings Plan

Effective on January 1, 2014, CHI introduced the CHI 401(k) Retirement Savings Plan (401(k) Savings Plan), which replaced the frozen Retirement Plan as an employee retirement benefit. Years of service under the Retirement Plan 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 will match 100.0% of the first 1.0% of eligible pay an employee contributes to the plan, and 50.0% of the next 5.0% 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 or not an employee participates in the 401(k) Savings Plan, CHI will also contribute 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. For the period from January 1 through June 30, 2014, CHI recorded $80.4 million of expense related to the 401(k) Savings Plan.

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:

	2014	2013
Medicare	**27%**	28%
Medicaid	**12**	10
Managed care	**31**	31
Self-pay	**7**	7
Commercial and other	**23**	24
	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, 2014 and 2013.

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.

12. Commitments and Contingencies (continued)

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 non-cancelable lease terms in excess of one year at June 30, 2014, are as follows (in thousands):

	Amounts Due
Year ending June 30:	
2015	$ 203,656
2016	136,211
2017	119,885
2018	101,828
2019	79,734
Thereafter	151,073
	$ 792,387

Lease expense under operating leases for continuing operations for the years ended June 30, 2014 and 2013, totaled approximately $285.9 million and $222.6 million, respectively.

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 2014 and 2013, respectively. For the policy year July 1, 2013 to July 1, 2014, 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, 2014 and 2013, investments and assets limited as to use held for insurance purposes included $58.0 million and $55.0 million, respectively, held as collateral for the reinsurance fronting arrangement with PPIC.

FIIL provides workers' compensation coverage, either on a directly written basis or through reinsurance fronting relationships with commercial insurance carriers. Coverage of $350,000 in excess of $650,000 per claim for the policy year July 1, 2013 to July 1, 2014, and $500,000 in excess of $500,000 per claim for the policy year July 1, 2012 to July 1, 2013, is 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.

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 $21.3 million and $48.5 million in 2014 and 2013, respectively. The reserves for unpaid losses and loss adjustment expenses relating to the

13. Insurance Programs (continued)

workers' compensation program were discounted, assuming a 4.0% annual return at June 30, 2014 and 2013, to a present value of $159.1 million and $151.2 million at June 30, 2014 and 2013, respectively, and represented a discount of $52.3 million and $51.3 million in 2014 and 2013, respectively. Reserves related to professional liability, employment practices and general liability are not discounted.

FIIL holds $734.4 million and $751.9 million of investments held for insurance purposes as of June 30, 2014 and 2013, respectively. Distribution of amounts from FIIL to CHI are subject to the approval of the Cayman Island 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 $69.7 million and $51.0 million for unpaid claims and claims adjustment expenses for CHI's self-insured medical plan at June 30, 2014 and 2013, 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, 2014 through September 17, 2014, 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.

Effective in August 2014, CHI entered into a definitive agreement with St. Alexius Medical Center to form a regional, coordinated health system in central and western North Dakota. The affiliation is subject to approvals by state regulatory agencies and is anticipated to close by the end of the calendar year.

14. Subsequent Events (continued)

Effective in September 2014, CHI entered into a definitive agreement to become the sole sponsor of Sylvania Franciscan Health (SFH), which operates various health ministries in Ohio and Texas. The SFH sponsorship transfer is expected to be complete by the end of the calendar year, subject to board approval, and approval from various federal, state and Church authorities.

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, 2014

Catholic Health Initiatives

Consolidating Balance Sheet
(In Thousands)

June 30, 2014

	MBOs	Corporate	Prominence Health	FIIL	CHI Welfare Benefits Trust	Other	Eliminations and Adjustments	Consolidated
Assets								
Current assets:								
Cash and equivalents	$ 449,299	$ 515,124	$ 21,164	$ 150	$ 42,300	$ 14,711	$ –	$ 1,042,748
Net patient accounts receivable, less allowance of $924,395	1,997,468	–	–	–	–	–	–	1,997,468
Other accounts receivable	259,645	104,674	3,857	4,819	286	18,127	(104,735)	286,673
Current portion of investments and assets limited as to use	13,204	–	11,528	–	–	–	–	24,732
Inventories	271,664	–	–	–	–	–	–	271,664
Assets held for sale	222,888	–	–	–	–	–	(20,822)	202,066
Prepaid and other	72,241	120,018	4,537	17	630	225	–	197,668
Total current assets	3,286,409	739,816	41,086	4,986	43,216	33,063	(125,557)	4,023,019
Investments and assets limited as to use:								
Internally designated for capital and other funds	4,957,468	246,729	–	–	106,770	–	–	5,310,967
Mission and ministry fund	–	137,099	–	–	–	–	–	137,099
Capital resource pool	–	515,338	–	–	–	–	–	515,338
Held by trustees	1,018	52,556	–	–	–	–	–	53,574
Held for insurance purposes	21,500	–	72,216	734,362	–	–	–	828,078
Restricted by donors	295,770	651	–	–	–	51	–	296,472
Total investments and assets limited as to use	5,275,756	952,373	72,216	734,362	106,770	51	–	7,141,528
Property and equipment, net	8,023,441	902,434	2,550	–	–	14,095	–	8,942,520
Deferred financing costs	116	42,958	–	–	–	–	–	43,074
Investments in unconsolidated organizations	413,581	1,065,158	131	–	–	11,203	(881,985)	608,088
Intangible assets and goodwill, net	515,718	20,900	16,844	–	–	–	–	553,462
Notes receivable and other	182,786	4,025,930	736	23,763	–	3,395	(3,735,724)	500,886
Total assets	$ 17,697,807	$ 7,749,569	$ 133,563	$ 763,111	$ 149,986	$ 61,807	$ (4,743,266)	$ 21,812,577

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	$ 539,296	$ 121,997	$ 2,860	$ –	$ 3,475	$ 11,947	$ –	$ 679,575
Third-party liabilities, net	123,804	–	–	–	–	–	–	123,804
Accounts payable and accrued expenses	1,048,364	397,240	14,078	4,733	69,717	16,836	(104,735)	1,446,233
Liabilities held for sale	104,117	–	–	–	–	–	–	104,117
Variable-rate debt with self liquidity	–	521,455	–	–	–	–	–	521,455
Commercial paper and current portion of debt	197,889	673,133	1,034	–	–	–	(160,648)	711,408
Total current liabilities	2,013,470	1,713,825	17,972	4,733	73,192	28,783	(265,383)	3,586,592
Pension liability	25,478	470,880	–	–	–	–	–	496,358
Self-insured reserves and claims	23,727	5,346	30,516	575,129	–	–	–	634,718
Other liabilities	452,377	379,238	–	–	–	–	–	831,615
Long-term debt	4,159,137	6,551,134	504	–	–	10,700	(3,575,076)	7,146,399
Total liabilities	6,674,189	9,120,423	48,992	579,862	73,192	39,483	(3,840,459)	12,695,682
Net assets:								
Net assets attributable to CHI	10,342,605	(1,507,674)	75,307	183,249	76,794	22,109	(903,202)	8,289,188
Net assets attributable to noncontrolling interests	323,255	136,382	9,264	–	–	–	395	469,296
Unrestricted	10,665,860	(1,371,292)	84,571	183,249	76,794	22,109	(902,807)	8,758,484
Temporarily restricted	264,986	438	–	–	–	215	–	265,639
Permanently restricted	92,772	–	–	–	–	–	–	92,772
Total net assets	11,023,618	(1,370,854)	84,571	183,249	76,794	22,324	(902,807)	9,116,895
Total liabilities and net assets	$ 17,697,807	$ 7,749,569	$ 133,563	$ 763,111	$ 149,986	$ 61,807	$ (4,743,266)	$ 21,812,577

Catholic Health Initiatives

Consolidating Statement of Operations
(In Thousands)

Fiscal Year Ended June 30, 2014

	MBOs	Corporate	Prominence Health	FIIL	CHI Welfare Benefits Trust	Other	Eliminations and Adjustments	Consolidated
Revenues:								
Net patient services revenues	$ 12,533,587	$ –	$ –	$ –	$ –	$ –	$ (126,343)	$ 12,407,244
Nonpatient:								
Donations	32,301	64	–	–	–	1	–	32,366
Changes in equity of unconsolidated organizations	21,153	5,578	131	–	–	198	(138)	26,922
Investment income used for operations	18,630	76	738	82,430	–	–	–	101,874
Gains on business combinations	421,955	–	–	–	–	–	–	421,955
Hospital nonpatient revenues	294,021	–	–	–	–	–	–	294,021
Insurance premium revenues	–	–	171,465	–	–	–	–	171,465
Other	268,698	1,440,094	10,502	199,308	497,557	73,787	(2,057,120)	432,826
Total nonpatient revenues	1,056,758	1,445,812	182,836	281,738	497,557	73,986	(2,057,258)	1,481,429
Total operating revenues	13,590,345	1,445,812	182,836	281,738	497,557	73,986	(2,183,601)	13,888,673
Expenses:								
Salaries and wages	5,137,917	390,928	10,960	–	–	52,861	(37,682)	5,554,984
Employee benefits	1,182,002	31,129	1,734	32,959	485,932	12,459	(673,365)	1,072,850
Purchased services, medical professional fees, consulting and legal	2,006,921	531,224	158,528	19,480	7,115	22,764	(800,453)	1,945,579
Supplies	2,339,219	6,936	218	–	–	506	–	2,346,879
Utilities	183,810	13,396	234	–	–	39	–	197,479
Rentals, leases, maintenance and insurance	538,020	447,335	3,138	177,158	–	1,391	(291,209)	875,833
Depreciation and amortization	650,620	47,092	507	–	–	553	–	698,772
Interest	176,208	217,727	273	–	–	211	(158,979)	235,440
Other	1,011,174	62,330	2,360	512	687	2,046	(221,775)	857,334
Total operating expenses before restructuring, impairment and other losses	13,225,891	1,748,097	177,952	230,109	493,734	92,830	(2,183,463)	13,785,150
Income (loss) from operations before restructuring, impairment and other losses	364,454	(302,285)	4,884	51,629	3,823	(18,844)	(138)	103,523
Restructuring, impairment and other losses	67,207	52,911	(2,930)	–	–	326	–	117,514
Income (loss) from operations	297,247	(355,196)	7,814	51,629	3,823	(19,170)	(138)	(13,991)
Nonoperating gains (losses):								
Investment income (loss), net	632,674	104,667	95	–	10,940	(2)	–	748,374
Loss on defeasance of bonds	(10,018)	4,393	–	–	–	–	–	(5,625)
Realized and unrealized gains (losses) on interest rate swaps	15,840	(55,265)	–	–	–	1	–	(39,424)
Other nonoperating gains (losses)	18,766	(258,344)	–	–	–	–	184,211	(55,367)
Total nonoperating gains (losses)	657,262	(204,549)	95	–	10,940	(1)	184,211	647,958
Excess (deficit) of revenues over expenses	954,509	(559,745)	7,909	51,629	14,763	(19,171)	184,073	633,967
(Excess) deficit of revenues over expenses attributable to noncontrolling interest	(26,708)	32,419	(25)	–	–	–	–	5,686
Excess (deficit) of revenues over expenses attributable to CHI	$ 927,801	$ (527,326)	$ 7,884	$ 51,629	$ 14,763	$ (19,171)	$ 184,073	$ 639,653

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