Catholic Health Initiatives

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Quarterly Report

As of September 30, 2014 and for the three months ended September 30, 2014 and 2013

Information Concerning Catholic Health Inititatives and The CHI Reporting Group

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This Quarterly Report should be reviewed in conjunction with the information contained in the Annual Report dated November 3, 2014 (the "Annual Report"), which can be found on http://emma.msrb.org.

Certain of the discussions included in this Quarterly 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 V. 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 Quarterly 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.

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 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 18 states, with a service area that covers approximately 46 million people, or 17% of the U.S. population.

PART II: 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 Clinically Integrated Networks ("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. Certain additional acquisition activity occurring prior to August 1, 2013 is described in the Annual Report.

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 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 corporate 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—now known as CHI St. Luke's Health Memorial. 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 in fiscal year 2014. Memorial East Texas reported $50.2 million in operating revenues and $3.2 million of deficiency of revenues over expenses in the CHI consolidated results of operations for the three months ended September 30, 2014. In November 2014, the Corporation issued $109 million of its commercial paper notes, the proceeds of which were used to retire the long-term indebtedness of Memorial East Texas (see Section 4.A. "Contractual Obligations").

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, 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)—now known as CHI St. Vincent Hot Springs. 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. Mercy Hot Springs reported $67.8 million in operating revenues and $2.2 million of excess of revenues over expenses in the CHI consolidated results of operations for the three months ended September 30, 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.

Harrison Medical Center (Washington)—now known as CHI Franciscan Health Harrison Medical Center. 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.

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 in fiscal year 2015, 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. For the three months ended September 30, 2014 and 2013, CHI recorded a deficiency of revenues over expense relating to the St. Clare's Health System of $49.9 million and $9.6 million, respectively, from discontinued operations, reported in the accompanying consolidated statements of changes in net assets.

PART III: Selected Financial Data

The selected financial data that follows has been prepared by management, based on (i) CHI's unaudited financial statements as of and for the three months ended September 30, 2014 and 2013 and (ii) the unaudited financial statements of Bethesda, Inc. and Subsidiaries for the three months ended September 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 three months ended September 30, 2014.

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 September 30, 2014, CHI had a 65% 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 2 to the unaudited financial statements included in Appendix A to this Quarterly Report.

A. The following table presents condensed combined statements of operations for the CHI Reporting Group for the three months ended September 30, 2014 and 2013.

CHI Reporting Group Condensed Combined Statements of Operations	Three Months Ended September 30, 2014 (Unaudited)	 2013 (Unaudited)
Revenues	*(In Thousands)*	
Net patient services revenues		
Other	$ 3,370,386	$ 3,099,671
Total operating revenues	277,227	509,878
	3,647,613	3,609,549
Expenses		
Salaries and employee benefits	1,786,020	1,670,628
Supplies, purchased services and other	1,721,026	1,501,619
Depreciation and amortization	197,947	172,042
Interest	64,263	53,347
Total operating expenses before restructuring	3,769,256	3,397,636
(Loss) income from operations before restructuring	(121,643)	211,913
Restructuring, impairment and other losses	10,009	29,171
(Loss) income from operations	(131,652)	182,742
Nonoperating (losses) gains	(66,674)	217,905
(Deficit) excess of revenues over expenses	$ (198,326)	$ 400,647

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

CHI Reporting Group Condensed Combined Balance Sheets	September 30, 2014 (Unaudited)	June 30, 2014 (Unaudited)
Assets	*(In Thousands)*	
Current assets:		
Cash and equivalents	$ 784,729	$ 1,042,783
Net patient accounts receivable	2,058,696	2,045,794
Assets held for sale	150,204	202,066
Other current assets	857,352	817,211
Total current assets	3,850,981	4,107,854
Investments and assets limited as to use:		
Internally designated investments	6,158,335	6,265,268
Restricted investments	1,185,478	1,203,763
Total investments and assets limited as to use	7,343,813	7,469,031
Property and equipment, net	9,130,564	9,162,750
Other assets	1,668,034	1,700,444
Total assets	$ 21,993,392	$ 22,440,079
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	$ 2,196,736	$ 2,386,991
Liabilities held for sale	107,618	104,117
Current portion of debt	1,232,495	1,232,863
Total current liabilities	3,536,849	3,723,971
Other liabilities	2,040,436	2,010,434
Long-term debt	7,141,506	7,169,271
Total liabilities	12,718,791	12,903,676
Net assets:		
Unrestricted	8,904,864	9,165,242
Temporarily restricted	275,424	278,389
Permanently restricted	94,313	92,772
Total net assets	9,274,601	9,536,403
Total liabilities and net assets	$ 21,993,392	$ 22,440,079

PART IV: 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 before restructuring ((Loss) income from operations before restructuring + Depreciation and amortization + Interest) for the CHI Reporting Group totaled $140.6 million for the three months ended September 30, 2014 compared to $437.3 million for the three months ended September 30, 2013. The operating EBIDA margin before restructuring ((Loss) income from operations before restructuring + Depreciation and amortization + Interest/Total operating revenues) percentage totaled 3.9% for the three months ended September 30, 2014 compared to 12.1% for the three months ended September 30, 2013. Combined (Loss) income from operations before restructuring for the CHI Reporting Group totaled $(121.6) million for the three months ended September 30, 2014 compared to $211.9 million for the three months ended September 30, 2013, or an operating margin ((Loss) income from operations before restructuring/Total operating revenues) before restructuring percentage of (3.3)% and 5.9%, respectively. Results for the three months ended September 30, 2013 include business combination gains of $286.2 million.

Management is addressing the declines in operating revenue performance through focused clinical and operational initiatives across the enterprise, targeted growth initiatives at the market level, revenue cycle improvement initiatives through its relationship with Conifer Health Solutions (which currently provides revenue cycle for CHI's acute care operations), and by initiating a comprehensive cost reduction strategy to identify opportunities for expense reductions. Among the actions to reduce expenses include workforce reductions of up to 1,500 positions across CHI. That process is ongoing and will continue through the end of January 2015.

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. Excluding business combinations gains, such affiliations contributed operating revenues of $221.3 million and $65.1 million, and operating EBIDA of $18.8 million and $5.7 million, for the three months ended September 30, 2014 and 2013, respectively.

B. REVENUE/OPERATING EBIDA BY REGION

As of September 30, 2014, CHI is 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, Iowa, Ohio, Arkansas, Tennessee, 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 of CHI for the three months ended September 30, 2014 and 2013.

Catholic Health Initiatives Consolidated Operations Summary						
Region	Q1 FY 2015 Operating EBIDA before restructuring *(In Thousands)*	Q1 FY 2014 Operating EBIDA before restructuring *(In Thousands)*	Q1 FY 2015 Operating EBIDA margin before restructuring	Q1 FY 2014 Operating EBIDA margin before restructuring	Q1 FY 2015 Operating revenues percentage of consolidated	Q1 FY 2014 Operating revenues percentage of consolidated
Pacific Northwest	$ 45,003	$ 275,385	8.0%	36.2%	16.0%	21.8%
Kentucky	1,687	(14,677)	0.3%	(2.7)%	15.6%	15.8%
Nebraska	41,944	53,642	8.1%	10.2%	14.6%	15.0%
Colorado	47,269	42,446	10.4%	10.3%	12.8%	11.8%
Texas	22,289	16,130	5.9%	5.3%	10.7%	8.7%
Iowa	18,116	12,323	7.6%	5.4%	6.8%	6.5%
Ohio	14,851	13,491	6.5%	6.2%	6.5%	6.3%
Arkansas	5,053	(4,342)	2.9%	(4.3)%	5.0%	2.9%
Tennessee	13,884	12,201	9.4%	8.6%	4.2%	4.1%
North Dakota and Minnesota	8,715	890	8.1%	0.9%	3.1%	2.8%
Other Regions	(22,518)	28,793	(23.3)%	32.2%	2.7%	2.6%
Total Regional	196,295	436,282	5.7%	12.7%	98.0%	98.3%
National services and business lines	(64,215)	(5,175)	(96.4)%	(8.5)%		
CHI Consolidated	$132,080	$431,107	3.7%	12.3%		

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 unaudited financial statements included in Appendix A to this Quarterly 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 1.1% or $38.1 million for the three months ended September 30, 2014 compared to the corresponding period of the prior fiscal year. Excluding the impacts of current and prior year acquisitions (same store basis), total operating revenues for CHI increased 3.7% or $117.4 million for the three months ended September 30, 2014 compared to the corresponding period of the prior fiscal year.

Fiscal year-to-date 2015 operating results increased in the Pacific Northwest, Colorado, Texas, Iowa, Ohio, Arkansas, Tennessee and North Dakota/ Minnesota regions within CHI. Operations at the Pacific Northwest Region improved significantly with an operating EBIDA before restructuring of $45.0

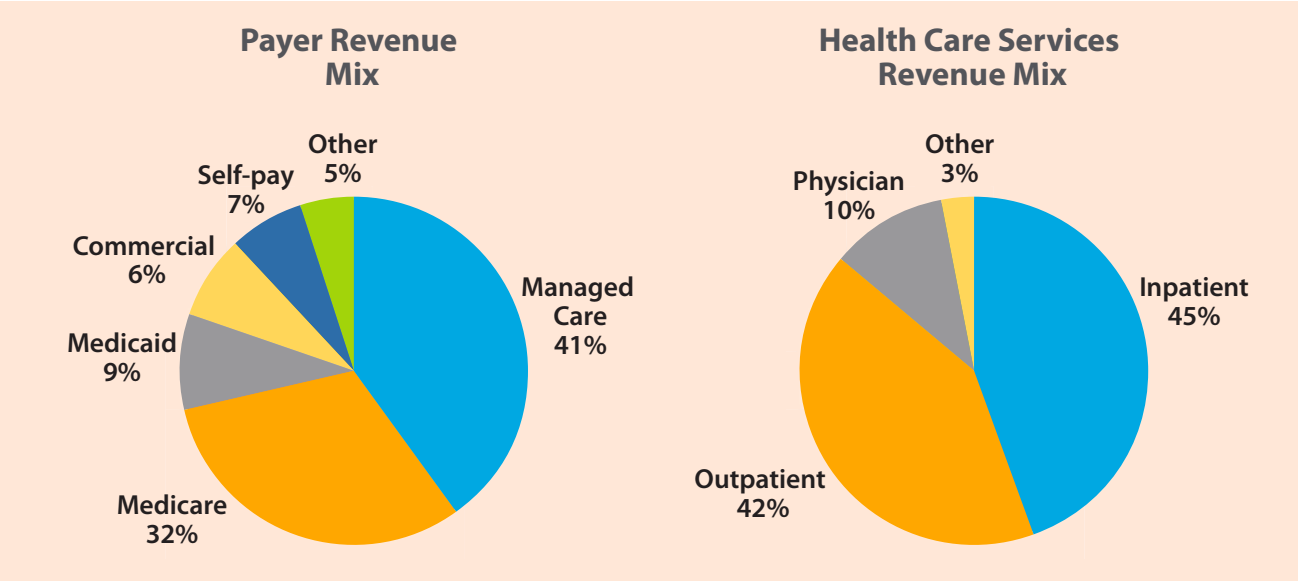
million for the three months ended September 30, 2014 compared to an operating EBIDA loss of $(10.9) million, excluding acquisition gains for the three months ended September 30, 2013. Improvements were due primarily to greater patient utilization in the current fiscal year over the prior period, which experienced significant costs and reductions in patient utilization due to the EPIC billing system conversion. The Colorado Region continued strong operating performance and provided an 11.4% increase in operating EBIDA over the corresponding period of the prior fiscal year. The Arkansas Region achieved significant financial and operational improvements in the first three months ended September 30, 2014 compared to the first three months ended September 20, 2013 due to successful strategic planning, service line growth, and cost management. 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 Nebraska Region reported an operating EBIDA reduction of $(11.7) million compared to the same period in the prior year, due primarily to decreased patient volumes resulting from contract negotiations with a significant managed care payer in the region.

The Kentucky Region's operating performance has shown significant improvements over the comparable period of the prior fiscal year, reporting operating EBIDA before restructuring of $1.7 million for the three months ended September 30, 2014 and an overall increase of $16.4 million in operating EBIDA before restructuring over the corresponding period of the prior fiscal year. The financial and operating results of the Kentucky Region 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 turn-around 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 building upon 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 8.7% or $270.7 million for the three months ended September 30, 2014 compared to the corresponding period of 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.

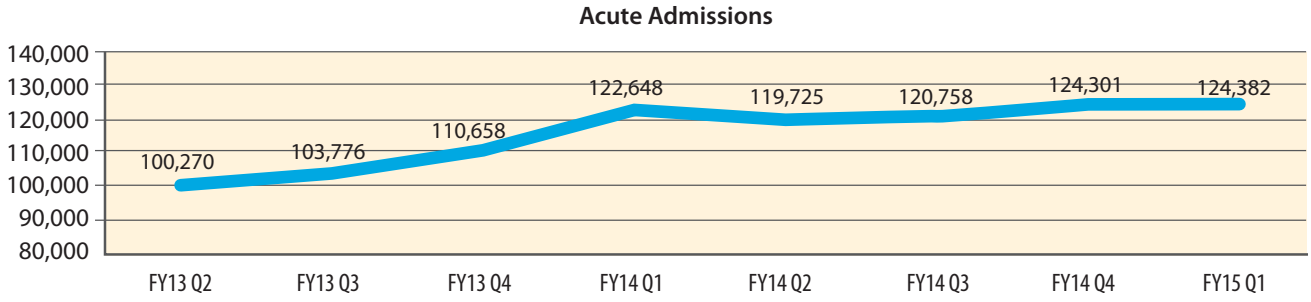
Same store net patient services revenues for CHI increased 3.6% or $105.3 million for the three months ended September 30, 2014 compared to the corresponding period of the prior fiscal year. Same store CHI patient volume declines for the three months ended September 30, 2014, as compared to the corresponding period of the prior fiscal year were as follows: Acute Admissions (4.0)% or (4,873), Acute Inpatient Days (1.7)% or (9,323), Inpatient Surgeries (1.6)% or (615), Outpatient Surgeries (0.8)% or (438), Inpatient ER Visits (2.0)% or (1,253), and Outpatient Non-ER Visits (5.9)% or (73,178). Same store CHI Outpatient ER Visits improved 4.2% or 18,861 for the three months ended September 30, 2014, as compared to the corresponding period of the prior fiscal year.

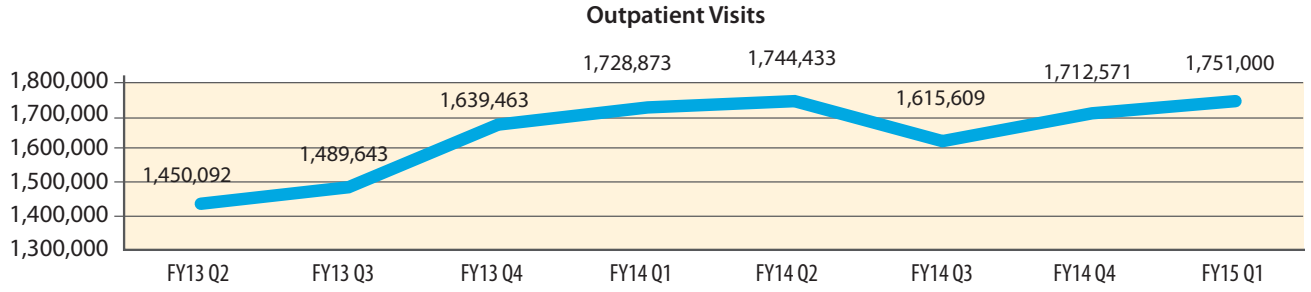
The following charts represent the payer revenue mix and health care services mix for CHI as of September 30, 2014.



CHI Reporting Group Combined Revenues, Expenses and Key Utilization Statistics	September 30, 2014	September 30, 2013
Total net patient services revenues	$ 3.4 billion	$ 3.1 billion
Total operating revenues	$ 3.6 billion	$ 3.6 billion
Total operating expenses before restructuring	$ 3.8 billion	$ 3.4 billion
Operating EBIDA before restructuring	$ 140.6 million	$ 437.3 million
Operating EBIDA margin before restructuring	3.9%	12.1%
Operating income before restructuring	$ (121.6) million	$ 211.9 million
Operating income margin before resructuring	(3.3)%	5.9%
Utilization Statistics—CHI Reporting Group		
Acute admissions	130,242	128,414
Acute inpatient days	611,150	588,620
Acute average length of stay in days	4.7	4.6
Long-term care days	83,917	104,956
Utilization Statistics—CHI		
Medicare case-mix index	1.7	1.7
Outpatient Non-ER visits	1,247,031	1,273,921
Inpatient Surgeries	40,201	38,886
Outpatient Surgeries	61,967	58,812
Inpatient ER visits	66,682	62,872
Outpatient ER visits	503,969	454,952

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 10.9% or $371.6 million for the three months ended September 30, 2014, as compared to the corresponding period of the prior fiscal year. These increases are primarily attributable to recently completed acquisitions.

Same store total operating expenses before restructuring for CHI increased 5.2% or $168.1 million for the three months ended September 30, 2014, as compared to the corresponding period of the prior fiscal year, primarily from wage inflation increases and the cost of key strategic initiatives undertaken by CHI, including implementation of OneCare.

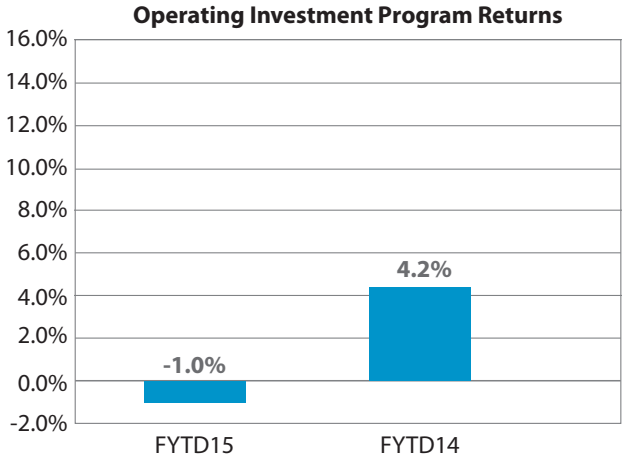
Salaries and benefits costs for the CHI Reporting Group for the three months ended September 30, 2014 accounted for 47.4% of total operating expenses before restructuring compared to 49.2% for the corresponding period of the prior fiscal year. Total labor costs increased 6.9% or $115.4 million for the CHI Reporting Group for the three months ended September 30, 2014, as compared to the corresponding period of the prior fiscal year due to the addition of 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 the three months ended September 30, 2014 compared to 53.9% for the corresponding period of the prior fiscal year.

Same store total labor costs for CHI increased 2.1% or $33.8 million for the three months ended September 30, 2014, as compared to the corresponding period of the prior fiscal year primarily due to annual wage inflation increases.

C. SUMMARY OF RESTRUCTURING EXPENSES AND NON-OPERATING RESULTS

Restructuring expenses for the CHI Reporting Group for the three months ended September 30, 2014 were $10.0 million compared to $29.2 million in the corresponding period of the prior fiscal year. These costs include reorganization and severance costs at the CHI's national corporate office, and in the Kentucky, Nebraska and Pacific Northwest Regions.

Non-operating losses for the CHI Reporting Group for the three months ended September 30, 2014 were $(66.7) million, as compared to gains of $217.9 million for the corresponding period of the prior fiscal year due to the 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 decreased (2.0)% or $(446.7) million during the three months ended September 30, 2014, primarily attributable to decreases to the fair value of investments resulting from investment losses incurred during the three months ended September 30, 2014.

Total cash and equivalents and unrestricted investments for the CHI Reporting Group decreased (5.0)% or $(365.0) million during the three months ended September 30, 2014 as a result of reduced cash flows from operations due to investment losses at First Initiatives Insurance, Limited, CHI's captive insurance company, incurred during the three months ended September 30, 2014, as well as on-going capital investment activity during the period. CHI's cash expenditures for capital additions at existing facilities were $154.7 million for the three months ended September 30, 2014, including new hospital construction and expansion primarily in the Colorado, Nebraska, Texas, Pacific Northwest and Ohio Regions, as well as continued implementation costs for the OneCare program.

Days of cash on hand for the CHI Reporting Group decreased to 179 days at September 30, 2014 from 197 at June 30, 2014. This decrease is partially attributable to the impact of acquisitions on the average operating expenses per day for the three months ended September 30, 2014, as well as decreased cash flows from operations; decrease in the fair value of investments, and cash spent on capital additions.

Net patient accounts receivable for the CHI Reporting Group increased 0.6% or $12.9 million during the three months ended September 30, 2014. Days of net patient services revenues in net patient accounts receivable for the CHI Reporting Group decreased to 56 days at September 30, 2014 from 58 days at June 30, 2014.

The debt-to-capitalization ratio for the CHI Reporting Group increased to 48.5% at September 30, 2014 from 47.8% at June 30, 2014, due to operating results for the three months ended September 30, 2014.

Total net assets for the CHI Reporting Group decreased (2.7)% or $(261.8) million during the three months ended September 30, 2014, primarily as a result of the deficit of revenues over expenses of $(198.3) million, which includes investment losses, for the three months ended September 30, 2014.

CHI Reporting Group Combined Balance Sheet Summary	September 30, 2014	June 30, 2014
Total assets	$ 22.0 billion	$ 22.4 billion
Total liabilities	$ 12.7 billion	$ 12.9 billion
Total net assets	$ 9.3 billion	$ 9.5 billion
Financial position and leverage ratios		
Total cash and unrestricted invesments	$ 6.9 billion	$ 7.3 billion
Days of cash on hand[1]	179	197
Total debt	$ 8.4 billion	$ 8.4 billion
Debt to capitalization[2]	48.5%	47.8%

[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)

4. CONTRACTUAL OBLIGATIONS

A. 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 ("COD"). 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 September 30, 2014, the Corporation's outstanding indebtedness secured by Obligations issued under the COD totaled $7.5 billion. Payment obligations under the COD are limited to an Obligated Group (defined therein), which only includes the Corporation. Certain covenants under the COD 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.

B. INDEBTEDNESS

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

Catholic Health Initiatives Indebtedness— September 30, 2014 ($millions)	Total Par Amount
Capital Obligation Debt	
Fixed Rate Bonds [1]	$ 5,359
Variable Rate Bonds[2]	$ 823
Long Term Rate Bonds[3]	$ 205
Direct Purchase Bonds[4]	$ 595
Commercial Paper Notes	$ 482
Total Capital Obligation Debt	**$7,465**
Non Capital Obligation Debt	
Other MBO Debt[5]	$ 427
Capital Leases	$ 197
EHF Note [6]	$ 230
Total Non Capital Obligation Debt	$ 855
Total CHI Debt	**$8,520**

The Corporation issued an additional $109 million of its commercial paper notes in November 2014, the proceeds of which were used 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).

[1] Excludes 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 B. 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 $187 million of SLHS debt as well as $115 million of Memorial East Texas debt, each secured by certain of its assets.

[6] Promissory note in the outstanding principal amount of $230 million with Episcopal Health Foundation in connection with the assumption of control of SLHS, which matures on June 30, 2020.

C. 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	Par September 30, 2014	Mandatory Tender Date
Colorado 2011C	$ 121.0 million	November 10, 2018
Washington 2008A	120.2 million	January 29, 2019
Colorado 2004B6	54.2 million	September 15, 2020
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	**$ 595.4 Million**	

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 September 30, 2014	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 remarketed the Colorado 2009B-3 and Kentucky 2009B Bonds on their mandatory tender dates. The Colorado 2009B-3 and Kentucky 2009B Bonds have new mandatory tenders dates of November 6, 2019 and November 10, 2021, respectively.

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 demand 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.

D. SWAP AGREEMENTS

CHI utilizes various interest rate swap 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 September 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 $144.2 million at September 30, 2014. The Swap Agreements, excluding the Memorial East Texas swaps, are secured by Obligations issued under the COD.

Swap Party	Outstanding Notional (September 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	$ 20.5 million	February 15, 2028
Memorial East Texas	$ 28.6 million	February 15, 2035
Total Notional Amount	**$ 1,423.9 million**	

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 September 30, 2014 and June 30, 2014, 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)	September 30, 2014	June 30, 2014
Cash and Equivalents	$ 784,729	$ 1,042,783
Internally Designated Investments	$ 6,158,335	$ 6,265,268
Total	$ 6,943,064	$ 7,308,051

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 September 30, 2014, the allocation was 35% fixed income, 40% 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 40% allocation to equities is comprised of 22% domestic equities and 18% international equities. At September 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. The Corporation's dedicated self-liquidity and standby bond purchase agreements can be found at http://emma.msrb.org. A listing of both dedicated self-liquidity lines and standby bond purchase agreements by financial institution, including termination dates are listed below.

A listing of both dedicated self-liquidity lines and standby bond purchase agreements by financial institution, including termination dates are listed below.

CHI Dedicated Self-Liquidity Lines—September 30, 2014		
Bank	**Par**	**Expiration**
Bank of New York Mellon	$ 60.0 million	December 15, 2014[1]
Bank of New York Mellon	45.0 million	December 15, 2015
PNC Bank	125.0 million	August 24, 2017
J.P. Morgan	50.0 million	September 30, 2017
Union Bank of CA	75.0 million	September 28, 2018
Northern Trust	65.0 million	June 28, 2019
Total Self-Liquidity Lines	**$ 420.0 million**	

Standby Bond Purchase Agreements—September 30, 2014		
Bank	**Par**	**Expiration**
U.S. Bank	$ 50.0 million	November 1, 2014[2]
U.S. Bank	33.7 million	November 10, 2014[2]
U.S. Bank	22.7 million	October 30, 2015
U.S. Bank	41.5 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
J.P. Morgan	$ 53.2 million	August 1, 2016
Total SBPA	**$ 301.6 million**	

[1] This line has been renegotiated subsequent to September 30, 2014 and now has an expiration date of February 27, 2015

[2] This line has been renegotiated subsequent to September 30, 2014 and now has an expiration date of March 31, 2015

6. LIQUIDITY REPORT

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

PART V: LEGAL PROCEEDINGS

A. PENDING LITIGATION/REGULATORY

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 met the Centers for Medicare & Medicaid Services reimbursement criteria set forth in the Medicare National Coverage Determination 20.4. In the interest of avoiding delay, uncertainty, inconvenience and expense of protracted litigation, and without any admission of liability, CHI reached an agreement with the DOJ to settle this matter on December 1, 2014. Management believes that settlement had no 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 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, the first of which was tried in November 2014 and resulted in a verdict in favor of the defense. 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.

APPENDIX A

Catholic Health Initiatives Consolidated Interim Financial Statements (Unaudited)

As of September 30, 2014 and for the three months ended September 30, 2014 and 2013

CATHOLIC HEALTH INITIATIVES

Consolidated Interim Financial Statements (Unaudited)
As of September 30, 2014 and for the Three Months Ended
September 30, 2014 and 2013

Catholic Health Initiatives
Consolidated Interim Financial Statements (Unaudited)

Contents

Consolidated Interim Financial Statements

Catholic Health Initiatives
Consolidated Balance Sheets
(In Thousands)

	September 30, 2014	June 30, 2014
	(Unaudited)	
Assets		
Current assets:		
Cash and equivalents	**$ 783,282**	$ 1,042,748
Net patient accounts receivable, less allowances for bad debts of $937,985 and $924,395 at September and June, respectively	**2,012,438**	1,997,468
Other accounts receivable	**262,861**	286,673
Current portion of investments and assets limited as to use	**27,895**	24,732
Inventories	**271,742**	271,664
Assets held for sale	**150,204**	202,066
Prepaid and other	**258,011**	197,668
Total current assets	**3,766,433**	4,023,019
Investments and assets limited as to use*:*		
Internally designated for capital and other funds	**5,202,207**	5,310,967
Mission and Ministry Fund	**134,935**	137,099
Capital Resource Pool	**515,726**	515,338
Held by trustees	**53,028**	53,574
Held for insurance purposes	**813,102**	828,078
Restricted by donors	**294,227**	296,472
Total investments and assets limited as to use	**7,013,225**	7,141,528
Property and equipment, net	**8,913,419**	8,942,520
Deferred financing costs	**41,831**	43,074
Investments in unconsolidated organizations	**544,790**	608,088
Intangible assets and goodwill, net	**551,041**	553,462
Notes receivable and other	**548,729**	500,886
Total assets	**$ 21,379,468**	$ 21,812,577

Continued on following page

Catholic Health Initiatives
Consolidated Balance Sheets (continued)
(In Thousands)

	September 30, 2014	June 30, 2014
	(Unaudited)	
Liabilities and net assets		
Current liabilities:		
Compensation and benefits	**$ 724,224**	$ 679,575
Third-party liabilities, net	**113,881**	123,804
Accounts payable and accrued expenses	**1,244,554**	1,446,233
Liabilities held for sale	**107,618**	104,117
Variable-rate debt with self-liquidity	**521,455**	521,455
Commercial paper and current portion of debt	**711,040**	711,408
Total current liabilities	**3,422,772**	3,586,592
Pension liability	**499,242**	496,358
Self-insured reserves and claims	**652,709**	634,718
Other liabilities	**829,581**	831,615
Long-term debt	**7,118,868**	7,146,399
Total liabilities	**12,523,172**	12,695,682
Net assets:		
Net assets attributable to CHI	**8,035,078**	8,289,188
Net assets attributable to noncontrolling interests	**464,528**	469,296
Unrestricted	**8,499,606**	8,758,484
Temporarily restricted	**262,377**	265,639
Permanently restricted	**94,313**	92,772
Total net assets	**8,856,296**	9,116,895
Total liabilities and net assets	**$ 21,379,468**	$ 21,812,577

See accompanying notes.

Catholic Health Initiatives
Consolidated Statements of Operations
(In Thousands)

	Three Months Ended September 30, 2014	2013
	(Unaudited)	
Revenues:		
Net patient services revenues before provision for doubtful accounts	**$ 3,471,895**	$ 3,290,743
Provision for doubtful accounts	**(233,244)**	(307,958)
Net patient services revenues	**3,238,651**	2,982,785
Nonpatient:		
Donations	**11,655**	7,356
Changes in equity of unconsolidated organizations	**16,045**	3,812
Investment (loss) income used for operations	**(10,208)**	25,960
Gains on business combinations	**–**	286,241
Hospital nonpatient revenues	**78,254**	72,647
Insurance premium revenues	**88,892**	36,766
Other	**104,604**	83,821
Total nonpatient revenues	**289,242**	516,603
Total operating revenues	**3,527,893**	3,499,388
Expenses:		
Salaries and wages	**1,456,955**	1,351,878
Employee benefits	**278,890**	268,835
Purchased services, medical professional fees, consulting and legal	**569,803**	444,583
Supplies	**610,403**	567,947
Utilities	**56,296**	50,307
Rentals, leases, maintenance and insurance	**214,637**	207,466
Depreciation and amortization	**192,615**	166,382
Interest	**64,112**	53,184
Other	**208,829**	177,265
Total operating expenses before restructuring, impairment and other losses	**3,652,540**	3,287,847
(Loss) income from operations before restructuring, impairment and other losses	**(124,647)**	211,541
Restructuring, impairment and other losses	**10,009**	29,171
(Loss) income from operations	**(134,656)**	182,370
Nonoperating (losses) gains:		
Investment (loss) income, net	**(44,452)**	208,878
Loss on defeasance of bonds	**–**	(5,945)
Realized and unrealized (losses) gains on interest rate swaps	**(16,672)**	772
Other nonoperating (losses) gains	**(1,046)**	3,930
Total nonoperating (losses) gains	**(62,170)**	207,635
(Deficit) excess of revenues over expenses	**(196,826)**	390,005
Excess (deficit) of revenues over expenses attributable to noncontrolling interest	**3,354**	(11,168)
(Deficit) excess of revenues over expenses attributable to CHI	**$ (200,180)**	$ 401,173

See accompanying notes.

Catholic Health Initiatives
Consolidated Statements of Cash Flows
(In Thousands)

	Three Months Ended September 30, 2014	2013
Operating activities		
(Decrease) increase in net assets	**$ (260,599)**	$ 355,347
Adjustments to reconcile (decrease) increase in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	**192,615**	166,382
Provision for bad debts	**233,244**	307,958
Changes in equity of unconsolidated organizations	**(16,045)**	(3,812)
Net gains on business combinations	**–**	(289,189)
Net gains on sales of facilities and investments in unconsolidated organizations	**(5,034)**	–
Noncash operating expenses related to restructuring, impairment and other losses	**899**	19,366
Loss on defeasance of bonds	**–**	5,945
Decrease (increase) in fair value of interest rate swaps	**4,543**	(13,830)
Increase (decrease) in unfunded pension liability	**2,884**	(9,191)
Net changes in current assets and liabilities:		
Net patient and other accounts receivable	**(178,330)**	(340,395)
Other current assets	**(57,801)**	(73,890)
Current liabilities	**(215,023)**	(69,045)
Other changes	**53,544**	(36,789)
Net cash (used in) provided by operating activities, before net change in investments and assets limited as to use	**(245,103)**	18,857
Net decrease in investments and assets limited as to use	**125,149**	108,891
Net cash (used in) provided by operating activities	**(119,954)**	127,748
Investing activities		
Purchases of property, equipment and other capital assets	**(147,768)**	(299,808)
Net cash on contributions and acquisitions	**–**	13,799
Net cash proceeds from asset sales	**2,146**	7,912
Distributions from investments in unconsolidated organizations	**39,928**	7,390
Cash from net repayments of notes receivable	**3,437**	3,057
Other changes	**(9,357)**	3,130
Net cash used in investing activities	**(111,614)**	(264,520)
Financing activities		
Proceeds from issuance of debt and bank loans	**2,061**	150,047
Repayment of debt	**(29,959)**	(178,027)
Net cash used in financing activities	**(27,898)**	(27,980)
Decrease in cash and equivalents	**(259,466)**	(164,752)
Cash and equivalents at beginning of year	**1,042,748**	609,226
Cash and equivalents at end of year	**$ 783,282**	$ 444,474

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, 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 acquisitons	–	–	–	24,197	2,003	26,200
Baylor JV noncontrolling interest	–	286,125	286,125	12,600	–	298,725
Other changes in net assets	(78,461)	14,003	(64,458)	(12,677)	1,400	(75,735)
Net increase in net assets	519,878	293,633	813,511	51,115	6,144	870,770
Balances, June 30, 2014	**8,289,188**	**469,296**	**8,758,484**	**265,639**	**92,772**	**9,116,895**
Deficit of revenues over expenses	**(200,180)**	**3,354**	**(196,826)**	**–**	**–**	**(196,826)**
Net loss from discontinued operations	**(49,926)**	**–**	**(49,926)**	**–**	**–**	**(49,926)**
Decrease in pension funded status	**837**	**–**	**837**	**–**	**–**	**837**
Temporarily and permanently restricted contributions	**–**	**–**	**–**	**7,986**	**439**	**8,425**
Net assets released from restriction for capital	**1,520**	**–**	**1,520**	**(1,520)**	**–**	**–**
Net assets released from restriction for operations	**–**	**–**	**–**	**(8,836)**	**–**	**(8,836)**
Investment (loss) income	**–**	**–**	**–**	**(809)**	**110**	**(699)**
Other changes in net assets	**(6,361)**	**(8,122)**	**(14,483)**	**(83)**	**992**	**(13,574)**
Net (decrease) increase in net assets	**(254,110)**	**(4,768)**	**(258,878)**	**(3,262)**	**1,541**	**(260,599)**
Balances, September 30, 2014 *(unaudited)*	**$ 8,035,078**	**$ 464,528**	**$ 8,499,606**	**$ 262,377**	**$ 94,313**	**$ 8,856,296**

See accompanying notes.

Catholic Health Initiatives
Notes to Consolidated Interim Financial Statements (Unaudited)

1. Summary of Significant Accounting Policies

Organization

Catholic Health Initiatives (CHI), established in 1996, is a tax-exempt Colorado corporation and has been granted an exemption from federal income tax under Section 501(c)(3) of the Internal Revenue Code. CHI sponsors market-based organizations (MBOs) and other facilities operating in 18 states and includes 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.

Basis of Presentation

The consolidated interim financial statements of CHI as of September 30, 2014, and for the three months ended September 30, 2014 and 2013, reflect all adjustments, consisting only of normal recurring adjustments, which in the opinion of management are necessary to fairly state our financial position, results of operations and cash flows for the periods presented. The consolidated interim financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim reporting, and accordingly, do not include all of the disclosures that are required in annual financial statements. As such, these consolidated interim financial statements should be read in conjunction with the audited financial statements as of and for the year ended June 30, 2014. The preparation of financial statements in conformity with GAAP 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.

Operating results for the three months ended September 30, 2014 and 2013 are not necessarily indicative of the results that may be expected for any future period or for a full fiscal year as revenues, expenses, assets and liabilities can vary during each quarter of the year.

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.

1. Summary of Significant Accounting Policies (continued)

Fair Value of Financial Instruments

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

Cash and Equivalents

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

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

1. Summary of Significant Accounting Policies (continued)

Net Patient Accounts Receivable, Net Patient Revenues and Provision for Doubtful Accounts (continued)

Details of CHI's allowance activity are as follows:

	Reserve for Contractual Allowance	Allowance for Bad Debt	Reserve for Charity	Total Accounts Receivable Allowances
	(in thousands)			
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)
Additions	(8,119,138)	(233,244)	(182,685)	(8,535,067)
Reductions	7,895,690	219,654	223,554	8,338,898
Balance at Sept 30, 2014	$ (3,750,588)	$ (937,985)	$ (390,277)	$ (5,078,850)

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.

1. Summary of Significant Accounting Policies (continued)

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.

CHI has designated its investment portfolio as trading. Accordingly, unrealized gains and losses on marketable securities are included 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).

1. Summary of Significant Accounting Policies (continued)

Property and Equipment

Property and equipment are stated at historical cost or, if donated or impaired, at fair value at the date of receipt or impairment. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. During fiscal year 2014, CHI conducted a study to reassess the estimated remaining useful lives of its buildings and building improvements. Beginning in the second quarter of fiscal year 2014, CHI prospectively adjusted the estimated remaining useful lives of these assets. 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 $10.0 million and $10.1 million was recorded during the three months ended September 30, 2014 and 2013, respectively.

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

Investments in Unconsolidated Organizations

Investments in unconsolidated organizations are accounted for under the cost or equity method of accounting, as appropriate, based on the relative percentage of ownership and degree of influence over that organization. The equity income or loss on these 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 $2.4 million and $1.2 million was recorded for the three months ended September 30, 2014 and 2013, respectively.

1. Summary of Significant Accounting Policies (continued)

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. No such circumstances occurred during the three months ended September 30, 2014. 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 value as the implied fair value of goodwill.

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 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 (in thousands):

	September 30, 2014	June 30, 2014
Total notes receivable from related entities	**$ 172,186**	$ 175,466
Reinsurance recoverable on unpaid losses and loss adjustment expense	**37,576**	29,109
Deferred compensation assets	**50,866**	51,684
Other long-term assets	**288,101**	244,627
Total notes receivable and other	**$ 548,729**	$ 500,886

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 September 30 and June 30, 2014.

1. Summary of Significant Accounting Policies (continued)

Net Assets

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

Unconditional promises to receive cash and other assets are reported at fair value at the date the promise is received. Conditional promises and indications of donors' intentions to give are reported at fair value at the date the conditions are met or the gifts are received. All unrestricted contributions are included in the excess of revenue over expenses as donation revenues. Other gifts are reported as either temporarily or permanently restricted if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as donations revenue when restricted for operations or as unrestricted net assets when restricted for property and equipment.

Performance Indicator

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

Operating and Nonoperating Activities

CHI's primary mission is to meet the health care needs in its market areas through a broad range of general and specialized health care services, including inpatient acute care, outpatient services, physician services, long-term care and other health care services. Activities directly associated with the furtherance of this purpose are considered to be operating activities. Earnings from fixed-income investments held by FIIL are also classified within operating activities as such earnings help 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 revenue in the accompanying consolidated statements of operations and changes in net assets. The estimated cost of charity care provided was $69.7 million and $61.8 million for the three months ended September 30, 2014 and 2013, respectively.

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 $8.0 million and $0.9 million of Medicare meaningful use revenues and $2.1 million and $0.9 million of Medicaid meaningful use revenues in its consolidated statements of operations for the three months ended September 30, 2014 and 2013, respectively.

Other Nonpatient Revenues

Other nonpatient revenues include services sold to external health care providers, gains on the 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.

1. Summary of Significant Accounting Policies (continued)

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 gains (losses) in the accompanying consolidated statements of operations. It is CHI's policy to net the value of collateral on deposit with counterparties against the fair value of its interest rate swaps in other liabilities on the consolidated balance sheets.

Functional Expenses

CHI provides health care services, including inpatient, outpatient, ambulatory, long-term care and community-based services to individuals within the various geographic areas supported by its facilities. Support services include administration, finance and accounting, information technology, public relations, human resources, legal, mission services and other functions that are supported centrally for all of CHI. Support services expenses as a percent of total operating expenses were approximately 6.0% and 5.4% for the three months ended September 30, 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 that there were certain property and equipment impairments for the three months ended September 30, 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 three months ended September 30, 2014 and 2013, CHI recorded total charges of $61.1 million and $29.2 million, respectively, relating to asset impairments and changes in business operations, including reorganization and severance costs. Of this amount, $10.0 million and $29.2 million were from continuing operations and reported in the consolidated statements of operations for the three months ended September 30, 2014 and 2013, respectively, and $51.1 million was reported as discontinued operations in the consolidated statements of changes in net assets for September 30, 2014.

1. Summary of Significant Accounting Policies (continued)

Income Taxes

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

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

Use of Estimates

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

2. 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 September 30 and June 30, 2014, CHI has a 65% and 70% interest, respectively, 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 $197.4 million and $199.4 million at September 30 and June 30, 2014, respectively. CHI recognizes its investment in all JOCs under the equity method of accounting. The JOCs provide varying levels of services to the related JOA sponsors, and operating expenses of the JOCs are allocated to each sponsoring organization.

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

Investments in Unconsolidated Organizations

CHI holds noncontrolling interests in various organizations, accounted for under the cost or equity method of accounting, as appropriate. Two significant investments are described below.

Conifer Health Solutions (Conifer) – As of September 30 and June 30, 2014, CHI holds a $19.3 million cost method investment in Conifer, acquired as part of an eleven-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, with such shares issued at specified future dates. As of September 30 and June 30, 2014, CHI has met certain transition milestones and has earned the right to additional future shares valued at $64.5 million, 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) – Effective in September 2014, CHI sold its investment in PPIC, an unconsolidated affiliate of CHI, which provided professional liability insurance and other related services to preferred physician and other health care providers associated with its owners. Gross proceeds on the sale were $43.3 million, plus the distribution of a $21.5 million extraordinary dividend, which resulted in a gain on sale of approximately $4.3 million reflected in the consolidated statement of operations for the three months ended September 30, 2014. As of June 30, 2014, CHI's investment in PPIC had a book value of $60.5 million, representing a 27% interest in the company.

3. Acquisitions, Affiliations and Divestitures

Harrison Medical Center – Effective August 1, 2013, Harrison Medical Center (Harrison) was acquired by CHI for no consideration, resulting in the recognition of a $289.2 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. 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. Harrison reported $103.3 million in operating revenues and $1.3 million of excess of revenues over expenses in the CHI consolidated results of operations for the three months ended September 30, 2014, and excluding the contribution gain, $65.1 million in operating revenues and $0.8 million of excess of revenues over expenses for the period from August 1 through September 30, 2013.

3. Acquisitions, Affiliations and Divestitures (continued)

St. Vincent 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 (St. Vincent Hot Springs), to CHI for net proceeds of $59.7 million and the recognition of a $61.8 million gain in the fourth quarter of fiscal year 2014. The gain was 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. For the three months ended September 30, 2014, St. Vincent Hot Springs reported $67.8 million in operating revenues and $2.2 million of excess of revenues over expenses in the CHI consolidated results of operations.

CHI St. Luke's Health Memorial – Effective June 1, 2014, Memorial Health System of East Texas (CHI St. Luke's Health Memorial) was acquired by CHI for no consideration, resulting in the recognition of a $53.2 million gain in the fourth quarter of fiscal year 2014. The gain was 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. CHI St. Luke's Health Memorial is a private, nonprofit hospital system with hospitals in Lufkin, Livingston and San Augustine, Texas. CHI St. Luke's Health Memorial reported $50.2 million in operating revenues and $3.2 million of deficiency of revenues over expenses in the CHI consolidated results of operations for the three months ended September 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 original noncontrolling interest was valued at $298.7 million. The parties have agreed to build and operate a new, acute-care, open-staff hospital on Baylor's McNair Campus and to share in the operations 65% by CHI St. Luke's and 35% by Baylor. CHI St. Luke's and Baylor also entered into an academic affiliation agreement whereby Baylor will provide certain clinical programs and services to certain of the CHI St. Luke's hospital facilities.

On an unaudited pro forma basis, had CHI owned or been party to an agreement with Harrison, St. Vincent Hot Springs and CHI St. Luke's Health Memorial at the beginning of fiscal year 2014, these entities would have contributed $199.6 million of operating revenues and $4.3 million of deficit of revenues over expenses for the three months ended September 30, 2013.

3. Acquisitions, Affiliations and Divestitures (continued)

Discontinued Operations

In 2012, CHI committed to a plan to sell the Denville, New Jersey MBO, and as of September 2014 is awaiting governmental and Church approval to its proposed sale of certain operations of the Denville MBO to Prime Healthcare Services. The transaction is expected to close in fiscal year 2015. In accordance with Accounting Standards Codification (ASC) 205-20, *Discontinued Operations,* and ASC 360-10, *Impairment and Disposal of Long-Lived Assets,* the results of operations of the Denville MBO is reported as discontinued operations and is included in the consolidated statements of changes in net assets. Assets held for sale consist primarily of net patient accounts receivable, net property and other long-term assets. Liabilities held for sale consist primarily of accrued compensation and benefits, accounts payable and deferred revenues.

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

For the three months ended September 30, 2014 and 2013, CHI recorded a deficiency of revenues over expense of $49.9 million and $9.6 million, respectively, from discontinued operations, reported in the accompanying consolidated statements of changes in net assets.

4. 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.

4. Net Patient Services Revenues (continued)

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

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

	Three Months Ended September 30,	
	2014	2013
Medicare	**32%**	32%
Medicaid	**9**	8
Managed care	**42**	40
Self-pay	**7**	8
Commercial and other	**10**	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 $105.7 million and $117.4 million at September 30 and June 30, 2014, respectively, are included in third-party liabilities. Net patient services revenues from continuing operations increased by $11.6 million and $18.8 million for the three months ended September 30, 2014 and 2013, respectively, due to favorable changes in estimates related to prior-year settlements.

5. Investments and Assets Limited as to Use

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

	September 30, 2014	June 30, 2014
Cash and equivalents	**$ 471,937**	$ 433,606
CHI Investment Program	**5,753,297**	5,814,893
Marketable equity securities	**349,973**	390,751
Marketable fixed-income securities	**423,315**	463,036
Hedge funds and other investments	**42,598**	63,974
	7,041,120	7,166,260
Less current portion	**(27,895)**	(24,732)
	$ 7,013,225	$ 7,141,528

Net unrealized gains in investments and assets limited to use at September 30 and June 30, 2014, were $493.3 million and $668.6 million, respectively.

CHI attempts to reduce its market risk by diversifying its investment portfolio using cash equivalents, marketable equity securities, fixed-income 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, funds of funds, etc.), 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.

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

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 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 noncontrolled 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 September 30 and June 30, 2014, respectively.

The Program asset allocation is as follows:

	September 30, 2014	June 30, 2014
Marketable equity securities	**40%**	44%
Marketable fixed-income securities	**35**	31
Alternative investments	**23**	23
Cash and equivalents	**2**	2
	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.

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

Investment income is comprised of the following (in thousands):

	Three Months Ended September 30,	
	2014	2013
Dividend and interest income	**$ 32,111**	$ 34,443
Net realized gains	**86,510**	80,496
Net unrealized (losses) gains	**(173,281)**	119,899
Total investment (loss) income from continuing operations	**$ (54,660)**	$ 234,838
Included in other nonpatient revenue	**$ (10,208)**	$ 25,960
Included in nonoperating (losses) gains	**(44,452)**	208,878
Total investment (loss) income from continuing operations	**$ (54,660)**	$ 234,838
Total investment (loss) income from discontinued operations	**(617)**	1,149
Total investment (loss) income	**$ (55,277)**	$ 235,987

Direct expenses of the Program are less than 0.4% of total assets during the prior fiscal year and are estimated to remain below this level in the current fiscal year. 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.

6. 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).

6. Fair Value of Assets and Liabilities (continued)

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.

Financial assets and liabilities measured at fair value on a recurring basis were determined using the market approach based upon the following inputs at September 30 and June 30, 2014 (in thousands):

	September 30, 2014 Fair Value Measurements at Reporting Date Using			
		(Level 1)	(Level 2)	(Level 3)
	Fair Value as of September 30	Quoted Prices in Active Markets	Other Observable Inputs	Unobservable Inputs
Assets				
Assets limited as to use:				
Cash and short-term investments	$ 471,937	$ 411,146	$ 60,791	$ –
Marketable equity securities	349,973	349,973	–	–
Marketable fixed-income securities	423,315	97,433	325,882	–
Other investments	6,835	–	–	6,835
Deferred compensation assets:				
Cash and short-term investments	13,534	13,534	–	–
	$ 1,265,594	$ 872,086	$ 386,673	$ 6,835
Liabilities				
Interest rate swaps	$ 261,293	$ –	$ 261,293	$ –
Contingent consideration	182,404	–	–	182,404
Deferred compensation liability	13,534	13,534	–	–
	$ 457,231	$ 13,534	$ 261,293	$ 182,404

6. Fair Value of Assets and Liabilities (continued)

	June 30, 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

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

7. Debt Obligations

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

	Interest Rates at September 30, 2014	Balances at September 30, 2014	Balances at June 30, 2014
CHI debt issued under the COD			
Variable-rate Bonds:			
Series 1997B, maturing through 2022	0.1%	**$ 7,700**	$ 7,700
Series 2000B, maturing 2027	0.08%	**22,700**	22,700
Series 2002B, maturing 2032	0.08%	**94,700**	94,700
Series 2004B, maturing through 2044	0.05–0.11%	**180,700**	180,700
Series 2004C, maturing through 2044	0.04–0.08%	**163,300**	163,300
Series 2008A, maturing 2036	0.11%	**120,175**	120,225
Series 2008C, maturing 2041	0.08%	**50,000**	50,000
Series 2011B, maturing 2046	0.04%	**158,155**	158,155
Series 2011C, maturing 2046	0.11%	**121,000**	121,000
Series 2013B, maturing 2035	0.04%	**200,000**	200,000
Series 2013C, maturing 2023	0.11%	**100,000**	100,000
Series 2013E Taxable, maturing 2045	0.16%	**125,000**	125,000
Series 2013F Taxable, maturing 2045	0.16%	**75,000**	75,000
Fixed-rate Bonds:			
Series 2002A, maturing 2017	5.5%	**2,615**	2,615
Series 2004A, maturing through 2034	4.75–5.0%	**146,285**	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%	**705,050**	724,140
Series 2009B, maturing through 2039	4.0–5.25%	**217,720**	217,720
Series 2011A, maturing 2041	3.25–5.25%	**486,090**	486,090
Series 2012A, maturing 2035	4.0–5.0%	**268,980**	268,980
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**	600,600
Series 2013D Taxable, maturing 2023	2.6–4.2%	**540,000**	540,000
Commercial Paper		**482,362**	482,362
Unamortized debt premium		**54,189**	55,660
Unamortized debt discount		**(24,326)**	(24,839)
Total CHI debt issued under the COD		**7,495,080**	7,515,498

7. Debt Obligations (continued)

	Interest Rates at September 30, 2014	Balances at September 30, 2014	Balances at June 30, 2014
Other debt			
Note payable issued to Episcopal Health Foundation		**230,225**	230,225
Capital leases		**198,795**	204,291
Other debt		**427,263**	429,248
		8,351,363	8,379,262
Less: Amounts classified as current:			
Variable-rate debt with self-liquidity		**(521,455)**	(521,455)
Commercial paper and current portion of debt		**(711,040)**	(711,408)
Long-term debt		**$ 7,118,868**	$ 7,146,399

The fair value of debt obligations was approximately $8.4 billion at September 30, 2014. Management has determined the carrying values of the variable-rate bonds are representative of fair values as of September 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 September 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).

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.

In September 2013, CHI defeased $134.2 million of 2008 bonds issued by Highline, which were acquired in April 2013 when Highline was contributed to CHI. The transaction resulted in a $5.9 million loss on defeasance.

CHI has two types of external liquidity facilities: those that are dedicated to specific series of variable-rate demand bonds (VRDBs) 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 total $897.0 million at both September 30 and June 30, 2014, of which $8.2 million are classified as current at both September 30 and June 30, 2014. The remaining $888.8 million are reported as long-term debt at both September 30 and June 30, 2014 due to the repayment terms on any associated drawings extending beyond the subsequent fiscal year under the terms of the specific agreements.

7. Debt Obligations (continued)

Liquidity facilities not dedicated for specific series of VRDBs but used to support CHI's obligations to fund tenders and to pay maturing principal of commercial paper were $420.0 million at both September 30 and June 30, 2014. Commercial paper of $482.4 million at both September 30 and June 30, 2014 were classified as current due to maturities of less than one year. At both September 30 and June 30, 2014, $521.5 million of VRDBs and Windows variable-rate bonds (Windows) were 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 September 30, 2014, CHI had a $55.0 million credit facility with Bank of New York Mellon. Letters of credit totaling $54.1 million have been issued for the benefit of third parties, principally in support of the self-insurance programs administered by FIIL. No amounts were outstanding under this credit facility at September 30 and June 30, 2014.

At both September 30 and June 30, 2014, CHI was a party to 13 floating-to-fixed interest rate swap agreements with notional amounts totaling $1.4 billion. 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 the 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 September 30 and June 30, 2014, the fair value was $261.3 million and $256.7 million, respectively. Cash collateral balances of $144.2 million and $130.5 million at September 30 and June 30, 2014, respectively, are netted against the fair value of the swaps, and the net amount is reflected in other liabilities. The change in the fair value of these agreements was a net loss of $4.5 million and a net gain of $13.8 million for the three months ended September 30, 2014 and 2013, respectively.

8. Retirement Plans

CHI Pension Plan

The noncontributory, 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.

Estimated amounts for the components of net periodic pension expense are summarized in the table below. Amounts will be adjusted at year-end to reflect actual results, based on the final annual actuarial reports (in thousands):

	Three Months Ended September 30,	
	2014	**2013**
Components of net periodic pension (credit) expense:		
Service cost	**$ 5,944**	$ 26,621
Interest cost	**46,786**	44,465
Expected return on the Plans' assets	**(66,742)**	(61,780)
Actuarial losses	**10,244**	8,183
Amortization of prior service benefit	**358**	19
Curtailments	**-**	74
Settlements	**270**	75
	$ (3,140)	$ 17,657

8. Retirement Plans (continued)

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% of the first 1% of eligible pay an employee contributes to the plan, and 50% of the next 5% of eligible pay contributed to the plan, for a maximum employer matching rate of 3.5% of eligible pay. On an annual basis and regardless of whether 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 three months ended September 30, 2014, CHI contributed $46.9 million to the 401(k) Savings Plan.

9. 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 receivables from patients and third-party payors approximated the following:

	September 30, 2014	June 30, 2014
Medicare	**27%**	27%
Medicaid	**13**	12
Managed care	**33**	31
Self-pay	**7**	7
Commercial and other	**20**	23
	100%	100%

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

10. Commitments and Contingencies

Litigation

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

Health Care Regulatory Environment

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

11. Subsequent Events

Acquisitions –

Effective on October 1, 2014, St. Alexius Medical Center (SAMC), located in Bismarck, ND, became a direct affiliate of CHI. In conjunction with this affiliation, CHI contributed $10 million to an endowment fund with a third party as consideration for the transaction.

Effective on November 1, CHI paid $74.4 million to become the sole sponsor of Sylvania Franciscan Health (SFH), which operates various health ministries in Ohio and Texas.

The valuation of acquired assets and liabilities is currently in process for both SAMC and SFH, and should be finalized by the end of the calendar year.

Dispositions –

Effective in October 2014, CHI sold its ownership in MedSynergies, Inc., a national physician management services organization, for gross proceeds of $121.1 million, resulting in a gain of $69.0 million.