Franciscan Alliance, Inc. and Affiliates

Consolidated Financial Statements
December 31, 2014 and 2013

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Independent Auditor's Report

Board of Trustees
Franciscan Alliance, Inc.
Mishawaka, Indiana

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

Opinion

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

PricewaterhouseCoopers LLP

April 24, 2015

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Franciscan Alliance, Inc. and Affiliates
Consolidated Balance Sheets
December 31, 2014 and 2013
(In thousands)

	2014	2013
Assets		
Current assets		
Cash and cash equivalents	$ 55,757	$ 42,371
Short-term investments	129,674	222,535
Patient accounts receivable, net of allowance for doubtful accounts of $27,878 in 2014 and $42,994 in 2013	298,524	312,109
Inventories of supplies	43,238	37,936
Other current assets	97,258	74,866
Total current assets	624,451	689,817
Board designated and other investments	2,246,231	1,872,509
Property, plant, and equipment, net	1,557,201	1,587,214
Investments in unconsolidated affiliates	18,522	23,355
Goodwill	24,541	24,541
Intangible assets, net of accumulated amortization of $16,230 in 2014 and $16,412 in 2013	6,608	11,661
Other assets	112,527	105,238
Total assets	$ 4,590,081	$ 4,314,335

	2014	2013
Liabilities and Net Assets		
Current liabilities		
Current portion of long-term debt	$ 23,693	$ 22,029
Accounts payable and accrued expenses	244,547	193,706
Accrued payroll and related expenses	113,497	116,456
Estimated third-party payor settlements	25,172	29,043
Total current liabilities	406,909	361,234
Long-term debt, net of current portion	1,077,544	1,097,229
Fair value of interest rate swap contracts	84,986	58,491
Accrued pension liability	374,176	107,269
Estimated insurance liabilities	135,838	130,293
Other liabilities	49,635	46,580
Total liabilities	2,129,088	1,801,096
Net assets		
Unrestricted	2,392,237	2,445,725
Noncontrolling interests in consolidated affiliates	35,231	30,791
Total unrestricted net assets	2,427,468	2,476,516
Temporarily restricted	16,474	19,415
Permanently restricted	17,051	17,308
Total net assets	2,460,993	2,513,239
Total liabilities and net assets	$ 4,590,081	$ 4,314,335

The accompanying notes are an integral part of these consolidated financial statements.

Franciscan Alliance, Inc. and Affiliates
Consolidated Statements of Operations and Changes in Net Assets
Years Ended December 31, 2014 and 2013
(In thousands)

	2014	2013
Unrestricted revenues, gains, and other support		
Patient service revenue, net of contractual allowances and discounts	$ 2,510,108	$ 2,425,218
Provision for doubtful accounts	(84,799)	(103,921)
Net patient service revenue	2,425,309	2,321,297
Capitation and premium revenue	109,029	118,670
Other operating revenue	182,781	152,211
Equity in (losses) earnings of investments in unconsolidated affiliates	(1,223)	6,254
Net unrealized investment gains	2,260	8,408
Net assets released from restrictions used for operations	103	1,709
Total unrestricted revenues, gains, and other support	2,718,259	2,608,549
Operating expenses		
Salaries	972,967	1,018,658
Employee benefits	224,597	316,765
Physicians' fees	52,232	56,237
Utilities	45,202	43,158
Repairs and maintenance	44,452	39,949
Drugs and pharmaceuticals	128,482	122,252
Medical supplies	186,527	195,546
Insurance	32,564	29,220
Purchased services	257,361	259,997
Other supplies and expenses	368,266	313,000
Interest	35,726	36,793
Depreciation and amortization	154,154	140,287
Total operating expenses	2,502,530	2,571,862
Operating income	215,729	36,687
Other income (expense)		
Investment income	64,169	67,203
Net unrealized investment gains on trading securities	9,354	117,126
Net unrealized (losses) gains and periodic settlements on interest rate swap contracts	(40,397)	29,486
Gain on sale/disposal of assets	460	2,504
Net assets released from restrictions	3,351	2,680
Contributions	3,695	1,160
Other, net	(4,655)	(12,807)
Total other income (expense), net	35,977	207,352
Excess of revenues over expenses	$ 251,706	$ 244,039

The accompanying notes are an integral part of these consolidated financial statements.

Franciscan Alliance, Inc. and Affiliates
Consolidated Statements of Operations and Changes in Net Assets (continued)
Years Ended December 31, 2014 and 2013
(In thousands)

	2014	2013
Unrestricted net assets, controlling interest		
Excess of revenues over expenses	$ 234,914	$ 224,305
Change in pension and postretirement benefits other than net periodic pension costs included in accrued pension liability	(293,541)	319,727
Other, net	(1)	(4,612)
Contributions of property, plant, and equipment	250	74
Net assets released from restrictions used for purchase of property, plant, and equipment	4,890	1,859
(Decrease) increase in unrestricted net assets, controlling interest	(53,488)	541,353
Unrestricted net assets, noncontrolling interest		
Excess of revenues over expenses	16,792	19,734
Distributions	(12,352)	(17,319)
Increase in unrestricted net assets, noncontrolling interest	4,440	2,415
Temporarily restricted net assets, controlling interest		
Contributions	5,446	5,154
Investment income	132	194
Net assets released from restrictions	(3,454)	(4,389)
Net assets released from restrictions used for purchase of property, plant, and equipment	(4,890)	(1,859)
Net unrealized investment (losses) gains	(7)	93
Other, net	(168)	2,663
(Decrease) increase in temporarily restricted net assets, controlling interest	(2,941)	1,856
Permanently restricted net assets, controlling interest		
Contributions	115	16
Investment income	288	175
Net unrealized investment gains	1	247
Other, net	(661)	5,008
(Decrease) increase in permanently restricted net assets, controlling interest	(257)	5,446
(Decrease) increase in net assets	(52,246)	551,070
Net assets, beginning of the year	2,513,239	1,962,169
Net assets, end of the year	$ 2,460,993	$ 2,513,239

The accompanying notes are an integral part of these consolidated financial statements.

Franciscan Alliance, Inc. and Affiliates
Consolidated Statements of Cash Flows
Years Ended December 31, 2014 and 2013
(In thousands)

	2014	2013
Cash flows from operating activities		
(Decrease) increase in net assets	$ (52,246)	$ 551,070
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation of plant, property, and equipment	148,465	133,767
Amortization of bond discounts, deferred financing costs, and other intangible assets	5,689	6,520
Provision for doubtful accounts	84,799	103,921
Gain on sale of investments in unconsolidated affiliates	(16,638)	-
Loss (gain) on sale/disposal of assets	16,179	(2,504)
Net investment gains	(75,783)	(192,737)
Net unrealized losses (gains) on interest rate swap contracts	26,495	(43,717)
Distributions to noncontrolling interests in consolidated affiliates, net of contributions	12,352	17,319
Distributions from unconsolidated affiliates	5,769	6,481
Equity in losses (earnings) of investments in unconsolidated affiliates	1,223	(6,254)
Restricted contributions and investment income	(5,981)	(5,539)
Change in pension and postretirement benefits other than net periodic pension costs included in accrued pension liability	293,541	(319,727)
Changes in operating assets and liabilities:		
Patient accounts receivable	(71,215)	(79,788)
Inventories of supplies	(5,302)	2,102
Other assets	(29,371)	39,105
Accounts payable and accrued expenses	35,157	(37,994)
Accrued payroll and related expenses	(2,959)	5,716
Estimated third-party payor settlements	(3,871)	(5,377)
Estimated insurance liabilities	5,545	161
Accrued pension liability	(26,634)	367
Other liabilities	3,055	(11,364)
Total adjustments	400,515	(389,542)
Net cash provided by operating activities	348,269	161,528
Cash flows from investing activities		
Purchases of investments	(5,927,429)	(6,079,108)
Proceeds from sale of investments	5,722,352	6,095,595
Purchases of property, plant, and equipment	(115,025)	(146,877)
Proceeds from sale of property, plant, and equipment	192	5,394
Acquisition of physician practices and other healthcare service organizations	(109)	(2,522)
Proceeds from sale of investments in unconsolidated affiliates	16,764	-
Capital contributions to investment in unconsolidated affiliates	(2,285)	(2,108)
Net cash used by investing activities	(305,540)	(129,626)
Cash flows from financing activities		
Proceeds from issuance of long-term debt	50,000	-
Redemption of long-term debt	(50,000)	-
Principal payments on long-term debt	(22,972)	(22,377)
Distributions to noncontrolling interests in consolidated affiliates, net of contributions	(12,352)	(17,319)
Restricted contributions and investment income	5,981	5,539
Net cash used by financing activities	(29,343)	(34,157)
Net increase (decrease) in cash and cash equivalents	13,386	(2,255)
Cash and cash equivalents, beginning of year	42,371	44,626
Cash and cash equivalents, end of year	$ 55,757	$ 42,371

The accompanying notes are an integral part of these consolidated financial statements.

1. Description of Organization and Mission

Organization

Franciscan Alliance, Inc. and Affiliates (collectively referred to as the "Corporation"), under the sponsorship of the Sisters of St. Francis of Perpetual Adoration, Inc., is an Indiana non-profit, Catholic health care system. The Corporation is dedicated to providing comprehensive health care services, including emergency, medical, surgical, behavioral, rehabilitative, and other health services in inpatient and outpatient settings; home health care services; and primary and specialty physician services to communities within four geographic regions in Indiana and Illinois (the "Health Centers"). Additionally, the Corporation has various accountable care organizations and physician hospital managed care networks, a non-profit foundation, and a number of support related divisions and affiliates including a corporate office, a consolidated information technology services division, various back office/management support organizations, a construction company, and a captive insurance company. The Corporation also has various investments in consolidated and unconsolidated affiliates (Note 10). The Corporation is incorporated as a not-for-profit corporation under the laws of Indiana and is a tax-exempt organization as described in Section 501(c)(3) of the Internal Revenue Code (the "Code").

Mission

The Corporation's mission statement is as follows:

Continuing Christ's Ministry in Our Franciscan Tradition

Consistent with its mission, the Corporation provides medical care to all patients regardless of their ability to pay and continually works to enhance the health status of the communities in which it operates. As illustrated in the following summary of quantifiable community benefits, which has been prepared in accordance with the Catholic Health Association of the United States' policy document, the Corporation commits significant resources to provide services intended to benefit the poor and underserved with benefits measured at the total cost net of any offsetting revenues, donations, or other funds used to defray such costs.

	(Unaudited)	
	2014	2013
	(in thousands)	
Benefits for the poor and underserved		
Unreimbursed costs of Medicaid and other indigent care programs	$ 89,926	$ 109,995
Cost of charity care provided	91,268	93,614
Other benefits for the poor and underserved	5,434	4,327
Total benefits for the poor and underserved	186,628	207,936
Benefits for the broader community		
Subsidized health services	27,813	41,594
Health professions education	12,414	12,850
Community health improvement services	3,251	3,667
Financial and in-kind contributions	888	923
Research	1,384	1,349
Community building activities	913	1,074
Community benefit operations	226	190
Total benefits for the broader community	46,889	61,647
Total quantifiable community benefits	233,517	269,583
Unreimbursed costs of Medicare	237,326	272,730
Total quantifiable community benefits including unreimbursed costs of Medicare	$ 470,843	$ 542,313

Total quantifiable community benefits including unreimbursed costs of Medicare were approximately 19% and 21% of total operating expenses for the years ended December 31, 2014 and 2013, respectively.

The Corporation also provides a significant amount of uncompensated care to patients which is reported as provision for doubtful accounts in the consolidated statements of operations and changes in net assets and is not reported in the summary of quantifiable community benefits. During the years ended December 31, 2014 and 2013, the Corporation reported approximately $84.8 million and $103.9 million, respectively, as provision for doubtful accounts based on accumulated charges.

Benefits for the poor and underserved include the cost of providing programs and services to persons who are economically poor or are medically indigent and cannot afford to pay for health care services because they have inadequate resources and/or are uninsured or underinsured.

Benefits for the broader community include the costs of providing programs and services aimed at persons and groups for reasons other than poverty. These persons and groups may include needy populations that may not qualify as poor but need special services and support or broader populations who benefit from healthy community initiatives. These programs and services are not intended to be financially self-supporting.

Unreimbursed costs of Medicaid and other indigent care programs represent the cost (determined using a cost to charge ratio) of providing services to beneficiaries of public programs including State Medicaid and indigent care programs in excess of any payments received.

Charity care represents the cost (determined using a cost to charge ratio) of health care services, provided in accordance with the Corporation's charity care and uninsured patient discount policy, for which no or partial reimbursement will be received because of the recipient's inability to pay for those services, as further described in Note 2.

Subsidized health services are net costs for billed services that are subsidized by the Corporation. These include services offered despite a financial loss because they are needed in the community and either other providers are unwilling to provide the services or the services would otherwise not be available in sufficient amount. Examples of services include emergency services, free standing community clinics, hospice care, behavioral health services, prenatal services, women's and children's services, palliative care, and parish nurse programs.

Health professions education includes the unreimbursed cost of training health professionals such as medical residents, nursing students, technicians, and students in allied health professions.

Community health improvement services are activities and services for which no patient bill exists. These services are not expected to be financially self-supporting, although some may be supported by outside grants or funding, which is netted against any amounts reported. Some examples include health education, health fairs, free or low cost health screening, immunization services, prescription medication assistance programs, and other various community outreach programs. The Corporation actively collaborates with community groups and agencies to assist those in need in providing such services.

Financial and in-kind contributions are made by the Corporation on behalf of the poor and underserved to various community agencies. These amounts include funds used for charitable activities as well as resources contributed directly to programs, organizations, and foundations for efforts on behalf of the poor and underserved. In-kind services include hours donated by staff to the community while on work time, overhead expenses of space donated to community groups, and donations of food, equipment, supplies, and other direct costs.

Research includes the unreimbursed cost of clinical and community health research and studies on health care delivery.

Community building activities include the costs of programs that improve the physical environment, promote economic development, enhance other community support systems, provide leadership development skills training, and build community coalitions.

Community benefit operations include costs associated with dedicated staff, community health needs and/or asset assessments, and other costs associated with community benefit strategy and operations.

Unreimbursed costs of Medicare represent the cost (determined using a cost to charge ratio) of providing services primarily to elderly beneficiaries of the Medicare program in excess of any payments received.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Corporation and all wholly owned, majority-owned, and controlled organizations with all significant transactions and accounts between affiliates eliminated in consolidation. Investments in affiliates where the Corporation owns less than or equal to 50% and does not have operational control are recorded under the equity method of accounting unless the Corporation's control or investment percentage is insignificant in which case the Corporation uses the cost method.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management of the Corporation to make assumptions, estimates, and judgments that affect the amounts reported in the consolidated financial statements, including the notes thereto, and related disclosures of commitments and contingencies, if any. The Corporation considers critical accounting policies to be those that require more significant judgments and estimates in the preparation of its consolidated financial statements, including the following: recognition of net patient service revenue, which includes contractual allowances and a provision for doubtful accounts; recorded values of investments and goodwill; reserves for employee health costs and losses and expenses related to professional and general liabilities; and risks and assumptions for measurement of the pension liabilities. Management relies on historical experience and other assumptions believed to be reasonable in making its judgments and estimates. Actual results could differ materially from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents primarily consist of cash, treasuries, and other liquid marketable securities including interest bearing securities with original maturities of three months or less. Funds whose use is limited by Board designation or other restrictions are excluded. The carrying amount of cash and cash equivalents approximates fair value because of the short maturities of these instruments.

Short-Term Investments

Short-term investments primarily consist of certificates of deposit, treasuries, and other highly liquid interest bearing securities with original maturities extending longer than three months. Adequate liquidity is maintained within short-term investments to satisfy daily cash flow needs.

Inventories of Supplies

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

Board Designated, Other Investments, and Investment Income

Board designated investments represents investments set aside by the Corporation primarily for future purposes including capital expenditures, acquisitions, improvements, and amounts held for mission programs. The Corporation's Board of Trustees retains control of these investments and may, at its discretion and in certain circumstances, use them for other purposes. Assets limited as to use include assets under bond indenture and swap agreements, investments maintained for the payment of estimated insurance liabilities, and amounts contributed by donors with stipulated restrictions.

Substantially all of the Corporation's board designated and other investments are invested and managed by professional managers in accordance with agreed-upon investment and socially responsible investing guidelines and are held in custody with a financial institution.

Board designated and other investments are measured at fair value, classified as trading securities, and consist of: cash and cash equivalents; U.S. government, state, municipal, and agency obligations; other fixed income securities; equity securities; asset backed securities; index funds, exchange traded funds, and mutual funds; unregistered mutual funds; real estate investment trusts. Board designated and other investments also include alternative investments, consisting of investments in hedge funds, private credit and private equity investments, and real assets, which are generally measured based on their net asset value as a practical expedient for fair value that is further described in Note 4.

Investment earnings consist of dividends, interest, and realized gains and losses. In accordance with industry practice, investment earnings and unrealized gains and losses on assets limited as to use under bond indenture and swap agreements and estimated insurance liability funds are included in other operating revenue in the consolidated statements of operations and changes in net assets. Investment earnings and unrealized gains and losses from all other unrestricted investments and board designated funds are included in other income (expense) in the consolidated statements of operations and changes in net assets. Investment earnings and any associated unrealized gains and losses restricted for specified purposes by donor or legal requirements are recorded as temporarily or permanently restricted in the consolidated statements of operations and changes in net assets.

Board designated and other investments are exposed to various risks such as interest rate, market, liquidity, performance, and credit risk. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term may affect the amounts reported in the consolidated balance sheets and the consolidated statements of operations and changes in net assets.

Securities Lending Program

The Corporation participates in a securities lending program through its custodian whereby the Corporation lends a portion of its investments to various brokers in exchange for collateral for securities loaned, mostly on a short-term basis. Collateral provided by these brokers consists of cash and is maintained at levels approximating 102-105% of the fair value of the securities on loan, adjusted for any market fluctuations. The Corporation maintains effective control of loaned securities through its custodian during the term of the agreement so that the securities may be recalled at any time. Under the terms of the agreement, the borrower must return the same, or substantially the same, investments that were borrowed. At both December 31, 2014 and 2013, the fair value of collateral for loaned securities provided on behalf of the Corporation was approximately $5.1 million while the liability associated with the obligation to repay such collateral was approximately $5.2 million with the net amount reported in board designated and other investments.

Fair Value Measurement

The Corporation's consolidated financial statements reflect certain assets and liabilities recorded at fair value. Assets measured at fair value on a recurring basis in the Corporation's consolidated balance sheets include: cash and cash equivalents; U.S. government, state, municipal, and agency obligations; other fixed income securities; asset backed securities; index funds, exchange traded funds, and mutual funds; corporate and foreign income securities; various types of equity securities and mutual funds; hedge funds; private credit and private equity investments; real assets; and benefit plan assets.

Fair value measurements reflected in the consolidated financial statements conceptually represent 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. Generally accepted accounting principles establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs.

The three levels of 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.

The categorization of fair value measurements by hierarchy level is based upon the lowest level input that is significant to the overall fair value measurement for a given asset or liability.

The Corporation applies the guidance in Accounting Standards Codification 820-10-15-4, *Fair Value Measurements of Investments in Certain Entities that Calculate Net Asset Value per Share (or its Equivalent)*. Under this guidance, the Corporation is permitted, as a practical expedient, to estimate the fair value of certain portfolio investments on the basis of the net asset value per share. In the normal course of business, the Corporation holds certain investments that qualify for the usage of this practical expedient. Fair value measurements of certain investment assets for which the measurement was based on net asset value ("NAV") or its equivalent as provided by an external manager are categorized within Level 2 or 3.

In the event that changes in the inputs used in the fair value measurements of an asset or liability results in a transfer of the fair value measurement to a different categorization (e.g., from Level 3 to Level 2), such transfers between fair value categories are recognized at the end of the reporting period.

Property, Plant, and Equipment

Property, plant, and equipment (including internal-use software) are recorded at cost if purchased or at fair value at the date of donation, if donated. Expenditures that materially increase values, change capacities, or extend useful lives are capitalized. Routine maintenance, repairs, and minor equipment replacement costs are charged to expense when incurred. Cost incurred in the development and installation of internal-use software are expensed or capitalized depending on whether they are incurred in the preliminary project stage, application development stage, or post implementation stage. Upon sale or retirement of property, plant, and equipment, the cost and related accumulated depreciation are eliminated from the respective accounts, and the resulting gain or loss is included in the consolidated statements of operations and changes in net assets. Interest costs incurred during the period of construction or development of capital assets are capitalized as a component of the cost of acquiring those assets. Depreciation is provided over the estimated useful lives of the assets utilizing the straight-line method with a useful life range of between 3 to 60 years. Assets under capital lease obligations are amortized utilizing the straight-line method over the shorter of the lease term or estimated useful life of the asset. Amounts capitalized for internal-use software are amortized over the useful life of the developed asset following project completion.

A conditional asset retirement obligation is recorded for any legal obligation associated with the retirement of long-lived assets resulting from the acquisition, construction, development, and/or normal use of the underlying assets. The associated asset retirement costs are capitalized as part of the carrying amount of the underlying asset and depreciated over the asset's estimated useful life. The liability is accreted through charges to operating expense. If the conditional asset retirement obligation is settled for other than the carrying amount of the liability, a gain or loss on sale/disposal of assets is recognized. As of December 31, 2014 and 2013, conditional asset retirement obligations of approximately $22.1 million and $19.2 million, respectively, are included within accounts payable and accrued expenses and other liabilities in the consolidated balance sheets.

Goodwill and Intangible Assets
Goodwill and intangible assets have been primarily generated from the acquisition of certain health care related businesses including physician practices. Goodwill is not amortized but is subject to an annual impairment test as well as more frequent reviews whenever circumstances indicate a possible impairment may exist. Impairment testing of goodwill is a two-step process and is performed at the reporting unit level. Step one compares the carrying value of each reporting unit with its fair value. If step one indicates the fair value is less than the carrying value, then step two is required. Step two compares the implied fair value of the reporting unit's goodwill with the carrying value of the reporting unit's goodwill. If the carrying value of goodwill is impaired, the Corporation reduces the carrying amount to fair value. Estimates of fair value are based on appraisals, internal estimates of future net cash flows on a discounted basis, as well as other generally accepted valuation methodologies.

Intangible assets are comprised primarily of covenants not to compete, which are amortized on a straight-line basis over periods ranging from 2 to 5 years.

Asset Impairment
The Corporation periodically evaluates the carrying value of its other long-lived assets for impairment whenever events or business conditions indicate the carrying value of such assets may not be fully recoverable. Initial assessments of recoverability are based upon estimates of undiscounted future net cash flows associated with an asset or group of assets. When an impairment is indicated, the carrying amount of these long-lived assets is reduced to fair value, based on future discounted net cash flows or other estimates of fair value.

Deferred Financing Costs
Deferred financing costs incurred with the Hospital and Health System Revenue Bonds and Refunding Bonds are amortized using the bonds outstanding method. Costs associated with securing the direct pay letters of credit to support its variable rate demand bonds are amortized over the term of the associated liquidity facility. Costs associated with the issuance of direct placement bonds are amortized over the associated direct placement period. Deferred financing costs are included in other assets in the consolidated balance sheets.

Estimated Insurance Liabilities
The provision for estimated insurance liabilities includes actuarial estimates of the ultimate costs for both reported claims and claims incurred but not reported for professional liability, general liability, long-term disability insurance, excess workers' compensation, and amounts self-insured for allocated loss adjustment expenses.

Net Assets
Temporarily restricted net assets are those whose use by the Corporation has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Corporation in perpetuity.

Unconditional promises to give cash and other assets to the Corporation are reported at fair value at the date the promise is received. Gifts are reported as either temporarily or permanently restricted support 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 a purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the consolidated financial statements.

During 2014 and 2013, net assets of $8.3 million and $6.2 million, respectively, were released from donor restrictions by incurring expenses or capital expenditures satisfying the restricted purposes or by the passage of time.

Performance Indicator

The performance indicator is excess of revenues over expenses, which includes all changes in unrestricted net assets except for the change in pension and postretirement benefits other than net periodic pension costs which is included in accrued pension liability; contributions and distributions to noncontrolling interests in consolidated affiliates; and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

Operating and Nonoperating Activities

The Corporation's primary mission is to meet the health care needs in the communities it is privileged to operate through a broad range of general and specialized health care services, including emergency, medical, surgical, behavioral, rehabilitative, and other health services in inpatient and outpatient settings; home health care services; and primary and specialty physician services. Additionally, the Corporation has various accountable care organizations and physician hospital managed care networks. Activities directly associated with the furtherance of this purpose are considered to be operating activities. Other activities that result in gains or losses peripheral to the Corporation's primary mission are considered to be nonoperating activities.

Patient Accounts Receivable, Estimated Third-Party Payor Settlements, and Net Patient Service Revenue

The Corporation has agreements with third-party payors that provide for payments at amounts different from its established rates. Patient accounts receivable and net patient service revenue are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered net of the provision for doubtful accounts and includes estimated retroactive revenue adjustments under reimbursement agreements with third-party payors and amounts received under various state Medicaid Hospital Assessment and Disproportionate Share Programs. Revenue under certain third-party payor agreements is subject to audit, retroactive adjustments, and significant regulatory actions. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as additional information becomes available and as final settlements are determined.

Allowance for Doubtful Accounts

The collection of outstanding patient accounts receivable from government, managed care, and other third party payors and patients is the Corporation's primary source of cash. The Corporation's main collection risk relates to uninsured patient accounts and to patient accounts for which the third party payor has paid amounts in accordance with the applicable agreement, however the patient's responsibility, usually in the form of deductibles, copayments, and coinsurance payments, remains outstanding ("self-pay accounts"). The Corporation's patient accounts receivable is reduced by an allowance for amounts, primarily self-pay accounts, which could become uncollectible in the future. Throughout the year, the Corporation estimates this allowance based on the aging of its patient accounts receivable, historical collection experience, and other relevant factors. These factors include changes in the economy and unemployment rates, which have an impact on the number of uninsured and underinsured patients, as well as trends in health care coverage, such as the increased burden of deductibles, copayments, and coinsurance amounts to be paid by patients with insurance. After satisfaction of amounts due from insurance and reasonable efforts to collect from the patient have been exhausted, the Corporation follows established procedures for placing certain past due patient balances with collection agencies, subject to the terms and certain restrictions on collection efforts as determined by the Corporation. Uncollectible patient accounts receivable are written off against the allowance for doubtful accounts with any subsequent recoveries being recorded against the provision for doubtful accounts.

Charity Care

As an integral part of its mission, the Corporation provides care to patients who meet certain criteria under its charity care and uninsured patient discount policy without charge or at amounts less than its established rates. The cost of charity care is determined based on each Health Center's total cost as a percentage of total charges and that ratio is applied to the charges incurred by patients qualifying for charity care under the Corporation's policy and is not included in net patient service revenue in the consolidated statements of operations and changes in net assets.

The estimated cost of charity care provided approximated $91.3 million and $93.6 million for the years ended December 31, 2014 and 2013, respectively. For both the years ended December 31, 2014 and 2013, no gifts or grants were received to offset or subsidize charity care services provided. The Corporation maintains records to identify and monitor the level of charity it provides.

Capitation and Premium Revenue

The Corporation has certain Health Centers that arrange for the delivery of health care services to enrollees through various contracts with providers and common provider entities. Enrollee contracts are negotiated on an annual basis. Premiums are due monthly and are recognized as revenue during the period in which the Corporation is obligated to provide services to enrollees.

Certain of the Corporation's Health Centers have entered into capitation agreements whereby they accept the risk for the provision of certain health care services to health plan members. Under these agreements, the Corporation's Health Centers are financially responsible for services provided to health plan members by other health care providers. Capitation revenue is recognized during the period for which the Health Centers are obligated to provide services to health plan enrollees under capitation contracts.

Reserves for incurred but not reported claims have been established to cover the unpaid costs of health care services under capitation and premium arrangements. Capitation and premium arrangement reserves are classified within accounts payable and accrued expenses in the consolidated balance sheets. The liability is estimated based on actuarial studies, historical reporting, and payment trends. Actual claims experience may differ from estimated liabilities due to variances in estimated and actual utilization of health care services, charge amounts, and other factors. As settlements are made and estimates revised, any differences are reflected in current operations. The Corporation limits a portion of its liabilities through stop-loss reinsurance.

Accountable Care Organizations

The Corporation was selected as a participant in the Medicare Pioneer Accountable Care Organization initiative ("Pioneer ACO") for a three year period effective January 1, 2012 with early termination allowed. The Pioneer ACO is a shared savings model in which participating organizations are eligible to receive additional payments from the Centers of Medicare and Medicaid Services ("CMS") if they are able to achieve medical cost savings as compared to certain benchmarks while providing high-quality, coordinated patient care for an assigned group of Medicare beneficiaries. Participants also share partial risk with CMS for any increase in medical costs above a predetermined benchmark, and will be required to pay CMS for a portion of any cost increase over those benchmarks. During 2013, the Corporation received a gain sharing payment of $6.7 million for its 2012 participation in the Pioneer ACO initiative of which $5.6 million was recorded in other operating revenue in the consolidated statements of operations and changes in net assets for the year ended December 31, 2013 and the remaining balance was paid to other participating providers.

While the Corporation was able to attain improved quality measures, the Pioneer ACO program did not generate shared savings in the second or third years, and the Corporation recorded a liability of $6.8 million for its estimated shared loss for those years. The Corporation determined that participating in the CMS Medicare Shared Savings Program ("MSSP") was a better alternative than the Pioneer ACO as there is no downside risk for savings that do not meet established benchmarks. As such, the Corporation terminated its Pioneer ACO contract with CMS effective September 26, 2014 and migrated to the CMS MSSP program effective January 1, 2015.

In addition, the Corporation also participates in other CMS MSSP reimbursement programs with unrelated health care providers. For those CMS MSSP contracts that were effective during the Corporation's years ended December 31, 2014 and 2013, the savings generated did not exceed the established benchmark and as such no shared savings were recorded in the consolidated statements of operations and changes in net assets.

In 2014, the Corporation entered into two commercial ACO reimbursement programs that are designed to enhance care coordination, improve clinical outcomes, and lower overall health care costs for the commercial payors' non-Medicare patient population. Under these commercial ACO reimbursement contracts, the Corporation is paid a care coordination fee per ACO participant and there is a partial gain/loss sharing component available to the Corporation with its performance compared to established quality and efficiency benchmarks. The Corporation has not received the complete year of claims information from these commercial ACO payors to be able to determine a receivable or any gain sharing revenue under the program and it was not subject to downside risk in the first reporting period and as such, the Corporation has not recorded any gain for the year ended December 31, 2014.

Electronic Health Record Incentive Payments

Medicare and state Medicaid programs are providing incentive payments to eligible hospitals and professionals as they adopt, implement, upgrade, or demonstrate meaningful use of certified electronic health care ("EHR") technology in the first year of participation and demonstrate meaningful use for up to five remaining participation years. The Corporation recognizes income related to these incentive payments using a grant accounting model that is based upon when the Corporation has reasonable assurance that it will comply with any designated conditions set forth by Medicare and Medicaid and that the dollars will be received. For the years ended December 31, 2014 and 2013, approximately $16.6 million and $24.1 million, respectively, of EHR incentive income was recognized and is included in other operating revenue in the consolidated statements of operations and changes in net assets. The Corporation's attestation of compliance with the meaningful use criteria is subject to audit by the federal government or its designee. Additionally, Medicare EHR incentive payments are subject to retrospective adjustment upon final settlement of the applicable cost report from which payments were initially calculated. The Corporation has incurred and will continue to incur both capital expenditures and operating expenses in order to implement certified EHR technology and to meet meaningful use requirements. The timing of expense recognition to implement the Corporation's certified EHR technology may not correlate with the receipt of incentive payments and recognition of EHR incentive revenue.

Income Taxes

The Corporation has established its status as an organization exempt from income taxes under Code Section 501(c)(3) and the laws of the states in which it operates. Certain divisions and affiliates are subject to federal and state income taxes; however, such amounts are not material to the consolidated financial statements.

Derivative Financial Instruments

Derivative financial instruments consist of interest rate swap contracts that are measured at fair value. The Corporation accounts for any changes in the fair value of derivative financial instruments in other income (expense) in the consolidated statements of operations and changes in net assets. The Corporation has reflected the fair value of its interest rate swap contracts as a long-term liability on the consolidated balance sheets (Note 7).

Consolidated Statements of Cash Flows

Supplemental disclosure of cash flow information and noncash investing and financing activities are summarized as follows:

Cash paid for interest, net of amounts capitalized, amounted to $35.9 million and $38.1 million for the years ended December 31, 2014 and 2013, respectively.

Cash paid for income taxes approximated $210,000 and $455,000 for the years ended December 31, 2014 and 2013, respectively.

Included in accounts payable and accrued expenses and other liabilities at December 31, 2014 and 2013 are approximately $31.1 million and $20.0 million, respectively, of costs related to construction in progress and for the acquisition of property, plant, and equipment (including internal-use software).

Forthcoming Accounting Pronouncements
In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update 2014-09, "Revenue From Contracts With Customers." This guidance outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. Currently the guidance is effective beginning January 1, 2017; however the FASB recently issued a proposal to defer the effective date of this guidance until January 1, 2018. The Corporation is evaluating the impact this accounting guidance may have on its consolidated financial statements.

3. Net Patient Service Revenue, Patient Accounts Receivable, and Concentration of Credit Risk

The Corporation has agreements with third-party payors that provide for payments at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare – Acute inpatient and outpatient services rendered to Medicare program beneficiaries are paid primarily at prospectively determined rates per discharge or procedure. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Certain services are reimbursed at a tentative rate with final settlement determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediaries. Professional services rendered by physicians are paid based on the Medicare allowable fee schedule.

Medicaid – Reimbursement for services rendered to Medicaid program beneficiaries includes prospectively determined rates per discharge, per diem payments, and fee schedules.

Certain of the Corporation's Health Centers qualify as State of Indiana Medicaid Acute Disproportionate Share and Medicaid Safety Net Hospitals ("DSH"). These Health Centers qualified as DSH providers under Indiana code 12-15-16-1, and, as such, are eligible to receive DSH payments linked to the State's fiscal year, which differs from the Corporation's fiscal year. The amount of these additional DSH funds is dependent on regulatory approval by agencies of the federal and state governments, and is determined by the level, extent, and cost of uncompensated care (as defined) and various other factors. The Corporation records such amounts as revenue when payments are received or based upon data from the State of Indiana that payments are determinable and probable of receipt. For the years ended December 31, 2014 and 2013, the Corporation recognized unrestricted revenue of approximately $14.5 million and $23.1 million, respectively, related to the DSH program in the consolidated statements of operations and changes in net assets.

In 2012, the State of Indiana implemented a Hospital Assessment Fee ("HAF") which is a supplemental reimbursement program to providers to offset a portion of the cost of providing care to Medicaid and indigent patients. The HAF program is designed with input from CMS and is funded by a combination of federal and state resources and fees levied on the hospital providers. The HAF program was initially effective until June 30, 2013, and was subsequently renewed on March 21, 2014 to continue through June 30, 2017 with a retroactive effective date of July 1, 2013. For the years ended December 31, 2014 and 2013, the Corporation's Indiana Health Centers recognized supplemental HAF reimbursement of $119.9 million (approximately $42.0 million related to the year ended December 31, 2013) and $45.1 million, respectively, which is a component of net patient service revenue in the consolidated statements of operations and changes in net assets. For the years ended December 31, 2014 and 2013, the Corporation's Indiana Health Centers recognized HAF fees of $82.9 million (approximately $30.3 million related to the year ended December 31, 2013) and $33.5 million, respectively, which is a component of other supplies and expenses in the consolidated statement of operations and changes in net assets.

The Corporation's Illinois Health Centers are obligated under Illinois Public Act 95-859 to participate in the State of Illinois' Hospital Assessment Program ("HAP") that assists in the financing of the State's Medicaid Program. This supplemental reimbursement program has been renewed by the State and CMS since its inception in 2004 with the most recent renewal, which only required the State's approval, to extend the program through June 30, 2018. For the years ended December 31, 2014 and 2013, the Corporation's Illinois Health Centers recognized supplemental HAP reimbursement of $21.3 million and $23.7 million, respectively, which is a component of net patient service revenue in the consolidated statements of operations and changes in net assets. For the years ended December 31, 2014 and 2013, the Corporation's Illinois Health Centers recognized HAP fees of $13.0 million and $14.6 million, respectively, which is a component of other supplies and expenses in the consolidated statement of operations and changes in net assets.

On January 9, 2015, CMS approved an additional Illinois Medicaid supplemental hospital payment program for services provided to individuals who qualify as a Medicaid beneficiary under the Affordable Care Act. The program is retroactive to March 1, 2014 and expires on June 30, 2018. Subsequent to year end, the Corporation received $3.2 million related to this new program which is not included in net patient service revenue in the consolidated statements of operation and changes in net assets for the year ended December 31, 2014, given the timing of CMS' approval of the program.

Other – Reimbursement for services to certain patients is received from commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for reimbursement includes prospectively determined rates per discharge, discounts from established charges, prospectively determined per diem rates, and fee schedules.

Provisions have been made in the consolidated financial statements for estimated contractual adjustments, representing the difference between the established charges for services and estimated total payments to be received from third-party payors.

A summary of gross patient service revenue, by payor, for the years ended December 31, 2014 and 2013, is as follows:

	2014	**2013**
Medicare	37 %	38 %
Medicare managed care	8	6
Medicaid	8	9
Medicaid managed care	5	4
Other third-party payors	37	37
Self-pay	4	5
Other	1	1
	100 %	100 %

The Corporation grants credit without collateral to its patients, most of who are insured under third-party payor agreements. The mix of net receivables from patients and third-party payors at December 31, 2014 and 2013, is as follows:

	2014	2013
Medicare	21 %	20 %
Medicare managed care	5	4
Medicaid	10	13
Medicaid managed care	2	2
Other third-party payors	48	46
Self-pay	12	13
Other	2	2
	100 %	100 %

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory action including fines, penalties, and/or exclusion from the Medicare and Medicaid programs. As a result, there is at least a reasonable possibility that recorded estimates may change in the near term. Net patient service revenue increased by approximately $2.0 million and $2.5 million for the years ended December 31, 2014 and 2013, respectively, due to changes in estimates related to prior-year settlements with third party payors.

4. Short-Term, Board Designated, and Other Investments

Short-term investments represent highly liquid investments with maturities extending longer than three months. Adequate liquidity is maintained within short-term investments to satisfy daily cash flow needs.

Board designated investments represents investments set aside by policy of the Corporation primarily for future purposes including capital expenditures, acquisitions, improvements and amounts held for mission programs. Assets limited as to use include assets under bond indenture and swap agreements, investments maintained for the payment of estimated insurance liabilities, and amounts contributed by donors with stipulated restrictions.

The composition of short-term, board designated, and other investments, at December 31, 2014 and 2013, is as follows:

	2014	2013
	(in thousands)	
Short-term investments	$ 129,674	$ 222,535
Board designated investments		
Funded depreciation and other Board projects	$ 2,012,310	$ 1,652,405
Other designated investments	1,751	1,691
	2,014,061	1,654,096
Assets limited as to use		
Estimated insurance liability funds	170,363	163,983
Assets under bond indenture and swap agreements	30,505	19,410
Other restricted investments	31,302	35,020
	232,170	218,413
Short-term, board designated and other investments	2,375,905	2,095,044
Less short-term investments	129,674	222,535
Board designated and other investments, classified as noncurrent	$ 2,246,231	$ 1,872,509

Short-term, board designated, and other investments at December 31, 2014 and 2013, consist of the following:

	2014	2013
	(in thousands)	
Cash and cash equivalents	$ 142,151	$ 50,929
U.S. government, state, municipal, and agency obligations	324,113	420,173
Other fixed income securities	251,596	188,802
Equity securities	472,269	459,840
Asset-backed securities	188,709	134,758
Index funds, exchange traded funds, and mutual funds	6,402	761
Unregistered mutual funds	487,055	350,022
Real estate investment trusts	1,926	12,580
Hedge funds	297,228	286,227
Private credit	24,441	23,669
Private equity	85,709	88,040
Real assets	94,306	79,243
	$ 2,375,905	$ 2,095,044

The following tables present the fair value hierarchy of the valuation techniques utilized to determine the fair value of the Corporation's short-term, board designated, and other investments as of December 31, 2014 and 2013:

	Balance as of December 31, 2014	Level 1	Level 2	Level 3
		(in thousands)		
Investments				
Cash and cash equivalents	$ 142,151	$ 142,151	$ -	$ -
U.S. government, state, municipal, and agency obligations	324,113	266,922	57,191	-
Other fixed income securities	251,596	-	251,596	-
Equity securities	472,269	472,269		-
Asset-backed securities	188,709	-	188,709	-
Index funds, exchange traded funds, and mutual funds	6,402	6,402	-	-
Unregistered mutual funds	487,055	-	487,055	-
Real estate investment trusts	1,926	1,926	-	-
Hedge funds	297,228	-	-	297,228
Private credit	24,441	-	-	24,441
Private equity	85,709	-	-	85,709
Real assets	94,306	-	-	94,306
	$ 2,375,905	$ 889,670	$ 984,551	$ 501,684

	Balance as of December 31, 2013	Level 1	Level 2	Level 3
		(in thousands)		
Investments				
Cash and cash equivalents	$ 50,929	$ 50,929	$ -	$ -
U.S. government, state, municipal, and agency obligations	420,173	296,143	124,030	-
Other fixed income securities	188,802	-	188,802	-
Equity securities	459,840	459,840	-	-
Asset-backed securities	134,758	-	134,758	-
Index funds, exchange traded funds, and mutual funds	761	761	-	-
Unregistered mutual funds	350,022	-	350,022	-
Real estate investment trusts	12,580	12,580	-	-
Hedge funds	286,227	-	-	286,227
Private credit	23,669	-	-	23,669
Private equity	88,040	-	-	88,040
Real assets	79,243	-	-	79,243
	$ 2,095,044	$ 820,253	$ 797,612	$ 477,179

Certain investments categorized within Level 2 are not traded in active markets but are measured using pricing sources such as broker quotes or using models with externally verifiable inputs, such as relevant interest or exchange rates.

Changes in Level 3 hierarchy assets measured at fair value for the Corporation's board designated and other investments at December 31, 2014 and 2013 are as follows:

	Balances as of December 31, 2013	Net Unrealized Gain (Loss)	Net Realized Gain (Loss) (in thousands)	Purchases	Sales	Transfers Out	Balances as of December 31, 2014
Hedge funds	$ 286,227	$ 11,189	$ (3,511)	$ 44,333	$ (41,010)	$ -	$ 297,228
Private credit	23,669	1,270	381	2,869	(3,748)	-	24,441
Private equity	88,040	3,240	1,338	9,465	(16,374)	-	85,709
Real assets	79,243	6,326	572	16,176	(8,011)	-	94,306
	$ 477,179	$ 22,025	$ (1,220)	$ 72,843	$ (69,143)	$ -	$ 501,684

	Balances as of December 31, 2012	Net Unrealized Gain (Loss)	Net Realized Gain (Loss) (in thousands)	Purchases	Sales	Transfers Out	Balances as of December 31, 2013
U.S. government, state, municipal, and agency obligations	$ 1,283	$ (89)	$ 131	$ -	$ (1,325)	$ -	$ -
Other fixed income securities	3,218	(71)	(191)	7,746	(9,713)	(989)	-
Asset-backed securities	290	(22)	81	-	(349)	-	-
Hedge funds	247,699	30,580	321	25,373	(17,746)	-	286,227
Private credit	23,664	1,102	(221)	4,786	(5,662)	-	23,669
Private equity	79,238	1,394	281	13,138	(6,011)	-	88,040
Real assets	61,784	3,276	545	22,228	(8,590)	-	79,243
	$ 417,176	$ 36,170	$ 947	$ 73,271	$ (49,396)	$ (989)	$ 477,179

There were no significant transfers to or from Levels 1 and 2 during the years ended December 31, 2014 and 2013.

The following table summarizes the Corporation's investments calculated on a NAV per share basis (or its equivalent), the unfunded commitments, and the associated redemption provisions:

	Fair Value	Unfunded Commitments (in thousands)	Redemption Frequency	Redemption Notice Period
Unregistered mutual funds	$ 487,055	$ -	Monthly	1 day
Hedge funds	297,228	-	Monthly, quarterly, annually	5 - 180 days
Private credit	24,441	9,840	Not currently redeemable	
Private equity	85,709	22,276	Not currently redeemable	
Real assets	94,306	42,234	Monthly, quarterly, not currently redeemable	45 days
	$ 988,739	$ 74,350		

Unregistered mutual funds include funds that primarily invest in domestic and international equities and short-term government, investment grade, high yield, and mortgage-related fixed income securities. The fair values of the investments in this class have been estimated using the NAV per share of the investments.

Hedge funds include absolute return and directional hedge funds. Absolute return hedge funds pursue multiple strategies to diversify risks and reduce volatility while directional hedge funds utilize market movement, trends, and inconsistencies when selecting securities across a variety of markets. Directional hedge funds are usually less exposed to the overall market and are likely to include long equity positions hedged with short positions to cancel out short-term uncertainty. The fair values of the investments in this class have been estimated using the NAV per share of the investments.

Private credit includes investments that are secured by high quality assets or backed by a senior claim on stable cash flows. Investments in this asset class will be made opportunistically during periods of broad market or security specific distress. The fair values of the investments in this class have been estimated using the NAV of the Corporation's ownership interest in the partners' capital. Investments within these funds cannot be currently redeemed. After the expiration of the investment period, distributions from each fund will be received as the underlying investments of the funds are liquidated. It is estimated that the underlying assets of the funds will be liquidated over the next 3 to 7 years. However, the individual investments that will be sold have not yet been determined.

Private equity includes funds that invest globally using strategies that include leveraged buyouts, venture capital, growth capital, distressed investments, and mezzanine capital. The fair values of the investments in this class have been estimated using the NAV of the Corporation's ownership interest in the partners' capital. Investments within these funds cannot be currently redeemed. After the expiration of the investment period, distributions from each fund will be received as the underlying investments of the funds are liquidated. It is estimated that the underlying assets of the funds will be liquidated over the next 1 to 6 years. However, the individual investments that will be sold have not yet been determined.

Real assets include energy and energy-related investments and private real estate funds that invest in both U.S. and international commercial real estate. Energy and energy-related investments exposure mainly relate to oil and gas properties which include exploration, production, processing, servicing, or transportation of oil, natural gas, and other hydrocarbon fuels. Private real estate investment strategies include core, value-add, and opportunistic real estate which typically seek to earn a return over inflation. The fair values of the investments in this class have been estimated using the NAV of the Corporation's ownership interest in the partners' capital. Investments representing approximately 85% of the value of the investments in this class cannot be redeemed because the investments include redemption restrictions that range from 1 to 15 years after acquisition. After the expiration of the investment period, distributions from each fund will be received as the underlying investments of the funds are liquidated. It is estimated that the underlying assets of the funds will be liquidated over the next 1 to 5 years. However, the individual investments that will be sold have not yet been determined.

Investment returns including net unrealized gains (losses) included in the consolidated statements of operations and changes in net assets for the years ended December 31, 2014 and 2013, are as follows:

	2014	2013
	(in thousands)	
Unrestricted revenues, gains, and other support		
Investment income in other operating revenue	$ 4,234	$ 4,004
Net unrealized investment gains	2,260	8,408
	6,494	12,412
Other income (expense)		
Investment income	64,169	67,203
Net unrealized investment gains on trading securities	9,354	117,126
	73,523	184,329
Temporarily restricted net assets, controlling interest		
Investment income	132	194
Net unrealized investment (losses) gains	(7)	93
	125	287
Permanently restricted net assets, controlling interest		
Investment income	288	175
Net unrealized investment gains	1	247
	289	422
	$ 80,431	$ 197,450

5. Property, Plant, and Equipment

A summary of property, plant, and equipment at December 31, 2014 and 2013, is as follows:

	2014	2013
	(in thousands)	
Land and land improvements	$ 140,208	$ 136,807
Buildings and building equipment	1,332,154	1,354,290
Departmental equipment	1,272,898	1,328,285
Construction in progress	65,358	68,380
	2,810,618	2,887,762
Less accumulated depreciation	1,253,417	1,300,548
	$ 1,557,201	$ 1,587,214

Certain leases for facilities and medical equipment are accounted for as capital leases. These leases expire in various years through 2024 and are included in property, plant, and equipment on the consolidated balance sheets. The amortization of assets under capital leases is included in depreciation and amortization expense in the consolidated statements of operations and changes in net assets.

6. Long-Term Debt

Long-term debt at December 31, 2014 and 2013, consists of the following:

	Year of Final Maturity	Interest Rate Range over Life of Bonds		2014	2013
				(in thousands)	
Tax Exempt Hospital and Health System Revenue and Refunding Bonds					
Fixed rate term and serial bonds					
Series 2009	2039	4.000% - 5.375%		$ 213,010	$ 215,645
Series 2008C	2032	5.000% - 5.375%		258,085	269,050
Series 2006E, insured	2041	5.125% - 5.250%		84,675	84,675
Less: bond discounts and premiums, net				(3,225)	(3,439)
Total fixed rate term and serial bonds				$ 552,545	$ 565,931
		Interest Rate Range 2014	**Interest Rate Range 2013**		
Variable rate direct placement bonds					
Series 2012A	2048	0.96% - 0.97%	0.97% - 1.00%	$ 75,000	$ 75,000
Series 2012B	2015	0.81% - 0.82%	0.82% - 0.85%	2,050	4,000
Series 2014A	2048	0.88% - 0.89%	-	50,000	-
Total variable rate direct placement bonds				$ 127,050	$ 79,000
Variable rate demand bonds, subject to seven-day put provision supported by direct pay bank letters of credit					
Series 2008A	2041	0.03% - 0.13%	0.03% - 0.24%	$ 80,895	$ 80,895
Series 2008B	2041	0.04% - 0.13%	0.06% - 0.26%	80,790	80,790
Series 2008E	2048	0.03% - 0.12%	0.04% - 0.24%	-	50,000
Series 2008F	2048	0.01% - 0.12%	0.04% - 0.22%	45,200	45,200
Series 2008G	2048	0.01% - 0.12%	0.04% - 0.22%	45,250	45,250
Series 2008H	2048	0.03% - 0.14%	0.04% - 0.25%	63,895	63,895
Series 2008I	2037	0.03% - 0.13%	0.05% - 0.24%	40,270	40,390
Series 2008J	2037	0.01% - 0.12%	0.04% - 0.22%	40,275	40,385
Total variable rate demand bonds				$ 396,575	$ 446,805
Other debt					
Capital lease obligations (excluding imputed interest of $3,700 and $4,552 at December 31, 2014 and 2013, respectively)				$ 21,720	$ 21,322
Other				3,347	6,200
Total other debt				$ 25,067	$ 27,522
Total long-term debt				$ 1,101,237	$ 1,119,258
Less current portion of long-term debt				(23,693)	(22,029)
Long-term debt, net of current portion				$ 1,077,544	$ 1,097,229

Scheduled principal payments on long-term debt are as follows:

Years ended December 31	Fixed and Variable Rate Bonds	Capital Lease Obligations	Other	Total
		(in thousands)		
2015	$ 16,585	$ 6,228	$ 880	$ 23,693
2016	17,370	5,447	1,050	23,867
2017	18,165	3,598	1,317	23,080
2018	18,990	1,805	100	20,895
2019	19,905	397	-	20,302
Thereafter	988,380	4,245	-	992,625
	$ 1,079,395	$ 21,720	$ 3,347	$ 1,104,462

Total interest costs incurred on the long-term debt less capitalized interest are as follows:

	2014	2013
	(in thousands)	
Interest costs incurred	$ 36,455	$ 37,496
Less capitalized interest	729	703
Interest expense included in operating income	$ 35,726	$ 36,793

The fair value of the Corporation's long-term debt at December 31, 2014 and 2013 approximates $1.166 billion and $1.154 billion, respectively. The fair values of the Corporation's underlying tax exempt Hospital and Health System Revenue Bonds and Refunding Bonds are based on current traded values for similar types of borrowings which are considered Level 2 inputs as described in Note 2.

Obligated Group and Designated Group Affiliates and Other Requirements - The Corporation has long-term debt outstanding under a Master Trust Indenture dated November 1, 1997, as amended and supplemented ("AMTI"). The AMTI permits the Corporation to issue obligations to finance certain activities. Obligations issued under the AMTI are general, direct obligations of the Corporation and any future members of the Franciscan Alliance, Inc. Obligated Group ("Obligated Group"). All members of the Obligated Group are jointly and severally liable with respect to the payment of each obligation issued under the AMTI. In addition, the AMTI provides that certain affiliates of the Corporation may be designated as Designated Group Affiliates from time to time and the Corporation covenants to cause each of its Designated Group Affiliates to pay, loan, or otherwise transfer to the Obligated Group such amounts necessary to pay the obligations issued under the AMTI. The Designated Group Affiliates are not members of the Obligated Group and are not directly liable for payments on the obligations. The Corporation has granted a security interest in its unrestricted receivables, among others, for the benefit of the owners of the obligations. The AMTI includes covenants which require the Corporation to maintain a minimum debt service coverage ratio of 1.10 and limit the Corporation's ability to encumber certain of its assets. In determining whether the Corporation has satisfied such covenants, the AMTI requires the Corporation to include the Obligated Group and Designated Group Affiliates together in calculating the related ratios and in testing for compliance even though the Designated Group Affiliates are not directly obligated on the long-term debt issued under the AMTI. As of December 31, 2014 and 2013, the Corporation was in compliance with the terms of the AMTI and there were no other Obligated Group members nor any Designated Group Affiliates.

Redemption of Long-Term Debt – In June 2014, the Corporation fully redeemed its Series 2008E variable rate demand bonds of $50 million and issued in the same amount its Series 2014A variable rate direct placement bonds.

Variable Rate Demand Bonds– Included in the Corporation's debt is approximately $396.6 million of variable rate demand bonds, Series 2008A, Series 2008B, and Series 2008F through Series 2008J. The Corporation has entered into irrevocable letters of credit with multiple financial institutions to secure bond repayment and interest obligations associated with its variable rate demand bonds, which amount to $402.2 million. These liquidity facilities are available to the Corporation should the obligations be presented for redemption and not remarketed. There were no draws made on the letters of credit as of December 31, 2014. Additionally, these facilities (if utilized) generally have repayment terms for bonds held by the letter of credit banks that amortize ratably over 3 to 5 years, depending on the facility used. Termination dates for the various liquidity facility agreements have expiration dates extending from October 2017 through October 2018. Since the liquidity facilities expire beyond one year from the Corporation's balance sheet date and the Corporation has the intent to continually renew these liquidity facilities, the variable rate demand bonds are classified as long-term debt and are disclosed in accordance with the stated maturities.

7. Other Liabilities and Commitments

Interest Rate Swap Contracts – The Corporation utilizes interest rate swaps to manage interest rate risk associated with its variable rate bonds. Cash payments on the interest rate swap contracts totaled $13.9 million and $14.2 million for the years ended December 31, 2014 and 2013, respectively. At December 31, 2014 and 2013, the interest rate swap contracts were in a liability position with a fair value of approximately $85.0 million and $58.5 million, respectively. The fair value of the Corporation's interest rate swap contracts are based on observable inputs, such as interest rates and credit risk spreads, that fall within Level 2 of the hierarchy of fair value inputs as described in Note 2. Certain of the Corporation's interest rate swap agreements include collateral funding requirements based on the market value of these contracts. At December 31, 2014 and 2013, the Corporation had posted $30.5 million and $19.4 million, respectively, to satisfy its collateral funding obligations on these contracts which are included in assets under bond indenture and swap agreements within board designated and other investments on the consolidated balance sheets.

Operating Leases – The Corporation leases various facilities, equipment, and software. Total rental expense under operating leases approximated $39.7 million and $42.7 million for the years ended December 31, 2014 and 2013, respectively. Future minimum lease payments under operating leases as of December 31, 2014 that have initial or remaining lease terms in excess of one year are as follows:

	(in thousands)
Years ended December 31	
2015	$ 38,196
2016	36,515
2017	35,370
2018	32,820
2019	32,011
Thereafter	68,207
	$ 243,119

8. Pension and Other Benefit Plans

Prior to 2014, the Corporation had various retirement programs due to acquisitions over the years. Effective January 1, 2014, all employees (except for those from two of its Health Centers and its construction company) will be covered by one comprehensive retirement program that administers retirement benefits under two different programs. Under the first program, future employer-provided benefits will be provided entirely through the defined benefit plan with no employer contributions provided through the defined contribution plan. Under the second program, future employer-provided benefits will be provided through both the defined benefit plan and an employer contribution provided through the defined contribution plan. Both programs include similar benefit levels even though they are being delivered through different retirement plan types.

Noncontributory Defined Benefit Pension Plans - The Corporation has a qualified, noncontributory defined benefit pension plan covering all eligible employees of certain of the Corporation's entities. The plan provides defined benefits based on years of service and final average salary. Certain nonqualified, supplemental plan arrangements also provide retirement benefits to specified groups of participants. Because the noncontributory defined benefit pension plan has church plan status as defined in the Employee Retirement Income Security Act of 1974 ("ERISA"), funding in accordance with ERISA is not required. The Corporation's funding policy for the qualified plan, which is reviewed annually and may be adjusted as needed, is to fund the normal service cost based on the accumulated benefit obligation for the plan's year and amortize any under or over funding over a ten year period. The retirement program redesign and associated defined benefit plan amendment resulted in a decrease in the projected benefit obligation in 2013 and is included in accrued pension liability in the consolidated balance sheets. The Corporation also terminated a defined benefit pension plan related to a discontinued Health Center which resulted in a plan settlement charge in 2013.

In 2014, the Corporation offered a voluntary lump sum payout to certain eligible participants to receive a full distribution of their pension benefits as a lump sum during the program window. To be eligible a participant must have terminated employment and had a benefit value less than $25,000. As a result of this program the plan's projected benefit obligation decreased by $28.0 million for the paid benefits and the Corporation recognized a settlement loss of $0.9 million in the consolidated statement of operations and changes in net assets.

The Corporation's measurement date for all pension calculations is December 31.

The change in projected benefit obligation, change in plan assets, and funded status of the Corporation's pension plans as of December 31, 2014 and 2013, are as follows:

	2014	2013
	(in thousands)	
Change in benefit obligation		
Benefit obligation, beginning of year	$ 1,218,238	$ 1,403,158
Service cost	35,388	52,638
Interest cost	63,569	56,930
Plan amendment	(1,198)	(18,419)
Plan settlements	(3,297)	(16,270)
Actuarial loss (gain)	323,950	(229,395)
Benefits paid	(59,272)	(30,404)
Benefit obligation, end of year	1,577,378	1,218,238
Change in plan assets		
Fair value of plan assets, beginning of year	1,102,282	975,017
Actual gain on plan assets	106,170	104,769
Employer contributions	53,226	69,170
Plan settlements	(3,297)	(16,270)
Benefits paid	(59,272)	(30,404)
Fair value of plan assets, end of year	1,199,109	1,102,282
Funded status	$ (378,269)	$ (115,956)
Amounts recognized in the consolidated balance sheets		
Noncurrent assets	$ -	$ 390
Current liabilities	(4,093)	(9,077)
Noncurrent liabilities	(374,176)	(107,269)
Total amount recognized	$ (378,269)	$ (115,956)

The amounts in unrestricted net assets, including amounts arising during the year and amounts reclassified into net periodic benefit cost, are as follows:

	Net Gain (Loss)	Prior Service Cost	Total
		(in thousands)	
December 31, 2012	$ (437,999)	$ (2,463)	$ (440,462)
Amounts reclassified into net periodic benefit cost	39,676	18,904	58,580
Amounts arising during the year	261,147	-	261,147
December 31, 2013	$ (137,176)	$ 16,441	$ (120,735)

	Net Gain (Loss)	Prior Service Cost	Total
		(in thousands)	
December 31, 2013	$ (137,176)	$ 16,441	$ (120,735)
Amounts reclassified into net periodic benefit cost	4,768	(825)	3,943
Amounts arising during the year	(297,484)	-	(297,484)
December 31, 2014	$ (429,892)	$ 15,616	$ (414,276)

The following are estimated amounts to be amortized from unrestricted net assets into net periodic pension cost in the next fiscal year. Unrecognized prior service cost/credit is amortized on a straight line basis over the average remaining service period of participants who are expected to receive a benefit and are active at the date of the plan amendment.

	(in thousands)
Unrecognized prior service cost	$ 2,190
Unrecognized loss	(31,066)
Total amount expected to be amortized from unrestricted net assets in 2015	$ (28,876)

The accumulated benefit obligation ("ABO") at December 31, 2014 and 2013 was $1.467 billion and $1.139 billion, respectively. The following information is provided for plans with an ABO in excess of plan assets at December 31, 2014 and 2013:

	2014	2013
	(in thousands)	
Projected benefit obligation	$ 1,577,378	$ 1,214,063
ABO	1,467,380	1,135,254
Fair value of plan assets	1,199,109	1,097,717

Components of net periodic pension cost for the years ended December 31, 2014 and 2013, are as follows:

	2014	2013
	(in thousands)	
Service cost	$ 35,388	$ 52,638
Interest cost	63,569	56,930
Expected return on plan assets	(79,704)	(73,017)
Amortization of prior service cost	(2,024)	485
Amortization of net loss	3,908	29,996
Net periodic pension cost included in operating expenses	21,137	67,032
Plan settlement loss recognized in other income (expense)	861	9,679
Net periodic pension cost	$ 21,998	$ 76,711

The following weighted-average assumptions were used to determine the Corporation's benefit obligations and net periodic pension cost for the years ended December 31:

	2014	2013
Benefit obligation		
Discount rate	4.19 %	5.25 %
Rate of compensation increase	4.50 %	4.70 %
Net periodic pension cost		
Discount rate	5.25 %	4.25 %
Expected rate of return on plan assets	7.15 %	7.33 %
Rate of compensation increase	4.70 %	4.50 %

In developing the expected rate of return on plan assets assumption, the Corporation considered the historical returns and the expectation for future returns on each asset class, as well as the target asset allocation of the pension investment portfolio. The rate of return on plan assets assumption also considers investment and administrative expenses.

The discount rate assumption reflects the yield of a portfolio of high quality bonds matched against the timing and amount of projected future benefit payments as of the measurement date.

As of December 31, 2014, the Corporation adopted the Society of Actuaries RP-2014 Mortality Tables. The new actuarial tables update longevity expectations related to the pension plans.

The Corporation's pension investment policy considers the long-term nature of the asset pool as well as the liabilities it is designated to fund. In 2014, the Corporation modified its pension investment policy to utilize a liability driven investment strategy to better hedge against interest rate risk on investments and volatility of the pension liability given changes in the discount rate. The Corporation considers the risk and return characteristics of the various asset classes available to institutional investors and seeks guidance from outside investment advisors. The Corporation has established the following targeted asset allocation that categorizes assets into de-risking assets (cash and core fixed income assets) and return seeking/growth assets (equity securities and multi-strategy hedge fund of funds) given different levels of the pension plans' funded status.

Pension Plan Funded Status	De-Risking Assets	Return Seeking/ Growth Assets
85%-90%	46%	54%
90%-95%	61%	39%
95%-100%	77%	23%
100%+	95%	5%

For the years ended December 31, 2014 and 2013, the funded status of the Corporation's pension plans were 76% and 90%, respectively, when measured on a projected benefit obligation basis. The Corporation's asset allocation as of December 31, 2014 and 2013 was as follows:

	Percentage of Plan Assets	
	2014	2013
De-Risking Portfolio	47%	32%
Return Seeking/Growth Portfolio	53%	68%
	100%	100%

Assets are invested to achieve a rate of return consistent with the policy allocation targets which significantly contributes to meeting the current and future obligation of the plans and helps to ensure solvency of the plans over time. It is expected that this objective can be achieved through a well-diversified asset portfolio and an emphasis on long-term capital appreciation as a primary source of return. The plans utilize a multi-manager structure of complementary investment styles and classes with manager performance judged over an investment market cycle which is generally 3 to 5 years. Plan assets are exposed to risk and fluctuations in market value from year to year. To minimize risk, each manager is required to maintain adequate portfolio diversification to insulate the plan assets from substantial loss in any single security or market sector. Asset allocation is reviewed every quarter and rebalanced as necessary.

Cash Flows

During 2015, the Corporation anticipates making contributions of approximately $29.1 million to fund the normal service cost in accordance with its standard funding policy and an additional $50 million to fund the final year of a four year, $200 million total supplemental pension funding commitment approved by the Corporation's Board.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows:

	(in thousands)
2015	$ 47,570
2016	51,756
2017	53,848
2018	67,240
2019	67,163
Years 2020-2024	412,571

The following tables summarize the Corporation's pension and other benefit plans' assets, measured at fair value as of December 31, 2014 and 2013, respectively.

Asset category	**Balance as of December 31, 2014**	**Level 1**	**Level 2**	**Level 3**
		(in thousands)		
Cash and cash equivalents	$ 64,810	$ 64,810	$ -	$ -
U.S. government, state, municipal, and agency obligations	133,778	89,565	44,213	-
Other fixed income securities	384,913	-	384,913	-
Equity securities	439,601	439,601	-	-
Asset-backed securities	1,853	-	1,853	-
Unregistered mutual funds	90,336	-	90,336	-
Real estate investment trusts	7,880	7,880	-	-
Hedge funds	75,938	-	-	75,938
Total	$ 1,199,109	$ 601,856	$ 521,315	$ 75,938

Asset category	**Balance as of December 31, 2013**	**Level 1**	**Level 2**	**Level 3**
		(in thousands)		
Cash and cash equivalents	$ 105,437	$ 105,437	$ -	$ -
U.S. government, state, municipal, and agency obligations	268,276	267,920	356	-
Other fixed income securities	22,216	-	22,216	-
Equity securities	556,171	556,171	-	-
Asset-backed securities	1,426	-	1,426	-
Unregistered mutual funds	98,134	-	98,134	-
Real estate investment trusts	6,548	6,548	-	-
Hedge funds	44,074	-	-	44,074
Total	$ 1,102,282	$ 936,076	$ 122,132	$ 44,074

There were no significant transfers to or from Levels 1 and 2 during the years ended December 31, 2014 and 2013.

Changes in Level 3 hierarchy assets measured at fair value for the Corporation's pension and other benefit plans are as follows:

	(in thousands)
Beginning balance, December 31, 2012	$ 41,821
Net unrealized investment gains	2,529
Investment gains	11
Purchases of investments	174
Sales of investments	(461)
Ending balance, December 31, 2013	$ 44,074
Beginning balance, December 31, 2013	$ 44,074
Net unrealized investment gains	1,875
Purchases of investments	30,083
Sales of investments	(94)
Ending balance, December 31, 2014	$ 75,938

Defined Contribution Benefits - The Corporation sponsors various defined contribution benefit plans covering eligible employees. These employees may contribute a portion of their pre-tax and/or after-tax compensation to the plans, in accordance with specified guidelines. In addition to any discretionary contributions, these plans provide for established contribution percentages up to certain limits for eligible employees. Contribution expense for the years ended December 31, 2014 and 2013 aggregated $12.4 million and $16.7 million, respectively.

9. Estimated Insurance Liabilities

Hills Insurance Company, Inc. ("Hills Inc."), the wholly owned captive insurance subsidiary of the Corporation, provides certain professional and general liability coverage for the Health Centers and other corporate entities. The Corporation, through Hills Inc., has limited its liability by purchasing reinsurance and excess insurance coverage from several commercial insurance companies. In the unlikely event that any or all of the insurance or reinsurance companies might be unable to meet their obligations under the existing agreements, the Corporation, through Hills Inc., would be liable for such defaulted amounts. In addition, the Corporation is self-insured for its employee health, long-term disability, and workers' compensation employee benefit programs.

The estimated insurance liabilities provide for reported losses and for losses incurred but not reported based on projections by independent actuaries using information provided by the Corporation's management. The estimated insurance liabilities, which consist of professional liability, general liability, long-term disability insurance, workers' compensation, and amounts self-insured for allocated loss adjustment expenses, approximated $135.8 million and $130.3 million on an undiscounted basis at December 31, 2014 and 2013, respectively.

Claims arising from provisions of health care and other operating activities have been asserted against the Corporation by various claimants. These claims are in various stages of processing and some may ultimately be brought to trial. Counsel is unable to conclude as to the ultimate outcome of the actions. There are known incidents occurring through December 31, 2014 that may result in the assertion of additional claims and other claims may be asserted arising from services provided to patients in the past. While it is possible that settlement of asserted claims and claims which may be asserted in the future could result in liabilities in excess of amounts provided by the Corporation, management believes that the excess liability, if any, would not materially affect the consolidated financial position of the Corporation at December 31, 2014.

10. Noncontrolling Interests in Consolidated Affiliates and Investments in Unconsolidated Affiliates

The Corporation is involved in various health service entity joint ventures that support the Corporation's mission whose operations have been included in the consolidated financial statements.

Noncontrolling Interests in Consolidated Affiliates

The Corporation's consolidated financial statements include all assets, liabilities, revenues, and expenses of less than 100% owned entities that it controls. Accordingly, the Corporation has recorded the noncontrolling interests in the earnings and equities of such entities in its consolidated financial statements.

Investments in Unconsolidated Affiliates

The Corporation has investments in entities that are recorded under the cost or equity method of accounting. At December 31, 2014, the Corporation maintained investments in unconsolidated affiliates that support the Corporation's mission having noncontrolling ownership interests ranging from 8% to 50%.

At December 31, 2014 and 2013, the Corporation had a 33%, economic interest in Alverno Clinical Laboratories, LLC ("ACL, LLC"), an Indiana limited liability company created to direct, operate, maintain, and manage a centralized clinical laboratory in Hammond, Indiana supporting the Corporation and Presence Health ("Presence"). The Corporation is also an owner of Alverno Provena Hospital Laboratories, LLC ("APHL"), a non-profit cooperative corporation created to direct, operate, maintain, and manage the on-site laboratories of the Corporation's and Presence's health centers. Governance of ACL, LLC and APHL (collectively referred to as the "Laboratories") is shared between the health system members. The Corporation accounts for its investment in ACL, LLC under the equity method, which approximated $4.3 million and $4.2 million at December 31, 2014 and 2013, respectively. The Corporation's capital account in APHL approximates $50,000 at both December 31, 2014 and 2013.

The Corporation had a 7%, economic interest in Preferred Professional Insurance Corporation ("PPIC") which provided professional liability insurance and other related services to physicians and other health care providers associated with its owners. The owners of PPIC elected to sell the organization in 2014 which resulted in a $16.6 million gain on sale of investment in this unconsolidated affiliate which is recorded in other income in the consolidated statements of operations and changes in net assets.

The Corporation's share of the equity in (losses) earnings of investments in unconsolidated affiliates accounted for on the equity method is approximately ($1.2) million and $6.3 million for the years ended December 31, 2014 and 2013, respectively, which is included in total unrestricted revenues, gains, and other support in the consolidated statements of operations and changes in net assets.

The unaudited summarized financial position and results of operations for the entities accounted for under the equity method as of and for the periods ended December 31 is as follows:

	2014	2013
	(in thousands)	
Total assets	$ 157,873	$ 162,859
Total liabilities	95,393	102,488
Net assets	62,480	60,371
Total unrestricted revenues, gains, and other support	740,219	708,055
Excess of revenues over expenses	(1,002)	19,027

11. Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at December 31, 2014 and 2013:

	2014	2013
	(in thousands)	
Capital expenditures	$ 3,059	$ 5,957
Medical education programs	4,473	4,572
Health care programs	5,148	4,330
Other restrictions	3,794	4,556
	$ 16,474	$ 19,415

Capital expenditures relate to assets held by the Corporation, its Health Centers, and its foundation which are restricted by donors or grantors to be used specifically for equipment, capital projects, or other capital needs.

Medical education programs relate to assets held by the Corporation, its Health Centers, and its foundation which are restricted by donors or grantors to be used in specific education programs or for staff education.

Health care programs relate mainly to assets held by the Corporation’s Health Centers and its foundation which are restricted by donors or grantors to be used in specific health care programs for medical and patient services.

Other restrictions relate to assets held by the Corporation’s foundation which are restricted by donors or grantors to be used for programs such as spiritual care, mission related activities, or employee emergencies.

Permanently restricted net assets of approximately $17.1 million and $17.3 million at December 31, 2014 and 2013, respectively, are restricted to investments to be held in perpetuity with the income expendable to support the Corporation’s mission.

12. Related Party Transactions

The Corporation's Health Centers incurred clinical laboratory charges from the Laboratories of approximately $65.0 million and $64.6 million for the years ended December 31, 2014 and 2013, respectively, which is included in purchased services in the consolidated statements of operations and changes in net assets. The Corporation provides information technology services, central procurement and disbursement services, and rents the core lab facilities to the Laboratories for which the Corporation has recorded approximately $3.7 million and $2.6 million for the years ended December 31, 2014 and 2013, respectively, as other operating revenue on the consolidated statements of operations and changes in net assets.

13. Functional Expenses

The Corporation provides general health care services to residents within its geographic location. Expenses related to providing these services for the years ended December 31, 2014 and 2013, are as follows:

	2014	2013
	(in thousands)	
Health care services	$ 1,980,525	$ 2,046,228
General, administrative, and other nonhealth care services	522,005	525,634
Total operating expenses	$ 2,502,530	$ 2,571,862

14. Subsequent Events

Management has evaluated events and transactions through April 24, 2015, the date the consolidated financial statements were issued, and noted no material subsequent events requiring recording or disclosure.