Consolidated Financial Statements and Supplementary Information

CHRISTUS Health
Years Ended June 30, 2015 and 2014
With Report of Independent Auditors

Ernst & Young LLP

Building a better working world

CHRISTUS Health

Consolidated Financial Statements
and Supplementary Information

Years Ended June 30, 2015 and 2014

Contents

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Report of Independent Auditors

The Board of Directors
CHRISTUS Health

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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Opinion

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

Ernst & Young LLP

September 18, 2015

CHRISTUS Health

Consolidated Balance Sheets

	June 30	
	2015	**2014**
	(In Thousands)	
Assets		
Current assets:		
Cash and cash equivalents	**$ 349,688**	$ 452,854
Short-term investments and equity in managed funds	**755,286**	853,061
Assets whose use is limited or restricted, required for current liabilities	**49,802**	23,480
Patient accounts receivable, net of allowance for doubtful accounts of $129,072 and $119,846 at June 30, 2015 and 2014, respectively	**365,943**	358,691
Notes and other receivables	**208,076**	201,065
Inventories	**84,921**	84,444
Securities pledged to creditors	**–**	1,846
Security lending collateral	**–**	1,987
Other current assets	**62,080**	64,764
Total current assets	**1,875,796**	2,042,192
Assets whose use is limited or restricted, less current portion	**634,556**	597,964
Property and equipment, net of accumulated depreciation	**1,543,749**	1,500,596
Other assets:		
Investments in unconsolidated organizations	**148,805**	168,030
Goodwill	**144,880**	124,545
Beneficial interest in supporting organizations and other restricted assets	**87,654**	83,306
Other assets, including notes receivable from related parties	**100,511**	77,064
Total other assets	**481,850**	452,945
Total assets	**$ 4,535,951**	$ 4,593,697

	June 30	
	2015	**2014**
	(In Thousands)	
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	**$ 376,179**	$ 392,428
Accrued employee compensation and benefits	**152,385**	164,741
Estimated third-party settlements, net	**25,568**	53,160
Current portion of long-term debt	**35,627**	12,668
Long-term obligations subject to remarketing agreements	**41,435**	–
Payable under security lending agreement	**–**	1,989
Total current liabilities	**631,194**	624,986
Long-term debt, less current portion	**802,783**	892,785
Accrued pension benefits	**50,646**	31,093
Derivative financial instruments	**109,172**	91,810
Other long-term obligations – including self-funded liabilities, less current portion	**160,180**	175,839
Total liabilities	**1,753,975**	1,816,513
Net assets:		
Unrestricted:		
Attributable to CHRISTUS Health	**2,466,831**	2,502,684
Attributable to non-controlling interest	**144,703**	126,789
Total unrestricted	**2,611,534**	2,629,473
Temporarily restricted	**155,679**	136,241
Permanently restricted	**14,763**	11,470
Total net assets	**2,781,976**	2,777,184
Total liabilities and net assets	**$ 4,535,951**	$ 4,593,697

See accompanying notes.

CHRISTUS Health

Consolidated Statements of Operations and Changes in Net Assets

	Year Ended June 30 2015	2014
	(In Thousands)	
Revenues:		
Patient service revenue (net of contractual allowances and discounts)	**$ 3,414,691**	$ 3,388,253
Provision for bad debts	**(180,953)**	(249,517)
Net patient service revenue less provision for bad debts	**3,233,738**	3,138,736
Premium revenue	**161,017**	169,333
Other revenue, including net gain on contributions to joint ventures	**188,874**	234,392
Equity in income of unconsolidated organizations	**25,666**	9,170
Total revenues	**3,609,295**	3,551,631
Expenses:		
Employee compensation and benefits	**1,549,142**	1,534,249
Services and other	**1,183,633**	1,148,484
Supplies	**632,812**	609,705
Depreciation and amortization	**164,695**	165,461
Interest	**23,169**	31,430
Total expenses	**3,553,451**	3,489,329
Operating income	**55,844**	62,302
Non-operating investment (loss) gain	**(19,884)**	100,236
Loss on defeasance of debt	**–**	(11,047)
Other non-operating loss	**(110)**	(8,389)
Revenues in excess of expenses	**35,850**	143,102
Less revenues in excess of expenses attributable to non-controlling interest	**22,581**	18,772
Revenues in excess of expenses attributable to CHRISTUS Health	**13,269**	124,330

CHRISTUS Health

Consolidated Statements of Operations and Changes in Net Assets (continued)

	Year Ended June 30 2015	2014
	(In Thousands)	
Changes in unrestricted net assets:		
Revenues in excess of expenses attributable to CHRISTUS Health	**$ 13,269**	$ 124,330
Net change in unrealized gain on investments	**(3,077)**	1,840
Change in pension liabilities	**(31,790)**	24,468
Change in non-controlling interest	**17,914**	6,432
Other	**(14,255)**	(4,220)
Changes in unrestricted net assets	**(17,939)**	152,850
Temporarily restricted net assets:		
Net change in beneficial interest	**1,912**	12,198
Contributions	**21,672**	11,952
Net change in unrealized gain on investments	**(1,496)**	651
Net assets released from restrictions and other	**(2,650)**	(3,418)
Changes in temporarily restricted net assets	**19,438**	21,383
Permanently restricted net assets:		
Net change in beneficial interest	**2,761**	(3,285)
Other	**532**	(1,130)
Changes in permanently restricted net assets	**3,293**	(4,415)
Change in net assets	**4,792**	169,818
Net assets – beginning of year	**2,777,184**	2,607,366
Net assets – end of year	**$ 2,781,976**	$ 2,777,184

See accompanying notes.

CHRISTUS Health

Consolidated Statements of Cash Flows

	Year Ended June 30 2015	2014
	(In Thousands)	
Operating activities		
Changes in net assets	$ **4,792**	$ 169,818
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Change in beneficial interest	**(4,673)**	(8,913)
Change in pension liabilities recognized in net assets	**31,790**	(24,468)
Contributions of temporarily restricted net assets	**(21,672)**	(11,952)
Distributions to and acquisitions of non-controlling interest	**8,505**	11,141
Net assets received in formation of partnership primarily goodwill	**(6,735)**	–
Equity in income of unconsolidated organizations	**(25,666)**	(6,159)
Unrealized investment loss (gain)	**8,818**	(35,805)
Depreciation and amortization	**164,695**	165,461
Provision for uncollectible accounts	**180,953**	249,517
Change in derivative fair value	**17,362**	(814)
Loss on early extinguishment of debt	–	11,047
Loss (gain) on disposal of property and equipment	**(695)**	2,536
Gain on contribution to joint ventures, net	**(3,316)**	(31,725)
Foreign currency translation adjustment	**19,518**	(114)
Changes in operating assets and liabilities, net of acquisitions:		
Increase in net patient accounts receivable	**(187,792)**	(250,303)
Decrease in investments	**26,043**	365,669
Increase in notes and other receivables	**(5,904)**	(17,072)
Decrease in other current assets	**2,336**	742
(Decrease) in accounts payable, accrued expenses, and accrued employee compensation and benefits	**(28,852)**	(37,139)
(Decrease) increase in net third-party payor settlements	**(27,592)**	20,143
(Decrease) in other long term liabilities	**(28,955)**	(12,889)
Net cash provided by operating activities	**122,960**	558,721
Investing activities		
Purchases of property and equipment	**(219,953)**	(152,591)
Proceeds from sale or disposal of property and equipment	**2,701**	60
Proceeds from sale of majority interest in operating entities	**3,316**	113,765
Proceeds and dividends from sale of equity investment in unconsolidated subsidiary	**39,290**	3,011
Decrease in investments in unconsolidated organizations	**5,601**	3,743
Investments in international operations	–	(88,178)
Decrease in securities pledged to creditors	**1,846**	7,012
(Increase) decrease in other assets	**(19,885)**	3,662
Decrease in security lending collateral	**1,987**	7,217
Acquisitions of health care entities, net of cash acquired	**(13,581)**	(51,417)
Net cash used in investing activities	**(198,678)**	(153,716)

Consolidated Statements of Cash Flows (continued)

	Year Ended June 30 2015	2014
	(In Thousands)	
Financing activities		
Contributions of temporarily restricted net assets	**$ 21,672**	$ 11,952
Costs associated with debt refinancing/conversion	**(776)**	(610)
Payments on long-term debt	**(37,852)**	(227,519)
Distributions to and acquisitions of non-controlling interest	**(8,505)**	(11,141)
Decrease in payable under security lending agreements	**(1,987)**	(7,222)
Net cash used in financing activities	**(27,448)**	(234,540)
Net (decrease) increase in cash and cash equivalents	**(103,166)**	170,465
Cash and cash equivalents – beginning of year	**452,854**	282,389
Cash and cash equivalents – end of year	$ **349,688**	$ 452,854
Non-cash investing and financing transactions		
Capital lease and debt obligations incurred for property and equipment	**$ 25,408**	$ 10,050
Capital contributions to joint ventures	**–**	43,050
Net asset received in formation of partnership, primarily goodwill	**6,735**	–
Capital lease obligation satisified through asset acquisition	**13,320**	–
Supplemental disclosure of cash flow information		
Cash paid during the year for interest (net of amount capitalized)	$ **26,287**	$ 34,908

See accompanying notes.

1. Mission, Vision, and Organization of CHRISTUS Health

CHRISTUS Health (CHRISTUS or the System) was incorporated as a Texas nonprofit corporation on December 15, 1998. CHRISTUS is sponsored by the Congregation of the Sisters of Charity of the Incarnate Word of Houston, Texas, and the Congregation of the Sisters of Charity of the Incarnate Word of San Antonio, Texas. The Congregation of the Sisters of Charity of the Incarnate Word of Houston, Texas, sponsors the Sisters of Charity Health Care System (SCH), and the Congregation of the Sisters of Charity of the Incarnate Word of San Antonio, Texas, sponsors the Incarnate Word Health System (IWHS). SCH and IWHS continue to exist and carry out their ministries.

The mission of CHRISTUS is to extend the healing ministry of Jesus Christ. The Gospel values underlying the mission statement challenge CHRISTUS to make choices that respond to the economically disadvantaged and the underserved with health care needs. The growth and development of CHRISTUS are determined by the health care needs of the communities that CHRISTUS serves, its available resources, and the interrelationship of those serving and those being served. Responsible stewardship mandates that CHRISTUS searches out new, effective means to deliver quality health care and to promote wholeness in the human person.

The vision of CHRISTUS is to be a leader, a partner, and an advocate in the creation of innovative health and wellness solutions that improve the lives of individuals and communities so that all may experience God's healing presence and love.

The consolidated financial statements of CHRISTUS include activities of its affiliated market-based organizations and other related entities, all of which are wholly or majority-owned or otherwise controlled and commonly referred to as regions or entities. For purposes of these consolidated financial statements, the "System" is defined as CHRISTUS's affiliated market-based organizations and other related entities. The other related entities include, but are not limited to, hospital foundations, professional office buildings, management services organizations, physician groups, outpatient surgery centers, a collection agency, self-insurance trusts, an offshore captive insurance company, health plans, integrated community health networks, and diagnostic imaging companies.

CHRISTUS controls or owns, directly or indirectly, or manages various nonprofit and for-profit corporations and other organizations that currently operate domestically in the states of Texas, Arkansas, Georgia, Louisiana, New Mexico, and Iowa, and internationally in the countries of Mexico and Chile.

1. Mission, Vision, and Organization of CHRISTUS Health (continued)

CHRISTUS and certain affiliated nonprofit corporations are generally exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as organizations described in Section 501(c)(3).

2. Community Health

In accordance with its mission and philosophy, the System commits significant resources to improving the health of the communities it serves. In support of its mission, the System provides programs and services for entire communities, with a special consideration for those who are poor and underserved.

CHRISTUS and various hospital participants have elected to provide health care services to the indigent population both directly to patients as charity services and by providing financial support to one another for certain community benefit efforts provided throughout the year with the goal being to reach a previously discussed equitable distribution of the cost of care to the low income and needy populations in the communities they service.

Programs and Services for the Poor and Underserved – These programs and services represent the financial commitment to serve those who have inadequate resources and/or are uninsured or underinsured. Services are offered with the conviction that health care is a basic human right and all deserve access. The categories included as programs and services for the poor and the underserved are as follows:

Charity Care – In accordance with the Catholic Health Association (CHA) guidelines, charity care represents the unpaid costs of free or discounted health services provided to persons who cannot afford to pay and who meet the organization's criteria for financial assistance. Traditional charity care is defined by the state of Texas as the unreimbursed costs of providing, funding, or otherwise financially supporting the health care services provided to a person with income at or below 200% of the federal poverty level. Charity care services provided to these patients are not reported as revenue in the consolidated statements of operations and changes in net assets as there is no expectation of payment. The amount of traditional charity care provided, determined on the basis of cost, excluding the provision for bad debt expense, was approximately $209,573,000 and $208,673,000 for the years ended June 30, 2015 and 2014, respectively.

Unpaid Costs of Medicaid and Other Public Programs for the Indigent – This category represents the cost of providing services to beneficiaries of public programs, including state Medicaid and indigent care programs, in excess of any payments received from all sources.

2. Community Health (continued)

Community Services for the Poor and Underserved **–** This category represents the unpaid cost of services provided for which a patient is not billed, or for which a fee has been assessed that recovers only a portion of the cost of the rendered service. This category includes services to those in need through community health programs. The programs cover a broad spectrum of services, from community health centers to immunizations for children and seniors, Meals on Wheels, transportation services, home repair projects, and a variety of other social services. These programs may also seek justice for the vulnerable and work to bring about changes in political and economic systems.

Community Services Provided for the Broader Community **–** This category represents the unpaid cost of services provided for the benefit of the entire community. The majority of these expenditures are for graduate medical education programs, either through CHRISTUS-sponsored or affiliated programs. Other benefits for the broader community include health promotion and wellness programs, health screenings, newsletters, and radio or television programs intended for health education. These programs are not intended to be financially self-supporting.

Education and Research **–** This category represents the direct costs associated with medical education and other health professional educational programs in excess of governmental payments.

Other Community Services **–** This category represents leadership activities, community planning, and advocacy.

3. Summary of Significant Accounting Policies

Basis of Consolidation

The consolidated financial statements include the accounts of all entities of the System (see Note 1). All significant inter-entity transactions and accounts have been eliminated in consolidation.

Use of Estimates

The preparation of the accompanying consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management of the System to make assumptions, estimates, and judgments that affect the amounts reported in the financial

3. Summary of Significant Accounting Policies (continued)

statements, including the notes thereto, and related disclosures of commitments and contingencies, if any. The System considers critical accounting policies to be those that require more significant judgments and estimates in the preparation of its financial statements, including the following: recognition of net patient service revenues, which include contractual allowances and the provision for bad debt; estimates for reimbursement under the upper payment limit, disproportionate share and Medicaid 1115 waiver programs; reserves for losses and expenses related to health care professional and general liabilities; accruals for claims incurred but not yet reported related to the System's health plans; determination of fair values of certain financial instruments; determination of fair value of certain goodwill and long-lived assets; and risks and assumptions for measurement of pension and retiree medical liabilities. Management relies on historical experience and on other assumptions believed to be reasonable under the circumstances in making its judgments and estimates. Actual results could differ materially from these estimates.

Cash and Cash Equivalents

Cash equivalents include short-term, highly liquid investments with original maturities of three months or less.

Investments

The System's investment portfolio is classified as trading, with unrealized gains and losses included in revenues in excess of expenses. Investments in equity securities and funds with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated balance sheets. Investments also include equity investments in managed funds structured as limited liability corporations or partnerships. Equity investments in managed funds are accounted for under the fair value method if held within the System's foundations or captive insurer, or under the equity method if held by another System entity. Investment income or loss (including equity investment earnings (losses) on equity investments in managed funds; realized and unrealized gains and losses, computed on the average-cost basis of the security at the time of sale; and interest and dividends) is included in revenues in excess of expenses unless the income or loss is restricted by donor or law.

Investment income earned on assets held by trustees under bond indenture agreements, assets held by foundations, assets deposited in trust funds for self-insurance purposes, and funds held by insurance subsidiaries in accordance with industry practices are included in other revenue in the consolidated statements of operations and changes in net assets.

3. Summary of Significant Accounting Policies (continued)

Derivative Financial Instruments

The System utilizes interest rate swaps to mitigate interest rate exposures. Changes in the fair value of the System's interest rate swaps are recorded as a component of non-operating investment gain (loss) in the accompanying consolidated statements of operations and changes in net assets. The expense representing the net of the payments made and received under the swap agreements is also recorded as a component of non-operating investment gain (loss).

Inventories

The System values inventories, which consist principally of medical supplies and pharmaceuticals, at the lower of cost (first-in, first-out or weighted-average cost valuation method) or market basis.

Property and Equipment

Property and equipment acquisitions are recorded at cost or, if donated, at fair value at the time of donation. Expenditures that materially increase values, change capacities, or extend useful lives are capitalized. Routine maintenance, repairs, and minor equipment replacement costs are charged against operations.

Depreciation is calculated and recorded over the estimated useful life of each class of depreciable assets using the straight-line method. The *American Hospital Association – Estimated Useful Lives of Depreciable Hospital Assets* is used as a general guide in establishing depreciable lives. Amortization of capital leases is included in depreciation expense.

Asset Impairment

The System periodically evaluates the carrying value of its operating long-lived assets and assets held for sale for impairment when indicators of impairment are identified. These evaluations are primarily based on the estimated recoverability of the assets' carrying value. Impairment write-downs are recognized as a reduction in operating income for the operating long-lived assets and as a reduction in non-operating gain for the assets held for sale at the time the impairment is identified. There were no impairment losses recognized in fiscal years 2015 and 2014.

3. Summary of Significant Accounting Policies (continued)

Investments in Unconsolidated Organizations

The System has investments in certain organizations for which it does not have a majority ownership interest or significant control, and, therefore, these organizations are not consolidated. Generally, these investments are recorded using the equity method of accounting for those organizations in which the System owns greater than 20% and has significant influence over the organization. The cost method of accounting is used for organizations in which the System owns 20% or less. See additional discussion in Note 8.

Non-controlling Interest in Consolidated Subsidiaries

The System attributed excess of revenue over expenses of $22,581,000 and $18,772,000 for the years ended June 30, 2015 and 2014, respectively, to the non-controlling interest based on the contractual terms of joint ventures and the ownership percentage of the non-controlling interests in certain of the consolidated subsidiaries. These amounts are reflected in unrestricted net assets in the consolidated balance sheets, net of distributions.

Goodwill

The System records goodwill arising from a business combination as the excess of purchase price over the fair value of identifiable tangible and intangible assets acquired and liabilities assumed. At June 30, 2015 and 2014, the System had goodwill of $144,880,000 and $124,545,000, respectively.

The changes in carrying amount of goodwill as of June 30 are as follows (in thousands):

	2015	**2014**
Balance, beginning of year	**$ 124,545**	$ 89,730
Goodwill acquired	**20,803**	34,891
Consideration and purchase prices allocation adjustments for prior years' acquisitions and other adjustments	**(468)**	(76)
Balance, end of year	**$ 144,880**	$ 124,545

3. Summary of Significant Accounting Policies (continued)

Goodwill is tested at least annually for impairment at the reporting unit level. Impairment is the condition that exists when the carrying amount of goodwill exceeds its implied fair value.

Additional impairment assessments may be performed on an interim basis if the System encounters events or changes in circumstances that would indicate that it is more likely than not that the carrying value of goodwill has been impaired. The System has determined that its reporting units are the various geographically located affiliates.

The System may elect to perform a qualitative assessment of each reporting unit to determine whether facts and circumstances support a determination that their fair values are greater than their carrying values. If the qualitative analysis is not conclusive, or if the System elects to proceed directly with quantitative testing, the fair values of the reporting units are determined and compared to the aggregate carrying values.

The System follows a two-step, fair value-based process using a discounted cash flow income method, a guideline public company method, and a mergers and acquisitions method to determine if an impairment of goodwill exists. This analysis requires judgments and estimates about the weighted-average cost of capital, risk factors, and operating margins. The first step compares the fair value of the reporting unit to its carrying amount, including goodwill. If the carrying amount of the reporting unit exceeds its fair value, the second step is performed. The second step requires an allocation of fair value to the individual assets and liabilities of the reporting unit to determine the implied fair value of goodwill. If the implied fair value of goodwill is less than the carrying amount, an impairment loss is recorded as a reduction to goodwill and a charge to impairment expense. Judgments and assumptions are inherent in the System's estimates used to determine the fair value of its reporting units and are consistent with what the System believes would be utilized by the primary market participant. The use of alternative judgments and assumptions could result in the recognition of different impairment charges in the System's financial statements.

The System's practice is to perform a quantitative analysis on reporting units carrying significant goodwill at least every third year or more frequently, if impairment is indicated. A qualitative assessment is performed for reporting units not subject to a quantitative analysis for a given fiscal year.

As a result of performing the quantitative analyses and qualitative assessment for the years ended June 30, 2015 or 2014, no impairment losses were recorded. There was no accumulated impairment recorded as of June 30, 2015.

3. Summary of Significant Accounting Policies (continued)

Deferred Financing Costs

Deferred financing costs, net of accumulated amortization, included in other assets at June 30, 2015 and 2014, are $10,252,000 and $11,976,000, respectively, which are being amortized using the effective interest method over the terms of the indebtedness to which they relate. Amortization expense recognized for fiscal years 2015 and 2014 was $719,000 and $937,000, respectively.

Temporary and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the System has been limited by donors to a specific time period or purpose. Temporarily restricted net assets also include the System's beneficial interest in the net assets of affiliated and financially interrelated organizations, whose use has been limited by grant agreements and donors to a specific time period or use.

Permanently restricted net assets have been restricted by donors to be maintained by the System in perpetuity.

Patient Accounts Receivable, Estimated Payables to Third-Party Payors, and Net Patient Service Revenue

The System has agreements with third-party payors that provide for payments to the System at amounts different from established rates. Patient accounts receivable and net patient service revenue are reported at the estimated net realizable amounts from third-party payors and others for services rendered. Estimated retroactive adjustments under reimbursement agreements with third-party payors are included in net patient service revenue and estimated third-party payor settlements. Retroactive adjustments are accrued on an estimated basis in the period in which the related services are rendered and adjusted in future periods, as final settlements are determined.

Provision for Bad Debts

The System's recorded allowance for doubtful accounts is based on expected net collections, after contractual adjustments, primarily from patients. Management routinely assesses these recorded allowances relative to changes in payor mix, cash collections, write-offs, recoveries, and market dynamics.

3. Summary of Significant Accounting Policies (continued)

A summary of activity in the System's allowance for doubtful accounts is as follows (in thousands):

	Balance at Beginning of Year	Provision for Bad Debts	Accounts Written Off, Net of Recoveries	Balance at End of Year
Year ended June 30, 2015	**$ 119,846**	**$ 180,953**	**$ (171,727)**	**$ 129,072**
Year ended June 30, 2014	$ 93,426	$ 249,517	$ (223,097)	$ 119,846

Electronic Health Record Incentive Payments

The American Recovery and Reinvestment Act of 2009 (ARRA) included provisions for implementing health information technology under the Health Information Technology for Economic and Clinical Health Act (HITECH). The provisions were designed to increase the use of electronic health record (EHR) technology and establish the requirements for a Medicare and Medicaid incentive payment program beginning in 2011 for eligible providers that adopt and meaningfully use certified EHR technology. Eligibility for annual Medicare incentive payments is dependent on providers demonstrating meaningful use of EHR technology in each period over a four-year period. Initial Medicaid incentive payments are available to providers that adopt, implement, or upgrade certified EHR technology. Providers must demonstrate meaningful use of such technology in subsequent years to qualify for additional Medicaid incentive payments.

CHRISTUS accounts for HITECH incentive payments under the gain contingency model as grants related to income. Income from Medicare incentive payments is recognized as revenue after CHRISTUS has determined it is reasonably assured to comply with the meaningful use criteria over the entire applicable compliance period and the cost report period that will be used to determine when the final incentive payment has ended. CHRISTUS recognized revenue from Medicaid incentive payments after it adopted certified EHR technology. Incentive payments totaling $14,205,000 and $24,244,000 for the years ended June 30, 2015 and 2014, respectively, are included in other revenue in the accompanying consolidated statements of operations and changes in net assets. Income from incentive payments is subject to retrospective adjustment as the incentive payments are calculated using Medicare cost report data that is subject to audit. Additionally, CHRISTUS's compliance with the meaningful use criteria is subject to audit by the federal government.

3. Summary of Significant Accounting Policies (continued)

Premium Revenue and Associated Costs

Premium revenue largely represents revenues derived under capitated arrangements with third parties. In return for these premiums, the contracting entity is responsible for providing essentially all health care services to enrolled participants. Costs for providing these services, including services provided by other health care providers were $142,083,000 and $125,009,000 for the years ended June 30, 2015 and 2014, respectively, and are included as operating expenses in the accompanying consolidated financial statements. At June 30, 2015 and 2014, the respective contracting entities have accrued expenses for incurred but not reported claims based upon claims experience. The contracting entities maintain stop-loss insurance coverage to limit exposure for certain catastrophic claims.

Other Revenue

Other revenue is derived from services other than providing health care services or coverage to patients, residents, or enrollees. This revenue typically includes investment income from all funds held by a trustee, malpractice funds, or other miscellaneous investment activities; EHR incentive payments; rental of health care facility space; sales of medical and pharmaceutical supplies to employees, physicians, and others; proceeds from sales of cafeteria meals and guest trays to employees, medical staff, and visitors; and proceeds from sales at gift shops, snack bars, newsstands, parking lots, vending machines, or other service facilities operated by the health care organization. Additionally, in fiscal year 2015 and 2014, the System recognized a net gain on the contributions to joint ventures of $3,316,000 and $31,725,000, respectively.

Donor-Restricted Gifts

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The 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 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 other revenue including net gain on contributions to joint ventures in the accompanying consolidated financial statements.

3. Summary of Significant Accounting Policies (continued)

Income Taxes

The authoritative guidance in Accounting Standards Codification (ASC) Topic 740, *Income Taxes*, creates a single model to address uncertainty in tax positions and clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. Under the requirements of this guidance, tax-exempt organizations could be required to record an obligation as the result of a tax position they have historically taken on various tax exposure items. CHRISTUS has interests in various taxable entities including investments in Mexico and Chile. These interests may give rise to U.S. and international tax exposures. CHRISTUS intends to utilize foreign earnings in foreign operations for an indefinite period of time in order to continue investing all earnings into the continued maintenance and expansion of these operations abroad as part of the System's mission. If these amounts were distributed to the United States, in the form of dividends or otherwise, the System would be subject to additional U.S. income taxes. Determination of the amount of unrecognized deferred income tax liabilities on these earnings is not practicable because such liability, if any, is dependent on circumstances existing if and when remittance occurs. There are no material unrecorded tax liabilities as of June 30, 2015 and 2014.

At June 30, 2015 and 2014, CHRISTUS has operating loss carryforwards of $106,339,000 and $104,965,000, which result in deferred tax assets of $37,219,000 and $36,738,000, respectively. CHRISTUS has provided a valuation allowance of the same amount as it is more likely than not that the deferred tax asset will not be realized.

Business Combinations

CHRISTUS accounts for all transactions that represent business combinations using the acquisition method of accounting, where the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquired entity are recognized and measured at their fair values on the date the System obtains control in the acquiree. Such fair values that are not finalized for reporting periods following the acquisition date are estimated and recorded as provisional amounts. Adjustments to these provisional amounts during the measurement period (defined as the date through which all information required to identify and measure the consideration transferred, the assets acquired, the liabilities assumed and any non-controlling interests has been obtained, limited to one year from the acquisition date) are recorded as of the date of acquisition. Any material impact to comparative information for periods after acquisition,

3. Summary of Significant Accounting Policies (continued)

but before the period in which adjustments are identified, is reflected in those prior periods as if the adjustments were considered as of the acquisition date. Goodwill is determined as the excess of the fair value of the consideration conveyed in the acquisition over the fair value of the net assets acquired.

New and Pending Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board issued a final, converged, principles-based standard on revenue recognition Accounting Standard Update (ASU) 2014-09. Companies across all industries will use a new five-step model to recognize revenue from customer contracts. The new standard, which replaces nearly all existing United States generally accepted accounting principles (U.S. GAAP) and International Financial Reporting Standards revenue recognition guidance, will require significant management judgment in addition to changing the way many companies recognize revenue in their financial statements. The standard is effective for annual and interim periods beginning after December 15, 2017. Early adoption is not permitted under U.S. GAAP. The System is evaluating the effects the adoption of this standard will have on its financial statements and financial disclosures.

In January 2015, the FASB issued authoritative guidance, which eliminates from US GAAP the concept of extraordinary items within the income statement. Prior to the update, Subtopic 225-20, *Income Statement—Extraordinary and Unusual Items*, required that an entity separately classify, present, and disclose extraordinary events and transactions. An event or transaction was presumed to be an ordinary and usual activity of the reporting entity unless evidence clearly supported its classification as an extraordinary item. The amendments in the updated guidance are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. The amendments may be applied prospectively and retrospectively to all periods presented in the financial statements. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The adoption of the guidance is not expected to have a material impact to the System's consolidated financial statements.

In February 2015, the FASB issued authoritative guidance (ASU 2015-02) related to the consolidation of certain legal entities (Topic 810): *Consolidation*. The main provisions of the guidance 1) modify the evaluation of whether limited partnerships or similar legal entities are

3. Summary of Significant Accounting Policies (continued)

variable interest entities (VIEs) or voting interest entities, 2) eliminate the presumption that a general partner should consolidate a limited partnership, 3) affect the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related-party relationships, and 4) provide a scope exception from consolidation guidance for entities with interests in legal entities that are required to comply with or operate in accordance with requirements that are similar to those in Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds. The updated guidance is effective for fiscal years beginning after December 15, 2016, and for interim periods within fiscal years beginning after December 15, 2017. Early adoption is permitted, including adoption in an interim period. The guidance may be applied using a modified retrospective approach by recording a cumulative-effect adjustment to equity as of the beginning of the fiscal year of adoption or the guidance can be applied retrospectively. The adoption of the guidance is not expected to have a material impact to the System's consolidated financial statements.

In April 2015, the FASB issued authoritative guidance (ASU 2015-03) to simplify the presentation of debt issuance costs under Subtopic 835-30: *Interest – Imputation of Interest*. Consequently, the updated guidance require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs is not affected by the guidance. Further, the amortization of debt issuance costs shall be reported as interest expense. The updated guidance is effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within fiscal years beginning after December 15, 2016. Early adoption of the guidance is permitted. The new guidance should be applied on a retrospective basis, wherein the balance sheet of each individual period presented should be adjusted to reflect the period-specific effects of applying the new guidance. The updated guidance will result in a re-class of the deferred debt issuance costs in Other Assets to Long Term Debt. No other material impact is expected.

In April 2015, the FASB issued an update to provide guidance (ASU 2015-05) on accounting for fees paid in a cloud computing arrangement (Subtopic 350-40): *Intangibles—Goodwill and Other—Internal-Use Software*. Previously, there was no such guidance under US GAAP resulting in diversity in practice. The amendments in the update provide guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the software license element of the arrangement should be accounted for consistent with the acquisition of other software licenses. If a cloud

3. Summary of Significant Accounting Policies (continued)

computing arrangement does not include a software license, the arrangement should be accounted for as a service contract. The updated guidance will be effective for annual periods beginning after December 15, 2015, and interim periods in annual periods beginning after December 15, 2016. Early adoption is permitted. The guidance can be adopted either 1) prospectively to all arrangements entered into or materially modified after the effective date or 2) retrospectively. The adoption of the guidance is not expected to have a material impact to the System's consolidated financial statements.

In May 2015, the FASB issued authoritative guidance (ASU 2015-07) permitting entities to measure, as a practical expedient, the fair value of certain investments using the net asset value per share of the investment (Topic 820): *Fair Value Measurement*. The guidance in this update removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The guidance also removes the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. Rather, those disclosures are limited to investments for which the entity has elected to measure the fair value using that practical expedient. A reporting entity will continue to disclose information on investments for which fair value is measured at net asset value (or its equivalent) as a practical expedient to help users understand the nature and risks of the investments and whether the investments, if sold, are probable of being sold at amounts different from net asset value. The amendments in this update are effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. Early adoption is permitted. A reporting entity should apply the amendments retrospectively to all periods presented. The adoption of the guidance is not expected on have a material impact to the System's consolidated financial statements.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current-year presentation. The System reclassified $11,141,000 in distributions to and acquistions from non-controlling interests from operating activities to financing activies for the year ending June 30, 2014.

4. Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from third-party payors and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Amounts subject to retroactive adjustments are estimated and recorded in the period the related services are rendered and adjusted in future periods as final settlements are determined. The estimated settlements recorded at June 30, 2015 and 2014, could differ from actual settlements. Inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient diagnosis-related group classification system that is based on clinical, diagnostic, and other factors.

For fiscal years 2015 and 2014, net patient service revenue increased approximately $21,901,000 and $2,825,000, respectively, related to changes in estimates for cost report re-openings, appeals, and tentative and final cost report settlements on filed cost reports, of which some are still subject to audit, additional re-opening, and/or appeal.

Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid under cost reimbursement methodologies, prospectively determined rates per discharge, and prospectively determined or negotiated rates.

Revenue from the Medicare and Medicaid programs accounted for approximately 22% and 9%, respectively, of the System's net patient revenue for the fiscal year ended June 30, 2015, and 22% and 11%, respectively, of the System's net patient revenue for the fiscal year ended June 30, 2014. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

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

4. Net Patient Service Revenue (continued)

Patient service revenue, net of contractual allowances but before provision for bad debts, recognized for the years ended June 30, consisted of (dollars in thousands):

	2015 Patient Service Revenue	% of Total	2014 Patient Service Revenue	% of Total
Medicare	**$ 764,172**	**22.4%**	$ 746,266	22.0%
Medicaid	**318,598**	**9.3**	359,707	10.6
Managed care	**1,588,168**	**46.5**	1,466,244	43.4
Commercial	**285,886**	**8.4**	272,722	8.0
Self-pay and other	**457,868**	**13.4**	543,314	16.0
Grand total	**$ 3,414,692**	**100.0%**	$ 3,388,253	100.0%

Federal law permits state Medicaid programs to make special payments to hospitals that serve a disproportionately large number of Medicaid and low-income patients. Such hospitals are called disproportionate share hospitals and receive disproportionate share funding under the program known as "DSH." DSH funds are different from most other Medicaid payments because they are not tied to specific services for Medicaid-eligible patients. Additionally, the federal Medicaid rules allow for hospitals to be reimbursed for some of the uncompensated cost of treating Medicaid and uninsured patients remaining after DSH payments.

In December 2010, the State of Louisiana adopted a Medicaid State Plan Amendment under which CHRISTUS Health's Louisiana hospitals, along with various other hospitals in the state, became eligible to receive DSH or Upper Payment Limit (UPL) funding up to their individual Medicaid hospital specific limits, as defined by federal law and as limited in the aggregate by federal law. Each year the State Department of Health and Hospitals adopts a budget designating the total amount of payments the qualifying group of hospitals will receive. Income from these supplemental programs is subject to retrospective adjustment based on state audits. As a result, there is at least a possibility that recorded estimates will change by a material amount in the near term.

In December 2011, the Centers for Medicare and Medicaid Services (CMS) approved an 1115(b) demonstration waiver program (1115(b) waiver program) submitted by the Texas Health and Human Services Commission (HHSC). The waiver program provides payments to hospitals

4. Net Patient Service Revenue (continued)

through two pools: the Uncompensated Care Pool (UC) and the Delivery System Reform Incentive Pool (DSRIP). Both pools replace the former UPL in Texas. CHRISTUS has operations in six different regional health partnerships under the 1115(b) waiver program and has approximately 52 DSRIP projects that are eligible for funding to CHRISTUS hospitals. The waiver program is currently scheduled to expire on September 30, 2016, which is the end of the fifth demonstration year. September 30, 2015, will mark the completion of the fourth demonstration year.

HHSC provides all hospitals the DSH and UC tools for each demonstration year and certain requirements must be met by the hospitals in order to qualify for either DSH or UC. The 2014 tools have been finalized by HHSC and the most recent, 2014, was used in HHSC modeling of both DSH and UC payments for the third demonstration year ended September 30, 2014. The 2015 DSH and UC tool is not expected to be finalized until late 2015. As a result, there is at least a possibility that recorded estimates will change by a material amount in the near term.

In fiscal years 2015 and 2014, the System recorded $58,392,000 and $62,728,000, respectively, in net patient service revenue related to the DSRIP program. Additionally, $256,281,000 and $318,487,000 was in net patient service revenue in fiscal years 2015, and 2014, respectively, related to the DSH, UC, and UPL programs.

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, participation requirements of government health care programs, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity has continued with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs, together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Termination of the System's participation in the Medicare or Medicaid programs could have a material impact on the financial statements.

Additionally, government agencies may review our compliance with various payment regulations and conduct audits under CMS's Recovery Audit Contractor (RAC) as well as other programs. The RAC program has been made permanent and was required to be expanded broadly to health care providers pursuant to the Tax Relief and Health Care Act of 2006. The results of the enhanced medical necessity reviews and the RAC program audits could have an

4. Net Patient Service Revenue (continued)

adverse effect on our financial statements. To the extent these reviews result in an adverse finding, the System may appeal the adverse finding, though it may incur significant legal expense.

5. Cash and Investments

Total cash and investments for the System at June 30, including assets whose use is limited, are as follows (in thousands):

	2015	2014
Cash and cash equivalents	**$ 463,354**	$ 554,053
Certificates of deposit	**4,422**	19,400
Domestic equities and equity funds	**163,726**	177,319
Preferred stocks	**404**	59
Fixed-income securities and fixed-income funds	**320,660**	391,193
International equities	**61,403**	65,771
U.S. government securities	**259,148**	221,383
Equity in managed funds:		
Fixed-income funds	**184,685**	187,570
Hedge funds	**323,742**	307,658
Private equity, real estate, and other	**7,788**	4,799
	$ 1,789,332	$ 1,929,205

Cash and cash equivalents include cash, money market bank accounts, interest-bearing bank accounts, and debt securities with original maturities of less than three months. U.S. government securities include debt securities issued by the U.S. government or a U.S. government agency. Fixed-income securities and fixed-income funds include corporate debt securities and common collective trusts. Domestic equities and equity funds, preferred stocks, and international equities include domestic and foreign stocks, as well as mutual funds and common collective trusts.

5. Cash and Investments (continued)

The System's investments are subject to various types of risks, as explained below.

Fixed Income

This investment class includes investments in various fixed-income instruments that include investment-grade and high-yield domestic and international bonds, preferred stocks, mortgage pools, master limited partnership units, and bonds issued by U.S. government agencies. This investment class also includes investments in common trust funds, mutual funds, and exchange-traded funds that hold investments in fixed-income securities. The fixed-income investments are exposed to various kinds and levels of risk, including interest rate risk, credit risk, foreign exchange risk, and liquidity risk.

Equities

This investment class consists primarily of common and preferred equity securities of domestic and foreign companies. These securities trade through the major public domestic and international exchanges. This investment class also includes investments in common collective trust funds, mutual funds, and exchange-traded funds that hold investments in equity securities. The equity securities investments are exposed to various risks, including market risk, individual security risk, foreign exchange risk, and, for common equity of companies with a small market capitalization, liquidity risk.

Equity Investments in Managed Funds

Equity in managed funds includes investments in limited liability partnerships or corporations and other alternative investments. The System's equity investments in managed funds are recorded based on the System's share of the underlying value of marketable securities, and non-marketable interests held by these funds include reported changes in value as reported to the System by the fund custodians. These investments are recorded at amounts confirmed by fund custodians, and there can be no assurance such reported amounts will ultimately be realized.

These funds are invested with external investment managers who invest primarily in various categories, including fixed income, long and short equity positions, managed futures, emerging markets, distressed enterprises, arbitrage, risk parity, private equity, and real estate positions.

5. Cash and Investments (continued)

These investments are domestic and international in nature, are illiquid, and may not be realized for a period of several years after the investments are made. The risks associated with these investments are numerous, resulting in a greater likelihood of losing invested capital. The risks include the following:

Non-Regulation Risk – Some of these funds are not required to register with the Securities and Exchange Commission (SEC) and are not subject to regulatory controls.

Managerial Risk – Fund managers may fail to produce the intended returns and are not subject to oversight.

Minimal Liquidity – Many funds impose lock-up periods that prevent investors from redeeming their shares or impose penalties to redeem.

Limited Transparency – As unregistered investment vehicles, funds are not required to disclose the holdings in their portfolios to investors.

Investment Strategy Risk – The funds often employ sophisticated, risky investment strategies, are speculative, and may use leverage, which could result in volatile returns.

At June 30, 2015 and 2014, the System had commitments to fund equity investments in managed funds totaling $4,887,000 and $6,279,000, respectively, excluding commitments to fund equity investments in managed funds held by the CHRISTUS Cash Balance Plan (see Note 11).

Assets whose use is limited or restricted consisted of the following at June 30 (in thousands):

	2015	**2014**
Assets whose use is limited or restricted, required for current bond indenture and self-insurance liabilities	**$ 49,802**	$ 23,480
Other investments, internally designated for capital expansion and other purposes	**333,399**	268,483
Under bond indenture agreement – held by trustee	**55,647**	66,746
Under liability retention and self-insurance funding arrangement – held by trustee	**14,804**	15,339
Under Emerald Assurance funding arrangements	**181,174**	197,992
Restricted cash and investments	**49,532**	49,404
Total assets whose use is limited or restricted	**$ 684,358**	$ 621,444

5. Cash and Investments (continued)

Investment returns and gains and (losses) for assets limited as to use, cash equivalents, and other unrestricted investments consisted of the following for the years ended June 30 (in thousands):

	2015	2014
Operating interest and dividend income	**$ 9,637**	$ 9,932
Operating gain, realized and unrealized	**897**	6,735
Equity investment earnings (loss) on managed funds	**(845)**	4,291
Total operating investment income	**9,689**	20,958
Non-operating interest and dividend income	**9,655**	15,624
Non-operating gain, realized and unrealized	**13,540**	43,612
Equity investment earnings (loss) on managed funds	**(11,044)**	55,175
Net swap agreement activity	**(32,035)**	(14,175)
Total non-operating investment (loss) gain	**(19,884)**	100,236
Total investment (loss) gain	**$ (10,195)**	$ 121,194

6. Fair Value Measurements

The three-level valuation hierarchy for disclosure of fair value measurements is based on the transparency of inputs to the valuation of an asset or liability as of the reporting date. The three levels are defined as follows:

- Level 1 – Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities at the reporting date.
- Level 2 – Inputs to the valuation methodology other than quoted market prices included in Level 1 that are observable for the asset or liability. Level 2 pricing inputs include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 – Inputs that are generally unobservable and typically reflect management's estimate of assumptions that market participants would use in pricing the asset or liability.

6. Fair Value Measurements (continued)

A financial instrument's categorization within the valuation hierarchy is based on the lowest level of input that is significant to the fair value measurement. There were no significant transfers between levels during the years ended June 30, 2015 and 2014.

The following tables present the financial instruments carried at fair value as of June 30 (in thousands) by the valuation hierarchy (as described above):

	2015			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Investments:				
Cash and cash equivalents	**$ 463,354**	**$ –**	**$ –**	**$ 463,354**
Certificates of deposit	**–**	**4,422**	**–**	**4,422**
Domestic equities and equity funds	**142,235**	**21,491**	**–**	**163,726**
Preferred stocks	**404**	**–**	**–**	**404**
Fixed-income securities and fixed-income funds	**83,223**	**237,437**	**–**	**320,660**
International equities and equity funds	**61,403**	**–**	**–**	**61,403**
U.S. government securities	**–**	**259,148**	**–**	**259,148**
Equity in managed funds:				
Fixed-income funds	**–**	**10,158**	**15,243**	**25,401**
Hedge funds	**–**	**–**	**63,713**	**63,713**
Private equity, real estate, and other funds	**–**	**–**	**7,788**	**7,788**
Total assets at fair value	**$ 750,619**	**$ 532,656**	**$ 86,744**	**$ 1,370,019**
Liabilities				
Interest rate swap agreements	**$ –**	**$ 109,172**	**$ –**	**$ 109,172**
Total liabilities at fair value	**$ –**	**$ 109,172**	**$ –**	**$ 109,172**

6. Fair Value Measurements (continued)

	2014			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Investments:				
Cash and cash equivalents	$ 554,053	$ –	$ –	$ 554,053
Certificates of deposit	–	19,400	–	19,400
Domestic equities and equity funds	152,401	24,918	–	177,319
Preferred stocks	59	–	–	59
Fixed-income securities and fixed-income funds	137,816	253,377	–	391,193
International equities and equity funds	37,966	27,805	–	65,771
U.S. government securities	–	221,383	–	221,383
Equity in managed funds:				
Fixed-income funds	–	–	13,609	13,609
Hedge funds	–	–	52,658	52,658
Private equity, real estate, and other funds	–	–	4,797	4,797
Total assets at fair value	$ 882,295	$ 546,883	$ 71,064	$ 1,500,242
Liabilities				
Interest rate swap agreements	$ –	$ 91,810	$ –	$ 91,810
Total liabilities at fair value	$ –	$ 91,810	$ –	$ 91,810

During fiscal year 2015, the System determined that certain of its investment funds were inappropriately classified in the fair value hierarchy in 2014. As a result, $24,918,000 of domestic equity funds and $27,805,000 of international equity funds, which were originally included in Level 1, have been classified as Level 2 in the 2014 table above, and $137,816,000 of fixed income funds which were originally included in Level 2, have been classified as Level 1 in the 2014 table above. In addition, $21,551,000 of domestic equity funds and $3,218,000 of fixed income funds have been recharacterized as equity investments in managed funds and excluded from the 2014 table above.

6. Fair Value Measurements (continued)

The following table is a rollforward of the assets classified within Level 3 of the valuation hierarchy at June 30 (in thousands):

	Fixed-Income Funds	Hedge Funds	Private Equity, Real Estate, and Other Funds	Total
Fair value at June 30, 2013	$ 28,911	$ 33,889	$ 2,134	$ 64,934
Purchases, issuances, and settlements	(17,094)	16,423	2,344	1,673
Actual return on assets	1,792	2,346	319	4,457
Fair value at June 30, 2014	13,609	52,658	4,797	71,064
Purchases, issuances, and settlements	**2,173**	**11,518**	**3,833**	**17,524**
Actual return on assets	**(539)**	**(463)**	**(842)**	**(1,844)**
Fair value at June 30, 2015	**$ 15,243**	**$ 63,713**	**$ 7,788**	**$ 86,744**

The tables above include equity investments in managed funds held within the System's foundations and captive insurer. Remaining equity investments in managed funds held by other System entities of $419,313,000 and $428,963,000 at June 30, 2015 and 2014, respectively, are not included in this table since they are accounted for using the equity method of accounting.

The valuation methodologies used for instruments measured at fair value as presented in the tables above are as follows:

- *Investments* – Investments valued at quoted prices available in an active market are classified within Level 1 of the valuation hierarchy. Investments valued based on evaluated bid prices provided by third-party pricing services, where quoted market prices are not available, are classified within Level 2 of the valuation hierarchy. Alternative investments with unobservable methods are classified within Level 3 of the valuation hierarchy. Alternative investments consist of hedge funds, commodity funds, private equity, and real estate funds. The fair value of hedge funds is primarily determined using net asset values which approximate fair value as determined by an external manager based on: quoted marked prices, operating results, balance sheet stability, growth, and other business and market sector fundamentals. The fair value of commodity and real

6. Fair Value Measurements (continued)

estate funds has been estimated using the System's ownership interest in partners' capital. The fair value of investments in private equities has been estimated using recent observable transaction information for similar investments and non-binding bids received from potential buyers of the investments.

- *Interest rate swap agreements* – Interest rate swap agreements are valued using third-party models that use observable market conditions as their input and are classified within Level 2 of the valuation hierarchy.

At June 30, 2015 and 2014, the System's financial instruments included cash and cash equivalents, accounts receivable, assets limited as to use, accounts payable and accrued expenses, estimated third-party payor settlements, and long-term debt. The carrying amounts reported in the consolidated balance sheets for these financial instruments, except for long-term debt, approximate their fair values due to their short-term nature.

The System's fixed-rate debt is enhanced with bond insurance. The estimated fair value of the fixed-rate debt, if it were not enhanced by insurance, approximates $439,000,000 compared to its carrying value of $393,115,000 at June 30, 2015. This fair value is based on a combination of quoted market prices for identical securities when available, a Level 1 input, and quoted market prices for similarly rated health care revenue bond issues, a Level 2 input.

At June 30, 2015, the System has several issues of variable-rate demand bonds outstanding. The System's continued participation in these debt programs depends on its ability to extend or replace the existing credit facilities supporting the respective standby purchase agreements. If these credit facilities are not available, the System will likely refund these outstanding series with available funds or funds derived from fixed-rate series proceeds. It is not practicable to estimate the fair value of the variable-rate demand bonds separate from the value supported by the credit facilities.

7. Property and Equipment

Property and equipment at June 30 consisted of the following (in thousands):

	2015	2014
Land	**$ 165,807**	$ 166,373
Land improvements	**65,956**	65,624
Buildings and fixed equipment	**2,147,073**	2,119,774
Major movable equipment	**1,522,489**	1,544,459
Accumulated depreciation	**(2,482,087)**	(2,473,618)
	1,419,238	1,422,612
Construction-in-progress (estimated cost to complete is $400 million and $533 million at June 30, 2015 and 2014, respectively)	**124,511**	77,984
Total	**$ 1,543,749**	$ 1,500,596

Depreciation expense for the System for fiscal years 2015 and 2014 totaled $164,937,000 and $159,847,000, respectively.

8. Investments in Unconsolidated Organizations

The System has investments in unconsolidated organizations of $148,805,000 and $168,030,000 at June 30, 2015 and 2014, respectively. The following investments account for 93% and 92% of the System's total investments in unconsolidated organizations in both 2015 and 2014, respectively:

Houston Methodist St. John Hospital

On February 1, 2014, CHRISTUS Gulf Coast (Gulf Coast) sold a controlling interest of 70% of CHRISTUS St. John Hospital to Methodist Health Centers (TMH). TMH operates Houston Methodist St. John Hospital in which Gulf Coast maintains a 30% non-controlling interest. Prior to this date the assets and operations of CHRISTUS St. John were consolidated in the accompanying consolidated financial statements. CHRISTUS's recorded investment, accounted for under the equity method, was $29,615,000 and $29,105,000 at June 30, 2015 and 2014, respectively. The System's share of income was $510,000 and $95,000 for the years ended June 30, 2015 and 2014, respectively.

8. Investments in Unconsolidated Organizations (continued)

Houston Methodist St. Catherine Real Property Company

On January 31, 2014, Gulf Coast contributed the land, building, and improvements of CHRISTUS Health St. Catherine Hospital to Houston Methodist St. Catherine Real Property Company (HMSCRE), a Texas nonprofit corporation. Under the membership agreement, Gulf Coast has a 30% non-controlling membership interest in HMSCRE. Prior to this date, the assets and operations of CHRISTUS St. Catherine were consolidated in the accompanying consolidated financial statements. CHRISTUS's recorded investment, accounted for under the equity method, was $14,040,000 at both June 30, 2015 and 2014. The System's share of income from operations is diminimis.

Salud U.C. SpA

On January 31, 2014, CHRISTUS Chile SpA, a wholly owned Chilean corporation, obtained a 40% non-controlling interest through the purchase of shares of Salud U.C. SpA (Salud U.C.) from Pontifica Universidad Catolica de Chile (PUC) for cash consideration of $20,878,000. CHRISTUS' recorded investment, accounted for under the equity method, was $20,109,000 and $20,421,000 at June 30, 2015 and 2014, respectively. The System's share of losses for the years ended June 30, 2015 and 2014, was $312,000 and $457,000, respectively. There is additional discussion of the System's international operations in Note 18.

Inversiones San Carlos, SpA

In May 2014, CHRISTUS Chile Limitada, a wholly-owned Chilean subsidiary of CHRISTUS Chile, SpA, purchased 100% of the shares of Inversiones San Carlos, SpA, a Chilean corporation, from Colmena Salud S.A. for cash consideration of $68,000,000. Inversiones San Carlos SpA owns a 50% interest in Servicios Clinicos San Carlos de Apoguindo S.A. and Immobiliaria Clinica San Carlos de Apoguindo S.A. (jointly referred to as San Carlos). CHRISTUS's recorded investment, accounted for under the equity method, was $68,255,000 and $67,721,000 at June 30, 2015 and 2014, respectively. The System's share of earnings (losses) for the years ended June 30, 2015 and 2014, was $534,000 and ($279,000), respectively. This transaction is part of a multistep plan, which has subsequently resulted in a 50% interest of San Carlos for both PUC and CHRISTUS Chile SpA. There is additional discussion of the System's international operations in Note 18 and subsequent events in Note 20.

8. Investments in Unconsolidated Organizations (continued)

Preferred Professional Insurance Company

At June 30, 2014, CHRISTUS had a 13.1% ownership interest in Preferred Professtional Insurance Company (PPIC), a taxable Nebraska corporation. This corporation, formed in 1988, was established to provide excess professional and general liability insurance. The recorded investment balance at June 30, 2014, was $17,059,000, which was recorded under the cost method. Effective August 1, 2014, the System sold its investment for $23,806,000. Additionally, the System received a dividend of $10,484,000 immediately prior the sale. The System recorded income from its investment in PPIC in fiscal years 2015 and 2014 of $0 and $354,000, respectively. The System also recorded a gain on the sale of PPIC during fiscal year 2015 of $16,359,000, inclusive of the dividend receipt, which is recorded in equity in income of unconsolidated organizations.

CS/USP Surgery Centers, L.P.

CHRISTUS Spohn Health System Corporation has a 50% ownership interest in a Texas limited liability partnership with United Surgical Partners International, Inc. for the purpose of owning and operating ambulatory surgery centers in Corpus Christi, Texas. The venture consists of two surgery centers near the campus of Spohn Shoreline, specifically Corpus Christi Outpatient Surgery and SurgiCare. CHRISTUS's recorded investment, accounted for under the equity method, was $5,665,000 and $5,561,000 at June 30, 2015 and 2014, respectively. The System recorded its share of income from operations in fiscal years 2015 and 2014 of $829,000 and $791,000, respectively.

CHRISTUS and its affiliates hold immaterial investments in other unconsolidated subsidiaries. No single investment balance exceeded $5,000,000 at both June 30, 2015 and 2014, respectively.

9. Long-Term Debt

Long-term debt at June 30 consisted of the following (in thousands):

	2015	2014
Revenue bonds, in variable-rate demand mode, with weighted-average interest rates of 0.05% and 0.06% in fiscal 2015 and 2014, respectively, due in 2047	**$ 225,885**	$ 225,885
Revenue bonds, in auction mode, with weighted-average interest rates of 0.52% and 0.46% in fiscal 2015 and 2014, respectively, due in 2031	**174,100**	186,300
Revenue bonds, in fixed-rate mode, bearing interest from 4.00% to 6.50%	**383,757**	384,533
Capital leases for certain hospital facilities, bearing interest at fixed rates ranging from 6.0% to 6.9%, with annual principal payments through 2030, secured by the related assets	**47,113**	49,759
Non-obligated group bank notes and capital leases related to CHRISTUS Muguerza	**22,911**	33,649
Other note and capital lease note obligations	**26,079**	25,327
	879,845	905,453
Less current portion, including amounts subject to remarketing agreements	**(77,062)**	(12,668)
Total	**$ 802,783**	$ 892,785

According to the terms of the CHRISTUS Health Master Trust Indenture, the Obligated Group consists of CHRISTUS Health and eight of the System's regions as follows: CHRISTUS Spohn Health System, CHRISTUS Health Gulf Coast, CHRISTUS Health Southeast Texas, CHRISTUS Santa Rosa Health Care Corporation, CHRISTUS Health Ark-La-Tex, CHRISTUS Health Northern Louisiana, CHRISTUS Health Central Louisiana, and CHRISTUS Health Southwestern Louisiana.

Certain entities of CHRISTUS that are otherwise included in the consolidated financial statements of CHRISTUS are excluded from the CHRISTUS Health Obligated Group. These entities include, but are not limited to, the CHRISTUS Health Liability Retention Trust, Emerald

9. Long-Term Debt (continued)

Assurance, CHRISTUS St. Vincent Regional Medical Center, CHRISTUS Physician Group, CHRISTUS Continuing Care, CHRISTUS St. Michael Atlanta, CHRISTUS Muguerza, S.A. de C.V., CHRISTUS Health Strategic Growth, Amatista Financing Company, Ltd., CHRISTUS Health Latin America, CHRISTUS Health Chile SpA, and various philanthropic foundations.

Under the provisions of the Master Trust Indenture, the obligations of CHRISTUS and the other members of the Obligated Group are secured by a pledge of gross revenues. Additionally, each member of the Obligated Group has undertaken certain covenants, including the following: to ensure the payment of debt service; to ensure the payment of taxes and other claims; to deliver compliance statement(s); to preserve corporate existence; to maintain books and records subject to inspection by the Master Trustee; to maintain insurance; to conform to defined lien limitations; to establish adequate service rates; to maintain a sufficient debt service coverage and indebtedness ratio; to maintain a required aggregate amount of unrestricted cash and investments; and to adhere to certain defined conditions with respect to consolidation, merger, conveyance, or transfer, and admission or withdrawal of Obligated Group members pursuant to the Master Trust Indenture, insurer, and letter of credit bank agreements.

CHRISTUS has letter of credit bank agreements on Series 2008C and 2009B variable-rate demand bonds. The Series 2008C-1 bonds have an outstanding amount of $41,435,000 and are supported by a letter of credit provided by PNC Bank, NA that expires on October 2, 2015. The 2008C-2 bonds have an outstanding amount of $38,305,000 and are supported by a letter of credit provided by The Bank of New York Mellon that expires on October 3, 2017. The 2008C-3 bonds have an outstanding amount of $43,900,000, and the 2008C-4 bonds have an outstanding amount of $38,440,000. The 2008C-3 and 2008C-4 bonds are supported by a letter of credit provided by Bank of Montreal, acting through its Chicago Branch, that expires on October 2, 2017. The Series 2009B variable-rate demand bonds have an outstanding amount of $63,805,000 and are supported by a letter of credit provided by The Bank of New York Mellon that expires on July 31, 2018. Based on the terms of the letter of credit bank agreements, the Series 2008C-1 bonds are classified as current debt and the Series 2008C2-4 and 2009B bonds are classified as long-term debt in the accompanying consolidated balance sheets.

In June 2015, CHRISTUS entered into a transaction to legally cash defease outstanding municipal debt totaling $6,675,000 by establishing an irrevocable escrow account to fund the debt service until the applicable maturity or redemption dates. The defeased debt has been accounted for as if it were extinguished at June 30, 2015.

9. Long-Term Debt (continued)

Principal payments for all long-term debt for the next five years and thereafter are as follows (in thousands):

2016	$ 35,627
2017	60,644
2018	42,957
2019	41,839
2020	42,705
Thereafter	656,073
Total debt	$ 879,845

10. Derivative Financial Instruments

Interest rate swap contracts between the System and third parties (counterparties) provide for the periodic exchange of payments between the parties based on changes in a defined index and a fixed rate. These swaps expose the System to market risk and credit risk. Credit risk is the risk that contractual obligations of the counterparties will not be fulfilled. Concentrations of credit risk relate to groups of counterparties that have similar economic or industry characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. Counterparty credit risk is managed by requiring high credit standards for the System's counterparties. The counterparties to these contracts are financial institutions that carry investment-grade credit ratings.

Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates. The market risk associated with interest rate changes is managed by establishing and monitoring parameters that limit the types and degrees of market risk that may be undertaken. Management also mitigates risk through periodic reviews of its derivative positions in the context of their blended cost of capital. As of June 2015 and 2014, CHRISTUS has interest rate swap agreements to manage interest rate risk exposure, not designated as hedging instruments, with a total notional amount of $938,110,000 and $946,335,000, respectively.

10. Derivative Financial Instruments (continued)

The following tables summarize the fair value at June 30, 2015 and 2014 and the income (loss) recorded related to the interest rate swap agreements as of and for the years ended June 30, 2015 and 2014, (in thousands).

Counterparty	Description	Termination Date	Interest Rate Agreements	Notional Amount	Fair Value June 30, 2015	Fair Value June 30, 2014	Change in Fair Value June 30, 2015	Change in Fair Value June 30, 2014	(Paid) Received June 30, 2015	(Paid) Received June 30, 2014
Merrill Lynch	Variable Basis	2021–2023	6	470,000	**$ 1,739**	(3,085)	**$ 4,824**	$ 1,408	**$ 392**	$ 330
Wells Fargo	Fixed Payor	2031	1/2	188,850/197,075	**(24,411)**	(23,311)	**(1,100)**	680	**(5,831)**	(6,085)
*Citigroup	Fixed Payor	2047	2	166,100	**(51,770)**	(39,222)	**(12,548)**	(732)	**(5,515)**	(5,515)
*Citigroup	Fixed Payor	2047	1	113,160	**(34,730)**	(26,192)	**(8,538)**	(542)	**(3,719)**	(3,719)
				938,110/946,335	**$ (109,172)**	$ (91,810)	**$ (17,362)**	$ 814	**$ (14,673)**	$ (14,989)

*Insured by MBIA

CHRISTUS is required to post collateral for negative valuations on each of its swaps according to the terms of (i) the swap insurance agreements, where applicable and (ii) the agreement with each counterparty. CHRISTUS has complied with this requirement. At June 30, 2015 and 2014, no collateral was posted. The System does not anticipate non-performance by its counterparties.

The fair value of these swap agreements was a liability of $109,172,000 and $91,810,000 at June 30, 2015 and 2014, respectively. The change in fair value of ($17,362,000) and $814,000 for the years ended June 30, 2015 and 2014, respectively, is combined with the payments, net of receipts made under the agreements, of $14,673,000 and $14,989,000 for the years ended June 30, 2015 and 2014, respectively. This total is included in non-operating investment gain (loss) in the accompanying consolidated statements of operations and changes in net assets.

11. Employee Benefit Plans

Defined Benefit Plans

Cash Balance Plan

The System has established a non-contributory, defined-benefit retirement plan that operates as a cash balance plan and covers substantially all CHRISTUS employees who had met age and service requirements as of December 31, 2012. On October 23, 2012, the CHRISTUS board approved the closing of the plan to new participants, effective January 1, 2013.

11. Employee Benefit Plans (continued)

The plan benefits are calculated based on a cash balance formula wherein participants earn an annual accrual based on compensation and participation account balances accrue interest at a rate that tracks ten-year treasury notes; the maximum rate is 8%. On January 31, 2014, the plan was remeasured as a result of a curtailment related to the sale of the Gulf Coast operations. The remeasurement resulted in an increase of $148,000 in the projected benefit obligation and a nonrecurring curtailment credit of $3,970,000 recorded as a reduction in pension expense.

The measurement date for the cash balance plan is June 30. Components of net periodic benefit cost, recorded as a component of employee compensation and benefits, for the years ended June 30, consisted of the following (in thousands):

	2015	2014
Service cost	**$ 21,047**	$ 21,232
Interest cost	**37,387**	39,167
Expected return on assets	**(51,332)**	(47,360)
Amortization of prior service credit	**(12,171)**	(12,526)
Recognized net actuarial loss (gain)	**10,353**	14,325
Curtailment gain	**–**	(3,970)
Net benefit cost	**$ 5,284**	$ 10,868

The following table sets forth the changes in benefit obligation, changes in plan assets, and funded status of the plan measured as of June 30 (in thousands):

	2015	**2014**
Changes in benefit obligation:		
Benefit obligation – beginning of year	**$ 897,510**	$ 851,106
Service cost	**21,047**	21,232
Interest cost	**37,387**	39,167
Actuarial loss (gain)	**(11,473)**	31,672
Liability (gain) loss due to curtailment	**–**	(148)
Benefits paid	**(45,938)**	(45,519)
Benefit obligation – end of year	**$ 898,533**	$ 897,510

11. Employee Benefit Plans (continued)

	2015	2014
Changes in plan assets:		
Fair value of plan assets – beginning of year	**$ 868,509**	$ 782,464
Actual return on plan assets	**9,619**	101,564
Employer contributions	**18,000**	30,000
Benefits paid	**(45,938)**	(45,519)
Fair value of plan assets – end of year	**$ 850,190**	$ 868,509
Funded status of the plans	**$ (48,343)**	$ (29,001)
Amounts recognized in unrestricted net assets:		
Unrecognized net actuarial loss	**$ 182,111**	$ 162,225
Unrecognized prior service credit	**(47,560)**	(59,732)
Total recognized in unrestricted net assets	**$ 134,551**	$ 102,493

Amounts recognized in unrestricted net assets expected to be recognized in net periodic benefit cost during fiscal 2016 are $1,296,000.

The following table represents the changes to the plan's assets and projected benefit obligation recognized in unrestricted net assets as of June 30 (in thousands):

	2015	2014
Net actuarial loss (gain)	**$ 30,240**	(22,531)
Amortization of net actuarial loss	**(10,353)**	(14,326)
Amortization of prior service credit	**12,171**	12,526
Curtailment, settlement	**–**	3,822
Total recognized in unrestricted net assets	**$ 32,058**	$ (20,509)

11. Employee Benefit Plans (continued)

As of June 30, 2015 and 2014, the plan had accumulated benefit obligations of $894,211,000 and $892,683,000, respectively. Assumptions used to determine benefit obligations and net periodic benefit cost for the fiscal years were as follows:

	2015	**2014**
Benefit obligations:		
Discount rate	**4.37%**	4.27%
Rate of compensation increase	**3.71**	4.09
Net periodic benefit cost:		
Discount rate	**4.27**	4.69
Expected long-term return on plan assets	**6.00**	6.00
Rate of compensation increase	**4.09**	4.09

The investment objective with regard to the plan assets is one of long-term capital appreciation and generation of a stream of current income. This balanced approach is expected to earn long-term total returns, consisting of capital appreciation and current income, which are commensurate with the expected rate of return used by the plans.

Investment Policy and Asset Allocations

The investment policies and strategies for the assets of the cash balance plan incorporate a well-diversified approach that is expected to generate long-term returns from capital appreciation and a growing stream of current income. This approach recognizes that assets are exposed to risk and the market value of the plan assets may fluctuate from year to year. Risk tolerance is determined based on the plan's financial stability and the ability to withstand return volatility. In developing the expected return on plan assets, the System evaluates the historical performance of total plan assets, the relative weighting of plan assets, interest rates, economic indicators, and industry forecasts. In line with the investment return objective and risk parameters, the mix of assets includes a diversified portfolio of equity, fixed income, and alternative investments. Equity investments include international stocks and a blend of domestic growth and value stocks of various sizes of capitalization. The aggregate asset allocation is rebalanced as needed, but not less than on an annual basis.

11. Employee Benefit Plans (continued)

The asset allocations for the cash balance plan at June 30, by asset category, are detailed below (in thousands). The postretirement plan, SERP, and restoration plan are unfunded.

	2015	2014
Cash and cash equivalents	**$ 57,467**	$ 10,358
Domestic equities and equity funds	**63,551**	71,714
Fixed-income securities and fixed-income funds	**107,843**	171,014
International equities	**71,716**	117,090
Equity investments in managed funds:		
Fixed-income funds	**241,462**	175,474
Hedge funds	**179,962**	195,466
Private equity, real estate, and other	**127,363**	127,297
Other	**826**	96
Total	**$ 850,190**	$ 868,509

The target allocation of plan assets by asset category for the cash balance plan is as follows as of June 30:

	2015	2014
Allocation of plan assets by asset category:		
Cash and cash equivalents	**–%**	–%
Equity securities and equity funds	**15**	20
Fixed-income securities and fixed-income funds	**30**	25
Equity investments in managed funds (*Note 5*)	**55**	55
Total	**100%**	100%

11. Employee Benefit Plans (continued)

The value of the plan assets measured at fair value on a recurring basis was determined using the following inputs, as described in Note 6, at June 30, 2015 (in thousands):

	Level 1	Level 2	Level 3	Total
Assets				
Investments:				
Cash and cash equivalents	$ 57,467	$ –	$ –	$ 57,467
Domestic equities and equity funds	63,551	–	–	63,551
Fixed-income securities and fixed-income funds	60,417	47,426	–	107,843
International equities	71,716	–	–	71,716
Equity investments in managed funds:				
Fixed-income funds	–	140,670	100,792	241,462
Hedge funds	–	–	179,962	179,962
Private equity, real estate, and other funds	–	–	127,363	127,363
Other	826	–	–	826
Total investments	253,977	188,096	408,117	850,190
Total assets at fair value	$ 253,977	$ 188,096	$ 408,117	$ 850,190

11. Employee Benefit Plans (continued)

The value of the plan assets measured at fair value on a recurring basis was determined using the following inputs, as described in Note 6, at June 30, 2014 (in thousands):

	Level 1	Level 2	Level 3	Total
Assets				
Investments:				
Cash and cash equivalents	$ 780	$ 9,578	$ –	$ 10,358
Domestic equities and equity funds	71,714	–	–	71,714
Fixed-income securities and fixed-income funds	134,528	36,486	–	171,014
International equities	71,604	45,486	–	117,090
Equity investments in managed funds:				
Fixed-income funds	–	69,991	105,483	175,474
Hedge funds	–	–	195,466	195,466
Private equity, real estate, and other funds	–	–	127,297	127,297
Other	96	–	–	96
Total investments	278,722	161,541	428,246	868,509
Total assets at fair value	$ 278,722	$ 161,541	$ 428,246	$ 868,509

During fiscal year 2015, the System determined that certain of its investment funds within the cash balance plan were inappropriately classified in the fair value hierarchy in 2014. As a result, $45,486,000 of international equity funds, which were originally included in Level 1, have been classified as Level 2 in the 2014 table above, and $134,528,000 of fixed income funds which were originally included in Level 2, have been classified as Level 1 in the 2014 table above.

11. Employee Benefit Plans (continued)

The following table is a rollforward of the pension plan assets classified within Level 3 of the valuation hierarchy at June 30 (in thousands):

	Fixed-Income Funds	Hedge Funds	Private Equity, Real Estate, and Other Funds	Total
Fair value at June 30, 2013	$ 78,307	$ 177,231	$ 109,041	$ 364,579
Purchases, issuances, and settlements	8,236	175	16,978	25,389
Actual return on plan assets	18,940	18,060	1,278	38,278
Fair value at June 30, 2014	105,483	195,466	127,297	428,246
Purchases, issuances, and settlements	**–**	**(10,709)**	**18,468**	**7,759**
Actual return on plan assets	**(4,691)**	**(4,795)**	**(18,402)**	**(27,888)**
Fair value at June 30, 2015	**$ 100,792**	**$ 179,962**	**$ 127,363**	**$ 408,117**

The cash balance plan has $69,218,000 of funding commitments to equity investments in managed funds as of June 30, 2015.

Contributions

In fiscal year 2016, CHRISTUS expects to contribute $13,000,000 to the cash balance plan based on asset values for the plan year beginning January 1, 2015. Contributions to the cash balance plan of $18,000,000, and $30,000,000 were made for plan years beginning January 1, 2014 and 2013, respectively.

11. Employee Benefit Plans (continued)

Benefit Payments

The following benefit payments, which reflect expected future service and expected benefit payments for services previously rendered, are expected to be paid as follows (in thousands):

2016	$	50,490
2017		52,588
2018		54,704
2019		56,309
2020		58,014
Years 2021–2025		306,975

Postretirement Health Care Benefits

Comprehensive medical benefits are provided to eligible active employees who, immediately upon retirement and attainment of the age of 55, will receive a pension under the CHRISTUS retirement plan. Postretirement benefits are also provided to former employees who are currently receiving pension benefits. The comprehensive medical program, which is self-insured, provides reimbursement benefits until the participant attains the age of 65. The program also covers dependents of retirees, in addition to former employees. Contributions are required. Retirees may choose one of two self-insured indemnity plan options. Effective February 1, 1999, the CHRISTUS postretirement benefit plan was curtailed prospectively. As of the effective date, new employees or employees that had not vested as of that date are not eligible for the postretirement health care benefits. The liability associated with the postretirement plan will be reduced as employee participation decreases. Net benefit cost (credit) under the postretirement plan was $(466,000) and $107,000 for the years ended June 30, 2015 and 2014., respectively The net benefit obligation was $23,440,000 and $24,259,000 at June 30, 2015 and 2014, respectively, which is included in accrued pension benefits on the accompanying consolidated balance sheets.

Simplified Early Retirement Plan (SERP)

Prior to the formation of CHRISTUS, a plan for executives was curtailed prospectively. Under this plan, eligible participants receive a cash benefit payment until death and participate in the System’s retiree health, dental and group term life program. Fewer than two dozen participating retirees currently maintain benefit payment status. Benefits are recalculated when participants attain the age of 65 and remain constant thereafter. Net benefit cost (credit) under the SERP

11. Employee Benefit Plans (continued)

was $310,000 and $(61,000) for the years ended June 30, 2015 and 2014, respectively. The net benefit obligation was $4,983,000 and $4,673,000 at June 30, 2015 and 2014, respectively, which is included in accrued pension benefits on the accompanying consolidated balance sheets.

Restoration Plan

The restoration plan, a non-qualified, deferred compensation plan, was designed to restore benefits that are lost under the cash balance plan due to the statutory limit on recognizable compensation. Eligibility is limited to designated executives. The plan provides benefits upon termination of employment to qualifying participants. Plan benefits are calculated using the same methodology for the cash balance plan; vesting requirements are also the same. The restoration plan was frozen at December 31, 2013. Net benefit cost under the restoration plan was $309,000 and $469,000 for the years ended June 30, 2015 and 2014, respectively. The net benefit obligation was $2,282,000 and $2,616,000 at June 30, 2015 and 2014, respectively, which is included in accrued pension benefits on the accompanying consolidated balance sheets.

Defined-Contribution Plans

403(b) Matched Savings Plans

The System has a defined-contribution plan (the Matched Savings Plan) covering substantially all CHRISTUS employees. Annual employee contributions are limited to 50% of compensation, up to the Internal Revenue Service dollar limits. The System will match 50% of employee contributions, not to exceed 6% of annual compensation. Employer contributions vest to the employee over a five-year period. For the years ended June 30, 2015 and 2014, expenses attributable to the Matched Savings Plan amounted to $12,652,000 and $13,166,000, respectively.

CHRISTUS St. Vincent Regional Medical Center (St. Vincent) has two 403(b) defined-contribution plans for bargaining and non-bargaining employees. St. Vincent contributes 4.0% of gross salaries for bargaining employees and 4.25% of gross salaries for non-bargaining employees, as defined by the plans' agreements. The employer contributions are remitted on a bi-weekly basis. For fiscal years 2015 and 2014, St. Vincent has incurred approximately $3,643,000 and $3,594,000 in expenses related to the plans, respectively.

11. Employee Benefit Plans (continued)

ExecuFLEX Benefit Plan

The ExecuFLEX plan was originally established by Sisters of Charity of the Incarnate Word Houston, Texas, effective January 1, 1995. Sponsorship of the plan was then transferred to and assumed by CHRISTUS, effective February 1, 1999. The plan was limited to designated executives. Plan participants received an ExecuFLEX allowance to be allocated among four different components: CHRISTUS Health ExecuFLEX Individual Long-Term Disability Plan, CHRISTUS Health ExecuFLEX Supplemental Survivor Plan, CHRISTUS Health ExecuFLEX Spouse Survivor Plan, and CHRISTUS Health ExecuFLEX Deferred Income Account Plan (DIA Plan). The ExecuFLEX plan was frozen at December 31, 2013.

The DIA Plan was a non-qualified, deferred compensation plan; eligibility was limited to designated executives. Benefits vest based on certain qualifying events and are paid to participants when fully vested. The funds contributed by participants to this component of the ExecuFLEX Plan are held in a Rabbi Trust until vesting requirements have been satisfied. The System has an asset recorded for the investments in the Rabbi Trust with a corresponding liability. As of June 30, 2015 and 2014, the total asset and corresponding liability related to the DIA Plan were $3,662,000 and $9,883,000, respectively. As a component of the ExecuFLEX plan, this plan was frozen at December 31, 2013.

Supplemental Executive Retirement Plan (DC SERP)

On January 1, 2014, CHRISTUS established the DC SERP to provide a select group of executives and management of CHRISTUS and its selected subsidiaries and/or affiliates, with supplemental benefits held in a Rabbi Trust until paid, primarily at the termination of the individual’s service with CHRISTUS Health. The DC SERP also includes provisions for a deferred compensation plan. As of June 30, 2015 and 2014, the asset and corresponding liability balances recorded related to the DC SERP were $15,686,000 and $9,089,000, respectively. CHRISTUS Health incurred expense of $15,800,000 and $6,379,000 related to the DC SERP in fiscal years 2015 and 2014, respectively.

12. Self-Funded Liabilities

The System self-funds and self-insures for primary professional and general liability, workers' compensation and Texas occupational injury, directors and officers liability, employment practices liability and employee medical benefits. A wholly-owned, captive insurance company, Emerald Assurance Cayman Ltd. (Emerald), is used to fund primary professional and general liability, directors and officers liability, and employment practices liability. Policies written provide coverage for professional liability with primary limits in the amount of $10 million per claim with no aggregate plus $10 million excess per claim with an aggregate of $10 million for the fiscal years 2015 and 2014. For general liability, policies written provide coverage with primary limits in the amount of $2 million per claim for fiscal years 2015 and 2014. Additionally, the System internally sets aside funds for workers' compensation, the Texas occupational injury program, and employee medical benefits based on actuarial analyses.

The assets of the captive insurance company, internally designated funds, and the estimated liability for losses are reported in the consolidated balance sheets. Investment income from the assets and the provision for estimated self-funded losses and administrative costs are reported in the accompanying consolidated statements of operations and changes in net assets. The estimated self-funded losses include expected claim payments, including settlement costs for reported claims and an actuarial determination of expected losses related to claims that have been incurred but not reported.

Emerald was incorporated in the Cayman Islands on June 27, 2003, and operates subject to the provisions of the Companies Law (2003 Revision) of the Cayman Islands. Emerald was granted an Unrestricted Class "B" Insurer's license on June 30, 2003, which it holds subject to the provisions of the Insurance Law (2003 Revision) of the Cayman Islands. Emerald has received an undertaking from the Cayman Islands government exempting it from local income, profits, and capital gains taxes until July 29, 2023. No such taxes are currently levied in the Cayman Islands.

13. Concentrations of Credit Risk

The System grants credit without collateral to its patients, most of whom are local residents of the geographies of the various System health care centers and are insured under third-party payor agreements. The mix of accounts receivable from patients and third-party payors at June 30 was as follows:

	2015	**2014**
Medicare	**20.7%**	22.4%
Medicaid	**6.8**	5.2
Managed care organizations	**39.2**	36.8
Commercial insurance	**7.9**	7.6
Self-pay	**14.1**	16.7
Others	**11.3**	11.3
	100.0%	100.0%

14. Commitments and Contingencies

Operating Leases

The System leases various equipment and facilities under non-cancelable operating leases expiring at various dates through May 20, 2045. Total rental expense in 2015 and 2014 for all operating leases was approximately $75,954,000 and $74,146,000, respectively.

The System's leases have varying terms, which may include renewal or purchase options and escalation clauses that are factored into determining minimum lease payments. The following is a schedule by year of future minimum lease payments under operating leases as of June 30, 2015, that have initial or remaining lease terms in excess of one year (in thousands):

2016	$ 39,719
2017	33,410
2018	29,295
2019	26,410
2020	23,919
Thereafter	41,618
Total	$ 194,371

14. Commitments and Contingencies (continued)

Other Contingencies

From time to time, the System is subject to litigation in the ordinary course of operations. In management's opinion, any future settlements or judgments on asserted or unasserted claims will not have a material effect on the System's consolidated financial statements.

The System has received notice that hospitals in several regions have been identified as part of the nationwide Department of Justice (DOJ) investigation to determine whether, in certain cases, implantable cardioverter defibrillators (ICDs) were provided to certain Medicare beneficiaries in accordance with national coverage criteria. The System reached a settlement with the DOJ related to this matter in fiscal year 2015 for an amount that did not materially impact the financial statements.

The System has a compliance program and various internal policies and procedures that management believes will effectively reduce exposure for violations of applicable federal and state health care laws, regulations, and policies. There are matters that may be the subject of reporting to appropriate regulatory authorities or payors, and subject to repayment obligations, recoupments, penalties, and/or fines. There are a number of voluntary and other reviews that may also result in disclosure and/or repayments. There are also matters in which government agencies are pursuing matters directly with CHRISTUS and/or its affiliates.

Because the government's present regulatory and enforcement efforts are widespread across the health care industry and may vary from region to region, the impact of such activities on the System is difficult to predict with certainty. The dynamic regulatory environment, political climate, and the effectiveness of our compliance efforts could affect the resolution of regulatory, enforcement and payor issues involving the System. The System has implemented, and is continually endeavoring to enhance, various procedures to ensure continued compliance with federal and state requirements. However, there can be no assurance that the compliance program or other measures will always reduce or completely eliminate the System's civil, criminal, regulatory, or payor exposure.

15. Functional Expenses

The System provides general health care services to residents throughout various geographic locations. Expenses related to providing these services at June 30 are as follows (in thousands):

	2015	2014
Health care services	**$ 2,648,542**	$ 2,591,244
Physician services	**263,758**	251,813
General and administrative	**641,151**	646,272
Total	**$ 3,553,451**	$ 3,489,329

16. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets at June 30 are available for the following purposes (in thousands):

	2015	2014
Purchase of equipment/capital improvement	**$ 16,957**	$ 11,409
Indigent care	**344**	579
Health education	**2,612**	2,889
Health care services	**107,468**	84,662
Community outreach	**12,615**	13,824
Other	**15,683**	22,878
Total	**$ 155,679**	$ 136,241

Permanently restricted net assets at June 30 are restricted as follows (in thousands):

	2015	2014
Investments to be held in perpetuity, the income from which is expendable to support health care services (reported as operating income)	**$ 6,677**	$ 6,665
Endowment requiring income to be added to original gift	**1,136**	2,666
Other	**6,950**	2,139
Total	**$ 14,763**	$ 11,470

17. Changes in Consolidated Unrestricted Net Assets

Changes in consolidated unrestricted net assets that are attributable to the System and the non-controlling interests in subsidiaries are as follows (in thousands):

	Controlling Interest	Non-controlling Interests	Total
Balance, June 30, 2013	$ 2,356,267	$ 120,356	$ 2,476,623
Unrestricted revenues, gains, and other support in excess of expenses	124,330	18,772	143,102
Distributions	–	(7,641)	(7,641)
Acquisition of non-controlling interest	–	(3,500)	(3,500)
Other activities	22,087	(1,198)	20,889
Balance, June 30, 2014	2,502,684	126,789	2,629,473
Unrestricted revenues, gains, and other support in excess of expenses	**13,269**	**22,581**	**35,850**
Distributions	**–**	**(5,005)**	**(5,005)**
Acquisition of non-controlling interest	**–**	**(3,500)**	**(3,500)**
Other activities	**(49,122)**	**3,838**	**(45,284)**
Balance, June 30, 2015	**$ 2,466,831**	**$ 144,703**	**$ 2,611,534**

18. International Operations

CHRISTUS Muguerza

At June 30, 2015, the System owned a 79.2% interest in CHRISTUS Muguerza, S.A. de C.V. (CHRISTUS Muguerza), headquartered in Monterrey, Mexico. CHRISTUS Muguerza is a private health care system and is subject to taxes in accordance with the regulations of the Republic of Mexico. The financial statements of CHRISTUS Muguerza are presented in accordance with accounting principles generally accepted in the United States and are consolidated in the CHRISTUS consolidated financial statements. CHRISTUS Muguerza has net assets of $99,360,000 and $106,597,000 at June 30, 2015 and 2014, respectively.

18. International Operations (continued)

In November 2012, the System and certain non-controlling interest holders entered into a revised shareholders' agreement, whereby the non-controlling interest holders of CHRISTUS Muguerza have a series of put options through December 31, 2028. These options will require the System to acquire shares, subject to an annual cap of either $3,500,000 or $2,000,000, depending on the year, at a formula price as defined. At June 30, 2015 and 2014, respectively, the System had $5,293,000 and $4,200,000, respectively, recorded as unrestricted net assets attributable to non-controlling interest to reflect such obligation to the non-controlling interest holders in connection with the agreement.

By purchasing 3,477,596 shares put forth by the non-controlling shareholders in accordance with the agreement, the System increased its ownership interest in CHRISTUS Muguerza from 77.2% to 79.2% in May 2015 for cash consideration of $3,500,000. During the year ended June 30, 2014, the System acquired 3,282,820 shares from non-controlling shareholders for cash consideration of $3,500,000. See also Note 20, Subsequent Events.

CHRISTUS Chile SpA

CHRISTUS signed a memorandum of understanding (MOU) with Pontificia Universidad Católica de Chile (PUC) in Santiago, Chile, to enter into a joint venture agreement for the ownership, operation, and expansion of PUC's health network. PUC is owned by the Catholic Church and operates one of the largest health systems in Chile for medical care and teaching. The System anticipates achieving the structure outlined in the MOU through a series of transactions. CHRISTUS and PUC have entered into certain transactions as described below, and are currently undergoing due diligence and negotiations of such transactions.

In January 2014, under the terms of the MOU, CHRISTUS Chile SpA purchased a 40% interest in Salud U.C. SpA from PUC for $20,878,000. Salud U.C. has an existing 0.74% interest in Centro Medico Monsensor Carlos Casanueva S.A., a 60% interest in Clinical UC S.A., and a 50% interest in both Servicos Clinicos San Carlos Apoquindo S.A. and Inmobilaria Clinicos San Carlos Apoquindo S.A. (collectively referred to as San Carlos).

In May 2014, CHRISTUS Chile Limitada, a wholly-owned Chilean subsidiary of CHRISTUS Chile, SpA, purchased 100% of the shares of Inversiones San Carlos, SpA, a Chilean corporation, from Colmena Salud S.A. for cash consideration of $68,000,000. Inversiones San Carlos SpA owns a 50% interest in San Carlos, of which Salud U.C. SpA is also a 50% owner. This transaction is part of a multi-step plan that ultimately has resulted in a 50% interest of San Carlos for PUC and CHRISTUS Chile SpA. See also Note 20, Subsequent Events.

18. International Operations (continued)

The investments in Salud UC and San Carlos are treated as equity method investments. Discussion of the investments and earnings are in Note 8. It is expected that CHRISTUS will make additional capital contributions into Salud U.C. over the next five years as additional assets of the health network are transferred to Salud U.C. and the health network expands. The additional contributions will be no less than an additional $60,000,000.

In fiscal year 2015, Amatista Financing, Ltd, a wholly-owned subsidiary of CHRISTUS Health, executed a loan agreement with PUC, a related party, and during FY 2015 loaned PUC $30,000,000 under the terms of that agreement. The note carried a one-year maturity date, which was subsequently extended to April 2016. The interest rate on the note is 3.35% per annum. At June 30, 2015, accrued interest related to the note was $605,000.The note is convertible into additional capital contributions as PUC completes certain of the activities outlined in the MOU. The note is reported within other noncurrent assets in the accompanying balance sheet.

CHRISTUS and PUC entered into an interim management agreement on March 1, 2013, under which CHRISTUS will provide management services to the PUC health network through the due diligence and negotiation period. CHRISTUS recorded other revenue related to this agreement of $7,492,000 and $7,708,000 during fiscal years 2015 and 2014, respectively.

19. Significant Events

CHRISTUS Gulf Coast Transaction With Methodist Health Centers

On January 31, 2014, Gulf Coast entered into a membership agreement with Methodist Health Centers (TMH), a Texas nonprofit corporation, to own and operate Houston Methodist St. John Hospital (HMJH). Gulf Coast contributed substantially all of the assets of St. John Hospital, excluding the land and hospital building, to the new company in exchange for certain proceeds and a 30% non-controlling membership interest. HMJH leases the building and land from Gulf Coast under the terms of a 75 year lease with substantially all the rent paid at the time of closing.

Gulf Coast also contributed the land, building, and improvements of CHRISTUS Health St. Catherine Hospital to HMSCRE, a Texas nonprofit corporation, in exchange for certain proceeds and a 30% non-controlling membership interest. Gulf Coast also sold the remaining assets and operations of CHRISTUS Health St. Catherine Hospital to Houston Methodist St. Catherine Hospital (HMCH). HMCH will lease the St. Catherine facility from HMSCRE Real Property Company.

19. Significant Events (continued)

CHRISTUS manages the operations of HMCH's long-term care facility pursuant to a management agreement. CHRISTUS provides certain transitional services to support the change in ownership of the two hospitals under the terms of Transitional Services Agreements.The proceeds received for the transactions were $113,860,000. The net assets contributed to joint ventures totaled $125,185,000 and the System retained equity investments in the joint ventures totaling $43,050,000. At June 30, 2014, the gain recorded on the transaction was approximately $31,725,000 subject to certain post-transaction settlements and was recorded as other revenue in the accompanying consolidated financial statements. In fiscal year 2015, the System recorded $3,316,000 in other revenue for working capital post-closing adjustments. Additionally, in fiscal year 2014 and 2015 CHRISTUS recorded $8,752,000 and $4,630,000, respectively, in other revenue for fees under the management and transitional services agreements.

CHRISTUS Southeast Texas Acquisition of Beaumont Bone and Joint

On December 31, 2013, CHRISTUS Health Southeast Texas acquired the hospital business and the orthopedic clinic practice of BBJI, L.P. d/b/a/ Beaumont Bone and Joint Institute (Beaumont) and acquired substantially all of the assets used in connection with hospital and clinic operations from Orthopaedic Properties, L.P., a limited liability partnership related to BBJI, L.P. The transactions were accounted for using the acquisition method of accounting. Total cash consideration paid for the assets and operations was $51,400,000. Based on the final purchase price allocation CHRISTUS recorded approximately $34,891,000 in goodwill. Acquisition costs related to this transaction, which were recorded as other expenses, were immaterial.

The table below summarizes the allocations of the purchase price (including assumed liabilities) for the transaction acquisition of Beaumont in 2014 (in thousands):

	2014
Current assets	$ 250
Property and equipment	15,959
Goodwill	34,891
Intangible assets	300

19. Significant Events (continued)

Alamo Heights Surgical Hospital Group

On June 2, 2014, CHRISTUS Santa Rosa Health System (Santa Rosa), a wholly owned subsidiary of CHRISTUS, entered an agreement to contribute substantially all of the assets used in the operation of its Alamo Heights hospital, a 36-bed general acute care hospital, to Alamo Heights Surgical Hospital Group, LP (the limited partnership) in return for a partnership interest.

At that date, Santa Rosa was the sole partner in the limited partnership and therefore consolidated operating results into the CHRISTUS financial statements. As a result, all assets contributed were valued at book value.

On October 1, 2014, CHRISTUS Santa Rosa Physicians Ambulatory Surgery Centers (PASC) and USP San Antonio, Inc. (USPI) both entered into agreements to purchase interests in the limited partnership, which reduced Santa Rosa's partnership interest to 62.19%. Santa Rosa remained the controlling partner after the transaction and continued to consolidate operating results of the limited partnership. Prior to the transaction, Santa Rosa had a controlling interest in the PASC and consolidated their operating results; therefore, all contributions by the PASC were valued at book value. Santa Rosa was not affiliated to USPI prior to the transaction. USPI contributed all partnership interests in its ambulatory surgery center. As a result of the contribution of the assets and operations of the ambulatory surgery center, goodwill in the amount of $5,334,000 was recorded.

Acquisition of Urgent Care of Texas

On December 31, 2013, Ambulatory Strategies Physician Group, a wholly-owned subsidiary of CHRISTUS, acquired 100% of the membership interests in Urgent Care Solutions, LLC and the tangible assets of Urgent Care & Occupational Health Centers of Texas, P.A. (UCT). The transaction was accounted for using the acquisition method of accounting. Total consideration paid for the assets and operations was $14,481,000, with $13,581,000 paid at closing and the remaining $900,000 to be paid in equal annual installments of $300,000 over the next three years. Based on the final purchase price allocation CHRISTUS recorded approximately $13,125,000 in goodwill. Acquisition costs related to this transaction, which were recorded as other expenses, were immaterial.

19. Significant Events (continued)

The table below summarizes the allocations of the purchase price (including assumed liabilities) for the acquisition of UCT in 2015 (in thousands):

	2015
Current assets and liabilities, net	$ 120
Property and equipment	1,019
Goodwill	13,125
Intangible assets	420
Other liabilities assumed	(203)

20. Subsequent Events

The System evaluated events and transactions occurring subsequent to June 30, 2015, through the date of issuance of the financial statements. During this period, there were no subsequent events requiring recognition in the consolidated financial statements.

International Operations – CHRISTUS Chile SpA

As discussed in Note 18, in January 2014, CHRISTUS Chile SpA purchased a 40% interest in Salud U.C. SpA from PUC. At the time of the purchase, Salud U.C. owned a 50% interest in San Carlos. In May 2014, CHRISTUS Chile Limitada purchased 100% of the shares of Inversiones San Carlos, SpA, a Chilean corporation, which owned the remaining 50% interest in San Carlos. As contemplated by the MOU between CHRISTUS and PUC, and consistent with the multi-step plan to ultimately result in both PUC and CHRISTUS Chile SpA owning a 50% interest of San Carlos, effective July 31, 2015, CHRISTUS and PUC closed on a transaction to reorganize Salud U.C. SpA into two separate entities. The first entity will hold the 50% interest in San Carlos and will be 100% owned by PUC. The second entity will hold the remaining assets of Salud U.C. SpA and will be owned 60% by PUC and 40% by CHRISTUS. In consideration for this reorganization, PUC agreed to refund $10,000,000 of the original purchase price of $20,878,000 to CHRISTUS.

International Operations – CHRISTUS Muguerza

Subsequent to June 30, 2015, CHRISTUS Health executed a transaction to purchase 6,597,361 additional shares from the non-controlling shareholders for cash consideration of $6,500,000. Through this transaction CHRISTUS increased its ownership interest from 79.2% to 83.2%.

Supplementary Information

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Independent Auditors' Report on Supplementary Information

The Board of Directors
CHRISTUS Health

We have audited the consolidated financial statements of CHRISTUS Health as of and for the year ended June 30, 2015, and have issued our report thereon dated September 18 2015. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying community benefit information and accompanying consolidating information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information, except for that portion marked "unaudited," has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information, except for that portion marked "unaudited" on which we express no opinion, is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Ernst + Young LLP

September 18, 2015

CHRISTUS Health

Community Benefit (Unaudited)

CHRISTUS Health (CHRISTUS or the System) complies with the Catholic Health Association's (CHA), *A Guide for Planning and Reporting Community Benefits*©, 2008, and the state of Texas reporting requirements. CHA guidelines have adopted the instructions for IRS Form 990, Schedule H.

Following is a summary of the System's quantifiable costs of community benefits provided for the years ended June 30 (in thousands):

	2015	2014
	(Unaudited)	
Programs and services for the poor and underserved:		
Charity care at unpaid cost	**$ 209,573**	$ 208,673
Unpaid cost of Medicaid and other public programs	**(115,989)**	(140,767)
Community services for the poor and underserved	**88,849**	142,168
Total for the poor and underserved	**182,433**	210,074
Community services for the broader community:		
Education and research	**5,229**	9,927
Other community services	**5,744**	5,804
Total for the broader community	**10,973**	15,731
Total community benefits	**$ 193,406**	$ 225,805

The totals are calculated following CHA guidelines and adhere to IRS Form 990, Schedule H methodology. CHRISTUS has multiple reporting requirements of charity care and community benefit, which vary based on the definitional and timing requirements of each requesting organization.

In addition to the community benefits reported above, the state of Texas requires that the unpaid costs of Medicare and other government-sponsored programs be reported. For the fiscal years ended June 30, 2015 and 2014, the unpaid costs of these programs were $181,547,000 and $152,223,000, respectively. The unpaid costs of the Medicare program represent the cost of providing services to primarily elderly beneficiaries of the Medicare program, in excess of governmental and managed care contract payments. The unpaid costs of other government-sponsored programs represent the cost for providing health care services to the beneficiaries of the Department of Defense civilian care, included as per the State of Texas guidelines.