Presence Health℠

by USPS

February 4, 2015

Mr. George Roate
Illinois Health Facilities &
Services Review Board
525 West Jefferson
Springfield, IL 62761

RECEIVED
FEB 09 2015
HEALTH FACILITIES &
SERVICES REVIEW BOARD

RE: Project 15-005
Presence Holy Family Medical Center

Dear Mr. Roate:

Kindly find enclosed the 2013 Audited Financial Statements for Presence Health.

Sincerely,

Shawn Albritton
CON Manager
Presence Health

attachments

KPMG

PRESENCE HEALTH NETWORK AND AFFILIATES

Consolidated Financial Statements and Supplementary Information

December 31, 2013 and 2012

(With Independent Auditors' Report Thereon)

PRESENCE HEALTH NETWORK AND AFFILIATES

Table of Contents

KPMG LLP
Aon Center
Suite 5500
200 East Randolph Drive
Chicago, IL 60601-6436

Independent Auditors' Report

The Board of Directors
Presence Health Network

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Presence Health Network and its affiliates (Presence Health), which comprise the consolidated statements of financial position as of December 31, 2013 and 2012, and the related consolidated statements of operations and change in unrestricted net assets, changes in net assets, and cash flows for the years ended December 31, 2013 and 2012, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly in all material respects, the financial position of Presence Health Network and its affiliates as of December 31, 2013 and

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2012, and the results of their operations and their cash flows for the years ended December 31, 2013 and 2012, in accordance with U.S. generally accepted accounting principles.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The supplementary information included in schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to 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 consolidated financial statements themselves or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

Chicago, Illinois
May 16, 2014

PRESENCE HEALTH NETWORK AND AFFILIATES

Consolidated Statements of Financial Position

December 31, 2013 and 2012

(In thousands)

Assets		2013	2012
Current assets:			
Cash and cash equivalents	$	192,672	192,066
Assets whose use is limited or restricted – required for current liabilities		44,148	39,323
Patient and resident accounts receivable, less allowance for uncollectible accounts of $211,599 and $203,629		428,671	438,027
Inventories		48,026	48,401
Prepaid expenses and other current assets		67,143	73,117
Assets held for sale		4,500	4,500
Total current assets		785,160	795,434
Assets whose use is limited or restricted		1,021,140	1,024,792
Land, buildings, and equipment, net		1,392,060	1,395,759
Other assets		79,338	91,786
Total assets	$	3,277,698	3,307,771
Liabilities and Net Assets			
Current liabilities:			
Current installments of long-term debt	$	33,701	31,372
Current portion of obligations under capital leases		2,434	3,771
Current portion of estimated self-insurance liabilities		31,422	31,481
Accounts payable and accrued expenses		316,154	327,132
Estimated payables under third-party reimbursement programs		180,444	192,774
Deferred revenue and refundable deposits		36,840	39,403
Other		25,886	27,676
Total current liabilities		626,881	653,609
Long-term debt, excluding current installments and unamortized bond premiums and discounts		1,094,741	1,129,500
Obligations under capital leases, net of current portion		4,012	5,692
Pension benefit liability		210,746	355,410
Estimated self-insurance liabilities, excluding current portion		262,481	286,747
Other long-term liabilities		27,564	28,134
Total liabilities		2,226,425	2,459,092
Net assets:			
Unrestricted:			
Unrestricted net assets of Presence Health		998,402	799,974
Noncontrolling interest in subsidiaries		4,335	4,210
Total unrestricted net assets		1,002,737	804,184
Temporarily restricted		32,828	29,053
Permanently restricted		15,708	15,442
Total net assets		1,051,273	848,679
Total liabilities and net assets	$	3,277,698	3,307,771

See accompanying notes to consolidated financial statements.

PRESENCE HEALTH NETWORK AND AFFILIATES

Consolidated Statements of Operations and Change in Unrestricted Net Assets

Years ended December 31, 2013 and 2012

(In thousands)

		2013	2012
Net patient and resident service revenue:			
Net patient and resident service revenue before bad debt	$	2,660,109	2,701,488
Provision for uncollectible accounts receivable		208,781	210,604
Net patient and resident service revenue		2,451,328	2,490,884
Other revenue:			
Other		248,747	217,689
Total revenue		2,700,075	2,708,573
Expenses:			
Salaries and benefits		1,417,324	1,419,073
Supplies		401,969	427,224
Purchased services		264,929	242,560
Insurance		29,849	1,806
Depreciation and amortization		156,956	145,137
Interest		46,089	50,932
Assessments and taxes		130,940	91,861
Restructuring costs		51,094	19,493
Other		262,592	262,866
Total expenses		2,761,742	2,660,952
Income (loss) from operations		(61,667)	47,621
Nonoperating gains (losses):			
Investment income and other, net		133,690	100,262
Loss on early extinguishment of debt		(8,540)	(621)
Nonoperating gains, net		125,150	99,641
Revenue and gains in excess of expenses and losses before discontinued operations		63,483	147,262
Net gains from discontinued operations		2,198	4,542
Revenue and gains in excess of expenses and losses		65,681	151,804
Other changes in unrestricted net assets:			
Net assets released from restrictions for purchase of land, buildings, and equipment		6,367	4,252
Recognition of change in pension funded status		126,505	(29,092)
Change in unrestricted net assets	$	198,553	126,964

See accompanying notes to consolidated financial statements.

PRESENCE HEALTH NETWORK AND AFFILIATES

Consolidated Statements of Changes in Net Assets

Years ended December 31, 2013 and 2012

(In thousands)

		2013	2012
Unrestricted net assets:			
Revenue and gains in excess of expenses and losses	$	65,681	151,804
Net assets released from restrictions for purchase of land, buildings, and equipment		6,367	4,252
Recognition of change in pension funded status		126,505	(29,092)
Change in unrestricted net assets		198,553	126,964
Temporarily restricted net assets:			
Pledges and contributions		13,711	15,431
Investment return		125	1,045
Reclassification of net assets based on donor intent		—	525
Net assets released from restrictions for purchase of land, buildings, and equipment		(6,367)	(4,252)
Net assets released from restrictions for operations-other revenue		(3,694)	(4,207)
Change in temporarily restricted net assets		3,775	8,542
Permanently restricted net assets:			
Contributions		266	232
Reclassification of net assets based on donor intent		—	(525)
Change in permanently restricted net assets		266	(293)
Change in net assets		202,594	135,213
Net assets at beginning of period		848,679	713,466
Net assets at end of period	$	1,051,273	848,679

See accompanying notes to consolidated financial statements.

PRESENCE HEALTH NETWORK AND AFFILIATES

Consolidated Statements of Cash Flows

Years ended December 31, 2013 and 2012

(In thousands)

		2013	2012
Cash flows from operating activities:			
Change in net assets	$	202,594	135,213
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation and amortization		156,956	145,137
Amortization of bond premium and discount, net		(69)	(41)
Amortization of deferred occupancy and care revenue		(274)	(184)
Provision for uncollectible accounts receivable		208,781	210,604
(Gain) loss on disposal of land, buildings, and equipment		(3,559)	413
Loss on early extinguishment of debt		8,540	621
Change in pension funded status		(126,505)	29,092
Equity gain in joint ventures		(1,109)	(60)
Cash distributions received from joint ventures		—	125
Change in net unrealized gains on investment securities		(50,148)	(38,541)
Net realized gain on sale of investments		(32,571)	(31,006)
Net assets released from restrictions for operations-other revenue		3,694	4,207
Restricted contributions and investment return		(14,102)	(16,708)
Changes in assets and liabilities:			
Patient and resident accounts receivable		(199,425)	(243,252)
Estimated settlements under third-party reimbursement programs, net		(12,330)	(56,937)
Inventories		375	1,250
Prepaid expenses and other assets		1,518	26,537
Accounts payable and accrued expenses		(10,978)	23,636
Estimated self-insurance liabilities		(24,325)	(42,668)
Other current liabilities		(1,790)	8,756
Pension benefit liability		(18,159)	(10,680)
Other long-term liabilities		(570)	984
Net cash used in discontinued operating activities		—	(1,112)
Net cash provided by operating activities		86,544	145,386
Cash flows from investing activities:			
Acquisition of land, buildings, and equipment, net		(151,292)	(190,560)
Net proceeds from sale of land, buildings, and equipment		6,214	72
Purchases of investment securities		(604,861)	(309,940)
Sales of investment securities		686,407	495,830
Change in other long-term assets		6,152	(14,668)
Net cash used in investing activities		(57,380)	(19,266)
Cash flows from financing activities:			
Repayment of obligations under capital leases		(3,771)	(4,515)
Scheduled repayments of long-term debt		(32,631)	(50,106)
Redemptions and defeasance of long-term debt		(497,820)	(59,775)
Proceeds from issuance of long-term debt		497,545	59,775
Net (refunds) deposits of entrance fees and membership deposits		(2,289)	111
Net assets released from restrictions for operations-other revenue		(3,694)	(4,207)
Restricted contributions and investment return		14,102	16,708
Net cash used in financing activities		(28,558)	(42,009)
Net change in cash and cash equivalents		606	84,111
Cash and cash equivalents at beginning of period		192,066	107,955
Cash and cash equivalents at end of period	$	192,672	192,066
Supplemental disclosure of cash flow information:			
Cash paid for interest, net of amounts capitalized	$	54,911	51,811
Supplemental disclosure of noncash transaction:			
Assets acquired under capital leases	$	754	192

See accompanying notes to consolidated financial statements.

(1) Presence Health Network and Affiliates

Presence Health Network and its affiliates (referred to as Presence Health, herein) is the largest Catholic healthcare network in the State of Illinois, spanning 12 hospitals, 29 long-term care and senior residential facilities, more than 50 primary and specialty care clinics, and 6 home health agencies. The combined health system has hospital operations throughout Chicago, as well as in Des Plaines, Evanston, Aurora, Elgin, Joliet, Kankakee, Urbana, and Danville.

The accompanying consolidated financial statements include the accounts of Presence Health Network and the following affiliates:

- Presence Hospitals PRV (Presence Hospitals), an Illinois not-for-profit corporation that owns and operates six acute care hospitals and medical centers and more than 30 health centers. The six acute care hospitals owned and operated by Presence Hospitals are Presence Mercy Medical Center, Presence United Samaritans Medical Center, Presence Saint Joseph Hospital-Elgin, Presence Saint Joseph Medical Center, Presence Saint Mary's Hospital, and Presence Covenant Medical Center. Presence Hospitals' wholly owned subsidiary, Presence Service Corporation (d/b/a Presence Medical Group – PRV) (PSC), is a taxable Illinois not-for-profit corporation formed to manage Presence Hospitals' physician practices;
- Presence Resurrection Medical Center (PRMC), a not-for-profit corporation that owns an acute care hospital providing various inpatient and outpatient services and programs;
- Presence Our Lady of the Resurrection Medical Center (POLR), a not-for-profit corporation that owns an acute care hospital providing various inpatient and outpatient services and programs;
- Presence Holy Family Medical Center (PHFMC), a not-for-profit corporation that owns a long-term acute care hospital providing various services and programs to patients including outpatient services and addiction services;
- Presence Saint Francis Hospital (PSFH), a not-for-profit corporation that owns an acute care hospital providing various inpatient and outpatient services and programs;
- Presence Saint Joseph Hospital – Chicago (PSJH), a not-for-profit corporation that owns an acute care hospital providing various inpatient and outpatient services and programs;
- Presence Saints Mary and Elizabeth Medical Center (PSMEMC), a not-for-profit corporation that owns two acute care hospitals providing various inpatient and outpatient services and programs;
- Presence Healthcare Services (Services), a not-for-profit corporation that encompasses the following operating divisions: Presence Resurrection Properties, Presence Pharmacies, Presence Ambulatory Services, and Presence Medical Group – RHC; and the Presence Home Medical Equipment – RHC;
- Presence Life Connections, an Illinois not-for-profit corporation that owns and operates 11 nursing homes, four independent living facilities, four assisted living facilities, two adult

daycare centers, two community service facilities, one child care center, and one outpatient pharmacy in northern and central Illinois and Indiana;

Presence Life Connections is the sole member of LaVerna Terrace Housing Corporation, an Illinois not-for-profit corporation doing business as Provena LaVerna Terrace Housing Corporation;

Presence Life Connections is the sole member of Presence Home Health, Inc., a not-for-profit organization that owns and operates five home health agencies and two hospice agencies in northern and central Illinois. Presence Care @ Home is the d/b/a name of an Illinois not-for-profit corporation formerly known as Will County Community Transitions Program, Inc.

During 2013, Presence Life Connections acquired control of Arthur Merkle—Clara Knipprath Nursing Home (Merkle) through a corporate membership substitution becoming Merkle's sole corporate member. As a part of the corporate member substitution, Presence Life Connections acquired $6,058 of assets and assumed $164 of liabilities, resulting in an inherent contribution of $5,894, that was recorded as investment income and other, net, in the accompanying 2013 consolidated statement of operations and change in unrestricted net assets;

- Presence RHC Senior Services (Senior Services), a not-for-profit corporation that manages and owns various independent living and nursing services and programs including the following: Presence Resurrection Nursing and Rehabilitation Center, Presence Resurrection Retirement Community, Presence Resurrection Life Center, Presence Bethlehem Woods Retirement Community, Presence Casa San Carlo Retirement Community, Presence St. Benedict Nursing and Rehabilitation Center, Presence Villa Scalabrini Nursing and Rehabilitation Center, Presence Maryhaven Nursing and Rehabilitation Center, Presence St. Andrew Life Center, Resurrection Nursing Home, Mt. Loretto Nursing Home, Presence Nazarethville, and Presence Ballard Nursing Center;

- Resurrection Development Foundation Board of Trustees (Foundation), a not-for-profit corporation established to coordinate fund-raising activities that support the benevolent care and other programs at Presence Health;

- Presence Health Care Preferred (PHCP), a taxable not-for-profit corporation that serves as a system-wide managed care contracting organization for Presence Health that holds capitated risk contracts for which physicians and Presence Health hospitals and other facilities act as participating providers;

- Presence Home Care Services (Home Care), a not-for-profit corporation established to provide home care services. Home Care holds the Presence Health system's membership interest in Rainbow Hospice, not-for-profit corporation that is a 50/50 joint venture with Advocate Health and Hospitals Corporation;

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- Presence Ventures, Inc. (Ventures), an Illinois (for-profit) corporation, which is the sole shareholder of Presence Properties, Inc. as of December 31, 2013 and 2012, an Illinois business corporation that owns four parcels of land held for future use by Presence Health;

- Resurrection University, a not-for-profit corporation established to prepare students for professional careers in a health care environment;

- Presence Behavioral Health, f/k/a Proviso Family Services, a not-for-profit corporation established to provide behavioral health services;

- Presence PRV Health and Presence RHC Corporation (collectively, the Presence Health Corporate), not-for-profit tax-exempt corporations, incorporated for charitable, educational, and scientific purposes to support health and human services by providing management assistance and in all other relevant ways;

- Provena Health Assurance SPC, an insurance company incorporated in the Cayman Islands as of May 29, 2003, operates subject to the provisions of the Companies Law (2002 Revision) of the Cayman Islands. Provena Health Assurance SPC is a wholly owned subsidiary of Presence Health and is consolidated with Presence PRV Health. The principal business of Provena Health Assurance SPC is to procure excess commercial insurance coverage on behalf of Presence Health through reinsurance with AM Best highly rated reinsurers;

- L. Gilbraith Insurance SPC Ltd. – Resurrection Segregated Portfolio, an insurance company incorporated in the Cayman Islands on February 25, 1986, operates subject to the provisions of the Companies Law (2002 Revision) of the Cayman Islands. L. Gilbraith Insurance SPC Ltd. – Resurrection Segregated Portfolio is wholly owned by Presence RHC Corporation and is consolidated with Presence RHC Corporation. The principal business of L. Gilbraith Insurance SPC Ltd – Resurrection Segregated Portfolio is to procure excess commercial insurance coverage on behalf of Presence Health through reinsurance with AM Best highly rated reinsurers;

- Resurrection Ministries of New York, a not-for-profit tax exempt subsidiary of Presence RHC Corporation, which owns two nursing home facilities, the assets of which are presented as assets held for sale in the accompanying consolidated statements of financial position;

- Alverno Provena Hospital Laboratories, Inc. (APHL), a corporation operated as a cooperative hospital service organization providing laboratory services, and Alverno Clinical Laboratories, LLC (ACL), a venture created to expand the availability of lab services to patients in the communities serviced by the company, encourage further improvement in the quality of lab services, and support APHL (collectively herein, Alverno). Presence Health and its affiliates collectively own a 66.7% controlling interest in Alverno. Accordingly, the accompanying consolidated financial statements include the statements of financial position and results of operations of Alverno as of and for the years ended December 31, 2013 and 2012.

(Dollars in thousands)

The following represents a reconciliation of beginning and ending balances of Presence Health's interest and the noncontrolling interests for each class of net assets for which a noncontrolling interest exists during the years ended December 31, 2013 and 2012:

	Unrestricted net assets		
	Total	**Controlling interest**	**Noncontrolling interest**
Balance at December 31, 2011	$ 677,220	673,124	4,096
Revenue and gains in excess of expenses and losses	151,804	151,690	114
Net assets released from restrictions used for the purchase of property and equipment	4,252	4,252	—
Recognition of change in pension funded status	(29,092)	(29,092)	—
Balance at December 31, 2012	804,184	799,974	4,210
Revenue and gains in excess of expenses and losses	65,681	65,556	125
Net assets released from restrictions used for the purchase of property and equipment	6,367	6,367	—
Recognition of change in pension funded status	126,505	126,505	—
Balance at December 31, 2013	$ 1,002,737	998,402	4,335

The accompanying consolidated financial statements also include certain settlement transactions relating to Westlake Hospital (WH) and West Suburban Medical Center (WSMC)—two entities disposed of by sale in August 2010—which are presented as discontinued operations.

(2) Summary of Significant Accounting Policies

A summary of significant accounting policies is as follows:

- The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include: allowance for contractual adjustments, bad debt, and charity; third party payor settlements; valuation of investments; recoverability of land, buildings, and equipment; self-insurance liabilities; and accrued pension benefit liabilities.

- Transactions deemed by management to be ongoing, major, or central to the provision of health and long-term care services are reported as revenue and expenses. Peripheral or incidental transactions are reported as nonoperating gains and losses.
- The consolidated statements of operations and change in unrestricted net assets include revenue and gains in excess of expenses and losses. Changes in unrestricted net assets, which are excluded from revenue and gains in excess of expenses and losses, consistent with industry practice, include recognition of change in pension funded status and contributions of and for long-lived assets (including assets acquired using contributions, which by donor restriction were to be used for the purposes of acquiring such assets).
- Cash and cash equivalents consist primarily of demand deposits with banks, cash on hand, overnight secured repurchase agreements, and securities with an original term of 90 days or less when purchased, excluding amounts included as assets whose use is limited or restricted. At December 31, 2013 and 2012, Presence Health maintained funds with financial institutions in amounts in excess of federally insured limits.
- Presence Health applies the provisions of Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurement*, for fair value measurements of financial assets and liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC Topic 820 establishes a framework for measuring fair value and expands disclosures about fair value measurements (note 7).

  Presence Health applies the measurement provisions of ASC Topic 820 to certain investments in mutual funds and alternative investments that do not have readily determinable fair values. This guidance allows for the estimation of the fair value of investments in investment companies for which the investment does not have a readily determinable fair value using net asset value (NAV) per share or its equivalent. Interests in mutual funds and alternative investment funds are generally reported at the NAV reported by the fund managers, which is used as a practical expedient to estimate the fair value interest therein, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. As of December 31, 2013 and 2012, Presence Health had no plans or intentions to sell investments at amounts different from NAV.
- Presence Health applies the provisions of ASC Subtopic 825-10, *Financial Instruments – Overall*, which gives the irrevocable option to report most financial assets and liabilities at fair value on an instrument-by-instrument basis, with changes in fair value reported in earnings. Management has not elected to measure any additional eligible financial assets or financial liabilities at fair value subsequent to the adoption of ASC Subtopic 825-10.
- Inventories are stated at the lower of cost or market. Cost is determined on the basis of the most recent purchase price, which approximates the first-in, first-out method and the average cost method.
- Land, buildings, and equipment are stated at cost, or if donated, at fair value at the date of donation, net of allowances for depreciation and impairments. Depreciation is provided over the estimated

useful life of each class of depreciable asset and is primarily computed using the straight-line method. Leasehold improvements are amortized over the shorter of the terms of the leases or the estimated useful lives of the improvements. Equipment under capital leases is recorded at the present value of minimum lease payments. Amortization of equipment under capital leases is over the shorter of the lease term or useful life of the equipment. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component cost of acquiring those assets. Presence Health capitalized interest cost of $2,429 and $2,478 for the years ended December 31, 2013 and 2012, respectively.

- Presence Health applies the provisions of ASC Subtopics 958-805, *Not-for-Profit Entities - Business Combinations* and 954-805, *Health Care Entities – Business Combinations*. ASC Subtopics 958-805 and 954-805 provide guidance on a transaction or other event in which a not-for-profit entity that is a reporting entity combines with one or more other not-for-profit, businesses, or nonprofit activities in a transaction that meets the definition of a merger of not-for-profit entities or an acquisition by a not-for-profit entity.
- Presence Health evaluates long-lived assets for impairment on an annual basis. Long-lived assets are considered to be impaired whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable from future cash flows. Recoverability of long-lived assets to be held and used is measured by a comparison of the carrying amount of an asset to future cash flows expected to be generated by the asset. When such assets are considered to be impaired, the impairment loss recognized is measured by the amount by which the carrying value of the asset exceeds the fair value of the asset. No such impairments were required for the years ended December 31, 2013 or 2012.
- Gifts of long-lived assets, such as land, buildings, or equipment, are reported as unrestricted contributions, and are excluded from revenue and gains in excess of expenses and losses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted contributions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expiration of donor restrictions is reported when the donated or acquired long-lived assets are placed in service.
- Assets whose use is limited or restricted include: assets set aside by the Board of Directors for future capital improvements, over which the Board of Directors retains control and may at its discretion subsequently use for other purposes; assets held by trustees under indenture agreements and resident agreements; assets set aside for self-insured liabilities; and donor-restricted investments. Assets whose use is limited or restricted are classified as current assets to the extent they are required to satisfy obligations classified as current liabilities in the accompanying consolidated statements of financial position.
- Deferred finance charges, bond discount, and bond premium are amortized on a straight-line basis over the periods the related obligations are outstanding.
- Deferred revenue and refundable deposits represent various types of entrance and membership fees received from residents of senior living facilities. Resident membership deposits are fully

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refundable, net of applicable processing fees, to the resident upon termination of the lease agreement between Senior Services and the resident, with any interest earned on such deposits accruing to Senior Services. Senior Services offers a variety of partially refundable entrance fees. The nonrefundable portion of entrance fees is amortized to revenue using the straight-line method over the estimated remaining life expectancies of the residents. Total entrance payments subject to refund at December 31, 2013 and 2012 approximated $34,255 and $34,596, respectively, and are included in deferred revenue and refundable deposits in the accompanying consolidated statements of financial position.

- Presence Health applies the provisions of ASC Subtopic 954-450, *Health Care Entities - Contingencies*. ASC Subtopic 954-450 clarifies that healthcare entities should not net insurance recoveries against the related claim liability and that the claim liability amount should be determined without consideration of insurance recoveries. Presence Health reported a receivable of $19,190 and $21,969 at December 31, 2013 and 2012, respectively, in other assets in the accompanying consolidated statements of financial position.
- The provisions for estimated self-insured medical malpractice claims, workers' compensation claims, and employee health claims include estimates of the ultimate costs for both reported claims and claims incurred but not reported.
- Unconditional promises to give cash or other assets are reported at fair value at the date the promise is received, and are considered a Level 3 financial instrument in the fair value hierarchy (note 7). All contributions are considered to be available for unrestricted use unless specifically restricted by donors. Contributions are reported as direct additions to temporarily restricted net assets if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations and change in unrestricted net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are recorded as unrestricted contributions. Gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.
- Temporarily restricted net assets are those whose use has been limited by donors to a specific time period or purpose. Temporarily restricted net assets are restricted for various programs related to the provision of health and pastoral care and the acquisition of land, buildings, and equipment.
- Permanently restricted net assets represent donor-restricted contributions, the principal amount of which may not be expended. Amounts reported as permanently restricted net assets represent the cumulative amount of contributions received for permanent endowment. Investment return currently earned on permanently restricted investments is reported as either nonoperating investment income or a direct addition to temporarily restricted net assets based on donor intentions.

During 2012, Presence Health reclassified $525 of contributions from permanently restricted net assets to temporarily restricted net assets based on clarification of donor intent.

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ASC Topic 958, *Not-for-Profit Entities*, provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization and requires additional disclosure about endowment funds. Presence Health follows the guidance of ASC Topic 958.

Endowment funds are commingled in a pooled investment portfolio administered by Presence Health. Presence Health relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Presence Health targets a diversified asset allocation that places a greater emphasis on fixed income investments to achieve its long-term return objectives within prudent risk constraints. Investment return is allocated to endowment fund assets on a basis proportional to its percentage of the investment portfolio. Endowment fund assets are maintained at a level equivalent to the balance of permanently restricted net assets.

- Net patient and resident service revenue is reported at the estimated net realizable amounts from patients, residents, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.
- Presence Health provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because Presence Health does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Presence Health applies the provisions of ASC Subtopic 954-605, *Health Care Entities – Revenue Recognition*, the disclosure section of which requires that cost be used as the measurement basis for charity care disclosures purposes and that cost can be identified as direct and indirect costs of providing charity care.
- Presence Health accounts for discontinued operations under ASC guidance related to accounting for the impairment or disposal of long-lived assets. The guidance requires that a component entity that has been disposed of or is classified as held-for-sale and has operations and cash flows that can be clearly distinguished from the rest of the entity be reported as discontinued operations. In the period that a component entity has been disposed of or is classified as held-for-sale, the results of operations for current and prior periods are reclassified to discontinued operations in the accompanying consolidated statements of operations and change in unrestricted net assets.
- Investment income or loss (including realized gains and losses on investments, changes in unrealized gains and losses on trading securities, interest, and dividends) is included in unrestricted revenue and gains in excess of expenses and losses in the accompanying consolidated statements of operations and change in unrestricted net assets unless the income or loss is restricted by donors, in which case the investment income is recorded directly to temporarily or permanently restricted net assets. Investment returns of temporarily restricted investments are recorded directly to temporarily restricted net assets in accordance with donor intent.
- Presence Health recognizes liabilities when a legal obligation exists to perform an asset retirement obligation (ARO) in which the timing or method of settlement are conditional on a future event that may or may not be under the control of the entity. An ARO liability is recorded at its net present

value with recognition of a related long-lived asset in a corresponding amount. The ARO liability is accreted through periodic charges to interest expense. Presence Health is legally liable to remove asbestos from existing buildings prior to future remodeling or demolishing of the existing buildings. The estimated asbestos removal cost at December 31, 2013 and 2012 was $14,871 and $14,653, respectively, and is included as other long-term liabilities in the accompanying consolidated statements of financial position.

- Ventures is an Illinois business (for-profit) corporation that recognizes deferred income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

  Ventures tax effects of temporary differences that give rise to significant portions of the deferred tax assets at December 31, 2013 and 2012 are primarily the result of net operating loss carryforwards of $6,611 and $6,741 at December 31, 2013 and 2012, respectively, which expire at various future dates through 2032.

  PSC is an Illinois not-for-profit taxable corporation that also recognizes deferred income taxes under the asset and liability method. PSC tax effects of temporary differences that give rise to significant portions of the deferred tax assets at December 31, 2013 and 2012 are primarily the result of net operating loss carryforwards of $126,187 and $125,825 at December 31, 2013 and 2012, respectively, which expire at various future dates through 2032.

  In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers projected future taxable income and tax planning strategies in making this assessment. Based upon the level of historical taxable losses and projections for future taxable losses over the periods for which the deferred tax assets are deductible, management believes it is more likely than not that Ventures and PSC will not realize the majority of the benefits of these deductible differences. The deferred tax assets attributable to the net operating loss carryforwards not realized as of December 31, 2013 and 2012 have been fully reserved in the accompanying consolidated financial statements due to the uncertainty of realization.

  Presence Health recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. As of December 31, 2013 and 2012, Presence Health does not have any liabilities for unrecognized tax benefits.

- Presence Health primarily incurs expenses for the provision of health and residential care services and related general and administrative activities.
- The Medical Electronic Health Record (EHR) Incentive Program (the Program) provides incentive payments to eligible hospitals and professionals as they adopt, implement, upgrade, or demonstrate meaningful use of certified EHR technology and demonstrate meaningful use. Presence Health accounts for the Program using International Accounting Standards 20 (IAS 20), *Accounting for Government Grants and Disclosures of Government Assistance.* Presence Health applies the "ratable recognition" approach, which states that the grant income can be recognized ratably over the entire EHR reporting period once the "reasonable assurance" income recognition threshold of IAS 20 is met. For the years ended December 31, 2013 and 2012, Presence Health recognized $34,105 and $19,774, respectively, as other revenue related to Medicare and Medicaid EHR incentives, which have been received or are expected to be received based on certifications prepared by management under the appropriate guidelines for attestation.
- Since the formation of Presence Health on November 1, 2011, Presence Health has undertaken various restructuring activities to bring together the two legacy organizations of Provena Health and Resurrection Health Care Corporation. The costs associated with these restructuring activities of $51,094 and $19,493 for the years ended December 31, 2013 and 2012, respectively, primarily consist of severance and consulting costs.

(3) Net Patient and Resident Service Revenue

Presence Health has agreements with third-party payors that provide for reimbursement at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, capitation, and per diem payments. A summary of the basis of reimbursement with major third-party payors is as follows:

Medicare – Inpatient acute care services, outpatient services, physician services, home health, and long-term care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per case. These rates vary according to patient and resident classification systems that are based on clinical, diagnostic, and other factors. The prospectively determined rates are not subject to adjustment. Payment classification of patients and residents under the prospective payment systems, and the appropriateness of the services, are subject to validation reviews. Certain services related to Medicare beneficiaries are reimbursed based upon cost-reimbursement methodologies. Presence Health is reimbursed for cost-reimbursable items at tentative rates with final settlement determined after submission of annual reimbursement reports by Presence Health and audits thereof by the Medicare fiscal intermediary. As of December 31, 2013, annual Medicare reimbursement reports generally have been final settled through 2009.

Medicaid – Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under prospectively determined rates per discharge and fee schedules, respectively. Presence Health also receives incremental Medicaid reimbursement for specific programs and services at the discretion of the State of Illinois Medicaid Program. Medicaid reimbursement may be subject to periodic adjustment, as well as to changes in existing payment methodologies and rates, based on the amount of funding available to the State of Illinois Medicaid Program.

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The State of Illinois (the State) has an assessment program to assist in the financing of its Medicaid program, originally through June 30, 2013, which was extended by the State through December 31, 2013. Pursuant to this program, hospitals within the State are required to remit payment to the State Medicaid program under an assessment formula approved by the Centers for Medicare and Medicaid Services (CMS). Presence Health has included $83,165 and $83,315 as provider tax assessment expense for the years ended December 31, 2013 and 2012, respectively, in the accompanying consolidated statements of operations and change in unrestricted net assets.

The assessment program also provides hospitals within the State with additional Medicaid reimbursement based on funding formulas approved by CMS. Presence Health has included its additional related reimbursement of $130,861 and $132,935 for the years ended December 31, 2013 and 2012, respectively, within net patient and resident service revenue in the accompanying consolidated statements of operations and change in unrestricted net assets.

The State's Medicaid program entered its fiscal years beginning July 1, 2011 and 2012 with structural budget deficits. The deficits include the continued practice of deferring Medicaid bills to future periods, and have led to the State's slowdown in claims processing and payments. As of December 31, 2013 and 2012, Medicaid receivables were approximately $419,000 and $367,000, respectively, and represented approximately nine and eight months, respectively, of outstanding claims. Management continues to value these patient receivables using historical collection percentages.

As of and for the year ended December 31, 2013, Presence Health has included its related assessment of $40,841 under the Enhanced Hospital Assessment Program, retroactive to June 10, 2012, within assessments and taxes in the accompanying 2013 consolidated statement of operations and change in unrestricted net assets. The Enhanced Hospital Assessment Program provides hospitals within the State with additional Medicaid reimbursement, based on funding formulas also approved by CMS. Presence Health has included its additional related reimbursements for the year ended December 31, 2013 of $58,916, retroactive to June 10, 2012, within net patient and resident service revenue in the accompanying 2013 consolidated statement of operations and change in unrestricted net assets. The net effect of the assessment and reimbursement for the year ended December 31, 2013 is $18,075.

Blue Cross – Presence Health participates as a provider of health care services under reimbursement agreements with Blue Cross. The provisions of the indemnity plan agreements stipulate that services will be reimbursed at a tentative reimbursement rate and that final reimbursement for these services is determined after the submission of annual cost reports and reviews by Blue Cross. As of December 31, 2013, the Blue Cross cost settlements for 2013 are subject to audit and retroactive adjustment.

Managed Care – Presence Health participates as a provider of health care services under various agreements with health maintenance organizations (HMOs) and preferred provider organizations (PPOs). The terms of each contract vary, but typically include a negotiated discount offered by Presence Health for services provided to contracted HMO and PPO patients.

Capitation Revenue – PHCP receives capitation payments based on the demographic characteristics of covered members in exchange for providing all primary care physician services, as well as certain outpatient diagnostic and specialist physician services. Additionally, PHCP is eligible for incentive

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payments based on favorable utilization experience. Capitation revenue related to risk-based contracts totaled $56,204 and $33,204 for the years ended December 31, 2013 and 2012, respectively, and is included within other revenue in the accompanying consolidated statements of operations and change in unrestricted net assets. Pursuant to risk-based contracts, PHCP estimates its liability for covered medical claims, including claims incurred but not reported as of the consolidated statements of financial position dates, based upon historical costs incurred and payment processing experience. This liability approximated $4,591 and $5,040 at December 31, 2013 and 2012, respectively, and is included within accounts payable and accrued expenses in the accompanying consolidated statements of financial position.

Net patient and resident service revenue for the years ended December 31, 2013 and 2012 includes $5,555 and $11,665, respectively, of net favorable retroactively determined reimbursement settlements from prior years with third-party payors. Also included in net patient and resident service revenue for the year ended December 31, 2013 is approximately $18,200 received as part of a one-time lump sum agreement with one of its third-party payors as a retroactive rate adjustment. Net patient and resident service revenue for the year ended December 31, 2012 includes $17,572 due to a settlement from Medicare for fiscal years 2007 – 2011 related to the Rural Floor Budget Neutrality Adjustment Appeal, which was ruled on in June 2012. Also included in net patient and resident service revenue for the year ended December 31, 2012 is approximately $3,800 received as a supplemental clinical integration payment, $11,000 related to a settlement of disputes on prior years' cost reports, and retroactive rate adjustments of $4,700 with a third-party payor.

Patients' accounts receivable are reduced by an allowance for uncollectible accounts. In evaluating the collectibility of patients' accounts receivable, Presence Health analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for uncollectible accounts and provision for uncollectible accounts receivable. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for uncollectible accounts. For receivables associated with services provided to patients who have third-party coverage, Presence Health analyzes contractually due amounts and provides an allowance for uncollectible accounts and a provision for uncollectible accounts receivable, if necessary. For receivables associated with patient responsibility (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the patients are screened against the Presence Health charity care policy and uninsured discount policy. For any remaining patient responsibility balance, Presence Health records a provision for uncollectible accounts receivable in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for uncollectible accounts.

Presence Health's allowance for uncollectible accounts for self-pay patients, which includes uninsured patients and residual copayments and deductibles for which managed care has already paid, decreased from 86.5% of self-pay accounts receivable at December 31, 2012 to 85.5% of self-pay accounts receivable at December 31, 2013. In addition, Presence Health's self-pay write-offs decreased from $190,261 for the year ended December 31, 2012 to $185,517 for the year ended December 31, 2013. Presence Health does not maintain a material allowance for uncollectible accounts from third-party payors, nor did it have significant write-offs from third-party payors.

(Dollars in thousands)

Presence Health recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not quality for charity care, Presence Health recognizes revenues for services provided (on the basis of discounted rates, as provided by policy). On the basis of historical experience, a portion of Presence Health's uninsured patients will be unable or unwilling to pay for the services provided. Thus, Presence Health records a provision for uncollectible accounts receivable in the period the services are provided. Patient service revenue, net of contractual allowances and discounts (but before the provision for uncollectible accounts receivable), recognized in the period from these major payor sources is as follows:

		2013	2012
Medicare	$	1,044,624	1,178,612
Medicaid		373,017	319,965
Managed care/contract payors		950,255	847,532
Other		292,213	355,379
Net patient and resident service revenues	$	2,660,109	2,701,488

(4) Concentrations of Credit Risk

Presence Health grants credit without collateral to its patients and residents, most of whom are local residents in Presence Health's markets. The mix of receivables from patients, residents, and third-party payors at December 31, 2013 and 2012 is as follows:

	2013	2012
Medicare	28%	24%
Medicaid	29	29
Managed care/contract payors	21	27
Other	22	20
	100%	100%

(5) Charity Care

During the years ended December 31, 2013 and 2012, the estimated costs of charity care provided were $65,636 and $55,954, respectively. Cost is estimated using an overall cost to charge ratio.

(Dollars in thousands)

(6) Investments

A summary of the composition of Presence Health's investment portfolio at December 31, 2013 and 2012 is as follows:

		2013	2012
Cash and cash equivalents	$	93,677	80,087
Domestic common stocks		213,720	180,768
Foreign common stocks		76,010	72,122
Domestic equity mutual funds		103,517	100,392
Domestic fixed income mutual funds		34,541	35,336
U.S. government and agency obligations		107,060	115,347
Corporate debt securities		84,178	92,124
Mortgage-backed securities		134,255	170,705
Commercial mortgage backed securities		20,820	16,203
Asset-backed securities		24,326	29,966
Foreign debt securities		8,634	14,853
Other		2,965	1,870
Alternative investment – Lighthouse Global Long/Short Fund		83,741	77,534
Alternative investment – Aurora Offshore Fund Ltd II		77,844	76,808
	$	1,065,288	1,064,115

Presence Health has invested in alternative investments – hedge fund of funds that employ a long/short strategy. The funds are primarily invested in global equity markets and private investment funds. There are no additional funding requirements as of December 31, 2013 and 2012.

Investments are classified in the accompanying consolidated statements of financial position as follows:

		2013	2012
Assets whose use is limited or restricted, required for current liabilities	$	44,148	39,323
Assets whose use is limited or restricted, net of current portion		1,021,140	1,024,792
	$	1,065,288	1,064,115

(Continued)

(Dollars in thousands)

The composition of assets whose use is limited or restricted is as follows:

		2013	2012
Board-designated investments for reinvestment, self-insurance, and debt payments	$	975,094	959,622
Self-insurance trust		5,325	22,573
Held by trustee under bond indenture agreements		36,333	39,164
Restricted by donors		48,536	42,756
	$	1,065,288	1,064,115

The composition of investment return for the years ended December 31, 2013 and 2012 is as follows:

		2013	2012
Interest and dividend income, net of fees and expenses	$	36,869	31,278
Change in net unrealized gains on securities		50,148	38,541
Net realized gains on sale of investments		32,571	31,006
Total investment return	$	119,588	100,825

Investment returns are included in the accompanying consolidated statements of operations and change in unrestricted net assets for the years ended December 31, 2013 and 2012 as follows:

		2013	2012
Nonoperating:			
Investment income	$	119,463	99,780
Temporarily restricted net assets:			
Investment return		125	1,045
Total investment return	$	119,588	100,825

Presence Health is a member in the Premier purchasing group and maintains a cost basis investment of $1,898 and $2,063 as of December 31, 2013 and 2012, respectively, reported in other assets in the accompanying consolidated statements of financial position. Premier transacted an initial public offering (IPO) effective October 1, 2013. In connection with the IPO, Presence Health received cash proceeds of $5,816, which have been reported as investment income in the 2013 consolidated statements of operations and change in unrestricted net assets along with approximately 1,204 Class B common units.

Beginning October 31, 2014, the Class B common units are eligible for exchange evenly over a seven year period to Class A shares that are publicly traded. In order to retain the Class B common units and have the ability to exchange them, the member owner must continue to be a party to a participation agreement with Premier. As the Class B shares are converted to Class A shares, Presence Health will reflect a realized gain for the value of the shares exchanged less the pro-rata cost basis of the original cost basis investment. For

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subsequent reporting periods these Class A shares will be marked to market similar to other marketable equity securities.

(7) Fair Value Measurements

(a) Fair Value of Financial Instruments

The following methods and assumptions were used in estimating the fair value of its financial instruments:

- The carrying amount reported in the consolidated statements of financial position for the following approximates fair value because of the short maturities of these instruments: cash and cash equivalents, patient and resident accounts receivable, accounts payable and accrued expenses, and estimated payables under third-party reimbursement programs.
- Assets whose use is limited or restricted: Common stocks and direct U.S. government obligations are measured using quoted market prices at the reporting date multiplied by the quantity held. Indirect U.S. government obligations, U.S. agency obligations, corporate debt securities, mortgage-backed securities, commercial mortgage-backed securities, asset-backed securities, and foreign debt securities are measured using other observable inputs. The carrying value equals fair value.
- Presence Health elected to apply the concepts of ASC Subtopic 820-10 to its mutual funds and alternative investments using NAV as a practical expedient in estimating fair value; however, it is possible that the redemption rights of certain alternative investments may be restricted by the funds in the future in accordance with the underlying fund agreements. Changes in market conditions and the economic environment may impact the NAV of the funds and consequently the fair value of Presence Health's interest in the funds.
- Long-term debt: The fair value of fixed rate long-term debt is estimated based on quoted market prices for the same or similar issues or on the current rates offered to Presence Health for debt of the same remaining maturities. For variable rate debt, carrying amounts approximate fair value. The estimated fair value of long-term debt instruments at December 31, 2013 and 2012 is approximately $1,197,000 and $1,256,000, respectively.
- Capital leases: The fair value of capital leases is estimated based on debt of the same remaining maturities using Presence Health's incremental borrowing rate at the measurement date. The fair value of capital leases at December 31, 2013 and 2012 is $6,155 and $9,199, respectively.

(b) Fair Value Hierarchy

ASC Topic 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that Presence has the ability to access at the measurement date.
- Level 2 are observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

(Dollars in thousands)

The following table presents assets and liabilities that are measured at fair value on a recurring basis at December 31, 2013:

	Total fair value	Fair value measurements at December 31, 2012 using (Level 1)	(Level 2)	(Level 3)	Redemption frequency	Days notice
Assets:						
Assets whose use is limited or restricted, excluding pledges and other totaling $2,965 and cash and cash equivalents totaling $93,677:						
Domestic common stocks	$ 213,720	213,720	—	—	Daily	One
Foreign common stocks	76,010	76,010	—	—	Daily	One
Domestic equity mutual funds	103,517	103,517	—	—	Daily	One
Domestic fixed income mutual funds	34,541	34,541	—	—	Daily	One
U.S. government and agency obligations	107,060	98,366	8,694		Daily	One
Corporate debt securities	84,178	—	84,178	—	Daily	One
Mortgage-backed securities	134,255	—	134,255	—	Daily	One
Commercial mortgage-backed securities	20,820	—	20,820	—	Daily	One
Asset-backed securities	24,326	—	24,326	—	Daily	One
Foreign debt securities	8,634	—	8,634	—	Daily	One
Alternative investment – Lighthouse Global Long/ Short Fund	83,741	—	83,741	—	Monthly/ Quarterly	90/60
Alternative investment – Aurora Offshore Fund Ltd II	77,844	—	77,844	—	Quarterly	95
Total	$ 968,646	526,154	442,492	—		

(Dollars in thousands)

The following table presents assets and liabilities that are measured at fair value on a recurring basis at December 31, 2012:

	Total fair value	Fair value measurements at December 31, 2012 using (Level 1)	(Level 2)	(Level 3)	Redemption frequency	Days notice
Assets:						
Assets whose use is limited or restricted, excluding pledges and other totaling $1,870 and cash and cash equivalents totaling $80,087:						
Domestic common stocks	$ 180,768	180,768	—	—	Daily	One
Foreign common stocks	72,122	72,122	—	—	Daily	One
Domestic equity mutual funds	100,392	100,392	—	—	Daily	One
Domestic fixed income mutual funds	35,336	35,336	—	—	Daily	One
U.S. government and agency obligations	115,347	94,634	20,713	—	Daily	One
Corporate debt securities	92,124	—	91,913	211	Daily	One
Mortgage-backed securities	170,705	—	170,705	—	Daily	One
Commercial mortgage-backed securities	16,203	—	16,203	—	Daily	One
Asset-backed securities	29,966	—	29,966	—	Daily	One
Foreign debt securities	14,853	—	14,853	—	Daily	One
Alternative investment – Lighthouse Global Long/ Short Fund	77,534	—	77,534	—	Monthly/ Quarterly	90/60
Alternative investment – Aurora Offshore Fund Ltd II	76,808	—	76,808	—	Quarterly	95
Total	$ 982,158	483,252	498,695	211		

Presence Health recognizes transfers between levels of the fair value hierarchy in the year of the event or change in circumstances that caused the transfer. There were no transfers into or out of Level 1, Level 2, or Level 3 for the years ended December 31, 2013 and 2012.

The Level 3 asset at December 31, 2012 is an Enhanced Equipment Trust Certificate (asset-backed security) issued by a major commercial airline and secured by commercial aviation jet aircraft. Inputs to determine fair value of the securities include structure specific items that influence the bonds' principal and interest cash flows and their timing, which includes, but is not limited to principal prepayments, credit enhancements, loan to value ratios, and certain bankruptcy protections. The following table presents a reconciliation for Level 3 assets measured at fair value on a recurring basis for the years ended December 31, 2013 and 2012:

(Dollars in thousands)

	2013	2012
Beginning balance	$ 211	1,508
Net losses	—	(133)
Settlements	—	(258)
Purchases	—	224
Sales	(211)	(1,130)
Ending balance	$ —	211

(8) Land, Buildings, and Equipment

A summary of land, buildings, and equipment at December 31, 2013 and 2012 is as follows:

	2013	2012
Land	$ 91,755	90,571
Land improvements	57,371	56,776
Buildings and leasehold improvements	1,754,648	1,752,180
Equipment and furnishings	1,432,704	1,249,060
	3,336,478	3,148,587
Less accumulated depreciation and amortization for capital leases	1,984,560	1,839,806
	1,351,918	1,308,781
Construction in progress	40,142	86,978
Land, buildings, and equipment, net	$ 1,392,060	1,395,759

At December 31, 2013 and 2012, construction in progress related primarily to various information systems projects. Presence Health has outstanding contractual commitments of approximately $41,800 as of December 31, 2013 relating to these projects, which will be funded through operations and with existing funds.

(9) Capital Leases

Presence Health leases certain equipment under capital leases. Included with equipment and furnishings is $22,866 and $21,959 of assets held under capital leases and $15,265 and $5,574 of related accumulated amortization at December 31, 2013 and 2012, respectively. Capital leases are secured by the underlying equipment. A summary of future minimum lease payments and the present value of future minimum lease payments related to capital leases as of December 31, 2013 and 2012 are as follows:

(Dollars in thousands)

Year:		
2014	$	2,605
2015		1,820
2016		738
2017		581
2018		571
Thereafter		704
Total future minimum lease payments		7,019
Less amount representing interest at rates from 5.25% to 27.60%		573
Present value of future minimum lease payments		6,446
Less current portion of obligations under capital leases		2,434
Obligations under capital leases, excluding current portion	$	4,012

(10) Long-Term Debt

In 1998 Presence PRV Health (the Provena Obligated Group Member) entered into the Provena Health Master Trust Indenture (Provena MTI), under which all future obligations could be secured using the collective borrowing power of Presence PRV Health. The Provena MTI was amended various times through 2009 to add obligated group members and to establish additional covenants and provide additional security in favor of all obligation holders. Security under the Provena MTI to obligation holders included a gross revenue pledge, a mortgage on Provena's six acute care hospital facilities and certain financial covenants. The Provena MTI required members to make principal and interest payments on notes issued for their benefit as well as for other members if the other members were unable to make such payments. As of December 31, 2012, Members of the Provena Obligated Group included Presence PRV Health, Presence Hospitals and Presence Life Connections.

In 1999, Presence RHC Corporation entered into a Master Trust Indenture (RHC MTI) under which all future obligations could be secured using the collective borrowing power of Presence RHC Corporation. The RHC MTI was amended various times through 2009 to add obligated group members and to establish additional covenants and provide additional security in favor of all obligation holders. Security under the RHC MTI to obligation holders included mortgages on PRMC, PSJH and PSMEMC and certain financial covenants. The RHC MTI required members to make principal and interest payments on notes issued for their benefit as well as for other members if the other members were unable to make such payments. As of December 31, 2012, members of the RHC Obligated Group included Presence RHC Corporation, PRMC, POLR, PSFH, PSJH, and PSMEMC.

In 1997, PHFMC entered into a Master Trust Indenture (Holy Family MTI) under which all future obligations could be secured.

In May of 2013, the Provena MTI and the RHC MTI were consolidated into a single Master Trust Indenture for Presence Health (Presence Health MTI). The Presence Health MTI incorporates all covenants from the Provena MTI and RHC MTI. In instances where there were similar covenants between the Provena MTI and the RHC MTI, the Presence Health MTI incorporated the more stringent covenant. Security under the Presence Health MTI includes the pledged revenues of all Obligated Group members plus mortgages on nine acute care hospitals. The Presence Health MTI includes ten original Obligated Group Members, with Presence Health as the Obligated Group Agent. The other nine Obligated Group Members include Presence PRV Health, Presence Hospitals, Presence Life Connections, Presence RHC Corporation, PRMC, POLR, PSFH, PSJH, and PSMEMC. Unlimited Credit Group Participants include Presence Behavioral Health, Presence Ambulatory Services, Resurrection Development Foundation Board of Trustees, Presence Home Care Services, Presence RHC Senior Services, and Presence Healthcare Services.

In September 2013, the Holy Family MTI was defeased, and PHFMC was added as a member of the Presence Health Obligated Group. The Presence Health Obligated Group represents approximately 98% of consolidated operating revenues for the year ended December 31, 2013 and approximately 98% of consolidated assets as of December 31, 2013.

As of December 31, 2013, amounts outstanding under the Presence Health MTI totaled $1,113,101. As of December 31, 2012, amounts outstanding under the Provena MTI, RHC MTI and the HFMC MTI totaled $604,185, $513,890 and $27,865, respectively.

Bond issue premiums and costs are amortized over the term of the related bonds using a weighted-average method, based on outstanding debt. Bond issuance costs, net of amortization, are reported as other assets in the accompanying consolidated balance sheets.

(Dollars in thousands)

A summary of long-term debt issued through the Illinois Finance Authority (IFA) and financial institutions at December 31, 2013 and 2012 is as follows:

	2013	2012
Provena Series:		
IFA Revenue Bonds (Series 1998A) - interest was fixed at 5.125% to 5.75%. Redeemed in 2013.	—	101,685
IFA Revenue Bonds (Series 2009A) - payable annually beginning in 2026 through August 2034. Interest payable semiannually is fixed at 7.75%.	200,000	200,000
IFA Variable Rate Revenue Bonds (Series 2009B) - interest rate of 0.13% at December 31, 2012. Redeemed in 2013.	—	50,000
IFA Variable Rate Revenue Bonds (Series 2009C) - interest rate of 0.13% at December 31, 2012. Redeemed in 2013.	—	41,000
IFA Variable Rate Revenue Bonds (Series 2009D) - interest rate of 0.15% at December 31, 2012. Redeemed in 2013.	—	25,000
IFA Revenue Bonds (Series 2010A) - payable annually through May 2028. Interest payable semiannually is fixed at 5.00% to 6.25%.	100,415	104,480
IFA Revenue Bonds (Series 2010B) - interest was fixed at 6.00%. Defeased in 2013.	—	10,020
IFA Variable Rate Revenue Bonds (Series 2010C) - interest rate of 0.13% at December 31, 2012. Redeemed in 2013.	—	31,000
IFA Variable Rate Revenue Bonds (Series 2010D) - interest rate of 0.13% at December 31, 2012. Redeemed in 2013.	—	41,000
RHC Series:		
IFA Revenue Bonds (Series 1999A) - payable annually through June 2029. Interest is fixed at 4.00% to 5.50%.	91,900	96,200
IFA Revenue Bonds (Series 1999B) - payable annually through June 2029. Interest is fixed at 4.00% to 5.25%.	91,900	96,200
IFA Variable Rate Revenue Bonds (Series 2005B) - interest rate of 0.13% at December 31, 2012. Redeemed in 2013.	—	119,140
IFA Variable Rate Revenue Bonds (Series 2005C) - interest rate of 0.13% at December 31, 2012. Redeemed in 2013.	—	60,000
IFA Revenue Refunding Bonds (Series 2009) - payable annually through 2025. Interest is payable semi-annually at fixed rates ranging from 5.00% to 6.125%.	72,825	82,575
PHFMC Series:		
IFA Revenue Bonds (Series 1997B) - interest was fixed at rates ranging from 5.00% to 5.125%. Redeemed in 2013.	—	27,865

(Dollars in thousands)

		2013	2012
Presence Health Series:			
Variable Rate Direct Purchase Bonds (Series 2013A) - payable annually commencing in 2015 with final maturity in 2035. Interest rate of 1.38% at December 31, 2013.		60,000	—
Variable Rate Direct Purchase Bonds (Series 2013B) - payable annually commencing in 2035 with final maturity in 2044. Interest rate of 1.21% at December 31, 2013.		50,000	—
Variable Rate Direct Purchase Bonds (Series 2013C) - payable annually commencing in 2015 with final maturity in 2045. Interest rate of 1.28% at December 31, 2013.		55,850	—
Variable Rate Direct Purchase Bonds (Series 2013D) - payable annually commencing in 2014 with final maturity in 2045. Interest rate of 1.06% at December 31, 2013.		41,000	—
Variable Rate Direct Purchase Bonds (Series 2013E) - payable annually commencing in 2015 with final maturity in 2035. Interest rate of 1.02% at December 31, 2013.		119,140	—
Variable Rate Direct Purchase Bonds (Series 2013F) - payable annually commencing in 2035 with final maturity in 2044. Interest rate of 1.02% at December 31, 2013.		40,875	—
Bank of America Term Loan - payable annually ranging from $1,259 to $2,925 over ten years. Variable interest rates of 1.62% and 1.51% at December 31, 2013 and 2012, respectively.		95,121	59,775
PNC Term Loan - payable annually through 2023, bearing a fixed interest rate of 3.19%.		94,075	—
Other obligations:			
U.S. Department of Housing and Urban Development Mortgage Loan - payable monthly through November 2022, bearing interest at 9.25%.		967	1,034
Business Loan Agreements - payable annually starting in 2023 through 2041, bearing interest at 0.94%		14,000	14,000
Total long-term debt		1,128,068	1,160,974
Less current installments of long-term debt		33,701	31,372
Less unamortized bond premium		(4,946)	(5,472)
Less unamortized bond discount		4,572	5,574
Total long-term debt, net of current installments and unamortized bond premium/discount	$	1,094,741	1,129,500

In May of 2013, Presence Health defeased the Provena Series 2010B bonds via an additional draw of $10,020 proceeds on the Bank of America Term Loan. All future interest and principle payments due on the 2010B bonds through May 2020 (the first call date of these bonds) are on deposit in escrow with the bond trustee.

In September of 2013, Presence Health redeemed all existing variable rate demand bonds including Provena Series 2009B, 2009C, 2009D, 2010C and 2010D and RHC Series 2005B and 2005C. Each of these programs was reissued as a new tax-exempt Variable Rate Direct Purchase Bond (Presence Series 2013A through 2013F ("Series 2013 Bonds")), via a private placement offering having a bank as the bondholder. The initial purchase period of these six bond series ranges from five years to eight years, with new purchase dates extending from September 3, 2018 to September 1, 2021. Each of these series is in an Index Floating Rate Period. Under the bond documents, except for a default, there are no conditions under which the bonds can be put back to Presence Health in advance of the Initial Index Floating Rate Purchase Date. On or before the date 180 days prior to the Initial Index Floating Rate Purchase Date, Presence Health may submit, in writing, a request that the bank repurchase the bonds for an additional period. The bank may respond within 60 days. If the bank does not provide a written response to this request within 60 days, the bank is deemed to have refused the request. In connection with the Series 2013 Bonds, Presence Health entered into six separate, but substantially similar, Continuing Covenant Agreements (CCAs) with five banks. Under these CCAs, principal payments are made either in accordance with the underlying bonds or on a more accelerated basis under the CCAs. Interest is computed as a percent of one-month LIBOR plus a credit spread.

Also in September of 2013, Presence Health redeemed the PHFMC Series 1997B and Provena Series 1998A bonds. These obligations were refinanced with the proceeds of two taxable term loans. The PNC Term Loan refunded the Provena Series 1998A bonds and had original proceeds of $94,075. The PHFMC Series 1997B bonds were refinanced via an additional draw on the Bank of America Term Loan in the amount of $26,585.

As a result of the redemptions and defeasances in 2013 and 2012, a loss on refinancing was recorded amounting to $8,540 and $621, respectively, reported in the accompanying consolidated statements of operations and change in unrestricted net assets.

Presence Health's effective interest rates for variable rate debt for the years ended December 31, 2013 and 2012 are as follows:

(Dollars in thousands)

	2013	2012
Provena Series		
2009 B	0.10%	0.16%
2009 C	0.10%	0.18%
2009 D	0.10%	0.18%
2010 C	0.10%	0.16%
2010 D	0.10%	0.18%
RHC Series		
2005 B	0.10%	0.17%
2005 C	0.11%	0.19%
Presence Health Series		
2013 A	1.38%	-
2013 B	1.21%	-
2013 C	1.28%	-
2013 D	1.07%	-
2013 E	1.02%	-
2013 F	1.02%	-
Bank of America Term Loan	1.54%	1.52%

Scheduled principal repayments on long-term debt based on the scheduled redemptions according to the Presence Health MTI, the CCA minimum period and the other loan agreements are as follows:

Year ending December 31:		
2014	$	33,701
2015		36,282
2016		27,969
2017		30,872
2018		186,111
Thereafter		813,133
	$	1,128,068

Presence Health has a Revolving Credit Agreement for $25,000 with a commercial bank to provide a line of credit, secured under the Presence Health MTI through May 1, 2014. No draws under the Revolving Credit Agreement were outstanding at December 31, 2013 and 2012.

Under Section 148(f) of the Code, an issuer of tax-exempt bonds is required to rebate to the Internal Revenue Service the excess of investment income earned on all non-purpose investments made with the gross proceeds of tax-exempt bond issues over the amount, which would have been earned if such non-purpose investments had been invested at a rate equal to the interest yield on the related bond issue. There was no estimated rebate liability at December 31, 2013 and 2012.

(11) Employees' Retirement Plans

Prior to September 1, 2013, the Presence Health Retirement Program consisted of the defined contribution money purchase plan (the Defined Contribution Plan), the Provena Employees' 403(b) Retirement Savings Plan (the Savings Plan), the Provena Ventures, Inc. 401(k) Retirement Savings Plan (the 401(k) Plan), the Resurrection Health Care Retirement Plan (Retirement Plan), the West Suburban Health Care Retirement Income Plan (Income Plan), and the Provena Employees' Pension Plan (the Plan). Effective September 1, 2013, Presence Health replaced the Defined Contribution Plan and the Savings Plan with the Presence Health Retirement Savings Plan (PH Plan), a defined contribution 403(b) plan. The account balances, investment elections, and contribution elections of participants of the legacy plans were automatically transferred to the PH Plan.

In conjunction with the formation of the PH Plan, Presence Health also amended the Retirement Plan to freeze benefit accruals for all nongrandfathered participants whose benefit accruals are specifically provided for in the supplements to the Retirement Plan, effective August 31, 2013. As a result of that amendment, the remaining unrecognized prior service cost of $(289) was immediately recognized in expense.

Matching employer and base contributions under the cash balance plans (the Savings Plan, the 401(k) Plan, and the newly formed PH Plan) are funded currently and amounted to $26,472 and $19,232 for the years ended December 31, 2013 and 2012, respectively, and are included in salaries and benefits expense in the accompanying consolidated statements of operations and change in unrestricted net assets.

Resurrection Health Care Retirement Plan

Presence Health records pension cost at an amount calculated by an independent consulting actuary. Presence Health recognizes the cost related to employee service using the projected unit credit cost method. Gains and losses, calculated as the difference between estimated and actual amounts of plan assets and the projected benefit obligation, and prior service cost are amortized over the expected future service period.

(Dollars in thousands)

The following tables set forth the consolidated funded status, assumptions, and amounts recognized in the accompanying consolidated financial statements as of and for the years ended December 31, 2013 and 2012 for the Retirement Plan:

		2013	2012
Change in benefit obligation:			
Projected benefit obligation at beginning of period	$	(360,689)	(334,418)
Service cost		(13,219)	(18,390)
Interest cost		(14,009)	(14,703)
Actuarial gain (loss)		7,396	(25,620)
Benefits paid		26,221	32,442
Projected benefit obligation at end of period		(354,300)	(360,689)
Change in plan assets:			
Fair value of plan assets at beginning of period		187,737	167,688
Actual return on plan assets		33,245	21,260
Adjustments for transfers		—	(497)
Employer contributions		30,000	31,728
Benefits paid		(26,221)	(32,442)
Fair value of plan assets at end of period		224,761	187,737
Funded status	$	(129,539)	(172,952)
Amounts recognized in the accompanying consolidated statements of financial position:			
Pension benefit liability	$	(129,539)	(172,952)
Accumulated charge to unrestricted net assets		53,239	82,779
Net amount recognized	$	(76,300)	(90,173)
Accumulated benefit obligation	$	(353,994)	(360,378)

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Notes to Consolidated Financial Statements

December 31, 2013 and 2012

(Dollars in thousands)

		2013	2012
Components of net periodic benefit cost:			
Service cost	$	13,219	18,390
Expense load		509	497
Interest cost		14,009	14,703
Expected return on plan assets		(14,316)	(12,888)
Amortization of unrecognized net loss		3,737	3,631
Amortization of unrecognized prior service credit		(233)	(444)
Curtailment credit		(289)	—
Net periodic benefit cost	$	16,636	23,889
Other changes in plan assets and benefit obligation recognized in unrestricted net assets:			
Net actuarial (loss) gain	$	(26,325)	17,248
Reversal of amortization items:			
Net actuarial loss		(3,737)	(3,631)
Prior service credit		522	444
Total recognized in unrestricted net assets	$	(29,540)	14,061
Estimated future benefit payments:			
Calendar year 2014		27,053	
Calendar year 2015		25,175	
Calendar year 2016		24,191	
Calendar year 2017		23,521	
Calendar year 2018		22,876	
Calendar years 2019 – 2023		102,188	
Expected contribution during calendar year 2014	$	30,000	

(Dollars in thousands)

Presence Health contributed $30,000 to the Retirement Plan during 2013, of which $16,636 is the expense of the Retirement Plan. The estimated net actuarial loss for the Retirement Plan that will be amortized from unrestricted net assets into net periodic benefit cost during the 2014 fiscal year is $600.

	2013	2012
Weighted average assumptions used to determine benefit obligations at period end:		
Settlement (discount) rate	4.26%	3.75%
From January 1, 2013 to August 31, 2013	3.75%	
From September 1, 2013 to December 31, 2013	4.60%	
Weighted average rate of increase in future compensation levels	2.00	2.00
Weighted average assumptions used to determine net periodic benefit cost		
Discount rate	3.75%/4.60%*	4.60%
Expected return on plan assets	7.50	7.50
Rate of compensation increase	2.00	3.00

* Based on a discount rate of 3.75% as of January 1, 2013 and 4.60% as of August 31, 2013.

Presence Health's overall expected long-term rate of return on assets is 7.5%. The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based exclusively on historical returns, without adjustments.

Presence Health has developed a plan investment policy for the Retirement Plan, which has been reviewed and approved by the Presence Health Finance Committee and its Board of Directors. The policy established goals and objectives of the fund, asset allocations, asset classifications, and manager guidelines. The policy dictates a specific asset allocation between equity and fixed income securities. Investments are managed by independent advisers who are monitored by management and the Finance Committee. Presence Health monitors the asset allocation and executes required recalibrations of the portfolio allocation on a regular basis in response to fluctuations in market conditions and the overall portfolio composition.

The table below shows the target allocation and acceptable ranges and actual asset allocations as of December 31, 2013 and 2012:

(Dollars in thousands)

Asset	Target allocation	Acceptable range	Actual allocation December 31, 2013	Actual allocation December 31, 2012
Common stocks and mutual funds	60%	50%-70%	64.0%	60.8%
Fixed income securities	40%	30%-50%	33.7%	37.3%
Cash and cash equivalents	—	0%-5%	2.3%	1.9%

(a) Fair Value of Financial Instruments

Valuation methodologies used to measure fair value of plan assets for the Retirement Plan are consistent with those used by Presence Health for its general investments as previously disclosed (note 7).

(b) Fair Value Hierarchy

The Retirement Plan applies the provisions of ASC Topic 715, *Compensation – Retirement Benefits*, for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis. ASC Topic 715 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value.

(Dollars in thousands)

The following table presents the Retirement Plan's fair value hierarchy for those assets measured at fair value on a recurring basis as of December 31, 2013:

	Total	Level 1	Level 2	Level 3	Redemption frequency	Days notice
Investments, excluding cash and cash equivalents of $5,244:						
Domestic common stocks	$ 109,470	109,470	—	—	Daily	One
Foreign common stocks	33,321	33,321	—	—	Daily	One
Equity mutual funds	956	956	—	—	Daily	One
U.S. government and agency obligations	14,963	14,963	—	—	Daily	One
Corporate debt securities	31,642	—	31,642	—	Daily	One
Foreign debt securities	372	—	372	—	Daily	One
Mortgage-backed securities	19,930	—	19,799	131	Daily	One
Commercial mortgage-backed securities	7,783	—	7,783	—	Daily	One
Asset-backed securities	1,080	—	1,080	—	Daily	One
Total assets at fair value	$ 219,517	158,710	60,676	131		

(Dollars in thousands)

The following table presents the Retirement Plan's fair value hierarchy for those assets measured at fair value on a recurring basis as of December 31, 2012:

	Total	Level 1	Level 2	Level 3	Redemption frequency	Days notice
Investments, excluding cash and cash equivalents of $3,590:						
Domestic common stocks	$ 83,681	83,681	—	—	Daily	One
Foreign common stocks	30,447	30,447	—	—	Daily	One
U.S. government and agency obligations	13,335	13,335	—	—	Daily	One
Corporate debt securities	26,743	—	26,743	—	Daily	One
Foreign debt securities	556	—	556	—	Daily	One
Mortgage-backed securities	21,298	—	21,083	215	Daily	One
Commercial mortgage-backed securities	7,088	—	7,088	—	Daily	One
Asset-backed securities	999	—	999	—	Daily	One
Total assets at fair value	$ 184,147	127,463	56,469	215		

The Retirement Plan recognizes transfers between levels of the fair value hierarchy in the year of the event or change in circumstances that caused the transfer. There were no transfers into or out of Level 1, Level 2, or Level 3 for the years ended December 31, 2013 and 2012.

The Level 3 asset is a mortgage-backed security issued by the National Credit Union Association and is secured by residential mortgages. Inputs to determine fair value of the security include loan level and structure specific items that influence the bonds' principal and interest cash flows and their timing, which includes, but is not limited to, assumptions about prepayments, defaults, severities, credit enhancement, and discount rate. There are no redemption frequency or notice restrictions with this security. The following table presents a reconciliation for Level 3 assets measured at fair value on a recurring basis for the years ended December 31, 2013 and 2012:

	2013	2012
Beginning balance	$ 215	302
Net gains	1	15
Settlements	(85)	(97)
Purchases	—	10
Sales	—	(15)
Ending balance	$ 131	215

(Continued)

(Dollars in thousands)

West Suburban Health Care Retirement Income Plan

The Income Plan is a noncontributory defined benefit pension plan, for which the board of directors of WSMC authorized the curtailment of the Income Plan effective January 1, 2002. As a result of the curtailment, participation in the Income Plan is limited to participants entering on or before January 1, 2002, and no new benefits will accrue to participants subsequent to that date. Gains and losses, calculated as the difference between estimated and actual amounts of plan assets and the projected benefit obligation, are amortized over the expected future service period. Presence Health has maintained responsibility for the Income Plan subsequent to the asset divestitures.

A summary of the changes in the projected benefit obligation and plan assets and the resulting funded status of the Income Plan is as follows at December 31, 2013 and 2012 (measurement date):

		2013	2012
Change in benefit obligation:			
Projected benefit obligation at beginning of period	$	(90,040)	(79,405)
Interest cost		(3,705)	(3,930)
Actuarial gain (loss)		6,463	(9,726)
Benefits paid		3,321	3,021
Projected benefit obligation at end of period	$	(83,961)	(90,040)
Change in plan assets:			
Fair value of plan assets at beginning of period	$	65,411	55,850
Actual return on plan assets		11,204	6,897
Employer contributions		4,105	5,685
Benefits paid		(3,321)	(3,021)
Fair value of plan assets at end of period	$	77,399	65,411
Funded status	$	(6,562)	(24,629)
Amount recognized in the accompanying consolidated statements of financial position:			
Pension benefit liability	$	(6,562)	(24,629)
Accumulated charge to unrestricted net assets		26,848	41,152
Net amount recognized	$	20,286	16,523
Components of net periodic benefit cost:			
Interest cost	$	3,705	3,930
Expected return on plan assets		(4,539)	(3,969)
Amortization of unrecognized net loss		1,173	973
Net periodic benefit cost	$	339	934

(Dollars in thousands)

		2013	2012
Other changes in plan assets and benefit obligation recognized in unrestricted net assets:			
Net actuarial (loss) gain	$	(13,131)	6,798
Reversal of amortization item:			
Net actuarial loss		(1,173)	(973)
Total recognized in unrestricted net assets	$	(14,304)	5,825
Estimated future benefit payments:			
Calendar year 2014	$	3,857	
Calendar year 2015		4,065	
Calendar year 2016		4,279	
Calendar year 2017		4,421	
Calendar year 2018		4,645	
Calendar years 2019 – 2023		25,878	
Expected contributions during calendar year 2014:			
Minimum required contribution	$	1,453	
Weighted average assumptions used to determine benefit obligations:			
Settlement (discount) rate		4.75%	4.20%
Weighted average assumptions used to determine net periodic benefit cost:			
Discount rate		4.20%	5.05%
Expected return on plan assets		7.00	7.00

Presence Health contributed $4,105 to the Income Plan during 2013, of which $339 is the expense of the Income Plan. The estimated net actuarial loss for the Income Plan that will be amortized from unrestricted net assets into net periodic benefit cost during the 2014 fiscal year is $700.

The Income Plan's overall expected long-term rate of return on assets is 7.0%. The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based exclusively on historical returns, without adjustments.

Presence Health has developed a plan investment policy for the Income Plan, which has been reviewed and approved by the Presence Health Finance Committee and its Board of Directors. The policy established goals and objectives of the fund, asset allocations, asset classifications, and manager guidelines. The policy dictates a specific asset allocation between equity and fixed income securities. Investments are managed by independent advisers who are monitored by management and the Finance Committee. Presence Health monitors the asset allocation and executes required recalibrations of the portfolio allocation on a regular basis in response to fluctuations in market conditions and the overall portfolio composition.

The table below shows the target allocation and acceptable ranges and actual asset allocations as of December 31, 2013 and 2012:

(Continued)

(Dollars in thousands)

Asset	Target allocation	Acceptable range	Actual allocation December 31, 2013	Actual allocation December 31, 2012
Common stocks and mutual funds	60%	50%-70%	63.3%	57.5%
Fixed income securities	40%	30%-50%	34.8%	39.7%
Cash and cash equivalents	—	0%-5%	1.9%	2.6%

(a) Fair Value of Financial Instruments

Valuation methodologies used to measure fair value of plan assets for the Income Plan are consistent with those used by Presence Health for its general investments as previously disclosed (note 7).

(b) Fair Value Hierarchy

The Income Plan applies the provisions of ASC Topic 715.

The following table presents the Income Plan's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of December 31, 2013:

	Total	Level 1	Level 2	Level 3	Redemption frequency	Days notice
Investments, excluding cash and cash equivalents of $1,498:						
Domestic common stocks	$ 37,418	37,418	—	—	Daily	One
Foreign common stocks	11,221	11,221	—	—	Daily	One
Equity mutual funds	317	317			Daily	One
U.S. government and agency obligations	5,665	5,268	397	—	Daily	One
Corporate debt securities	10,339	—	10,339	—	Daily	One
Foreign debt securities	111	—	111	—	Daily	One
Mortgage-backed securities	7,202	—	7,202	—	Daily	One
Commercial mortgage-backed securities	2,460	—	2,460	—	Daily	One
Asset-backed securities	1,168	—	1,168	—	Daily	One
	$ 75,901	54,224	21,677	—		

(Continued)

(Dollars in thousands)

The following table presents the Income Plan's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of December 31, 2012:

	Total	Level 1	Level 2	Level 3	Redemption frequency	Days notice
Investments, excluding cash and cash equivalents of $1,714:						
Domestic common stocks	$ 27,785	27,785	—	—	Daily	One
Foreign common stocks	9,921	9,921	—	—	Daily	One
U.S. government and agency obligations	4,630	4,414	216	—	Daily	One
Corporate debt securities	8,709	—	8,709	—	Daily	One
Foreign debt securities	120	—	120	—	Daily	One
Mortgage-backed securities	8,737	—	8,737	—	Daily	One
Commercial mortgage-backed securities	2,222	—	2,222	—	Daily	One
Asset-backed securities	1,573	—	1,573	—	Daily	One
	$ 63,697	42,120	21,577	—		

The Income Plan recognizes transfers between levels of the fair value hierarchy in the year of the event or change in circumstances that caused the transfer. There were no transfers into or out of Level 1, Level 2, or Level 3 for the years ended December 31, 2013 and 2012.

Provena Health Employees' Pension Plan

The Plan was frozen effective December 31, 2003 and only specified grandfathered employees remained as active participants in the Plan. Presence Health recognizes the cost related to the Plan using the Projected Unit Credit cost method. Gains and losses, calculated as the difference between estimates and actual amounts of plan assets and the projected benefit obligation, were amortized over the expected future service period through 2004. Effective January 1, 2005, the amortization period was changed to the average remaining life expectancy of inactive participants.

Presence Health accounts for the Plan in accordance with ASC Topic 715.

(Dollars in thousands)

The following table sets forth the Plan's funded status, amounts recognized in the accompanying consolidated financial statements, and assumptions at the Plan's measurement date, December 31:

		2013	2012
Change in benefit obligation:			
Projected benefit obligation at beginning of period	$	(532,625)	(501,479)
Service cost		(1,917)	(2,011)
Interest cost		(19,221)	(20,195)
Actuarial gain (loss)		39,300	(30,942)
Benefits paid		24,894	22,002
Projected benefit obligation at end of period	$	(489,569)	(532,625)
Change in plan assets:			
Fair value of plan assets at beginning of period	$	374,796	354,766
Actual return on plan assets		65,609	42,032
Expenses paid		(587)	—
Benefits paid		(24,894)	(22,002)
Fair value of plan assets at end of period	$	414,924	374,796
Funded status	$	(74,645)	(157,829)

(Continued)

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Notes to Consolidated Financial Statements

December 31, 2013 and 2012

(Dollars in thousands)

		2013	2012
Amounts recognized in the accompanying consolidated statements of financial position:			
Pension benefit liability	$	(74,645)	(157,829)
Accumulated charge to unrestricted net assets:		211,601	294,262
Net amount recognized	$	136,956	136,433
Components of net periodic benefit cost (benefit):			
Service cost	$	1,917	2,011
Interest cost		19,221	20,195
Expected return on plan assets		(30,847)	(29,223)
Amortization of unrecognized net actuarial loss		9,186	8,927
Net periodic benefit cost	$	(523)	1,910
Changes in plan assets and benefit obligations recognized in unrestricted net assets:			
Net actuarial (loss) gain	$	(73,475)	18,133
Amortization of actuarial loss		(9,186)	(8,927)
Total recognized in unrestricted net assets	$	(82,661)	9,206
Estimate of amounts that will be amortized from unrestricted net assets to net pension cost in 2014:			
Net actuarial loss	$	5,900	9,276
Estimated future benefit payments:			
Calendar year 2014	$	25,076	23,719
Calendar year 2015		26,622	25,029
Calendar year 2016		28,045	26,408
Calendar year 2017		29,317	27,705
Calendar year 2018		30,436	28,862
Calendar year 2019 – 2023		164,381	156,876
Weighted average assumptions used to determine benefit obligations:			
Discount rate – benefit obligations		4.50%	3.61%
Rate of compensation increase		2.00	2.00
Weighted average assumptions used to determine net periodic benefit cost:			
Discount rate		3.61	4.15
Expected return on plan assets		8.50	8.50
Rate of compensation increase		2.00	2.00

(Continued)

(Dollars in thousands)

Presence Health's overall expected long-term rate of return on assets is 8.5%. The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based exclusively on historical returns, without adjustments.

Presence Health does not expect to make any contributions to the Plan during 2014.

Presence Health has developed a plan investment policy for the Plan, which has been reviewed and approved by the Presence Health Finance Committee and its Boards of Directors. The policy established goals and objectives of the fund, asset allocations, asset classifications, and manager guidelines. The policy dictates a specific asset allocation between equity and fixed income securities. Investments are managed by independent advisers who are monitored by management and the Finance Committee. Presence Health monitors the asset allocation and executes required recalibrations of the portfolio allocation on a regular basis in response to fluctuations in market conditions and the overall portfolio composition.

The table below shows the target allocation and acceptable ranges and actual asset allocations as of December 31, 2013:

Asset	Target allocation	Acceptable range	Actual allocation December 31, 2013	Actual allocation December 31, 2012
Common stocks and mutual funds	60%	55%-65%	68%	65%
Fixed income securities and cash equivalents	40%	35%-45%	32%	35%

Presence Health monitors the asset allocation and executes required recalibrations of the portfolio allocation on a regular basis in response to fluctuations in market conditions and the overall portfolio composition.

(a) Fair Value of Financial Instruments

Valuation methodologies used to measure fair value of plan assets for the Plan are consistent with those used by Presence Health for its general investments as previously disclosed (note 7).

(Continued)

(Dollars in thousands)

(b) *Fair Value Hierarchy*

The following table presents the Plan's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of December 31, 2013:

	Total	Level 1	Level 2	Level 3	Redemption frequency	Days notice
Investments, excluding cash and cash equivalents of $4,264:						
Domestic equity common stocks	$ 65,024	65,024	—	—	Daily	One
Foreign common stocks	2,364	2,364	—	—	Daily	One
Domestic equity mutual funds	212,251	212,251	—	—	Daily	One
U.S. government and agency obligations	36,997	33,504	3,493	—	Daily	One
Corporate debt securities	20,605	—	20,605	—	Daily	One
Foreign debt securities	4,093	—	4,093	—	Daily	One
Mortgage-backed securities	57,311	—	57,311	—	Daily	One
Commercial mortgage-backed securities	6,432	—	6,432	—	Daily	One
Asset-backed securities	5,583	—	5,583	—	Daily	One
Total	$ 410,660	313,143	97,517	—		

(Continued)

(Dollars in thousands)

The following table presents the Plan's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of December 31, 2012:

	Total	Level 1	Level 2	Level 3	Redemption frequency	Days notice
Investments, excluding cash and cash equivalents of $6,886:						
Domestic equity common stocks	$ 55,360	55,360	—	—	Daily	One
Foreign common stocks	1,094	1,094	—	—	Daily	One
Domestic equity mutual funds	190,869	190,869	—	—	Daily	One
U.S. government and agency obligations	34,165	28,943	5,222	—	Daily	One
Corporate debt securities	22,526	—	22,450	76	Daily	One
Foreign debt securities	4,940	—	4,940	—	Daily	One
Mortgage-backed securities	51,442	—	51,442	—	Daily	One
Commercial mortgage-backed securities	4,483	—	4,483	—	Daily	One
Asset-backed securities	3,031	—	3,031	—	Daily	One
Total	$ 367,910	276,266	91,568	76		

The Plan recognizes transfers between levels of the fair value hierarchy in the year of the event or change in circumstances that caused the transfer. There were no transfers into or out of Level 1, Level 2, or Level 3 for the years ended December 31, 2013 and 2012.

(Dollars in thousands)

The Level 3 asset at December 31, 2012 is a corporate bond security issued by Consolidated Edison Company of New York (Con Ed of NY), a regulated utility. The bonds are unsecured general obligations of Con Ed of NY ranking equally and ratably in right of payment with other unsecured debt securities of Con Ed of NY issued under the Indenture that are not subordinated obligations of Con Ed of NY and the unsecured promissory notes of Con Ed of NY issued by New York State Energy Research and Development Authority. Inputs to determine fair value of the security include structure specific items that influence the bonds' principal and interest cash flows and their timing, which includes, but is not limited to, assumptions about repayment, defaults, and severities. There are no redemption frequency or notice restrictions with this security. The following table presents a reconciliation for Level 3 assets measured at fair value on a recurring basis for the years ended December 31, 2013 and 2012:

		2013	2012
Beginning balance	$	76	—
Net gains		—	2
Settlements		—	—
Purchases		—	74
Sales		(76)	—
Ending balance	$	—	76

(12) Self-Insurance

(a) Professional and General Liability

Presence Health is self-insured for professional and general liability claims up to specified limits arising from incidents occurring after dates of entry into the program, which vary by corporation. Excess insurance coverage was occurrence based through various dates, which over time has been changed to claims-made-based coverage. There are no assurances that Presence Health will be able to renew existing excess policies or procure coverage on similar terms in the future.

Presence Health is involved in litigation arising in the ordinary course of business. Claims alleging malpractice have been asserted and are currently in various stages of litigation. Provisions for professional and general liability claims include the ultimate cost of known claims and claims incurred but not reported as of the respective consolidated statements of financial position dates. It is the opinion of management that the estimated malpractice liabilities accrued at December 31, 2013 and 2012 are adequate to provide for the ultimate cost of potential losses resulting from pending or threatened litigation; however, such estimates may be more or less than the amounts ultimately paid when claims are resolved. Accruals for professional and general liabilities are recorded on an undiscounted basis. Professional and general liability expense amounted to $21,678 and $(9,398) for the years ended December 31, 2013 and 2012, respectively, and is included in insurance expense in the accompanying consolidated statements of operations and change in unrestricted net assets.

The accrued liability estimated for self-insured professional and general liability claims is $262,481 and $286,747 at December 31, 2013 and 2012, respectively. All self-insured malpractice and general claim liabilities are reported as long-term liabilities as the portion expected to be paid within one year is not readily determinable.

Professional insurance consultants have been retained to determine funding requirements for the Provena self-insurance program. The amounts funded have been placed in an irrevocable trust account administered by a trustee. The trust assets are included within assets whose use is limited or restricted in the accompanying consolidated statements of financial position.

(b) Workers' Compensation

Presence Health administers self-insurance programs for workers' compensation coverage that covers all entities except for two long-term care and residential facilities in Indiana, which are commercially insured. These programs limit the self-insured retention to specific amounts on a per occurrence basis. Coverage from commercial insurance carriers is maintained for claims in excess of the self-insured retention. Accrued workers' compensation claims amounted to $25,895 and $24,742 at December 31, 2013 and 2012, respectively. Management believes the estimated self-insured workers' compensation claims liability at December 31, 2013 and 2012 is adequate to cover the ultimate liability; however, such estimate may be more or less than the amounts ultimately paid when claims are resolved. The portion of workers' compensation claims expected to be paid beyond one year of the consolidated statements of financial position dates is not readily determinable, and therefore, the entire accrual is classified as a current liability included within current portion of estimated self-insurance liabilities in the accompanying consolidated statements of financial position. Workers' compensation self-insurance expense amounted to $13,199 and $11,891 for the years ended December 31, 2013 and 2012, respectively, and is included in salaries and benefits expense in the accompanying consolidated statements of operations and change in unrestricted net assets.

Professional insurance consultants have been retained to determine funding requirements for the Provena workers' compensation self-insurance program. The trust assets and the related liabilities are included in the accompanying consolidated statements of financial position.

(c) Health Care

Presence Health maintains a program of self-insurance for employee health coverage. Stop-loss reinsurance coverage is maintained for claims in excess of stop-loss limits. Accrued self-insured employee health care claims amounted to $5,527 and $6,739 December 31, 2013 and 2012, respectively, and are included within the current portion of estimated self-insurance liabilities in the accompanying consolidated statements of financial position based on the short term payment cycle related to health claims. It is the opinion of management that the estimated health care costs accrued at December 31, 2013 and 2012 are adequate to provide for the ultimate liability; however, final payouts as claims are paid may vary significantly from estimated claim liabilities.

(Continued)

(13) Commitments and Contingencies

(a) *Medicare Reimbursement*

For the years ended December 31, 2013 and 2012, Presence Health recognized $1,044,624 and $1,178,612, respectively, of net patient and resident service revenue from services provided to Medicare beneficiaries. Federal legislation has routinely included provisions to reduce Medicare payments to health care providers.

Presence Health has received and responded to requests from the Medicare program requiring that Presence Health provide Medicare with documentation for claims to carry out the Recovery Audit Contracting (RAC) program.

(b) *Litigation*

Presence Health is involved in litigation and regulatory investigations arising in the normal course of business. In consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the consolidated financial position or results from operations.

(c) *Regulatory Investigations and Overpayments*

The U.S. Department of Justice (DOJ) and other federal agencies routinely conduct regulatory investigations and compliance audits of health care providers. Presence Health is subject to these regulatory efforts. Additionally, the laws and regulations governing the Medicare, Medicaid, and other government health care programs are extremely complex and subject to interpretation, making compliance an ongoing challenge for Presence Health and other health care organizations. Recently the federal government has increased its enforcement activity, including audits and investigations related to billing practices, clinical documentation, and related matters. Presence Health maintains a system-wide compliance program and conducts audits and other activities to identify potential compliance issues, including overpayments to governmental payors.

(d) *The Patient Protection and Affordable Care Act and Other Enacted Legislation*

The Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010 (often referred to, collectively, as the Affordable Care Act of the health care reform law), was signed into law on March 23, 2010. The statute will change how health care services are delivered and reimbursed through a variety of mechanisms. The law contains stronger anti-fraud enforcement provisions and provides additional funding for enforcement activity.

On May 6, 2011, the Centers for Medicare and Medicaid Services issued the final rule establishing a hospital value-based purchasing program (VBP) for acute care hospitals paid under the Medicare Inpatient Prospective Payment System. Beginning in federal fiscal year 2013, value-based incentive payments are made based upon a provider's achievement of or improvement in a set of clinical and quality measures designed to foster improved clinical outcomes. The VBP will start with a 1% reduction in Medicare inpatient payments in federal fiscal year 2013 that will increase annually by

(Dollars in thousands)

0.25% up to 2% of payments by federal fiscal year 2017. These value based incentives are withheld and redistributed based on the hospital performance.

The Budget Control Act of 2011 (BCA) mandated significant reductions and spending caps on the federal budget for fiscal years 2012 through 2021. The BCA also created a joint select committee on deficit reduction (the Super Committee) to develop a plan to further reduce the federal deficit. Since the Super Committee failed to act before the mandatory deadline, a 2% reduction in Medicare spending, among other reductions, was to take effect January 1, 2013 in a process known as Sequestration. The BCA also required a 26.5% reduction in the sustainable growth rate formula regarding physician reimbursement under Medicare to be effective January 1, 2013.

On January 2, 2013, the President signed into law the American Taxpayers Relief Act (ATRA), which delayed Sequestration until March 1, 2013 and is now in effect as of March 1, 2013 and will continue until Congress takes further action. The ATRA delays the reduction in physician reimbursement until the end of 2013. As such, only the 2% reduction for nonphysician payments was effective April 1, 2013. On April 1, 2014, the President signed into law the Protecting Access to Medicare Act of 2014, which further delayed any cuts to Medicare reimbursement rates until March, 2015.

Presence Health continues to monitor the impact of these regulations.

(e) Operating Leases

Presence Health leases various equipment and facilities under operating leases expiring at various dates through 2023. Total lease expense for the years ended December 31, 2013 and 2012 for all operating leases was approximately $21,065 and $16,895, respectively.

The following is a schedule by year of future minimum lease payments for the next five years and thereafter under operating leases as of December 31, 2013 and 2012 that have initial or remaining lease terms in excess of one year:

2014	$	14,915
2015		12,172
2016		9,811
2017		8,118
2018		7,417
Thereafter		33,546
	$	85,979

(f) *Property and Sales Tax Exemption Legislation*

On June 14, 2012, the Governor of Illinois signed into law *Public Act 97-068*, which creates new standards for property and sales tax exemptions for hospitals and hospital affiliates in Illinois. The law establishes new eligibility standards for the issuance of such exemptions, including requirements for a nonprofit hospital to certify annually that in the prior year it provided an amount of qualified services and activities to low-income and underserved individuals having a value at least equal to the hospital's estimated property tax liability. Presence Health expects that local assessors will begin requesting that its hospital and certain affiliated corporations begin certifying in 2015 and has not recorded a liability for related property taxes based upon management's current determination that such hospital entities will remain eligible for property and sales tax exemption based on the amount of qualified services provided.

Presence Health entities are exempt from sales tax and property tax based on their not-for-profit charitable status, except for Presence Ambulatory Services, which has applied for but not yet received approval of its exemption for sales tax. Under *Public Act 97-608*, the test for both sales tax exemption for hospital corporations and certain affiliated corporations will be the same, as described above. Management believes that its hospitals and hospital affiliated corporations qualify for both property and sales tax exemption under the new law.

(g) *Investment Risks and Uncertainties*

Presence Health invests in various investment securities. Investment securities are exposed to various risks such as interest rate, credit, and overall market volatility risks. Due to the level of risk associated with certain investment securities and current market conditions, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the accompanying consolidated statements of financial position.

(14) Subsequent Events

In connection with the preparation of the consolidated financial statements and in accordance with ASC Topic 855, *Subsequent Events*, Presence Health evaluated subsequent events after the consolidated statements of financial position date of December 31, 2013 through May 16, 2014, which was the date the financial statements were issued.

Schedule 1

PRESENCE HEALTH NETWORK AND AFFILIATES

Consolidating Statement of Financial Position Information

December 31, 2013

(In thousands)

Assets		**Presence Mercy Medical Center**	**Presence United Samaritans Medical Center**	**Presence Saint Joseph Hospital - Elgin**	**Presence Saint Joseph Medical Center**	**Presence Saint Mary's Hospital**	**Presence Covenant Medical Center**	**Presence Resurrection Medical Center**
Current assets:								
Cash and cash equivalents	$	6,486	5,553	6,576	18,576	7,839	9,650	32,074
Assets whose use is limited or restricted – required for current liabilities		—	—	—	—	—	—	—
Patient and resident accounts receivable, less allowance for uncollectible accounts		32,982	16,143	22,614	72,291	27,720	25,628	39,753
Inventories		4,303	2,165	4,151	7,949	3,441	3,906	3,802
Prepaid expenses and other current assets		2,069	2,431	1,082	3,335	2,453	3,758	1,737
Assets held for sale		—	—	—	—	—	—	—
Due from affiliates		2,983	1,263	1,945	5,054	1,531	339	764,735
Total current assets		48,823	27,555	36,368	107,205	42,984	43,281	842,101
Assets whose use is limited or restricted		6,418	5,923	3,396	2,929	3,169	7,075	—
Land, buildings, and equipment, net		65,653	26,541	48,673	227,898	48,722	44,017	21,905
Other assets		956	1,271	511	2,833	189	90	4,196
Total assets	$	121,850	61,290	88,948	340,865	95,064	94,463	868,202
Liabilities and Net Assets								
Current liabilities:								
Current installments of long-term debt	$	—	—	—	—	—	—	—
Current portion of obligations under capital leases		111	163	101	946	344	195	—
Current portion of estimated self-insurance liabilities		—	—	—	—	—	—	9,259
Accounts payable and accrued expenses		12,557	8,471	9,269	23,701	8,694	14,675	78,628
Estimated payables under third-party reimbursement programs		13,708	4,282	10,994	36,494	7,453	9,000	27,985
Deferred revenue and refundable deposits		—	—	—	—	—	—	—
Other		1,724	775	1,337	1,211	479	2,150	—
Due to affiliates		9,530	7,598	11,068	14,382	10,294	3,471	310,518
Total current liabilities		37,630	21,289	32,769	76,734	27,264	29,491	426,390
Long-term debt, excluding current installments and unamortized bond premiums and discounts		—	—	—	—	—	—	—
Obligations under capital leases, net of current portion		548	138	447	981	1,750	148	—
Pension benefit liability		—	—	—	—	—	—	136,101
Estimated self-insurance liabilities, excluding current portion		—	—	—	—	—	—	46,717
Other long-term liability		2,944	360	337	3,330	931	389	—
Total liabilities		41,122	21,787	33,553	81,045	29,945	30,028	609,208
Net assets:								
Unrestricted								
Unrestricted net assets (deficit) of Presence Health		78,327	37,838	53,503	257,441	61,950	62,677	258,994
Noncontrolling interest in subsidiaries		—	—	—	—	—	—	—
Total unrestricted net assets (deficit)		78,327	37,838	53,503	257,441	61,950	62,677	258,994
Temporarily restricted		1,960	1,513	1,271	2,184	3,150	1,631	—
Permanently restricted		441	152	621	195	19	127	—
Total net assets (deficit)		80,728	39,503	55,395	259,820	65,119	64,435	258,994
Total liabilities and net assets (deficit)	$	121,850	61,290	88,948	340,865	95,064	94,463	868,202

(Continued)

Schedule 1 (Continued)

PRESENCE HEALTH NETWORK AND AFFILIATES

Consolidating Statement of Financial Position Information

December 31, 2013

(In thousands)

Assets		Presence Our Lady of the Resurrection Medical Center	Presence Holy Family Medical Center	Presence Saint Francis Hospital	Presence Saint Joseph Hospital - Chicago	Presence Saints Mary and Elizabeth Medical Center	Presence Medical Group – PRV	Presence Healthcare Services
Current assets:								
Cash and cash equivalents	$	36	7	3,872	86	481	119	311
Assets whose use is limited or restricted – required for current liabilities		—	—	—	—	—	—	—
Patient and resident accounts receivable, less allowance for uncollectible accounts		21,105	16,869	23,963	29,001	35,885	4,292	12,690
Inventories		1,743	1,086	4,198	3,955	3,988	—	446
Prepaid expenses and other current assets		1,154	93	40	658	4,067	2,270	5,853
Assets held for sale		—	—	—	—	—	—	—
Due from affiliates		10,278	336	132,371	9,973	178,459	668	310,548
Total current assets		34,316	18,391	164,444	43,673	222,880	7,349	329,848
Assets whose use is limited or restricted		—	—	—	—	2,541	—	—
Land, buildings, and equipment, net		24,630	22,472	53,026	70,899	91,139	1,653	92,575
Other assets		1,281	369	2,885	2,821	4,232	591	4,321
Total assets	$	60,227	41,232	220,355	117,393	320,792	9,593	426,744
Liabilities and Net Assets								
Current liabilities:								
Current installments of long-term debt	$	—	—	—	—	—	—	—
Current portion of obligations under capital leases		—	—	—	—	—	—	—
Current portion of estimated self-insurance liabilities		—	—	—	—	—	—	—
Accounts payable and accrued expenses		1,208	326	1,899	1,382	7,502	6,044	7,558
Estimated payables under third-party reimbursement programs		7,736	6,827	12,728	32,720	10,004	—	—
Deferred revenue and refundable deposits		—	—	—	—	—	—	—
Other		—	—	—	—	—	433	—
Due to affiliates		620	48,587	1,774	1,594	1,905	2,077	523,499
Total current liabilities		9,564	55,740	16,401	35,696	19,411	8,554	531,057
Long-term debt, excluding current installments and unamortized bond premiums and discounts		—	—	—	—	14,000	—	—
Obligations under capital leases, net of current portion		—	—	—	—	—	—	—
Pension benefit liability		—	—	—	—	—	—	—
Estimated self-insurance liabilities, excluding current portion		16,456	3,760	27,168	22,598	35,418	—	—
Other long-term liability		—	—	—	—	11	176	—
Total liabilities		26,020	59,500	43,569	58,294	68,840	8,730	531,057
Net assets:								
Unrestricted								
Unrestricted net assets (deficit) of Presence Health		34,207	(18,268)	176,786	59,099	244,952	863	(104,313)
Noncontrolling interest in subsidiaries		—	—	—	—	—	—	—
Total unrestricted net assets (deficit)		34,207	(18,268)	176,786	59,099	244,952	863	(104,313)
Temporarily restricted		—	—	—	—	7,000	—	—
Permanently restricted		—	—	—	—	—	—	—
Total net assets (deficit)		34,207	(18,268)	176,786	59,099	251,952	863	(104,313)
Total liabilities and net assets (deficit)	$	60,227	41,232	220,355	117,393	320,792	9,593	426,744

(Continued)

PRESENCE HEALTH NETWORK AND AFFILIATES

Consolidating Statement of Financial Position Information

December 31, 2013

(In thousands)

Assets	Presence Life Connections	Presence RHC Senior Services	Resurrection Development Foundation	Presence Health Care Preferred	Presence Home Care Services	Presence Ventures, Inc.	Resurrection University
Current assets:							
Cash and cash equivalents	$ 18,534	2,502	657	—	—	1,298	184
Assets whose use is limited or restricted – required for current liabilities	—	—	—	—	—	—	—
Patient and resident accounts receivable, less allowance for uncollectible accounts	18,140	23,116	—	—	1,991	—	3,231
Inventories	800	665	—	—	—	—	—
Prepaid expenses and other current assets	704	708	1,112	687	—	113	44
Assets held for sale	—	4,500	—	—	—	—	—
Due from affiliates	4	158,000	31,000	4,241	—	1	1,865
Total current assets	38,182	189,491	32,769	4,928	1,991	1,412	5,324
Assets whose use is limited or restricted	9,512	1	386	—	—	—	—
Land, buildings, and equipment, net	57,329	103,037	—	9,411	319	5,607	154
Other assets	334	2,554	82	—	4,540	—	—
Total assets	$ 105,357	295,083	33,237	14,339	6,850	7,019	5,478
Liabilities and Net Assets							
Current liabilities:							
Current installments of long-term debt	$ 73	—	—	—	—	—	—
Current portion of obligations under capital leases	—	—	—	—	—	—	—
Current portion of estimated self-insurance liabilities	—	—	—	—	—	—	—
Accounts payable and accrued expenses	16,209	6,292	—	21,558	1,366	192	253
Estimated payables under third-party reimbursement programs	(729)	3,533	—	—	—	—	—
Deferred revenue and refundable deposits	—	32,982	—	—	—	—	3,507
Other	2,059	—	—	—	—	304	—
Due to affiliates	9,155	63,414	176	—	11,150	—	11
Total current liabilities	26,767	106,221	176	21,558	12,516	496	3,771
Long-term debt, excluding current installments and unamortized bond premiums and discounts	894	—	—	—	—	—	—
Obligations under capital leases, net of current portion	—	—	—	—	—	—	—
Pension benefit liability	—	—	—	—	—	—	—
Estimated self-insurance liabilities, excluding current portion	—	—	—	—	—	—	—
Other long-term liability	1,107	656	—	—	—	—	—
Total liabilities	28,768	106,877	176	21,558	12,516	496	3,771
Net assets:							
Unrestricted							
Unrestricted net assets (deficit) of Presence Health	75,143	188,206	6,625	(7,219)	(5,666)	6,523	1,707
Noncontrolling interest in subsidiaries	—	—	—	—	—	—	—
Total unrestricted net assets (deficit)	75,143	188,206	6,625	(7,219)	(5,666)	6,523	1,707
Temporarily restricted	1,203	—	12,526	—	—	—	—
Permanently restricted	243	—	13,910	—	—	—	—
Total net assets (deficit)	76,589	188,206	33,061	(7,219)	(5,666)	6,523	1,707
Total liabilities and net assets (deficit)	$ 105,357	295,083	33,237	14,339	6,850	7,019	5,478

(Continued)

PRESENCE HEALTH NETWORK AND AFFILIATES

Consolidating Statement of Financial Position Information

December 31, 2013

(In thousands)

Assets	Presence Behavioral Health	Presence Health Corporate	Alverno	Eliminations	Consolidated totals
Current assets:					
Cash and cash equivalents	$ 607	76,608	616	—	192,672
Assets whose use is limited or restricted – required for current liabilities	—	44,148	—	—	44,148
Patient and resident accounts receivable, less allowance for uncollectible accounts	1,257	—	—	—	428,671
Inventories	—	—	1,428	—	48,026
Prepaid expenses and other current assets	26	29,518	8,063	(4,832)	67,143
Assets held for sale	—	—	—	—	4,500
Due from affiliates	14,509	145,879	—	(1,775,982)	—
Total current assets	16,399	296,153	10,107	(1,780,814)	785,160
Assets whose use is limited or restricted	17	975,756	22,109	(18,092)	1,021,140
Land, buildings, and equipment, net	2,648	366,703	7,049	—	1,392,060
Other assets	—	81,991	—	(36,709)	79,338
Total assets	$ 19,064	1,720,603	39,265	(1,835,615)	3,277,698
Liabilities and Net Assets					
Current liabilities:					
Current installments of long-term debt	$ —	33,628	—	—	33,701
Current portion of obligations under capital leases	—	574	—	—	2,434
Current portion of estimated self-insurance liabilities	—	22,163	—	—	31,422
Accounts payable and accrued expenses	385	71,791	16,194	—	316,154
Estimated payables under third-party reimbursement programs	148	(2,439)	—	—	180,444
Deferred revenue and refundable deposits	573	—	—	(222)	36,840
Other	—	28,273	10,065	(22,924)	25,886
Due to affiliates	14,704	730,445	—	(1,775,972)	—
Total current liabilities	15,810	884,435	26,259	(1,799,118)	626,881
Long-term debt, excluding current installments and unamortized bond premiums and discounts	—	1,079,847	—	—	1,094,741
Obligations under capital leases, net of current portion	—	—	—	—	4,012
Pension benefit liability	—	74,645	—	—	210,746
Estimated self-insurance liabilities, excluding current portion	—	110,364	—	—	262,481
Other long-term liabilities	—	17,323	—	—	27,564
Total liabilities	15,810	2,166,614	26,259	(1,799,118)	2,226,425
Net assets:					
Unrestricted					
Unrestricted net assets (deficit) of Presence Health	3,254	(446,401)	8,671	(36,497)	998,402
Noncontrolling interest in subsidiaries	—	—	4,335	—	4,335
Total unrestricted net assets (deficit)	3,254	(446,401)	13,006	(36,497)	1,002,737
Temporarily restricted	—	390	—	—	32,828
Permanently restricted	—	—	—	—	15,708
Total net assets (deficit)	3,254	(446,011)	13,006	(36,497)	1,051,273
Total liabilities and net assets (deficit)	$ 19,064	1,720,603	39,265	(1,835,615)	3,277,698

See accompanying independent auditors' report.

Schedule 2

PRESENCE HEALTH NETWORK AND AFFILIATES

Consolidating Statement of Operations and Change in Unrestricted Net Assets Information

Year ended December 31, 2013

(In thousands)

	Presence Mercy Medical Center	Presence United Samaritans Medical Center	Presence Saint Joseph Hospital - Elgin	Presence Saint Joseph Medical Center	Presence Saint Mary's Hospital	Presence Covenant Medical Center	Presence Resurrection Medical Center
Net patient and resident service revenue:							
Net patient and resident service revenue before bad debt	$ 196,064	109,257	141,486	414,316	129,980	137,174	258,487
Provision for uncollectible accounts receivable	16,428	7,859	8,216	28,910	7,887	4,558	13,376
Net patient and resident service revenue	179,636	101,398	133,270	385,406	122,093	132,616	245,111
Other revenue:							
Other revenue	10,758	6,233	4,412	9,660	4,828	3,954	4,835
Services provided to affiliates	—	—	—	—	—	6	—
Total revenue	190,394	107,631	137,682	395,066	126,921	136,576	249,946
Expenses:							
Salaries and benefits	62,698	41,196	58,484	160,167	47,853	48,381	111,838
Supplies	32,555	14,842	21,454	62,820	20,236	19,993	45,618
Management services	15,667	10,768	12,945	33,904	12,553	13,216	26,840
Purchased services	27,565	14,010	17,302	39,137	18,459	20,323	27,119
Insurance	1,324	2,076	1,337	6,027	1,131	2,177	2,517
Depreciation and amortization	9,671	5,079	6,414	27,104	8,056	8,037	13,242
Interest	3,581	1,941	5,061	10,864	3,270	3,257	2,824
Assessments and taxes	11,102	6,215	8,993	19,940	7,178	8,343	10,226
Restructuring costs	3,022	1,795	2,131	5,905	2,018	2,338	5,171
Other	13,789	4,721	7,253	18,406	7,235	7,650	12,033
Total expenses	180,974	102,643	141,374	384,274	127,989	133,715	257,428
Income (loss) from operations	9,420	4,988	(3,692)	10,792	(1,068)	2,861	(7,482)
Investment income (loss) and other, net	1,966	784	294	2,524	1,467	1,816	2,661
Loss on early extinguishment of debt	—	—	—	—	—	—	—
Nonoperating gains (losses), net	1,966	784	294	2,524	1,467	1,816	2,661
Revenue and gains in excess (deficient) of expenses and losses before discontinued operations	11,386	5,772	(3,398)	13,316	399	4,677	(4,821)
Net gains from discontinued operations	—	—	—	—	—	—	—
Revenue and gains in excess (deficient) of expenses and losses	11,386	5,772	(3,398)	13,316	399	4,677	(4,821)
Other changes in unrestricted net assets:							
Net assets released from restrictions for purchase of land, buildings, and equipment	1,062	—	312	114	382	37	73
Transfers from (to) affiliates	(15,341)	(10,140)	(2,627)	(32,436)	(8,543)	(9,635)	54
Recognition of change in pension funded status	—	—	—	—	—	—	43,844
Increase (decrease) in unrestricted net assets	$ (2,893)	(4,368)	(5,713)	(19,006)	(7,762)	(4,921)	39,150

(Continued)

PRESENCE HEALTH NETWORK AND AFFILIATES

Consolidating Statement of Operations and Change in Unrestricted Net Assets Information

Year ended December 31, 2013

(In thousands)

	Presence Our Lady of the Resurrection Medical Center	Presence Holy Family Medical Center	Presence Saint Francis Hospital	Presence Saint Joseph Hospital - Chicago	Presence Saints Mary and Elizabeth Medical Center	Presence Medical Group – PRV	Presence Healthcare Services
Net patient and resident service revenue:							
Net patient and resident service revenue before bad debt	$ 136,136	69,774	162,811	205,671	304,972	26,017	86,259
Provision for uncollectible accounts receivable	28,454	230	23,096	9,753	30,853	3,730	19,266
Net patient and resident service revenue	107,682	69,544	139,715	195,918	274,119	22,287	66,993
Other revenue:							
Other revenue	4,045	1,364	6,797	7,342	9,074	4,140	36,934
Services provided to affiliates	—	—	—	—	—	—	—
Total revenue	111,727	70,908	146,512	203,260	283,193	26,427	103,927
Expenses:							
Salaries and benefits	54,326	38,233	63,353	91,377	114,747	32,428	76,477
Supplies	16,507	8,040	19,960	26,750	32,524	1,121	14,330
Management services	17,313	9,284	17,768	20,800	34,362	3,999	9,197
Purchased services	15,112	4,887	20,078	22,681	34,283	5,696	13,590
Insurance	(6,327)	(374)	826	7,332	8,424	1,331	951
Depreciation and amortization	6,145	4,705	11,336	12,040	14,244	1,197	8,959
Interest	1,086	1,001	2,067	1,997	2,820	514	1,648
Assessments and taxes	5,788	3,289	8,415	10,713	23,803	—	3,017
Restructuring costs	2,347	1,587	3,782	3,921	4,542	710	5,322
Other	3,102	3,660	4,966	6,925	7,743	2,723	11,913
Total expenses	115,399	74,312	152,551	204,536	277,492	49,719	145,404
Income (loss) from operations	(3,672)	(3,404)	(6,039)	(1,276)	5,701	(23,292)	(41,477)
Investment income (loss) and other, net	3,171	59	6,769	265	5,015	27	3,335
Loss on early extinguishment of debt	—	—	—	—	—	—	—
Nonoperating gains (losses), net	3,171	59	6,769	265	5,015	27	3,335
Revenue and gains in excess (deficient) of expenses and losses before discontinued operations	(501)	(3,345)	730	(1,011)	10,716	(23,265)	(38,142)
Net gains from discontinued operations	—	—	—	—	—	—	—
Revenue and gains in excess (deficient) of expenses and losses	(501)	(3,345)	730	(1,011)	10,716	(23,265)	(38,142)
Other changes in unrestricted net assets:							
Net assets released from restrictions for purchase of land, buildings, and equipment	—	—	—	80	—	—	—
Transfers from (to) affiliates	—	48	544	418	180	20,104	—
Recognition of change in pension funded status	—	—	—	—	—	—	—
Increase (decrease) in unrestricted net assets	$ (501)	(3,297)	1,274	(513)	10,896	(3,161)	(38,142)

(Continued)

Schedule 2 (Continued)

PRESENCE HEALTH NETWORK AND AFFILIATES

Consolidating Statement of Operations and Change in Unrestricted Net Assets Information

Year ended December 31, 2013

(In thousands)

		Presence Life Connections	Presence RHC Senior Services	Resurrection Development Foundation	Presence Health Care Preferred	Presence Home Care Services	Presence Ventures, Inc.	Resurrection University
Net patient and resident service revenue:								
Net patient and resident service revenue before bad debt	$	121,908	132,612	—	—	12,464	—	—
Provision for uncollectible accounts receivable		1,257	4,010	—	—	527	—	—
Net patient and resident service revenue		120,651	128,602	—	—	11,937	—	—
Other revenue:								
Other revenue		3,913	2,406	597	56,204	8	199	9,121
Services provided to affiliates		—	8,760	—	—	—	—	—
Total revenue		124,564	139,768	597	56,204	11,945	199	9,121
Expenses:								
Salaries and benefits		74,014	71,066	1,201	5,164	7,820	—	5,906
Supplies		16,208	25,119	95	184	680	—	158
Management services		2,242	11,038	65	183	1,226	5	135
Purchased services		13,237	12,580	299	1,403	301	7	1,128
Insurance		1,427	(363)	—	36	(86)	—	—
Depreciation and amortization		5,037	7,369	—	1,068	179	—	46
Interest		2,240	1,810	—	—	52	—	—
Assessments and taxes		—	3,839	—	—	—	—	—
Restructuring costs		4,159		34	1,641	23	—	—
Other		10,298	4,619	380	48,488	546	161	1,741
Total expenses		128,862	137,077	2,074	58,167	10,741	173	9,114
Income (loss) from operations		(4,298)	2,691	(1,477)	(1,963)	1,204	26	7
Investment income (loss) and other, net		7,246	9,512	1,516	—	843	—	(29)
Loss on early extinguishment of debt		—	—	—	—	—	—	—
Nonoperating gains (losses), net		7,246	9,512	1,516	—	843	—	(29)
Revenue and gains in excess (deficient) of expenses and losses before discontinued operations		2,948	12,203	39	(1,963)	2,047	26	(22)
Net gains from discontinued operations		—	—	—	—	—	—	—
Revenue and gains in excess (deficient) of expenses and losses		2,948	12,203	39	(1,963)	2,047	26	(22)
Other changes in unrestricted net assets:								
Net assets released from restrictions for purchase of land, buildings, and equipment		2,834	—	1,473	—	—	—	—
Transfers from (to) affiliates		(7,172)	226	(1,473)	—	—	(4,160)	—
Recognition of change in pension funded status		—	—	—	—	—	—	—
Increase (decrease) in unrestricted net assets	$	(1,390)	12,429	39	(1,963)	2,047	(4,134)	(22)

(Continued)

Schedule 2 (Continued)

PRESENCE HEALTH NETWORK AND AFFILIATES

Consolidating Statement of Operations and Change in Unrestricted Net Assets Information

Year ended December 31, 2013

(In thousands)

	Presence Behavioral Health	Presence Health Corporate	Alverno	Eliminations	Consolidated totals
Net patient and resident service revenue:					
Net patient and resident service revenue before bad debt	$ 17,581	—	—	(2,860)	2,660,109
Provision for uncollectible accounts receivable	371	—	—	—	208,781
Net patient and resident service revenue	17,210	—	—	(2,860)	2,451,328
Other revenue:					
Other revenue	958	1,227	155,217	(95,479)	248,747
Services provided to affiliates	—	257,574	—	(266,340)	—
Total revenue	18,168	258,801	155,217	(364,679)	2,700,075
Expenses:					
Salaries and benefits	11,799	149,441	89,355	—	1,417,324
Supplies	480	(4,436)	35,455	(8,724)	401,969
Management services	717	—	—	(254,227)	—
Purchased services	2,591	30,445	8,866	(86,170)	264,929
Insurance	(109)	(260)	452	—	29,849
Depreciation and amortization	245	5,083	1,700	—	156,956
Interest	56	—	—	—	46,089
Assessments and taxes	5	74	—	—	130,940
Restructuring costs	296	350	—	—	51,094
Other	1,690	78,090	20,018	(15,558)	262,592
Total expenses	17,770	258,787	155,846	(364,679)	2,761,742
Income (loss) from operations	398	14	(629)	—	(61,667)
Investment income (loss) and other, net	7	83,438	1,004	—	133,690
Loss on early extinguishment of debt	—	(8,540)	—	—	(8,540)
Nonoperating gains (losses), net	7	74,898	1,004	—	125,150
Revenue and gains in excess (deficient) of expenses and losses before discontinued operations	405	74,912	375	—	63,483
Net gains from discontinued operations	—	2,198	—	—	2,198
Revenue and gains in excess (deficient) of expenses and losses	405	77,110	375	—	65,681
Other changes in unrestricted net assets:					
Net assets released from restrictions for purchase of land, buildings, and equipment	—	—	—	—	6,367
Transfers from (to) affiliates	3	65,740	—	4,210	—
Recognition of change in pension funded status	—	82,661	—	—	126,505
Increase (decrease) in unrestricted net assets	$ 408	225,511	375	4,210	198,553

See accompanying independent auditors' report.