Lutheran HealthCare

Combined Financial Statements as of and for the Years Ended December 31, 2014 and 2013, Supplemental Combining Information as of and for the Years Ended December 31, 2014 and 2013, Schedule of Expenditures of Federal Awards for the Year Ended December 31, 2014, Reports on Compliance and Internal Control in Accordance with *Government Auditing Standards* and OMB Circular A-133, and Independent Auditors' Reports

EIN # 11-1839567

LUTHERAN HEALTHCARE

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INDEPENDENT AUDITORS' REPORT ON COMBINED FINANCIAL STATEMENTS AND SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

To the Boards of Trustees of
Lutheran Medical Center and
Sunset Park Health Council, Inc.
Brooklyn, New York

We have audited the accompanying combined financial statements of Lutheran Medical Center ("Medical Center") and its subsidiaries and Sunset Park Health Council, Inc. ("Sunset Park"), d/b/a Lutheran Family Health Centers (collectively, "Lutheran HealthCare"), which comprise the combined balance sheets as of December 31, 2014 and 2013, and the related combined statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined 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 combined financial statements based on our audits. We did not audit the financial statements of Lutheran Augustana Center for Extended Care and Rehabilitation, Inc.; Shore Hill Housing Company, Inc.; Harbor Hill Housing Development Fund Corporation; Sunset Gardens Housing Development Fund Corporation; or Shore Hill Housing Associates, L.P. (collectively, the "Other Combined Entities"), which statements reflect total assets constituting 14% and 15%, respectively, of combined total assets at December 31, 2014 and 2013, and total revenues constituting 6% of combined total revenues for the years then ended. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Other Combined Entities, is based solely on the reports of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to

Lutheran HealthCare's preparation and fair presentation of the combined 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 Lutheran HealthCare'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 combined 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, based on our audits and the reports of the other auditors, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of Lutheran HealthCare as of December 31, 2014 and 2013, and the combined results of its operations, changes in its net assets, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matters

As discussed in Notes 1 and 16 to the combined financial statements, during 2007, the Medical Center transferred certain assets, liabilities, and operations of the Lutheran Family Health Center ("Health Center") to Sunset Park. The Medical Center and Sunset Park have been established as "co-operators" of the Health Center. The Medical Center continues to provide support services to allow the Health Center to operate as it did before the transaction. Both the Medical Center and Sunset Park are included in the accompanying combined financial statements. Our opinion is not modified with respect to this matter.

As discussed in Note 17 to the combined financial statements, OHP PHSP, Inc. (formerly known as Health Plus Prepaid Health Services Plan, Inc.) sold all of its operating and nonfinancial assets. The sale closed on May 1, 2012. OHP PHSP, Inc. has ceased operations as of this date and is in process of settling liabilities that existed as of this date. Our opinion is not modified with respect to this matter.

As discussed in Notes 1 and 19 to the combined financial statements, the Medical Center entered into an affiliation agreement with NYU Hospitals Center on April 1, 2015. As a result of the affiliation agreement, the Medical Center changed its name to NYU Lutheran Medical Center and NYU Langone Health System became its sole corporate member. NYU Langone Health System is also the sole corporate member for NYU Hospitals Center. Our opinion is not modified with respect to this matter.

Report on Supplemental Combining Information

Our audits were conducted for the purpose of forming an opinion on the combined financial statements as a whole. The supplemental combining information on pages 42 through 56 is presented for the purpose of additional analysis of the combined financial statements rather than to present the financial position, results of operations, and cash flows of the individual entities, and is not a required part of the combined financial statements. This supplemental combining information is the responsibility of Lutheran HealthCare's management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. Such supplemental combining information has been subjected to the auditing procedures applied in our audits of the combined financial statements and (as to the amounts included for the Other Combined Entities mentioned above) the reports of other auditors and certain additional procedures, including comparing and reconciling such supplemental combining information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audits and the reports of the other auditors, such supplemental combining information is fairly stated, in all material respects, in relation to the combined financial statements as a whole.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

Our audit was performed for the purpose of forming an opinion on the combined financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the combined 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United State of America. In our opinion, based on our audit and (as to the amounts included for the Other Combined Entities) the report of the other auditors, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the combined financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 27, 2015, on our consideration of Lutheran HealthCare's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Lutheran HealthCare's internal control over financial reporting and compliance.

Deloitte & Touche LLP

May 27, 2015

LUTHERAN HEALTHCARE

COMBINED BALANCE SHEETS
AS OF DECEMBER 31, 2014 AND 2013
(In thousands)

	2014	2013
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 28,743	$ 36,058
Investments	15,901	48,129
Assets limited as to use	1,410	1,449
Patient accounts receivable—less allowance for uncollectible accounts of $22,901 and $17,722 in 2014 and 2013, respectively	84,559	82,837
Premiums receivable		3,449
Other receivables	9,934	11,500
Due from third-party payors	18,680	15,038
Other current assets	29,776	25,298
Total current assets	189,003	223,758
ASSETS LIMITED AS TO USE—Less current portion	49,818	69,606
INVESTMENTS—Less current portion	133,247	103,770
PROPERTY AND EQUIPMENT—Net	174,638	182,188
OTHER ASSETS	80,671	80,743
TOTAL	$ 627,377	$ 660,065
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 48,022	$ 51,360
Accrued salaries and related liabilities	29,931	29,293
Accrued medical costs	1,921	4,898
Current portion of obligations under capital leases	2,618	3,012
Current portion of long-term debt	8,520	6,525
Current portion of professional liabilities	2,600	2,600
Other current liabilities	12,869	14,924
Current portion of due to third-party payors	9,731	14,463
Total current liabilities	116,212	127,075
LONG-TERM LIABILITIES:		
Due to third-party payors—less current portion	35,396	30,439
Professional liabilities—less current portion	87,993	88,076
Obligations under capital leases—less current portion	4,561	5,485
Long-term debt—less current portion	105,389	108,313
Accrued pension liability	111,802	51,480
Other long-term liabilities	18,944	19,920
Total long-term liabilities	364,085	303,713
Total liabilities	480,297	430,788
COMMITMENTS AND CONTINGENCIES (Note 17)		
NET ASSETS:		
Unrestricted	141,320	224,261
Temporarily restricted	5,251	4,505
Permanently restricted	509	511
Total net assets	147,080	229,277
TOTAL	$ 627,377	$ 660,065

See notes to combined financial statements.

LUTHERAN HEALTHCARE

COMBINED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(In thousands)

	2014	2013
REVENUE:		
Net patient service revenue (after contractual allowances and discounts)	$ 623,614	$ 593,791
Provision for bad debts	(33,987)	(25,918)
Net patient service revenue—net of provision for bad debts	589,627	567,873
Premium revenue	9,720	7,308
Grant income	47,008	50,859
Investment income	6,194	5,492
Net assets released from restrictions	7,086	5,321
Other revenue	27,674	28,827
Total revenue	687,309	665,680
EXPENSES:		
Salaries and wages	353,277	330,165
Employee benefits	111,714	113,643
Supplies and expenses	215,279	211,584
Medical costs	2,822	(5,820)
Depreciation and amortization	21,880	21,252
Interest	4,093	1,613
Total expenses	709,065	672,437
OPERATING LOSS	(21,756)	(6,757)
NONOPERATING LOSSES		(899)
DEFICIENCY OF REVENUE OVER EXPENSES	(21,756)	(7,656)
OTHER CHANGES IN UNRESTRICTED NET ASSETS:		
Defined benefit plan adjustments	(60,887)	42,330
Changes in unrealized gains and losses on investments	(1,803)	3,034
Contributions	1,302	272
Net assets released for capital acquisitions	203	4,188
(DECREASE) INCREASE IN UNRESTRICTED NET ASSETS	$ (82,941)	$ 42,168

See notes to combined financial statements.

LUTHERAN HEALTHCARE

COMBINED STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(In thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
NET ASSETS—January 1, 2013	$182,093	$ 3,872	$497	$186,462
Deficiency of revenues over expenses	(7,656)			(7,656)
Changes in unrealized gains and losses on investments	3,034		14	3,048
Contributions	272	10,142		10,414
Net assets released from restrictions:				
Operating expenses		(5,321)		(5,321)
Capital acquisitions	4,188	(4,188)		-
Defined benefit plan adjustments	42,330			42,330
Change in net assets	42,168	633	14	42,815
NET ASSETS—December 31, 2013	224,261	4,505	511	229,277
Deficiency of revenues over expenses	(21,756)			(21,756)
Changes in unrealized gains and losses on investments	(1,803)		(2)	(1,805)
Contributions	1,302	8,035		9,337
Net assets released from restrictions:				
Operating expenses		(7,086)		(7,086)
Capital acquisitions	203	(203)		-
Defined benefit plan adjustments	(60,887)			(60,887)
Change in net assets	(82,941)	746	(2)	(82,197)
NET ASSETS—December 31, 2014	$141,320	$ 5,251	$509	$147,080

See notes to combined financial statements.

LUTHERAN HEALTHCARE

COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(In thousands)

	2014	2013
OPERATING ACTIVITIES:		
Change in net assets	$ (82,197)	$ 42,815
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	21,880	21,252
Provision for bad debts	33,987	25,918
Restricted contributions	(943)	(4,379)
Defined benefit plan adjustments	60,887	(42,330)
Changes in unrealized gains and losses on investments	1,805	(3,048)
Realized gains on investments	(2,801)	(1,675)
Changes in operating assets and liabilities:		
Patient accounts receivable	(35,709)	(28,674)
Premiums receivable	3,449	501
Other receivables	1,566	4,186
Due from and to third-party payors	(3,417)	(3,011)
Other current assets	(4,478)	15,584
Accounts payable, accrued expenses, accrued salaries, and related liabilities	(3,782)	455
Accrued medical costs	(2,977)	(954)
Professional liabilities	(83)	1,538
Accrued pension liability	(565)	2,274
Other assets and liabilities	(3,200)	(9,338)
Net cash (used in) provided by operating activities	(16,578)	21,114
INVESTING ACTIVITIES:		
Capital expenditures	(10,347)	(19,384)
Purchases of investments	(209,688)	(228,670)
Proceeds from sales of investments	213,435	217,101
Purchases of assets limited as to use	(1,627)	(1,531)
Proceeds from sales of assets limited as to use	21,454	19,988
Net cash provided by (used in) investing activities	13,227	(12,496)
FINANCING ACTIVITIES:		
Proceeds from line-of-credit borrowing	10,000	5,000
Repayments of line-of-credit borrowing	(10,000)	(5,000)
Proceeds from issuance of long-term debt	5,595	4,003
Repayments of capital lease obligations	(3,978)	(3,460)
Repayments of long-term debt	(6,524)	(6,412)
Restricted contributions	943	4,379
Net cash used in financing activities	(3,964)	(1,490)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(7,315)	7,128
CASH AND CASH EQUIVALENTS—Beginning of year	36,058	28,930
CASH AND CASH EQUIVALENTS—End of year	$ 28,743	$ 36,058
SUPPLEMENTAL INFORMATION:		
Interest paid	$ 3,369	$ 3,393
Capital lease obligations incurred	$ 2,660	$ 4,509
Accruals for the acquisition of property and equipment	$ 1,082	$ 1,104

See notes to combined financial statements.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Lutheran Medical Center ("Medical Center") is a not-for-profit membership corporation organized under the New York State not-for-profit corporation law, whose sole corporate member is the LMC Health System, Inc., a New York not-for-profit corporation. The Medical Center operates an acute care hospital.

Sunset Park Health Council, Inc., a New York not-for-profit corporation, d/b/a Lutheran Family Health Centers, is referred to herein as "Lutheran Family Health Centers," LFHC, or "Sunset Park." LFHC is a designated Level 3 Medical Home, and is the largest Federally Qualified Health Center network in New York State that, prior to 2007, operated as a division of the Medical Center.

The Medical Center and its subsidiaries and LFHC are referred to herein as "Lutheran HealthCare." Lutheran HealthCare is one of New York State's most fully integrated health care systems. It includes a medical center, a multistate health center network, home care, long-term care, subsidized senior housing for the frail elderly, and community development. As such, Lutheran HealthCare is able to offer a fluid continuum of care from birth through senior life.

Effective April 1, 2015, the Medical Center entered into an affiliation agreement with New York University Hospitals Center ("NYU Hospitals Center") pursuant to which, the Medical Center changed its name to NYU Lutheran Medical Center and NYU Langone Health System became its sole corporate member. NYU Langone Health System is also the sole corporate member for NYU Hospitals Center (see Note 19).

The following are subsidiaries of the Medical Center:

OHP PHSP, Inc. (Formerly Known as Health Plus Prepaid Health Services Plan, Inc.) (the "Plan")—A licensed, prepaid health services plan which provided comprehensive prepaid health care coverage to Medicaid, Family Health Plus (FHP), Child Health Plus (CHP), and Medicare recipients. On May 1, 2012, the Plan sold all operating and nonfinancial assets and was required to change the name of the organization as part of the transaction (see Note 17). The Plan ceased receiving premiums and providing coverage to members effective with the closing of the sale and is now winding down operations. The Plan made distributions to the Medical Center of $75 million on May 1, 2012, $30 million during 2013 and $50 million during 2014.

Lutheran Augustana Center for Extended Care and Rehabilitation, Inc. ("Augustana")—A long-term nursing care facility.

Senior Housing Projects—Comprised of Shore Hill Housing Company, Inc. ("Shore Hill"); Shore Hill Housing Associates, L.P.; Sunset Gardens Housing Development Fund Corporation ("Sunset Gardens"); and Harbor Hill Housing Development Fund Corporation ("Harbor Hill") and provide housing and rent subsidies for people meeting requirements defined by the US Department of Housing and Urban Development (HUD).

Professional Corporations—Comprised of Shore Road Radiology, PC and LMC Physician Services, PC.

Others—Comprised of various other related organizations, including Shore Road Community Services, Inc.; Sunset Bay Community Services, Inc.; Community Care Organization, Inc.; LMC Community Foundation ("Lutheran Foundation"); and Lutheran CHHA, Inc.

Principles of Combination—The accompanying combined financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) in accordance with the American Institute of Certified Public Accountants' Audit and Accounting Guide, *Health Care Entities*, and other pronouncements applicable to health care organizations.

The combined financial statements include the accounts of all of the entities outlined above. The Medical Center accounts for its interests in entities in which it has significant influence on the equity basis of accounting. Such entities are presented in the supplemental combining information on a cost basis. Significant intercompany transactions and balances have been eliminated in combination. Except as discussed in Note 11 to the combined financial statements, the assets of any member of the combined group may not be available to meet the obligations of other members in the group.

Use of Estimates—The preparation of combined financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the combined financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Significant estimates include the allowance for uncollectible patient accounts receivable and contractual allowances, estimated amounts due to and from third-party payors, valuation of investments, pension cost assumptions, and the estimated liability for self-insured losses. Actual results could differ from those estimates.

Cash and Cash Equivalents—Lutheran HealthCare considers all highly liquid investments purchased with a maturity of three months or less, that are not deemed to be assets limited as to use, to be cash equivalents.

Investments—Investments include cash equivalents, mutual funds, fixed-income securities, as well as interests in limited partnerships and common collective trusts. Investments in equity securities with readily determinable fair values and all investments in debt securities are recorded at estimated fair value. Investments received as a gift are initially recorded at fair value at the date of gift.

Lutheran Healthcare has also entered into partnership agreements with limited partnerships ("alternative investments"), the majority of which are in private markets, whereby they have agreed to certain capital commitments. The ownership interests are reported at fair value using the equity method of accounting. Certain of the partnerships may hold some securities without readily determinable fair values and, consequently, the fund managers may estimate fair value for such securities. These estimates may differ significantly from the values that would have been used had a ready market existed and may also differ significantly from the values at which such investments may be sold and the differences could be material.

Investment income (interest, dividends, realized gains and losses, and the amortization of premium and accretion of discount to maturity) is included within revenue, unless the income or gain (loss) is restricted by donor or by law. Unrealized gains and losses on investments classified as available for sale are excluded from the deficiency of revenues over expenses and reported as a change in net assets, except that declines in fair value that are judged to be other than temporary are reported as realized losses. Gains and losses are determined using the specific identification cost basis. Investment income is reported net of expenses related to the management and custody of investments. Investments classified as current assets are available to support current operations.

Investments, in general, are exposed to various risks, such as interest rate risk, credit risk, and overall market volatility. As such, it is reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the combined balance sheets and combined statements of operations, changes in net assets, and cash flows.

Other-than-Temporary Impairment of Investments—Lutheran HealthCare reviews its investments to identify those for which market value is below cost. Lutheran HealthCare then makes a determination as to whether the investment should be considered other-than-temporarily impaired based on guidelines established by the Financial Accounting Standards Board (FASB). Lutheran HealthCare considers various factors in determining whether to recognize a decline in value, including the length of time and extent to which the fair value has been less than Lutheran HealthCare's cost basis, the financial condition and near-term prospects of the issuer or investee, and Lutheran HealthCare's intent and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in market value. No losses related to declines in value that were other than temporary in nature were recognized in 2014 or 2013.

Assets Limited as to Use—Assets limited as to use primarily include assets held to meet regulatory requirements, assets held to meet requirements under indenture agreements, donor-restricted assets, and designated assets set aside by the Board of Trustees (the "Board"), over which the Board retains control and may at its discretion subsequently use for other purposes.

Other Current Assets—Other current assets consist principally of prepaid expenses and supplies. Prepaid expenses include prepaid premiums on professional primary and excess insurance coverage of $12,835,000 and $14,001,000 as of December 31, 2014 and 2013, respectively. The coverage period for the primary insurance and the excess insurance coverage is through September 30, 2015. The prepayment was financed by a lending institution and the related liability is recorded in other current liabilities in the combined balance sheets. Supplies are valued at the lower of cost (first-in, first-out method) or market and aggregated $6,353,000 and $5,361,000 as of December 31, 2014 and 2013, respectively.

Property and Equipment—Property and equipment acquisitions are recorded at cost, if purchased, and those acquired by gift at fair market value at the date of the gift. Capitalized lease obligations are recorded at the present value of the minimum lease payments at the inception of the lease. Leased assets are amortized over the lesser of the estimated useful life of the asset or lease term. Such amortization is reported within depreciation and amortization in the accompanying combined statements of operations. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Depreciation is provided over the estimated useful life of each class of depreciable assets and is computed using the straight-line method. Estimated useful lives by classification are as follows:

Buildings and improvements	5–40 years
Equipment	3–25 years

Impairment of Long-Lived Assets—Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When such events or changes in circumstances indicate an asset may not be recoverable, an impairment loss is recognized in an amount by which the asset's carrying value exceeds its estimated fair value.

Other Assets—Other assets consist of estimated insurance recoveries, costs incurred in connection with the issuance of debt, the noncurrent portion of pledges receivable, and tenant security deposits. Estimated insurance recoveries were $77,215,000 and $77,198,000 as of December 31, 2014 and 2013, respectively. Debt issuance costs are being amortized over the life of the debt using the interest method. The cost and accumulated amortization for debt issuance costs were $3,480,000 and $936,000, respectively, as of December 31, 2014, and $3,480,000 and $695,000 as of December 31, 2013, respectively.

Professional and General Liabilities—Prior to October 1, 1997, the Medical Center was self-insured for professional and general insurance liabilities. Subsequent to that date, the Medical Center has purchased claims-made insurance policies from a commercial insurer. Asserted claims and claim incidents that have been incurred but not reported are recorded taking into consideration the severity of incidents and expected timing of claim payments. The liabilities for outstanding losses and loss-related expenses, the related provision for losses, and loss-related expenses include estimates for malpractice losses incurred but not reported, as well as losses pending settlement. Such liabilities are necessarily based on estimates and, while management believes the amounts provided are adequate, the ultimate liability may be in excess of or less than the amounts provided. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The methods for making such estimates and the resulting liability are actuarially reviewed on an annual basis and any adjustments required are reflected in operations currently.

Lutheran Family Health Centers are designated as a federally qualified community health center and receives funding under Section 330 of the Public Health Service Act (PHSA). As such, malpractice coverage is provided on an occurrence basis under certain legislative covenants of this section of the PHSA.

Defined Benefit Pension Plan—Lutheran HealthCare recognizes the underfunded status of its defined benefit plan as a liability in its combined balance sheets. Changes in the funded status of the plan are reported as a change in unrestricted net assets presented below the deficiency of revenues over expenses in its combined statements of operations and changes in net assets in the year in which the changes occur. Lutheran HealthCare's policy is to contribute amounts sufficient to meet the funding requirements under the Employee Retirement Income Security Act of 1974 or required under contractual arrangements.

Patient Care Receivables and Net Patient Service Revenue—Lutheran HealthCare has agreements with third-party payors that provide for payments at amounts different from their established charges. Payment arrangements include prospectively determined rates, reimbursed costs, discounted charges, and per-diem or per visit payments. Under certain agreements, Lutheran HealthCare is reimbursed at interim rates with final settlement in subsequent periods. Patient care receivables and net patient service revenue are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered. Under the terms of various agreements, regulations, and statutes, certain elements of third-party reimbursement are subject to negotiation, audit, and/or final determination by the 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 or estimates are changed. Contracts, laws, and regulations governing Medicare, Medicaid, Blue Cross, and various managed care contracts are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Changes in estimates decreased the deficiency of revenues over expenses by $1,107,000 in 2014 and increased the deficiency of revenues over expenses by $2,538,000 in 2013.

A portion of the accrual for estimated settlements with third-party payors has been classified as long term because such amounts, by their nature or by virtue of regulation or legislation, are not expected to be paid or collected within one year.

Provision for Bad Debts—Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectibility of accounts receivable, Lutheran HealthCare analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, Lutheran HealthCare analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary. For receivables associated with self-pay patients, Lutheran HealthCare records a provision for bad debts 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 and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

Lutheran HealthCare's allowance for doubtful accounts totaled $22,901,000 and $17,722,000 at December 31, 2014 and 2013, respectively. At December 31, 2014 and 2013, the allowance for doubtful accounts is comprised of 43% and 63%, respectively, for self-pay patients with no insurance and 57% and 37%, respectively, for the patient responsibility for insured patients. Lutheran HealthCare's charity care and uninsured discount policies extend further charity care discounts to qualified patients. Lutheran HealthCare does not maintain a material allowance for uncollectible accounts from third-party payors. Lutheran HealthCare 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 qualify for charity care, Lutheran HealthCare recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a portion of Lutheran HealthCare's uninsured patients may not qualify for charity care discounts and may be unable or unwilling to pay for the services provided. Thus, Lutheran HealthCare records a provision for bad debts related to uninsured patients in the period the services are provided.

Net patient service revenue (after contractual allowances and discounts), recognized during the years ended December 31, 2014 and 2013, from Lutheran HealthCare's major payor sources, classified based upon the party that has the primary responsibility for paying, are as follows (in thousands):

	2014	2013
Medicare	$ 241,383	$ 231,138
Medicaid	235,989	219,699
Other third-party payors	137,333	134,563
Self-pay	8,909	8,391
Net patient service revenue (after contractual allowances allowances and discounts)	$ 623,614	$ 593,791

Premiums Receivable and Premium Revenue—The Plan had agreements with the New York State Department of Health (NYSDOH), the City of New York Department of Health, and Medicare to provide coverage to residents in New York City and Nassau County. As a result of the sale of all operating and nonfinancial assets on May 1, 2012, the Plan's rights under these contracts were assumed by Amerigroup New York, LLC, a New York limited liability company d/b/a Amerigroup Community Care New York ("Amerigroup") on May 1, 2012 (see Note 17).

Grants and Contributions—Unrestricted gifts and bequests made to Lutheran HealthCare are recorded as revenue. Unconditional promises to give cash and other assets to Lutheran HealthCare are reported at fair market value at the date the promise is received. Conditional promises to give are reported at fair market value at the date the condition has been met. Gifts are reported as either temporarily or permanently restricted if they are received with a donor stipulation that limits the use of the donated assets. Revenue related to grants is recognized as the related costs are incurred. To the extent that Lutheran HealthCare receives grants for capital, they are excluded from the performance indicator.

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

When a donor restriction expires, that is, when a stipulated time restriction or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the combined statements of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying combined financial statements.

Pledges—Pledges receivable, which are unsecured, are recorded as contributions at the date the unconditional promise to give is made. As of December 31, 2014 and 2013, pledges receivable aggregated $150,000.

Other Revenue—Other revenue includes unrestricted contributions and other non-patient-related revenues.

Meaningful Use—Under the Health Information Technology for Economic and Clinical Health Act, qualifying acute care hospitals and outpatient facilities are eligible for incentive payments from both Medicare and Medicaid for achieving prescribed standards for the meaningful use of electronic health records. Lutheran HealthCare reports amounts earned as other revenue when Lutheran HealthCare has met the compliance requirements as set forth by Medicare and Medicaid. During 2014, Lutheran HealthCare recorded as other revenue an estimated $1,807,000 from Medicare and an estimated $735,000 from Medicaid for meaningful use incentives. During 2013, Lutheran HealthCare recorded as other revenue an estimated $2,392,000 from Medicare and an estimated $712,000 from Medicaid for meaningful use incentives.

Medical Costs—The Plan contracted with various health care providers, including the Medical Center, for the provision of medical care to its members. The Plan compensated these providers on either a capitation or fee-for-service basis. Medical costs were accrued in the period services are provided to enrollees, based, in part, on estimates for medical costs, which have been incurred but not reported and on estimates of final rates to be promulgated by the State of New York. The estimates were made using various actuarial and statistical methods based upon historical financial and operational data. The liability for accrued medical costs includes the related assessments and state pool taxes. Management believes that methodologies employed to estimate accrued medical costs are reasonable and the amounts recorded at December 31, 2014 and 2013, are appropriate. Such estimates are regularly monitored and reviewed. Adjustments to accrued medical costs to reflect actual experiences, if any, are reflected in the combined statements of operations in the period in which such changes in estimates become known to management. Due to uncertainties inherent in the claims estimation process, it is at least reasonably possible that the claims paid in the near term could differ materially from the accrued amounts. Included in medical costs is an estimate for accrued physician and hospital claims incurred but not reported. For the years ended December 31, 2014 and 2013, medical costs were increased by approximately $6,300,000 and decreased by approximately $5,900,000, respectively, reflecting the difference between claims paid and the liability originally estimated in prior years.

Assessments and State Pool Taxes—In accordance with the New York State Health Care Reform Act, the Plan is required to pay tax on all Article 28 (inpatient hospital, outpatient hospital, diagnostic, and treatment centers) costs for non-Medicare patients. During 2012, the assessable rate was 7.04% for Medicaid and FHP eligible patients and 9.63% for CHP eligible patients. Assessments and state pool taxes include estimates of amounts that will ultimately be assessed. Adjustments to such estimates to reflect actual payments are reflected in the combined statements of operations in the period in which such changes in estimate become known to management. Due to uncertainties inherent in the estimation process, it is at least reasonably possible that payments could differ materially from the amounts recorded.

Stop-Loss Insurance—The Plan maintained stop-loss insurance coverage with insurance carriers and the State of New York for claims in order to limit losses on individual members. This coverage lapsed as of May 1, 2012, as the result of the Plan's sale of all operating and nonfinancial assets (see Note 17). Stop-loss insurance premiums are reported in medical costs and recoveries are reported as reductions in medical costs. Stop-loss recoveries include estimates of amounts that will ultimately be recovered. Adjustments to such estimates to reflect actual recoveries are reflected in the combined statements of operations in the period in which such adjustments become known to management. Due to uncertainties inherent in the estimation process, it is at least reasonably possible that recoveries could differ materially from the amounts recorded as receivable. At December 31, 2013, substantially all of the stop-loss receivables were due from the State of New York.

Performance Indicator—For purposes of display, Lutheran HealthCare considers all of its health care and related activities to be part of its normal operations and considers the deficiency of revenues over expenses as the performance indicator. Peripheral or incidental transactions are reported as nonoperating gains or losses. Changes in unrestricted net assets that are excluded from the deficiency of revenues over expenses, consistent with industry practice, include unrealized gains and losses on investments not classified as trading securities, transfers of assets to and from affiliates for other than goods and services, defined benefit plan adjustments, and grants and contributions of long-lived assets (including assets released from restrictions for such use).

Charity Care—Lutheran HealthCare provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because Lutheran HealthCare does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

Tax Status—Sunset Park, the Medical Center, and all but two of its subsidiaries have been recognized as tax exempt pursuant to Section 501(a) of the Internal Revenue Code. Income taxes are not significant.

Recently Issued Accounting Pronouncement—In April 2015, the FASB issued Accounting Standards Update (ASU) No. 2015-03 ("ASU 2015-03"), *Simplifying the Presentation of Debt Issuance Costs.* The purpose of this ASU is to change the presentation of debt issuance costs in the combined financial statements. Under the ASU, debt issuance costs will be recorded as a direct reduction of the debt obligation, as opposed to an asset. The related amortization of such costs will be recorded as interest expense. The ASU is effective for periods beginning after December 15, 2015, and is to be retrospectively applied for all periods presented. Early adoption of this ASU is permitted. The adoption of ASU 2015-03 is not expected to have a material impact on the Lutheran Healthcare's combined financial position, results of operations, or cash flows.

2. CHARITY CARE

The Medical Center is a full-service, 450-bed academic teaching hospital and is a co-operator with LFHC of a network of nine neighborhood primary care sites, 15 school health programs with 24 dental programs, and a diverse range of community-based programs that provide approximately 612,000 medical and dental visits annually.

Lutheran HealthCare exists to serve its neighbors. Lutheran HealthCare is dedicated to caring for whole persons throughout whole communities. As a stabilizing foundation for these communities, Lutheran HealthCare is committed to meeting its neighbors' changing physical, emotional, spiritual, intellectual, and social needs.

In keeping with this mission, Lutheran HealthCare provides medical care to all patients, regardless of their ability to pay. Patients are notified of the availability of free and reduced price care and patients are evaluated for charity care in accordance with established policies. In addition, Lutheran HealthCare operates numerous community benefit programs that seek to improve the health and welfare of its community. Services provided to these patients are not reported as revenue in the combined statements of operations.

The estimated cost incurred by Lutheran HealthCare to provide services to patients who are unable to pay was approximately $34,574,000 and $36,584,000 for the years ended December 31, 2014 and 2013, respectively. The estimated cost of these charity care services was determined using a ratio of cost to gross charges and applying that ratio to the gross charges associated with providing care to charity patients for the period. Gross charges associated with providing care to charity patients includes only the related charges for those patients who are financially unable to pay and qualify under Lutheran HealthCare's charity care policy and that do not otherwise qualify for reimbursement from a governmental program. Lutheran HealthCare also provides a significant amount of uncompensated care to its patients that is reported as a provision for bad debts, which is not included in the amounts reported above. Such provision for bad debts amounted to approximately $33,987,000 and $25,918,000 for 2014 and 2013, respectively.

3. THIRD-PARTY REIMBURSEMENT PROGRAMS

Medicare—Inpatient acute care services and long-term nursing care services provided to Medicare program beneficiaries are paid based on Medicare's Prospective Payment System (PPS). These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Settlements are calculated for add-ons to the PPS rates related to the indirect medical education and disproportionate share costs. Inpatient rehabilitation services are paid based on Medicare's PPS for rehabilitation facilities. These rates vary based on clinical and other factors, similar to PPS. Inpatient psychiatric services are paid based on a prospective per-diem rate. Such payments are also adjusted to reflect clinical, diagnostic, and other factors. Direct medical education costs are reimbursed based on costs per resident from a base year trended to the current year and adjusted for eligible resident counts and Medicare utilization. Most outpatient services are paid under Medicare's Outpatient PPS (OPPS) based on Ambulatory Payment Classification groups. Those outpatient services excluded from OPPS continue to be paid based on fee schedules or cost-based methodologies. Eligible bad debts and charity care write-offs related to deductibles and coinsurance of Medicare patients are also reimbursed at 70% of the amounts written off. Any cost reimbursable items are reimbursed at a tentative rate with final settlement determined after submission of the annual cost reports. The Medical Center's Medicare cost reports have been audited and settled by the Medicare fiscal intermediary through the year ended December 31, 2005.

Non-Medicare Payments—The New York State Legislature (NYS) enacted the Health Care Reform Act of 2000. Under this system, all non-Medicare payors, except Medicaid, workers' compensation, and no-fault insurance programs, negotiate payment rates with the individual hospital. If negotiated rates are not established, payors are billed at providers' established charges. Medicaid, workers' compensation, and no-fault payors pay rates are promulgated by the NYSDOH on a prospective basis. Adjustments to current and prior years' rates for these payors will continue to be made in the future. Effective December 1, 2009, NYS implemented an updated inpatient case mix system, called All Patient Refined Diagnosis Related Groups. This system is intended to more accurately measure and reimburse for patient acuity and will increase the prospective nature of the rates. Outpatient reforms were implemented effective December 1, 2008.

In 2003, the Medical Center was informed by representatives of the Medicaid Fraud Control Unit of the Office of the New York State Attorney General that their office was conducting an investigation into the past Medicaid billings of certain part-time satellite clinics operated on the Medical Center's license. The matter was resolved in a civil settlement, executed in September 2006, which obligates the Medical Center to repay the state a total of $9,000,000. Of this amount, $1,575,000 had already been repaid to the state as of September 2006 and the balance of $7,425,000 is to be repaid in equal monthly installments over nine years starting in October 2006. The balance outstanding at December 31, 2014 and 2013, was $525,000 and $1,353,000, respectively. Consistent with, and following execution of the Affiliation Agreement, discussed in Note 16, this repayment obligation has been assumed as a liability by LFHC and is reported in the accompanying combined balance sheets with due to third-party payors.

4. PREPAID HEALTH CARE REGULATORY REQUIREMENTS

Escrow Deposit Account—In accordance with Part 98 of New York Codes of Rules and Regulations, the Plan is required to maintain an escrow deposit account equal to 5% of projected medical costs for the subsequent calendar year. The following additional requirements must be met:

a. The deposit must be in the form of a trust account, approved by New York State Department of Financial Services (NYSDFS), with a custodian that is a New York State bank or trust company.

b. The assets in the escrow account must be valued at their current fair market value and consist only of cash, certificates of deposit, or of the type specified in Part 1404(a) (1) and (2) of the Insurance Law (government bonds and bonds of American institutions that are adequately collateralized, insured, or highly rated as determined by NYSDFS).

c. The escrow deposit must be fully funded by March 31 of each year.

d. No later than April 30th of each year, the custodian must furnish a statement to NYSDFS identifying the assets held in trust as of March 31, including the estimated fair market value of the assets. NYSDFS may approve withdrawal of amounts held in escrow that exceed the requirement.

Due to the sale of the Plan's operating and nonfinancial assets as of May 1, 2012 (see Note 17), there was no required escrow balance as of December 31, 2014 and 2013. Escrow deposit balances at December 31, 2014 and 2013, were approximately $16,400,000 and $36,000,000, respectively. Access to the escrow deposit account is prohibited without the written concurrence of the NYSDFS and the NYSDOH. During 2014 and 2013, the Plan received approval from the NYSDFS and the NYSDOH to release $10,000,000 and $15,000,000 of the escrow deposit, respectively.

5. INVESTMENTS AND ASSETS LIMITED AS TO USE

Investments—Investments as of December 31, 2014 and 2013, consist of the following (in thousands):

	2014	2013
US government and agency obligations	$ 11,035	$ 10,614
Corporate debt obligations	16,200	25,059
Fixed-income mutual funds	11,902	
Equity mutual funds	63,898	58,368
Common collective trusts	14,148	9,466
Mortgage-backed securities	7,279	13,483
Alternative investments	22,167	15,893
Cash investments	2,519	19,016
Total investments	149,148	151,899
Less current investments	(15,901)	(48,129)
Investments—net of current	$ 133,247	$ 103,770

Assets Limited as to Use—Assets limited as to use as of December 31, 2014 and 2013, consist of the following (in thousands):

	2014	2013
Debt requirements—cash investments	$ 19,520	$ 20,591
Regulatory requirements:		
Cash investments	4,252	4,086
US government and agency obligations	2,503	13,482
Corporate debt obligations	10,772	19,602
Donor restricted:		
Cash investments	5,559	4,858
Beneficial interest in trust	155	158
Asset purchase agreement escrow requirement—cash investments	5,001	5,000
Board designated—cash investments	3,466	3,278
Total assets limited as to use	51,228	71,055
Less current portion	(1,410)	(1,449)
Total assets limited as to use—less current portion	$ 49,818	$ 69,606

Investment Returns—The composition of investment returns for the years ended December 31, 2014 and 2013, is as follows (in thousands):

	2014	2013
Interest and dividend income	$ 3,393	$ 3,817
Realized gains on investments—net	2,801	1,675
Total	$ 6,194	$ 5,492
Other changes in unrestricted net assets—net change in unrealized gains on investments	$ (1,803)	$ 3,034

Unrealized Losses—As of December 31, 2014 and 2013, individual investments in an unrealized loss position are not material.

6. FAIR VALUE MEASUREMENTS

Lutheran Healthcare calculates fair value as described in Accounting Standards Codification (ASC) 820-10, *Fair Value Measurements and Disclosures—Overall*, to value its financial assets and liabilities, when applicable. Fair value is based on 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. In order to increase consistency and comparability in fair value measurements, ASC 820-10 establishes a three-level valuation hierarchy that prioritizes observable and unobservable inputs used to measure fair value. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1—Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2—Observable inputs that are based on inputs not quoted in active markets, but corroborated by market data.

Level 3—Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. In determining fair value, Lutheran Healthcare utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible, as well as consider counterparty credit risk in its assessment of fair value.

Financial assets and liabilities carried at fair value for the years ended December 31, 2014 and 2013, are classified in the table below in one of the three categories described above (in thousands):

	As of December 31, 2014			
	Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Fair Value
Investments and assets limited as to use:				
Cash investments	$ 40,317	$ -	$ -	$ 40,317
Debt securities:				
US government and agency obligations		13,538		13,538
Corporate debt obligations		26,972		26,972
Mortgage-backed securities		7,279		7,279
Alternative investments			22,167	22,167
Common collective trusts		14,148		14,148
Beneficial interest in trust		155		155
Mutual funds:				
Equity	63,898			63,898
Fixed income	11,902			11,902
Total	$ 116,117	$ 62,092	$ 22,167	$ 200,376
Share of assets held in pension plan:				
Cash investments	$ 17,103	$ -	$ -	$ 17,103
Debt securities:				
Corporate debt obligations		10,476		10,476
Mortgage-backed securities		535		535
Alternative investments			64,937	64,937
Common collective trusts		6,529		6,529
Equity mutual funds	60,589			60,589
Equity securities	38,416			38,416
Total	$ 116,108	$ 17,540	$ 64,937	$ 198,585

	As of December 31, 2013			
	Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Fair Value
Investments and assets limited as to use:				
Cash investments	$ 56,829	$ -	$ -	$ 56,829
Debt securities:				
US government and agency obligations		24,096		24,096
Corporate debt obligations		44,661		44,661
Mortgage-backed securities		13,483		13,483
Alternative investments			15,893	15,893
Common collective trusts		9,466		9,466
Beneficial interest in trust		158		158
Equity mutual funds	58,368			58,368
Total	$ 115,197	$ 91,864	$ 15,893	$ 222,954
Share of assets held in pension plan:				
Cash investments	$ 123	$ -	$ -	$ 123
Debt securities:				
Corporate debt obligations		13,976		13,976
Mortgage-backed securities		996		996
Alternative investments			69,971	69,971
Common collective trusts		14,505		14,505
Equity mutual funds	53,837			53,837
Equity securities	44,150			44,150
Total	$ 98,110	$ 29,477	$ 69,971	$ 197,558

Share of Assets Held in the Pension Plan—As discussed in Note 9, the Health Services Retirement Plan (HSRP) administers the assets of Lutheran HealthCare's pension plan. The assets of all of the plans administered by HSRP are maintained in one trust account and allocated to the participating plans. The above table presents Lutheran HealthCare's pro rata share of each investment category.

Transfers between Levels—The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period. For the years ended December 31, 2014 and 2013, there were no transfers between levels.

Valuation Techniques—Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The following is a description of the valuation methodologies used for assets and liabilities measured at fair value on a recurring basis. There have been no changes in the methodologies used at December 31, 2014 and 2013.

The fair value of investments is determined in accordance with the current fair value guidance and as described below. Net asset value (NAV) would not be used as a practical expedient for fair value when it is determined to be probable that the investment would sell for an amount different than the reported NAV. In such situations, management would estimate the fair value of the investment in good faith based on the available information and will update the fair value methodology if a significant event occurs which has the potential of affecting the ultimate value of the investment.

Cash Investments—The carrying value of cash investments approximates fair value as maturities are less than three months and/or include money market funds that are based on quoted prices and actively traded.

US Government and Agency Obligations—The fair values of investments in US government and agency obligations classified as Level 2 were primarily determined using techniques consistent with the income approach. Significant observable inputs to the income approach include data points for benchmark constant maturity curves and spreads.

Corporate Debt Obligations—The fair values of investments in corporate debt obligations classified as Level 2 were primarily determined using techniques that are consistent with the market approach. Significant observable inputs include benchmark yields, reported trades, observable broker-dealer quotes, issuer spreads, and security specific characteristics (such as early redemption options).

Mortgage-Backed Securities—The fair values of mortgage-backed securities classified as Level 2 were primarily determined using techniques consistent with the income approach, such as a discounted cash flow model. Significant observable inputs include prepayment speeds and spreads, benchmark yield curves, volatility measures, and quotes.

Equity Securities—Fair value estimates for equity securities are based on quoted market prices that are traded in an active market.

Mutual Funds—The fair values of mutual funds are based on quoted market prices or NAV. These funds are required to publish their NAV and to transact at that price. The mutual funds held by Lutheran HealthCare are deemed to be actively traded.

Alternative Investments—The alternative investments presented above are Lutheran HealthCare's pro rata share of alternative investments held by the pension plan (see Note 9) and those held in Lutheran HealthCare's investment portfolio. Of the total alternative investments held by the pension plan, approximately 77% (73% in 2013) are in hedge funds, 9% (18% in 2013) in comingled equity funds, and 14% (9% in 2013) in private equity funds. The estimated fair values of the alternative investments for which no quoted market prices are readily available are determined based upon information provided by the fund managers. Such information is generally based on the pro rata interest in the NAV of the investments. The values for the underlying investments are fair value estimates determined by external fund managers based on recent filings, operating results, balance sheet stability, growth, and other business and market sector fundamentals. Funds categorized within Level 3 are subject to a minimum holding period or lockup, cannot be redeemed at the measurement date or with 90 days thereof, are subject to redemption notice periods in excess of 90 days, or have the ability to limit the aggregate amount of shareholders' redemptions. The limited partnerships allocate gains, losses, and expenses to the partners based on the ownership percentage as described in the respective partnership or hedge fund agreements.

Common Collective Trusts—The fair value of a common collective trust is based on the NAV of the fund, representing the fair value of the underlying investments which are generally securities which are traded on an active market. Such investments are classified as Level 2 because Lutheran HealthCare has the ability to redeem its investment in the fund at the NAV per share (or its equivalent) at the measurement date or within the near term and there are no other potential liquidity restrictions.

Receivables and Payables—The carrying value of Lutheran HealthCare's receivables and payables approximates fair value, as maturities are short term.

Long-Term Debt—The carrying amounts and fair values of the Medical Center's and Augustana's long-term debt are based on current traded value. Management considers these inputs to be Level 2. Such amounts at December 31, 2014 and 2013, are as follows (in thousands):

	2014	2013
Carrying amount	$ 56,172	$ 62,930
Estimated fair value	$ 54,557	$ 59,276

The fair values of Lutheran HealthCare's remaining long-term debt approximate the carrying amounts.

Interest Rate Swap Instruments—The fair values of interest rate swap instrument (see Note 11) were determined using the zero-coupon method. This method calculates the future net settlement payments required by the swap based on the current forward rates implied by the yield curve. These net payments are then discounted using a zero coupon discount rate derived from the London InterBank Offered Rate (LIBOR) swap curve. Management considers these inputs to be Level 2.

The following table presents the changes in fair value measurements using significant unobservable inputs (Level 3) for assets held for the years ended December 31, 2014 and 2013 (in thousands):

Investments and Assets Limited as to Use	**Hedge Funds**	**Total**
Balance—January 1, 2013	$ 9,300	$ 9,300
Purchase and sales	5,100	5,100
Unrealized gains and losses	1,493	1,493
Balance—December 31, 2013	15,893	15,893
Purchase and sales	5,600	5,600
Unrealized gains and losses	674	674
Balance—December 31, 2014	$ 22,167	$ 22,167

Share of Assets Held in Pension Plan	**Hedge Funds**	**Comingled Equity Funds**	**Private Equity Funds**	**Total**
Balance—January 1, 2013	$ 42,472	$ 11,549	$ 4,770	$ 58,791
Purchase and sales	3,577	493	1,299	5,369
Realized gains and losses	3,760	158	39	3,957
Unrealized gains and losses	1,578	(197)	473	1,854
Balance—December 31, 2013	51,387	12,003	6,581	69,971
Purchase and sales	(1,132)	(5,230)	1,432	(4,930)
Realized gains and losses	684	(85)	236	835
Unrealized gains and losses	(836)	(1,018)	915	(939)
Balance—December 31, 2014	$ 50,103	$ 5,670	$ 9,164	$ 64,937

Included within investments and the share of assets held in the pension plan are investments in certain limited liability partnerships and corporations and common collective trusts that report fair value using a calculated NAV or its equivalent. A summary of investments with a reported NAV that have restrictions on Lutheran HealthCare's ability to redeem its investment at the measurement date as of December 31, 2014 and 2013, is as follows (in thousands):

	Fair Value as of December 31, 2014 (In Thousands)	Fair Value as of December 31, 2013 (In Thousands)	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Assets held in investments—common collective trust—Wellington Global Bond Fund [q]	$10,268	$ 6,937	None	Monthly	22 days
Limited liability partnerships and corporations:					
EnTrust Capital Diversified Fund [r]	$10,916	$ 7,874	None	Quarterly	90 days
Weatherlow Offshore Fund I [s]	11,251	8,019	None	Quarterly	65 days
Total	$22,167	$15,893			
Assets held in pension plan:					
Common collective trust:					
EB Temporary Investment Fund II [a]	$ -	$ 3,037	None	Daily	N/A
MCM International Stock Index Fund [b]	6,529	11,468	None	Daily	N/A
Total	$ 6,529	$14,505			
Limited liability partnerships and corporations:					
AXIOM International Equity Fund II [c]	$ 6,673	$ 6,459	None	Monthly	15 days
City of London Investable Emerging Markets Country Fund [d]	3,849	4,898	None	Monthly	30 days
Archstone ERISA Fund, Ltd. [e]	14,689	16,201	None	Quarterly	90 days
Forester Partners, L.P. [f]	5,513	4,863	None	Annual	95 days
Nyes Ledge Capital Offshore Fund [g]	9,021	8,151	None	Annual	90 days
Gresham Investment Management Fund: Tap Fund [h]	5,319	6,004	None	Monthly	5 days
Common Fund Capital Natural Resources Partners VII, L.P. [i]	1,497	1,265	322	Illiquid	N/A
Common Fund Capital Natural Resources Partners IX, L.P. [p]	519	211	1471	Illiquid	N/A
Wellington Strategic Real Asset Pool [j]	5,670	12,003	None	Monthly	30 days
HRJ Capital Special Opportunities II (U.S.) L.P. [k]	715	810	123	Illiquid	N/A
HRJ Capital Special Opportunities II (International) L.P. [l]	681	649	158	Illiquid	N/A
Park Street Capital Private Equity Fund IX, L.P. [m]	1,783	1,525	230	Illiquid	N/A
Park Street Capital Private Equity Fund X, L.P. [o]	1,177	712	1177	Illiquid	N/A
Flag Venture Partners VII, L.P. [n]	1,236	894	84	Illiquid	N/A
Capital Guardian Emerging Markets Total Opportunities Master Fund [t]	5,039	4,811	None	Monthly	5 days
Dover Street VIII Cayman Fund L.P. [u]	985	328	1121	Illiquid	N/A
TrueBridge-Kauffman Fellows Endowment Fund III [v]	571	187	1431	Illiquid	N/A
Total	$64,937	$69,971			

[a] EB Temporary Investment Fund II—The primary investment objective of the Fund is a high level of current income consistent with stability of principal and liquidity. The assets are invested in a diversified portfolio of US Treasuries, federal agencies, sponsored agencies or sponsored corporations, and short-term corporate obligations, maturing in 397 days or less.

[b] MCM International Stock Index Fund—The fund seeks to replicate the performance of the Morgan Stanley Capital International (MSCI) EAFE index with minimal tracking error. The assets are invested in stocks that make up the index, holding each stock in approximately the same proportion as its weighting in the index.

[c] AXIOM International Equity Fund II—The investment philosophy employs a bottom-up growth-oriented investment discipline that relies on detailed fundamental stock analysis to identify companies that are improving more quickly than generally expected. The assets are invested in non-US securities that have a minimum market capitalization of $250 million, are covered by three or more sell-side brokerage analyst, and have liquidity of over $1 million per day.

[d] City of London Investable Emerging Markets Country Fund—This fund employs a value-oriented strategy which seeks to outperform the MSCI Emerging Markets Index while maintaining a lower level of volatility through active country allocation and stock selection. The assets of the fund are primarily invested in closed-end funds as an investment medium. The investment universe includes local and offshore listed as well as New York and UK listed funds.

[e] Archstone ERISA Funds, Ltd.—The fund's objective is to seek consistent long-term growth of capital with reduced volatility compared to the general markets. The fund allocates its capital across a number of strategies that are anticipated to be uncorrelated to each other and whose returns should complement each other. The fund seeks to reduce its individual manager risk by allocating its capital to several managers in each strategy.

[f] Forester Partners, L.P.—The fund employs a fundamental approach to hedge fund research utilizing both qualitative and quantitative analysis. The fund invests in a variety of hedge funds.

[g] Nyes Ledge Capital Offshore Fund—The fund employs a fundamental three-step approach to fund manager selection: determine the economic basis for a particular asset class or market segment, identify appropriate strategies designed to exploit the targeted inefficiency, and source organizations that are properly structured to implement the identified strategies. The fund invests in a variety of hedge funds.

[h] Gresham Investment Management Fund—Tap Fund—The fund employs a long-only strategy that seeks capital appreciation by investing in a portfolio of commodities. The fund invests in six commodity groups: agriculture, base metals, precious metals, softs and others, energy, and livestock and up to five commodities within each group.

[i] Common Fund Capital Natural Resources Partners VII, L.P.—The fund seeks to earn long-term capital appreciation, portfolio diversification through low and negative correlation to other asset classes, and potential as an inflation hedge. The fund invests in 12 to 15 funds in the energy, timber, and natural resources sectors. The bulk of the fund focuses on managers directly involved in oil and gas production and oil field services. The remainder amount is allocated to timber and other energy strategies.

[j] Wellington Strategic Real Asset Pool—The investment strategy seeks to outperform a customized benchmark over a full business cycle. The fund invests in four market segments: global energy equities, global metals and mining equities, commodities, and US TIPS.

[k] HRJ Capital Special Opportunities II (US) L.P.—The fund will target special opportunity funds headquartered in the United States whose investments are primarily in portfolio companies with operations in the United States. The fund made commitments to six to eight domestic managers pursuing turnaround, distressed, and special situations strategies.

[l] HRJ Capital Special Opportunities II (International) L.P.—The fund will target special opportunity funds headquartered outside the United States whose investments are primarily in portfolio companies with operations outside the United States. The fund made commitments to six to eight international managers pursuing turnaround, distressed, and special situations strategies.

[m] Park Street Capital Private Equity Fund IX, L.P.—The fund's portfolio will consist predominantly of US-based managers, with a 50/50 split between venture capital and nonventure capital private equity investments. The fund invests in approximately 20 to 25 venture and nonventure private equity managers.

[n] Flag Venture Partners VII, L.P.—The fund's mission is to construct a portfolio of select, top-quality fund managers in order to generate superior returns. The fund will invest in approximately 24 to 25 underlying venture funds. 80% of the fund will be invested in information technology and communications-focused managers, with the balance to health care or specialized strategies.

[o] Park Street Capital Private Equity Fund X, L.P.—The fund's portfolio will consist predominantly of US-based managers, with a 50/50 split between venture capital and nonventure capital private equity investments. The fund invests in approximately 20 to 25 venture and nonventure private equity managers.

(p) Common Fund Capital Natural Resources Partners IX, L.P.—The fund seeks to earn long-term capital appreciation, portfolio diversification through low and negative correlation to other asset classes, and potential as an inflation hedge. The fund invests in 12 to 15 funds in the energy, timber, and natural resources sectors. The bulk of the fund focuses on managers directly involved in oil and gas production and oil field services. The remainder amount is allocated to timber and other energy strategies.

(q) Wellington Global Bond Fund—This fund uses diversified, independent sources of alpha in order to exploit unsynchronized movements in economic activity, interest rates, and credit cycles that impact global bond markets. The goal is to consistently add 100–150 basis points of excess return over the Citigroup World Government Bond Index.

(r) EnTrust Capital Diversified Fund—This fund is a fund-of-funds portfolio that seeks diversification through a combination of managers trading a range of strategies.

(s) Weatherlow Offshore Fund I—This fund is a diversified fund of hedge funds that seeks to generate equity-like returns with bond-like volatility.

(t) Capital Guardian Emerging Markets Total Opportunities Master Fund—This fund seeks to provide emerging markets equity-like returns with lower volatility through a broad array of instruments, including equities, fixed income, and currencies.

(u) Dover Street VIII Cayman Fund L.P.—This fund seeks to generate returns in excess of the private equity market performance and offer differentiated exposure versus traditional public equity.

(v) TrueBridge-Kauffman Fellows Endowment Fund III—This fund seeks to generate returns in excess of private equity market performance and offer differentiated exposure versus traditional public equity.

7. PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2014 and 2013, is as follows (in thousands):

	2014	2013
Land	$ 11,523	$ 11,523
Buildings and improvements	241,699	240,239
Equipment	230,948	220,781
Construction in progress	7,551	5,629
Property and equipment—gross	491,721	478,172
Less accumulated depreciation and amortization	(317,083)	(295,984)
Property and equipment—net	$ 174,638	$ 182,188

Depreciation expense was approximately $21,639,000 and $20,988,000 in 2014 and 2013, respectively. Lutheran HealthCare capitalizes interest during the construction period. During 2014 and 2013, approximately $135,000 and $127,000, respectively, of interest related to construction projects was capitalized.

Substantially, all property, buildings, and equipment serve as collateral for debt obligations.

Equipment under capital leases as of December 31, 2014 and 2013, is as follows (in thousands):

	2014	2013
Computer hardware and software	$ 9,450	$ 8,975
Equipment	29,134	28,811
Less accumulated amortization	(32,123)	(28,650)
Total	$ 6,461	$ 9,136

8. PROFESSIONAL LIABILITIES

For the period January 1, 1976, through September 30, 1997, the Medical Center was self-insured for professional and other general liability claims. Effective October 1, 1997, the Medical Center purchased primary and excess professional liability coverage on a claims-made basis and general liability coverage on an occurrence basis from a commercial insurer. All other Lutheran HealthCare entities have professional liability insurance under occurrence basis policies.

The professional liabilities are estimated based on the Medical Center's actual claim experience, asserted claims and incidents that have been incurred but not yet reported, estimates of settlement amounts, administrative and other expenses, and similar items. The undiscounted value of estimated professional liabilities at December 31, 2014 and 2013, approximated $113,100,000 and $113,204,000, respectively. These amounts are discounted to the estimated present value of $90,593,000 and $90,676,000 at December 31, 2014 and 2013, respectively, based on a discount factor of 3%. Estimated insurance recoveries were $77,215,000 and $77,198,000 as of December 31, 2014 and 2013, respectively, and are included in other assets in the combined balance sheets.

Various claimants have asserted malpractice and general liability claims against Lutheran HealthCare. The claims are in various stages of processing and some have been or may ultimately be brought to trial. Furthermore, there are known incidents that have occurred through December 31, 2014, that may result in the assertion of additional claims and other claims may be asserted arising from services provided in the past. It is the opinion of Lutheran HealthCare management that the ultimate resolution of the claims will not have a material adverse effect on Lutheran HealthCare's financial position or results of operations.

9. RETIREMENT BENEFITS

Defined Benefit Pension Plan—The Medical Center has a noncontributory-defined benefit pension plan covering those employees of the Medical Center and certain affiliated entities not covered under multiemployer union pension plans. The benefits are based on years of service. This plan was partially frozen in 2003 with one class of employees covered under a union agreement remaining active. All other eligible employees were transferred to a defined contribution plan.

Lutheran HealthCare uses a December 31 measurement date.

Obligations and Funded Status—The defined benefit plan's funded status and amounts recognized in the accompanying combined financial statements as of December 31, 2014 and 2013, are as follows (in thousands):

	2014	2013
Change in benefit obligation:		
Benefit obligation—beginning of year	$ 249,038	$ 266,818
Service cost	6,286	7,177
Interest cost	12,545	11,401
Actuarial loss (gain)	55,599	(27,165)
Benefits paid	(13,081)	(9,193)
Benefit obligation—end of year	310,387	249,038
Change in plan assets:		
Fair value of plan assets—beginning of year	197,558	175,282
Actual return on plan assets	4,876	19,439
Employer contributions	9,232	12,030
Benefits paid	(13,081)	(9,193)
Fair value of plan assets—end of year	198,585	197,558
Net amount recognized	$ 111,802	$ 51,480
Accumulated benefit obligation	$ 288,164	$ 231,525
Components of net periodic benefit cost:		
Service cost	$ 6,286	$ 7,177
Interest cost	12,545	11,401
Expected return of plan assets	(16,423)	(14,938)
Recognized actuarial loss	6,260	10,664
Total net periodic benefit cost	$ 8,668	$ 14,304

Included in unrestricted net assets as of December 31, 2014 and 2013, are unrecognized actuarial losses of $145,168,000 and $84,281,000, respectively, that have not been recognized in net periodic pension cost. The unrecognized actuarial losses expected to be recognized in net periodic pension cost during 2015 are $11,414,000. Unrecognized prior-service costs that have not been recognized in net periodic pension cost are immaterial.

Assumptions—The following assumptions were used to determine benefit obligations as of December 31, 2014 and 2013, respectively:

	2014	2013
Discount rate	4.20 %	5.10 %
Salary increase rate	2.00	2.00

For the years ended December 31, 2014 and 2013, the following assumptions were used to determine net periodic benefit cost:

	2014	2013
Discount rate	5.10 %	4.24 %
Expected long-term return on assets	8.25	8.25
Rate of compensation increase	2.00	2.00

At December 31, 2014, the mortality assumption was determined using the RP-2014 mortality tables with an adjusted fully generational mortality improvement scale, MP-2014 for Blue Collar workers.

Plan Assets—The HSRP administers the assets of Lutheran HealthCare's pension plan. The assets of all of the plans administered by HSRP are maintained in one trust account and allocated to the participating plans. The Plan's asset allocation as of December 31, 2014 and 2013, is set forth in Note 6.

The plan invests in certain funds or asset pools that are managed by investment managers for which no quoted market price is available (see Note 6).

The Board of HSRP assumes the responsibility for establishing the investment policy that is to guide the investment of pension assets. The investment policy describes the degree of investment risk that the Board deems appropriate. Below is a summary of the investment policy.

The fund assets at December 31, 2014 and 2013, are generally to be allocated according to the following target allocation rates:

	2014	2013
US equities	27 %	27 %
Non-US/global equities	14	14
Alternative investments	39	39
Debt securities	20	20
Total	100 %	100 %

The objective of the US equities component is to provide an engine for growth via steady performance with relatively low volatility as compared to other long-only equity assets classes.

The objective for the non-US stock component is to provide an engine for growth and to create diversification for domestic equities on both a geographical and currency level, thereby reducing the presence of domestic bias within the portfolio.

The objective of the alternative investments is to enhance total portfolio return through capital appreciation from investments in illiquid, less efficient, private market opportunities and to provide portfolio diversification via relatively lowly correlated assets.

The objective of the fixed-income component is to help maintain a source of spending during prolonged economic contractions, to provide protection during deflationary periods, and portfolio volatility reduction via steady flow of income and high liquidity.

Ordinary cash flows will be used to maintain the allocation as close as practical to the target allocation. If cash flows are insufficient to maintain the target allocation within the permissible ranges as of any calendar quarter-end, the HSRP staff will transfer balances between the asset classes to bring the allocation back to the target.

Diversification—The fund assets are diversified in an effort to minimize the impact of large losses in individual investments. Multiple investment managers may be retained to further that end.

Investment Objective and Performance Evaluation—The fund's rate of return (net of fees) will be compared with (1) the return of a policy portfolio consisting of 31% of the DJ Wilshire 5000 Stock Index, 14% of the MSCI EAFE, 7% of the MSCI Emerging Markets Index, 14% of the Hedge Fund Research Diversified Fund of Funds Index, 14% of the Real Assets custom blend, and 20% of the Barclays Long-Term Government/Credit Index and (2) the returns of a broad universe of pension funds.

Cash Flows—Lutheran HealthCare expects to contribute $4,500,000 to the Plan in the year ending December 31, 2015.

Future benefit payments by the defined benefit plan, reflective of expected future service, as of December 31, 2014, are expected to be paid as follows (in thousands):

Years Ending December 31	
2015	$ 11,515
2016	12,550
2017	13,630
2018	14,613
2019	15,900
2020–2024	93,121

Defined Contribution Plan—During 2001, the Medical Center established a 401(k) plan (the "401(k) Plan"), which covers Lutheran HealthCare's employees for full-time nonunion and part-time nonunion employees (scheduled to work at least 50% of the full-time standard) not covered under the defined benefit plan. Contributions of 3% of employees' eligible compensation, subject to certain Internal Revenue Code limitations, are made as a basic employer contribution for all qualifying nonunion and certain union employees. A supplemental discretionary contribution that ranges from 3% to 5% was suspended on April 1, 2011; however, Lutheran HealthCare retained the right to make periodic discretionary contributions to the 401(k) Plan. Contributions under the 401(k) Plan approximated $4,321,000 and $5,797,000 for 2014 and 2013, respectively.

Other Plans—Lutheran HealthCare is also a contributing employer to the 1199 SEIU Health Care Employees Pension Fund (the "Multiemployer Plan"). Contributions to the Multiemployer Plan are made in accordance with contractual agreements under which contributions are based on a percentage of salaries.

Under the Employee Retirement Income Security Act of 1974, as amended by the Multiemployer Pension Plan Amendments Act of 1980, the risks of participating in multiemployer plans are different from single-employer plans in the following respects:

- Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.

- If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.

- If the employer chooses to stop participating in some of its multiemployer plans, the employer may be required to pay those plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

Until such events as described above occur, Lutheran HealthCare's share, if any, of the unfunded vested liabilities cannot be determined. As of December 31, 2014, Lutheran HealthCare has no plans to withdraw from the Multiemployer Plan.

Lutheran HealthCare's participation in the Multiemployer Plan for the years ended December 31, 2014 and 2013, is outlined below:

- The Employee Identification Number is 13-3604862 and the three-digit plan number is 001.

- The Pension Plan Protection Act of 2006 zone status is based on information that Lutheran HealthCare received from the Multiemployer Plan's sponsor and is certified by the Multiemployer Plan's actuary. The Multiemployer Plan is in the green zone indicating that it is at least 80% funded as of January 1, 2014, and January 1, 2013. January 1, 2015, data is not available at this time.

- Lutheran HealthCare was not required to pay a surcharge to the Multiemployer Plan.

- The collective bargaining agreement to which the Multiemployer Plan is subject expires on July 31, 2015.

- Lutheran HealthCare contributed $10,183,000 and $11,000,000 to the Multiemployer Plan for the years ended December 31, 2014 and 2013, respectively. Lutheran HealthCare did not contribute greater than 5% of the total contributions to the Multiemployer Plan and was not listed in the Form 5500 for the Multiemployer Plan for the years ended December 31, 2014 and 2013.

The Multiemployer Plan was certified by its actuary to be in "green zone" status—not seriously nor critically endangered as of January 1, 2014 and 2013. January 1, 2015, data is not available as of this time.

At the date the combined financial statements were issued, Form 5500 was not available for the Multiemployer Plan for the year ended December 31, 2014.

10. OTHER BORROWINGS

The Medical Center has entered into a $10 million line-of-credit agreement with a bank. At the Medical Center's discretion, the line of credit will either have a floating rate based on the prime interest rate or a fixed interest rate at LIBOR, plus 1.25%, for a 30- or 60-day period and then reset at the end of the period. The line of credit expires in September 2015. It is secured by a second position on certain assets of the Medical Center and Sunset Park. The line of credit contains certain covenants, among others, which require compliance with certain financial ratios as well as limits on additional indebtedness. Management is not aware of any noncompliance with such covenants at December 31, 2014 and 2013. As of December 31, 2014 and 2013, the Medical Center had no outstanding borrowings under the line of credit.

Effective January 1, 2014, the Medical Center secured an irrevocable standby letter of credit from TD Bank for $2,084,000 with Empire Blue Cross Blue Shield as beneficiary. The irrevocable standby letter of credit is required pursuant to a minimum premium self-insured agreement with Empire Blue Cross Blue Shield for health benefits for the Medical Center and affiliates' nonunion employees. The letter of credit will be extended automatically, without amendment, for additional periods of one year from the present or each future expiration date. On December 9, 2014, the letter of credit amount was increased to $2,383,000 and extended to December 31, 2015. As of December 31, 2014, no amount was drawn on the letter of credit.

11. LONG-TERM DEBT

Long-term debt as of December 31, 2014 and 2013, is as follows (in thousands):

	2014	2013
Medical Center mortgage loan [a]	$ 33,425	$ 38,989
Augustana mortgage loans [b]	22,747	23,401
Sunset Gardens mortgage loan [c]	12,972	12,972
Harbor Hill mortgage loan [d]	7,627	7,627
Shore Hill Housing loan [e]	18,437	18,687
Other indebtedness	18,701	13,162
Total long-term debt	113,909	114,838
Less current portion	8,520	6,525
Total long-term debt—less current portion	$ 105,389	$ 108,313

[a] During 2003, the Medical Center entered into a mortgage agreement to refinance certain existing mortgage obligations and to provide additional funds to perform major renovation work at the Medical Center. The Dormitory Authority of the State of New York (DASNY) provided $85.3 million, which was made available from portions of the proceeds of DASNY's sale of Series 2003 revenue bonds. The loan is payable in monthly payments of principal and interest at a fixed rate of 4.15% through 2028. The mortgage is collateralized by a substantial portion of the Medical Center's and Sunset Park's property, buildings and equipment, and unrestricted assets and revenue and is insured by the HUD under Section 242 of the National Housing Act. The mortgage has certain covenants which, among others, require compliance with specified financial ratios for which noncompliance may limit additional indebtedness. On August 21, 2012, the Medical Center closed on a refinancing that modified the mortgage for a reduced interest rate to 2.28% and a reduction in the principal by $5,696,000. The refinancing was funded by the proceeds from Ginnie Mae taxable securities. The proceeds funded an escrow to defease the 2003 revenue bonds. As required, the Medical Center has deposited funds in assets whose use is limited to satisfy the ending balance requirement of $12,579,000 and $11,885,000 as of December 31, 2014 and 2013, respectively. For the years ended December 31, 2014 and 2013, the Medical Center was in compliance with its required covenants.

[b] Augustana received financing from DASNY. The original mortgage note was $17,928,000. On April 29, 1998, additional financing through a supplemental mortgage note was approved by DASNY for additional project costs in the amount of $2,701,300. Under the terms of Augustana's refinancing agreement with DASNY in December 2000, principal payments are to be made through March 2035 at an interest rate of 6.65%. The mortgage is insured by HUD under Section 232 of the National Housing Act. Effective March 2012, due to mortgage refinancing, DASNY assigned its rights to Century Health Capital, Inc. at the loan balance amount of $17,566,000 and at an interest rate of 3.73%, maturing on April 1, 2035.

Equal monthly payments of $94,680 commenced on April 1, 2012. All other terms remained the same. In connection with the terms, provisions, and covenants of the mortgage agreement, Augustana is required to make annual deposits in restricted depreciation and replacement reserve funds. Required deposits are $14,355 monthly for replacement reserves, $45,800 for mortgage insurance escrow, and $22,083 for depreciation funds. The balance of this mortgage was $16,176,000 and $16,698,000 as of December 31, 2014 and 2013, respectively.

In August 2001, Augustana received additional financing for facility expansion. The principal amount was $7,775,000 at an initial interest rate of 8% through October 1, 2002, and 6.75% thereafter. The balance of the mortgage of $6,882,000 was refinanced in July 2012 at an interest rate of 3.73% with rights assigned to Century Health Capital, Inc. The loan matures on October 1, 2042. Required monthly deposits include $3,769 and $2,770 into a replacement reserve and mortgage insurance escrow fund, respectively. The balance of this mortgage was $6,571,000 and $6,703,000 as of December 31, 2014 and 2013, respectively.

(c) Sunset Gardens is a not-for-profit corporation organized pursuant to Article XI of the Private Housing Finance Law and Section 402 of the Not-for-Profit Corporation Law to acquire an interest in real property located in Brooklyn, New York, and to construct and operate thereon an apartment complex of 81 units under Section 202 of the National Housing Act. Rental operations began in July 2008, at which time the initial units were completed.

The project has a fully insured HUD mortgage ("capital advance") in the amount of $12,972,000 at December 31, 2014 and 2013. This capital advance bears no interest and need not be repaid so long as the housing remains available to elderly or disabled persons for at least 40 years. Failure to keep the housing available for the elderly or disabled would result in HUD billing the project owner the entire capital advance outstanding, plus interest since the date of the first advance. Management believes that the likelihood that Sunset Gardens will fail to meet its requirements under the HUD mortgage is remote and, accordingly, interest is not being accrued on the mortgage. The amount of such unrecorded interest at December 31, 2014 and 2013, was approximately $4,525,000 and $3,909,000, respectively.

(d) Harbor Hill is a not-for-profit corporation organized pursuant to Article IX of the Private Housing Finance Law and Section 402 of the Not-for-Profit Corporation Law to acquire an interest in real property located in Brooklyn, New York, and to construct and operate thereon an apartment complex of 87 units under Section 202 of the National Housing Act. Rental operations began in October 1995, at which time the initial units were completed.

Harbor Hill has a capital advance in the amount of $7,627,000. This capital advance bears no interest and need not be repaid so long as the housing remains available to elderly or disabled persons for at least 40 years. Failure to keep the housing available for elderly or disabled persons would result in HUD billing the project owner the entire capital advance outstanding, plus interest since the date of the first advance. Management believes that the likelihood that Harbor Hill will fail to meet its requirements under the HUD mortgage is remote and, accordingly, interest is not being accrued on the mortgage. The amount of such unrecorded interest at December 31, 2014 and 2013, was approximately $10,443,000 and $9,937,000, respectively.

Under the regulatory agreement, the project is required to set aside $42,960 each year for replacement of property and other project expenditures as approved by HUD. These restricted deposits are held in separate accounts and generally are not available for operating purposes. These assets are presented as assets limited as to use in the accompanying combined balance sheets.

(e) During 2008, Shore Hill Housing Associates, L.P. obtained financing in the form of a variable-rate $39,000,000 note from the New York State Housing Finance Agency through the issuance of tax-exempt Shore Hill Housing Revenue Bonds, 2008 Series A. Interest-only payments were due monthly until May 2010. The average interest rate on this debt was approximately 4% during 2010 and 5% during 2009. In May 2010, the $39,000,000 note was repaid with $19,500,000 proceeds of limited partner funding (see Note 18) and $19,500,000 permanent mortgage financing with Wells Fargo Bank. Commencing in 2010, monthly payments of principal and interest on the $19,500,000 mortgage totaling $73,000 will be required through December 1, 2044. The note is collateralized by a mortgage on the related property.

Concurrently with the execution of the note, the partnership entered into an interest rate swap agreement with JPMorgan Chase Bank. The swap has a notional amount of $18,458,000 and $18,707,000 at December 31, 2014 and 2013, respectively. The interest rate swap was entered into to manage interest rate risk associated with the related variable rate debt. The swap agreement fixes the interest rate at 3.451% through September 1, 2023. At December 31, 2014 and 2013, the fair value of the swap liability totaled $2,542,000 and $1,735,000, respectively. This amount is reported with other long-term liabilities in the accompanying combined balance sheets. The change in the fair value of the swap totaled $(809,000) and $1,770,000 in 2014 and 2013, respectively. Because the swap has not been designated as a hedge for accounting purposes, these amounts are reported with supplies and expenses. Net settlements on the interest rate swap are included as a component of interest expense in the accompanying combined statements of operations.

Lutheran HealthCare and the counterparty in the interest rate swap agreement are exposed to credit risk in the event of nonperformance or early termination. The agreement may be terminated following the occurrence of certain events, at which time Lutheran HealthCare may be required to make a termination payment.

Other Indebtedness—On December 15, 2011, the Medical Center entered into an $18,300,000 nonrevolving credit facility with TD Bank. The facility is structured into a three-year advance draw period after which it converts to a five-year term loan. The annual interest rate is reset monthly and is based on the higher of the (1) LIBOR index, plus 2%, or (2) 2.20%. During the advance period, only interest was paid monthly. On December 15, 2014, the facility converted to the five-year term loan, the monthly payment of principal of $152,500 and interest are based on an amortization of the principal over a 10-year period that will result in a balloon payment of $9,150,000 at December 13, 2019, the end of the loan term. At December 31, 2014, the interest rate in effect was 2.20% and the outstanding balance was $18,300,000. At December 31, 2013, the interest rate in effect was 2.17% and the outstanding balance was $12,705,000.

Maturities of Long-Term Debt—Scheduled repayments of long-term debt as of December 31, 2014, for each of the next five years and thereafter are as follows (in thousands):

Years Ending December 31	
2015	$ 8,520
2016	8,329
2017	4,381
2018	4,462
2019	4,546
Thereafter	83,671
Total	$ 113,909

Leases—As of December 31, 2014, future minimum payments, by year and in the aggregate, under capital leases and noncancelable operating leases with initial or remaining terms of one year or more consisted of the following (in thousands):

Years Ending December 31	Capital Leases	Operating Leases
2015	$ 2,868	$ 2,764
2016	1,951	2,575
2017	1,589	1,932
2018	865	1,512
2019	455	1,307
Thereafter		7,808
Total minimum lease payments	7,728	$ 17,898
Less amount representing interest (various rates)	549	
	$ 7,179	

Total rental expense charged to operations was $5,185,000 and $4,472,000 in 2014 and 2013, respectively.

12. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets as of December 31, 2014 and 2013, are available for the following purposes (in thousands):

	2014	2013
Patient care services and educational programs	$ 3,651	$ 3,645
Plant replacement and expansion	1,600	860
	$ 5,251	$ 4,505

Permanently restricted net assets as of December 31, 2014 and 2013, were $509,000 and $511,000, respectively, and consisted entirely of amounts to be held in perpetuity, the income from which is unrestricted and can be used for any purpose. During 2010, the State of New York passed the Prudent Management of Institutional Funds Act. Lutheran HealthCare has interpreted this law as requiring realized and unrealized gains of permanently restricted net assets to be retained in a temporarily restricted net asset classification until appropriated by the Board and expended. This law allows the Board to appropriate so much of the net appreciation of permanently restricted net assets as is prudent considering Lutheran HealthCare's long- and short-term needs, present and anticipated financial requirements, and expected total return on its investments; price level trends; and general economic conditions. No amounts were appropriated in 2014 or 2013. Accumulated gains are not material.

13. FUNCTIONAL EXPENSES

Lutheran HealthCare provides a comprehensive integrated network of health services.

Functional expenses related to providing such services for the years ended December 31, 2014 and 2013, are as follows (in thousands):

	2014	2013
Health care and related services	$ 644,048	$ 601,701
Program support and general	65,017	70,736
	$ 709,065	$ 672,437

14. CONCENTRATIONS OF CREDIT RISK

Lutheran HealthCare grants credit without collateral to its patients, most of whom are local residents and are insured under third-party agreements. Significant concentrations of accounts receivable for services to Medicaid patients as of December 31, 2014 and 2013, accounted for approximately 43% and 40%, respectively. Significant concentrations of accounts receivable for services to Medicare patients as of December 31, 2014 and 2013, accounted for approximately 33% and 34%, respectively.

Lutheran HealthCare routinely invests its surplus operating funds in money market funds. These funds generally invest in highly liquid US government and agency obligations. Investments in money market funds may not be insured or guaranteed by the US government.

At December 31, 2014 and 2013, approximately $11,700,000 and $27,000,000, respectively, of Lutheran Healthcare's investments in corporate debt obligations were invested in companies in the financial services sector.

15. ACCRUED MEDICAL COSTS

Activity in the liability for accrued medical costs for the years ended December 31, 2014 and 2013, is summarized as follows (in thousands):

	2014	2013
Balance—beginning of year	$ 4,898	$ 5,852
Less stop-loss insurance receivables—net	(42)	(4,751)
Net balance—beginning of year	4,856	1,101
Incurred related to:		
Prior years	6,385	(5,820)
Total incurred	6,385	(5,820)
Paid related to:		
Prior years	(9,320)	9,575
Total paid	(9,320)	9,575
Net balance—end of year	1,921	4,856
Plus stop-loss insurance receivable—net		42
Balance—December 31	$ 1,921	$ 4,898

16. AFFILIATION AGREEMENT

Affiliation Agreement between the Medical Center and Sunset Park—Effective July 1, 2007 (“Effective Date”), the Medical Center transferred the operations of the Health Center to Sunset Park to comply with the requirements of the Health Resources and Services Administration (within the US Department of Health and Human Services) in order to maintain eligibility for a Federal Section 330 grant (“330 grant”). The Medical Center and Sunset Park entered into an Affiliation Agreement and a support services agreement whereby Sunset Park has been established by NYSDOH as a “co-operator” of the Health Center and the Medical Center continues to provide support services to allow the Health Center to operate as it did before the transaction. The Health Center operates under the Medical Center’s New York State operating certificate and state and federal provider numbers. Patient care services are billed to patients and third-party payors (principally Medicaid and Medicare) by the Medical Center. Although the Medical Center continues to bill for all patient care services furnished by the Health Center in the Medical Center’s name and under the Medical Center’s provider numbers, all of the Health Center’s patient revenues contractually inure to the benefit of Sunset Park under the terms of the Affiliation Agreement. There are several common board members; however, neither the Medical Center nor Sunset Park have the ability to exercise majority control of the other’s board of directors.

A steering committee of equal representation from both entities is responsible for overseeing and facilitating the clinical and administrative arrangements between the Medical Center and Sunset Park. The Medical Center and Sunset Park continue to cooperate in implementing a coordinated and integrated quality assurance/quality management program for the Health Centers.

Accounting for the Affiliation Agreement—Following execution of the Affiliation Agreement, substantially all of the operations and the related assets of the Health Center were transferred to, and its liabilities were assumed by, Sunset Park. The assets transferred and liabilities assumed were accounted for in a manner similar to a pooling of interests whereby Sunset Park initially recognized the assets and liabilities transferred at their carrying amounts in the accounts of the Medical Center as of January 1, 2007.

Provision of Clinical Services—Sunset Park is responsible for ensuring that the clinical services of the Health Centers are available and accessible promptly, as appropriate, and in a manner, which ensures continuity of service to the residents of each Health Center's area. In providing clinical services, the parties agreed to utilize the licensed physicians and other health care professionals employed and/or otherwise engaged by Sunset Park. Such physicians are also generally members of the medical and dental staffs of the Medical Center.

Sunset Park Authority—Sunset Park has all of the authority, with respect to the Health Center, required to qualify as a federally qualified health center and to receive Section 330 grants and has autonomy over all decisions related to operation of the Health Center.

Property and Equipment—As of the Effective Date, title to the property, equipment, and supplies associated with the Health Center remained with the Medical Center. Sunset Park obtained authority to use the property in connection with its cooperation of the Health Center. The property and equipment associated with the Health Center remained subject to HUD mortgage covenants (see Note 11). The Medical Center agreed to include Sunset Park as joint owner on the title of three health centers with a net book value of approximately $2,712,000 as of the Effective Date and agreed to transfer full title for these three health center facilities to Sunset Park upon the expiration of the HUD covenants. Commencing on the Effective Date, the parties agreed that the Health Center's facilities will be utilized exclusively for the operation of the 330 grant-supported health centers. Under certain circumstances, the Medical Center has agreed to fund Sunset Park's annual capital improvements in an amount equal to the lower of $1,500,000 or Sunset Park's depreciation expense for the year.

Employees—Certain physicians and senior management personnel were transferred to Sunset Park's employ during 2007 and the remainder of the nonunionized management personnel were transferred to Sunset Park's employ in 2008. After the Effective Date, Sunset Park began to directly employ or engage any additional clinical staff that provides health services to the Health Center's patients. Certain of the Medical Center employees, including those covered by collective bargaining agreements executed by and binding on the Medical Center, provide services to the Health Center. Such employees remain employees of the Medical Center, but are contracted to Sunset Park.

Services and Flow of Funds—Sunset Park maintains a bank account into which all 330 grant funds (and other grants for which Sunset Park is the direct recipient) are directly deposited. The Medical Center bills patients and third parties, including Medicare and New York State Medicaid, for the Health Center's services generally in accordance with Sunset Park's schedule of charges and discounts. The Medical Center has agreed to collect such billings in accordance with Sunset Park's collection policies. Such collections are initially deposited into the accounts of the Medical Center; however, separate accountability is maintained. The parties agreed to allocate certain amounts initially received or paid by the Medical Center. Amounts allocated include: (i) the New York State general hospital indigent care pool (or successor pool) distributions attributable to the provision of uncompensated care services at the Health Center sites, (ii) costs associated with physician supervision and training of residents in the Medical Center-sponsored residency programs in connection with their clinical rotations to Health Center sites, (iii) Medicare graduate medical education reimbursement associated with dental and other residents whose principal site of training consists of one or more Health Center sites, and (iv) costs related to the occupational health program operated through the Health Center. The amounts to be transferred are determined prospectively based on mutually agreed-upon annual budgets.

The Medical Center provides certain administrative support services, including accounting, human resources support, and information technology/systems management support for which it receives an annual fees. The Medical Center also pays certain nonpayroll and payroll amounts on behalf of Sunset Park and certain other amounts are paid by the Medical Center and allocated to Sunset Park based upon predetermined annual budgets. On a monthly basis, the excess (or deficiency) of cash collected, plus or minus allocated net revenue or expenses, over expenses paid by the Medical Center on Sunset Park's behalf and the Medical Center service fees for providing support services is reported with the current portion of due from the Medical Center. Such amount is due on demand.

Term of the Agreements—The Affiliation Agreement and support services agreement remain in effect for so long as Sunset Park receives the 330 grant to support the Health Center and the parties remain established as co-operators of the Health Center clinical sites in accordance with New York law, unless otherwise terminated in the event of a material breach of any material term or condition of the agreements or upon the mutual agreement of Sunset Park and the Medical Center (the "Parties"). The Agreement will also terminate immediately in the event of the revocation, termination, or expiration of the Section 330 grant. Upon termination or expiration of this Agreement, the Parties agreed to cooperate in the orderly winding down of the co-operation of the Health Center.

17. COMMITMENTS AND CONTINGENCIES

Sale of the Plan's Operating and Nonfinancial Assets—On October 24, 2011, the Plan entered into an asset purchase agreement (APA) with Amerigroup. The transaction received all the required regulatory and legal approvals and closed on May 1, 2012. The Plan realized approximately $69 million in 2012 related to this transaction.

Under the terms of the APA, Amerigroup purchased all of the Plan's operating and nonfinancial assets, including property and equipment and the Plan's rights and obligations after April 30, 2012, under its Medicaid, FHP, CHP and Medicare contracts, including the right to provide services and receive the premium for such services. The purchase price of $85 million was received by the Plan in cash at closing. Of this amount, $5 million is being held in escrow for 18 months and an additional $5 million is being held in escrow for 36 months to settle claims which may arise under the APA. These amounts, plus interest earnings, are included in assets limited as to use in the combined balance sheets. During 2013, $5 million of the escrow account was released in accordance with the APA.

Amerigroup did not purchase the Plan's cash and cash equivalents, investments, premiums and other receivables, assets limited as to use as of the closing date, or any other financial assets. Further, Amerigroup is not responsible for liabilities that existed up to and including the closing date (including medical claim liabilities). As of May 1, 2012, Amerigroup assumed the obligations and liabilities under the assumed provider and payor contracts and other assumed contracts and for all activities occurring after the closing date and related solely to dates of service after April 30, 2012.

The Plan and the Medical Center have agreed that the Plan will remain in existence for a period of at least 36 months following the closing date and will maintain cash and investments in an amount necessary to satisfy its liabilities. As of May 1, 2012, Amerigroup and the Plan entered into a management services agreement under which Amerigroup will provide various services, including the collection of amounts due to the Plan and the payment of Plan liabilities.

The Plan distributed $75 million on May 1, 2012, and $30 million to the Medical Center during 2013. The Plan received approval from NYSDOH and NYSDFS to distribute an additional $50 million to the Medical Center, this transfer was done in 2014. Of the $50 million distributed in 2014, $20 million was from assets limited as to use account.

Litigation and Regulatory Investigations—In a suit filed by the Augustana's nurses under the Fair Labor Standards Act and the New York Labor Law, registered and licensed practical nurses of Augustana sought to recover salaries which were not paid properly for overtime and/or minimum wages for all hours worked. The complaint was filed on May 14, 2012, and the parties settled this lawsuit in 2013 for $2,900,000, which settlement was approved by the court on April 11, 2014. The liability was fully paid in 2014.

Laws and regulations governing health care programs are complex and subject to interpretation for which action for noncompliance includes fines, penalties, and exclusion from the Medicare and Medicaid programs. Lutheran HealthCare is involved in litigation and regulatory investigations arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on Lutheran HealthCare's financial position, results of operations, or cash flows.

Collective Bargaining Agreement—The organization is subject to collective bargaining agreements with respect to its RN and LPN nursing staff and certain other administrative and clinical positions. The current agreement for RNs runs through February 28, 2016, and covers approximately 700 staff. The agreement for substantially all other union staff runs through September 30, 2018, and covers approximately 2,000 staff.

18. SHORE HILL HOUSING COMPANY RESTRUCTURING

During 2008, Shore Hill restructured the ownership and financing of its apartment building for low-income senior citizens to enable the rehabilitation and improvement of the facility (the "restructuring"). In order to achieve the restructuring, a partnership (Shore Hill Housing Associates, L.P. (the "Partnership")) was formed.

Shore Hill Housing Associates GP, Inc. ("General Partner"), which is owned 79% by Shore Hill and 21% by the Lutheran Foundation, is the general partner and owns 0.01% of the Partnership. The partnership agreement provides that the General Partner has complete and exclusive control over the management of the Partnership. The limited partners are not liable for any debts, liabilities, losses, contracts, or other obligations of the Partnership. They are only liable to make capital contributions in the amounts and on the dates as specified in the Partnership agreement. The Medical Center and certain of its affiliates are responsible for all such obligations and losses. The Partnership term is through December 31, 2058, unless terminated earlier. Based on the nature of Lutheran HealthCare's control and economic interest in the Partnership, the Partnership has been included in Lutheran HealthCare's combined financial statements.

The General Partner may not sell, exchange, lease (outside of the normal course of business to qualified tenants), or otherwise dispose of the property without the consent of the limited partners. The General Partner also may not use Partnership assets, property, or improvements to secure the debt of any partners, their affiliates, or any third party. The Partnership is also required to maintain a minimum debt service coverage ratio. For the years ended December 31, 2014 and 2013, the Partnership was in compliance with the requirement.

Capital Contributions—The General Partner is required to make capital contributions of $1,000,000. The Limited Partner has agreed to make a capital contributions totaling $22,442,000, subject to possible adjustments based on the amount of low-income housing tax credits ultimately allocated to the Partnership, in addition to other potential occurrences. Payments are due upon reaching certain milestones during the life of the project. All Limited Partner capital contributions have been received as of December 31, 2014 and 2013. Cumulative capital contributions at December 31, 2014 and 2013, totaled $22,658,000. Such contributions are subject to recapture if the organization does not comply with the regulatory agreement or certain tax requirements for a period of 20 years. Management intends to comply with all requirements necessary to sustain the tax credits and believes that the likelihood of this not happening is remote.

The capital contributions are being accounted for as prepaid rent and are being deferred and will be recognized as revenue on a straight-line basis over a period of 20 years, which commenced with completion of the project in 2010. During 2014 and 2013, approximately $1,131,000 was recognized as revenue. At December 31, 2014 and 2013, approximately $16,966,000 and $18,097,000, respectively, of deferred revenue is reported in other long-term liabilities in the accompanying combined balance sheets.

Sale of Beneficial Rights to the Property—Pursuant to the restructuring, Shore Hill sold the beneficial rights to its property to the Partnership. Because the Partnership is included in the combined financial statements, the gain on the sale has been eliminated in preparing the combined financial statements and the property is stated at its historical cost basis. Shore Hill retained legal title to the property and a right of first refusal to repurchase the beneficial rights in certain circumstances, subject to the existing debt on the property, at a price expected to equal to one dollar, plus applicable taxes.

19. SUBSEQUENT EVENT

Effective April 1, 2015, the Medical Center entered into an affiliation agreement with NYU Hospitals Center pursuant to which, the Medical Center changed its name to NYU Lutheran Medical Center and NYU Langone Health System became its sole corporate member. NYU Langone Health System is also the sole corporate member for NYU Hospitals Center.

Lutheran HealthCare has evaluated subsequent events through May 27, 2015, which is the date the combined financial statements were issued.

* * * * * *

SUPPLEMENTAL COMBINING INFORMATION

LUTHERAN HEALTHCARE

SUPPLEMENTAL COMBINING INFORMATION—BALANCE SHEET
AS OF DECEMBER 31, 2014
(In thousands)

ASSETS	Lutheran Medical and Lutheran Family Health Centers	OHP PHSP, Inc.	Augustana	Senior Housing Projects	Professional Corporations	Other Entities	Elimination Entries	Combined Balances
CURRENT ASSETS:								
Cash and cash equivalents	$ 15,307	$ 5,499	$ 3,299	$ 2,261	$ 125	$ 2,252	$ -	$ 28,743
Investments	14,421	1,480						15,901
Assets limited as to use			209	1,201				1,410
Patient accounts receivable—net	73,840		6,265		1,860	2,594		84,559
Premiums receivable								-
Other receivables	9,655			86	37	156		9,934
Due from third-party payors	17,672		882		126			18,680
Due from related entities	8,542				4	241	(8,787)	-
Other current assets	27,441	120	414	368	1,287	146		29,776
Total current assets	166,878	7,099	11,069	3,916	3,439	5,389	(8,787)	189,003
ASSETS LIMITED AS TO USE—Less current portion	18,145	21,416	7,142	3,115				49,818
INVESTMENTS—Less current portion	133,247							133,247
PROPERTY AND EQUIPMENT—Net	113,224		12,508	51,732	1,466	1,386	(5,678)	174,638
OTHER ASSETS	79,075		253	1,343				80,671
TOTAL	$ 510,569	$ 28,515	$ 30,972	$ 60,106	$ 4,905	$ 6,775	$ (14,465)	$ 627,377

The Medical Center discloses its interests in its controlled affiliates using the cost method of accounting.

(Continued)

LUTHERAN HEALTHCARE

SUPPLEMENTAL COMBINING INFORMATION—BALANCE SHEET
AS OF DECEMBER 31, 2014
(In thousands)

LIABILITIES AND NET ASSETS	Lutheran Medical and Lutheran Family Health Centers	OHP PHSP, Inc.	Augustana	Senior Housing Projects	Professional Corporations	Other Entities	Elimination Entries	Combined Balances
CURRENT LIABILITIES:								
Accounts payable and accrued expenses	$ 40,472	$ 3,401	$ 1,059	$ 469	$ 2,100	$ 521	$ -	$ 48,022
Accrued salaries and related liabilities	26,398		1,758	84	1,306	385		29,931
Accrued medical costs		1,921						1,921
Current portion of obligations under capital leases	2,618							2,618
Current portion of long-term debt	7,584		674	262				8,520
Current portion of professional liabilities	2,600							2,600
Due to related entities		220	2,907	287	2,459	2,914	(8,787)	-
Other current liabilities	10,118		209	2,542				12,869
Current portion of due to third-party payors	3,888	5,317	526					9,731
Total current liabilities	93,678	10,859	7,133	3,644	5,865	3,820	(8,787)	116,212
DUE TO THIRD-PARTY PAYORS—Less current portion	35,396							35,396
PROFESSIONAL LIABILITIES—Less current portion	87,993							87,993
OBLIGATIONS UNDER CAPITAL LEASES—Less current portion	4,561							4,561
LONG-TERM DEBT—Less current portion	44,542		22,073	38,774				105,389
ACCRUED PENSION LIABILITY	111,802							111,802
OTHER LONG-TERM LIABILITIES	1,781			17,163				18,944
Total liabilities	379,753	10,859	29,206	59,581	5,865	3,820	(8,787)	480,297
NET ASSETS:								
Unrestricted	125,257	17,656	1,565	525	(960)	2,955	(5,678)	141,320
Temporarily restricted	5,251							5,251
Permanently restricted	308		201					509
Total net assets	130,816	17,656	1,766	525	(960)	2,955	(5,678)	147,080
TOTAL	$ 510,569	$ 28,515	$ 30,972	$ 60,106	$ 4,905	$ 6,775	$ (14,465)	$ 627,377

The Medical Center discloses its interests in its controlled affiliates using the cost method of accounting.

(Concluded)

LUTHERAN HEALTHCARE
LUTHERAN MEDICAL CENTER AND LUTHERAN FAMILY HEALTH CENTERS

SUPPLEMENTAL COMBINING INFORMATION—BALANCE SHEETS
AS OF DECEMBER 31, 2014
(In thousands)

	Lutheran Medical Center	Lutheran Family Health Center	Eliminations	Lutheran Medical and Lutheran Family Health Centers
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	$ 12,740	$ 2,567	$ -	$ 15,307
Investments	14,421			14,421
Patient accounts receivable—net	63,437	10,403		73,840
Other receivables	2,721	6,934		9,655
Due from third-party payors	17,672			17,672
Due from related entity	9,600	1,001	(2,059)	8,542
Other current assets	27,441	1,142	(1,142)	27,441
Total current assets	148,032	22,047	(3,201)	166,878
ASSETS LIMITED AS TO USE—Less current portion	18,145	723	(723)	18,145
INVESTMENTS	133,247			133,247
PROPERTY AND EQUIPMENT—Net	113,224	16,554	(16,554)	113,224
OTHER ASSETS	85,716	235	(6,876)	79,075
TOTAL	$ 498,364	$ 39,559	$ (27,354)	$ 510,569
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES:				
Accounts payable and accrued expenses	$ 40,472	$ 3,436	$ (3,436)	$ 40,472
Accrued salaries and related liabilities	19,757	7,357	(716)	26,398
Current portion of obligations under capital leases	2,618			2,618
Current portion of long-term debt	7,584			7,584
Current portion of professional liabilities	2,600			2,600
Due to related entity	525	1,534	(2,059)	-
Other liabilities	10,118			10,118
Current portion of due to third-party payors	3,888	525	(525)	3,888
Total current liabilities	87,562	12,852	(6,736)	93,678
DUE TO THIRD-PARTY PAYORS—Less current portion	35,396	17,877	(17,877)	35,396
PROFESSIONAL LIABILITIES—Less current portion	87,993			87,993
OBLIGATIONS UNDER CAPITAL LEASES—Less current portion	4,561			4,561
LONG-TERM DEBT—Less current portion	44,542			44,542
ACCRUED PENSION LIABILITY	111,802			111,802
OTHER LONG-TERM LIABILITIES	3,249	1,273	(2,741)	1,781
Total liabilities	375,105	32,002	(27,354)	379,753
NET ASSETS:				
Unrestricted	118,423	6,834		125,257
Temporarily restricted	4,528	723		5,251
Permanently restricted	308			308
Total net assets	123,259	7,557	-	130,816
TOTAL	$ 498,364	$ 39,559	$ (27,354)	$ 510,569

LUTHERAN HEALTHCARE

SUPPLEMENTAL COMBINING INFORMATION—BALANCE SHEET
AS OF DECEMBER 31, 2013
(In thousands)

ASSETS	Lutheran Medical and Lutheran Family Health Centers	OHP PHSP, Inc.	Augustana	Senior Housing Projects	Professional Corporations	Other Entities	Elimination Entries	Combined Balances
CURRENT ASSETS:								
Cash and cash equivalents	$ 11,243	$13,863	$ 4,976	$ 2,854	$ 624	$2,498	$ -	$ 36,058
Investments	13,650	34,479						48,129
Assets limited as to use			248	1,201				1,449
Patient accounts receivable—net	71,399		7,586		1,806	2,046		82,837
Premiums receivable		3,449						3,449
Other receivables	11,180	43		87	50	140		11,500
Due from third-party payors	13,779		1,174		85			15,038
Due from related entities	5,455		120		434	329	(6,338)	-
Other current assets	22,797	512	543	284	1,004	158		25,298
Total current assets	149,503	52,346	14,647	4,426	4,003	5,171	(6,338)	223,758
ASSETS LIMITED AS TO USE—Less current portion	16,673	41,042	8,908	2,983				69,606
INVESTMENTS	103,770							103,770
PROPERTY AND EQUIPMENT—Net	119,351		13,311	53,017	1,064	1,285	(5,840)	182,188
OTHER ASSETS	79,073		256	1,414				80,743
TOTAL	$468,370	$93,388	$37,122	$61,840	$5,067	$6,456	$(12,178)	$660,065

The Medical Center discloses its interests in its controlled affiliates using the cost method of accounting.

(Continued)

LUTHERAN HEALTHCARE

SUPPLEMENTAL COMBINING INFORMATION—BALANCE SHEET
AS OF DECEMBER 31, 2013
(In thousands)

LIABILITIES AND NET ASSETS	Lutheran Medical and Lutheran Family Health Centers	OHP PHSP, Inc.	Augustana	Senior Housing Projects	Professional Corporations	Other Entities	Elimination Entries	Combined Balances
CURRENT LIABILITIES:								
Accounts payable and accrued expenses	$ 34,100	$ 9,028	$ 4,707	$ 713	$2,232	$ 580	$ -	$ 51,360
Accrued salaries and related liabilities	25,513		1,811	118	1,493	358		29,293
Accrued medical costs		4,898						4,898
Current portion of obligations under capital leases	3,012							3,012
Current portion of long-term debt	5,622		654	249				6,525
Current portion of professional liabilities	2,600							2,600
Due to related entities	626	194	4,040	84	626	768	(6,338)	-
Other current liabilities	12,807		212	1,733		172		14,924
Current portion of due to third-party payors	6,103	7,891	469					14,463
Total current liabilities	90,383	22,011	11,893	2,897	4,351	1,878	(6,338)	127,075
DUE TO THIRD-PARTY PAYORS	30,439							30,439
PROFESSIONAL LIABILITIES—Less current portion	88,076							88,076
OBLIGATIONS UNDER CAPITAL LEASES—Less current portion	5,485							5,485
LONG-TERM DEBT—Less current portion	46,530		22,747	39,036				108,313
ACCRUED PENSION LIABILITY	51,480							51,480
OTHER LONG-TERM LIABILITIES	1,625			18,295				19,920
Total liabilities	314,018	22,011	34,640	60,228	4,351	1,878	(6,338)	430,788
NET ASSETS:								
Unrestricted	149,575	71,377	2,243	1,612	716	4,578	(5,840)	224,261
Temporarily restricted	4,469		36					4,505
Permanently restricted	308		203					511
Total net assets	154,352	71,377	2,482	1,612	716	4,578	(5,840)	229,277
TOTAL	$468,370	$93,388	$37,122	$61,840	$5,067	$6,456	$(12,178)	$660,065

The Medical Center discloses its interests in its controlled affiliates using the cost method of accounting.

(Concluded)

LUTHERAN HEALTHCARE
LUTHERAN MEDICAL CENTER AND LUTHERAN FAMILY HEALTH CENTERS

SUPPLEMENTAL COMBINING INFORMATION—BALANCE SHEET
AS OF DECEMBER 31, 2013
(In thousands)

	Lutheran Medical Center	Lutheran Family Health Center	Eliminations	Lutheran Medical and Lutheran Family Health Centers
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	$ 10,266	$ 977	$ -	$ 11,243
Investments	13,650			13,650
Patient accounts receivable—net	61,490	9,909		71,399
Other receivables	4,680	6,500		11,180
Due from third-party payors	13,779			13,779
Due from related entity	5,271	12,196	(12,012)	5,455
Other current assets	22,797	214	(214)	22,797
Total current assets	131,933	29,796	(12,226)	149,503
ASSETS LIMITED AS TO USE—Less current portion	16,673	753	(753)	16,673
INVESTMENTS	103,770			103,770
PROPERTY AND EQUIPMENT—Net	119,351	16,559	(16,559)	119,351
OTHER ASSETS	85,910	241	(7,078)	79,073
TOTAL	$457,637	$47,349	$(36,616)	$468,370
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES:				
Accounts payable and accrued expenses	$ 34,100	$ 2,471	$ (2,471)	$ 34,100
Accrued salaries and related liabilities	19,350	6,855	(692)	25,513
Current portion of obligations under capital leases	3,012	97	(97)	3,012
Current portion of long-term debt	5,622			5,622
Current portion of professional liabilities	2,600			2,600
Due to related entity	12,263	375	(12,012)	626
Other liabilities	12,807			12,807
Current portion of due to third-party payors	6,103	828	(828)	6,103
Total current liabilities	95,857	10,626	(16,100)	90,383
DUE TO THIRD-PARTY PAYORS—Less current portion	30,439	17,352	(17,352)	30,439
PROFESSIONAL LIABILITIES—Less current portion	88,076			88,076
OBLIGATIONS UNDER CAPITAL LEASES—Less current portion	5,485	326	(326)	5,485
LONG-TERM DEBT—Less current portion	46,530			46,530
ACCRUED PENSION LIABILITY	51,480			51,480
OTHER LONG-TERM LIABILITIES	3,163	1,300	(2,838)	1,625
Total liabilities	321,030	29,604	(36,616)	314,018
NET ASSETS:				
Unrestricted	132,583	16,992		149,575
Temporarily restricted	3,716	753		4,469
Permanently restricted	308			308
Total net assets	136,607	17,745	-	154,352
TOTAL	$457,637	$47,349	$(36,616)	$468,370

LUTHERAN HEALTHCARE

SUPPLEMENTAL COMBINING INFORMATION—STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2014
(In thousands)

	Lutheran Medical and Lutheran Family Health Centers	OHP PHSP, Inc.	Augustana	Senior Housing Projects	Professional Corporations	Other Entities	Elimination Entries	Combined Totals
REVENUE:								
Net patient service revenue (after contractual allowances and discounts)	$564,190	$ -	$29,295	$ -	$ 36,699	$ 8,192	$(14,762)	$623,614
Provision for bad debts	(33,364)		(515)			(108)		(33,987)
Net patient service revenue—net of provision for bad debts	530,826	-	28,780	-	36,699	8,084	(14,762)	589,627
Premium revenue	9,720							9,720
Grant income	46,910			98				47,008
Investment income	2,631	3,515	32	12	2	2		6,194
Net assets released from restrictions	7,086							7,086
Other revenue	15,299		240	9,724	519	4,044	(2,152)	27,674
Total revenue	612,472	3,515	29,052	9,834	37,220	12,130	(16,914)	687,309
EXPENSES:								
Salaries and wages	291,108		15,449	1,038	37,390	8,367	(75)	353,277
Employee benefits	97,671		5,742	776	5,047	2,506	(28)	111,714
Supplies and expenses	201,813	1,123	6,387	5,919	14,024	2,824	(16,811)	215,279
Medical costs		2,822						2,822
Depreciation and amortization	18,747		1,328	1,737	174	56	(162)	21,880
Interest	1,782		860	1,451				4,093
Total expenses	611,121	3,945	29,766	10,921	56,635	13,753	(17,076)	709,065
OPERATING INCOME (LOSS)	1,351	(430)	(714)	(1,087)	(19,415)	(1,623)	162	(21,756)
NONOPERATING GAINS (LOSSES)								
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	1,351	(430)	(714)	(1,087)	(19,415)	(1,623)	162	(21,756)
OTHER CHANGES IN UNRESTRICTED NET ASSETS:								
Defined benefit plan adjustments	(60,887)							(60,887)
Changes in unrealized gains and losses on investments	1,488	(3,291)						(1,803)
Contributions	1,302							1,302
Transfers from (to) related entities	32,261	(50,000)			17,739			-
Net assets released from restrictions for capital acquisitions	167		36					203
(DECREASE) INCREASE IN UNRESTRICTED NET ASSETS	$ (24,318)	$(53,721)	$ (678)	$ (1,087)	$ (1,676)	$ (1,623)	$ 162	$ (82,941)

The Medical Center discloses its interests in its controlled affiliates using the cost method of accounting.

LUTHERAN HEALTHCARE
LUTHERAN MEDICAL CENTER AND LUTHERAN FAMILY HEALTH CENTERS

SUPPLEMENTAL COMBINING INFORMATION—STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2014
(In thousands)

	Lutheran Medical Center	Lutheran Family Health Center	Eliminations	Lutheran Medical and Lutheran Family Health Centers
REVENUE:				
Net patient service revenue (after contractual allowances and discounts)	$ 434,749	$ 130,317	$ (876)	$564,190
Provision for bad debts	(26,527)	(6,837)		(33,364)
Net patient service revenue—net of provision for bad debts	408,222	123,480	(876)	530,826
Premium revenue		9,720		9,720
Grant income		46,910		46,910
Investment income	2,627	4		2,631
Net assets released from restrictions	6,736	350		7,086
Other revenue	23,448	4,510	(12,659)	15,299
Total revenue	441,033	184,974	(13,535)	612,472
EXPENSES:				
Salaries and wages	195,585	95,523		291,108
Employee benefits	68,671	29,000		97,671
Supplies and expenses	157,936	57,412	(13,535)	201,813
Depreciation and amortization	16,432	2,315		18,747
Interest	1,766	16		1,782
Total expenses	440,390	184,266	(13,535)	611,121
OPERATING INCOME	643	708	-	1,351
NONOPERATING GAINS				-
EXCESS OF REVENUE OVER EXPENSES	643	708	-	1,351
OTHER CHANGES IN UNRESTRICTED NET ASSETS:				
Defined benefit plan adjustments	(60,887)			(60,887)
Changes in unrealized gains and losses on investments	1,488			1,488
Contributions		1,302		1,302
Transfers from related entities	44,438	(12,177)		32,261
Net assets released from restrictions for capital acquisitions	158	9		167
DECREASE IN UNRESTRICTED NET ASSETS	$ (14,160)	$ (10,158)	$ -	$ (24,318)

LUTHERAN HEALTHCARE

SUPPLEMENTAL COMBINING INFORMATION—STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2013
(In thousands)

	Lutheran Medical and Lutheran Family Health Centers	OHP PHSP, Inc.	Augustana	Senior Housing Projects	Professional Corporations	Other Entities	Elimination Entries	Combined Totals
REVENUE:								
Net patient service revenue (after contractual allowances and discounts)	$536,824	$ -	$33,842	$ -	$ 29,777	$ 7,357	$(14,009)	$593,791
Provision for bad debts	(24,872)		(874)			(172)		(25,918)
Net patient service revenue—net of provision for bad debts	511,952	-	32,968	-	29,777	7,185	(14,009)	567,873
Premium revenue	9,530	(2,222)						7,308
Grant income	50,745			114				50,859
Investment income	2,482	2,953	35	15	1	6		5,492
Net assets released from restrictions	5,319		2					5,321
Other revenue	23,708		1,278	9,552	567	3,373	(9,651)	28,827
Total revenue	603,736	731	34,283	9,681	30,345	10,564	(23,660)	665,680
EXPENSES:								
Salaries and wages	278,216		16,023	988	28,010	6,971	(43)	330,165
Employee benefits	101,597		6,104	428	3,746	1,783	(15)	113,643
Supplies and expenses	196,708	8,089	9,783	7,106	10,330	3,170	(23,602)	211,584
Medical costs		(5,820)						(5,820)
Depreciation and amortization	18,192		1,390	1,739	78	15	(162)	21,252
Interest	1,855		884	(1,126)				1,613
Total expenses	596,568	2,269	34,184	9,135	42,164	11,939	(23,822)	672,437
OPERATING INCOME (LOSS)	7,168	(1,538)	99	546	(11,819)	(1,375)	162	(6,757)
NONOPERATING GAINS (LOSSES)		1	(900)					(899)
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	7,168	(1,537)	(801)	546	(11,819)	(1,375)	162	(7,656)
OTHER CHANGES IN UNRESTRICTED NET ASSETS:								
Defined benefit plan adjustments	42,330							42,330
Changes in unrealized gains and losses on investments	4,464	(1,430)						3,034
Contributions	272							272
Transfers from (to) related entities	12,446	(25,000)			12,554			-
Net assets released from restrictions for capital acquisitions	4,188							4,188
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	$ 70,868	$(27,967)	$ (801)	$ 546	$ 735	$ (1,375)	$ 162	$ 42,168

The Medical Center discloses its interests in its controlled affiliates using the cost method of accounting.

LUTHERAN HEALTHCARE
LUTHERAN MEDICAL CENTER AND LUTHERAN FAMILY HEALTH CENTERS

SUPPLEMENTAL COMBINING INFORMATION—STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2013
(In thousands)

	Lutheran Medical Center	Lutheran Family Health Center	Eliminations	Lutheran Medical and Lutheran Family Health Centers
REVENUE:				
Net patient service revenue (after contractual allowances and discounts)	$ 415,790	$ 121,910	$ (876)	$536,824
Provision for bad debts	(20,271)	(4,601)		(24,872)
Net patient service revenue—net of provision for bad debts	395,519	117,309	(876)	511,952
Premium revenue		9,530		9,530
Grant income		50,745		50,745
Investment income	2,473	9		2,482
Net assets released from restrictions	4,859	460		5,319
Other revenue	29,614	6,492	(12,398)	23,708
Total revenue	432,465	184,545	(13,274)	603,736
EXPENSES:				
Salaries and wages	187,552	90,664		278,216
Employee benefits	72,116	29,481		101,597
Supplies and expenses	148,418	61,564	(13,274)	196,708
Depreciation and amortization	15,912	2,280		18,192
Interest	1,841	14		1,855
Total expenses	425,839	184,003	(13,274)	596,568
OPERATING INCOME	6,626	542	-	7,168
NONOPERATING GAINS				-
EXCESS OF REVENUE OVER EXPENSES	6,626	542	-	7,168
OTHER CHANGES IN UNRESTRICTED NET ASSETS:				
Defined benefit plan adjustments	42,330			42,330
Changes in unrealized gains and losses on investments	4,464			4,464
Contributions		272		272
Transfers from related entities	2,710	9,736		12,446
Net assets released from restrictions for capital acquisitions	1,967	2,221		4,188
INCREASE IN UNRESTRICTED NET ASSETS	$ 58,097	$ 12,771	$ -	$ 70,868

LUTHERAN HEALTHCARE

SUPPLEMENTAL COMBINING INFORMATION—CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2014
(In thousands)

	Lutheran Medical and Lutheran Family Health Centers	OHP PHSP, Inc.	Augustana	Senior Housing Projects	Professional Corporations	Other Entities	Elimination Entries	Combined Totals
Unrestricted Net Assets								
NET ASSETS—Beginning of year	$149,575	$ 71,377	$2,243	$ 1,612	$ 716	$ 4,578	$(5,840)	$224,261
Excess (deficiency) of revenues over expenses	1,351	(430)	(714)	(1,087)	(19,415)	(1,623)	162	(21,756)
Changes in unrealized gains and losses on investments	1,488	(3,291)						(1,803)
Contributions	1,302							1,302
Net assets released for capital acquisitions	167		36					203
Defined benefit plan adjustments	(60,887)							(60,887)
Transfers from (to) related entities	32,261	(50,000)			17,739			-
Change in net assets	(24,318)	(53,721)	(678)	(1,087)	(1,676)	(1,623)	162	(82,941)
NET ASSETS—End of year	$125,257	$ 17,656	$1,565	$ 525	$ (960)	$ 2,955	$(5,678)	$141,320
Temporarily Restricted Net Assets								
NET ASSETS—Beginning of year	$ 4,469	$ -	$ 36	$ -	$ -	$ -	$ -	$ 4,505
Contributions	8,035							8,035
Net assets released for operating expenses	(7,086)							(7,086)
Net assets released for capital acquisitions	(167)		(36)					(203)
Change in net assets	782	-	(36)	-	-	-	-	746
NET ASSETS—End of year	$ 5,251	$ -	$ -	$ -	$ -	$ -	$ -	$ 5,251
Permanently Restricted Net Assets								
NET ASSETS—Beginning of year	$ 308	$ -	$ 203	$ -	$ -	$ -	$ -	$ 511
Loss on beneficial interest in perpetual trust			(2)					(2)
NET ASSETS—End of year	$ 308	$ -	$ 201	$ -	$ -	$ -	$ -	$ 509

The Medical Center discloses its interests in its controlled affiliates using the cost method of accounting.

LUTHERAN HEALTHCARE
LUTHERAN MEDICAL CENTER AND LUTHERAN FAMILY HEALTH CENTERS

SUPPLEMENTAL COMBINING INFORMATION—CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2014
(In thousands)

	Lutheran Medical Center	Lutheran Family Health Center	Eliminations	Lutheran Medical and Lutheran Family Health Centers
Unrestricted Net Assets				
NET ASSETS—Beginning of year	$132,583	$ 16,992	$ -	$149,575
Excess of revenue over expenses	643	708		1,351
Defined benefit plan adjustments	(60,887)			(60,887)
Changes in net unrealized gains and losses on investments	1,488			1,488
Contributions		1,302		1,302
Net assets released for capital acquisitions	158	9		167
Transfers from related entities	44,438	(12,177)		32,261
Change in net assets	(14,160)	(10,158)	-	(24,318)
NET ASSETS—End of year	$118,423	$ 6,834	$ -	$125,257
Temporary Restricted Net Assets				
NET ASSETS—Beginning of year	$ 3,716	$ 753	$ -	$ 4,469
Contributions	7,706	329		8,035
Net assets released from restriction for operating expenses	(6,736)	(350)		(7,086)
Net assets released from restriction for capital acquisitions	(158)	(9)		(167)
Change in net assets	812	(30)	-	782
NET ASSETS—End of year	$ 4,528	$ 723	$ -	$ 5,251
Permanently Restricted Net Assets				
NET ASSETS—Beginning and end of year	$ 308	$ -	$ -	$ 308

LUTHERAN HEALTHCARE

SUPPLEMENTAL COMBINING INFORMATION—CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2013
(In thousands)

	Lutheran Medical and Lutheran Family Health Centers	OHP PHSP, Inc.	Augustana	Senior Housing Projects	Professional Corporations	Other Entities	Elimination Entries	Combined Totals
Unrestricted Net Assets								
NET ASSETS—Beginning of year	$ 78,707	$ 99,344	$3,044	$1,066	$ (19)	$ 5,953	$(6,002)	$182,093
Excess (deficiency) of revenues over expenses	7,168	(1,537)	(801)	546	(11,819)	(1,375)	162	(7,656)
Changes in unrealized gains and losses on investments	4,464	(1,430)						3,034
Contributions	272							272
Net assets released for capital acquisitions	4,188							4,188
Defined benefit plan adjustments	42,330							42,330
Transfers from (to related entities	12,446	(25,000)			12,554			-
Change in net assets	70,868	(27,967)	(801)	546	735	(1,375)	162	42,168
NET ASSETS—End of year	$149,575	$ 71,377	$2,243	$1,612	$ 716	$ 4,578	$(5,840)	$224,261
Temporarily Restricted Net Assets								
NET ASSETS—Beginning of year	$ 3,834	$ -	$ 38	$ -	$ -	$ -	$ -	$ 3,872
Contributions	10,142							10,142
Net assets released for operating expenses	(5,319)		(2)					(5,321)
Net assets released for capital acquisitions	(4,188)							(4,188)
Change in net assets	635	-	(2)	-	-	-	-	633
NET ASSETS—End of year	$ 4,469	$ -	$ 36	$ -	$ -	$ -	$ -	$ 4,505
Permanently Restricted Net Assets								
NET ASSETS—Beginning of year	$ 308	$ -	$ 189	$ -	$ -	$ -	$ -	$ 497
Gain on beneficial interest in perpetual trust			14					14
NET ASSETS—End of year	$ 308	$ -	$ 203	$ -	$ -	$ -	$ -	$ 511

The Medical Center discloses its interests in its controlled affiliates using the cost method of accounting.

LUTHERAN HEALTHCARE
LUTHERAN MEDICAL CENTER AND LUTHERAN FAMILY HEALTH CENTERS

SUPPLEMENTAL COMBINING INFORMATION—CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2013
(In thousands)

	Lutheran Medical Center	Lutheran Family Health Center	Eliminations	Lutheran Medical and Lutheran Family Health Centers
Unrestricted Net Assets				
NET ASSETS—Beginning of year	$ 74,486	$ 4,221	$ -	$ 78,707
Excess of revenue over expenses	6,626	542		7,168
Defined benefit plan adjustments	42,330			42,330
Changes in net unrealized gains and losses on investments	4,464			4,464
Contributions		272		272
Net assets released for capital acquisitions	1,967	2,221		4,188
Transfers from related entities	2,710	9,736		12,446
Change in net assets	58,097	12,771	-	70,868
NET ASSETS—End of year	$132,583	$16,992	$ -	$149,575
Temporary Restricted Net Assets				
NET ASSETS—Beginning of year	$ 3,063	$ 771	$ -	$ 3,834
Contributions	7,479	2,663		10,142
Net assets released from restriction for operating expenses	(4,859)	(460)		(5,319)
Net assets released from restriction for capital acquisitions	(1,967)	(2,221)		(4,188)
Change in net assets	653	(18)	-	635
NET ASSETS—End of year	$ 3,716	$ 753	$ -	$ 4,469
Permanently Restricted Net Assets				
NET ASSETS—Beginning and end of year	$ 308	$ -	$ -	$ 308

LUTHERAN HEALTHCARE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2014

Federal Grantor/Pass-Through Grantor/ Program Title	Federal CFDA Number	Federal Expenditures
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT—DIRECT:		
LUTHERAN MEDICAL CENTER		
Mortgage insurance—Hospitals	14.128	$ 33,424,724
LUTHERAN AUGUSTANA CENTER FOR EXTENDED CARE AND REHABILITATION, INC.		
Mortgage insurance—Nursing Homes, Intermediate Care Facilities, Board and Care Homes and Assisted Living Facilities	14.129	22,747,289
HARBOR HILL HOUSING DEVELOPMENT FUND CORPORATION		
Section 8 Housing Assistance Payments	14.856	818,719
Section 202 Capital Advance	14.157	7,627,499
		8,446,218
Total U.S. Department of Housing and Urban Development—Direct		64,618,231
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT—INDIRECT:		
SHORE HILL HOUSING ASSOCIATES L.P., Indirect Pass Through to Lutheran Family Health Centers:		
Multifamily Housing Service Coordinator Program	14.191	69,498
INDIRECT—U.S. Department of Housing and Urban Development (HUD)— to Lutheran Medical Center—administered by Sunset Park Health Council, Inc. d/b/a Lutheran Family Health Centers:		
Community Services Block Grant—passed through the New York City Department of Youth & Community Development	14.218	16,260
		85,758
SUNSET GARDENS HOUSING DEVELOPMENT FUND CORPORATION		
Pass-through from New York State Division of Housing and Community Renewal		
Section 8 Housing Assistance Payments	14.856	670,166
Section 202 Capital Advance	14.157	12,972,100
Total U.S. Department of Housing and Urban Development—Indirect		13,728,024
Total U.S. Department of Housing and Urban Development—Direct and Indirect		78,346,255
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES—DIRECT:		
SUNSET PARK HEALTH COUNCIL, INC.		
Community Health Centers, Section 330, Federally Qualified Health Center	93.224	3,599,737
Community Health Centers, Section 330, Federally Qualified Health Center	93.527	5,509,961
Community Health Centers, Section 330H, Federally Qualified Health Center	93.224	1,513,174
Community Health Centers, Section 330H, Federally Qualified Health Center	93.527	2,242,307
Family and Community Violence Prevention Program, Youth Empowerment Program, YEP	93.910	26,698
The Sunset Terrace Integration and Recovery Program	93.243	49,030
Affordable Care Act Teaching Health Center (THC) Graduate Medical Education (GME) Payment Program	93.530	310,554
Increasing Oral Cancer Screening by Dentists: Qualitative Research on Practitioner (NIH)	93.121	62,865
Capital Development—Sunset Terrace	93.526	496,727
Capital Development—Park Slope	93.526	500,000
		14,311,053
U.S. Department of Health and Human Services — Federal Passthroughs —		
To Sunset Park Health Council, Inc., d.b.a. Lutheran Family Health Centers:		
Child Home Program Trust, passed through the New York State Office of Child Services	93.590	106,064
Social Services Block Grant, Administration for Children and Family Services passed through the New York State Office of Child and Family Services	93.095	404,735
Total U.S. Department of Health and Human Services — Federal Passthroughs		510,799
LUTHERAN MEDICAL CENTER—Administered by Sunset Park Health Council, Inc. d/b/a Lutheran Family Health Centers:		
Ryan White, Part F, HIV/AIDS Dental Reimbursement Program—Reference 07RWDRP	93.924	864,222
Community Based Dental Partnership Program, Ryan White, Part F (Arizona)	93.924	263,118
Ryan White, Part C, Outpatient Early Intervention Services HIV/AIDS Disease	93.918	749,082
Ryan White, Title III HIV Capacity Development and Planning Grants	93.918	54,796
Substance Abuse and Mental Health Services Administration (SAMHSA) National Child Traumatic Stress Initiative	93.243	744,002
Office of Minority Health, Curbing HIV/AIDS Transmission Among High Risk Minority Youth (CHAT)	93.137	232,183
Faculty Development (Dental)	93.884	493,933
Dental Faculty Loan Repayment	93.884	513,000
Postdoctoral Training in Dentistry	93.884	507,180
Affordable Care Act Grants for School-Based Centers Capital Program	93.501	250,400
HIV Prevention Projects for Community-Based Organizations (CDC)	93.939	273,781
Total U.S. Department of Health and Human Services—Direct		19,767,549

(Continued)

LUTHERAN HEALTHCARE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2014

Federal Grantor/Pass-Through Grantor/ Program Title	Federal CFDA Number	Federal Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES—INDIRECT:		
LUTHERAN MEDICAL CENTER—administered by Sunset Park Health Council, Inc. d/b/a Lutheran Family Health Centers:		
Vaccination Program, Centers for Disease Control and Prevention (CDC), passed through the New York City Department of Health	93.268	$ 2,404,235
School Health Program, Contract Nos. C-026745 & C-022459, Maternal and Child Health Services Block Grant to States, passed through the New York State Department of Health	93.994	231,540
Comprehensive Adolescent Pregnancy Prevention, passed through the New York State Department of Health	93.994	29,400
Comprehensive Adolescent Pregnancy Prevention, passed through the New York State Department of Health	93.778	105,705
HIV Medical Case Management, passed through the New York City Department of Health & Mental Hygiene, Contract No. 09-MCM-678	93.914	580,766
Routine Testing in Clinical Settings, passed through the New York City Department of Health & Mental Hygiene Contract No. 11-EIR-678	93.914	200,542
Priority Population Testing in Non-Clinical Settings, passed through the New York City Department of Health & Mental Hygiene, Contract No. 11-EIP-678	93.914	95,406
CDC, HIV/AIDS Prevention Program, Contract No. 07-EBI-678, Evidence Based Interventions, passed through the New York City Department of Health & Mental Hygiene	93.940	63,178
Public Health Solutions - Sexual Behavioral Health, passed through the New York City Department of Health & Mental Hygiene, Contract No. 13-SBH-678	93.940	58,500
Public Health Solutions - Positive for Life, passed through the New York City Department of Health & Mental Hygiene, Contract No. 14-LMC-01	93.940	74,648
Public Health Solutions - Sexual Behavioral Health, passed through the New York City Department of Health & Mental Hygiene, SAMHSA Contract No. 13-SBH-678	93.243	71,872
Community Development Block Grant, NYC Child Care & Development Block Grant, passed through the New York City Department of Youth and Community Development	93.569	40,539
National Development Group Award, NYC Child Care & Development—CS Block Grant, passed through the New York City Department of Youth and Community Development	93.569	59,324
SUNSET BAY COMMUNITY SERVICES, INC.		
Passed through the New York City Admin for Children Services/Agency for Child Development		
Group Day Care Programs, Contract Nos. 20120001086, 20100000662, 20120001084, & 20131407205 Magical Years Early Childhood Center, Warran Street Day Care Center, St. Andrews Community Day Care Center and Warran Street Day Care Center Expansion—Infant Toddler Program	93.575	949,419
Passed through the New York City Department of the Aging under Contract No. 20130001053		
Sunset Park Senior Citizens Center—Nutrition Service Incentive Program	93.053	26,465
Sunset Park Senior Citizens Center—Title III-C2 of the OAA of 1965	93.045	41,541
Sunset Park Senior Citizens Center—Title III-B of the OAA of 1965	93.044	3,685
Passed through the New York City Department for the Aging		
Title XX Social Services Block Grant	93.667	169,381
Total U.S. Department of Health and Human Services—Indirect		5,206,146
Total U.S. Department of Health and Human Services—Direct and Indirect		24,973,695
U.S. DEPARTMENT OF EDUCATION—INDIRECT:		
LUTHERAN MEDICAL CENTER—administered by Sunset Park Health Council, Inc. d/b/a Lutheran Family Health Centers		
Workforce Investment Act, passed through the New York State Department of Education	84.002A	480,534

(Continued)

LUTHERAN HEALTHCARE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2014

Federal Grantor/Pass-Through Grantor/ Program Title	Federal CFDA Number	Federal Expenditures
U.S. CORPORATION FOR NATIONAL AND COMMUNITY SERVICE—INDIRECT		
LUTHERAN MEDICAL CENTER—administered by Sunset Park Health Council, Inc. d/b/a Lutheran Family Health Centers		
Opportunity Corps Program, passed through the New York State Office of National and Community Service	94.006	$ 114,842
Americorps, ID No. 00255-02, passed through the National Association of Community Health Centers (NACHC)	94.006	110,492
Total U.S. Corporation for National and Community Service-Indirect		225,334
U.S. DEPARTMENT OF HOMELAND SECURITY—INDIRECT:		
LUTHERAN MEDICAL CENTER		
Hurricane Sandy Relief, ID No. PA#047-063AF-00, passed through the New York State Division of Homeland Security and Emergency Services	97.036	28,980
LUTHERAN MEDICAL CENTER—administered by Sunset Park Health Council, Inc. d/b/a Lutheran Family Health Centers		
Project Hope, passed through the New York State Department of Mental Health	97.032	229,699
Total U.S. Department of Homeland Security		258,679
U.S. DEPARTMENT OF AGRICULTURE—INDIRECT:		
PASS-THROUGH FROM NEW YORK STATE DEPARTMENT OF HEALTH:		
LUTHERAN MEDICAL CENTER—administered by Sunset Park Health Council, Inc. d/b/a Lutheran Family Health Centers		
Special Supplemental Food Program for Women, Infants and Children, Contract No. C-025760 (Note 2)	10.557	17,170,695
U.S. Department of Agriculture—passthrough from the New York Office of		
SUNSET BAY COMMUNITY SERVICES, INC.		
Child and Adult Care Food Program (CACFP)	10.558	166,880
Total U.S. Department of Agriculture		17,337,575
TOTAL FEDERAL EXPENDITURES		$ 121,619,971

See notes to schedule of expenditures of federal awards.

(Concluded)

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Lutheran Medical Center and its subsidiaries and Sunset Park Health Council, Inc. ("Sunset Park") d/b/a Lutheran Family Health Centers (collectively "Lutheran HealthCare") and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

2. FOOD AND NUTRITION AWARDS

During the year ended December 31, 2014, the Lutheran Family Health Center, through Lutheran Medical Center, participated in the New York State Department of Health, Special Supplemental Food Program for Women, Infants, and Children (WIC) through the receipt and distribution of food checks. The United States Department of Agriculture has determined that such WIC food instruments are considered "property in lieu of money" and, accordingly, should be considered part of the subgrant award received by Sunset Park. The value of WIC food instruments redeemed under the WIC program and administrative costs for the year ended December 31, 2014, are as follows:

	Federal CFDA Number	Federal Expenditures for the Year Ended December 31, 2014
United States Department of Agriculture—pass through New York State Department of Health, Special Supplemental Food Program for Women, Infants and Children	10.557	$ 17,170,695

For the year ended December 31, 2014, the total amount reported as federal awards above represents the value of food checks redeemed of approximately $15,572,000, which is 100% federally funded, plus administrative costs of approximately $1,598,000. For administrative costs, state funds are commingled with federal funds received by New York State. The percentage of funds provided from federal sources is supplied by the New York State Department of Health and represented 82.74% of total administrative costs of approximately $1,969,000 for the year ended December 31, 2014.

3. SUB-RECIPIENTS

As set forth in the accompanying schedule of federal expenditures of federal awards, Sunset Park functioned as a pass-through entity for certain grants awarded to Lutheran Medical Center. In addition, Sunset Park provided awards to the following sub-recipients:

Program	CFDA	Sub-recipient	Amount
Community Health Center Programs	93.224	Callen Lorde CHC	$ 208,932
Community Health Center Programs	93.527	Callen Lorde CHC	284,940
Community Health Center Programs	93.224	The Door a Center of Alternatives, Inc.	102,589
Community Health Center Programs	93.527	The Door a Center of Alternatives, Inc.	139,911
Community Health Center Programs	93.224	Premium Health	31,729
Community Health Center Programs	93.527	Premium Health	43,271

4. MAJOR PROGRAMS

Major programs are identified in the summary of auditors' results section of the schedule of findings and questioned costs.

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Boards of Trustees of
Lutheran Medical Center and
Sunset Park Health Council, Inc.
Brooklyn, New York

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the combined financial statements of Lutheran Medical Center ("Medical Center") and its subsidiaries and Sunset Park Health Council, Inc. ("Sunset Park") d/b/a Lutheran Family Health Centers (collectively, "Lutheran HealthCare"), which comprise the combined balance sheets as of December 31, 2014 and 2013, and the related combined statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the combined financial statements, and have issued our report thereon dated May 27, 2015 (which included explanatory paragraphs for the for the transfer of assets, liabilities and operations of the Lutheran Family Health Centers from Lutheran Medical Center to Sunset Park, for OHP PHSP, Inc.'s sale of its operating and non-financial assets and the affiliation agreement between the Medical Center and NYU Hospitals Center). Our report includes a reference to other auditors who audited the 2014 financial statements of Lutheran Augustana Center for Extended Care and Rehabilitation, Inc., Shore Hill Housing Company, Inc., Harbor Hill Housing Development Fund Corporation, Sunset Gardens Housing Development Fund Corporation, or Shore Hill Housing Associates, L.P. (collectively referred to as the "Other Combined Entities"). Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Other Combined Entities, is based solely on the reports of such other auditors.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Lutheran HealthCare's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Lutheran HealthCare's internal control. Accordingly, we do not express an opinion on the effectiveness of Lutheran HealthCare's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of Lutheran HealthCare's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lutheran HealthCare's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Lutheran HealthCare's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Lutheran HealthCare's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Deloitte & Touche LLP

May 27, 2015

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Boards of Trustees of
Lutheran Medical Center and Sunset Park Health Council, Inc.
Brooklyn, New York

Report on Compliance for Each Major Federal Program

We have audited the compliance of Lutheran Medical Center ("Medical Center") and its subsidiaries and Sunset Park Health Council, Inc. ("Sunset Park") d/b/a Lutheran Family Health Centers (collectively, "Lutheran HealthCare") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of Lutheran HealthCare's major federal programs for the year ended December 31, 2014. Lutheran HealthCare's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Lutheran HealthCare's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Lutheran HealthCare's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We did not audit the compliance of Lutheran Augustana Center for Extended Care and Rehabilitation, Inc., Shore Hill Housing Company, Inc., Harbor Hill Housing Development Fund Corporation, or Sunset Gardens Housing Development Fund Corporation (collectively referred to as the "Other Combined Entities"), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of their major federal programs for the year ended December 31, 2014. Compliance with those requirements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the compliance with those requirements is based on the reports of the other auditors.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Lutheran HealthCare's compliance.

Opinion on Each Major Federal Program

In our opinion, Lutheran HealthCare complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014.

Other Matters

The results of our auditing procedures, and (as to the Other Combined Entities) the auditing procedures of the other auditors, disclosed no instances of noncompliance or other matters that are required to be reported in accordance with OMB Circular A-133.

Report on Internal Control over Compliance

Management of Lutheran HealthCare is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Lutheran HealthCare's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Lutheran HealthCare's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Deloitte & Touche LLP

May 27, 2015

1. SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued—unqualified opinion (with reference to the transfer of assets, liabilities and operations of the Lutheran Family Health Centers from Lutheran Medical Center to Sunset Park, sale of OHP PHSP, Inc.'s operating and non-financial assets and the affiliation agreement between the Medical Center and NYU Hospitals Center.)

Internal control over financial reporting:

• Material weakness(es) identified?	_____	yes	x	no
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	_____	yes	x	none reported
• Noncompliance material to financial statements noted?	_____	yes	x	no

Federal Awards

Internal control over major programs:

• Material weakness(es) identified?	_____	yes	x	no
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	____	yes	x	none reported

Type of auditors' report issued on compliance for major programs—unqualified opinion

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	____	yes	x	no

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
93.224	Community Health Centers, Section 330, Federally Qualified Health Center
93.527	Community Health Centers, Section 330, Federally Qualified Health Center
93.224	Community Health Centers, Section 330H, Federally Qualified Health Center
93.527	Community Health Centers, Section 330H, Federally Qualified Health Center
93.884	Faculty Development (Dental)
93.884	Dental Faculty Loan Repayment
93.884	Postdoctoral Training in Dentistry
10.557	Special Supplemental Food Program for Women, Infants and Children Contract No. C-025760
14.128	Mortgage Insurance—Hospitals
14.129	Mortgage Insurance—Nursing Homes Intermediate Care Facilities, Board and Care Homes and Assisted Living Facilities
14.856	Section 8 Housing Assistance Payments
14.157	Section 202 Capital Advance

Dollar threshold used to distinguish Type A and Type B programs—$1,300,784

Auditee qualified as a low-risk auditee—No

2. FINANCIAL STATEMENT FINDINGS

No findings have been reported.

3. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No findings have been reported.

LUTHERAN HEALTHCARE

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2014

Reference Number	Finding	Questioned Costs
2013–1	Residual Receipts Account	$18,000

Program—U.S. Department of Housing and Urban Development (HUD)—To Harbor Hill Housing Development Fund Corporation: Section 8 Housing Assistance Payments, CFDA # 14.856 and Section 202 Capital Advance, CFDA # 14.157

Criteria—Deposit of excess cash as determined by the Computation of Surplus Cash, HUD Form 93486 must be deposited into Harbor Hill's account within 60 days following Harbor Hill's year-end.

Condition—The required deposit into the residual receipts account was not made within 60 days following Harbor Hill's December 31, 2012 year-end.

Cause—Harbor Hill did not make the deposit within the required 60 days due to a misunderstanding of the HUD requirement.

Effect—Required deposit was not made within 60 days following Harbor Hill's year-end in accordance with HUD guidelines.

Recommendation—Recommended that Harbor Hill make the required deposit within 60 days following Harbor Hill's year-end to avoid non-compliance with HUD requirements.

Management's Views and Planned Corrective Actions—While we understand that Harbor Hill is to make the required deposit within 60 days following the year-end, we received our audited financial statements after that period. The amount of surplus cash to be deposited to the residual receipt account (which is based on our audited financial statements) was $18,431 and deposited on March 15, 2013; within 60 days of our HUD submission. In the future, we will make the required deposit upon receiving the audited financial statements instead of depositing the required deposit after the HUD submission.

Current-Year Status—The deposit has been made and the finding has been cleared.

Reference Number	Finding	Questioned Costs
2013-2	Residual Receipts Account	$43,000

Program—U.S. Department of Housing and Urban Development (HUD)—To Sunset Gardens Housing Development Fund Corporation: Section 8 Housing Assistance Payments, CFDA # 14.856 and Section 202 Capital Advances, CFDA # 14.157

Criteria—Deposit of excess cash as determined by the Computation of Surplus Cash, HUD Form 93486 must be deposited into Sunset Gardens' account within 60 days following Sunset Gardens' year-end.

Condition—The required deposit into the residual receipts account was not made within 60 days following Sunset Gardens' December 31, 2012 year-end.

Cause—Sunset Gardens did not make the deposit within the required 60 days following Sunset Gardens' December 31, 2012 year-end in accordance with HUD guidelines due to a misunderstanding of the HUD requirement.

Effect—Required deposit was not made within 60 days following Sunset Gardens' December 31, 2012 year-end in accordance with HUD guidelines.

Recommendation—Recommended that Sunset Gardens make the required deposit within 60 days following Sunset Gardens' year-end to avoid non-compliance with HUD requirements.

Management's Views and Planned Corrective Actions—While we understand that Sunset Gardens is to make the required deposit within 60 days following the year-end, we received our audited financial statements after that period. The amount of surplus cash to be deposited to the residual receipt account (which is based on our audited financial statements) was $43,481 and deposited on March 15, 2013; within 60 days of our HUD submission. In the future, we will make the required deposit upon receiving the audited financial statements instead of depositing the required deposit after the HUD submission.

Current-Year Status—The deposit has been made and the finding has been cleared.