INOVA HEALTH SYSTEM

Audited Consolidated Financial Statements and Other Supplementary Information

Fiscal Year Ended
December 31, 2014

Inova Health System
Audited Consolidated Financial Statements
and Other Supplementary Information
December 31, 2014 and 2013

<u>Audited Consolidated Financial Statements</u>

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Report of Independent Auditors

The Board of Trustees
Inova Health System

We have audited the accompanying consolidated financial statements of Inova Health System (IHS), which comprise the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Inova Health System at December 31, 2014 and 2013, and the consolidated results of its operations and changes in net assets, and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

March 5, 2015

Inova Health System
Consolidated Balance Sheets
December 31, 2014 and 2013
(In thousands)

	2014	2013
ASSETS		
Current Assets		
Cash and cash equivalents	$ 282,288	$ 252,679
Assets whose use is limited		
By board for plant replacement and expansion	227,550	228,870
Patient accounts receivable (less allowance for doubtful accounts: 2014 - $99,342 ; 2013 - $102,090)	248,404	250,250
Third-party settlements	11,331	1,946
Other current assets	107,225	92,306
Total Current Assets	876,798	826,051
Property, Equipment and Leasehold Interests, net (Note 5)	1,658,178	1,498,627
Assets Whose Use Is Limited (Notes 6, 7, 13)		
Held by bond trustee	249,371	251,602
By board for plant replacement and expansion	3,419,413	3,085,713
By board for construction projects	322,311	317,784
By donor	89,921	87,813
For professional liability	93,281	84,078
For health plan liability	12,071	12,037
	4,186,368	3,839,027
Less amounts required to meet current obligations	(227,550)	(228,870)
Total Assets Whose Use Is Limited	3,958,818	3,610,157
Other Assets		
Investments in and receivables from affiliates (Note 8)	48,084	37,493
Goodwill and other intangible assets (Note 9)	75,436	72,844
Prepaid pension asset (Note 12)	30,740	54,534
Other long-term assets	30,181	24,731
Total Other Assets	184,441	189,602
TOTAL ASSETS	$ 6,678,235	$ 6,124,437
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	$ 204,083	$ 194,731
Accrued salaries, wages and benefits	123,306	105,951
Third-party settlements	55,025	52,528
Notes payable and other liabilities	146,360	142,924
Current portion of long-term debt (Note 10)	258,772	258,359
Total Current Liabilities	787,546	754,493
Non-current Liabilities		
Long-term debt, less current portion (Note 10)	1,310,733	1,127,972
Interest rate swap liability (Note 11)	29,767	22,841
Estimated professional and other insurance liabilities (Note 13)	30,567	32,775
Other non-current obligations	54,127	55,232
Total Non-current Liabilities	1,425,194	1,238,820
Net Assets		
Unrestricted	4,358,004	4,019,846
Temporarily restricted	68,503	72,029
Permanently restricted	38,988	39,249
Total Net Assets	4,465,495	4,131,124
TOTAL LIABILITIES AND NET ASSETS	$ 6,678,235	$ 6,124,437

See notes to consolidated financial statements.

Inova Health System
Consolidated Statements of Operations and Changes in Net Assets
For the Years Ended December 31, 2014 and 2013
(In thousands)

	2014	2013
Operating Revenues		
Net patient service revenue	$ 2,540,215	$ 2,385,675
Provision for bad debts	(140,582)	(118,518)
Net Patient Service Revenue less Provision for Bad Debts	2,399,633	2,267,157
Premium revenue	183,236	181,489
Other operating revenue	116,134	90,773
Total Operating Revenues	2,699,003	2,539,419
Operating Expenses		
Salaries and benefits	1,169,741	1,140,158
Other operating expenses	964,674	923,749
Medical claims	138,661	138,212
Depreciation and amortization	181,255	170,931
Interest	26,965	27,293
Loss on extinguishment of debt and swap termination	-	7,319
Total Operating Expenses	2,481,296	2,407,662
Operating Income	**217,707**	**131,757**
Non-Operating Revenues (Expenses)		
Investment income and other, net (including other-than-temporary impairment losses: 2014 - $0 ; 2013 - $17,191)	113,048	210,575
Net gains on investments redesignated as trading	-	320,136
Excess of Revenues Over Expenses	330,755	662,468
Unrealized gains on investments, net	13,900	122,692
Reclassification of unrealized gains on investments redesignated as trading	-	(320,136)
Change in fair value of effective hedging interest rate swaps	496	25,776
Net assets released from restriction for purchase of equipment and land rights	6,311	17
Change in plan assets and benefit obligations of pension	(11,284)	25,567
Other	(2,020)	1,492
Increase in Unrestricted Net Assets	338,158	517,876
Temporarily Restricted Net Assets		
Gifts and bequests	11,088	23,192
Restricted investment income	1,295	961
Unrealized (loss) gain on investments, net	(29)	88
Net assets released from restriction	(15,741)	(7,116)
Other	(139)	(762)
(Decrease) Increase in Temporarily Restricted Net Assets	(3,526)	16,363
Permanently Restricted Net Assets		
Gifts and bequests	109	120
Restricted investment (loss) income	(497)	2,080
Unrealized (loss) gain on investments, net	(24)	1,169
Other	151	656
(Decrease) Increase in Permanently Restricted Net Assets	(261)	4,025
Increase in Net Assets	334,371	538,264
Net Assets, Beginning of Year	4,131,124	3,592,860
NET ASSETS, END OF YEAR	**$ 4,465,495**	**$ 4,131,124**

See notes to consolidated financial statements.

Inova Health System
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2014 and 2013
(In thousands)

	2014	2013
Operating Activities		
Change in net assets	$ 334,371	$ 538,264
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	181,255	170,931
Change in plan assets and benefit obligations of pension	11,284	(25,567)
Net realized and unrealized (gains) losses on investments	(87,776)	16,466
Net (gains) on investments redesignated as trading	-	(320,136)
Other-than-temporary declines in fair market value of investments	-	17,191
Change in fair value of interest rate swaps	11,064	(24,655)
Equity investment losses	3,625	3,994
(Increase) decrease in accounts receivable and third-party settlements, net	(7,539)	24,836
(Increase) in other current assets	(15,029)	(3,184)
Increase in accounts payable and other current liabilities	15,285	24,760
Increase (decrease) in accrued salaries, wages and benefits	17,298	(14,281)
Decrease (increase) in pension asset	12,510	(6,279)
Increase (decrease) in post employment health care benefits	1,346	(1,607)
(Decrease) in estimated professional liability and other deferred liability items	(4,568)	(2,743)
Restricted contributions and other	(11,995)	(26,353)
Other	(8,395)	(1,870)
Net Cash Provided by Operating Activities	452,736	369,767
Investing Activities		
Capital expenditures	(338,797)	(365,037)
Investments in and advances to joint ventures and affiliates	(15,858)	(31,122)
Purchases of marketable securities	(2,159,862)	(2,101,457)
Proceeds from sale of marketable securities	1,900,297	2,180,934
Other	1,696	4,736
Net Cash Used in Investing Activities	(612,524)	(311,946)
Financing Activities		
Principal payments on long-term debt	(30,817)	(30,340)
Proceeds from issuance of long-term debt	216,703	79,530
Refunding of long-term debt	-	(79,530)
Debt issuance costs	(1,634)	-
Swap termination and modification payments	(4,138)	(14,894)
Restricted contributions and other	11,995	26,353
Other	(2,712)	(2,933)
Net Cash Provided by (Used in) Financing Activities	189,397	(21,814)
Net Increase in Cash and Cash Equivalents	29,609	36,007
Cash and cash equivalents at beginning of year	252,679	216,672
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 282,288	$ 252,679

See notes to consolidated financial statements.

1. Nature of Operations

Organization: Inova Health System ("IHS") is an integrated, not-for-profit health care delivery system that owns, operates and manages clinical, educational, research and hospital facilities located in Northern Virginia, serving Northern Virginia, the Washington, D.C. metropolitan area and contiguous counties in Virginia and Maryland. The principal line of business for IHS is the delivery of acute care hospital services at five hospitals located in Northern Virginia. IHS also operates an integrated network of health services including ambulatory care, home health care, senior services, assisted living and other health related services. IHS formed a Population Health division in 2013 that operates INTotal Health, a Medicaid health maintenance organization ("HMO"), a Program of All-Inclusive Care for the Elderly and other related businesses.

2. Summary of Significant Accounting Policies

Basis of Presentation: The financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Principles of Consolidation: The IHS consolidated financial statements include the accounts of the Inova Health System Foundation (the "Foundation"); Inova Health Care Services ("IHCS"); Loudoun Hospital Center ("LHC"); Inova Holdings, Inc. ("IHI"); and their majority-owned subsidiaries and controlled affiliates. All material intercompany accounts and transactions have been eliminated in consolidation.

The Foundation is a tax-exempt, non-stock corporation, which controls its affiliated corporations through its authority to appoint the governing boards of the tax-exempt, non-stock affiliates or its stock ownership. The Foundation also supports and maintains the programs, services, and facilities of IHS' health care delivery system in part through the solicitation, receipt, administration, and distribution of philanthropic gifts on behalf of its tax-exempt affiliates. INTotal Health, LLC ("INTotal"), a wholly-owned subsidiary of the Foundation, is a Medicaid HMO licensed and authorized to do business in Virginia.

IHCS is a tax-exempt, non-stock corporation that serves the health care needs of the community by establishing, maintaining and operating hospital and health care facilities, programs, and other shared and integrated health care delivery arrangements. IHCS operates the following facilities, among others: Inova Fairfax Hospital ("Fairfax"); Inova Mount Vernon Hospital ("Mount Vernon"), Inova Fair Oaks Hospital ("Fair Oaks") and Inova Alexandria Hospital ("Alexandria"). IHCS also provides and manages the clinical, non-hospital facilities and programs whose services include senior services, assisted living facilities, addiction treatment services for adults and adolescents, outpatient rehabilitation services, urgent care and other outpatient health care services.

LHC is a tax-exempt, non-stock corporation that serves the health care needs of Loudoun County, Virginia, and surrounding areas. In addition to Inova Loudoun Hospital ("Loudoun"), LHC operates Loudoun Nursing and Rehabilitation Center, Loudoun Healthcare Foundation and other health care and related facilities.

IHI is a wholly owned subsidiary of the Foundation and is the parent holding company for various taxable entities within IHS including Technical Dynamics Inc., a biomedical equipment maintenance and engineering company. IHI and its subsidiaries operate facilities providing a variety of health care and support services to patients and to affiliated health care providers.

Cash and Cash Equivalents: Cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less. Cash equivalents are valued at cost, which approximates fair value.

Patient Accounts Receivable: Patient accounts receivable include charges for amounts due from all patients less allowances for the excess of established charges over the payments to be received on behalf of patients covered by Medicare, Medicaid and other insurers. IHS has a self-insured discount policy whereby uninsured patients receive a discount for services rendered. The discount percentage is based on amounts generally billed for commercially insured patients for the same services. Discounts to uninsured patients are classified as a deduction from revenue. The provision for bad debts is recognized when providing an allowance for uncollectible accounts.

2. Summary of Significant Accounting Policies (continued)

All operating entities of IHS treat emergency patients regardless of their ability to pay. Non-emergency medically necessary care is provided virtually without restriction at all IHS tax-exempt operating entities. A patient is classified as a charity patient based upon established IHS policies that consider patient income levels and available assets. Since IHS does not pursue collection of amounts that qualify as charity care, they are deducted from gross revenue. The provision for bad debts includes unpaid accounts of patients who fail to provide required income and asset documentation to IHS. Guidelines used by IHS in determining charity care may differ from guidelines used by certain state or federal agencies.

Assets Whose Use Is Limited: Assets whose use is limited include board-designated funds for the acquisition of property and equipment, funds restricted by donors for charitable purposes, funds to cover self-insurance and medical claim liabilities, and trustee-held assets for the retirement of long-term liabilities and the funding of certain capital projects.

Investments and Investment Income: Investments in equity securities with readily determinable fair values and all investments in debt securities held by Northern Trust, IHS' custodian, are designated as trading securities effective December 31, 2013. Investment income (including realized gains and losses on investments, unrealized gains and losses on trading securities, interest, and dividends) is included in excess of revenues over expenses unless such earnings are subject to donor-imposed restrictions. Investment income restricted by donor stipulations is reported as an increase in temporarily restricted net assets. Unrealized gains and losses on investments classified as other-than-trading are reported as a change in unrestricted net assets and, in accordance with relevant accounting literature, are excluded from excess of revenues over expenses.

On December 31, 2013, IHS changed the classification of certain investments from available for sale to trading. Accordingly, cumulative unrealized gains of $320.1 million were reclassified from changes in unrestricted net assets to the non-operating revenue section within the consolidated statements of operations and changes in net assets. The redesignation to trading had no impact on the total change in net assets or total assets at December 31, 2013.

Fair Value Measurements: IHS evaluates assets and liabilities subject to fair value measurements on a recurring basis to determine the appropriate level in which to classify them for each reporting period. See Note 7.

Property, Equipment and Leasehold Interests: Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable assets, and is computed using the straight-line method. The general range of useful lives is three to twenty-five years for land improvements, ten to forty years for buildings, fixed equipment, and leasehold improvements, and three to twenty years for major movable equipment. Software and other IT equipment are included in major movable equipment with useful lives of three to five years. Equipment under capital lease obligations is amortized using the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the consolidated statements of operations and changes in net assets. 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. Repairs and maintenance are expensed as incurred.

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Temporarily and Permanently Restricted Net Assets: Temporarily restricted net assets are those whose use by IHS 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 IHS in perpetuity.

Donor-restricted Gifts: Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Contributions received are reported as either temporarily or permanently restricted assets if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the accompanying consolidated statements of operations and changes in net assets as net assets released

2. Summary of Significant Accounting Policies (continued)

from restriction. Donor-restricted contributions whose restrictions are met within the same year as received and contributions received where no restrictions were stipulated are reflected as unrestricted contributions reported in the accompanying consolidated financial statements as other operating revenue.

Investments in and Receivables from Affiliates: IHS makes investments in corporations and other forms of businesses. Investments where less than 20% of the ownership interest is held by IHS, and IHS does not exert significant influence over the investee, are accounted for using the cost method. Investments where 20% to 50% of the voting common stock is owned by IHS as well as certain partnership and limited liability company investments are accounted for using the equity method. The equity method is also applied to investments in which IHS owns less than 20% of the ownership interest but can exert significant influence over the investee. See Note 8.

Goodwill and Other Intangible Assets: Financial Accounting Standard Board ("FASB") guidance requires business combinations to be accounted for using the acquisition method of accounting and it also specifies the types of acquired intangible assets that are required to be recognized and reported separately from goodwill. Goodwill represents the excess of cost of acquisition over the fair value of net assets acquired. Other intangible assets primarily represent the values assigned to subscriber bases, provider and hospital networks, and trademarks. Goodwill and other intangible assets with indefinite lives are not amortized but are tested for impairment at least annually. In compliance with FASB ASC Topic 350, "*Intangibles – Goodwill and Other*," IHS performed an annual impairment assessment of its goodwill and other indefinite lived intangible assets at the reporting level as of October 1, 2014. IHS utilizes the income approach to value the equity of the reporting unit for determining the fair value of goodwill. IHS utilizes the excess earnings method of the income approach to value its indefinite lived intangible assets. See Note 9.

Interest Rate Swap Agreements: IHS has entered into interest rate swap agreements to manage the net exposure to interest rate changes related to its borrowings and to manage its overall borrowing costs. For designated cash flow hedges, the change in its fair value is recorded as a change in other unrestricted net assets. For interest rate swaps not designated or qualifying as hedges, changes in fair value are recorded in investment income and other, net. See Note 11.

Premium Revenue: IHS records premium revenues based on premium information from each government agency with whom they contract to provide services. Premiums are due monthly and are recognized as revenue during the period in which IHS is obligated to provide service to members. Premium payments from contracts with government agencies are based on eligibility lists produced by the government agencies.

Medical Claims Liability: IHS incurs medical claims expenses on behalf of its members and establishes an accrual for amounts billed and not paid and an estimate of costs incurred for unbilled services provided. The estimated liability for unbilled services is based principally on historical payment patterns using actuarial techniques. Changes in assumptions for medical costs caused by changes in actual experience could cause these estimates to change in the near term. Such changes are reflected in current operations. Medical claims liability is recorded in notes payable and other liabilities in the accompanying consolidated balance sheets.

Meaningful Use of Certified Electronic Health Record ("EHR") Technology Incentive Payments: The Health Information Technology for Economic and Clinical Health ("HITECH") Act established incentive payments under the Medicare and Medicaid programs for certain healthcare providers that use certified EHR technology. The Medicare and Medicaid EHR programs provide financial incentives for the "meaningful use" ("MU") of certified EHR technology to improve patient care. To receive an EHR incentive payment, providers have to show that they are "meaningfully using" their EHRs by meeting thresholds for a number of objectives established by the Centers for Medicare & Medicaid Services ("CMS"). Providers must attest to CMS that applicable meaningful use criteria have been met. Compliance with meaningful use criteria is subject to audit by the federal government or its designee. Incentive payments are subject to retrospective adjustments in a future period as the payments are calculated using the Medicare cost report data that is subject to audit. Financial penalties will become effective in 2015 for failure to meet these objectives.

IHS elected the grant accounting method for recognition of revenue from EHR incentive payments. Grant revenue is recognized when there is reasonable assurance that the grant will be received and that the organization will comply with the

2. Summary of Significant Accounting Policies (continued)

conditions attached to the grant. Once reasonable assurance is obtained the revenue can be recognized ratably across the compliance period. The IHS hospitals recognized $12.3 million and $13.3 million in Stage One MU revenue for the years ended December 31, 2014 and 2013 respectively. MU revenue is recorded as other operating revenue in the accompanying consolidated statements of operations and changes in net assets. At December 31, 2014, Management did not believe adequate reliable information was available to make a determination of reasonable assurance that the hospitals would be able to successfully demonstrate compliance with the conditions for Stage Two reporting. Therefore IHS did not record an accrual as of December 31, 2014 for estimated EHR incentive payments under the Act's Stage Two reporting period.

Income Taxes: The Foundation, IHCS, and LHC, are not-for-profit corporations and have been determined to be exempt from Federal income tax under the provisions of section 501(c)(3) of the Internal Revenue Code. IHI and its subsidiaries are taxable organizations. Deferred income taxes are provided for all significant timing differences between revenues and expenses reported for financial statement and for tax purposes. Management annually reviews its tax positions and has determined that there are no material uncertain tax positions that require recognition in the consolidated financial statements.

Effective on the acquisition date, INTotal was converted to a single member LLC and expected to be treated as a disregarded entity for federal income tax purposes. Therefore, it would take on the exemption of and be reported under the Foundation. Following the acquisition, it was determined that since INTotal is an insurance entity it is considered a per se corporation and therefore requires its own exemption and filings. INTotal received its exemption in 2014 retroactive to November 30, 2012.

Risk Factors: IHS' ability to maintain and/or increase future revenues could be adversely affected by: (i) the growth of managed care organizations promoting alternative methods for health care delivery or payment of services, such as discounted fee for service networks and capitated fee arrangements; (ii) increased competition from other hospital facilities and integrated health care delivery systems in IHS' service areas, including health maintenance organizations ("HMOs") and other entities providing health care services to the population which IHS presently serves; (iii) new statutory, legal or regulatory requirements, or structural, operational or payment changes to the health care industry, resulting from the enactment and implementation of the Patient Protection and Affordable Care Act and other similar health care reform measures; (iv) proposed and/or future changes in the laws, rules, regulations and policies relating to the definition, activities, and/or taxation of non-profit tax-exempt entities; (v) future legislation, regulation or other actions by federal, state and local governments and their agencies which may impose requirements or continue the trend toward more restrictive limitations on reimbursement for health care services; (vi) future legislation or adverse trends affecting the costs related to professional liability coverage; (vii) the future of Virginia's Certificate of Need program, where future deregulation could result in the entrance of new competitors, or future additional regulation may eliminate IHS' ability to expand new services; (viii) changes in general and local economic conditions which could influence patients' ability to pay for services or the adequacy of patients' health insurance coverage; (ix) a potential shortage of qualified nurses and other skilled health care professionals in the local employment market; (x) the future renewal of IHS' Medicaid HMO contracts that renew annually which drive the majority of IHS' premium revenue; and (xi) changes in general and local economic conditions which could cause volatility in capital and debt markets and may impose limitations to timely access to debt markets.

Reclassification: Certain prior year balances have been reclassified to be consistent with the current year presentation.

Subsequent Events: IHS has evaluated subsequent events for recognition and disclosure through March 5, 2015, the date the financial statements were available for issuance.

Recent Accounting Pronouncements: In May 2014 the FASB issued ASU 2014-9, "Revenue from Contracts with Customers". ASU 2014-9 provides for a single comprehensive principles-based standard for the recognition of revenue across all industries through the application of a five-step model. The new standard changes the healthcare industry specific guidance under ASU 2011-7, "Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities". ASU 2014-9 is effective for annual periods beginning after December 15, 2016, with early adoption not permitted. Management is currently evaluating the effects the adoption of ASU 2014-9 will have on IHS' consolidated financial statements and disclosures.

3. Net Patient Service Revenue

Net patient service revenue is reported at estimated net realizable amounts from patients, third-party payers and others for services rendered. IHS recognizes patient service revenue associated with services provided to patients who have third-party payer coverage on the basis of contractual rates for the services rendered. For uninsured patients who do not qualify for charity care, IHS recognizes revenue on the basis of discounted (or negotiated) rates for services rendered as provided by policy. On the basis of historical experience, a portion of IHS' uninsured patients will be unable or unwilling to pay for the services provided. Thus, IHS records a provision for bad debts related to uninsured patients in the period the services are provided. Patient service revenue, net of contractual allowances and discounts and after the provision for bad debts, is recognized from these major payer sources for the years ended December 31, 2014 and 2013 (in thousands) as follows:

	2014	**2013**
Gross Patient Revenue	$5,104,139	$4,840,431
Deductions:		
Medicare and Medicaid allowances	(1,247,087)	(1,226,952)
Other discounts and allowances	(1,120,674)	(995,462)
Charity care	(196,163)	(232,342)
Net Patient Service Revenue	2,540,215	2,385,675
Less: Provision for Bad Debts	(140,582)	(118,518)
Total	**$2,399,633**	**$2,267,157**

Significant portions of IHS' services are provided under agreements with the respective patients' health insurance carriers. The following summarizes the sources of gross revenue for acute care hospital services for the years ended December 31, 2014 and 2013:

	2014	**2013**
Managed care and commercial	52.2%	51.0%
Medicare	30.7	30.9
Medicaid	9.1	9.8
Uninsured	8.0	8.3
Total	**100.0%**	**100.0%**

IHS agreements with third-party payers provide for payments to IHS at amounts different from its established rates. A summary of the payment arrangements with major third-party payers follows:

- *Managed Care and Commercial Payers*: Under managed care and commercial insurance plans, IHS is typically reimbursed for services provided under various contractual arrangements on a discounted fee, per diem or case rate basis. Patients covered by these types of contractual arrangements are obligated to pay IHS any copayments or deductible amounts required pursuant to the provisions of their managed care plans.

- *Medicare*: Inpatient acute (operating and capital), non-acute (psych, skilled nursing, rehab, and home health) and outpatient services provided to Medicare beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Ultimately, Medicare reimbursement also takes other factors into consideration such as medical education costs, disproportionate share payments, transplant costs and bad debts which are reimbursed at tentative rates with final settlement determined after submission and audit of the annual cost reports. IHS' classification of patients under the Medicare program and the appropriateness of their admission may be subject to independent review by a peer review organization.

3. Net Patient Service Revenue (continued)

- *Medicaid*: The Medicaid program is administered by the Department of Medical Assistance Services ("DMAS") of the Commonwealth of Virginia, pursuant to federal and state laws and regulations. DMAS receives funding for program expenditures from both the federal government and the Commonwealth of Virginia. Federal and state laws or regulations may affect limits on Medicaid payment. For inpatient Medicaid and other state programs, IHCS and LHC are reimbursed on an all payer-diagnostic related groups based prospective payment system. Outpatient reimbursement for Medicaid patients is paid on a percentage of allowable costs.

Patient accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, IHS analyzes its past history and identifies trends for each of its major payer sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payer 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, IHS 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 (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), IHS records a provision for bad debts in the period of service on the basis of its past experience. The difference between the standard rates (or discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

Beginning in late 2012 and over the course of 2013, IHS converted to a new, fully integrated electronic medical record system known as EpicCare. With the system-wide implementation of EpicCare, all scheduling, registration, billing and clinical data are in one centralized database available to clinicians and business users at every location of care throughout IHS.

Net patient service revenue also includes estimated retroactive adjustments resulting from future audits, reviews and investigations. Retroactive adjustments are considered in recognition of revenue on an estimated basis in the period the related services are rendered and such amounts are adjusted in future periods as adjustments are made known or as years are no longer subject to such audits, reviews and investigations. Retroactive adjustments in excess of amounts previously estimated did not have a material effect on net patient service revenue for 2014, but did have some effect for 2013 as IHS experienced increased retrospective review activity by both governmental and non-governmental payers. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is a reasonable possibility that recorded estimates will change by a material amount in the near term.

IHS' last change to its charity care and uninsured discount policy was effective October 1, 2013 and resulted in an increase to the self pay discount percentage.

4. Charity Care and Other Community Benefits

IHS provides healthcare services to patients who meet certain criteria under its charity care policy without charge (or at amounts less than the established rates). Since IHS does not pursue collection of amounts that qualify as charity care, such amounts are not reported as net patient service revenue. The amounts reported as charity care represent the cost of rendering such services based on the cost to charge ratio for each hospital. Various government programs provide for the indigent, including Medicaid recipients. These programs provide a percentage of reimbursement for qualifying patients; however, payment is typically below the cost of those services.

In addition to charity and uncompensated care, IHS provides benefits to the broader community. These services include health screenings and other health-related services, training health professionals, education and prevention services, family support programs, direct donations, costs of performing medical research and costs associated with providing free clinics and community services.

4. Charity Care and Other Community Benefits (continued)

IHS' estimated costs of providing services to the poor and broader community for the years ended December 31, 2014 and 2013 are as follows (in thousands):

	2014	2013
Charity care	$88,835	$105,282
Unpaid cost of state programs to financially disadvantaged persons	63,729	70,537
Community health programs	19,101	25,148
Medical education and research	22,465	30,633
Total community benefits, at cost	**$194,130**	**$231,600**

5. Property, Equipment and Leasehold Interests

The components of property, equipment and leasehold interests, at cost, and the related accumulated depreciation were as follows at December 31, 2014 and 2013 (in thousands):

	2014	2013
Land and land improvements	$168,684	$168,049
Buildings, fixed equipment and leasehold improvements	1,796,953	1,688,142
Major movable equipment	1,169,805	1,146,431
	3,135,442	3,002,622
Less: Accumulated depreciation and amortization	1,887,948	1,763,351
	1,247,494	1,239,271
Construction-in-progress	410,684	259,356
Total	**$1,658,178**	**$1,498,627**

6. Investments

On December 31, 2013, IHS changed the designation of certain investments to trading from available for sale and those investments now designated as trading are excluded from the tables below. IHS' investments consisted of trading securities totaling $2,147,919 and $2,016,847 (in thousands), alternative investments totaling $1,564,382 and $1,277,435 (in thousands), and the investments held as available for sale securities totaling $474,067 and $544,745 (in thousands) as of December 31, 2014 and 2013, respectively. Net open trades related to trading securities were $2.3 million for 2014 and $(1.6) million for 2013.

Details of investments held as available for sale securities in assets whose use is limited as of December 31, 2014 and 2013 are as follows (in thousands):

	2014		2013	
	Cost	Fair Value	Cost	Fair Value
Cash and cash equivalents	$408,283	$408,102	$372,588	$372,803
U.S. government and agency securities	42,915	40,710	149,523	146,956
Corporate and other bonds	766	680	1,459	1,579
Equity securities - domestic	25	19	19	14
Mutual fund				
- Equity	16,517	20,475	13,585	17,061
- Fixed income and other	4,133	4,081	6,289	6,332
Total	**$472,639**	**$474,067**	**$543,463**	**$544,745**

6. Investments (continued)

IHS records investment values on a trade-date basis. Amounts for sales and purchases of securities unsettled as of the balance sheet date are included net in the fair value amounts disclosed above in the appropriate asset class. There were no open trades as of December 31, 2014. Open sales totaled $0.2 million and open purchases totaled $0.2 million as of December 31, 2013.

Investments are carried at estimated fair value. Realized gains and losses from sales of investments are reflected in income for the period in which they occur. The average cost of the investment sold is used to determine the realized gain or loss. Interest and dividend income is reported net of investment-related expenses of $13.2 million in 2014 and $11.6 million in 2013.

Investment returns for the years ended December 31, 2014 and 2013 are summarized as follows (in thousands):

	2014	2013
Interest and dividend income	$54,135	$50,204
Net realized gains	101,759	179,720
Unrealized losses related to trading securities	(27,920)	-
Gain on investments redesignated as trading	-	320,136
Other-than-temporary declines in fair value of investments	-	(17,191)
Net unrealized gains (losses)	13,847	(196,187)
Total	**$141,821**	**$336,682**

	2014	2013
Included in investment income and other, net		
- Income from investments, net	$126,912	$140,862
- Income from equity method investments, net	28,184	68,830
Unrealized losses related to trading securities	(27,920)	-
Gain on investments redesignated as trading	-	320,136
Increase (decrease) in unrestricted net assets	13,900	(197,444)
Increase in temporarily restricted net assets	1,266	1,049
(Decrease) increase in permanently restricted net assets	(521)	3,249
Total	**$141,821**	**$336,682**

Over the past several years, the investment market has experienced significant volatility. Management continually reviews its investment portfolio and evaluates whether declines in the fair value of securities should be considered other-than-temporary. All investment holdings managed by third-party investment managers with fair value less than cost were considered other-than-temporarily impaired. These holdings were among the investments that IHS redesignated as trading securities on December 31, 2013. IHS has the intent and ability to hold investments in certain alternative investment vehicles whose fair values may be less than cost, and these securities are evaluated to determine whether declines in the fair value of securities should be considered other-than-temporary. During the years ended December 31, 2014 and 2013, IHS recognized a loss for other-than-temporary declines in the fair market value of investments of $0 and approximately $17.2 million, respectively.

7. Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability, or the exit price, in an orderly transaction between market participants at the measurement date. ASC Topic 820, “Fair Value Measurement,” establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy distinguishes between market participant assumptions based on independent sources (observable inputs classified within Levels 1 and 2)

7. Fair Value Measurements (continued)

and the reporting entity's own notions about market participant assumptions (unobservable inputs classified within Level 3). Transfers into and out of all levels of the fair value hierarchy are reflected at end-of-period fair value.
The fair value levels are as follows:

- Level 1inputs utilize unadjusted quoted prices in active markets for identical assets or liabilities that IHS has the ability to access at the measurement date.

- Level 2 inputs are other observable inputs for the assets or liabilities, either directly or indirectly. These may include quoted prices for similar assets and liabilities in active markets, interest rates, foreign exchange rates and yield curves that are observable at commonly quoted intervals.

- Level 3 inputs are unobservable inputs for the assets or liabilities, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

Fair value level assignment for assets and liabilities is based on the lowest level input that is significant to the fair value measurement in its entirety. IHS' assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the assets and liabilities.

The following tables present IHS' assets and liabilities measured at fair value on a recurring basis as of December 31, 2014 and 2013, respectively (in thousands). Certain assets such as open purchases and sales do not have fair values classified within a level in the valuation hierarchy. Alternative investments which are over 3% of the fund's value and whose ownership interest is considered to be more than minor are accounted for under the equity method of accounting. As a result, these are excluded from fair value tables below.

	December 31, 2014	**Level 1**	**Level 2**	**Level 3**
Assets:				
Cash and cash equivalents	$499,539	$499,539	$ -	$ -
U.S. government and agency securities	243,354	-	243,354	-
Corporate and other bonds				
- Asset-backed securities	194,146	-	194,146	-
- Corporate and other bonds	305,456	-	305,456	-
- Other government securities	32,959	-	32,959	-
Equity securities				
- Domestic	496,645	496,645	-	-
- International	360,694	360,694	-	-
Mutual fund				-
- Equity	292,334	292,334	-	-
- Fixed Income and other	194,573	194,573	-	-
Alternative investments				
- Hedge fund	60,797	-	50,702	10,095
- Private equity	22,187	-	-	22,187
- Private debt	30,665	-	-	30,665
- Private real estate	241,240	-	228,312	12,928
Total assets	**$2,974,589**	**$1,843,785**	**$1,054,929**	**$75,875**
Liabilities:				
Interest rate swap liabilities	$(29,767)	$ -	$(29,767)	$ -
Total liabilities	**$(29,767)**	**$ -**	**$(29,767)**	**$ -**

7. Fair Value Measurements (continued)

	December 31, 2013	Level 1	Level 2	Level 3
Assets:				
Cash and cash equivalents	$432,044	$432,044	$ -	$ -
U.S. government and agency securities	289,026	-	289,026	-
Corporate and other bonds				
- Corporate and other bonds	159,136	-	159,136	-
- Other government securities	13,578	-	13,578	-
Equity securities				
- Domestic	490,793	490,793	-	-
- International	320,675	320,675	-	-
Mutual fund				
- Equity	265,643	265,643	-	-
- Fixed Income and other	592,286	592,286	-	-
Alternative investments				
- Private equity	281	-	-	281
- Private debt	28,120	-	-	28,120
- Private real estate	182,276	-	177,113	5,163
Total assets	**$2,773,858**	**$2,101,441**	**$638,853**	**$33,564**
Liabilities:				
Interest rate swap liabilities	$(22,841)	$ -	$(22,841)	$ -
Total liabilities	**$(22,841)**	**$ -**	**$(22,841)**	**$ -**

The fair value of IHS' securities is determined by management using third-party service providers utilizing various methods dependent upon the specific type of investment except for Level 3 investments. Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Where significant inputs, including benchmark yields, broker-dealer quotes, issuer spreads, bids, offers, the LIBOR curve and measures of volatility, are used by these third-party dealers or independent pricing services to determine fair values, the securities are classified within Level 2.

Assets utilizing Level 1 inputs include: cash and cash equivalents, exchange-traded equity securities, equity and fixed income mutual funds.

Assets and liabilities utilizing Level 2 inputs include: U.S. government and agency securities, derivatives, corporate, convertible, and municipal bonds, collateralized mortgage obligations, certain mortgage-backed securities, asset-backed securities, and foreign government issued securities. Certain assets fair valued using net asset value ("NAV") are also classified as Level 2 in accordance with ASU 2009-12, "*Fair Value Measurements and Disclosures (Topic 820): Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent)*". IHS entered into interest rate swap agreements in conjunction with the issuance of variable rate bonds. The swap contracts are valued using models based on readily observable market parameters for all substantial terms of the contract. See Note 11 for additional information.

Assets utilizing Level 3 inputs include: limited partnership and equity interests in hedge fund, private debt, private real estate and private equity alternative investment funds where IHS' ownership percentage is currently less than 3% of the funds' values.

The hedge fund invests in publicly traded liquid securities as well as illiquid positions. Publicly traded liquid securities are valued based on quoted prices or bid and ask prices. Illiquid holdings are valued by the market or income approach. Significant judgment and analysis by fund management go into the selection of an appropriate valuation methodology

7. Fair Value Measurements (continued)

and the assumptions used to generate these models. NAV is used as a practical expedient in determining the fair value of IHS' interest in the fund.

Private debt funds invest in distressed debt and other value oriented investments. Valuation of the funds' exchange-traded holdings is based on quoted prices while that of the over-the-counter securities is based on last reported bid and ask prices. Illiquid holdings in the funds are priced by broker quotations, the market approach, discounted cash flow or recent transaction price.

Private real estate fund invests in real estate, real estate related and other financial instruments through a variety of investment vehicles domestically and abroad. Valuation of the fund's exchange-traded holdings is based on quoted prices while that of over-the-counter securities is based on last reported bid and ask prices. Illiquid holdings in the fund are priced by one or a combination of the income capitalization and sales comparison approaches.

One of the private equity funds predominantly invests in large U.S. leverage buyouts. Investments are valued at their market prices if market quotations are readily available. The fund's management applies consistent valuation methodologies based on best available information in the absence of observable market prices. The valuation process may incorporate fund management's own assumptions and involves a significant degree of judgment. NAV is used as a practical expedient in determining the fair value of IHS' interest in the fund.

The other private equity fund aims to achieve a substantial total return by obtaining control or significant influence of primarily middle-market companies. The fund's exchange-traded holdings are valued based on quoted prices while its non-exchange traded debt holdings are valued based on the bid and ask prices. Non-publicly traded debts are valued using discounted cash flow calculations. Fair values of the fund's private equity and real estate investments are determined by the market or income approach. The valuation methodologies used by fund management involve a significant degree of judgment.

Management uses the fund managers' valuation reports in assessing the fair values of these investments. Management validates the assessments based on the funds' audited financial statements, when they become available.

7. Fair Value Measurements (continued)

The following table summarizes certain characteristics of the alternative investments which are valued using NAV as of December 31, 2014 and 2013 (in thousands):

	2014		2013		Investment	Liquidity	Remaining
Fund	Level 2	Level 3	Level 2	Level 3	Strategy	Restrictions	Commitment
Hedge fund	$ -	$10,095	$ -	$ -	The fund seeks to generate a return which is as high as is consistent with a goal of minimizing losses during adverse financial market periods by investing in publicly traded liquid securities such as fixed income securities, structured products (MBS, CMBS, CDO) equities, real estate securities and derivatives. The strategy will also invest in illiquid positions.	Open ended fund with 2-year lockup. Semiannual redemptions thereafter limited to 25% of capital. 60 days notice required.	$90.0 million
Hedge fund	50,702	-	-	-	The fund's objective is to provide superior non-market correlated returns primarily by investing in emerging market and global equities.	Quarterly liquidity with 60 days notice.	$14.0 million
Private equity	-	600	-	-	The fund makes investments primarily in equity, equity-related and debt obligations of corporations, partnerships, limited liability companies and other similar entities that are believed to be undervalued, offer an opportunity for growth and provide an attractive risk/return profile.	Closed ended fund with 10 year term; 1-year renewals with consent of Investors Committee up to 15 years; additional 1-year extensions by approval of 2/3 LP consent.	$14.4 million
Private equity	-	21,587	-	281	Fund seeks to make privately negotiated equity or equity-related investments, focusing on leveraged buyout transactions primarily in the U.S.	Closed ended fund with 10 year term; renewal option up to two 1-year terms.	$51.2 million
Private debt	-	2,595	-	352	Funds seeks substantial long-term capital appreciation, as well as current income, by acquiring, holding and disposing of, directly or indirectly through one or more intermediate entities, investments which are generally being made in emerging market stressed, distressed and other value-oriented investments.	Closed ended fund with 10 year term; automatic renewal up to 15 years; additional 1-year extensions by approval of 2/3 consent.	$3.5 million
Private debt	-	28,070	-	27,768	The fund seeks capital appreciation by investing mainly in distressed debt and other value oriented investments.	Eighteen-month investment period for 50% of the commitment, and a 3-year investment period (starting from closing) for anything not withdrawn at the end of the 18 months.	N/A
Private real estate	-	12,928	-	5,163	Fund seeks substantial long-term capital appreciation, as well as current income, by acquiring, holding, remediating, managing, leasing, operating, maintaining, improving, developing, redeveloping, renovating, financing, refinancing, transferring and disposing of, directly or indirectly through one or more intermediate entities, real estate, real estate related and other financial instruments.	Closed ended fund with 10 year term; automatic renewal up to 15 years; additional 1-year extensions by approval of 2/3 consent.	$3.6 million
Private real estate	68,450	-	60,967	-	Fund invests in core and value added properties.	90 days written notice.	N/A
Private real estate	159,862	-	116,146	-	Fund invests in income producing real property, seeking high current income and capital preservation with a low risk, low leverage core approach. The real estate portfolio consists of multi-family, industrial, retail and office properties in targeted metropolitan areas within the continental U.S.	Quarterly with 45 days notice.	$10.0 million
	$279,014	**$75,875**	**$177,113**	**$33,564**			

7. Fair Value Measurements (continued)

The following table provides a reconciliation of the beginning and ending balances of items measured at fair value that used significant unobservable inputs (Level 3) (in thousands):

	Hedge Fund	Private Equity	Private Real Estate	Private Debt	Total Level 3 Investments
Balance at January 1, 2013	$ -	$ -	$ -	$24,239	$24,239
Unrealized gains (losses) relating to instruments still held at the reporting date	-	(411)	102	3,536	3,227
Purchases	-	692	-	345	1,037
Transfers into Level 3	-	-	5,061	-	5,061
Balance at December 31, 2013	**$ -**	**$281**	**$5,163**	**$28,120**	**$33,564**
Unrealized gains (losses) relating to instruments still held at the reporting date	20	(1,785)	2,365	355	955
Purchases	10,075	23,746	5,400	2,340	41,561
Settlements	-	(55)	-	(150)	(205)
Balance at December 31, 2014	**$10,095**	**$22,187**	**$12,928**	**$30,665**	**$75,875**

Unrealized gains related to instruments still held at the reporting date are reported in unrealized gain (loss) on investments, net under unrestricted, temporarily restricted and permanently restricted net assets in the consolidated statements of operations and changes in net assets. In 2013, the private equity fund decreased below the 3% threshold and was transferred into Level 3 as the equity method of accounting ceased to apply.

8. Investments in and Receivables from Affiliates

IHS makes strategic investments in corporations and other forms of businesses. IHS accounts for investments with 20% to 50% ownership under the equity method of accounting and includes IHS' net equity interest in investments in and receivables from affiliates in the consolidated balance sheets. Investments with less than 20% ownership are accounted for using the cost method.

IHS invested in a joint venture with Aetna that established Innovation Health plans ("IHealth"), a licensed health plan serving Northern Virginia. IHealth commenced operations in July 2013. IHealth provides employers and consumers access to more affordable, coordinated and integrated health care in the region. IHS holds a 50% interest in IHealth.

Other equity investments include Pediatric Specialists of Virginia, LLC ("PSV"), a multi-specialty pediatric physician organization in Northern Virginia established jointly with Children's National Medical Center in 2013; Genetics & IVF Institute ("GIVF"), a fully integrated specialized provider of infertility treatment and genetic services; Potomac Inova Healthcare Alliance, LLC ("PIHA"), a venture with Sentara Healthcare which provides diagnostic and treatment options for patients with cancer; and Industrial Health, LLC, a venture with IRS Virginia, LLC to offer specifically designed rehabilitation services to achieve worker's compensation case resolution. As of December 31, 2014, IHS holds 50%, 33%, 50%, and 50% ownership in these investments, respectively.

8. Investments in and Receivables from Affiliates (continued)

IHS' ownership in significant nonconsolidated entities and the amounts included in IHS' consolidated financial statements as of December 31, 2014 and 2013 are as follows (in thousands):

	Carrying Value		Equity In Earnings	
	2014	2013	2014	2013
IHealth	$33,609	$23,532	$77	$(4,968)
Other investments accounted for under equity method	13,982	11,826	(3,702)	974
Investments accounted for under cost method	493	2,135	-	-
Total investments in affiliates	$48,084	$37,493	$(3,625)	$(3,994)

The summarized financial positions and results of operations for investments accounted for under the equity method as of and for the years ended December 31, 2014 and 2013 are as follows (in thousands) (unaudited):

	2014	2013
Total Assets	$165,002	$101,171
Total Liabilities	63,328	25,150
Net Assets	101,674	76,021
Total revenues, net	$280,020	$73,643
Excess (Deficit) of revenue over expenses	1,940	(563)

9. Goodwill and Other Intangible Assets

The majority of goodwill and other intangible assets pertain to the December 1, 2012 acquisition of INTotal. A summary of goodwill and other intangible assets for the years ended December 31, 2014 and 2013 is as follows (in thousands):

	2014	2013	Estimated Useful Life (Years)
Provider Network	$10,500	$10,500	20
Customer Relations	9,900	9,900	10
Medicaid License	21,300	21,300	Indefinite
Other	2,283	2,283	6
	43,983	43,983	
Accumulated amortization	(3,525)	(1,967)	
Total intangibles, net	40,458	42,016	
Goodwill	34,978	30,828	
Total intangible assets and goodwill, net	$75,436	$72,844	

9. Goodwill and Other Intangible Assets (continued)

Amortization expense of intangible assets was $1.6 million and $1.7 million, for the years ended December 31, 2014 and 2013, respectively. Based upon the current amount of intangibles subject to amortization, the estimated amortization expense for each of the succeeding five years is as follows (in thousands):

	Amortization
2015	$1,601
2016	1,581
2017	1,574
2018	1,568
2019	1,534

IHS completed its 2014 annual impairment test of goodwill and indefinite lived assets in accordance with ASC Topic 350 and determined that there were no impairments. IHS determined the fair value of its reporting units and indefinite lived asset is in excess of their carrying values. In October 2014, IHS completed an acquisition for which the fair value of assets was based on a preliminary valuation. As a result, goodwill increased $4.2 million; however, purchase accounting has not been finalized.

10. Long-Term Debt

	December 31, 2014	December 31, 2013
Long-term Debt of the IHS Obligated Group:		
1988A,B,C,D Variable Rate Demand Obligation Revenue Bonds; maturing 10/1/25; monthly interest at a variable rate and maximum of 15%	$11,700	$11,700
1993A Hospital Revenue Refunding Bonds; maturing 8/15/23; semi-annual interest at a fixed rate of 2.75% to 5.25%	63,040	68,450
2000 Variable Rate Demand Health Care Revenue Bonds; maturing 1/1/30; monthly interest at a variable rate and maximum of 12.0%	30,300	30,300
2005A Health Care Revenue Bonds; maturing 5/15/35; monthly interest at a variable rate and maximum of 12.0%	109,730	109,730
2005C Health Care Revenue Bonds; maturing 5/15/26; monthly interest at a variable rate and maximum of 12.0%	18,610	18,610
2009A Health Care Revenue Bonds; maturing 5/15/35; semi-annual interest at a fixed rate of 3.0% to 5.5%	260,570	264,805
2009C Health Care Revenue Bonds; maturing 5/15/25; semi-annual interest at a fixed rate of 2.0% to 5.0%	54,385	57,915
2010A-2 Health Care Revenue Bonds; maturing 5/15/39; monthly interest at a variable rate and maximum of 12.0%	95,000	95,000
2011 Health Care Revenue Bonds; maturing 8/1/2017; monthly interest at a fixed rate of 1.8%	24,218	33,299
2012A Health Care Revenue Bonds; maturing 5/15/42; semi-annual interest at a fixed rate of 2.25% to 5.0%	281,880	285,870
2012B Health Care Revenue Bonds; maturing 5/15/22; semi-annual interest at a fixed rate of 3.0% to 5.0%	60,000	60,000
2012C Health Care Revenue Bonds; maturing 5/15/35; monthly interest at a variable rate and maximum of 12%	142,385	143,705
2012D Health Care Revenue Bonds; maturing 5/15/29;semi-annual interest at a fixed rate of 3.0% to 5.0%	70,395	70,395
2013 Health Care Revenue Bonds; maturing 12/1/23; monthly interest at a fixed rate of 2.15%	79,530	79,530
2014A Health Care Revenue Bonds; maturing 5/15/44; semi-annual interest at a fixed rate of 2.5% to 5.0%	200,000	-
Total Long-term Debt of the IHS Obligated Group	**1,501,743**	**1,329,309**
Less: Current Portion of Long-term Debt	(254,531)	(255,116)
Net Original Issue Premium	44,685	38,367
Net Long-term Debt of the IHS Obligated Group	**$1,291,897**	**$1,112,560**
Long-term Debt of Non-Obligated IHS Affiliates:		
Total Long-term Debt of Non-Obligated IHS Affiliates	23,077	18,655
Less: Current Portion of Long-term Debt	(4,241)	(3,243)
Net Long-term Debt of Non-Obligated IHS Affiliates	18,836	15,412
Total Net IHS Long-term Debt	**$1,310,733**	**$ 1,127,972**

The maturities of non-obligated IHS affiliates’ debt range from March 12, 2015 to December 24, 2021 with fixed interest rates ranging from 2.25% to 6.26%.

10. Long-Term Debt (continued)

The preponderance of IHS' debt is tax-exempt revenue bonds issued under a Master Trust Indenture, which defines the obligated subsidiaries and affiliates under the bonds. The Members of the IHS Obligated Group consist of the Foundation, IHCS and LHC. The financial statements presented for the Obligated Group include only their accounts, which includes their investment interest in controlled, affiliated entities, but does not include in the revenues, expenses, assets or liabilities of the Obligated Group the revenues, expenses, assets or liabilities of any of those controlled, affiliated entities.

On December 17, 2014, the Industrial Development Authority issued $200.0 million of Series 2014A bonds for the benefit of the IHS Obligated Group to finance approximately $200.0 million of capital projects. These series of bonds were sold at a premium of $9.0 million.

On December 18, 2014, the IHS Obligated Group converted $9.3 million of existing Series 2005C-1 variable rate bonds that were in a daily interest rate mode with a JPMorgan Chase Bank, N.A. Stand-by Bond Purchase Agreement ("SBPA") to a weekly interest rate mode with a Letter of Credit ("LOC") with Northern Trust Company.

On December 4, 2013, the IHS Obligated Group refunded a portion of its variable rate demand obligations ("VRDOs") under Series 1988ABCD, 2000, 2005A and 2005C with mandatory redemptions in years 2018-2023 totaling $79.5 million. These bonds were refunded to fixed rate serial bonds and directly purchased by TD Bank, N.A.

Losses recognized for early extinguishment of debt relate to the write-off of unamortized costs as well as the excess of amounts transferred to escrow over the principal amount of debt outstanding (representing interest).

IHS Obligated Group debts are secured by an interest in all funds held by the Bond Trustee for purposes of debt service, construction and equipment acquisition. Each Member of the IHS Obligated Group covenants that it will not pledge or grant a security interest in (except as may be otherwise provided in the Master Trust Indenture) any of its property. The Master Trust Indenture for the IHS Obligated Group requires that certain minimum financial ratios be met. IHS is in compliance with the financial ratio requirements.

IHS estimates the December 31, 2014 and 2013 fair value of its long-term debt, based on mid-market estimate, a market bid and/or ask, or any other price or estimate within a market spread, to be approximately $1,635 million and $1,372 million, respectively, compared with the face value of approximately $1,570 million and $1,386 million, respectively. The fair value of all financial instruments other than investments and debt is estimated by management to approximate or equal their reported carrying value.

The interest rate on the variable rate bonds ranged between 0.01% and 0.20% in 2014 and 0.03% and 0.31% in 2013. The variable rate bonds include an optional tender feature that allows the bond holder to tender the bonds on a weekly interest payment date. The 2012C bonds, in the seven month window VRDO mode are subject to mandatory tender for purchase 210 days after tender notice. As such, both the variable and seven month window VRDO bonds are classified as current liabilities, except for those supported by certain liquidity arrangements as described below.

IHS maintains SBPAs and LOCs to support the optional tender features on the VRDO bonds excluding the 2005A-2 bonds. The liquidity providers are summarized as follows as of December 31, 2014 (in thousands):

Liquidity Provider	Bond Series	Amount	Expiration Date
Branch Bank & Trust Company	2000	$30,300	12/31/2015
TD Bank	2005A-1	54,865	4/30/2016
Northern Trust	1988ABCD, 2005C-1, and 2005C-2	30,310	12/18/2017
Total		**$115,475**	

10. Long-Term Debt (continued)

In the event of a failed remarketing, the banks are obligated to extend credit to purchase the tendered bonds. The banks may subsequently remarket the bonds and if the bonds are not remarketed, they are subject to mandatory redemption in quarterly installments by IHS. Certain SBPAs and LOCs include a provision which specifies re-payment of advances made by the bank will begin in the 13th calendar month after the bonds are acquired by the bank. This provision ensures that tendered bonds do not become an obligation for IHS for at least one year. Accordingly, the underlying debt is not classified as current liabilities except for principal amounts due within twelve months.

The tender feature of the 2012C Bonds and certain variable rate bonds requires IHS to maintain current assets of $227.6 million and $228.9 million as of December 31, 2014 and 2013, respectively, to provide for redemption of the tendered bonds. These assets are included in the current portion of assets whose use is limited.

Costs incurred in the issuance or conversion of long-term debt are deferred and amortized over the life of the related debt using the principal balance outstanding method.

Certain bonds are subject to mandatory sinking fund redemption and to earlier redemption under certain circumstances as defined in the respective bond indenture agreements. Maturities of long-term debt for the five years succeeding December 31, 2014 are as follows (in thousands):

	2015	2016	2017	2018	2019	Thereafter	Total
Scheduled Maturities	$32,562	$43,116	$28,038	$31,712	$32,788	$1,130,394	$ 1,298,610
Bonds under remarketing agreement and subject to mandatory tender	226,210	-	-	-	-	-	226,210
Total	$258,772	$43,116	$28,038	$31,712	$32,788	$1,130,394	$1,524,820

Interest income from the trustee held funds relating to construction projects qualifying for interest capitalization was offset against related bond interest expense and capitalized to such projects. Amounts capitalized were approximately $1.9 million for 2014 and approximately $3.6 million for 2013.

IHS incurred interest expense of $42.6 million and $44.0 million in 2014 and 2013, respectively, which approximates amounts paid. Interest amounts capitalized were $15.7 million and $16.7 million in 2014 and 2013, respectively.

In 2012, a portion of the 2009A Health Care Revenue Bonds which were callable in 2014 with principal outstanding in the amount of $75.0 million, were defeased. Proceeds from the 2012D bonds were transferred to an irrevocable escrow account and invested in State and Local Government Securities, the principal and interest from which is sufficient to retire the bonds on the call date. On May 15, 2014, $75.0 million was paid. At December 31, 2014, no principal was outstanding on these defeased bonds.

In 2002, the 1993B AHSC Medical Facility Revenue Refunding Bonds, with principal outstanding in the amount of $5.6 million, were defeased. Cash was transferred to an irrevocable escrow account and invested in State and Local Government Securities, the principal and interest from which is sufficient to retire the bonds at maturity. On July 1, 2014, $0.6 million was paid. At December 31, 2014, no principal was outstanding on these defeased bonds.

10. Long-Term Debt (continued)

IHS issued $100.0 million of taxable commercial paper ("CP") under a program authorized for borrowings up to $100.0 million with maturity dates from one to 270 days. Proceeds from this issuance were used for a variety of working capital requirements. IHS maintains a self-liquidity program that would be used to repurchase any CP that is not remarketed. All outstanding CP is included in notes payable and other liabilities in the current liabilities section of the accompanying consolidated balance sheets. As of December 31, 2014 and 2013, the amount of CP outstanding was $100.0 million, respectively.

IHS has two unsecured bank lines of credit available in the amount of $37.5 million and $50.0 million with a variable interest rate of LIBOR plus 0.50%. No amount was outstanding at either December 31, 2014 or 2013. IHS had outstanding bank letters of credit guaranteeing payment to different beneficiaries amounting to $0.5 million and $0.6 million at December 31, 2014 and 2013, respectively.

11. Derivative Financial Instruments

IHS entered into interest rate swap agreements in order to hedge the variability of cash flows related to changes in market interest rates on underlying variable rate debt. The swap agreements effectively converted the variable rate debt to a fixed rate for the remaining life of the outstanding debt. These swap agreements initially qualified and were designated as cash flow hedges, and the effectiveness of the hedges was periodically evaluated. The effective portion of the change in fair value of the swap agreements was reported on the accompanying statements as a change in unrestricted net assets, and the ineffective portion was recorded in investment income and other, net. The effective hedges' maturity dates ranged from years 2030 to 2035.

Beginning in 2008, previously hedging swaps no longer qualified as cash flow hedges because the underlying debt was refinanced with debt with fixed interest rates. Beginning as of the date the hedges were discontinued, changes in the fair value of these swap agreements are recorded in investment income and other, net, and the accumulated losses as of the date the hedges were discontinued, but not previously recognized in income, will be amortized and recorded as investment income and other, net, as future interest payments occur. During 2015, $0.5 million is expected to be reclassified into earnings.

In 2014, a swap agreement was recouponed to lower the fixed payor rate. In 2013, three swap agreements were terminated resulting in a recognition of a loss of $9.1 million related to accumulated losses in fair value of the swaps in the consolidated statements of operations and changes in net assets.

Each of the swap agreements includes a credit support provision which requires the posting of collateral with the counter-party for liability positions in excess of specified thresholds. At December 31, 2014 and 2013, no collateral posting was required.

The following table provides a summary of the notional value and fair value positions of derivative instruments as well as their reporting location in the consolidated balance sheets at December 31, 2014 and 2013 (in thousands):

		2014		2013	
Interest rate swap agreements:	**Balance Sheet Location**	**Notional**	**Fair Value**	**Notional**	**Fair Value**
Not designated as hedges	Non-current Liabilities	$100,000	$(29,767)	$100,000	$(22,841)
Total		**$100,000**	**$(29,767)**	**$100,000**	**$(22,841)**

11. Derivative Financial Instruments (continued)

The following table presents gains and losses in the consolidated statements of operations and changes in net assets for the years ended December 31, 2014 and 2013 (in thousands):

Interest Rate Swaps Designated as Cash Flow Hedges	Statements of Operations and Changes in Net Assets	2014	2013
Unrealized gains - effective portion	Change in fair value of effective hedging interest rate swaps	$ -	$14,076
Unrealized gains - ineffective portion	Investment income and other, net	-	-
Realized losses - termination	Loss on extinguishment of debt and swap termination	-	(7,090)
Interest Rate Swaps Not Designated as Cash Flow Hedges			
Unrealized (losses) gains	Investment income and other, net	$(6,926)	$16,387
Unrealized losses - amortization of discontinuance of cash flow hedges	Investment income and other, net	(496)	(534)
Realized losses - termination	Investment income and other, net	-	(1,996)

12. Retirement Obligations

The IHS Retirement Income Plan (the "IHS Plan") is a defined benefit pension plan that covers substantially all full-time employees of IHS.

The reconciliation of the beginning and ending balances of the projected benefit obligation and the fair value of plan assets for the years ended December 31, 2014 and 2013 and the accumulated benefit obligation at December 31, 2014 and 2013 is as follows (in thousands):

	2014	2013
Projected Benefit Obligation:		
Beginning of year	$605,638	$709,673
Service cost	21,807	23,555
Interest cost	24,767	25,495
Actuarial (gain) loss	77,253	(62,571)
Benefits payments	(132,281)	(90,514)
Plan Amendments	(19,744)	-
End of year	**$577,440**	**$605,638**
Fair Value of Plan Assets:		
Beginning of year	$660,172	$732,361
Actual return on plan assets	56,664	(15,675)
Employer contributions	23,625	34,000
Benefits payments	(132,281)	(90,514)
End of year	**$608,180**	**$660,172**
Funded status at end of year	**$30,740**	**$54,534**

	2014	2013
Amounts recognized in the consolidated balance sheets consist of:		
Noncurrent assets	$30,740	$54,534
Amounts recognized in Unrestricted Net Assets consist of:		
Prior service cost (credit)	$ -	$(1,811)
Actuarial loss	46,770	37,297
Accumulated benefit obligation:		
End of year	$577,440	$590,034
Net periodic benefit cost:		
Service cost	$21,807	$23,555
Interest cost	24,767	25,495
Expected return on plan assets	(24,309)	(31,271)
Amortization of prior service (credit) cost	(302)	186
Recognized actuarial loss	3,858	5,001
Recognized settlement loss	11,824	4,755
Recognized curtailment (gain)	(1,509)	-
Net periodic benefit cost	**$36,136**	**$27,721**

12. Retirement Obligations (continued)

For the year ended December 31, 2014, IHS recognized a decrease in unrestricted net assets related to the change in plan assets and benefit obligations of the pension plan of approximately $11.3 million related to the decrease in discount rate and the adoption of the RP-2014 Generational with Scale MP-2014 mortality tables. For the year ended December 31, 2013, IHS recognized an increase in unrestricted net assets related to the change in plan assets and benefit obligations of the pension of approximately $25.6 million. The increase resulted mainly from an increase in the discount rate used to calculate the pension obligation, offset by investment returns on plan assets.

As part of an overall pension risk management strategy, IHS purchased insurance annuities for all retirees receiving annuities of less than $1,000 per month and terminated vested participants eligible for benefits based on a grandfathered June 30, 1998 accrued benefit. As a result of these transactions, IHS recognized a settlement loss of $10.2 million included in salaries and benefits on the consolidated statements of operations and changes in net assets.

Effective January 1, 2015, the IHS Plan was amended to cease all future service benefit accruals (“hard freeze”). This action resulted in a curtailment gain recognition of $1.5 million in 2014. As a result of the curtailment actions, all previously unrecognized prior service credit was recognized into earnings.

The actuarial loss included in unrestricted net assets related to the pension plan which is expected to be recognized in net periodic pension cost during the year ending December 31, 2015 is $4.1 million. No plan assets are expected to be returned to IHS for the year ending December 31, 2014.

Additional Information	**2014**	**2013**
Assumptions:		
Weighted-average assumptions used to determine benefit obligations at December 31:		
Discount rate	3.72%	4.61%
Rate of compensation increase	3.50%	3.50%
Weighted-average assumptions used to determine net periodic benefit costs for years ended December 31:		
Discount rate	4.61%	3.66%
Rate of compensation increase	3.50%	3.50%
Expected long-term return on plan assets	4.00%	4.50%

The assumed expected long-term return on plan assets is based on current and expected future asset allocations and long-term historic and expected future investment returns and is consistent with assumptions used by plans of similar size.

The overall financial objectives for the plans’ assets are (1) to provide funds for the timely payment of the plan’s obligations and (2) to produce an investment rate of return that improves the overall funding status of the plan consistent with the first objective. The investment objective of the plan seeks to strike a balance between higher returns and controlling funded status volatility. To achieve its objectives, the plan’s assets were allocated 99% to cash and fixed income investments and 1% to alternative investment strategies based on market value as of December 31, 2014. Roughly half of the plan’s fixed income allocation is structured to match the expected stream of future benefit payments in order to minimize funding volatility risk, while half attempts to earn a return in excess of the interest crediting rate applied to the plan.

The fair value of IHS’ plan assets is determined by management using third-party service providers utilizing various methods dependent upon the specific type of investment. Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Where significant inputs, including benchmark yields, broker-dealer quotes, issuer spreads, bids, offers, the LIBOR curve and measures of volatility, are used by these third-party dealers or

12. Retirement Obligations (continued)

independent pricing services to determine fair values, the assets are classified within Level 2. Assets utilizing Level 3 inputs include certain limited partnership interest in alternative investment funds where the valuation is based on the fund's underlying investments as reported by the funds' managers.

The following tables present the IHS Plan's assets measured at fair value aggregated by the level in the fair value hierarchy within which those measurements fall as of December 31, 2014 and 2013 (in thousands):

	December 31, 2014	**Level 1**	**Level 2**	**Level 3**
Cash and cash equivalents*	$2,137	$(1,752)	$3,889	$ -
Common/collective trusts	9,667	-	9,667	-
U.S. government securities	42,684	-	42,684	-
Corporate and other bonds				
- Corporate and other bonds	126,425	-	126,425	-
- Asset-backed securities	123,856	-	123,856	-
- Other government securities	14,565	-	14,565	-
Equity securities – domestic	980	980	-	-
Mutual fund				
- Fixed Income	279,403	279,403	-	-
Alternative investments				
- Hedge funds of funds	6,400	-	-	6,400
- Private debt	2,063	-	-	2,063
Total	**$608,180**	**$278,631**	**$321,086**	**$8,463**

	December 31, 2013	**Level 1**	**Level 2**	**Level 3**
Cash and cash equivalents	$4,290	$3,834	$ 456	$ -
Common/collective trusts	4,627	-	4,627	-
U.S. government securities	49,016	-	49,016	-
Corporate and other bonds				
- Corporate and other bonds	161,130	-	161,130	-
- Asset-backed securities	101,760	-	101,760	-
- Other government securities	34,795	-	34,795	-
Mutual fund				
- Fixed Income	293,286	293,286	-	-
Alternative investments				
- Hedge funds of funds	8,044	-	-	8,044
- Private debt	3,224	-	-	3,224
Total	**$660,172**	**$297,120**	**$351,784**	**$11,268**

*Cash and cash equivalents included open sales of $2.0 million and open purchases of $26.2 million as of December 31, 2014, causing the Level 1 balance to be negative. Cash and cash equivalents in the retirement portfolio consist of guaranteed deposits and short-term U.S. Agency bills, which are considered Level 2.

12. Retirement Obligations (continued)

The following table summarizes certain characteristics of investments which are valued using NAV (in thousands):

	2014		2013			
Fund	**Level 2**	**Level 3**	**Level 2**	**Level 3**	**Investment Strategy**	**Liquidity Restrictions**
Hedge fund of funds	$ -	$6,400	$ -	$8,044	Hedge fund of funds which seeks to achieve long term, non-market directional returns with low volatility relative to stocks by utilizing a variety of defensive hedge fund strategies.	Winding down; no regular liquidity [1]
Private debt	-	2,063	-	3,224	Mezzanine finance investments. Seek high current return and long-term capital appreciation, emphasizing fundamental credit analysis with a bias toward risk control. Focus on middle-market transactions which are sourced from the firm's relationships in the private equity community.	Winding down; at least quarterly distributions at general partner's discretion; term ends in 2015
Common/ collective trust	9,667	-	4,627	-	Investment vehicle for cash reserves. It seeks to offer a competitive rate of return through a portfolio of high-grade, short term, money market instruments. Principal preservation is the primary objective, with liquidity management also emphasized to provide for redemption of units on any business day. Admissions and withdrawals may be made daily at a constant $1.00 net asset value.	N/A
	$9,667	**$8,463**	**$4,627**	**$11,268**		

[1]This fund has suspended redemption since December 2008 due to a significant decrease in liquidity in the underlying funds in which it is invested. In September 2009, this fund announced a restructuring plan under which the IHS Plan chose to liquidate its holdings. The fund will wind down over the next 2-4 years. Redemptions occur periodically as excess cash is accumulated. Since the restructuring began, the IHS Plan has received fifteen distributions totaling $19.6 million as of March 5, 2015.

12. Retirement Obligations (continued)

The following table provides a reconciliation of the beginning and ending balances of items measured at fair value that used significant unobservable inputs (Level 3) (in thousands):

	Hedge Fund of Funds	Private Debt	Total Level 3
Balance at January 1, 2013	$10,535	$3,739	$14,274
Actual return on plan assets related to assets still held	709	410	1,119
Settlements	(3,200)	(925)	(4,125)
Balance at December 31, 2013	**$8,044**	**$3,224**	**$11,268**
Actual return on plan assets related to assets still held	531	(1,161)	(630)
Settlements	(2,175)	-	(2,175)
Balance at December 31, 2014	**$6,400**	**$2,063**	**$8,463**

IHS plans to contribute $5.0 million to the IHS Plan in 2015.

IHS' expected future benefit payments, which reflect expected future service as appropriate, are as follows (in thousands):

Fiscal Year	Pension
2015	$29,600
2016	29,700
2017	31,400
2018	30,800
2019	33,500
2020 to 2023	165,400

IHS also maintains a Retiree Medical Plan ("Retiree Health Plan") which provides benefits to certain retirees and certain active employees who met age and length of service requirements as of September 1, 1993. The projected benefit obligation was $11.3 million and $9.9 million as of December 31, 2014 and 2013, respectively. The current portion of the Retiree Health Plan liability is recorded in accrued salaries, wages and benefits and the noncurrent portion is recorded in other non-current obligations in the consolidated balance sheets.

IHS also sponsors the Inova Health System Retirement Savings Plan ("401K Plan") that covers the same groups covered under the IHS Plan. Employees may contribute to the 401K Plan and IHS may contribute to this plan in varying amounts. Defined contribution benefit expense was $22.2 million and $18.7 million in 2014 and 2013, respectively.

13. Professional and Other Insurance Liabilities

IHS maintains coverage for professional and general liability through claims-made policies issued by InovaCap, LLC ("InovaCap"). InovaCap is a wholly owned captive insurance company domiciled in Vermont. Because InovaCap is a wholly owned subsidiary of IHS, its assets, liabilities, revenues and expenses are fully consolidated in the accompanying financial statements.

13. Professional and Other Insurance Liabilities (continued)

InovaCap retains risk of $2.15 million per claim and $19.0 million in annual aggregate for professional liability. Additional risk is reinsured in umbrella forms through Lloyds of London, other European companies, Zurich North American, and CNA, together providing limits of $50.0 million per claim, and $50.0 million in the aggregate, in excess of the InovaCap retention. The consolidated balance sheets at December 31, 2014 and 2013 include an accrued liability of $29.3 million and $31.9 million, respectively, based on actuarial estimates of payments to be made under its professional liability insurance programs for known claims, as well as for estimated losses on unfiled claims, which relate to events occurring in 2014 and prior years. The liabilities are discounted at 1.3% and 2.0% at December 31, 2014 and 2013, respectively.

On September 30, 2013, InovaCap was reorganized as a protected cell sponsored captive insurance company and issued a professional liability policy to PSV. No assets, liabilities, revenues or expenses have been recognized related to this transaction as of December 31, 2014.

In addition, InovaCap assumed reinsurance obligations ceded by Aetna Health Inc. and Aetna Life Insurance Company (“Aetna affiliates”) related to certain Medicare Advantage health benefit insurance plans and products issued by the Aetna affiliates. The reinsurance arrangement was entered into to take advantage of business opportunities until licensure of IHealth was completed, as defined in the Master Relationship agreement between Inova and Aetna’s parent company. As of December 31, 2014 and 2013, InovaCap recorded a liability of $1.3 million and $0.9 million respectively, for reinsurance of the health plan obligations.

Assets held by InovaCap of $93.3 million and $84.1 million at December 31, 2014 and 2013, respectively, are restricted by statute from being transferred to another subsidiary or obligated for any other purpose and accordingly are included as assets whose use is limited in the consolidated balance sheets.

14. Fairfax County Leases

The land upon which the majority of Inova Fairfax Hospital and the entirety of Inova Mount Vernon Hospital are located and the related buildings and equipment are leased to IHS by the Board of Supervisors of Fairfax County, Virginia (“County”), under an agreement that was partially amended in 2010 (the “County Lease”). The 2010 agreement included sale of property whereby a portion of the Inova Fairfax Hospital campus land was taken out of the County Lease and ownership of that land was conveyed to IHS. There is also land owned by IHS, off-site of the hospital campus that was conveyed to Fairfax County. Effective as of December 3, 2010, the 2010 agreement extends the County Lease for the residual land for a term of 99 years and, thus, the County Lease now expires in December 2109. Under the County Lease, the property and equipment leased from the County are recorded as leasehold interests at the cost to construct or acquire. Upon termination of the County Lease, such property, including leasehold improvements and equipment will revert to the County, subject to all related long-term liabilities of IHS incurred to finance the construction and acquisition of such property, buildings and equipment.

The County Lease also requires IHS to set aside funds in an amount at least equal to the depreciation expense on the related leasehold interests. Such funds may be expended by IHS for major repairs or alterations, construction of or additions to buildings, or the purchase or replacement of equipment. IHS’ Board of Trustees has also designated additional funds for the purpose of plant expansion.

The terms of the County Lease outline an indigent care policy to assure all individuals in the County have access to medically necessary care. Patients’ payment obligations under the policy are determined using a sliding income scale which is based on the federal poverty guidelines. During the term of the County Lease, IHS has agreed to notify the County of any intent to incur additional debt in excess of $1.0 million. IHS has also agreed to notify the County of any intent to enter into contractual agreements for the management or operation of Inova Fairfax Hospital or Inova Mount Vernon Hospital by persons other than IHS, or any intent to change hospital rates.

15. Other Leases

IHS leases equipment, office space and certain facilities. Included in the operating expenses of IHS are lease expenses of approximately $27.6 million and $24.0 million in 2014 and 2013, respectively. Future minimum payments under non-cancellable operating leases with initial or remaining terms of one year or more consisted of the following at December 31, 2014 (in thousands):

	Operating Leases
2015	$23,826
2016	21,311
2017	19,968
2018	18,399
2019	13,543
Thereafter	18,012
Total lease payments	115,059
Less: minimum lease income from non-cancellable subleases	(3,421)
Total	**$111,638**

16. Other Commitments and Contingencies

IHS has entered into several contracts for the acquisition of equipment and for the construction of facilities. Future commitments under these contracts at December 31, 2014 were approximately $114.3 million. IHS currently anticipates that these projects will be financed with a combination of bond proceeds, funds generated from earnings and donations. These projects include expansion and renovation of Fairfax, Mt. Vernon, Loudoun, Alexandria and Fair Oaks hospitals and Ashburn Healthplex facilities.

IHS is subject to various legal claims and contingencies arising in the ordinary course of its business. While the outcomes of such matters are uncertain, management believes that their ultimate resolution will not have a material adverse effect on IHS' financial position or on the changes in its net assets or cash flows.

17. Functional Expenses

IHS provides various health care services to patients within its geographic region. Operating expenses related to providing these services for the years ended December 31, 2014 and 2013 are as follows (in thousands):

	2014	2013
Health care services	$2,153,270	$2,053,758
General and administrative	328,026	353,904
Total	**$2,481,296**	**$2,407,662**

18. Subsequent Events

On February 5, 2015, IHS entered into a ground lease agreement for 117 acres of land with an approximately 1.2 million square foot office campus across the street from its flagship hospital in Fairfax, Virginia. The 99-year ground lease provides the lessor, a large multinational corporation, with a put option to sell the property to IHS for $180.0 million during the first 5 years of the lease. Prior to the end of the put option period, future minimum payments total $41.5 million. It is IHS' intent to use part of this site to develop a regional cancer center and to use the remaining space for medical services, research and consolidation of office space.

Supplemental Reports – Federal and State Financial Assistance Programs

Inova Health System
Year Ended December 31, 2014
With Report of Independent Auditors

Ernst & Young LLP

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Building a better working world

Inova Health System

Supplemental Reports – Federal and State Financial Assistance Programs

Year Ended December 31, 2014

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Report of Independent Auditors on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

The Board of Trustees
Inova Health System

Report on Compliance for Each Major Federal Program

We have audited Inova Health System's (the System) compliance with the types of compliance requirements described in the US Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the System's major federal programs for the year ended December 31, 2014. The System's major federal programs are identified in the summary of auditor's 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.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the System'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; 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 the System's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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 the System's compliance.

Opinion on Each Major Federal Program

In our opinion, the System complied, in all material respects, with the types of 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.

Report on Internal Control Over Compliance

Management of the System 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 the System'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 an 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 the System'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. 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.

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

We have audited the financial statements of the System as of and for the year ended December 31, 2014, and have issued our report thereon dated March 5, 2015, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 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 States. In our opinion, the schedule of expenditures of federal and state awards is fairly stated in all material respects in relation to the financial statements as a whole.

Ernst & Young LLP

September 16, 2015

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Report of Independent Auditors 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*

The Board of Trustees
Inova Health System

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Inova Health System (the System), which comprise the consolidated balance sheet as of December 31, 2014, and the related consolidated statements of operations and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 5, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the System'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 the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System'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 the entity'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 the System's financial statements are free of 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 result of that testing, and not to provide an opinion on the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ernst & Young LLP

March 5, 2015

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Building a better working world

Report of Independent Auditors

The Board of Trustees
Inova Health System

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Inova Health System (the System), which comprise the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of operations and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States 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 consolidated financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the System as of December 31, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we also have issued our report dated March 5, 2015, on our consideration of the System'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 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 System's internal control over financial reporting and compliance.

Ernst + Young LLP

March 5, 2015

Inova Health System

Schedule of Expenditures of Federal and State Awards

Year Ended December 31, 2014

Federal Grantor/Pass-through Grantor/Program or Cluster Title/Project Title	**Federal CFDA Number**	**Pass-Through Entity Identifying Number**	**Federal Expenditures**
Federal Awards			
Department of Health and Human Services (DHHS), U.S. Health Resources and Services Administration (HRSA):			
Ryan White Comprehensive AIDS Resources Emergency Act of 1990			
Pass-through Northern Virginia Regional Commission:			
HIV Emergency Relief Project Grants (Part A)	93.914	13W023	$ 1,569,093
HIV Emergency Relief Project Grants (Part A)	93.914	14X023	1,889,666
HIV Emergency Relief Project Grants (Part A-MAI)	93.914	13W023	71,964
HIV Emergency Relief Project Grants (Part A-MAI)	93.914	14X023	194,133
			3,724,856
HIV Care Formula Grants (Part B)	93.917	NVRHCS611GY14	140,753
Pass-through Virginia Department of Health:			
HIV Care Formula Grants (Part B-MAI)	93.917	INOMAI611GY14	86,828
			227,581
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease (Part C)	93.918		448,460
Coordinated Services and Access to Research for Women, Infants, Children and Youth (Part D)	93.153		556,833
Pass-through Virginia Department of Health:			
HIV Prevention Activities_Health Department Based	93.940	INOCAPS611GY13/INOCAPS611GY14	70,758
HIV Prevention Activities_Health Department Based	93.940	INOHPAC611GY14	98,239
HIV Prevention Activities_Health Department Based	93.940	INORLI611GY14	113,335
HIV Prevention Activities_Health Department Based	93.940	INOMSM611GY14	79,634
HIV Prevention Activities_Health Department Based	93.940	INOPOS611GY14	89,988
HIV Prevention Activities_Health Department Based	93.940	INOEHTP611GY14/INOEDP611GY14	118,364
			570,318

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Inova Health System

Schedule of Expenditures of Federal and State Awards (continued)

Federal Grantor/Pass-through Grantor/Program or Cluster Title/Project Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Federal Awards (continued)			
Pass-through Virginia Department of Health (continued):			
Special Projects of National Significance	93.928	INOSPNS611GY13	$ 95,435
Maternal and Child Health Services Block Grant to the States	93.994	706B82480	480,000
Maternal and Child Health Services Block Grant to the States	93.994	706B432333	483,975
			963,975
Pass-through University of Maryland, Baltimore:			
Express Library Promotion Award	93.N/A	HHS-N-276-2011-00004-C	2,468
Pass-through University of Pittsburgh:			
AIDS Education and Training Centers (AETC)	93.145	5 H4AHA00060-12-00	206,665
AIDS Education and Training Centers (AETC)	93.145	5 H4AHA00060-13-00	115,809
			322,474
Office of the Assistant Secretary for Preparedness and Response/Virginia Hospital and Healthcare Association:			
Pass-through Northern Virginia Hospital Alliance:			
National Bioterrorism Hospital Preparedness Program	93.889		22,734
Total Department of Health and Human Services			6,935,134
Department of Homeland Security, Offiice for Domestic Preparedness/District of Columbia, Office of the Deputy Mayor for Public Safety and Justice:			
Pass-through Northern Virginia Hospital Alliance:			
Homeland Security Grant Program	97.067	12UASI019-07	159,593
Homeland Security Grant Program	97.067	11UASI019-01	50,884
Total Department of Homeland Security			210,477

Schedule of Expenditures of Federal and State Awards (continued)

Federal Grantor/Pass-through Grantor/Program or Cluster Title/Project Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Research & Development Cluster			
Department of Defense, U.S. Army Medical Command:			
Pass-through The Henry M. Jackson Foundation for the Advancement of Military Medicine, Inc.:			
An anti-inflammatory approach to the diagnosis and treatment of combined PTSD and mild TBI	12.N/A	702334	$ 113,445
Military Medical Research and Development	12.420	W81XWH-10-1-0782	17,124
Pass-through Johns Hopkins University:			
The Major Extremity Trauma Research Consortium	12.N/A	W81XWH-10-2-0090	97,960
The Major Extremity Trauma Research Consortium – Patient Enrollment	12.N/A	W81XWH-10-2-0090	7,130
The Major Extremity Trauma Research Consortium – RetroDEFECT	12.N/A	W81XWH-09-2-0108	1,143
The Major Extremity Trauma Research Consortium – POVIV	12.N/A	W81XWH-10-2-0133	1,091
Department of Transportation, National Highway Traffic Safety Administration (NHTSA):			
Pass-through University of Virginia:			
State and Community Highway Safety	20.600	GG11313-135765	310,145
Department of Health and Human Services, U.S. Health Resources and Services Administration (HRSA):			
National Institutes of Health:			
National Heart, Lung and Blood Institute	93.N/A	HHSN268201400015C	200,618
Pass-through Georgetown University:			
Allergy, Immunology, and Transplantation Research	93.855	2U01AI034994	113,579
Pass-through The Children’s Hospital of Philadelphia:			
Cancer Treatment Research	93.395	1U10CA180886	141,360

Schedule of Expenditures of Federal and State Awards (continued)

Federal Grantor/Pass-through Grantor/Program or Cluster Title/Project Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Research & Development Cluster (continued)			
Pass-through American College of Radiology:			
Cancer Treatment Research	93.395	U10 CA021661	$ 13,558
ARRA: Pass-through The Children's Hospital in Philadelphia:			
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	5 U01 DK066174	6,250
Pass-through University of Virginia:			
Cardiovascular Diseases Research	93.837	GO10872-134640/GO10871-134641	5,045
Pass-through Children's Hospital Medical Center:			
Cardiovascular Diseases Research	93.837	109363	8,764
Pass-through George Mason University:			
Cancer Detection and Diagnosis Research	93.394	E2024301	4,459
Total Research & Development Cluster			1,041,671
Total Expenditures of Federal Awards			8,187,282
State Awards:			
Virginia Department of Health			
HIV Prevention	N/A	INOGAAP611FY14	60,880
HIV Prevention	N/A	INOGAAP611FY15	48,872
Total State Awards			109,752
Total Federal and State Awards			$ 8,297,034

The accompanyiung notes are an integral part of this schedule.

Inova Health System

Notes to the Schedule of Expenditures of Federal and State Awards

December 31, 2014

1. Scope of Audit Pursuant to OMB Circular A-133

All federal grant operations of the System are included in the scope of the Office of Management and Budget (OMB) Circular A-133 audit (the Single Audit).

No federal funds awarded to sub-recipients during 2014.

2. Fiscal Period Audited

For program transactions occurring during the fiscal year ended December 31, 2014, the System is required to undergo a Single Audit pursuant to OMB Circular A-133.

3. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying schedule of expenditures of federal and state awards (the Schedule) includes all federal and state grants to the System that had expenditure activity during fiscal year 2014. The Schedule has been prepared in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* and on the accrual basis of accounting.

Part I – Summary of Auditor's Results

Financial Statement Section

Type of auditor's report issued	**Unmodified Opinion**	
Internal control over financial reporting:		
Material weakness(es) identified?	____Yes	X No
Significant deficiency(ies) identified?	____Yes	X None reported
Noncompliance material to financial statements noted?	____Yes	X No

Federal Awards Section

Internal control over major federal programs:		
Material weakness(es) identified?	____Yes	X No
Significant deficiency(ies) identified?	____Yes	X None reported
Type of auditor's report issued on compliance for major federal programs (unmodified, qualified, adverse or disclaimer):	**Unmodified 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

Part I – Summary of Auditor's Results (continued)

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
93.153	Ryan White Coordinated Services and Access to Research for Women, Infants, Children and Youth (Part D)
93.994	Maternal and Child Health Services Block Grant to the States
97.067	Homeland Security Grant Program
Various	Research & Development Cluster

Dollar threshold used to distinguish between Type A and Type B programs: $ 300,000

Auditee qualified as low-risk auditee? X Yes ____ No

Part II – Financial Statement Findings Section

No significant deficiencies, material weaknesses, fraud, noncompliance with provisions of laws, regulations, contracts, and grant agreements, or abuse related to the financial statements for which *Government Auditing Standards* require reporting in a Circular A-133 audit.

Part III – Federal Award Findings and Questioned Costs Section

No material weaknesses, significant deficiencies, and material instances of noncompliance including questioned costs, as well as any abuse findings involving federal awards that are material to a major program related to the financial statements required to be reported by Circular A-133 Section .510(a) were identified.

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Inova Health System

Summary Schedule of Prior Audit Findings

2013-001: Inclusion of expenses incurred subsequent to the grant period of availability in the Schedule of Expenditures of Federal and State Awards (SEFA)

Status: The corrective action plan for this finding has been completed. The System has improved controls surrounding the reconciliation of expenses incurred and the amounts billed during the period of availability. The various departments monitored the grants throughout the year to ensure the Federal expense recorded within the general ledger was consistent with the period of availability. During preparation of the SEFA, management reconciled the 2014 activity to the general ledger as well as back to the period of availability for each grant within the R&D cluster

2013-002: Management of equipment using Federal funds

Status: The corrective action plan for this finding has been completed. The System has strengthened the internal controls surrounding the physical inventory observation performed for both internally and externally held equipment acquired under Federal awards. An annual observation was implemented and performed, for equipment purchased with Federal funds, by the Program Managers for the fiscal year ended December 31, 2014. This process will continue on an annual basis. The System will continue its physical inventory performed every two years by the Grants Management Office and Accounting team.