Continuing Disclosure – Quarterly Report

PRESBYTERIAN

Presbyterian Healthcare Services
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June 30, 2015

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Presbyterian Healthcare Services
Quarterly Report
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Forward-Looking Information -

This disclosure report may contain disclosures which contain "forward-looking statements." Forward-looking statements include all statements that do not relate solely to historical or current facts, and can be identified by the use of words such as "believe," "expect," "may," "might," "will," "should," "seek," "could," "approximately," "intend," "plan," "estimate," "budget," "anticipate," or "continue" or the negative of those words or other similar expressions. Forward-looking statements involve inherent risks and uncertainties and are based on the current plans and expectations of Presbyterian Healthcare Services (PHS) and are subject to a number of known and unknown uncertainties and risks, many of which are beyond PHS's control, that could significantly affect current plans and expectations and PHS's future financial position and results of operations. These factors include, but are not limited to, (i) the highly competitive nature of the health care business, (ii) the efforts of insurers, health care providers and others to contain health care costs, (iii) possible changes in the Medicare and Medicaid programs that may impact reimbursements to health care providers and insurers, (iv) changes in federal, state or local regulations affecting the health care industry, (v) the possible enactment of federal or state health care reform, (vi) the ability to attract and retain qualified management and other personnel, including affiliated physicians, nurses and medical support personnel, (vii) liabilities and other claims asserted against PHS, (viii) changes in accounting standards and practices, (ix) changes in general economic conditions, (x) future divestitures or acquisitions which may result in additional charges, (xi) changes in revenue mix and the ability to enter into and renew managed care provider arrangements on acceptable terms, (xii) the availability and terms of capital to fund future expansion plans of PHS and to provide for ongoing capital expenditure needs, (xiii) changes in business infrastructure costs, (xiv) delays in receiving payments, (xv) the ability to control administrative, supply and infrastructure costs, (xvi) the outcome of pending and any future litigation, (xvii) PHS's continuing efforts to monitor, maintain and comply with appropriate laws, regulations, policies and procedures relating to PHS's status as a tax-exempt organization, as well as its ability to comply with the requirement of Medicare and Medicaid programs, (xviii) the ability to achieve expected levels of patient volumes and control the costs of providing services, (xix) results of reviews of PHS's cost reports, and (xx) PHS's ability to comply with legislation and/or regulations. As a consequence, current plans, anticipated actions and future financial position and results of operations may differ from those expressed in any forward-looking statements made by or on behalf of PHS. You are cautioned not to unduly rely on such forward-looking statements when evaluating the information presented in this report.

Forward-looking statements contained herein are made only as of the date made, and we do not undertake any obligation to update them to reflect events or circumstances after the date of this disclosure to reflect the occurrence of unanticipated events.

Presbyterian Healthcare Services
Quarterly Report
June 30, 2015

Contents

Financial Statements

Quarterly Report

Condensed Combined Balance Sheets as of June 30, 2015 and December 31, 2014 1

Condensed Combined Statements of Operations for the Three Months ended June 30, 2015 and 2014 2

Condensed Combined Statements of Operations for the Six Months ended June 30, 2015 and 2014 3

Condensed Combined Statements of Changes in Net Assets for the Six Months ended June 30, 2015 and 2014 4

Condensed Combined Statements of Cash Flows for the Six Months ended June, 2015 and 2014 5

Notes to Condensed Combined Financial Statements 6-16

Organization

Organizational Description 17

The Obligated Group 18

Purpose 18

Vision 18

Presbyterian Egg 19

Management's Discussion and Analysis of Financial Condition and Results of Operations 20-24

Supplemental Information

Condensed Combining Balance Sheet 25

Condensed Combining Statements of Operations 26-27

Long Term Debt Profile 28

Operating Data 29-34

Presbyterian Healthcare Services and Affiliates

Condensed Combined Balance Sheets

	June 30, 2015 (Unaudited)	December 31, 2014
	(In Thousands)	
Assets		
Current assets:		
Cash and cash equivalents	**$ 263,685**	$ 245,327
Accounts receivable, less allowance for doubtful accounts	**105,473**	110,736
Other receivables	**141,906**	91,528
Inventories, prepaid expenses, and other	**36,506**	36,905
Total current assets	**547,570**	484,496
Assets limited as to use or restricted:		
Designated for long-term purposes	**1,665,394**	1,564,318
Designated for self-insurance funds	**126,231**	124,328
Restricted by donors	**35,907**	34,477
Held by trustee	**83,094**	7,244
Restricted for statutory requirements	**95,487**	103,685
	2,006,113	1,834,052
Property and equipment, net	**831,989**	815,772
Goodwill	**57,589**	57,589
Other assets and Intercompany Balances	**82,309**	79,391
Total assets	**$ 3,525,570**	$ 3,271,300
Liabilities and net assets		
Current liabilities:		
Accounts payable	**$ 49,552**	$ 55,349
Accrued liabilities	**257,927**	205,660
Medical claims payable	**149,380**	127,919
Estimated third-party payor settlements	**(1,417)**	2,966
Current portion of long-term debt and capital leases	**8,722**	13,435
Total current liabilities	**464,164**	405,329
Long-term debt and capital leases, net of current portion	**724,650**	596,321
Employee Benefit Plans	**186,854**	201,850
Self Insurance Reserves	**129,204**	127,439
Other liabilities	**106,424**	105,151
Total liabilities	**1,611,296**	1,436,090
Net assets:		
Unrestricted	**1,877,641**	1,799,701
Temporarily restricted	**28,176**	27,143
Permanently restricted	**8,457**	8,366
Total net assets	**1,914,274**	1,835,210
Total liabilities and net assets	**$ 3,525,570**	$ 3,271,300

See accompanying notes.

Presbyterian Healthcare Services and Affiliates

Condensed Combined Statements of Operations (Unaudited)

	Three Months Ended June 30, 2015	2014
	(In Thousands)	
Revenues		
Net premium	$ **470,427**	$ 414,990
Patient Service Revenue	**259,791**	250,552
Provision for Bad Debts	**(14,156)**	(24,760)
Net Patient Service Revenue	**245,635**	225,792
Other operating	**14,898**	17,521
Total operating revenues	**730,960**	658,302
Expenses		
Medical claims	**257,055**	209,487
Salaries, wages and employee benefits	**212,801**	199,591
Purchased services and other	**97,878**	112,991
Supplies	**57,611**	50,788
Professional fees	**8,910**	10,171
Depreciation and amortization	**26,132**	25,983
Interest	**6,170**	6,560
Total expenses	**666,557**	615,572
Operating income	**64,403**	42,730
Other income (loss):		
Investment income	**7,051**	42,207
Changes in unrealized gains on investments	**(11,437)**	15,935
Loss on bond defeasance	**(24,061)**	-
Change in fair value of interest rate swaps	**5,863**	(2,269)
Excess of revenues over expenses before income tax provision	**41,819**	98,604
Provision for income tax	**18,171**	13,985
Excess of revenues over expenses	$ **23,648**	$ 84,619

See accmpanying notes.

Presbyterian Healthcare Services and Affiliates

Condensed Combined Statements of Operations (Unaudited)

	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
	(In Thousands)	
Revenues		
Net premium	$ **941,095**	$ 824,971
Patient Service Revenue	**535,194**	497,082
Provision for Bad Debts	**(31,857)**	(51,356)
Net Patient Service Revenue	**503,337**	445,726
Other operating	**30,696**	32,502
Total operating revenues	**1,475,129**	1,303,199
Expenses		
Medical claims	**545,337**	438,888
Salaries, wages and employee benefits	**428,004**	397,022
Purchased services and other	**205,352**	216,390
Supplies	**113,777**	101,926
Professional fees	**17,604**	19,161
Depreciation and amortization	**52,253**	51,947
Interest	**12,310**	12,981
Total expenses	**1,374,637**	1,238,317
Operating income	**100,493**	64,882
Other income (loss):		
Investment income	**21,810**	59,311
Changes in unrealized gains on investments	**3,795**	27,752
Loss on bond defeasance	**(24,061)**	-
Change in fair value of interest rate swaps	**2,272**	(4,891)
Excess of revenues over expenses before income tax provision	**104,309**	147,054
Provision for income tax	**25,989**	22,278
Excess of revenues over expenses	$ **78,320**	$ 124,776

See accompanying notes.

Presbyterian Healthcare Services and Affiliates

Condensed Combined Statement of Changes in Net Assets (Unaudited)

	Six months ended June 30, 2015	Six months ended June 30, 2014
	(In Thousands)	
Unrestricted net assets		
Excess of revenues over expenses	$ 78,320	$ 124,776
Other changes in net assets	(380)	996
Increase in unrestricted net assets	77,940	125,772
Temporarily restricted net assets		
Donor-restricted contributions and earnings	1,386	2,013
Net Assets released from restrictions	(524)	(1,875)
Net unrealized gains on investments	135	386
Other changes in Net Assets	36	42
Increase in temporarily restricted net assets	1,033	566
Permanently restricted net assets		
Changes in donor designations	(10)	(1)
Donor-restricted contributions	101	68
Increase in permanently restricted net assets	91	67
Increase in net assets	79,064	126,405
Net assets, beginning of the period	1,835,210	1,753,402
Net assets, end of the period	$ 1,914,274	$ 1,879,807

See accompanying notes.

Presbyterian Healthcare Services and Affiliates

Condensed Combined Statements of Cash Flows

	Six Months Ended June 30, 2015	2014
Operating activities		
Change in net assets	$ 79,063	$ 126,405
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Change in unrealized gains/losses on investments	(3,795)	(27,751)
Change in fair value of interest rate swaps	(2,272)	4,890
Loss on Bond Defeasance	24,061	-
Depreciation and amortization	52,253	51,947
Provision for doubtful accounts	31,857	51,356
Changes in operating assets and liabilities:		
Accounts receivable, less allowance for doubtful accounts	(39,574)	(72,006)
Other receivables	(50,377)	(42,291)
Inventories, prepaid expenses and other current assets	399	(775)
Trading Securities	(83,424)	(26,190)
Other assets	(2,918)	(3,517)
Accounts payable	(5,797)	(5,923)
Accrued expenses	52,266	88,925
Medical claims payable	34,441	47,457
Estimated third-party payer settlements	(4,383)	(3,315)
Other liabilities	(9,685)	(46,206)
Net cash provided by operating activities	72,115	143,006
Investing activities		
Sales of Assets Held by Trustee and Statutory Deposits	42,007	14,242
Purchase of Assets Held by Trustee and Statutory Deposits	(126,849)	(1,011)
Purchases of property and equipment	(68,470)	(53,455)
Net cash used in investing activities	(153,312)	(40,224)
Financing activities		
Proceeds from issuance of long-term debt	240,328	9,000
Payments on long-term debt and capital leases	(140,773)	(469)
Net cash used in financing activities	99,555	8,531
Net increase in cash and cash equivalents	18,358	111,313
Cash and cash equivalents, beginning of period	245,327	129,970
Cash and cash equivalents, end of period	$ 263,685	$ 241,283

See accompanying notes.

Presbyterian Healthcare Services
Notes to Condensed Combined Financial Statements
June 30, 2015

1. Organization

Presbyterian Healthcare Services (PHS) is a New Mexico nonprofit corporation exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. PHS is a diversified healthcare organization which owns, leases, controls, operates or manages a variety of healthcare-related organizations, including six hospitals in New Mexico, a for-profit health maintenance organization, and several other affiliated organizations. PHS provides a broad range of healthcare services, including inpatient, outpatient, sub-acute, home healthcare and physician services.

PHS consists of the following divisions and affiliates:

Presbyterian Healthcare Services Divisions:
- Presbyterian Hospital*, including the following which are designated as remote locations of Presbyterian Hospital:
  - Presbyterian Kaseman Hospital*
  - Presbyterian Northside*
  - Presbyterian Rust Medical Center*
- Plains Regional Medical Center*
- Presbyterian Española Hospital*
- Socorro General Hospital*
- Lincoln County Medical Center (leased facility)
- Dr. Dan C. Trigg Memorial Hospital (leased facility)

Presbyterian Healthcare Services Affiliates:
- Southwest Health Foundation
  - Presbyterian Network, Inc. (PNI)
    - Presbyterian Insurance Company, Inc.
    - Presbyterian Health Plan, Inc.
    - Albuquerque Imaging Associates
    - Southwest Magnetic Imaging Associates
- Presbyterian Properties, Inc. (PPI)
- Presbyterian Healthcare Foundation*
- Bernalillo County Health Care Corporation d.b.a. Albuquerque Ambulance Service*

* Denotes Obligated Group members.

PHS accesses the capital markets through an Obligated Group. Obligated Group members include PHS and certain divisions and affiliates as noted above, which are jointly and severally liable for the long-term debt outstanding under a Master Trust Indenture. None of the other PHS affiliates have any obligation related to requirements of the Master Trust Indenture. The Obligated Group's net assets represent approximately 75% and 77% of PHS and affiliates' combined net assets at June 30, 2015 and December 31, 2014, respectfully.

Presbyterian Network, Inc. (PNI) is a wholly owned subsidiary of Southwest Health Foundation. PNI is the parent organization of two wholly owned subsidiaries, Presbyterian Health Plan, Inc. (PHPI) and Presbyterian Insurance Company, Inc. (PIC). PHPI is a state-licensed HMO in New Mexico, and is also a federally qualified HMO under Title XIII of the Public Health Service Act, and provides services to individuals through employer contracts, to eligible individuals through the New Mexico Medicaid program and to Medicare-eligible individuals through a Medicare risk program. PIC offers preferred provider and indemnity products to individuals directly and through contracts with employer groups.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying condensed combined financial statements include the accounts of PHS and its affiliates described in Note 1 (collectively PHS) and have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and notes required for complete financial statements. All significant intercompany balances and transactions have been eliminated in combination.

The December 31, 2014 financial statement information was derived from and should be read in conjunction with the Presbyterian Healthcare Services and Affiliates 2014 audited combined financial statements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses. Actual results could differ from those estimates.

3. Fair Value Measurements

PHS has designated the accumulations of certain funds for future replacement of property and equipment, other capital improvements, debt retirement, self-insurance reserves and other long-term purposes. Under the terms of the Master Trust Indenture for the outstanding bond issues, funds held by the trustee have been established and legally designated for debt service and qualifying capital expenditures.

The following is a summary of assets limited as to use or restricted at fair value, except for the alternative investments held in PHS's corporate investment portfolio, which are recorded at the net asset value using the equity method. Alternative investments held by Presbyterian Healthcare Foundation and in the PHS defined benefit plan are recorded at fair value.

	June 30, 2015	December 31, 2014
	(In Thousands)	
Cash and cash equivalents	$ 113,535	$ 41,599
Fixed income securities	644,805	576,689
Equity securities	741,762	720,936
Alternative investments	220,101	211,640
Government securities and other	210,361	201,198
Public Master Limited Partnerships	75,549	81,990
	$ 2,006,113	$ 1,834,052

3. Fair Value Measurement (Continued)

In March, 2012, Presbyterian and the Foundation entered into a systematic hedge overlay strategy (the "SHO strategy") with Goldman Sachs Financial Markets, L.P. which utilizes a combination of puts and calls (each combination a "position") based on an index in order to provide protection against declines in the market value of equity investments. Each position includes selling a call which pays for the downside protection but effectively limits the upside returns on those equity investments. The current SHO strategy involves hedging multiple equity positions for a three-month tenor which mature on a staggered monthly basis. Approximately $232 million of Presbyterian's equity investments were hedged through the SHO strategy as of June 30, 2015. The hedge positions are recorded at fair value in the combined financial statements. Presbyterian recorded realized gains (losses) of ($5.0) million and ($3.7) million for the three month periods ended June 30, 2015 and 2014, respectively, and losses of ($6.4) million and ($4.9) million for the six month periods ended June 30, 2015 and 2014, respectively. Realized gains and losses are included in investment income in the combined statements of operations. The fair value of outstanding positions at June 30, 2015 reflected an unrealized gain of approximately $2.5 million. The change in unrealized gain or loss is included in changes in unrealized gains on investments in the combined financial statements.

As of June 30, 2015 and December 31, 2014 PHS had a total of $220 million and $212 million, respectively, invested in alternative investments representing various hedge funds, real assets and other alternative asset classes that included limited liability companies, limited liability partnerships and master limited partnerships as follows:

	June 30 2015	December 31 2014
	(In Thousands)	
Equity long/short	$ **12,405**	**14,462**
Event-driven	**26,703**	**29,865**
Relative Value	**15,700**	**4,000**
Tactical trading	**19,032**	**19,032**
Private equity	**4,927**	**5,239**
Real Assets	**98,390**	**96,848**
Total cost basis	**177,157**	**169,446**
Equity method changes, net	**42,944**	**42,194**
	$ 220,101	**$ 211,640**

Investment income on assets limited as to use or restricted (excluding restricted by donor) consist of the following:

	Six Months Ended June 30, **2015**	2014
	(In Thousands)	
Interest and dividend income	$ **13,490**	$ **11,515**
Realized gains on investments	**8,320**	**47,796**
Total realized income	**21,810**	**59,311**
Changes in unrealized gains on investments	**3,795**	**27,752**
	$ **26,605**	$ **87,063**

3. Fair Value Measurement (Continued)

Accounting Standards Codification 820, *Fair Value Measurements and Disclosures,* requires the categorization of financial assets and liabilities into a three-level hierarchy based on pricing inputs to the valuation technique. The fair value hierarchy gives the highest priority to the quoted prices in active markets for identical assets and liabilities and lowest priority to unobservable inputs. The various levels of the fair value hierarchy are described as follows:

- Level 1 — Pricing is based on observable inputs such as quoted prices in active markets.
- Level 2 — Pricing inputs are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 — Pricing inputs are generally unobservable and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require management's judgment or estimation of assumptions that market participants would use in pricing the assets or liabilities. The fair values are therefore determined using factors that involve considerable judgment and interpretations, including but not limited to private and public comparables, third-party appraisals, discounted cash flow models, and fund manager estimates.

Assets and liabilities measured at fair value are based on one or more of three valuation techniques noted in ASC 820. The three valuation techniques are identified in the tables below. Where more than one technique is noted, individual assets or liabilities were valued using one or more of the noted techniques. The valuation techniques are as follows:

(a) *Market approach.* Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

(b) *Cost approach.* Amount that would be required to replace the service capacity of an asset (replacement cost).

(c) *Income approach.* Techniques to convert future amounts to a single present amount based on market expectations (including present value techniques, option-pricing and excess earnings models).

ASC 820 requires the use of observable market data, when available, in making fair value measurements. When inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement. The majority of PHS' marketable debt and equity securities are measured based on observable market prices. PHS' swap instruments are measured using models based upon observable pricing inputs.

3. Fair Value Measurements (continued)

The following table presents the fair value hierarchy for those financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2014 (in thousands):

	Level 1	Level 2	Level 3	Fair Value	Equity Method	Carrying Value at December 31, 2014	Valuation Technique
			(In Thousands)				
Designated for long-term purposes							
Money market	$ 11,752	$ -	$ -	$ 11,752	$ -	$ 11,752	a
Government and agencies	136,271	-	-	136,271	-	136,271	a
Bond funds	180,326	172,945	-	353,271	-	353,271	a/c
Corporate and municipal bonds	-	138,398	-	138,398	-	138,398	a
Equity funds	352,180	292,484	-	644,664	-	644,664	a
Other public equities	74,928	-	-	74,928	-	74,928	a
Alternative investments	-	849	9,059	9,908	195,126	205,034	a
Total designated for long-term purposes	$ 755,457	$ 604,676	$ 9,059	$ 1,369,192	$ 195,126	$ 1,564,318	
Designated for self-insurance funds							
Money market	$ 2,616	$ -	$ -	$ 2,616	$ -	$ 2,616	a
Government and agencies	3,216	-	-	3,216	-	3,216	a
Bond funds	25,887	10,091	-	35,978	-	35,978	a/c
Corporate and municipal bonds	-	13,938	-	13,938	-	13,938	a
Equity funds	30,448	32,606	-	63,054	-	63,054	a
Other public equities	5,526	-	-	5,526	-	5,526	
Total designated for self-insurance funds	$ 67,693	$ 56,635	$ -	$ 124,328	$ -	$ 124,328	
Restricted by donors							
Money market	$ 241	$ -	$ -	$ 241	$ -	$ 241	a
Government and agencies	2,794	-	-	2,794	-	2,794	a
Bond funds	3,698	3,546	-	7,244	-	7,244	a/c
Corporate and municipal bonds	-	2,838	-	2,838	-	2,838	a
Equity funds	7,221	5,997	-	13,218	-	13,218	a
Other public equities	1,536	-	-	1,536	-	1,536	a
Alternative investments	-	566	6,040	6,606	-	6,606	a
Total restricted by donors	$ 15,490	$ 12,947	$ 6,040	$ 34,477	$ -	$ 34,477	
Held by trustee							
Money market	$ 7,244	$ -	$ -	$ 7,244	$ -	$ 7,244	a
	$ 7,244	$ -	$ -	$ 7,244	$ -	$ 7,244	
Restricted for statutory requirements							
Money market	19,746	-	-	$ 19,746	-	$ 19,746	a
Government and Agencies	58,917	-	-	$ 58,917	-	$ 58,917	
Corporate and municipal bonds	25,022	-	-	25,022	-	25,022	a
	$ 103,685	$ -	$ -	$ 103,685	$ -	$ 103,685	
Financial assets (liabilities)							
Interest rate swaps	$ -	$ (26,576)	$ -	$ (26,576)	$ -	$ (26,576)	a
Equity hedges	$ -	$ (597)	$ -	$ (597)	$ -	$ (597)	a

*Approximately 75% of Level 2 assets consist of comingled funds in which the underlying assets are primarily marketable debt and equity securities that trade on nationally recognized exchanges.

3. Fair Value Measurements (continued)

The Following table presents the fair value hierarchy for those financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2015:

	Level 1	Level 2	Level 3	Fair Value	Equity Method	Carrying Value at June 30, 2015	Valuation Technique
			(In Thousands)				
Designated for long-term purposes							
Money market	$ 16,571	$ -	$ -	$ 16,571	$ -	$ 16,571	a
Government and agencies	147,053	-	-	147,053	-	147,053	a
Bond funds	190,832	173,257	-	364,089	-	364,089	a/c
Corporate and municipal bonds	-	191,663	-	191,663	-	191,663	a
Equity funds	376,839	286,874	-	663,713	-	663,713	a
Other public equities	69,076	-	-	69,076	-	69,076	a
Alternative investments	-	818	9,491	10,309	202,920	213,229	a
Total designated for long-term purposes	$ 800,371	$ 652,612	$ 9,491	$ 1,462,474	$ 202,920	$ 1,665,394	
Designated for self-insurance funds							
Money market	$ 3,496	$ -	$ -	$ 3,496	$ -	$ 3,496	a
Government and agencies	1,635	-	-	1,635	-	1,635	a
Bond funds	25,974	10,029	-	36,003	-	36,003	a/c
Corporate and municipal bonds	-	15,227	-	15,227	-	15,227	a
Equity funds	31,177	33,601	-	64,778	-	64,778	a
Other public equities	5,092	-	-	5,092	-	5,092	
Total designated for self-insurance funds	$ 67,374	$ 58,857	$ -	$ 126,231	$ -	$ 126,231	
Restricted by donors							
Money market	$ 331	$ -	$ -	$ 331	$ -	$ 331	a
Government and agencies	2,940	-	-	2,940	-	2,940	a
Bond funds	3,816	3,464	-	7,280	-	7,280	a/c
Corporate and municipal bonds	-	3,832	-	3,832	-	3,832	a
Equity funds	7,535	5,736	-	13,271	-	13,271	a
Other public equities	1,381	-	-	1,381	-	1,381	a
Alternative investments	-	545	6,327	6,872	-	6,872	a
Total restricted by donors	$ 16,003	$ 13,577	$ 6,327	$ 35,907	$ -	$ 35,907	
Held by trustee							
Money market	$ 83,094	$ -	$ -	$ 83,094	$ -	$ 83,094	a
	$ 83,094	$ -	$ -	$ 83,094	$ -	$ 83,094	
Restricted for statutory requirements							
Money market	10,043	-	-	$ 10,043	-	$ 10,043	a
Government and Agencies	58,733	-	-	$ 58,733	-	$ 58,733	
Corporate and municipal bonds	26,711	-	-	26,711	-	26,711	a
	$ 95,487	$ -	$ -	$ 95,487	$ -	$ 95,487	
Financial assets (liabilities)							
Interest rate swaps	$ -	$ (24,336)	$ -	$ (24,336)	$ -	$ (24,336)	a
Equity hedges	$ -	$ 2,459	$ -	$ 2,459	$ -	$ 2,459	a

*Approximately 70% of Level 2 assets consist of commingled funds in which the underlying assets are primarily marketable debt and equity securities that trade on nationally recognized exchanges.

4. Long-Term Debt and Capital Leases

	June 30, 2015	December 31, 2014
2015 Series A Hospital System Revenue Bonds (New Mexico Hospital Equipment Loan Council), fixed-interest coupon rates of 4.125% and 5.0% payable semiannually on the established interest payment dates, principal payments beginning in 2016 through 2044.	**$ 258,909**	**$ -**
2012 Series A Hospital System Revenue Bonds (New Mexico Hospital Equipment Loan Council), fixed-interest coupon rates of 4.0% and 5.0% payable semiannually on the established interest payment dates, principal payments beginning in 2033 through 2042.	**78,479**	**78,543**
2009 Series A Hospital System Revenue Bonds (New Mexico Hospital Equipment Loan Council), fixed-interest coupon rates from 5.0% to 5.125% payable semiannually on the established interest payment dates, principal payments beginning in 2033 through 2039.	**132,509**	**132,465**
2008 Series A Hospital System Revenue Bonds (New Mexico Hospital Equipment Loan Council), fixed-interest coupon rates from 5.25% to 6.375% payable monthly on the established interest payment dates, principal payable in annual installments through 2032.	**-**	**137,306**
2008 Series B, C, and D Hospital System Revenue Bonds (New Mexico Hospital Equipment Loan Council), variable rate demand bonds with an interest rate of 0.07% at June 30, 2015, payable monthly on the established interest payment date, principal payable in annual installments through 2034.	**200,095**	**200,095**
2012 note payable to bank, variable rate, interest payable quarterly at one month LIBOR plus 0.90% (1.02% at June 30, 2015) due October 3, 2022.	**50,000**	**50,000**
Capital lease obligations and other	**13,380**	**11,347**
	733,372	**609,756**
Less current portion	**8,722**	**13,435**
	$ 724,650	**$ 596,321**

The Series 2015A Revenue Bonds totaling $237,160,000 were issued through the New Mexico Hospital Equipment Loan Council in May 2015. Proceeds of the bonds were used to refund and defease the 2008A Revenue Bonds and will be used to fund various healthcare facilities throughout the PHS system including, an additional patient tower at the Rust Medical Center in Rio Rancho, New Mexico, additional medical clinics, and continue remodeling the patient towers at Presbyterian Hospital in downtown Albuquerque, New Mexico. The 2015A bonds are fixed-rate bonds and have maturities in August 2015 and continue through 2044.

4. Long-Term Debt and Capital Leases (Continued)

The Series 2012A Revenue Bonds totaling $75,000,000 were issued through the New Mexico Hospital Equipment Loan Council in August 2012. Proceeds of the bonds will be used to fund various healthcare facilities throughout the PHS system including, a patient tower at the Espanola Hospital, a cancer center on the Rust Medical Center campus, a physician office building adjacent to Socorro General Hospital, and other general capital improvements, and to pay costs of issuance. The 2012 bonds are fixed-rate term bonds and have scheduled mandatory sinking fund deposits starting in 2033 continuing through 2042.

The Series 2009A Revenue Bonds totaling $134,610,000 original issue discount bonds were issued through the New Mexico Hospital Equipment Loan Council. Proceeds of the bonds were used to fund a project fund for the construction of the Presbyterian Rust Medical Center, and pay the costs of issuance. The 2009 bonds are fixed-rate bonds and have scheduled mandatory sinking fund deposits starting in 2033 and continuing through 2039.

The 2008 Revenue Bonds were issued through the New Mexico Hospital Equipment Loan Council in four series (Series A, Series B, Series C, and Series D) (the Series 2008 Bonds) in November 2008 to defease the 2005 Series A and B Revenue Bonds ($201,895,000), to pay off a Wells Fargo Credit Agreement, which defeased the 2004 Series A through D Bonds ($128,655,000) and the 1993A Bonds ($17,900,000) during March and April of 2008, to reimburse PHS for prior capital expenditures, and to pay certain expenses of issuing the Series 2008 Bonds. The 2008 Series A Bonds are fixed-rate bonds. The Series 2008 Series B through D Bonds are variable-rate demand obligations and bear interest on a weekly rate period at amounts set by a remarketing agent.

The interest rate mode can be modified under the terms of the legal documents. To secure the tender price of the Series 2008 B Bonds, PHS has entered into a standby bond purchase agreement with JPMorgan Chase Bank N.A. with an expiration in November, 2017. The 2008 C and D Bonds are supported by standby bond purchase agreements with Wells Fargo Bank, N.A. with expiration dates in November, 2015 and 2016, respectively.

The Series 2008 B, C, and D Bonds are subject to optional redemption at the discretion of PHS. In addition, the Series 2008 Bonds have a schedule of mandatory sinking fund deposits starting in 2009 and continuing through 2034.

All of the outstanding bonds are collateralized by a pledge of unrestricted receivables of the Obligated Group as defined under the Master Trust Indenture. The Master Trust Indenture of the Obligated Group requires, among other things, certain funds be established and held by a trustee, certain limitations on additional indebtedness, liens on property, disposition or transfers of assets, and the maintenance of certain cash balances and other financial ratios. The Obligated Group was in compliance with all such covenants at June 30, 2015.

The note payable to bank originated in September 2012 for the purpose of constructing a new administrative complex for PHS. The note is variable-rate with interest payable quarterly and is due in October 2022.

Interest Rate Swaps

In connection with the Series 2005 Bonds, PHS entered into two floating to fixed-rate swaps (the 2005 Swaps) effective July 28, 2005, for notional amounts of $102,400,000 and $102,600,000 to manage the overall cost of borrowing. On November 25, 2008, PHS refunded the Series 2005 Bonds with the Series 2008 B-D Bonds.

The amortization schedule for the Series 2008 B-D Bonds was established to match the amortization of the Series 2005 Bonds. The 2005 Swaps provide that PHS receives a floating amount based on a percentage of one-month LIBOR (58.3% of LIBOR plus 0.36%) and PHS pays a fixed rate of 3.085% based on a notional amount equal to the principal amount of the Series 2005 Bonds. As of and subsequent to April 1, 2007, PHS recognizes the entire change in the fair value of these swaps within the excess of revenue over expenses under ASC 815. *Derivatives and Hedging.*

The total outstanding notional amount of the 2005 Swaps at June 30, 2015, was approximately $175,350,000.

On February 9, 2006, PHS entered into a series of four floating to fixed-rate, forward-dated swaps (the 2006 Swaps) in notional amounts of $38,695,000, $38,665,000, $31,460,000, and $25,720,000 to manage the overall cost of borrowing. The 2006 Swaps were effective January 2, 2007, and provide that PHS receives a floating amount based on a percentage of one-month LIBOR (68%) and PHS pays a weighted-average fixed rate of 3.564% based on a notional amount equal to the principal amount of the Series 2004 Bonds. One June 5, 2009, PHS terminated the two 2006 Swaps that were initially originated in the notional amount of $31,460,000 and $25,720,000 and partially terminated two of the 2006 Swaps that were initially originated in the notional amount of $38,695,000 and $38,665,000. In 2009, PHS paid a termination amount of $7,600,000, which was recorded against the change in fair value of interest rate swaps. The remaining portion of the 2006 Swaps match the amortization schedule for the Series 2008 B-D Bonds that are not hedged by the 2005 Swaps. PHS recognizes the entire change in the fair value of these swaps within the excess of revenue over expenses under ASC 815. The total outstanding notional amount for the 2006 Swaps at June 30, 2015, was approximately $24,745,000.

ASC 820 defines fair value as the price that would be received upon sale of an asset or paid upon transfer of a liability in an orderly transaction between market participants at the measurement date and in the principal or most advantageous market for that asset or liability. In order to measure the fair value of municipal derivatives under ASC 820, PHS adjusted its mid-market periodic values of the swaps outstanding to incorporate nonperformance risk by PHS (when the financial instrument is a liability) or the counterparty (when the financial instrument is an asset). All derivatives that are being measured by PHS under ASC 820 are considered Level 2 assets (liabilities) because a quoted price can be obtained from a number of dealer counterparties and other market sources based on observable interest rates and yield curves for the full term of the asset or liability. In order to determine the risk of nonperformance when the financial instrument is a liability, PHS has determined the change in the credit market for debt issues by entities with the same credit characteristics as PHS. To determine nonperformance risk when the instrument is an asset, PHS determines the change in the credit market for debt issues by the counterparty.

The fair value of the 2005 and 2006 Swaps is determined based on the agreed-upon terms and discounted at the prevailing swap curve on the valuation date. As of June 30, 2015 and

December 31, 2014, the fair value of the 2005 and 2006 Swaps was a net liability of $24,336,000 and $26,576,000 respectively and is included in other liabilities in the accompanying combined balance sheets.

Fair Value of Long-Term Debt

The fair value of long-term debt is estimated upon current rates offered to health care systems for similar issues and approximated $733,066,000 and $637,809,000 at June 30, 2015 and December 31, 2014 respectively. The long-term debt of PHS is considered to be a level 2 liability for fair value purposes.

5. Pension Plans

PHS has a defined benefit pension plan (Plan I) that previously covered substantially all of the employees of its related organizations, except employees of PNI.

Effective December 31, 2012, Plan I was frozen and no additional benefits are being accrued.

PHS contributes such amounts as necessary on an actuarial basis to provide Plan I with assets sufficient to meet the benefits to be paid to Plan I participants. PHS contributed $3,388,000 during the first six months of 2015 to Plan I and $0 in 2014, respectively. PHS anticipates total contributions to Plan I in fiscal 2015 will not exceed $8,000,000.

The funded status of Plan I is recognized in the statements of financial position as the difference between the fair value of the investments and the actuarially determined pension obligation. The funded status of Plan I was approximately 73% and 69% at June 30, 2015 and December 31, 2014, respectively. Effective December 31, 2014, PHS updated the mortality assumptions related to the Plan which resulted in an increase in Plan liabilities and a reduction in the funded status.

PHS has a defined contribution Plan (Plan II), which consists of a Section 403(b) plan and a Section 401(a) plan, as well as a 401(k) defined contribution plan (Plan III). The cost recognized for Plans I, II and III for the six months ended June 30, 2015 and 2014 was $15,179,000 and $13,019,000, respectively.

6. Commitments and Contingencies

Litigation

PHS is subject to pending and threatened legal actions arising during the ordinary course of business. Management and legal counsel periodically assess whether losses have been incurred related to pending or threatened litigation, claims, and assessments. Loss estimates are continually monitored and reviewed, and as estimates are adjusted, changes in estimated losses are reflected in current operations. Losses incurred due to the actual results of litigation could differ from estimates recorded. In management's opinion, upon consultation with legal counsel, these matters should not have a material adverse effect on PHS's financial condition, results of operations, or cash flows. However, PHS's evaluation of the likely effects of these actions could change in the future and an unfavorable outcome, depending upon the amount and timing, could have a material effect on PHS's results of operations or cash flows of a future period.

Health Care Regulatory Environment

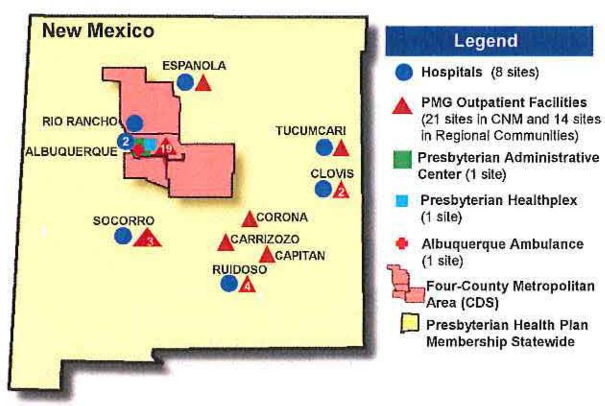
The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Violations of these laws and regulations could result in exclusion from government health care programs, together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed and paid. Management believes that it has established adequate reserves to investigate, defend, and ultimately resolve any alleged instances of noncompliance. Compliance with such laws and regulations can be subject to future government review as well as regulatory actions unknown or unasserted at this time.

Organizational Description

Presbyterian Healthcare Services (Presbyterian/PHS) is a nonprofit integrated health care system that has served the state of New Mexico for 107 years. PHS is comprised of two business units: Presbyterian Delivery System (PDS) and Presbyterian Health Plan (PHP). PDS provides patients with preventive, diagnostic and treatment services in hospitals and ambulatory facilities throughout New Mexico (Figure 1) and operates eight hospitals. The three hospitals in Albuquerque and Rio Rancho operate as the Central Delivery System (CDS) and the remaining five hospitals comprise the Regional Delivery System (RDS). Presbyterian Medical Group (PMG), which is part of PDS, employs physicians and mid levels such as physician assistants and nurse practitioners. PMG provides inpatient hospital care as well as ambulatory and specialty care in over 30 clinics throughout New Mexico.

PHP includes a statewide health maintenance organization and a health insurance company. PHP provides health care financing through products and services designed and delivered to prevent illness and coordinate care for over 450,000 members throughout New Mexico. PHP products include Commercial (employer-sponsored and individual) and Government (Medicaid, Medicare and other) programs. The PHP network is comprised of both PHS owned and operated facilities, employed physicians and employed mid levels as well as contracted independent hospitals and practitioners throughout the state.

Figure 1



The Obligated Group

PHS is based in Albuquerque, New Mexico and is exempt from federal income taxation under Section 501(a) and Section 501(c) (3) of the Internal Revenue Code of 1986, as amended. Presbyterian Healthcare Services together with Presbyterian Healthcare Foundation (Foundation) and Bernalillo County Health Care Corporation (dba Albuquerque Ambulance Service), are the current Members of the Obligated Group (the "Obligated Group"), as such terms are used in the Master Trust Indenture (Amended and Restated), dated as of July 28, 2005 between Wells Fargo Bank, National Association, as master trustee (the "Master Trustee") and the Members of the Obligated Group, as supplemented and amended (the "Master Indenture").

There have been no changes to the Obligated Group.

Purpose

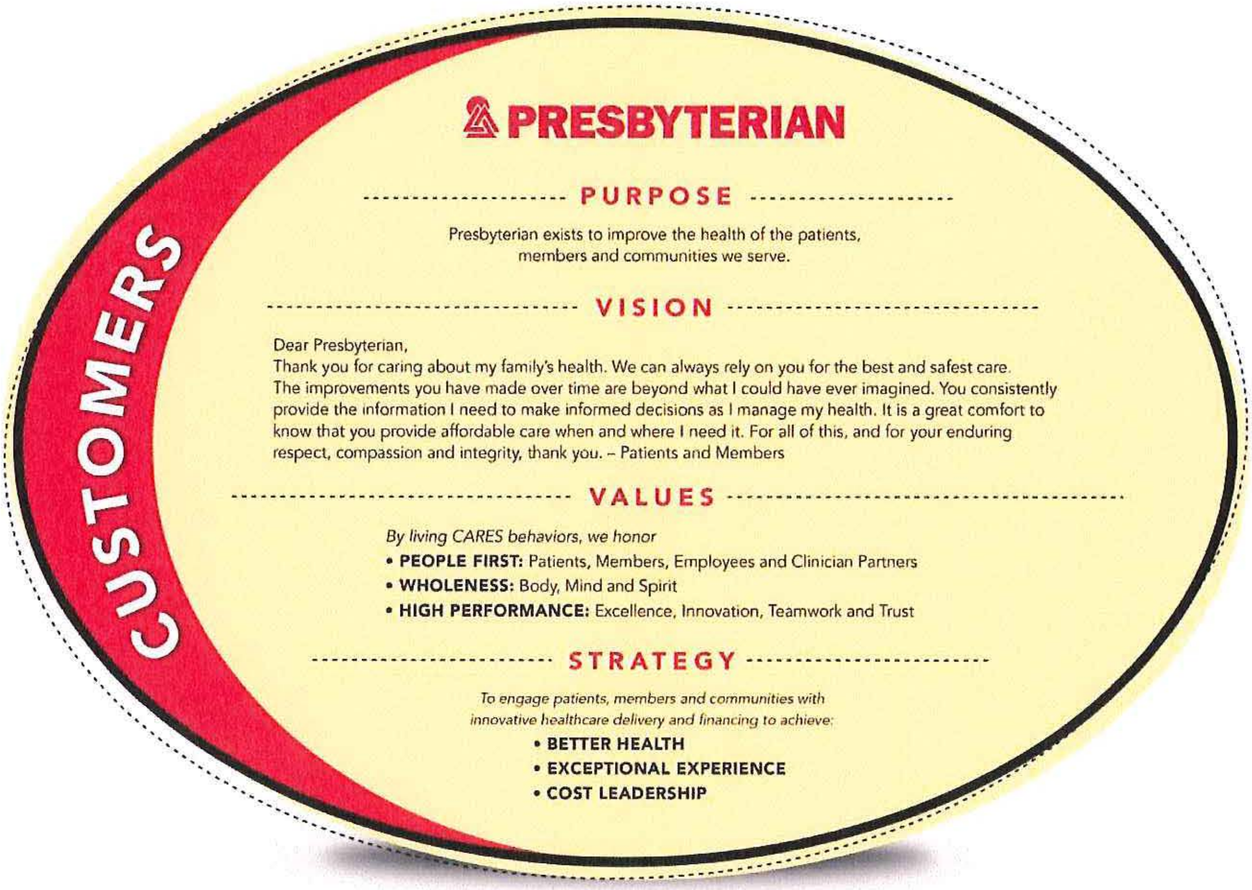
Presbyterian exists to improve the health of the patients, members and communities we serve.

Vision

Presbyterian's purpose, vision, values and strategy and goals are captured in the "Presbyterian Egg." Each employee, employed physician and advanced practitioner as well as each member of the PHS Board of Directors and Committees thereof understand the Egg (Figure 2) and develops a Personal Egg to demonstrate the alignment of his or her role with the PHS Egg.

Presbyterian believes patients and members determine when we succeed. Consequently, the organization's vision is to earn a symbolic letter from a patient or member of a community served. Our strategy is to transform our integrated system to radically improve the customer experience. The strategy is adopted by the PHS Board of Directors and is found in the Strategy and Goals section of the Egg.

Figure 2 – Presbyterian Egg



Results of Operations

Quarters Ended June 30, 2015 and 2014

For the three month period ended June 30, 2015 total operating income increased by $21.7 million to $64.4 million (8.8% operating margin) from $42.7 million (6.5% operating margin) in 2014.

Total operating revenue for the three month period ended June 30, 2015 increased by $72.7 million to $731.0 million from $658.3 million in 2014 driven largely by increased net premium revenue in the health plan. Net premium revenue increased by $55.4 million to $470.4 million from $415.0 million in 2014 due primarily to the continued expansion of the Medicaid managed care program known as Centennial Care. Centennial Care expanded and replaced the previous program known as SALUD! and now includes long term care and behavioral health in addition to physical health services as of January 1, 2014. The State of New Mexico elected to expand coverage under the Medicaid program. Presbyterian Health Plan (PHP) covered 205,553 members under the Centennial Care program as of June 30, 2015, up from 180,732 at June 30, 2014. Overall at-risk Health Plan membership increased 5.9% year-over-year, comprised of a 9.1% increase in Medicare, a 13.7% increase in Medicaid, a (15.4%) decrease in individual membership, and an (8.7%) decrease in Commercial. Net patient service revenue increased $19.8 million or 8.8% during the second quarter to $245.6 million compared to $225.8 million in 2014, which included a ($10.6) million or (42.8%) decrease in provision for bad debts. The decrease in the provision for bad debts during the first quarter of 2015 was directly related to the increase in Medicaid membership in the Health Plan which represents customers who were previously self pay.

During the quarter ended June 30, 2015, total inpatient discharges for PDS decreased by (3.3%) or (440) discharges compared to the second quarter of 2014 while total inpatient days decreased by (1.6%) or (950) days. Total outpatient visits increased by 7.0% or 10,494 visits. Outpatient visits reflect the shifting of services to an outpatient setting from an inpatient setting and increased emergency department usage. In addition, two new outpatient clinics were opened within CDS during the fourth quarter of 2014.

Inpatient discharges for the Obligated Group decreased by (3.1%) or (393) discharges in the second quarter of 2015 compared to the second quarter of 2014 while inpatient days decreased by (988) days or (1.7%). Outpatient visits increased by 7.6% or 10,564 visits.

Inpatient discharges within CDS decreased during the quarter ended June 30, 2015 compared to 2014 by (3.8%) or (410) discharges. Inpatient Days decreased from prior year by (1.5%) or (786) days. Total outpatient visits in CDS increased from the prior year first quarter by 7.8% or 7,965 visits.

Inpatient discharges in RDS decreased in the quarter ended June 30, 2015 compared to 2014 by (1.1%) or (30) discharges. Total inpatient days decreased by (2.1%) or (164) days while outpatient visits increased by 5.2% or 2,529 visits. RDS discharges continue to be negatively impacted by the challenge of recruiting and retaining physicians in these small markets and the continued trend of more services being performed in an outpatient setting versus an inpatient setting.

Other operating revenue decreased by ($2.6) million during the quarter ended June 30, 2015 compared to the second quarter of 2014 related primarily to recording revenues from our group purchasing organization as an offset to supplies expense in 2015 versus other revenue.

For the three month period ended June 30, 2015 total operating expenses increased $51.0 million to $666.6 million from $615.6 million in 2014. Medical claims expense increased by $47.6 million or 22.7% accounting for the majority of the overall increase in operating expenses due to the expanded Medicaid program under Centennial Care. Salary expense increased $13.2 million or 6.6% related to increased staffing levels in the health plan in support of Centennial Care, higher staffing levels in the hospitals and clinics, and additional medical and support staff for new clinics in Rio Rancho and Santa Fe. Purchased services decreased by ($15.1) million or (3.9%) driven by a decrease in information technology expenses related to reductions in support and maintenance of duplicate systems which were replaced with the new electronic health record in 2014. Supplies expense increased $6.8 million or 13.4% due to higher drug costs, particularly for drugs to treat hepatitis C and pneumonia. In addition, PHS has opened a specialty pharmacy to dispense cancer related drugs which has been experiencing increased volumes. Professional fees decreased by ($1.3) million or (12.4%) due to lower usage of locum tenens which accounts for some of the increase in salaries expense. Depreciation expense was stable quarter over quarter increasing by $0.1 million or 0.6%. Interest expense was also flat in the second quarter of 2015 compared to the first quarter of 2014 decreasing ($0.3) million.

In late May 2015, PHS issued $237.2 million in tax-exempt bonds in a transaction which defeased the 2008A bonds and provided $118 million for new capital projects. The effective rate on the new 2012A bonds is 4.0%. The pre-refunding of the 2008A bonds resulted in a loss on early redemption of $24.1 million which is included in non-operating income (loss) on the statement of operations. Although a loss on the pre-refunding of the 2008A bonds is recognized in the current period, the long term savings of the lower effective interest rate of the 2015A bonds produces a net present value of $10 million.

Six Months Ended June 30, 2015 and 2014

For the six month period ended June 30, 2015 total operating income increased by $35.6 million to $100.5 million (6.8% operating margin) from $64.9 million (5.0% operating margin) in 2014.

Total operating revenue for the six month period ended June 30, 2015 increased by $171.9 million to $1.48 billion from $1.30 billion in 2014. This increase is due primarily to a $116.1 million or 14.1% increase in net premium revenue related primarily to Centennial Care. Net patient service revenue increased $57.6 million or 12.9% during the first six months to $503.3

million compared to $445.7 million in 2014 driven by higher outpatient volumes and lower provision for bad debts.

During the six months ended June 30, 2015, total inpatient discharges for PDS decreased by (1.1%) or (288) discharges compared to the six months ended June 30, 2014 while total inpatient days decreased by (0.8%) or (959) days. Total outpatient visits increased by 6.9% or 20,543 visits. Outpatient volumes throughout the system continue to benefit from the shifting of services to an outpatient setting from an inpatient setting as well as an increase in the number of clinics and providers.

Inpatient discharges for the Obligated Group decreased (0.8%) or (214) discharges during the first six months of 2015 compared to the same period in 2014. Inpatient days decreased during this period by (1.6%) or (1,921) days. Outpatient visits increased by 7.8% or 21,499 visits.

Inpatient discharges within CDS decreased during the six month period ended June 30, 2015 by (1.0%) or (205) discharges. Inpatient Days were down from prior year by (1.0%) or (1,078) days. Total Outpatient Visits in CDS increased by 8.3% or 16,672 visits.

Inpatient discharges in RDS decreased during the six month period ended June 30, 2015 compared to 2014 by (1.5%) or (83) discharges, while total inpatient days increased by 0.7% or 109 days on a slightly higher average length of stay. Inpatient volumes in the regional hospitals continue to be impacted by provider vacancies. Outpatient visits increased by 4.0% or 3,871 visits during the first six months of 2015 consistent with the overall system trend.

Other operating revenue decreased during the six month period ended June 30, 2015 compared to the same period in 2014 by ($1.8) million or (5.6%) related to the reclassification of revenues from our group purchasing organization which was partially offset by a $1.5 million increase in mill levy support for the Rust Hospital and certain regional hospitals.

The payer mix for PHS experienced a (0.2%) decrease in Commercial net revenue during the first six months of 2015 compared to the same period in 2014. Medicaid increased 2.3% while Medicare decreased (1.6%). The increase in Medicaid is due to the coverage expansion built into the Centennial Care program and has resulted in a (0.7%) decrease in the self pay category.

For the six month period ended June 30, 2015 total operating expenses increased $136.3 million to $1.37 billion from $1.23 billion in 2014. Medical claims increased $106.4 million or 24.3% due primarily to the expanded Medicaid program under Centennial Care. Salary expense increased $31.0 million or 7.8% compared to the same period in 2014 due to increased staffing levels in the health plan in support of Centennial Care, higher staffing levels in the hospitals and clinics, and additional medical and support staff for new clinics in Rio Rancho and Santa Fe. Purchased services decreased ($11.0) million or (5.1%) and is due to a decrease in information technology expenses related to reductions in support and maintenance of duplicate systems which were replaced with the new electronic health record in 2014. Supplies expense increased $11.9 million or 11.6% due to higher drug costs, particularly for drugs to treat hepatitis C and pneumonia. The PHS specialty pharmacy volumes also contributed to the increase in supply costs during the six month period of 2015. Professional fees decreased by ($1.6) million or (8.1%) due to lower usage of locum tenens. Depreciation expense increased by $0.3 million or 0.6%. Interest expense decreased in the first six months of 2015 by ($0.7) million or (5.2%) which was favorably impacted by the issuance of the 2015A bonds in May 2015 and the refunding of the 2008A bonds which had a higher effective interest rate.

Investment Income

The Investment Subcommittee of the PHS Board works with an investment consultant to review asset class allocations, select and monitor various professional investment managers and to oversee Presbyterian's investment portfolios in accordance with the investment policy and guidelines.

The unrestricted cash and investments of the Obligated Group at June 30, 2015 consisted of the following:

(In Millions)

Asset Class	Target PHS	PHS	Target Foundation	Foundation	Total
Large Cap Equity	16%	$ 235.7	18%	$ 15.4	$ 251.4
Small Cap Equity	4%	59.8	4.5%	4.7	64.5
International and Emerging Markets	20%	256.2	22.5%	18.3	274.5
Alternatives	20%	272.9	27.5%	21.8	294.7
Fixed income	35%	445.8	27.5%	21.5	467.3
Cash	5%	140.4	- %	1.8	142.2
Total	100%	1,410.8	100%	83.5	1,494.3
Less Restricted Net Assets		-		(35.9)	(35.9)
Total Unrestricted Obligated Group		$ 1,410.8		$ 47.6	$ 1,458.4

Total unrestricted investments for the Obligated Group include the PHS Corporate portfolio and the PHS Foundation portfolio. At June 30, 2015 the unrestricted Obligated Group portfolio totaled $1.46 billion.

Realized investment gains for PHS totaled $7.1 million and $42.2 million for the three month periods ended June 30, 2015 and 2014, respectively, and $21.8 million and $59.3 million for the six month periods ended June 30, 2015 and 2014, respectively. The combined investment income and changes in unrealized gains on investments for the first six months of 2015 was a gain of $25.6 million compared to a gain of $87.1 million for the same period in 2014. The investment returns for the PHS Corporate and Foundation portfolios were (0.20%) and 0.11%, respectively for the quarter ended June 30, 2015 and 1.81% and 2.26%, respectively, for the six month periods ended June 30, 2015 and 2014.

Liquidity and Capital Resources

On a combined basis, unrestricted cash and investments of PHS totaled $1.93 billion as of June 30, 2015, an increase of $119 million from December 31, 2014.

On May 19, 2015 PHS issued the 2015 Series A Revenue Bonds with a par value of $237.2 million. Proceeds of the bonds will be used to refund and defease the majority of the 2008A Revenue Bonds and provide approximately $118 million to fund the construction or improvement of various healthcare facilities throughout the PHS system. Prior to the issuance of the 2015A bonds PHS used $18 million of existing cash to fund an escrow account to refund and defease the 2008A Revenue Bonds not refunded and defeased by the 2015A bonds.

Cash provided by operating activities totaled $72.1 million for the quarter ended June 30, 2015 compared to $143.0 million in 2014. Net cash used in investing activities was $153.3 million, including capital expenditures of $68.5 million, during 2015 compared to a net used of $40.2 million, including capital expenditures of $53.5 million, for 2014. Total capital expenditures for fiscal 2015 are expected to approximate $150 million which are anticipated to be financed from a combination of cash flow from operations, the remaining proceeds from the 2012A Bonds which totaled $7.2 million at December 31, 2014, and a portion of the proceeds from the 2015A Bonds.

Days cash on hand for PHS and the Obligated Group was 279 days and 361 days, respectively, as of June 30, 2015, compared to 276 days and 359 days, respectively, at December 31, 2014.

Obligated Group Financial Indicators

	Year Ended December 31					June 30,
	2010	2011	2012	2013	2014	2015
Operating Margin	5.6%	0.9%	1.3%	2.7%	2.8%	4.4%
Excess margin	12.6%	(1.1%)	9.3%	11.3%	6.3%	4.3%
Adjusted excess margin	8.0%	3.9%	5.0%	7.3%	9.0%	6.5%
Unrestricted days cash on hand	323	298	307	351	359	361
Debt to cash flow	3.3x	4.4x	4.0x	3.1x	2.6x	3.5x
Maximum Annual Debt Service Coverage	5.1x	4.0x	4.3x	5.5x	6.6x	5.4x
Long-term debt to total capitalization	42%	45%	41%	31%	30%	34%

Supplementary Information

Presbyterian Healthcare Services and Affiliates

Condensed Combining Balance Sheet
As of June 30, 2015

	Obligated Group	Presbyterian Network, Inc.	Other Non-Obligated Group Members	Eliminations	Total
			(In Thousands)		
Assets					
Current assets:					
Cash and cash equivalents	$ 142,786	$ 120,185	$ 714	$ -	$ 263,685
Accounts receivable, less allowance for doubtful accounts	117,555	-	5,746	(17,828)	105,473
Other receivables	46,210	114,147	1,420	(19,871)	141,906
Inventories, prepaid expenses and other	22,299	13,066	1,141	-	36,506
Total current assets	328,850	247,398	9,021	(37,699)	547,570
Assets limited as to use or restricted					
Designated for long-term purposes	1,315,650	349,125	619	-	1,665,394
Designated assets for self-insurance funds	126,231	-	-	-	126,231
Restricted by donors	35,907	-	-	-	35,907
Held by Trustee	83,094	-	-	-	83,094
Restricted for statutory deposits	-	95,487	-	-	95,487
	1,560,882	444,612	619	-	2,006,113
Property and equipment, net	791,869	417	39,702	-	831,988
Goodwill	5,088	52,501	-	-	57,589
Other assets and Intercompany Balances	43,224	15,598	160,499	(137,012)	82,309
Total assets	$ 2,729,913	$ 760,526	$ 209,842	$ (174,711)	$ 3,525,570
Liabilities and net assets					
Current liabilities:					
Accounts payable	$ 44,296	$ 3,796	$ 1,460	$ -	$ 49,552
Accrued liabilities	125,023	187,924	3,338	(58,358)	257,927
Medical claims payable	-	151,712	-	(2,332)	149,380
Estimated third-party payer settlements	(1,488)	-	71	-	(1,417)
Current portion of long-term debt and capital leases	8,722	-	-	-	8,722
Total current liabilities	176,553	343,432	4,869	(60,690)	464,164
Long-term debt and capital leases, net of current portion	724,650	-	-	-	724,650
Employee Benefit Plans	186,854				186,854
Self Insurance Reserves	129,204				129,204
Other liabilities	69,329	35,308	1,787	-	106,424
Total liabilities	1,286,590	378,740	6,656	(60,690)	1,611,296
Net assets:					
Unrestricted	1,406,690	381,786	203,187	(114,021)	1,877,641
Temporarily restricted	28,176	-	-	-	28,176
Permanently restricted	8,457	-	-	-	8,457
Total net assets	1,443,323	381,786	203,186	(114,021)	1,914,274
Total liabilities and net assets	$ 2,729,913	$ 760,526	$ 209,842	$ (174,711)	$ 3,525,570

Presbyterian Healthcare Services and Affiliates

Condensed Combining Statement of Operations
The Three Months Ended June 30, 2015

	Obligated Group	Presbyterian Network, Inc.	Other Non-Obligated Group Members	Eliminations	Total
			(in Thousands)		
Revenues					
Net premium	$ 99,712	$ 470,427	$ -	$ (99,712)	$ 470,427
Patient Service Revenue	315,964	-	13,600	(69,774)	259,790
Provision for Bad Debts	(13,448)	-	(707)	-	(14,156)
Net Patient Service Revenue	302,516	-	12,892	(69,774)	245,635
Other operating	14,404	6,911	2,820	(9,237)	14,897
Total operating revenues	416,632	477,338	15,712	(178,723)	730,960
Expenses					
Medical claims	48,032	378,303	-	(169,280)	257,055
Salaries, wages and employee benefits	190,031	17,968	6,543	(1,742)	212,801
Purchased services and other	61,738	39,543	4,297	(7,701)	97,878
Supplies	56,485	130	996	-	57,611
Professional fees	8,237	0	673	-	8,910
Depreciation and amortization	24,596	195	1,341	-	26,132
Interest	6,153	-	17	-	6,170
Total expenses	395,274	436,140	13,866	(178,723)	666,557
Operating income	21,358	41,198	1,847	-	64,403
Other income (loss):					
Investment income	5,323	1,513	215	-	7,051
Change in unrealized gains on investments	(10,175)	(1,262)	-	-	(11,437)
Loss on bond defeasance	(24,061)	-	-	-	(24,061)
Change in fair value of interest rate swaps	5,863	-	-	-	5,863
Total other income	(23,050)	251	215	-	(22,584)
Excess of revenues over expenses before income taxes	(1,692)	41,449	2,062	-	41,819
Provision for income taxes	-	18,170	1	-	18,171
Net excess of revenues over expenses	$ (1,692)	$ 23,279	$ 2,061	$ -	$ 23,648

Presbyterian Healthcare Services and Affiliates

Condensed Combining Statement of Operations
The Six Months Ended June 30, 2015

	Obligated Group	Presbyterian Network, Inc.	Other Non-Obligated Group Members	Eliminations	Total
			(in Thousands)		
Revenues					
Net premium	$ 200,882	$ 941,095	$ -	$ (200,882)	$ 941,095
Patient Service Revenue	633,931	-	27,143	(125,878)	535,195
Provision for Bad Debts	(30,158)	-	(1,699)	-	(31,857)
Net Patient Service Revenue	603,773	-	25,443	(125,878)	503,338
Other operating	29,125	13,676	5,353	(17,456)	30,697
Total operating revenues	833,780	954,771	30,796	(344,217)	1,475,130
Expenses					
Medical claims	100,866	770,819	-	(326,349)	545,337
Salaries, wages and employee benefits	381,511	36,772	13,183	(3,462)	428,004
Purchased services and other	125,652	85,454	8,652	(14,405)	205,352
Supplies	111,590	338	1,849	-	113,777
Professional fees	16,318	1	1,285	-	17,604
Depreciation and amortization	49,188	390	2,676	-	52,253
Interest	12,278	-	32	-	12,310
Total expenses	797,403	893,774	27,677	(344,217)	1,374,637
Operating income	36,376	60,997	3,119	-	100,493
Other income (loss):					
Investment income	18,894	2,662	254	-	21,810
Change in unrealized gains on investments	2,678	1,117	-	-	3,795
Loss on defeasance	(24,061)	-	-	-	(24,061)
Change in fair value of interest rate swaps	2,272	-	-	-	2,272
Total other income	(217)	3,779	254	-	3,816
Excess of revenues over expenses before income taxes	36,159	64,776	3,373	-	104,309
Provision for income taxes	-	25,987	2	-	25,989
Net excess of revenues over expenses	$ 36,160	$ 38,789	$ 3,371	$ -	$ 78,320

Long-term Debt Profile

Series 2009A - $134,610,000

Maturity – August 1,	Coupon Rates	CUSIP No.
2035	5.125%	647370FD2
2039	5.00%	647370FE0

Series 2008B/C/D - $225,000,000

Maturity – August 1,	Coupon Rates	CUSIP No.
2034	Series 2008B VRDBs	647370EK7
2034	Series 2008C VRDBs	647370EL5
2034	Series 2008D VRDBs	647370EM3

Series 2012A - $75.000,000

Maturity – August 1,	Coupon Rates	CUSIP No.
2042	4.10%	647370FM2
2042	3.95%	647370FN0

Series 2012B - $50,000,000

Maturity – October 3,	Coupon Rate	CUSIP No.
2022	1-month LIBOR + 0.9%	N/A

2015A - $237,160,000

Maturity – August 1,	Coupon Rates	CUSIP No.
2016	5.00%	647370GD1
2017	5.00%	647370GE9
2018	5.00%	647370GF6
2019	5.00%	647370GG4
2020	5.00%	647370GH2
2021	5.00%	647370GJ8
2022	5.00%	647370GK5
2023	5.00%	647370GL3
2024	5.00%	647370GM1
2025	5.00%	647370GN9
2026	5.00%	647370GP4
2027	5.00%	647370GQ2
2028	5.00%	647370GR0
2029	5.00%	647370GS8
2030	5.00%	647370GT6
2031	5.00%	647370GU3
2032	5.00%	647370GV1
2044	5.00%	647370GX7
2044	4.125%	647370GW9

Presbyterian Healthcare Services
All Hospitals (PDS)
Operating Disclosure Data - June 2015
Unaudited

	Year Ended			Three Months Ended June 30		Six Months Ended June 30	
	2012	2013	2014	2014	2015	2014	2015
Hospital Data							
Total Inpatient Discharges	51,429	53,216	53,078	13,429	12,989	26,885	26,597
Newborn Discharges	7,302	7,191	6,791	1,789	1,696	3,535	3,353
Inpatient Surgery Discharges	10,609	10,916	10,536	2,647	2,770	5,278	5,375
Total Inpatient Days	217,356	234,465	235,817	58,642	57,692	119,651	118,682
Newborn Days	29,868	28,598	28,649	6,909	7,146	14,231	13,660
Inpatient Surgery Days	51,962	54,389	55,755	13,797	13,903	27,804	26,870
Total Outpatient Visits	551,538	556,958	600,966	150,180	160,674	297,443	317,986
ER Visits	202,849	212,023	228,789	56,260	60,523	112,405	122,242
OP Surgeries	22,039	22,993	23,043	6,004	5,720	11,576	11,382
Licensed Beds	1,173	1,171	1,151	1,167	1,086	1,167	1,086
Beds in Service	977	973	973	991	947	991	947
Average Length of Stay (days)	4.23	4.41	4.44	4.37	4.44	4.45	4.46
Percentage Occupancy (of beds in service)	61.1%	66.0%	66.4%	65.0%	66.9%	66.7%	69.2%
Medicare Case Mix Index	1.47	1.57	1.45	1.44	1.66	1.45	1.64
PMG Albuquerque Visits	1,305,928	1,481,555	1,670,274	406,654	451,037	814,223	914,546

Presbyterian Healthcare Services
Obligated Group
Operating Data - June 2015
Unaudited

	Year End			Three Months Ended June 30		Six Months Ended June 30	
	2012	2013	2014	2014	2015	2014	2015
Hospital Data							
Total Inpatient Discharges	49,413	51,202	51,033	12,878	12,485	25,805	25,591
Newborn Discharges	6,903	6,828	6,455	1,689	1,597	3,361	3,180
Inpatient Surgery Discharges	10,270	10,615	10,354	2,604	2,698	5,186	5,253
Total Inpatient Days	212,215	229,267	230,320	57,299	56,311	116,901	115,822
Newborn Days	29,250	28,080	28,160	6,768	6,997	13,979	13,400
Inpatient Surgery Days	51,048	53,640	55,237	13,685	13,739	27,551	26,561
Total Outpatient Visits	504,154	511,081	556,080	138,863	149,427	274,516	296,015
ER Visits	183,913	193,740	211,041	51,894	56,170	103,508	113,489
OP Surgeries	20,719	21,580	22,206	5,785	5,587	11,022	11,122
Licensed Beds	1,120	1,118	1,098	1,114	1,033	1,114	1,033
Beds in Service	924	920	920	938	894	938	894
Average Length of Stay (days)	4.29	4.48	4.51	4.45	4.51	4.53	4.53
Percentage Occupancy (of beds in service)	63.1%	68.3%	68.6%	67.1%	69.2%	68.9%	71.6%
Medicare Case Mix Index	1.49	1.59	1.47	1.47	1.69	1.48	1.67

Presbyterian Healthcare Services
Central New Mexico (CDS)
Operating Data - June 2015
Unaudited

	Year Ended			Three Months Ended June 30		Six Months Ended June 30	
	2012	**2013**	**2014**	**2014**	**2015**	**2014**	**2015**
Hospital Data							
Total Inpatient Discharges	39,804	41,979	42,261	10,767	10,357	21,433	21,228
Newborn Discharges	5,185	5,091	4,787	1,265	1,207	2,504	2,396
Inpatient Surgery Discharges	8,479	8,849	8,828	2,223	2,302	4,443	4,469
Total Inpatient Days	183,812	195,080	204,265	50,998	50,212	103,989	102,911
Newborn Days	25,983	24,664	24,915	5,979	6,276	12,331	11,940
Inpatient Surgery Days	43,685	47,169	49,305	12,224	12,285	24,747	23,588
Total Outpatient Visits	352,370	377,044	405,620	101,900	109,865	200,762	217,434
ER Visits	123,209	133,068	146,379	36,215	39,450	71,736	79,357
OP Surgeries	15,978	17,170	18,244	4,766	4,793	8,938	9,500
Licensed Beds	882	886	882	882	801	882	801
Beds in Service	691	693	711	711	692	711	692
Average Length of Stay (days)	4.62	4.65	4.83	4.74	4.85	4.85	4.85
Percentage Occupancy (of beds in service)	73.1%	77.1%	78.9%	79.7%	79.7%	81.2%	82.2%
Medicare Case Mix Index	1.55	1.62	1.54	1.54	1.78	1.54	1.75

Presbyterian Healthcare Services
Regional Hospitals (RDS)
Operating Data - June 2015
Unaudited

	Year Ended			Three Months Ended June 30		Six Months Ended June 30	
	2012	**2013**	**2014**	**2014**	**2015**	**2014**	**2015**
Hospital Data							
Total Inpatient Discharges	11,625	11,237	10,817	2,662	2,632	5,452	5,369
Newborn Discharges	2,117	2,100	2,004	524	489	1,031	957
Inpatient Surgery Discharges	2,130	2,067	1,708	424	468	835	906
Total Inpatient Days	33,544	39,385	31,552	7,644	7,480	15,662	15,771
Newborn Days	3,885	3,934	3,734	930	870	1,900	1,720
Inpatient Surgery Days	8,277	7,220	6,450	1,573	1,618	3,057	3,282
Total Outpatient Visits	199,168	179,914	195,346	48,280	50,809	96,681	100,552
ER Visits	79,640	78,955	82,410	20,045	21,073	40,669	42,885
OP Surgeries	6,061	5,823	4,799	1,238	927	2,638	1,882
Licensed Beds	291	285	269	285	285	285	285
Beds in Service	286	280	262	280	255	280	255
Average Length of Stay (days)	2.89	3.50	2.92	2.87	2.84	2.87	2.94
Percentage Occupancy (of beds in service)	32.2%	38.5%	33.0%	30.0%	32.2%	30.9%	34.2%
Medicare Case Mix Index	1.14	1.21	1.04	1.02	1.22	1.04	1.21

Presbyterian Healthcare Services
PHP Membership
Operating Data - June 2015
Unaudited

	December 31					June 30
	2010	**2011**	**2012**	**2013**	**2014**	**2015**
PHP Membership						
Commercial Group	64,052	74,074	75,549	73,168	66,522	65,514
Commercial Individual	21,342	22,112	23,377	22,401	20,238	19,569
Medicare	27,104	32,121	34,040	36,902	38,852	41,830
Medicaid	171,799	168,888	166,222	163,502	193,114	205,553
Administrative Services Only	110,396	111,093	117,414	123,940	124,329	122,003
Total PHP Membership	394,693	408,288	416,602	419,913	443,055	454,469

Presbyterian Healthcare Services
All Facilities
Operating Data June 2015
Unaudited

Payor Mix Based on Net Revenue	Year Ended December 31				Six Months Ended June 30	
	2011	2012	2013	2014	2014	2015
COMMERCIAL	41.9%	46.3%	46.4%	44.8%	43.6%	43.4%
MEDICAID	20.2%	16.6%	15.7%	19.8%	18.9%	21.2%
MEDICARE	31.3%	30.0%	31.7%	29.7%	31.7%	30.1%
OTHER	4.4%	4.7%	4.1%	4.2%	3.8%	4.0%
SELF PAY	2.2%	2.4%	2.1%	1.5%	2.0%	1.3%

Payer Mix Based on Gross Revenue	2011	2012	2013	2014	2014	2015
COMMERCIAL	31.8%	32.1%	32.4%	30.8%	31.0%	28.8%
MEDICAID	19.3%	18.8%	18.1%	22.8%	21.5%	25.1%
MEDICARE	37.4%	37.7%	39.4%	38.3%	39.4%	39.2%
OTHER	4.8%	4.8%	3.9%	3.8%	4.0%	3.6%
SELF PAY	6.7%	6.6%	6.2%	4.3%	4.1%	3.3%

Presbyterian Healthcare Services
Obligated Group
Operating Data June 2015
Unaudited

Payer Mix Based on Net Revenue	Year Ended December 31				Six Months Ended June 30	
	2011	2012	2013	2014	2014	2015
COMMERCIAL	42.2%	46.6%	46.8%	44.2%	43.9%	43.6%
MEDICAID	19.9%	16.4%	15.6%	19.7%	18.6%	20.9%
MEDICARE	31.4%	29.9%	31.5%	29.5%	31.6%	30.2%
OTHER	4.4%	4.8%	4.1%	4.1%	3.8%	4.0%
SELF PAY	2.1%	2.3%	2.0%	2.5%	2.1%	1.3%

Payer Mix Based on Gross Revenue	2011	2012	2013	2014	2014	2015
COMMERCIAL	32.0%	32.4%	32.7%	30.6%	31.3%	29.0%
MEDICAID	19.3%	18.7%	18.0%	22.9%	21.3%	24.9%
MEDICARE	37.4%	37.8%	39.4%	38.3%	39.5%	39.3%
OTHER	4.8%	4.8%	3.9%	3.8%	4.0%	3.6%
SELF PAY	6.5%	6.3%	6.0%	4.4%	3.9%	3.2%