Audited Consolidated Financial Statements and Supplementary Information

Cedars-Sinai Medical Center
Years Ended June 30, 2016 and 2015
With Report of Independent Auditors

Ernst & Young LLP

Building a better working world

Cedars-Sinai Medical Center

Audited Consolidated Financial Statements
and Supplementary Information

Years Ended June 30, 2016 and 2015

Contents

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Report of Independent Auditors

The Board of Directors
Cedars-Sinai Medical Center

We have audited the accompanying consolidated financial statements of Cedars-Sinai Medical Center, which comprise the consolidated balance sheets as of June 30, 2016 and 2015, 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 Cedars-Sinai Medical Center at June 30, 2016 and 2015, and the consolidated results of its operations, 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

October 19, 2016

Cedars-Sinai Medical Center

Consolidated Balance Sheets
(Dollar Amounts Expressed in Thousands)

	June 30 2016	June 30 2015
Assets		
Current assets:		
Cash and cash equivalents	**$ 694,571**	$ 370,147
Short-term investments	**547,122**	835,160
Board-designated assets	**662,573**	667,691
Current portion of assets limited to use:		
Held by trustee	**19,953**	12,345
Pledge receivable	**38,656**	32,096
Patient accounts receivable, less allowance for uncollectible accounts of $172,054 in 2016 and $179,332 in 2015	**581,527**	537,305
Due from third-party payers	**11,140**	–
Inventory	**32,692**	31,492
Prepaid expenses and other assets	**125,400**	126,502
Total current assets	**2,713,634**	2,612,738
Assets limited to use:		
Investments	**473,412**	431,832
Pledge receivable, less current portion	**93,122**	109,356
Other	**6,800**	6,800
	573,334	547,988
Property and equipment, net	**1,901,551**	1,775,267
Other assets	**353,632**	269,451
Total assets	**$ 5,542,151**	$ 5,205,444

Cedars-Sinai Medical Center

Consolidated Balance Sheets (continued)

(Dollar Amounts Expressed in Thousands)

	June 30	
	2016	**2015**
Liabilities and net assets		
Current liabilities:		
Accounts payable and other accrued liabilities	**$ 334,559**	$ 297,236
Accrued payroll and related liabilities	**308,157**	268,506
Due to third-party payers	**–**	6,280
Current maturities of long-term debt	**30,643**	34,535
Total current liabilities	**673,359**	606,557
Long-term debt, less current maturities	**952,128**	1,004,058
Accrued workers' compensation and malpractice insurance claims, less current portion	**135,138**	110,431
Other liabilities	**124,499**	58,287
Net assets:		
Unrestricted:		
Controlling interests	**2,981,506**	2,795,124
Noncontrolling interests	**53,039**	35,617
Temporarily restricted	**327,057**	312,722
Permanently restricted	**295,425**	282,648
Total net assets	**3,657,027**	3,426,111
Total liabilities and net assets	**$ 5,542,151**	$ 5,205,444

See accompanying notes.

Consolidated Statements of Operations and Changes in Net Assets
(Dollar Amounts Expressed in Thousands)

	Year Ended June 30	
	2016	**2015**
Unrestricted net assets activity		
Unrestricted revenues, gains and other support:		
Net patient service revenue	**$ 3,353,365**	$ 3,027,778
Provision for bad debts	**(33,892)**	(17,943)
Net patient service revenue less provision for bad debts	**3,319,473**	3,009,835
Premium revenues	**90,002**	85,093
Other operating revenues	**114,656**	97,228
Net assets released from restrictions	**158,015**	163,865
Total unrestricted revenues, gains and other support	**3,682,146**	3,356,021
Expenses:		
Salaries and related costs	**1,719,042**	1,516,308
Professional fees	**215,466**	164,895
Materials, supplies and other	**1,209,358**	1,132,083
Interest	**36,221**	41,577
Depreciation and amortization	**167,603**	163,153
Total expenses	**3,347,690**	3,018,016
Income from operations before extinguishment of debt	**334,456**	338,005
Gain on extinguishment of debt	**6,144**	–
Income from operations	**340,600**	338,005
Investment loss	**(84,060)**	(10,210)
Loss from investment in joint ventures	**(3,411)**	(3,396)
Excess of revenues over expenses	**253,129**	324,399
Less: excess of revenues over expenses attributable to noncontrolling interests	**(2,412)**	(1,309)
Excess of revenues over expenses attributable to the Corporation	**$ 250,717**	$ 323,090

Cedars-Sinai Medical Center

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

(Dollar Amounts Expressed in Thousands)

	Year Ended June 30	
	2016	**2015**
Unrestricted net assets activity (continued)		
Unrestricted controlling net assets activity:		
Excess of revenues over expenses attributable to the Corporation	**$ 250,717**	$ 322,749
Contributions and net assets released from restrictions related to property and equipment	**1,564**	27,062
Change in pension liability	**(65,899)**	(58,654)
Increase in unrestricted net assets attributable to the Corporation	**186,382**	291,157
Unrestricted noncontrolling net assets activity:		
Noncontrolling interests from acquisitions	**16,311**	34,847
Excess of revenues over expenses attributable to noncontrolling interests	**2,412**	1,309
Distributions to noncontrolling interests	**(1,301)**	(539)
Increase in unrestricted net assets attributable to noncontrolling interests	**17,422**	35,617
Increase in unrestricted net assets	**203,804**	326,774
Temporarily restricted net assets activity		
Contributions and grants	**160,136**	185,631
Investment income	**13,778**	13,116
Net assets released from restrictions	**(159,579)**	(165,612)
Increase in temporarily restricted net assets	**14,335**	33,135
Permanently restricted net assets activity		
Contributions	**12,777**	14,874
Increase in permanently restricted net assets	**12,777**	14,874
Increase in net assets	**230,916**	374,783
Net assets at beginning of year	**3,426,111**	3,051,328
Net assets at end of year	**$ 3,657,027**	$ 3,426,111

See accompanying notes.

Cedars-Sinai Medical Center

Consolidated Statements of Cash Flows
(Dollar Amounts Expressed in Thousands)

	Year Ended June 30	
	2016	**2015**
Operating activities		
Increase in net assets	**$ 230,916**	$ 374,783
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	**167,603**	163,153
Amortization and write-off of deferred financing costs and bond premiums	**(13,463)**	–
Provision for bad debts	**33,892**	17,943
Restricted contributions	**(16,455)**	–
Noncontrolling interests from acquisitions	**(16,311)**	(34,847)
Unrealized losses on investments	**112,392**	72,223
Changes in operating assets and liabilities:		
Patient accounts receivable	**(63,648)**	(74,447)
Due (from) to third-party payers	**(21,540)**	2,344
Inventory, prepaid expenses, and other current assets	**7,997**	(57,582)
Assets limited to use	**2,066**	–
Accounts payable and other accrued liabilities	**12,175**	57,313
Accrued payroll and related liabilities	**98,603**	54,653
Other long-term liabilities	**23,113**	–
Net cash provided by operating activities before net purchases of trading investments	**557,340**	575,536
Net sales (purchases) of trading investments	**156,819**	(126,662)
Net cash provided by operating activities	**714,159**	448,874
Investing activities		
Expenditures for property and equipment	**(178,498)**	(170,470)
Acquisition of property held for future use	**(3,922)**	–
Purchase consideration for acquisitions	**(112,900)**	(52,337)
Increase in other assets	**(28,693)**	(36,990)
Net purchases of alternative investments	**(17,635)**	(48,481)
Decrease (increase) in restricted assets	**–**	(14,261)
Net cash used in investing activities	**(341,648)**	(322,539)
Financing activities		
Principal payments on long-term debt	**(67,614)**	(44,449)
Proceeds from issuance of long-term debt	**436,040**	–
Repayment of debt upon extinguishment	**(436,635)**	–
Debt issued for the purchase of property interest	**3,667**	–
Decrease in other long-term liabilities	**–**	(21,266)
Restricted contributions	**16,455**	–
Net cash used in financing activities	**(48,087)**	(65,715)
Increase in cash and cash equivalents	**324,424**	60,620
Cash and cash equivalents – beginning of year	**370,147**	309,527
Cash and cash equivalents – end of year	**$ 694,571**	$ 370,147

Consolidated Statements of Cash Flows (continued)
(Dollar Amounts Expressed in Thousands)

	Year Ended June 30	
	2016	**2015**
Supplemental cash flow information		
Interest paid	**$ 50,704**	$ 52,311

The Corporation capitalized property and equipment of approximately $28,050 and $18,329 at June 30, 2016 and 2015, respectively, that had not been paid. The offsetting amount due was recorded in the consolidated balance sheets under accounts payable and other accrued liabilities.

See accompanying notes.

1. Summary of Significant Accounting Policies

Cedars-Sinai Medical Center, a California nonprofit, public benefit corporation (the Medical Center), is tax exempt under the provisions of the Internal Revenue Code (the Code) and applicable provisions of the Franchise Tax Code of the State of California. The Medical Center owns and operates a hospital with 886 licensed beds in Los Angeles, California, and provides patient care, medical research, health education and community service.

Cedars-Sinai Medical Care Foundation (the Foundation), a California nonprofit, public benefit corporation that operates, manages and maintains a multispecialty clinic, holds payor contracts and the assets of acquired physician and physician group practices and independent practice associations and contracts for physician services pursuant to professional services agreements. The Foundation is tax exempt under the provisions of the Code and applicable provisions of the Franchise Tax Code of the state of California. The Medical Center is the sole corporate member of the Foundation.

On September 1, 2015, the Medical Center acquired 100% of the stock of CFHS Holdings, Inc. (dba Marina Del Rey Hospital) and Centinela Freeman Holdings, Inc. CFHS Holdings, Inc., a California nonprofit public benefit corporation, which owns and operates Marina Del Rey Hospital, a community hospital with 145 licensed beds. Centinela Freeman Holdings, Inc., a for-profit California corporation, owns the Medical Office Building adjacent to Marina Del Rey Hospital, as well as the land underlying the hospital and the Medical Office Building.

The consolidated financial statements include the accounts of the Medical Center and its affiliate or subsidiary organizations; (collectively, the Corporation). Where the Corporation has a majority voting interest, it consolidates the subsidiary's results and reflects the noncontrolling interests in the performance indicator. All significant intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Significant items subject to such

1. Summary of Significant Accounting Policies (continued)

estimates include the carrying amounts for goodwill and property and equipment; valuation of deferred gifts; valuation allowances for receivables; and liabilities for medical claims incurred but not reported, third-party payables and receivables, and self-insured programs. Actual results could differ from those estimates.

Reclassifications

Certain prior year amounts have been reclassified in the consolidated financial statements to conform to the current year presentation due to the adoption of Accounting Standards Update (ASU) 2015-03 *Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*, which amends the presentation for debt issuance costs. Refer to "Recent Accounting Pronouncements" section for further information

Certain prior year amounts have been reclassified in the consolidated financial statements to provide additional information on assets limited to use.

Net Patient Service Revenues

The Corporation has agreements with third-party payers that provide for payments to the Corporation at amounts different from established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenues are reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers.

The Corporation is reimbursed for services provided to patients under certain programs administered by governmental agencies. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Compliance with such laws and regulations can be subject to future governmental review and interpretation, as well as significant regulatory action, including fines, penalties and exclusion from the Medicare and Medicaid programs. The Corporation believes it is in compliance with all applicable laws and regulations, and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing that may have a material impact on the consolidated financial statements.

(Dollar Amounts Expressed in Thousands)

1. Summary of Significant Accounting Policies (continued)

Net patient service revenue by major payer source is as follows:

	Year Ended June 30	
	2016	**2015**
Medicare	**$ 801,938**	$ 664,199
Medi-Cal	**173,465**	263,538
HMO/PPO	**2,206,459**	1,878,510
Self-pay and other	**171,503**	221,531
Patient service revenue, net of contractual allowances and discounts	**3,353,365**	3,027,778
Provision for bad debts	**(33,892)**	(17,943)
Patient service revenue, net	**$ 3,319,473**	$ 3,009,835

The administrative procedures related to the cost reimbursement programs in effect generally preclude final determination of amounts due until cost reports are audited or otherwise reviewed and settled upon with the applicable administrative agencies. Estimation differences between final settlements and amounts accrued in previous years are reported as adjustments of the current year's net patient service revenue. In the opinion of management, adequate provision has been made for adjustments, if any, that might result from subsequent review. During the year ended June 30, 2016, the Corporation experienced an increase in net patient service revenue from commercial insurance payers and a corresponding decrease in net patient service revenue from self-pay payers as a result of the Affordable Care Act. The Corporation recorded revenues from the California Hospital Fee Program under net patient service revenues from Medi-Cal, as further described below.

During 2016 and 2015, the Corporation received information requiring changes in its estimates of the settlements due for certain open cost report years. Based on this information, adjustments to the prior cost report years increased net patient service revenues and operating income by $23,270 and $5,174 for the years ended June 30, 2016 and 2015, respectively.

1. Summary of Significant Accounting Policies (continued)

Medi-Cal Fee Program

As part of the American Recovery and Reinvestment Act economic stimulus package passed in 2009, Congress temporarily increased the Federal Medical Assistance Percentage (FMAP) for all states, allowing states to draw down increased federal dollars for hospitals that provide medical care for Medicaid patients. California hospitals organized to pursue this stimulus funding through the California Hospital Fee Program (the Program). Passed into law by the California state government and approved by the Centers for Medicare and Medicaid Services in fiscal 2012, the Program provided enhanced revenues related to provision of services to Medicaid patients, offset to a degree by the requirement to pay a fee (known as the Quality Assurance (QA) Fee) based on established rates applied to each hospital's historical patient days. In September 2012, the California state government passed into law a measure that extended this program for 30 months, from July 1, 2011 through December 31, 2013. Under these measures, the QA Fee in aggregate for the state served as the amount that was put up to draw on amounts under the FMAP program. The distribution of the amounts took the form of two components for the Corporation: an expense related to the QA Fee and revenues related to Medi-Cal business.

A new 36-month program (the New Program), from January 1, 2014 through December 31, 2016, was created and became effective on October 13, 2013. The QA Fees and Supplemental Payments of the New Program include fee-for-service and managed care components. The fee-for-service component of the QA Fees and Supplemental Payments was approved in December 2014 for all three years, while only the expansion managed care component for the first six months was approved as of June 30, 2016. Total QA Fees (recorded as materials, supplies, and other) incurred by the Corporation were $77,939 and $147,925 during fiscal 2016 and 2015, respectively, while revenue from the New Program (recorded as net patient service revenue) totaled $78,262 and $155,456 during fiscal 2016 and 2015, respectively. In connection with the program, the Corporation applied for a grant from the California Health Foundation & Trust totaling $3,025 related to future shortfalls from the New Program, which was recorded in fiscal 2016.

Premium Revenues and Related Costs

The Foundation has agreements with various health maintenance organizations (HMOs) to provide medical services to subscribing participants. Under these agreements, the Foundation receives monthly capitation payments based on the number of each HMO's participants, regardless of services actually performed by the Foundation. Such payments are recorded as premium revenues.

1. Summary of Significant Accounting Policies (continued)

The costs of health services provided by other health care providers to the participants, including administrative costs and out-of-area or emergency services, are included in professional fees, and totaled approximately $37,442 and $37,606 for the years ended June 30, 2016 and 2015, respectively. Such costs are accrued in the period in which the services are provided based in part on estimates, including an accrual for services provided by others, but not reported to the Foundation.

Provision for Uncollectible Accounts

Patient service revenue, net of contractual allowances and discounts, is reduced by the provision for bad debts, and accounts receivable is reduced by an allowance for uncollectible accounts. The Corporation establishes an allowance for uncollectible accounts based on many factors, including payer mix, age of receivables, historical cash collection experience, and other relevant information. A significant portion of the Corporation's uninsured patients will be unable or unwilling to pay for services provided, and a significant portion of the Corporation's insured patients will be unable or unwilling to pay for co-payments and deductibles. Thus, the Corporation records a provision for bad debts related to these insured and uninsured patients in the period the services are provided. The Corporation writes down the expected reimbursement after reasonable collection efforts have been exhausted.

Charity Care

The Corporation provides care to patients who meet certain criteria under its charity care policies. Essentially, these policies define charity services as those services for which the anticipated payment, if any, is less than the cost of providing services. During the year ended June 30, 2016 and 2015, the Corporation incurred $16,252 and $23,139 in costs to provide charity care, respectively, which is calculated based on a ratio of cost to gross charges.

1. Summary of Significant Accounting Policies (continued)

Excess of Revenues Over Expenses

The consolidated statements of operations and changes in net assets include the excess of revenues over expenses, which is considered the performance indicator. Changes in unrestricted net assets, which are excluded from the excess of revenues over expenses, include contributions of long-lived assets (including assets acquired using contributions which, by donor restrictions, were to be used for the purposes of acquiring such assets) and changes in benefit plan liabilities.

Inventory

Inventory is stated at cost (using the first-in, first-out method), which is not in excess of market value.

Acquisitions

The accounting for acquisitions requires extensive use of estimates and judgments to measure the fair value of the identifiable tangible and intangible assets acquired and liabilities assumed. Additionally, the Corporation determines whether an acquired entity is considered to be a business or a set of net assets, because the excess of the purchase price over the fair value of net assets acquired can only be recognized as goodwill in a business combination.

The Corporation routinely enters into purchase agreements with various health care providers and entities.

During the year ended June 30, 2016, the Medical Center acquired certain entities including a 100% voting interest in a business that owns and operates Marina Del Rey Hospital, a business that owns land and parking structures, and a business that owns a medical office building and its associated land for parking on September 1, 2015 and a controlling financial interest of 85% in an entity that through its subsidiaries owns and operates certain ambulatory surgery centers on May 2, 2016. The Medical Center has made a fair value determination of the acquired assets and assumed liabilities and approximately $31,960 in current assets, $105,352 in fixed assets, $16,670 in current liabilities, $30,006 in other liabilities including debt and capital leases, $16,311 in noncontrolling interests and $52,080 in goodwill were recorded with respect to these acquisitions.

During the year ended June 30, 2015, the Medical Center recorded tangible assets (including working capital) of $4,989, non-compete intangible assets of $1,300, goodwill of $80,895, and noncontrolling interests of $34,847 as a result of acquisitions during the year.

(Dollar Amounts Expressed in Thousands)

1. Summary of Significant Accounting Policies (continued)

Care of the Poor and Community Benefit (Unaudited)

The Corporation's mission is to improve the health status of its community, regardless of the patient's ability to pay, including charity patients. The Corporation provides programs and activities that contribute to charity care, care of the poor, and community benefit. These programs and activities serve a majority of persons who are beneficiaries of Medi-Cal, and county, state and federal programs for which the costs of providing the services are not fully reimbursed. Also included are activities that improve the community's health status, and educate or provide social services to the elderly and children. The Corporation's unreimbursed costs for care of the poor and community benefits were approximately 21.2% and 22.3% of total operating expenses for the years ended June 30, 2016 and 2015, respectively. The costs associated with these programs and activities are as follows:

	Year Ended June 30	
	2016	**2015**
Traditional charity care and uninsured patients (Category 1)	**$ 16,252**	$ 23,139
Unpaid cost of state programs (Category 2)	**83,606**	70,290
Unpaid cost of specialty government programs (Category 3)	**1,628**	–
Unpaid cost of federal programs (Category 4)	**322,311**	294,183
Research (Category 5)	**178,105**	178,156
Community benefit (Category 6)	**110,454**	106,467
Total community benefit	**712,356**	672,235
A portion of the above cost was supported by the help of:		
Federal, state, and local grants	**(63,754)**	(66,570)
Charitable giving	**(38,249)**	(35,926)
Community benefit, net of support by others	**$ 610,353**	$ 569,739

1. Summary of Significant Accounting Policies (continued)

The Corporation uses the following six categories to classify care of the poor and community benefit:

Category 1: Traditional Charity Care and Uninsured Patients – (care of the poor) includes the cost of services provided to persons who cannot afford health care because of inadequate resources and/or who are uninsured or underinsured. If there is any subsidy donated for these services, that amount is deducted from the gross amount.

Category 2: Unpaid Cost of State Programs – also benefits the poor, but is listed separately. This amount represents the unpaid cost of services provided to patients in the Medi-Cal program or enrolled in HMO and Preferred Provider Option (PPO) plans under contract with the Medi-Cal program.

Category 3: Unpaid Costs of Specialty Government Programs – also provides community benefit under such programs as the Veterans Administration, Los Angeles Police Department, Short Doyle, Proposition 99, and other programs to benefit the poor. This amount represents the unpaid cost of services provided to patients in these various programs.

If this community benefit was not provided, federal, state, or local governments would need to furnish these services.

Category 4: Unpaid Cost of Federal Programs – primarily benefits the elderly. This amount represents the unpaid cost of services provided to patients in the Medicare program and enrolled in HMO and PPO plans under contract with the Medicare program. Included in these amounts are $32,542 and $57,092 for the years ended June 30, 2016 and 2015, respectively, of unpaid cost of services provided to patients in the Medicare program who are also in the Medi-Cal program.

Category 5: Research – cost of providing translational and clinical research and studies on health care delivery. During the years ended June 30, 2016 and 2015, the Corporation received outside support for its research efforts totaling $102,003 and $102,496, respectively. Thus, for the years ended June 30, 2016 and 2015, the net cost incurred by the Corporation was $76,102 and $75,660, respectively.

1. Summary of Significant Accounting Policies (continued)

Category 6: Community Benefit – cost of services that are beneficial to the broader community, i.e., other needy populations that may not qualify as poor, but that need special services and support. Examples include the elderly, substance abusers, the homeless, victims of child abuse and persons with AIDS. They also include the cost of health promotion and education and health clinics and screenings.

Property and Equipment

Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset, and is computed using the straight-line method. Interest costs incurred during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets.

Gifts of long-lived assets such as land, buildings or equipment that do not contain explicit donor stipulations, which specify how the donated assets must be used, are reported as unrestricted support, and are excluded from excess of revenue over expenses. 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.

The Corporation accounts for software development costs in accordance with Accounting Standard Codification (ASC) 350, *Intangible Goodwill and Other (Topic 350): Accounting for Goodwill*. All costs incurred in the planning stage of developing the software are expensed as incurred, as are internal and external training costs and maintenance costs. External and internal costs, excluding general and administrative costs and overhead costs, incurred during the applicable development stage of internally used software are capitalized. Such costs include external direct costs of materials and services consumed in development or obtaining the software, payroll, and payroll-related costs for employees who are directly associated with and who devote time to developing the software. Development changes that result in appropriate functionality of the software, which enable it to perform tasks that it was previously incapable of performing, are also capitalized.

Capitalized internal-use software development costs are amortized on a straight-line basis over their estimated useful life of three to seven years. Amortization begins when all substantial testing of the software is completed and the software is ready for its intended use.

1. Summary of Significant Accounting Policies (continued)

Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of

The Corporation accounts for the impairment and disposition of long-lived assets in accordance with ASC 360, *Property, Plant and Equipment Impairment or Disposal of Long-Lived Assets*. In accordance with ASC 360, long-lived assets to be held are reviewed for events or changes in circumstances that indicate that their carrying value may not be recoverable. The Corporation determined that no assets are impaired at June 30, 2016.

Board-Designated Assets

Board-designated assets include investments designated by the Corporation’s Board of Directors (the Board) for future capital expenditures, physician programs, academic programs, and fund raising. However, the Board retains control of these assets and will, at its discretion, and if necessary, use these assets for operating purposes. As a result, Board-designated assets are included in current assets.

Assets Limited as to Use

Assets limited as to use include assets held by trustees that are for the payment of self-insurance liabilities and assets with donor restrictions. The current portion of assets limited as to use includes amounts that will be used to pay self-insurance classified as current liabilities.

Investments

The Corporation has designated its investments in equity securities with readily determinable fair values and all investments in debt securities as trading, in accordance with ASC 954, *Health Care Entities*. Those securities are measured at fair value in the accompanying consolidated balance sheets. Fair value is determined using a market approach based on quoted prices for similar securities in active markets or quoted prices for identical securities in inactive markets. Management determines the appropriate classification of all investments at the date of purchase and reevaluates such designations at each consolidated balance sheet date.

Investment income or loss on temporarily restricted net assets (including realized and unrealized gains and losses on investments, interest, and dividends) is reported as unrestricted net assets activity unless the income or loss is restricted by donor or law.

1. Summary of Significant Accounting Policies (continued)

All of the Corporation's investments are invested in accordance with Board-approved policies, which include, among other matters, targeted investment returns balanced by diversification of the investment portfolio, establishment of credit risk parameters, and limitation in the amount of investment in any single instrument. As part of its investment policies and strategies, the Corporation's Investment Committee (the Investment Committee) meets periodically to review performance. At least annually, the Investment Committee reviews and formulates a specific investment and allocation plan. Any adjustments that are deemed necessary are based on specific criteria, i.e., the Corporation's necessary funding, obligations, expenses and liquidity needs.

Alternative Investments

Certain of the Corporation's investments are made through alternative investments, which include investments in limited partnerships and limited liability companies. The Corporation generally contracts with fund managers, who have full discretionary authority over investment decisions. The Corporation accounts for its ownership interests in the partnerships using equity method of accounting based on net assets value. These investments provide the Corporation with a proportionate share of the entities' gains and losses, which are included in investment income in the accompanying consolidated statements of operations and changes in net assets. As of June 30, 2016 and 2015, these alternative investments comprised approximately 22% and 28%, respectively, of the Corporation's total cash, cash equivalents and investments.

Alternative investments include certain other risks that may not exist with other investments that are more widely traded. These risks include reliance on the skill of the fund managers, who often employ complex strategies with various financial instruments, including futures contracts, foreign currency contracts, structured notes and other investment vehicles. Additionally, alternative investments may have limited information on a fund's underlying assets and valuation, and limited redemption or redemption-penalty provisions. Management believes that the Corporation, in consultation with its Investment Committee, has the capacity to analyze and interpret the risks associated with alternative investments and, with this understanding, has determined that investing in these investments creates a balanced approach to its portfolio management.

1. Summary of Significant Accounting Policies (continued)

Medical Malpractice Insurance

The Corporation is self-insured for the first $3,000 in professional malpractice and general liability losses per occurrence effective October 1, 2005, and was self-insured for the first $2,000 effective October 1, 2004, and $1,000 for prior periods. The Corporation purchases excess insurance coverage resulting in total coverage of $200,000 per occurrence, insuring all employees, volunteers, and members of the medical faculty. Effective for the year beginning October 1, 2005, the insurance purchased was excess over an attachment point of $1,000 for each and every claim and another $2,000 per claim with a $10,000 annual aggregate. Effective October 1, 2013, the aggregate was raised to $15,000. Effective October 1, 2015, the aggregate was raised again to $17,000. The Corporation had no aggregate limit for the three years beginning October 1, 2002. Accruals for insured, uninsured claims and claims incurred but not reported are estimated by an actuary based on the Corporation's claims experience. Such accruals, which totaled $61,081 and $55,467 at June 30, 2016 and 2015, respectively, are recorded using a 1.0% and 1.6% discount factor at June 30, 2016 and 2015, respectively. The basis for the rate is the risk-free rate of return at the end of each year and the estimated period over which claims will be settled. The accruals represent the total actuarially determined loss without reduction for the portion that is expected to be recoverable through insurance ($7,812 and $9,635 at June 30, 2016 and 2015, respectively). The expected amounts to be recovered through insurance are included in other assets in the accompanying consolidated balance sheets.

Workers' Compensation Insurance

The Corporation carries workers' compensation insurance insuring employees with a self-insured primary limit of $1,000 effective February 1, 2005, and decreasing amounts in earlier years. Accruals for insured, uninsured claims and claims incurred but not reported are estimated by an actuary based upon the Corporation's claims experience. Such accruals, which totaled $106,337 and $84,332 at June 30, 2016 and 2015, respectively, are recorded using a 1.3% and 2.1% discount factor at June 30, 2016 and 2015, respectively. The basis of the rate is the risk-free rate of return at the end of each year and the estimated period over which claims will be settled. The accruals represent the total actuarially determined loss without reduction for the portion that is expected to be recoverable through insurance ($21,607 and $15,336 at June 30, 2016 and 2015, respectively). The expected amounts to be recovered through insurance are included in other assets in the accompanying consolidated balance sheets.

1. Summary of Significant Accounting Policies (continued)

Cash Equivalents

The Corporation considers all highly liquid debt instruments with original maturity dates at the time of purchase of three months or less to be cash equivalents.

Donor-Restricted Gifts

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Conditional promises to give cash and indications of intentions to give are not recognized until the conditions are satisfied or removed. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted contributions in the accompanying consolidated financial statements.

Fair Value of Financial Instruments

The Corporation's consolidated balance sheets include the following financial instruments: cash and cash equivalents, investments, patient accounts receivable, accounts payable and other accrued liabilities, pension liabilities and long-term obligations. The Corporation considers the carrying amounts of current assets and liabilities in the consolidated balance sheets to approximate the fair value of these financial instruments because of the relatively short period of time between origination of the instruments and their expected realization. Pledges receivable, accrued workers' compensation, malpractice insurance claims and pension liabilities are recorded at their estimated present value using appropriate discount rates. Marketable securities are recorded at fair value based on quoted prices from recognized security exchanges and other methods, as further described in Note 5. Alternative investments are recorded using the equity method of accounting, which approximates fair value. Tax-exempt financings are carried at amortized cost. The fair value of tax-exempt financings is estimated based on current market rates, as further described in Note 3.

1. Summary of Significant Accounting Policies (continued)

Income Taxes

The Corporation and its related affiliates have been determined to qualify as exempt from federal and state income taxes under Section 501(a) as organizations described in Section 501(c)(3) of the Code.

Most of the income received by the Corporation is exempt from taxation, as income related to the mission of the organization. Accordingly, there is no material provision for income taxes for these entities. However, some of the income received by the exempt entities is subject to taxation as unrelated business income. The Corporation and its subsidiaries file federal and state income tax returns.

The Corporation completed an analysis of its tax positions, in accordance with ASC 740, *Income Taxes*, and determined that there are no uncertain tax positions taken or expected to be taken. The Corporation has recognized no interest or penalties related to uncertain tax positions. The Corporation is subject to routine audits by the taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Corporation believes it is no longer subject to income tax examinations for years prior to 2013.

Concentrations of Credit Risk

Financial instruments, which potentially subject the Corporation to concentrations of credit risk, consist primarily of investments and accounts receivable. Investments are made in a variety of financial instruments with prudent diversification requirements. The Corporation seeks diversification among its investments by limiting the amount of investments that can be made with any one obligor. The investment portfolio is managed by professional investment managers within the guidelines established by the Board, which, as a matter of policy, limit the amounts that may be invested in any one issuer.

(Dollar Amounts Expressed in Thousands)

1. Summary of Significant Accounting Policies (continued)

The Corporation grants credit without collateral to its patients, most of whom are area residents and are insured under third-party agreements. The mix of net receivables from patients and third-party payers is as follows:

	June 30	
	2016	**2015**
Medicare	**14%**	13%
Medi-Cal	**3**	4
HMO/PPO	**82**	81
Self-pay and other	**1**	2
	100%	100%

Recent Accounting Pronouncements

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-For-Profit Entities*, which will require not-for-profit entities to revise financial presentation to include: net asset classifications, provide quantitative and qualitative information as to available resources and management of liquidity and liquidity risk, information on investment expenses and returns, and the presentation of operating cash flows. The standard aims to help the reader of the financial statements to better understand the financial position of the organization and enhance consistency among similar organizations. ASU 2016-02 is effective for annual periods beginning after December 15, 2017. Early adoption is permitted. The Corporation is currently evaluating the impact of this new standard on the consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases, (Topic 842): Amendments to the FASB ASC*. ASU 2016-02 amends the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets and making targeted changes to lessor accounting. The new standard requires a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief. The amendments in this update are effective for fiscal years (and interim reporting periods within fiscal years) beginning after December 15, 2018. Early adoption of the amendments is permitted for all entities. The Corporation is currently evaluating the impact of this new standard on the consolidated financial statements.

1. Summary of Significant Accounting Policies (continued)

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Overall* (Subtopic 825-10), a new accounting standard that amends the accounting and disclosures of financial instruments, including a provision that requires equity investments (except for investments accounted for under the equity method of accounting) to be measured at fair value, with changes in fair value recognized in current earnings. The new standard is effective for interim and annual periods beginning after December 15, 2018. The Corporation is currently evaluating the impact of this new standard on the consolidated financial statements.

In May 2015, the Financial Accounting Standards Board (FASB) issued ASU 2015-07, *Fair Value Measurement (Topic 820)*, which removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient and limits the disclosure requirement. ASU 2015-07 is effective for annual and interim periods beginning after December 15, 2015. The Corporation does not believe this standard will have an impact on the consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, *Interest – Imputation of Interest (Subtopic 835-30)*, which requires that debt issuance costs be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. The Corporation has applied the guidance retrospectively to both periods presented. Such retrospective adoption had an insignificant impact to the June 30, 2015, consolidated balance sheet, and had no impact to the consolidated statements of operations and changes in net assets and consolidated statements of cash flows. The adoption decreased other assets and long-term debt, less current maturities as of June 30, 2015, by $6,788 as compared to amounts previously reported.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, and in August 2015 the FASB issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, which defers the effective date of ASU 2014-09 by one year. ASU 2014-09 requires the entity to recognize revenue for the transfer of goods or services equal to the amount that it expects to be entitled to receive for those goods or services, effective for periods beginning after December 15, 2017. The Corporation is currently evaluating the impact of this new standard on the consolidated financial statements.

(Dollar Amounts Expressed in Thousands)

2. Property and Equipment

Property and equipment consist of the following:

	June 30	
	2016	**2015**
Land	**$ 122,082**	$ 56,522
Buildings and land improvements	**2,020,410**	1,923,871
Equipment	**398,899**	362,090
Software and software implementation costs	**504,831**	483,856
	3,046,222	2,826,339
Less accumulated depreciation and amortization	**1,400,244**	1,233,437
	1,645,978	1,592,902
Construction in progress	**255,573**	182,365
	$ 1,901,551	$ 1,775,267

Depreciation and amortization expense on property and equipment was $166,807 and $162,427 for the years ended June 30, 2016 and 2015, respectively.

Construction in progress consists of the following:

	June 30	
	2016	**2015**
Buildings and land improvements	**$ 139,567**	$ 109,016
Equipment	**7,382**	1,670
Software and software implementation costs	**97,964**	64,278
Capitalized interest	**10,660**	7,401
	$ 255,573	$ 182,365

If each project included in construction in progress were placed in service at June 30, 2016, at the costs capitalized at that date, the Corporation's annual depreciation would increase by approximately $21,636 (unaudited). This estimate of incremental annual depreciation is subject to change as additional costs are incurred to complete these projects. The Corporation estimates that it will cost approximately $454,096 (unaudited) to complete the projects currently under construction.

(Dollar Amounts Expressed in Thousands)

2. Property and Equipment (continued)

Software and software implementation costs include the following:

	2016	2015
Cost including CIP	**$ 606,361**	$ 549,598
Less accumulated amortization	**351,416**	287,893
	$ 254,945	$ 261,705
Amortization expense during the year	**$ 63,523**	$ 61,260
Weighted-average life in years	**6.7**	6.7

Estimated future amortization expense:	
2017	$ 66,745
2018	54,738
2019	46,765
2020	31,063
2021	26,013
Thereafter	29,621
	$ 254,945

Software and software implementation costs include the cost of completed projects and the cost and capitalized interest related to projects in the process of implementation. Estimated future amortization includes the amortization of projects in the process of implementation, assuming the cost at June 30, 2016, is the cost of the completed project.

(Dollar Amounts Expressed in Thousands)

3. Long-Term Debt

Long-term debt issued and outstanding as of the following:

	June 30	
	2016	**2015**
$518,820 Revenue Bonds, Series 2005; principal payments of $8,525 to $42,270 are due annually through 2035; interest is payable semiannually at 5.0%; the amount reported includes unamortized premiums of $0 and $10,314 and unamortized deferred financing costs of $0 and $1,974 at June 30, 2016 and 2015, respectively; paid down in fiscal 2016	**$ –**	$ 467,805
$535,000 Revenue Bonds, Series 2009; principal payments of $1,045 to $68,860 are due annually through 2039; interest is payable semiannually at 3.5% to 5%; the amount reported includes unamortized premiums of $4,331 and $4,563 and unamortized deferred financing costs of $3,921 and $4,131 at June 30, 2016 and 2015, respectively	**426,270**	435,432
$148,400 Revenue Bonds, Series 2011; principal payments of $9,845 to $18,900 are due annually through 2021; interest is payable semiannually at 3.0% to 5.0%; the amount reported includes unamortized premiums of $5,146 and $6,969 and unamortized deferred financing costs of $505 and $683 at June 30, 2016 and 2015, respectively	**104,746**	121,956
$370,220 Revenue Bond, Series 2015; principal payments of $480 to $39,680 are due annually through 2035; interest is payable semiannually at 2.0% to 5.0%; the amount reported includes unamortized premium of $64,765 and unamortized deferred financing costs of $2,400 at June 30, 2016	**432,585**	–
Other notes payable, secured by deeds of trust	**17,174**	13,400
Capital leases	**1,996**	–
	982,771	1,038,593
Less current maturities	**30,643**	34,535
	$ 952,128	$ 1,004,058

3. Long-Term Debt (continued)

In November 2015, the Corporation issued $370,220 of California Health Facilities Financing Authority Revenue Bonds. The proceeds totaled $438,580, including a premium of $68,360 which will be amortized as a reduction of interest expense over the life of the bonds. Issuance costs of $2,540 were incurred in connection with the offering. The proceeds were used to fully pay down the 2005 Series Revenue Bonds. A gain on extinguishment of debt of $6,144 was recognized, which was comprised of remaining bond premium of $9,998 offset by unamortized deferred financing costs of $1,913 and accrued interest of $1,941 on the retired bonds.

The fair value of the tax-exempt financings, determined using Level 2 inputs (refer to Note 4 for description) primarily related to comparable market prices, was estimated to be $1,053,698 and $1,075,575 at June 30, 2016 and 2015, respectively.

Revenue of the Corporation (excluding its affiliated or subsidiary organizations) is pledged to secure the payment of the principal and interest on all bonds and certificates under a Master Trust Indenture (Indenture). The Indenture contains covenants restricting additional debt and providing for the maintenance of certain financial ratios. The Corporation was in compliance with these covenants at June 30, 2016.

In December 2012, the Corporation entered into a $50,000 credit agreement (the Agreement) with a bank that will expire in February 2018. The Corporation may borrow under the Agreement with interest charged at either the London Interbank Offered Rate (LIBOR) plus an applicable margin of 0.5% based on the Corporation's Moody's rating (currently Aa3), or at the greater of the bank's fluctuating prime rate minus 1.5%, or 1.0%. At June 30, 2016, the three-month LIBOR was 0.65% and the bank's prime rate was 3.5%. The Corporation also pays a 0.125% annual commitment fee on the unused credit line. The Agreement is secured on a parity basis under the Bond Indenture with the tax-exempt financings of the Corporation. No amounts have been borrowed under the Agreement.

In November 2013, the Corporation entered into a second $50,000 credit agreement with another bank that will expire in November 2018. The terms are substantially similar to the Agreement described above except the commitment fee on the unused credit line is as of June 30, 2016, 0.075% and the applicable margin is 0.6% based on the Corporation's maintaining its Moody's rating. No amounts have been borrowed under this agreement.

(Dollar Amounts Expressed in Thousands)

3. Long-Term Debt (continued)

In April 2014, the Corporation purchased a partial interest in adjacent property from two sellers for $19,000 and issued two notes totaling $14,000. Both notes bear interest at 6%; one $3,000 note requires annual principal payments of $600, and the other $11,000 note is interest only through 2023; after that, the interest rate reduces to 5%, and the note is payable at the Corporation's discretion with a final due date in 2033. In May 2016, the Corporation purchased additional interest in the property for $3,922, including the issuance of a note of $3,667. The note bears interest at 6% through November 2033 and 5% thereafter and matures in December 2033.

The combined aggregate amount of maturities and sinking fund requirements (excluding the unamortized premium of $74,242 and unamortized deferred financing costs of $6,826 at June 30, 2016) for the five fiscal years succeeding June 30, 2016, and thereafter, is as follows:

2017	$ 23,617
2018	24,926
2019	26,005
2020	26,670
2021	26,565
Thereafter	787,572
	$ 915,355

For the years ended June 30, 2016 and 2015, interest costs incurred totaled $42,749 and $49,120, respectively, of which $6,528 and $7,543, respectively, were capitalized as part of the cost of construction in progress.

4. Retirement Plans

During 1990, the Board authorized the suspension of the Corporation's noncontributory, defined benefit plan, which covered substantially all eligible employees (the Suspended Employee Plan). Benefit accruals under the Suspended Employee Plan were suspended effective December 31, 1990. Effective July 1, 2003, the Corporation began offering a defined benefit plan to its employees. Rather than design a new plan, the Corporation amended the Suspended Employee Plan (the Defined Benefit Plan) to capture the new defined benefit activity.

(Dollar Amounts Expressed in Thousands)

4. Retirement Plans (continued)

During 1991, the Corporation implemented a defined contribution plan (the Defined Contribution Plan) covering substantially all employees covered under the Suspended Employee Plan. Contributions under the Defined Contribution Plan are calculated based on each employee's salary and totaled $63,090 and $61,704 for the years ended June 30, 2016 and 2015, respectively. Employees have the choice of participation in either the Defined Benefit Plan or the Defined Contribution Plan and can change the selection once during their employment.

In addition, certain key employees of the Corporation are covered by separate defined contribution and defined benefit retirement plans, which are not governed by the Employee Retirement Income Security Act of 1974. Contributions under these plans are calculated based on each key employee's salary and totaled $19,411 and $17,603 for the years ended June 30, 2016 and 2015, respectively.

The following tables present information related to changes in projected benefit obligations, plan assets and their composition, funded status, the accumulated benefit obligation and net periodic pension cost for all defined benefit plans at June 30, 2016 and 2015, and for the years then ended. The Corporation contributed $55,000 to its Defined Benefit Plan in September 2016 to increase the funding status to 90%.

	Year Ended June 30	
	2016	**2015**
Change in projected benefit obligations:		
Projected benefit obligation at beginning of year	**$ 438,949**	$ 376,013
Service cost	**29,784**	21,708
Interest cost	**19,494**	15,833
Actuarial losses	**54,057**	52,309
Benefits paid	**(10,380)**	(21,404)
Settlement	**(2,612)**	(5,509)
Projected benefit obligation at end of year	**529,292**	438,950
Change in plan assets:		
Fair value of plan assets at beginning of year	**386,399**	356,677
Actual (loss) gain on plan assets	**(3,855)**	5,655
Employer contributions	**43,719**	52,900
Benefits paid	**(10,380)**	(21,404)
Expenses paid	**(494)**	(1,920)
Settlement	**(2,612)**	(5,508)
Fair value of plan assets at end of year	**412,777**	386,399
Funded status	**$ (116,515)**	$ (52,550)

(Dollar Amounts Expressed in Thousands)

4. Retirement Plans (continued)

	June 30 2016	June 30 2015
Composition of plan assets:		
Short-term money market funds	**19%**	7%
Government and corporate debt	**6**	4
Equity securities	**4**	5
Mutual funds	**71**	84
	100%	100%

	June 30 2016	June 30 2015
Amounts recognized as other liabilities in the consolidated balance sheets	**$ 116,515**	$ 52,550
Unrecognized losses as a component of net periodic pension costs	**$ 227,591**	$ 161,692
Accumulated benefit obligation	**$ 429,449**	$ 386,399

	Year Ended June 30 2016	Year Ended June 30 2015
Net periodic benefit cost recognized:		
Service cost	**$ 29,784**	$ 21,708
Interest cost	**19,494**	15,833
Expected return on plan assets	**(24,708)**	(22,005)
Amortization of net loss	**16,944**	9,872
Amortization of prior service costs	**269**	269
Net periodic benefit cost	**$ 41,783**	$ 25,677

(Dollar Amounts Expressed in Thousands)

4. Retirement Plans (continued)

	June 30 2016	June 30 2015
Weighted-average assumptions used to determine benefit obligations consist of the following:		
Discount rate used to determine service cost	**4.60%**	4.30%
Discount rate used to determine projected benefit obligation	**3.85**	4.60
Expected long-term rate of return on plan assets	**6.10**	6.10
Rate of increase in future compensation levels	**4.00**	4.00

The expected rate of return on plan assets is updated annually, taking into consideration the plan's asset allocation, historical returns on the types of assets held in the trusts, and the current economic environment.

Amounts included in unrestricted net assets that have not been recognized in net periodic pension cost:

	June 30 2016	June 30 2015
Unrecognized prior service costs	**$ 1,687**	$ 1,957
Unrecognized prior loss	**225,904**	159,735
	$ 227,591	$ 161,692

The unrecognized prior losses and unamortized prior service costs expected to be recognized over the next fiscal years are $23,671 and $16,944 at June 30, 2016 and 2015, respectively.

Plan Assets

Approximately 87% of plan assets relate to long-term investment activities covering the Corporation's general employee population. The other 13% of the assets relates to a special plan for highly compensated employees closer to retirement age. The combined target allocation is approximately 50% equities, 40% fixed income, and 10% short-term instruments, with no allocation to alternative investments. All investments are highly liquid.

4. Retirement Plans (continued)

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

- Level 1 – Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

- Level 2 – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instruments. This includes model-derived valuations whose significant inputs are observable.

- Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Fair values are based on one or more of three valuation 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).

(Dollar Amounts Expressed in Thousands)

4. Retirement Plans (continued)

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The following table presents the financial instruments in the Corporation's defined benefit plans carried at fair value as of June 30, 2016, by valuation hierarchy.

	Level 1	Level 2	Total	Valuation Technique (a, b, c)
Cash	**$ 79,065**	**$ –**	**$ 79,065**	**a**
Equities	**17,712**	**–**	**17,712**	**a**
U.S. Treasury securities	**18,873**	**–**	**18,873**	**a**
Mortgage-backed securities	**–**	**3,292**	**3,292**	**a**
Mutual funds[1]	**293,835**	**–**	**293,835**	**a**
	$ 409,485	**$ 3,292**	**$ 412,777**	

[1] 40% of mutual funds invest in bonds and 60% invest in global equities.

The following table presents the financial instruments in the Corporation's defined benefit plans, carried at fair value as of June 30, 2015, by valuation hierarchy.

	Level 1	Level 2	Total	Valuation Technique (a, b, c)
Cash	$ 27,115	$ –	$ 27,115	a
Equities	17,877	–	17,877	a
U.S. Treasury securities	12,497	–	12,497	a
Mortgage-backed securities	–	4,691	4,691	a
Mutual funds[1]	324,219	–	324,219	a
	$ 381,708	$ 4,691	$ 386,399	

[1] 40% of mutual funds invest in bonds and 60% invest in global equities.

4. Retirement Plans (continued)

Plan Investment Strategy

The Corporation's investment policy generally reflects the long-term nature of the pension plan's funding obligations. Assets are invested to achieve a rate of return consistent with policy allocation targets, which significantly contributes to meeting the current and future obligations of the plan, and strives to help ensure solvency of the plan over time. This objective is to be achieved through a well-diversified asset portfolio and emphasis on long-term capital appreciation as a primary source of return. The plan utilizes a multi-manager structure of complementary investment styles and classes. Manager qualitative performance is continually evaluated, while a manager's investment performance is judged over an investment market cycle of at least three years.

Plan assets are exposed to risk and fluctuations in market value from year to year. To minimize risk, each manager maintains a diversification of their portfolio to insulate the portfolio from substantial losses in any single security or sector of the market. The asset allocation is reviewed for deviations in the allowable range for each asset class, and rebalancing is implemented as necessary.

The long-term rate of return of the plan investment allocation is designed to be commensurate with a conservatively managed balance allocation. Fixed-income securities consist of investment-grade bonds.

Each investment type is managed by an asset manager specializing in various security types. The investment objective of the plans over a three- to five-year period is to produce a rate of return that equals or exceeds the appropriate bond index, S&P 500 stock index or other appropriate international equity index.

As part of investment policies and strategies, the plans' Investment Committee meets periodically to review performance. At least annually, the Investment Committee reviews and formulates the specific investment and allocation plan. Any adjustments that are deemed necessary are based on specific criteria, i.e., necessary plan funding, plan obligations, plan expenses and plan liquidity needs.

(Dollar Amounts Expressed in Thousands)

4. Retirement Plans (continued)

Plan Cash Flows

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

2017	$ 19,617
2018	19,640
2019	22,084
2020	24,875
2021	26,309
2022 through 2025	161,953

5. Investments

Investment loss or income on cash and cash equivalents, investments, and assets limited as to use consists of the following:

	Year Ended June 30	
	2016	**2015**
Interest and dividend income	**$ 15,899**	$ 62,479
Realized gains	**26,211**	12,309
Unrealized loss, net	**(112,392)**	(72,223)
Investment (loss) gain included in the consolidated statements of operations and changes in net assets	**$ (70,282)**	$ 2,565

(Dollar Amounts Expressed in Thousands)

5. Investments (continued)

The following tables present the financial instruments carried at fair value as of June 30, 2016 and 2015, by valuation hierarchy as defined in Note 4. Alternative investments (Note 1) are accounted for using the equity method of accounting, which is not a fair value measurement. There were no significant transfers between Levels 1, 2, and 3 during the years ended June 30, 2016 and 2015. See Note 4 for a description of the valuation techniques.

	Level 1	Level 2	Fair Value	Equity Method	Carrying Value	Valuation Technique (a, b, c)
June 30, 2016:						
Cash and cash equivalents in assets limited to use	**$ 68,047**	**$ –**	**$ 68,047**	**$ –**	**$ 68,047**	**a**
Equities	**168,751**	**–**	**168,751**	**–**	**168,751**	**a**
U.S. government debt	**37,287**	**–**	**37,287**	**–**	**37,287**	**a**
Corporate debt (domestic)	**–**	**389,545**	**389,545**	**–**	**389,545**	**a**
Foreign government debt	**–**	**17,805**	**17,805**	**–**	**17,805**	**a**
Alternative investments (*)	**–**	**–**	**–**	**539,193**	**539,193**	
Mutual funds and other	**482,432**	**–**	**482,432**	**–**	**482,432**	**a**
	$ 756,517	**$ 407,350**	**$ 1,163,867**	**$ 539,193**	**$ 1,703,060**	

	Level 1	Level 2	Fair Value	Equity Method	Carrying Value	Valuation Technique (a, b, c)
June 30, 2015:						
Equities	$ 223,547	$ –	$ 223,547	$ –	$ 223,547	a
U.S. government debt	34,881	–	34,881	–	34,881	a
Corporate debt (domestic)	–	637,621	637,621	–	637,621	a
Foreign government debt	–	17,608	17,608	–	17,608	a
Alternative investments (*)	–	–	–	641,852	641,852	
Mutual funds and other	391,519	–	391,519	–	391,519	a
	$ 649,947	$ 655,229	$ 1,305,176	$ 641,852	$ 1,947,028	

(*) Alternative investments are accounted for using net asset value, which approximates the fair value. The investments are redeemable monthly, quarterly, semiannually, annually, or at the end of the term.

The Corporation received restricted and unrestricted pledges and contributions amounting to $57,823 and $83,833 for the years ended June 30, 2016 and 2015, respectively, that were subject to fair value measurement. Contributions were measured based on the actual cash received or, for pledge receivables, using discounted cash flow projections.

(Dollar Amounts Expressed in Thousands)

6. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	June 30 2016	June 30 2015
Health care services	**$ 206,990**	$ 210,353
Purchase of capital assets	**5,799**	8,094
Health education and research	**114,268**	94,275
	$ 327,057	$ 312,722

During the years ended June 30, 2016 and 2015, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes of health care services and health education totaling $158,015 and $163,865, respectively, and capital expenditures and contributions totaling $1,564 and $27,062, respectively.

Permanently restricted assets and net assets at June 30, 2016 and 2015, are restricted to investments that are to be held in perpetuity to provide a permanent source of income.

Pledges are recognized as contributions at the present value of expected future payments. The discount rate used is the estimated risk-free discount rate at the time of the donation (ranging from 1.08% to 7.18%). Pledges receivable in temporarily and permanently restricted net assets are scheduled to be received as follows:

	June 30 2016	June 30 2015
Due in one year or less	**$ 38,656**	$ 32,096
Due after one year through five years	**68,640**	70,996
Due after five years	**40,108**	57,054
Total balance, less allowance of $27,977 in 2016 and $25,661 in 2015	**147,404**	160,146
Less amount representing interest	**15,626**	18,694
Pledges receivable, net	**$ 131,778**	$ 141,452

(Dollar Amounts Expressed in Thousands)

6. Temporarily and Permanently Restricted Net Assets (continued)

During the years ended June 30, 2016 and 2015, the Corporation had the following endowment-related activities:

	Permanently Restricted	Unrestricted	Total
Year ended June 30, 2016:			
Endowment net assets, beginning of year	**$ 282,648**	**$ 378,760**	**$ 661,408**
Contributions	**12,777**	**32,826**	**45,603**
Investment income (loss)	**1,878**	**(18,731)**	**(16,853)**
Transfers of investment income to unrestricted funds	**(1,878)**	**(2,133)**	**(4,011)**
Endowment net assets, end of year	**$ 295,425**	**$ 390,722**	**$ 686,147**

	Permanently Restricted	Unrestricted	Total
Year ended June 30, 2015:			
Endowment net assets, beginning of year	$ 267,774	$ 336,627	$ 604,401
Contributions	14,874	40,232	55,106
Investment income	2,022	3,963	5,985
Transfers of investment income to unrestricted funds	(2,022)	(2,062)	(4,084)
Endowment net assets, end of year	$ 282,648	$ 378,760	$ 661,408

The Corporation's endowment consists of 214 individual funds for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board to function as endowments. As required by U.S. GAAP, net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

6. Temporarily and Permanently Restricted Net Assets (continued)

The Corporation's Board has interpreted the Uniform Prudent Management of Institutional Funds Act as requiring the preservation of the corpus of the various donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Corporation classifies as permanently restricted net assets (a) the original value of gifts donated, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The Corporation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity, as well as Board-designated funds. Under this policy, as approved by the Board, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield of market benchmarks. Actual returns in any given year may vary from this goal.

To satisfy the long-term rate of return objectives, the Corporation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Corporation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term objectives within prudent constraints.

7. Commitments and Contingencies

Pending claims and legal proceedings at June 30, 2016, are set forth below. For all matters where a loss is probable and reasonably estimable, an estimate of the loss or a range of loss is provided. Where no estimate is provided, a loss is not probable or an amount of loss is not reasonably estimable at this time.

Litigation – Employment Practices (Class Action). On September 25, 2012, the plaintiff filed a purported "class action" complaint against the Corporation and the Foundation. The complaint charges failure to pay overtime wages, failure to pay minimum wages, failure to provide meal periods or compensation in lieu thereof, failure to provide rest periods or compensation in lieu thereof, failure to timely pay wages at separation, failure to provide accurate itemized wage statements; and unfair business practices.

(Dollar Amounts Expressed in Thousands)

7. Commitments and Contingencies (continued)

The case has been assigned to the "complex" division of the Superior Court. Outside counsel has been retained and the Corporation is vigorously defending the class act function and other allegations.

Other. In addition to the above, the Corporation is a defendant in various other legal actions arising from the normal conduct of business. Management believes that the ultimate resolution of all proceedings will not have a material adverse effect upon the consolidated financial position, results of operations, or cash flows of the Corporation. Further, new claims or inquiries may be initiated against the Corporation and its affiliates from time to time. These matters could (1) require the Corporation to pay substantial damages or amounts in judgments or settlements, which individually or in the aggregate could exceed amounts, if any, that may be recovered under the insurance policies where coverage applies and is available; (2) cause the Corporation to incur substantial expenses; and (3) require significant time and attention from management.

The Corporation cannot predict the results of current or future claims and lawsuits. The Corporation recognizes that, where appropriate, the Corporation's interests may be best served by resolving certain matters without litigation. If a non-litigated resolution is not appropriate or possible with respect to a particular matter, the Corporation will defend itself vigorously. The ultimate resolution of claims against the Corporation, individually or in the aggregate, could have a material adverse effect on the Corporation's business (both in the near and long term), consolidated financial condition, results of operations, or cash flows.

The Corporation leases certain office space under the terms of noncancelable operating leases, whose terms vary in length from month to month to 15 years, with renewal options upon prior written notice, typically for 5 years depending upon the agreed-upon terms with the local landlord. Rents under our lease amounts generally increase from 2% to 5% on an annual basis. Future minimum lease commitments under noncancelable operating leases are as follows:

2017	$ 62,086
2018	57,100
2019	52,025
2020	47,550
2021	42,152
Thereafter	139,127
	$ 400,040

(Dollar Amounts Expressed in Thousands)

7. Commitments and Contingencies (continued)

Rental expense was $78,044 and $65,208 during the years ended June 30, 2016 and 2015, respectively.

8. Functional Expenses

The Corporation provides general health care services to residents within its geographic location. Expenses related to providing these services are as follows:

	Year Ended June 30	
	2016	**2015**
Health care services	**$ 2,555,723**	$ 2,490,960
General and administrative	**778,547**	515,130
Fund raising	**13,420**	11,926
	$ 3,347,690	$ 3,018,016

9. Subsequent Events

The Corporation evaluated subsequent events through October 19, 2016, which is the date these consolidated financial statements were issued.

Supplementary Information

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Building a better working world

Report of Independent Auditors on Supplementary Information

The Board of Directors
Cedars-Sinai Medical Center

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating balance sheets as of June 30, 2016 and 2015, and the consolidating statements of operations and changes in net assets for the years then ended, are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Ernst & Young LLP

October 19, 2016

Cedars-Sinai Medical Center

Consolidating Balance Sheet

(Dollar Amounts Expressed in Thousands)

June 30, 2016

	Medical Center	Foundation	Marina Del Rey Hospital	Others	Eliminations	Consolidated
Assets						
Current assets:						
Cash and cash equivalents	$ 663,082	$ 24,029	$ 2,984	$ 4,476	$ –	$ 694,571
Short-term investments	547,122	–	–	–	–	547,122
Board-designated assets	662,573	–	–	–	–	662,573
Current portion of assets limited to use:						
Held by trustee	19,953	–	–	–	–	19,953
Pledge receivable	38,656	–	–	–	–	38,656
Patient accounts receivable, net	536,987	28,803	10,842	4,895	–	581,527
Due from third-party payers	15,143	–	–	–	(4,003)	11,140
Inventory	31,153	–	1,539	–	–	32,692
Prepaid expenses and other assets	100,469	12,913	11,903	115	–	125,400
Total current assets	2,615,138	65,745	27,268	9,486	(4,003)	2,713,634
Assets limited to use:						
Investments	473,412	–	–	–	–	473,412
Pledge receivable, less current portion	93,122	–	–	–	–	93,122
Other	6,800	–	–	–	–	6,800
	573,334	–	–	–	–	573,334
Property and equipment, net	1,773,976	16,994	106,361	4,220	–	1,901,551
Other assets	382,809	37,733	17,310	95,513	(179,733)	353,632
Total assets	$ 5,345,257	$ 120,472	$ 150,939	$ 109,219	$ (183,736)	$ 5,542,151

Cedars-Sinai Medical Center

Consolidating Balance Sheet (continued)

(Dollar Amounts Expressed in Thousands)

June 30, 2016

	Medical Center	Foundation	Marina Del Rey Hospital	Others	Eliminations	Consolidated
Liabilities and net assets						
Current liabilities:						
Accounts payable and other accrued liabilities	$ 298,078	$ 28,189	$ 6,895	$ 1,397	$	$ 334,559
Due to third-party payers	–	–	4,003	–	(4,003)	–
Accrued payroll and related liabilities	292,678	9,242	5,652	585	–	308,157
Due to affiliates	–	–	24,048	–	(24,048)	–
Current maturities of long-term debt	29,416	–	1,227	–	–	30,643
Total current liabilities	620,172	37,431	41,825	1,982	(28,051)	673,359
Long-term debt, less current maturities	950,651	–	770	707	–	952,128
Accrued workers' compensation and malpractice insurance claims, less current portion	128,611	–	6,527	–	–	135,138
Other liabilities	119,790	1,582	1,009	2,118	–	124,499
Net assets:						
Unrestricted:						
Controlling interests	2,903,551	81,459	100,808	47,872	(152,184)	2,981,506
Noncontrolling interests	–	–	–	56,540	(3,501)	53,039
Temporarily restricted	327,057	–	–	–	–	327,057
Permanently restricted	295,425	–	–	–	–	295,425
Total net assets	3,526,033	81,459	100,808	104,412	(155,685)	3,657,027
Total liabilities and net assets	$ 5,345,257	$ 120,472	$ 150,939	$ 109,219	$ (183,736)	$ 5,542,151

Cedars-Sinai Medical Center

Consolidating Balance Sheet

(Dollar Amounts Expressed in Thousands)

June 30, 2015

	Medical Center	Foundation	Others	Eliminations	Consolidated
Assets					
Current assets:					
Cash and cash equivalents	$ 340,495	$ 25,799	$ 3,853	$ –	$ 370,147
Short-term investments	835,160	–	–	–	835,160
Board-designated assets	667,691	–	–	–	667,691
Current portion of assets limited to use:					
Held by trustee	12,345	–	–	–	12,345
Pledge receivable	32,096	–	–	–	32,096
Patient accounts receivable, net	506,683	26,801	3,821	–	537,305
Inventory	31,492	–	–	–	31,492
Prepaid expenses and other assets	114,025	12,241	236	–	126,502
Total current assets	2,539,987	64,841	7,910	–	2,612,738
Assets limited to use:					
Investments	431,832	–	–	–	431,832
Pledge receivable, less current portion	109,356	–	–	–	109,356
Other	6,800	–	–	–	6,800
	547,988	–	–	–	547,988
Property and equipment, net	1,758,150	14,481	2,636	–	1,775,267
Other assets	202,590	36,854	60,660	(30,653)	269,451
Total assets	$ 5,048,715	$ 116,176	$ 71,206	$ (30,653)	$ 5,205,444

Cedars-Sinai Medical Center

Consolidating Balance Sheet (continued)
(Dollar Amounts Expressed in Thousands)

June 30, 2015

	Medical Center	Foundation	Others	Eliminations	Consolidated
Liabilities and net assets					
Current liabilities:					
Accounts payable and other accrued liabilities	$ 267,588	$ 27,793	$ 1,855	$ –	$ 297,236
Accrued payroll and related liabilities	261,512	6,504	490	–	268,506
Due to third-party payers	6,280	–	–	–	6,280
Current maturities of long-term debt	34,535	–	–	–	34,535
Total current liabilities	569,915	34,297	2,345	–	606,557
Long-term debt, less current maturities	1,004,058	–	–	–	1,004,058
Accrued workers' compensation and malpractice insurance claims, less current portion	110,431	–	–	–	110,431
Other liabilities	55,969	556	1,762	–	58,287
Net assets:					
Unrestricted:					
Controlling interests	2,712,972	81,323	27,849	(27,020)	2,795,124
Noncontrolling interests	–	–	39,250	(3,633)	35,617
Temporarily restricted	312,722	–	–	–	312,722
Permanently restricted	282,648	–	–	–	282,648
Total net assets	3,308,342	81,323	67,099	(30,653)	3,426,111
Total liabilities and net assets	$ 5,048,715	$ 116,176	$ 71,206	$ (30,653)	$ 5,205,444

Cedars-Sinai Medical Center

Consolidating Statement of Operations and Changes in Net Assets

(Dollar Amounts Expressed in Thousands)

Year Ended June 30, 2016

	Medical Center	Foundation	Marina Del Rey Hospital	Others	Eliminations	Consolidated
Unrestricted net assets activity						
Unrestricted revenues, gains and other support:						
Net patient service revenue	$ 3,017,977	$ 219,100	$ 83,500	$ 32,788	$ –	$ 3,353,365
Provision for bad debts	(10,512)	(16,413)	(6,967)	–	–	(33,892)
Net patient service revenue less provision for bad debts	3,007,465	202,687	76,533	32,788	–	3,319,473
Premium revenues	11,862	78,140	–	–	–	90,002
Other operating revenues	85,235	39,659	7,804	218	(18,260)	114,656
Net assets released from restrictions	158,015	–	–	–	–	158,015
Total unrestricted revenues, gains and other support	3,262,577	320,486	84,337	33,006	(18,260)	3,682,146
Expenses:						
Salaries and related costs	1,565,528	94,030	45,800	13,684	–	1,719,042
Professional fees	31,729	185,272	1,615	–	(3,150)	215,466
Materials, supplies and other	1,088,570	81,212	38,493	16,193	(15,110)	1,209,358
Interest	35,158	–	1,031	32	–	36,221
Depreciation and amortization	158,779	4,792	3,296	736	–	167,603
Total expenses	2,879,764	365,306	90,235	30,645	(18,260)	3,347,690
Income (loss) from operations before extinguishment of debt	382,813	(44,820)	(5,898)	2,361	–	334,456
Gain on extinguishment of debt	6,144	–	–	–	–	6,144
Income (loss) from operations	388,957	(44,820)	(5,898)	2,361	–	340,600
Investment (loss) income	(84,107)	6	41	–	–	(84,060)
Loss from investment in joint ventures	(3,411)	–	–	–	–	(3,411)
Excess (deficit) of revenues over expenses	301,439	(44,814)	(5,857)	2,361	–	253,129
Less: excess of revenues over expenses attributable to noncontrolling interests	–	–	–	(2,412)	–	(2,412)
Excess (deficit) of revenues over expenses attributable to the Corporation	$ 301,439	$ (44,814)	$ (5,857)	$ (51)	$ –	$ 250,717

Cedars-Sinai Medical Center

Consolidating Statement of Operations and Changes in Net Assets (continued)

(Dollar Amounts Expressed in Thousands)

Year Ended June 30, 2016

	Medical Center	Foundation	Marina Del Rey Hospital	Others	Eliminations	Consolidated
Unrestricted net assets activity (continued)						
Unrestricted controlling net assets activity:						
Excess (deficit) of revenues over expenses attributable to the Corporation	$ 301,439	$ (44,814)	$ (5,857)	$ (51)	$	$ 250,717
Contributions and net assets released from restrictions related to property and equipment	1,564	–	–	–	–	1,564
Change in pension liability	(65,899)	–	–	–	–	(65,899)
Controlling interests acquired during the year	–	–	106,665	18,499	(125,164)	–
Transfer (to) from affiliates	(46,525)	44,950	–	1,575	–	–
Increase in unrestricted net assets attributable to the Corporation	190,579	136	100,808	20,023	(125,164)	186,382
Unrestricted noncontrolling net assets activity:						
Noncontrolling interests from acquisitions	–	–	–	16,311	–	16,311
Excess of revenues over expenses attributable to noncontrolling interests	–	–	–	2,412	–	2,412
Distributions to noncontrolling interests	–	–	–	(1,433)	132	(1,301)
Increase in unrestricted net assets attributable to noncontrolling interests	–	–	–	17,290	132	17,422
Increase in unrestricted net assets	190,579	136	100,808	37,313	(125,032)	203,804
Temporarily restricted net assets activity						
Contributions and grants	160,136	–	–	–	–	160,136
Investment income	13,778	–	–	–	–	13,778
Net assets released from restrictions	(159,579)	–	–	–	–	(159,579)
Increase in temporarily restricted net assets	14,335	–	–	–	–	14,335
Permanently restricted net assets activity						
Contributions	12,777	–	–	–	–	12,777
Increase in permanently restricted net assets	12,777	–	–	–	–	12,777
Increase in net assets	217,691	136	100,808	37,313	(125,032)	230,916
Net assets at beginning of year	3,308,342	81,323	–	67,099	(30,653)	3,426,111
Net assets at end of year	$ 3,526,033	$ 81,459	$ 100,808	$ 104,412	$ (155,685)	$ 3,657,027

Cedars-Sinai Medical Center

Consolidating Statement of Operations and Changes in Net Assets

(Dollar Amounts Expressed in Thousands)

Year Ended June 30, 2015

	Medical Center	Foundation	Others	Eliminations	Consolidated
Unrestricted net assets activity					
Unrestricted revenues, gains and other support:					
Net patient service revenue	$ 2,849,538	$ 161,250	$ 16,990	$ –	$ 3,027,778
Provision for bad debts	216	(18,159)	–	–	(17,943)
Net patient service revenue less provision for bad debts	2,849,754	143,091	16,990	–	3,009,835
Premium revenues	6,637	78,456	–	–	85,093
Other operating revenues	71,035	26,005	188	–	97,228
Net assets released from restrictions	163,865	–	–	–	163,865
Total unrestricted revenues, gains and other support	3,091,291	247,552	17,178	–	3,356,021
Expenses:					
Salaries and related costs	1,436,423	72,191	7,694	–	1,516,308
Professional fees	27,673	137,222	–	–	164,895
Materials, supplies and other	1,046,547	76,580	8,956	–	1,132,083
Interest	41,570	–	7	–	41,577
Depreciation and amortization	159,064	3,797	292	–	163,153
Total expenses	2,711,277	289,790	16,949	–	3,018,016
Operating income (loss)	380,014	(42,238)	229	–	338,005
Investment (loss) income	(10,554)	2	1	–	(10,551)
Loss from investment in joint ventures	(3,396)	–	–	–	(3,396)
Excess (deficit) of revenues over expenses	366,064	(42,236)	230	–	324,058
Less: excess of revenues over expenses attributable to noncontrolling interests	–	–	(1,309)	–	(1,309)
Excess (deficit) of revenues over expenses attributable to the Corporation	$ 366,064	$ (42,236)	$ (1,079)	$ –	$ 322,749

Cedars-Sinai Medical Center

Consolidating Statement of Operations and Changes in Net Assets (continued)

(Dollar Amounts Expressed in Thousands)

Year Ended June 30, 2015

	Medical Center	Foundation	Others	Eliminations	Consolidated
Unrestricted net assets activity (continued)					
Unrestricted controlling net assets activity:					
Excess (deficit) of revenues over expenses attributable to the Corporation	$ 366,064	$ (42,236)	$ (1,079)	$ –	$ 322,749
Contributions and net assets released from restrictions related to property and equipment	27,062	–	–	–	27,062
Change in pension liability	(58,654)	–	–	–	(58,654)
Controlling interests acquired during the year	–	–	27,020	(27,020)	–
Transfer (to) from affiliates	(93,573)	91,878	1,695	–	–
Increase in unrestricted net assets attributable to the Corporation	240,899	49,642	27,636	(27,020)	291,157
Unrestricted noncontrolling net assets activity:					
Noncontrolling interests from acquisitions	–	–	38,480	(3,633)	34,847
Excess of revenues over expenses attributable to noncontrolling interests	–	–	1,309	–	1,309
Distributions to noncontrolling interests	–	–	(539)	–	(539)
Increase in unrestricted net assets attributable to noncontrolling interests	–	–	39,250	(3,633)	35,617
Increase in unrestricted net assets	240,899	49,642	66,886	(30,653)	326,774
Temporarily restricted net assets activity					
Contributions and grants	185,631	–	–	–	185,631
Investment income	13,116	–	–	–	13,116
Net assets released from restrictions	(165,612)	–	–	–	(165,612)
Increase in temporarily restricted net assets	33,135	–	–	–	33,135
Permanently restricted net assets activity					
Contributions	14,874	–	–	–	14,874
Increase in permanently restricted net assets	14,874	–	–	–	14,874
Increase in net assets	288,908	49,642	66,886	(30,653)	374,783
Net assets at beginning of year	3,019,434	31,681	213	–	3,051,328
Net assets at end of year	$ 3,308,342	$ 81,323	$ 67,099	$ (30,653)	$ 3,426,111

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