This document is dated November 14, 2014

UNAUDITED QUARTERLY REPORT

For the quarterly period ended
September 30, 2014

Dignity Health

The information in this report
has been provided by
Dignity Health

DIGNITY HEALTH AND SUBORDINATE CORPORATIONS

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INDEPENDENT AUDITORS' REVIEW REPORT

To the Board of Directors of
Dignity Health
San Francisco, California

We have reviewed the accompanying condensed consolidated balance sheet of Dignity Health and Subordinate Corporations ("Dignity Health") as of September 30, 2014, and the related condensed consolidated statements of operations and changes in net assets and cash flows for the three-month periods ended September 30, 2014 and 2013 (the "interim financial information").

Management's Responsibility for the Interim Financial Information

Dignity Health's management is responsible for the preparation and fair presentation of the interim financial information in accordance with accounting principles generally accepted in the United States of America; this responsibility includes the design, implementation, and maintenance of internal control sufficient to provide a reasonable basis for the preparation and fair presentation of interim financial information in accordance with accounting principles generally accepted in the United States of America.

Auditors' Responsibility

Our responsibility is to conduct our reviews in accordance with auditing standards generally accepted in the United States of America applicable to reviews of interim financial information. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial information. Accordingly, we do not express such an opinion.

Conclusion

Based on our reviews, we are not aware of any material modifications that should be made to the interim financial information referred to above for it to be in accordance with accounting principles generally accepted in the United States of America.

Report on Condensed Consolidated Balance Sheet as of June 30, 2014

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet of Dignity Health as of June 30, 2014, and the related consolidated statements of operations and changes in net assets and cash flows for the year then ended; and in our report dated September 23, 2014, we expressed an unqualified opinion on those audited consolidated financial statements and included a disclaimer of opinion on the unsponsored community benefit expense information in Note 24. In our opinion, the accompanying condensed consolidated balance sheet of Dignity Health as of June 30, 2014, is consistent with the audited consolidated financial statements from which it has been derived.

Deloitte & Touche LLP

November 14, 2014

DIGNITY HEALTH AND SUBORDINATE CORPORATIONS

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
AS OF SEPTEMBER 30, 2014 AND JUNE 30, 2014
(In thousands)

	As of September 30, 2014	As of June 30, 2014
Assets		
Current assets:		
Cash and cash equivalents	$ 310,776	$ 324,242
Short-term investments	1,501,466	1,488,207
Collateral held under securities lending program	206,257	187,247
Assets limited as to use	1,067,390	1,148,886
Patient accounts receivable, net of allowance for doubtful accounts of $662,312 and $648,004 at September 30, 2014 and June 30, 2014, respectively	1,724,356	1,705,403
Broker receivables for unsettled investment trades	63,374	8,354
Other current assets	692,434	680,807
Total current assets	5,566,053	5,543,146
Assets limited as to use:		
Board-designated assets (including $244,218 and $226,059 of assets loaned under securities lending program at September 30, 2014 and June 30, 2014, respectively) for:		
Capital projects	3,312,207	3,448,004
Workers' compensation	424,692	435,040
Professional and general liability	317,454	295,076
Under bond indenture agreements for:		
Capital projects	68,582	85,098
Debt service	4,891	135,484
Bond reserves	20,630	20,633
Donor-restricted	427,688	427,728
Other	53,566	54,502
Less amount required to meet current obligations	(1,067,390)	(1,148,886)
Net assets limited as to use	3,562,320	3,752,679
Property and equipment, net	4,659,279	4,629,203
Ownership interests in health-related activities	1,092,859	1,007,710
Goodwill	526,946	509,772
Intangible assets, net	225,451	224,043
Other long-term assets, net	110,405	116,841
Total assets	$ 15,743,313	$ 15,783,394

(Continued)

DIGNITY HEALTH AND SUBORDINATE CORPORATIONS

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
AS OF SEPTEMBER 30, 2014 AND JUNE 30, 2014
(In thousands)

	As of September 30, 2014	As of June 30, 2014
Liabilities and Net Assets		
Current liabilities:		
Current portion of long-term debt	$ 182,612	$ 229,264
Demand bonds subject to short-term liquidity arrangements, excluding current maturities	769,400	776,400
Accounts payable	556,485	611,187
Payable under securities lending program	206,281	187,289
Accrued salaries and benefits	547,638	590,196
Accrued workers' compensation	39,495	39,431
Accrued professional and general liability	80,927	80,751
Pension and other postretirement benefit liabilities	220,483	220,659
Broker payables for unsettled investment trades	31,310	11,158
Other accrued liabilities	567,956	582,863
Total current liabilities	3,202,587	3,329,198
Other liabilities:		
Workers' compensation	344,684	346,062
Professional and general liability	260,458	247,023
Pension and other postretirement benefit liabilities	478,075	484,773
Other	225,624	226,293
Total other liabilities	1,308,841	1,304,151
Long-term debt, net of current portion	4,150,706	4,037,607
Total liabilities	8,662,134	8,670,956
Net assets:		
Unrestricted - attributable to Dignity Health	6,476,779	6,505,202
Unrestricted - noncontrolling interest	179,927	182,593
Temporarily restricted	317,634	317,953
Permanently restricted	106,839	106,690
Total net assets	7,081,179	7,112,438
Total liabilities and net assets	$ 15,743,313	$ 15,783,394

(Concluded)

See notes to consolidated financial statements.

DIGNITY HEALTH AND SUBORDINATE CORPORATIONS

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS FOR THE THREE-MONTH PERIODS ENDED SEPTEMBER 30, 2014 AND 2013
(In thousands)

	Three-Month Periods Ended September 30, 2014	2013
Unrestricted revenues and other support:		
Patient revenue, net of contractual allowances and discounts	$ 2,588,761	$ 2,662,259
Provision for bad debts	(158,112)	(320,603)
Net patient revenue	2,430,649	2,341,656
Premium revenue	135,471	119,703
Revenue from health-related activities, net	25,502	28,375
Other operating revenue	69,728	305,814
Contributions	3,936	2,979
Total unrestricted revenues and other support	2,665,286	2,798,527
Expenses:		
Salaries and benefits	1,467,363	1,394,024
Supplies	398,426	369,232
Purchased services and other	636,349	640,460
Depreciation and amortization	128,341	116,548
Interest expense, net	50,003	34,053
Special charges and other costs	-	293
Total expenses	2,680,482	2,554,610
Operating income (loss)	(15,196)	243,917
Other income (loss):		
Investment income (loss), net	(4,749)	194,332
Income tax expense	(4,483)	(61,295)
Total other income (loss), net	(9,232)	133,037
Excess (deficit) of revenues over expenses	$ (24,428)	$ 376,954
Less excess of revenues over expenses attributable to noncontrolling interests	4,498	7,265
Excess (deficit) of revenues over expenses attributable to Dignity Health	$ (28,926)	$ 369,689

(Continued)

DIGNITY HEALTH AND SUBORDINATE CORPORATIONS

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS FOR THE THREE-MONTH PERIODS ENDED SEPTEMBER 30, 2014 AND 2013 (In thousands)

	Three-Month Periods Ended September 30, 2014	2013
Unrestricted net assets attributable to Dignity Health:		
Excess (deficit) of revenues over expenses attributable to Dignity Health	$ (28,926)	$ 369,689
Change in net unrealized gains on available-for-sale investments	(814)	(117)
Net assets released from restrictions used for purchase of property and equipment	1,542	1,524
Change in funded status of pension and other postretirement benefit plans	-	203,207
Gain (loss) from discontinued operations, net	132	(891)
Change in ownership interests held by controlled subsidiaries	(1,715)	(629)
Change in accumulated unrealized derivative gains, net	671	671
Funds donated from unconsolidated sources for purchase of property and equipment	438	3,560
Other	249	(183)
Increase (decrease) in unrestricted net assets attributable to Dignity Health	(28,423)	576,831
Unrestricted net assets attributable to noncontrolling interests:		
Excess of revenues over expenses attributable to noncontrolling interests	4,498	7,265
Change in ownership interest and other, net	(7,164)	(3,785)
Increase (decrease) in unrestricted net assets attributable to noncontrolling interests	(2,666)	3,480
Temporarily restricted net assets:		
Contributions	7,317	11,387
Net realized and unrealized gains (losses) on investments	(350)	2,309
Net assets released from restrictions	(4,690)	(4,752)
Change in interest in net assets of unconsolidated foundations	(2,585)	512
Other	(11)	483
Increase (decrease) in temporarily restricted net assets	(319)	9,939
Permanently restricted net assets:		
Contributions	134	(1)
Net realized and unrealized gains on investments	16	19
Change in interest in net assets of unconsolidated foundations	(11)	71
Other	10	(93)
Increase (decrease) in permanently restricted net assets	149	(4)
Increase (decrease) in net assets	(31,259)	590,246
Net assets, beginning of period	7,112,438	6,061,229
Net assets, end of period	$ 7,081,179	$ 6,651,475

(Concluded)

See notes to consolidated financial statements.

This document is dated November 14, 2014

DIGNITY HEALTH AND SUBORDINATE CORPORATIONS

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE THREE-MONTH PERIODS ENDED SEPTEMBER 30, 2014 AND 2013
(In thousands)

	Three-Month Periods Ended September 30, 2014	2013
Cash flows from operating activities:		
Change in net assets	$ (31,259)	$ 590,246
Adjustments to reconcile change in net assets to cash used in operating activities:		
Depreciation and amortization, including discontinued operations	129,037	117,190
Health-related activities:		
Equity in earnings	(26,911)	(11,790)
Loss (gain), net, on disposal of assets, including discontinued operations	362	(230,895)
Change in deferred taxes	-	59,638
Restricted contributions	(9,427)	(11,387)
Change in funded status of pension and other postretirement benefit plans	-	(203,207)
Undistributed portion of change in net assets of unconsolidated foundations	2,596	(583)
Change in net realized and unrealized gains on investments	22,050	(179,500)
Change in fair value of swaps	1,661	(14,516)
Changes in certain assets and liabilities:		
Accounts receivable, net	(18,953)	(71,529)
Accounts payable	(32,781)	9,577
Workers' compensation and professional and general liabilities	12,034	3,704
Accrued salaries and benefits	(42,558)	(66,020)
Pension and other postretirement liabilities	(6,872)	(23,653)
Provider fee assets and liabilities	20	(30,576)
Estimated receivables from/payables to third-party payors, net	(5,175)	(8,319)
Other accrued liabilities	(21,588)	(18,756)
Prepaid and other current assets	(13,106)	(20,108)
Other, net	3,606	3,424
Cash used in operating activities	(37,264)	(107,060)

(Continued)

DIGNITY HEALTH AND SUBORDINATE CORPORATIONS

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE THREE-MONTH PERIODS ENDED SEPTEMBER 30, 2014 AND 2013
(In thousands)

	Three-Month Periods Ended September 30, 2014	2013
Cash flows from investing activities:		
Net sales of investments	202,097	244,277
Cash proceeds on disposal of assets, including discontinued operations	-	72
Investments in health-related activities	(79,357)	(13,702)
Cash distributions from health-related activities	305	124
Additions to operating property and equipment, including discontinued operations	(164,760)	(165,445)
(Increase) decrease in securities lending collateral	(18,992)	19,873
Other, net	(1,560)	(5,108)
Cash provided by (used in) investing activities	(62,267)	80,091
Cash flows from financing activities:		
Borrowings	201,840	476,822
Repayments	(144,024)	(597,530)
Increase (decrease) in payable under securities lending program	18,992	(19,873)
Restricted contributions	9,427	11,387
Deferred financing costs	(170)	(1,962)
Cash provided by (used in) financing activities	86,065	(131,156)
Net decrease in cash and cash equivalents	(13,466)	(158,125)
Cash and cash equivalents at beginning of the year	324,242	218,159
Cash and cash equivalents at end of the year	$ 310,776	$ 60,034
Components of cash and cash equivalents and investments at end of year:		
Cash and cash equivalents	310,776	60,034
Short-term investments	1,501,466	1,164,383
Board-designated assets for capital projects	3,312,207	3,440,856
Total	$ 5,124,449	$ 4,665,273
Supplemental disclosures of cash flow information:		
Cash paid for interest, net of capitalized interest	$ 75,894	$ 78,323
Supplemental schedule of noncash investing and financing activities:		
Property and equipment acquired through capital lease or note payable	$ 2,535	$ 70
Accrued purchases of property and equipment	$ 62,974	$ 61,660
Broker receivables for unsettled investment trades	$ 63,374	$ 29,854
Broker payables for unsettled investment trades	$ 31,310	$ 14,700
Investments in health-related activities	$ -	$ 233,821

(Concluded)

See notes to consolidated financial statements.

Dignity Health and Subordinate Corporations
Notes to Unaudited Condensed Consolidated Financial Statements

1. BASIS OF PRESENTATION

The condensed consolidated financial statements of Dignity Health and Subordinate Corporations ("Dignity Health") as of September 30, 2014, and for the three-month periods ended September 30, 2014 and 2013, should be read in conjunction with the audited financial statements as of and for the year ended June 30, 2014. Certain footnotes and disclosures that are required in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) have been omitted as they substantially duplicate the disclosures contained in the annual financial statements.

Dignity Health management is responsible for the accompanying condensed consolidated financial statements. These condensed consolidated financial statements include all normal and recurring adjustments that are considered necessary for the fair presentation of financial position and operating results in accordance with GAAP. Certain estimates and assumptions are made that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet dates and the reported amounts of revenue and expenses for the periods presented. Actual results could differ from estimates.

Operating results for the three-month period ended September 30, 2014, are not necessarily indicative of the results that may be expected for any future period or for a full fiscal year as revenues, expenses, assets, and liabilities can vary during each quarter of the year.

Certain reclassifications and changes in presentation were made in the condensed consolidated financial statements for the three-month period ended September 30, 2013, to conform to the presentation for the three-month period ended September 30, 2014. As previously presented, Dignity Health classified income tax expense in total expenses in the condensed consolidated statements of operations and changes in net assets. Such presentation has been revised in order to present income tax expense in other income (loss). This resulted in a reduction of operating expenses and an increase in operating income of $61.3 million for the three-month period ended September 30, 2013.

In preparing the accompanying condensed consolidated financial statements, management of Dignity Health has evaluated subsequent events occurring between the end of the most recent fiscal quarter and November 14, 2014, the date the condensed consolidated financial statements were available to be issued.

2. ACQUISITIONS, DIVESTITURES AND SIGNIFICANT INVESTMENTS

Investment in Joint Venture –In September 2013, Dignity Health effected an agreement with OptumInsight, Inc., an indirect subsidiary of UnitedHealth Group Incorporated, whereby the parties formed Optum360, LLC ("Optum360º") to own and operate certain existing revenue cycle technology, content and services businesses and to perform "end-to-end" revenue cycle management functions for Dignity Health and, it is intended, other prospective healthcare delivery system customers. OptumInsight, Inc. contributed revenue cycle-related technologies, content and service businesses to Optum360º in exchange for a majority membership interest. Dignity Health contributed certain equipment and the intellectual property related to its internal revenue cycle management functions in exchange for a 25% interest in Optum360º. Beginning in December 2013, certain Dignity Health employees became employees of Optum360º.

The valuation of Dignity Health's interest in Optum360º was based on management's estimates, currently available information and reasonable and supportable assumptions. The fair value was based on Level 3 valuation inputs and was determined using a discounted cash flow model. Dignity Health calculated the present value of the expected future cash flows attributable to Optum360º using a 16.0% discount rate. A gain on the transaction of $230.5 million, representing the difference between the fair value of the interest in Optum360º received in the transaction and the book value of the assets contributed, was recorded in other operating revenue in the statement of operations and changes in net assets. As a portion of the investment is held by a for-profit subsidiary of Dignity Health, a deferred tax liability of $59.6 million was recorded in other long-term liabilities, and a corresponding tax expense of $59.6 million was recorded related to the book to tax basis difference of the assets contributed. The net favorable impact of the transaction on excess of revenue over expenses attributable to Dignity Health was $170.9 million. Dignity Health accounts for the affiliation with Optum360º under the equity method.

Dignity Health concurrently entered into a Master Services Agreement (“MSA”) with Optum360º for a 10-year term for the purchase of revenue cycle management services from Optum360º at a cost of approximately $250.0 million per year, subject to annual adjustments for inflation and achievement of certain performance levels, which reflects market terms. The MSA is subject to significant penalties for cancellation without cause. The formation of Optum360º and the contributions described above were effective, and the term of the MSA commenced, as of September 1, 2013.

3. NET PATIENT REVENUE

The percentage of inpatient and outpatient services, calculated on the basis of usual and customary charges, is as follows:

	Three-Month Periods Ended September 30,	
	2014	2013
Inpatient services	59%	61%
Outpatient services	41%	39%

Patient revenue, net of contractual allowances and discounts (before provision for bad debts) is comprised of the following:

	Three-Month Periods Ended September 30,	
	2014	2013
Government	$ 1,178,597	$ 1,217,507
Contracted	1,133,790	1,052,894
Self-pay and other	276,374	391,858
	$ 2,588,761	$ 2,662,259

Government payor type includes Medicare fee for service, Medicare capitated, Medicare managed care fee for service, Medicaid fee for service, Medicaid capitated and Medicaid managed care fee for service patient accounts. Contracted payor type includes contracted rate payors and commercial capitated patient accounts. In prior years, this information was reflected on a percentage basis.

4. REVENUE FROM GOVERNMENT PROGRAMS

The following revenues, which enhance or adjust the per case, per diem, per procedure or per visit amounts received, have been recognized for patient services:

Medicaid Supplemental Reimbursement Programs – Net patient revenue includes $0 million and $143.8 million related to supplemental Medi-Cal payments provided under the California provider fee programs during the three-month periods ended September 30, 2014 and 2013, respectively. These programs are funded by quality assurance fees paid by participating hospitals and matching federal funds. Dignity Health recorded $0 million and $89.2 million in such fees in purchased services and other expense during the three-month periods ended September 30, 2014 and 2013, respectively. Grant payments to the California Health Foundation and Trust (“CHFT”) were recognized in connection with the California provider fee programs resulting in $0 million and $4.7 million recorded in purchased services and other expense during the three-month periods ended September 30, 2014 and 2013, respectively. The total net favorable impact recognized during the three-month periods ended September 30, 2014 and 2013, was $0 million and $49.9 million, respectively. The California program that terminated December 31, 2013, has not yet received final Centers for Medicare & Medicaid Services (“CMS”) approval for certain managed care plans as of September 30, 2014. As such, net provider fee income under this program of approximately $13.1 million has not been recognized pending final approval which is anticipated prior to December 31, 2014.

In October 2013, the governor of California signed legislation enacting a provider fee covering the period from January 2014 through December 2016. The legislation also created the framework for the fee to continue in perpetuity without requiring further legislation by the State. The State Plan Amendment required for the CMS review and approval of the 2014-2016 fee was submitted as required by March 31, 2014. Based on experience with provider fees in earlier years, management expects partial CMS approval of the fee by December 2014, with completion of the review and approvals at later dates.

In April 2013, CMS approved the Access to Care Program adopted by the City of Phoenix, Arizona, a provider fee program that covered the period from October 1, 2012, through December 31, 2013. During the three-month period ended September 30, 2014, net patient revenue includes $0 million and $16.7 million, respectively, and purchased services and other expense includes $0 million and $9.0 million, respectively, related to this program, for a net favorable impact of $0 million and $7.7 million, respectively. The City of Phoenix provider fee program was replaced by a statewide program effective January 1, 2014, which funds eligibility expansion to the State's Medicaid program. Additional reimbursement amounts resulting from Medicaid expansion are estimated to be equivalent to the program costs.

During the three-month periods ended September 30, 2014 and 2013, net patient revenue also includes $0 million and $30.5 million, respectively, and purchased services and other expense includes $0 million and $12.7 million, respectively, of grant expense related to prior year supplemental Medicaid payments received in Arizona, resulting in a net income impact of $0 million and $17.8 million, respectively.

"Meaningful Use" Incentives– During the three-month periods ended September 30, 2014 and 2013, Dignity Health recorded meaningful use incentive revenue of $6.1 million and $12.9 million, respectively, related to Medicare and Medicaid programs.

These incentives have been recognized in other operating revenue following the grant accounting model, recognizing income ratably over the applicable reporting period as management becomes reasonably assured of meeting the required criteria. Amounts recognized represent management's best estimates for payments ultimately expected to be received based on estimated discharges, charity care, and other input data. Subsequent changes to these estimates are recognized in the period in which additional information is available.

Cost Reports and Other Settlements – During the three-month periods ended September 30, 2014 and 2013, net patient revenue includes $7.3 million and $2.7 million, respectively, in favorable net prior years' reimbursement settlements from Medicare, Medicaid and other programs. In addition, Dignity Health recorded $0.3 million in recoveries, net of audit contractor take-backs, and $10.4 million in recovery audit contractor take-backs, net of recoveries, related to prior year claims, for the three-month periods ended September 30, 2014 and 2013, respectively.

At September 30, 2014 and June 30, 2014, estimated receivables for third-party payor settlements were $95.0 million and $96.5 million, respectively, and estimated payables for third-party payor settlements were $36.6 million and $43.3 million, respectively.

5. SELF-INSURANCE PLANS

Dignity Health maintains self-insurance programs for workers' compensation benefits for employees and for hospital professional and general liability risks. Self-insurance expense decreased $8.4 million and $9.1 million during the three-month periods ended September 30, 2014 and 2013, respectively, related to revisions to prior years' actuarially estimated liabilities.

6. FAIR VALUE MEASUREMENTS

Dignity Health accounts for certain assets and liabilities at fair value or on a basis that approximates fair value. A fair value hierarchy for valuation inputs prioritizes the inputs into three levels based on the extent to which inputs used in measuring fair value are observable in the market. Each fair value measurement is reported in one of the three levels and is determined by the lowest level input that is significant to the fair value measurement in its entirety. These levels are:

Level 1: Quoted prices are available in active markets for identical assets or liabilities as of the measurement date. Financial assets and liabilities in this category include U.S. Treasury securities and listed equities.

Level 2: Pricing inputs are based upon 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. Financial assets and liabilities in this category generally include asset-backed securities, corporate bonds and loans, municipal bonds, and interest rate swaps.

Level 3: Pricing inputs are generally unobservable for the assets or liabilities 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 model-based techniques that include option pricing models, discounted cash flow models, and similar techniques. Financial assets in this category include alternative investments and contingent consideration.

The following represents assets and liabilities measured at fair value on a recurring basis and certain assets accounted for under the equity method as of September 30, 2014 and June 30, 2014 (in thousands):

	Fair Value Measurements at September 30, 2014			
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total Balance at September 30, 2014**
Assets				
Cash and cash equivalents	$ 544,716	$ -	$ -	$ 544,716
U.S. government securities	367,670	51,566	-	419,236
U.S. corporate bonds	43,761	543,368	164,489	751,618
U.S. equity securities	1,078,371	330,555	-	1,408,926
Foreign government securities	7,408	10,387	-	17,795
Foreign corporate bonds	697	86,382	19,747	106,826
Foreign equity securities	496,819	466,410	-	963,229
Asset-backed securities	183	17,434	-	17,617
Structured debt	947	97,333	-	98,280
Private equity investments	-	-	234,810	234,810
Multi-strategy hedge fund investments	-	-	901,671	901,671
Real estate	12,527	-	195,840	208,367
Collateral held under securities lending program	-	206,257	-	206,257
Other fund investments	4,891	-	-	4,891
Total assets	$ 2,557,990	$ 1,809,692	$ 1,516,557	$ 5,884,239
Liabilities				
Contingent consideration	$ -	$ -	$ 59,179	$ 59,179
Derivative instruments	-	158,100	-	158,100
Total liabilities	$ -	$ 158,100	$ 59,179	$ 217,279

	Fair Value Measurements at June 30, 2014			
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Balance at June 30, 2014
Assets				
Cash and cash equivalents	$ 554,144	$ -	$ -	$ 554,144
U.S. government securities	458,161	48,574	-	506,735
U.S. corporate bonds	63,195	616,283	194,579	874,057
U.S. equity securities	1,207,416	331,921	-	1,539,337
Foreign government securities	-	11,728	-	11,728
Foreign corporate bonds	684	20,031	-	20,715
Foreign equity securities	543,919	471,024	-	1,014,943
Asset-backed securities	-	17,984	-	17,984
Structured debt	1,095	99,629	-	100,724
Private equity investments	-	-	211,376	211,376
Multi-strategy hedge fund investments	-	-	877,437	877,437
Real estate	12,136	-	189,414	201,550
Collateral held under securities lending program	-	187,247	-	187,247
Other fund investments	5,263	-	-	5,263
Total assets	$ 2,846,013	$ 1,804,421	$ 1,472,806	$ 6,123,240
Liabilities				
Contingent consideration	$ -	$ -	$ 55,000	$ 55,000
Derivative instruments	-	156,439	-	156,439
Total liabilities	$ -	$ 156,439	$ 55,000	$ 211,439

Assets and liabilities measured at fair value on a recurring basis and certain assets accounted for under the equity method are reported in short-term investments, assets limited as to use, and other accrued liabilities in the consolidated balance sheets. Such amounts do not include certain donor-restricted funds and receivables or interests in unconsolidated foundations.

There were no transfers to or from Levels 1 or 2 during the periods presented.

The Level 2 and 3 instruments listed in the fair value hierarchy tables above use the following valuation techniques and inputs:

For marketable securities such as U.S. and foreign government securities, U.S. and foreign corporate bonds, U.S. and foreign equity securities, asset-backed securities, and structured debt, in the instances where identical quoted market prices are not readily available, fair value is determined using quoted market prices and/or other market data for comparable instruments and transactions in establishing prices, discounted cash flow models and other pricing models. These inputs to fair value are included in industry-standard valuation techniques such as the income or market approach. Dignity Health classifies all such investments as Level 2.

For investments such as private equity funds, multi-strategy hedge funds, real estate funds, and other limited partnership investments, fair value is determined using the calculated net asset value ("NAV") provided by the fund. The value of underlying investments of private equity funds is estimated based on recent filings, operating results, balance sheet stability, growth, and other business and market sector fundamentals. Real estate investments are priced using valuation techniques that include income, sales comparison (market), and cost approaches. Significant inputs include contract and market rents, operating expenses, capitalization rates, discount rates, sales of comparable properties, and market rent growth trends, as well as the use of the value of property plus the cost of building a similar structure of equal utility. Hedge funds and other limited partnership investments typically value underlying securities traded on a national securities exchange or reported on a national market at the last reported sales price on the day of the valuation. Underlying securities traded in the over-the-counter market and listed securities for which no sale was reported on the valuation date are typically valued at the mean between representative bid and ask quotes obtained. Where no fair value is readily available, the fund or investment manager may determine, in good faith, the fair value using models that take into account relevant information considered material. Due to the significant unobservable inputs present in these valuations, Dignity Health classifies all such investments as Level 3. Dignity Health's management regularly monitors and evaluates the accounting and valuation methodologies of the investment managers. Management also performs, on a regular basis when information is made available, various validations and testing of the NAV provided and determines that the investment managers' valuation techniques are compliant with fair value measurement accounting standards. Significant increases (decreases) in any unobservable inputs used for Level 3 holdings, in isolation, would result in significantly lower (higher) fair value measurement.

The fair value of collateral held under securities lending program classified as Level 2 is determined using the calculated NAV. The collateral held under this program is placed in commingled funds whose underlying investments are valued using techniques similar to those used for the marketable securities noted above. Amounts reported do not include non-cash collateral of $45.9 million and $44.8 million as of September 30, 2014 and June 30, 2014, respectively.

The fair value of liabilities for derivative instruments such as interest rate swaps classified as Level 2 is determined using an industry standard valuation model, which is based on a market approach. A credit risk spread (in basis points) is added as a flat spread to the discount curve used in the valuation model. Each leg is discounted and the difference between the present value of each leg's cash flows equals the market value of the swap.

The fair value of liabilities for derivative instruments such as risk participation agreements classified as Level 3 is determined using the market value of the referenced securities in the agreements, which factors in the credit risk of the issuer.

The following table presents the change in the balance of financial assets and liabilities using significant unobservable inputs (Level 3) measured on a recurring basis and certain assets accounted for under the equity method for the three-month periods ended September 30, 2014 and 2013 (in thousands):

	Three-Month Period Ended September 30, 2014				
	Private Equity Investments	Multi-Strategy Hedge Fund Investments	Real Estate	Debt Securities	Total
Balance at beginning of period	$ 211,376	$ 877,437	$ 189,414	$ 194,579	$ 1,472,806
Total realized gains, net, included in excess (deficit) of revenues over expenses	1,223	157	-	2,020	3,400
Total unrealized gains (losses), net, included in excess (deficit) of revenues over expenses	2,292	4,800	5,048	(310)	11,830
Purchases	26,713	19,981	3,445	2,112	52,251
Sales	(6,794)	(704)	(2,067)	(14,165)	(23,730)
Balance at end of period	$ 234,810	$ 901,671	$ 195,840	$ 184,236	$ 1,516,557

	Three-Month Period Ended September 30, 2013				
	Private Equity Investments	Multi-Strategy Hedge Fund Investments	Real Estate	Debt Securities	Total
Balance at beginning of period	$ 149,239	$ 557,381	$ 188,489	$ 211,518	$ 1,106,627
Total realized gains (losses), net, included in excess (deficit) of revenues over expenses	2,204	(32)	-	-	2,172
Total unrealized gains, net, included in excess (deficit) of revenues over expenses	5,770	9,176	6,802	2,658	24,406
Purchases	6,548	154,837	45,885	8,630	215,900
Sales	(5,077)	(905)	(1,742)	(1,182)	(8,906)
Balance at end of period	$ 158,684	$ 720,457	$ 239,434	$ 221,624	$ 1,340,199

Included within the assets above are investments in certain entities that report fair value using a calculated NAV or its equivalent. The following table and explanations identify attributes relating to the nature and risk of such investments as of September 30, 2014 and June 30, 2014 (in thousands):

		As of September 30, 2014			
		Fair Value	**Unfunded Commitments**	**Redemption Frequency (If Currently Eligible)**	**Redemption Notice Period**
Level 2					
Debt securities	(1)	$ 352,801	$ -	Daily, Quarterly	1 - 90 days
Equity securities	(2)	793,034	-	Daily, Monthly	1 - 30 days
Collateral held under securities lending	(3)	206,257	-	Daily	10 days
Total Level 2		$ 1,352,092	$ -		
Level 3					
Multi-strategy hedge funds	(4)	$ 901,671	$ -	Monthly, Quarterly, Semi-Annually, Annually	5 - 370 days
Private equity	(5)	234,810	335,674	-	-
Real estate	(6)	195,840	-	Quarterly	90 days
Debt securities	(7)	184,236	31,369	Monthly, Quarterly	1 - 90 days
Total Level 3		1,516,557	367,043		
Total Level 2 and Level 3		$ 2,868,649	$ 367,043		

		As of June 30, 2014			
		Fair Value	**Unfunded Commitments**	**Redemption Frequency (If Currently Eligible)**	**Redemption Notice Period**
Level 2					
Debt securities	(1)	$ 357,955	$ -	Daily, Quarterly	1 - 90 days
Equity securities	(2)	745,248	-	Daily, Monthly	1 - 30 days
Collateral held under securities lending	(3)	187,247	-	Daily	10 days
Total Level 2		$ 1,290,450	$ -		
Level 3					
Multi-strategy hedge funds	(4)	$ 877,437	$ -	Monthly, Quarterly, Semi-Annually, Annually	5 - 370 days
Private equity	(5)	211,376	278,350	-	-
Real estate	(6)	189,414	-	Quarterly	90 days
Debt securities	(7)	194,579	15,682	Monthly, Quarterly	1 - 90 days
Total Level 3		1,472,806	294,032		
Total Level 2 and Level 3		$ 2,763,256	$ 294,032		

(1) This category includes investments in commingled funds that invest primarily in domestic and foreign debt and fixed income securities, the majority of which are traded in over-the-counter markets.

(2) This category includes investments in commingled funds that invest primarily in domestic or foreign equity securities with multiple investment strategies. A majority of the funds attempt to match the returns of specific equity indices.

(3) This category includes investments of collateral held under securities lending program. Dignity Health participates in a securities lending program administered by its custodian as a means to augment income from its portfolio. Securities are loaned to select brokerage firms who in turn post collateral. The collateral is placed in commingled funds that invest primarily in cash and cash equivalents, and domestic and foreign debt securities.

(4) This category includes investments in hedge funds that pursue diversification of both domestic and foreign fixed income and equity securities through multiple investment strategies. The primary objective for these funds is to seek attractive long-term risk-adjusted absolute returns. Under certain circumstances, an otherwise redeemable investment or portion thereof could become restricted. Such restrictions were not applicable at September 30, 2014. The following table reflects the various redemption frequencies, notice periods, and any applicable lock-up periods or gates to redemption as of September 30, 2014:

Percentage of the Value of Category (4)		Redemption	Redemption Notice	Redemption Locked Up Until	Redemption Gate % of Account
Total	**Subtotal**	**Frequency**	**Period**	**(if applicable)**	**(if applicable)**
22.3%	11.7%	Annually	45 - 90 days	-	-
	4.6%	Annually	45 - 75 days	12/31/2014	-
	6.0%	Annually	60 - 65 days	-	up to 33.3% - 50.0%
7.2%	7.2%	Semi-Annually	75 - 90 days	-	-
49.2%	25.0%	Quarterly	30 - 370 days	-	-
	2.9%	Quarterly	90 days	-	-
	21.3%	Quarterly	45 - 90 days	12/31/2014	up to 25.0% - 97.0%
21.3%	14.3%	Monthly	5 - 60 days	-	-
	3.1%	Monthly	120 days	-	-
	3.9%	Monthly	45 days	-	up to 16.7%

(5) This category includes several private equity funds that specialize in providing capital to a variety of investment groups, including but not limited to venture capital, leveraged buyout, mezzanine debt, distressed debt, and other situations. There are no provisions for redemptions during the life of these funds. Distributions from each fund will be received as the underlying investments of the funds are liquidated, estimated at September 30, 2014, to be over the next 12 years.

(6) This category includes investments in real estate funds that invest primarily in institutional quality commercial and residential real estate assets within the U.S. and investments in publicly traded real estate investment trusts.

(7) This category includes a commingled fund that invests primarily in a fixed income fund that provides capital in a variety of mezzanine debt, distressed debt and other special debt securities situations.

The investments included above are not expected to be sold at amounts that are different from NAV.

Fair Value of Debt – The fair value of Dignity Health's debt is estimated based on quoted market prices and/or other market data for the same or similar issues and transactions in active markets or on the current rates offered to Dignity Health for debt of the same remaining maturities, discounted cash flow models and other pricing models. These inputs to fair value are included in industry-standard valuation techniques. Based on the inputs and valuation techniques, the fair value of long-term debt is classified as Level 2 within the fair value hierarchy. The carrying value of Dignity Health's debt is reported within the current portion of long-term debt, demand bonds subject to short-term liquidity arrangements and long-term debt, net of current portion, on the consolidated balance sheets. The estimated fair value of Dignity Health's long-term debt instruments as of September 30, 2014 and June 30, 2014, is as follows (in thousands):

	Carrying Value as of September 30, 2014	Fair Value as of September 30, 2014
Debt issued under Master Trust Indenture:		
Fixed rate revenue bonds	$ 2,257,044	$ 2,414,088
Taxable bonds	595,879	579,564
Senior secured notes payable	229,572	255,503
Taxable direct placement loans	169,000	169,000
Variable rate demand bonds	776,400	776,400
Auction rate certificates	313,600	313,600
Notes payable to banks under credit agreement	605,678	605,678
Total debt under Master Trust Indenture	4,947,173	5,113,833
Other	155,545	155,545
Total debt	$ 5,102,718	$ 5,269,378

	Carrying Value as of June 30, 2014	Fair Value as of June 30, 2014
Debt issued under Master Trust Indenture:		
Fixed rate revenue bonds	$ 2,321,054	$ 2,467,547
Put bonds	49,900	49,906
Taxable bonds	595,750	557,829
Senior secured notes payable	229,543	259,347
Taxable direct placement loans	169,000	169,000
Variable rate demand bonds	782,800	782,800
Auction rate certificates	322,800	322,800
Notes payable to banks under credit agreement	406,163	406,163
Total debt under Master Trust Indenture	4,877,010	5,015,392
Other	166,261	166,261
Total debt	$ 5,043,271	$ 5,181,653

The fair value amounts do not represent the amount Dignity Health would be required to expend to retire the indebtedness.

7. INTANGIBLE ASSETS, NET

Intangible assets reported in the consolidated balance sheets consist primarily of amounts for the trade name of U.S. HealthWorks ("USHW"), customer relationships, developed technology, favorable leasehold interests, non-compete agreements, licensing fees, and management fee contracts related to certain business combinations accounted for under the acquisition method.

Dignity Health performed its annual impairment test at September 30, 2014, for the trade name of USHW and determined that the fair value exceeded the carrying value. The income approach was used to determine fair value and the key assumptions used in the impairment analysis included projected revenues and the royalty rate.

Information related to intangible assets at September 30, 2014, and June 30, 2014, is as follows (in thousands):

	As of September 30, 2014			
	Gross Carrying Amount	Accumulated Amortization	Net Balance at End of Period	Amortization period
Trademark	$ 152,700	$ -	$ 152,700	Indefinite
Customer relationships	57,600	(8,320)	49,280	15 years
Noncompete agreements	6,773	(1,431)	5,342	36-84 months
Other	33,261	(15,132)	18,129	36-84 months
	$ 250,334	$ (24,883)	$ 225,451	

	As of June 30, 2014			
	Gross Carrying Amount	Accumulated Amortization	Net Balance at End of Period	Amortization period
Trademark	$ 152,700	$ -	$ 152,700	Indefinite
Customer relationship	57,600	(7,360)	50,240	15 years
Noncompete agreements	4,773	(1,093)	3,680	36-84 months
Other	31,028	(13,605)	17,423	36-84 months
	$ 246,101	$ (22,058)	$ 224,043	

The aggregate amount of amortization expense related to intangible assets subject to amortization is $2.6 million for the three-month periods ended September 30, 2014 and 2013. Amortization expense on intangible assets is estimated to be $10.4 million for the remainder of 2015, $11.3 million in 2016, $9.2 million in 2017, $6.0 million in 2018, $4.8 million in 2019, and $31.0 million thereafter.

8. GOODWILL

Goodwill is measured as of the effective date of a business combination as the excess of the aggregate of the fair value of consideration transferred over the fair value of the tangible and intangible assets acquired and liabilities assumed.

Dignity Health performed its annual goodwill impairment test at September 30, 2014, for the USHW reporting unit and determined that the fair value of the reporting unit exceeded the carrying value. The income and market approaches were used to determine fair value and the key assumptions used in the goodwill impairment analysis included projected results. Significant changes in this and other assumptions could cause the assessed fair value of the reporting unit to be below its carrying value, and as a result, goodwill would be considered impaired. The balance of goodwill for the USHW reporting unit is approximately $335.1 million as of September 30, 2014.

The annual impairment test date for other goodwill, recorded primarily at consolidated investments in health-related activities, is March 31.

The changes in the carrying amount of goodwill are as follows (in thousands):

	As of September 30, 2014	As of June 30, 2014
Balance at beginning of period	$ 509,772	$ 486,773
Addition from acquisitions	17,728	24,978
Goodwill impairment	-	(3,744)
Acquisition accounting adjustments	(554)	1,765
Balance at end of period	$ 526,946	$ 509,772

9. DEBT

In July 2014, $49.9 million in outstanding put bonds were defeased, financed by a draw on the syndicated line of credit.

In September 2014, Dignity Health drew $150.0 million on its syndicated line of credit facility for general working capital purposes.

In October 2014, Dignity Health issued $888.0 million of taxable fixed rate bonds at par, with repayments of $338.0 million, $250.0 million and $300.0 million to be made in November 2019, 2024 and 2064, respectively. A portion of the proceeds were used to refinance $227.3 million of outstanding draws on the syndicated line of credit, refund $198.5 million of outstanding tax-exempt fixed rate bonds, of which $157.5 million were subject to a call and refunded, and $43.2 million was placed in an irrevocable escrow and the bonds were legally defeased. The remainder of the proceeds were used to pay for costs of issuance, fund capital expenditures, and provide working capital.

In October 2014, Dignity Health issued $294.5 million of tax-exempt bonds in a private placement. The proceeds were used to refinance $157.2 million of outstanding draws on the syndicated line of credit and along with other funds, refund $139.6 million of tax-exempt fixed rate bonds, of which $28.8 million were subject to a call and refunded and $116.7 million was placed in an irrevocable trust and the bonds were legally defeased. The bonds were sold at a premium and are callable at par in September 2015, and mature in March 2025. Dignity Health does not anticipate recording a material loss on early extinguishment of debt.

In October 2014, Dignity Health entered into two $100.0 million loans with two banks to refinance $200.0 million of outstanding draws on the syndicated line of credit. The two loans mature in October 2019.

In July 2013, Dignity Health renewed and increased the syndicated line of credit facility from $480.0 million to $680.0 million for working capital, letters of credit, capital expenditures and other general corporate purposes. The balance of $307.5 million under the previous credit facility was repaid with proceeds from the renegotiated credit facility.

Dignity Health also renewed and increased a single bank line of credit facility for standby letters of credit from $20.0 million to $35.0 million. Letters of credit issued under this facility were $20.0 million as of September 30, 2014, but no amounts have been drawn.

Both credit facilities are scheduled to expire in July 2018.

In September 2013, Dignity Health entered into a $169.0 million loan with a bank. The proceeds were used to refinance outstanding draws on the syndicated line of credit. The new loan matures in September 2018.

10. DERIVATIVE INSTRUMENTS

The following table shows the outstanding notional amount of derivative instruments measured at fair value, net of credit value adjustments, as reported in other accrued liabilities in the consolidated balance sheet as of September 30, 2014 and June 30, 2014 (in thousands):

	Maturity Date of Derivatives	Interest Rate	Notional Amount Outstanding	Fair Value
			September 30, 2014	
Derivatives not designated as hedges				
Interest rate swaps	2026 - 2042	3.2% - 3.4%	$ 940,250	$ (158,100)
Risk participation agreements	2017, with extension options	SIFMA plus spread	$ 215,000	$ -
			June 30, 2014	
Derivatives not designated as hedges				
Interest rate swaps	2026 - 2042	3.2% - 3.4%	$ 940,450	$ (156,439)
Risk participation agreements	2017, with extension options	SIFMA plus spread	$ 215,000	$ -

Changes in fair value of derivative instruments have been recorded for the three-month period ended September 30, 2014 and 2013 as follows (in thousands):

	Three-Month Periods Ended September 30, 2014	2013
Loss reclassified from unrestricted net assets into interest expense, net, related to derivatives in cash flow hedging relationships:		
Interest rate swaps - amortization	$ (671)	$ (671)
Gain (loss) recognized in interest expense, net:		
Changes in fair value of non-hedged derivatives - interest rate swaps	(1,661)	14,516
Amortization of amounts in unrestricted net assets - interest rate swaps	(671)	(671)
Total	$ (2,332)	$ 13,845

Of the amounts classified in unrestricted net assets as of September 30, 2014, Dignity Health anticipates reclassifying approximately $2.7 million of additional non-cash losses from unrestricted net assets into interest expense, net, in the next twelve months. Amounts in unrestricted net assets will be amortized into earnings as the interest payments being economically hedged are made.

Of the $940.3 million notional amount of interest rate swaps held by Dignity Health at September 30, 2014, $160.0 million are insured and have a negative fair value of $34.6 million at September 30, 2014. In the event the insurer, Assured Guaranty, is downgraded below A2/A or A3/A- (Moody's/Standard and Poor's), the counterparties have the right to terminate the swaps if Dignity Health does not provide alternative credit support acceptable to them within 30 days of being notified of the downgrade. If the insurer is downgraded below the thresholds noted above and Dignity Health is downgraded below Baa3/BBB- (Moody's/Standard and Poor's), the counterparties have the right to terminate the swaps.

Dignity Health has $780.3 million of interest rate swaps that are not insured as of September 30, 2014. While Dignity Health has the right to terminate the swaps prior to maturity for any reason, counterparties have various rights to terminate, including swaps in the outstanding notional amount of $100.0 million at each five-year anniversary date commencing in March 2018 and swaps in the notional amount of $209.8 million at each two-year anniversary commencing in May 2015. Swaps in the notional amount of $60.0 million and swaps in the notional amount of $67.7 million have mandatory puts in March 2021 and March 2023, respectively. The termination value would be the fair market value or the replacement cost of the swaps, depending on the circumstances. These interest rate swaps have a negative fair value of $71.4 million at September 30, 2014. The remaining uninsured swaps in the notional amount of $342.8 million have a negative fair value of $52.1 million as of September 30, 2014. The fair value of the risk participation agreements is deemed immaterial as of September 30, 2014.

All of the uninsured swaps and risk participation agreements have certain early termination triggers caused by an event of default or a termination event. The events of default include failure to make payments when due, failure to give notice of a termination event, failure to comply with or perform obligations under the agreements, bankruptcy or insolvency, and defaults under other agreements (cross-default provision). The termination events include credit ratings dropping below Baa1/BBB+ (Moody's/Standard & Poor's) by either party on a notional amount of $529.8 million of swaps and below Baa2/BBB on a notional amount of $410.5 million and Dignity Health's cash on hand dropping below 85 days.

In October 2014, Dignity Health entered into a fixed-to-floating risk participation agreement in the notional amount of $294.5 million to reduce interest expense associated with fixed rate debt. Under the risk participation agreement, Dignity Health receives a fixed rate and pays a variable rate of SIFMA plus a spread. The rate agreement matures in October 2024.

Dignity Health, under the terms of its Master Trust Indenture, is prohibited from posting collateral on derivative instruments.

11. INTEREST EXPENSE, NET

The components of interest expense, net, include the following (in thousands):

	Three-Month Periods Ended September 30, 2014	Three-Month Periods Ended September 30, 2013
Interest and fees on debt and swap cash settlements	$ 50,921	$ 53,342
Market adjustment on swaps and amortization of amounts in unrestricted net assets	2,332	(13,845)
Total interest expense	53,253	39,497
Capitalized interest expense	(3,250)	(5,444)
Interest expense, net	$ 50,003	$ 34,053

12. INVESTMENT INCOME, NET

Investment income, net, on assets limited as to use, cash equivalents, collateral held under securities lending program, notes receivable, and investments are comprised of the following (in thousands):

	Three-Month Periods Ended September 30, 2014	Three-Month Periods Ended September 30, 2013
Interest and dividend income	$ 21,785	$ 23,685
Net realized gains on sales of securities	61,756	115,295
Net unrealized gains (loss) on securities	(82,658)	61,995
Other, net of capitalized investment income	(5,632)	(6,643)
Investment income (loss), net	$ (4,749)	$ 194,332

13. INCOME TAXES

Deferred tax balances consist of the following (in thousands):

	As of September 30, 2014	As of June 30, 2014
Deferred tax assets:		
Current	$ 28,713	$ 28,713
Noncurrent	3,264	3,264
Total deferred tax assets	$ 31,977	$ 31,977
Deferred tax liabilities	$ 115,615	$ 115,615

14. RETIREMENT PROGRAMS

In September 2013, Dignity Health amended the pension plan to freeze ongoing benefit accruals in certain older final average pay formulas and replace them with a single primary final average pay formula and also to freeze benefit accruals in the same older final average pay formulas for employees already accruing ongoing benefits in the primary final average pay formula. Due to the significance of the change, plan assets and liabilities were re-measured as of September 30, 2013. The combination of factors, primarily the plan change and investment performance, resulted in a $203.2 million credit to unrestricted net assets in the statement of operations and changes in net assets during the three-month period ended September 30, 2013.

Total expenses for all Dignity Health retirement and postretirement plans was $62.5 million and $69.9 million for the three-month periods ended September 30, 2014 and 2013, respectively. Such amounts are included in salaries and benefits expense in the condensed consolidated statements of operations and changes in net assets.

15. COMMITMENTS AND CONTINGENT LIABILITIES

The following summary encompasses matters previously disclosed in Dignity Health's audited financial statements, as well as additional developments since the date of those financial statements, related to litigation, regulatory and compliance matters.

General – The health care industry is subject to voluminous and complex laws and regulations of federal, state and local governments. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. These laws and regulations include, but are not necessarily limited to, the rules governing licensure, accreditation, controlled substances, privacy, government program participation, government reimbursement, antitrust, anti-kickback, prohibited referrals by physicians, false claims, and in the case of tax-exempt organizations, the requirements of tax exemption. In recent years, government activity has increased with respect to investigations and allegations of wrongdoing. In addition, during the course of business, Dignity Health becomes involved in civil litigation.

Management assesses the probable outcome of unresolved litigation and investigations and records contingent liabilities reflecting estimated liability exposure. Following is a discussion of matters of note.

Department of Justice and OIG Investigations – Dignity Health and/or its facilities periodically receive notices from governmental agencies, such as the U.S. Department of Justice ("DOJ") or the Office of Inspector General ("OIG"), requesting information regarding billing, payment, or other reimbursement matters, or initiating investigations, or indicating the existence of whistleblower litigation. The healthcare industry in general is experiencing an increase in these activities, as the federal government increases enforcement activities and institutes new programs designed to identify potential irregularities in reimbursement or quality of patient care. Resolution of such matters can result in civil and/or criminal charges, cash payments and/or administrative measures by the entity subject to such investigations. Dignity Health does not presently have information indicating that pending matters or their resolution will have a material effect on Dignity Health's financial statements, taken as a whole. Nevertheless, there can be no assurance that the resolution of matters of these types will not affect the financial condition or operations of Dignity Health, taken as a whole.

Within this category of activities, in October 2014, Dignity Health completed a $37 million civil monetary settlement and entered into a Corporate Integrity Agreement ("CIA") with the OIG to resolve an investigation into government reimbursement of hospital inpatient stays. Under the terms of the settlement agreement, there was no finding of improper conduct and Dignity Health has admitted no wrongdoing. The CIA requires enhanced compliance program obligations, education and training, and that Dignity Health retain an independent review organization to review the accuracy of certain claims for hospital services furnished to federal health care program beneficiaries. A reserve covering the entire settlement amount had previously been established as of June 30, 2014, and payment is expected to be made prior to December 31, 2014.

Medicare Certification – From time to time, Dignity Health and/or its facilities receive notices from CMS indicating that steps to terminate the provider agreements of certain hospital facilities will be taken unless specific corrective actions related to qualification for Medicare participation are undertaken. The process of responding to these notices involves plan(s) of correction by the facility and resurvey by CMS or its designee. Currently, Mercy Medical Center (Merced) is in the process of addressing such notices. While Dignity Health does not expect a loss of Medicare qualification by this facility, there can be no assurance that the loss of Medicare qualification by a facility or facilities will not occur and have a material effect on the financial condition or operations of Dignity Health, taken as a whole.

Pension Plan Litigation –In April 2013, Dignity Health was served with a class action lawsuit filed in the United States District Court for the Northern District of California by a former employee alleging breaches of fiduciary duty and other claims under ERISA in connection with the Dignity Health Pension Plan ("DHPP"). Among other things, the complaint alleges that, because Dignity Health is not a church or an association of churches, the DHPP does not qualify as a "church plan". The complaint also challenges the constitutionality of ERISA's church plan exemption. Dignity Health and the sponsoring religious orders established the DHPP and determined that the DHPP was a church plan that should be exempt from ERISA, including ERISA's funding requirements, and received private letter rulings from the Internal Revenue Service that confirmed its church plan status. The plaintiff seeks to represent a class comprised of participants and beneficiaries of the DHPP as of April 2013, when the complaint was filed. On July 22, 2014, the Court ruled that the DHPP does not qualify as a church plan and, therefore, is not exempt from ERISA. Dignity Health disagrees with the Court's conclusion, will continue to vigorously defend the class action lawsuit and will appeal the Court's ruling regarding the church plan status of the DHPP when first permitted to do so under the federal rules. While Dignity Health believes that its position will prevail, there can be no assurance about the ultimate resolution of this matter and under certain circumstances, a negative, final, non-appealable ruling against Dignity Health may have a material effect on the financial condition or operations of Dignity Health, taken as a whole.

IRS Examinations of Certain Prior Bonds –In August 2014, the City of Henderson, Nevada (the "City") received letters from the IRS notifying it that the IRS had selected for examination and audit the City's Health Facility Revenue Bonds Series 2005 A and B and the Health Facility Revenue Bond Series 2007 B issued for the benefit of Dignity Health. The notifications stated that the IRS routinely examines municipal debt issuances to determine compliance with federal tax requirements. While Dignity Health is cooperating fully in the examinations and has no reason to believe that the examinations will have an adverse effect on the tax-exempt status of the aforementioned bonds, on the tax-exempt status of Dignity Health or on any other aspect of Dignity Health's operations, there can be no assurance that the resolution of the examinations will not have a material effect on Dignity Health's financial position or results of operations, taken as a whole.

Dignity Health and Subordinate Corporations

Management Discussion and Analysis of Financial Condition and Results of Operations

Overview

Dignity Health is a California not-for-profit corporation exempt from federal and state income taxes. Dignity Health operates 39 hospitals in California, Arizona and Nevada and provides a variety of healthcare, education and other benefits to the communities in which it operates. Health care services include inpatient, outpatient, sub-acute and home health care services, as well as physician services through a medical foundation and affiliated medical groups. Additionally, USHW, a wholly-owned for-profit subsidiary, operates 220 occupational health and urgent care centers in 19 states.

Results of Operations

Three Months Ended September 30, 2014 and 2013

For the three-month period ended September 30, 2014, Dignity Health recorded an operating loss of $15.2 million compared to an operating gain of $243.9 million for the same period in the prior year. The results for the prior year include a gain of $230.5 million related to the Optum360° transaction and net provider fee income of $57.6 million. The results of operations for the three-month period ended September 30, 2014, are primarily related to the following:

- Net patient and premium revenues increased $104.8 million, or 4.3%, over the same period in the prior year. Excluding provider fee program revenues, the increase was $265.3 million, or 11.5%, primarily due to higher volumes, shifts from self-pay and other payors to higher paying Medicaid coverage in conjunction with Medicaid expansion in California, Arizona and Nevada, and rate increases. Provision for bad debts on uncollectible accounts decreased $162.5 million, or 50.7%, with provision for bad debts on uncollectible accounts as a percentage of gross revenues decreasing to 1.4% from 3.1% in the prior year. The decrease is primarily due to the shift from self-pay to governmental payors.
- Net patient and premium revenue per adjusted admission, excluding the impact of the provider fee programs, increased 8.2% compared to the same period in the prior year. The increase is primarily a function of improved payor mix. Adjusted admissions increased 3.1% compared to the same period in the prior year.
- As the 2014 California provider fee program and certain managed care plans under the prior California program are still pending final approval by CMS, and the Access to Care program adopted by the City of Phoenix, Arizona terminated December 31, 2013, no provider fee revenues have been recognized during the three-month period ended September 30, 2014. During the same period in the prior year, Dignity Health recognized $160.5 million in net patient revenue related to these programs.
- Other operating revenue decreased $236.1 million over the same period in the prior year, primarily due to the gain of $230.5 million recognized during the prior year related to the Optum360° transaction.
- Salaries and benefits increased $73.3 million, or 5.3%, over the same period in the prior year, with salaries and benefits per adjusted admission increasing 2.1%, primarily due to increased wage and contract labor costs, mitigated by lower pension expense and the transition of personnel to Optum360°.
- Supplies increased $29.2 million, or 7.9%, compared to the same period in the prior year, with supply costs per adjusted admission increasing 4.7%, primarily due to higher pharmaceutical and surgical costs.
- Purchased services and other decreased $4.1 million, or 0.6%, compared to the same period in the prior year. Excluding the provider fee program costs, purchased services and other increased $98.8 million, or 18.4%, primarily due to the Optum360° management fee and increased medical fees.
- Non-cash market adjustments on swaps, recorded in interest expense, net, were $2.3 million unfavorable compared to $13.8 million favorable in the same period in the prior year.
- Investment income (loss), net, decreased $199.0 million to a loss of $4.7 million, from a gain of $194.3 million during the same period in the prior year. Realized gains of $61.8 million in the current year were lower than realized gains of $115.3 million in the same period in the prior year. Net unrealized losses were

$82.7 million in the current year, compared net unrealized gains of $62.0 million in the same period in the prior year.

- Income tax expense decreased $56.8 million to $4.5 million, from $61.3 million during the same period in the prior year which included the tax impact on the Optum360° transaction of $59.6 million.

Capital Resources

Cash used in operating activities totaled $37.3 million for the three-month period ended September 30, 2014, compared to $107.1 million for the same period in the prior year. Significant activity for the three-month period ended September 30, 2014, includes the following:

- Accounts receivable increased $19.0 million during the three-month period ending September 30, 2014, compared to $71.5 million during the same period in the prior year.
- Accounts payable decreased $32.8 million during the three-month period ending September 30, 2014, compared to an increase of $9.6 million during the same period in the prior year.
- Provider fee assets and liabilities, net, provided $0 million during the three-month period ending September 30, 2014, compared to a use of $30.6 million during the same period in the prior year.
- Accrued salaries and benefits decreased $42.6 million during the three-month period ending September 30, 2014, compared to a $66.0 million decrease during the same period in the prior year.

Cash used in investing activities totaled $62.3 million for the three-month period ended September 30, 2014, compared to cash provided of $80.1 million for the same period in the prior year, primarily due to the following:

- Capital expenditures were $164.8 million during the three-month period ended September 30, 2014, compared to $165.4 million during the same period in the prior year. Such capital expenditures primarily relate to expansion and renovation of existing facilities, equipment and systems additions and replacements, and various other capital improvements.
- Net sales of investments were $202.1 million during the three-month period ended September 30, 2014, compared to $244.3 million during the same period in the prior year.
- Investments in health-related activities were $79.4 million during the three-month period ended September 30, 2014, compared to $13.7 million during the same period in the prior year.

Cash provided by financing activities totaled $86.1 million for the three-month period ended September 30, 2014, compared to cash used of $131.2 million for the same period in the prior year, primarily due to the following:

- Net borrowings of $57.8 million during the three-month period ended September 30, 2014, compared to net repayments of debt of $120.7 million during the same period in the prior year.

Dignity Health’s debt-to-capitalization ratio was 44.1% as of September 30, 2014, and 43.7% as of June 30, 2014.

Dignity Health's EBITDA (earnings before interest expense, net, depreciation and amortization, loss on early extinguishment of debt, investment earnings, taxes, and special charges) decreased $231.4 million to $163.1 million during the period from $394.5 million for the same period in the prior year. The EBITDA margin percentage decreased to 6.1% from 14.1%.

Business Strategy

Dignity Health’s “Horizon 2020” strategy, which was launched in September 2010, envisioned the transition to a value-based operating model and described six core strategies to achieve Dignity Health’s vision of an integrated health care delivery system with accountable care and population management capabilities. Dignity Health has invested significantly in organizational, cultural, operational and clinical innovations to achieve this transformation. These strategies are briefly described below.

1. Quality — Increase health care value to patients, payors and employers through improved clinical outcomes and lower costs. One of the aspirational goals of Horizon 2020 is to achieve “top decile” performance in measures of health care quality.
2. Cost — Lower the organization’s cost structure through improvements in administrative processes and clinical efficiencies. Dignity Health has implemented multiple efficiency and cost reduction strategies and expects to continue to do so in an effort to attain a cost structure that will be successful today and in the future.

3. Growth — Expand through acquisitions, partnerships and affiliations within and beyond the organization's historical three-state footprint to build a full continuum of care, where appropriate, and/or establish innovative care models within existing and new markets.

4. Integration — Provide patients the full spectrum of care delivered in a seamless manner. Components of this strategy may include, but are not limited to, physician integration, build-out of the continuum of care, implementation of new payment models and expansion of population management capabilities.

5. Connectivity — Develop industry-leading levels of electronic connectivity across the care spectrum to achieve higher quality outcomes, more efficient care delivery and superior patient engagement and experience.

6. Leadership — Enhance Dignity Health's ability to achieve its strategic goals by developing core organizational capabilities and building an organizational culture and reputation for strong leadership.

Dignity Health has launched a range of initiatives to facilitate the transformation of the organization toward value-based, consumer-focused population health. Dignity Health recognizes, at the same time, that fee-for-service health care will continue to represent the majority of Dignity Health's revenue for the near to medium term. These initiatives and tactics have been developed to help the organization succeed in the current environment as well as in the future. Key initiatives are summarized below:

Brand Identity and Experience — The development of Dignity Health's brand identity, and articulation of the patient and employee experience through its *Hello humankindness* campaign, are key steps in creating value in a consumer-focused environment. Dignity Health's clinical systems, workforce and marketing strategies are aligned toward delivering an experience of healing through human connection and respect for patients, providers and employees, consistent with Dignity Health's mission and values. The goal of the campaign is to raise brand awareness with consumers, generate brand equity and preference and project Dignity Health's values to society. Since January 2012, when the Dignity Health name and brand were launched, consumer awareness has grown to over 50% based on brand strength monitoring surveys conducted by Berry Strategy LLC, an outside company, which Dignity Health management believes is positive for a new name and brand.

Quality and Patient Experience — Dignity Health remains focused on creating a consistent, exceptional patient experience with superior health outcomes for all of its patients. Implementation of the system-wide patient experience plan is accelerating. Progress will be assessed through a variety of surveys, including the national Hospital Consumer Assessment of Healthcare Providers and Systems (HCAHPS). In fiscal year 2015, Dignity Health is continuing its efforts to improve performance with publicly-reported metrics that address quality, efficiency, readmissions and health outcomes. Results for the first part of the fiscal year exceed targets. In December 2014, Dignity Health will conclude its participation in the Hospital Engagement Network (HEN) initiative that is sponsored and supported by CMS. HEN was established to reduce harm in certain clinical areas by 40 percent and readmissions by 20 percent. In almost all areas, Dignity Health is meeting these goals.

Physician and Clinical Integration — Integrated clinical teams are essential to improve quality and efficiency through coordination across the care spectrum. Dignity Health has advanced a Clinical Integration ("CI") strategy whereby physicians and hospitals work together to adopt a common set of clinical and quality metrics, gather data on practice patterns, report performance and share information through common technology, enforce provider compliance and conduct peer review, and negotiate payor contracts with the CI networks that share savings from better coordination of patient care. To date, nearly 3,650 physicians, primarily in Arizona, Southern Nevada and Southern California, have signed participation agreements in connection with this program. Dignity Health also achieves alignment with over 1,040 physicians under a medical foundation model through the Dignity Health Medical Foundation in California, direct employment in Arizona and Nevada, and through the community clinic model in California's Central Coast area. Physician alignment strategies may also take the form of direct investment in physician groups or hospitalist companies, such as Dignity Health's purchase in July 2014 of a minority stake in Sound Physicians, a hospitalist company that currently has more than 1,000 hospitalists at over 100 hospitals and post-acute centers in the U.S.

Economic Alignment — Economic models that support coordinated care and shared savings are essential to Dignity Health's success in population health. To that end, the organization has focused on participating in new payment models such as Medicare Shared Savings Program demonstration projects, bundled payments, narrow networks and risk sharing. Dignity Health has 74 value-based agreements (contracts with health care payors and purchasers) currently in place with 530,000 attributable lives. Many of these contracts include arrangements with Dignity Health's five CI networks. There has been significant expansion in the number of contracts and attributable lives in the last five years and additional contracts are under negotiation. Dignity Health has also developed strategies geared toward the individual product market, both on and off the Health Insurance Exchanges, and is developing infrastructure to offer direct-to-employer service offerings and contracts. To date, these contracts represent a small percentage of Dignity Health's revenue, but management believes over time this will increase.

Technology to Support Population Health — Dignity Health's goal is to develop a leading-edge technology infrastructure to help advance clinical quality, improve outcomes and further patient engagement. Dignity Health is well into its electronic health record ("EHR") implementation, with 24 facilities using Cerner EHR technology as of September 30, 2014. Implementation is scheduled to be completed systemwide by 2017. Very high adoption rates of electronic ordering and clinical note documentation are improving safety and efficiency. In addition, the role and benefits of clinical informatics are expanding and Dignity Health is focused on developing a suite of capabilities that will enable the implementation of population health models and risk based contracts. To that end, Dignity Health recently announced a joint effort with SAS to design and implement a systemwide enterprise data warehouse ("EDW") over the next five years. The EDW will merge clinical and business data to support predictive analytics to further quality improvement and population health management.

Strategic Innovation — Dignity Health believes that innovation is essential to clinical excellence and a more efficient, cost effective delivery system. To that end, the company is engaged with a range of Center for Medicare & Medicaid Innovation demonstration projects that have produced reductions in adverse events and cost savings for the organization. Other areas of focus include strategic acquisitions, partnerships and co-investments to generate financial return and gain insight into innovative new technologies and care models that can be adopted systemwide.

Diversified Growth — Dignity Health has refined its growth strategy to focus on three core areas: (1) building out integrated delivery networks ("IDNs") in existing service areas through expansion of the continuum of care and/or limited in-market consolidation; (2) growth in diversified services, defined as non-acute business lines with accretive economics, which may contribute to IDN development but may also be outside of Dignity Health's service areas; and (3) further expansion of the occupational medicine platform through USHW. Dignity Health may seek to wholly acquire businesses or partner with outside capital or other providers through a joint venture structure or other economic arrangement.

Dignity Health has worked to develop an entrepreneurial culture that supports the organization's ability to execute on its strategic transformation. Dignity Health believes the relatively small size of its Board of Directors allows the organization to act nimbly and focus on opportunities. In addition to leadership development and cultivating competencies in new areas of health care, Dignity Health has a philosophy of partnering with best-in-class companies to bring expertise and experience to the organization that will facilitate and accelerate the transition to population health management.

Forward Looking Statements

Certain of the discussions in this document may include "forward-looking statements" which involve known and unknown risks and uncertainties inherent in the operation of healthcare facilities. Actual actions or results may differ materially from those discussed above, and past or current trends may not continue. Specific factors that might cause such differences include competition from other healthcare facilities in the service areas of Dignity Health, federal and state regulation of healthcare providers, staffing shortages, organized labor initiatives and reimbursement policies of the state and federal governments and managed care organizations. In particular, statements preceded by, followed by or that include the word "believes," "estimates," "expects," "anticipates," "plans," "intends," "scheduled," or other similar expressions are or may constitute forward-looking statements.

Dignity Health and Subordinate Corporations
Consolidated Operating Statistics

	Three-Month Periods Ended September 30, 2014	2013
Financial Performance:		
Operating income (loss)	$ (15,196)	$ 243,917
Margin %	(0.6%)	8.7%
EBITDA (earnings before interest expense, net, depreciation and amortization, tax expense, loss on early extinguishment of debt, investment earnings and special charges)	$ 163,148	$ 394,518
Margin %	6.1%	14.1%
Excess (deficit) of revenues over expenses attributable to Dignity Health	$ (28,926)	$ 369,689
Margin %	(1.1%)	12.4%
Uncompensated Care:		
Charity care, at customary charges	$ 141,703	$ 232,763
Charity care, at cost	$ 33,841	$ 58,019
Charity care, at cost, as a percentage of total expenses	1.3%	2.3%
Bad debt at customary charges	$ 158,112	$ 320,603
Productivity:		
Salaries, wages and benefits as a % of net patient and premium revenue	57.2%	56.6%
Supply expense as a % of net patient and premium revenue	15.5%	15.0%
Purchased services as a % of net patient and premium revenue	24.8%	26.0%
Capital expense as a % of net patient and premium revenue	6.9%	6.1%
Operations:		
Acute admissions*	92,721	91,707
Adjusted admissions*	151,335	146,853
Acute inpatient days*	399,384	382,303
Adjusted patient days *	697,159	658,273
Acute average length of stay*	4.31	4.17
Outpatient revenue as a % of total patient services revenue	41.2%	39.5%
Number of FTEs	49,996	48,569
FTEs per adjusted occupied bed *	5.19	5.20

*Hospital only

DIGNITY HEALTH AND SUBORDINATE CORPORATIONS

Consolidated Financial Statements as of and for the Years Ended June 30, 2014 and 2013 and Independent Auditors' Report

DIGNITY HEALTH AND SUBORDINATE CORPORATIONS

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Dignity Health
San Francisco, California

We have audited the accompanying consolidated balance sheets of Dignity Health and Subordinate Corporations ("Dignity Health") as of June 30, 2014 and 2013, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Dignity Health as of June 30, 2014 and 2013, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Disclaimer of Opinion on Unsponsored Community Benefit Expense Information

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements as a whole. The unsponsored community benefit expense information in Note 24 is presented for the purpose of additional analysis and is not a required part of the basic consolidated financial statements. This supplementary information is the responsibility of Dignity Health's management. Such information has not been subjected to the auditing procedures applied in our audits of the basic consolidated financial statements and, accordingly it is inappropriate to and we do not express an opinion on the supplementary information referred to above.

Deloitte & Touche LLP

September 23, 2014

DIGNITY HEALTH AND SUBORDINATE CORPORATIONS

CONSOLIDATED BALANCE SHEETS
June 30, 2014 and 2013 (in thousands)

Assets	**2014**	**2013**
Current assets:		
Cash and cash equivalents	$ 324,242	$ 218,159
Short-term investments	1,488,207	1,078,180
Collateral held under securities lending program	187,247	322,468
Assets limited as to use	1,148,886	1,049,373
Patient accounts receivable, net of allowance for doubtful accounts of $648,004 and $438,756 in 2014 and 2013, respectively	1,705,403	1,470,719
Broker receivables for unsettled investment trades	8,354	14,696
Other current assets	680,807	894,586
Total current assets	5,543,146	5,048,181
Assets limited as to use:		
Board-designated assets (including $226,059 and $339,161 of assets loaned under securities lending program in 2014 and 2013, respectively) for:		
Capital projects	3,448,004	3,478,258
Workers' compensation	435,040	439,624
Professional and general liability	295,076	249,642
Under bond indenture agreements for:		
Capital projects	85,098	188,126
Debt service	135,484	136,499
Bond reserves	20,633	20,632
Donor-restricted	427,728	387,805
Other	54,502	55,593
Less amount required to meet current obligations	(1,148,886)	(1,049,373)
Net assets limited as to use	3,752,679	3,906,806
Property and equipment, net	4,629,203	4,422,833
Ownership interests in health-related activities	1,007,710	681,120
Goodwill	509,772	486,773
Intangible assets, net	224,043	232,097
Assets held for sale	-	39,262
Other long-term assets, net	116,841	152,500
Total assets	$ 15,783,394	$ 14,969,572

(Continued)

DIGNITY HEALTH AND SUBORDINATE CORPORATIONS

CONSOLIDATED BALANCE SHEETS
June 30, 2014 and 2013 (in thousands)

Liabilities and Net Assets	**2014**	**2013**
Current liabilities:		
Current portion of long-term debt	$ 229,264	$ 129,112
Demand bonds subject to short-term liquidity arrangements, excluding current maturities	776,400	782,800
Accounts payable	611,187	493,699
Payable under securities lending program	187,289	322,654
Accrued salaries and benefits	590,196	569,098
Accrued workers' compensation	39,431	36,040
Accrued professional and general liability	80,751	78,527
Pension and other postretirement benefit liabilities	220,659	317,772
Broker payables for unsettled investment trades	11,158	19,675
Liabilities held for sale	-	22,824
Other accrued liabilities	582,863	561,636
Total current liabilities	3,329,198	3,333,837
Other liabilities:		
Workers' compensation	346,062	350,178
Professional and general liability	247,023	232,055
Pension and other postretirement benefit liabilities	484,773	612,992
Other	226,293	239,564
Total other liabilities	1,304,151	1,434,789
Long-term debt, net of current portion	4,037,607	4,139,717
Total liabilities	8,670,956	8,908,343
Net assets:		
Unrestricted - attributable to Dignity Health	6,505,202	5,510,710
Unrestricted - noncontrolling interest	182,593	166,727
Temporarily restricted	317,953	278,707
Permanently restricted	106,690	105,085
Total net assets	7,112,438	6,061,229
Total liabilities and net assets	$ 15,783,394	$ 14,969,572

(Concluded)

See notes to consolidated financial statements.

DIGNITY HEALTH AND SUBORDINATE CORPORATIONS

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
YEARS ENDED June 30, 2014 and 2013 (in thousands)

	2014	2013
Unrestricted revenues and other support:		
Patient revenue, net of contractual allowances and discounts	$ 10,455,996	$ 10,538,427
Provision for bad debts	(997,540)	(1,093,868)
Net patient revenue	9,458,456	9,444,559
Premium revenue	497,309	476,950
Revenue from health-related activities, net	152,702	140,909
Other operating revenue	551,899	332,062
Contributions	16,985	17,399
Total unrestricted revenues and other support	10,677,351	10,411,879
Expenses:		
Salaries and benefits	5,671,383	5,561,479
Supplies	1,530,723	1,420,242
Purchased services and other	2,507,738	2,550,592
Depreciation and amortization	480,316	463,714
Interest expense, net	198,814	120,856
Income tax expense (benefit)	60,769	(31,095)
Special charges and other costs	554	14,801
Total expenses	10,450,297	10,100,589
Operating income	227,054	311,290
Other income:		
Investment income, net	685,626	527,970
Excess of revenues over expenses	$ 912,680	$ 839,260
Less excess of revenues over expenses attributable to noncontrolling interests	27,671	27,324
Excess of revenues over expenses attributable to Dignity Health	$ 885,009	$ 811,936

(Continued)

DIGNITY HEALTH AND SUBORDINATE CORPORATIONS

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS YEARS ENDED June 30, 2014 and 2013 (in thousands)

	2014	2013
Unrestricted net assets attributable to Dignity Health:		
Excess of revenues over expenses attributable to Dignity Health	$ 885,009	$ 811,936
Change in net unrealized gains on available-for-sale investments	(726)	4,015
Net assets released from restrictions used for purchase of property and equipment	16,984	67,423
Change in funded status of pension and other postretirement benefit plans	99,640	447,726
Loss from discontinued operations, net	(14,855)	(22,629)
Change in ownership interests held by controlled subsidiaries	(21,194)	2,765
Change in accumulated unrealized derivative gains, net	2,683	2,683
Funds donated from unconsolidated sources for purchase of property and equipment	20,016	19,906
Other	6,935	(765)
Increase in unrestricted net assets attributable to Dignity Health	994,492	1,333,060
Unrestricted net assets attributable to noncontrolling interests:		
Excess of revenues over expenses attributable to noncontrolling interests	27,671	27,324
Change in ownership interest and other, net	(11,805)	1,533
Increase in unrestricted net assets attributable to noncontrolling interests	15,866	28,857
Temporarily restricted net assets:		
Contributions	55,123	38,174
Net realized and unrealized gains on investments	6,833	4,254
Net assets released from restrictions	(40,150)	(87,921)
Change in interest in net assets of unconsolidated foundations	25,179	15,340
Other	(7,739)	415
Increase (decrease) in temporarily restricted net assets	39,246	(29,738)
Permanently restricted net assets:		
Contributions	(625)	(138)
Net realized and unrealized gains on investments	70	80
Change in interest in net assets of unconsolidated foundations	2,231	551
Other	(71)	(281)
Increase in permanently restricted net assets	1,605	212
Increase in net assets	1,051,209	1,332,391
Net assets, beginning of period	6,061,229	4,728,838
Net assets, end of period	$ 7,112,438	$ 6,061,229

(Concluded)

See notes to consolidated financial statements.

DIGNITY HEALTH AND SUBORDINATE CORPORATIONS

CONSOLIDATED STATEMENTS OF CASH FLOWS
June 30, 2014 and 2013 (in thousands)

	2014	2013
Cash flows from operating activities:		
Change in net assets	$ 1,051,209	$ 1,332,391
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Depreciation and amortization, including discontinued operations	482,600	461,148
Health-related activities:		
Equity in earnings	(129,313)	(127,029)
Change in control of consolidated entities	(1,620)	(21,418)
Gain, net, on disposal of assets, including discontinued operations	(259,672)	(28,294)
Estimated carrying value adjustment of assets	-	8,000
Goodwill impairment	3,744	-
Change in deferred taxes	59,719	(34,836)
Restricted contributions	(46,951)	(38,036)
Change in funded status of pension and other postretirement benefit plans	(99,640)	(447,726)
Undistributed portion of change in net assets of unconsolidated foundations	(27,410)	(15,891)
Change in net realized and unrealized gains on investments	(625,857)	(452,191)
Change in fair value of swaps	1,135	(72,748)
Changes in certain assets and liabilities:		
Accounts receivable, net	(234,669)	(121,255)
Accounts payable	128,954	(57,723)
Workers' compensation and professional and general liabilities	14,044	26,159
Accrued salaries and benefits	20,244	38,854
Pension and other postretirement liabilities	(125,794)	(33,299)
Provider fee assets and liabilities	170,567	(63,168)
Estimated receivables from/payables to third-party payors, net	(283)	(51,551)
Other accrued liabilities	90,876	16,706
Prepaid and other current assets	(39,156)	8,897
Other, net	(10,363)	(8,655)
Cash provided by operating activities	422,364	318,335

(Continued)

DIGNITY HEALTH AND SUBORDINATE CORPORATIONS

CONSOLIDATED STATEMENTS OF CASH FLOWS
June 30, 2014 and 2013 (in thousands)

	2014	2013
Cash flows from investing activities:		
Purchase of investments	(4,787,919)	(4,657,311)
Proceeds from sale of investments	5,090,962	4,706,792
Cash proceeds on disposal of assets, including discontinued operations	44,851	41,512
Acquisition of U.S. HealthWorks, net of cash acquired	-	(458,930)
Investments in health-related activities	(27,209)	(69,319)
Cash distributions from health-related activities	35,457	26,038
Additions to operating property and equipment, including discontinued operations	(715,982)	(640,037)
Decrease in securities lending collateral	135,365	13,703
Other, net	11,597	5,036
Cash used in investing activities	(212,878)	(1,032,516)
Cash flows from financing activities:		
Borrowings	881,366	1,858,425
Repayments	(894,393)	(1,344,510)
Decrease in payable under securities lending program	(135,365)	(13,703)
Restricted contributions	46,951	38,036
Deferred financing costs	(1,962)	(11,960)
Cash provided by (used in) financing activities	(103,403)	526,288
Net increase (decrease) in cash and cash equivalents	106,083	(187,893)
Cash and cash equivalents at beginning of the year	218,159	406,052
Cash and cash equivalents at end of the year	$ 324,242	$ 218,159
Components of cash and cash equivalents and investments at end of year:		
Cash and cash equivalents	324,242	218,159
Short-term investments	1,488,207	1,078,180
Board-designated assets for capital projects	3,448,004	3,478,258
Total	$ 5,260,453	$ 4,774,597
Supplemental disclosures of cash flow information:		
Cash paid for interest, net of capitalized interest	$ 200,239	$ 193,552
Supplemental schedule of noncash investing and financing activities:		
Property and equipment acquired through capital lease or note payable	$ 9,007	$ 17,872
Accrued purchases of property and equipment	$ 74,367	$ 114,819
Broker receivables for unsettled investment trades	$ 8,354	$ 14,696
Broker payables for unsettled investment trades	$ 11,158	$ 19,675
Investments in health-related activities	$ 233,821	$ -

(Concluded)

See notes to consolidated financial statements.

1. ORGANIZATION

Dignity Health ("the Corporation") is a California nonprofit public benefit corporation exempt from federal and state income taxes. Dignity Health owns and operates healthcare facilities in California, Arizona and Nevada, and is the sole corporate member (parent corporation) of other primarily nonprofit corporations in California, Arizona and Nevada, which are exempt from federal and state income taxes. These organizations provide a variety of healthcare-related activities, education and other benefits to the communities in which they operate. Healthcare services include inpatient, outpatient, subacute, and home healthcare services, as well as physician services through Dignity Health Medical Foundation and other affiliated medical groups. Dignity Health also provides occupational health and urgent care services in 17 additional states through U.S. HealthWorks, Inc. The accompanying consolidated financial statements include Dignity Health and its subordinate corporations and subsidiaries (together "Dignity Health"), as disclosed in Note 25.

As part of a system-wide corporate financing plan, Dignity Health established an Obligated Group to access the capital markets and make loans to its members. Obligated Group members are jointly and severally liable for the long-term debt outstanding under a Master Trust Indenture. None of the other Dignity Health subordinate corporations and subsidiaries have assumed any financial obligation related to payment of debt service on obligations issued under the Master Trust Indenture. A list of Obligated Group members and other subordinate corporations and subsidiaries is included in Note 25.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis for Presentation – The accompanying consolidated financial statements include the accounts of Dignity Health after elimination of intercompany transactions and balances. Certain reclassifications and changes in presentation were made in the 2013 consolidated financial statements to conform to the 2014 presentation. The consolidated statement of operations and changes in net assets has been retrospectively reclassified to present income tax expense (benefit) as a separate line item from purchased services and other expenses.

As previously presented, Dignity Health classified the excess of revenues over expenses attributable to noncontrolling interests in purchased services and other expense in the consolidated statements of operations and changes in net assets. Such presentation has been restated in order to present the excess of revenues over expenses attributable to noncontrolling interests as a separate line item to arrive at excess of revenues over expenses attributable to Dignity Health. This resulted in a reduction of operating expenses and an increase in operating income and total excess of revenues over expenses of $27.3 million for the year ended June 30, 2013.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 and the reported amounts of revenues and expenses during the reporting period. Dignity Health considers critical accounting policies to be those that require more significant judgments and estimates in the preparation of its consolidated financial statements, including the following: recognition of net patient revenue, which includes contractual allowances and discounts; provisions for bad debts and charity care; recorded values of investments and goodwill; losses and expenses related to the self-insured workers' compensation and professional and general liabilities; and risks and assumptions for measurement of pension and other postretirement liabilities. Management bases its estimates on historical experience and various other assumptions that it believes are reasonable under the particular facts and circumstances. Actual results could differ from those estimates.

Cash and Cash Equivalents – Cash and cash equivalents consist primarily of cash and highly liquid marketable securities with an original maturity of three months or less.

Securities Lending Program – Dignity Health participates in securities lending transactions with its custodian whereby Dignity Health lends a portion of its investments to various brokers in exchange for collateral for the securities loaned, usually on a short-term basis. Dignity Health maintains effective control of the loaned securities through its custodian during the term of the arrangement in that they may be recalled at any time. Collateral is provided by brokers at an amount equal to at least 100% of the original value of the securities on loan, and is subsequently adjusted for market fluctuations. Dignity Health must return to the borrower the original value of collateral received regardless of the impact of market fluctuations. Under the terms of the agreement, the borrower must return the same, or substantially the same, investments that were borrowed.

The securities on loan under this program are recorded in Board-designated assets in the accompanying consolidated balance sheets. Dignity Health receives both cash and non-cash collateral. Cash collateral is recorded as an asset of the organization. The market value of collateral held for loaned securities is reported as collateral held under securities lending program, and an obligation is reported for repayment of collateral upon settlement of the lending transaction as payable under securities lending program.

Inventory – Inventories are stated at the lower of cost or market value, determined using the first-in, first-out method.

Broker Receivables and Payables for Unsettled Investment Trades **–** Dignity Health accounts for its investments on a trade date basis. Amounts due to/from brokers for investment activity for transactions that have been initiated prior to the consolidated balance sheet date that are formally settled subsequent to the consolidated balance sheet date are recorded in broker receivables for unsettled investment trades for sales of investments and in broker payables for unsettled investment trades for purchases of investments.

Investments and Investment Income – The Dignity Health Board of Directors Investment Committee establishes guidelines for investment decisions. Within those guidelines, Dignity Health invests in equity and debt securities which are measured at fair value and are classified as trading securities.

Dignity Health also invests in alternative investments through limited partnerships. Alternative investments are comprised of private equity, real estate, hedge fund and other investment vehicles. Dignity Health receives a proportionate share of the investment gains and losses of the partnerships. The limited partnerships generally contract with managers who have full discretionary authority over the investment decisions, within Dignity Health's guidelines. These alternative investment vehicles invest in equity securities, fixed income securities, currencies, real estate, commodities, and derivatives.

Dignity Health accounts for its ownership interests in these alternative investments under the equity method, whose value is based on the net asset value ("NAV"), which approximates fair value, and is determined using investment valuations provided by the external investment managers and fund managers or the general partners.

Alternative investments generally are not marketable and many alternative investments have underlying investments which may not have quoted market values. The estimated value of such investments is subject to uncertainty and could differ had a ready market existed. Such differences could be material. Dignity Health's risk is limited to its capital investment in each investment and capital call commitments as discussed in Note 8.

Investment income or loss is included in excess of revenues over expenses unless the income or loss is restricted by donor or law. Income earned on tax-exempt borrowings for specific construction projects is offset against interest expense capitalized for such projects.

Board-Designated Assets for Capital Projects – The Board of Directors has a policy of funding depreciation, to the extent that funds are available, to be used for replacement, expansion and improvement of operating property and equipment.

Deferred Financing Costs and Original Issue Discounts/Premiums on Bond Indebtedness – Dignity Health amortizes deferred financing costs and original issue discounts/premiums on bond indebtedness over the estimated average period the related bonds will be outstanding. Deferred financing costs are included in other long-term assets. Original issue discounts/premiums are recorded with the related debt.

Property and Equipment – Property and equipment are stated at cost, if purchased, and at fair market value, if donated. Depreciation of property and equipment is recorded using the straight-line method for financial statement purposes. Amortization of capital leases is included in depreciation expense. Estimated useful lives by major classification are as follows:

Land improvements	2 to 40 years
Buildings	3 to 65 years
Equipment	2 to 40 years
Software development	5 to 10 years

Asset Retirement Obligations – Dignity Health recognizes the fair value of a liability for legal obligations associated with asset retirements in the period in which it is incurred, if a reasonable estimate of the fair value of the obligation can be made. Upon settlement of the obligation, any difference between the cost to settle the asset retirement obligation and the liability recorded is recognized as a gain or loss in the consolidated statements of operations and changes in net assets. Liabilities of $33.0 million and $31.5 million are recorded in other long-term liabilities as of June 30, 2014 and 2013, respectively. The year over year increase of $1.5 million relates to accretion of the liability.

Asset Impairment – Dignity Health routinely evaluates the carrying value of its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset, or related group of assets, may not be recoverable from estimated future undiscounted cash flows generated by the underlying tangible assets. When the carrying value of an asset exceeds the estimated recoverability, an asset impairment charge is recognized. The impairment tests are based on financial projections prepared by management that incorporate anticipated results from programs and initiatives being implemented and market value assessments of the assets. If these projections are not met, or if negative trends occur that impact the future outlook, the value of the long-lived assets may be impaired, which could be material. See Note 21.

Goodwill and indefinite-lived intangible assets are tested for impairment annually on various dates, depending on the annual impairment testing date of the reporting unit or intangible asset, or when an event or circumstance indicates the value of the reporting unit or intangible asset may be impaired. Dignity Health uses the income and market approaches to estimate the fair value of its reporting units and uses the income approach to estimate the fair value of its indefinite-lived intangible assets. If the carrying value exceeds the fair value, an impairment charge is recognized. See Notes 11 and 12.

Fair Value of Financial Instruments – The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, accounts receivable, accounts payable, and accrued liabilities approximate fair value due to their short maturities. The fair value of investments and debt is disclosed in Note 8.

Derivative Instruments – Dignity Health utilizes derivative arrangements to manage interest costs and the risk associated with changing interest rates. Dignity Health records derivative instruments on the consolidated balance sheets as either an asset or liability measured at its fair value. See Notes 8 and 17.

Dignity Health does not currently have derivative instruments that are designated as hedges. Changes in fair value are included in interest expense, net, in the consolidated statements of operations and changes in net assets.

Ownership Interests in Health-Related Activities – Generally, when the ownership interest in health-related activities is more than 50% and Dignity Health has a controlling interest, the ownership interests are consolidated and a noncontrolling interest is recorded in unrestricted net assets. When the ownership interest is at least 20%, but not more than 50%, or Dignity Health has the ability to exercise significant influence over operating and financial policies of the investee, it is accounted for under the equity method and the income or loss is reflected in revenue from health-related activities, net. Ownership interests for which Dignity Health's ownership is less than 20% or for which Dignity Health does not have the ability to exercise significant influence are carried at the lower of cost or estimated net realizable value. Other than the investments in Mercy Care Plan, Scripps, PCH, and Optum360º (see Note 3), these ownership interests are not material to the consolidated financial statements. See Note 10.

Self-Insurance Plans – Dignity Health maintains self-insurance programs for workers' compensation benefits for employees and for professional and general liability risks. Annual self-insurance expense under these programs is based on past claims experience and projected losses. Actuarial estimates of uninsured losses for each program at June 30, 2014 and 2013, have been accrued as liabilities and include an actuarial estimate for claims incurred but not reported.

Dignity Health has insurance coverage in place for amounts in excess of the self-insured retention for workers' compensation and professional and general liabilities.

Dignity Health maintains separate trusts for these programs from which claims and related expenses and costs of administering the plans are paid. Dignity Health's policy is to fund the trusts such that over time, assets held equal liabilities for claims incurred for workers' compensation and claims made for professional liability risks.

Self-insurance expense decreased $41.7 million and $28.4 million in 2014 and 2013, respectively, related to revisions to prior years' actuarially estimated liabilities. The expenses and related adjustments are recorded in salaries and benefits for workers' compensation benefits and in purchased services and other for professional and general liability risks in the accompanying consolidated statements of operations and changes in net assets.

Patient Accounts Receivable, Allowance for Doubtful Accounts and Net Patient Revenue – Dignity Health has agreements with third-party payors that provide for payments at amounts different from each hospital's established rates. Payment arrangements with third-party payors include prospectively determined rates per discharge, per diem payments, discounted charges and reimbursed costs. Patient accounts receivable and net patient revenue are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered. Net patient revenue includes estimated settlements under payment agreements with third-party payors. Settlements with third-party payors are accrued on an estimated basis in the period in which the related services are rendered and adjusted in future periods as final settlements are determined.

Dignity Health recognizes patient revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered and estimated collectability of deductibles and co-insurance. For uninsured patients that meet certain financial criteria, standard charity discounts are recorded. For uninsured patients that do not qualify for charity care, Dignity Health recognizes revenue on the basis of discounted rates. Dignity Health regularly reviews accounts and contracts and provides appropriate contractual allowances and reserves for charity and uncollectible amounts that are netted against patient accounts receivable in the consolidated balance sheets. Based on historical experience, trends in health care coverage, and other collection indicators, a significant portion of Dignity Health's uninsured patients will be unable or unwilling to pay for the services provided. Thus, Dignity Health records a significant provision for bad debts related to uninsured patients in the period the services are provided.

As part of Dignity Health's mission to serve the community, Dignity Health provides care to patients even though they may lack adequate insurance or may participate in programs with negotiated or regulated payment amounts. Dignity Health makes every effort to determine if a patient qualifies for charity care upon admission, though determination may also be made at a later time. After satisfaction of amounts due from insurance, the application of any financial, uninsured or other discounts or payments received on the account, and reasonable efforts to collect from the patient have been exhausted, Dignity Health follows established guidelines for placing certain past-due patient balances with collection agencies, subject to the terms of certain restrictions on collection efforts as determined by Dignity Health.

Premium Revenue – Dignity Health has at-risk agreements with various payors to provide medical services to enrollees. Under these agreements, Dignity Health receives monthly payments based on the number of enrollees, regardless of services actually performed by Dignity Health. Dignity Health accrues costs when services are rendered under these contracts, including estimates of incurred but not reported ("IBNR") claims and amounts receivable/payable under risk-sharing arrangements. The IBNR accrual includes an estimate of the costs of services for which Dignity Health is responsible, including out-of-network services.

Traditional Charity Care – Charity care is free or discounted health services provided to persons who cannot afford to pay and who meet Dignity Health's criteria for financial assistance. The amount of services quantified as customary charges was $822.5 million and $907.7 million for 2014 and 2013, respectively, including such charges from discontinued operations. Dignity Health estimates the cost of charity care by calculating a ratio of cost to usual and customary charges and applying that ratio to the usual and customary uncompensated charges associated with providing care to patients that qualify for charity care. The estimated cost of charity care provided in 2014 and 2013 was $175.7 million and $198.4 million, respectively. See Note 24.

Other Operating Revenue – Other operating revenue includes meaningful use incentives, net gains and losses on the sale of assets, cafeteria revenues, rental revenues, contributions released from restrictions and other nonpatient-care revenues. Other operating revenue includes a $230.5 million gain related to the Optum360° transaction (see Note 3) in 2014 and $37.6 million related to a gain on sale of certain assets related to Dignity Health's outreach lab services to two unrelated parties in 2013.

Contributions and Restricted Net Assets – 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 met, temporarily restricted net assets related to capital purchases are reclassified as unrestricted and reflected as net assets released from restrictions used for the purchase of property and equipment on the statements of changes in net assets, whereas temporarily restricted net assets related to other gifts are reclassified as unrestricted and recorded as other operating revenue in unrestricted revenues and other support. Gifts received with no restrictions are recorded as contributions in unrestricted revenues and other support. Gifts of long-lived operating assets, such as property and equipment, are reported as unrestricted net assets unless otherwise specified by the donor.

Unconditional promises to give cash and other assets to Dignity Health are recorded at fair value at the date the promise is received. Conditional promises to give are recorded when the conditions have been substantially met. Indications of intentions to give are not recorded; such gifts are recorded at fair value only upon actual receipt of the gift. Investment income on temporarily or permanently restricted net assets is classified pursuant to the intent or requirement of the donor.

Endowment assets include donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period. Dignity Health preserves the fair value of these gifts as of the date of donation unless otherwise stipulated by the donor. Portions of donor-restricted endowment funds that are not classified in permanently restricted net assets are classified as temporarily restricted net assets until those amounts are appropriated for expenditure. Dignity Health considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund, (2) the purposes of the organization and the donor-restricted endowment fund, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the organization, and (7) the investment policies of Dignity Health.

Dignity Health has investment and spending policies for endowment assets designed to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets.

Endowment assets are invested in a manner that is intended to produce results that achieve the respective benchmark while assuming a moderate level of investment risk. Actual returns in any given year may vary from this amount. To satisfy its long-term rate-of-return objectives, Dignity Health relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Dignity Health targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that Dignity Health is required to retain as a fund of perpetual duration. Deficits of this nature are reported in unrestricted net assets, unless otherwise specified by the donor.

Community Benefits – As part of its mission, Dignity Health provides services to the poor and benefits for the broader community. The costs incurred to provide such services are included in excess of revenues over expenses in the consolidated statements of operations and changes in net assets. Dignity Health prepares a summary of unsponsored community benefit expense in accordance with Internal Revenue Service Form 990, Schedule H, and the Catholic Health Association of the United States ("CHA") publication, *A Guide for Planning and Reporting Community Benefit.* See Note 24.

Interest Expense – Interest expense on debt issued for construction projects is capitalized until the projects are placed in service. The components of interest expense, net, include interest and fees on debt, swap cash settlements, and market adjustment on swaps. See Note 18.

Income Taxes – Dignity Health has established its status as an organization exempt from income taxes under the Internal Revenue Code Section 501(c)(3) and the laws of the states in which it operates, and as such, is generally not subject to federal or state income taxes. However, Dignity Health is subject to income taxes on net income derived from a trade or business, regularly carried on, which does not further the organization's exempt purpose. No significant income tax provisions have been recorded in the accompanying consolidated financial statements for net income, if any, derived from any unrelated trade or business as management has determined that such amounts are not material to the consolidated financial statements taken as a whole.

Dignity Health's for-profit subsidiaries account for income taxes related to their operations. The for-profit subsidiaries recognize deferred tax assets and liabilities for temporary differences between the financial reporting basis and the tax basis of their assets and liabilities along with net operating loss and tax credit carryovers for tax positions that meet the more likely than not recognition criteria. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. See Note 22.

Dignity Health reviews its tax positions annually and has determined that there are no material uncertain tax positions that require recognition in the accompanying consolidated financial statements.

Performance Indicator – Management considers excess of revenues over expenses attributable to Dignity Health to be Dignity Health's performance indicator. Excess of revenues over expenses attributable to Dignity Health includes all changes in unrestricted net assets attributable to Dignity Health except for the effect of changes in accounting principles, losses from discontinued operations, change in net unrealized gains and losses on available-for-sale investments, net assets released from restrictions used for purchase of property and equipment, change in funded status of pension and other postretirement benefit plans, change in ownership interests held by controlled subsidiaries, change in accumulated unrealized derivative gains and losses, and funds donated from unconsolidated sources for purchase of property and equipment.

Transactions between Related Organizations – Certain Obligated Group members have a policy whereby assets are periodically transferred as charitable distributions or capital contributions to nonprofit and for-profit corporations, respectively, that are subordinate corporations and subsidiaries of Dignity Health but are not members of the Obligated Group. It is anticipated that Obligated Group members will continue to make asset transfers to these organizations.

Recent Accounting Pronouncements – In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers ("ASU 2014-09"),* which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance, and requires significantly expanded disclosures about revenue recognition. The core principle of the revenue model is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance is effective for Dignity Health as of July 1, 2017. Early adoption is not permitted. Dignity Health management is currently evaluating the impact on the consolidated financial statements and the options of adopting using either a full retrospective or a modified approach.

In April 2014, the FASB issued ASU No. 2014-08, *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity ("ASU 2014-08"),* which amends the definition of a discontinued operation in ASC 205-20 and requires entities to disclose additional information about disposal transactions that do not meet the discontinued operations criteria. The guidance is effective for Dignity Health as of July 1, 2015. Early application is permitted for disposals (or classifications as held for sale) that have not been reported in financial statements previously issued or available for issuance. The adoption of ASU 2014-08 is not expected to have a material impact on the consolidated financial statements of Dignity Health.

Subsequent Events **–** Dignity Health has evaluated subsequent events occurring between the end of the most recent fiscal year and September 23, 2014, the date the financial statements were available to be issued. See Notes 16 and 23.

3. MERGERS, ACQUISITIONS AND DIVESTITURES

Investment in Joint Venture – In September 2013, Dignity Health effected an agreement with OptumInsight, Inc., an indirect subsidiary of UnitedHealth Group Incorporated, whereby the parties formed Optum360, LLC (“Optum360º”) to own and operate certain existing revenue cycle technology, content and services businesses and to perform “end-to-end” revenue cycle management functions for Dignity Health and, it is intended, other prospective healthcare delivery system customers. OptumInsight, Inc. contributed revenue cycle-related technologies, content and service businesses to Optum360º in exchange for a majority membership interest. Dignity Health contributed certain equipment and the intellectual property related to its internal revenue cycle management functions in exchange for a 25% interest in Optum360º. Beginning in December 2013, certain Dignity Health employees became employees of Optum360º.

The valuation of Dignity Health’s interest in Optum360º was based on management's estimates, currently available information and reasonable and supportable assumptions. The fair value was based on Level 3 valuation inputs and was determined using a discounted cash flow model. Dignity Health calculated the present value of the expected future cash flows attributable to Optum360° using a 16.0% discount rate. A gain on the transaction of $230.5 million, representing the difference between the fair value of the interest in Optum360º received in the transaction and the book value of the assets contributed, was recorded in other operating revenue in the accompanying condensed consolidated statement of operations and changes in net assets. As a portion of the investment is held by a for-profit subsidiary of Dignity Health, a deferred tax liability of $59.6 million was recorded in other long-term liabilities, and a corresponding tax expense of $59.6 million was recorded related to the book to tax basis difference of the assets contributed. The net favorable impact of the transaction on operating income was $170.9 million. Dignity Health accounts for the affiliation with Optum360º under the equity method.

Acquisitions – In August 2012, Dignity Health acquired all of the outstanding common stock of USHW Holdings Corporation (dba U.S. HealthWorks) (“USHW”), a multi-state for-profit operator of occupational health and urgent care centers, and paid $455.0 million plus certain working capital adjustments. In addition, Dignity Health agreed to pay additional amounts based on certain events resulting in increased revenue to USHW subject to the terms and conditions of the purchase agreement. The fair value of the contingent consideration recognized on the acquisition was estimated at $51.5 million. As of June 30, 2014, the fair value of the contingent consideration recognized on the acquisition is estimated at $55.0 million and is recorded in other accrued liabilities.

In connection with the acquisition, USHW subsidiaries became indirect subsidiaries of Dignity Health. As of June 30, 2014, these subsidiaries operated approximately 213 occupational health and urgent care centers in 20 states. All tangible and intangible assets acquired and liabilities assumed in the transaction were recorded at fair value in accordance with the acquisition method of accounting. The results of operations of USHW are included in Dignity Health’s consolidated financial statements from the date of the acquisition.

The following summarizes the fair values of the assets acquired and liabilities assumed as of the acquisition date (in thousands):

	Amounts Recognized as of Acquisition Date as Adjusted
Current assets, including cash and cash equivalents	$ 81,425
Property and equipment, net	32,581
Goodwill	277,959
Intangible assets, net	
U.S. HealthWorks trade name	152,700
Customer relationships and other	79,750
Other long-term assets, net	23,711
Total assets acquired	648,126
Current liabilities	35,384
Long-term liabilities	103,390
Total liabilities acquired	138,774
Net acquired assets	$ 509,352

The valuation of assets acquired was based on management's estimates, currently available information and reasonable and supportable assumptions. The purchase price allocation was based on the fair value of these assets determined using the income approach and the cost method approach. The income approach uses a discounted cash flow model. Dignity Health calculated the present value of the expected future cash flows attributable to the acquired intangibles using an 11.5% discount rate. With respect to intangible assets, Dignity Health used the excess earnings method and the cost method for valuing customer relationships and the relief from royalties method for valuing the trade name with a royalty rate of 3.0%. Contingent consideration was initially valued and is periodically remeasured on a fair value basis using Level 3 pricing inputs as described in Note 8, using a probability weighted approach and a discount rate of 4.1%. Dignity Health allocated the residual value to goodwill. Goodwill represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired.

Also in connection with the acquisition, Dignity Health reversed an existing valuation allowance against its deferred tax assets of $33.3 million as management anticipates that the tax benefits will be utilized by profitable operations from USHW.

Dispositions – In May 2014, Dignity Health sold 100% of the outstanding shares of capital stock of Saint Mary’s Healthfirst, Saint Mary’s Preferred Health Insurance Company, Inc., and CDS of Nevada, Inc. (the “Health Plans”), all in Reno, Nevada, to an unrelated party for $25.7 million, resulting in a gain on the sale of $10.9 million. The operations and the gain on sale of the entities are reflected as discontinued in the accompanying statements of operations and changes in net assets for all periods presented.

The accompanying consolidated statements of operations and changes in net assets reflect the results of the operations of facilities sold, closed or held for sale as discontinued operations for all periods presented, including revenues of $159.5 million and $149.7 million for 2014 and 2013, respectively.

4. NET PATIENT REVENUE AND PATIENT ACCOUNTS RECEIVABLE

The percentage of inpatient and outpatient services, calculated on the basis of usual and customary charges, is as follows:

	2014	2013
Inpatient services	60%	61%
Outpatient services	40%	39%

Patient revenue, net of contractual allowances and discounts (before provision for bad debts) is comprised of the following (in thousands):

	2014	2013
Government	$ 4,777,140	$ 4,975,096
Contracted	4,295,333	3,912,367
Self-pay and other	1,383,523	1,650,964
	$10,455,996	$10,538,427

Government payor type includes Medicare fee for service, Medicare capitated, Medicare managed care fee for service, Medicaid fee for service, Medicaid capitated and Medicaid managed care fee for service patient accounts. Contracted payor type includes contracted rate payors and commercial capitated patient accounts. In prior year financial statements, this information was reflected on a percentage basis.

During 2014, patient accounts receivable levels increased due to billing and collection delays in conjunction with business office consolidations, which preceded the management arrangement with Optum360° (see Notes 3 and 23), and system conversions.

5. REVENUE FROM GOVERNMENT PROGRAMS

The following revenues, which enhance or adjust the per case, per diem, per procedure or per visit amounts received, have been recognized for patient services:

Medicaid Supplemental Reimbursement Programs – Net patient revenue includes $243.2 million and $684.5 million related to supplemental Medi-Cal payments provided under the California provider fee programs in 2014 and 2013, respectively. These programs are funded by quality assurance fees paid by participating hospitals and matching federal funds. Dignity Health recorded $148.2 million and $432.1 million in such fees in purchased services and other expense in 2014 and 2013, respectively. Grant payments to the California Health Foundation and Trust ("CHFT") were recognized in connection with the California provider fee programs resulting in $8.2 million and $22.2 million recorded in purchased services and other expense in 2014 and 2013, respectively. Total net income recognized in 2014 and 2013 was $86.8 million and $230.2 million, respectively. The California program terminated December 31, 2013, however, final CMS approval for certain managed care plans did not occur prior to June 30, 2014. As such, revenues from these plans totaling $44.5 million have not been recognized, and fee and CHFT payments made prior to June 30, 2014, totaling $31.4 million have been deferred, pending final approval which is anticipated prior to December 31, 2014.

In October 2013, the governor of California signed legislation enacting a provider fee covering the period from January 2014 through December 2016. The legislation also created the framework for the fee to continue in perpetuity without requiring further legislation by the State. The State Plan Amendment required for the Centers for Medicare & Medicaid Services ("CMS") review and approval of the 2014-2016 fee was submitted as required by March 31, 2014. Based on experience with provider fees in earlier years, management expects partial CMS approval of the fee by December 2014, with completion of the review and approvals at later dates.

In April 2013, CMS approved the Access to Care Program adopted by the City of Phoenix, Arizona. The program is a provider fee program and covered the period from October 1, 2012, through December 31, 2013.

In 2014 and 2013, net patient revenue includes $34.8 million and $56.4 million, respectively, and purchased services and other expense includes $18.0 million and $27.0 million, respectively, related to this program, for a net income impact of $16.8 million and $29.4 million, respectively.

In 2014 and 2013, net patient revenue also includes $54.8 million and $30.5 million, respectively, and purchased services and other expense includes $13.9 million and $17.1 million, respectively, of grant expense related to prior year supplemental Medicaid payments received in Arizona, resulting in a net income impact of $40.9 million and $13.4 million, respectively.

"Meaningful Use" Incentives –The American Recovery and Reinvestment Act of 2009 established incentive payments under the Medicare and Medicaid programs for certain professionals and hospitals that meaningfully use certified electronic health record ("EHR") technology. The Medicare incentive payments are paid out to qualifying hospitals over four consecutive years on a transitional schedule. To qualify for Medicare incentives, hospitals and physicians must annually meet EHR "meaningful use" criteria that become more stringent over three stages as determined by CMS.

Medicaid programs and payment schedules vary by state. The Medicaid programs in California and Arizona require hospitals to register for the program prior to 2016, to engage in efforts to adopt, implement or upgrade certified EHR technology in order to qualify for the initial year of participation, and to demonstrate meaningful use of certified EHR technology in order to qualify for payment for up to three additional years through 2019 for Arizona and 2021 for California. Nevada implemented a similar program requiring hospitals to demonstrate meaningful use of EHR technology by 2016 to qualify for payment for up to two additional years through 2018.

In 2014 and 2013, Dignity Health recorded meaningful use incentive revenue of $53.8 million and $60.4 million, respectively, related to the Medicare and Medicaid programs. These incentives have been recognized in other operating revenue following the grant accounting model, recognizing income ratably over the applicable reporting period as management becomes reasonably assured of meeting the required criteria. Amounts recognized represent management's best estimates for payments ultimately expected to be received based on estimated discharges, charity care, and other input data. Subsequent changes to these estimates are recognized in the period in which additional information is available.

Medicaid Disproportionate Share Payments **-** Certain hospitals qualified for and received Medi-Cal funding as disproportionate-share hospitals from the State of California in 2014 and 2013. The amounts recorded were $110.8 million and $97.0 million, respectively, and are included in net patient revenue.

Cost Reports and Other Settlements – In 2014 and 2013, net patient revenue includes $27.0 million and $67.7 million, respectively, in favorable net prior years' reimbursement settlements from Medicare, Medicaid and other programs. In addition, Dignity Health recorded $20.0 million and $41.5 million in recovery audit contractor take-backs, net of recoveries, related to prior year claims, for 2014 and 2013, respectively.

At June 30, 2014 and 2013, estimated receivables for third-party payor settlements were $96.5 million and $101.5 million, respectively, and estimated payables for third-party payor settlements were $43.3 million and $52.8 million, respectively. Such amounts are reported under other current assets and other accrued liabilities in the consolidated balance sheets.

6. OTHER CURRENT ASSETS

Other current assets consist of the following at June 30, 2014 and 2013 (in thousands):

	2014	2013
Inventories	$ 174,034	$ 169,282
Receivables, other than patient accounts receivable	322,573	307,927
Provider fee receivables	20,498	303,090
Deferred provider fee expense	31,434	-
Prepaid expenses	66,580	59,929
Deferred tax asset	28,713	16,233
Other	36,975	38,125
Total other current assets	$ 680,807	$ 894,586

7. INVESTMENTS AND ASSETS LIMITED AS TO USE

Investments and assets limited as to use, including assets loaned under securities lending program, consist of the following at June 30, 2014 and 2013 (in thousands):

	2014	2013
Cash and cash equivalents	$ 554,144	$ 851,237
U.S. government securities	506,735	583,903
U.S. corporate bonds	874,057	883,251
U.S. equity securities	1,539,337	1,651,484
Foreign government securities	11,728	7,687
Foreign corporate bonds	20,715	34,446
Foreign equity securities	1,014,943	526,667
Asset-backed securities	17,984	18,700
Structured debt	100,724	149,157
Private equity investments	211,376	149,239
Multi-strategy hedge fund investments	877,437	557,381
Real estate	201,550	197,183
Other	193,625	185,675
Interest in net assets of unconsolidated foundations	265,417	238,349
Total	$ 6,389,772	$ 6,034,359
Assets limited as to use:		
Current	$ 1,148,886	$ 1,049,373
Long-term	3,752,679	3,906,806
Short-term investments	1,488,207	1,078,180
Total	$ 6,389,772	$ 6,034,359

The current portion of assets limited as to use includes the amount of assets available to meet current obligations for debt service and claims payments under the self-insured programs for workers' compensation for employees and professional and general liability.

8. FAIR VALUE MEASUREMENTS

Dignity Health accounts for certain assets and liabilities at fair value or on a basis that approximates fair value. A fair value hierarchy for valuation inputs prioritizes the inputs into three levels based on the extent to which inputs used in measuring fair value are observable in the market. Each fair value measurement is reported in one of the three levels and is determined by the lowest level input that is significant to the fair value measurement in its entirety. These levels are:

Level 1: Quoted prices are available in active markets for identical assets or liabilities as of the measurement date. Financial assets and liabilities in this category include U.S. Treasury securities and listed equities.

Level 2: Pricing inputs are based upon 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. Financial assets and liabilities in this category generally include asset-backed securities, corporate bonds and loans, municipal bonds, and interest rate swaps.

Level 3: Pricing inputs are generally unobservable for the assets or liabilities 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 model-based techniques that include option pricing models, discounted cash flow models, and similar techniques. Financial assets in this category include alternative investments and contingent consideration.

The following represents assets and liabilities measured at fair value on a recurring basis and certain assets accounted for under the equity method as of June 30, 2014 and 2013 (in thousands):

	2014			
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total Balance at June 30, 2014**
Assets				
Cash and cash equivalents	$ 554,144	$ -	$ -	$ 554,144
U.S. government securities	458,161	48,574	-	506,735
U.S. corporate bonds	63,195	616,283	194,579	874,057
U.S. equity securities	1,207,416	331,921	-	1,539,337
Foreign government securities	-	11,728	-	11,728
Foreign corporate bonds	684	20,031	-	20,715
Foreign equity securities	543,919	471,024	-	1,014,943
Asset-backed securities	-	17,984	-	17,984
Structured debt	1,095	99,629	-	100,724
Private equity investments	-	-	211,376	211,376
Multi-strategy hedge fund investments	-	-	877,437	877,437
Real estate	12,136	-	189,414	201,550
Collateral held under securities lending program	-	187,247	-	187,247
Other fund investments	5,263	-	-	5,263
Total assets	$ 2,846,013	$ 1,804,421	$ 1,472,806	$ 6,123,240
Liabilities				
Contingent consideration	$ -	$ -	$ 55,000	$ 55,000
Derivative instruments	-	156,439	-	156,439
Total liabilities	$ -	$ 156,439	$ 55,000	$ 211,439

	2013			
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Balance at June 30, 2013
Assets				
Cash and cash equivalents	$ 851,237	$ -	$ -	$ 851,237
U.S. government securities	528,048	55,855	-	583,903
U.S. corporate bonds	61,967	609,766	211,518	883,251
U.S. equity securities	1,319,793	331,691	-	1,651,484
Foreign government securities	-	7,687	-	7,687
Foreign corporate bonds	7,731	26,715	-	34,446
Foreign equity securities	522,897	3,770	-	526,667
Asset-backed securities	-	18,700	-	18,700
Structured debt	2,892	146,265	-	149,157
Private equity investments	-	-	149,239	149,239
Multi-strategy hedge fund investments	-	-	557,381	557,381
Real estate	8,694	-	188,489	197,183
Collateral held under securities lending program	-	322,468	-	322,468
Other fund investments	9,239	-	-	9,239
Total assets	$ 3,312,498	$ 1,522,917	$ 1,106,627	$ 5,942,042
Liabilities				
Contingent consideration	$ -	$ -	$ 51,500	$ 51,500
Derivative instruments	-	155,304	-	155,304
Total liabilities	$ -	$ 155,304	$ 51,500	$ 206,804

Assets and liabilities measured at fair value on a recurring basis and certain assets accounted for under the equity method are reported in short-term investments, assets limited as to use, and other accrued liabilities in the consolidated balance sheets. Such amounts do not include certain donor-restricted funds and receivables or interests in unconsolidated foundations.

There were no transfers to or from Levels 1 or 2 during the periods presented.

The Level 2 and 3 instruments listed in the fair value hierarchy tables above use the following valuation techniques and inputs:

For marketable securities such as U.S. and foreign government securities, U.S. and foreign corporate bonds, U.S. and foreign equity securities, asset-backed securities, and structured debt, in the instances where identical quoted market prices are not readily available, fair value is determined using quoted market prices and/or other market data for comparable instruments and transactions in establishing prices, discounted cash flow models and other pricing models. These inputs to fair value are included in industry-standard valuation techniques such as the income or market approach. Dignity Health classifies all such investments as Level 2.

For investments such as private equity funds, multi-strategy hedge funds, real estate funds, and other limited partnership investments, fair value is determined using the calculated net asset value (“NAV”) provided by the fund. The value of underlying investments of private equity funds is estimated based on recent filings, operating results, balance sheet stability, growth, and other business and market sector fundamentals. Real estate investments are priced using valuation techniques that include income, sales comparison (market), and cost approaches. Significant inputs include contract and market rents, operating expenses, capitalization rates, discount rates, sales of comparable properties, and market rent growth trends, as well as the use of the value of property plus the cost of building a similar structure of equal utility. Hedge funds and other limited partnership investments typically value underlying securities traded on a national securities exchange or reported on a national market at the last reported sales price on the day of the valuation. Underlying securities traded in the over-the-counter market and listed securities for which no sale was reported on the valuation date are typically valued at the mean between representative bid and ask quotes obtained. Where no fair value is readily available, the fund or investment manager may determine, in good faith, the fair value using models that take into account relevant information considered material. Due to the significant unobservable inputs present in these valuations, Dignity Health classifies all such investments as Level 3. Dignity Health's management regularly monitors and evaluates the accounting and valuation methodologies of the investment managers. Management also performs, on a regular basis when information is made available, various validations and testing of the NAV provided and determines that the investment managers' valuation techniques are compliant with fair value measurement accounting standards. Significant increases (decreases) in any unobservable inputs used for Level 3 holdings, in isolation, would result in significantly lower (higher) fair value measurement.

The fair value of collateral held under securities lending program classified as Level 2 is determined using the calculated NAV. The collateral held under this program is placed in commingled funds whose underlying investments are valued using techniques similar to those used for the marketable securities noted above. Amounts reported do not include non-cash collateral of $44.8 million and $23.7 million as of June 30, 2014 and 2013, respectively.

The fair value of liabilities for derivative instruments such as interest rate swaps classified as Level 2 is determined using an industry standard valuation model, which is based on a market approach. A credit risk spread (in basis points) is added as a flat spread to the discount curve used in the valuation model. Each leg is discounted and the difference between the present value of each leg's cash flows equals the market value of the swap.

The fair value of liabilities for derivative instruments such as risk participation agreements classified as Level 3 is determined using the market value of the referenced securities in the agreements, which factors in the credit risk of the issuer.

The following table presents the change in the balance of financial assets and liabilities using significant unobservable inputs (Level 3) measured on a recurring basis and certain assets accounted for under the equity method in 2014 and 2013 (in thousands):

	2014				
	Private Equity Investments	**Multi-Strategy Hedge Fund Investments**	**Real Estate**	**Debt Securities**	**Total**
Balance at beginning of period	$ 149,239	$ 557,381	$ 188,489	$ 211,518	$ 1,106,627
Total realized gains, net, included in excess of revenues over expenses	13,772	7,222	34,891	9,819	65,704
Total unrealized gains (losses), net, included in excess of revenues over expenses	24,894	57,544	(17,578)	4,680	69,540
Purchases	52,704	472,955	102,964	23,656	652,279
Sales	(29,233)	(217,665)	(119,352)	(55,094)	(421,344)
Balance at end of period	$ 211,376	$ 877,437	$ 189,414	$ 194,579	$ 1,472,806

	2013				
	Private Equity Investments	Multi-Strategy Hedge Fund Investments	Real Estate	Debt Securities	Total
Balance at beginning of period	$ 128,358	$ 485,498	$ 173,758	$ 150,223	$ 937,837
Total realized gains, net, included in excess of revenues over expenses	2,249	14,759	-	694	17,702
Total unrealized gains, net, included in excess of revenues over expenses	3,274	43,821	9,273	32,539	88,907
Purchases	34,713	136,420	5,458	34,532	211,123
Sales	(19,355)	(123,117)	-	(6,470)	(148,942)
Balance at end of period	$ 149,239	$ 557,381	$ 188,489	$ 211,518	$ 1,106,627

Included within the assets above are investments in certain entities that report fair value using a calculated NAV or its equivalent. The following table and explanations identify attributes relating to the nature and risk of such investments as of June 30, 2014 and 2013 (in thousands):

		As of June 30, 2014			
		Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Level 2					
Debt securities	(1)	$ 357,955	$ -	Daily, Quarterly	1 - 90 days
Equity securities	(2)	745,248	-	Daily, Monthly	1 - 30 days
Collateral held under securities lending	(3)	187,247	-	Daily	10 days
Total Level 2		$ 1,290,450	$ -		
Level 3					
Multi-strategy hedge funds	(4)	$ 877,437	$ -	Monthly, Quarterly, Semi-Annually, Annually	5 - 370 days
Private equity	(5)	211,376	278,350	-	-
Real estate	(6)	189,414	-	Quarterly	90 days
Debt securities	(7)	194,579	15,682	Monthly, Quarterly	1 - 90 days
Total Level 3		1,472,806	294,032		
Total Level 2 and Level 3		$ 2,763,256	$ 294,032		

		As of June 30, 2013			
		Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Level 2					
Debt securities	(1)	$ 262,968	$ -	Daily, Quarterly	1 - 90 days
Equity securities	(2)	329,456	-	Daily, Monthly	1 - 30 days
Collateral held under securities lending	(3)	322,468	-	Daily	10 days
Total Level 2		$ 914,892	$ -		
Level 3					
Multi-strategy hedge funds	(4)	$ 557,381	$ -	Monthly, Quarterly, Semi-Annually, Annually	5 - 370 days
Private equity	(5)	149,239	153,095	-	-
Real estate	(6)	188,489	-	Quarterly	90 days
Debt securities	(7)	211,518	15,681	Quarterly	90 days
Total Level 3		1,106,627	168,776		
Total Level 2 and Level 3		$ 2,021,519	$ 168,776		

(1) This category includes investments in commingled funds that invest primarily in domestic and foreign debt and fixed income securities, the majority of which are traded in over-the-counter markets.

(2) This category includes investments in commingled funds that invest primarily in domestic or foreign equity securities with multiple investment strategies. A majority of the funds attempt to match the returns of specific equity indices.

(3) This category includes investments of collateral held under securities lending program. Dignity Health participates in a securities lending program administered by its custodian as a means to augment income from its portfolio. Securities are loaned to select brokerage firms who in turn post collateral. The collateral is placed in commingled funds that invest primarily in cash and cash equivalents, and domestic and foreign debt securities.

(4) This category includes investments in hedge funds that pursue diversification of both domestic and foreign fixed income and equity securities through multiple investment strategies. The primary objective for these funds is to seek attractive long-term risk-adjusted absolute returns. Under certain circumstances, an otherwise redeemable investment or portion thereof could become restricted. Such restrictions were not applicable at June 30, 2014. The following table reflects the various redemption frequencies, notice periods, and any applicable lock-up periods or gates to redemption as of June 30, 2014:

Percentage of the Value of Category (4)		Redemption	Redemption Notice	Redemption Locked Up Until	Redemption Gate % of Account
Total	Subtotal	Frequency	Period	(if applicable)	(if applicable)
22.9%	11.9%	Annually	45 - 90 days	-	-
	4.9%	Annually	45 - 75 days	12/31/2014	-
	6.1%	Annually	60 - 65 days		up to 33.3% - 50.0%
6.7%	6.7%	Semi-Annually	75 - 90 days	-	-
49.4%	25.1%	Quarterly	30 - 370 days	-	-
	3.0%	Quarterly	90 days	-	-
	21.3%	Quarterly	45 - 90 days	-	up to 25.0% - 33.3%
21.0%	14.1%	Monthly	5 - 60 days	-	-
	3.1%	Monthly	120 days	-	-
	3.8%	Monthly	45 days	-	up to 16.7%

(5) This category includes several private equity funds that specialize in providing capital to a variety of investment groups, including but not limited to venture capital, leveraged buyout, mezzanine debt, distressed debt, and other situations. There are no provisions for redemptions during the life of these funds. Distributions from each fund will be received as the underlying investments of the funds are liquidated, estimated at June 30, 2014, to be over the next 1-11 years.

(6) This category includes investments in real estate funds that invest primarily in institutional quality commercial and residential real estate assets within the U.S. and investments in publicly traded real estate investment trusts.

(7) This category includes a commingled fund that invests primarily in a fixed income fund that provides capital in a variety of mezzanine debt, distressed debt and other special debt securities situations.

The investments included above are not expected to be sold at amounts that are different from NAV.

Fair Value of Debt - The fair value of Dignity Health's debt is estimated based on the quoted market prices and/or other market data for the same or similar issues and transactions in active markets or on the current rates offered to Dignity Health for debt of the same remaining maturities, discounted cash flow models and other pricing models. These inputs to fair value are included in industry-standard valuation techniques. Based on the inputs and valuation techniques, the fair value of long-term debt is classified as Level 2 within the fair value hierarchy. The carrying value of Dignity Health's debt is reported within the current portion of long-term debt, demand bonds subject to short-term liquidity arrangements and long-term debt, net of current portion, on the consolidated balance sheets. The estimated fair value of Dignity Health's long-term debt instruments as of June 30, 2014, is as follows (in thousands):

	Carrying Value	Fair Value
Debt issued under Master Trust Indenture:		
Fixed rate revenue bonds	$ 2,321,054	$ 2,467,547
Put bonds	49,900	49,906
Taxable bonds	595,750	557,829
Senior secured notes payable	229,543	259,347
Taxable direct placement loans	169,000	169,000
Variable rate demand bonds	782,800	782,800
Auction rate certificates	322,800	322,800
Notes payable to banks under credit agreement	406,163	406,163
Total debt under Master Trust Indenture	4,877,010	5,015,392
Other	166,261	166,261
Total debt	$ 5,043,271	$ 5,181,653

The fair value amounts do not represent the amount Dignity Health would be required to expend to retire the indebtedness.

9. PROPERTY AND EQUIPMENT, NET

Property and equipment, net, consist of the following at June 30, 2014 and 2013 (in thousands):

	2014	2013
Land	$ 221,669	$ 219,034
Land improvements	115,790	111,035
Buildings	4,846,493	4,512,709
Buildings under capital lease	54,022	54,022
Equipment	3,988,794	3,653,050
Equipment under capital lease	27,756	18,965
Construction in progress	815,330	850,511
Total	10,069,854	9,419,326
Less: Accumulated depreciation	(5,440,651)	(4,996,493)
Property and equipment, net	$ 4,629,203	$ 4,422,833

In prior year financial statements, buildings under capital lease were reflected in the buildings category and equipment under capital lease was reflected in the equipment category.

10. OWNERSHIP INTERESTS IN HEALTH-RELATED ACTIVITIES

Dignity Health has four significant ownership interests, as further described below, that are accounted for under the equity method and reflected in the accompanying balance sheet in ownership interests in health-related activities:

- Dignity Health and Carondelet Health Network (currently a member of Ascension Health) entered into an affiliation agreement in June 1985 by which each affiliate made a 50% investment in Southwest Catholic Healthcare Network, dba Mercy Care Plan. Mercy Care Plan operates a health plan for Arizona's Medicaid program, Arizona Health Care Cost Containment System.
- Dignity Health and Scripps Health ("Scripps") entered into an affiliation agreement in August 1995 to enhance their mutual ability to serve the San Diego community. Through the affiliation, Dignity Health transferred the sole voting membership of one of its subordinate corporations, Mercy Healthcare San Diego ("MHSD") to Scripps, along with the responsibility for its operation and governance. MHSD's principal activity is the operation of a hospital and a network of clinics. Pursuant to the affiliation agreement, among other things, Dignity Health obtained the right to 20% of the net proceeds, with certain restrictions, upon the liquidation of Scripps. Twenty percent of the members of the Scripps Board of Directors are elected from nominees proposed by Dignity Health.
- Dignity Health transferred and contributed to Phoenix Children's Hospital, Inc., ("PCH"), an Arizona nonprofit corporation, substantially all of the pediatric program services and related assets of its facility in Phoenix, Arizona in June 2011. Pursuant to the transaction, Dignity Health obtained 20% of the outstanding membership interests of PCH.
- Dignity Health transferred and contributed to Optum360° certain equipment and the intellectual property related to its internal revenue cycle management functions for a 25%, noncontrolling minority interest in Optum360°. The intent is that Optum360° will also provide revenue cycle management functions for other healthcare customers as further discussed in Notes 3 and 23.

The following table summarizes the financial position and results of operations for the health-related organizations discussed above which are accounted for under the equity method, as of and for the 12 months ended June 30, 2014 and 2013 (in thousands):

	2014			
	Mercy Care Plan	**Scripps Health**	**Phoenix Children's Hospital**	**Optum360°**
Total assets	$ 332,244	$ 4,214,175	$ 1,171,545	$ 1,142,532
Total liabilities	153,846	1,328,191	791,847	114,925
Total net assets	178,398	2,885,984	379,698	1,027,607
Total revenues, net	1,799,800	2,714,162	682,236	323,614
Excess of revenues over expenses	42,284	333,189	55,790	8,427
Investment at June 30 recorded in ownership interests in health-related activities	89,199	533,878	56,819	235,928
Income recorded in revenue from health-related activities, net	$ 21,528	$ 70,949	$ 11,322	$ 2,107

	2013		
	Mercy Care Plan	Scripps Health	Phoenix Children's Hospital
Total assets	$ 351,924	$ 3,899,303	$ 1,108,949
Total liabilities	175,130	1,376,524	794,888
Total net assets	176,794	2,522,779	314,061
Total revenues, net	1,726,961	2,842,425	671,203
Excess of revenues over expenses	28,181	415,547	73,684
Investment at June 30 recorded in ownership interests in health-related activities	88,561	462,929	45,497
Income recorded in revenue from health-related activities, net	$ 14,254	$ 87,676	$ 13,537

Related to consolidated investments in health-related activities, Dignity Health recorded net changes in noncontrolling interests related to revenues, expenses, gains, and losses of $27.7 million and $27.3 million in excess of revenues over expenses attributable to noncontrolling interests in the consolidated statements of operations and changes in net assets for 2014 and 2013, respectively.

11. GOODWILL

Goodwill is measured as of the effective date of a business combination as the excess of the aggregate of the fair value of consideration transferred over the fair value of the tangible and intangible assets acquired and liabilities assumed.

Dignity Health performed its annual goodwill impairment test at September 30, 2013, for the USHW reporting unit and determined that the fair value of the reporting unit exceeded the carrying value. The income and market approaches were used to determine fair value and the key assumptions used in the goodwill impairment analysis included projected results. Significant changes in this and other assumptions could cause the assessed fair value of the reporting unit to be below its carrying value, and as a result, goodwill would be considered impaired. The balance of goodwill for the USHW reporting unit is approximately $317.4 million as of June 30, 2014.

The annual impairment test date for other goodwill, recorded primarily at consolidated investments in health-related activities, is March 31.

The changes in the carrying amount of goodwill are as follows (in thousands):

	2014	2013
Balance at beginning of period	$ 486,773	$ 123,013
Addition from acquisitions	24,978	364,804
Goodwill impairment	(3,744)	-
Acquisition accounting adjustments	1,765	(1,044)
Balance at end of period	$ 509,772	$ 486,773

12. INTANGIBLE ASSETS, NET

Intangible assets reported in the consolidated balance sheets consist primarily of amounts for the trade name of USHW, customer relationships, developed technology, favorable leasehold interests, non-compete agreements, licensing fees, and management fee contracts related to certain business combinations accounted for under the acquisition method.

Dignity Health performed its annual impairment test at September 30, 2013, for the trade name of USHW and determined that the fair value exceeded the carrying value. The income approach was used to determine fair value and the key assumptions used in the impairment analysis included projected revenues and the royalty rate.

Information related to intangible assets at June 30, 2014 and 2013, is as follows (in thousands):

	2014			
	Gross Carrying Amount	**Accumulated Amortization**	**Net Balance at End of Period**	**Amortization period**
Trademark	$ 152,700	$ -	$ 152,700	Indefinite
Customer relationships	57,600	(7,360)	50,240	15 years
Noncompete agreements	4,773	(1,093)	3,680	36-84 months
Other	31,028	(13,605)	17,423	36-84 months
	$ 246,101	$ (22,058)	$ 224,043	

	2013			
	Gross Carrying Amount	**Accumulated Amortization**	**Net Balance at End of Period**	**Amortization period**
Trademark	$ 152,700	$ -	$ 152,700	Indefinite
Customer relationship	57,600	(3,520)	54,080	15 years
Noncompete agreements	2,926	(168)	2,758	36-84 months
Other	28,404	(5,845)	22,559	36-84 months
	$ 241,630	$ (9,533)	$ 232,097	

The aggregate amount of amortization expense related to intangible assets subject to amortization is $11.2 million and $8.5 million for the years ended June 30, 2014 and 2013, respectively.

Estimated amortization expense related to intangible assets subject to amortization for the next five years and thereafter is as follows (in thousands):

	Amortization of Intangible Assets
2015	$ 12,371
2016	10,440
2017	8,301
2018	5,201
2019	3,994
Thereafter	31,036
Total	$ 71,343

13. OTHER LONG-TERM ASSETS, NET

Other long-term assets, net, consist of the following at June 30, 2014 and 2013 (in thousands):

	2014	2013
Notes receivable, primarily secured	$ 30,023	$ 34,069
Deferred financing costs, net	28,719	33,378
Deferred tax asset	3,264	40,686
Other	54,835	44,367
Total other long-term assets, net	$ 116,841	$ 152,500

14. OTHER ACCRUED LIABILITIES

Other accrued liabilities, net, consist of the following at June 30, 2014 and 2013 (in thousands):

	2014	2013
Accrued interest expense	$ 67,736	$ 72,979
Provider fee and CHFT grant payables	25,804	106,394
Derivative liabilities	156,439	155,304
Due to government agencies	43,254	52,757
Accrued health insurance claims incurred but not reported	31,842	27,199
Construction retention and contracts payable	22,941	26,827
Other	234,847	120,176
Total other accrued liabilities	$ 582,863	$ 561,636

15. RETIREMENT PROGRAMS

Dignity Health maintains defined benefit pension plans and other postretirement benefit plans that cover most employees. Benefits for both types of plans are generally based on age, years of service and employee compensation.

The plans are actuarially evaluated and involve various assumptions. These assumptions include the discount rate and the expected rate of return on plan assets (for pension), which are important elements of expense and liability measurement. Other assumptions involve demographic factors such as retirement age, mortality, turnover and the rate of compensation increases. Dignity Health evaluates assumptions annually and modifies them as appropriate. Pension costs and other postretirement benefit costs are allocated over the service period of the employees in the plans. The principle underlying this accounting is that employees render service ratably over the period and, therefore, the effects in the consolidated statements of operations and changes in net assets follow the same pattern.

Contributions to the defined benefit pension plans are based on actuarially determined amounts sufficient to meet the benefits to be paid to plan participants. Management believes these plans qualify under a church plan exemption, and as such are not subject to Employee Retirement Income Security Act (“ERISA”) funding requirements. Dignity Health’s funding policy requires that, at a minimum, contributions equal the unfunded normal cost plus amortization of any unfunded actuarial accrued liability. Contributions to these plans are anticipated at $204.0 million in 2015.

Dignity Health amended pension provisions during 2014 resulting in a reduction to the benefit obligation as of June 30, 2014 and annual expense on an ongoing basis. The most significant changes were a new pension formula for certain employees, including transition benefits for participants who meet the eligibility requirements, and making lump sum payments available in certain circumstances where they were previously unavailable. Dignity Health also amended pension provisions during 2013, resulting in a reduction in the benefit obligation as of June 30, 2013, and reduced annual expense on an ongoing basis. The most significant changes included updating the actuarial equivalence definition and making lump sum payments available in other circumstances where they were previously unavailable.

The accumulated benefit obligation exceeds plan assets for each of the defined benefit plans and postretirement benefit plans for the years ended June 30, 2014 and 2013. The following summarizes the benefit obligations and funded status for the defined benefit pension and postretirement benefit plans for 2014 and 2013 (in thousands):

	2014		2013	
	Pension Plans	Other Benefit Plans	Pension Plans	Other Benefit Plans
Change in benefit obligation:				
Benefit obligation at beginning of period	$ 3,742,989	$ 140,249	$ 3,723,951	$ 122,551
Service cost	208,938	7,236	224,225	6,287
Interest cost	191,696	6,819	183,816	6,412
Plan changes/amendments	(125,028)	-	(194,756)	6
Actuarial loss (gain)	313,731	10,200	(13,307)	12,211
Administrative expenses	(8,613)	-	(8,845)	-
Benefits paid	(129,587)	(8,014)	(172,095)	(7,218)
Benefit obligation at end of period	$ 4,194,126	$ 156,490	$ 3,742,989	$ 140,249
Accumulated benefit obligation	$ 3,948,291	$ 156,490	$ 3,533,520	$ 140,249
Change in plan assets:				
Fair value of plan assets at beginning of period	$ 2,956,840	$ -	$ 2,440,136	$ -
Actual return on plan assets	526,239	-	372,042	-
Employer contributions	303,761	8,014	325,602	7,218
Benefits paid	(128,690)	(8,014)	(172,095)	(7,218)
Administrative expenses	(8,613)	-	(8,845)	-
Fair value of plan assets at end of period, net	$ 3,649,537	$ -	$ 2,956,840	$ -
Funded status	$ (544,589)	$ (156,490)	$ (786,149)	$ (140,249)

The following table summarizes the amounts recognized in unrestricted net assets as of June 30, 2014 and 2013 (in thousands):

	2014		2013	
	Pension Plans	Other Benefit Plans	Pension Plans	Other Benefit Plans
Net actuarial loss	$ 1,131,346	$ 28,444	$ 1,149,410	$ 19,007
Prior service cost (credit)	(422,331)	27,178	(337,352)	33,212
Amounts in unrestricted net assets	$ 709,015	$ 55,622	$ 812,058	$ 52,219

The estimated net loss and prior service credit for the pension plans and postretirement benefit plans that will be amortized from unrestricted net assets into net periodic benefit cost in 2015 are $60.3 million and $38.2 million, respectively.

Current pension and other postretirement benefit liabilities reflect amounts expected to be funded in the following year. The following table summarizes the amounts recognized in the consolidated balance sheets as of June 30, 2014 and 2013 (in thousands):

	2014		2013	
	Pension Plans	Other Benefit Plans	Pension Plans	Other Benefit Plans
Current liabilities	$ 206,047	$ 10,258	$ 305,660	$ 9,317
Long-term liabilities	338,542	146,232	480,489	130,932
Accrued benefit cost	$ 544,589	$ 156,490	$ 786,149	$ 140,249

The following table summarizes the weighted-average assumptions used to determine benefit obligations as of June 30, 2014 and 2013:

	2014		2013	
	Pension Plans	Other Benefit Plans	Pension Plans	Other Benefit Plans
To determine benefit obligations:				
Discount rate	4.75%	4.25%	5.25%	5.00%
Rate of compensation increase	4.00%	4.03%	4.04%	4.03%
To determine net periodic benefit cost:				
Discount rate	5.25%	5.00%	5.00%	5.70%
Expected return on plan assets	8.00%	N/A	8.00%	N/A
Rate of compensation increase	4.04%	4.03%	4.13%	5.08%

The following table summarizes the components of net periodic cost recognized in the consolidated statements of operations and changes in net assets for 2014 and 2013 (in thousands):

	2014		2013	
	Pension Plans	Other Benefit Plans	Pension Plans	Other Benefit Plans
Service cost	$ 208,938	$ 7,236	$ 224,225	$ 6,287
Interest cost	191,696	6,819	183,816	6,412
Expected return on plan assets	(255,078)	-	(204,256)	-
Net prior service cost (credit) amortization	(40,049)	6,034	(16,530)	6,033
Net loss (gain) amortization	60,634	763	93,258	(467)
Net periodic benefit cost	$ 166,141	$ 20,852	$ 280,513	$ 18,265
Net periodic benefit cost, continuing operations	$ 165,804	$ 20,796	$ 279,938	$ 18,192

The following represents the fair value of plan assets, net, measured on a recurring basis as of June 30, 2014 and 2013 (in thousands). See Note 8 for the definition of Levels 1, 2 and 3 in the fair value hierarchy.

	2014			
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total Balance at June 30, 2014**
Assets				
Cash and cash equivalents	$ 183,392	$ -	$ -	$ 183,392
U.S. government securities	199,868	4,957	-	204,825
U.S. corporate bonds	-	221,053	81,815	302,868
U.S. equity securities	1,079,867	214,169	-	1,294,036
Foreign government securities	-	4,058	-	4,058
Foreign corporate bonds	-	4,946	-	4,946
Foreign equity securities	460,700	403,275	-	863,975
Asset-backed securities	-	2,033	-	2,033
Structured debt	-	9,783	-	9,783
Private equity investments	-	-	176,606	176,606.00
Multi-strategy hedge fund investments	-	-	585,206	585,206
Real estate	11,099	-	20	11,119
Collateral held under securities lending program	-	96,082	-	96,082
Other, including due from brokers for unsettled investment trades and prepaid fund subscriptions	-	12,837	-	12,837
Total assets	$ 1,934,926	$ 973,193	$ 843,647	$ 3,751,766
Liabilities				
Payable under securities lending program	$ -	$ 96,082	$ -	$ 96,082
Other, including due to brokers for unsettled investment trades	-	6,147	-	6,147
Total liabilities	$ -	$ 102,229	$ -	$ 102,229
Fair value of plan assets, net	$ 1,934,926	$ 870,964	$ 843,647	$ 3,649,537

	2013			
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total Balance at June 30, 2013**
Assets				
Cash and cash equivalents	$ 197,958	$ -	$ -	$ 197,958
U.S. government securities	142,060	4,993	-	147,053
U.S. corporate bonds	-	201,460	75,422	276,882
U.S. equity securities	994,625	290,421	-	1,285,046
Foreign government securities	-	2,866	-	2,866
Foreign corporate bonds	-	3,636	-	3,636
Foreign equity securities	484,099	4,592	-	488,691
Asset-backed securities	-	1,647	-	1,647
Structured debt	-	11,474	-	11,474
Private equity investments	-	-	137,658	137,658
Multi-strategy hedge fund investments	-	-	346,955	346,955
Real estate	6,625	-	49,684	56,309
Collateral held under securities lending program	-	103,930	-	103,930
Other, including due from brokers for unsettled investment trades and prepaid fund subscriptions	-	8,436	-	8,436
Total assets	$ 1,825,367	$ 633,455	$ 609,719	$ 3,068,541
Liabilities				
Payable under securities lending program	$ -	$ 103,930	$ -	$ 103,930
Other, including due to brokers for unsettled investment trades	-	7,771	-	7,771
Total liabilities	$ -	$ 111,701	$ -	$ 111,701
Fair value of plan assets, net	$ 1,825,367	$ 521,754	$ 609,719	$ 2,956,840

For information about the valuation techniques and inputs used to measure the fair value of plan assets, see discussion regarding fair value measurements in Note 8.

The following represents changes in plan assets using significant unobservable inputs (Level 3) measured on a recurring basis in 2014 and 2013 (in thousands):

	2014				
	Private Equity Investments	**Multi-Strategy Hedge Fund Investments**	**Real Estate**	**Debt Securities**	**Total**
Balance at beginning of period	$ 137,658	$ 346,955	$ 49,684	$ 75,422	$ 609,719
Total realized gains, net	10,170	5,345	(36,359)	1,812	(19,032)
Total unrealized gains, net	27,112	29,367	41,410	3,623	101,512
Purchases	29,632	359,626	424	15,502	405,184
Sales	(27,966)	(156,087)	(55,139)	(14,544)	(253,736)
Balance at end of period	$ 176,606	$ 585,206	$ 20	$ 81,815	$ 843,647

	2013				
	Private Equity Investments	**Multi-Strategy Hedge Fund Investments**	**Real Estate**	**Debt Securities**	**Total**
Balance at beginning of period	$ 124,015	$ 309,961	$ 47,068	$ 47,605	$ 528,649
Total realized gains, net	277	9,625	96	-	9,998
Total unrealized gains (losses), net	(509)	36,893	3,349	11,695	51,428
Purchases	30,110	79,819	197	17,277	127,403
Sales	(16,235)	(89,343)	(1,026)	(1,155)	(107,759)
Balance at end of period	$ 137,658	$ 346,955	$ 49,684	$ 75,422	$ 609,719

The following table summarizes the weighted-average asset allocations by asset category for the pension plans for 2014 and 2013:

	Plan Assets at June 30	
	2014	**2013**
Cash and cash equivalents	5%	7%
U.S. government securities	6%	5%
U.S. corporate bonds	9%	9%
U.S. equity securities	35%	43%
Foreign equity securities	24%	17%
Private equity investments	5%	5%
Multi-strategy hedge fund investments	16%	12%
Real estate	0%	2%
Total	100%	100%

The asset allocation policy for the pension plans for 2014 is as follows: domestic fixed income, 20% (which may include U.S. government securities, U.S. corporate bonds, asset-backed securities and/or structured debt); domestic equity, 28% (including U.S. equity securities); international equity, 24% (including foreign equity securities); private equity, 12% (which may include private equity investments and/or structured debt); and hedge funds, 16% (which may include hedge fund investments, asset-backed securities and/or structured debt).

Dignity Health's investment strategy for the assets of the pension plans is designed to achieve returns to meet obligations and grow the assets of the portfolio longer term, consistent with a prudent level of risk. The strategy balances the liquidity needs of the pension plans with the long-term return goals necessary to satisfy future obligations. The target asset allocation is diversified across traditional and non-traditional asset classes. Diversification is also achieved through participation in U.S. and non-U.S. markets, market capitalization, and investment manager style and philosophy. The complimentary investment styles and approaches used by both traditional and alternative investment managers are aimed at reducing volatility while capturing the equity premium from the capital markets over the long term. Risk tolerance is established through consideration of plan liabilities, plan funded status, and corporate financial condition. Consistent with Dignity Health's fiduciary responsibilities, the fixed income allocation generally provides for security of principal to meet near term expenses and obligations. Periodic reviews of the market values and corresponding asset allocation percentages are performed to determine whether a rebalancing of the portfolio is necessary.

Dignity Health's pension plan portfolio return assumption of 8.0% for 2014 and 2013 was based on the long-term weighted average return of comparative market indices for the asset classes represented in the portfolio and discounted for pension plan expenses, and expectations about future returns.

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

	Pension Benefits	Other Benefits
2015	$ 151,068	$ 10,258
2016	164,612	11,476
2017	183,194	12,372
2018	200,071	12,873
2019	220,515	14,253
2020 - 2024	1,357,015	73,918
Total	$ 2,276,475	$ 135,150

Dignity Health maintains defined contribution retirement plans for most employees. Employer contributions to those plans of $51.7 million and $49.5 million for 2014 and 2013, respectively, are primarily based on a percentage of a participant's contribution. Total retirement and postretirement benefit expenses under all plans, including the defined contribution plans, was $250.7 million and $359.6 million for 2014 and 2013, respectively, and are included in salaries and benefits in the consolidated statements of operations and changes in net assets.

16. DEBT

Debt consists of the following at June 30, 2014 and 2013 (in thousands):

	2014	2013
Under Master Trust Indenture:		
Fixed rate debt:		
Fixed rate revenue bonds payable in installments through 2042; interest at 3.0% to 6.25%	$ 2,321,054	$ 2,403,767
Put bonds payable in installments through 2027 with a 2015 mandatory purchase date; interest at 5.0%	49,900	195,970
Taxable bonds payable in equal installments in 2023 and 2043; interest at 3.13% to 4.5%	595,750	595,235
Senior secured notes payable in 2015 and 2018; interest at 6.09% and 6.5%, respectively	229,543	229,426
Total fixed rate debt	3,196,247	3,424,398
Variable rate debt:		
Taxable direct placement loan payable in 2019; interest set at prevailing market rates (1.25% at June 30, 2014)	169,000	-
Variable rate demand bonds payable in installments through 2047; interest set at prevailing market rates (0.03% to 0.06% at June 30, 2014)	782,800	785,400
Auction rate certificates payable in installments through 2042; interest set at prevailing market rates (0.1% to 0.5% at June 30, 2014)	322,800	323,400
Notes payable to banks under credit agreement payable in 2019; interest set at prevailing market rates (0.95% at June 30, 2014)	406,163	341,796
Total variable rate debt	1,680,763	1,450,596
Total debt under Master Trust Indenture	4,877,010	4,874,994
Other		
Various notes payable and other debt payable in installments through 2042; interest ranging up to 8.0%	112,004	105,873
Capitalized lease obligations	54,257	70,762
Total debt	5,043,271	5,051,629
Less current portion of long-term debt	(229,264)	(129,112)
Less demand bonds subject to short-term liquidity arrangements, excluding current maturities	(776,400)	(782,800)
Total long-term debt	$ 4,037,607	$ 4,139,717

Scheduled principal debt payments, net of discounts and considering obligations subject to short-term liquidity arrangements as due according to their long-term amortization schedule, for the next five years and thereafter, are as follows (in thousands):

	Long-Term Debt Other Than Demand Bonds	Demand Bonds Subject to Short-Term Liquidity Arrangements	Total Long-Term Debt
2015	$ 222,864	$ 6,400	$ 229,264
2016	138,295	7,000	145,295
2017	112,228	7,600	119,828
2018	276,024	8,300	284,324
2019	680,054	9,000	689,054
Thereafter	2,831,006	744,500	3,575,506
Total	$ 4,260,471	$ 782,800	$ 5,043,271

Master Trust Indenture – Dignity Health issues debt under a Master Trust Indenture of the Obligated Group which requires, among other things, gross revenue pledged as collateral, certain limitations on additional indebtedness, liens on property and disposition or transfers of assets, and the maintenance of certain cash balances and other financial ratios. Dignity Health is in compliance with these requirements at June 30, 2014.

Debt Arrangements **- Fixed Rate Revenue Bonds** – Dignity Health has fixed rate revenue bonds outstanding that may be redeemed, in whole or in part, prior to the stated maturities without a premium.

Put Bonds – Dignity Health issued bonds under multimodal interest rate documents, initially issued at a fixed rate for 10-year periods, with bond maturities that extended to 2027. Dignity Health legally defeased $145.1 million in June 2014 and the remaining $49.9 million in July 2014.

Taxable Bonds and Senior Secured Notes Payable – Dignity Health has taxable bonds at a fixed interest rate that are due in 2023 and 2043 and taxable, senior secured notes outstanding at a fixed interest rate that are due at their stated maturity in 2015 and 2018. Early redemption of the debt, in whole or in part, may require a premium depending on market rates.

Taxable Direct Placement Loan – Dignity Health has a taxable direct placement loan with a bank at a variable interest rate that resets monthly.

Variable Rate Demand Bonds – Variable rate demand bonds ("VRDBs") are remarketed weekly and the VRDBs may be put at the option of the holders. Dignity Health maintains bank letters of credit to support $782.8 million of VRDBs. The letters of credit serve as credit enhancement to ensure the availability of funds to purchase any bonds tendered that the remarketing agent is unable to remarket.

Letters of credit from four banks in amounts to support VRDBs of $57.0 million, $195.6 million, $140.4 million and $90.0 million mature in October 2015. The bank letter of credit supporting $58.8 million, $150.0 million, and $91.0 million of VRDBs are set to expire in July 2016, November 2016 and June 2017, respectively. In the event that the remarketing agent is unable to remarket the VRDBs, the bond trustee will make a draw on the bank letters of credit and the tendered VRDBs will become bank bonds.

Certain bank bonds are subject to various repayment provisions ranging from two to five years with further accelerations upon successful bond remarketing, early redemptions, bond cancellations, conversion to a different interest rate mode, defaults, substitution of letter of credit providers or under certain other conditions.

VRDBs that are not remarketed and are subsequently funded by amounts drawn under the bank letters of credit and held as bank bonds are reported as extinguishments of debt and new borrowings, respectively, in the consolidated statements of cash flows. Repayments of these draws from proceeds of remarketed VRDBs are reported as extinguishments of debt and new borrowings, respectively, in the consolidated statements of cash flows.

Auction Rate Certificates – Dignity Health has $240.0 million of auction rate certificates ("ARCs") that are remarketed weekly and $82.8 million of ARCs that are remarketed every 35 days. The certificates are insured by various bond insurers. Holders of ARCs are required to hold the certificates until the remarketing agent can find a new buyer for any tendered certificates.

Notes Payable to Banks Under Credit Agreement – In 2014, Dignity Health maintained a $680.0 million syndicated line of credit facility for working capital, letters of credit, capital expenditures and other general corporate purposes. During 2014 and 2013, the maximum amount outstanding under the syndicated credit facility was $406.1 million and $474.0 million, respectively. There were no letters of credit issued under this facility as of June 30, 2014 and 2013.

Dignity Health also maintained a $35.0 million single-bank line of credit facility for standby letters of credit. Letters of credit issued under this facility were $19.7 million and $18.8 million as of June 30, 2014 and 2013, respectively, but no amounts have been drawn.

Both credit facilities are scheduled to expire in July 2018.

2014 Financing Activity – In July 2013, Dignity Health renegotiated and increased the syndicated line of credit facility from $480.0 million to $680.0 million for working capital, letters of credit, capital expenditures and other general corporate purposes. The balance of $307.5 million under the previous credit facility was repaid with proceeds from the renegotiated credit facility.

Dignity Health also renegotiated the single bank line of credit facility for standby letters of credit. This amount was increased from $20.0 million to $35.0 million.

In September 2013, Dignity Health entered into a $169.0 million loan with a bank. The proceeds were used to refinance outstanding draws on the syndicated line of credit. The new loan matures in September 2018.

In June 2014, $145.1 million in outstanding put bonds were legally defeased, and in July 2014, the remaining $49.9 million in put bonds were defeased, both financed by draws on the syndicated line of credit.

In addition to activity noted above, Dignity Health drew $150.0 million in October 2013 and $75.0 million in February 2014 on its syndicated line of credit facility for general working capital purposes.

Throughout 2014, $136.8 million was repaid on the credit facility in addition to the amounts discussed above.

2013 Financing Activity – During 2013, Dignity Health drew $840.8 million on its syndicated line of credit facility, using $310.0 million as interim financing of a portion of the acquisition of USHW, $385.8 million to facilitate repurposing of its equipment loan pool program, and $145.0 million to refinance a maturing senior secured note. At June 30, 2013, $360.6 million of these draws had been refinanced by taxable bonds and $302.4 million had been repaid from equipment loan pool proceeds.

In September 2012, $42.1 million of outstanding bond obligations at Saint Mary's Regional Medical Center in Reno, Nevada, were legally defeased to the first call date, satisfying the remediation requirement pursuant to the sale of the hospital, and a loss on early extinguishment of debt of $8.0 million was recorded in discontinued operations.

In October 2012, Dignity Health issued $600.0 million of taxable fixed rate bonds with a discount of $5.2 million, with repayments of $300.0 million to be made in November 2022 and 2042. A portion of the proceeds of the taxable debt were used to repay $360.6 million of outstanding syndicated line of credit facility draws, primarily related to the USHW acquisition.

In October 2012, in conjunction with the replacement of the letters of credit supporting VRDBs, as discussed above, $373.8 million of bonds were tendered, of which $223.0 million of the bonds were subject to a mandatory tender and $150.8 million of the bonds were optionally tendered; the bonds were remarketed on the same day.

In March 2013, USHW entered into two lines of credit aggregating to $50.0 million with a bank primarily to finance acquisitions and other corporate purposes. Both credit facilities mature in February 2016. At June 30, 2013, $25.0 million drawn on one line of credit was outstanding. The outstanding draws are included above in various notes payable and other debt payable.

17. DERIVATIVE INSTRUMENTS

Dignity Health's derivative instruments include16 floating-to-fixed interest rate swaps as of June 30, 2014 and 2013, respectively. Dignity Health uses floating-to-fixed interest rate swaps to manage interest rate risk associated with outstanding variable rate debt. Under these swaps, Dignity Health receives a percentage of LIBOR ranging from 57.00% to 58.96% plus a spread ranging from 0.13% to 0.32% and pays a fixed rate. Dignity Health's derivative instruments also include four fixed-to-floating risk participation agreements as of June 30, 2014. Dignity Health uses fixed-to-floating risk participation agreements to reduce interest expense associated with fixed rate debt. Under these risk participation agreements, Dignity Health receives a fixed rate and pays a variable rate percentage of SIFMA plus a spread.

In March 2013, Dignity Health novated swaps with notional amounts of $227.7 million from one counterparty to various counterparties. These swaps have various termination provisions as described below. Additionally, the option for the counterparty to exercise a put on $209.8 million of notional amount outstanding in May 2013 was extended to May 2015 with put options every two years thereafter.

The following table shows the outstanding notional amount of derivative instruments measured at fair value, net of credit value adjustments, as reported in other accrued liabilities in the consolidated balance sheets as of June 30, 2014 and 2013 (in thousands):

	Maturity Date of Derivatives	Interest Rate	Notional Amount Outstanding	Fair Value
			June 30, 2014	
Derivatives not designated as hedges				
Interest rate swaps	2026 - 2042	3.2% - 3.4%	$ 940,450	$ (156,439)
Risk participation agreements	2017, with extension options	SIFMA plus spread	$ 215,000	$ -
			June 30, 2013	
Derivatives not designated as hedges				
Interest rate swaps	2026 - 2042	3.2% - 3.4%	$ 940,600	$ (155,304)
Risk participation agreements	2017, with extension options	SIFMA plus spread	$ 215,000	$ -

Changes in fair value of derivative instruments have been recorded for 2014 and 2013 as follows (in thousands):

	2014	2013
Loss reclassified from unrestricted net assets into interest expense, net, related to derivatives in cash flow hedging relationships:		
Interest rate swaps - amortization	$ (2,683)	$ (2,683)
Gain (loss) recognized in interest expense, net:		
Changes in fair value of non-hedged derivatives - interest rate swaps	(1,135)	72,748
Amortization of amounts in unrestricted net assets - interest rate swaps	(2,683)	(2,683)
Total	$ (3,818)	$ 70,065

Of the amounts classified in unrestricted net assets as of June 30, 2014, Dignity Health anticipates reclassifying approximately $2.7 million of additional non-cash losses from unrestricted net assets into interest expense, net, in the next twelve months. Amounts in unrestricted net assets will be amortized into earnings as the interest payments being economically hedged are made.

Of the $940.5 and $940.6 million notional amount of interest rate swaps held by Dignity Health at June 30, 2014 and 2013, respectively, $160.0 million are insured and have a negative fair value of $33.3 million and $31.9 million at June 30, 2014 and 2013, respectively. In the event the insurer, Assured Guaranty, is downgraded below A2/A or A3/A- (Moody's/Standard and Poor's), the counterparties have the right to terminate the swaps if Dignity Health does not provide alternative credit support acceptable to them within 30 days of being notified of the downgrade. If the insurer is downgraded below the thresholds noted above and Dignity Health is downgraded below Baa3/BBB- (Moody's/Standard and Poor's), the counterparties have the right to terminate the swaps.

Dignity Health had $780.5 million and $780.6 million of interest rate swaps that are not insured as of June 30, 2014 and 2013, respectively. While Dignity Health has the right to terminate the swaps prior to maturity for any reason, counterparties have various rights to terminate, including swaps in the outstanding notional amount of $100.0 million at each five-year anniversary date commencing in March 2018 and swaps in the notional amount of $209.8 million at each two-year anniversary commencing in May 2015. Swaps in the notional amount of $60.0 million and swaps in the notional amount of $67.7 million have mandatory puts in March 2021 and March 2023, respectively. The termination value would be the fair market value or the replacement cost of the swaps, depending on the circumstances. These interest rate swaps have a negative fair value of $70.7 million and $70.2 million at June 30, 2014 and 2013, respectively. The remaining uninsured swaps in the notional amount of $343.0 million have a negative fair value of $52.4 million and $53.2 million as of June 30, 2014 and 2013, respectively. The fair value of the risk participation agreements is deemed immaterial as of June 30, 2014 and 2013.

All of the uninsured swaps and risk participation agreements have certain early termination triggers caused by an event of default or a termination event. The events of default include failure to make payments when due, failure to give notice of a termination event, failure to comply with or perform obligations under the agreements, bankruptcy or insolvency, and defaults under other agreements (cross-default provision). The termination events include credit ratings dropping below Baa1/BBB+ (Moody's/Standard & Poor's) by either party on a notional amount of $529.8 million of swaps and below Baa2/BBB on a notional amount of $410.7 million and Dignity Health's cash on hand dropping below 85 days.

Dignity Health, under the terms of its Master Trust Indenture, is prohibited from posting collateral on derivative instruments.

18. INTEREST EXPENSE, NET

The components of interest expense, net, include the following (in thousands):

	2014	2013
Interest and fees on debt and swap cash settlements	$ 216,306	$ 214,020
Market adjustment on swaps and amortization of amounts in unrestricted net assets	3,818	(70,065)
Total interest expense	220,124	143,955
Capitalized interest expense	(21,310)	(23,099)
Interest expense, net	$ 198,814	$ 120,856

19. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Restricted net assets as of June 30, 2014 and 2013, consist of donor-restricted contributions and grants, which are to be used as follows (in thousands):

	2014	2013
Equipment and expansion	$ 64,176	$ 75,747
Research and education	51,177	50,835
Charity and other	202,600	152,125
Total temporarily restricted net assets	$ 317,953	$ 278,707
Permanently restricted net assets	106,690	105,085
Total restricted net assets	$ 424,643	$ 383,792

The composition of endowment net assets by type of fund as of June 30, 2014 and 2013, is as follows (in thousands):

2014	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment net assets	$ -	$ 37,998	$ 106,690	$ 144,688
Board-designated endowment net assets	19,524	-	-	19,524
Total endowment net assets	$ 19,524	$ 37,998	$ 106,690	$ 164,212

2013	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment net assets	$ -	$ 29,882	$ 105,237	$ 135,119
Board-designated endowment net assets	17,744	-	-	17,744
Total endowment net assets	$ 17,744	$ 29,882	$ 105,237	$ 152,863

Changes in endowment net assets during 2014 and 2013 are as follows (in thousands):

	2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of period	$ 17,744	$ 29,882	$ 105,237	$ 152,863
Investment returns	597	5,333	59	5,989
Unrealized gains	1,337	2,691	12	4,040
Contributions	-	-	2,512	2,512
Change in interest in unconsolidated foundations	(154)	-	3	(151)
Appropriation of endowment assets for expenditure	-	(2,241)	-	(2,241)
Other	-	2,333	(1,133)	1,200
Endowment net assets, end of period	$ 19,524	$ 37,998	$ 106,690	$ 164,212

	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of period	$ 15,698	$ 26,021	$ 104,873	$ 146,592
Investment returns	592	1,584	152	2,328
Unrealized gains	1,466	2,106	16	3,588
Contributions	-	998	(69)	929
Change in interest in unconsolidated foundations	-	-	551	551
Appropriation of endowment assets for expenditure	(42)	(709)	-	(751)
Transfers to remove or add to board-designated endowment funds	-	(1)	(20)	(21)
Other	30	(117)	(266)	(353)
Endowment net assets, end of period	$ 17,744	$ 29,882	$ 105,237	$ 152,863

Included in donor-restricted assets limited as to use are unconditional promises to give which are recorded using discount rates ranging from 3.0 % to 6.0% and are due as follows as of June 30, 2014 and 2013 (in thousands):

	2014	2013
Less than one year	$ 12,550	$ 8,597
One to five years	13,940	11,070
More than five years	61	82
Less: allowance for uncollectible contributions receivable	(1,448)	(1,458)
Total contributions receivable, net	$ 25,103	$ 18,291

20. INVESTMENT INCOME, NET

Investment income, net, on assets limited as to use, cash equivalents, collateral held under securities lending program, notes receivable, and investments are comprised of the following (in thousands):

	2014	2013
Interest and dividend income	$ 92,684	$ 111,033
Net realized gains on sales of securities	343,910	232,834
Net unrealized gains on securities	275,769	211,007
Other, net of capitalized investment income	(26,737)	(26,904)
Investment income, net	$ 685,626	$ 527,970

21. SPECIAL CHARGES AND OTHER COSTS

Special charges and other costs consist of the following (in thousands):

	2014	2013
Estimated impairment on carrying value of long-lived assets	$ -	$ 8,000
Acquisition related costs	-	4,664
Restructuring costs for name and governance changes	554	2,137
Total special charges and other costs	$ 554	$ 14,801

An estimated impairment of the carrying value of assets reflects the estimated non-recoverability of the carrying value of the assets of a facility in California.

Acquisition related costs relate to the acquisition of USHW.

Expenses related to the name change to Dignity Health and governance restructuring announced in 2012 include legal and implementation costs.

22. INCOME TAXES

As an exempt organization, Dignity Health is not subject to income taxes, however, certain subordinate corporations and subsidiaries are taxable entities. With the acquisition of USHW in 2013 and the investment in Optum360° in 2014, income taxes are now more significant to the operations of Dignity Health as a whole than in prior years and as such, additional comparative disclosures have been added to the financial statements. For Dignity Health's taxable entities, the components of income tax expense (benefit) consist of the following (in thousands):

	2014	2013
Current tax expense:		
Federal	$ 823	$ 326
State	1,475	178
Total current	2,298	504
Deferred tax expense (benefit):		
Federal	50,432	(32,214)
State	8,039	615
Total deferred	58,471	(31,599)
Total income tax expense (benefit)	$ 60,769	$ (31,095)

A reconciliation between the amount of reported income tax expense (benefit) and the amount computed by multiplying income (loss) from continuing operations before income taxes by the statutory federal income tax rate is shown below:

	2014	2013
Computed expected tax expense (benefit) at 35%	$ 52,251	$ (968)
State tax expense	6,014	658
Health insurer fee	747	-
Other permanent differences	152	968
Change in reserves	136	-
Change in valuation allowance	-	(37,851)
Other	1,469	6,098
Income tax expense (benefit)	$ 60,769	$ (31,095)

The components of deferred tax assets (liabilities) as of June 30, 2014 and 2013 consist of the following (in thousands):

	2014	2013
Assets:		
Bad debt reserve	$ 5,243	$ 4,554
Deferred rent expense	2,014	1,795
Accrued compensation	2,713	1,948
Accrued workers' compensation	1,590	1,289
Capitalized transaction costs	1,531	1,481
Net operating losses	35,181	44,465
Incentive credits	1,828	1,365
Other deferred tax assets	3,952	2,078
Gross deferred tax assets	54,052	58,975
Valuation allowance	(1,932)	(1,833)
Net deferred tax assets	$ 52,120	$ 57,142
Liabilities:		
Book to tax difference in intangible assets	$ 79,466	$ 80,880
Book to tax basis difference in partnerships	56,053	-
Other deferred tax liabilities	239	181
Deferred tax liabilties	$ 135,758	$ 81,061
Net deferred tax liabilities	$ 83,638	$ 23,919
Current deferred tax assets, net	$ 28,713	$ 16,233
Noncurrent deferred tax assets, net	$ 3,264	$ 40,686
Long-term deferred tax liabilities, net	$ 115,615	$ 80,838

Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial reporting basis and the respective tax basis of the taxable entities’ assets and liabilities, and expected benefits of utilizing net operating loss, capital loss, and tax-credit carryforwards. The ultimate realization of deferred tax assets is dependent upon generating sufficient taxable income of the appropriate character within the carryback and carryforward periods available under the tax law. Dignity Health considers the reversal of deferred tax liabilities, projected future taxable income of an appropriate nature, and tax-planning strategies in making this assessment. Based on the level of historical taxable income and projections for future taxable income over the periods for which the deferred tax assets are deductible, Dignity Health believes that it is more likely than not that the benefits of these deductible differences, net of the existing valuation allowance, will be realized.

Dignity Health’s taxable entities did not have any material unrecognized income tax benefits as of June 30, 2014 or 2013. The taxable entities are subject to federal tax and various state taxes. The taxable entities file on a calendar year basis and the tax years for December 31, 2013 and 2012 are subject to examination by the tax authorities.

Income tax interest and penalties are recorded as income tax expense. For the years ended June 30, 2014 and 2013, Dignity Health’s taxable entities recorded an immaterial amount of interest or penalties as part of the provision for income taxes.

23. COMMITMENTS, CONTINGENT LIABILITIES, GUARANTEES AND OTHER

***Litigation, Regulatory and Compliance Matters* - General** – The healthcare industry is subject to voluminous and complex laws and regulations of federal, state and local governments. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. These laws and regulations include, but are not necessarily limited to, the rules governing licensure, accreditation, controlled substances, privacy, government program participation, government reimbursement, antitrust, anti-kickback, prohibited referrals by physicians, false claims, and in the case of tax-exempt organizations, the requirements of tax exemption. In recent years, government activity has increased with respect to investigations and allegations of wrongdoing. In addition, during the course of business, Dignity Health becomes involved in civil litigation. Management assesses the probable outcome of unresolved litigation and investigations and records contingent liabilities reflecting estimated liability exposure. Following is a discussion of matters of note.

U.S. Department of Justice and OIG Investigations – Dignity Health and/or its facilities periodically receive notices from governmental agencies, such as the U.S. Department of Justice or the Office of Inspector General ("OIG"), requesting information regarding billing, payment, or other reimbursement matters, or initiating investigations, or indicating the existence of whistleblower litigation. The healthcare industry in general is experiencing an increase in these activities, as the federal government increases enforcement activities and institutes new programs designed to identify potential irregularities in reimbursement or quality of patient care. Within this category of activities, Dignity Health has received and responded to a subpoena from the OIG with respect to reimbursement related to hospital inpatient stays. Resolution of such matters can result in civil and/or criminal charges, cash payments and/or administrative measures by the entity subject to such investigations. Based on the information received to date from the government, Dignity Health does not presently have information indicating that these current matters or their resolution will have a material effect on Dignity Health's financial statements, taken as a whole. Nevertheless, there can be no assurance that the resolution of matters of these types will not affect the financial condition or operations of Dignity Health, taken as a whole.

Medicare Certification – From time to time, Dignity Health and/or its facilities receive notices from CMS indicating that steps to terminate the provider agreements of certain hospital facilities will be taken unless specific corrective actions related to qualification for Medicare participation are undertaken. The process of responding to these notices involves plan(s) of correction by the facility and resurvey by CMS or its designee. Currently, Mercy Medical Center (Merced), Mark Twain Medical Center, and Mercy Medical Center Redding are in the process of addressing such notices. While Dignity Health does not expect a loss of Medicare qualification by any of these facilities, there can be no assurance that the loss of Medicare qualification by a facility or facilities will not occur and have a material adverse effect on the financial condition or operations of Dignity Health, taken as a whole.

Pension Plan Litigation – In April 2013, Dignity Health was served with a class action lawsuit filed in the United States District Court for the Northern District of California by a former employee alleging breaches of fiduciary duty and other claims under ERISA in connection with the Dignity Health Pension Plan ("DHPP"). Among other things, the complaint alleges that, because Dignity Health is not a church or an association of churches, the DHPP does not qualify as a "church plan". The complaint also challenges the constitutionality of ERISA's church plan exemption. Dignity Health and the sponsoring religious orders established the DHPP and determined that the DHPP was a church plan that should be exempt from ERISA, including ERISA's funding requirements, and received private letter rulings from the Internal Revenue Service that confirmed its church plan status. The plaintiff seeks to represent a class comprised of participants and beneficiaries of the DHPP as of April 2013, when the complaint was filed. On July 22, 2014, the Court ruled that the DHPP is not a church plan and, therefore, is not exempt from ERISA. Dignity Health disagrees with the Court's conclusion, will continue to vigorously defend the class action lawsuit and will appeal the Court's ruling regarding the church plan status of the DHPP when first permitted to do so under the federal rules. While Dignity Health believes that its position will prevail, there can be no assurance about the ultimate resolution of this matter and under certain circumstances, a negative, final, non-appealable ruling against Dignity Health may have a material adverse effect on the financial condition or operations of Dignity Health, taken as a whole.

IRS Examinations of Certain Prior Bonds – In August 2014, the City of Henderson, Nevada (the "City") received letters from the IRS notifying it that the IRS had selected for examination and audit the City's Health

Facility Revenue Bonds Series 2005 A and B and the Health Facility Revenue Bond Series 2007 B issued for the benefit of Dignity Health. The notifications stated that the IRS routinely examines municipal debt issuances to determine compliance with federal tax requirements. While Dignity Health is cooperating fully in the examinations and has no reason to believe that the examinations will have an adverse effect on the tax-exempt status of the aforementioned bonds, on the tax-exempt status of Dignity Health or any other aspect of Dignity Health's operations, there can be no assurance that the resolution of the examinations will not adversely affect Dignity Health's financial position or results of operations, taken as a whole.

Operating Leases – Dignity Health leases various equipment and facilities under operating leases. Gross rental expense for 2014 and 2013 was $146.2 million and $136.7 million, respectively, which is offset by sublease income of $2.7 million and $1.5 million for 2014 and 2013, respectively. These amounts are recorded in purchased services and other on the accompanying statements of operations and changes in net assets.

Net future minimum lease payments under non-cancelable operating leases as of June 30, 2014, are as follows (in thousands):

	Lease Payments	Sublease Income	Net Future Minimum Lease Payments
2015	$ 94,905	$ (3,161)	$ 91,744
2016	77,610	(2,341)	75,269
2017	62,112	(2,240)	59,872
2018	49,454	(2,199)	47,255
2019	40,743	(2,041)	38,702
Thereafter	103,392	(22,549)	80,843
Total	$ 428,216	$ (34,531)	$ 393,685

Long-term Contracts and Agreements – Concurrent with the formation of Optum360° discussed in Note 3, Dignity Health entered into a Master Services Agreement ("MSA") with Optum360º for a 10-year term for the purchase of revenue cycle management services at a cost of approximately $225.0 million per year, subject to annual adjustments for inflation and achievement of certain performance levels, which reflects market terms. The MSA is subject to significant penalties for cancellation without cause.

In December 2007, Dignity Health entered into a development agreement with the Sequoia Healthcare District ("District") whereby the District relinquished all control over Sequoia Health Services ("SHS") and agreed to provide funding of $75.0 million toward the modernization, upgrading and seismic retrofitting of Sequoia Hospital. In return for the funding commitment, the District is entitled to 50% of Sequoia Hospital's annual Operating Earnings Before Interest, Depreciation and Amortization ("EBIDA") exceeding a 9.3% annual Operating EBIDA Margin for 40 years. Operating EBIDA is defined as operating income adjusted for certain excluded items. Dignity Health committed to funding $150.0 million toward the construction project and approximately $15.0 million in additional funding was anticipated from philanthropic gifts. If the construction does not conform to certain agreed-upon specifications or is not completed consistent with the terms of the development agreement related to project timing, the District has the right to require the return of its $75.0 million contribution. The multi-phased construction project began in September 2007 and is expected to be substantially completed before the end of calendar 2014. Dignity Health's management expects to meet the required construction specifications and time requirements under the agreement with the District.

Capital and Purchase Commitments – Dignity Health has undertaken various construction and expansion projects that may include certain capital commitment requirements and enters into various agreements that require certain minimum purchases of goods and services, such as information technology management services, clinical technology management services, environmental and nutrition services, laundry and linen services, office supplies, printing and copier services, and medical waste disposal services, at levels consistent with normal business requirements. Excluding the capital and long-term contract commitments discussed above, outstanding capital and purchase commitments were approximately $267.4 million and $404.4 million at June 30, 2014, respectively.

Guarantees – Dignity Health has guaranteed the indebtedness of other organizations, which indebtedness was outstanding in the amount of $10.0 million and $14.0 million as of June 30, 2014 and 2013, respectively.

Dignity Health enters into physician recruitment agreements with certain physicians who agree to relocate to its communities to fill a need in the hospitals' service areas and commit to remain in practice there. Under these agreements, Dignity Health makes loans available to the physicians that are earned over the period the physicians fulfill their commitment to the community, which is typically three years, or are repayable by the physicians. The maximum potential amount of future undiscounted payments Dignity Health could be required to make under these guarantees is $15.8 million and $15.6 million as of June 30, 2014 and 2013, respectively. Dignity Health recorded $11.8 million and $10.1 million in other current liabilities as of June 30, 2014 and 2013, respectively, and $4.9 million and $5.5 million in other long-term liabilities as of June 30, 2014 and 2013, respectively, related to these guarantees.

Seismic Standards – The State of California issued seismic safety standards in 1994 which have been amended on several occasions since then. The regulations call for more stringent structural building standards to be in place by January 2013 for buildings remaining in acute care service beyond that date, with a two-year extension in most circumstances upon meeting certain milestone dates, and further extension of the deadlines for achieving compliance in certain circumstances. California law currently imposes a separate more rigorous set of seismic standards that become effective in 2030 for acute care facilities.

Each of the acute care service buildings at Dignity Health's California facilities either: (1) already meets the standards in effect until 2030, (2) is not subject to those standards, (3) will not be used for acute care services beyond the extended deadline, or (4) is scheduled to undergo remediation before applicable deadline dates. Management currently estimates that remaining remediation costs required for meeting the standards for projects specific to structural and non-structural performance in effect until 2030 is approximately $300.0 million. Management has initiated planning and design efforts at all facilities to meet the deadlines. Dignity Health may choose to withdraw selected buildings from acute care service rather than satisfy the seismic standards.

24. UNSPONSORED COMMUNITY BENEFIT EXPENSE (UNAUDITED)

Unsponsored community benefits are programs or activities that provide treatment and/or promote health and healing as a response to identified community needs. These benefits (a) generate a low or negative margin, (b) respond to the needs of special populations, such as persons living in poverty and other disenfranchised persons, (c) supply services or programs that would likely be discontinued, or would need to be provided by another nonprofit or government provider, if the decision was made on a purely financial basis, (d) respond to public health needs, and/or (e) involve education or research that improves overall community health.

Benefits for the Poor include services provided to persons who are economically poor or are medically indigent and cannot afford to pay for healthcare services because they have inadequate resources and/or are uninsured or underinsured.

Benefits for the Broader Community refer to persons in the general communities that Dignity Health serves, beyond and including those in a target population. Most services for the broader community are aimed at improving the health and welfare of the overall community. Such services include the interest rate differential on below market rate loans Dignity Health provides to nonprofit organizations that promote the total health of their local communities, including the development of affordable housing for low-income persons and families, increasing opportunities for jobs and job training, and expanding access to healthcare for uninsured and underinsured persons. As of June 30, 2014 and 2013, Dignity Health's community investment loan portfolio totaled $35.6 million and $33.6 million, respectively, which is included in other assets limited as to use.

Traditional Charity Care is free or discounted health services provided to persons who cannot afford to pay and who meet Dignity Health's criteria for financial assistance.

Net Community Benefit, excluding the unpaid cost of Medicare, is the total cost incurred after deducting direct offsetting revenue from government programs, patients, and other sources of payment or reimbursement for services provided to program patients. Including discontinued operations, the comparable amount of net community benefit was $1.1 billion for 2013, and Net Community Benefit including the unpaid cost of Medicare was $1.7 billion for 2013.

Following is a summary of Dignity Health's community benefits for 2014, in terms of services to the poor and benefits for the broader community, which has been prepared in accordance with Internal Revenue Service Form 990, Schedule H and the CHA publication, *A Guide for Planning and Reporting Community Benefit* (dollars in thousands):

	Unaudited				
	Persons Served	**Total Benefit Expense**	**Direct Offsetting Revenue**	**Net Community Benefit**	**% of Total Expenses**
Benefits for the poor:					
Traditional charity care	118,274	175,865	(148)	175,717	1.7%
Unpaid costs of Medicaid / Medi-Cal	1,182,999	2,409,271	(1,545,197)	864,074	8.3%
Other means-tested programs	269,323	76,974	(25,585)	51,389	0.5%
Community services:					
Community health services	434,278	45,131	(6,009)	39,122	0.4%
Health professions education	54	24	-	24	0.0%
Subsidized health services	108,604	30,570	(3,103)	27,467	0.3%
Donations	128,428	20,120	(541)	19,579	0.2%
Community building activities	4,623	2,728	(1,220)	1,508	0.0%
Community benefit operations	2,886	7,145	(352)	6,793	0.1%
Total community services for the poor	678,873	105,718	(11,225)	94,493	1.0%
Total benefits for the poor	2,249,469	2,767,828	(1,582,155)	1,185,673	11.5%
Benefits for the broader community:					
Community services:					
Community health services	297,849	14,414	(1,252)	13,162	0.1%
Health professions education	37,567	72,809	(9,294)	63,515	0.6%
Subsidized health services	3,990	1,980	(1,209)	771	0.0%
Research	408	33,538	(10,380)	23,158	0.2%
Donations	31,034	9,425	(345)	9,080	0.1%
Community building activities	7,068	4,128	(412)	3,716	0.0%
Community benefit operations	21	1,110	-	1,110	0.0%
Total benefits for the broader community	377,937	137,404	(22,892)	114,512	1.1%
Total Community Benefits	2,627,406	$ 2,905,232	$ (1,605,047)	$ 1,300,185	12.6%
Unpaid costs of Medicare	1,032,864	2,823,107	(2,148,783)	674,324	6.5%
Total Community Benefits including unpaid costs of Medicare	3,660,270	$ 5,728,339	$ (3,753,830)	$ 1,974,509	19.1%

25. DIGNITY HEALTH, SUBORDINATE CORPORATIONS AND SUBSIDIARIES

Following is a list of subordinate corporations and subsidiaries that are included in the accompanying consolidated financial statements for 2014. Unless otherwise indicated, such entities are nonprofit corporations. The Obligated Group Members are denoted by an asterisk (*). Unless otherwise indicated, subsidiaries are not Obligated Group Members.

Dignity Health*
- Operating dba's of Dignity Health
  - Arroyo Grande Community Hospital
  - California Hospital Medical Center – Los Angeles
  - Chandler Regional Medical Center
  - Dominican Hospital
  - French Hospital Medical Center
  - Glendale Memorial Hospital and Health Center
  - Marian Medical Center West
  - Marian Regional Medical Center
  - Mercy General Hospital
  - Mercy Gilbert Medical Center
  - Mercy Hospital (Bakersfield)
  - Mercy Hospital of Folsom
  - Mercy Medical Center (Merced)
  - Mercy Medical Center Mt. Shasta
  - Mercy Medical Center Redding
  - Mercy San Juan Medical Center
  - Mercy Southwest Hospital
  - Methodist Hospital of Sacramento
  - Northridge Hospital Medical Center
  - Sequoia Hospital
  - St. Bernardine Medical Center
  - St. Elizabeth Community Hospital
  - St. John's Pleasant Valley Hospital
  - St. John's Regional Medical Center
  - St. Joseph's Behavioral Health Center
  - St. Joseph's Hospital and Medical Center
  - St. Joseph's Westgate Medical Center
  - St. Joseph's Medical Center of Stockton
  - St. Mary Medical Center
  - St. Mary's Medical Center
  - St. Rose Dominican Hospital Rose de Lima Campus
  - St. Rose Dominican Hospital San Martin Campus
  - St. Rose Dominican Hospital Siena Campus
  - Woodland Memorial Hospital

Dignity Health Hospital and Professional Liability Self-Insurance Trust (California trust)
Dignity Health Workers' Compensation Self-Insurance Trust (California trust)
Dignity Health Insurance Ltd. (Cayman Island corporation)
Bakersfield Memorial Hospital*
Dignity Health Medical Foundation*
Community Hospital of San Bernardino*
Mercy McMahon Terrace*
Saint Francis Memorial Hospital*
Sierra Nevada Memorial-Miners Hospital*
Arroyo Grande Community Hospital Foundation
California Hospital Medical Center Foundation
Community Hospital of San Bernardino Foundation
Dignity Health Foundation
Dignity Health Foundation East Valley
Dominican Hospital Foundation
French Hospital Medical Center Foundation
Glendale Memorial Health Foundation
Marian Regional Medical Center Foundation
Mercy Foundation, Bakersfield
Mercy Medical Center Merced Foundation
Northridge Hospital Foundation
St. Bernardine Medical Center Foundation
St. Francis Foundation of Santa Barbara
St. John's Healthcare Foundation (Oxnard and Pleasant Valley)
St. Joseph's Foundation (Phoenix)
St. Joseph's Foundation of San Joaquin
St. Mary Medical Center Foundation
St. Mary's Medical Center Foundation
St. Rose Dominican Health Foundation
The Congenital Heart Foundation
Arizona Care Network, LLC
CDS of Nevada, Inc. (for-profit)(Note 3)
CHMC Hope Street Family Center Property Management, LLC
DHRT Holdings, LLC
Dignity Health Holding Corporation (for-profit)
Dignity Health Medical Group Nevada, LLC
Dignity Health Nevada Imaging Company LLC
Dignity Health Purchasing Network, LLC
Dominican Health Services
Dominican Oaks Corporation
Glendale Memorial Services Corporation (for-profit)
Golden Umbrella
Inland Health Organization of Southern California (for-profit)
Management Services Organization of Santa Maria, Inc. (for-profit)
Marian Health Services, Inc. (for-profit)
Mark Twain Medical Center
Pacific Central Coast Health Centers
Saint Mary's Healthfirst (for-profit)(Note3)
Saint Mary's Preferred Health Insurance Company, Inc. (for-profit)(Note 3)
Sequoia Quality Care Network, LLC
Shasta Senior Nutrition Program
Southern California Integrated Care Network, LLC
St. Francis Foundation, LLC
St. John's Regional Imaging Center, LLC
St. Mary Catholic Housing Corporation
St. Mary Health Ventures, Inc. (for-profit)
St. Mary Professional Building, Inc.
St. Rose Quality Care Network, LLC
TrinityCare, LLC
TrinityCare Infusion Services (for-profit)
U.S. HealthWorks, Inc. (for-profit)
U.S. HealthWorks Holding Company, Inc. (for-profit)
USHW Holdings Corporation (for-profit)
USHW state subsidiaries (for-profit)

* * * * * *

Dignity Health

Obligated Group Table

As of September 30, 2014

	Obligated Group Members	Wholly Owned Entities	Controlled Entities	Eliminations	Wholly owned Eliminations	Total
Assets						
Current assets:						
Cash and cash equivalents	$ 189,771	$ 60,759	$ 19,907	$ (9,462)	$ -	$ 260,975
Short-term investments	1,413,603	-	327	-	-	1,413,930
Collateral held under securities lending program	206,257	-	-	-		206,257
Cash held for related organizations	175,534	-	-	-	-	175,534
Assets limited as to use	1,067,390	-	-	-		1,067,390
Patient accounts receivable, net of allowance for					-	
doubtful accounts	1,585,107	84,546	39,935	-	-	1,709,588
Broker receivables for unsettled investment trades	56,025	-	-	-	-	56,025
Other current assets	633,596	46,716	39,973	(33,668)	-	686,617
Total current assets	5,327,283	192,021	100,142	(43,130)	-	5,576,316
Assets limited as to use:						
Board-designated assets						
Capital projects	3,244,560	-	-	-	-	3,244,560
Workers' compensation	424,692	-	-	-	-	424,692
Professional and general liability	317,454	-	-	-	-	317,454
Under bond indenture agreements for:						
Capital projects	68,582	-	-	-	-	68,582
Debt service	4,891	-	-	-	-	4,891
Bond reserves	20,630	-	-	-		20,630
Donor-restricted	12,614	-	-	-	-	12,614
Other	51,372	-	-	-		51,372
Less amount required to meet current obligations	(1,067,390)	-	-	-	-	(1,067,390)
Net assets limited as to use	3,077,405	-	-	-	-	3,077,405
Property and equipment, net	4,469,332	36,731	117,007	-	-	4,623,070
Ownership interests in health-related activities (Note 1)	1,517,932	984	234,396	-	(660,451)	1,092,861
Goodwill	25,353	339,576	161,350	-	-	526,279
Intangible assets, net	475	223,192	1,784	-	-	225,451
Assets held for sale	-	-	-	-	-	-
Other long-term assets, net	73,841	8,824	25,271	-	-	107,936
Total assets	$ 14,491,621	$ 801,328	$ 639,950	$ (43,130)	$ (660,451)	$ 15,229,318

Dignity Health

Obligated Group Table

As of September 30, 2014

	Obligated Group Members	Wholly Owned Entities	Controlled Entities	Eliminations	Wholly owned Eliminations	Total
Liabilities and Net Assets						
Current liabilities:						
Current portion of long-term debt	$ 154,960	$ 14,501	$ 19,508	$ (6,667)	$ -	$ 182,302
Demand bonds subject to short-term liquidity arrangements	769,400	-	-	-	-	769,400
Accounts payable	531,206	10,121	12,147	-	-	553,474
Payable under securities lending program	206,281	-	-	-	-	206,281
Due to related corporations	-	17,185	(10,321)	148,591	-	155,455
Accrued salaries and benefits	516,293	20,853	5,376	-	-	542,522
Accrued workers' compensation	38,075	1,420	-	-	-	39,495
Accrued professional and general liability	79,059	1,868	-	-	-	80,927
Pension and other postretirement liabilities	220,426	-	56	-		220,482
Broker payables for unsettled investment trades	31,286	-	-	-	-	31,286
Liabilities held for sale	-	-	-	-	-	-
Other accrued liabilities	458,809	86,060	18,780	-	-	563,649
Total current liabilities	3,005,795	152,008	45,546	141,924	-	3,345,273
Other liabilities:						
Workers' compensation	340,907	3,777	-	-	-	344,684
Professional and general liability	256,130	4,328	-	-	-	260,458
Pension and other postretirement liabilities	478,075	-	-	-	-	478,075
Other	94,400	123,383	6,940	-	-	224,723
Total other liabilities	1,169,512	131,488	6,940	-	-	1,307,940
Long-term debt, net of current portion	4,044,725	222,144	73,485	(197,000)	-	4,143,354
Total liabilities	8,220,032	505,640	125,971	(55,076)	-	8,796,567
Net assets:						
Unrestricted - attributable to Dignity Health (Note 1)	6,262,605	295,728	352,777	11,946	(660,451)	6,262,605
Unrestricted - noncontrolling interest	-	(40)	161,202	-	-	161,162
Temporarily restricted	8,934	-	-	-	-	8,934
Permanently restricted	50	-	-	-	-	50
Total net assets	6,271,589	295,688	513,979	11,946	(660,451)	6,432,751
Total liabilities and net assets	$ 14,491,621	$ 801,328	$ 639,950	$ (43,130)	$ (660,451)	$ 15,229,318

Dignity Health

Obligated Group Table

As of September 30, 2014

	Obligated Group Members	Wholly Owned Entities	Controlled Entities	Eliminations	Wholly owned Eliminations	Total
Statement of Operations						
Unrestricted revenues and other support:						
Patient revenue, net of contractual allowances and discounts	$ 2,339,442	$ 127,078	$ 101,853	$ -	$ -	$ 2,568,373
Provision for bad debts	(148,955)	(2,793)	(5,572)	-	-	(157,320)
Net patient revenue	2,190,487	124,285	96,281	-	-	2,411,053
Premium revenue	135,464	-	-	-	-	135,464
Revenue from health-related activities, net	34,421	52	(1,730)	-	(7,241)	25,502
Other operating revenue	59,123	5,225	2,581	(644)	-	66,285
Contributions	2,862	-	-	-	-	2,862
Total unrestricted revenues and other support	2,422,357	129,562	97,132	(644)	(7,241)	2,641,166
Expenses:						
Salaries and benefits	1,348,745	69,723	30,705	(20)	-	1,449,153
Supplies	365,245	9,396	20,957	-	-	395,598
Purchased services and other	565,746	32,089	29,776	(624)	-	626,987
Depreciation	114,527	4,963	7,892	-	-	127,382
Interest expense, net	48,039	3,206	1,592	(2,942)	-	49,895
Special charges	-	-	-	-	-	-
Total expenses	2,442,302	119,377	90,922	(3,586)	-	2,649,015
Operating income	(19,945)	10,185	6,210	2,942	(7,241)	(7,849)
Other income:						
Investment income, net	477	3	26	(2,942)	-	(2,436)
Income tax credit (expense)	(62)	(4,422)	1	-	-	(4,483)
Other income (loss)	415	(4,419)	27	(2,942)	-	(6,919)
Excess (deficit) of revenues over expenses	$ (19,530)	$ 5,766	$ 6,237	$ -	$ (7,241)	$ (14,768)
Less: excess of revenues over expenses attributable to noncontrolling interest	72	(17)	4,779	-	-	4,834
Excess of revenues over expenses attributable to Dignity Health	$ (19,602)	$ 5,783	$ 1,458	$ -	$ (7,241)	$ (19,602)