This document is dated November 13, 2015

UNAUDITED QUARTERLY REPORT

For the quarterly period ended
September 30, 2015

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, 2015, and the related condensed consolidated statements of operations and changes in net assets and cash flows for the three -month periods ended September 30, 2015 and 2014 (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, 2015

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, 2015, 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 22, 2015, 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, 2015, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Deloitte & Touche LLP

November 13, 2015

DIGNITY HEALTH AND SUBORDINATE CORPORATIONS

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
AS OF SEPTEMBER 30, 2015 AND JUNE 30, 2015
(In thousands)

	As of September 30, 2015	As of June 30, 2015
Assets		
Current assets:		
Cash and cash equivalents	$ 373,691	$ 285,568
Short-term investments	1,567,442	1,568,469
Collateral held under securities lending program	97,600	222,438
Assets limited as to use	999,215	1,017,174
Patient accounts receivable, net of allowance for doubtful accounts of $537,070 and $555,092 at September 30, 2015 and June 30, 2015, respectively	1,784,833	1,721,158
Broker receivables for unsettled investment trades	11,158	100,779
Other current assets	1,442,677	1,367,274
Total current assets	6,276,616	6,282,860
Assets limited as to use:		
Board-designated assets (including $149,726 and $292,741 of assets loaned under securities lending program in September 30, 2015 and June 30, 2015, respectively) for:		
Capital projects	3,114,411	3,587,763
Workers' compensation	386,016	402,694
Professional and general liability	300,294	300,116
Under bond indenture agreements for:		
Capital projects	79,468	98,274
Debt service	2,829	105,350
Donor-restricted	435,829	443,078
Other	54,577	54,301
Less amount required to meet current obligations	(999,215)	(1,017,174)
Net assets limited as to use	3,374,209	3,974,402
Property and equipment, net	4,827,818	4,811,643
Ownership interests in health-related activities	1,199,165	1,167,976
Goodwill	584,506	572,957
Intangible assets, net	219,853	222,195
Other long-term assets, net	88,491	93,144
Total assets	$16,570,658	$17,125,177

(Continued)

DIGNITY HEALTH AND SUBORDINATE CORPORATIONS

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
AS OF SEPTEMBER 30, 2015 AND JUNE 30, 2015
(In thousands)

	As of September 30, 2015	As of June 30, 2015
Liabilities and Net Assets		
Current liabilities:		
Current portion of long-term debt	$ 132,383	$ 131,245
Demand bonds subject to short-term liquidity arrangements, excluding current maturities	761,800	769,400
Accounts payable	641,804	622,218
Payable under securities lending program	97,613	222,455
Accrued salaries and benefits	599,610	669,454
Accrued workers' compensation	43,665	43,602
Accrued professional and general liability	77,641	77,247
Pension and other postretirement benefit liabilities	282,913	282,787
Broker payables for unsettled investment trades	11,954	26,652
Other accrued liabilities	780,371	747,832
Total current liabilities	3,429,754	3,592,892
Other liabilities:		
Workers' compensation	336,437	340,107
Professional and general liability	277,750	275,999
Pension and other postretirement benefit liabilities	819,287	824,271
Other	214,495	224,130
Total other liabilities	1,647,969	1,664,507
Long-term debt, net of current portion	4,526,488	4,576,960
Total liabilities	9,604,211	9,834,359
Net assets:		
Unrestricted - attributable to Dignity Health	6,334,970	6,653,842
Unrestricted - noncontrolling interest	198,833	197,530
Temporarily restricted	326,676	332,521
Permanently restricted	105,968	106,925
Total net assets	6,966,447	7,290,818
Total liabilities and net assets	$16,570,658	$17,125,177

(Concluded)

See notes to consolidated financial statements.

This document is dated November 13, 2015

DIGNITY HEALTH AND SUBORDINATE CORPORATIONS

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS FOR THE THREE-MONTH PERIODS ENDED SEPTEMBER 30, 2015 AND 2014
(In thousands)

	Three-Month Periods Ended September 30,	
	2015	**2014**
Unrestricted revenues and other support:		
Patient revenue, net of contractual allowances and discounts	$ 3,000,663	$ 2,588,761
Provision for bad debts	(156,745)	(158,112)
Net patient revenue	2,843,918	2,430,649
Premium revenue	148,484	135,471
Revenue (loss) from health-related activities, net	(2,126)	25,502
Other operating revenue	83,496	69,728
Contributions	2,895	3,936
Total unrestricted revenues and other support	3,076,667	2,665,286
Expenses:		
Salaries and benefits	1,610,263	1,467,363
Supplies	435,506	398,426
Purchased services and other	853,570	636,349
Depreciation and amortization	144,036	128,341
Interest expense, net	80,832	50,003
Total expenses	3,124,207	2,680,482
Operating loss	(47,540)	(15,196)
Other loss:		
Investment loss, net	(258,764)	(4,749)
Income tax expense	(5,853)	(4,483)
Total other loss, net	(264,617)	(9,232)
Deficit of revenues over expenses	$ (312,157)	$ (24,428)
Less excess of revenues over expenses attributable to noncontrolling interests	7,966	4,498
Deficit of revenues over expenses attributable to Dignity Health	$ (320,123)	$ (28,926)

(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, 2015 AND 2014
(In thousands)

	Three-Month Periods Ended September 30, 2015	2014
Unrestricted net assets attributable to Dignity Health:		
Deficit of revenues over expenses attributable to Dignity Health	$ (320,123)	$ (28,926)
Change in net unrealized losses on available-for-sale investments	(2,071)	(814)
Net assets released from restrictions used for purchase of property and equipment	2,937	1,542
Gain (loss) from discontinued operations, net	(42)	132
Change in ownership interests held by controlled subsidiaries	(502)	(1,715)
Change in accumulated unrealized derivative gains, net	671	671
Funds donated from unconsolidated sources for purchase of property and equipment	424	438
Other	(166)	249
Decrease in unrestricted net assets attributable to Dignity Health	(318,872)	(28,423)
Unrestricted net assets attributable to noncontrolling interests:		
Excess of revenues over expenses attributable to noncontrolling interests	7,966	4,498
Change in ownership interest and other, net	(6,663)	(7,164)
Increase (decrease) in unrestricted net assets attributable to noncontrolling interests	1,303	(2,666)
Temporarily restricted net assets:		
Contributions	13,129	7,317
Net realized and unrealized losses on investments	(4,027)	(350)
Net assets released from restrictions	(5,792)	(4,690)
Change in interest in net assets of unconsolidated foundations	(9,312)	(2,585)
Other	157	(11)
Decrease in temporarily restricted net assets	(5,845)	(319)
Permanently restricted net assets:		
Contributions	85	134
Net realized and unrealized gains on investments	-	16
Change in interest in net assets of unconsolidated foundations	(1,042)	(11)
Other	-	10
Increase (decrease) in permanently restricted net assets	(957)	149
Decrease in net assets	(324,371)	(31,259)
Net assets, beginning of period	7,290,818	7,112,438
Net assets, end of period	$ 6,966,447	$ 7,081,179

(Concluded)

See notes to consolidated financial statements.

DIGNITY HEALTH AND SUBORDINATE CORPORATIONS

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE THREE-MONTH PERIODS ENDED SEPTEMBER 30, 2015 AND 2014
(In thousands)

	Three-Month Periods Ended September 30, 2015	Three-Month Periods Ended September 30, 2014
Cash flows from operating activities:		
Change in net assets	$ (324,371)	$ (31,259)
Adjustments to reconcile change in net assets to cash used in operating activities:		
Depreciation and amortization, including discontinued operations	144,835	129,037
Health-related activities:		
Equity in earnings	3,818	(26,911)
Change in control of consolidated entities	122	-
Loss (gain), net, on disposal of assets	(901)	362
Change in deferred taxes	3,444	-
Restricted contributions	(9,718)	(9,427)
Undistributed portion of change in net assets of unconsolidated foundations	10,354	2,596
Change in net realized and unrealized losses on investments	279,357	22,050
Change in fair value of swaps	28,200	1,661
Changes in certain assets and liabilities:		
Accounts receivable, net	(60,889)	(18,953)
Accounts payable	29,909	(32,781)
Workers' compensation and professional and general liabilities	4,498	12,034
Accrued salaries and benefits	(70,337)	(42,558)
Pension and other postretirement liabilities	(4,858)	(6,872)
Provider fee assets and liabilities	(32,275)	20
Estimated receivables from/payables to third-party payors, net	(14,352)	(5,175)
Other accrued liabilities	26,909	(21,588)
Prepaid and other current assets	(27,016)	(13,106)
Other, net	(12,064)	3,606
Cash used in operating activities	(25,335)	(37,264)

(Continued)

DIGNITY HEALTH AND SUBORDINATE CORPORATIONS

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE THREE-MONTH PERIODS ENDED SEPTEMBER 30, 2015 AND 2014
(In thousands)

	2015	2014
Cash flows from investing activities:		
Net sales of investments	407,906	202,097
Cash proceeds on disposal of assets	1,127	-
Investments in health-related activities	(47,927)	(79,357)
Cash distributions from health-related activities	1,160	305
Additions to operating property and equipment, including discontinued operations	(183,158)	(164,760)
(Increase) decrease in securities lending collateral	124,842	(18,992)
Other, net	(7,054)	(1,560)
Cash provided by (used in) investing activities	296,896	(62,267)
Cash flows from financing activities:		
Borrowings	-	201,840
Repayments	(68,314)	(144,024)
Increase (decrease) in payable under securities lending program	(124,842)	18,992
Restricted contributions	9,718	9,427
Deferred financing costs	-	(170)
Cash provided by (used in) financing activities	(183,438)	86,065
Net increase (decrease) in cash and cash equivalents	88,123	(13,466)
Cash and cash equivalents at beginning of the year	285,568	324,242
Cash and cash equivalents at end of the year	$ 373,691	$ 310,776
Components of cash and cash equivalents and investments at end of period:		
Cash and cash equivalents	373,691	310,776
Short-term investments	1,567,442	1,501,466
Board-designated assets for capital projects	3,114,411	3,312,207
Total	$ 5,055,544	$ 5,124,449
Supplemental disclosures of cash flow information:		
Cash paid for interest, net of capitalized interest	$ 64,313	$ 75,894
Supplemental schedule of noncash investing and financing activities:		
Property and equipment acquired through capital lease or note payable	$ 7,223	$ 2,535
Accrued purchases of property and equipment	$ 73,662	$ 62,974
Broker receivables for unsettled investment trades	$ 11,158	$ 63,374
Broker payables for unsettled investment trades	$ 11,954	$ 31,310

(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, 2015, and for the three-month periods ended September 30, 2015 and 2014, should be read in conjunction with the audited financial statements as of and for the year ended June 30, 2015. 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, 2015, 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.

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 13, 2015, the date the condensed consolidated financial statements were issued.

2. ACQUISITIONS, DIVESTITURES AND SIGNIFICANT INVESTMENTS

Investment in Joint Venture – In October 2015, Dignity Health and Kaiser Foundation Hospitals ("KFH") entered into agreements to admit KFH as a member of Port City Operating Company, LLC ("Port City LLC"). As of the closing of the transactions scheduled to occur in May 2016, Dignity Health will contribute certain operations, assets and liabilities of the general acute care hospital known as St. Joseph's Medical Center of Stockton and the acute psychiatric hospital known as St. Joseph's Behavioral Health Center, both of which are located in Stockton, California, to Port City LLC. Simultaneously, KFH will purchase 20% of Dignity Health's interest in Port City LLC from Dignity Health. Thereafter, Port City LLC will own and operate the hospitals. Dignity Health will continue to provide substantially all of the management and administrative services for the operations of the hospitals for Port City LLC. Also, the hospitals will become "plan hospitals" for enrollees of Kaiser Foundation Health Plan in the geographic area.

In September 2015, Dignity Health effected an agreement with Tucson Hospital Holdings, Inc., a subsidiary of Tenet Healthcare Corporation ("Tenet"), whereby the parties formed CHN Holdings, LLC ("CHNH"), to purchase the assets of Carondelet Health Network, a subsidiary of Ascension Health, based in Tucson, Arizona. Tenet is the majority owner with Dignity Health and Ascension Health owning minority interests. Tenet will manage the operations of CHNH.

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,	
	2015	**2014**
Inpatient services	57%	59%
Outpatient services	43%	41%

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

	Three-Month Periods Ended September 30,	
	2015	**2014**
Government	$ 1,575,957	$ 1,178,597
Contracted	1,186,902	1,133,790
Self-pay and other	237,804	276,374
	$ 3,000,663	$ 2,588,761

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.

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 $254.3 million and $0 million related to supplemental Medi-Cal payments provided under the California provider fee programs during the three-month periods ended September 30, 2015 and 2014, respectively. These programs are funded by quality assurance fees paid by participating hospitals and matching federal funds. Dignity Health recorded $134.3 million and $0 million in such fees in purchased services and other expense during the three-month periods ended September 30, 2015 and 2014, respectively. Grant payments to the California Health Foundation and Trust ("CHFT") were recognized in connection with the California provider fee programs resulting in $4.4 million and $0 million recorded in purchased services and other expense during the three-month periods ended September 30, 2015 and 2014, respectively. Total net income recognized during the three-month periods ended September 30, 2015 and 2014, was $115.6 million and $0 million, respectively.

The amounts above resulted from the activity related to the current California program. In October 2013, the governor of California signed legislation enacting a provider fee program covering the period from January 2014 through December 2016, however, as the Centers for Medicare and Medicaid Services (" CMS") approval of the program was not received until December 2014, no amounts were recorded during the three-month period ended September 30, 2014. Legislation approved by the State of California in October 2013 also created the framework for the fee to continue in perpetuity without requiring further legislation by the State.

Receivables for supplemental payments under provider fee programs were $812.3 million and $776.8 million as of September 30, 2015 and June 30, 2015, respectively, and are recorded in other current assets. Provider fee payables of $273.2 million and $269.9 million as of September 30, 2015, and June 30, 2015, respectively, are recorded as other accrued liabilities.

"Meaningful Use" Incentives – During the three-month periods ended September 30, 2015 and 2014, Dignity Health recorded meaningful use incentive revenue of $5.1 million and $6.1 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, 2015 and 2014, net patient revenue includes $2.0 million and $7.3 million, respectively, in favorable net prior years' reimbursement settlements from Medicare, Medicaid and other programs. In addition, Dignity Health recorded $9.3 million and $0.3 million in recovery audit contractor settlements and recoveries, net of take-backs, related to prior year claims, during the three-month periods ended September 30, 2015 and 2014, respectively.

At September 30, 2015 and June 30, 2015, estimated receivables for third-party payor settlements were $68.6 million and $58.5 million, respectively, and estimated payables for third-party payor settlements were $34.4 million and $38.6 million, respectively. Such amounts are reported under other current assets and other accrued liabilities in the consolidated balance sheets.

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 $12.2 million and $8.4 million during the three-month periods ended September 30, 2015 and 2014, 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.

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, 2015 and June 30, 2015 (in thousands):

	Fair Value Measurements at September 30, 2015			
	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, 2015
Assets				
Cash and cash equivalents	$ 508,918	$ -	$ -	$ 508,918
U.S. government securities	298,040	53,266	-	351,306
U.S. corporate bonds	68,373	540,797	177,828	786,998
U.S. equity securities	752,879	497,774	-	1,250,653
Foreign government securities	253	9,743	-	9,996
Foreign corporate bonds	570	76,309	26,400	103,279
Foreign equity securities	449,264	520,037	-	969,301
Asset-backed securities	-	14,365	-	14,365
Structured debt	800	89,279	-	90,079
Private equity investments	-	-	310,411	310,411
Multi-strategy hedge fund investments	-	-	890,758	890,758
Real estate	6,232	-	200,470	206,702
Collateral held under securities lending program	-	97,600	-	97,600
Other fund investments	6,152	-	-	6,152
Total assets	$ 2,091,481	$ 1,899,170	$ 1,605,867	$ 5,596,518
Liabilities				
Contingent consideration	$ -	$ -	$ 738	$ 738
Derivative instruments	-	206,685	-	206,685
Total liabilities	$ -	$ 206,685	$ 738	$ 207,423

	Fair Value Measurements at June 30, 2015			
	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, 2015
Assets				
Cash and cash equivalents	$ 886,137	$ -	$ -	$ 886,137
U.S. government securities	334,586	52,171	-	386,757
U.S. corporate bonds	68,034	481,551	174,293	723,878
U.S. equity securities	1,044,639	308,234	-	1,352,873
Foreign government securities	7,719	9,956	-	17,675
Foreign corporate bonds	544	79,519	21,472	101,535
Foreign equity securities	495,421	589,591	-	1,085,012
Asset-backed securities	-	14,849	-	14,849
Structured debt	1,091	92,897	-	93,988
Private equity investments	-	-	281,158	281,158
Multi-strategy hedge fund investments	-	-	923,920	923,920
Real estate	12,441	-	219,735	232,176
Collateral held under securities lending program	-	222,438	-	222,438
Other fund investments	6,155	-	-	6,155
Total assets	$ 2,856,767	$ 1,851,206	$ 1,620,578	$ 6,328,551
Liabilities				
Contingent consideration	$ -	$ -	$ 470	$ 470
Derivative instruments	-	178,485	-	178,485
Total liabilities	$ -	$ 178,485	$ 470	$ 178,955

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 among any of the levels of fair value hierarchy 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.

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 $55.2 million and $78.4 million as of September 30, 2015, and June 30, 2015, 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 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, 2015 and 2014 (in thousands):

	Three-Month Period Ended September 30, 2015				
	Private Equity Investments	Multi-Strategy Hedge Fund Investments	Real Estate	Debt Securities	Total
Balance at beginning of period	$ 281,158	$ 923,920	$219,735	$195,765	$ 1,620,578
Total realized gains (losses), net, included in excess of revenues over expenses	1,589	(224)	3,682	-	5,047
Total unrealized gains (losses), net, included in excess of revenues over expenses	12,369	(13,779)	2,365	4,329	5,284
Purchases	25,495	23,165	5,051	5,314	59,025
Sales	(10,200)	(42,324)	(30,363)	(1,180)	(84,067)
Balance at end of period	$ 310,411	$ 890,758	$200,470	$204,228	$ 1,605,867

	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 of revenues over expenses	1,223	157	-	2,020	3,400
Total unrealized gains (losses), net, included in excess 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

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, 2015, and June 30, 2015 (in thousands):

		As of September 30, 2015			
		Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Level 2					
Debt securities	(1)	$ 346,096	$ -	Daily, Monthly, Quarterly	1 - 90 days
Equity securities	(2)	1,014,606	-	Daily, Monthly, Quarterly	1 - 90 days
Collateral held under securities lending	(3)	97,600	-	Daily	10 days
Total Level 2		$ 1,458,302	$ -		
Level 3					
Multi-strategy hedge funds	(4)	$ 890,758	$ -	Monthly, Quarterly, Semi-Annually, Annually	5 - 120 days
Private equity	(5)	310,411	214,170	-	-
Real estate	(6)	200,470	4,110	Quarterly	90 days
Debt securities	(7)	204,228	29,537	Monthly, Quarterly	90 days
Total Level 3		1,605,867	247,817		
Total Level 2 and Level 3		$ 3,064,169	$ 247,817		

		Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
		As of June 30, 2015			
Level 2					
Debt securities	(1)	$ 349,689	$ -	Daily, Monthly, Quarterly	1 - 90 days
Equity securities	(2)	891,720	-	Daily, Monthly, Quarterly	1 - 90 days
Collateral held under securities lending	(3)	222,438	-	Daily	10 days
Total Level 2		$ 1,463,847	$ -		
Level 3					
Multi-strategy hedge funds	(4)	$ 923,920	$ -	Monthly, Quarterly, Semi-Annually, Annually	5 - 120 days
Private equity	(5)	281,158	205,353	-	-
Real estate	(6)	219,735	6,076	Quarterly	90 days
Debt securities	(7)	195,765	34,728	Monthly, Quarterly	90 days
Total Level 3		1,620,578	246,157		
Total Level 2 and Level 3		$ 3,084,425	$ 246,157		

(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. The following table reflects the various redemption frequencies, notice periods, and any applicable lock-up periods or gates to redemption as of September 30, 2015:

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)
30.9%	14.3%	Annually	45 days	-	-
	10.5%	Annually	60 - 65 days	-	up to 33.3% - 50.0%
	6.1%	Annually	75 - 90 days	-	-
6.7%	0.1%	Semi-Annually	75 days	-	-
	6.6%	Semi-Annually	90 days	-	-
42.4%	6.4%	Quarterly	30 - 45 days	-	-
	24.2%	Quarterly	60-65 days	9/30/2017	up to 25.0% - 97.0%
	11.8%	Quarterly	90-95 days	-	up to 33.3%
20.0%	9.4%	Monthly	5 - 20 days	-	-
	3.2%	Monthly	45 days	-	up to 16.7%
	7.4%	Monthly	60 - 120 days	-	-

(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, 2015, 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 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 September 30, 2015, and June 30, 2015, is as follows (in thousands):

	Carrying Value as of September 30, 2015	Fair Value as of September 30, 2015
	Carrying Value	**Fair Value**
Debt issued under Master Trust Indenture:		
Fixed rate revenue bonds	$ 2,156,607	$ 2,302,228
Taxable bonds	1,484,394	1,497,550
Senior secured notes payable	179,689	198,997
Taxable direct placement loans	369,000	369,000
Variable rate demand bonds	769,400	769,400
Auction rate certificates	303,400	303,400
Notes payable to banks under credit agreement	8,551	8,551
Total debt under Master Trust Indenture	5,271,041	5,449,126
Other	149,630	149,630
Total debt	$ 5,420,671	$ 5,598,756

	Carrying Value as of June 30, 2015	Fair Value as of June 30, 2015
Debt issued under Master Trust Indenture:		
Fixed rate revenue bonds	$ 2,200,875	$ 2,340,959
Taxable bonds	1,484,266	1,469,450
Senior secured notes payable	179,660	199,745
Taxable direct placement loans	369,000	369,000
Variable rate demand bonds	776,400	776,400
Auction rate certificates	313,600	313,600
Notes payable to banks under credit agreement	9,043	9,043
Total debt under Master Trust Indenture	5,332,844	5,478,197
Other	144,761	144,761
Total debt	$ 5,477,605	$ 5,622,958

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.

Information related to intangible assets at September 30, 2015, and June 30, 2015, is as follows (in thousands):

	As of September 30, 2015			
	Gross Carrying Amount	**Accumulated Amortization**	**Net Balance at End of Period**	**Amortization period**
Trademark	$ 152,700	$ -	$ 152,700	Indefinite
Customer relationships	60,800	(12,400)	48,400	10 - 15 years
Noncompete agreements	8,057	(2,917)	5,140	36-84 months
Management agreements	2,740	-	2,740	Indefinite
Other	31,963	(21,090)	10,873	36-84 months
	$ 256,260	$ (36,407)	$ 219,853	

	As of June 30, 2015			
	Gross Carrying Amount	**Accumulated Amortization**	**Net Balance at End of Period**	**Amortization period**
Trademark	$ 152,700	$ -	$ 152,700	Indefinite
Customer relationships	60,800	(11,360)	49,440	10 - 15 years
Noncompete agreements	7,770	(2,524)	5,246	36-84 months
Management agreements	2,784	-	2,784	Indefinite
Other	31,589	(19,564)	12,025	36-84 months
	$ 255,643	$ (33,448)	$ 222,195	

The aggregate amount of amortization expense related to intangible assets subject to amortization is $2.7 million and $2.6 million for the three-month periods ended September 30, 2015 and 2014, respectively. Amortization expense on intangible assets is estimated to be $9.0 million for the remainder of 2016, $9.8 million in 2017, $6.7 million in 2018, $5.5 million in 2019, $4.5 million in 2020, and $28.9 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.

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

	As of September 30, 2015	**As of June 30, 2015**
Balance at beginning of period	$ 572,957	$ 509,772
Addition from acquisitions	6,647	74,775
Goodwill impairment	-	(3,942)
Acquisition and other accounting adjustments	4,902	(7,648)
Balance at end of period	$ 584,506	$ 572,957

For goodwill recorded at USHW, Dignity Health performed its annual impairment test at August 31, 2015. In prior years, Dignity Health performed it annual impairment test at September 30, however, in order to allow for more time to complete the analysis prior to the issuance of quarterly financial statements, the annual impairment test date was changed to August 31.

9. DEBT

In September 2015, the letter of credit issued in October 2012 to support VRDBs of $140.4 million was extended to October 2018. This did not change the terms, provisions or classification of the VRDBs subject to short-term liquidity arrangements.

In October 2015, the letters of credit issued in October 2012 to support VRDBs of $76.0 million, $60.0 million and $59.6 million were extended to October 2019. This did not change the terms, provisions or classifications of the VRDBs subject to short-term liquidity arrangements.

In July 2014, $49.9 million in put bonds were legally 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.

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, 2015 and June 30, 2015 (in thousands):

	Maturity Date of Derivatives	Interest Rate	Notional Amount Outstanding	Fair Value
			September 30, 2015	
Derivatives not designated as hedges				
Interest rate swaps	2026 - 2042	3.2% - 3.4%	$ 937,750	$ (206,685)
Risk participation agreements	2017 - 2025, with extension options	SIFMA plus spread	$ 509,510	$ -
			June 30, 2015	
Derivatives not designated as hedges				
Interest rate swaps	2026 - 2042	3.2% - 3.4%	$ 940,250	$ (178,485)
Risk participation agreements	2017 - 2025, with extension options	SIFMA plus spread	$ 509,510	$ -

Changes in fair value of derivative instruments have been recorded for the three-month periods ended September 30, 2015 and 2014 as follows (in thousands):

	Three-Month Periods Ended September 30, 2015	2014
Loss reclassified from unrestricted net assets into interest expense, net, related to derivatives in cash flow hedging relationships:		
Interest rate swaps - amortization	$ (671)	$ (671)
Loss recognized in interest expense, net:		
Changes in fair value of non-hedged derivatives - interest rate swaps	(28,200)	(1,661)
Amortization of amounts in unrestricted net assets - interest rate swaps	(671)	(671)
Total	$ (28,871)	$ (2,332)

Of the amounts classified in unrestricted net assets as of September 30, 2015, 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 $937.8 million notional amount of interest rate swaps held by Dignity Health at September 30, 2015, $160.0 million are insured and have a negative fair value of $48.5 million at September 30, 2015. 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 $777.8 million of interest rate swaps that are not insured as of September 30, 2015. 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 2017. 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 $93.5 million at September 30, 2015. The remaining uninsured swaps in the notional amount of $340.3 million have a negative fair value of $64.7 million as of September 30, 2015. The fair value of the risk participation agreements is deemed immaterial as of September 30, 2015.

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 $408.0 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.

11. INTEREST EXPENSE, NET

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

	Three-Month Periods Ended September 30, 2015	Three-Month Periods Ended September 30, 2014
Interest and fees on debt and swap cash settlements	$ 54,481	$ 50,921
Market adjustment on swaps and amortization of amounts in unrestricted net assets	28,871	2,332
Total interest expense	83,352	53,253
Capitalized interest expense	(2,520)	(3,250)
Interest expense, net	$ 80,832	$ 50,003

12. INVESTMENT LOSS, 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, 2015	Three-Month Periods Ended September 30, 2014
Interest and dividend income	$ 20,382	$ 21,785
Net realized gains on sales of securities	64,935	61,756
Net unrealized losses on securities	(338,194)	(82,658)
Other, net of capitalized investment income	(5,887)	(5,632)
Investment loss, net	$ (258,764)	$ (4,749)

13. INCOME TAXES

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

	As of September 30, 2015	As of June 30, 2015
Deferred tax assets:		
Current	$ 12,240	$ 11,135
Noncurrent	(6,758)	1,713
Total deferred tax assets	$ 5,482	$ 12,848
Deferred tax liabilities	$ 105,661	$ 109,583

14. RETIREMENT PROGRAMS

Total expense for all Dignity Health retirement and postretirement plans was $81.1 million and $62.5 million for the three-month periods ended September 30, 2015 and 2014, 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.

***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.

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 ("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 health care 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 settlement and entered into a Corporate Integrity Agreement ("CIA") with the OIG to resolve an investigation into government reimbursement of hospital inpatient stays. Payment was made in November 2014. 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.

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, St. Bernardine Medical Center 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.

In July 2014, the District Court ruled that the DHPP does not qualify as a church plan and, therefore, is not exempt from ERISA. In November 2014, the District Court granted Dignity Health's motion for certification of the partial summary judgment order, which allowed Dignity Health to request an appeal of the District Court's order. In December 2014, Dignity Health filed a petition for permission to appeal the District Court's order to the Ninth Circuit Court of Appeals. In February 2015, the Ninth Circuit granted permission for Dignity Health to appeal the District Court's ruling. All briefs have been filed with the Ninth Circuit and oral arguments on the appeal will likely be held during February 2016.

Dignity Health disagrees with the District Court's conclusion and will continue to vigorously defend its position on appeal. While Dignity Health believes 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.

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 health care, 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 222 occupational health and urgent care centers in 18 additional states.

Results of Operations

Three Months Ended September 30, 2015 and 2014

For the three-month period ended September 30, 2015, Dignity Health recorded an operating loss of $47.5 million compared to an operating loss of $15.2 million for the same period in the prior year. The results of operations for the three-month period ended September 30, 2015, are primarily related to the following:

- Dignity Health recognized $254.3 million in net patient revenue and $138.7 million in purchased services and other for a net favorable impact of $115.6 million related to the California provider fee programs, compared to $0 million recognized during the same period in the prior year. The increase is related to the approval of the 2014 California provider fee program received in December 2014.
- Net patient and premium revenues increased $426.3 million, or 16.6%, over the same period in the prior year. Excluding all provider fee program revenues, the increase was $171.9 million, or 6.7%, primarily due to $23.0 million in supplemental Medicaid payments recorded in Arizona, rate increases, and higher volumes. Provision for bad debts on uncollectible accounts decreased $1.4 million, or 0.9%, with provision for bad debts on uncollectible accounts as a percentage of gross revenues decreasing to 1.3% from 1.5% in the prior year. The decrease is primarily due to the shift from self-pay (where payment shortfalls are recorded as bad debt and charity) to Medicaid (where payment shortfalls are recorded as contractual discounts).
- Net patient and premium revenue per adjusted admission, excluding the impact of the provider fee programs, increased 5.0% compared to the same period in the prior year. The increase is primarily a function of rate increases and supplemental Medicaid payments in Arizona. Adjusted admissions increased 1.6% compared to the same period in the prior year.
- Revenue from health-related activities, net, decreased $27.6 million over the same period in the prior year, primarily due to a loss of $11.7 million recorded during the period related to the investment in Scripps Health compared to income of $17.0 million recorded in the prior year. The decline is related to unrealized investment losses recorded by Scripps Health during the three-month period ended September 30, 2015.
- Salaries and benefits increased $142.9 million, or 9.7%, over the same period in the prior year, with salaries and benefits per adjusted admission increasing 8.0%, primarily due to staffing levels and wage and benefit cost increases.
- Supplies increased $37.1 million, or 9.3%, compared to the same period in the prior year, with supply costs per adjusted admission increasing 7.6%, primarily in the areas of pharmacy and surgery.
- Purchased services and other increased $217.2 million, or 34.1%, compared to the same period in the prior year. Excluding the provider fee program costs, purchased services and other increased $78.5 million, or 12.3%, primarily due to increased medical and professional fees, Optum360° management fees, and training costs due to the adoption of ICD-10.
- Non-cash market adjustments on swaps, recorded in interest expense, net, were $28.9 million unfavorable compared to $2.3 million unfavorable in the same period in the prior year.

- Investment loss, net, increased $254.0 million to a loss of $258.7 million, from a loss of $4.7 million during the same period in the prior year. Realized gains of $64.9 million in the current year were higher than realized gains of $61.8 million in the same period in the prior year. Net unrealized losses were $338.2 million in the current year, compared to $82.7 million in the same period in the prior year.

Capital Resources

Cash used in operating activities totaled $25.3 million for the three-month period ended September 30, 2015, compared to $37.3 million for the same period in the prior year. Significant activity for the three-month period ended September 30, 2015, includes the following:

- Accounts receivable increased $60.9 million during the three-month period ending September 30, 2015, compared to $19.0 million during the same period in the prior year.
- Accounts payable increased $29.9 million during the three-month period ending September 30, 2015, compared to a decrease of $32.8 million during the same period in the prior year.
- Provider fee assets and liabilities, net, increased $32.3 million during the three-month period ending September 30, 2015, compared to $0 million during the same period in the prior year due to the differences in timing of revenue and expense recognition compared to the receipt and payment of cash.
- Accrued salaries and benefits decreased $70.3 million during the three-month period ending September 30, 2015, compared to a decrease of $42.6 million during the same period in the prior year.

Cash provided by investing activities totaled $296.9 million for the three-month period ended September 30, 2015, compared to cash used in investing activities of $62.3 million for the same period in the prior year, primarily due to the following:

- Net sales of investments were $407.9 million during the three-month period ended September 30, 2015, compared to $202.1 million during the same period in the prior year.
- Capital expenditures were $183.2 million during the three-month period ended September 30, 2015, compared to $164.8 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.
- Investments in health-related activities were $47.9 million during the three-month period ended September 30, 2015, compared to $79.4 million during the same period in the prior year.

Cash used in financing activities totaled $183.4 million for the three-month period ended September 30, 2015, compared to cash provided by financing activities of $86.1 million for the same period in the prior year, primarily due to the following:

- Net debt repayments of $68.3 million during the three-month period ended September 30, 2015, compared to net borrowings of $57.8 million during the same period in the prior year.

Dignity Health's debt-to-capitalization ratio was 46.1% as of September 30, 2015, and 45.2% as of June 30, 2015. The increase is due primarily to investment losses during the three-month period ending September 30, 2015.

Dignity Health's EBITDA (earnings before interest expense, net, depreciation and amortization, tax expense, and investment earnings) increased $14.2 million to $177.3 million during the three-month period ended September 30, 2015, from $163.1 million for the same period in the prior year. The EBITDA margin percentage decreased to 5.8% from 6.1%.

Business Strategy

Dignity Health's "Horizon 2020" strategy, which was launched in September 2010, envisioned the transition to a value-based operating model. Dignity Health has invested significantly in organizational, cultural, operational and clinical innovations to achieve this transformation. Dignity Health has a range of initiatives underway to facilitate the transformation of the organization toward value-based, consumer-focused population health management. While fee-for-service health care will continue to represent the majority of Dignity Health's revenue for the near to medium term, Dignity Health believes it essential to also focus on adopting new care models and payment systems geared toward population health management. These initiatives and tactics have been developed to help the organization succeed in the current environment as well as in the future. Progress on key initiatives is highlighted below:

Brand Identity and Experience — Dignity Health launched its new name and brand in January 2012, and since then has been focused on both consumer awareness and the development of Dignity Health's brand identity. The *Hello humankindness* campaign is an integrated effort to articulate the patient and employee experience. 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 and evolving consumer expectations. 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. Consumer awareness has grown to 63% based on brand strength monitoring surveys conducted by Berry Strategy LLC, an outside company, since the launch of Dignity Health's new name and brand.

Building the Clinical Enterprise — Dignity Health is focused on expanding quality, patient experience and integration in its service areas through clinical integration and other physician alignment and implementation of new payment models. Selected recent accomplishments in these areas include:

a) *Quality and Patient Experience* - In September 2015, Dignity Health was selected by CMS as one of only 17 organizations to participate in the second round of the Partnership for Patients Hospital Engagement Networks, an initiative designed to make hospital care safer, more reliable, and less costly. The pledge is consistent with Dignity Health's mission to provide high quality, affordable health care. CMS will provide $2.8 million in funding. Patient experience is an ongoing priority at Dignity Health and results from the national Hospital Consumer Assessment of Healthcare Providers and Systems ("HCAHPS") survey continue to improve. New initiatives for Dignity Health in fiscal year 2016 include an array of evidence-based practices that will improve care and lower costs in seven clinical service lines, including hospital medicine, emergency departments and critical care. Results in the first quarter of the fiscal year are exceeding expectations.

b) *Clinical Integration* - Dignity Health's Clinical Integration ("CI") strategy aligns physicians and hospitals around a common set of clinical and quality metrics and information sharing through common technology, provider compliance and peer review, and payor contracting. Participation in Dignity Health's CI networks has grown rapidly with over 4,800 physicians, primarily in Arizona, Southern Nevada and Southern California, since the inception of the program in mid-2012. Dignity Health also achieves alignment with approximately 1,360 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. This includes Dignity Health's recent alignment with Integrated Medical Services, Inc. in October 2014, a multi-specialty practice in Phoenix, Arizona which added over 100 providers and 65 locations to Dignity Health's clinical integration network.

c) *New Payment Models* - Economic models that support coordinated care are essential to Dignity Health's success in population health management. To that end, the organization has focused on participating in new payment models such as the Medicare Shared Savings Program, professional and/or hospital capitation, CMS demonstration projects, bundled payments, narrow networks and risk sharing. Dignity Health has more than 100 value-based agreements (contracts with health care payors and purchasers which include one or more of the following features: financial risk beyond routine pay-for-performance, negotiated narrow provider networks, and/or direct-to-employer arrangements) currently in place with over 650,000 attributable lives. Many of these contracts include arrangements with Dignity Health's six CI networks. To date, these contracts represent a small percentage of Dignity Health's revenue, but management believes over time this will increase.

Grow, Diversify and Expand the Continuum — Dignity Health's growth strategy has focused on building out integrated delivery networks ("IDNs") in existing service areas through expansion of the continuum of care and limited in-market consolidation, as well as 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. 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. Recent examples of these approaches include the joint venture in Phoenix, Arizona with One Medical, a primary care group with a patient-centered technology-enabled focus, which was completed in September 2014, and a joint venture with Adeptus in October 2014 to build and operate several micro hospitals with a network of free-standing emergency rooms to provide greater network access to support the expansion of the Arizona Care Network.

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 health care 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 health care facilities in the service areas of Dignity Health, federal and state regulation of health care 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,	
	2015	2014
Financial Performance:		
Operating loss	$ (47,540)	$ (15,196)
Margin %	(1.5%)	(0.6%)
EBITDA (earnings before interest expense, net, depreciation and amortization, tax expense, and investment earnings)	$ 177,328	$ 163,148
Margin %	5.8%	6.1%
Deficit of revenues over expenses attributable to Dignity Health	$ (320,123)	$ (28,926)
Margin %	(11.4%)	(1.1%)
Uncompensated Care:		
Charity care, at customary charges	$ 88,817	$ 141,703
Charity care, at cost	$ 22,492	$ 33,841
Charity care, at cost, as a percentage of total expenses	0.7%	1.3%
Bad debt at customary charges	$ 156,745	$ 158,112
Productivity:		
Salaries, wages and benefits as a % of net patient and premium revenue	53.8%	57.2%
Supply expense as a % of net patient and premium revenue	14.6%	15.5%
Purchased services as a % of net patient and premium revenue	28.5%	24.8%
Capital expense as a % of net patient and premium revenue	7.5%	6.9%
Operations:		
Acute admissions*	93,127	92,721
Adjusted admissions*	153,746	151,335
Acute inpatient days*	412,649	399,384
Adjusted patient days *	732,978	697,159
Acute average length of stay*	4.43	4.31
Outpatient revenue as a % of total patient services revenue	42.6%	41.2%
Number of FTEs	53,664	49,996
FTEs per adjusted occupied bed *	5.31	5.19

*Hospital only