DIGNITY HEALTH AND SUBORDINATE CORPORATIONS

Consolidated Financial Statements as of and for the Years Ended June 30, 2016 and 2015 and Independent Auditors' Report

DIGNITY HEALTH AND SUBORDINATE CORPORATIONS

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Deloitte & Touche LLP
555 Mission Street
Suite 1400
San Francisco, CA 94105
USA

Tel:+1 415 783 4000
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Dignity Health and Subordinate Corporations ("Dignity Health"), which comprise the consolidated balance sheets as of June 30, 2016 and 2015, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the 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.

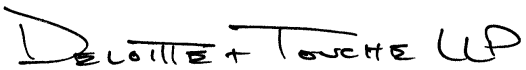
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2016 and 2015, 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 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 financial statements and, accordingly it is inappropriate to and we do not express an opinion on the supplementary information referred to above.



September 21, 2016

DIGNITY HEALTH AND SUBORDINATE CORPORATIONS

CONSOLIDATED BALANCE SHEETS
June 30, 2016 and 2015 (in thousands)

Assets	2016	2015
Current assets:		
Cash and cash equivalents	$ 569,473	$ 285,568
Short-term investments	2,047,997	1,568,469
Collateral held under securities lending program	162,239	222,438
Assets limited as to use	1,014,919	1,017,174
Patient accounts receivable, net of allowance for doubtful accounts of $631,628 and $555,092 in 2016 and 2015, respectively	1,816,529	1,721,158
Broker receivables for unsettled investment trades	82,487	100,779
Other current assets	1,696,140	1,367,274
Total current assets	7,389,784	6,282,860
Assets limited as to use:		
Board-designated assets (including $325,011 and $292,741 of assets loaned under securities lending program in 2016 and 2015, respectively) for:		
Capital projects	2,266,976	3,587,763
Workers' compensation	400,022	402,694
Professional and general liability	291,415	300,116
Under bond indenture agreements for:		
Capital projects	45,591	98,274
Debt service	95,551	105,350
Donor-restricted	445,212	443,078
Other	66,009	54,301
Less amount required to meet current obligations	(1,014,919)	(1,017,174)
Net assets limited as to use	2,595,857	3,974,402
Property and equipment, net	4,909,980	4,811,643
Ownership interests in health-related activities	1,324,540	1,167,976
Goodwill	574,355	572,957
Intangible assets, net	213,185	222,195
Other long-term assets, net	74,961	65,156
Total assets	$17,082,662	$17,097,189

(Continued)

DIGNITY HEALTH AND SUBORDINATE CORPORATIONS

CONSOLIDATED BALANCE SHEETS
June 30, 2016 and 2015 (in thousands)

Liabilities and Net Assets	2016	2015
Current liabilities:		
Current portion of long-term debt	$ 112,283	$ 126,023
Demand bonds subject to short-term liquidity arrangements, excluding current maturities	761,800	769,400
Accounts payable	659,536	622,218
Payable under securities lending program	162,241	222,455
Accrued salaries and benefits	681,835	669,454
Accrued workers' compensation	47,042	43,602
Accrued professional and general liability	68,417	77,247
Pension and other postretirement benefit liabilities	356,217	282,787
Broker payables for unsettled investment trades	14,930	26,652
Other accrued liabilities	948,527	747,832
Total current liabilities	3,812,828	3,587,670
Other liabilities:		
Workers' compensation	344,927	340,107
Professional and general liability	266,278	275,999
Pension and other postretirement benefit liabilities	1,604,163	824,271
Other	221,259	224,130
Total other liabilities	2,436,627	1,664,507
Long-term debt, net of current portion	4,605,283	4,554,194
Total liabilities	10,854,738	9,806,371
Net assets:		
Unrestricted - attributable to Dignity Health	5,550,726	6,653,842
Unrestricted - noncontrolling interests	231,337	197,530
Temporarily restricted	331,128	332,521
Permanently restricted	114,733	106,925
Total net assets	6,227,924	7,290,818
Total liabilities and net assets	$17,082,662	$17,097,189

(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, 2016 and 2015 (in thousands)

	2016	2015
Unrestricted revenues and other support:		
Patient revenue, net of contractual allowances and discounts	$12,234,018	$ 12,094,886
Provision for bad debts	(691,756)	(704,748)
Net patient revenue	11,542,262	11,390,138
Premium revenue	633,395	566,364
Revenue from health-related activities, net	66,586	99,922
Other operating revenue	376,580	312,374
Contributions	17,452	17,780
Total unrestricted revenues and other support	12,636,275	12,386,578
Expenses:		
Salaries and benefits	6,581,323	6,081,380
Supplies	1,769,212	1,649,599
Purchased services and other	3,497,502	3,441,649
Depreciation and amortization	581,624	545,358
Interest expense, net	270,034	229,955
Loss on early extinguishment of debt	-	6,374
Special charges and other costs	-	9,000
Total expenses	12,699,695	11,963,315
Operating income (loss)	(63,420)	423,263
Other income (loss):		
Investment income (loss), net	(123,869)	177,615
Income tax expense	(14,189)	(13,976)
Total other income (loss), net	(138,058)	163,639
Excess (deficit) of revenues over expenses	$ (201,478)	$ 586,902
Less excess of revenues over expenses attributable to noncontrolling interests	36,337	28,991
Excess (deficit) of revenues over expenses attributable to Dignity Health	$ (237,815)	$ 557,911

(Continued)

DIGNITY HEALTH AND SUBORDINATE CORPORATIONS

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
YEARS ENDED June 30, 2016 and 2015 (in thousands)

	2016	2015
Unrestricted net assets attributable to Dignity Health:		
Excess (deficit) of revenues over expenses attributable to Dignity Health	$ (237,815)	$ 557,911
Net unrealized losses on available-for-sale investments	(1,251)	(1,880)
Net assets released from restrictions used for purchase of property and equipment	11,411	13,000
Change in funded status of pension and other postretirement benefit plans	(886,749)	(461,581)
Loss from discontinued operations, net	(276)	(1,271)
Change in net assets of unconsolidated equity method investments	11,402	-
Change in ownership interests held by controlled subsidiaries	(17,384)	15,151
Change in accumulated unrealized derivative gains, net	2,683	2,683
Funds donated from unconsolidated sources for purchase of property and equipment	11,051	24,391
Other	3,812	236
Increase (decrease) in unrestricted net assets attributable to Dignity Health	(1,103,116)	148,640
Unrestricted net assets attributable to noncontrolling interests:		
Excess of revenues over expenses attributable to noncontrolling interests	36,337	28,991
Change in ownership interest and other, net	(2,530)	(14,054)
Increase in unrestricted net assets attributable to noncontrolling interests	33,807	14,937
Temporarily restricted net assets:		
Contributions and restricted proceeds	49,802	39,307
Net realized and unrealized gains (losses) on investments	(1,482)	1,879
Net assets released from restrictions	(39,453)	(32,555)
Change in interest in net assets of unconsolidated foundations	(13,624)	5,835
Other	3,364	102
Increase (decrease) in temporarily restricted net assets	(1,393)	14,568
Permanently restricted net assets:		
Contributions	4,770	120
Net realized and unrealized gains (losses) on investments	89	(46)
Change in interest in net assets of unconsolidated foundations	2,949	130
Other	-	31
Increase in permanently restricted net assets	7,808	235
Increase (decrease) in net assets	(1,062,894)	178,380
Net assets, beginning of period	7,290,818	7,112,438
Net assets, end of period	$ 6,227,924	$ 7,290,818

(Concluded)

See notes to consolidated financial statements.

DIGNITY HEALTH AND SUBORDINATE CORPORATIONS

CONSOLIDATED STATEMENTS OF CASH FLOWS
June 30, 2016 and 2015 (in thousands)

	2016	2015
Cash flows from operating activities:		
Change in net assets	$ (1,062,894)	$ 178,380
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Loss on early extinguishment of debt	-	6,374
Depreciation and amortization	584,212	548,465
Health-related activities:		
Changes in equity of unconsolidated entities	(64,907)	(103,276)
Changes in ownership of consolidated entities	(25,650)	(6,965)
Gain, net, on disposal of assets	(17,433)	(311)
Estimated carrying value adjustment of assets	-	9,000
Goodwill impairment	-	3,942
Change in deferred taxes	11,799	13,097
Restricted contributions	(60,156)	(43,825)
Change in funded status of pension and other postretirement benefit plans	886,749	461,581
Undistributed portion of change in net assets of unconsolidated foundations	10,675	(5,965)
Change in net realized and unrealized gains on investments	181,024	(112,139)
Change in fair value of swaps	70,428	22,046
Changes in certain assets and liabilities:		
Accounts receivable, net	(101,189)	(12,778)
Accounts payable	45,672	19,119
Workers' compensation and professional and general liabilities	5,081	35,531
Accrued salaries and benefits	11,178	79,258
Pension and other postretirement liabilities	(33,427)	(59,954)
Provider fee assets and liabilities	(225,936)	(480,764)
Estimated receivables from/payables to third-party payors, net	(9,415)	33,339
Other accrued liabilities	32,106	(96,201)
Prepaid and other current assets	(24,951)	(16,977)
Other, net	(11,720)	9,604
Cash provided by operating activities	201,246	480,581

(Continued)

DIGNITY HEALTH AND SUBORDINATE CORPORATIONS

CONSOLIDATED STATEMENTS OF CASH FLOWS
June 30, 2016 and 2015 (in thousands)

	2016	2015
Cash flows from investing activities:		
Purchase of investments	(4,088,020)	(4,367,934)
Proceeds from sale of investments	4,815,937	4,236,197
Cash proceeds on disposal of assets	62,351	1,612
Investments in health-related activities	(107,433)	(145,703)
Cash distributions from health-related activities	17,445	17,033
Additions to operating property and equipment	(641,711)	(663,310)
(Increase) decrease in securities lending collateral	60,214	(35,166)
Other, net	(28,941)	(1,590)
Cash provided by (used in) investing activities	89,842	(958,861)
Cash flows from financing activities:		
Borrowings	206,694	1,586,624
Repayments	(209,581)	(1,165,354)
Increase (decrease) in payable under securities lending program	(60,214)	35,166
Direct costs related to the sale of noncontrolling interest	(3,913)	-
Contingent consideration payments related to acquisitions	(325)	(51,500)
Restricted contributions	60,156	43,825
Deferred financing costs	-	(9,155)
Cash provided by (used in) financing activities	(7,183)	439,606
Net increase (decrease) in cash and cash equivalents	283,905	(38,674)
Cash and cash equivalents at beginning of the year	285,568	324,242
Cash and cash equivalents at end of the year	$ 569,473	$ 285,568
Components of cash and cash equivalents and investments at end of year:		
Cash and cash equivalents	569,473	285,568
Short-term investments	2,047,997	1,568,469
Board-designated assets for capital projects	2,266,976	3,587,763
Total	$ 4,884,446	$ 5,441,800
Supplemental disclosures of cash flow information:		
Cash paid for interest, net of capitalized interest	$ 197,513	$ 212,368
Supplemental schedule of noncash investing and financing activities:		
Property and equipment acquired through capital lease or note payable	$ 32,597	$ 16,474
Accrued purchases of property and equipment	$ 114,823	$ 109,631
Broker receivables for unsettled investment trades	$ 82,487	$ 100,779
Broker payables for unsettled investment trades	$ 14,930	$ 26,652

(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 19 additional states through U.S. HealthWorks, Inc. ("USHW"). 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 2015 consolidated financial statements to conform to the 2016 presentation. See recent accounting pronouncements section below.

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 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 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 relate to transactions that have been initiated prior to the consolidated balance sheet date which are formally settled subsequent to the consolidated balance sheet date.

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, 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 (deficit) 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. Both deferred financing costs and original issue discounts/premiums are recorded with the related debt, as further discussed in the recent accounting pronouncement section below.

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. Amortization of capital lease assets 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	3 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 $36.0 million and $34.6 million are recorded in

other long-term liabilities as of June 30, 2016 and 2015, respectively. The year over year increase of $1.4 million is primarily related 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. See Note 21.

Goodwill and indefinite-lived intangible assets are tested for impairment annually on various dates and 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 of non-hedged derivative instruments 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 interest is 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 Health, Phoenix Children's Hospital, and Optum360º, 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, 2016 and 2015, have been accrued as liabilities and include an actuarial estimate for claims incurred but not reported ("IBNR").

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 $34.7 million and $20.4 million in 2016 and 2015, 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 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 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, and is recorded in other accrued liabilities.

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 written off as charity quantified at customary charges was $451.5 million and $677.1 million for 2016 and 2015, respectively. 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 associated with write-offs in 2016 and 2015 was $96.5 million and $144.0 million, respectively. See Note 24.

Other Operating Revenue – Other operating revenue includes grant revenues, retail pharmacy revenues, meaningful use incentives, management services revenues, rental revenues, cafeteria revenues, certain contributions released from restrictions and other nonpatient-care revenues.

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 operations and 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 additions to 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 provision has been recorded in the accompanying consolidated financial statements for net income derived from unrelated trade or business.

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 net assets of unconsolidated equity method investments, 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 August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-14, *Not-for-Profit Entities (Topic 958), Presentation of Financial Statements of Not-for-Profit Entities ("ASU 2016-14")*, which requires improved presentation and disclosures to help not-for-profit entities provide more relevant information about their resources to donors, grantors, creditors, and other issues, including net asset classifications, investment returns, expenses, liquidity and availability of resources and presentation of operating cash flows. The guidance is effective for Dignity Health as of July 1, 2018. Dignity Health is in the process of determining the potential impact on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842) ("ASU 2016-02")*, which affects any entity that enters into a lease (as that term is defined in ASU 2016-02), with some specified scope exceptions. The main difference between the guidance in ASU 2016-02 and previous guidance is the recognition of lease assets and lease liabilities by lessees for certain leases classified as operating leases under current guidance. The guidance is effective for Dignity Health as of July 1, 2019. Dignity Health is in the process of determining the potential impact on its consolidated financial statements.

In November 2015, the FASB issued ASU No. 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes ("ASU 2015-17)*, which requires that deferred tax liabilities and assets be classified as noncurrent in a classified balance sheet. Dignity Health prospectively adopted ASU 2015-17 during the year ended June 30, 2016. The adoption did not have a material impact on the accompanying consolidated financial statements of Dignity Health.

In April 2015, the FASB issued ASU No. 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or its Equivalent), ("ASU 2015-07"),* which removes the requirement to categorize, within the fair value hierarchy, investments for which fair value is measured using the net asset value per share practical expedient. It also limits disclosures related to investments for which the entity has elected to measure the fair value using that practical expedient. The guidance is effective for Dignity Health as of July 1, 2016. The adoption of ASU 2015-07 is not expected to have a material impact on the consolidated financial statements of Dignity Health.

In April 2015, the FASB issued ASU No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs ("ASU 2015-03")*, which changes the presentation of debt issuance costs in financial statements. Under ASU 2015-03, an entity presents such costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Dignity Health adopted ASU 2015-03 effective June 30, 2016. All periods presented have been reclassified to reflect retrospective adoption in accordance with the provisions of ASU 2015-03, which resulted in a decrease in other long-term assets, net, of $28.0 million, and a decrease in current portion of long-term debt and long-term debt, net of current portion of $5.2 million and $22.8 million, respectively, in the accompanying consolidated balance sheet at June 30, 2015.

In May 2014, the FASB issued 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, as amended by ASU 2015-14, *Revenue From Contracts With Customers*

(Topic 606), is effective for Dignity Health as of July 1, 2018. Early adoption is not permitted. Dignity Health is currently evaluating the impact on the consolidated financial statements and the options of adopting either a full retrospective or a modified approach.

Subsequent Events **–** Dignity Health has evaluated subsequent events occurring between the end of the most recent fiscal year and September 21, 2016, the date the financial statements were issued. See Note 16.

3. MERGERS, ACQUISITIONS AND DIVESTITURES

Investments in Joint Ventures **–** 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"). The transaction closed on June 1, 2016. Under the terms of the agreements, Dignity Health contributed 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. Thereafter, Port City LLC owns and operates the hospitals. Simultaneously, KFH purchased 20% of Dignity Health's interest in Port City LLC from Dignity Health. Port City LLC will be consolidated in Dignity Health's financial statements, but the facilities will no longer be part of an Obligated Group member. 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, as part of the agreements, the hospitals became "plan hospitals" for enrollees of Kaiser Foundation Health Plan in the geographic area as of May 1, 2016.

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 manages the operations of CHNH.

Dispositions **–** 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 $0.1 million and $1.3 million for 2016 and 2015, 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:

	2016	2015
Inpatient services	58%	59%
Outpatient services	42%	41%

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

	2016	2015
Government	$ 6,593,409	$ 6,443,841
Contracted	4,714,397	4,560,885
Self-pay and other	926,212	1,090,160
	$12,234,018	$12,094,886

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.

During 2016 and 2015, Dignity Health has experienced shifts in payor mix, primarily from self-pay and other to Medicaid, resulting in a decrease in the allowance for bad debt and charity and an increase in contractual allowances and discounts. Also, during 2016, Dignity Health experienced a decline in contracted volumes.

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 $1.0 billion and $1.4 billion related to supplemental Medi-Cal payments provided under the California provider fee programs in 2016 and 2015, respectively. These programs are funded by quality assurance fees paid by participating hospitals and matching federal funds. Dignity Health recorded $503.2 million and $752.2 million in such fees in purchased services and other expense in 2016 and 2015, respectively. Grant expense related to the California Health Foundation and Trust ("CHFT") was recognized in connection with the California provider fee programs resulting in $10.5 million and $24.7 million recorded in purchased services and other expense in 2016 and 2015, respectively. Total net income recognized in 2016 and 2015 was $476.3 million and $632.6 million, respectively. Due to the timing of approvals obtained from the Centers for Medicare and Medicaid Services ("CMS"), $233.6 million of the total net income recognized in 2015 pertains to prior years.

Legislation approved by the State of California in October 2013 created the framework for the provider fee to continue in perpetuity without requiring further legislation by the State. A November 2016 ballot initiative, Proposition 52, if passed, will make permanent the current provider fee program and place limits on the ability of the State of California to reallocate funds for non-health care purposes. In order to ensure the continuation of the fee should the initiative not pass, AB 1607, which extends the sunset of the existing provider fee to January 1, 2018, was passed and signed into law in June 2016. Management anticipates that if the ballot initiative does not pass, California hospitals will pursue future legislation and/or ballot initiatives in order for provider fees to continue beyond January 1, 2018.

In 2016 and 2015, net patient revenue also includes $23.0 million and $23.5 million, respectively, and purchased services and other expense includes $14.4 million and $18.1 million, respectively, of grant expense related to supplemental Medicaid payments received in Arizona, resulting in a net income impact of $8.6 million and $5.4 million, respectively.

Receivables for supplemental payments under provider fee programs were $1,088.7 million and $776.8 million as of June 30, 2016 and 2015, respectively, and are recorded in other current assets. Provider fee payables of $355.9 million and $269.9 million as of June 30, 2016 and 2015, respectively, are recorded as other accrued liabilities.

"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 required 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 2016 and 2015, Dignity Health recorded meaningful use incentive revenue of $24.5 million and $36.2 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.

Medicaid Disproportionate Share Payments **-** Certain hospitals qualified for and received Medi-Cal funding as disproportionate-share hospitals from the State of California in 2016 and 2015. The amounts recorded were $107.2 million and $106.3 million, respectively, and are included in net patient revenue.

Cost Reports and Other Settlements **–** In both 2016 and 2015, net patient revenue includes $27.9 million in favorable net prior years' reimbursement settlements from Medicare, Medicaid and other programs. In addition, Dignity Health recorded $13.1 million in recovery audit contractor take-backs, net of recoveries, and $14.4 million in recovery audit contractor settlements and recoveries, net of take-backs, related to prior year claims, during 2016 and 2015, respectively.

At June 30, 2016 and 2015, estimated receivables for third-party payor settlements recorded in other current assets were $63.7 million and $58.5 million, respectively, and estimated payables for third-party payor settlements recorded in other accrued liabilities were $34.4 million and $38.6 million, respectively.

6. OTHER CURRENT ASSETS

Other current assets consist of the following at June 30, 2016 and 2015 (in thousands):

	2016	2015
Inventories	$ 198,302	$ 185,519
Receivables, other than patient accounts receivable	298,387	277,987
Provider fee receivables	1,088,686	776,787
Prepaid expenses	71,735	83,610
Deferred tax asset	-	11,135
Other	39,030	32,236
Total other current assets	$ 1,696,140	$ 1,367,274

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, 2016 and 2015 (in thousands):

	2016	2015
Cash and cash equivalents	$ 350,377	$ 886,137
U.S. government securities	312,608	386,757
U.S. corporate bonds	720,404	723,878
U.S. equity securities	1,232,712	1,352,873
Foreign government securities	10,087	17,675
Foreign corporate bonds	102,262	101,535
Foreign equity securities	947,080	1,085,012
Asset-backed securities	10,756	14,849
Structured debt	68,029	93,988
Private equity investments	357,080	281,158
Multi-strategy hedge fund investments	879,451	923,920
Real estate	210,030	232,176
Other	197,834	189,065
Interest in net assets of unconsolidated foundations	260,063	271,022
Total	$ 5,658,773	$ 6,560,045
Assets limited as to use:		
Current	$ 1,014,919	$ 1,017,174
Long-term	2,595,857	3,974,402
Short-term investments	2,047,997	1,568,469
Total	$ 5,658,773	$ 6,560,045

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, 2016 and 2015 (in thousands):

	2016			
	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, 2016**
Assets				
Cash and cash equivalents	$ 350,377	$ -	$ -	$ 350,377
U.S. government securities	285,502	27,106	-	312,608
U.S. corporate bonds	71,467	468,886	180,051	720,404
U.S. equity securities	774,511	458,201	-	1,232,712
Foreign government securities	7	10,080	-	10,087
Foreign corporate bonds	508	77,710	24,044	102,262
Foreign equity securities	352,470	594,610	-	947,080
Asset-backed securities	-	10,756	-	10,756
Structured debt	627	67,402	-	68,029
Private equity investments	-	-	357,080	357,080
Multi-strategy hedge fund investments	-	-	879,451	879,451
Real estate	18,322	-	191,708	210,030
Collateral held under securities lending program	-	162,239	-	162,239
Other fund investments	6,022	-	-	6,022
Total assets	$ 1,859,813	$ 1,876,990	$ 1,632,334	$ 5,369,137
Liabilities				
Contingent consideration	$ -	$ -	$ 2,190	$ 2,190
Derivative instruments	-	248,913	-	248,913
Total liabilities	$ -	$ 248,913	$ 2,190	$ 251,103

	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 $169.7 million and $78.4 million as of June 30, 2016 and 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 in 2016 and 2015 (in thousands):

	2016				
	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, net, included in excess (deficit) of revenues over expenses	5,742	3,493	8,508	451	18,194
Total unrealized gains (losses), net, included in excess (deficit) of revenues over expenses	10,455	(65,736)	13,572	5,053	(36,656)
Purchases	99,970	152,538	16,887	8,767	278,162
Sales	(40,245)	(134,764)	(66,994)	(5,941)	(247,944)
Balance at end of period	$ 357,080	$ 879,451	$ 191,708	$ 204,095	$ 1,632,334

	2015				
	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	8,474	4,863	-	2,811	16,148
Total unrealized gains, net, included in excess (deficit) of revenues over expenses	14,110	29,788	21,485	4,397	69,780
Purchases	86,657	102,501	17,029	16,409	222,596
Sales	(39,459)	(90,669)	(8,193)	(22,431)	(160,752)
Balance at end of period	$ 281,158	$ 923,920	$ 219,735	$ 195,765	$ 1,620,578

Amounts included in financial liabilities representing contingent consideration relate to acquisitions made by USHW.

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, 2016 and 2015 (in thousands):

		As of June 30, 2016			
		Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Level 2					
Debt securities	(1)	$ 304,050	$ -	Daily, Monthly, Quarterly	1 - 90 days
Equity securities	(2)	1,049,824	-	Daily, Semi-Monthly, Monthly, Quarterly	1 - 120 days
Collateral held under securities lending	(3)	162,239	-	Daily	10 days
Total Level 2		$ 1,516,113	$ -		
Level 3					
Multi-strategy hedge funds	(4)	$ 879,451	$ -	Monthly, Quarterly, Semi-Annually, Annually	5 - 120 days
Private equity	(5)	357,080	213,281	-	-
Real estate	(6)	191,708	15,899	Quarterly	90 days
Debt securities	(7)	204,095	28,754	Monthly, Quarterly	15 - 90 days
Total Level 3		1,632,334	257,934		
Total Level 2 and Level 3		$ 3,148,447	$ 257,934		

		As of June 30, 2015			
		Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
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 June 30, 2016:

Percentage of the Value of Category (4)		Redemption Frequency	Redemption Notice Period	Redemption Locked Up Until (if applicable)	Redemption Gate % of Account (if applicable)
Total	Subtotal				
25.7%	15.0%	Annually	45 days	-	-
	5.0%	Annually	60 - 65 days	-	up to 50%
	5.7%	Annually	75 - 90 days	-	up to 10%
6.8%	6.7%	Semi-Annually	90 days	-	-
	0.1%	Semi-Annually	75 days	-	-
46.7%	26.9%	Quarterly	60 - 65 days	9/30/2017	up to 25.0% - 97.0%
	13.4%	Quarterly	90 days	-	up to 25.0% - 33.3%
	6.4%	Quarterly	30 - 45 days	-	-
20.8%	8.9%	Monthly	5 - 20 days	-	-
	7.1%	Monthly	30 - 45 days	-	up to 16.7%
	4.8%	Monthly	60 - 120 days	-	up to 25.0%

(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, 2016, 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 June 30, 2016, is as follows (in thousands):

	Carrying Value	Fair Value
Debt issued under Master Trust Indenture:		
Fixed rate revenue bonds	$ 2,135,666	$ 2,289,652
Taxable bonds	1,472,267	1,608,344
Senior secured notes payable	179,777	195,473
Taxable direct placement loans	364,807	364,807
Variable rate demand bonds	768,568	769,400
Auction rate certificates	275,447	275,600
Notes payable to banks under credit agreement	150,000	150,000
Total debt under Master Trust Indenture	5,346,532	5,653,276
Other	132,834	132,834
Total debt	$ 5,479,366	$ 5,786,110

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, 2016 and 2015 (in thousands):

	2016	2015
Land	$ 236,732	$ 233,587
Land improvements	123,701	117,472
Buildings	5,553,762	5,300,589
Buildings under capital lease	50,494	54,022
Equipment	4,672,886	4,333,175
Equipment under capital lease	51,083	34,708
Construction in progress	582,617	628,555
Total	11,271,275	10,702,108
Less: Accumulated depreciation	(6,361,295)	(5,890,465)
Property and equipment, net	$ 4,909,980	$ 4,811,643

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 Ascension Health each hold a 50% investment in Southwest Catholic Healthcare Network, dba Mercy Care Plan. Since June 1985, Mercy Care Plan has operated 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, LLC ("Optum360º"), certain equipment and the intellectual property related to its internal revenue cycle management functions for a noncontrolling minority interest in Optum360°. Optum360° also provides revenue cycle management functions for other healthcare customers.

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, 2016 and 2015 (in thousands):

	2016			
	Mercy Care Plan	Scripps Health	Phoenix Children's Hospital	Optum360°
Total assets	$ 482,584	$ 4,811,936	$ 1,303,121	$ 1,437,421
Total liabilities	244,660	1,615,569	841,347	172,897
Total net assets	237,924	3,196,367	461,774	1,264,524
Total revenues, net	2,177,044	2,859,357	796,617	772,004
Excess of revenues over expenses	60,413	29,930	25,884	82,288
Investment at June 30 recorded in ownership interests in health-related activities	118,962	599,423	78,739	257,959
Income recorded in revenue from health-related activities, net	$ 30,207	$ 5,986	$ 5,177	$ 18,901

	2015			
	Mercy Care Plan	Scripps Health	Phoenix Children's Hospital	Optum360°
Total assets	$ 386,074	$ 4,536,119	$ 1,267,477	$ 1,207,716
Total liabilities	206,059	1,367,190	846,993	144,337
Total net assets	180,015	3,168,929	420,484	1,063,379
Total revenues, net	1,982,406	2,874,813	772,284	554,677
Excess of revenues over expenses	35,737	259,183	34,884	47,311
Investment at June 30 recorded in ownership interests in health-related activities	90,007	590,679	64,929	246,763
Income recorded in revenue from health-related activities, net	$ 17,689	$ 56,804	$ 8,110	$ 10,835

Related to consolidated investments in health-related activities, Dignity Health recorded net changes in noncontrolling interests related to revenues, expenses, gains, and losses of $36.3 million and $29.0 million in excess of revenues over expenses attributable to noncontrolling interests in the consolidated statements of operations and changes in net assets for 2016 and 2015, 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.

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

	2016	2015
Balance at beginning of period	$ 572,957	$ 509,772
Addition from acquisitions	23,823	74,775
Goodwill impairment	-	(3,942)
Acquisition accounting and other adjustments	(22,425)	(7,648)
Balance at end of period	574,355	$ 572,957

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.

Information related to intangible assets at June 30, 2016 and 2015, is as follows (in thousands):

	2016			
	Gross Carrying Amount	Accumulated Amortization	Net Balance at End of Period	Amortization period
Trademark	$ 152,700	$ -	$ 152,700	Indefinite
Customer relationships	60,800	(15,520)	45,280	10 - 15 years
Noncompete agreements	9,142	(4,212)	4,930	60 months
Management agreements	2,633	-	2,633	Indefinite
Other	33,420	(25,778)	7,642	36 - 80 months
	$ 258,695	$ (45,510)	$ 213,185	

	2015			
	Gross Carrying Amount	Accumulated Amortization	Net Balance at End of Period	Amortization period
Trademark	$ 152,700	$ -	$ 152,700	Indefinite
Customer relationship	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 $9.9 million and $11.3 million for the years ended June 30, 2016 and 2015, 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
2017	$ 10,352
2018	7,250
2019	6,045
2020	4,972
2021	4,503
Thereafter	24,730
Total	$ 57,852

13. OTHER LONG-TERM ASSETS, NET

Other long-term assets, net, consist of the following at June 30, 2016 and 2015 (in thousands):

	2016	2015
Notes receivable, primarily secured	$ 30,660	$ 24,227
Deferred tax asset	-	1,713
Other	44,301	39,216
Total other long-term assets, net	$ 74,961	$ 65,156

14. OTHER ACCRUED LIABILITIES

Other accrued liabilities, net, consist of the following at June 30, 2016 and 2015 (in thousands):

	2016	2015
Accrued interest expense	$ 60,005	$ 60,595
Provider fee and CHFT grant payables	355,857	269,895
Derivative liabilities	248,913	178,485
Due to government agencies	34,382	38,615
Accrued health insurance claims incurred but not reported	47,976	38,899
Construction retention and contracts payable	10,629	13,388
Other	190,765	147,955
Total other accrued liabilities	$ 948,527	$ 747,832

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.

Actuarial valuations are performed for each of the plans. These valuations are dependent on 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 all assumptions in conjunction with the valuation updates 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. Net actuarial gains and losses are amortized to expense on a plan-by-plan basis when they exceed the accounting corridor. The accounting corridor is a defined range within which amortization of net gains and losses is not required and is equal to 10% of the greater of the plan assets or benefit obligations. Gains or losses outside of the corridor are subject to amortization over the average employee future service period.

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 funded plans are anticipated at $337.0 million in 2017, which exceed the funding policy minimum contributions.

The accumulated benefit obligation exceeds plan assets for each of the defined benefit plans and postretirement benefit plans for the years ended June 30, 2016 and 2015. The following summarizes the benefit obligations and funded status for the defined benefit pension and postretirement benefit plans for 2016 and 2015 (in thousands):

	2016		2015	
	Pension Plans	Other Benefit Plans	Pension Plans	Other Benefit Plans
Change in benefit obligation:				
Benefit obligation at beginning of period	$ 4,819,729	$ 161,455	$ 4,194,126	$ 156,490
Service cost	264,596	7,819	241,207	7,175
Interest cost	225,104	7,082	195,634	6,819
Plan changes/amendments	(9,269)	-	15,000	343
Actuarial loss (gain)	494,614	12,989	343,304	(1,782)
Administrative expenses	(8,689)	-	(7,461)	-
Benefits paid	(179,019)	(11,309)	(162,081)	(7,590)
Benefit obligation at end of period	$ 5,607,066	$ 178,036	$ 4,819,729	$ 161,455
Accumulated benefit obligation	$ 5,302,211	$ 178,036	$ 4,498,913	$ 161,455
Change in plan assets:				
Fair value of plan assets at beginning of period	$ 3,879,596	$ -	$ 3,649,537	$ -
Actual return on plan assets	(133,261)	-	166,766	-
Employer contributions	272,808	11,309	232,835	7,590
Benefits paid	(179,019)	(11,309)	(162,081)	(7,590)
Administrative expenses	(8,689)	-	(7,461)	-
Fair value of plan assets at end of period, net	$ 3,831,435	$ -	$ 3,879,596	$ -
Funded status	$ (1,775,631)	$ (178,036)	$ (940,133)	$ (161,455)

Actuarial gains and losses netting to a loss of $494.6 million in 2016 were primarily a result of the change in discount rate. The net loss of $343.3 million in 2015 was primarily due to the change in assumptions upon Dignity Health's adoption of the most recently issued mortality tables promulgated by the Society of Actuaries, as modified by management to align with Dignity Health's expectation of future rates of improvement in mortality.

The following table summarizes the amounts recognized in unrestricted net assets as of June 30, 2016 and 2015 (in thousands):

	2016		2015	
	Pension Plans	Other Benefit Plans	Pension Plans	Other Benefit Plans
Net actuarial loss	$ 2,389,940	$ 37,804	$ 1,541,897	$ 25,899
Prior service cost (credit)	(330,207)	15,430	(363,065)	21,487
Amounts in unrestricted net assets	$ 2,059,733	$ 53,234	$ 1,178,832	$ 47,386

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 2017 are $154.4 million and $34.5 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, 2016 and 2015 (in thousands):

	2016		2015	
	Pension Plans	Other Benefit Plans	Pension Plans	Other Benefit Plans
Current liabilities	$ 339,360	$ 11,466	$ 267,699	$ 9,897
Long-term liabilities	1,436,271	166,570	672,434	151,558
Accrued benefit cost	$ 1,775,631	$ 178,036	$ 940,133	$ 161,455

The following table summarizes the weighted-average assumptions used to determine benefit obligations as of June 30, 2016 and 2015:

	2016		2015	
	Pension Plans	Other Benefit Plans	Pension Plans	Other Benefit Plans
To determine benefit obligations:				
Discount rate	4.00%	3.75%	4.75%	4.50%
Rate of compensation increase	3.57%	4.00%	4.00%	4.00%
To determine net periodic benefit cost:				
Discount rate	4.75%	4.50%	4.75%	5.00%
Expected return on plan assets	8.00%	N/A	8.00%	N/A
Rate of compensation increase	4.00%	4.00%	4.00%	4.00%

The following table summarizes the components of net periodic cost recognized in the consolidated statements of operations and changes in net assets for 2016 and 2015 (in thousands):

	2016		2015	
	Pension Plans	Other Benefit Plans	Pension Plans	Other Benefit Plans
Service cost	$ 264,596	$ 7,819	$ 241,207	$ 7,175
Interest cost	225,104	7,082	195,634	6,819
Expected return on plan assets	(314,335)	-	(293,879)	-
Net prior service cost (credit) amortization	(42,127)	6,057	(44,266)	6,034
Net loss amortization	94,167	1,084	59,866	763
Net periodic benefit cost	$ 227,405	$ 22,042	$ 158,562	$ 20,791

The following represents the fair value of plan assets, net, measured on a recurring basis as of June 30, 2016 and 2015 (in thousands). See Note 8 for the definition of Levels 1, 2 and 3 in the fair value hierarchy.

	2016			
	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, 2016**
Assets				
Cash and cash equivalents	$ 216,749	$ -	$ -	$ 216,749
U.S. government securities	121,436	7,394	-	128,830
U.S. corporate bonds	-	237,050	71,842	308,892
U.S. equity securities	775,316	437,401	-	1,212,717
Foreign government securities	-	3,624	-	3,624
Foreign corporate bonds	-	23,840	18,015	41,855
Foreign equity securities	359,763	557,953	-	917,716
Asset-backed securities	-	1,837	-	1,837
Structured debt	-	12,167	-	12,167
Private equity investments	-	-	313,679	313,679
Multi-strategy hedge fund investments	-	-	653,959	653,959
Real estate	17,607	-	-	17,607
Collateral held under securities lending program	-	102,293	-	102,293
Other, including due from brokers for unsettled investment trades and prepaid fund subscriptions	-	15,095	-	15,095
Total assets	$ 1,490,871	$1,398,654	$ 1,057,495	$3,947,020
Liabilities				
Payable under securities lending program	$ -	$ 102,293	$ -	$ 102,293
Other, including due to brokers for unsettled investment trades	-	13,292	-	13,292
Total liabilities	$ -	$ 115,585	$ -	$ 115,585
Fair value of plan assets, net	$ 1,490,871	$1,283,069	$ 1,057,495	$3,831,435

	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	$ 197,390	$ -	$ -	$ 197,390
U.S. government securities	192,611	6,925	-	199,536
U.S. corporate bonds	-	227,810	69,569	297,379
U.S. equity securities	1,063,977	246,324	-	1,310,301
Foreign government securities	-	3,529	-	3,529
Foreign corporate bonds	-	23,377	15,611	38,988
Foreign equity securities	463,726	449,690	-	913,416
Asset-backed securities	-	2,178	-	2,178
Structured debt	-	12,156	-	12,156
Private equity investments	-	-	237,469	237,469
Multi-strategy hedge fund investments	-	-	661,552	661,552
Real estate	15,684	-	20	15,704
Collateral held under securities lending program	-	145,549	-	145,549
Other, including due from brokers for unsettled investment trades and prepaid fund subscriptions	-	26,475	-	26,475
Total assets	$ 1,933,388	$1,144,013	$ 984,221	$4,061,622
Liabilities				
Payable under securities lending program	$ -	$ 145,549	$ -	$ 145,549
Other, including due to brokers for unsettled investment trades	-	36,477	-	36,477
Total liabilities	$ -	$ 182,026	$ -	$ 182,026
Fair value of plan assets, net	$ 1,933,388	$ 961,987	$ 984,221	$3,879,596

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 2016 and 2015 (in thousands):

	2016				
	Private Equity Investments	Multi-Strategy Hedge Fund Investments	Real Estate	Debt Securities	Total
Balance at beginning of period	$ 237,469	$ 661,552	$ 20	$ 85,180	$ 984,221
Total realized gains, net	3,398	366	130	262	4,156
Total unrealized gains (losses), net	11,299	(34,741)	(15)	673	(22,784)
Purchases	98,360	115,588	-	7,688	221,636
Sales	(36,847)	(88,806)	(135)	(3,946)	(129,734)
Balance at end of period	$ 313,679	$ 653,959	$ -	$ 89,857	$ 1,057,495

	2015				
	Private Equity Investments	Multi-Strategy Hedge Fund Investments	Real Estate	Debt Securities	Total
Balance at beginning of period	$ 176,606	$ 585,206	$ 20	$ 81,815	$ 843,647
Total realized gains (losses), net	7,061	(1,760)	-	1,465	6,766
Total unrealized gains, net	18,995	32,032	-	2,536	53,563
Purchases	70,005	128,451	-	12,333	210,789
Sales	(35,198)	(82,377)	-	(12,969)	(130,544)
Balance at end of period	$ 237,469	$ 661,552	$ 20	$ 85,180	$ 984,221

The following table summarizes the weighted-average asset allocations by asset category for the pension plans for 2016 and 2015:

	Plan Assets at June 30	
	2016	2015
Cash and cash equivalents	7%	5%
U.S. government securities	3%	5%
U.S. corporate bonds	8%	8%
U.S. equity securities	32%	34%
Foreign corporate bonds	1%	1%
Foreign equity securities	24%	24%
Private equity investments	8%	6%
Multi-strategy hedge fund investments	17%	17%
Total	100%	100%

The asset allocation policy for the pension plans for 2016 and 2015 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% for 2016 and 2015 was based on the long-term weighted average return of comparative market indices for the asset classes represented in the portfolio 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
2017	$ 184,352	$ 11,466
2018	204,165	12,297
2019	229,899	13,066
2020	253,728	13,744
2021	274,051	14,989
2022 - 2026	1,681,357	77,030
Total	$2,827,552	$ 142,592

In addition to the plans above, Dignity Health participates in a multi-employer retirement plan covering certain employees at three facilities. The net assets available for benefits exceeded the actuarially computed value of vested benefits, calculated using a 7.5% discount rate, as of January 1, 2015, the most recent actuarial valuation. The participating Dignity Health hospitals funded $6.0 million and $7.0 million for 2016 and 2015, respectively. The minimum funding requirement under ERISA was $0 for 2015, according to the most recent actuarial valuation.

Dignity Health maintains defined contribution retirement plans for most employees. Employer contributions to those plans of $60.5 million and $51.5 million for 2016 and 2015, 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 $322.2 million and $243.6 million for 2016 and 2015, 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, 2016 and 2015 (in thousands):

	2016	2015
Under Master Trust Indenture:		
Fixed rate debt:		
Fixed rate revenue bonds payable in installments through 2042; interest at 3.0% to 6.25%	$ 2,135,666	$ 2,190,221
Taxable bonds payable in installments through 2065; interest at 2.6% to 5.3%	1,472,267	1,469,968
Senior secured notes payable in 2018; interest at 6.5%	179,777	179,557
Total fixed rate debt	3,787,710	3,839,746
Variable rate debt:		
Taxable direct placement loans payable in 2019 and 2020; interest set at prevailing market rates (1.33% to 1.56% at June 30, 2016)	364,807	368,738
Variable rate demand bonds payable in installments through 2047; interest set at prevailing market rates (0.39% to 0.50% at June 30, 2016)	768,568	775,345
Auction rate certificates payable in installments through 2042; interest set at prevailing market rates (0.55% to 0.81% at June 30, 2016)	275,447	313,260
Notes payable to banks under credit agreement payable in 2019; interest set at prevailing market rates (1.24% to 1.26% at June 30, 2016)	150,000	9,043
Total variable rate debt	1,558,822	1,466,386
Total debt under Master Trust Indenture	5,346,532	5,306,132
Other		
Various notes payable and other debt payable in installments through 2042; interest ranging up to 8.3%	69,120	86,773
Capitalized lease obligations	63,714	56,712
Total debt	5,479,366	5,449,617
Less current portion of long-term debt	(112,283)	(126,023)
Less demand bonds subject to short-term liquidity arrangements, excluding current maturities	(761,800)	(769,400)
Total long-term debt	$ 4,605,283	$ 4,554,194

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
2017	$ 109,681	$ 7,600	$ 117,281
2018	272,708	8,300	281,008
2019	442,140	9,000	451,140
2020	617,264	9,800	627,064
2021	85,608	10,700	96,308
Thereafter	3,205,503	724,000	3,929,503
Total	$ 4,732,904	$ 769,400	$5,502,304

***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, 2016.

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

Taxable Bonds and Senior Secured Notes Payable – Dignity Health has taxable fixed rate bonds that are due in November 2019, 2022, 2024, 2042 and 2064, and senior secured notes outstanding at a fixed interest rate that are due in May 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 three taxable direct placement loans with two banks at variable interest rates.

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 $769.4 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 three banks in amounts to support VRDBs of $140.4 million, $195.6 million, and $57.0 million expire in October 2018, October 2019, and December 2019, respectively. The bank letters of credit supporting $91.0 million, $90.0 million, $45.4 million, and $150.0 million of VRDBs expire in June 2017, March 2018, July 2018, and November 2021, respectively.

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 $35.6 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 2016 and 2015, 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 2016 and 2015, the maximum amount outstanding under the syndicated credit facility was $200.7 million and $605.7 million, respectively. There were no letters of credit issued under this facility as of June 30, 2016 and 2015.

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 $21.4 million and $19.2 million as of June 30, 2016 and 2015, respectively, but no amounts have been drawn.

Both credit facilities are scheduled to expire in July 2018.

2016 Financing Activity - 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 December 2015, an arrangement was made with a substitute bank to take over as the credit facility provider for a letter of credit issued in October 2012 to support VRDBs of $57.0 million. Under the terms of the new arrangement, the letter of credit will expire in December 2019. The substitution did not change the terms, provisions or classification of the VRDBs subject to short-term liquidity arrangements.

In June 2016, the letters of credit issued in November 2011 to support VRDBs of $150.0 million was extended to November 2021. This did not change the terms, provisions or classification of the VRDBs subject to short-term liquidity arrangements.

In July 2016, the letters of credit issued in July 2009 to support VRDBs of $37.8 million was extended to July 2018. This did not change the terms, provisions or classification of the VRDBs subject to short-term liquidity arrangements.

In July 2016, Dignity Health provided for the redemption of $7.3 million of California Health Facilities Financing Authority Revenue Bonds (Catholic Healthcare West), 2009 Series E, maturing on July 1, 2021 and $16.8 million of California Health Facilities Financing Authority Revenue Bonds (Catholic Healthcare West), 2011 Series A, maturing on March 1, 2024. These redemptions were financed with draws on the syndicated line of credit. The bonds were redeemed without premium.

Dignity Health drew $100.0 million on its syndicated line of credit in each of January 2016, April 2016 and July 2016, for general working capital purposes and to legally defease auction rate securities of $27.8 million. Throughout 2016, $59.0 million was repaid on the syndicated line of credit.

2015 Financing Activity – 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.

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 mature in March 2025.

Dignity Health recorded a loss on early extinguishment of debt of $6.4 million related to these transactions.

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 March 2015, the letter of credit issued in October 2012 to support VRDBs of $90.0 million was extended to March 2018. This did not change the terms, provisions or classification of the VRDBs subject to short-term liquidity arrangements.

Throughout 2015, $12.5 million was repaid on the credit facility in addition to the amounts discussed above.

17. DERIVATIVE INSTRUMENTS

Dignity Health's derivative instruments include 16 floating-to-fixed interest rate swaps as of June 30, 2016 and 2015. 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 five fixed-to-floating risk participation agreements as of June 30, 2016. 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.

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, 2016 and 2015 (in thousands):

	Maturity Date of Derivatives	Interest Rate	Notional Amount Outstanding	Fair Value
			June 30, 2016	
Derivatives not designated as hedges				
Interest rate swaps	2026 - 2042	3.2% - 3.4%	$ 937,750	$ (248,913)
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 2016 and 2015 as follows (in thousands):

	2016	2015
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)
Loss recognized in interest expense, net:		
Changes in fair value of non-hedged derivatives - interest rate swaps	(70,428)	(22,046)
Amortization of amounts in unrestricted net assets - interest rate swaps	(2,683)	(2,683)
Total	$ (73,111)	$ (24,729)

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.

Of the amounts classified in unrestricted net assets as of June 30, 2016, 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 and $940.3 million notional amount of interest rate swaps held by Dignity Health at June 30, 2016 and 2015, respectively, $160.0 million are insured and have a negative fair value of $61.8 million and $40.7 million at June 30, 2016 and 2015, 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 $777.8 million and $780.3 million of interest rate swaps that are not insured as of June 30, 2016 and 2015, 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 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 $111.9 million and $81.1 million at June 30, 2016 and 2015, respectively. The remaining uninsured swaps in the notional amount of $340.3 million and $342.8 have a negative fair value of $75.2 million and $56.7 million as of June 30, 2016 and 2015, respectively. The fair value of the risk participation agreements is deemed immaterial as of June 30, 2016 and 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.

18. INTEREST EXPENSE, NET

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

	2016	2015
Interest and fees on debt and swap cash settlements	$ 215,486	$ 213,887
Market adjustment on swaps and amortization of amounts in unrestricted net assets	73,111	24,729
Total interest expense	288,597	238,616
Capitalized interest expense	(18,563)	(8,661)
Interest expense, net	$ 270,034	$ 229,955

19. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Restricted net assets as of June 30, 2016 and 2015, consist of donor-restricted contributions and grants, which are to be used as follows (in thousands):

	2016	2015
Equipment and expansion	$ 68,914	$ 66,910
Research and education	53,157	54,051
Charity and other	209,057	211,560
Total temporarily restricted net assets	$ 331,128	$ 332,521
Permanently restricted net assets	114,733	106,925
Total restricted net assets	$ 445,861	$ 439,446

The composition of endowment net assets by type of fund as of June 30, 2016 and 2015, is as follows (in thousands):

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment net assets	$ -	$ 35,426	$ 114,733	$ 150,159
Board-designated endowment net assets	18,064	-	-	18,064
Total endowment net assets	$ 18,064	$ 35,426	$ 114,733	$ 168,223

	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment net assets	$ -	$ 35,368	$ 106,925	$ 142,293
Board-designated endowment net assets	20,234	-	-	20,234
Total endowment net assets	$ 20,234	$ 35,368	$ 106,925	$ 162,527

Changes in endowment net assets during 2016 and 2015 are as follows (in thousands):

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of period	$ 20,234	$ 35,368	$ 106,925	$ 162,527
Investment returns	572	1,725	52	2,349
Unrealized gains (losses)	(1,102)	(4,855)	35	(5,922)
Contributions	38	735	4,831	5,604
Appropriation of endowment assets for expenditure	(1,742)	(3,072)	(1,097)	(5,911)
Transfers to remove from or add to board-designated endowment funds	160	(1,702)	-	(1,542)
Other	(96)	7,227	3,987	11,118
Endowment net assets, end of period	$ 18,064	$ 35,426	$ 114,733	$ 168,223

	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of period	$ 19,524	$ 37,998	$ 106,690	$ 164,212
Investment returns	576	4,543	(47)	5,072
Unrealized gains (losses)	143	(2,256)	3	(2,110)
Contributions	-	1,461	109	1,570
Change in interest in unconsolidated foundations	-	-	532	532
Appropriation of endowment assets for expenditure	(213)	(4,088)	(84)	(4,385)
Transfers to remove from or add to board-designated endowment funds	63	(575)	45	(467)
Other	141	(1,715)	(323)	(1,897)
Endowment net assets, end of period	$ 20,234	$ 35,368	$ 106,925	$ 162,527

Included in donor-restricted assets limited as to use are unconditional promises to give which are recorded using discount rates ranging from 2.0% to 5.5% and are due as follows as of June 30, 2016 and 2015 (in thousands):

	2016	2015
Less than one year	$ 8,043	$ 13,787
One to five years	6,473	6,506
More than five years	3,816	2,828
Less: allowance for uncollectible contributions receivable	(910)	(1,758)
Total contributions receivable, net	$ 17,422	$ 21,363

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):

	2016	2015
Interest and dividend income	$ 77,783	$ 88,669
Net realized gains on sales of securities	107,997	167,596
Net unrealized losses on securities	(286,378)	(55,408)
Other, net of capitalized investment income	(23,271)	(23,242)
Investment income (loss), net	$ (123,869)	$ 177,615

21. SPECIAL CHARGES AND OTHER COSTS

Special charges and other costs of $9.0 million in 2015 reflects the estimated non-recoverability of the carrying value of the assets of a facility in California.

22. INCOME TAXES

As an exempt organization, Dignity Health is not subject to income taxes, however, certain subordinate corporations and subsidiaries are taxable entities. For Dignity Health's taxable entities, the components of income tax expense consist of the following (in thousands):

	2016	2015
Current tax expense:		
Federal	$ 906	$ 1,054
State	2,819	1,720
Total current tax expense	3,725	2,774
Deferred tax expense (benefit):		
Federal	11,310	11,855
State	(846)	(653)
Total deferred tax expense	10,464	11,202
Total income tax expense	$ 14,189	$ 13,976

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

	2016	2015
Computed expected tax expense at 35%	$ 15,626	$ 11,192
State tax expense	1,840	821
Other permanent differences	115	98
Change in reserves	-	(37)
Change in valuation allowance	(1,464)	-
Other	(1,928)	1,902
Income tax expense	$ 14,189	$ 13,976

The components of deferred tax assets (liabilities) as of June 30, 2016 and 2015 consist of the following (in thousands):

	2016	2015
Assets:		
Bad debt reserve	$ 211	$ 252
Deferred rent expense	2,137	2,117
Accrued compensation	7,860	4,215
Accrued workers' compensation	2,162	1,754
Capitalized transaction costs	1,266	1,378
Net operating losses	9,119	25,251
Incentive credits	3,025	2,555
Other deferred tax assets	1,918	2,644
Gross deferred tax assets	27,698	40,166
Valuation allowance	(2,205)	(2,198)
Net deferred tax assets	$ 25,493	$ 37,968
Liabilities:		
Book to tax difference in intangible assets	$ 78,076	$ 78,091
Book to tax basis difference in partnerships	55,700	56,372
Other deferred tax liabilities	251	240
Deferred tax liabilties	$ 134,027	$ 134,703
Net deferred tax liabilities	$ 108,534	$ 96,735
Current deferred tax assets, net	$ -	$ 11,135
Noncurrent deferred tax assets, net	$ -	$ 1,713
Long-term deferred tax liabilities, net	$ 108,534	$ 109,583

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, 2016 and 2015. 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, 2015 and 2014, 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, 2016 and 2015, Dignity Health's taxable entities recorded an immaterial amount of interest and penalties as part of the provision for income taxes.

23. COMMITMENTS, CONTINGENT LIABILITIES, GUARANTEES AND OTHER

***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 pursued. The process of responding to these notices involves plan(s) of correction submitted by the facility and resurvey by CMS or its designee. Currently, Sierra Nevada Memorial-Miners Hospital is in the process of addressing such a notice. While Dignity Health does not expect a loss of Medicare qualification by any 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 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 only a church or an association of churches may establish a church plan, the DHPP does not qualify as a church plan since Dignity Health was not a church when the plan was established, and, therefore, DHPP is not exempt from ERISA. In November 2014, the District Court granted Dignity Health's motion for certification of a 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 with the Ninth Circuit Court of Appeals seeking permission to appeal the District Court's order. In February 2015, the Ninth Circuit granted permission for Dignity Health to appeal the District Court's ruling. On July 26, 2016, the Ninth Circuit Court of Appeals issued its opinion, which affirmed the District Court's order and held that a church plan must be established by a church or by an association of churches and must be maintained either by a church or by a church-controlled or church-affiliated organization whose principal purpose or function is to provide benefits to church employees. The Ninth Circuit remanded the case to the District Court for further proceedings.

On August 29, 2016, Dignity Health filed a petition for the Supreme Court of the United States to review the Ninth Circuit's decision. In addition, Dignity Health filed a motion to suspend any further proceedings in the District Court until the disposition of Dignity Health's petition. Dignity Health continues to disagree with the conclusion reached by the District Court and the Ninth Circuit, and continues to vigorously defend its position in its petition to the Supreme Court. While Dignity Health believes its position will ultimately prevail, there can be no assurance about the final resolution of this matter and, under certain circumstances, a negative final and 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.

Operating Leases – Dignity Health leases various equipment and facilities under operating leases. Gross rental expense for 2016 and 2015 was $165.7 million and $151.8 million, respectively, which is offset by sublease income of $3.0 million and $3.0 million for 2016 and 2015, 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, 2016, are as follows (in thousands):

	Lease Payments	Sublease Income	Net Future Minimum Lease Payments
2017	$ 109,004	$ (2,996)	$ 106,008
2018	88,065	(2,799)	85,266
2019	75,093	(2,565)	72,528
2020	62,739	(2,315)	60,424
2021	44,668	(1,990)	42,678
Thereafter	164,095	(3,432)	160,663
Total	$ 543,664	$ (16,097)	$ 527,567

Long-term Contract – In September 2013, concurrent with the formation of Optum360°, Dignity Health entered into a Master Services Agreement ("MSA") with Optum360º for a 10-year term for the purchase of revenue cycle management services. The agreement, as amended, resulted in a cost for services of $273.9

million during 2016, and is 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.

Capital and Purchase Commitments – Dignity Health has undertaken various construction and expansion projects that include certain capital commitments and enters into various agreements that require certain minimum purchases of goods and services, such as for information technology management services, clinical technology management services, environmental and nutrition services, management services, laundry and linen services, 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 $187.1 million and $213.5 million at June 30, 2016, respectively.

Guarantees – Dignity Health has guaranteed the indebtedness of other organizations, which indebtedness was outstanding in the amount of $5.6 million and $5.0 million as of June 30, 2016 and 2015, 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 $17.7 million and $15.5 million as of June 30, 2016 and 2015, respectively. Dignity Health recorded $11.2 million and $14.5 million in other current liabilities as of June 30, 2016 and 2015, respectively, and $4.1 million and $0.0 million in other long-term liabilities as of June 30, 2016 and 2015, 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 called 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 $200.0 million. Management has initiated planning, design and construction efforts at all facilities to meet these deadlines.

In addition to the foregoing, in late 2014, the State of California created a new seismic performance category allowing buildings that were previously required to be decommissioned in 2030 to remain in use indefinitely if they could meet certain additional retrofit requirements. Dignity Health is undertaking the necessary evaluation of its buildings to test the viability of their continued use beyond 2030. 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, 2016 and 2015, Dignity Health's community investment loan portfolio totaled $47.7 million and $35.1 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 $1.0 billion for 2015, and Net Community Benefit including the unpaid cost of Medicare was $1.7 billion for 2015.

Following is a summary of Dignity Health's community benefits for 2016, 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 Expense
Benefits for the poor:					
Traditional charity care	140,490	97,468	(1,015)	96,453	0.8%
Unpaid costs of Medicaid / Medi-Cal	1,623,229	3,612,339	(2,684,589)	927,750	7.3%
Other means-tested programs	275,647	10,798	(3,771)	7,027	0.1%
Community services:					
Community health services	371,669	51,185	(6,369)	44,816	0.4%
Health professions education	84	48	-	48	0.0%
Subsidized health services	321,882	94,184	(47,012)	47,172	0.4%
Donations	108,977	23,228	(983)	22,245	0.2%
Community building activities	6,090	3,137	(1,458)	1,679	0.0%
Community benefit operations	65	8,130	(100)	8,030	0.1%
Total community services for the poor	808,767	179,912	(55,922)	123,990	1.1%
Total benefits for the poor	2,848,133	3,900,517	(2,745,297)	1,155,220	9.3%
Benefits for the broader community:					
Community services:					
Community health services	307,874	16,255	(2,487)	13,768	0.1%
Health professions education	24,127	106,612	(36,285)	70,327	0.6%
Subsidized health services	5,215	2,893	(1,746)	1,147	0.0%
Research	565	30,376	(23,006)	7,370	0.1%
Donations	36,410	6,566	(22)	6,544	0.1%
Community building activities	16,623	3,143	(419)	2,724	0.0%
Community benefit operations	28	1,318	-	1,318	0.0%
Total benefits for the broader community	390,842	167,163	(63,965)	103,198	0.8%
Total Community Benefits	3,238,975	$4,067,680	$(2,809,262)	$1,258,418	10.1%
Unpaid costs of Medicare	1,098,561	3,203,383	(2,307,892)	895,491	7.1%
Total Community Benefits including unpaid costs of Medicare	4,337,536	$7,271,063	$(5,117,154)	$2,153,909	17.2%

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 2016. 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 Regional Medical Center
  - Marian Regional Medical Center West
  - 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 Hospital and Medical Center
  - St. Joseph's Westgate Medical Center
  - 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
- CHMC Hope Street Family Center Property Management, LLC
- DHRT Holdings, LLC
- Dignity Health Holding Corporation (for-profit)
- Dignity Health International, LLC
- Dignity Health Management Services Organization, LLC
- Dignity Health Medical Group Nevada, LLC
- Dignity Health Nevada Imaging Company LLC
- Dignity Health Provider Resources, Inc. (for-profit)
- Dignity Health Provider Resources, LLC
- Dignity Health Purchasing Network, LLC
- Dominican Health Services
- Dominican Oaks Corporation
- Golden Umbrella
- Health Services of the Pacific Central Coast, Inc. (for-profit)
- Inland Health Organization of Southern California (for-profit)
- Management Services Organization of Santa Maria, Inc. (for-profit)
- Mark Twain Medical Center
- North State Quality Care Network, LLC
- Pacific Central Coast Health Centers
- 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)
- Valley Integrated Provider Network, LLC

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