This document is dated May 15, 2014

UNAUDITED QUARTERLY REPORT

For the quarterly period ended
March 31, 2014

Dignity Health

The information in this report
has been provided by
Dignity Health

DIGNITY HEALTH AND SUBORDINATE CORPORATIONS

TABLE OF CONTENTS

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INDEPENDENT AUDITORS' REVIEW REPORT

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

We have reviewed the accompanying condensed consolidated balance sheet of Dignity Health and Subordinate Corporations ("Dignity Health") as of March 31, 2014, and the related condensed consolidated statements of operations and changes in net assets for the three and nine-month periods ended March 31, 2014 and 2013, and of cash flows for the nine-month periods ended March 31, 2014 and 2013 (the "interim financial information").

Management's Responsibility for the Interim Financial Information

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

Auditors' Responsibility

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

Conclusion

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

Report on Condensed Consolidated Balance Sheet as of June 30, 2013

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet of Dignity Health as of June 30, 2013, and the related consolidated statements of operations and changes in net assets and cash flows for the year then ended; and in our report dated September 24, 2013, we expressed an unqualified opinion on those consolidated financial statements and included a disclaimer of opinion on the unsponsored community benefit expense information in Note 23. In our opinion, the accompanying condensed consolidated balance sheet of Dignity Health as of June 30, 2013, is consistent with the audited consolidated financial statements from which it has been derived.

Deloitte & Touche LLP

May 15, 2014

DIGNITY HEALTH AND SUBORDINATE CORPORATIONS

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
AS OF MARCH 31, 2014 AND JUNE 30, 2013
(In thousands)

Assets	As of March 31, 2014	As of June 30, 2013
Current assets:		
Cash and cash equivalents	$ 63,859	$ 218,159
Short-term investments	1,384,338	1,078,180
Collateral held under securities lending program	246,138	322,468
Assets limited as to use	1,213,988	1,049,373
Patient accounts receivable, net of allowance for doubtful accounts of $629,343 and $438,756 at March 31, 2014 and June 30, 2013, respectively	1,682,151	1,470,719
Broker receivables for unsettled investment trades	18,441	14,696
Other current assets	681,443	894,586
Total current assets	5,290,358	5,048,181
Assets limited as to use:		
Board-designated assets (including $275,098 and $339,161 of assets loaned under securities lending program at March 31, 2014 and June 30, 2013, respectively) for:		
Capital projects	3,728,501	3,478,258
Workers' compensation	435,553	439,624
Professional and general liability	268,263	249,642
Under bond indenture agreements for:		
Capital projects	136,570	188,126
Debt service	8,613	136,499
Bond reserves	20,632	20,632
Donor-restricted	431,853	387,805
Other	56,313	55,593
Less amount required to meet current obligations	(1,213,988)	(1,049,373)
Net assets limited as to use	3,872,310	3,906,806
Property and equipment, net	4,543,777	4,422,833
Ownership interests in health-related activities	974,708	681,120
Goodwill	502,719	486,773
Intangible assets, net	226,272	232,097
Assets held for sale	55,767	39,262
Other long-term assets, net	146,591	152,500
Total assets	$ 15,612,502	$ 14,969,572

(Continued)

DIGNITY HEALTH AND SUBORDINATE CORPORATIONS

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
AS OF MARCH 31, 2014 AND JUNE 30, 2013
(In thousands)

Liabilities and Net Assets	As of March 31, 2014	As of June 30, 2013
Current liabilities:		
Current portion of long-term debt	$ 324,795	$ 129,112
Demand bonds subject to short-term liquidity arrangements, excluding current maturities	776,400	782,800
Accounts payable	557,880	493,699
Payable under securities lending program	246,196	322,654
Accrued salaries and benefits	550,007	569,098
Accrued workers' compensation	36,102	36,040
Accrued professional and general liability	78,473	78,527
Pension and other postretirement liabilities	267,567	317,772
Broker payables for unsettled investment trades	18,834	19,675
Liabilities held for sale	36,871	22,824
Other accrued liabilities	457,344	561,636
Total current liabilities	3,350,469	3,333,837
Other liabilities:		
Workers' compensation	346,957	350,178
Professional and general liability	232,405	232,055
Pension and other postretirement liabilities	367,160	612,992
Other	295,528	239,564
Total other liabilities	1,242,050	1,434,789
Long-term debt, net of current portion	3,930,008	4,139,717
Total liabilities	8,522,527	8,908,343
Net assets:		
Unrestricted - attributable to Dignity Health	6,480,359	5,510,710
Unrestricted - noncontrolling interests	172,132	166,727
Temporarily restricted	330,143	278,707
Permanently restricted	107,341	105,085
Total net assets	7,089,975	6,061,229
Total liabilities and net assets	$ 15,612,502	$ 14,969,572

(Concluded)

See notes to unaudited condensed consolidated financial statements.

DIGNITY HEALTH AND SUBORDINATE CORPORATIONS

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS FOR THE THREE AND NINE-MONTH PERIODS ENDED MARCH 31, 2014 AND 2013

(In thousands)

	Three-Month Periods Ended March 31,		Nine-Month Periods Ended March 31,	
	2014	2013	2014	2013
Unrestricted revenues and other support:				
Patient revenue, net of contractual allowances and discounts	$ 2,576,879	$ 2,570,916	$ 7,941,612	$ 7,598,949
Provision for bad debts	(245,253)	(269,900)	(841,743)	(808,506)
Net patient revenue	2,331,626	2,301,016	7,099,869	6,790,443
Premium revenue	124,064	122,311	369,369	354,459
Revenue from health-related activities, net	47,057	40,505	121,297	113,040
Other operating revenue	65,727	74,599	447,936	195,696
Contributions	4,547	4,501	11,283	11,799
Total unrestricted revenues and other support	2,573,021	2,542,932	8,049,754	7,465,437
Expenses:				
Salaries and benefits	1,425,505	1,403,455	4,221,835	4,134,018
Supplies	387,637	360,662	1,139,977	1,059,286
Purchased services and other	589,704	581,887	1,885,819	1,711,130
Depreciation and amortization	121,363	115,741	355,394	343,547
Interest expense, net	69,473	36,578	131,162	119,086
Income tax expense (benefit)	(3,311)	1,917	59,765	(29,841)
Special charges and other costs	-	368	554	14,368
Total expenses	2,590,371	2,500,608	7,794,506	7,351,594
Operating income (loss)	(17,350)	42,324	255,248	113,843
Other income:				
Investment income, net	89,177	211,496	520,593	534,181
Excess of revenues over expenses	$ 71,827	$ 253,820	$ 775,841	$ 648,024
Less excess of revenues over expenses attributable to noncontrolling interests	6,216	5,676	19,390	17,686
Excess of revenues over expenses attributable to Dignity Health	$ 65,611	$ 248,144	$ 756,451	$ 630,338

(Continued)

DIGNITY HEALTH AND SUBORDINATE CORPORATIONS

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS FOR THE THREE AND NINE-MONTH PERIODS ENDED MARCH 31, 2014 AND 2013
(In thousands)

	Three-Month Periods Ended March 31,		Nine-Month Periods Ended March 31,	
	2014	2013	2014	2013
Unrestricted net assets attributable to Dignity Health:				
Excess of revenues over expenses attributable to Dignity Health	$ 65,611	$ 248,144	$ 756,451	$ 630,338
Change in net unrealized gain (loss) on available-for-sale investments	(1,153)	2,051	48	4,228
Net assets released from restrictions used for purchase of property and equipment	3,351	41,243	8,471	44,479
Change in funded status of pension and other postretirement benefit plans	-	-	203,207	-
Loss from discontinued operations, net	(9,635)	(837)	(13,684)	(22,301)
Change in ownership interest held by controlled subsidiaries	2,833	2,465	3,732	2,059
Change in accumulated unrealized derivative gains, net	671	671	2,012	2,012
Funds donated from unconsolidated sources for purchase of property and equipment	2,450	2,744	10,865	14,005
Other	(3,637)	988	(1,453)	1,232
Increase in unrestricted net assets attributable to Dignity Health	60,491	297,469	969,649	676,052
Unrestricted net assets attributable to noncontrolling interests:				
Excess of revenues over expenses attributable to noncontrolling interests	6,216	5,676	19,390	17,686
Changes in ownership interests and other, net	(4,901)	15,039	(13,985)	6,812
Increase in unrestricted net assets attributable to noncontrolling interests	1,315	20,715	5,405	24,498
Temporarily restricted net assets:				
Contributions	7,496	8,799	45,125	26,933
Net realized and unrealized gains on investments	970	1,798	5,092	4,290
Net assets released from restrictions	(7,450)	(45,602)	(20,718)	(55,844)
Change in interest in net assets of unconsolidated foundations	5,515	10,973	21,153	11,829
Other	(1)	(1)	784	29
Increase (decrease) in temporarily restricted net assets	6,530	(24,033)	51,436	(12,763)
Permanently restricted net assets:				
Contributions	15	(2)	124	(7)
Net realized and unrealized gains on investments	17	23	53	64
Change in interest in net assets of unconsolidated foundations	104	116	2,171	616
Other	2	(2)	(92)	(261)
Increase in permanently restricted net assets	138	135	2,256	412
Increase in net assets	68,474	294,286	1,028,746	688,199
Net assets, beginning of period	7,021,501	5,122,751	6,061,229	4,728,838
Net assets, end of period	$7,089,975	$5,417,037	$7,089,975	$5,417,037

(Concluded)

See notes to unaudited condensed consolidated financial statements.

DIGNITY HEALTH AND SUBORDINATE CORPORATIONS

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE NINE-MONTH PERIODS ENDED MARCH 31, 2014 AND 2013
(In thousands)

	Nine-Month Periods Ended March 31,	
	2014	**2013**
Cash flows from operating activities:		
Change in net assets	$ 1,028,746	$ 688,199
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Depreciation and amortization, including discontinued operations	357,304	339,792
Health-related activities:		
Equity in earnings of health-related activities	(73,192)	(97,265)
Change in control of consolidated entities	-	(21,416)
Gain (loss), net, on disposal of assets	(235,903)	7,201
Estimated carrying value adjustment of assets	-	8,000
Change in deferred taxes, including discontinued operations	55,954	(33,280)
Restricted contributions	(38,612)	(26,926)
Change in funded status of pension and postretirement benefit plans	(203,207)	-
Undistributed portion of change in net assets of unconsolidated foundations	(23,324)	(12,445)
Change in net realized and unrealized gains on investments	(476,834)	(483,233)
Change in fair value of swaps	(14,626)	(26,908)
Changes in certain assets and liabilities:		
Accounts receivable, net	(211,391)	(143,117)
Accounts payable	64,958	(27,076)
Workers' compensation and professional and general liabilities	1,401	23,801
Accrued salaries and benefits	(19,488)	7,988
Pension and other postretirement liabilities	(92,827)	(31,698)
Provider fee assets and liabilities	147,329	28,800
Estimated receivables from/payables to third-party payor, net	(5,340)	(48,179)
Other accrued liabilities	22,736	(6,063)
Prepaid assets and other current assets	(21,440)	22,097
Other, net	(7,859)	(12,795)
Cash provided by operating activities	254,385	155,477

(Continued)

DIGNITY HEALTH AND SUBORDINATE CORPORATIONS

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE NINE-MONTH PERIODS ENDED MARCH 31, 2014 AND 2013
(In thousands)

	Nine-Month Periods Ended March 31,	
	2014	**2013**
Cash flows from investing activities:		
Net sales of investments	71,063	92,148
Cash proceeds on disposal of assets	242	717
Acquisition of U.S. HealthWorks	-	(458,930)
Investments in health-related activities	(16,838)	(55,038)
Cash distributions from health-related activities	14,636	21,673
Additions to operating property and equipment, including discontinued operations	(475,558)	(479,375)
Decrease in securities lending collateral	76,458	46,209
Other, net	(13,855)	37,209
Cash used in investing activities	(343,852)	(795,387)
Cash flows from financing activities:		
Borrowings	702,396	1,653,295
Repayments	(727,421)	(1,176,018)
Decrease in payable under securities lending program	(76,458)	(46,209)
Restricted contributions	38,612	26,926
Deferred financing costs	(1,962)	(11,866)
Cash provided by (used in) financing activities	(64,833)	446,128
Net decrease in cash and cash equivalents	(154,300)	(193,782)
Cash and cash equivalents at beginning of period	218,159	406,052
Cash and cash equivalents at end of period	$ 63,859	$ 212,270
Components of cash and cash equivalents and investments at end of period:		
Cash and cash equivalents	63,859	212,270
Short-term investments	1,384,338	1,091,690
Board-designated assets for capital projects	3,728,501	3,533,246
Total	$ 5,176,698	$ 4,837,206
Supplemental disclosures of cash flow information:		
Cash paid for interest, net of capitalized interest	$ 174,158	$ 173,362
Supplemental schedule of noncash investing and financing activities:		
Property and equipment acquired through capital lease or note payable	$ 7,677	$ 15,849
Accrued purchases of property and equipment	$ 73,974	$ 70,385
Broker receivables for unsettled investment trades	$ 18,441	$ 52,338
Broker payables for unsettled investment trades	$ 18,834	$ 59,974
Investments in health-related activities	$ 233,821	$ -

(Concluded)

See notes to unaudited condensed consolidated financial statements.

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

1. BASIS OF PRESENTATION

The condensed consolidated financial statements of Dignity Health and Subordinate Corporations ("Dignity Health") as of March 31, 2014, and for the three and nine-month periods ended March 31, 2014 and 2013, should be read in conjunction with the audited financial statements as of and for the year ended June 30, 2013. Certain footnotes and disclosures that are required in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) have been omitted as they substantially duplicate the disclosures contained in the annual financial statements.

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

Operating results for the three and nine-month periods ended March 31, 2014, are not necessarily indicative of the results that may be expected for any future period or for a full fiscal year as revenues, expenses, assets, and liabilities can vary during each quarter of the year.

Certain reclassifications and changes in presentation were made in the condensed consolidated financial statements for the three and nine-month periods ended March 31, 2013, to conform to the presentation for the three and nine-month periods ended March 31, 2014. The condensed consolidated statement of operations and changes in net assets has been retrospectively reclassified for the results of discontinued operations (see Note 2) and to present income tax expense (benefit) as a separate line item from purchased services and other expenses. Within the operating activities section of the condensed consolidated statement of cash flows, third-party payor receivables and payables has been presented as a separate line item from changes in other current assets and accrued liabilities.

As previously presented, Dignity Health classified the excess of revenues over expenses attributable to noncontrolling interests in purchased services and other expense in the unaudited condensed consolidated statements of operations and changes in net assets. Such presentation has been restated in order to present the excess of revenues over expenses attributable to noncontrolling interests as a separate line item to arrive at excess of revenues over expenses attributable to Dignity Health. This resulted in a reduction of operating expenses and an increase in operating income and total excess of revenues over expenses of $5.7 million and $17.7 million for the three and nine-month periods ended March 31, 2013, respectively.

In preparing the accompanying condensed consolidated financial statements, management of Dignity Health has evaluated subsequent events occurring between the end of the most recent fiscal quarter and May 15, 2014, the date the condensed consolidated financial statements were available to be issued.

2. ACQUISITIONS, DIVESTITURES AND SIGNIFICANT INVESTMENTS

Investment in Joint Venture – On September 1, 2013, Dignity Health effected an agreement with OptumInsight, Inc., an indirect subsidiary of UnitedHealth Group Incorporated, whereby the parties formed Optum360, LLC ("Optum360") to own and operate certain existing revenue cycle technology, content and services businesses and to perform "end-to-end" revenue cycle management functions for Dignity Health and, it is intended, other prospective healthcare delivery system customers. OptumInsight, Inc. contributed revenue cycle-related technologies, content and service businesses to Optum360 in exchange for a majority membership interest. Dignity Health contributed certain equipment and the intellectual property related to its internal revenue cycle management functions to Optum360 in exchange for a noncontrolling interest. Certain Dignity Health employees became employees of Optum360 effective December 15, 2013.

The valuation of Dignity Health's interest in Optum360 was based on management's estimates, currently available information and reasonable and supportable assumptions. The fair value was based on Level 3 valuation inputs and was determined using a discounted cash flow model. Dignity Health calculated the present value of the expected future cash flows attributable to Optum360 using a 16.0% discount rate. A gain

on the transaction of $230.5 million, representing the difference between the fair value of the interest in Optum360 received in the transaction and the book value of the assets contributed, was recorded in other operating revenue in the accompanying condensed consolidated statement of operations and changes in net assets. As a portion of the investment is held by a for-profit subsidiary of Dignity Health, a deferred tax liability of $59.6 million was recorded in other long-term liabilities, and a corresponding tax expense of $59.6 million was recorded related to the book to tax basis difference of the assets contributed. The net favorable impact of the transaction on operating income was $170.9 million. Dignity Health accounts for the affiliation with Optum360 under the equity method.

Dignity Health concurrently entered into a Master Services Agreement ("MSA") with Optum360 for a 10-year term for the purchase of revenue cycle management services from Optum360 at a cost of approximately $225.0 million per year, subject to annual adjustments for inflation and achievement of certain performance levels, which reflects market terms. Dignity Health expects to achieve improvements in revenue realization. The MSA is subject to significant penalties for cancellation without cause. The formation of Optum360 and the contributions described above were effective, and the term of the MSA commenced, as of September 1, 2013.

Acquisitions – In August 2012, Dignity Health acquired all of the outstanding common stock of USHW Holdings Corporation (dba U.S. HealthWorks) ("USHW"), a multi-state for-profit operator of occupational health and urgent care centers, and paid $455.0 million plus certain working capital adjustments. In addition, Dignity Health agreed to pay additional amounts based on certain events resulting in increased revenue to USHW, subject to the terms and conditions of the purchase agreement. The fair value of the contingent consideration recognized on the acquisition was estimated at $51.5 million and is recorded in other long-term liabilities. As of March 31, 2014, the estimated fair value of the contingent consideration was unchanged.

In connection with the acquisition, USHW subsidiaries became indirect subsidiaries of Dignity Health. As of March 31, 2014, these subsidiaries operated approximately 205 occupational health and urgent care centers in 20 states. All tangible and intangible assets acquired and liabilities assumed in the transaction were recorded at fair value in accordance with the acquisition method of accounting. The results of operations of USHW are included in Dignity Health's consolidated financial statements from the date of the acquisition.

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

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

The valuation of assets acquired was based on management's estimates, currently available information and reasonable and supportable assumptions. The purchase price allocation was based on the fair value of these assets determined using the income approach and the cost method approach. The income approach uses a discounted cash flow model. Dignity Health calculated the present value of the expected future cash flows attributable to the acquired intangibles using an 11.5% discount rate. With respect to intangible assets, Dignity Health used the excess earnings method and the cost method for valuing customer relationships and

the relief from royalties method for valuing the trade name with a royalty rate of 3.0%. Contingent consideration was initially valued and will be periodically remeasured on a fair value basis using Level 3 pricing inputs as described in Note 6, using a probability weighted approach and a discount rate of 4.1%. Dignity Health allocated the residual value to goodwill. Goodwill represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired.

Also in connection with the acquisition, Dignity Health reversed an existing valuation allowance against its deferred tax assets of $33.3 million during the three months ended December 31, 2012, as management anticipates that the tax benefits will be utilized by profitable operations from USHW.

Dispositions – During 2013, Dignity Health entered into negotiations to sell 100% of the outstanding shares of capital stock of Saint Mary's Healthfirst, Saint Mary's Preferred Health Insurance Company, Inc., and CDS of Nevada, Inc. (the "Health Plans"), all in Reno, NV, to an unrelated party, and in November 2013, a Stock Purchase Agreement was signed. Accordingly, the assets and liabilities of the entities are classified as held for sale on the accompanying balance sheets as of March 31, 2014, and June 30, 2013, and the operations of the entities are reflected as discontinued in the accompanying statements of operations and changes in net assets for all periods presented. A gain is anticipated on the sale and will be recorded in discontinued operations in the statement of operations and changes in net assets at the date of the sale, which is expected to close prior to June 30, 2014.

The accompanying condensed 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 $45.1 million and $40.9 million for the three-month periods ended March 31, 2014 and 2013, and revenues of $128.3 million and $111.5 million for the nine-month periods ended March 31, 2014 and 2013, respectively.

3. RECENT ACCOUNTING PRONOUNCEMENTS

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

4. NET PATIENT REVENUE

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

	Three-Month Periods Ended March 31,		Nine-Month Periods Ended March 31,	
	2014	2013	2014	2013
Inpatient services	61%	62%	61%	62%
Outpatient services	39%	38%	39%	38%

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

	Three-Month Periods Ended March 31,		Nine-Month Periods Ended March 31,	
	2014	2013	2014	2013
Government	46%	45%	46%	45%
Contracted	41%	38%	40%	39%
Self-pay and other	13%	17%	14%	16%
	100%	100%	100%	100%

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.

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 $0.0 million and $94.9 million related to supplemental Medi-Cal payments provided under the California provider fee programs during the three-month periods ended March 31, 2014 and 2013, respectively, and $287.6 million and $284.6 million for the nine-month periods ended March 31, 2014 and 2013, respectively. These programs are funded by quality assurance fees paid by participating hospitals and matching federal funds. Dignity Health recorded $0.0 million and $58.6 million in such fees in purchased services and other expense during the three-month periods ended March 31, 2014 and 2013, respectively, and $178.5 million and $175.9 million during the nine-month periods ended March 31, 2014 and 2013, respectively. Grant payments to the California Health Foundation and Trust ("CHFT") were recognized in connection with the California provider fee programs resulting in $0.0 million and $3.0 million recorded in purchased services and other expense during the three-month periods ended March 31, 2014 and 2013, respectively, and $9.4 million and $8.8 million during the nine-month periods ended March 31, 2014 and 2013, respectively. The total net favorable impact recognized during the three-month periods ended March 31, 2014 and 2013, was $0.0 million and $33.3 million, respectively, and $99.7 million and $99.9 million during the nine-month periods ended March 31, 2014 and 2013, respectively. The current California program terminated December 31, 2013.

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

In April 2013, CMS approved the Access to Care Program adopted by the City of Phoenix, Arizona. The program is a provider fee program and covered the period from October 1, 2012, through December 31, 2013. During the three and nine-month periods ended March 31, 2014, net patient revenue includes $11.1 million and $34.8 million, respectively, and purchased services and other expense includes $0.0 million and $18.0 million, respectively, related to this program, for a net favorable impact of $11.1 million and $16.8 million, respectively.

During the three-month periods ended March 31, 2014 and 2013, net patient revenue also includes $28.5 million and $0.0 million, respectively, of revenues related to prior year supplemental Medicaid payments received in Arizona. During the nine-month periods ended March 31, 2014 and 2013, net patient revenue includes $54.8 million and $30.5 million, respectively, of revenues and purchased services and other expense includes $13.9 million and $17.1 million, respectively, of grant expense related to prior year supplemental Medicaid payments received in Arizona, resulting in a net favorable impact of $40.9 million and $13.4 million, respectively.

"Meaningful Use" Incentives – During the three-month periods ended March 31, 2014 and 2013, Dignity Health recorded meaningful use incentive revenue of $7.6 million and $11.8 million, respectively, related to Medicare and Medicaid programs. During the nine-month periods ended March 31, 2014 and 2013, Dignity Health recorded meaningful use incentive revenue of $19.8 million and $24.1 million, respectively, related to Medicare and Medicaid programs.

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

Cost Reports and Other Settlements – During the three-month periods ended March 31, 2014 and 2013, net patient revenue includes $5.7 million and $10.2 million in favorable net prior years' reimbursement settlements from Medicare, Medicaid and other programs and $23.5 million and $53.6 million in favorable net prior years' reimbursement settlements during the nine-month periods ended March 31, 2014 and 2013, respectively. In addition, Dignity Health recorded $1.0 million of recovery audit contractor recoveries, net of take-backs, and $9.1 million in recovery audit contractor take-backs, net of recoveries, related to prior year claims, for the three-month periods ended March 31, 2014 and 2013, respectively, and $17.7 million and

$40.9 million of recovery audit contractor take-backs, net of recoveries, during the nine-month periods ended March 31, 2014 and 2013, respectively.

At March 31, 2014, and June 30, 2013, estimated receivables for third-party payor settlements were $98.1 million and $101.5 million, respectively, and estimated payables for third-party payor settlements were $40.5 million and $52.8 million, respectively. Such amounts are reported under other current assets and other accrued liabilities in the condensed consolidated balance sheets.

6. SELF-INSURANCE PLANS

Dignity Health maintains self-insurance programs for workers' compensation benefits for employees and for hospital professional and general liability risks. Self-insurance expense decreased $9.3 million and $2.6 million during the three-month periods ended March 31, 2014 and 2013, respectively, and $37.1 million and $21.4 million during the nine-month periods ended March 31, 2014 and 2013, respectively, related to revisions to prior years' actuarially estimated liabilities.

7. 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 March 31, 2014 and June 30, 2013 (in thousands):

	Fair Value Measurements at March 31, 2014			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Cash and cash equivalents	$ 898,670	$ -	$ -	$ 898,670
U.S. government securities	412,910	47,452	-	460,362
U.S. corporate bonds	62,679	600,403	201,970	865,052
U.S. equity securities	1,233,400	699,251	-	1,932,651
Foreign government securities	-	6,084	-	6,084
Foreign corporate bonds	780	17,954	-	18,734
Foreign equity securities	513,719	49,923	-	563,642
Asset-backed securities	-	16,999	-	16,999
Structured debt	1,091	105,480	-	106,571
Private equity investments	-	-	183,568	183,568
Multi-strategy hedge fund investments	-	-	897,762	897,762
Real estate	7,153	-	184,866	192,019
Collateral held under securities lending program	-	246,138	-	246,138
Other fund investments	5,808	-	-	5,808
Total assets	$ 3,136,210	$ 1,789,684	$ 1,468,166	$ 6,394,060
Liabilities				
Contingent consideration	$ -	$ -	$ 55,311	$ 55,311
Derivative instruments	-	140,678	-	140,678
Total liabilities	$ -	$ 140,678	$ 55,311	$ 195,989

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

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

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

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

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

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

The fair value of collateral held under securities lending program classified as Level 2 is determined using the calculated NAV. The collateral held under this program is placed in commingled funds whose underlying investments are valued using techniques similar to those used for the marketable securities noted above. Amounts reported do not include non-cash collateral of $35.3 million and $23.7 million as of March 31, 2014 and June 30, 2013, respectively.

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

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

The following table presents the change in the balance of financial assets and liabilities using significant unobservable inputs (Level 3) measured on a recurring basis and certain assets accounted for under the equity method for the three and nine-month periods ended March 31, 2014 and 2013 (in thousands):

	Three-Month Periods Ended March 31, 2014				
	Private Equity Investments	Multi-Strategy Hedge Fund Investments	Real Estate	Debt Securities	Total
Balance at beginning of period	$ 166,267	$ 887,501	$ 226,758	$ 201,975	$ 1,482,501
Total realized gains, net, included in excess of revenues over expenses	1,881	3,781	-	1,043	6,705
Total unrealized gains, net, included in excess of revenues over expenses	14,405	9,368	5,548	3,925	33,246
Purchases	6,274	177,148	33,727	3,427	220,576
Sales	(5,259)	(180,036)	(81,167)	(8,400)	(274,862)
Balance at March 31, 2014	$ 183,568	$ 897,762	$ 184,866	$ 201,970	$ 1,468,166

	Three-Month Periods Ended March 31, 2013				
	Private Equity Investments	Multi-Strategy Hedge Fund Investments	Real Estate	Debt Securities	Total
Balance at beginning of period	$ 147,937	$ 495,569	$ 179,755	$ 198,000	$ 1,021,261
Total realized gains, net, included in excess of revenues over expenses	448	8,861	-	694	10,003
Total unrealized gains (losses), net, included in excess of revenues over expenses	(2,940)	12,112	5,741	9,319	24,232
Purchases	5,278	75,002	1,322	1,917	83,519
Sales	(6,280)	(75,203)	-	(4,577)	(86,060)
Balance at March 31, 2013	$ 144,443	$ 516,341	$ 186,818	$ 205,353	$ 1,052,955

	Nine-Month Period Ended March 31, 2014				
	Private Equity Investments	Multi-Strategy Hedge Fund Investments	Real Estate	Debt Securities	Total
Balance at beginning of period	$ 149,239	$ 557,381	$ 188,489	$ 211,518	$ 1,106,627
Total realized gains, net, included in excess of revenues over expenses	11,565	3,693	34,891	7,983	58,132
Total unrealized gains (losses), net, included in excess of revenues over expenses	21,285	46,447	(21,099)	2,223	48,856
Purchases	23,551	471,698	100,670	21,843	617,762
Sales	(22,072)	(181,457)	(118,085)	(41,597)	(363,211)
Balance at March 31, 2014	$ 183,568	$ 897,762	$ 184,866	$ 201,970	$ 1,468,166

	Nine-Month Period Ended March 31, 2013				
	Private Equity Investments	Multi-Strategy Hedge Fund Investments	Real Estate	Debt Securities	Total
Balance at beginning of period	$ 128,358	$ 485,498	$ 173,758	$ 150,223	$ 937,837
Total realized gains, net, included in excess of revenues over expenses	1,547	14,765	-	694	17,006
Total unrealized gains, net, included in excess of revenues over expenses	1,169	37,605	9,104	28,151	76,029
Purchases	27,613	101,431	3,956	31,712	164,712
Sales	(14,244)	(122,958)	-	(5,427)	(142,629)
Balance at March 31, 2013	$ 144,443	$ 516,341	$ 186,818	$ 205,353	$ 1,052,955

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 March 31, 2014 and June 30, 2013 (in thousands):

		As of March 31, 2014			
		Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Level 2					
Debt securities	(1)	$ 361,575	$ -	Daily, Quarterly	1 - 90 days
Equity securities	(2)	695,248	-	Daily, Monthly	1 - 30 days
Collateral held under securities lending	(3)	246,138	-	Daily	10 days
Total Level 2		$ 1,302,961	$ -		
Level 3					
Multi-strategy hedge funds	(4)	$ 897,762	$ -	Monthly, Quarterly, Semi-Annually, Annually	5 - 370 days
Private equity	(5)	183,568	277,698	-	-
Real estate	(6)	184,866	-	Quarterly	90 days
Debt securities	(7)	201,970	15,682	Quarterly	90 days
Total Level 3		1,468,166	293,380		
Total Level 2 and Level 3		$ 2,771,127	$ 293,380		

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

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

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

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

(4) This category includes investments in hedge funds that pursue diversification of both domestic and foreign fixed income and equity securities through multiple investment strategies. The primary objective for these funds is to seek attractive long-term risk-adjusted absolute returns. Under certain circumstances, an otherwise redeemable investment or portion thereof could become restricted. Such restrictions were not applicable at March 31, 2014. The following table reflects the various redemption frequencies, notice periods, and any applicable lock-up periods or gates to redemption as of March 31, 2014:

Percentage of the Value of Category (4)		Redemption	Redemption Notice	Redemption Locked Up Until	Redemption Gate % of Account
Total	Subtotal	Frequency	Period	(if applicable)	(if applicable)
22.0%	11.5%	Annually	45 - 90 days	-	-
	4.5%	Annually	45 - 75 days	12/31/2014	-
	6.0%	Annually	60 - 65 days		up to 33.3% - 50.0%
6.4%	6.4%	Semi-Annually	75 - 90 days	-	-
51.5%	23.7%	Quarterly	30 - 370 days	-	-
	2.8%	Quarterly	90 days	-	-
	25.0%	Quarterly	45 - 90 days	-	up to 25.0% - 33.3%
20.1%	13.4%	Monthly	5 - 60 days	-	-
	3.2%	Monthly	120 days	-	-
	3.5%	Monthly	45 days	-	up to 16.7%

(5) This category includes several private equity funds that specialize in providing capital to a variety of investment groups, including but not limited to venture capital, leveraged buyout, mezzanine debt, distressed debt, and other situations. There are no provisions for redemptions during the life of these funds. Distributions from each fund will be received as the underlying investments of the funds are liquidated, estimated at March 31, 2014, to be over the next 2-12 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 statement of financial position. The estimated fair value of Dignity Health's long-term debt instruments as of March 31, 2014 and June 30, 2013, is as follows (in thousands):

	Carrying Value As of March 31, 2014	Fair Value As of March 31, 2014
Debt issued under Master Trust Indenture:		
Fixed rate revenue bonds	$ 2,322,093	$ 2,442,444
Put bonds	195,394	197,294
Taxable bonds	595,622	544,026
Senior secured notes payable	229,514	259,665
Taxable direct placement loans	169,000	169,000
Variable rate demand bonds	782,800	782,800
Auction rate certificates	322,800	322,800
Notes payable to bank under credit agreement	261,561	261,561
Total debt under Master Trust Indenture	4,878,784	4,979,590
Other	152,419	152,419
Total debt	$ 5,031,203	$ 5,132,009

	Carrying Value As of June 30, 2013	Fair Value As of June 30, 2013
Debt issued under Master Trust Indenture:		
Fixed rate revenue bonds	$ 2,403,767	$ 2,538,257
Put bonds	195,970	203,346
Taxable bonds	595,235	539,658
Senior secured notes payable	229,426	264,457
Variable rate demand bonds	785,400	785,400
Auction rate certificates	323,400	323,400
Notes payable to bank under credit agreement	341,796	341,796
Total debt under Master Trust Indenture	4,874,994	4,996,314
Other	176,635	176,635
Total debt	$ 5,051,629	$ 5,172,949

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

8. INTANGIBLE ASSETS, NET

Intangible assets reported in the consolidated balance sheets include 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 which are amortized over a period of 3-15 years.

Dignity Health performed its annual impairment test at September 30, 2013, for the indefinite-lived trade name of USHW and determined that the fair value exceeded the carrying value. The income approach was used to determine fair value and the key assumptions used in the impairment analysis included projected revenues for the periods from October 1, 2013, through December 2026. Significant changes in this and other assumptions in the future could cause the assessed fair value of the USHW trade name to be below its carrying value, and as a result, the intangible asset will be considered impaired.

Information related to intangible assets at March 31, 2014, and June 30, 2013, is as follows (in thousands):

	Gross Carrying Amount	Accumulated Amortization	Net Balance at March 31, 2014	Amortization period
Trade name - USHW	$ 152,700	$ -	$ 152,700	Indefinite
Customer relationships	57,600	(6,400)	51,200	15 years
Noncompete agreements	4,646	(858)	3,788	36-84 months
Other	30,767	(12,183)	18,584	36-84 months
	$ 245,713	$ (19,441)	$ 226,272	

	Gross Carrying Amount	Accumulated Amortization	Net Balance at June 30, 2013	Amortization period
Trade name - USHW	$ 152,700	$ -	$ 152,700	Indefinite
Customer relationship	57,600	(3,520)	54,080	15 years
Noncompete agreements	2,926	(168)	2,758	36-84 months
Other	28,404	(5,845)	22,559	36-84 months
	$ 241,630	$ (9,533)	$ 232,097	

The aggregate amount of amortization expense related to intangible assets subject to amortization is $2.7 million and $2.1 million for the three-month periods ended March 31, 2014 and 2013, respectively, and $7.8 million and $5.2 million for the nine-month periods ended March 31, 2014 and 2013, respectively. Amortization expense on intangible assets is estimated to be $2.6 million for the remainder of 2014, $10.4 million in 2015, $10.4 million in 2016, $8.2 million in 2017, $5.1 million in 2018, and $36.8 million thereafter.

9. GOODWILL

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

Dignity Health performed its annual goodwill impairment test at September 30, 2013, for the USHW reporting unit and determined that the fair value of the reporting unit exceeded the carrying value. The income and market approaches were used to determine fair value and the key assumptions used in the goodwill impairment analysis included projected results for the periods from October 1, 2013, through December 2017. Significant changes in this and other assumptions could cause the assessed fair value of the reporting unit to be below its carrying value, and as a result, goodwill will be considered impaired. The balance of goodwill for the USHW reporting unit is approximately $316.4 million as of March 31, 2014.

The annual impairment test date for other goodwill, recorded primarily at consolidated investments in health-related activities, is March 31, 2014. There have been no goodwill impairment losses recorded in any periods through March 31, 2014.

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

	March 31, 2014	June 30, 2013
Balance at beginning of period	$ 486,773	$ 123,013
Addition from acquisitions	14,181	364,804
Acquisition accounting adjustments	1,765	(1,044)
Balance at end of period	$ 502,719	$ 486,773

10. DEBT

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

Dignity Health also renegotiated a single bank line of credit facility for standby letters of credit. This amount was increased from $20.0 million to $35.0 million. Letters of credit issued under this facility were $19.7 million as of March 31, 2014, but no amounts have been drawn.

Both credit facilities are scheduled to expire in July 2018.

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

Dignity Health drew $150.0 million in October 2013 and $75.0 million in February 2014 on its syndicated line of credit facility for general working capital purposes. During the nine-month period ending March 31, 2014, $61.2 million was repaid on the credit facility in addition to the amounts refinanced in September 2013 discussed above, and $75.0 million in December 2013.

In August 2012, Dignity Health drew $310.0 million on its syndicated line of credit facility to fund a portion of the acquisition of USHW.

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

In October 2012, Dignity Health drew $360.0 million on its syndicated line of credit and used $14.0 million of cash to facilitate repurposing of its equipment loan pool program. In November 2012, $253.8 million of this draw was repaid and the $14.0 million of cash was reimbursed.

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

In October 2012, the letters of credit issued by Bank of America and Citibank to support VRDBs were replaced with new letters of credit from PNC Bank, Mizuho Corporate Bank through its New York Branch, Sumitomo Mitsui Banking Corporation and Wells Fargo Bank, National Association in amounts to support VRDBs of $57.0 million, $195.6 million, $140.4 million and $90.0 million, respectively. On the replacement date, $373.8 million of bonds were tendered, of which $223.0 million of the bonds were subject to a mandatory tender and $150.8 million of the bonds were optionally tendered; the bonds were remarketed on the same day. The substitute letters of credit mature in October 2015. This did not change the terms, provisions or classification of the VRDBs subject to short-term liquidity arrangements.

11. DERIVATIVE INSTRUMENTS

The following table shows the outstanding notional amount of derivative instruments measured at fair value, net of credit value adjustments, as reported in other accrued liabilities in the consolidated balance sheet as of March 31, 2014 and June 30, 2013 (in thousands):

	Maturity Date of Derivatives	Interest Rate	Notional Amount Outstanding	Fair Value
			March 31, 2014	
Derivatives not designated as hedges				
Interest rate swaps	2026 - 2042	3.2% - 3.4%	$ 940,450	$ (140,678)
Risk participation agreements	2017, with extension options	SIFMA plus spread	$ 215,000	$ -
			June 30, 2013	
Derivatives not designated as hedges				
Interest rate swaps	2026-2042	3.2% - 3.4%	$ 940,600	$ (155,304)
Risk participation agreements	2017, with extension options	SIFMA plus spread	$ 215,000	$ -

Changes in fair value of derivative instruments have been recorded for the three and nine-month periods ended March 31, 2014 and 2013 as follows (in thousands):

	Three-Month Periods Ended March 31,	
	2014	**2013**
Loss reclassified from unrestricted net assets into interest expense, net, related to derivatives in cash flow hedging relationships:		
Interest rate swaps - amortization	$ (671)	$ (671)
(Gain) loss recognized in interest expense, net:		
Changes in fair value of non-hedged derivatives - interest rate swaps	21,276	(13,786)
Amortization of amounts in unrestricted net assets - interest rate swaps	671	671
Total	$ 21,947	$ (13,115)

	Nine-Month Periods Ended March 31,	
	2014	**2013**
Loss reclassified from unrestricted net assets into interest expense, net, related to derivatives in cash flow hedging relationships:		
Interest rate swaps - amortization	$ (2,012)	$ (2,012)
Gain recognized in interest expense, net:		
Changes in fair value of non-hedged derivatives - interest rate swaps	(14,626)	(26,908)
Amortization of amounts in unrestricted net assets - interest rate swaps	2,012	2,012
Total	$ (12,614)	$ (24,896)

Of the amounts classified in unrestricted net assets as of March 31, 2014, Dignity Health anticipates reclassifying approximately $2.7 million of additional non-cash losses from unrestricted net assets into interest expense, net, in the next twelve months. Amounts in unrestricted net assets will be amortized into earnings as the interest payments being economically hedged are made.

Of the $940.5 million notional amount of interest rate swaps held by Dignity Health at March 31, 2014, $160.0 million are insured and have a negative fair value of $29.2 million at March 31, 2014. In the event the insurer, Assured Guaranty, is downgraded below A2/A or A3/A- (Moody's/Standard and Poor's), the counterparties have the right to terminate the swaps if Dignity Health does not provide alternative credit support acceptable to them within 30 days of being notified of the downgrade. If the insurer is downgraded below the thresholds noted above and Dignity Health is downgraded below Baa3/BBB- (Moody's/Standard and Poor's), the counterparties have the right to terminate the swaps.

Dignity Health has $780.5 million of interest rate swaps that are not insured as of March 31, 2014. While Dignity Health has the right to terminate the swaps prior to maturity for any reason, counterparties have various rights to terminate, including swaps in the outstanding notional amount of $100.0 million at each five-year anniversary date commencing in March 2018 and swaps in the notional amount of $209.8 million at each two-year anniversary commencing in May 2015. Swaps in the notional amount of $60.0 million and swaps in the notional amount of $67.7 million have mandatory puts in March 2021 and March 2023, respectively. The termination value would be the fair market value or the replacement cost of the swaps, depending on the circumstances. These interest rate swaps have a negative fair value of $63.6 million at March 31, 2014. The remaining uninsured swaps in the notional amount of $343.0 million have a negative fair value of $47.9 million as of March 31, 2014. The fair value of the risk participation agreements is deemed immaterial as of March 31, 2014.

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

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

12. INCOME TAXES

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

	March 31, 2014	June 30, 2013
Deferred tax assets:		
Current	$ 16,487	$ 16,233
Noncurrent	44,360	40,686
Total deferred tax assets	$ 60,847	$ 56,919
Deferred tax liabilities	$ 140,720	$ 80,838

13. INTEREST EXPENSE, NET

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

	Three-Month Periods Ended March 31,		Nine-Month Periods Ended March 31,	
	2014	2013	2014	2013
Interest and fees on debt and swap cash settlements	$ 53,153	$ 54,685	$ 160,405	$ 161,980
Market adjustment on swaps and amortization of amounts in unrestricted net assets	21,947	(13,115)	(12,614)	(24,896)
Total interest expense	75,100	41,570	147,791	137,084
Capitalized interest expense	(5,627)	(4,992)	(16,629)	(17,998)
Interest expense, net	$ 69,473	$ 36,578	$ 131,162	$ 119,086

14. SPECIAL CHARGES AND OTHER COSTS

Special charges and other costs consist of the following for the three and nine-month periods ended March 31, 2014 and 2013 (in thousands):

	Three-Month Periods Ended March 31,		Nine-Month Periods Ended March 31,	
	2014	2013	2014	2013
Estimated impairment on carrying value of long-lived assets	$ -	$ -	$ -	$ 8,000
Acquisition related costs	-	-	-	4,348
Restructuring costs for name and governance changes	-	368	554	2,020
Total special charges	$ -	$ 368	$ 554	$ 14,368

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

Acquisition related costs relate to the acquisition of USHW.

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

15. INVESTMENT INCOME, NET

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

	Three-Month Periods Ended March 31,		Nine-Month Periods Ended March 31,	
	2014	2013	2014	2013
Interest and dividend income	$ 24,025	$ 25,052	$ 68,760	$ 79,836
Realized gains on sales of securities	65,856	96,141	290,267	185,623
Net unrealized gains on securities	5,115	98,058	181,374	288,990
Other, net of capitalized investment income	(5,819)	(7,755)	(19,808)	(20,268)
Investment income, net	$ 89,177	$ 211,496	$ 520,593	$ 534,181

16. RETIREMENT PROGRAMS

In September 2013, Dignity Health amended the pension plan to freeze ongoing benefit accruals in certain older final average pay formulas and replace them with a single primary final average pay formula and also to freeze benefit accruals in the same older final average pay formulas for employees already accruing ongoing benefits in the primary final average pay formula. Due to the significance of the change, plan assets and liabilities were re-measured as of September 30, 2013. The combination of factors, primarily the plan change and investment performance, resulted in a $203.2 million credit to unrestricted net assets in the statement of operations and changes in net assets during the nine-month period ended March 31, 2014.

Total retirement and postretirement expense was $61.0 million and $89.9 million for the three-month periods ended March 31, 2014 and 2013, respectively, and $191.5 million and $268.8 million for the nine-month periods ended March 31, 2014 and 2013, respectively. Such amounts are included in salaries and benefits expense in the condensed consolidated statements of operations and changes in net assets.

17. COMMITMENTS AND CONTINGENT LIABILITIES

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

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

Department of Justice and OIG Investigations – Dignity Health and/or its facilities periodically receive notices from governmental agencies, such as the Department of Justice or the Office of Inspector General ("OIG"), requesting information regarding billing, payment, or other reimbursement matters, or initiating investigations, or indicating the existence of whistleblower litigation. The healthcare industry in general is experiencing an increase in these activities, as the federal government increases enforcement activities and institutes new programs designed to identify potential irregularities in reimbursement or quality of patient care. Based on the information received to date from the government, Dignity Health does not presently have information indicating that these current matters or their resolution will have a material effect on Dignity Health's financial statements, taken as a whole. Nevertheless, investigations of this type and scope could lead to civil and/or criminal charges and material penalties or settlements. Consequently, there can be no assurance that the resolution of these matters will not affect the financial condition or operations of Dignity Health, taken as a whole.

Medicare Certification – From time to time, Dignity Health and/or its facilities receive notices from CMS that steps to terminate provider agreements will be taken unless certain corrective actions related to qualification for Medicare participation are undertaken. The process of responding to these notices involves plan(s) of correction by the facility and resurvey by CMS or its designee. Although termination is rare, there is no guarantee that CMS or its designee will be satisfied with a facility's corrective action. Currently, Mercy Medical Center (Merced) is in the process of addressing such a notice.

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 under ERISA in connection with the Dignity Health Pension Plan ("DHPP"). 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". It also challenges the constitutionality of ERISA's church plan exemption. Dignity Health established the DHPP as a "church plan" that is exempt from ERISA, including ERISA's funding requirements, and received determination letters from the Internal Revenue Service that confirmed its church plan status. The plaintiff seeks to represent a class comprised of all current DHPP participants and beneficiaries. The suit seeks declaratory relief to determine that the DHPP is not a church plan and that the

DHRP fails to meet ERISA's requirements, including the minimum funding requirements because it had unfunded liabilities of $1.2 billion, and seeks penalties and other economic relief to bring the DHPP into ERISA compliance.

The plaintiff and Dignity Health both filed partial motions for summary judgment on the issue of ERISA coverage. The hearing on both motions is scheduled for June 16, 2014.

Dignity Health continues to vigorously defend the church plan status of the DHPP. Even though a loss is not probable or reasonably estimable at this stage in the litigation, there can be no assurance that the final resolution of this matter will not adversely affect the financial condition or operations of Dignity Health, taken as a whole.

Dignity Health and Subordinate Corporations

Management Discussion and Analysis of Financial Condition and Results of Operations

Overview

Dignity Health is a California not-for-profit corporation exempt from federal and state income taxes. Dignity Health operates 38 hospitals in California, Arizona and Nevada and provides a variety of healthcare, education and other benefits to the communities in which it operates. Healthcare services include inpatient, outpatient, sub-acute and home health care services, as well as physician services through a medical foundation and affiliated medical groups. Additionally, USHW, acquired in August 2012, operates 205 occupational health and urgent care centers in 20 states.

Results of Operations

Three Months Ended March 31, 2014 and 2013

For the three-month period ended March 31, 2014, Dignity Health recorded an operating loss of $17.4 million compared to income of $42.3 million for the same period in the prior year. These results exclude the operations of the Health Plans, which are classified as assets held for sale and whose operations are reported as discontinued for all periods presented. The results of operations for the three-month period ended March 31, 2014, are primarily related to the following:

- Dignity Health recognized $11.1 million in net patient revenue related to the City of Phoenix provider fee program, but no amount was recognized during the period for California as CMS approval is still pending for the provider fee program enacted beginning January 1, 2014. Dignity Health recognized $33.3 million during the same period in the prior year related to the prior California program.
- Net patient and premium revenues increased $32.4 million, or 1.3%, over the same period in the prior year, primarily due to $28.5 million related to supplemental Medicaid payments in Arizona, payment rate increases and the expansion of infusion services, offset by lower volumes and lower provider fee revenues in the current year. Provision for bad debts on uncollectible accounts decreased $24.6 million, or 9.1%, with provision for bad debts on uncollectible accounts as a percentage of gross revenues decreasing to 2.3% from 2.6% in the prior year. The decrease is due to payor mix shifts from self-pay to other payor classes and to billing office improvements.
- Net patient and premium revenue per adjusted admission increased 3.2% compared to the same period in the prior year. The increase is primarily related to supplemental Medicaid payments in Arizona of $28.5 million and payment rate increases, partially mitigated by the reduction in provider fee revenues. Adjusted admissions decreased 1.8% compared to the same period in the prior year.
- Revenue from health-related activities, net, increased $6.6 million, or 16.2%, over the same period in the prior year, primarily due to $15.3 million related to a joint venture in Bakersfield which sold its holdings in a health plan, offset by $14.9 million recorded related to the investment in Scripps Health compared to $25.9 million recorded in the prior year.
- Other operating revenue decreased $8.9 million over the same period in the prior year, primarily due to a $4.1 million decline in meaningful use incentive revenues.
- Salaries and benefits increased $22.1 million, or 1.6%, over the same period in the prior year, with salaries and benefits per adjusted admission increasing 3.5%, primarily due to increased wage and contract labor costs, mitigated by lower pension expense and the transition of personnel to Optum360.
- Supplies increased $27.0 million, or 7.5%, compared to the same period in the prior year, with supply costs per adjusted admission increasing 9.5%, primarily due to higher pharmaceutical costs related to the expansion of infusion services.
- Purchased services and other increased $7.8 million, or 1.3%, compared to the same period in the prior year, primarily due to the Optum360 management fee and increased medical fees, offset by lower provider fee program expenses.

- Non-cash market adjustments on swaps, recorded in interest expense, net, were $21.9 million unfavorable compared to $13.1 million favorable in the same period in the prior year.
- Investment income, net, decreased $122.3 million to a gain of $89.2 million, from a gain of $211.5 million during the same period in the prior year. Realized gains of $65.9 million in the current year were lower than realized gains of $96.1 million in the same period in the prior year. Net unrealized gains were $5.1 million in the current year, compared to $98.1 million in the same period of the prior year.

Nine Months Ended March 31, 2014 and 2013

For the nine-month period ended March 31, 2014, Dignity Health recorded operating income of $255.2 million compared to $113.8 million for the same period in the prior year. These results exclude the operations of the Health Plans, which are classified as assets held for sale and whose operations are reported as discontinued for all periods presented. The results of operations for the nine-month period ended March 31, 2014, are primarily related to the following:

- Dignity Health recognized $322.4 million in net patient revenue and $205.9 million in purchased services and other for a net favorable impact of $116.5 million related to the California and City of Phoenix provider fee programs, which was $16.6 million higher than the net provider fee income of $99.9 million recognized during the same period in the prior year. The increase is primarily related to recognizing income in the current year in connection with the City of Phoenix program which began in April 2013.
- Net patient and premium revenues increased $324.3 million, or 4.5%, over the same period in the prior year, primarily due to $71.1 million in additional net revenue related to the consolidation of USHW beginning in August 2012, increased provider fee revenues of $37.8 million, increased Arizona Medicaid revenues of $24.3 million, and payment rate increases, offset by lower volumes and unfavorable payor mix in the current year. Provision for bad debts on uncollectible accounts increased $33.2 million, or 4.1%, with provision for bad debts on uncollectible accounts as a percentage of gross revenues equal to the prior year amount of 2.7%.
- Net patient and premium revenue per adjusted admission increased 5.9% compared to the same period in the prior year, primarily related to payment rate increases and increased Arizona Medicaid revenues. Adjusted admissions decreased 1.3% compared to the same period in the prior year.
- Revenue from health-related activities was $121.3 million during the nine months ended March 31, 2014, compared to $113.0 million during the same period in the prior year. Dignity Health recorded $15.7 million related to a joint venture in Bakersfield compared to $0.7 million in the prior year, offset by $56.0 million related to the investment in Scripps Health during the nine months ended March 31, 2014, compared to $70.9 million in the same period in the prior year.
- Other operating revenue increased $252.2 million over the same period in the prior year, primarily due to a gain of $230.5 million recognized related to the Optum360 transaction and a gain of $16.6 million recognized on the restructuring of Dignity Health's investment in Premier, Inc.
- Salaries and benefits increased $87.8 million, or 2.1%, over the same period in the prior year, with salaries and benefits per adjusted admission increasing 3.4%, primarily due to increased wage and contract labor costs, partially mitigated by lower pension expense.
- Supplies increased $80.7 million, or 7.6%, compared to the same period in the prior year, with supply costs per adjusted admission increasing 9.0%, primarily due to higher pharmaceutical costs related to the expansion of infusion services.
- Purchased services and other increased $174.7 million, or 10.2%, compared to the same period in the prior year primarily related to the Optum360 management fee, provider fee program expenses, the consolidation of USHW beginning in August 2012, increased medical fees, advertising costs, and maintenance contract costs, offset by lower professional liability costs.
- Income tax expense increased $89.6 million due to $59.6 million of tax expense recognized during the nine months ended March 31, 2014, related to the Optum360 transaction, and the $33.3 million tax benefit recorded in the prior year in conjunction with the acquisition of USHW.
- Non-cash market adjustments on swaps, recorded in interest expense, net, were $12.6 million favorable compared to $24.9 million favorable in the same period in the prior year.

- Investment income, net, decreased $13.6 million to a gain of $520.6 million, from a gain of $534.2 million during the same period in the prior year. Realized gains of $290.3 million in the current year were higher than realized gains of $185.6 million in the same period in the prior year. Net unrealized gains were $181.4 million in the current year, compared to net unrealized gains of $289.0 million in the same period of the prior year.

Capital Resources

Cash provided by operating activities totaled $254.4 million for the nine-month period ended March 31, 2014, compared to $155.5 million for the same period in the prior year, primarily related to operating results. Other significant activity for the nine-month period ended March 31, 2014, includes the following:

- Accounts receivable increased $211.4 million during the nine-month period ending March 31, 2014, compared to $143.1 million during the same period in the prior year.
- Accounts payable increased $65.0 million during the nine-month period ending March 31, 2014, compared to a decrease of $27.1 million during the same period in the prior year.
- Provider fee assets and liabilities, net, provided $147.3 million during the nine-month period ending March 31, 2014, compared to $28.8 million during the same period in the prior year.
- Pension and other post retirement liabilities decreased $92.8 during the nine-month period ending March 31, 2014, compared to a decrease of $31.7 million during the same period in the prior year.
- Estimated receivables from/payables to third party payor, net, used $5.3 million during the nine-month period ending March 31, 2014, compared to $48.2 million during the same period in the prior year.

Cash used in investing activities totaled $343.9 million for the nine-month period ended March 31, 2014, compared to $795.4 million for the same period in the prior year, primarily due to the following:

- Cash used for the acquisition of USHW of $458.9 million in August 2012.
- Capital expenditures were $475.6 million during the nine-month period ended March 31, 2014, compared to $479.4 million during the same period in the prior year. Such capital expenditures primarily relate to expansion and renovation of existing facilities, equipment and systems additions and replacements, and various other capital improvements.
- Net sales of investments were $71.1 million during the nine-month period ended March 31, 2014, compared to $92.1 million during the same period in the prior year.

Cash used in financing activities totaled $64.8 million for the nine-month period ended March 31, 2014, compared to cash provided of $446.1 million for the same period in the prior year, primarily due to the following:

- Net repayments of debt of $25.0 million during the nine-month period ended March 31, 2014, compared to net borrowings of $477.3 million during the same period in the prior year.

Dignity Health’s debt-to-capitalization ratio was 43.7% as of March 31, 2014, and 47.8% as of June 30, 2013.

Dignity Health's EBIDA (earnings before interest expense, net, depreciation and amortization, loss on early extinguishment of debt, investment earnings and special charges) increased $151.6 million to $742.4 million during the period from $590.8 million for the same period in the prior year. The EBIDA margin percentage increased to 9.2% from 7.9%.

Business Strategy

Dignity Health’s ‘Horizon 2020’ strategy, which was launched in September 2010, envisions the transition to a value-based operating model. Dignity Health has invested significantly in organizational, cultural, operational and clinical innovations to achieve this transformation. Horizon 2020 focuses on six core strategies to achieve Dignity Health’s vision of an integrated health care delivery system with accountable care and population management capabilities. These strategies focus on Quality, Cost, Growth, Integration, Connectivity and Leadership.

With the accelerating pace of change, Dignity Health’s executive leadership has defined a set of organizational priorities and tactics that focus the organization on near-term goals consistent with Horizon 2020. Selected priorities, as well as specific tactics and accomplishments, are described as follows:

1. Build the New Clinical Enterprise While Improving Operating Performance – Management considers that clinical quality and efficiency must be achieved in concert in a sustainable clinical enterprise. Key elements include:

   a. Advancing quality – Quality is the cornerstone of service at Dignity Health. Each year, new goals are established to promote improvement in processes and patient outcomes. In fiscal 2014, Dignity Health's clinical quality goals include 35 evidence-based measures to improve clinical outcomes for patients with heart disease and pneumonia, surgical patients and patients seen in the emergency department, as well as additional focus on patients with acute strokes and the patient experience. Performance in the third quarter remains ahead of targets. Dignity Health also continues to improve patient safety and reduce harm through the CMS Partnership for Patients program. These efforts have resulted in a reduction in the incidence of hospital acquired conditions, including infections, blood clots and bed sores.

   b. Promoting clinical integration and physician alignment – Dignity Health has advanced a clinical integration strategy whereby physicians and hospitals adopt common quality metrics aimed at improving quality and evidence-based practices in the inpatient and ambulatory setting, aggregate data and report on performance, and share savings for improved quality and better coordination of patient care. As of March 31, 2014, approximately 2,800 physicians, primarily in Arizona, Southern Nevada and Southern California, have signed clinical integration participation agreements with Dignity Health's clinical integration organizations. Dignity Health also achieves alignment with over 850 physicians under a medical foundation model through the Dignity Health Medical Foundation in California, direct employment in Arizona and Nevada, and through the community clinic model in California's Central Coast area.

   c. Clinical informatics – Dignity Health's goal is to develop a leading-edge technology infrastructure to help advance clinical quality, improve outcomes and further patient engagement. The electronic health record ("EHR") implementation is progressing on schedule, with 19 facilities using Cerner EHR technology as of March 31, 2014 and another five facilities planned to go live by fiscal year end. Implementation is scheduled to be completed systemwide in 2017.

   d. Sustainable cost structure – Dignity Health has focused on several major cost reduction initiatives over the past several years. During 2013, Dignity Health continued its work in Transformational Care ("TC") and Clinical Operations Improvement ("COI") initiatives. Management has set a target of $200-$300 million in improvement in 2014, comprised of labor initiatives, materials management/purchased services and utilization initiatives, growth initiatives, physician practice management and ongoing work in TC and COI.

2. Create Capital Capacity – While traditional sources such as operating cash flow and philanthropy remain a primary source of capital capacity, management is focused on alternative means to create additional capacity. These efforts include:

   a. Monetization of non-core assets – Management has reviewed the assets and activities of the organization to identify situations where divestiture is economically advantageous, without compromising core operations. As a result, Dignity Health sold its outreach laboratory activities in April and June 2013, generating cash proceeds of $39.0 million. Dignity Health also expects to close the sale of its health plans in Reno, Nevada by June 30, 2014.

   b. Leveraging internal business lines into growth opportunities – In September 2013, Dignity Health and OptumInsight, Inc. formed Optum360 to perform "end-to-end" revenue cycle management functions for Dignity Health and other prospective healthcare delivery system customers. Dignity Health also organized Dignity Health Purchasing Network, LLC in June 2012 to provide certain group purchasing services to Dignity Health and non-Dignity Health participants.

   c. Working with capital partners – Management believes it may be appropriate, in some circumstances, to collaborate with outside capital partners in order to grow specific business lines, particularly outside the acute care arena.

3. Pursue Profitable Growth – Management is focused on adding accretive growth through a variety of channels. Growth strategies are consistent with the organization's overall movement toward diversification beyond the acute care arena and its historical three state footprint, and also include market infill and targeted service line growth. Key strategies include:

   a. Payor channel management – Dignity Health's physician alignment vehicles provide a platform for implementing new payment models, such as participation in Medicare's Shared Savings Program, Centers

for Medicare & Medicaid Innovation ("CMMI") bundled payment demonstration projects, establishment of narrow networks, and/or engagement in risk sharing arrangements. Dignity Health and Abrazo Health (a member of Tenet Healthcare Corporation) have completed their formation of the Arizona Health Partnership that furthers the collaboration of two of the largest healthcare providers in Arizona around a 50/50 ownership in the accountable care organization, Arizona Care Network, as well as the formation of a companion risk management organization, Arizona Care Network Risk Services. This partnership will allow Dignity Health and Abrazo Health to more aggressively pursue population health management arrangements and risk-based contracts. One of the goals for the joint venture is to enable further centralization and consolidation of administrative and operating activities with an aim to generate cost containment and tighter integration across the associated networks. Dignity Health has expanded the number and scope of its value based payor agreements that include financial incentives regarding the cost and/or quality of care provided to patients under the agreements. Dignity Health has over 500,000 patients attributed under these agreements.

b. Expansion to a full continuum of care – Dignity Health continues to expand in the ambulatory arena, including investing in surgery centers, many of which are in concert with United Surgical Partners International. Dignity Health also has investments in numerous imaging centers, primarily through SMI Imaging, LLC. Dignity Health seeks to partner with third parties with expertise in specialty areas in both the acute and non-acute sectors.

c. Integrated delivery network growth – Management believes it may be beneficial to develop a broader integrated delivery network presence both within and beyond its existing markets. The company is pursuing a range of relationships, in both the acute and non-acute arena, which may take the form of management services agreements, joint operating agreements, joint operating companies, or in some cases, acquisitions or mergers.

d. Strategic innovation – Dignity Health is engaged in a range of CMMI demonstration projects that have demonstrated reduction in adverse events and cost savings for the organization. Other areas of focus include strategic healthcare investing and co-investing to generate financial return and gain insight into innovative new technologies and care models that can be adopted systemwide.

e. Enterprise-wide growth – To support growth in existing service areas, Dignity Health has focused initiatives in systemwide sales, customer relationship management, physician referral strategies, co-management arrangements, and targeted service line growth.

f. National brand development – Dignity Health recognizes the importance of brand leadership as a competitive differentiator in a consumer and physician-focused healthcare environment. In June 2013, Dignity Health launched the "Hello Humankindness" campaign, which expresses the organization's heritage and values, and speaks to the importance of human connection in health and healing. The launch is one aspect of a broader brand strategy and follows Dignity Health's governance restructuring and name change. Dignity Health's business development initiatives, clinical operating systems and marketing strategies are aligned toward delivering an experience of human connection and respect for patients, providers and employees. The goal of the campaign is to raise brand awareness with consumers, generate brand equity and preference, and project Dignity Health's value to society.

Forward Looking Statements

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

Dignity Health and Subordinate Corporations
Consolidated Operating Statistics

	Three-Month Periods Ended March 31,		Nine-Month Periods Ended March 31,	
	2014	2013	2014	2013
Financial Performance:				
Operating income (loss) (before investment earnings)	$ (17,350)	$ 42,324	$ 255,248	$ 113,843
Margin %	(0.7%)	1.7%	3.2%	1.5%
EBIDA (earnings before interest expense, net, depreciation and amortization, loss on early extinguishment of debt, investment earnings and special charges)	$ 173,486	$ 195,011	$ 742,358	$ 590,844
Margin %	6.7%	7.7%	9.2%	7.9%
Excess of revenues over expenses attributable to Dignity Health	$ 65,611	$ 248,144	$ 756,451	$ 630,338
Margin %	2.5%	9.0%	8.8%	7.9%
Uncompensated Care:				
Charity care, at customary charges	$ 203,598	$ 250,374	$ 680,526	$ 705,072
Charity care, at cost	$ 49,287	$ 61,446	$ 168,674	$ 174,224
Charity care, at cost, as a percentage of total expenses	1.9%	2.5%	2.2%	2.4%
Bad debt at customary charges	$ 245,253	$ 269,900	$ 841,743	$ 808,506
Productivity:				
Salaries, wages and benefits as a % of net patient and premium revenue	58.0%	57.9%	56.5%	57.9%
Supply expense as a % of net patient and premium revenue	15.8%	14.9%	15.3%	14.8%
Purchased services as a % of net patient and premium revenue	24.0%	24.0%	25.2%	23.9%
Capital expense as a % of net patient and premium revenue	7.8%	6.3%	6.5%	6.5%
Operations:				
Acute admissions*	91,654	94,332	273,008	279,724
Adjusted admissions*	145,199	147,929	436,038	441,672
Acute inpatient days*	406,182	411,161	1,176,813	1,188,689
Adjusted patient days *	685,966	690,242	2,012,995	2,021,008
Acute average length of stay*	4.43	4.36	4.31	4.25
Outpatient revenue as a % of total patient services revenue	39.0%	37.8%	39.4%	38.1%
Number of FTEs (all periods exclude revenue cycle employees)	48,623	48,957	48,722	48,247
FTEs per adjusted occupied bed *	4.99	4.95	5.12	5.12

*Hospital only

DIGNITY HEALTH
AND SUBORDINATE
CORPORATIONS

Consolidated Financial Statements as of
and for the Years Ended June 30, 2013 and 2012
and Independent Auditors' Report

DIGNITY HEALTH AND SUBORDINATE CORPORATIONS

TABLE OF CONTENTS

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of Dignity Health and Subordinate Corporations ("Dignity Health") as of June 30, 2013 and 2012, 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.

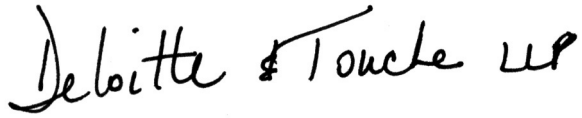
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2013 and 2012, 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 23 is presented for the purpose of additional analysis and is not a required part of the basic consolidated financial statements. This supplementary information is the responsibility of Dignity Health's management. Such information has not been subjected to the auditing procedures applied in our audits of the basic consolidated financial statements and, accordingly it is inappropriate to and we do not express an opinion on the supplementary information referred to above.



September 24, 2013

DIGNITY HEALTH AND SUBORDINATE CORPORATIONS

CONSOLIDATED BALANCE SHEETS
June 30, 2013 and 2012 (in thousands)

Assets	2013	2012
Current assets:		
Cash and cash equivalents	$ 218,159	$ 406,052
Short-term investments	1,078,180	932,864
Collateral held under securities lending program	322,468	335,968
Assets limited as to use	1,049,373	1,242,277
Patient accounts receivable, net of allowance for doubtful accounts of $438,756 and $351,387 in 2013 and 2012, respectively	1,470,719	1,282,895
Broker receivables for unsettled investment trades	14,696	20,534
Other current assets	894,586	815,632
Total current assets	5,048,181	5,036,222
Assets limited as to use:		
Board-designated assets (including $339,161 and $351,400 of assets loaned under securities lending program in 2013 and 2012, respectively) for:		
Capital projects	3,478,258	3,211,433
Workers' compensation	439,624	448,107
Professional and general liability	249,642	202,316
Under bond indenture agreements for:		
Capital projects	188,126	214,930
Debt service	136,499	140,600
Bond reserves	20,632	20,631
Donor-restricted	387,805	417,061
Other	55,593	68,202
Less amount required to meet current obligations	(1,049,373)	(1,242,277)
Net assets limited as to use	3,906,806	3,481,003
Property and equipment, net	4,422,833	4,216,570
Ownership interests in health-related activities	681,120	570,873
Goodwill	486,773	123,013
Intangible assets, net	232,097	2,420
Assets held for sale	39,262	-
Other long-term assets, net	152,500	113,894
Total assets	$ 14,969,572	$ 13,543,995

(Continued)

DIGNITY HEALTH AND SUBORDINATE CORPORATIONS

CONSOLIDATED BALANCE SHEETS
June 30, 2013 and 2012 (in thousands)

Liabilities and Net Assets	2013	2012
Current liabilities:		
Current portion of long-term debt	$ 129,112	$ 295,920
Demand bonds subject to short-term liquidity arrangements, excluding current maturities	782,800	785,400
Accounts payable	493,699	531,441
Payable under securities lending program	322,654	336,357
Accrued salaries and benefits	569,098	518,147
Accrued workers' compensation	36,040	46,938
Accrued professional and general liability	78,527	69,885
Pension and other postretirement liabilities	317,772	318,633
Broker payables for unsettled investment trades	19,675	20,644
Liabilities held for sale	22,824	-
Other accrued liabilities	561,636	691,965
Total current liabilities	3,333,837	3,615,330
Other liabilities:		
Workers' compensation	350,178	341,200
Professional and general liability	232,055	212,712
Pension and other postretirement liabilities	612,992	1,093,155
Other	239,564	111,966
Total other liabilities	1,434,789	1,759,033
Long-term debt, net of current portion	4,139,717	3,440,794
Total liabilities	8,908,343	8,815,157
Net assets:		
Unrestricted - attributable to Dignity Health	5,510,710	4,177,650
Unrestricted - noncontrolling interest	166,727	137,870
Temporarily restricted	278,707	308,445
Permanently restricted	105,085	104,873
Total net assets	6,061,229	4,728,838
Total liabilities and net assets	$ 14,969,572	$ 13,543,995

(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, 2013 and 2012 (in thousands)

	2013	2012
Unrestricted revenues and other support:		
Patient revenue, net of contractual allowances and discounts	$ 10,538,427	$ 9,608,525
Provision for bad debts	(1,093,868)	(889,830)
Net patient revenue	9,444,559	8,718,695
Premium revenue	476,950	431,982
Revenue from health-related activities, net	140,909	60,733
Other operating revenue	332,062	268,122
Contributions	17,399	16,734
Total unrestricted revenues and other support	10,411,879	9,496,266
Expenses:		
Salaries and benefits	5,561,479	5,135,149
Supplies	1,420,242	1,375,087
Purchased services and other	2,546,821	2,168,854
Depreciation and amortization	463,714	425,732
Interest expense, net	120,856	293,910
Special charges and other costs	14,801	35,873
Total expenses	10,127,913	9,434,605
Operating income	283,966	61,661
Other income:		
Investment income, net	527,970	73,212
Excess of revenues over expenses	$ 811,936	$ 134,873

(Continued)

DIGNITY HEALTH AND SUBORDINATE CORPORATIONS

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
YEARS ENDED June 30, 2013 and 2012 (in thousands)

	2013	2012
Unrestricted net assets:		
Excess of revenues over expenses	$ 811,936	$ 134,873
Change in net unrealized gains (losses) on available-for-sale investments	4,015	(2,934)
Net assets released from restrictions used for purchase of property and equipment	67,423	26,247
Change in funded status of pension and other postretirement benefit plans	447,726	(582,711)
Loss from discontinued operations (including property value loss of $0 million and $82.6 in 2013 and 2012, respectively)	(22,629)	(129,051)
Change in noncontrolling interest in health-related activities	28,857	39,566
Change in ownership interest held by controlled subsidiaries	2,765	171
Change in accumulated unrealized derivative gains, net	2,683	2,683
Funds donated from unconsolidated sources for purchase of property and equipment	19,906	15,664
Other	(765)	(2,368)
Increase (decrease) in unrestricted net assets	1,361,917	(497,860)
Temporarily restricted net assets:		
Contributions	38,174	38,231
Net realized and unrealized gains (losses) on investments	4,254	(134)
Net assets released from restrictions	(87,921)	(50,505)
Change in interest in net assets of unconsolidated foundations	15,340	(536)
Other	415	(5,114)
Decrease in temporarily restricted net assets	(29,738)	(18,058)
Permanently restricted net assets:		
Contributions	(138)	25
Net realized and unrealized gains on investments	80	77
Change in interest in net assets of unconsolidated foundations	551	51
Other	(281)	(3,227)
Increase (decrease) in permanently restricted net assets	212	(3,074)
Increase (decrease) in net assets	1,332,391	(518,992)
Net assets, beginning of period	4,728,838	5,247,830
Net assets, end of period	$ 6,061,229	$ 4,728,838

(Concluded)

See notes to consolidated financial statements.

DIGNITY HEALTH AND SUBORDINATE CORPORATIONS

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED June 30, 2013 and 2012 (in thousands)

	2013	2012
Cash flows from operating activities:		
Change in net assets	$ 1,332,391	$ (518,992)
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Depreciation and amortization, including discontinued operations	461,148	430,544
Health-related activities:		
Equity in earnings	(127,029)	(39,679)
Change in control of consolidated entities	(21,418)	(40,268)
Gain, net, on disposal of assets	(28,294)	(1,030)
Estimated carrying value adjustment of assets, including discontinued operations	8,000	84,097
Software development abandonment	-	22,019
Change in deferred tax asset	(34,836)	-
Restricted contributions	(38,036)	(38,199)
Change in funded status of pension and other postretirement benefit plans	(447,726)	582,711
Undistributed portion of change in net assets of unconsolidated foundations	(15,891)	485
Change in net realized and unrealized (gains) loss on investments	(452,191)	13,022
Change in fair value of swaps	(72,748)	117,358
Changes in certain assets and liabilities:		
Accounts receivable, net	(121,255)	(15,260)
Accounts payable	(57,723)	98,874
Workers' compensation and professional and general liabilities	26,159	12,969
Accrued salaries and benefits	38,854	9,264
Pension and other postretirement liabilities	(33,299)	(47,988)
Provider fee assets and liabilities	(63,168)	(192,445)
Estimated receivables from/payables to third-party payors, net	(51,551)	(36,625)
Other accrued liabilities	16,706	(80,021)
Prepaid and other current assets	8,897	(11,058)
Other, net	(8,655)	(20,655)
Cash provided by operating activities	318,335	329,123

(Continued)

DIGNITY HEALTH AND SUBORDINATE CORPORATIONS

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED June 30, 2013 and 2012 (in thousands)

	2013	2012
Cash flows from investing activities:		
Purchase of investments	(4,657,311)	(7,218,347)
Proceeds from sale of investments	4,706,792	6,806,363
Cash proceeds on disposal of assets, including discontinued operations	41,512	54,424
Acquisition of U.S. HealthWorks, net of cash acquired	(458,930)	-
Investments in health-related activities	(69,319)	(15,911)
Cash distributions from health-related activities	26,038	19,050
Additions to operating property and equipment, including discontinued operations	(640,037)	(608,327)
Decrease (increase) in securities lending collateral	13,703	(45,209)
Other, net	5,036	26,218
Cash used in investing activities	(1,032,516)	(981,739)
Cash flows from financing activities:		
Borrowings	1,858,425	1,423,650
Repayments	(1,344,510)	(1,144,505)
Increase (decrease) in payable under securities lending program	(13,703)	45,209
Restricted contributions	38,036	38,199
Deferred financing costs	(11,960)	(7,929)
Cash provided by financing activities	526,288	354,624
Net decrease in cash and cash equivalents	(187,893)	(297,992)
Cash and cash equivalents at beginning of the year	406,052	704,044
Cash and cash equivalents at end of the year	$ 218,159	$ 406,052
Components of cash and cash equivalents and investments at end of year:		
Cash and cash equivalents	218,159	406,052
Short-term investments	1,078,180	932,864
Board-designated assets for capital projects	3,478,258	3,211,433
Total	$ 4,774,597	$ 4,550,349
Supplemental disclosures of cash flow information:		
Cash paid for interest, net of capitalized interest	$ 193,552	$ 180,949
Supplemental schedule of noncash investing and financing activities:		
Property and equipment acquired through capital lease or note payable	$ 17,872	$ 6,503
Accrued purchases of property and equipment	$ 114,819	$ 115,169
Broker receivables for unsettled investment trades	$ 14,696	$ 20,534
Broker payables for unsettled investment trades	$ 19,675	$ 20,644

(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. In January 2012, the Corporation, formerly known as Catholic Healthcare West, implemented a governance restructuring and announced its name change. The governance restructuring was implemented through revisions to Catholic Healthcare West's corporate documents, including Restated Articles of Incorporation and Restated Bylaws. Dignity Health transitioned to a self-perpetuating Board of Directors structure from the prior structure where the Board of Directors was appointed by Corporate Members, which had been comprised of women religious appointed by the religious orders that sponsored the organization. There was no change to the ownership, use of the corporation's assets or federal tax identification number, nor did the governance restructuring impact the corporation's management structure or nonprofit status. Dignity Health received an IRS determination letter to maintain its 501(c)(3) tax-exempt status, retroactive to the application date in December 2011.

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

The accompanying consolidated financial statements include Dignity Health and its subordinate corporations and subsidiaries (together "Dignity Health"), as disclosed in Note 24.

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 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 24.

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 2012 consolidated financial statements to conform to the 2013 presentation. Also, the prior year statement of operations and changes in net assets have been retrospectively reclassified for discontinued operations as disclosed in Note 3.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Dignity Health considers critical accounting policies to be those that require more significant judgments and estimates in the preparation of its consolidated financial statements, including the following: recognition of net patient revenue, which includes contractual allowances and discounts; provisions for bad

debts and charity care; recorded values of investments and goodwill; losses and expenses related to the self-insured workers' compensation and professional and general liabilities; and risks and assumptions for measurement of pension and other postretirement liabilities. Management bases its estimates on historical experience and various other assumptions that it believes are reasonable under the particular facts and circumstances. Actual results could differ from those estimates.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Asset Retirement Obligations – Dignity Health recognizes the fair value of a liability for legal obligations associated with asset retirements in the period in which it is incurred, if a reasonable estimate of the fair value of the obligation can be made. Upon settlement of the obligation, any difference between the cost to settle the asset retirement obligation and the liability recorded is recognized as a gain or loss in the consolidated statements of operations and changes in net assets.

Asset Impairment – Dignity Health routinely evaluates the carrying value of its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset, or related group of assets, may not be recoverable from estimated future undiscounted cash flows generated by the underlying tangible assets. When the carrying value of an asset exceeds the estimated recoverability, an asset impairment charge is recognized. The impairment tests are based on financial projections prepared by management that incorporate anticipated results from programs and initiatives being implemented and market value assessments of the assets. If these projections are not met, or if negative trends occur that impact the future outlook, the value of the long-lived assets may be impaired, which could be material. An asset impairment charge of $8.0 million was recognized in 2013 reflecting the estimated non-recoverability of the carrying value of the assets of a facility in California and an impairment charge was recognized in discontinued operations related to Saint Mary's Regional Medical Center in 2012 as discussed in Note 3.

Dignity Health evaluates the carrying value of goodwill annually on various dates, depending on the annual impairment testing date of the reporting unit, or when an event or circumstance indicates the value of the reporting unit may have changed. If, after assessing events and circumstances, it is concluded that it is more likely than not that the asset is impaired, the fair value is determined and is compared to the carrying value. If the carrying value exceeds the fair value, an impairment charge is recognized.

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 sheet as either an asset or liability measured at its fair value. See Notes 8 and 17.

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

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

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, 2013 and 2012, have been accrued as liabilities and include an actuarial estimate for claims incurred but not reported.

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

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

Self-insurance expense decreased $28.4 million and $16.2 million in 2013 and 2012, respectively, related to revisions to prior years' actuarially estimated liabilities. The expenses and related adjustments are recorded in salaries and benefits for workers' compensation benefits and in purchased services and other for professional and general liability risks in the accompanying consolidated statements of operations and changes in net assets.

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

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

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

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

Traditional Charity Care – Charity care is free or discounted health services provided to persons who cannot afford to pay and who meet Dignity Health's criteria for financial assistance. The amount of services quantified as customary charges was $907.7 million and $883.7 million for 2013 and 2012, respectively, including such charges from discontinued operations. Dignity Health estimates the cost of charity care by calculating a ratio of cost to usual and customary charges and applying that ratio to the usual and customary uncompensated charges associated with providing care to patients that qualify for charity care. The estimated cost of charity care provided in 2013 and 2012 was $198.4 million and $188.4 million, respectively. See Note 23.

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

Contributions and Restricted Net Assets – Gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is met, temporarily restricted net assets related to capital purchases are reclassified as unrestricted and reflected as net assets released from restrictions used for the purchase of property and equipment on the statements of changes in net assets, whereas temporarily restricted net assets related to other gifts are reclassified as unrestricted and recorded as other operating revenue in unrestricted revenues and other support. Gifts received with no restrictions are recorded as contributions in unrestricted revenues and other support. Gifts of long-lived operating assets, such as property and equipment, are reported as unrestricted net assets unless otherwise specified by the donor.

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

Endowment assets include donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period. Dignity Health preserves the fair value of these gifts as of the date of donation unless otherwise stipulated by the donor. The portion 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 23.

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

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

Dignity Health's for-profit subsidiaries account for income taxes related to their operations. The for-profit subsidiaries recognize deferred tax assets and liabilities for temporary differences between the financial reporting basis and the tax basis of their assets and liabilities along with net operating loss and tax credit carryovers only 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.

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 to be Dignity Health's performance indicator. Excess of revenues over expenses includes all changes in unrestricted net assets 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 noncontrolling interest in health-related activities, 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 to nonprofit corporations that are subordinate corporations of Dignity Health but are not members of the Obligated Group. The subordinate corporations conduct charitable healthcare, educational and religious activities and support subordinate nonprofit healthcare organizations. These transfers are accounted for as direct charges to the Obligated Group members' unrestricted net assets and direct credits to the subordinate corporations' unrestricted net assets. It is anticipated that Obligated Group members will continue to make asset transfers to the subordinate corporations.

Recent Accounting Pronouncements – In December 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2011-11, *Balance Sheet (Topic 210), Disclosures about Offsetting Assets and Liabilities* ("ASU 2011-11"). The amendments in ASU 2011-11 require entities to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. The disclosure requirements of ASU 2011-11, which are to be applied retrospectively, are effective for Dignity Health as of July 1, 2013. The adoption of ASU 2011-11 is not expected to have a material impact on the consolidated financial statements of Dignity Health.

In July 2011, the FASB issued ASU No. 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities* ("ASU 2011-07") which amended Accounting Standards Codification ("ASC") No. 954, *Health Care Entities* to provide greater transparency regarding a health care entity's net patient revenue and the related allowance for doubtful accounts. ASU 2011-07 requires certain health care entities to change the presentation of the provision for bad debts associated with patient service revenue by reclassifying the provision from operating expenses to a deduction from net patient revenue and requires enhanced disclosures about net patient revenue and the policies for recognizing revenue and assessing bad debts. The provisions of ASU 2011-07, which are to be applied retrospectively, were adopted by Dignity Health beginning July 1, 2012. As such, the provision for bad debts associated with patient care has been reclassified for all periods presented in accordance with the provisions of this pronouncement. See Note 4.

Subsequent Events – Dignity Health has evaluated subsequent events occurring between the end of the most recent fiscal year and September 24, 2013, the date the financial statements were available to be issued. See Notes 10 and 16.

3. MERGERS, ACQUISITIONS AND DIVESTITURES

In August 2012, Dignity Health acquired all of the outstanding common stock of USHW Holdings Corporation (dba U.S. HealthWorks) ("USHW"), a multi-state for-profit operator of occupational health and urgent care centers, and paid $455.0 million plus certain working capital adjustments. In addition, Dignity Health has agreed to pay additional amounts based on certain future events resulting in increased revenue to USHW to the extent they occur prior to January 31, 2014, subject to the terms and conditions of the purchase agreement. The fair value of the contingent consideration recognized on the acquisition was estimated at $51.5 million. As of June 30, 2013, the estimated fair value of the contingent consideration was unchanged.

In connection with the acquisition, USHW subsidiaries became indirect subsidiaries of Dignity Health. As of June 30, 2013, these subsidiaries operated approximately 200 occupational health and urgent care centers in 19 states. All tangible and intangible assets acquired and liabilities assumed in the transaction were recorded at fair value in accordance with the acquisition method of accounting. The results of operations of USHW are included in Dignity Health's consolidated financial statements from the date of the acquisition.

The following summarizes the fair values of the assets acquired and liabilities assumed as of the acquisition date which are included in the condensed consolidated balance sheet at June 30, 2013 (in thousands):

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

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

Also in connection with the acquisition, Dignity Health reversed an existing valuation allowance against its deferred tax assets of $33.3 million as management anticipates that the tax benefits will be utilized by profitable operations from USHW. The reversal of the valuation allowance is reflected as a reduction of purchased services and other in the statements of operations and changes in net assets.

During 2013, Dignity Health entered into negotiations to sell 100% of the outstanding shares of capital stock of Saint Mary's Healthfirst, Saint Mary's Preferred Health Insurance Company, Inc., and CDS of Nevada, Inc. (the "Health Plans"), all in Reno, NV, to an unrelated party. Accordingly, the assets and liabilities of the entities with a carrying value of $39.3 million and $22.8 million, respectively, have been classified as held for sale on the accompanying balance sheet as of June 30, 2013, and the operations of the entities are reflected as discontinued in the accompanying statements of operations and changes in net assets for all periods presented. A gain is anticipated on the sale and will be recorded in discontinued operations in the statement of operations and changes in net assets at the date of the sale.

In June 2012, Dignity Health and its wholly-owned subsidiary Saint Mary's Multi-Specialty Clinic, Inc. (dba Saint Mary's Medical Group) sold substantially all of the land, buildings, equipment, inventory and certain other property of Saint Mary's Regional Medical Center, a 380-bed hospital, and the operations of Saint Mary's Medical Group, both in Reno, Nevada, to an unrelated party for $50.0 million and the assumption of certain lease obligations pursuant to an asset purchase agreement. Property value adjustments were recorded in loss from discontinued operations in the statements of operations and changes in net assets when the assets were recorded as held for sale and a loss of approximately $1.0 million was recorded upon closure of the sale. As a result of the sale, approximately $94.0 million in outstanding tax-exempt debt required remediation within 90 days of the closure of the sale. Proceeds from the sale were used to legally

defease $42.1 million of outstanding bond obligations to the first call date, satisfying the remediation requirement. The remaining bonds remain subject to their original maturity date.

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 $149.7 million and $437.6 million for 2013 and 2012, respectively.

4. NET PATIENT REVENUE AND ACCOUNTS RECEIVABLE

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

	2013	2012
Inpatient services	61%	64%
Outpatient services	39%	36%

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

	2013	2012
Government	47%	49%
Contracted	37%	39%
Self-pay and other	16%	12%
	100%	100%

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.

5. REVENUE FROM GOVERNMENT PROGRAMS

The following enhance or adjust the per case, per diem, per procedure or per visit amounts received for patient services:

Medicaid Supplemental Reimbursement Programs – Net patient revenue includes $684.5 million and $575.3 million related to supplemental Medi-Cal payments provided under the California provider fee programs in 2013 and 2012, respectively. These programs are funded by quality assurance fees paid by participating hospitals and matching federal funds. Dignity Health recorded $432.1 million and $320.7 million in such fees in purchased services and other expense in 2013 and 2012, respectively. Grant payments to the California Health Foundation and Trust ("CHFT") were recognized in connection with the California provider fee programs resulting in $22.2 million and $20.9 million recorded in purchased services and other expense in 2013 and 2012, respectively. Total net income recognized in 2013 and 2012 was $230.2 million and $233.7 million, respectively. The current California program is in effect until December 31, 2013.

In April 2013, the Centers for Medicare & Medicaid Services ("CMS") approved the Access to Care Program adopted by the City of Phoenix, Arizona. The program is a provider fee program and covers the period from October 1, 2012, through December 31, 2013. In 2013, net patient revenue includes $56.4 million and purchased services and other expense includes $27.0 million related to this program, for a net income impact of $29.4 million.

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

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

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

In 2013 and 2012, Dignity Health recorded meaningful use incentive revenue of $40.4 million and $21.7 million, respectively, related to the Medicare program and $20.0 million and $38.7 million, respectively, related to Medicaid programs. These incentives have been recognized in other operating revenue following the grant accounting model, recognizing income ratably over the applicable reporting period as management becomes reasonably assured of meeting the required criteria. Amounts recognized represent management's best estimates for payments ultimately expected to be received based on estimated discharges, charity care, and other input data. Subsequent changes to these estimates will be recognized in the period in which additional information is available.

Medicaid Disproportionate Share Payments **-** Certain hospitals qualified for and received Medi-Cal funding as disproportionate-share hospitals from the State of California in 2013 and 2012. The amounts recorded were $97.0 million and $82.0 million, respectively, and are included in net patient revenue.

Cost Reports and Other Settlements – In 2013 and 2012, net patient revenue includes $26.2 million and $53.9 million in favorable net prior years' reimbursement settlements from Medicare, Medicaid and other programs. Included in these amounts are $41.5 million and $34.1 million in recovery audit contractor take-backs, net of recoveries, for 2013 and 2012, respectively. Amounts recorded in 2012 also include $69.3 million for settlement of an appeal with CMS related to underpayments that occurred between 1998 and 2011 as a result of errors in the Medicare inpatient wage index calculation.

6. OTHER CURRENT ASSETS

Other current assets consist of the following at June 30, 2013 and 2012 (in thousands):

	2013	2012
Inventories	$ 169,282	$ 158,711
Receivables, other than patient accounts receivable	307,927	217,310
Provider fee receivables	303,090	345,018
Prepaid expenses	59,929	62,544
Deferred tax asset	16,233	-
Deposits	2,988	2,592
Other	35,137	29,457
Total other current assets	$ 894,586	$ 815,632

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, 2013 and 2012 (in thousands):

	2013	2012
Cash and cash equivalents	$ 851,237	$ 769,674
U.S. government securities	583,903	553,912
U.S. corporate bonds	883,251	758,443
U.S. equity securities	1,651,484	1,480,663
Foreign government securities	7,687	169,541
Foreign corporate bonds	34,446	39,430
Foreign equity securities	526,667	459,875
Asset-backed securities	18,700	16,656
Structured debt	149,157	187,779
Private equity investments	149,239	128,358
Multi-strategy hedge fund investments	557,381	485,498
Real estate	197,183	181,395
Other	185,675	202,462
Interest in net assets of unconsolidated foundations	238,349	222,458
Total	$ 6,034,359	$ 5,656,144
Assets limited as to use:		
Current	$ 1,049,373	$ 1,242,277
Long-term	3,906,806	3,481,003
Short-term investments	1,078,180	932,864
Total	$ 6,034,359	$ 5,656,144

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, 2013 and 2012 (in thousands):

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

	2012			
	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, 2012
Assets				
Cash and cash equivalents	$ 769,674	$ -	$ -	$ 769,674
U.S. government securities	477,067	76,845	-	553,912
U.S. corporate bonds	61,861	546,359	150,223	758,443
U.S. equity securities	1,143,398	337,265	-	1,480,663
Foreign government securities	19	169,522	-	169,541
Foreign corporate bonds	5,129	34,301	-	39,430
Foreign equity securities	459,778	97	-	459,875
Asset-backed securities	-	16,656	-	16,656
Structured debt	-	187,779	-	187,779
Private equity investments	-	-	128,358	128,358
Multi-strategy hedge fund investments	-	-	485,498	485,498
Real estate	7,637	-	173,758	181,395
Collateral held under securities lending program	-	335,968	-	335,968
Other fund investments	7,851	-	-	7,851
Total assets	$ 2,932,414	$ 1,704,792	$ 937,837	$ 5,575,043
Liabilities				
Derivative instruments	$ -	$ 228,052	$ -	$ 228,052

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 significant transfers to or from Levels 1 or 2 during the periods presented.

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

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

For investments such as private equity funds, multi-strategy hedge funds, real estate funds, and other limited partnership investments, fair value is determined using the calculated net asset value ("NAV") provided by the fund. The value of underlying investments of private equity funds is estimated based on recent filings, operating results, balance sheet stability, growth, and other business and market sector fundamentals. Real estate investments are priced using valuation techniques that include income, sales

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

The fair value of collateral held under securities lending program classified as Level 2 is determined using the calculated NAV. The collateral held under this program is placed in commingled funds whose underlying investments are valued using techniques similar to those used for the marketable securities noted above. Amounts reported do not include non-cash collateral of $23.7 million and $17.3 million as of June 30, 2013 and 2012, respectively.

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

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

The following table presents the change in the balance of financial assets and liabilities using significant unobservable inputs (Level 3) measured on a recurring basis and certain assets accounted for under the equity method in 2013 and 2012 (in thousands):

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

	2012				
	Private Equity Investments	Multi-Strategy Hedge Fund Investments	Real Estate	Debt Securities	Total
Balance at beginning of period	$ 102,944	$ 107,889	$ 155,819	$ -	$ 366,652
Total realized gains, net, included in excess of revenues over expenses	1,207	2,316	-	-	3,523
Total unrealized gains, net, included in excess of revenues over expenses	4,016	14,026	10,993	7,610	36,645
Purchases	32,606	474,808	6,946	143,280	657,640
Sales	(12,415)	(113,541)	-	(667)	(126,623)
Balance at end of period	$ 128,358	$ 485,498	$ 173,758	$ 150,223	$ 937,837

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, 2013 and 2012 (in thousands):

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

		As of June 30, 2012			
		Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Level 2					
Debt securities	(1)	$ 171,717	$ -	Daily, Quarterly	1 - 90 days
Equity securities	(2)	335,879	-	Daily, Quarterly	1 - 30 days
Collateral held under securities lending	(3)	335,968	-	Daily	10 days
Total Level 2		$ 843,564	$ -		
Level 3					
Multi-strategy hedge funds	(4)	$ 485,498	$ -	Monthly, Quarterly, Semi-Annually, Annually	5 - 370 days
Private equity	(5)	128,358	136,005	-	-
Real estate	(6)	173,758	-	Quarterly	90 days
Debt securities	(7)	150,223	16,145	Quarterly	90 days
Total Level 3		937,837	152,150		
Total Level 2 and Level 3		$ 1,781,401	$ 152,150		

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

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

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

(4) This category includes investments in hedge funds that pursue diversification of both domestic and foreign fixed income and equity securities through multiple investment strategies. The primary objective for these funds is to seek attractive long-term risk-adjusted absolute returns. Under certain circumstances, an otherwise redeemable investment or portion thereof could become restricted. Such restrictions were not applicable at June 30, 2013. The following table reflects the various redemption frequencies, notice periods, and any applicable lock-up periods or gates to redemption as of June 30, 2013:

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**				
32.8%	10.0%	Annually	45 - 90 days	-	-
	11.5%	Annually	45 - 75 days	3/31/2013 to 12/31/2014	-
	11.3%	Annually	60 - 65 days		up to 33.3% - 50.0%
5.4%	5.4%	Semi-Annually	75 - 90 days	-	-
38.7%	20.3%	Quarterly	30 - 370 days	-	-
	4.1%	Quarterly	90 days	7/1/2012 to 7/1/2013	-
	14.3%	Quarterly	45 - 90 days	-	up to 25.0% - 33.3%
23.0%	13.2%	Monthly	5 - 60 days	-	-
	4.8%	Monthly	120 days	-	-
	5.0%	Monthly	45 days	-	up to 16.7%

(5) This category includes several private equity funds that specialize in providing capital to a variety of investment groups, including but not limited to venture capital, leveraged buyout, mezzanine debt, distressed debt, and other situations. There are no provisions for redemptions during the life of these funds. Distributions from each fund will be received as the underlying investments of the funds are liquidated, estimated at June 30, 2013, to be over the next 2-12 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 statement of financial position. The estimated fair value of Dignity Health's long-term debt instruments as of June 30, 2013, is as follows (in thousands):

	Carrying Value	Fair Value
Debt issued under Master Trust Indenture:		
Fixed rate revenue bonds	$ 2,403,767	$ 2,538,257
Put bonds	195,970	203,346
Taxable bonds	595,235	539,658
Senior secured notes payable	229,426	264,457
Variable rate demand bonds	785,400	785,400
Auction rate certificates	323,400	323,400
Notes payable to banks under credit agreement	341,796	341,796
Total debt under Master Trust Indenture	4,874,994	4,996,314
Other	176,635	176,635
Total debt	$ 5,051,629	$ 5,172,949

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, 2013 and 2012 (in thousands):

	2013	2012
Land	$ 219,034	$ 220,006
Land improvements	111,035	110,274
Buildings	4,566,731	4,474,792
Equipment	3,672,015	3,394,346
Construction in progress	850,511	711,418
Total	9,419,326	8,910,836
Less: Accumulated depreciation	(4,996,493)	(4,694,266)
Property and equipment, net	$ 4,422,833	$ 4,216,570

10. OWNERSHIP INTERESTS IN HEALTH-RELATED ACTIVITIES

Dignity Health has significant ownership interests in three health-related activities, 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 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 and Carondelet Health Network (now a member of Ascension Health) entered into an affiliation agreement in June 1985 by which each affiliate made a 50% investment in Southwest Catholic Healthcare Network, dba Mercy Care Plan. Mercy Care Plan operates a health plan for Arizona's Medicaid program, Arizona Health Care Cost Containment System.

- Dignity Health 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.

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, 2013 and 2012 (in thousands):

	2013			2012		
	Scripps Health	Phoenix Children's Hospital	Mercy Care Plan	Scripps Health	Phoenix Children's Hospital	Mercy Care Plan
Total assets	$ 3,899,303	$ 1,108,949	$ 351,924	$ 3,399,377	$ 973,856	$ 387,135
Total liabilities	1,376,524	794,888	175,130	1,324,728	746,736	206,551
Total net assets	2,522,779	314,061	176,794	2,074,649	227,120	180,584
Total revenues, net	2,842,425	671,203	1,726,961	2,445,881	580,083	1,741,353
Excess of revenues over expenses	415,547	73,684	28,181	184,025	(81,770)	28,339
Investment at June 30 recorded in ownership interests in health-related activities	462,929	45,497	88,561	375,253	31,960	92,292
Income recorded in revenue from health-related activities, net	$ 87,676	$ 13,537	$ 14,254	$ 41,009	$ (16,220)	$ 14,169

Related to consolidated investments in health-related activities, Dignity Health recorded net changes in noncontrolling interests related to revenues, expenses, gains, and losses of $27.3 million and $21.1 million in purchased services and other in the consolidated statements of operations and changes in net assets for 2013 and 2012, respectively.

In July 2013, Dignity Health entered into an agreement with OptumInsight, Inc., an indirect subsidiary of UnitedHealth Group Incorporated, whereby the parties agreed to form Optum360, LLC, to own and operate certain existing revenue cycle technology, content and services businesses and to perform "end-to-end" revenue cycle management functions for Dignity Health and, it is intended, other prospective healthcare delivery system customers. OptumInsight, Inc. agreed to contribute revenue cycle-related technologies, content and service businesses to Optum360, LLC in exchange for a majority membership interest in Optum360, LLC. Dignity Health agreed to contribute certain equipment and the intellectual property related to its internal revenue cycle management functions in exchange for a noncontrolling minority interest in Optum360, LLC. Dignity Health expects to record a gain related to this asset contribution transaction.

Dignity Health concurrently entered into a Master Services Agreement ("MSA") with Optum360, LLC for a 10-year term for the purchase of revenue cycle management services from Optum360, LLC at a cost of approximately $250.0 million per year, subject to annual adjustments for inflation and achievement of certain performance levels. Dignity Health expects to achieve gains in revenue realization. The MSA is subject to significant penalties for cancellation without cause. The formation of Optum360 and the contributions described above were effective, and the term of the MSA commenced, as of September 1, 2013.

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. There was no impairment to goodwill recorded during 2013 and 2012, respectively.

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

	2013	2012
Balance at beginning of period	$ 123,013	$ 95,549
Addition from acquisitions	364,804	27,464
Acquisition accounting adjustments	(1,044)	-
Balance at end of period	$ 486,773	$ 123,013

12. INTANGIBLE ASSETS, NET

Intangible assets reported in the consolidated balance sheets include 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 which are amortized over a period of 3-15 years. Information related to intangible assets at June 30, 2013 and 2012, is as follows (in thousands):

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

	2012			
	Gross Carrying Amount	Accumulated Amortization	Net Balance at End of Period	Amortization period
Other	$ 3,497	$ (1,077)	$ 2,420	36-84 months

The aggregate amount of amortization expense related to intangible assets subject to amortization is $8.5 million and $0 million for the years ended June 30, 2013 and 2012, respectively.

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

2014	$ 12,231
2015	9,875
2016	9,875
2017	7,775
2018	4,742
Thereafter	34,899
Total	$ 79,397

13. OTHER LONG-TERM ASSETS, NET

Other long-term assets, net, consist of the following at June 30, 2013 and 2012 (in thousands):

	2013	2012
Notes receivable, primarily secured	$ 34,069	$ 35,353
Deferred financing costs, net	33,378	28,804
Deferred tax asset	40,686	-
Other	44,367	49,737
Total other long-term assets, net	$ 152,500	$ 113,894

14. OTHER ACCRUED LIABILITIES

Other accrued liabilities, net, consist of the following at June 30, 2013 and 2012 (in thousands):

	2013	2012
Accrued interest expense	$ 72,979	$ 75,610
Provider fee and CHFT grant payables	106,394	211,489
Derivative liabilities	155,304	228,052
Other	226,959	176,814
Total other accrued liabilities	$ 561,636	$ 691,965

15. RETIREMENT PROGRAMS

Dignity Health maintains defined benefit pension plans that cover most employees. Benefits are generally based on age, years of service and employee compensation. Dignity Health also offers postretirement healthcare benefits to most of its employees. For the majority of covered employees, the benefits are determined based on age, years of service and compensation up to specified amounts.

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

service ratably over the period and, therefore, the effects in the consolidated statements of operations and changes in net assets follow the same pattern.

Contributions to the defined benefit pension plans are based on actuarially determined amounts sufficient to meet the benefits to be paid to plan participants. Management believes these plans qualify under a church plan exemption, and as such are not subject to Employee Retirement Income Security Act ("ERISA") funding requirements. Dignity Health's funding policy requires that, at a minimum, contributions equal the unfunded normal cost plus amortization of any unfunded actuarial accrued liability. Contributions to these plans are anticipated at $304.3 million in 2014.

Dignity Health has amended the pension plan resulting in a lower benefit obligation as of June 30, 2013, and also lower annual expense on an ongoing basis. The most significant provisions include updating the actuarial equivalence definition and making lump sum payments available in certain circumstances where they were previously unavailable.

The accumulated benefit obligation exceeds plan assets for each of the defined benefit plans and postretirement benefit plans for the years ended June 30, 2013 and 2012. The following summarizes the benefit obligations and funded status for the defined benefit pension and postretirement benefit plans for 2013 and 2012 (in thousands):

	2013		2012	
	Pension Plans	Other Benefit Plans	Pension Plans	Other Benefit Plans
Change in benefit obligation:				
Benefit obligation at beginning of period	$ 3,723,951	$ 122,551	$ 3,034,443	$ 115,694
Service cost	224,225	6,287	198,135	6,287
Interest cost	183,816	6,412	176,514	6,412
Plan changes/amendments	(194,756)	6	2,366	-
Actuarial loss	808	12,211	415,947	-
Administrative expenses	(8,845)	-	(8,014)	-
Investment management expenses	(14,115)	-	(12,270)	-
Benefits paid	(172,095)	(7,218)	(83,170)	(5,842)
Benefit obligation at end of period	$ 3,742,989	$ 140,249	$ 3,723,951	$ 122,551
Accumulated benefit obligation	$ 3,533,520	$ 140,249	$ 3,354,957	$ 122,551
Change in plan assets:				
Fair value of plan assets at beginning of period	$ 2,440,136	$ -	$ 2,276,324	$ -
Actual return on plan assets	386,157	-	(10,887)	-
Investment management expenses	(14,115)	-	(12,270)	-
Employer contributions	325,602	7,218	278,153	5,842
Benefits paid	(172,095)	(7,218)	(83,170)	(5,842)
Administrative expenses	(8,845)	-	(8,014)	-
Fair value of plan assets at end of period, net	$ 2,956,840	$ -	$ 2,440,136	$ -
Funded status	$ (786,149)	$ (140,249)	$ (1,283,815)	$ (122,551)

The following table summarizes the amounts recognized in unrestricted net assets as of June 30, 2013 and 2012 (in thousands):

	2013		2012	
	Pension Plans	Other Benefit Plans	Pension Plans	Other Benefit Plans
Net actuarial loss	$ 1,149,410	$ 19,007	$ 1,423,761	$ 6,329
Prior service cost (credit)	(337,352)	33,212	(159,126)	39,239
Amounts in unrestricted net assets	$ 812,058	$ 52,219	$ 1,264,635	$ 45,568

The estimated net loss and prior service credit for the pension plans and postretirement plans that will be amortized from unrestricted net assets into net periodic benefit cost in 2014 are $68.4 million and $27.4 million, respectively.

Current pension and other postretirement 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, 2013 and 2012 (in thousands):

	2013		2012	
	Pension Plans	Other Benefit Plans	Pension Plans	Other Benefit Plans
Current liabilities	$ 305,660	$ 9,317	$ 306,330	$ 8,563
Long-term liabilities	480,489	130,932	977,485	113,988
Accrued benefit cost	$ 786,149	$ 140,249	$ 1,283,815	$ 122,551

The following table summarizes the weighted-average assumptions used to determine benefit obligations as of June 30, 2013 and 2012 (dollars in thousands):

	2013		2012	
	Pension Plans	Other Benefit Plans	Pension Plans	Other Benefit Plans
To determine benefit obligations:				
Discount rate	5.25%	5.00%	5.00%	5.70%
Rate of compensation increase	4.04%	4.03%	4.13%	5.25%
To determine net periodic benefit cost:				
Discount rate	5.00%	5.70%	5.90%	5.70%
Expected return on plan assets	8.00%	N/A	8.00%	N/A
Rate of compensation increase	4.13%	5.08%	5.25%	5.25%

The following table summarizes the components of net periodic cost recognized in the consolidated statements of operations and changes in net assets for 2013 and 2012 (in thousands):

	2013		2012	
	Pension Plans	Other Benefit Plans	Pension Plans	Other Benefit Plans
Service cost	$ 224,225	$ 6,287	$ 198,135	$ 6,287
Interest cost	183,816	6,412	176,514	6,412
Expected return on plan assets	(204,256)	-	(188,823)	-
Net prior service cost (credit) amortization	(16,530)	6,033	(16,736)	6,033
Net loss (gain) amortization	93,258	(467)	47,688	127
Net periodic benefit cost	$ 280,513	$ 18,265	$ 216,778	$ 18,859
Net periodic benefit cost, continuing operations	$ 279,938	$ 18,192	$ 207,328	$ 18,192

The following represents the fair value of plan assets, net, measured on a recurring basis as of June 30, 2013 and 2012 (in thousands). See Note 8 for the definition of Levels 1, 2 and 3 in the fair value hierarchy.

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

	2012			
	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, 2012
Assets				
Cash and cash equivalents	$ 203,162	$ -	$ -	$ 203,162
U.S. government securities	60,435	3,862	-	64,297
U.S. corporate bonds	-	136,949	47,605	184,554
U.S. equity securities	772,707	251,842	-	1,024,549
Foreign government securities	-	47,520	-	47,520
Foreign corporate bonds	-	5,248	-	5,248
Foreign equity securities	404,351	98	-	404,449
Asset-backed securities	-	1,942	-	1,942
Structured debt	-	13,322	-	13,322
Private equity investments	-	-	124,015	124,015
Multi-strategy hedge fund investments	-	-	309,961	309,961
Real estate	6,307	-	47,068	53,375
Collateral held under securities lending program	-	161,442	-	161,442
Other, including due from brokers for unsettled investment trades and prepaid fund subscriptions	-	12,279	-	12,279
Total assets	$ 1,446,962	$ 634,504	$ 528,649	$ 2,610,115
Liabilities				
Payable under securities lending program	$ -	$ 161,442	$ -	$ 161,442
Other, including due to brokers for unsettled investment trades	-	8,537	-	8,537
Total liabilities	$ -	$ 169,979	$ -	$ 169,979
Fair value of plan assets, net	$ 1,446,962	$ 464,525	$ 528,649	$ 2,440,136

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 2013 and 2012 (in thousands):

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

	2012				
	Private Equity Investments	Multi-Strategy Hedge Fund Investments	Real Estate	Debt Securities	Total
Balance at beginning of period	$ 96,321	$ 84,782	$101,539	$ 112,000	$ 394,642
Total realized gains, net	349	1,565	29,947	-	31,861
Total unrealized gains, net	9,818	9,432	(22,108)	2,679	(179)
Purchases, issuances, sales and settlements					
Purchases	28,703	300,778	-	45,315	374,796
Sales	(11,176)	(86,596)	(62,310)	(389)	(160,471)
Transfers out of level 3	-	-	-	(112,000)	(112,000)
Balance at end of period	$ 124,015	$ 309,961	$ 47,068	$ 47,605	$ 528,649

The following table summarizes the weighted-average asset allocations by asset category for the pension plans for 2013 and 2012:

	Plan Assets at June 30	
	2013	**2012**
Cash and cash equivalents	7%	8%
U.S. government securities	5%	3%
U.S. corporate bonds	9%	7%
U.S. equity securities	43%	42%
Foreign government securities	0%	2%
Foreign equity securities	17%	17%
Structured debt	0%	1%
Private equity investments	5%	5%
Multi-strategy hedge fund investments	12%	13%
Real estate	2%	2%
Total	100%	100%

The asset allocation policy for the pension plans for 2013 and 2012 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, 30% (including U.S. equity securities); international equity, 27% (including foreign equity securities); private equity, 10% (which may include private equity investments and/or structured debt); hedge funds, 11% (which may include hedge fund investments, asset-backed securities and/or structured debt); and real estate, 2%.

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

Dignity Health's pension plan portfolio return assumption of 8.0% for 2013 and 2012 was based on the long-term weighted average return of comparative market indices for the asset classes represented in the portfolio and discounted for pension plan expenses, and expectations about future returns.

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

	Pension Benefits	Other Benefits
2014	$ 137,120	$ 9,317
2015	146,816	10,258
2016	162,365	11,476
2017	183,314	12,372
2018	200,824	12,873
2018 - 2022	1,340,350	72,385
Total	$ 2,170,789	$ 128,681

Dignity Health maintains defined contribution retirement plans for most employees. Employer contributions to those plans of $49.5 million and $45.1 million for 2013 and 2012, respectively, are primarily based on a percentage of a participant's contribution. Total retirement and postretirement expenses under all plans, including the defined contribution plans, was $359.6 million and $281.2 million for 2013 and 2012, 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, 2013 and 2012 (in thousands):

	2013	2012
Under Master Trust Indenture:		
Fixed rate debt:		
Fixed rate revenue bonds payable in installments through 2042; interest at 3.0% to 6.25%	$ 2,403,767	$ 2,526,364
Put bonds payable in installments through 2039 with a 2015 mandatory purchase date; interest at 5.0%	195,970	196,738
Taxable bonds payable in equal installments in 2023 and 2043; interest at 3.13% to 4.5%	595,235	-
Senior secured notes payable in 2015 and 2018; interest at 6.09% and 6.5%, respectively	229,426	374,309
Total fixed rate debt	3,424,398	3,097,411
Variable rate debt:		
Variable rate demand bonds payable in installments through 2047; interest set at prevailing market rates (0.05% to 0.10% at June 30, 2013)	785,400	789,500
Auction rate certificates payable in installments through 2042; interest set at prevailing market rates (0.2% to 0.8% at June 30, 2013)	323,400	323,900
Notes payable to banks under credit agreement payable in 2019; interest set at prevailing market rates (1.3% at June 30, 2013)	341,796	164,034
Total variable rate debt	1,450,596	1,277,434
Total debt under Master Trust Indenture	4,874,994	4,374,845
Other		
Various notes payable and other debt payable in installments through 2042; interest ranging up to 8.3%	105,873	74,386
Capitalized lease obligations	70,762	72,883
Total debt	5,051,629	4,522,114
Less current portion of long-term debt	(129,112)	(295,920)
Less demand bonds subject to short-term liquidity arrangements, excluding current maturities	(782,800)	(785,400)
Total long-term debt	$ 4,139,717	$ 3,440,794

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
2014	$ 126,512	$ 2,600	$ 129,112
2015	362,774	6,400	369,174
2016	121,206	7,000	128,206
2017	103,386	7,600	110,986
2018	272,286	8,300	280,586
Thereafter	3,280,065	753,500	4,033,565
Total	$ 4,266,229	$ 785,400	$ 5,051,629

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, 2013.

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

Put Bonds - Dignity Health issued bonds under multimodal interest rate documents, initially issued at a fixed rate for 5 and 10-year periods, with bond maturities that extend to 2039. The bonds are not subject to optional redemption during the fixed rate period but are subject to a mandatory purchase on the put redemption date of July 2014 in the amount of $195.0 million. Prior to the put redemption date, Dignity Health will appoint a remarketing agent to convert the bonds to another fixed rate put period or to a short-term interest rate mode, or Dignity Health will repay the par amount of the mandatory purchase.

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

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 $785.4 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.

In October 2012, the letters of credit issued by two banks to support VRDBs were replaced with new letters of credit from four banks in amounts to support VRDBs of $57.0 million, $195.6 million, $140.4 million and $90.0 million. The substitute letters of credit mature in October 2015. This did not change the terms, provisions or classification of the VRDBs subject to short-term liquidity arrangements.

The bank letter of credit supporting $61.4 million of VRDBs was renewed in July 2013 and is set to expire in July 2016. Dignity Health also has bank letters of credit supporting $91.0 million and $150.0 million of VRDBs that are set to expire in June 2014 and November 2016, respectively. In the event that the remarketing agent is unable to remarket the VRDBs, the bond trustee will make a draw on the bank letters of credit and the tendered VRDBs will become bank bonds.

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

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

Auction Rate Certificates – Dignity Health has $240.0 million of auction rate certificates ("ARCs") that are remarketed weekly and $83.4 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 2013, Dignity Health maintained a $480.0 million syndicated line of credit facility for working capital, letters of credit, capital expenditures and other general corporate purposes. In July 2013, the facility was renegotiated at an increased amount of $680.0 million. During 2013 and 2012, the maximum amount outstanding under the syndicated credit facility was $474.0 million and $459.9 million, respectively. There were no letters of credit issued under this facility as of June 30, 2013 and 2012.

Dignity Health also maintained a $20.0 million single-bank line of credit facility for standby letters of credit which was renegotiated and increased to $35.0 million in July 2013. Letters of credit issued under this facility were $18.8 million and $17.0 million as of June 30, 2013 and 2012, respectively, but no amounts have been drawn.

Both credit facilities were scheduled to expire in August 2013, but the expiration date was extended to July 2018 during renegotiations noted above.

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

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

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

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

In March 2013, USHW entered into two lines of credit aggregating to $50.0 million with a bank primarily to finance acquisitions and other corporate purposes. Both credit facilities mature in February 2016. At June

30, 2013, $25.0 million drawn on one line of credit was outstanding. The outstanding draws are included above in various notes payable and other debt payable.

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

2012 Financing Activity – In July 2011, Dignity Health issued $106.5 million of tax-exempt fixed rate bonds with a premium of $8.5 million to repay $115.0 million of previously outstanding bonds. Dignity Health also repaid $30.5 million of outstanding bonds and the $45.9 million put bond with a draw on its syndicated line of credit.

In November 2011, Dignity Health issued $478.3 million of tax-exempt fixed rate bonds to refund $249.3 million of previously outstanding bonds and accrued interest and $40.9 million of draws on the syndicated line of credit, and to provide funds for capital projects. The bonds were sold at a net premium, bear interest at 3.0% to 5.25%, and mature in installments through March 2041. The proceeds used to refund previously outstanding bonds were placed in an irrevocable trust and the bonds were legally defeased.

In November 2011, Dignity Health issued $150.0 million of variable rate demand bonds supported by new letters of credit from a single bank, which expire in November 2016. The bond proceeds will be used for capital projects.

In June 2012, Dignity Health issued $215.0 million of tax-exempt fixed rate bonds which were delivered in connection with a tax-exempt private placement negotiated in November 2011 with a forward delivery date of June 2012. The bonds were used to refund $210.5 million of put bonds and accrued interest due in July 2012. The bonds were sold at par, bear interest at 6.125% to 6.250%, are callable at par after one year, and mature in installments through March 2029. The proceeds used to refund previously outstanding bonds were placed in an irrevocable trust and the bonds were legally defeased.

17. DERIVATIVE INSTRUMENTS

Dignity Health's derivative instruments include16 floating-to-fixed interest rate swaps as of June 30, 2013 and 2012, respectively. Dignity Health uses floating-to-fixed interest rate swaps to manage interest rate risk associated with outstanding variable rate debt. Under these swaps, Dignity Health receives a percentage of LIBOR ranging from 57.00% to 58.96% plus a spread ranging from 0.13% to 0.32% and pays a fixed rate. Dignity Health's derivative instruments also include four fixed-to-floating risk participation agreements as of June 30, 2013. Dignity Health uses fixed-to-floating risk participation agreements to reduce interest expense associated with fixed rate debt. Under these risk participation agreements, Dignity Health receives a fixed rate and pays a variable rate percentage of SIFMA plus a spread.

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

In August 2011, Dignity Health novated swaps with a notional amount of $343.1 million to a new counterparty. One of the swaps with a notional amount of $80.0 million had been insured by Assured Guaranty (formerly FSA); the insurance was removed at the request of Dignity Health and the counterparty upon the novation. Swaps with a notional amount of $263.1 million were uninsured and the counterparty's right to terminate the swaps at each five-year anniversary was removed. The novated swaps retain certain early termination triggers caused by event of default or termination as described below.

The following table shows the outstanding notional amount of derivative instruments measured at fair value, net of credit value adjustments, as reported in other accrued liabilities in the consolidated balance sheet as of June 30, 2013 and 2012 (in thousands):

	Maturity Date of Derivatives	Interest Rate	Notional Amount Outstanding	Fair Value
			June 30, 2013	
Derivatives not designated as hedges				
Interest rate swaps	2026 - 2042	3.2% - 3.4%	$ 940,600	$ (155,304)
Risk participation agreements	2017, with extension options	SIFMA plus spread	$ 215,000	$ -
			June 30, 2012	
Derivatives not designated as hedges				
Interest rate swaps	2026 - 2042	3.2% - 3.4%	$ 940,600	$ (228,052)
Risk participation agreements	2017, with extension options	SIFMA plus spread	$ 215,000	$ -

Changes in fair value of derivative instruments have been recorded for 2013 and 2012 as follows (in thousands):

	2013	2012
Loss reclassified from unrestricted net assets into interest expense, net, related to derivatives in cash flow hedging relationships:		
Interest rate swaps - amortization	$ (2,683)	$ (2,683)
Gain (loss) recognized in interest expense, net:		
Changes in fair value of non-hedged derivatives - interest rate swaps	72,748	(117,358)
Amortization of amounts in unrestricted net assets - interest rate swaps	(2,683)	(2,683)
Total	$ 70,065	$ (120,041)

Of the amounts classified in unrestricted net assets as of June 30, 2013, Dignity Health anticipates reclassifying approximately $2.7 million of additional non-cash losses from unrestricted net assets into interest expense, net, in the next twelve months. Amounts in unrestricted net assets will be amortized into earnings as the interest payments being economically hedged are made.

Of the $940.6 million notional amount of interest rate swaps held by Dignity Health at June 30, 2013 and 2012, $160.0 million are insured and have a negative fair value of $31.9 million and $47.2 million at June 30, 2013 and 2012, 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 has $780.6 million of interest rate swaps that are not insured as of June 30, 2013 and 2012. While Dignity Health has the right to terminate the swaps prior to maturity for any reason, counterparties have various rights to terminate, including swaps in the outstanding notional amount of $100.0 million at each five-year anniversary date commencing in March 2018 and swaps in the notional amount of $209.8 million at each two-year anniversary commencing in May 2015. Swaps in the notional amount of $60.0 million and swaps in the notional amount of $67.7 million have mandatory puts in March 2021 and March 2023, respectively. The termination value would be the fair market value or the replacement cost of the swaps, depending on the circumstances. These interest rate swaps have a negative fair value of $70.2 million and $104.4 million at June 30, 2013 and 2012, respectively. The remaining uninsured swaps in the notional amount of $343.1 million have a negative fair value of $53.2 million and $76.5 million as of June 30, 2013 and 2012, respectively. The fair value of the risk participation agreements is deemed immaterial as of June 30, 2013 and 2012.

All of the uninsured swaps and risk participation agreements have certain early termination triggers caused by an event of default or a termination event. The events of default include failure to make payments when due, failure to give notice of a termination event, failure to comply with or perform obligations under the agreements, bankruptcy or insolvency, and defaults under other agreements (cross-default provision). The termination events include credit ratings dropping below Baa1/BBB+ (Moody's/Standard & Poor's) by either party on a notional amount of $529.8 million of swaps and below Baa2/BBB on a notional amount of $410.8 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):

	2013	2012
Interest and fees on debt and swap cash settlements	$ 214,020	$ 204,027
Market adjustment on swaps and amortization of amounts in unrestricted net assets	(70,065)	120,041
Total interest expense	143,955	324,068
Capitalized interest expense	(23,099)	(30,158)
Interest expense, net	$ 120,856	$ 293,910

19. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Restricted net assets as of June 30, 2013 and 2012, consist of donor-restricted contributions and grants, which are to be used as follows (in thousands):

	2013	2012
Equipment and expansion	$ 75,747	$ 128,613
Research and education	50,835	47,408
Charity and other	152,125	132,424
Total temporarily restricted net assets	$ 278,707	$ 308,445
Permanently restricted net assets	105,085	104,873
Total restricted net assets	$ 383,792	$ 413,318

The composition of endowment net assets by type of fund as of June 30, 2013 and 2012, is as follows (in thousands):

	June 30, 2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment net assets	$ -	$ 29,882	$ 105,237	$ 135,119
Board-designated endowment net assets	17,744	-	-	17,744
Total endowment net assets	$ 17,744	$ 29,882	$ 105,237	$ 152,863

	June 30, 2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment net assets	$ -	$ 26,021	$ 104,873	$ 130,894
Board-designated endowment net assets	15,698	-	-	15,698
Total endowment net assets	$ 15,698	$ 26,021	$ 104,873	$ 146,592

Changes in endowment net assets during 2013 and 2012 are as follows (in thousands):

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

	June 30, 2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of period	$ 17,856	$ 22,235	$ 107,947	$ 148,038
Investment returns	203	1,549	54	1,806
Unrealized gains	(613)	(2,104)	(15)	(2,732)
Contributions	-	4,975	131	5,106
Change in interest in unconsolidated foundations	-	54	52	106
Appropriation of endowment assets for expenditure	(58)	(918)	-	(976)
Transfers to remove or add to board-designated endowment funds	(1,656)	(248)	(165)	(2,069)
Other	(34)	478	(3,131)	(2,687)
Endowment net assets, end of period	$ 15,698	$ 26,021	$ 104,873	$ 146,592

Included in donor-restricted assets limited as to use are unconditional promises to give which are recorded using discount rates ranging from 3.0 % to 6.0% and are due as follows as of June 30, 2013 and 2012 (in thousands):

	2013	2012
Less than one year	$ 8,597	$ 6,848
One to five years	11,070	12,845
More than five years	82	403
Less: allowance for uncollectible contributions receivable	(1,458)	(1,395)
Total contributions receivable, net	$ 18,291	$ 18,701

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):

	2013	2012
Interest and dividend income	$ 111,033	$ 115,028
Net realized gains on sales of securities	232,834	226,005
Net unrealized gains (losses) on securities	211,007	(239,132)
Other, net of capitalized investment income	(26,904)	(28,689)
Investment income, net	$ 527,970	$ 73,212

21. SPECIAL CHARGES AND OTHER COSTS

Special charges and other costs consist of the following for the year ended June 30, 2013 and 2012 (in thousands):

	2013	2012
Estimated impairment on carrying value of long-lived assets	$ 8,000	$ -
Software development costs abandoned	-	22,019
Acquisition related costs	4,664	-
Restructuring costs for patient financial services	-	6,343
Restructuring costs for name and governance changes	2,137	7,511
Total special charges and other costs	$ 14,801	$ 35,873

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

Abandoned software development costs relate to the write-off of certain costs in connection with a change in strategic direction and vendor for clinical systems.

Restructuring costs for patient financial services consisting of severance and lease termination costs were recorded in connection with the announcement that Dignity Health would consolidate four of its patient financial service centers into a single service center.

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

22. COMMITMENTS, CONTINGENT LIABILITIES, GUARANTEES AND OTHER

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

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

Department of Justice and OIG Investigations – Dignity Health and/or its facilities periodically receive notices from governmental agencies, such as the Department of Justice or the Office of Inspector General ("OIG"), requesting information regarding billing, payment, or other reimbursement matters, or initiating investigations, or indicating the existence of whistleblower litigation. The healthcare industry in general is experiencing an increase in these activities, as the federal government increases enforcement activities and institutes new programs designed to identify potential irregularities in reimbursement or quality of patient care. Based on the information received to date from the government, Dignity Health does not presently have information indicating that any of these current matters or their resolution will have a material effect on Dignity Health's financial statements, taken as a whole. Nevertheless, investigations of this type and scope could lead to civil and/or criminal charges and material penalties or settlements. Consequently, there can be no assurance that the resolution of these matters will not affect the financial condition or operations of Dignity Health, taken as a whole.

Medicare Certification – From time to time, Dignity Health and/or its facilities receive notices from CMS that steps to terminate provider agreements will be taken unless certain corrective actions related to qualification for Medicare participation are undertaken. The process of responding to these notices involves plan(s) of correction by the facility and resurvey by CMS or its designee. Although termination is rare, there is no guarantee that CMS or its designee will be satisfied with a facility's corrective action. Currently, Community Hospital of San Bernardino and Bakersfield Memorial Hospital are in the process of addressing such notices.

Retirement Plan Litigation – In April 2013, Dignity Health was served with a class action lawsuit filed by a former employee alleging breaches of fiduciary duty under ERISA in connection with the Dignity Health Retirement Plan ("DHRP"). The complaint alleges that the DHRP fails to meet ERISA's minimum funding requirements, because it has unfunded liabilities of $1.2 billion. It also challenges the constitutionality of ERISA's church plan exemption. Dignity Health established the DHRP as a "church plan," which is exempt from ERISA including ERISA's funding requirements. The plaintiff seeks to represent a class comprised of all current DHRP participants and beneficiaries. The suit seeks both declaratory and economic relief to bring the DHRP into ERISA compliance. Dignity Health management understands that similar lawsuits have been filed against a number of Catholic health systems challenging the church plan status of their pension plans as well. Dignity Health plans to vigorously defend this matter. While it is too early to assess specific liability exposure, there can be no assurance that resolution of this matter will not adversely affect the financial condition or operations of Dignity Health, taken as a whole.

Employment Law Litigation – In February 2012, a jury in federal court awarded damages and lost wages to a former employee of Mercy General Hospital (Sacramento) in response to various employment law claims. The aggregate jury award of approximately $168.0 million appeared to include duplication of award amounts and was subject to elimination of duplication, as well as certain statutory limits on damages. In April 2012, the trial judge entered judgment in the case, reducing the jury verdict to approximately $82.3 million. Management believed the facts did not support the verdict or the damages. The parties engaged in post-trial motions and the court held a hearing on these motions in October 2012. In November 2012, the parties entered into a confidential settlement agreement for amounts significantly lower than the reduced verdict. The settlement did not result in a material change to estimates previously recorded. Dignity Health's insurers dispute liability for a portion of the settlement, and declaratory relief actions remain pending. Dignity Health maintains that the settlement should be covered in full.

Property Tax Assessments – In 2012, Dignity Health received written notification from two county property tax assessors with respect to three of its hospitals asserting that the hospitals failed to satisfy a technical legal requirement to qualify for California property tax exemption. The possible liability exposure with respect to these hospitals could have been as high as approximately $16.8 million. Dignity Health disagreed with the assessors' assertions, made appropriate administrative filings and submitted a written argument in favor of the hospitals' property tax exemption. The tax assessors subsequently agreed with Dignity Health's position on the condition that the title records be corrected. Such corrections occurred; nevertheless, claims of this nature have the potential for a material effect on the financial condition or results of operations of Dignity Health.

Operating Leases – Dignity Health leases various equipment and facilities under operating leases. Gross rental expense for 2013 and 2012 was $136.7 million and $108.3 million, respectively, which is offset by sublease income of $1.5 million and $1.4 million for 2013 and 2012, 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, 2013, are as follows (in thousands):

	Lease Payments	Sublease Income	Net Future Minimum Lease Payments
2014	$ 83,993	$ (2,439)	$ 81,554
2015	68,492	(1,912)	66,580
2016	56,697	(1,207)	55,490
2017	45,590	(1,005)	44,585
2018	37,073	(980)	36,093
Thereafter	121,828	(16,780)	105,048
Total	$ 413,673	$ (24,323)	$ 389,350

Long-term Contracts and Agreements – Dignity Health has a contract for information technology management services which specifies the types and levels of services, which can be modified by mutual agreement, and provides for monthly usage-based adjustments to fees. The agreement contains a mechanism for price adjustments should there be new affiliations or disaffiliations. Based on modifications to this agreement, the base fee under the contract was $35.6 million in 2013 and will be $21.9 million per year thereafter, increasing annually by inflation through October 2015, the term of the agreement. Dignity Health may cancel the agreement without cause subject to significant penalties through October 2013, and without penalty during the remaining two years of the contract. Under the terms of this agreement, Dignity Health expensed $35.6 million and $55.2 million in 2013 and 2012, respectively, in purchased services and other on the accompanying statements of operations and changes in net assets.

Dignity Health has an agreement for the development, implementation and management of certain clinical technology management programs for all Dignity Health hospitals. The agreement is in effect for five years upon each hospital's implementation. Dignity Health may cancel the agreement without cause subject to penalties during the first four years of the contract, based upon the implementation date at the respective hospital, and without penalty during the final year of the contract. As of June 30, 2013, approximately $148.0 million in commitments remained under this contract through August 2016.

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

Capital and Purchase Commitments – Dignity Health has undertaken various construction and expansion projects that may include certain capital commitment requirements. At June 30, 2013, remaining capital commitments related to these projects were approximately $356.4 million. Dignity Health also enters into various agreements that require certain minimum purchases of goods and services. These commitments are at levels consistent with normal business requirements. Excluding the capital and long-term contract commitments discussed above, outstanding purchase commitments were approximately $167.0 million at June 30, 2013.

Guarantees – Dignity Health has guaranteed the indebtedness of other organizations, which indebtedness was outstanding in the amount of $14.0 million and $12.7 million as of June 30, 2013 and 2012, respectively.

Dignity Health enters into physician recruitment agreements with certain physicians who agree to relocate to its communities to fill a need in the hospitals' service areas and commit to remain in practice there. Under these agreements, Dignity Health makes loans available to the physicians that are earned over the period the physicians fulfill their commitment to the community, which is typically three years, or are repayable by the physicians. The maximum potential amount of future undiscounted payments Dignity Health could be required to make under these guarantees is $15.6 million and $18.3 million as of June 30, 2013 and 2012, respectively. Dignity Health recorded $10.1 million and $12.1 million in other current liabilities as of June 30, 2013 and 2012, respectively, and $5.5 million and $6.2 million in other long-term liabilities as of June 30, 2013 and 2012, respectively, related to these guarantees.

Seismic Standards – The State of California issued seismic safety standards in 1994 which have been amended on several occasions since then. The regulations call for more stringent structural building standards to be in place by January 2013 for buildings remaining in acute care service beyond that date, with a two-year extension in most circumstances by 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) 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 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 $335.0 million. Management has initiated planning and design efforts at all facilities to meet the deadlines. Dignity Health has received extensions which allow for the deferral of approximately $200.0 million of capital expenditures from 2013 through 2015 to 2016 through 2019. Dignity Health may choose to withdraw selected buildings from acute care service rather than satisfy the standards.

23. 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 that Dignity Health makes to nonprofit community-based organizations that promote the total health of their 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, 2013 and 2012, Dignity Health's community investment loan portfolio totaled $33.6 million and $39.6 million, respectively, which is included in other assets limited as to use.

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

Net Community Benefit, excluding the unpaid cost of Medicare, is the total cost incurred after deducting direct offsetting revenue from government programs, patients, and other sources of payment or reimbursement for services provided to program patients. Including discontinued operations, the comparable amount of net community benefit was $1.1 billion for 2012, and Net Community Benefit including the unpaid cost of Medicare was $1.6 billion for 2012.

The following is a summary of Dignity Health's community benefits for 2013, in terms of services to the poor and benefits for the broader community, which has been prepared in accordance with Internal Revenue Service Form 990, Schedule H and the CHA publication, *A Guide for Planning and Reporting Community Benefit* (dollars in thousands):

	Unaudited				
	Persons Served	**Total Benefit Expense**	**Direct Offsetting Revenue**	**Net Community Benefit**	**% of Total Expenses**
Benefits for the poor:					
Traditional charity care	120,470	198,825	(430)	198,395	2.0%
Unpaid costs of Medicaid / Medi-Cal	1,136,319	2,404,674	(1,866,645)	538,029	5.3%
Other means-tested programs	300,240	118,967	(43,209)	75,758	0.7%
Community services:					
Community health services	449,578	54,968	(1,035)	53,933	0.5%
Health professions education	69	30	-	30	0.0%
Subsidized health services	193,609	41,244	(2,812)	38,432	0.4%
Donations	144,076	29,832	(270)	29,562	0.3%
Community building activities	9,025	2,890	(1,028)	1,862	0.0%
Community benefit operations	2,445	8,192	(68)	8,124	0.1%
Total community services for the poor	798,802	137,156	(5,213)	131,943	1.3%
Total benefits for the poor	2,355,831	2,859,622	(1,915,497)	944,125	9.3%
Benefits for the broader community:					
Community services:					
Community health services	560,690	17,034	(1,301)	15,733	0.2%
Health professions education	40,924	65,804	(9,906)	55,898	0.6%
Subsidized health services	4,517	2,077	(839)	1,238	0.0%
Research	7,207	28,631	-	28,631	0.3%
Donations	82,520	9,422	(37)	9,385	0.1%
Community building activities	13,019	2,732	(9)	2,723	0.0%
Community benefit operations	66	1,240	(7)	1,233	0.0%
Total benefits for the broader community	708,943	126,940	(12,099)	114,841	1.1%
Total Community Benefits	3,064,774	$ 2,986,562	$ (1,927,596)	$ 1,058,966	10.5%
Unpaid costs of Medicare	1,269,112	2,668,396	(2,064,441)	603,955	6.0%
Total Community Benefits including unpaid costs of Medicare	4,333,886	$ 5,654,958	$ (3,992,037)	$ 1,662,921	16.4%

24. DIGNITY HEALTH, SUBORDINATE CORPORATIONS AND SUBSIDIARIES

Following is a list of corporations and subsidiaries that are included in the accompanying consolidated financial statements for 2013. Unless otherwise indicated, such entities are nonprofit corporations. The Obligated Group Members are denoted by an asterisk (*). Unless otherwise indicated, subsidiaries are not Obligated Group Members.

Dignity Health*
- Operating dba's of Dignity Health
  - Arroyo Grande Community Hospital
  - California Hospital Medical Center – Los Angeles
  - Chandler Regional Medical Center
  - Dominican Hospital
  - French Hospital Medical Center
  - Glendale Memorial Hospital and Health Center
  - Marian Medical Center West
  - Marian Regional Medical Center
  - Mercy General Hospital
  - Mercy Gilbert Medical Center
  - Mercy Hospital (Bakersfield)
  - Mercy Hospital of Folsom
  - Mercy Medical Center (Merced)
  - Mercy Medical Center Mt. Shasta
  - Mercy Medical Center Redding
  - Mercy San Juan Medical Center
  - Mercy Southwest Hospital
  - Methodist Hospital of Sacramento
  - Northridge Hospital Medical Center
  - Sequoia Hospital
  - St. Bernardine Medical Center
  - St. Elizabeth Community Hospital
  - St. John's Pleasant Valley Hospital
  - St. John's Regional Medical Center
  - St. Joseph's Behavioral Health Center
  - St. Joseph's Hospital and Medical Center
  - St. Joseph's Medical Center of Stockton
  - St. Mary Medical Center
  - St. Mary's Medical Center
  - St. Rose Dominican Hospital Rose de Lima Campus
  - St. Rose Dominican Hospital Siena Campus
  - St. Rose Dominican Hospital San Martin 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 Senior Housing, Inc.*
- 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 Medical Center Foundation
- Mercy Foundation, Bakersfield
- Mercy Medical Center Merced Foundation
- Northridge Hospital Foundation
- San Gabriel Valley Medical Center Foundation
- St. Bernardine Medical Center Foundation
- St. Francis Foundation of Santa Barbara
- St. John's Healthcare Foundation (Oxnard and Pleasant Valley)
- St. Joseph's Foundation (Phoenix)
- St. Joseph's Foundation of San Joaquin
- St. Mary Medical Center Foundation
- St. Mary's Medical Center Foundation
- St. Rose Dominican Health Foundation
- The Congenital Heart Foundation
- Arizona Care Network, LLC
- CDS of Nevada, Inc. (for-profit)(Note 3)
- CHMC Hope Street Family Center Property Management, LLC
- Dignity Health Holding Corporation (for-profit)
- Dignity Health Medical Group Nevada, LLC
- Dignity Health Nevada Imaging Company LLC
- Dignity Health Purchasing Network, LLC
- Dominican Health Services
- Dominican Oaks Corporation
- Glendale Memorial Services Corporation (for-profit)
- Golden Umbrella
- Inland Health Organization of Southern California (for-profit)
- Management Services Organization of Santa Maria, Inc. (for-profit)
- Marian Health Services, Inc. (for-profit)
- Mark Twain Medical Center
- Pacific Central Coast Health Centers
- Saint Mary's Healthfirst (for-profit)(Note3)
- Saint Mary's Preferred Health Insurance Company, Inc. (for-profit)(Note 3)
- Sequoia Quality Care Network, LLC
- Shasta Senior Nutrition Program
- Southern California Integrated Care Network, LLC
- St. Francis Foundation, LLC
- St. John's Regional Imaging Center, LLC
- St. Mary Catholic Housing Corporation
- St. Mary Health Ventures, Inc. (for-profit)
- St. Mary Professional Building, Inc.
- St. Rose Quality Care Network, LLC
- TrinityCare, LLC
- TrinityCare Infusion Services (for-profit)
- U.S. HealthWorks, Inc. (for-profit)
- U.S. HealthWorks Holding Company, Inc. (for-profit)
- USHW Holdings Corporation (for-profit)
- USHW state subsidiaries (for-profit)

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