

CONSOLIDATED FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

St. Joseph Health System and Affiliates
A St. Joseph Health Ministry Corporation
Fiscal Years Ended June 30, 2016 and 2015
With Report of Independent Auditors

Ernst & Young LLP



Building a better
working world

St. Joseph Health System and Affiliates
A St. Joseph Health Ministry Corporation

Consolidated Financial Statements
and Supplementary Information

Fiscal Years Ended June 30, 2016 and 2015

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Report of Independent Auditors

The Board of Trustees
St. Joseph Health System and Affiliates

We have audited the accompanying consolidated financial statements of St. Joseph Health System and Affiliates, which comprise the consolidated balance sheets as of June 30, 2016 and 2015, and the related consolidated statements of operations and changes in net assets, and cash flows for the fiscal years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of St. Joseph Health System and Affiliates at June 30, 2016 and 2015, and the consolidated results of their operations and their cash flows for the fiscal years then ended, in conformity with U.S. generally accepted accounting principles.

Supplementary Information

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

Ernst + Young LLP

September 29, 2016

St. Joseph Health System and Affiliates
A St. Joseph Health Ministry Corporation

Consolidated Balance Sheets
(In Thousands)

	June 30	
	2016	2015
Assets		
Current assets:		
Cash and equivalents	\$ 416,362	\$ 443,611
Short-term marketable securities	623,136	654,022
Patient accounts receivable, less allowance for doubtful accounts (\$254,176 and \$224,090 as of June 30, 2016 and 2015, respectively)	650,391	641,115
Other assets	267,985	310,458
Current assets of discontinued subsidiary	–	1,171
Total current assets	1,957,874	2,050,377
Long-term marketable securities	1,073,594	1,154,106
Assets limited as to use:		
Board designated	1,513,703	1,493,406
Held in trust	116,512	115,467
Total assets limited as to use	1,630,215	1,608,873
Property and equipment, net	3,998,655	4,019,996
Investments and other	205,449	151,236
Collateral held for swap counterparty	56,336	1,477
Notes receivable	148,809	20,420
Deferred financing costs, net	18,688	20,576
Goodwill and other intangibles, net	265,640	239,353
Long-term assets of discontinued subsidiary	–	22,870
	694,922	455,932
Total assets	\$ 9,355,260	\$ 9,289,284
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 146,596	\$ 152,596
Accrued compensation and related liabilities	339,448	293,601
Accrued liabilities	503,224	512,061
Payable to third-party payors, net	57,746	63,683
Current maturities of long-term debt	52,876	48,201
Current liabilities of discontinued subsidiary	2,004	6,579
Total current liabilities	1,101,894	1,076,721
Interest rate swaps	156,160	101,064
Other liabilities	258,515	233,849
Long-term debt, less current maturities	2,452,638	2,391,905
Long-term liabilities of discontinued subsidiary	1,156	760
Total liabilities	3,970,363	3,804,299
Net assets:		
Unrestricted:		
Controlling interest	4,844,780	4,987,486
Noncontrolling interests in subsidiaries	148,726	146,020
Temporarily restricted	307,097	270,330
Permanently restricted	84,294	81,149
	5,384,897	5,484,985
Total liabilities and net assets	\$ 9,355,260	\$ 9,289,284

See accompanying notes.

St. Joseph Health System and Affiliates
A St. Joseph Health Ministry Corporation

Consolidated Statements of Operations and Changes in Net Assets
(In Thousands)

	Year Ended June 30	
	2016	2015
Revenues:		
Patient service, net of contractual allowances and discounts	\$ 5,122,397	\$ 4,955,644
Provision for doubtful accounts	176,566	182,093
Net patient service, net of provision for doubtful accounts	4,945,831	4,773,551
Premium	1,310,332	1,192,711
Other	223,339	249,629
Total revenues	6,479,502	6,215,891
Expenses:		
Compensation and benefits	2,701,833	2,524,125
Supplies and other	1,474,752	1,491,893
Professional fees and purchased services	1,808,639	1,699,364
Depreciation and amortization	372,133	342,516
Interest	91,010	103,420
Total expenses	6,448,367	6,161,318
Operating income	31,135	54,573
Nonoperating (loss) gain, net	(118,595)	4,899
(Loss) gain from operations of discontinued subsidiary (including loss on disposal in 2016 of \$19,211)	(27,383)	807
(Deficiency) excess of revenues over expenses	(114,843)	60,279
Less: Excess of revenues over expenses attributable to noncontrolling interests	18,532	17,192
(Deficiency) excess of revenues over expenses attributable to controlling interests	\$ (133,375)	\$ 43,087
Unrestricted net assets		
(Deficiency) excess of revenues over expenses attributable to controlling interests	\$ (133,375)	\$ 43,087
Net assets released from restrictions and other attributable to controlling interests	(9,331)	50,773
(Decrease) increase in unrestricted net assets attributable to controlling interests	(142,706)	93,860
Excess of revenues over expenses attributable to noncontrolling interests	18,532	17,192
Net assets released from restrictions and other attributable to noncontrolling interests	2,616	21,204
Net assets of deconsolidated entity	(18,442)	-
Increase in unrestricted net assets attributable to noncontrolling interests	2,706	38,396
(Decrease) increase in unrestricted net assets	(140,000)	132,256
Temporarily and permanently restricted net assets		
Restricted contributions and other, net	85,176	83,073
Net assets released from restrictions	(45,264)	(47,459)
Increase in temporarily and permanently restricted net assets	39,912	35,614
(Decrease) increase in net assets	(100,088)	167,870
Net assets at beginning of year	5,484,985	5,317,115
Net assets at end of year	\$ 5,384,897	\$ 5,484,985

See accompanying notes.

St. Joseph Health System and Affiliates
A St. Joseph Health Ministry Corporation

Consolidated Statements of Cash Flows
(In Thousands)

	Year Ended June 30	
	2016	2015
Cash flows from operating activities		
(Decrease) increase in net assets	\$ (100,088)	\$ 167,870
(Losses) gains from operations of discontinued subsidiary	(27,383)	807
(Decrease) increase in net assets from continuing operations	(72,705)	167,063
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Provision for doubtful accounts	176,566	182,093
Depreciation and amortization	372,133	343,777
Deconsolidation of noncontrolling interest	18,442	–
Loss on disposal of assets	13,214	22,663
Amortization of deferred financing costs, bond premiums, and discounts	(11,132)	7,807
Change in fair value of investments designated as trading	120,669	102,606
Noncontrolling interest of acquired entities	(998)	(13,276)
Restricted contributions and other, net	(85,176)	(83,073)
Change in fair value of interest rate swaps	55,096	15,226
Changes in operating assets and liabilities:		
Patient accounts receivable	(185,146)	(176,736)
Investments designated as trading	(30,613)	74,585
Other assets	30,744	(53,618)
Accounts payable	(513)	21,101
Accrued compensation and related liabilities	48,175	(4,943)
Accrued liabilities	(19,186)	62,995
Payable to third-party payors, net	(5,937)	1,366
Other liabilities	14,757	(23,794)
Net cash provided by operating activities continuing operations	438,390	645,842
Net cash used in discontinued operations	(12,891)	(5,067)
Net cash provided by operating activities	425,499	640,775
Investing activities		
Purchase of property and equipment, net	(418,165)	(570,938)
Increase in investments and other	(23,999)	(27,396)
Increase in collateral held for swap counterparty	(54,859)	(1,477)
Decrease in notes receivable	1,835	1,566
Distributions from joint ventures	–	7,244
Deconsolidation of entity	(36,295)	–
Acquisitions, net of cash acquired	(33,421)	(19,018)
Net cash used in investing activities	(564,904)	(610,019)

St. Joseph Health System and Affiliates
A St. Joseph Health Ministry Corporation

Consolidated Statements of Cash Flows (continued)
(In Thousands)

	Year Ended June 30	
	2016	2015
Financing activities		
Restricted contributions and other, net	\$ 85,176	\$ 83,073
Proceeds from line of credit	74,100	130,000
Repayment of line of credit	(13,000)	(15,000)
Repayment of short-term debt	-	(275)
Repayment of long-term debt	(34,120)	(54,934)
Net cash provided by financing activities	112,156	142,864
 (Decrease) increase in cash and equivalents	 (27,249)	 173,620
 Cash and equivalents at beginning of year	 443,611	 269,991
Cash and equivalents at end of year	\$ 416,362	\$ 443,611

See accompanying notes.

St. Joseph Health System and Affiliates
A St. Joseph Health Ministry Corporation

Notes to Consolidated Financial Statements

June 30, 2016

1. Summary of Significant Accounting Policies

Organization

St. Joseph Health System and Affiliates (collectively, the Health System) is a nonprofit organization previously sponsored by the Sisters of St. Joseph of Orange, a religious order of the Roman Catholic Church, with its Motherhouse in Orange, California. The sponsorship of the Health System was expanded in March 2008 to include the laity in a new nonprofit organization, St. Joseph Health Ministry (SJHM). SJHM is a public juridic person, a pontifical structure that allows laypeople to assume sponsorship responsibilities of temporal goods of the Catholic Church, such as the Health System. SJHM formally assumed sponsorship responsibilities previously exercised by the General Council of the Sisters of St. Joseph of Orange. There was no direct impact on the operations of the Health System and its affiliates as a result of the expanded sponsorship.

Effective July 1, 2016, Providence St. Joseph Health, a Washington nonprofit corporation (the Corporation), became the sole member of Providence Health & Services, a Washington nonprofit corporation (PH&S), and the Health System, creating one of the largest health care systems in the United States. The Corporation, headquartered in Renton, Washington, is governed by a co-sponsorship council made up of members of its two sponsoring ministries, Providence Ministries and SJHM.

Hoag Memorial Hospital Presbyterian and Affiliates

Effective March 1, 2013, the Health System affiliated with Hoag Memorial Hospital Presbyterian and Affiliates (Hoag). The affiliation did not require a transfer of assets and was accomplished through the creation of a new entity, Covenant Health Network (CHN), a California nonprofit public benefit corporation. CHN became the third member of Hoag along with the then-current members comprising of the Hoag Family Foundation and the Association of Presbyterian Ministers (APM). CHN also became a member, joining the Health System, of the four Southern California hospital ministries: St. Joseph Hospital of Orange, St. Jude Medical Center, Mission Hospital, and St. Mary Medical Center. A majority of CHN's Board of Directors are designated by the Health System, and the balance of directors are appointed by the Hoag Family Foundation and the APM.

St. Joseph Health System and Affiliates
A St. Joseph Health Ministry Corporation

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Hoag is a nonprofit corporation that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (the IRC). Hoag Orthopedic Institute, an orthopedic specialty hospital, is 51% owned by Hoag Hospital and is consolidated with Hoag Hospital's financial statements. Hoag Hospital Foundation is a wholly owned nonprofit corporation that raises funds to support Hoag Hospital. Hoag's consolidated financial statements have been consolidated with those of the Health System.

Lubbock Methodist Hospital System and Affiliates

In 1998, the Health System entered into an affiliation agreement with Lubbock Methodist Hospital System and affiliates (collectively, LMHS). The agreement provided for the formation of Covenant Health System (Covenant) (1,133 licensed beds) with contributions by the Health System and LMHS of substantially all of the assets, liabilities, and operations of St. Mary of the Plains Hospital and Rehabilitation Center and Foundation, Lubbock, Texas, and LMHS to Covenant.

The Members Agreement restricts the ability of the Health System to exit its relationship with Covenant and also precludes the Health System and Covenant from entering into a wide variety of transactions that could result in Covenant's assets or affiliates being conveyed to a third party, except conveyances in the ordinary course of business. These precluded transactions are referred to as Covered Transactions. Should Covenant or the Health System undertake a Covered Transaction, each is obligated to provide notice and information to LMHS and to make a reciprocal offer to LMHS, including an offer to purchase LMHS's membership rights in Covenant and a simultaneous obligation to offer to sell the Health System's membership rights in Covenant to LMHS at the same purchase price, adjusted upward by a formula that reflects the dissolution percentages (57% Health System, 43% LMHS).

Covenant is a nonprofit corporation that is exempt from income taxes under Section 501(c)(3) of the IRC. FirstCare, a licensed Texas health maintenance organization, is 67% owned by Covenant. Covenant's financial results have been combined with those of the Health System, as the two entities are operated under common management and control.

St. Joseph Health System and Affiliates
A St. Joseph Health Ministry Corporation

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Including the above affiliations, the Health System is the sole or joint corporate member of 14 acute care hospital affiliates (3,936 licensed beds), which also offer associated ancillary, skilled nursing, psychiatric, substance abuse, rehabilitation, outpatient surgery, home health, and hospice services. Outpatient services and physician practice management are also provided through affiliated nonprofit subsidiaries and controlling interests in various partnerships. The hospital affiliates are:

- St. Joseph Hospital of Orange, Orange, California
- St. Jude Hospital, Inc. (dba St. Jude Medical Center), Fullerton, California
- Mission Hospital Regional Medical Center (dba Mission Hospital), Mission Viejo, California, and Laguna Beach, California
- St. Mary Medical Center, Apple Valley, California
- Hoag Memorial Hospital Presbyterian, Newport Beach, California, and Irvine, California
- Queen of the Valley Medical Center, Napa, California
- Santa Rosa Memorial Hospital, Santa Rosa, California
- SRM Alliance Hospital Services (dba Petaluma Valley Hospital), Petaluma, California
- St. Joseph Hospital of Eureka, Eureka, California
- Redwood Memorial Hospital, Fortuna, California
- Covenant Health System (dba Covenant Medical Center – Lakeside and Covenant Medical Center), Lubbock, Texas
- Methodist Children’s Hospital (dba Covenant Children’s Hospital), Lubbock, Texas
- Methodist Hospital Levelland (dba Covenant Levelland), Levelland, Texas
- Methodist Hospital Plainview (dba Covenant Hospital Plainview), Plainview, Texas

St. Joseph Health System and Affiliates
A St. Joseph Health Ministry Corporation

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

The Health System's hospital affiliates are also the corporate members of St. Jude Hospital Yorba Linda dba St. Joseph Heritage Healthcare (Heritage), a nonprofit corporation providing physician practice management services.

The Health System owns a captive insurance company, American Unity Group, Ltd. (the Captive).

The Health System Office and its hospital affiliates are members of the Obligated Group, as defined under trust indentures, for purposes of entering into long-term debt arrangements (see Note 5).

As of June 30, 2015, the Health System owned 62.8% of Innovation Institute, a company formed to engage in health care-related activities with other health systems, technology companies and private investors. On July 1, 2015, the Health System deconsolidated Innovation Institute and accounts for Innovation Institute under the equity method due to the Health System no longer having significant control over Innovation Institute. The deconsolidation was a result of previously agreed to terms of a dilutive event which was triggered on July 1, 2015, by the addition of third party investors in Innovation Institute. There was no material gain or loss recorded in connection with the deconsolidation. As of June 30, 2016, an outstanding note receivable of approximately \$130,000,000 due from Innovation Institute is recorded. The note receivable relates to a loan extended by the Health System for a previous property purchase and eliminated prior to the deconsolidation. On August 12, 2016, Innovation Institute repaid the loan. The Innovation Institute continues to provide certain management and administrative services to the Health System that represents a significant portion of Innovation Institute's business. For the fiscal year ended June 30, 2016, the Health System incurred approximately \$99,604,000 related to services provided by Innovation Institute, of which \$48,076,000 were capitalized costs and \$51,528,000 were included as expenses in the consolidated statement of operations and changes in net assets.

St. Joseph Health System and Affiliates
A St. Joseph Health Ministry Corporation

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

In May 2016, the Board of Trustees of the Health System (the Board) approved a plan to discontinue operations of Datu Health (a 95% owned subsidiary) due to a strategic shift that would have a major effect on Datu's operations and financial results. The abandonment occurred prior to June 30, 2016; accordingly, the Health System recognized a loss of \$19,211,000 for the fiscal year ended June 30, 2016. The Health System expects to settle all liabilities of Datu in early fiscal year 2017. The results of operations and related assets and liabilities of Datu are classified as discontinued operations in the accompanying consolidated financial statements as of and for the fiscal years ended June 30, 2016 and 2015.

Basis of Consolidation

The accompanying consolidated financial statements include the accounts of the affiliated members of St. Joseph Health System and entities controlled by its affiliates, Hoag, and Covenant. All significant intercompany accounts and transactions have been eliminated in the accompanying consolidated financial statements.

Use of Estimates

The preparation of the Health System's consolidated financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Equivalents

All highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents. The carrying amount approximates fair value because of the short maturity of the investments.

St. Joseph Health System and Affiliates
A St. Joseph Health Ministry Corporation

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Marketable Securities

Marketable securities with readily determinable fair values and all investments in debt securities are reported at fair value based on quoted market prices or similar instruments in markets that are not active. Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is included in the excess of revenues over expenses, unless the income or loss is restricted by donor or law.

The Health System has designated its investment portfolio as trading. Unrealized gains and losses on marketable securities that have been designated as trading securities are included within excess of revenues over expenses. In addition, cash flows from the purchases and sales of the Health System's investment portfolio designated as trading are reported as a component of operating activities in the accompanying consolidated statements of cash flows.

Direct investments in equity securities with readily determinable fair values and all direct investments in debt securities have been measured at fair value in the accompanying consolidated balance sheets based upon quoted market prices. Investments that are not anticipated to be utilized in the current period are classified as noncurrent.

Investments in partnerships and limited liability companies with underlying interest in equity and debt securities are recorded using the equity method of accounting with the related changes in value in earnings reported as nonoperating gains, net in the accompanying consolidated financial statements.

St. Joseph Health System and Affiliates
A St. Joseph Health Ministry Corporation

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Patient Accounts Receivable

The Health System receives payment for services rendered to patients from the federal and state governments under the Medicare and Medicaid programs, privately sponsored managed care programs for which payment is made based on terms defined under formal contracts, and other payors. The following table summarizes the percentages of gross accounts receivable from all payors as of June 30:

	2016	2015
Government	46%	44%
Contracted	42	43
Self-pay and others	12	13
	100%	100%

The Health System believes there are no significant credit risks associated with receivables from government programs. Receivables from contracted payors are from various payors who are subject to differing economic conditions and do not represent any concentrated risks to the Health System. In evaluating the collectability of accounts receivable, the Health System regularly analyzes its historical experience and identifies trends for each of its major payor sources to estimate the appropriate allowance for doubtful accounts. For receivables associated with patients who have third-party coverage, the Health System analyzes contractually due amounts and records an allowance for doubtful accounts if necessary. For receivables associated with self-pay patients, which includes both patients without insurance and patients with deductible and co-payment balances on third-party coverage, the Health System records a significant allowance for doubtful accounts in the period of service and based on its past experience. Accounts receivables are reduced by an allowance for doubtful accounts to represent the amounts actually expected to be collected after all reasonable collection efforts have been exhausted.

St. Joseph Health System and Affiliates
A St. Joseph Health Ministry Corporation

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

The Health System's allowance for doubtful accounts as a percentage of accounts receivable increased from 25.9% as of June 30, 2015, to 28.1% as of June 30, 2016. The Health System had no significant changes in its charity care or uninsured discount policies during its fiscal years 2016 and 2015. The Health System does not maintain a material allowance for doubtful accounts from third-party payors, nor did it have significant write-offs from third-party payors in the fiscal year ended June 30, 2016.

Other Assets

Other assets primarily consist of inventories, California Hospital Fee receivable, and other current assets expected to be utilized within a year. Inventories, consisting principally of supplies, are stated at the lower of cost (first-in, first-out basis) or market value.

Other assets consist of the following as of June 30:

	<u>2016</u>	<u>2015</u>
	<i>(In Thousands)</i>	
Inventories	\$ 65,875	\$ 65,505
California Hospital Fee receivable	47,397	79,293
Other current assets	154,713	165,660
	<u>\$ 267,985</u>	<u>\$ 310,458</u>

Assets Limited as to Use

Assets limited as to use primarily include assets held by trustees under indenture agreements and designated assets set aside by the Board for future capital improvements, over which the Board retains control and may at its discretion subsequently use for other purposes.

St. Joseph Health System and Affiliates
A St. Joseph Health Ministry Corporation

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Property and Equipment

Property and equipment acquisitions are recorded at cost. Expenditures that materially increase values, change capacities, or extend useful lives are capitalized. Depreciation is recorded over the estimated useful life of each class of depreciable asset, ranging from 3 to 40 years, and is computed using the straight-line method. Leases that have been capitalized are amortized over the life of the lease, which approximates the useful life of the assets. Lease amortization is included within depreciation expense. Depreciation expense for the fiscal years ended June 30, 2016 and 2015, was \$363,789,000 and \$333,774,000, respectively. Net interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Deferred Financing Costs

Costs incurred in obtaining long-term financing are deferred and amortized over the terms of the related obligations using the effective-interest method.

Goodwill and Other Intangibles

Goodwill and other intangible assets consist primarily of costs in excess of the fair value of tangible assets of acquired entities. The Health System assesses goodwill for impairment by testing the carrying value of goodwill for impairment at the reporting unit level on an annual basis, or more frequently if significant indicators of impairment exist. Indefinite-lived intangibles are assessed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Definite-lived intangible assets are amortized using the straight-line method over the estimated useful lives of the assets. Customer and contract intangibles are amortized over 18 years. Covenants not to compete are amortized over a period of four to nine years. Certain trade names are amortized over a useful life ranging from two to five years. To the extent that operating results indicate the probability that the carrying values of such assets have been impaired, provisions for losses are recorded based upon the discounted cash flows of the acquired entities over the remaining amortization period.

St. Joseph Health System and Affiliates
A St. Joseph Health Ministry Corporation

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

The Health System's goodwill balance was \$208,054,000 as of June 30, 2016, and \$174,500,000 as of June 30, 2015. The accumulated impairment losses were \$60,523,000 as of June 30, 2016, and \$45,655,000 as of June 30, 2015.

The Health System's other intangibles balances as of June 30 are as follows:

	2016	2015	Average Useful Life (Years)
	<i>(In Thousands)</i>		
Customer and contract	\$ 34,500	\$ 34,750	18
Covenant not to compete	29,300	28,100	7
Trade name – Hoag	16,000	16,000	Indefinite
Trade name – other	3,400	3,400	4
Other	11,969	11,842	7
	<u>95,169</u>	<u>94,092</u>	
Accumulated amortization	<u>(37,583)</u>	<u>(29,239)</u>	
Other intangibles, net	<u>\$ 57,586</u>	<u>\$ 64,853</u>	

Amortization expense for the fiscal years ended June 30, 2016 and 2015, was \$8,344,000 and \$8,742,000, respectively. The future amortization of identifiable intangible assets by year, as of June 30, 2016, is as following (in thousands):

2017	\$ 8,066
2018	6,015
2019	4,009
2020	3,222
2021 and thereafter	20,274
	<u>\$ 41,586</u>

St. Joseph Health System and Affiliates
A St. Joseph Health Ministry Corporation

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Self-Insurance

The Health System is self-insured, through the Captive, for professional and general liability risks for its affiliates, except Hoag, subject to certain limitations. Risks in excess of \$5,000,000 per occurrence are reinsured with major independent insurance companies. Hoag is self-insured for professional and general liability risks, with risks in excess of \$2,000,000 reinsured with major independent insurance companies. Based on actuarially determined estimates, provisions have been made in the accompanying consolidated financial statements, with the current portion included within accrued liabilities and the noncurrent portion within other liabilities, for all known claims and incurred but not reported claims as of June 30, 2016 and 2015. The undiscounted accruals for professional and general liability claims totaled \$52,069,000 at June 30, 2016, and \$48,482,000 at June 30, 2015. Estimation differences between actual payments and amounts recorded in previous years are recognized as expense in the year such amounts become determinable.

Workers' Compensation Insurance

The Health System's affiliates in California, except Hoag, are insured for workers' compensation claims with major independent insurance companies, subject to certain deductibles of \$1,000,000 per occurrence. Hoag is self-insured for workers' compensation claims, with risks in excess of \$1,000,000 reinsured with major independent insurance companies. In connection with the workers' compensation plan, the Health System has filed bank letters of credit with the insurance companies (See Note 4). Based on actuarially determined estimates, provisions have been made in the accompanying consolidated financial statements, with the current portion included within accrued compensation and the noncurrent portion within other liabilities, for all known claims and incurred but not reported claims as of June 30, 2016 and 2015. The undiscounted accruals for workers' compensation claims totaled \$124,233,000 at June 30, 2016, and \$120,848,000 at June 30, 2015. Receivables for insurance recoveries for Hoag were \$11,300,000 and \$10,859,000 at June 30, 2016 and 2015, respectively, and are primarily included in investments and other assets. Estimation differences between actual payments and amounts recorded in previous years are recognized as expense in the year such amounts become determinable.

St. Joseph Health System and Affiliates
A St. Joseph Health Ministry Corporation

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Other Liabilities

Other liabilities consist of the following as of June 30:

	2016	2015
	<i>(In Thousands)</i>	
Workers' compensation	\$ 99,117	\$ 93,070
Professional and general liability	20,637	20,058
Other liabilities	138,761	120,721
	\$ 258,515	\$ 233,849

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those assets whose use by the Health System has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Health System in perpetuity (see Note 10).

Donor-Restricted Gifts

Unconditional promises to give cash and other assets to the Health System are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose for restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as net assets released from restrictions and other attributable to controlling interests in the consolidated financial statements.

St. Joseph Health System and Affiliates
A St. Joseph Health Ministry Corporation

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Net Patient Service Revenues

The Health System has agreements with third-party payors that provide for payments at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments.

Patient service revenues are reported at net realizable amounts from patients, third-party payors, and others for services rendered, including estimated settlements under reimbursement agreements with third-party payors. Settlements are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

The Health System recognizes significant amounts of patient service revenue at the time the services are rendered even though a patient's ability to pay is not assessed. The Health System records its provision for doubtful accounts based upon historical experience, as well as collections trends for major payor types.

Patient service revenues, net of contractual allowances and discounts, and Supplemental Payment revenue from the California Hospital Quality Assurance program, recognized for the fiscal years ended June 30 are as follows:

	2016	2015
	<i>(In Thousands)</i>	
Government	\$ 2,130,328	\$ 2,133,145
Contracted	2,644,727	2,535,718
Self-pay and others	347,342	286,781
	\$ 5,122,397	\$ 4,955,644

St. Joseph Health System and Affiliates
A St. Joseph Health Ministry Corporation

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

The Health System is reimbursed for services provided to patients under certain programs administered by governmental agencies. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The Health System believes that it is in compliance with all applicable laws and regulations, and management is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, and exclusion from the Medicare and Medicaid programs (see Note 11).

Premium Revenues

FirstCare contracts with various employers to provide medical services to subscribing participants. FirstCare receives monthly premium payments from employers and contracts with various medical providers to provide medical care. FirstCare's premium revenue for the fiscal years ended June 30, 2016 and 2015 were \$552,750,000 and \$509,566,000, respectively.

In addition to the FirstCare contracts, the Health System has contracts with various health plans to provide medical services to subscribing participants. Under these agreements, the Health System's hospital affiliates and Heritage receive monthly capitation payments based on the number of each health plan's participants enrolled with participating affiliated or local physician groups that have designated the hospital affiliates as their provider. Under these arrangements, the hospital affiliates are responsible for hospital-contracted services provided to plan participants, including services received at other health care facilities. The Health System's premium revenue for the contracts for the fiscal years ended June 30, 2016 and 2015 were \$757,582,000 and \$683,145,000, respectively. FirstCare and the Health System have accrued for estimated claims for professional services and services from other providers (included in accrued liabilities). Claims accruals of \$129,092,000 and \$92,827,000 at June 30, 2016 and 2015, respectively, related to these services are generally based on claims lag analyses and are continually monitored and reviewed.

Charity Care

The Health System provides care to patients who meet certain criteria under its charity care policies without charge or at amounts less than its established rates. Because the Health System does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

St. Joseph Health System and Affiliates
A St. Joseph Health Ministry Corporation

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Operating Income

The Health System's primary purpose is to provide diversified health care services to the community served by its affiliates. Activities directly associated with the furtherance of this purpose are considered operating activities and classified as unrestricted operating revenues and expenses. Operating revenues include those generated from direct patient care, related support services, and other revenues related to the operation of the Health System, including gifts and bequests not restricted by donors.

Other activities that result in gains or losses unrelated to the Health System's primary purpose are considered to be nonoperating. Nonoperating gains and losses include investment income, realized and unrealized gains and losses on trading securities, gains and losses from the sale of property and equipment, and gains and losses on extinguishment of debt.

The Health System considers the performance indicator to be the excess of revenues over expenses.

Income Taxes

The principal operations of the Health System are exempt from taxation pursuant to IRC Section 501(c)(3) and the related state provisions.

Accounting Standards Codification (ASC) 740, *Income Taxes*, clarifies the accounting for income taxes by prescribing a minimum recognition threshold that a tax position is required to meet before being recognized in the financial statements. ASC 740 also provides guidance on derecognition, measurement, classification, interest and penalties, disclosure, and transition. The guidance is applicable to pass-through entities and tax-exempt organizations. No significant tax liability for tax benefits, interest, or penalties was accrued at June 30, 2016 or 2015.

The Health System and affiliates currently file Form 990 (*Return of Organization Exempt From Income Tax*) and Form 990-T (*Exempt Organization Business Income Tax Return*) in the U.S. federal jurisdiction and the states of California and Texas for each tax-exempt organization as appropriate. The Health System and affiliates are not subject to income tax examinations prior to 2010 in major tax jurisdictions.

St. Joseph Health System and Affiliates
A St. Joseph Health Ministry Corporation

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

California Hospital Quality Assurance Program

California legislation established a program that imposes a Quality Assurance Fee (QA Fee) on certain general acute care hospitals in order to make supplemental payments and increased capitation payments (Supplemental Payments) to hospitals up to the aggregate upper payment limit for various periods. There have been four such programs since inception. The first two programs were the 21-month program covering the period April 1, 2009 to December 31, 2010, and the 6-month program covering the period January 1, 2011, to June 30, 2011 (the Original Programs), the third, a 30-month program covering the period from July 1, 2011, to December 31, 2013 (30-Month Program), and the fourth, a 36-month program covering the period from January 1, 2014, to December 31, 2016 (36-Month Program, collectively, the Programs). The Programs are designed to make supplemental inpatient and outpatient Medi-Cal payments to private hospitals, including additional payments for certain facilities that provide high-acuity care and trauma services to the Medi-Cal population. This hospital QA Fee program provides a mechanism for increasing payments to hospitals that serve Medi-Cal patients, with no impact on the state's General Fund. Payments are made directly by the state or Medi-Cal managed care plans, which will receive increased capitation rates from the state in amounts equal to the Supplemental Payments. Outside of the legislation, the California Hospital Association has created a private program, operated by the California Health Foundation and Trust (CHFT), which was established to alleviate disparities potentially resulting from the implementation of the Programs.

The Original Programs required full federal approval (i.e., by the Centers for Medicare and Medicaid Services (CMS)) in order for them to be fully enacted. If final federal approval was not ultimately obtained, provisions in the underlying legislation allowed for the QA Fee, previously assessed, and Supplemental Payments, previously received, to be returned and recouped, respectively. As such, revenue and expense recognition was not allowed until full CMS approval was obtained.

St. Joseph Health System and Affiliates
A St. Joseph Health Ministry Corporation

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

During the fiscal year ended June 30, 2016, the Health System recognized QA Fees in the amount of \$139,465,000 within supplies and other expenses as well as Supplemental Payment revenue of \$128,471,000 within net patient service revenues.

During the fiscal year ended June 30, 2015, the Health System recognized QA Fees in the amount of \$224,275,000 and pledge payments to CHFT of \$913,000 within supplies and other expenses as well as Supplemental Payment revenue of \$229,936,000 within net patient service revenues.

Electronic Health Records Incentive Payments

The American Recovery and Reinvestment Act of 2009 included provisions for implementing health information technology under the Health Information Technology for Economic and Clinical Health Act. The provisions were designed to increase the use of electronic health record (EHR) technology and establish the requirements for a Medicare and Medicaid incentive payment program beginning in 2011 for eligible providers that adopt and demonstrate meaningful use of certified EHR technology. Eligibility for annual Medicare incentive payments depends on providers demonstrating meaningful use of EHR technology in each period over a four-year period. Initial Medicaid incentive payments are available to providers that adopt, implement, or upgrade certified EHR technology. Providers must continue to demonstrate meaningful use of such technology in subsequent years to qualify for additional Medicare and Medicaid incentive payments and to avoid potential penalties.

The Health System accounts for Medicare and Medicaid EHR incentive payments as a gain contingency. For the fiscal years ended June 30, 2016 and 2015, Medicare incentives of \$7,668,000 and \$12,053,000, respectively, were recognized in other revenues upon demonstration of compliance with the meaningful use criteria over the entire applicable compliance period and the end of the 12-month cost report period that will be used to determine the final incentive payment. The Health System also recognized Medicaid incentives of \$2,485,000 in 2016 and \$1,101,000 in 2015, in other revenues, upon demonstration of compliance with the criteria. Income from incentive payments is subject to retrospective adjustment as the incentive payments are calculated using Medicare cost report data that is subject to audit. Additionally, the Health System's compliance with meaningful use criteria is subject to audit by the federal government.

St. Joseph Health System and Affiliates
A St. Joseph Health Ministry Corporation

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*, to clarify the principles for recognizing revenue and to improve financial reporting by creating common revenue recognition guidance for U.S. GAAP and International Financial Reporting Standards. The core principle of the guidance in ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Management is evaluating the potential impact of this guidance which will be required to be implemented on July 1, 2018.

In April 2015, an accounting standard was released and later amended in August 2015 that is effective for the Health System beginning July 1, 2016, requiring that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, unless the debt issuance cost is related to a line of credit. The Health System is currently evaluating the effect of this standard on the Health System's consolidated financial statements.

In May 2015, an accounting standard was released and effective for the Health System beginning July 1, 2017, removing the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The new standard permits early adoption and requires retrospective presentation. The Health System has adopted this new standard and the impact to the overall consolidated financial statements was not material.

In February 2016, an accounting standard update was released and effective for the Health System beginning July 1, 2019. This update will result in key changes to lease accounting and will aim to bring leases onto balance sheets to give investors, lenders, and other financial statement users a more comprehensive view of a company's long-term financial obligations as well as the assets it owns versus leases. The Health System is currently evaluating the impact this standard will have on the Health System's consolidated financial statements as well as the expected adoption method.

St. Joseph Health System and Affiliates
A St. Joseph Health Ministry Corporation

Notes to Consolidated Financial Statements (continued)

2. Fair Value Measurements

Fair value is defined as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, the Health System utilizes a three-tier fair value hierarchy, as determined at the end of the reporting period, which prioritizes the inputs used in measuring fair value as follows:

- Level 1 – Pricing is based on observable inputs such as quoted prices in active markets. Financial assets in Level 1 include certain cash and equivalents, money market funds, mutual funds, and corporate equity securities.
- Level 2 – Pricing inputs are based on 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 include commercial paper, U.S. Treasury securities, corporate debt securities, interest rate swap obligations, and other securities.
- Level 3 – Pricing inputs are generally unobservable 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 factors that involve considerable judgment and interpretations, including, but not limited to, private and public comparables and discounted cash flow models. This category primarily includes certain corporate debt securities.

Assets and liabilities measured at fair value are based on one or more of three valuation techniques as follows:

- (a) Market approach. Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.
- (b) Cost approach. Amount that would be required to replace the service capacity of an asset (replacement cost).

St. Joseph Health System and Affiliates
A St. Joseph Health Ministry Corporation

Notes to Consolidated Financial Statements (continued)

2. Fair Value Measurements (continued)

- (c) Income approach. Techniques to convert future amounts to a single present amount based on market expectations (including present value techniques, option-pricing, and excess earnings models).

The Health System has invested in funds that are included in long-term marketable securities and assets limited as to use in the accompanying consolidated balance sheets. Specifically, the Health System has invested in hedge funds, private equity funds, and real return asset funds. The funds use various strategies, including but not limited to long/short equities, arbitrage, and event driven strategies, to seek positive returns, regardless of market direction. The terms and conditions upon which the Health System may redeem investments in hedge funds range from quarterly with 45 days' notice to rolling three years with 45 days' notice. Hedge funds may hold, directly or indirectly, side pocket investments where no redemptions are permitted until such investments are liquidated or deemed realized. These investments are primarily made through limited partnerships and offshore corporations where liquidity may be limited on new contributions for up to three years. Private equity investments generally have initial investment terms of 10 years or greater and can be accessed on the partnership termination date. Certain of the Health System's investments in real return asset funds are subject to redemption limitations ranging from monthly with notice due in the prior month to quarterly liquidity with 60 days' notice. The remaining real return positions have initial investment terms greater than 10 years and can be accessed on the partnership termination date. Certain funds reserve the right to reduce or suspend redemptions and to satisfy redemptions by making distributions in-kind, under certain circumstances. The Health System may not withdraw or sell, assign, or transfer its interests in certain limited partnerships except in very limited circumstances, subject to consent by the general partners of the funds.

St. Joseph Health System and Affiliates
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Notes to Consolidated Financial Statements (continued)

2. Fair Value Measurements (continued)

Total unfunded commitments were \$170,646,000 and \$120,880,000 as of June 30, 2016 and 2015, respectively. The value for these funds recorded using net asset value of accounting and included within the tables below was \$1,200,920,000 at June 30, 2016, and \$1,216,499,000 at June 30, 2015.

The following tables provide the composition of certain assets and liabilities measured at fair value as of June 30:

	2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value Method Investments	Investments at Net Asset Value	Valuation Technique (a,b,c)
<i>(In Thousands)</i>							
Current assets							
Cash and equivalents	\$ 416,362	\$ 382,658	\$ 33,704	\$ –	\$ 416,362	\$ –	a
Short-term marketable securities:							
Money market funds and commercial papers	\$ 25,714	\$ 25,714	\$ –	\$ –	\$ 25,714	\$ –	a
Mutual funds	51,835	51,835	–	–	51,835	–	a
U.S. Treasury securities	318,419	–	318,419	–	318,419	–	a
Corporate and other debt securities	226,149	–	225,927	222	226,149	–	a,c
Corporate equity securities	244	244	–	–	244	–	a
Other	775	–	775	–	775	–	a
	<u>\$ 623,136</u>	<u>\$ 77,793</u>	<u>\$ 545,121</u>	<u>\$ 222</u>	<u>\$ 623,136</u>	<u>\$ –</u>	
Long-term marketable securities:							
Money market funds and commercial papers	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –	a
Mutual funds	62,717	62,717	–	–	62,717	–	a
U.S. Treasury securities	109,332	–	109,332	–	109,332	–	a
Corporate and other debt securities	82,035	–	82,035	–	82,035	–	a
Corporate equity securities	445,696	445,630	–	66	445,696	–	a
Other	373,814	–	–	–	–	373,814	a
	<u>\$ 1,073,594</u>	<u>\$ 508,347</u>	<u>\$ 191,367</u>	<u>\$ 66</u>	<u>\$ 699,780</u>	<u>\$ 373,814</u>	

St. Joseph Health System and Affiliates
A St. Joseph Health Ministry Corporation

Notes to Consolidated Financial Statements (continued)

2. Fair Value Measurements (continued)

	2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value Method Investments	Investments at Net Asset Value	Valuation Technique (a,b,c)
<i>(In Thousands)</i>							
Assets limited as to use:							
Board designated:							
Money market funds and commercial papers	\$ 170,441	\$ 170,441	\$ –	\$ –	\$ 170,441	\$ –	a
Mutual funds	220,843	219,790	1,053	–	220,843	–	a
U.S. Treasury securities	58,292	–	58,292	–	58,292	–	a
Corporate and other debt securities	153,566	–	153,566	–	153,566	–	a
Corporate equity securities	199,967	199,967	–	–	199,967	–	a
Other	827,106	–	–	–	–	827,106	a
	<u>\$ 1,630,215</u>	<u>\$ 590,198</u>	<u>\$ 212,911</u>	<u>\$ –</u>	<u>\$ 803,109</u>	<u>\$ 827,106</u>	
Cash collateral held by swap counterparty:							
U.S. Treasury securities	\$ 56,336	\$ –	\$ 56,336	\$ –	\$ 56,336	\$ –	a
Liabilities:							
Interest rate swaps	\$ 156,160	\$ –	\$ 156,160	\$ –	\$ 156,160	\$ –	c
<i>(In Thousands)</i>							
	2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value Method Investments	Investments at Net Asset Value	Valuation Technique (a,b,c)
<i>(In Thousands)</i>							
Current assets							
Cash and equivalents	\$ 443,611	\$ 414,254	\$ 29,357	\$ –	\$ 443,611	\$ –	a
Short-term marketable securities:							
Money market funds and commercial papers	\$ 43,124	\$ 43,124	\$ –	\$ –	\$ 43,124	\$ –	a
Mutual funds	25,770	25,770	–	–	25,770	–	a
U.S. Treasury securities	223,651	–	223,651	–	223,651	–	a
Corporate and other debt securities	223,651	–	223,651	–	223,651	–	a,c
Corporate equity securities	137,193	137,193	–	–	137,193	–	a
Other	633	–	633	–	633	–	a
	<u>\$ 654,022</u>	<u>\$ 206,087</u>	<u>\$ 447,935</u>	<u>\$ –</u>	<u>\$ 654,022</u>	<u>\$ –</u>	
Long-term marketable securities:							
Money market funds and commercial papers	\$ 6,482	\$ 6,482	\$ –	\$ –	\$ 6,482	\$ –	a
Mutual funds	114,363	114,363	–	–	114,363	–	a
U.S. Treasury securities	90,873	–	90,873	–	90,873	–	a
Corporate and other debt securities	94,567	–	94,567	–	94,567	–	a
Corporate equity securities	415,275	415,045	–	230	415,275	–	a
Other	432,546	–	–	–	–	432,546	a
	<u>\$ 1,154,106</u>	<u>\$ 535,890</u>	<u>\$ 185,440</u>	<u>\$ 230</u>	<u>\$ 721,560</u>	<u>\$ 432,546</u>	

St. Joseph Health System and Affiliates
A St. Joseph Health Ministry Corporation

Notes to Consolidated Financial Statements (continued)

2. Fair Value Measurements (continued)

	2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value Method Investments	Investments at Net Asset Value	Valuation Technique (a,b,c)
<i>(In Thousands)</i>							
Assets limited as to use:							
Board designated:							
Money market funds and commercial papers	\$ 193,769	\$ 193,769	\$ –	\$ –	\$ 193,769	\$ –	a
Mutual funds	182,631	174,732	7,899	–	182,631	–	a
U.S. Treasury securities	117,047	–	117,047	–	117,047	–	a
Corporate and other debt securities	156,564	–	156,564	–	156,564	–	a
Corporate equity securities	174,909	174,909	–	–	174,909	–	a
Other	783,953	–	–	–	–	783,953	a
	<u>\$ 1,608,873</u>	<u>\$ 543,410</u>	<u>\$ 281,510</u>	<u>\$ –</u>	<u>\$ 824,920</u>	<u>\$ 783,953</u>	
Cash collateral held by swap counterparty:							
U.S. Treasury securities	\$ 1,477	\$ –	\$ 1,477	\$ –	\$ 1,477	\$ –	a
Liabilities:							
Interest rate swaps	\$ 101,064	\$ –	\$ 101,064	\$ –	\$ 101,064	\$ –	c

Activity for the fiscal year ended June 30, 2016, for investments with significant unobservable inputs (Level 3) consists of the following (in thousands):

Balance at July 1, 2015	\$ 230
Sales	(62)
Transfers, net	1,046
Realized losses, included in nonoperating losses	(11)
Net unrealized losses, included in nonoperating losses	(915)
Balance at June 30, 2016	<u>\$ 288</u>

In addition to amounts included in the previous table, the Health System's investments in partnerships, limited liability companies, and similarly structured entities of \$55,738,000 and \$33,400,000 as of June 30, 2016 and 2015, respectively, are included in investments and other in the accompanying consolidated balance sheets and accounted for using the equity method of accounting, which is not a fair value measurement.

St. Joseph Health System and Affiliates
A St. Joseph Health Ministry Corporation

Notes to Consolidated Financial Statements (continued)

2. Fair Value Measurements (continued)

The Health System sponsors certain deferred compensation plans for which plan assets of \$51,139,000 and \$51,169,000 composed of certain mutual funds (Level 1) were maintained and recorded within investments and other as of June 30, 2016 and 2015, respectively.

The Health System received restricted and unrestricted pledges and contributions. Amounts remaining to be collected were \$82,934,000 and \$58,063,000 as of June 30, 2016 and 2015, respectively, which is recorded in investments and other in the consolidated balance sheet. The majority of the balance is expected to be collected after five years and represents long-term irrevocable endowments and planned gifts for the benefit of various health care programs. The fair value of pledges receivable was determined by calculating the net present value of the estimated future cash flows using a discount rate range at the time the pledge was made.

Investment Gains and Losses

Interest, dividends, and realized gains on sales of marketable securities of \$84,852,000 and \$154,706,000, net of related fees, are included in nonoperating gains, net for the fiscal years ended June 30, 2016 and 2015, respectively.

Also included in nonoperating gains, net are unrealized losses of \$120,669,000 and \$102,606,000 for the fiscal years ended June 30, 2016 and 2015, respectively.

St. Joseph Health System and Affiliates
A St. Joseph Health Ministry Corporation

Notes to Consolidated Financial Statements (continued)

3. Property and Equipment

Property and equipment consist of the following at June 30:

	2016	2015
	<i>(In Thousands)</i>	
Land	\$ 301,176	\$ 298,242
Buildings and land improvements	3,475,842	3,445,940
Leasehold improvements	343,177	333,819
Equipment	2,583,043	2,375,244
Construction in progress	793,190	840,204
	7,496,428	7,293,449
Less accumulated depreciation	(3,497,773)	(3,273,453)
	\$ 3,998,655	\$ 4,019,996

Included in accrued liabilities were purchases of property and equipment of \$51,072,000 and \$34,231,000 at June 30, 2016 and 2015, respectively.

The Health System is required to recognize a liability for the fair value of conditional asset retirement obligations if the fair value of the liability can be reasonably estimated. The fair value of a liability for conditional asset retirement obligations must be recognized when incurred, generally upon acquisition, construction, or development and/or through the normal operation of the asset. The Health System estimated the fair value of known conditional asset retirement obligations relating to the costs of asbestos abatement that will result from the Health System's current plans to renovate and/or demolish certain of its facilities. This computation is based on a number of assumptions, which may change in the future based on the availability of new information, technology changes, changes in costs of remediation, and other factors. The conditional asset obligation at June 30, 2016 and 2015, was \$6,739,000 and \$7,669,000, respectively, and is included in other liabilities in the accompanying consolidated balance sheets.

St. Joseph Health System and Affiliates
A St. Joseph Health Ministry Corporation

Notes to Consolidated Financial Statements (continued)

3. Property and Equipment (continued)

Lease Financing Obligations

In June 2006, St. Joseph Hospital of Orange (SJO) executed a 55-year lease arrangement with a developer, whereby the developer agreed to construct a 130,000-square-foot medical office building and a parking structure on SJO's land. Under the ground lease, SJO received nominal base rent until construction was completed in August 2008, at which time SJO took occupancy. SJO guaranteed to lease 64,000 square feet of the medical office building for 10 years and was required to pay lease payments for the parking structure for five years. At the end of the lease terms, SJO will have title to both the parking structure and the medical office building. The aggregate cost of the project was \$43,527,000 and is included in buildings and improvements. All construction costs were substantially financed by the developer.

In May 2005, SJO executed a 22-year lease arrangement, including two five-year lease term extensions, with a joint venture partnership in which SJO has a 35% ownership interest. The joint venture partnership owned and constructed a 56,000-square-foot medical office building and parking structure on its land. SJO committed to leasing the whole building, but subleased approximately 43,000 square feet to Heritage for physician offices. The aggregate cost of the project was \$28,158,000 and is included in building and improvements. Substantially all construction costs were financed by the joint venture partnership.

In both cases, SJO is considered the owner of the medical office building and parking structure for financial reporting purposes due to certain financial arrangements that effectively fund a portion of the construction costs. Heritage is also considered a separate owner of the medical office building since it is affiliated with SJO, which has a 35% ownership interest in the joint venture partnership. Accordingly, the assets and long-term debt of the medical office buildings and parking structures are recorded in the accompanying consolidated financial statements at June 30, 2016 and 2015 (see Note 5). SJO and Heritage did not meet the criteria necessary to derecognize the asset and related long-term debt when construction was complete and the lease terms began.

In November 2013, Hoag executed an 18-year lease arrangement with a joint venture partnership in which Hoag owns a 49% interest. The joint venture partnership owns and constructed medical office buildings totaling 150,000 square feet. Hoag committed to leasing the building for physician offices which commenced in 2016. The aggregate cost of the project was \$45,173,000 and is included in buildings and improvements. Substantially all construction costs were

St. Joseph Health System and Affiliates
A St. Joseph Health Ministry Corporation

Notes to Consolidated Financial Statements (continued)

3. Property and Equipment (continued)

financed by the joint venture partnership. Hoag is considered the owner of the medical office buildings for financial purposes due to certain financial arrangements that effectively fund a portion of the construction costs. Accordingly, the assets and long term debt are recorded in the accompanying consolidated financial statements at June 30, 2016.

The cost of the medical office buildings and parking structures are amortized over the economic life. Rent payments paid by SJO, Heritage and Hoag are recorded as debt service payments on the debt obligation with the portion not relating to interest reducing the principal balance. Minimum estimated payments under lease financing obligations, excluding the effect of Consumer Price Index adjustments, are estimated to be as follows (in thousands):

Year:	
2017	\$ 7,690
2018	4,746
2019	4,461
2020	4,431
2021	4,636
Thereafter	88,301
Total	<u>\$ 114,265</u>

4. Credit Facilities

In June 2014, the Health System extended its syndicated credit arrangement to \$400,000,000 in revolving credit lines and renewed the arrangement to expire on June 19, 2019. The Health System had \$297,100,000 and \$230,000,000 in outstanding borrowings under this credit facility at June 30, 2016 and 2015, respectively (see Note 5).

The Health System has a credit facility with a bank to cumulatively borrow up to \$80,000,000. Borrowings under this credit facility bear interest at rates based on specified margins from published indices. The Health System had \$17,000,000 and \$23,000,000 in outstanding borrowings as of June 30, 2016 and 2015, respectively (see Note 5). The credit facility was renewed in January 2014 to expire on January 31, 2017.

St. Joseph Health System and Affiliates
A St. Joseph Health Ministry Corporation

Notes to Consolidated Financial Statements (continued)

4. Credit Facilities (continued)

The Health System has a bank credit facility that provides for the issuance of up to an aggregate of \$55,000,000 under letters of credit. Such letters of credit are collateralized under trust indentures (see Note 5). At June 30, 2016, the Health System had provided an aggregate of \$54,979,000 of these letters of credit for its workers' compensation and other insurance plans. At June 30, 2016 and 2015, none of these letters have been drawn upon.

5. Long-Term Debt

At June 30, 2015, the Health System Obligated Group is jointly and severally liable for certificates of participation and tax-exempt revenue bonds issued on its behalf by the California Statewide Communities Development Authority (CSCDA), California Health Facilities Financing Authority (CHFFA), and the Lubbock Health Facilities Development Corporation (LHFDC).

Long-term debt consists of the following at June 30:

	<u>2016</u>	<u>2015</u>
	<i>(In Thousands)</i>	
CSCDA Series 1999, 2000, and 2007A-F fixed rate tax-exempt bonds, net of unamortized premium of \$1,947, due in varying amounts through 2047; coupon rates of 4.50% to 5.75%	\$ 561,425	\$ 578,414
LHFDC Series 2008A multi-annual three-year put bonds due in 2030; coupon rate of 3.05%	40,725	42,375
LHFDC Series 2008B fixed rate tax-exempt bonds, due in varying amounts through 2023; coupon rates of 4.00% to 5.00%	58,975	71,240
CHFFA Series 2009A fixed rate tax-exempt bonds, net of unamortized discount of \$2,323, due in varying amounts through 2039; coupon rates of 5.50% and 5.75%	182,772	182,671
CHFFA Series 2009BCD fixed rate multi-annual three-, five-, and seven-year put bonds, net of unamortized premium of \$15,889, due in varying amounts through 2034; coupon rates of 4.00% to 5.25%	211,159	219,666

St. Joseph Health System and Affiliates
A St. Joseph Health Ministry Corporation

Notes to Consolidated Financial Statements (continued)

5. Long-Term Debt (continued)

	<u>2016</u>	<u>2015</u>
	<i>(In Thousands)</i>	
CHFFA Series 2011ABCD variable rate tax-exempt bonds with credit facility liquidity, due in varying amounts through 2041; interest rates varying from 0.01% to 0.44% during the period from July 1, 2015 to June 30, 2016	\$ 302,110	\$ 302,110
CHFFA Series 2013A fixed rate tax-exempt bonds, net of unamortized premium of \$4,060, due in varying amounts through 2037; coupon rates of 4.00% to 5.00%	328,900	329,094
CHFFA Series 2013BCD fixed rate multi-annual four-, six-, and seven-year put bonds, net of unamortized premium of \$24,509, due in varying amounts through 2043; coupon rates of 4.15% to 4.26%	354,509	364,098
Bank line of credit, balloon payment due June 2019; interest rates of 0.92% to 1.24%	297,100	230,000
Bank line of credit, balloon payment due January 2017; interest rate of 0.74% to 1.01%	17,000	23,000
Lease financing obligation (<i>see Note 3</i>)	114,265	64,751
Capitalized leases	14,610	19,674
Other	21,964	13,013
	2,505,514	2,440,106
Less current portion of long-term debt	(52,876)	(48,201)
	<u>\$ 2,452,638</u>	<u>\$ 2,391,905</u>

The effective interest rate on tax-exempt debt was 5.20% and 5.26% at June 30, 2016 and 2015, respectively.

St. Joseph Health System and Affiliates
A St. Joseph Health Ministry Corporation

Notes to Consolidated Financial Statements (continued)

5. Long-Term Debt (continued)

The aggregate amount of principal maturities and sinking fund requirements related to long-term debt (excluding lease financing obligation (See Note 4)) at June 30, 2016, is as follows (in thousands):

Year:	
2017	\$ 45,186
2018	48,203
2019	334,320
2020	36,369
2021	37,600
Thereafter	1,845,489
	<u>\$ 2,347,167</u>

In July 2011, the Health System issued \$302,110,000 of CHFFA variable rate tax-exempt demand bonds with interest rates reset daily or weekly and liquidity supported by irrevocable credit facilities. Proceeds of this issuance are being used to finance prospective projects and reimburse prior capital spending at various hospitals. In conjunction with the issuance of the CHFFA variable rate tax-exempt demand bonds, the Health System secured \$306,878,000 of credit facilities to provide liquidity for the outstanding bonds. In June 2014, the Health System extended the credit facilities to mature on June 19, 2019.

The fair value of the fixed rate tax-exempt bonds was estimated at \$1,868,943,000 and \$1,877,993,000 at June 30, 2016 and 2015, respectively. Fair value is estimated using a discounted cash flow analysis, based on current market interest rates for similar types of borrowing arrangements (Level 2 within the fair value hierarchy). The carrying amount of the Health System's variable rate tax-exempt bonds approximates its fair value as the interest rates change with the market.

Subsequent to June 30, 2016, the Corporation's management executed a plan of finance with the intention to combine the Obligated group of the Health System and PH&S. The plan of finance included refunding certain existing Health System debt as well as note substitutions. A majority of the transactions were completed by September 28, 2016.

St. Joseph Health System and Affiliates
A St. Joseph Health Ministry Corporation

Notes to Consolidated Financial Statements (continued)

5. Long-Term Debt (continued)

At June 30, 2016, the Health System was party to seven interest rate swap agreements with a current notional amount totaling \$484,725,000 and with varying expirations. The swap agreements require fixed rate payment in exchange for a variable rate. The market risk exposure of these agreements occurs when the fixed rate paid is greater than the variable rate received. At June 30, 2016 and 2015, the total fair value of the combined interest rate swaps of \$156,160,000 and \$101,064,000, respectively, represents the estimated amount the Health System would have paid upon termination of these agreements as of these dates. Fair values are based on independent valuations obtained and are determined by calculating the value of the discounted cash flows of the differences between the fixed interest rate of the interest rate swaps and the counterparty's forward London Interbank Offered Rate curve, which is the input used in the valuation, taking also into account any nonperformance risk. Changes in the fair value of the interest rate swaps are included within nonoperating gains, net. The Health System restricted \$56,336,000 and \$1,477,000 of assets as collateral held for the swap counterparty at June 30, 2016 and 2015, respectively, as required by its swap agreements.

Debt Covenants

As of June 30, 2016, the Health System continued to be subject to its existing Master Trust Indentures. The Health System's financing agreements contain restrictive covenants and limitations on certain working capital and liquidity ratios, amount of combined debt of the corporations comprising the Obligated Group, and amount of transfer of assets to non-Obligated Group members. Additionally, the trust indentures require that funds are established with, and controlled by, a trustee during the period the bonds remain outstanding.

If the Health System does not have a maximum annual debt service coverage ratio at the end of any fiscal year, including June 30, 2016, of at least 2.0 to 1.0, pursuant to its trust indentures for the tax-exempt bonds issued through CSCDA, CHFFA, and LHFDC, the Health System is required to fund the applicable debt service reserve fund seven days after the required reporting date. As of June 30, 2016, the Health System is in compliance with all debt covenants.

St. Joseph Health System and Affiliates
A St. Joseph Health Ministry Corporation

Notes to Consolidated Financial Statements (continued)

5. Long-Term Debt (continued)

Interest Cost

Interest cost incurred for the fiscal years ended June 30 is summarized as follows:

	2016	2015
	<i>(In Thousands)</i>	
Interest incurred, including amortization of premiums and discounts	\$ 89,123	\$ 101,452
Amortization of deferred financing costs	1,887	1,968
Total interest expense	\$ 91,010	\$ 103,420

Cash paid for interest on bonds was approximately \$86,984,000 and \$87,120,000 for the fiscal years ended June 30, 2016 and 2015, respectively.

6. Employee Benefit Plans

Retirement Plan

The Health System sponsors defined contribution retirement plans that cover substantially all employees. The plans provide for employer matching contributions in an amount equal to a percentage of employee pretax contributions, up to a maximum amount. In addition, the Health System makes contributions to all eligible employees based on years of service. The Health System contributed \$93,922,000 and \$87,332,000 in 2016 and 2015, respectively, to the plans.

Postretirement Health

The Health System offers a retiree health reimbursement plan to provide employees, who have satisfied the conditions of eligibility, with certain retiree medical expense reimbursement benefits. Eligibility for plan benefits is based on age and years of service. Effective August 1, 2014, the plan was amended such that future benefits would be provided only to active employees with a collective bargaining agreement and retirees already receiving benefits from the plan as of December 31, 2014.

St. Joseph Health System and Affiliates
A St. Joseph Health Ministry Corporation

Notes to Consolidated Financial Statements (continued)

6. Employee Benefit Plans (continued)

The following table sets forth the change in benefit obligations and components of net periodic benefit cost for the postretirement health plan for the fiscal years ended June 30. As of June 30, 2016 and 2015, there were no plan assets.

	<u>2016</u>	<u>2015</u>
	<i>(In Thousands)</i>	
Change in benefit obligations:		
Accumulated postretirement benefit obligation at beginning of year	\$ 17,740	\$ 43,337
Service cost	501	633
Interest cost	552	588
Actuarial gain	2,748	2,616
Benefits paid	(2,392)	(2,110)
Change in plan provision	-	(27,324)
Accumulated postretirement benefit obligation at end of year recognized in the consolidated balance sheets	<u>\$ 19,149</u>	<u>\$ 17,740</u>
Amounts recognized in changes to unrestricted net assets:		
Prior service cost	\$ 13,006	\$ 14,118
Net actuarial gain	6,405	9,719
Total	<u>\$ 19,411</u>	<u>\$ 23,837</u>
Components of net periodic benefit costs:		
Service cost	\$ 501	\$ 633
Interest cost	552	588
Amortization of net loss	(565)	(792)
Amortization of prior service cost	(1,112)	(797)
Net periodic benefit gain	<u>\$ (624)</u>	<u>\$ (368)</u>

The assumptions used to determine the net benefit obligation and net periodic benefit cost for the retirement plan are set forth below:

	<u>2016</u>	<u>2015</u>
Weighted average discount rate for benefit obligation	2.78%	3.30%
Weighted average discount rate for net periodic benefit cost	3.30%	3.20%

St. Joseph Health System and Affiliates
A St. Joseph Health Ministry Corporation

Notes to Consolidated Financial Statements (continued)

6. Employee Benefit Plans (continued)

The assumed annual health care cost trend rate for the retiree health plan is 7.50% for 2016, gradually decreasing to 5.00% in 2021, and remaining at that level thereafter.

Information about the expected cash flows for the retiree health reimbursement plan follows (in thousands):

Expected employer contributions 2017	\$	2,903
Expected benefit payments:		
2017	\$	2,903
2018		2,745
2019		2,722
2020		2,500
2021		2,078
2022–2026		6,336

7. Functional Expenses

The Health System provides general health care services to residents within the geographic locations served by its affiliates. Expenses related to providing these services for the fiscal years ended June 30 are as follows:

	<u>2016</u>	<u>2015</u>
	<i>(In Thousands)</i>	
Health care services	\$ 5,648,709	\$ 5,122,957
General and administrative	799,658	1,038,361
	<u>\$ 6,448,367</u>	<u>\$ 6,161,318</u>

St. Joseph Health System and Affiliates
A St. Joseph Health Ministry Corporation

Notes to Consolidated Financial Statements (continued)

8. Charity Care

The Health System's policy is to accept all patients regardless of their ability to pay. In assessing a patient's ability to pay, the Health System's policy uses generally recognized income levels, but also considers cases where incurred charges are significant when compared to income. Health care services rendered to patients who are unable to pay according to these criteria are classified as traditional charity care.

The Health System's policy is to report charity care and community benefits disclosures on a cost basis and to report any offsetting funds separately. Charity care amounts are determined using both a ratio of cost to gross charges as well as cost accounting systems. Funds received from sources such as government programs or private grants, which offset or subsidize charity services, are separately disclosed.

The Health System incurred charity care costs for the fiscal years ended June 30 of \$69,405,000 and \$65,179,000 in 2016 and 2015, respectively.

9. Community Benefits (Unaudited)

The Health System's policy is to sponsor numerous health care-related programs for the general community and the medically underserved population in the area it serves. Some of these programs include mobile medical vans, health and dental clinics, prenatal programs, family and community resource centers, and chronic disease management programs.

In addition to traditional charity care and other direct community services, the Health System incurred a shortfall from services rendered to patients covered by certain public programs. This shortfall is defined as the cost of providing services to state Medicaid and local indigent program beneficiaries in excess of government payments. The Health System's QA Fee payments and Supplemental Payment revenues from the California Hospital Quality Assurance Program are included within unpaid cost of state and local programs.

St. Joseph Health System and Affiliates
A St. Joseph Health Ministry Corporation

Notes to Consolidated Financial Statements (continued)

9. Community Benefits (Unaudited) (continued)

The cost of the aforementioned programs for the Health System is summarized for the fiscal years ended June 30 as follows:

2016	Total Community Benefit Expense, at Cost		Un-sponsored Community Benefit Expense, at Cost		
	Amount	Percent of Total Expenses	Direct Offsetting Revenue	Amount	Percent of Total Expenses
<i>(In Thousands)</i>					
Benefits for the poor:					
Traditional charity care (audited)	\$ 69,405	1.1	\$ -	\$ 69,405	1.1%
Community services for the poor	37,704	0.6	4,840	32,864	0.5
Unpaid cost of state and local programs	885,980	13.7	588,021	297,959	4.6
Total quantifiable benefits for the poor	993,089	15.4	592,861	400,228	6.2
Community services for the broader community	58,068	0.9	16,582	41,486	0.6
Total community benefits	<u>\$ 1,051,157</u>	<u>16.3</u>	<u>\$ 609,443</u>	<u>\$ 441,714</u>	<u>6.8%</u>

2015	Total Community Benefit Expense, at Cost		Un-sponsored Community Benefit Expense, at Cost		
	Amount	Percent of Total Expenses	Direct Offsetting Revenue	Amount	Percent of Total Expenses
<i>(In Thousands)</i>					
Benefits for the poor:					
Traditional charity care (audited)	\$ 65,179	1.1	\$ -	\$ 65,179	1.1%
Community services for the poor	42,007	0.7	5,029	36,978	0.6
Unpaid cost of state and local programs	912,821	14.8	609,801	303,020	4.9
Total quantifiable benefits for the poor	1,020,007	16.6	614,830	405,177	6.6
Community services for the broader community	38,431	0.6	2,208	36,223	0.6
Total community benefits	<u>\$ 1,058,438</u>	<u>17.2</u>	<u>\$ 617,038</u>	<u>\$ 441,400</u>	<u>7.2%</u>

In addition, the Health System incurred \$488,816,000 and \$471,806,000 in costs in excess of reimbursement from the Medicare program for the fiscal years ended June 30, 2016 and 2015, respectively.

St. Joseph Health System and Affiliates
A St. Joseph Health Ministry Corporation

Notes to Consolidated Financial Statements (continued)

9. Community Benefits (Unaudited) (continued)

The Health System’s affiliated hospitals, excluding Hoag, dedicate approximately 10% of revenues in excess of expenses attributable to controlling interests each year to the St. Joseph Health System Foundation (Foundation) (dba as SJH Community Partnership Fund). Contributions are used to support local hospital Care for the Poor programs, SJH Community Partnership Fund grant initiatives, and the SJH Community Partnership Fund reserves, which help ensure the Fund’s ability to sustain programs into the future to assist low-income and underserved populations.

10. Temporarily and Permanently Restricted Net Assets

Temporarily and permanently restricted net assets are donor-restricted assets appropriated for facility expansion, capital acquisition, health services, and other specific purposes.

Temporarily restricted net asset are available for the following purposes at June 30:

	2016	2015
	<i>(In Thousands)</i>	
Program development	\$ 130,090	\$ 112,267
Building and equipment	97,767	98,997
Deferred for future use	25,982	16,960
Health care operations	8,902	7,360
Indigent care	4,237	4,315
Research	4,954	3,907
Education	17,261	13,260
Other	17,904	13,264
Total temporarily restricted net assets	\$ 307,097	\$ 270,330

St. Joseph Health System and Affiliates
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Notes to Consolidated Financial Statements (continued)

10. Temporarily and Permanently Restricted Net Assets (continued)

Permanently restricted net asset are available for the following purposes at June 30:

	2016	2015
	<i>(In Thousands)</i>	
Program development	\$ 63,822	\$ 62,945
Building and equipment	106	106
Deferred for future use	3,733	3,733
Health care operations	3,963	3,936
Indigent care	2,973	2,170
Research	301	301
Education	5,676	4,238
Other	3,720	3,720
Total permanently restricted net assets	\$ 84,294	\$ 81,149

Endowments

The Health System's endowment consists of approximately 173 separate endowment funds included in assets limited as to use established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees of the hospital foundations to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Trustees has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor restrictions to the contrary. As a result of this interpretation, the Health System classifies as permanently restricted net assets (i) the original value of gifts donated to the permanent endowment, (ii) the original value of subsequent gifts to the permanent endowment, and (iii) accumulations to the permanent endowment made in accordance with the direction of applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Health System in

St. Joseph Health System and Affiliates
A St. Joseph Health Ministry Corporation

Notes to Consolidated Financial Statements (continued)

10. Temporarily and Permanently Restricted Net Assets (continued)

a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Health System considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (a) The duration and preservation of the fund
- (b) The purposes of the hospital and the donor-restricted endowment fund
- (c) General economic conditions
- (d) The possible effect of inflation and deflation
- (e) The expected total return from income and the appreciation of investments
- (f) Other resources of the hospital
- (g) The investment policies of the hospital

The endowment net asset composition by fund type as of June 30 is as follows:

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
	<i>(In Thousands)</i>			
Board-designated endowment funds	\$ 36,596	\$ 21,229	\$ –	\$ 57,825
Donor-restricted endowment funds	–	37,856	84,294	122,150
Total funds	\$ 36,596	\$ 59,085	\$ 84,294	\$ 179,975

St. Joseph Health System and Affiliates
A St. Joseph Health Ministry Corporation

Notes to Consolidated Financial Statements (continued)

10. Temporarily and Permanently Restricted Net Assets (continued)

	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	<i>(In Thousands)</i>			
Board-designated endowment funds	\$ 46,861	\$ 22,323	\$ 1,119	\$ 70,303
Donor-restricted endowment funds	–	41,119	80,030	121,149
Total funds	\$ 46,861	\$ 63,442	\$ 81,149	\$ 191,452

Change in endowment net assets during the fiscal years ended June 30 is as follows:

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	<i>(In Thousands)</i>			
Endowment net assets, July 1, 2015	\$ 46,861	\$ 63,442	\$ 81,149	\$ 191,452
Realized investment gains, net	2,598	6,786	65	9,449
Unrealized losses, net	(3,655)	(10,319)	(10)	(13,984)
Contributions, net	237	296	3,090	3,623
Appropriation of endowment assets for expenditure	(9,445)	(1,120)	–	(10,565)
Endowment net assets, June 30, 2016	\$ 36,596	\$ 59,085	\$ 84,294	\$ 179,975

St. Joseph Health System and Affiliates
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Notes to Consolidated Financial Statements (continued)

10. Temporarily and Permanently Restricted Net Assets (continued)

	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	<i>(In Thousands)</i>			
Endowment net assets, July 1, 2014	\$ 62,937	\$ 57,833	\$ 69,606	\$ 190,376
Realized investment gains, net	4,545	5,790	114	10,449
Unrealized losses, net	(2,390)	(214)	(4)	(2,608)
Contributions, net	558	1,264	11,472	13,294
Appropriation of endowment assets for expenditure	(18,789)	(1,231)	(39)	(20,059)
Endowment net assets, June 30, 2015	<u>\$ 46,861</u>	<u>\$ 63,442</u>	<u>\$ 81,149</u>	<u>\$ 191,452</u>

The Health System has investment and spending policies for endowment assets that attempt to provide a stream of funding to programs supported by its endowment while balancing the risk of investment loss with the long-term preservation of purchasing power. Endowment assets include those assets of donor-restricted funds that the Health System must hold in perpetuity or for a donor-specified period as well as board-designated funds. The Health System seeks to maintain the purchasing power of the endowment assets portfolio and to achieve rates of returns that over time exceed inflation by a specified margin. To achieve its long-term investment objectives within prudent risk constraints, the Health System develops strategic asset allocation ranges and targets for the endowment portfolio and considers factors, including, but not limited to, time horizon, liquidity, and risk tolerance. The current asset allocation targets emphasize diversification across asset classes to manage risk and enhance returns. Actual allocations may differ from target allocations in the short term or during periods of significant market fluctuations. In addition, the Health System confirms the asset allocation ranges on an annual basis and updates the investment policy and/or target allocations, as needed, if there is a significant change in capital market expectations and/or investment objectives, including spending requirements.

St. Joseph Health System and Affiliates
A St. Joseph Health Ministry Corporation

Notes to Consolidated Financial Statements (continued)

10. Temporarily and Permanently Restricted Net Assets (continued)

The Health System expects that the returns achieved for the endowment portfolio will be accompanied by capital market risk, but the Health System seeks to achieve returns, adjusted for this risk, that will compare favorably to the returns of the applicable markets and representative peers.

The Health System's policy allows each hospital's Board of Trustees to determine a spending rate from endowment investments. In establishing this policy, the Health System considers the fair market value and long-term expected return on its endowment and the factors described above.

11. Commitments and Contingencies

Operating Leases

The Health System leases land, buildings, and equipment under various noncancelable operating leases excluding lease financing obligations (see Note 3) for terms up to 32 years. Lease expense for the fiscal years ended June 30, 2016 and 2015 were \$108,328,000 and \$92,849,000, respectively. Sublease revenues relating to building space under various noncancelable leases were \$14,238,000 in 2016 and \$11,512,000 in 2015. The leases provide that the minimum monthly lease payments may be adjusted for inflation. Minimum lease commitments at June 30, 2016, are as follows (in thousands):

Year:	
2017	\$ 101,548
2018	100,978
2019	96,393
2020	83,077
2021	70,783
Thereafter	359,128
	<hr/>
	811,907
Less sublease revenue	(76,267)
	<hr/> <hr/>
	\$ 735,640

St. Joseph Health System and Affiliates
A St. Joseph Health Ministry Corporation

Notes to Consolidated Financial Statements (continued)

11. Commitments and Contingencies (continued)

Litigation

The Health System has been named in complaints alleging various wage and hour violations in California. Similar actions have been filed against other California employers including other hospitals and health systems. The class has been certified in two of the lawsuits. The Health System is vigorously defending the actions. The Health System has just begun the merits phase of those two actions, and Management is still assessing the likely outcome but does not expect a material impact to the consolidated financial statements.

In February 2012, the Health System became aware of and notified approximately 32,000 patients that personal health information records residing on its internal computer networks had been accessible through external search engines. All affected patients and regulatory agencies have been notified and corrective actions have been in progress. Shortly after the Health System's notification, several putative class actions were filed, which were consolidated into one coordinated proceeding in Orange County Superior Court. On August 26, 2015, the Health System reached a tentative agreement to settle the matter, which is reflected in the Health System's consolidated financial statements as of June 30, 2015. The parties reached final settlement agreement and the court granted preliminary approval of the agreement in September 2015. The Court granted final approval of the settlement agreement on February 3, 2016. The class action administrator is in the process of distributing the settlement funds to the class members.

Seismic Compliance (Unaudited)

The Health System has completed facility master plans for each of its California hospitals, including an assessment of earthquake retrofit requirements. The Health System projects total costs of \$1,384,347,000 to meet these seismic standards, and in some cases these projects will meet enhanced standards for 2030. Of the total projected costs, \$1,072,570,000 has been spent through June 30, 2016, with additional commitments of \$3,970,000. The Health System is compliant with all current seismic standards for all of its California hospitals.

St. Joseph Health System and Affiliates
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Notes to Consolidated Financial Statements (continued)

12. Subsequent Events

The Health System has evaluated subsequent events occurring between the end of the most recent fiscal year ended June 30, 2016, and September 29, 2016, the date the accompanying consolidated financial statements were issued.

Supplementary Information

St. Joseph Health System and Affiliates
A St. Joseph Health Ministry Corporation

Consolidating Balance Sheet
(In Thousands)

June 30, 2016

	Consolidated	Eliminations	Total Regional Entities	System Office	St Joseph Health Source	St. Joseph Health Personal Care Services	American Unity Group	Professional Services Enterprises	Heritage Investment Group I	Revenue Cycle Services	St. Joseph Health System Foundation	Datu Health	Obligated Group	Non-Obligated Group
Assets														
Current assets:														
Cash and equivalents	\$ 416,362	\$ (58,584)	\$ 459,883	\$ –	\$ –	\$ –	\$ 4,309	\$ 3,875	\$ 913	\$ –	\$ 4,073	\$ 1,893	\$ 290,295	\$ 126,067
Short-term marketable securities	623,136	–	472,356	35,231	–	–	13,087	–	–	–	102,462	–	444,779	178,357
Patient accounts receivable, less allowance for doubtful accounts	650,391	–	649,942	–	–	449	–	–	–	–	–	–	518,045	132,346
Other assets	267,985	–	231,409	33,559	–	1,337	1,313	1	60	243	11	52	196,459	71,526
Total current assets	1,957,874	(58,584)	1,813,590	68,790	–	1,786	18,709	3,876	973	243	106,546	1,945	1,449,578	508,296
Long-term marketable securities	1,073,594	–	899,745	91,319	–	–	82,530	–	–	–	–	–	908,189	165,405
Assets limited as to use:														
Board designated	1,513,703	–	1,480,999	–	–	–	–	–	–	–	32,704	–	1,350,509	163,194
Held in trust	116,512	–	16,595	99,917	–	–	–	–	–	–	–	–	103,468	13,044
Total assets limited as to use	1,630,215	–	1,497,594	99,917	–	–	–	–	–	–	32,704	–	1,453,977	176,238
Property and equipment, net	3,998,655	88,222	3,522,630	366,023	–	211	–	9,662	11,356	551	–	–	3,701,062	297,593
Investments and other	205,449	(20,755)	132,198	41,672	25,707	–	263	12,342	8,412	240	–	5,370	365,665	(160,216)
Collateral held for swap counterparty	56,336	–	–	56,336	–	–	–	–	–	–	–	–	56,336	–
Notes receivable	148,809	–	482	148,327	–	–	–	–	–	–	–	–	148,810	(1)
Deferred financing costs, net	18,688	–	15,895	2,793	–	–	–	–	–	–	–	–	18,688	–
Goodwill and other intangibles, net	265,640	21,922	243,268	–	–	450	–	–	–	–	–	–	53,339	212,301
	694,922	1,167	391,843	249,128	25,707	450	263	12,342	8,412	240	–	5,370	642,838	52,084
Total assets	\$ 9,355,260	\$ 30,805	\$ 8,125,402	\$ 875,177	\$ 25,707	\$ 2,447	\$ 101,502	\$ 25,880	\$ 20,741	\$ 1,034	\$ 139,250	\$ 7,315	\$ 8,155,644	\$ 1,199,616
Liabilities and net assets (deficit)														
Current liabilities:														
Accounts payable	\$ 146,596	\$ (1)	\$ 143,559	\$ 2,185	\$ –	\$ 32	\$ 652	\$ –	\$ –	\$ 32	\$ 137	\$ –	\$ 122,653	\$ 23,943
Accrued compensation and related liabilities	339,448	–	285,610	49,264	–	38	–	–	–	4,536	–	–	295,194	44,254
Accrued liabilities	503,224	(1,234)	336,098	132,127	147	329	27,544	–	3,178	5,035	–	–	374,189	174,495
Payable to third-party payors, net	57,746	–	57,746	–	–	–	–	–	–	–	–	–	58,054	(308)
Current maturities of long-term debt	52,876	(34,456)	41,512	45,820	–	–	–	–	–	–	–	–	50,483	2,393
Current liabilities of discontinued subsidiary	2,004	–	–	–	–	–	–	–	–	–	–	2,004	–	2,004
Total current liabilities	1,101,894	(35,691)	864,525	229,396	147	399	28,196	–	3,178	9,603	137	2,004	900,573	246,781
Interest rate swaps	156,160	–	3	156,157	–	–	–	–	–	–	–	–	156,157	3
Other liabilities	258,515	–	139,098	109,451	–	–	9,720	6	–	240	–	–	205,562	64,203
Notes payable and interest due to (from) affiliates	–	1,786,810	53,384	(1,890,579)	–	1,431	–	–	9,610	41,199	(1,855)	–	(359,418)	359,418
Long-term debt, less current maturities	2,452,638	(1,842,630)	1,952,531	2,321,899	–	–	–	20,838	–	–	–	–	2,391,261	4,667
Long-term liabilities of discontinued subsidiary	1,156	(7,509)	–	–	–	–	–	–	–	–	–	8,665	–	1,156
Total liabilities	3,970,363	(99,020)	3,009,541	926,324	147	1,830	37,916	20,844	12,788	51,042	(1,718)	10,669	3,294,135	676,228
Net assets (deficit):														
Controlling interest	5,236,171	119,588	4,977,372	(51,147)	25,560	617	63,586	5,036	7,953	(50,008)	140,968	(3,354)	4,861,509	356,220
Noncontrolling interests in subsidiaries	148,726	10,237	138,489	–	–	–	–	–	–	–	–	–	–	167,168
	5,384,897	129,825	5,115,861	(51,147)	25,560	617	63,586	5,036	7,953	(50,008)	140,968	(3,354)	4,861,509	523,388
Total liabilities and net assets	\$ 9,355,260	\$ 30,805	\$ 8,125,402	\$ 875,177	\$ 25,707	\$ 2,447	\$ 101,502	\$ 25,880	\$ 20,741	\$ 1,034	\$ 139,250	\$ 7,315	\$ 8,155,644	\$ 1,199,616

St. Joseph Health System and Affiliates
A St. Joseph Health Ministry Corporation

Consolidating Balance Sheet of Regional Entities
(In Thousands)

June 30, 2016

	Total Regional Entities	Eliminations	Southern California Region	Northern California Region	Texas Region	Heritage
Assets						
Current assets:						
Cash and equivalents	\$ 459,883	\$ (111,036)	\$ 359,243	\$ 21,223	\$ 178,541	\$ 11,912
Short-term marketable securities	472,356	-	267,862	110,849	77,111	16,534
Patient accounts receivable, less allowance for doubtful accounts	649,942	-	320,208	133,917	166,416	29,401
Other assets	231,409	-	118,983	51,283	41,001	20,142
Total current assets	1,813,590	(111,036)	1,066,296	317,272	463,069	77,989
Long-term marketable securities	899,745	2,365	537,294	281,034	79,052	-
Assets limited as to use:						
Board designated	1,480,999	-	1,447,899	16,449	16,393	258
Held in trust	16,595	-	3,171	9,857	3,567	-
Total assets limited as to use	1,497,594	-	1,451,070	26,306	19,960	258
Property and equipment, net	3,522,630	-	2,450,479	622,153	325,762	124,236
Investments and other	132,198	-	96,142	2,609	28,709	4,738
Notes receivable	482	-	184	196	102	-
Deferred financing costs, net	15,895	-	11,545	3,715	635	-
Goodwill and other intangibles, net	243,268	-	102,058	-	13,349	127,861
	391,843	-	209,929	6,520	42,795	132,599
Total assets	\$ 8,125,402	\$ (108,671)	\$ 5,715,068	\$ 1,253,285	\$ 930,638	\$ 335,082
Liabilities and net assets						
Current liabilities:						
Accounts payable	\$ 143,559	\$ 2	\$ 80,984	\$ 26,899	\$ 23,024	\$ 12,650
Accrued compensation and related liabilities	285,610	-	169,180	52,124	49,878	14,428
Accrued liabilities	336,098	-	148,731	43,908	96,387	47,072
Payable to third-party payors, net	57,746	-	35,738	15,841	6,167	-
Current maturities of long-term debt	41,512	-	21,462	4,090	15,539	421
Total current liabilities	846,525	2	456,095	142,862	190,995	74,571
Interest rate swaps	3	-	3	-	-	-
Other liabilities	139,098	-	81,552	6,355	29,430	21,761
Notes payable and interest due to (from) affiliates	53,384	(111,036)	99,816	17,114	20,673	26,817
Long-term debt, less current maturities	1,952,531	-	1,477,250	328,715	102,004	44,562
Total liabilities	3,009,541	(111,034)	2,114,716	495,046	343,102	167,711
Net assets:						
Controlling interest	4,977,372	2,363	3,493,813	757,125	556,700	167,371
Noncontrolling interests in subsidiaries	138,489	-	106,539	1,114	30,836	-
	5,115,861	2,363	3,600,352	758,239	587,536	167,371
Total liabilities and net assets	\$ 8,125,402	\$ (108,671)	\$ 5,715,068	\$ 1,253,285	\$ 930,638	\$ 335,082

St. Joseph Health System and Affiliates
A St. Joseph Health Ministry Corporation

Consolidating Balance Sheet of Southern California Region

(In Thousands)

June 30, 2016

	Southern California Region	Eliminations	St. Joseph Orange	St. Jude Medical Center	Mission Hospital	St. Mary Medical Center	Hoag Hospital	Hoag Foundation	Newport Healthcare Center	St. Joseph Home Health South	Other
Assets											
Current assets:											
Cash and equivalents	\$ 359,243	\$ 40,778	\$ -	\$ -	\$ -	\$ 19,879	\$ 192,864	\$ 12,557	\$ 21,458	\$ 4,432	\$ 67,275
Short-term marketable securities	267,862	-	14,116	709	49,585	56,505	110,529	36,418	-	-	-
Patient accounts receivable, less allowance for doubtful accounts	320,208	1	53,050	47,181	63,823	40,696	81,660	-	-	13,211	20,586
Other assets	118,983	(10,456)	20,389	10,208	13,792	19,446	32,278	10,357	12,566	3,365	7,038
Total current assets	1,066,296	30,323	87,555	58,098	127,200	136,526	417,331	59,332	34,024	21,008	94,899
Long-term marketable securities											
537,294	-	156,464	234,041	80,158	66,631	-	-	-	-	-	-
Assets limited as to use:											
Board designated	1,447,899	-	60,469	25,775	26,531	3,691	1,217,537	113,896	-	-	-
Held in trust	3,171	-	3,171	-	-	-	-	-	-	-	-
Total assets limited as to use	1,451,070	-	63,640	25,775	26,531	3,691	1,217,537	113,896	-	-	-
Property and equipment, net	2,450,479	(38,646)	431,454	630,254	334,352	119,574	795,070	-	128,328	1,066	49,027
Investments and other	96,142	(299,169)	15,191	1,395	18,563	1,156	255,526	52,745	8	1,026	49,701
Notes receivable	184	-	175	9	-	-	-	-	-	-	-
Deferred financing costs, net	11,545	-	4,588	3,717	2,234	1,006	-	-	-	-	-
Goodwill and other intangibles, net	102,058	(1,273)	17,700	-	13,717	-	-	-	-	21,224	50,690
Total assets	\$ 5,715,068	\$ (308,765)	\$ 776,767	\$ 953,289	\$ 602,755	\$ 328,584	\$ 2,685,464	\$ 225,973	\$ 162,360	\$ 44,324	\$ 244,317
Liabilities and net assets											
Current liabilities:											
Accounts payable	\$ 80,984	\$ (1,498)	\$ 28,844	\$ 2,513	\$ 2,574	\$ 1,200	\$ 40,557	\$ 116	\$ 758	\$ 86	\$ 5,834
Accrued compensation and related liabilities	169,180	(4,589)	26,257	24,821	21,702	12,884	76,977	887	-	2,487	7,754
Accrued liabilities	148,731	10,968	12,252	19,445	39,371	11,241	40,516	2,769	606	2,249	9,314
Payable to third-party payors, net	35,738	(308)	2,559	7,529	13,973	9,590	2,395	-	-	-	-
Current maturities of long-term debt	21,462	(421)	10,958	4,524	3,373	1,023	-	-	-	-	2,005
Total current liabilities	456,095	4,152	80,870	58,832	80,993	35,938	160,445	3,772	1,364	4,822	24,907
Interest rate swaps	3	-	-	-	-	-	-	-	-	-	3
Other liabilities	81,552	(3,772)	15,539	2,202	4,016	1,932	53,352	3,045	-	-	5,238
Notes payable and interest due to (from) affiliates											
99,816	33,208	(2,379)	12,500	73,135	9,804	(77,865)	3,836	-	-	7,204	40,373
Long-term debt, less current maturities	1,477,250	(24,443)	355,307	340,214	169,403	52,345	583,211	-	-	-	1,213
Total liabilities	2,114,716	9,145	449,337	413,748	327,547	100,019	719,143	10,653	1,364	12,026	71,734
Net assets:											
Controlling interest	3,493,813	(424,449)	327,430	539,541	275,208	228,565	1,966,321	215,320	160,996	32,298	172,583
Noncontrolling interests in subsidiaries	106,539	106,539	-	-	-	-	-	-	-	-	-
Total liabilities and net assets	\$ 5,715,068	\$ (308,765)	\$ 776,767	\$ 953,289	\$ 602,755	\$ 328,584	\$ 2,685,464	\$ 225,973	\$ 162,360	\$ 44,324	\$ 244,317

St. Joseph Health System and Affiliates
A St. Joseph Health Ministry Corporation

Consolidating Balance Sheet of Northern California Region
(In Thousands)

June 30, 2016

	Northern California Region	Eliminations	Queen of the Valley	Santa Rosa Memorial	Petaluma Valley	St. Joseph Eureka	Redwood Memorial	St. Joseph Home Health North	Redwood Memorial Foundation	Northbay Endoscopy Center	Queen of the Valley Foundation
Assets											
Current assets:											
Cash and equivalents	\$ 21,223	\$ -	\$ 6,006	\$ -	\$ 3,265	\$ 7,713	\$ 4,026	\$ -	\$ 29	\$ 184	\$ -
Short-term marketable securities	110,849	-	31,142	43,773	-	8,251	21,223	-	2,013	-	4,447
Patient accounts receivable, less allowance for doubtful accounts	133,917	-	23,387	70,159	11,189	21,843	4,653	2,014	-	672	-
Other assets	51,283	-	8,856	13,637	2,921	15,569	3,950	22	-	2,161	4,167
Total current assets	317,272	-	69,391	127,569	17,375	53,376	33,852	2,036	2,042	3,017	8,614
Long-term marketable securities	281,034	-	117,964	100,582	-	9,627	49,039	-	-	-	3,822
Assets limited as to use:											
Board designated	16,449	-	-	5,057	2,297	9,095	-	-	-	-	-
Held in trust	9,857	-	-	-	-	106	-	-	478	-	9,273
Total assets limited as to use	26,306	-	-	5,057	2,297	9,201	-	-	478	-	9,273
Property and equipment, net	622,153	-	202,119	198,890	12,268	197,190	10,790	375	116	340	65
Investments and other	2,609	(5,008)	1,118	4,977	164	1,187	171	-	-	-	-
Notes receivable	196	-	23	-	-	165	8	-	-	-	-
Deferred financing costs, net	3,715	-	1,143	2,021	3	535	13	-	-	-	-
	6,520	(5,008)	2,284	6,998	167	1,887	192	-	-	-	-
Total assets	\$ 1,253,285	\$ (5,008)	\$ 391,758	\$ 439,096	\$ 32,107	\$ 271,281	\$ 93,873	\$ 2,411	\$ 2,636	\$ 3,357	\$ 21,774
Liabilities and net assets (deficit)											
Current liabilities:											
Accounts payable	\$ 26,899	\$ (2)	\$ 851	\$ 13,753	\$ 3,029	\$ 7,273	\$ 1,964	\$ 16	\$ -	\$ 14	\$ 1
Accrued compensation and related liabilities	52,124	-	14,002	16,614	6,005	12,456	2,746	301	-	-	-
Accrued liabilities	43,908	-	15,962	19,482	2,380	4,765	573	520	-	-	226
Payable to third-party payors, net	15,841	-	2,582	4,036	875	6,316	2,032	-	-	-	-
Current maturities of long-term debt	4,090	-	1,429	2,471	114	-	76	-	-	-	-
Total current liabilities	142,862	(2)	34,826	56,356	12,403	30,810	7,391	837	-	14	227
Other liabilities	6,355	-	1,118	2,305	155	1,251	171	-	-	-	1,355
Notes payable and interest due to (from) affiliates	17,114	-	(5,443)	(29,656)	13,138	28,093	(72)	11,875	180	-	(1,001)
Long-term debt, less current maturities	328,715	-	147,422	118,805	-	60,924	1,564	-	-	-	-
Total liabilities	495,046	(2)	177,923	147,810	25,696	121,078	9,054	12,712	180	14	581
Net assets (deficit):											
Controlling interest	757,125	(6,120)	213,835	291,286	6,411	150,203	84,819	(10,301)	2,456	3,343	21,193
Noncontrolling interests in subsidiaries	1,114	1,114	-	-	-	-	-	-	-	-	-
	758,239	(5,006)	213,835	291,286	6,411	150,203	84,819	(10,301)	2,456	3,343	21,193
Total liabilities and net assets (deficit)	\$ 1,253,285	\$ (5,008)	\$ 391,758	\$ 439,096	\$ 32,107	\$ 271,281	\$ 93,873	\$ 2,411	\$ 2,636	\$ 3,357	\$ 21,774

St. Joseph Health System and Affiliates
A St. Joseph Health Ministry Corporation

Consolidating Balance Sheet of Texas Region
(In Thousands)

June 30, 2016

	Texas Region	Eliminations	Covenant Lubbock	Covenant Levelland	Covenant Plainview	Covenant LTAC	Covenant Rehabilitation Hospital	Covenant Medical Group	First Care	Methodist Service Provider Organization	Covenant Foundation	Other
Assets												
Current assets:												
Cash and equivalents	\$ 178,541	\$ -	\$ 108,106	\$ 3,746	\$ 14,949	\$ 4,856	\$ 1,083	\$ 5,637	\$ 16,647	\$ 449	\$ 5,302	\$ 17,766
Short-term marketable securities	77,111	-	69,583	4,117	15	-	-	100	3,296	-	-	-
Patient accounts receivable, less allowance for doubtful accounts	166,416	-	91,533	1,906	6,966	2,810	14,473	7,442	35,272	-	-	6,014
Other assets	41,001	-	20,498	(14)	561	180	235	3,023	3,257	910	10,494	1,857
Total current assets	463,069	-	289,720	9,755	22,491	7,846	15,791	16,202	58,472	1,359	15,796	25,637
Long-term marketable securities	79,052	-	-	-	-	-	-	-	69,382	-	9,670	-
Assets limited as to use:												
Board designated	16,393	-	14	44	-	-	-	-	-	-	16,335	-
Held in trust	3,567	-	274	-	-	-	-	-	-	-	3,293	-
Total assets limited as to use	19,960	-	288	44	-	-	-	-	-	-	19,628	-
Property and equipment, net	325,762	-	280,585	2,366	14,404	2,917	2,298	3,403	14,701	1,821	3	3,264
Investments and other	28,709	(66,041)	24,545	-	-	-	-	24,679	-	44,615	-	911
Notes receivable	102	-	102	-	-	-	-	-	-	-	-	-
Deferred financing costs, net	635	-	635	-	-	-	-	-	-	-	-	-
Goodwill and other intangibles, net	13,349	(4,670)	-	-	-	-	18,019	-	-	-	-	-
	42,795	(70,711)	25,282	-	-	-	18,019	24,679	-	44,615	-	911
Total assets	\$ 930,638	\$ (70,711)	\$ 595,875	\$ 12,165	\$ 36,895	\$ 10,763	\$ 36,108	\$ 44,284	\$ 142,555	\$ 47,795	\$ 45,097	\$ 29,812
Liabilities and net assets (deficit)												
Current liabilities:												
Accounts payable	\$ 23,024	\$ (1)	\$ 14,666	\$ 779	\$ 2,466	\$ 197	\$ 671	\$ 559	\$ 740	\$ 7	\$ 1,261	\$ 1,679
Accrued compensation and related liabilities	49,878	-	29,519	770	1,177	556	725	11,617	1,595	-	90	3,829
Accrued liabilities	96,387	-	14,454	91	229	421	2,060	1,965	74,927	-	-	2,240
Payable to third-party payors, net	6,167	-	5,726	143	298	-	-	-	-	-	-	-
Current maturities of long-term debt	15,539	-	15,152	-	-	-	-	-	140	-	-	247
Total current liabilities	190,995	(1)	79,517	1,783	4,170	1,174	3,456	14,141	77,402	7	1,351	7,995
Other liabilities	29,430	-	2,822	-	-	-	-	24,679	-	-	-	1,929
Notes payable and interest due to (from) affiliates												
	20,673	-	(252,319)	579	1,589	651	7,368	160,587	-	102,201	264	(247)
Long-term debt, less current maturities	102,004	1	100,308	-	-	-	430	-	1,265	-	-	-
Total liabilities	343,102	-	(69,672)	2,362	5,759	1,825	11,254	199,407	78,667	102,208	1,615	9,677
Net assets (deficit):												
Controlling interest	556,700	(101,547)	665,547	9,803	31,136	8,938	24,854	(155,123)	63,888	(54,413)	43,482	20,135
Noncontrolling interests in subsidiaries	30,836	30,836	-	-	-	-	-	-	-	-	-	-
	587,536	(70,711)	665,547	9,803	31,136	8,938	24,854	(155,123)	63,888	(54,413)	43,482	20,135
Total liabilities and net assets (deficit)	\$ 930,638	\$ (70,711)	\$ 595,875	\$ 12,165	\$ 36,895	\$ 10,763	\$ 36,108	\$ 44,284	\$ 142,555	\$ 47,795	\$ 45,097	\$ 29,812

St. Joseph Health System and Affiliates
A St. Joseph Health Ministry Corporation

Consolidating Statement of Operations
(In Thousands)

Year Ended June 30, 2016

	Consolidated	Eliminations	Total Regional Entities	System Office	St. Joseph Health Source	St. Joseph Health Personal Care Services	American Unity Group	Professional Services Enterprises	Heritage Investment Group I	Revenue Cycle Services	St. Joseph Health System Foundation	Datu Health	Obligated Group	Non-Obligated Group
Revenues:														
Patient service, net of contractual allowances and discounts	\$ 5,122,397	\$ -	\$ 5,116,701	\$ -	\$ -	\$ 2,342	\$ -	\$ -	\$ 3,354	\$ -	\$ -	\$ -	\$ 4,470,213	\$ 652,184
Provision for doubtful accounts	176,566	-	176,566	-	-	-	-	-	-	-	-	-	157,322	19,244
Net patient service, net of provision for doubtful accounts	4,945,831	-	4,940,135	-	-	2,342	-	-	3,354	-	-	-	4,312,891	632,940
Premium	1,310,332	-	1,310,332	-	-	-	-	-	-	-	-	-	684,645	625,687
Other	223,339	(39,031)	(155,658)	315,195	-	-	11,735	3,346	-	83,254	4,498	-	191,941	31,398
Total revenues	6,479,502	(39,031)	6,094,809	315,195	-	2,342	11,735	3,346	3,354	83,254	4,498	-	5,189,477	1,290,025
Expenses:														
Compensation and benefits	2,701,833	(3,110)	2,468,545	177,455	-	1,387	-	-	-	57,556	-	-	2,142,331	559,502
Supplies and other	1,474,752	(14,924)	1,435,298	30,069	147	1,536	14,280	245	1,096	2,507	4,498	-	1,182,109	292,643
Professional fees and purchased services	1,808,639	(8,167)	1,646,304	137,841	-	1,004	159	19	28	31,451	-	-	1,225,175	583,464
Depreciation and amortization	372,133	6,099	308,912	55,950	-	37	-	649	336	150	-	-	336,208	35,925
Interest	91,010	(6,518)	87,585	6,106	-	1	-	3,307	509	20	-	-	90,175	835
Total expenses	6,448,367	(26,620)	5,946,644	407,421	147	3,965	14,439	4,220	1,969	91,684	4,498	-	4,975,998	1,472,369
Operating income (loss)	31,135	(12,411)	148,165	(92,226)	(147)	(1,623)	(2,704)	(874)	1,385	(8,430)	-	-	213,479	(182,344)
Nonoperating (losses) gains, net	(118,595)	6,738	(61,455)	(66,668)	(1,016)	-	3,636	886	1	-	(717)	-	(79,171)	(39,424)
Loss from operations of discontinued subsidiary	(27,383)	25,780	(24,933)	(24,933)	-	-	-	-	-	-	-	(28,230)	(24,933)	(2,450)
Excess (deficiency) of revenues over expenses	(114,843)	20,107	86,710	(183,827)	(1,163)	(1,623)	932	12	1,386	(8,430)	(717)	(28,230)	109,375	(224,218)
Less: Excess of revenues over expenses attributable to noncontrolling interests	18,532	690	17,842	-	-	-	-	-	-	-	-	-	-	18,532
(Deficiency) excess of revenues over expenses attributable to controlling interests	\$ (133,375)	\$ 19,417	\$ 68,868	\$ (183,827)	\$ (1,163)	\$ (1,623)	\$ 932	\$ 12	\$ 1,386	\$ (8,430)	\$ (717)	\$ (28,230)	\$ 109,375	\$ (242,750)

St. Joseph Health System and Affiliates
A St. Joseph Health Ministry Corporation

Consolidating Statement of Operations of Regional Entities
(In Thousands)

Year Ended June 30, 2016

	Total Regional Entities	Eliminations	Southern California Region	Northern California Region	Texas Region	Heritage
Revenues:						
Patient service, net of contractual allowances and discounts	\$ 5,116,701	\$ –	\$ 2,816,517	\$ 1,150,146	\$ 842,058	\$ 307,980
Provision for doubtful accounts	176,566	–	83,799	28,044	58,103	6,620
Net patient service, net of provision for doubtful accounts	4,940,135	–	2,732,718	1,122,102	783,955	301,360
Premium	1,310,332	–	388,256	43,143	551,195	327,738
Other	(155,658)	(289,379)	4,927	12,279	62,177	54,338
Total revenues	6,094,809	(289,379)	3,125,901	1,177,524	1,397,327	683,436
Expenses:						
Compensation and benefits	2,468,545	(26,941)	1,323,398	486,932	465,480	219,676
Supplies and other	1,435,298	(8,028)	780,472	268,251	251,713	142,890
Professional fees and purchased services	1,646,304	(254,409)	589,702	244,873	596,717	469,421
Depreciation and amortization	308,912	–	194,975	54,516	40,931	18,490
Interest	87,585	–	59,920	16,922	6,735	4,008
Total expenses	5,946,644	(289,378)	2,948,467	1,071,494	1,361,576	854,485
Operating income (loss)	148,165	(1)	177,434	106,030	35,751	(171,049)
Nonoperating losses, net	(61,455)	–	(41,198)	(7,925)	(11,940)	(392)
Excess (deficiency) of revenues over expenses	86,710	(1)	136,236	98,105	23,811	(171,441)
Less: Excess (deficiency) of revenues over expenses attributable to noncontrolling interests	17,842	–	20,401	(65)	(2,494)	–
Excess (deficiency) of revenues over expenses attributable to controlling interests	\$ 68,868	\$ (1)	\$ 115,835	\$ 98,170	\$ 26,305	\$ (171,441)

St. Joseph Health System and Affiliates
A St. Joseph Health Ministry Corporation

Consolidating Statement of Operations of Southern California Region
(In Thousands)

Year Ended June 30, 2016

	Southern California Region	Eliminations	St. Joseph Orange	St. Jude Medical Center	Mission Hospital	St. Mary Medical Center	Hoag Hospital	Hoag Foundation	Newport Healthcare Center	St. Joseph Home Health South	Other
Revenues:											
Patient service, net of contractual allowances and discounts	\$ 2,816,517	\$ (5)	\$ 487,828	\$ 407,566	\$ 553,908	\$ 321,130	\$ 816,376	\$ –	\$ –	\$ 64,781	\$ 164,933
Provision for doubtful accounts	83,799	–	9,266	13,085	33,639	6,647	20,014	–	–	681	467
Net patient service, net of provision for doubtful accounts	2,732,718	(5)	478,562	394,481	520,269	314,483	796,362	–	–	64,100	164,466
Premium	388,256	28,238	120,710	95,605	27,073	19,077	97,553	–	–	–	–
Other	4,927	(203,211)	19,435	9,993	14,851	2,231	72,651	16,130	13,432	137	59,278
Total revenues	3,125,901	(174,978)	618,707	500,079	562,193	335,791	966,566	16,130	13,432	64,237	223,744
Expenses:											
Compensation and benefits	1,323,398	(44,441)	261,722	213,960	223,816	147,152	390,867	–	–	40,697	89,625
Supplies and other	780,472	(57,587)	168,450	112,785	145,667	58,934	242,371	27,797	3,043	10,386	68,626
Professional fees and purchased services	589,702	(8,336)	117,187	110,078	123,108	68,279	146,235	–	2,131	10,438	20,582
Depreciation and amortization	194,975	(1,305)	37,344	36,699	23,274	12,024	74,978	–	3,241	746	7,974
Interest	59,920	(1,108)	14,991	17,899	9,100	2,104	16,594	–	–	21	319
Total expenses	2,948,467	(112,777)	599,694	491,421	524,965	288,493	871,045	27,797	8,415	62,288	187,126
Operating income (loss)	177,434	(62,201)	19,013	8,658	37,228	47,298	95,521	(11,667)	5,017	1,949	36,618
Nonoperating (losses) gains, net	(41,198)	(28,349)	(7,226)	(4,245)	(8,292)	(265)	4,625	293	105	7	2,149
Excess (deficiency) of revenues over expenses	136,236	(90,550)	11,787	4,413	28,936	47,033	100,146	(11,374)	5,122	1,956	38,767
Less: Excess of revenues over expenses attributable to noncontrolling interests	20,401	20,401	–	–	–	–	–	–	–	–	–
Excess (deficiency) of revenues over expenses attributable to controlling interests	\$ 115,835	\$ (110,951)	\$ 11,787	\$ 4,413	\$ 28,936	\$ 47,033	\$ 100,146	\$ (11,374)	\$ 5,122	\$ 1,956	\$ 38,767

St. Joseph Health System and Affiliates
A St. Joseph Health Ministry Corporation

Consolidating Statement of Operations of Northern California Region
(In Thousands)

Year Ended June 30, 2016

	Northern California Region	Eliminations	Queen of the Valley	Santa Rosa Memorial	Petaluma Valley	St. Joseph Eureka	Redwood Memorial	St. Joseph Home Health North	Redwood Memorial Foundation	Northbay Endoscopy Center	Queen of the Valley Foundation
Revenues:											
Patient service, net of contractual allowances and discounts	\$ 1,150,146	\$ (586)	\$ 222,760	\$ 504,648	\$ 94,092	\$ 266,133	\$ 51,486	\$ 10,760	\$ –	\$ 853	\$ –
Provision for doubtful accounts	28,044	–	6,273	12,121	4,871	3,174	1,629	(24)	–	–	–
Net patient service, net of provision for doubtful accounts	1,122,102	(586)	216,487	492,527	89,221	262,959	49,857	10,784	–	853	–
Premium	43,143	–	26,421	16,722	–	–	–	–	–	–	–
Other	12,279	(15,649)	9,846	7,334	1,338	3,485	953	67	2	–	4,903
Total revenues	1,177,524	(16,235)	252,754	516,583	90,559	266,444	50,810	10,851	2	853	4,903
Expenses:											
Compensation and benefits	486,932	–	113,540	207,010	46,469	93,248	20,394	6,266	–	5	–
Supplies and other	268,251	(3,882)	56,031	120,417	18,510	63,687	6,233	1,235	413	316	5,291
Professional fees and purchased services	244,873	(13,941)	59,629	110,178	22,048	50,274	11,979	4,204	–	502	–
Depreciation and amortization	54,516	–	15,412	21,300	4,656	11,462	1,201	247	–	225	13
Interest	16,922	–	7,404	5,818	8	3,599	70	23	–	–	–
Total expenses	1,071,494	(17,823)	252,016	464,723	91,691	222,270	39,877	11,975	413	1,048	5,304
Operating income (loss)	106,030	1,588	738	51,860	(1,132)	44,174	10,933	(1,124)	(411)	(195)	(401)
Nonoperating (losses) gains, net	(7,925)	(1,457)	(2,787)	(2,566)	52	(478)	(624)	–	(29)	–	(36)
Excess (deficiency) of revenues over expenses	98,105	131	(2,049)	49,294	(1,080)	43,696	10,309	(1,124)	(440)	(195)	(437)
Less: Deficiency of revenues over expenses attributable to noncontrolling interests	(65)	(65)	–	–	–	–	–	–	–	–	–
Excess (deficiency) of revenues over expenses attributable to controlling interests	\$ 98,170	\$ 196	\$ (2,049)	\$ 49,294	\$ (1,080)	\$ 43,696	\$ 10,309	\$ (1,124)	\$ (440)	\$ (195)	\$ (437)

St. Joseph Health System and Affiliates
A St. Joseph Health Ministry Corporation

Consolidating Statement of Operations of Texas Region
(In Thousands)

Year Ended June 30, 2016

	Texas Region	Eliminations	Covenant Lubbock	Covenant Levelland	Covenant Plainview	Covenant LTAC	Covenant Rehabilitation Hospital	Covenant Medical Group	First Care	Methodist Service Provider Organization	Covenant Foundation	Other
Revenues:												
Patient service, net of contractual allowances and discounts	\$ 842,058	\$ (95,140)	\$ 678,721	\$ 20,754	\$ 45,399	\$ 25,047	\$ 22,402	\$ 107,001	\$ -	\$ -	\$ -	\$ 37,874
Provision for doubtful accounts	58,103	(1)	40,003	1,631	4,969	(259)	-	10,770	-	-	-	990
Net patient service, net of provision for doubtful accounts	783,955	(95,139)	638,718	19,123	40,430	25,306	22,402	96,231	-	-	-	36,884
Premium	551,195	(1,555)	-	-	-	-	-	-	552,750	-	-	-
Other	62,177	(85,082)	52,475	2,190	4,484	12	436	36,560	20,293	-	10,686	20,123
Total revenues	1,397,327	(181,776)	691,193	21,313	44,914	25,318	22,838	132,791	573,043	-	10,686	57,007
Expenses:												
Compensation and benefits	465,480	(1,555)	244,185	11,540	17,914	8,605	11,438	122,703	31,567	-	563	18,520
Supplies and other	251,713	(8,816)	163,754	3,500	10,095	4,932	5,780	19,989	29,933	(917)	9,822	13,641
Professional fees and purchased services	596,717	(178,829)	178,887	6,317	12,646	3,789	2,659	17,161	537,402	-	301	16,384
Depreciation and amortization	40,931	-	32,922	425	1,277	307	323	429	4,402	72	-	774
Interest	6,735	-	6,481	1	1	-	158	24	38	-	-	32
Total expenses	1,361,576	(189,200)	626,229	21,783	41,933	17,633	20,358	160,306	603,342	(845)	10,686	49,351
Operating income (loss)	35,751	7,424	64,964	(470)	2,981	7,685	2,480	(27,515)	(30,299)	845	-	7,656
Nonoperating (losses) gains, net	(11,940)	(1,476)	9,144	38	251	8	-	29	-	(20,047)	17	96
Excess (deficiency) of revenues over expenses	23,811	5,948	74,108	(432)	3,232	7,693	2,480	(27,486)	(30,299)	(19,202)	17	7,752
Less: Deficiency of revenues over expenses attributable to noncontrolling interests												
	(2,494)	(2,494)	-	-	-	-	-	-	-	-	-	-
Excess (deficiency) of revenues over expenses attributable to controlling interests	\$ 26,305	\$ 8,442	\$ 74,108	\$ (432)	\$ 3,232	\$ 7,693	\$ 2,480	\$ (27,486)	\$ (30,299)	\$ (19,202)	\$ 17	\$ 7,752

St. Joseph Health System and Affiliates
A St. Joseph Health Ministry Corporation

Consolidating Balance Sheet
(In Thousands)

June 30, 2015

	Consolidated	Eliminations	Total Regional Entities	System Office	St Joseph Health Source	American Unity Group	Professional Services Enterprises	Heritage Investment Group I	Revenue Cycle Services	Innovation Institute	St. Joseph Health System Foundation	Datu Health	Obligated Group	Non-Obligated Group
Assets														
Current assets:														
Cash and equivalents	\$ 443,611	\$ (61,032)	\$ 454,391	\$ -	\$ -	\$ 6,022	\$ 3,727	\$ 1,012	\$ -	\$ 35,226	\$ 4,054	\$ 211	\$ 260,398	\$ 183,213
Short-term marketable securities	654,022	-	465,190	85,980	-	13,483	-	-	-	-	89,369	-	527,062	126,960
Patient accounts receivable, less allowance for doubtful accounts	641,115	-	641,115	-	-	-	-	-	-	-	-	-	528,508	112,607
Other assets	310,458	-	264,250	31,152	-	1,119	-	60	243	13,634	-	-	240,201	70,257
Current assets of discontinued subsidiary	1,171	-	-	-	-	-	-	-	-	-	-	1,171	-	1,171
Total current assets	2,050,377	(61,032)	1,824,946	117,132	-	20,624	3,727	1,072	243	48,860	93,423	1,382	1,556,169	494,208
Long-term marketable securities	1,154,106	-	956,367	119,805	-	77,934	-	-	-	-	-	-	1,001,031	153,075
Assets limited as to use:														
Board designated	1,493,406	-	1,459,951	-	-	-	-	-	-	-	33,455	-	1,311,042	182,364
Held in trust	115,467	-	16,068	99,399	-	-	-	-	-	-	-	-	103,064	12,403
Total assets limited as to use	1,608,873	-	1,476,019	99,399	-	-	-	-	-	-	33,455	-	1,414,106	194,767
Property and equipment, net	4,019,996	83,227	3,468,106	314,320	-	-	10,311	11,691	88	132,253	-	-	3,626,844	393,152
Investments and other	151,236	(59,651)	125,545	57,332	6,016	255	11,889	8,260	171	1,419	-	-	379,688	(228,452)
Collateral held for swap counterparty	1,477	-	-	1,477	-	-	-	-	-	-	-	-	1,477	-
Notes receivable	20,420	-	1,069	19,076	-	-	-	-	-	275	-	-	20,145	275
Deferred financing costs, net	20,576	-	17,390	3,186	-	-	-	-	-	-	-	-	20,576	-
Goodwill and other intangibles, net	239,353	22,474	206,969	-	-	-	-	-	-	9,910	-	-	37,259	202,094
Long-term assets of discontinued subsidiary	22,870	-	-	-	-	-	-	-	-	-	-	22,870	-	22,870
	455,932	(37,177)	350,973	81,071	6,016	255	11,889	8,260	171	11,604	-	22,870	459,145	(3,213)
Total assets	\$ 9,289,284	\$ (14,982)	\$ 8,076,411	\$ 731,727	\$ 6,016	\$ 98,813	\$ 25,927	\$ 21,023	\$ 502	\$ 192,717	\$ 126,878	\$ 24,252	\$ 8,057,295	\$ 1,231,989
Liabilities and net assets (deficit)														
Current liabilities:														
Accounts payable	\$ 152,596	\$ 5	\$ 140,408	\$ 4,719	\$ -	\$ 986	\$ -	\$ -	\$ 201	\$ 6,248	\$ 29	\$ -	\$ 118,610	\$ 33,986
Accrued compensation and related liabilities	293,601	-	242,145	44,375	600	-	-	-	4,153	2,328	-	-	251,291	42,310
Accrued liabilities	512,061	(1,378)	363,769	109,373	-	25,044	-	2,889	5,609	6,755	-	-	343,566	168,495
Payable to third-party payors, net	63,683	1	63,682	-	-	-	-	-	-	-	-	-	63,666	17
Current maturities of long-term debt	48,201	(33,296)	35,876	45,621	-	-	-	-	-	-	-	-	46,096	2,105
Current liabilities of discontinued subsidiary	6,579	-	-	-	-	-	-	-	-	-	-	6,579	-	6,579
Total current liabilities	1,076,721	(34,668)	845,880	204,088	600	26,030	-	2,889	9,963	15,331	29	6,579	823,229	253,492
Interest rate swaps	101,064	-	-	101,064	-	-	-	-	-	-	-	-	101,064	-
Other liabilities	233,849	-	119,632	104,035	-	10,005	6	-	171	-	-	-	183,065	50,784
Notes payable and interest due to (from)														
affiliates	-	1,824,017	97,288	(2,088,469)	-	124	7	10,650	31,393	130,499	(5,509)	-	(415,457)	415,457
Long-term debt, less current maturities	2,391,905	(1,888,732)	1,944,660	2,312,089	-	-	20,733	-	-	3,155	-	-	2,382,885	9,020
Long-term liabilities of discontinued subsidiary	760	(2,037)	-	-	-	-	-	-	-	-	-	2,797	-	760
Total liabilities	3,804,299	(101,420)	3,007,460	632,807	600	36,159	20,746	13,539	41,527	148,985	(5,480)	9,376	3,074,786	729,513
Net assets (deficit):														
Controlling interest	5,338,965	58,292	4,951,077	98,920	5,416	62,654	5,181	7,484	(41,025)	43,732	132,358	14,876	4,982,509	356,456
Noncontrolling interests in subsidiaries	146,020	28,146	117,874	-	-	-	-	-	-	-	-	-	-	146,020
	5,484,985	86,438	5,068,951	98,920	5,416	62,654	5,181	7,484	(41,025)	43,732	132,358	14,876	4,982,509	502,476
Total liabilities and net assets (deficit)	\$ 9,289,284	\$ (14,982)	\$ 8,076,411	\$ 731,727	\$ 6,016	\$ 98,813	\$ 25,927	\$ 21,023	\$ 502	\$ 192,717	\$ 126,878	\$ 24,252	\$ 8,057,295	\$ 1,231,989

St. Joseph Health System and Affiliates
A St. Joseph Health Ministry Corporation

Consolidating Balance Sheet of Regional Entities
(In Thousands)

June 30, 2015

	Total Regional Entities	Eliminations	Southern California Region	Northern California Region	Texas Region	Heritage
Assets						
Current assets:						
Cash and equivalents	\$ 454,391	\$ (36,194)	\$ 296,108	\$ 50,958	\$ 114,545	\$ 28,974
Short-term marketable securities	465,190	-	274,368	98,554	76,047	16,221
Patient accounts receivable, less allowance for doubtful accounts	641,115	-	320,073	138,624	151,204	31,214
Other assets	264,250	-	135,412	53,352	57,009	18,477
Total current assets	1,824,946	(36,194)	1,025,961	341,488	398,805	94,886
Long-term marketable securities	956,367	2,365	575,303	239,177	139,522	-
Assets limited as to use:						
Board designated	1,459,951	-	1,421,983	15,887	20,161	1,920
Held in trust	16,068	-	3,289	9,153	3,626	-
Total assets limited as to use	1,476,019	-	1,425,272	25,040	23,787	1,920
Property and equipment, net	3,468,106	-	2,452,700	624,711	290,484	100,211
Investments and other	125,545	-	87,039	4,772	29,569	4,165
Notes receivable	1,069	-	658	309	102	-
Deferred financing costs, net	17,390	-	12,516	3,999	875	-
Goodwill and other intangibles, net	206,969	-	65,356	-	13,034	128,579
	350,973	-	165,569	9,080	43,580	132,744
Total assets	<u>\$ 8,076,411</u>	<u>\$ (33,829)</u>	<u>\$ 5,644,805</u>	<u>\$ 1,239,496</u>	<u>\$ 896,178</u>	<u>\$ 329,761</u>
Liabilities and net assets						
Current liabilities:						
Accounts payable	\$ 140,408	\$ 2	\$ 79,550	\$ 25,524	\$ 23,784	\$ 11,548
Accrued compensation and related liabilities	242,145	-	137,109	45,342	47,551	12,143
Accrued liabilities	363,769	18,000	166,760	39,157	77,654	62,198
Payable to third-party payors, net	63,682	-	37,551	18,641	7,490	-
Current maturities of long-term debt	35,876	-	16,766	3,970	14,719	421
Total current liabilities	845,880	18,002	437,736	132,634	171,198	86,310
Other liabilities	119,632	-	68,092	6,352	35,974	9,214
Notes payable and interest due to (from) affiliates	97,288	(36,195)	99,881	10,772	(8,569)	31,399
Long-term debt, less current maturities	1,944,660	-	1,447,778	334,574	117,411	44,897
Total liabilities	3,007,460	(18,193)	2,053,487	484,332	316,014	171,820
Net assets:						
Controlling interest	4,951,077	(15,636)	3,502,187	754,971	551,614	157,941
Noncontrolling interests in subsidiaries	117,874	-	89,131	193	28,550	-
	5,068,951	(15,636)	3,591,318	755,164	580,164	157,941
Total liabilities and net assets	<u>\$ 8,076,411</u>	<u>\$ (33,829)</u>	<u>\$ 5,644,805</u>	<u>\$ 1,239,496</u>	<u>\$ 896,178</u>	<u>\$ 329,761</u>

St. Joseph Health System and Affiliates
A St. Joseph Health Ministry Corporation

Consolidating Balance Sheet of Southern California Region
(In Thousands)

June 30, 2015

	Southern California Region	Eliminations	St. Joseph Orange	St. Jude Medical Center	Mission Hospital	St. Mary Medical Center	Hoag Hospital	Hoag Foundation	Newport Healthcare Center	St. Joseph Home Health South	Other
Assets											
Current assets:											
Cash and equivalents	\$ 296,108	\$ -	\$ 6,562	\$ 1,037	\$ -	\$ 3,689	\$ 175,171	\$ 33,443	\$ 15,445	\$ 5,419	\$ 55,342
Short-term marketable securities	274,368	-	44,542	718	59,836	56,641	109,679	2,952	-	-	-
Patient accounts receivable, less allowance for doubtful accounts	320,073	-	56,704	44,593	71,076	39,136	79,183	-	-	9,615	19,766
Other assets	135,412	(8,970)	26,472	13,386	20,810	22,581	32,950	10,155	11,527	362	6,139
Total current assets	1,025,961	(8,970)	134,280	59,734	151,722	122,047	396,983	46,550	26,972	15,396	81,247
Long-term marketable securities	575,303	-	175,817	271,852	82,139	45,495	-	-	-	-	-
Assets limited as to use:											
Board designated	1,421,983	-	58,196	26,583	21,852	4,224	1,184,256	126,872	-	-	-
Held in trust	3,289	-	3,289	-	-	-	-	-	-	-	-
Total assets limited as to use	1,425,272	-	61,485	26,583	21,852	4,224	1,184,256	126,872	-	-	-
Property and equipment, net	2,452,700	(41,074)	451,495	645,645	331,471	118,676	766,046	-	129,749	1,572	49,120
Investments and other	87,039	(295,461)	13,918	(1,139)	27,156	1,318	251,448	37,830	11	-	51,958
Notes receivable	658	-	569	89	-	-	-	-	-	-	-
Deferred financing costs, net	12,516	-	5,001	3,941	2,398	1,176	-	-	-	-	-
Goodwill and other intangibles, net	65,356	(1,532)	-	-	13,717	-	-	-	-	-	53,171
	165,569	(296,993)	19,488	2,891	43,271	2,494	251,448	37,830	11	-	105,129
Total assets	<u>\$ 5,644,805</u>	<u>\$ (347,037)</u>	<u>\$ 842,565</u>	<u>\$ 1,006,705</u>	<u>\$ 630,455</u>	<u>\$ 292,936</u>	<u>\$ 2,598,733</u>	<u>\$ 211,252</u>	<u>\$ 156,732</u>	<u>\$ 16,968</u>	<u>\$ 235,496</u>
Liabilities and net assets (deficit)											
Current liabilities:											
Accounts payable	\$ 79,550	\$ (69)	\$ 21,059	\$ 1,853	\$ 2,720	\$ 933	\$ 47,468	\$ 111	\$ 376	\$ 99	\$ 5,000
Accrued compensation and related liabilities	137,109	(3,662)	20,106	18,736	16,607	10,312	65,561	464	-	2,624	6,361
Accrued liabilities	166,760	(1,827)	15,251	24,565	37,875	10,092	69,211	4,007	491	1,847	5,248
Payable to third-party payors, net	37,551	-	3,056	4,369	16,610	10,183	3,333	-	-	-	-
Current maturities of long-term debt	16,766	(421)	6,620	4,339	3,273	990	-	-	-	-	1,965
Total current liabilities	437,736	(5,979)	66,092	53,862	77,085	32,510	185,573	4,582	867	4,570	18,574
Other liabilities	68,092	(3,510)	7,572	2,141	4,180	2,094	48,293	2,099	-	-	5,223
Notes payable and interest due to (from) affiliates	99,881	2	7,875	2,869	85,949	4,785	(53,521)	4,043	(9)	19,710	28,178
Long-term debt, less current maturities	1,447,778	(25,284)	363,445	345,026	173,323	54,064	534,206	-	-	-	2,998
Total liabilities	2,053,487	(34,771)	444,984	403,898	340,537	93,453	714,551	10,724	858	24,280	54,973
Net assets (deficit):											
Controlling interest	3,502,187	(401,397)	397,581	602,807	289,918	199,483	1,884,182	200,528	155,874	(7,312)	180,523
Noncontrolling interests in subsidiaries	89,131	89,131	-	-	-	-	-	-	-	-	-
	3,591,318	(312,266)	397,581	602,807	289,918	199,483	1,884,182	200,528	155,874	(7,312)	180,523
Total liabilities and net assets (deficit)	<u>\$ 5,644,805</u>	<u>\$ (347,037)</u>	<u>\$ 842,565</u>	<u>\$ 1,006,705</u>	<u>\$ 630,455</u>	<u>\$ 292,936</u>	<u>\$ 2,598,733</u>	<u>\$ 211,252</u>	<u>\$ 156,732</u>	<u>\$ 16,968</u>	<u>\$ 235,496</u>

St. Joseph Health System and Affiliates
A St. Joseph Health Ministry Corporation

Consolidating Balance Sheet of Northern California Region
(In Thousands)

June 30, 2015

	Northern California Region	Eliminations	Queen of the Valley	Santa Rosa Memorial	Petaluma Valley	St. Joseph Eureka	Redwood Memorial	St. Joseph Home Health North	Redwood Memorial Foundation	Northbay Endoscopy Center	Queen of the Valley Foundation
Assets											
Current assets:											
Cash and equivalents	\$ 50,958	\$ –	\$ 9,439	\$ 13,115	\$ 3,350	\$ 7,419	\$ 12,574	\$ –	\$ 4	\$ 172	\$ 4,885
Short-term marketable securities	98,554	–	31,217	43,879	–	166	20,512	–	2,780	–	–
Patient accounts receivable, less allowance for doubtful accounts	138,624	–	27,881	74,257	10,231	18,923	5,768	1,563	–	1	–
Other assets	53,352	–	11,630	17,922	3,873	13,567	4,296	22	–	–	2,042
Total current assets	341,488	–	80,167	149,173	17,454	40,075	43,150	1,585	2,784	173	6,927
Long-term marketable securities	239,177	–	120,880	82,583	–	610	32,025	–	–	–	3,079
Assets limited as to use:											
Board designated	15,887	–	–	5,593	2,127	8,167	–	–	–	–	–
Held in trust	9,153	–	–	–	–	106	–	–	–	–	9,047
Total assets limited as to use	25,040	–	–	5,593	2,127	8,273	–	–	–	–	9,047
Property and equipment, net	624,711	–	207,078	189,388	14,589	201,637	10,803	593	116	427	80
Investments and other	4,772	(3,166)	1,099	5,020	185	983	173	–	478	–	–
Notes receivable	309	–	59	–	–	242	8	–	–	–	–
Deferred financing costs, net	3,999	–	1,228	2,188	9	558	16	–	–	–	–
	9,080	(3,166)	2,386	7,208	194	1,783	197	–	478	–	–
Total assets	\$ 1,239,496	\$ (3,166)	\$ 410,511	\$ 433,945	\$ 34,364	\$ 252,378	\$ 86,175	\$ 2,178	\$ 3,378	\$ 600	\$ 19,133
Liabilities and net assets (deficit)											
Current liabilities:											
Accounts payable	\$ 25,524	\$ 1	\$ 920	\$ 13,189	\$ 2,667	\$ 7,575	\$ 1,101	\$ 46	\$ –	\$ 19	\$ 6
Accrued compensation and related liabilities	45,342	–	13,131	15,089	3,454	10,681	2,593	394	–	–	–
Accrued liabilities	39,157	–	13,666	17,094	2,325	5,206	371	261	–	–	234
Payable to third-party payors, net	18,641	–	1,539	5,372	411	6,747	4,572	–	–	–	–
Current maturities of long-term debt	3,970	–	1,388	2,399	109	–	74	–	–	–	–
Total current liabilities	132,634	1	30,644	53,143	8,966	30,209	8,711	701	–	19	240
Other liabilities	6,352	–	1,099	2,373	153	1,103	173	–	–	–	1,451
Notes payable and interest due to (from) affiliates	10,772	–	(5,415)	(34,626)	15,583	25,617	39	10,521	9	–	(956)
Long-term debt, less current maturities	334,574	(1)	149,138	122,771	119	60,890	1,657	–	–	–	–
Total liabilities	484,332	–	175,466	143,661	24,821	117,819	10,580	11,222	9	19	735
Net assets (deficit):											
Controlling interest	754,971	(3,359)	235,045	290,284	9,543	134,559	75,595	(9,044)	3,369	581	18,398
Noncontrolling interests in subsidiaries	193	193	–	–	–	–	–	–	–	–	–
	755,164	(3,166)	235,045	290,284	9,543	134,559	75,595	(9,044)	3,369	581	18,398
Total liabilities and net assets (deficit)	\$ 1,239,496	\$ (3,166)	\$ 410,511	\$ 433,945	\$ 34,364	\$ 252,378	\$ 86,175	\$ 2,178	\$ 3,378	\$ 600	\$ 19,133

St. Joseph Health System and Affiliates
A St. Joseph Health Ministry Corporation

Consolidating Balance Sheet of Texas Region
(In Thousands)

June 30, 2015

	Texas Region	Eliminations	Covenant Lubbock	Covenant Levelland	Covenant Plainview	Covenant LTAC	Covenant Rehabilitation Hospital	Covenant Medical Group	Methodist Medical Group	Covenant Surgicenter	Covenant Diagnostic Imaging	Hospice of Lubbock	Covenant Health Partners	First Care	Methodist Service Provider	Covenant Foundation
Assets																
Current assets:																
Cash and equivalents	\$ 114,545	\$ -	\$ 39,628	\$ 2,178	\$ 22,431	\$ 6,257	\$ 1,982	\$ 2,557	\$ -	\$ 2,255	\$ 285	\$ 5,806	\$ 965	\$ 23,332	\$ 128	\$ 6,741
Short-term marketable securities	76,047	-	69,750	4,127	15	-	-	98	-	39	-	-	-	2,018	-	-
Patient accounts receivable, less allowance for doubtful accounts	151,204	-	92,696	2,092	5,969	(282)	3,054	6,024	-	1,283	1,056	935	-	38,377	-	-
Other assets	57,009	-	38,262	1,097	2,116	178	144	1,956	-	673	124	180	387	2,688	285	8,919
Total current assets	398,805	-	240,336	9,494	30,531	6,153	5,180	10,635	-	4,250	1,465	6,921	1,352	66,415	413	15,660
Long-term marketable securities	139,522	-	67,460	-	-	-	-	-	-	-	-	-	-	61,750	-	10,312
Assets limited as to use:																
Board designated	20,161	-	-	44	-	-	-	-	-	-	-	-	-	-	-	20,117
Held in trust	3,626	-	270	-	-	-	-	-	-	-	-	-	-	-	-	3,356
Total assets limited as to use	23,787	-	270	44	-	-	-	-	-	-	-	-	-	-	-	23,473
Property and equipment, net	290,484	-	254,415	2,408	7,484	2,426	1,830	2,981	-	1,776	269	29	42	14,922	1,897	5
Investments and other	29,569	(66,812)	22,194	-	-	-	-	25,556	557	340	-	143	-	-	47,591	-
Notes receivable	102	-	102	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred financing costs, net	875	-	875	-	-	-	-	-	-	-	-	-	-	-	-	-
Goodwill and other intangibles, net	13,034	(4,670)	-	-	-	-	17,704	-	-	-	-	-	-	-	-	-
	43,580	(71,482)	23,171	-	-	-	17,704	25,556	557	340	-	143	-	-	47,591	-
Total assets	\$ 896,178	\$ (71,482)	\$ 585,652	\$ 11,946	\$ 38,015	\$ 8,579	\$ 24,714	\$ 39,172	\$ 557	\$ 6,366	\$ 1,734	\$ 7,093	\$ 1,394	\$ 143,087	\$ 49,901	\$ 49,450
Liabilities and net assets (deficit)																
Current liabilities:																
Accounts payable	\$ 23,784	\$ -	\$ 11,805	\$ 645	\$ 1,953	\$ 326	\$ 1,299	\$ 522	\$ -	\$ 342	\$ 28	\$ 143	\$ 8	\$ 4,723	\$ 6	\$ 1,984
Accrued compensation and related liabilities	47,551	-	29,457	500	690	669	180	11,019	-	12	182	250	2,963	1,570	-	59
Accrued liabilities	77,654	(4,670)	16,619	216	203	108	333	1,676	-	-	46	-	-	62,947	-	176
Payable to third-party payors, net	7,490	-	6,986	142	345	-	17	-	-	-	-	-	-	-	-	-
Current maturities of long-term debt	14,719	-	14,579	-	-	-	-	-	-	-	-	-	-	140	-	-
Total current liabilities	171,198	(4,670)	79,446	1,503	3,191	1,103	1,829	13,217	-	354	256	393	2,971	69,380	6	2,219
Other liabilities	35,974	-	9,850	-	-	-	11	25,556	557	-	-	-	-	-	-	-
Notes payable and interest due to (from) affiliates	(8,569)	-	(237,361)	429	13,969	473	500	128,036	-	465	-	216	(4,131)	-	84,366	4,469
Long-term debt, less current maturities	117,411	-	115,877	-	-	-	-	-	-	-	-	-	-	1,534	-	-
Total liabilities	316,014	(4,670)	(32,188)	1,932	17,160	1,576	2,340	166,809	557	819	256	609	(1,160)	70,914	84,372	6,688
Net assets (deficit):																
Controlling interest	551,614	(95,362)	617,840	10,014	20,855	7,003	22,374	(127,637)	-	5,547	1,478	6,484	2,554	72,173	(34,471)	42,762
Noncontrolling interests in subsidiaries	28,550	28,550	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	580,164	(66,812)	617,840	10,014	20,855	7,003	22,374	(127,637)	-	5,547	1,478	6,484	2,554	72,173	(34,471)	42,762
Total liabilities and net assets (deficit)	\$ 896,178	\$ (71,482)	\$ 585,652	\$ 11,946	\$ 38,015	\$ 8,579	\$ 24,714	\$ 39,172	\$ 557	\$ 6,366	\$ 1,734	\$ 7,093	\$ 1,394	\$ 143,087	\$ 49,901	\$ 49,450

St. Joseph Health System and Affiliates
A St. Joseph Health Ministry Corporation

Consolidating Statement of Operations
(In Thousands)

Year Ended June 30, 2015

	Consolidated	Eliminations	Total Regional Entities	System Office	American Unity Group	Professional Services Enterprises	Heritage Investment Group I	Revenue Cycle Services	Innovation Institute	St. Joseph Health System Foundation	Datu Health	Obligated Group	Non-Obligated Group
Revenues:													
Patient service, net of contractual allowances and discounts	\$ 4,955,644	\$ -	\$ 4,955,644	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,357,475	\$ 598,169
Provision for doubtful accounts	182,093	(2)	182,095	-	-	-	-	-	-	-	-	163,097	18,996
Net patient service, net of provision for doubtful accounts	4,773,551	2	4,773,549	-	-	-	-	-	-	-	-	4,194,378	579,173
Premium	1,192,711	-	1,192,711	-	-	-	-	-	-	-	-	308,660	884,051
Other	249,629	(155,271)	(101,575)	283,550	12,072	3,346	3,354	88,777	115,376	-	-	192,472	57,157
Total revenues	6,215,891	(155,269)	5,864,685	283,550	12,072	3,346	3,354	88,777	115,376	-	-	4,695,510	1,520,381
Expenses:													
Compensation and benefits	2,524,125	(25,955)	2,304,913	160,216	-	-	-	54,247	30,704	-	-	2,017,426	506,699
Supplies and other	1,491,893	(24,124)	1,458,624	29,007	13,769	59	1,095	2,270	11,193	-	-	1,241,333	250,560
Professional fees and purchased services	1,699,364	(84,462)	1,561,782	118,279	169	-	29	40,100	63,467	-	-	814,257	885,107
Depreciation and amortization	342,516	5,985	300,393	31,469	-	649	335	144	3,541	-	-	306,906	35,610
Interest	103,420	(6,237)	90,500	9,859	-	3,285	564	1	5,448	-	-	96,365	7,055
Total expenses	6,161,318	(134,793)	5,716,212	348,830	13,938	3,993	2,023	96,762	114,353	-	-	4,476,287	1,685,031
Operating income (loss)	54,573	(20,476)	148,473	(65,280)	(1,866)	(647)	1,331	(7,985)	1,023	-	-	219,223	(164,650)
Nonoperating gains (losses), net	4,899	(27,013)	28,001	(12,594)	2,069	651	-	(2)	(2,091)	15,878	-	59,282	(54,383)
Gain from operations of discontinued component	807	-	-	-	-	-	-	-	-	-	807	-	807
Excess (deficiency) of revenues over expenses	60,279	(47,489)	176,474	(77,874)	203	4	1,331	(7,987)	(1,068)	15,878	807	278,505	(218,226)
Less: Excess of revenues over expenses attributable to noncontrolling interests	17,192	305	16,887	-	-	-	-	-	-	-	-	-	17,192
Excess (deficiency) of revenues over expenses attributable to controlling interests	\$ 43,087	\$ (47,794)	\$ 159,587	\$ (77,874)	\$ 203	\$ 4	\$ 1,331	\$ (7,987)	\$ (1,068)	\$ 15,878	\$ 807	\$ 278,505	\$ (235,418)

St. Joseph Health System and Affiliates
A St. Joseph Health Ministry Corporation

Consolidating Statement of Operations of Regional Entities
(In Thousands)

Year Ended June 30, 2015

	Total Regional Entities	Eliminations	Southern California Region	Northern California Region	Texas Region	Heritage
Revenues:						
Patient service, net of contractual allowances and discounts	\$ 4,955,644	\$ –	\$ 2,696,626	\$ 1,151,677	\$ 816,522	\$ 290,819
Provision for doubtful accounts	182,095	–	81,398	51,752	41,595	7,350
Net patient service, net of provision for doubtful accounts	4,773,549	–	2,615,228	1,099,925	774,927	283,469
Premium	1,192,711	–	106,730	31,100	507,845	547,036
Other	(101,575)	(271,638)	46,470	23,274	44,664	55,655
Total revenues	5,864,685	(271,638)	2,768,428	1,154,299	1,327,436	886,160
Expenses:						
Compensation and benefits	2,304,913	(26,779)	1,225,102	465,317	449,277	191,996
Supplies and other	1,458,624	9,855	818,753	274,274	226,048	129,694
Professional fees and purchased services	1,561,782	(236,714)	313,419	232,526	556,960	695,591
Depreciation and amortization	300,393	–	188,554	54,961	38,562	18,316
Interest	90,500	–	61,429	17,585	7,531	3,955
Total expenses	5,716,212	(253,638)	2,607,257	1,044,663	1,278,378	1,039,552
Operating income (loss)	148,473	(18,000)	161,171	109,636	49,058	(153,392)
Nonoperating gains (losses), net	28,001	–	34,530	5,122	(11,799)	148
Excess (deficiency) of revenues over expenses	176,474	(18,000)	195,701	114,758	37,259	(153,244)
Less: Excess (deficiency) of revenues over expenses attributable to noncontrolling interests	16,887	–	20,053	53	(3,219)	–
Excess (deficiency) of revenues over expenses attributable to controlling interests	\$ 159,587	\$ (18,000)	\$ 175,648	\$ 114,705	\$ 40,478	\$ (153,244)

St. Joseph Health System and Affiliates
A St. Joseph Health Ministry Corporation

Consolidating Statement of Operations of Southern California Region
(In Thousands)

Year Ended June 30, 2015

	Southern California Region	Eliminations	St. Joseph Orange	St. Jude Medical Center	Mission Hospital	St. Mary Medical Center	Hoag Hospital	Hoag Foundation	Newport Healthcare Center	St. Joseph Home Health South	Other
Revenues:											
Patient service, net of contractual allowances and discounts	\$ 2,696,626	\$ (2,102)	\$ 495,127	\$ 402,469	\$ 520,177	\$ 322,362	\$ 752,205	\$ –	\$ –	\$ 49,427	\$ 156,961
Provision for doubtful accounts	81,398	–	6,922	21,692	18,177	15,589	17,889	–	–	864	265
Net patient service, net of provision for doubtful accounts	2,615,228	(2,102)	488,205	380,777	502,000	306,773	734,316	–	–	48,563	156,696
Premium	106,730	(170,830)	79,360	77,499	14,213	18,502	87,986	–	–	–	–
Other	46,470	(141,634)	15,207	8,968	14,484	4,832	72,815	10,494	12,874	146	48,284
Total revenues	2,768,428	(314,566)	582,772	467,244	530,697	330,107	895,117	10,494	12,874	48,709	204,980
Expenses:											
Compensation and benefits	1,225,102	(30,628)	249,453	196,506	204,341	137,645	359,728	–	–	31,341	76,716
Supplies and other	818,753	(34,278)	163,878	117,304	153,260	75,418	246,848	19,973	2,571	12,471	61,308
Professional fees and purchased services	313,419	(253,711)	113,289	100,944	115,912	66,011	144,061	–	1,637	6,180	19,096
Depreciation and amortization	188,554	(3,195)	39,634	33,378	23,845	12,212	71,328	–	2,872	747	7,733
Interest	61,429	(1,014)	15,547	18,425	9,488	2,366	16,286	–	–	–	331
Total expenses	2,607,257	(322,826)	581,801	466,557	506,846	293,652	838,251	19,973	7,080	50,739	165,184
Operating income (loss)	161,171	8,260	971	687	23,851	36,455	56,866	(9,479)	5,794	(2,030)	39,796
Nonoperating gains (losses), net	34,530	(30,958)	1,798	8,302	(657)	1,621	50,468	1,176	119	3	2,658
Excess (deficiency) of revenues over expenses	195,701	(22,698)	2,769	8,989	23,194	38,076	107,334	(8,303)	5,913	(2,027)	42,454
Less: Excess of revenues over expenses attributable to noncontrolling interests	20,053	20,053	–	–	–	–	–	–	–	–	–
Excess (deficiency) of revenues over expenses attributable to controlling interests	\$ 175,648	\$ (42,751)	\$ 2,769	\$ 8,989	\$ 23,194	\$ 38,076	\$ 107,334	\$ (8,303)	\$ 5,913	\$ (2,027)	\$ 42,454

St. Joseph Health System and Affiliates
A St. Joseph Health Ministry Corporation

Consolidating Statement of Operations of Northern California Region
(In Thousands)

Year Ended June 30, 2015

	Northern California Region	Eliminations	Queen of the Valley	Santa Rosa Memorial	Petaluma Valley	St. Joseph Eureka	Redwood Memorial	St. Joseph Home Health North	Redwood Memorial Foundation	Advanced Surgery Institute	Northbay Endoscopy Center	Queen of the Valley Foundation
Revenues:												
Patient service, net of contractual allowances and discounts	\$ 1,151,677	\$ (465)	\$ 233,113	\$ 503,993	\$ 92,790	\$ 254,511	\$ 54,430	\$ 9,398	\$ -	\$ 2,988	\$ 919	\$ -
Provision for doubtful accounts	51,752	-	10,220	24,937	6,731	6,295	3,337	179	-	53	-	-
Net patient service, net of provision for doubtful accounts	1,099,925	(465)	222,893	479,056	86,059	248,216	51,093	9,219	-	2,935	919	-
Premium	31,100	-	20,710	10,390	-	-	-	-	-	-	-	-
Other	23,274	(2,980)	9,847	5,574	1,998	3,645	704	-	-	-	-	4,486
Total revenues	1,154,299	(3,445)	253,450	495,020	88,057	251,861	51,797	9,219	-	2,935	919	4,486
Expenses:												
Compensation and benefits	465,317	-	116,616	189,352	44,165	87,774	20,330	6,232	-	842	6	-
Supplies and other	274,274	(2,500)	57,081	121,998	17,627	66,011	5,955	1,945	-	1,312	317	4,528
Professional fees and purchased services	232,526	(945)	56,743	97,614	18,813	46,912	10,189	2,414	-	401	385	-
Depreciation and amortization	54,961	-	15,784	20,333	4,067	12,618	1,513	253	-	381	-	12
Interest	17,585	-	7,652	6,187	20	3,602	85	7	-	32	-	-
Total expenses	1,044,663	(3,445)	253,876	435,484	84,692	216,917	38,072	10,851	-	2,968	708	4,540
Operating income (loss)	109,636	-	(426)	59,536	3,365	34,944	13,725	(1,632)	-	(33)	211	(54)
Nonoperating gains (losses), net	5,122	(125)	(1,164)	4,710	47	111	1,168	-	298	-	-	77
Excess (deficiency) of revenues over expenses	114,758	(125)	(1,590)	64,246	3,412	35,055	14,893	(1,632)	298	(33)	211	23
Less: Excess of revenues over expenses attributable to noncontrolling interests	53	53	-	-	-	-	-	-	-	-	-	-
Excess (deficiency) of revenues over expenses attributable to controlling interests	\$ 114,705	\$ (178)	\$ (1,590)	\$ 64,246	\$ 3,412	\$ 35,055	\$ 14,893	\$ (1,632)	\$ 298	\$ (33)	\$ 211	\$ 23

St. Joseph Health System and Affiliates
A St. Joseph Health Ministry Corporation

Consolidating Statement of Operations of Texas Region
(In Thousands)

Year Ended June 30, 2015

	Texas Region	Eliminations	Covenant Lubbock	Covenant Levelland	Covenant Plainview	Covenant LTAC	Covenant Rehabilitation Hospital	Covenant Medical Group	Covenant Surgicenter	Covenant Diagnostic Imaging	Hospice of Lubbock	Covenant Health Partners	First Care	Methodist Service Provider Organization	Covenant Foundation
Revenues:															
Patient service, net of contractual allowances and discounts	\$ 816,522	\$ (57,862)	\$ 665,621	\$ 21,564	\$ 39,579	\$ 21,180	\$ 723	\$ 99,858	\$ 12,760	\$ 5,211	\$ 7,888	\$ –	\$ –	\$ –	\$ –
Provision for doubtful accounts	41,595	–	26,844	1,406	3,060	125	–	9,536	–	498	126	–	–	–	–
Net patient service, net of provision for doubtful accounts	774,927	(57,862)	638,777	20,158	36,519	21,055	723	90,322	12,760	4,713	7,762	–	–	–	–
Premium	507,845	(1,721)	–	–	–	–	–	–	–	–	–	–	509,566	–	–
Other	44,664	(63,524)	53,084	518	3,560	27	16	30,561	–	55	179	5,390	9,555	–	5,243
Total revenues	1,327,436	(123,107)	691,861	20,676	40,079	21,082	739	120,883	12,760	4,768	7,941	5,390	519,121	–	5,243
Expenses:															
Compensation and benefits	449,277	(1,721)	249,486	11,235	17,356	9,087	362	118,924	3,461	1,956	3,271	2,839	32,484	–	537
Supplies and other	226,048	(6,419)	163,035	3,289	10,767	5,282	1,251	18,513	4,758	780	1,721	272	18,631	12	4,156
Professional fees and purchased services	556,960	(121,386)	162,203	5,593	9,548	3,357	110	12,751	1,860	773	2,009	2,240	477,412	–	490
Depreciation and amortization	38,562	–	32,088	311	1,041	188	9	278	347	179	136	–	3,913	72	–
Interest	7,531	–	6,847	10	(10)	–	–	19	–	–	–	–	665	–	–
Total expenses	1,278,378	(129,526)	613,659	20,438	38,702	17,914	1,732	150,485	10,426	3,688	7,137	5,351	533,105	84	5,183
Operating income (loss)	49,058	6,419	78,202	238	1,377	3,168	(993)	(29,602)	2,334	1,080	804	39	(13,984)	(84)	60
Nonoperating (losses) gains, net	(11,799)	44	5,172	112	188	12	–	37	349	–	39	18	(1,648)	(16,873)	751
Excess (deficiency) of revenues over expenses	37,259	6,463	83,374	350	1,565	3,180	(993)	(29,565)	2,683	1,080	843	57	(15,632)	(16,957)	811
Less: Deficiency of revenues over expenses attributable to noncontrolling interests															
	(3,219)	(3,219)	–	–	–	–	–	–	–	–	–	–	–	–	–
Excess (deficiency) of revenues over expenses attributable to controlling interests	\$ 40,478	\$ 9,682	\$ 83,374	\$ 350	\$ 1,565	\$ 3,180	\$ (993)	\$ (29,565)	\$ 2,683	\$ 1,080	\$ 843	\$ 57	\$ (15,632)	\$ (16,957)	\$ 811

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