NEW ISSUES
Book-Entry Only

RATINGS[±]:
Fitch: AA-
Moody's: Aa3
S&P Global Ratings: AA-

$340,675,000*
PROVIDENCE ST. JOSEPH HEALTH OBLIGATED GROUP
Taxable Bonds, Series 2016H

$340,670,000*
PROVIDENCE ST. JOSEPH HEALTH OBLIGATED GROUP
Taxable Bonds, Series 2016I

_____% Series 2016H Bonds due October 1, 2026*, Issue price: 100%*, CUSIP[†] _____
_____% Series 2016I Bonds due October 1, 2047*, Issue price: 100%*, CUSIP[†] _____

Dated: Date of Delivery **Interest Payable: April 1 and October 1**

The Providence St. Joseph Health Obligated Group Taxable Bonds, Series 2016H (the "*Series 2016H Bonds*") and the Providence St. Joseph Health Obligated Group Taxable Bonds, Series 2016I (the "*Series 2016I Bonds*" and, together with the Series 2016H Bonds, the "*Bonds*," and each a "*Series*" of Bonds) will be issued pursuant to the terms of two Trust Indentures, each dated as of September 1, 2016 (collectively, the "*Indentures*"), by and between Providence Health & Services (the "*Corporation*" or "*Providence Health & Services*") and U.S. Bank National Association, as bond trustee (the "Bond Trustee"). The proceeds of the Bonds will be used by the Corporation for refinancing prior debt as described herein, for financing general corporate purposes of the Corporation and its affiliates and for paying expenses incurred in connection with the issuance of the Bonds or other Series 2016 Bonds (as defined herein).

The Bonds will be issued in fully registered form in denominations of $1,000 and any integral multiple thereof and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("*DTC*"). DTC will act as securities depository for the Bonds. Individual purchases will be made in book-entry form only, in principal amounts of $1,000 and any integral multiple thereof. Purchasers of the Bonds will not receive physical certificates (except under certain circumstances described in the Indentures) representing their ownership interests in the Bonds purchased.

Interest on the Bonds will be payable on April 1 and October 1 of each year, commencing on April 1, 2017. So long as the Bonds are held by DTC, the principal or Redemption Price (as defined herein) of and interest on the Bonds will be payable by wire transfer to DTC, which in turn is required to remit such principal or Redemption Price and interest to the DTC Participants for subsequent disbursement to the Beneficial Owners of the Bonds, as more fully described in "BOOK-ENTRY ONLY SYSTEM" herein.

The Bonds are subject to purchase in lieu of redemption and optional redemption in whole or in part prior to their stated maturity as described herein. The Series 2016I Bonds are also subject to mandatory sinking fund redemption as described herein. *See* "THE BONDS—Redemption" herein.

Interest on and gain, if any, on the sale of the Bonds are not excludable from gross income for federal, state or local income tax purposes. *See* "TAX MATTERS" herein.

The obligation of the Corporation to make payments to the Bond Trustee under each Indenture is evidenced by the Providence Health & Services Obligated Group Series 2016H-1 Direct Note Obligation (Taxable No. 16) and the Providence Health & Services Obligated Group Series 2016I-1 Direct Note Obligation (Taxable No. 17) (collectively, the "*Series 2016 Fixed Rate Taxable Obligations*") issued under and pursuant to the terms of the Master Indenture, as described herein. Providence Health & Services, the other Members of the Obligated Group and any future Members of the Obligated Group are obligated to make payments on the Series 2016 Fixed Rate Taxable Obligations in amounts sufficient to pay when due the principal of or Redemption Price, and interest on the Bonds.

This cover page contains certain information for quick reference only. It is not intended to be a summary of the security for or the terms of the Bonds. Investors are advised to read the entire Offering Memorandum to obtain information essential to making an informed investment decision.

The Bonds are offered when, as and if, issued by the Corporation and received by the Underwriters, subject to prior sale, withdrawal or modification of the offer without notice, and to the approval of certain legal matters by counsel described herein under the caption "APPROVAL OF LEGALITY." It is expected that the Bonds will be available for delivery to DTC in New York, New York or to its custodial agent on or about September 28, 2016.

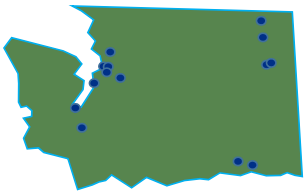
BofA Merrill Lynch **Citigroup**
Morgan Stanley **Wells Fargo Securities**

September __, 2016

[±] For an explanation of ratings, see "RATINGS" herein.
[*] Preliminary, subject to change
[†] CUSIP Copyright, American Bankers Association. CUSIP data is provided by Standard & Poor's CUSIP Service Bureau, a Standard & Poor's Financial Services LLC business. CUSIP numbers are provided for convenience of reference only. None of the Members of the Obligated Group, the Bond Trustee or the Underwriters assumes any responsibility for the accuracy of such numbers. No assurance can be given that the CUSIP numbers for the Bonds will remain the same after the date of the issuance and delivery of the Bonds.

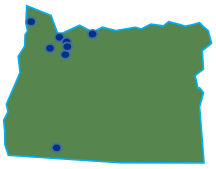
Providence St. Joseph Health
Acute Care Hospitals

ALASKA
ANCHORAGE Providence Alaska Medical Center
KODIAK Providence Kodiak Island Medical Center
SEWARD Providence Seward Medical and Care Center
VALDEZ Providence Valdez Medical Center



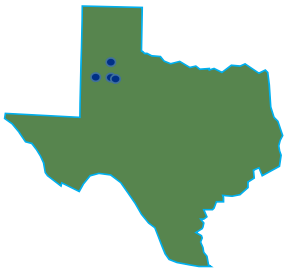
WASHINGTON
CENTRALIA Providence Centralia Hospital
CHEWELAH Providence St. Joseph Hospital
COLVILLE Providence Mount Carmel Hospital
EDMONDS Swedish Edmonds
EVERETT Providence Regional Medical Center Everett
OLYMPIA Providence St. Peter Hospital
RICHLAND Kadlec Regional Medical Center
SEATTLE Swedish Medical Center First Hill
SEATTLE Swedish Medical Center Cherry Hill
SEATTLE Swedish Medical Center Ballard
ISSAQUAH Swedish Medical Center Issaquah
SPOKANE Providence Sacred Heart Medical Center and Children's Hospital
SPOKANE Providence Holy Family medical Center
WALLA WALLA St. Mary Medical Center

MONTANA
MISSOULA Providence St. Patrick Hospital
POLSON Providence St. Joseph Medical Center



OREGON
HOOD RIVER Providence Hood River Memorial Hospital
MEDFORD Providence Medford Medical Center
MILWAUKIE Providence Milwaukie Hospital
NEWBERG Providence Newberg Medical Center
OREGON CITY Providence Willamette Falls Medical Center
PORTLAND Providence Portland Medical Center
PORTLAND Providence St. Vincent Medical Center
SEASIDE Providence Seaside Hospital

CALIFORNIA
APPLE VALLEY St. Mary Medical Center
BURBANK Providence Saint Joseph Medical Center
EUREKA St. Joseph Hospital of Eureka
FORTUNA Redwood Memorial Hospital of Fortuna
FULLERTON St. Jude Medical Center
IRVINE Hoag Memorial Hospital Presbyterian
LAGUNA BEACH Mission Hospital Regional Medical Center
MISSION HILLS Providence Holy Cross Medical Center
MISSION VIEJO Mission Hospital Regional Medical Center
NAPA Queen of the Valley Hospital Medical Center
NEWPORT BEACH Hoag Memorial Hospital Presbyterian
ORANGE St. Joseph Hospital of Orange
PETALUMA VALLEY Petaluma Valley Hospital
SAN PEDRO Providence Little Company of Mary Medical Center San Pedro
SANTA MONICA Providence Saint John's Health Center
SANTA ROSA Santa Rosa Memorial Hospital
TARZANA Providence Tarzana Medical Center
TORRANCE Providence Little Company of Mary Torrance



TEXAS
LEVELLAND Covenant Hospital Levelland
LUBBOCK Covenant Medical Center
LUBBOCK Covenant Children's Hospital
PLAINVIEW Covenant Hospital Plainview

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GENERAL INFORMATION

This Offering Memorandum does not constitute an offer to sell the Bonds in any jurisdiction in which or to any person to whom it is unlawful to make such an offer. No dealer, salesperson or other person has been authorized by the Corporation, any other Obligated Group Member, or the Underwriters to give any information or to make any representations, other than those contained herein, in connection with the offering of the Bonds and, if given or made, such information or representations must not be relied upon.

THE BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "*1933 ACT*"), IN RELIANCE ON THE PROVISIONS OF SECTION (3)(a)(4) THEREOF. NO OTHER SECURITY RELATING TO THE BONDS HAS BEEN REGISTERED UNDER THE 1933 ACT, AND NEITHER THE INDENTURES NOR THE MASTER INDENTURE NOR THE SUPPLEMENT HAS BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, AS AMENDED, IN RELIANCE UPON EXEMPTIONS IN SUCH ACTS. FURTHER, THE BONDS HAVE NOT BEEN REGISTERED UNDER THE LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE BONDS MAY NOT BE EXEMPT IN EVERY JURISDICTION IN THE UNITED STATES. THE SECURITIES LAWS OF SOME JURISDICTIONS MAY REQUIRE A FILING AND A FEE TO SECURE THE BONDS' EXEMPTION FROM REGISTRATION. THE EXEMPTIONS FROM REGISTRATION AND FROM QUALIFICATION IN ACCORDANCE WITH APPLICABLE PROVISIONS OF FEDERAL OR STATE LAWS CANNOT BE REGARDED AS A RECOMMENDATION THEREOF.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THE BONDS OR ANY RELATED SECURITY, OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS OFFERING MEMORANDUM. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

All information set forth herein has been obtained from the Corporation, the other Obligated Group Members, DTC and other sources that are believed to be reliable. Estimates and opinions are included and should not be interpreted as statements of fact. Summaries of documents do not purport to be complete statements of the provisions of such summarized documents. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Offering Memorandum nor any sale made hereunder will, under any circumstances, create any implication that there has been no change in the affairs of the Corporation and the other Obligated Group Members since the date hereof.

Certain statements included or incorporated by reference in this Offering Memorandum constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act. Such statements are generally identifiable by the terminology used such as "pro-forma," "may," "believe," "plan," "expect," "estimate," "budget," "intend," "projection" or other similar words. Such forward-looking statements include, but are not limited to, the information under the caption "BONDHOLDERS' RISKS" in the forepart of this Offering Memorandum and the information in APPENDIX A to this Offering Memorandum. A number of important factors, including factors affecting the Obligated Group's financial condition and factors which are otherwise unrelated thereto, could cause actual results to differ materially from those stated in such forward-looking statements. THE OBLIGATED GROUP DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THOSE FORWARD-LOOKING STATEMENTS IF OR WHEN ITS

EXPECTATIONS CHANGE, OR EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH SUCH STATEMENTS ARE BASED OCCUR.

The Underwriters have provided the following sentence for inclusion in this Offering Memorandum. *The Underwriters have reviewed the information in this Offering Memorandum in accordance with, and as part of, their responsibility to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.*

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

U.S. Bank National Association, as Bond Trustee, and The Bank of New York Mellon Trust Company, N.A., as Master Trustee, have not reviewed, provided or undertaken to determine the accuracy of any of the information contained in this Offering Memorandum and make no representation or warranty, express or implied, as to any matters contained in this Offering Memorandum, including, but not limited to, (i) the accuracy or completeness of such information, or (ii) the validity of the Bonds.

Statements in this Offering Memorandum are made as of the date hereof unless stated otherwise and neither delivery of this Offering Memorandum at any time, nor any sales thereunder, shall under any circumstances create an implication that the information contained herein is correct as of any time subsequent to the date hereof.

Any references to internet websites in this Offering Memorandum are shown for reference and convenience only; unless explicitly stated to the contrary, the information contained within the websites and any links contained within those websites are not incorporated herein by reference and do not constitute part of this Offering Memorandum.

In making an investment decision, investors must rely on their own examination of Providence St. Joseph Health, Providence Health & Services, the Obligated Group, and the terms of the offering, including the merits and risks involved. Prospective investors should not construe the contents of this Offering Memorandum as legal, tax or investment advice.

NOTICE TO INVESTORS

Notice to Prospective Investors in the Canadian Provinces of British Columbia, Ontario and Québec

The offering of the Bonds in Canada is being made in the Provinces of British Columbia, Ontario and Québec (each, a "*Canadian Jurisdiction*" and collectively, the "*Canadian Jurisdictions*") pursuant to exemptions from the prospectus requirements of applicable securities laws. The Bonds will be offered to "accredited investors" in the Canadian Jurisdictions pursuant to Section 2.3 (the "*Accredited Investor Exemption*") of National Instrument 45-106 – *Prospectus and Registration Exemptions* ("*NI 45-106*"). Under the Accredited Investor Exemption, a subscriber or any principal on whose behalf the subscriber is acting as agent (a "*Canadian Purchaser*") must qualify as an "accredited investor", as such term is defined in NI 45-106, and, if relying on subsection (m) of the definition of that term, is not a person created or being used solely to purchase or hold securities as an accredited investor. All Canadian Purchasers of the Bonds will be required to execute a subscription agreement which will contain representations, warranties, covenants and acknowledgments of the Canadian Purchaser to establish the availability of such exemption and to ensure compliance with applicable Canadian securities laws.

This Offering Memorandum constitutes an offering of the Bonds only in those jurisdictions and to those persons where and to whom they may be lawfully offered for sale, and therein only by persons permitted to sell the Bonds. This Offering Memorandum is not, and should not under any circumstances be construed as, an advertisement or a public offering of the Bonds in Canada. No securities commission or similar securities regulatory authority in Canada has reviewed or in any way passed upon this Offering Memorandum or the merits of the Bonds and any representation to the contrary is an offence under applicable Canadian securities laws.

The offering is being made exclusively through this Offering Memorandum and not through any advertisement of the Bonds in any printed media of general and regular paid circulation, radio or television, electronic media or any other form of advertising. No person has been authorized to give any information or to make any representation other than those contained in this Offering Memorandum and any decision to purchase the Bonds should be made solely based on the information contained in this Offering Memorandum.

An investment in the Bonds being offered for sale is speculative and involves a high degree of risk. An investment should only be made with persons who can afford the total loss of their investment. The risk factors identified should be carefully reviewed and evaluated by prospective subscribers before purchasing any Bonds being offered.

Resale Restriction

The Bonds acquired by Canadian Purchasers hereunder may not be sold, transferred or otherwise disposed of in any manner unless such sale, transfer or disposition complies with the resale restrictions of the applicable securities laws of the Canadian Jurisdictions. Pursuant to applicable Canadian provincial and territorial securities laws, the Bonds acquired by a Canadian Purchaser hereunder will be subject to restrictions on resale until such time as:

(a) the appropriate "hold periods" have been satisfied and such Canadian Purchaser has complied with other applicable requirements, including the filing of appropriate reports pursuant to applicable securities legislation;

(b) a further statutory exemption may be relied upon by such Canadian Purchaser; or

(c) an appropriate discretionary order is obtained pursuant to applicable securities laws.

As the Corporation is not a reporting issuer in any province or territory of Canada, the applicable hold period for the Bonds may never expire, and if no further statutory exemption may be relied upon and if no discretionary order is obtained, this could result in a Canadian Purchaser having to hold the Bonds for an indefinite period of time. Each certificate representing the Bonds issued to Canadian Purchasers will bear a legend indicating that the resale of the Bonds is restricted.

In addition, in order to comply with the dealer registration requirements of Canadian securities laws, any resale of the Bonds must be made either by a person not required to register as a dealer under applicable Canadian securities laws, or through an appropriately registered dealer or in accordance with an exemption from the dealer registration requirements. These Canadian resale restrictions may in some circumstances apply to resales made outside of Canada.

The foregoing is a summary only of applicable Canadian resale restrictions and is subject to the express provisions of applicable Canadian securities legislation. All Canadian Purchasers should consult with their own Canadian legal advisors to determine the extent of the applicable hold period and the possibilities of utilizing any further statutory exemptions or the obtaining of a discretionary order.

Indirect Collection of Personal Information

By purchasing the Bonds, a Canadian Purchaser acknowledges that its name, residential address, telephone number, the amount of Bonds it has purchased and other specified information may be disclosed to Canadian securities regulatory authorities and become available to the public in accordance with the requirements of applicable Canadian laws. A Canadian Purchaser consents to the disclosure of such information.

By purchasing the Bonds, a Canadian Purchaser that is resident in the Province of Ontario acknowledges that it has been notified by the Corporation: (a) of the requirement to deliver to the Ontario Securities Commission (the "*OSC*") the full name, residential address and telephone number of such purchaser, the number and type of securities purchased, the total purchase price, the exemption relied upon and the date of distribution; (b) that this information is being collected indirectly by the OSC under the authority granted to it in applicable securities legislation; (c) that this information is being collected for the purposes of the administration and enforcement of the securities legislation of Ontario; and (d) that the Administrative Support Clerk can be contacted at the Ontario Securities Commission, Suite 1903, Box 55, 20 Queen Street West, Toronto, Ontario M5H 358, or at (416) 593¬3684, and can answer any questions about the OSC's indirect collection of this information.

Rights of Actions for Damages or Rescission

Securities legislation in certain of the provinces of Canada provides certain purchasers with, or requires certain purchasers to be provided with, in addition to any other rights they may have at law, a right of action for rescission or damages or both, against the Corporation, and in certain cases, other persons, where this Offering Memorandum and any amendment to it and, in certain cases, advertising and sales literature used in connection therewith, contains a misrepresentation. Where used herein, the term "misrepresentation" means an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make any statement not misleading or false in light of the circumstances in which it was made, and the expression "material fact" means a fact that significantly affects or would reasonably be expected to have a significant effect on the market price or value of the Bonds. These remedies or notice with respect thereto must be exercised or delivered, as the case may be,

by the purchaser within the time limits prescribed by applicable securities legislation. The following is a summary of the rights of rescission or damages, or both, available to purchasers under the securities legislation of certain of the Canadian Jurisdictions. Each purchaser should refer to the provisions of applicable securities legislation for the particulars of these rights or consult with a legal advisor.

Rights of Actions for Damages or Rescission – Ontario Purchasers

The Securities Act (Ontario) (the "*Ontario Act*") provides Canadian Purchasers resident in the Province of Ontario with, in addition to any other right they may have at law, rights of rescission or damages, or both, where this Offering Memorandum and any amendment to it contains a misrepresentation (as defined below). However, such rights must be exercised by the purchasers within the time limits prescribed by the Ontario Act. Canadian Purchasers resident in the Province of Ontario should consult with a legal advisor or refer to the applicable provisions of the Ontario Act, including Section 130.1 of the Ontario Act, for the complete text of these rights, the defenses available to the Corporation and others and the time limits during which these rights must be exercised.

The rights of action summarized below shall be available to each Canadian Purchaser of the Bonds resident in Ontario and are in addition to and without derogation from any other right or remedy available at law to such purchaser and are intended to correspond to the rights against an issuer of securities provided in the Ontario Act and are subject to the defenses contained therein. Where used in this section, "*misrepresentation*" means an untrue statement of material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in the light of the circumstances in which it was made.

In the event that this Offering Memorandum, together with any amendments hereto, is delivered to a prospective Canadian Purchaser resident in Ontario and contains a misrepresentation which was a misrepresentation at the time of purchase of the Bonds, such Canadian Purchaser will have a statutory right of action against the Corporation either for damages or alternatively, while still the owner of any of the Bonds, rescission, in which case the Canadian Purchaser will have no right of action for damages, provided that:

(a) an action is commenced to enforce such right (i) in the case of an action for rescission, within 180 days after the date of purchase, or (ii) in the case of an action for damages, within the earlier of 180 days following the date such purchaser first had knowledge of the misrepresentation and three years after the date of the purchase;

(b) the Corporation will not be liable if it proves that such purchaser purchased the Bonds with knowledge of the misrepresentation;

(c) in the case of an action for damages, the Corporation will not be liable for all or any portion of the damages that it proves does not represent the depreciation in value of the Bonds as a result of the misrepresentation relied upon;

(d) in no case will the amount recoverable in any action exceed the price at which the Bonds were sold to such purchaser; and

(e) if such purchaser elects to exercise the right of rescission, it will have no right of action for damages.

Notwithstanding the foregoing, a Canadian Purchaser resident in Province of Ontario will not have the rights referred to above if such purchaser is:

(A) a Canadian financial institution, meaning either:

(i) an association governed by the *Cooperative Credit Associations Act* (Canada) or a central cooperative credit society for which an order has been made under section 473(1) of that Act; or

(ii) a bank, loan corporation, trust company, trust corporation, insurance company, treasury branch, credit union, caisse populaire, financial services corporation, or league that, in each case, is authorized by an enactment of Canada or a jurisdiction of Canada to carry on business in Canada or a jurisdiction in Canada;

(B) a Schedule III bank, meaning an authorized foreign bank named in Schedule Ill of the Bank Act (Canada);

(C) the Business Development Bank of Canada incorporated under the *Business Development Bank of Canada Act* (Canada); or

(D) a subsidiary of any person referred to in paragraphs (A), (B) or (C), if the person owns all of the voting securities of the subsidiary, except the voting securities required by law to be owned by the directors of the subsidiary.

The foregoing summary is subject to the express provisions of the Ontario Act and the respective regulations and rules thereunder. Each Canadian Purchaser resident in Ontario should refer to the complete text of such provisions or consult with a legal advisor.

Rights of Action for Damages' or Rescission – Québec Purchasers

Notwithstanding that the securities legislation of the provinces of Québec does not provide or require the Corporation to provide to Canadian Purchasers resident in Québec any rights of action in circumstances where this Offering Memorandum or an amendment hereto contains a misrepresentation, the Corporation hereby grants to such Canadian Purchasers, in consideration for their purchase of the Bonds and upon accepting a confirmation in respect thereof, contractual rights of action equivalent to those set forth above with respect to Canadian Purchasers resident in Ontario.

General

The rights discussed above are in addition to and without derogation from any other rights or remedies available at law to Canadian Purchasers and are intended to correspond to the provisions of the relevant Canadian securities legislation and are subject to the defenses contained therein. The foregoing summaries are subject to the express provisions of the applicable securities legislation in each of the foregoing provinces and the regulations, rules and policy statements thereunder and reference is made thereto for the complete text of such provisions. Canadian Purchasers should refer to the applicable provisions of the securities legislation of their province of residence for the particulars of these rights and consult with their own Canadian legal advisers prior to investing in the Bonds.

Language of Documents

Upon receipt of this Offering Memorandum, the purchaser hereby confirms that he, she or it has expressly requested that all documents evidencing or relating in any way to the offer and/or sale of the Bonds be drawn up in the English language only. *Par la réception de ce document, l'acheteur confirme par les présentes qu'il a expressément exigéque tous les documents faisant foi ou se rapportant de quelque manière que ce soit à l'offre ou à la vente des valeurs mobilières dècrites aux prèsentes*

(incluant, pour plus de certitude, toute confirmation d'achat ou tout avis) soient rédigés en anglais seulement.

Notice to Potential Investors in the European Economic Area

This Offering Memorandum is not a prospectus for the purposes of European Commission Regulation 809/2004 or European Commission Directive 2003/71 /EC (as amended, including by European Commission Directive 2010/73/EU, as applicable) (the "*Prospectus Directive*"). It has been prepared on the basis that all offers of the Bonds will be made pursuant to an exemption under Article 3 of the Prospectus Directive, as implemented in member states of the European Economic Area, from the requirement to produce a prospectus for such offers. This Offering Memorandum is only addressed to and directed at persons in member states of the European Economic Area who are "qualified investors" within the meaning of Article 2(1)(e) of the Prospectus Directive and any relevant implementing measure in each member state of the European Economic Area ("*Qualified Investors*"). This Offering Memorandum must not be acted on or relied on in any such member state of the European Economic Area by persons who are not Qualified Investors. Any investment or investment activity to which this Offering Memorandum relates is available, in any member state of the European Economic Area other than the United Kingdom, only to Qualified Investors, and will be engaged in only with such persons.

Notice to Prospective Investors in the United Kingdom

This Offering Memorandum has not been approved for the purposes of Section 21 of the Financial Services and Markets Act 2000 ("*FSMA*") and does not constitute an offer to the public in accordance with the provisions of Section 85 of the FSMA. It is for distribution only to, and is directed solely at, persons who (i) are outside the United Kingdom, (ii) are investment professionals, as such term is defined in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "*Financial Promotion Order*"), (iii) are persons falling within Article 49(2)(a) to (d) of the Financial Promotion Order, or (iv) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) in connection with the issue or sale of any securities may otherwise be lawfully communicated or caused to be communicated (all such persons together being referred to as "*Relevant Persons*"). This Offering Memorandum is directed only at Relevant Persons and must not be acted on or relied on by persons who are not Relevant Persons, including in circumstances in which Section 21(1) of the FSMA applies to the Corporation. Any investment or investment activity to which this Offering Memorandum relates is available only to Relevant Persons and will be engaged in only with Relevant Persons. Any person who is not a Relevant Person should not act or rely on this Offering Memorandum or any of its contents.

SUMMARY OF THE OFFERINGS

Issuer	Providence Health & Services
Securities Offered:	
Series 2016H	$340,675,000* _____% Providence St. Joseph Health Obligated Group Taxable Bonds, Series 2016H due October 1, 2026*
Series 2016I	$340,670,000* _____% Providence St. Joseph Health Obligated Group Taxable Bonds, Series 2016I due October 1, 2047*
Interest Accrual Date	Interest will accrue from the Settlement Date
Interest Payment Dates	April 1 and October 1 each year, commencing April 1, 2017
Redemption	The Bonds are subject to optional redemption prior to maturity, upon written direction of Providence Health & Services, in whole or in part on any Business Day as directed by Providence Health & Services, at the Redemption Price, together with accrued interest to the date fixed for redemption, as further described herein. *See* "THE BONDS—Redemption" herein.
Settlement Date	September 28, 2016
Authorized Denominations	$1,000 and any integral multiple thereof
Form and Depository	The Bonds will be delivered solely in book-entry form through the facilities of DTC.
Use of Proceeds:	
Series 2016H	Providence Health & Services will use the proceeds of the Series 2016H Bonds for financing general corporate purposes of Providence Health & Services and its affiliates and for paying expenses incurred in connection with the issuance of the Bonds or other Series 2016 Bonds (as defined herein).
Series 2016I	Providence Health & Services will use the proceeds of the Series 2016I Bonds for refinancing prior debt of Providence Health & Services and prior debt of St. Joseph Health System, for financing general corporate purposes and for paying expenses incurred in connection with the issuance of the Bonds or other Series 2016 Bonds (as defined herein).
Ratings	Fitch: AA- (stable outlook) Moody's: Aa3 (stable outlook) S&P Global Ratings: AA- (stable outlook) For an explanation of the ratings, *see* "RATINGS" herein.

* Preliminary, subject to change.

OFFERING MEMORANDUM

RELATING TO

$340,675,000*	**$340,670,000***
PROVIDENCE ST. JOSEPH HEALTH OBLIGATED GROUP	**PROVIDENCE ST. JOSEPH HEALTH OBLIGATED GROUP**
Taxable Bonds, Series 2016H	**Taxable Bonds, Series 2016I**

INTRODUCTION

The purpose of this Offering Memorandum, which includes the cover page, the table of contents and appendices, is to provide certain information concerning the sale and delivery by Providence Health & Services of the Bonds (described below). This Introduction contains only a brief summary of certain terms of the Bonds being offered and a brief description of the Offering Memorandum. All statements contained in this Introduction are qualified in their entirety by reference to the entire Offering Memorandum. Certain capitalized terms used herein are defined in Appendices A, C and D to this Offering Memorandum.

The Bonds

This Offering Memorandum describes the $340,675,000* Providence St. Joseph Health Obligated Group Taxable Bonds, Series 2016H (the "*Series 2016H Bonds*") and the $340,670,000* Providence St. Joseph Health Obligated Group Taxable Bonds, Series 2016I (the "*Series 2016I Bonds*"). The Series 2016H Bonds and the Series 2016I Bonds are collectively referred to herein as the "*Bonds*" and each series as a "*Series*" of Bonds.

The Series 2016H Bonds are being issued pursuant to a Trust Indenture, dated as of September 1, 2016 (the "*Series 2016H Indenture*"), by and between Providence Health & Services (the "*Corporation*" or "*Providence Health & Services*") and U.S. Bank National Association, as bond trustee (the "*Bond Trustee*"). The Series 2016I Bonds are being issued pursuant to the Trust Indenture, dated as of September 1, 2016 (the "*Series 2016I Indenture*" and, together with the Series 2016H Indenture, the "*Indentures*"), by and between Providence Health & Services and the Bond Trustee. Pursuant to each Indenture, on each Payment Date, until the principal of and interest on each Series of Bonds shall have been paid or provision for such payment shall have been made as provided in the related Indenture, the Corporation will pay the Bond Trustee a sum equal to the amount payable on such Payment Date as principal of or interest on the related Series of Bonds. The Bonds and any Additional Bonds that may be issued under the Indentures are general obligations of Providence Health & Services. *See* "THE BONDS" herein.

Proceeds of the Series 2016H Bonds will be used (i) for general corporate purposes; and (ii) to pay expenses incurred in connection with the issuance of the Bonds or other Series 2016 Bonds (defined below).

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* Preliminary, subject to change.

Proceeds of the Series 2016I Bonds will be used (i) to refinance a portion of the Providence Bonds To Be Refinanced (as defined below), (ii) to refinance a portion of the SJHS Bonds To Be Refinanced (as defined below); (iii) for general corporate purposes; and (iv) to pay expenses incurred in connection with the issuance of the Bonds or other Series 2016 Bonds.

See "PLAN OF FINANCING" and "ESTIMATED SOURCES AND USES OF FUNDS" herein.

Providence St. Joseph Health and the Obligated Group

Effective July 1, 2016, Providence St. Joseph Health, a Washington nonprofit corporation ("*PSJH*"), became the sole member of both Providence Health & Services, a Washington nonprofit corporation ("*Providence Health & Services*"), and St. Joseph Health System, a California nonprofit public benefit corporation ("*SJHS*"), creating one of the largest health care systems in the United States (referred to herein as the "*System*"), with health care facilities in the States of Alaska, California, Montana, New Mexico, Oregon, Texas and Washington. Prior to July 1, 2016, Providence Health & Services and SJHS each controlled separate multi-state health systems.

As of the date of this Offering Memorandum, Providence Health & Services, Providence Health & Services – Washington, Providence Health System – Southern California, Little Company of Mary Ancillary Services Corporation, Providence Saint John's Health Center, Providence St. Joseph Medical Center, Providence Health & Services – Montana, Providence Health & Services – Oregon, Providence Health & Services – Western Washington, Swedish Health Services, Swedish Edmonds, PacMed Clinics, Western HealthConnect and Kadlec Regional Medical Center are currently Members of the Obligated Group (individually, a "*Member*" and collectively the *"Existing Obligated Group"* or the "*Members of the Existing Obligated Group*") under a Master Trust Indenture (Amended and Restated), dated as of May 1, 2003, as supplemented and amended from time to time (referred to in this Offering Memorandum as the "*Master Indenture*"), originally entered into among Providence Health & Services – Washington and the initial Members of the Obligated Group and The Bank of New York Mellon Trust Company, N.A., as master trustee (the "*Master Trustee*"). On the issue date of the Bonds (the "*Closing Date*"), St. Joseph Health System, St. Joseph Hospital of Orange, St. Jude Hospital, Inc. (doing business as St. Jude Medical Center), Mission Hospital Regional Medical Center, St. Mary Medical Center, Hoag Memorial Hospital Presbyterian, Queen of the Valley Medical Center, Santa Rosa Memorial Hospital, SRM Alliance Hospital Services (doing business as Petaluma Valley Hospital), St. Joseph Hospital of Eureka, Redwood Memorial Hospital of Fortuna, Covenant Health System, Methodist Children's Hospital (doing business as Covenant Children's Hospital), Methodist Hospital Levelland (doing business as Covenant Hospital Levelland) and Methodist Hospital Plainview (doing business as Covenant Hospital Plainview) (collectively, the "*New Obligated Group Members*") will each become a Member of the Obligated Group. The Existing Obligated Group and the New Obligated Group Members are collectively referred to as the "*Obligated Group*" or the "*Members of the Obligated Group*").

The Members of the Obligated Group own (or lease) and operate 50 acute care hospital facilities and 23 skilled nursing facilities with a combined licensed bed complement of 13,481 beds, all as of June 30, 2016, throughout seven states.

See APPENDIX A – "INFORMATION CONCERNING PROVIDENCE ST. JOSEPH HEALTH AND THE OBLIGATED GROUP" for a more detailed discussion of the System and the Obligated Group. *See* APPENDIX B-1 for certain audited financial statements of Providence Health & Services and APPENDIX B-2 for certain audited financial statements of SJHS.

Other Financings

Series 2016A Bonds

Approximately concurrent with the issuance of the Bonds, but as a separate tax-exempt issue of bonds, the California Health Facilities Financing Authority (the "*California Issuer*") plans to issue $448,165,000 Revenue Bonds, Series 2016A (Providence St. Joseph Health) (the "*Series 2016A Bonds*"). The proceeds of the Series 2016A Bonds will be used (i) to refinance a portion of the SJHS Bonds To Be Refinanced; and (ii) to pay expenses incurred in connection with the issuance of the Series 2016A Bonds. The Series 2016A Bonds will be secured by an Obligation issued under the Master Indenture on a parity basis with the Series 2016 Fixed Rate Taxable Obligations (as defined below). ***The Series 2016A Bonds are <u>not</u> being offered by this Offering Memorandum.***

Series 2016B Bonds

Approximately concurrent with the issuance of the Bonds, but as one or more subseries of tax-exempt issues of bonds, the California Issuer plans to issue $285,730,000 Revenue Bonds, Series 2016B (Providence St. Joseph Health) (the "*Series 2016B Bonds*" and, together with the Series 2016A Bonds, the "*Series 2016 California Bonds*"). The proceeds of the Series 2016B Bonds will be used (i) to refinance a portion of the SJHS Bonds To Be Refinanced; and (ii) to pay expenses incurred in connection with the issuance of the Series 2016B Bonds. The Series 2016B Bonds will be secured by an Obligation issued under the Master Indenture on a parity basis with the Series 2016 Fixed Rate Taxable Obligations. ***The Series 2016B Bonds are <u>not</u> being offered by this Offering Memorandum.***

Series 2016 Bank Direct Purchase Bonds

Approximately concurrent with the issuance of the California Bonds, one or more series of additional bonds in the aggregate principal amount of approximately $303,485,000[†] will be issued by other governmental issuers and purchased directly, without a public offering, by one or more financial institutions (collectively, the "*Series 2016 Bank Direct Purchase Bonds*"). The proceeds of the Series 2016 Bank Direct Purchase Bonds will be used (i) to refund on a current basis a portion of the Providence Bonds To Be Refinanced (as defined below); (ii) to refinance a portion of the SJHS Bonds To Be Refinanced; and (iii) to pay expenses incurred in connection with the issuance of the Series 2016 Bank Direct Purchase Bonds.

It is currently expected that an affiliate of one or more of the Underwriters of the Bonds will be among the financial institutions purchasing one or more series of the Series 2016 Bank Direct Purchase Bonds. It is expected that each series of the Series 2016 Bank Direct Purchase Bonds will be structured as variable rate debt and will be subject to tender at par at the end of the initial interest period or upon the occurrence of an event of default. The financial covenants relating to the Series 2016 Bank Direct Purchase Bonds will be substantially consistent with the covenants provided in the Master Indenture. Each series of the Series 2016 Direct Placement Bank Bonds will be secured by an Obligation issued under the Master Indenture on a parity basis with the Series 2016 Fixed Rate Taxable Obligations. ***The Series 2016 Bank Direct Purchase Bonds are <u>not</u> being offered by this Offering Memorandum.***

Series 2016 Variable Rate Taxable Bonds

Approximately concurrent with the issuance of the Bonds, the Obligated Group plans to issue approximately $101,015,000[†] in one or more series of variable rate taxable bonds (collectively, the

[†] Expected.

"*Series 2016 Variable Rate Taxable Bonds*" and, together with the Bonds, the "*Series 2016 Taxable Bonds*"). The Series 2016 California Bonds, the Series 2016 Bank Direct Purchase Bonds and the Series 2016 Taxable Bonds are collectively referred to herein as the "*Series 2016 Bonds*." (All Series 2016 Bonds other than the Series 2016 Taxable Bonds are referred to as the "*Series 2016 Tax-Exempt Bonds*.") Proceeds of the Series 2016 Variable Rate Taxable Bonds will be used (i) to refinance a portion of the Providence Bonds To Be Refinanced; (ii) for general corporate purposes; and (iii) to pay expenses incurred in connection with the issuance of the Series 2016 Variable Rate Taxable Bonds or other Series 2016 Bonds. Each series of Series 2016 Variable Rate Taxable Bonds will be secured by an Obligation issued under the Master Indenture on a parity basis with the Series 2016 Fixed Rate Taxable Obligations. ***The Series 2016 Variable Rate Taxable Bonds are <u>not</u> being offered by this Offering Memorandum.***

2016 Replacement Master Notes

Concurrent with the issuance of the Bonds, and as a condition to completing the Series 2016 Bonds plan of financing and refinancing, the Obligated Group will issue Obligations in an aggregate principal amount not exceeding $1.077 billion (collectively, the "*Bonds 2016 Replacement Master Notes*") in substitution and exchange for obligations of identical term and tenor previously delivered under the Master Trust Indenture, dated as of December 1, 1983, as supplemented and amended (the "*SJHS Master Indenture*"), among SJHS and other members of the obligated group thereunder and The Bank of New York Mellon Trust Company, N.A., as master trustee, relating to: (i) Lubbock Health Facilities Development Corporation Variable Rate Refunding Revenue Bonds (St. Joseph Health System), Series 2008B (the "*Series 2008B Bonds*"); (ii) California Health Facilities Financing Authority Revenue Bonds (St. Joseph Health System), Series 2009A and Series 2009B (collectively, the "*Series 2009A/B Bonds*"); (iii) California Health Facilities Financing Authority Variable Rate Refunding Revenue Bonds (St. Joseph Health System), Series 2009C and Series 2009D (collectively, the "*Series 2009C/D Bonds*"); and (iv) California Health Facilities Financing Authority Revenue Bonds (St. Joseph Health System), Series 2013A, Series 2013B, Series 2013C and Series 2013D (collectively, the "*Series 2013A-D Bonds*"). In addition, on the Closing Date, the Obligated Group will issue Obligations (i) in an aggregate principal amount not exceeding $865 million to providers of letters of credit with respect to insurance programs (not greater than $65 million in the aggregate) or to lenders under one or more syndicated credit arrangements relating to $800 million in revolving credit lines (of which approximately $330 million will be outstanding on the Closing Date), and (ii) relating to one or more interest rate swap agreements with various counterparties in the aggregate notional amount of $485 million (collectively, the "*Other 2016 Replacement Master Notes*" and, together with the Bonds 2016 Replacement Master Notes, the "*2016 Replacement Master Notes*"). Upon the issuance of the 2016 Replacement Master Notes and the refinancing of the SJHS Bonds To Be Refinanced, no indebtedness will remain outstanding under the SJHS Master Indenture, the lien of the SJHS Master Indenture will be released and the SJHS Master Indenture will be discharged.

Security and Sources of Payment for the Bonds

The Series 2016H Bonds will be secured by the Providence Health & Services Obligated Group Series 2016H-1 Direct Note Obligation (Taxable No. 16) and the Series 2016I Bonds will be secured by the Providence Health & Services Obligated Group Series 2016I-1 Direct Note Obligation (Taxable No. 17) (collectively, the "*Series 2016 Fixed Rate Taxable Obligations*") issued by the Obligated Group Members under the Master Indenture on the date of issuance of the Bonds. Under the Master Indenture, each Obligated Group Member is jointly and severally liable on all Obligations that are outstanding under the Master Indenture, including the Series 2016 Fixed Rate Taxable Obligations. The Series 2016 Fixed Rate Taxable Obligations will provide for payments by the Obligated Group Members of the principal or Redemption Price, interest and premium, if any, thereon, at such times and in such amounts as shall be sufficient to pay in full when due.

The obligations of the Obligated Group under the Master Indenture, including payment obligations on the Series 2016 Fixed Rate Taxable Obligations, will not be secured by a lien on or a security interest in any of the property of the Obligated Group. However, the Obligated Group has covenanted in the Master Indenture that it will not create, assume or suffer to exist any lien or security interest of any kind upon the property of the Obligated Group, including its Revenues, except as permitted by the Master Indenture. *See* the information herein under the caption "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS" and in APPENDIX D – "SUMMARY OF THE MASTER INDENTURE – Liens on Property."

As of June 30, 2016, prior to the Combination (as herein defined) that created the System, the Existing Obligated Group Members and the New Obligated Group Members had issued Obligations under their respective master trust indentures outstanding in the aggregate principal amount of approximately $6.52 billion. Such Obligations are referred to in this Offering Memorandum as the "*Existing Obligations*." The Members of the Obligated Group have not issued any additional Obligations since June 30, 2016.

The Bonds are not secured by any debt service reserve fund.

Redemption*

The Bonds are subject to optional redemption prior to maturity, upon written direction of Providence Health & Services or the Obligated Group Agent, in whole or in part on any Business Day in such order of maturity as directed by Providence Health & Services, at the Redemption Price, together with accrued interest to the date fixed for redemption, as further described herein. The Series 2016I Bonds are also subject to mandatory sinking fund redemption, as further described herein. *See* "THE BONDS—Redemption" herein.

Bondholders' Risks

Certain risks are inherent in the purchase of the Bonds. *See* the information herein under the caption "BONDHOLDERS' RISKS" for a discussion of certain of these risks.

Book-Entry Only System

The following information concerning DTC and DTC's book-entry system has been obtained from sources that the Corporation, the other Obligated Group Members and the Underwriters believe to be reliable, but none of the Corporation, the other Obligated Group Members or the Underwriters takes any responsibility for the accuracy thereof.

When delivered, each Series of Bonds will be registered in the name of Cede & Co., the nominee of The Depository Trust Company ("*DTC*"). DTC will act as the securities depository for the Bonds. Purchases of the Bonds may be made in book-entry form only, through brokers and dealers who are, or who act through, DTC Participants. Beneficial Owners of the Bonds will not receive physical delivery of certificated securities (except under certain circumstances described in the Indentures). Payment of the principal or Redemption Price of and interest on each Series of the Bonds are payable by the Bond Trustee to DTC, which will in turn remit such payments to the DTC Participants, which will in turn remit such payments to the Beneficial Owners of the related Bonds. In addition, so long as Cede & Co. is the registered owner of a Series of Bonds, the right of any Beneficial Owner to receive payment for any Bond

* Preliminary, subject to change.

of the Series will be based only upon and subject to the procedures and limitations of the DTC book-entry system. *See* "BOOK-ENTRY ONLY SYSTEM" herein.

Continuing Disclosure

The Obligated Group has entered into a Master Continuing Disclosure Agreement (as defined below) with Digital Assurance Certificates, L.L.C., as dissemination agent (the "*Dissemination Agent*"), to provide certain financial and operating data for each of the Obligated Group's fiscal years. *See* the information under the caption "CONTINUING DISCLOSURE" and APPENDIX E – "FORM OF MASTER CONTINUING DISCLOSURE AGREEMENT."

Certain Information Related to this Offering Memorandum

The descriptions herein of the Indentures and other documents relating to the Bonds do not purport to be complete and are qualified in their entirety by reference to such documents, and the description herein of the Bonds is qualified in its entirety by the form thereof and the information with respect thereto included in such documents. *See* APPENDIX C – "SUMMARY OF THE TRUST INDENTURES" attached hereto for the summary of certain provisions of the Indentures, and APPENDIX D – "SUMMARY OF THE MASTER INDENTURE" attached hereto for a summary of certain provisions of the Master Indenture.

All capitalized terms used in this Offering Memorandum and not otherwise defined herein, have the respective meanings included in "DEFINITIONS OF CERTAIN TERMS" in APPENDIX C – "SUMMARY OF THE TRUST INDENTURES" and "DEFINITIONS" in APPENDIX D – "SUMMARY OF THE MASTER INDENTURE" hereto.

PLAN OF FINANCE

Bonds To Be Refinanced

The proceeds of the Series 2016 Bonds will be applied to refinance or refund the SJHS Bonds To Be Refinanced and the Providence Bonds To Be Refinanced (collectively, the "*Bonds To Be Refinanced*") in the respective amounts shown below:

Prior Bonds	Original Principal Amount	Outstanding Principal Amount	Expected Redemption/ Purchase Date
California Statewide Communities Development Authority Insured Revenue Bonds (St. Joseph Health System), Series 2000 (the "*Series 2000 Bonds*") ∓ [1]	$194,275,000	$96,525,000	July 1, 2018
Washington Health Care Facilities Authority Revenue Bonds, Series 2006A (Providence Health & Services) (the "*Series 2006A Bonds*") † [2]	$212,165,000	$210,555,000	October 1, 2016
Montana Facility Finance Authority Revenue Bonds, Series 2006B (Providence Health & Services) (the "*Series 2006B Bonds*") † [2]	$68,430,000	$54,495,000	October 1, 2016
California Statewide Communities Development Authority Insured Revenue Bonds (St. Joseph Health System), Series 2007A (the "*Series 2007A Bonds*") ∞ [1]	$83,400,000	$83,400,000	July 1, 2018
California Statewide Communities Development Authority Insured Revenue Bonds (St. Joseph Health System), Series 2007B (the "*Series 2007B Bonds*") ∞ [1]	$83,400,000	$83,400,000	July 1, 2018
California Statewide Communities Development Authority Insured Revenue Bonds (St. Joseph Health System), Series 2007C (the "*Series 2007C Bonds*") ∞ [1]	$83,400,000	$83,400,000	July 1, 2018
California Statewide Communities Development Authority Insured Revenue Bonds (St. Joseph Health System), Series 2007D (the "*Series 2007D Bonds*") ∞ [1]	$83,425,000	$83,425,000	July 1, 2018
California Statewide Communities Development Authority Insured Revenue Bonds (St. Joseph Health System), Series 2007E (the "*Series 2007E Bonds*") ∞ [1]	$83,425,000	$83,425,000	July 1, 2018
California Statewide Communities Development Authority Insured Revenue Bonds (St. Joseph Health System), Series 2007F (the "*Series 2007F Bonds*") ∞ [1]	$77,500,000	$32,175,000	July 1, 2018
Lubbock Health Facilities Development Corporation Variable Rate Refunding Revenue Bonds (St. Joseph Health System) Series 2008A (the "*Series 2008A Bonds*") † [1]	$45,375,000	$39,000,000	October 18, 2016
Providence Health & Services Obligated Group Direct Obligation Notes, Series 2009A maturing on October 1, 2016 (the "*Series 2009A Taxable Notes*") ∓ [2]	$65,000,000	$65,000,000	October 1, 2016
California Health Facilities Financing Authority Variable Rate Revenue Bonds (St. Joseph Health System), Series 2011A (the "*Series 2011A Bonds*") ‡ [1]	$52,110,000	$52,110,000	September 28, 2016
California Health Facilities Financing Authority Variable Rate Revenue Bonds (St. Joseph Health System), Series 2011B (the "*Series 2011B Bonds*") ‡ [1]	$100,000,000	$100,000,000	September 28, 2016
California Health Facilities Financing Authority Variable Rate Revenue Bonds (St. Joseph Health System), Series 2011C (the "*Series 2011C Bonds*") ‡ [1]	$50,000,000	$50,000,000	September 28, 2016

California Health Facilities Financing Authority Variable Rate Revenue Bonds (St. Joseph Health System), Series 2011D (the "*Series 2011D Bonds*") ‡ [1]	$100,000,000	$100,000,000	September 28, 2016
Providence Health & Services Obligated Group Direct Obligation Notes, Series 2013E maturing on October 1, 2016 (the "*Series 2013E Taxable Notes*") ∓ [2]	$100,000,000	$100,000,000	October 1, 2016
Providence Health & Services Obligated Group Direct Obligation Notes, Series 2013F Commercial Paper (the "*Series 2013F Taxable Notes*") ∓ [2]	$200,000,000 (Authorized)	$125,000,000	Various

∞ A component of the use of proceeds of the Series 2016A Bonds.
‡ A component of the use of proceeds of the Series 2016B Bonds.
† A component of the use of proceeds of the Series 2016 Bank Direct Purchase Bonds. (Expected.)
∓ A component of the use of proceeds of the Series 2016 Taxable Bonds. (Expected.)
[1] "*SJHS Bonds To Be Refinanced*"
[2] "*Providence Bonds To Be Refinanced*"

In addition, as discussed above under the caption "INTRODUCTION – 2016 Replacement Master Notes," on the Closing Date, Obligations will be issued in replacement of existing indebtedness of the New Obligated Group Members.

Sources and Uses of Funds

The estimated sources and uses of the Series 2016 Bonds are set forth below. (All amounts are rounded to the nearest whole dollar.)

	Series 2016 Taxable Bonds*	Series 2016A Bonds	Series 2016B Bonds	Series 2016 Bank Direct Purchase Bonds†	Total
Sources:					
Par Amount:	$782,360,000	$448,165,000	$285,730,000	$303,485,000	$1,819,740,000
Series 2016 Variable Rate Taxable Bonds	*101,015,000*				
Series 2016H Bonds	*340,675,000*				
Series 2016I Bonds	*340,670,000*				
Plus net original issue premium	-	42,639,875	18,319,410		60,959,285
Equity Contribution	-	5,000,000	1,732,674	6,138,964	12,871,638
Total	$782,360,000	$495,804,875	$305,782,084	$309,623,964	$1,893,570,923
Uses:					
Deposits for Bonds To Be Refinanced:					
Series 2000 Bonds [3]	$104,527,733				$ 104,527,733
Series 2006A Bonds				$215,541,150	215,541,150
Series 2006B Bonds				51,901,864	51,901,864
Series 2007A Bonds		$91,803,085			91,803,085
Series 2007B Bonds		91,798,412			91,798,412
Series 2007C Bonds		91,798,412			91,798,412
Series 2007D Bonds		91,006,305			91,006,305
Series 2007E Bonds		91,006,305			91,006,306
Series 2007F Bonds		34,844,467			34,844,467
Series 2008A Bonds				39,132,438	39,132,438
Series 2009A Taxable Notes [3]	65,000,000				65,000,000
Series 2011A Bonds ±			$ 52,377,470		52,377,469
Series 2011B Bonds ±			100,636,366		100,636,366
Series 2011C Bonds ±			50,318,183		50,318,183
Series 2011D Bonds ±			100,510,656		100,510,656
Series 2013E Taxable Notes [1]	100,000,000				100,000,000
Series 2013F Taxable Notes [3]	125,000,000				125,000,000
Corporate Purposes [123]	380,000,000				380,000,000
Costs of Issuance ‡ [123]	7,832,267	3,547,889	1,939,409	3,048,512	16,368,077
Total	$782,360,000	$495,804,875	$305,782,084	$309,623,964	$1,893,570,923

‡ Includes estimated costs of issuance, including Underwriters' discount, certain fees and expenses of various legal counsel, accountants, the Bond Trustee, the Master Trustee, the rating agencies and costs of printing.

† Expected.

± It is anticipated that this series of Bonds To Be Refinanced will be redeemed on the Closing Date.

1 Sourced from proceeds of the Series 2016 Variable Rate Taxable Bonds.

2 Sourced from proceeds of the Series 2016H Bonds.

3 Sourced from proceeds of the Series 2016I Bonds.

* Preliminary, subject to change.

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

The Master Indenture

The Obligated Group Members are and will be jointly and severally liable on all Obligations, including the Series 2016 Fixed Rate Taxable Obligations, issued and to be issued pursuant to and/or secured under the Master Indenture. Payments on the Series 2016 Fixed Rate Taxable Obligations are required to be in amounts sufficient to pay the principal of, and premium, if any, and interest on the related Series of Bonds. The Series 2016 Fixed Rate Taxable Obligations will be secured on parity with all other Obligations outstanding under the Master Indenture.

Under certain conditions described in APPENDIX D hereto under the caption "SUMMARY OF THE MASTER INDENTURE – The Obligated Group," additional Members may be added to the Obligated Group from time to time after the issuance of the Bonds and thereby made jointly and severally liable with respect to the Series 2016 Fixed Rate Taxable Obligations and all other Obligations Outstanding under the Master Indenture. Additionally, as described under that caption, Members may withdraw from the Obligated Group from time to time and be released from all liability with respect to Obligations.

As of the date of this Offering Memorandum, there are no Designated Affiliates or Limited or Unlimited Credit Group Participants, as defined in and permitted under the Master Indenture.

Covenant Not to Create Additional Liens

The current Obligated Group Members have agreed (and any future Obligated Group Member will be required to agree) in the Master Indenture that no Obligated Group Member shall, and no Obligated Group Member shall permit any Designated Affiliate under its control or any Limited Credit Group Participant or Unlimited Credit Group Participant with which it or any Designated Affiliate under its control maintains a contact or agreement to, create or incur, or permit to be created or incurred, or permit to exist, any Lien on any Property of any Credit Group Member to secure Indebtedness, except, in all instances, for Permitted Encumbrances. *See* APPENDIX D – "SUMMARY OF THE MASTER INDENTURE – Liens on Property."

Additional Indebtedness

Additional Indebtedness evidenced or secured by Obligations on parity with the Series 2016 Fixed Rate Taxable Obligations and other Obligations heretofore issued may be incurred by the Obligated Group in the future. The ability of the current Credit Group Members and any future Credit Group Member to incur Additional Indebtedness, including Additional Indebtedness evidenced by Obligations, and the amount and terms of Additional Indebtedness, is not limited by the provisions of the Master Indenture. *See* APPENDIX D – "SUMMARY OF THE MASTER INDENTURE – Permitted Funded Indebtedness."

Transfer of Property

The ability of the current Credit Group Members and any future Credit Group Member to sell, lease, transfer or otherwise dispose of their assets is not limited by the provisions of the Master Indenture except in connection with a merger, consolidation, sale or conveyance permitted by the Master Indenture. *See* APPENDIX D – "SUMMARY OF THE MASTER INDENTURE - Sale, Lease or Other Disposition of Property" and "– Merger, Consolidation, Sale or Conveyance."

Merger, Consolidation, Sale or Conveyance

The current Obligated Group Members and any future Obligated Group Member have agreed in the Master Indenture not to merge into, or consolidate with, one or more corporations which are not Obligated Group Members, or allow one or more of such corporations to merge into it, or sell or convey all or substantially all of its Property to any Person who is not an Obligated Group Member except as provided in the Master Indenture. *See* APPENDIX D – "SUMMARY OF THE MASTER INDENTURE – Merger, Consolidation, Sale or Conveyance."

Debt Service Coverage Ratio

The current Obligated Group Members and any future Obligated Group Member have agreed in the Master Indenture to maintain a Historical Debt Service Coverage Ratio of 1.10 to 1 or higher, the sole remedy for which is the requirement that the Obligated Group retain a consultant as provided for under the Master Indenture. *See* APPENDIX D – "SUMMARY OF THE MASTER INDENTURE – Rates and Charges."

Security and Sources of Payment for the Bonds

Each Series of the Bonds is a general obligation of the Corporation, payable from payments required to be paid under the related Indenture, from payments required to be made by the Obligated Group on the related Series 2016 Fixed Rate Taxable Obligation and from other funds held under the related Indenture. Each Series of the Bonds is also payable from bond proceeds and investment earnings thereon, in the manner and to the extent set forth in the related Indenture.

The obligation of Providence Health & Services to make payments with respect to each Series of Bonds will be secured by the related Series 2016 Fixed Rate Taxable Obligation issued by the Obligated Group Members under the Master Indenture on the date of issuance of the Bonds. Under the Master Indenture, each Obligated Group Member is jointly and severally liable on all Obligations that are outstanding under the Master Indenture, including the Series 2016 Fixed Rate Taxable Obligations. Each Series 2016 Fixed Rate Taxable Obligation will provide for payments by the Obligated Group Members of the principal thereof, Redemption Price, if any, and interest and premium, if any, thereon, at such times and in such amounts as shall be sufficient to pay in full when due all principal of, Redemption Price, if any, and premium, if any, and interest on the related Series of Bonds.

The obligations of the Obligated Group under the Master Indenture, including payment obligations on the Series 2016 Fixed Rate Taxable Obligations, will not be secured by a lien on or a security interest in any of the property of the Obligated Group. However, the Obligated Group has covenanted in the Master Indenture that it will not create, assume or suffer to exist any lien or security interest of any kind upon the property of the Obligated Group, including its Revenues, except as permitted by the Master Indenture. *See* APPENDIX D – "SUMMARY OF THE MASTER INDENTURE – Liens on Property."

The Bonds are <u>not</u> secured by any debt service reserve fund.

Bond Trustee as Holder of the Series 2016 Fixed Rate Taxable Obligations

Each Series 2016 Fixed Rate Taxable Obligation will be held by the Bond Trustee under the related Indenture as security for the related Series of Bonds. The Bond Trustee may and, at the direction of the Corporation, shall exercise any and all of the rights granted to the holders of Obligations under the Master Indenture, including the right to consent to amendments of the Master Indenture and the right,

under certain circumstances, to direct the Master Trustee to exercise remedies and grant waivers upon the occurrence of an event of default thereunder.

The Indentures and the Series 2016 Fixed Rate Taxable Obligations

Each Series of Bonds is a general obligation of the Corporation, payable solely from payments by the Corporation under the related Indenture and from payments by Members of the Obligated Group on the related Series 2016 Fixed Rate Taxable Obligations and otherwise as provided in the related Indenture.

The obligation of the Corporation to make payments under each Indenture at the times and in the amounts necessary to pay the principal of or Redemption Price, if any, and interest on each Series of Bonds is the general, unsecured obligation of the Corporation, which obligation is evidenced and secured by the related Series 2016 Fixed Rate Taxable Obligation.

Each Indenture provides that, on or before each Payment Date, the Corporation will pay the Bond Trustee a sum equal to the amount payable on such Payment Date as principal of and interest on the related Bonds. In addition, each Indenture provides that each such payment made will at all times be sufficient to pay the total amount of interest and principal (whether at maturity or upon redemption or acceleration) becoming due and payable on the related Series of Bonds on such Payment Date. If on any Payment Date, the amounts held by the Bond Trustee in the accounts within a Bond Fund are insufficient to make any required payments of principal of (whether at maturity or upon acceleration) and interest on the related Bonds as such payments become due, the Corporation is required to pay such deficiency to the Bond Trustee. In the event that the Corporation does not make up such deficiency the Bond Trustee is directed to request payment under the related Series 2016 Fixed Rate Taxable Obligation. *See* APPENDIX C – "SUMMARY OF THE TRUST INDENTURES" attached hereto.

Additional Bonds may be issued pursuant to each Indenture from time to time, that may be consolidated with the related Series of Bonds or which may be issued as a separate series of bonds. Additional Bonds consolidated with a Series of Bonds pursuant to the terms of the related Indenture shall have the same redemption provisions, maturity date and other terms (other than issue price) as the related Series of Bonds offered hereby, may have the same CUSIP number as such Series of Bonds and shall be treated as a single series with such Series of Bonds for all purposes of the related Indenture.

Each Indenture may be amended from time to time, in certain circumstances without the consent of the Bondholders. Such amendments could be substantial and result in the modification, waiver or removal of any existing covenant or restriction contained in the Indentures. *See* APPENDIX C – "SUMMARY OF THE TRUST INDENTURES – TRUST INDENTURES – Modification or Amendment of Indentures."

Release and Substitution of Series 2016 Fixed Rate Taxable Obligations

Each Indenture provides that the Series 2016 Fixed Rate Taxable Obligations will be surrendered by the Bond Trustee and delivered to the Master Trustee upon satisfaction of certain requirements that include receipt by the Bond Trustee of (i) a request stating that the Corporation has become a member of an obligated group (or is otherwise obligated to make payments to an obligated group member) under a replacement master indenture (the "*Replacement Master Indenture*") and an obligation is being issued to the Bond Trustee under such Replacement Master Indenture; (ii) a properly executed substitute obligation (the "*Replacement Obligation*") issued under the Replacement Master Indenture, registered in the name of the Bond Trustee and duly authenticated by the master trustee under the Replacement Master Trustee; (iii) certain opinions of counsel described in the Indentures; (iv) a certified copy of the executed Replacement

Master Indenture; and (v) written confirmation from each rating agency then rating the Bonds that the replacement will not, by itself, result in the withdrawal or reduction (without regard to any refinement or gradation of rating category by numerical modifier or otherwise or any related ratings outlook) in the then-current ratings on the Bonds. *See* APPENDIX C – "SUMMARY OF THE TRUST INDENTURES – TRUST INDENTURES – Particular Covenants – Replacement of Series 2016 Fixed Rate Taxable Obligations with Obligations Issued Under a Separate Master Indenture."

Obligation for Payment

THE SERIES 2016 FIXED RATE TAXABLE OBLIGATIONS ARE SOLELY THE OBLIGATIONS OF THE OBLIGATED GROUP. INDEBTEDNESS EVIDENCED OR SECURED BY OBLIGATIONS ISSUED UNDER THE MASTER INDENTURE ARE SOLELY THE OBLIGATION OF THE OBLIGATED GROUP, AND SUCH OBLIGATIONS ARE NOT GUARANTEED BY OR THE LIABILITIES OF SISTERS OF PROVIDENCE, MOTHER JOSEPH PROVINCE; ANY OTHER PROVINCE OF THE SISTERS OF PROVIDENCE MONTREAL CONGREGATION; THE LITTLE COMPANY OF MARY SISTERS, AMERICAN PROVINCE; SISTERS OF ST. JOSEPH OF ORANGE; THE ROMAN CATHOLIC CHURCH; OR ANY MEMBER OF THE COMBINED SYSTEM THAT IS NOT AN OBLIGATED GROUP MEMBER.

OTHER PROVINCES OF THE SISTERS OF PROVIDENCE AND OTHER ORGANIZATIONS OPERATING UNDER THE NAME, "SISTERS OF PROVIDENCE," HAVE ISSUED AND MAY ISSUE DEBT OBLIGATIONS OR MAY BE THE OBLIGORS UNDER BONDS ISSUED BY GOVERNMENTAL AUTHORITIES. SUCH DEBT OBLIGATIONS OR BONDS ARE NOT THE OBLIGATIONS OF THE OBLIGATED GROUP, THE SISTERS OF PROVIDENCE, MOTHER JOSEPH PROVINCE, ANY OTHER PROVINCE OF THE SISTERS OF PROVIDENCE MONTREAL CONGREGATION, THE ROMAN CATHOLIC CHURCH OR ANY MEMBER OF THE SYSTEM THAT IS NOT AN OBLIGATED GROUP MEMBER.

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ESTIMATED DEBT SERVICE REQUIREMENTS

The estimated debt service requirements on the Bonds for each year ending December 31 are shown in the following table. The table also includes estimated debt service in each year on the Series 2016 California Bonds, the Series 2016 Bank Direct Purchase Bonds and the Series 2016 Variable Rate Taxable Bonds proposed to be issued approximately concurrent with the Bonds and on other long-term indebtedness evidenced or secured by Obligations anticipated to be outstanding subsequent to the issuance of the Bonds. The table does not include debt service on any other long-term indebtedness of the Obligated Group that is not evidenced or secured by Obligations. All amounts below are rounded to the nearest whole dollar.

	Series 2016H Bonds		Series 2016I Bonds		(1)(4)	(1)(2)(3)	(1)(2)(3)	(1)(2)(3)(4)
Period Ending December 31	Principal*	Interest	Principal*	Interest	Other Proposed Series 2016 Financing Debt Service	Debt Service on Other Long Term Indebtedness	Total Debt Service Requirements	Aggregate Debt Service per Master Indenture
2017	$13,245,000	$	-	$	$ 46,231,872	$295,085,569	$	$
2018	13,650,000		-		47,387,863	294,042,212		
2019	13,990,000		-		48,514,263	292,911,589		
2020	14,345,000		-		50,678,213	290,751,616		
2021	14,705,000		-		66,919,013	274,515,625		
2022	15,075,000		-		49,858,713	291,149,759		
2023	15,455,000		-		76,982,263	264,025,843		
2024	15,845,000		-		88,838,113	252,168,897		
2025	16,245,000		-		78,033,063	262,973,224		
2026	16,655,000		-		78,224,113	262,781,092		
2027	17,075,000		-		73,187,463	267,819,846		
2028	17,505,000		-		73,138,763	267,869,084		
2029	17,945,000		-		77,126,563	263,882,047		
2030	18,400,000		-		76,871,363	264,131,291		
2031	18,860,000		-		76,726,163	264,270,433		
2032	19,335,000		-		65,746,713	275,254,795		
2033	19,825,000		-		47,103,013	293,901,658		
2034	20,325,000		-		60,358,550	280,642,564		
2035	20,835,000		-		86,248,300	254,759,282		
2036	21,360,000		-		84,187,550	256,815,636		
2037	-		-		30,891,100	280,523,740		
2038	-		-		19,628,150	291,788,441		
2039	-		-		15,034,350	299,265,231		
2040	-		-		32,664,350	278,753,361		
2041	-		-		32,595,450	278,820,564		
2042	-		-		29,807,750	281,606,356		
2043	-		-		62,792,250	221,575,850		
2044	-		$ 37,180,000		57,947,350	130,617,825		
2045	-		36,565,000		59,853,500	130,618,100		
2046	-		132,045,000		96,257,350	-		
2047	-		134,880,000		98,006,450	-		
Total	**$340,675,000**		**$340,670,000**		**$1,887,839,972**	**$7,663,321,531**		

(1) Assumes (except as otherwise stated below) tax-exempt variable rate debt bears interest at a constant rate of 3.00% per annum and taxable variable rate debt bears interest at a constant rate of 5.00% per annum.

(2) Assumes the Series PH&S 2009A, Series PH&S 2013D and Series PH&S 2013E have smoothed level debt service over 20 years at a rate of 6.25%, 4.379%, 5.00%, respectively, per annum. Assumes Series PH&S 2012B put bonds have stated amortizations from years 2035 through 2042, inclusive, and bear interest at a rate of 4.00% or 5.00% per annum until October 1, 2021, and thereafter at the assumed rate for tax-exempt variable rate debt set forth above.

(3) Assumes Series SJHS 2009C put bonds have stated amortizations from years 2022 through 2023, inclusive, and 2025 through 2034, inclusive, and bear interest at a rate of 5.00% per annum through put date (October 17, 2022), and thereafter at the assumed rate for tax-exempt variable rate debt set forth above. Assumes SJHS 2009D put bonds have stated amortizations from 2025 through 2034, inclusive, and bear interest at a rate of 5.00% per annum through put date (October 18, 2016) and thereafter at the assumed rate for tax-exempt variable rate debt set forth above. Assumes Series SJHS 2013B,C,D put bonds have stated amortizations from 2038 through 2043, inclusive, and bear interest at a rate of 5.00% per annum through each put date (October 17, 2017, October 15, 2019 and October 15, 2020, respectively) and thereafter at the assumed rate for tax-exempt variable rate debt set forth above.

(4) Series 2016A Bonds are fixed rate bonds with stated amortizations from 2022 through 2047, inclusive, and are issued in the aggregate principal amount of $448,165,000. Series 2016B Bonds are variable rate bonds with stated amortizations from 2024 through 2036, inclusive, and are issued in the aggregate principal amount of $285,730,000. Assumes proposed Series 2016 Bank Direct Purchase Bonds are variable rate bonds with varying stated amortizations from 2017 through 2036, inclusive, and are issued in the aggregate principal amount of $303,485,000. Assumes proposed Series 2016 Variable Rate Taxable Bonds are variable rate bonds with stated amortizations from 2044 through 2047, inclusive and bear interest at assumed rate for taxable variable debt set forth above, and are issued in the aggregate principal amount of $101,015,000.

* Preliminary, subject to change.

THE BONDS

Description of the Bonds

Under certain circumstances, Additional Bonds may be issued and consolidated with a Series of Bonds pursuant to each Indenture. *See* APPENDIX C – "SUMMARY OF THE TRUST INDENTURES – TRUST INDENTURES – Particular Covenants – Limitations on Consolidated Bonds" attached hereto.

Each Series of Bonds will be dated, will bear interest at the rate and will mature on the date (subject to prior redemption) as set forth on the cover page to this Offering Memorandum. Interest on the each Series of Bonds will be calculated on the basis of a 360-day year consisting of twelve 30-day months.

The Bonds will be delivered in the form of fully registered Bonds in denominations of $1,000 and any integral multiple thereof. The Bonds will be registered initially in the name of "Cede & Co.," as nominee of DTC and will be evidenced by one Bond of each Series in the aggregate principal amount of the Bonds of such Series. Registered ownership of the Bonds, or any portions thereof, may not thereafter be transferred except as set forth in the Indentures. *See* APPENDIX C – "SUMMARY OF THE TRUST INDENTURES" attached hereto.

The principal or Redemption Price of the Bonds will be payable by check or by wire transfer of immediately available funds in lawful money of the United States of America at the Designated Office of the Bond Trustee.

Interest on the Bonds will accrue beginning on the date of issuance of the Bonds and will be payable on each Interest Payment Date. An "*Interest Payment Date*" for the Bonds will occur on April 1 and October 1 of each year commencing on April 1, 2017. Payment of the interest on each Interest Payment Date will be made to the Person whose name appears on the bond registration books of the Bond Trustee as the Holder thereof as of the close of business on the Record Date for each Interest Payment Date, such interest to be paid by check mailed by first class mail to such Holder at its address as it appears on such registration books, or, upon the written request of any Holder of at least $1,000,000 in aggregate principal amount of Bonds of a Series, submitted to the Bond Trustee at least one Business Day prior to the Record Date, by wire transfer in immediately available funds to an account within the United States designated by such Holder. Notwithstanding the foregoing, as long as Cede & Co. is the Holder of the Bonds in book-entry form, said principal or Redemption Price and interest payments will be made to Cede & Co. in accordance with the procedures of DTC, which as of the date hereof is by wire transfer in immediately available funds.

All payments by the Corporation in respect of the Bonds will be made after the deduction or withholding of any taxes required by law to be deducted or withheld.

Redemption*

Optional Redemption

Each Series of Bonds are subject to redemption prior to their stated maturity, upon the written direction of Providence Health & Services or the Obligated Group Agent, as a whole or from time to time in part on any Business Day, (i) prior to July 1, 20__ at a Redemption Price equal to the Make-Whole Redemption Price (defined below), and (ii) on or after July 1, 20__, at a redemption price equal to 100%

* Preliminary, subject to change.

of the aggregate principal amount of such Bonds to be redeemed, in each case together with the interest, if any, accrued thereon from the most recent Interest Payment Date to which interest has been paid or duly provided for upon the date fixed for redemption (each, as applicable, the "*Redemption Price*"). For purposes of this paragraph, the following definitions shall apply:

"*Comparable Treasury Issue*" shall mean the United States Treasury security or securities selected by a Designated Investment Banker as having an actual or interpolated maturity comparable to the remaining term of the Bonds to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of a comparable maturity to the remaining term of such Bonds.

"*Comparable Treasury Price*" shall mean, with respect to any redemption date, the average of the Reference Treasury Dealer Quotations for such redemption date or, if the Designated Investment Banker obtains only one Reference Treasury Dealer Quotation, such Reference Treasury Dealer Quotation.

"*Designated Investment Banker*" shall mean one of the Reference Treasury Dealers appointed by the Corporation or the Obligated Group Agent.

"*Make-Whole Redemption Price*" shall mean the greater of:

(1) 100% of the principal amount of any Bonds being redeemed; or

(2) The sum of the present values of the remaining unpaid scheduled payments of principal and interest on any Bonds being redeemed (exclusive of interest accrued to the date of redemption) discounted to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus __ basis points.

"*Reference Treasury Dealer*" shall mean Merrill Lynch, Pierce, Fenner & Smith Incorporated or Citigroup Global Markets Inc. or either of their respective affiliates which are primary U.S. government securities dealers, and their respective successors; *provided* that if Merrill Lynch, Pierce, Fenner & Smith Incorporated or Citigroup Global Markets Inc. or either of their respective affiliates shall cease to be a primary U.S. government securities dealer (a "*Primary Treasury Dealer*"), the Corporation or the Obligated Group Agent shall substitute therefore another Primary Treasury Dealer; *provided*, *further*, that the Corporation or the Obligated Group Agent may, at its option, substitute another Primary Treasury Dealer for Merrill Lynch, Pierce, Fenner & Smith Incorporated or Citigroup Global Markets Inc. or either of their respective affiliates.

"*Reference Treasury Dealer Quotations*" shall mean, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Designated Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Designated Investment Banker by such Reference Treasury Dealer at 3:30 p.m., New York City time, on the third Business Day preceding such redemption date.

"*Treasury Rate*" shall mean, with respect to any redemption date, the rate per annum equal to the semiannual equivalent yield to maturity or interpolated (on a day count basis) of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

The Make-Whole Redemption Price shall be determined by an independent accounting firm or financial advisor retained by the Corporation.

Mandatory Sinking Account Redemption

The Series 2016I Bonds are subject to mandatory sinking account redemption prior to their stated maturity, in part, by lot, from Mandatory Sinking Account Payments deposited in the applicable account in the Bond Fund, on each October 1 on or after October 1, 20__, in the Mandatory Sinking Account Payment amounts set forth below (subject to reductions arising from the acquisition and surrender or the optional redemption of the Series 2016I Bonds), plus accrued interest to the redemption date:

Series 2016I Bonds

Mandatory Sinking Account Payment Dates (October 1)	Mandatory Sinking Account Payments Amounts
	$
†	

† Stated Maturity.

Purchase in Lieu of Redemption

The Bonds are subject to purchase in lieu of redemption by the Bond Trustee at the direction of the Corporation or the Obligated Group Agent prior to maturity on the same terms that would apply to the Bonds if the Bonds were then being optionally redeemed.

Selection of Bonds for Redemption

If less than all of the Bonds of a Series and maturity are to be redeemed, the Bond Trustee shall select the Bonds of a Series and maturity to be redeemed from the Bonds Outstanding of such Series and maturity not previously called for redemption, pro rata.

If the Bonds are registered in book-entry only form and so long as DTC or a successor securities depository is the sole registered owner of the Bonds, if less than all of the Bonds of a Series and maturity are called for prior redemption, the particular Bonds or portions thereof to be redeemed shall be selected on a pro rata pass-through distribution of principal basis in accordance with DTC procedures, provided that, so long as the Bonds are held in book-entry form, the selection for redemption of such Bonds shall be made in accordance with the operational arrangements of DTC then in effect.

It is the Corporation's intent that redemption allocations made by DTC be made on a pro rata pass-through distribution of principal basis as described above. However, the Corporation can provide no assurance that DTC, DTC's direct and indirect participants or any other intermediary will allocate the redemption of Bonds on such basis. If the DTC operational arrangements do not allow for the redemption of the Bonds on a pro rata pass-through distribution of principal basis as discussed above, the Bonds will be selected for redemption, in accordance with DTC procedures, by lot.

Notice of Redemption

Notice of redemption will be mailed by the Corporation to the Bond Trustee by first class mail, not less than 45 days, nor more than 60 days prior to the redemption date, or such fewer days as may be agreed to by the Corporation and the Bond Trustee. Notice of redemption will be mailed by the Bond

Trustee by first class mail, not less than 20 days, nor more than 60 days prior to the redemption date, to the respective Holders of any Bonds designated for redemption at their addresses appearing on the bond registration books of the Bond Trustee. If Bonds of a Series are no longer held by DTC or its successor or substitute, the Bond Trustee shall also give notice of redemption by overnight mail to such securities depositories and/or securities information services as shall be designated in a certificate of the Corporation. Each notice of redemption shall state the date of such notice, the date of issue of the Bonds, the redemption date, the method of calculating the Make-Whole Redemption Price, the interest rate, the place or places of redemption (including the name and appropriate address or addresses of the Bond Trustee), the maturity (including CUSIP number, if any), and, in the case of Bonds to be redeemed in part only, the portion of the principal amount thereof to be redeemed. Each such notice will also state that on said date there will become due and payable on each of said Bonds the Redemption Price thereof or of said specified portion of the principal amount thereof in the case of a Bond to be redeemed in part only, together with interest accrued thereon to the redemption date, and that from and after such redemption date interest thereon shall cease to accrue, and shall require that such Bonds be then surrendered.

Failure by the Bond Trustee to give notice as described above to any one or more of the securities information services or depositories designated by the Corporation, or the insufficiency of any such notice will not affect the sufficiency of the proceedings for redemption. Failure by the Bond Trustee to mail notice of redemption to any one or more of the respective Holders of any Bonds designated for redemption will not affect the sufficiency of the proceedings for redemption with respect to the Holders to whom such notice was mailed.

The Corporation or the Obligated Group Agent may instruct the Bond Trustee to provide conditional notice of redemption, which may be conditioned upon the receipt of moneys or any other event. If such conditions are not met, the Bond Trustee is to give notice, as soon thereafter as practicable, in the same manner, to the same Persons, as notice of such redemption was given pursuant to the Indentures and as described above. Additionally, any such notice may be rescinded by written notice given to the Bond Trustee by the Corporation of the Obligated Group Agent no later than five Business Days prior to the date specified for redemption. The Bond Trustee will give notice of such rescission, as soon thereafter as practicable, in the same manner, to the same Persons, as notice of such redemption was given.

Partial Redemption of Bonds

Upon surrender of any Bond redeemed in part only, the Bond Trustee shall provide a replacement Bond in a principal amount equal to the portion of such Bond not redeemed, and deliver it to the registered owner thereof. The Bond so surrendered shall be cancelled by the Bond Trustee as provided herein. The Corporation and the Bond Trustee shall be fully released and discharged from all liability to the extent of payment of the redemption price for such partial redemption.

Effect of Redemption

Notice of redemption having been duly given as aforesaid, and moneys for payment of the redemption price being held by the Bond Trustee, the Bonds, or portions thereof, so called for redemption shall, on the redemption date designated in such notice, become due and payable at the redemption price specified in such notice, interest on the Bonds or portions thereof so called for redemption shall cease to accrue, said Bonds shall cease to be entitled to any lien, benefit or security under the related Indenture, and the Holders of said Bonds shall have no rights in respect thereof except to receive payment of the redemption price thereof. All Bonds fully redeemed pursuant to the provisions of the Indentures described above shall be cancelled upon surrender thereof and may be destroyed by the Bond Trustee,

which shall, upon request of the Corporation, deliver to the Corporation a certificate evidencing such destruction.

Transfer of Bonds

Any Bond may, in accordance with its terms and subject to the limitations provided in each Indenture, be transferred upon the books required to be kept pursuant to the provisions of the related Indenture by the Person in whose name it is registered, in person or by its duly authorized attorney, upon surrender of such Bond for cancellation, accompanied by delivery of a written instrument of transfer, duly executed in a form approved by the Bond Trustee.

Whenever any Bond or Bonds shall be surrendered for transfer, the Corporation and the Obligated Group Agent shall execute and the Bond Trustee shall authenticate and deliver a new Bond or Bonds of the same Series, bearing interest at the same rate and maturing on the same date, for a like aggregate principal amount in Authorized Denominations. The Bond Trustee may require the Bondholder requesting such transfer to pay any tax or other governmental charge required to be paid with respect to such transfer, and the Bond Trustee may also require the Bondholder requesting such transfer to pay a reasonable sum to cover any expenses incurred by the Corporation in connection with such transfer. The Bond Trustee shall not be required to transfer (i) any Bond during the fifteen (15) days next preceding the selection of Bonds of such Series for redemption or (ii) any Bond called for redemption.

Exchange of Bonds

Bonds may be exchanged at the Designated Office of the Bond Trustee for a like aggregate principal amount of Bonds of the same Series, bearing interest at the same rate and maturing on the same date of other Authorized Denominations. The Bond Trustee may require the Bondholder requesting such exchange to pay any tax or other governmental charge required to be paid with respect to such exchange, and the Bond Trustee may also require the Bondholder requesting such exchange to pay a reasonable sum to cover any expenses incurred by the Corporation in connection with such exchange. The Bond Trustee shall not be required to exchange (i) any Bond during the fifteen (15) days next preceding the selection of Bonds of such Series for redemption or (ii) any Bond called for redemption.

Bond Register

The Bond Trustee shall keep or cause to be kept sufficient books for the registration and transfer of the Bonds, which shall at all times (during regular business hours at the location where such books are kept) be open to inspection by any Bondholder, the Corporation or the Obligated Group Agent or their respective agents duly authorized in writing; and, upon presentation for such purpose, the Bond Trustee shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on such books, Bonds as provided in each Indenture.

Acceleration

If default in the due and punctual payment of the principal or Redemption Price of, or interest on, any Bond when and as the same shall become due and payable shall occur, then, the principal of the related Series of Bonds, and the interest accrued thereon, may be accelerated and become immediately due and payable, at the Redemption Price, with interest payable thereon to the accelerated payment date. For a description of the Events of Default under an Indenture, *see* APPENDIX C – "SUMMARY OF THE TRUST INDENTURES – Events of Default; Remedies – Acceleration of Maturity" attached hereto. Also *see* "BONDHOLDERS' RISKS."

BOOK-ENTRY ONLY SYSTEM

The following information concerning DTC and DTC's book-entry system has been obtained from sources that the Corporation, the other Obligated Group Members and the Underwriters believe to be reliable, but none of the Corporation, the other Obligated Group Members or the Underwriters takes any responsibility for the accuracy thereof.

The Depository Trust Company, New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for the Bonds of each Series, and will be deposited with DTC.

General

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues and money market instruments from over 100 countries that DTC's participants ("*Direct Participants*") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("*DTCC*"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks and trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("*Indirect Participants*"). DTC has a S&P Global Rating of "AA+." The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("*Beneficial Owner*") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for such Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Bonds with DTC and their

registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Corporation as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, Redemption Price, if any, and interest payments on the Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Corporation or the Bond Trustee on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Underwriters, the Bond Trustee or the Corporation subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, Redemption Price, if any, and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Corporation or the Bond Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

The Corporation and the Bond Trustee may treat DTC (or its nominee) as the sole and exclusive registered owner of the Bonds registered in its name for the purposes of payment of the principal and Redemption Price, if any, of, or interest on, the Bonds, giving any notice permitted or required to be given to a registered owners under the Indentures, registering the transfer of the Bonds, or other action to be taken by registered owners and for all other purposes whatsoever. The Corporation and the Bond Trustee shall not have any responsibility or obligation to any Direct or Indirect Participant, any person claiming a beneficial ownership interest in the Bonds under or through DTC or any Direct or Indirect Participant, or any other person which is not shown on the registration books of the Corporation (kept by the Bond Trustee) as being a registered owner, with respect to the accuracy of any records maintained by DTC or any Direct or Indirect Participant; the payment by DTC or any Direct or Indirect Participant of any amount in respect of the principal, Redemption Price, if any, or interest on the Bonds; any notice which is permitted or required to be given to registered owners thereunder or under the conditions to transfers or exchanges adopted by the Corporation; or other action taken by DTC as registered owner. Interest, Redemption Price, if any, and principal will be paid by the Bond Trustee to DTC, or its nominee. Disbursement of such payments to the Direct or Indirect Participants is the responsibility of DTC and

disbursement of such payments to the Beneficial Owners is the responsibility of the Direct or Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Corporation or the Bond Trustee. Under such circumstances, in the event that a successor depository is not obtained, the Bond certificates are required to be printed and delivered.

The Corporation may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, the Bond certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Corporation, the Bond Trustee and the Underwriters believe to be reliable, but the Corporation, the Bond Trustee and the Underwriters do not take responsibility for the accuracy thereof.

Each person for whom a Participant acquires an interest in the Bonds, as nominee, may desire to make arrangements with such Participant to receive a credit balance in the records of such Participant, and may desire to make arrangements with such Participant to have all notices of redemption or other communications of DTC, which may affect such persons, to be forwarded in writing by such Participant and to have notification made of all interest payments. NONE OF THE CORPORATION, THE UNDERWRITERS AND THE BOND TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO SUCH PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE BONDS.

So long as Cede & Co. is the registered owner of the Bonds, as nominee for DTC, references herein to the Bondholders or registered owners of the Bonds shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of the Bonds.

When reference is made to any action which is required or permitted to be taken by the Beneficial Owners, such reference only relates to those permitted to act (by statute, regulation or otherwise) on behalf of such Beneficial Owners for such purposes. When notices are given, they will be sent by the Bond Trustee to DTC only.

For every transfer and exchange of Bonds, the Beneficial Owner may be charged a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto.

NONE OF THE CORPORATION, THE UNDERWRITERS AND THE BOND TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DIRECT PARTICIPANTS, TO INDIRECT PARTICIPANTS, OR TO ANY BENEFICIAL OWNER WITH RESPECT TO (I) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DIRECT PARTICIPANT, OR ANY INDIRECT PARTICIPANT; (II) ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE OWNERS OF THE BONDS UNDER THE INDENTURES; (III) THE SELECTION BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE BONDS; (IV) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OR REDEMPTION PRICE, IF ANY, OR INTEREST DUE WITH RESPECT TO THE BONDS; (V) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNER OF THE BONDS; OR (VI) ANY OTHER MATTER.

BONDHOLDERS' RISKS

The purchase and ownership of the Bonds involves investment risks that are discussed throughout this Offering Memorandum. Prospective purchasers of the Bonds should evaluate all of the information presented in this Offering Memorandum. This section on Bondholders' Risks focuses primarily on the general risks associated with hospital or health system operations, whereas APPENDIX A describes the System and the Obligated Group specifically. These should be read together.

General

Except as noted herein, the Bonds are payable solely from payments to be made on the Series 2016 Fixed Rate Taxable Obligations by the Obligated Group and from other funds held under the Indentures. No representation or assurance can be made that revenues will be realized by the Obligated Group Members in amounts sufficient to pay principal of and interest on the Bonds. Future economic and other conditions, including inflation, demand for health care services, the ability of the Obligated Group Members to provide the services required or requested by patients, physicians' confidence in the Obligated Group Members, economic developments in their respective service areas, employee relations and unionization, competition, the level of rates or charges, increased operating costs, availability of professional liability insurance, hazard losses (including earthquakes), reduced or delayed third-party reimbursement and changes in governmental regulation, may adversely affect revenues and expenses and, consequently, payment of the principal of and interest on the Bonds.

The practical realization of any rights upon any default under the Indentures or the Master Indenture will depend upon the exercise of various remedies specified in those instruments, as restricted by federal and state laws. The federal bankruptcy laws may have an adverse effect on the ability of the Bond Trustee, the Owners of the Bonds and the Master Trustee to enforce their respective claims under the Indentures and the Master Indenture.

The operations of the health care industry and the ownership and organization of individual participants therein, including the Obligated Group Members, have been subject to increasing scrutiny by federal, state and local governmental agencies. In response to perceived abuses and actual violations of the terms of existing federal, state and local health care payment programs, these agencies have increased their audit and enforcement activities, and federal and state legislation has been considered or enacted providing for or expanding existing civil and criminal penalties for certain activities. In addition, federal, state and local agencies have increased their scrutiny of transactions involving not-for-profit, tax-exempt organizations and are focusing in particular upon limitations on the use of charitable assets and revenues.

The Master Indenture limits or imposes conditions upon certain types of transactions, such as mergers and liens on property. Other types of transactions are not directly controlled, such as issuance of additional indebtedness, transfers of property and contractual relationships with physicians and other providers. Notwithstanding compliance by the Obligated Group Members with the terms of the Master Indenture, if they engage in such transactions, a governmental agency may determine that a transaction may have violated applicable laws and may proceed to enjoin the transaction or impose civil or criminal penalties. Violations of such laws may have a material adverse effect on the operations and financial condition of the Obligated Group.

Certain of the factors that could affect the Bonds and the future financial condition of the Obligated Group are described below. ***This discussion of risk factors is not, and is not intended to be, exhaustive.***

Market Risks

The Obligated Group has significant holdings in a broad range of investments. Market fluctuations have affected and will continue to affect the value of those investments and those fluctuations may be, and historically have been, material. The market disruption has exacerbated the market fluctuations and has negatively affected over certain time periods the investment performance of securities in the Obligated Group's portfolio. Investment income (including both realized and unrealized gains on investments) has contributed significantly to the Obligated Group's financial results over recent years.

Variable Rate Risks – Generally

Certain bonds issued for the benefit of the Obligated Group and its affiliates are variable rate obligations ("*Variable Rate Bonds*"), the interest rates on which could rise. Such interest rates vary on a periodic basis and may be converted to a fixed interest rate. This protection against rising interest rates is not unrestricted, however, because the Obligated Group would be required to continue to pay interest at the variable rate until such obligations are converted to a fixed rate pursuant to the terms of the applicable transaction documents. Turmoil in the financial markets and supply-demand imbalances have in the past triggered sudden and significant increases in interest costs for many issuers (and conduit borrowers) of tax-exempt debt, and such market dislocations may occur in the future.

Variable Rate Risks – Credit/Liquidity Provider

A weakening of the economy could have a material negative impact upon not only the Obligated Group, but also the credit and liquidity providers that support certain of the Variable Rate Bonds, and could impair their ability to pay draws on the respective credit or liquidity facility. The credit market instability has also caused a number of financial institutions to restrict lending, including the extension of liquidity and credit facilities. This has also resulted in the unwillingness of certain financial institutions to extend the term of existing liquidity facilities or credit facilities. No assurance can be given that any existing credit facility or liquidity facility providers of the Obligated Group will renew existing liquidity facilities or credit facilities beyond their current expiration dates or that the Obligated Group will be able to obtain an alternate credit or liquidity facility for its Variable Rate Bonds. No assurance can be given that the liquidity facility providers will provide funds to purchase tendered Variable Rate Bonds or honor draws on the liquidity facilities to fund such purchases.

In general, the ability of a variable rate bondholder to tender its variable rate bond for purchase is dependent on the ability of the remarketing agent to remarket tendered variable rate bonds or the ability of the liquidity provider to purchase such bonds, including the Bonds. If variable rate obligations cannot be remarketed following their tender, or converted to another interest rate mode, the Obligated Group will be required to pay the purchase price of tendered and unremarketed bonds with funds provided under liquidity or credit facilities or its own funds. If such Variable Rate Bonds are purchased by a liquidity facility provider, they generally will be subject to more rapid amortization and will also bear interest at a significantly higher rate. In addition, the interest rate on such obligations from time to time has fluctuated significantly and may increase the Obligated Group's cost of capital. Previous upheavals in the financial markets have made the ability to remarket variable rate bonds difficult. No assurance can be given that the remarketing agents will be successful in remarketing the Variable Rate Bonds, although no remarketing failures related to the Variable Rate Bonds have occurred to date.

The reader is advised to refer to APPENDIX A, APPENDIX B-1 and APPENDIX B-2 of this Offering Memorandum for specific information about the effects of these factors upon the recent financial

performance, financial condition and debt portfolio of the Obligated Group. In particular, reference is made to information in APPENDIX A – "MANAGEMENT'S DISCUSSION AND ANALYSIS."

In addition, the Obligated Group may in the future issue Obligations to credit facility providers in connection with the issuance in the future of variable rate bonds for the benefit of the Obligated Group. Such subsequently issued variable rate debt may provide for optional or mandatory tender of such variable rate bonds by the holders thereof. In the event that tendered variable rate bonds are not remarketed to other investors and are purchased with funds advanced by the credit facility provider, such bonds may bear interest at higher rates, and may be subject to repayment on earlier dates than would otherwise be the case if not purchased with funds provided by the credit facility provider. Agreements with future credit facility providers are likely to include representations, covenants and agreements in addition to those contained in the Master Indenture. An event of default under any such agreement could result in an event of default under the Master Indenture. The covenants in such agreements may be waived or modified with the consent of the credit facility provider and without the consent of or notice to any owner of the Bonds.

No Third-Party Liquidity Support for Certain Variable Rate Bonds

As of the issue date of the Bonds, the obligation to purchase certain Variable Rate Bonds upon optional or mandatory tender on the applicable mandatory tender date is not supported, or the applicable documents provide that under certain circumstance they are not require to be supported, by a third-party liquidity facility or by a covenant of the Obligated Group to maintain a certain level of liquid assets, although the Obligated Group may deliver a liquidity facility or a credit facility for such Variable Rate Bonds at a later date. Investors should consider the Obligated Group's ability to access the debt markets and liquidity. *See* APPENDIX A – "MANAGEMENT'S DISCUSSION AND ANALYSIS – Liquidity" and "SYSTEM FINANCIAL RATIOS – Liquidity and Capital Resources."

Interest Rate Swaps

Certain Obligated Group Members may utilize interest rate hedges, or swap agreements, to manage exposure to interest rate fluctuations. Swap agreements are subject to periodic "mark-to-market" valuations and may, at any time, have a negative value (which could be substantial) to the applicable Obligated Group Member. Changes in the market value of such swap agreements could negatively or positively impact the operating results and financial condition of the applicable Obligated Group Member, and such impact could be material. Any of the swap agreements to which an Obligated Group Member is a party may be subject to early termination upon the occurrence of certain specified events. If either the applicable Obligated Group Member or the counterparty terminates such an agreement when the agreement has a negative value to the applicable Obligated Group Member, the applicable Obligated Group Member could be obligated to make a termination payment to the applicable swap counterparty in the amount of such negative value, and such payment could be substantial and potentially materially adverse to the financial condition of the applicable Obligated Group Member. In the event of an early termination of a swap agreement, there can be no assurance that (i) the applicable Obligated Group Member will receive any termination payment payable to it by the respective swap provider, (ii) the applicable Obligated Group Member will not be obligated to or will have sufficient monies to make a termination payment payable by it to the applicable swap provider, or (iii) the applicable Obligated Group Member will be able to obtain a replacement swap agreement with comparable terms. For information about the swap agreements to which Obligated Group Members are a party, *see* APPENDIX A – "OTHER INFORMATION – Interest Rate Swap Arrangement."

Impact of Disruptions in the Credit Markets and General Economic Factors

The disruption of the credit and financial markets in the years since 2007 produced volatility in the securities markets, significant losses in investment portfolios, increased business failures and consumer and business bankruptcies.

In response to this disruption of the markets, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "*Dodd-Frank Act*") was enacted in 2010. The Dodd-Frank Act includes broad changes to the existing financial regulatory structure, including the creation of new federal agencies to identify and respond to risks to the financial stability of the United States. Additional legislation is pending or under active consideration by Congress and regulatory action is being considered by various federal agencies, the Federal Reserve Board and foreign governments which legislation is intended to increase the regulation of financial institutions and domestic and global credit and securities markets. The effects of these legislative, regulatory and other governmental actions, including the Dodd-Frank Act, upon the Members of the Obligated Group, and in particular upon their access to capital markets and their investment portfolios, cannot be predicted.

The health care sector has been adversely affected as a direct consequence of the past disruption of the credit and financial markets. Patient service revenues and inpatient volumes have not increased as historic trends would otherwise indicate. Reduced employment and personal income have resulted in increases in self-pay admissions, increased levels of bad debt and uncompensated care, reduced demand for elective procedures, and reduced availability and affordability of health insurance. During the past several years there have also been increased stresses on state budgets, which has resulted in reductions in Medicaid payment rates, more stringent Medicaid eligibility standards, and/or delays of payment of amounts due under Medicaid and other state or local payment programs. *See* "Federal Budget and State Budget" below.

The American Recovery and Reinvestment Act of 2009 (the "*Recovery Act*") included several provisions that are intended to provide financial relief to the health care sector, including a requirement that states promptly reimburse health care providers and a subsidy to the recently unemployed for health insurance premium costs. The Recovery Act and resulting regulations established a framework for the implementation of a nationally-based health information technology program. For more information regarding this program, *see* "Regulatory Environment – The HITECH Act" below.

The reader is advised to refer to APPENDIX A of this Offering Memorandum for specific information about the effects of these factors upon the Obligated Group's recent financial performance, its financial condition and its debt portfolio. In particular, reference is made to information in APPENDIX A – "MANAGEMENT'S DISCUSSION AND ANALYSIS."

Federal Health Care Reform and Other Governmental Initiatives

The Patient Protection and Affordable Care Act, as subsequently amended by the Health Care and Education Reconciliation Act of 2010 (collectively, referred to herein as the "*Affordable Care Act*"), was enacted in March 2010.

Some of the provisions of the Affordable Care Act took effect immediately, while others will take effect or will be phased in through 2022. Because of the complexity of the Affordable Care Act generally, additional legislation is likely to be considered and enacted over time. The Affordable Care Act continues to generate the promulgation of substantial regulations with significant effects on the health care industry and third-party payors. In response, third-party payors and suppliers and vendors of goods and services to health care providers are expected to impose new and additional contractual terms and

conditions. Thus, the health care industry will continue to be subjected to significant new statutory and regulatory requirements and contractual terms and conditions and, consequently, to structural and operational changes and challenges, for an extended period of time.

Management of the Obligated Group Members have analyzed the Affordable Care Act and regulations, and will continue to do so, in conjunction with trade associations and internal government relations staff, in order to assess the effects of the legislation and evolving regulations on current and projected operations, financial performance and financial condition. However, management cannot predict with any reasonable degree of certainty or reliability any interim or ultimate effects of the legislation. Moreover, the full ramifications of the Affordable Care Act may also become apparent only over time and through later regulatory and judicial interpretations. Portions of the Affordable Care Act have already been limited, delayed or nullified as a result of executive action, legislative amendments and judicial interpretations and future actions may further change its impact. The uncertainties regarding the implementation of the Affordable Care Act create unpredictability for the strategic and business planning efforts of health care providers, which in itself constitutes a risk.

A significant component of the Affordable Care Act is reformation of the sources and methods by which consumers will pay for health care for themselves and their families and by which employers will procure health insurance for their employees and employees' dependents. As a consequence, expansion of the base of consumers of health care services is a significant component as well. One of the primary purposes of the Affordable Care Act is to provide or make available, or subsidize the premium costs of, health care insurance for some of the millions of previously uninsured (or underinsured) consumers who fall below certain income levels.

The Affordable Care Act proposes to expand the base of consumers for health care services through various provisions such as: (i) the creation of active markets (referred to as exchanges or marketplaces) in which individuals and small employers can purchase health care insurance for themselves and their families or their employees and dependents, (ii) the provision of subsidies for premium costs to individuals and families based upon their income relative to federal poverty levels, (iii) the mandate that individual consumers obtain and certain employers provide a minimum level of health care insurance, and penalizing or taxing on consumers and employers that do not comply with these mandates, (iv) the expansion of private commercial insurance coverage generally through such reforms as prohibitions on denials of coverage for pre-existing conditions and elimination of lifetime or annual cost caps, and (v) the expansion of existing public programs, including Medicaid, for individuals and families.

The Congressional Budget Office ("*CBO*") has estimated that in federal fiscal year 2016, 244 million consumers under the age of 65 will be insured; this includes 11 million consumers made eligible for Medicaid by the Affordable Care Act. The CBO expects the number of insured consumers under age 65 to increase to 246 million in federal fiscal year 2017. To the extent all or any of these provisions produce the expected result, an increase in utilization of health care services by those who are currently avoiding or rationing their health care can be expected and bad debt expenses may be reduced. Associated with increased utilization will be increased variable and fixed costs of providing health care services, which may or may not be offset by increased revenues. Any benefit of an expanded Medicaid patient base will not be realized for health care providers operating in states that have chosen not to expand Medicaid. Six of the seven states in which the Obligated Group maintains facilities have expanded their Medicaid programs in accordance with the Affordable Care Act; Texas has not.

Some of the specific provisions of the Affordable Care Act that may affect hospital operations, financial performance or financial conditions, including those of the Members of the Obligated Group, are described below. This listing is not, is not intended to be, nor should be considered by the reader as,

comprehensive. The Affordable Care Act is complex and comprehensive, and includes a myriad of new programs and initiatives and changes to existing programs, policies, practices and laws.

In addition, some provisions of the Affordable Care Act will adversely affect some Members of the Obligated Group more significantly than other Members, or may not affect other Members. The demographics of the markets in which individual Members of the Obligated Group provide services, the mix of services that any Member provides to its community and other factors that are unique to any Member will affect individual outcomes. At this time, management of the Members of the Obligated Group cannot predict the aggregate effect of the Affordable Care Act upon the Obligated Group as a whole.

- Commencing upon enactment of the Affordable Care Act and through September 30, 2019, the annual Medicare market basket updates for hospital have been, and will be, reduced. The market basked adjustments for inpatient hospital care have averaged approximately 2% to 4% annually in recent years. The Affordable Care Act calls for reductions in the annual market baskets updates ranging from 0.10% to 0.75% each year through federal fiscal year 2019. Since federal fiscal year 2012, the market basket updates for hospitals became subject to productivity adjustments as well. The productivity adjustment is anticipated to result in an approximately 1% additional annual reduction to the market basket updates. The reductions in market based updates and the productivity adjustments have had, and will continue to have, a disproportionately negative effect upon those providers (such as the Members of the Obligated Group) that are relatively more dependent upon Medicare than other providers. In addition, the reductions in market basket updates were effective prior to the periods during which insurance coverage and the insured consumer base began to expand, which may have an interim negative effect on revenues. The combination of reductions to the market basket updates and the imposition of the productivity adjustments may result in reductions in Medicare payment per discharge on a year-to-year basis.

- Reduced payments under the "Medicare Advantage" programs (Medicare managed care) which have been delayed to date may result in increased premiums or out-of-pocket costs to Medicare beneficiaries enrolled in Medicare Advantage plans. Those beneficiaries may terminate their participation in those plans and opt for the traditional Medicare fee-for-service program. The reduction in payments to Medicare Advantage programs may also lead to decreased payments to providers by managed care companies operating Medicare Advantage programs. In addition, in some instances hospitals are required to continue to provide care for a period of time even without reimbursement. All or any of these outcomes will have a disproportionately negative effect upon those providers with relatively high dependence upon Medicare managed care revenues. The Medicare managed care revenues of Members of the Obligated Group are collectively not significant.

- Commencing October 1, 2012, a value-based purchasing program was established under the Medicare program designed to provide incentive payments to hospitals based on performance on quality and efficiency measures under the Medicare Program. These incentive payments are funded through a pool of money collected and withheld from all hospital providers. For fiscal year 2016, the incentive payments are funded by a 1.75% reduction from participating hospitals' base operating medical severity diagnosis related group ("*DRG*") payments for 2016. Hospitals that perform poorly under the value-based purchasing program will not recoup those funds.

- Commencing October 1, 2013, Medicare disproportionate share hospital payments ("*DSH payments*") were reduced initially by 75%. Those funds were transitioned to an uncompensated care pool for DSH hospitals which is reduced as the percentage of uninsured patients decline and then distributed based on the proportion of uncompensated care each Medicare DSH hospital

provides. These pool payments are expected to continue to decrease as more uninsured consumers transition to the ranks of health care exchanges and become insured. In addition, commencing October 1, 2013, a state's Medicaid disproportionate share hospital allotment from federal funds was scheduled to be reduced. However, such reductions have been delayed several times, most recently under the Medicare Access and CHIP Reauthorization Act of 2015 ("*MACRA*"), but are scheduled to take effect October 1, 2018. *See* the discussion under the caption "*Payment for Physician Services*" below.

- Medicaid programs, per state, may be expanded to a broader population, which includes all individuals under age 65 with incomes up to at least 138% of federal poverty levels. However, the U.S. Supreme Court decision in 2012 resulted in many states choosing not to participate in the Medicaid expansion, which will reduce the anticipated number of new enrollees. Providers operating in markets with large Medicaid and uninsured populations are anticipated to benefit from increased revenues resulting from increased utilization and reductions in bad debt or uncompensated care. The increase in utilization can also be expected to lead to an increase in costs of providing that care, which may or may not be balanced by increased revenues. Relative to the operations of the Members of the Obligated Group, the states of Alaska, California, Montana, New Mexico, Oregon and Washington have opted for and implemented Medicaid expansion. Texas has elected not to expand Medicaid. In 2016, Alaska expanded Medicaid and passed and signed into law a Medicaid reform bill that will, among other things, utilize pilot projects for different payment models to reduce non-urgent use of emergency departments by Medicaid recipients.

- Effective October 1, 2012, CMS began reducing Medicare payments to hospitals with high rates of potentially preventable readmissions for certain clinical conditions, as compared to the national average. The maximum penalty reduction for fiscal year 2016 is 3% of a hospital's base operating DRG payment amount.

- Effective October 1, 2014, CMS began reducing Medicare payments by 1% for all DRGs to hospitals that are in the top quartile nationally for their rate of hospital-acquired conditions. Effective July 1, 2011, federal payments to states for Medicaid services related to preventable health conditions were prohibited.

- Effective October 1, 2011, health care insurers are required to include quality improvement covenants in their contracts with hospital providers, and are required to report their progress on such actions to the Secretary of the Department of Health and Human Services ("*HHS*"). Commencing January 1, 2015, health care insurers participating in the health insurance exchanges are allowed to contract only with hospitals that have implemented programs designed to ensure patient safety and enhance quality of care. The effect of these provisions upon the process of negotiating contracts with insurers or the costs of implementing such programs cannot be predicted.

- Commencing January 1, 2015, health care insurers participating in the health insurance exchanges are allowed to contract only with hospitals that have implemented programs designed to ensure patient safety and enhance quality of care. The effect of these provisions upon the process of negotiating contracts with insurers or the costs of implementing such programs cannot be predicted.

- With varying effective dates, the Affordable Care Act is intended to enhance the ability to detect and reduce waste, fraud, and abuse in public programs through provider enrollment screening, enhanced oversight periods for new providers and suppliers, and enrollment moratoria in areas

identified as being at elevated risk of fraud in all public programs, and by requiring Medicare and Medicaid program providers and suppliers to establish compliance programs. The Affordable Care Act requires the development of a database to capture and share health care provider data across federal health care programs and provides for increased penalties for fraud and abuse violations, and increased funding for anti-fraud activities.

- The Affordable Care Act establishes an Independent Payment Advisory Board (the *"IPAB"*) to develop proposals to improve the quality of care and to limit cost increases. Beginning January 15, 2019, if the Medicare growth rate in per capital program spending exceeds the target, the IPAB is required to develop proposals to reduce the growth rate and require the Secretary of HHS to implement those proposals, unless Congress enacts legislation related to the proposals. While hospitals are largely exempted from the IPAB recommendations, the impact on providers may filter up to hospitals, and industry experts also expect that government cost reduction actions may be followed by private insurers and payors. The IPAB was to begin submitting its annual recommendations no later than January 15, 2014, however, President Obama has not yet appointed the members of the IPAB. Additionally, the Chief Actuary of the Centers of Medicare and Medicaid Services ("*CMS*") has concluded that the projected Medicare per capita growth rate has not yet exceeded the target growth rate and there will be no need for IPAB activity at least through 2016. In June 2015, the House of Representatives voted to repeal the IPAB, although the Senate has not yet approved the legislation. The fiscal year 2017 federal budget proposal otherwise aims to strengthen the IPAB.

- The Affordable Care Act creates a Center for Medicare and Medicaid Innovation to test innovative payment and service delivery models and to implement various demonstration programs and pilot projects to test, evaluate, encourage and expand new payment structures and methodologies to reduce health care expenditures while maintaining or improving quality of care. Demonstration efforts include, bundled payments under Medicare and Medicaid, and comparative effectiveness research programs that compare the clinical effectiveness of medical treatments and develop recommendations concerning practice guidelines and coverage determinations. Other provisions encourage the creation of new health care delivery models, such as accountable care organizations (described below) or combinations of provider organizations, that voluntarily meet quality thresholds to share in the cost savings they achieve for the Medicare program. The Center for Medicare and Medicaid Innovation has begun to testing new payment and service delivery models by instituting mandatory pilot programs. For example, the Comprehensive Care for Joint Replacement ("*CJR*") Model is currently in effect. Other proposed mandatory models include the Part B Drug model, extending the CJR model to include hip fracture, and cardiac episode payment models for acute myocardial infarction hospitalization and coronary artery bypass graft surgery. The outcomes of these projects and programs, including their effect on payments to providers and financial performance, cannot be predicted.

- *Healthcare.gov*, the health care exchange website created by the federal government under the provisions of the Affordable Care Act, launched on October 1, 2013. The website is designed to allow residents of states, which opted not to create their own state exchanges or to enter into a partnership with the federal government to purchase health insurance or qualify for Medicaid coverage. The website faced serious technical problems on its launch and for a period thereafter, making it difficult for individuals to purchase health insurance. Under the Affordable Care Act, uninsured Americans must either purchase insurance through the health care exchanges or other venues, or, if no exemption is available and obtained, face a financial penalty. In addition, beginning in 2020, an excise tax on certain high-cost employment based health plans will be imposed. This tax, created under the Affordable Care Act, was originally scheduled to take effect in 2018 but its implementation was delayed by subsequent legislation.

- The Affordable Care Act establishes the criteria for the new Qualified Health Plans ("*QHPs*") that may participate in the state run exchanges. A QHP must meet certain minimum essential coverage requirements. Minimum essential coverage requirements may be offered at one of four levels of coverage: bronze, silver, gold or platinum. Each QHP must agree to offer at least one plan at the silver or gold level. The Affordable Care Act sets forth the minimum coverage offered under each plan level and limits the variations in premiums that may be charged for exchange coverage on the basis of age and tobacco use. A QHP must also be certified by each exchange through which the plan is offered, must be licensed in each state where it offers insurance, and the QHP must limit cost sharing with the insured. Under the Affordable Care Act, individuals with family income under 400% of the Federal Poverty Level are eligible for subsidized premiums, deductibles and co-pays for coverage purchased on the exchange. Initially, only individuals and small employers will be able to access coverage through the exchanges. By 2017, large employers will also be able to use the exchanges to provide employer-based coverage to their employees. Although existing health insurance plans may continue to offer coverage in the individual and employer group markets, coverage will not satisfy an individual's mandate unless the plan meets the Affordable Care Act's qualified health plan requirements. At this time, it is not possible to project what impact the exchanges will have on competition in the insurance markets, the cost of coverage for employers, reimbursement rates for hospitals and physicians or the number of uninsured patients that the Obligated Group will still need to treat.

- The Affordable Care Act establishes a Medicare Shared Savings Program ("*MSSP*") that seeks to promote accountability and coordination of care through the creation of Accountable Care Organizations ("*ACOs*"). The program allows hospitals, physicians and others to form ACOs and work together to invest in infrastructure and redesign integrated delivery processes to achieve high quality and efficient delivery of services. ACOs that achieve quality performance standards are eligible to share in a portion of the amounts saved by the Medicare program. HHS has significant discretion to determine key elements of the program, including what steps providers must take to be considered an ACO, how to decide if Medicare program savings have occurred, and what portion of such savings will be paid to ACOs. The ACO and MSSP final rules were published in November 2011 and June 2015; however, the regulations are complex and it remains unclear whether the qualification requirements will be a formidable barrier to entry. In particular, because the federal ACO regulations do not preempt state law, providers in any state participating as a federal ACO must be organized and operated in compliance with such state's existing statutes and regulations. In January 2016, CMS issued a proposed rule that aimed to revise the benchmark rebasing calculations for ACOs. In June 2016, the final rule was published and adopts the modifications to the benchmark methodology. While these revised benchmark rebasing calculations may be particularly attractive for high performing ACOs, the delayed onset of these revised benchmark calculations (e.g., the revised methodology would not apply for the earliest ACOs until the start of their third participation agreement in 2019) leaves the MSSP ACO landscape somewhat uncertain. There has been regulatory activity across several agencies to set forth enforcement policies and additional rulemaking related to ACOs, including a joint statement on antitrust enforcement policy by the Federal Trade Commission ("*FTC*") and Department of Justice ("*DOJ*"); a final rule on certain waivers of federal health care fraud and abuse laws by CMS and the OIG; and an IRS notice and fact sheet addressing the impact on tax-exempt organizations participating in ACOs; however, there may remain regulatory risks for participating hospitals, as well as financial and operational risks. Participants in ACOs will have to marshal a large upfront financial investment to form unique and untested ACO structures, which may or may not succeed in gaining qualification. For those that do qualify, it is uncertain whether the savings will be adequate to recoup the initial investment.

The Obama administration delayed the effective date of certain aspects of the Affordable Care Act, including several that relate to requirements to provide or obtain insurance. The employer mandate, which requires businesses with 50 or more employees provide health insurance to their workers or pay a penalty was delayed until 2015 for employers with 100 or more full-time employees and to 2016 for employers with 50 to 99 full-time employees. Also, in response to difficulties faced by individuals who received cancellation notices regarding plans that did not meet the coverage requirements for the Affordable Care Act, the administration has granted those individuals an exception from the Affordable Care Act's individual mandate, which requires individuals to have health insurance or face a penalty beginning in tax year 2014. Those individuals may now obtain catastrophic coverage, which is basic coverage generally available to those under 30 or who meet a hardship exemption; the administration announced that it is granting a "hardship exemption" to individuals whose plans were cancelled and might be having difficulty paying for standing coverage. Similarly, delaying the Affordable Care Act adjusted community rating provisions for grandfathered small group plans temporarily stabilizes renewal rates for many small employers with young, healthy employees in many markets. But when this delay expires, many of these small employers will receive significant rate increases as they are moved toward an average "community" rate.

The outcomes of these projects and programs, including their effect on payments to providers and financial performance, cannot be predicted.

High deductible insurance plans have become more common in recent years, and the Affordable Care Act is expected to encourage the increase in high deductible insurance plans as the health care exchanges include a variety of plans, several of which offer lower monthly premiums in return for higher deductibles. Many plans offered on the exchanges have high deductibles. High deductible plans may contribute to lower inpatient volumes as patients may forgo or choose less expensive medical treatment to avoid having to pay the costs of the high deductibles. There is also a concern that some patients with high deductible plans will not be able to pay their medical bills as they may not be able to cover their high deductible.

On January 26, 2015, the Secretary of HHS announced HHS's goal of tying 85% of all traditional Medicare payments to quality or value by 2016 and 90% by 2018 through programs developed under the Health Care Reform, such as the value based purchasing program and readmission reduction program described above. In January 2015, HHS announced a goal of tying 30% of traditional Medicare payments to alternative payment arrangements by the end of 2016, increasing to 50% by the end of 2018. HHS announced in March of 2016 that it had already met its 30% alternative payment arrangements goal, and has implemented a mandatory bundled payment demonstration for certain joint replacement procedures in various urban areas. Rulemaking for additional mandatory bundled payment models was announced on July 26, 2016 for three additional clinical conditions. This transition of Medicare payment from volume to quality and value will place increasing risk on providers and could have a significant negative impact upon the economic performance of Members of the Obligated Group**.**

On June 28, 2012, the United States Supreme Court upheld the constitutionality of the Affordable Care Act generally, but struck down certain provisions which would have permitted federal Medicaid funding to be entirely eliminated for states that do not comply with the expanded Medicaid coverage required under the Affordable Care Act. Since the Supreme Court's decision was handed down, certain political leaders have announced their intention to proceed with legislation to repeal or amend provisions of the Affordable Care Act. Attempts to repeal provisions of the Affordable Care Act emerge in Congress from time to time and certain provisions of the Affordable Care Act continue to be challenged in the courts. For example, in June 2015, the United States Supreme Court ruled in *King v. Burwell* that health insurance subsidies provided under the Affordable Care Act would be available in all states, including those with a federally-facilitated health insurance exchange. The ultimate outcomes of legislative

attempts to repeal or amend the Affordable Care Act and legal challenges to the Affordable Care Act are unknown. Results of recent Congressional elections and of the Presidential election in 2016 could affect the outcome of those efforts as well.

State Health Care Reform

Alaska Health Care Reform

Alaska expanded its Medicaid program in accordance with the Affordable Care Act effective September 1, 2015. In 2016, Alaska expanded its Medicaid program and also passed and signed into law a Medicaid reform bill that will, among other things, utilize pilot projects for different payment models to reduce non-urgent use of emergency departments by Medicaid recipients. The Alaska Department of Health & Social Services will contract with third parties to implement and test other coordinated care projects over the next three years, including alternative payment models.

California Health Care Reform

California expanded its Medicaid program in accordance with the Affordable Care Act and established a state-based health insurance exchange. California has previously entered into and may in the future enter into a "State Medicaid Waiver" with the federal government. A State Medicaid Waiver is a request that the Secretary of HHS waive certain Medicaid program requirements in the state so that the state can test new ways to deliver or pay for care in its Medicaid program. California currently has several State Medicaid Waivers in place. Management of the Obligated Group cannot predict whether California will apply for any new State Medicaid Waivers in the future, whether existing State Medicaid Waivers will be allowed to expire, or whether either such event will materially adversely affect the Obligated Group's operations or financial condition.

Montana Health Care Reform

Montana expanded its Medicaid program in accordance with the Affordable Care Act effective January 1, 2016. Montana has elected to use the federal health insurance exchange as opposed to creating a state-run exchange. Montana has previously entered into and may in the future enter into State Medicaid Waivers with the federal government. Management of PSJH cannot predict whether Montana will apply for any new State Medicaid Waivers in the future, whether existing State Medicaid Waivers will be allowed to expire, or whether either such event will materially impact the Obligated Group's operations or financial condition.

New Mexico Health Care Reform

New Mexico expanded its Medicaid program in accordance with the Affordable Care Act and established a state-based, federally supported health insurance exchange. New Mexico has previously entered into and may in the future enter into State Medicaid Waivers with the federal government. Management of PSJH cannot predict whether New Mexico will apply for any new State Medicaid Waivers in the future, whether existing State Medicaid Waivers will be allowed to expire, or whether either such event will materially impact the Obligated Group's operations or financial condition.

Oregon Health Care Reform

Oregon expanded its Medicaid program in accordance with the Affordable Care Act and established a state-based, federally supported health insurance exchange. Oregon has previously entered into and may in the future enter into State Medicaid Waivers with the federal government. Oregon is five

years into implementation of comprehensive health care reform through Coordinated Care Organizations ("*CCO*"). This transformation work began with Medicaid (the Oregon Health Plan), and will be rolled out in the next year as an option for state government and school employees in the PEBB and OEBB benefit programs. CCOs continue to show reductions in cost and improvement in quality outcomes. Oregon submitted an application for a Medicaid waiver extension on Friday, July 29, 2016 as its current waiver expires on July 1, 2017. The application continues to include the CCO model as the centerpiece of Oregon's Medicaid program, and also includes an extension of the Hospital Transportation Performance Pool program. Management of the Obligated Group cannot predict whether Oregon will apply for any new State Medicaid Waivers in the future, whether existing State Medicaid Waivers will be allowed to expire, whether the pending waivers will ultimately be approved, and if so on what terms, and therefore the impact on the Obligated Group's operations and financial condition is unknown.

Texas Health Care Reform

Texas has not taken any official actions to implement Medicaid expansion in accordance with the Affordable Care Act. However, the Texas Health and Human Services Commission and the Texas Department of Insurance are currently examining the actions that must be taken to implement the Affordable Care Act. Texas has elected to use the federal health insurance exchange as opposed to creating a state-run exchange. Texas has operated for five years under a Medicaid 1115 waiver that consists of state-wide managed care, uncompensated care funding and funding for transformation and delivery system form. The waiver will expire on September of 2016 and CMS has granted Texas Health and Human Services a 15 month extension for Texas to continue to negotiate a new long term waiver. Management is uncertain whether Texas will apply for any new State Medicaid Waivers in the future, whether existing State Medicaid Waivers will be allowed to expire, or whether the pending waivers will ultimately be approved, and if so on what terms, and therefore the impact on the Obligated Group's operations and financial condition is unknown.

Washington Health Care Reform

Washington expanded its Medicaid Program in accordance with the Affordable Care Act and established a state-based health insurance exchange. Washington is pursuing several strategies under its health care reform effort, called Healthier Washington, that go beyond Medicaid expansion. In 2013, the state received a Center for Medicare and Medicaid Innovation ("*CMMI*") transformation grant for delivery system reform which includes a vision to create regional Accountable Communities of Health to encourage local collaboration, identify gaps in services and funding and reinvest identified savings into population health initiatives. In 2016 the state released their Value-based road map, which outlines steps to achieve the eventual target of driving 80 percent of state-financed health care and 50 percent of the commercial market to value-based payment by 2019. Finally, in a response to legislation passed in 2014, the state is moving to fully integrated Medicaid managed care purchasing for physical health, mental health, and substance abuse services by 2020. While currently only one region has adopted this approach, several others are expected to adopt integrated purchasing prior to the 2020 deadline. The aim of this initiative is for services to be better coordinated and aligned to address physical and behavioral health needs of patients, thereby decreasing the costs of care through more efficient and effective delivery. The Washington State Health Care Authority and the Department of Social and Health Services are currently negotiating a Section 1115 Medicaid Transformation Waiver with the CMS. The waiver includes a proposal to create a new, targeted permanent supportive housing services Medicaid benefit along with additional health innovations, including a targeted supported employment Medicaid benefit, regional health transformation projects, and much more. Management of PSJH cannot predict whether Washington will apply for any new State Medicaid Waivers in the future, whether existing State Medicaid waivers will be allowed to expire, or whether either such event will materially impact the Obligated Group's operations or financial condition.

Federal Debt Limit Increase

Through federal legislation, the federal government has created a debt "ceiling" or limit on the amount of debt that may be issued by the United States Treasury. In the past several years, political disputes have arisen within the federal government in connection with discussions concerning the authorization for an increase in the federal debt ceiling. On November 2, 2015, President Obama signed the Bipartisan Budget Act of 2015 (the "*BBA*"), increasing the budget caps imposed by prior legislation for fiscal years 2016 and 2017, authorizing $80 billion in increased discretionary spending over the next two years and suspending the debt limit until March 15, 2017. Any failure by Congress to increase the federal debt limit may impact the federal government's ability to incur additional debt, pay its existing debt instruments and to satisfy its obligations relating to the Medicare and Medicaid programs. The Obligated Group's management is unable to predict the impact of future shutdowns of the federal government or limitations on the federal government's borrowing capacity on the operations of the Obligated Group, although it may be material.

Federal Budget Cuts

The Budget Control Act of 2011 (the "*BCA*") mandated significant reductions and spending caps on the federal budget for fiscal years 2012-2021. The BCA also created a Joint Select Committee on Deficit Reduction (the "*Super Committee*") to develop a plan to further reduce the federal deficit by $1.5 trillion on or before November 23, 2011. The Super Committee failed to act within the time specified in the BCA, and as a result, the BCA mandated that a 2% reduction in Medicare spending, among other reductions. However, as a result of the enactment of the American Taxpayer Relief Act of 2012, automatic spending cuts (in an amount necessary to achieve $1.2 trillion in savings between federal fiscal years 2013 and 2021, commonly referred to as "*sequestration*") were not triggered on January 1, 2013. However, automatic spending cuts were triggered on March 1, 2013, the next effective date of sequestration. A wide range of spending is exempted from sequestration, including Social Security, Medicaid, Veteran's benefits and pensions, federal retirement funds, civil and military pay, child nutrition and other programs. However, Medicare is <u>not</u> exempted from sequestration. Medicare payments are reduced in part as a result of these across the board spending reductions, limited to 2% of total program costs.

The American Taxpayer Relief Act of 2012 ("*ATRA*") postponed this scheduled reduction until March 1, 2013. CMS implemented the 2% reductions for all Medicare Parts A and B claims with dates-of-service or dates-of-discharge on or after April 1, 2013, and for all payments made to Medicare Advantage Organizations ("*MAOs*"), Part D plans and other programs (including Managed Care Organizations) with enrollment periods beginning on or after April 1, 2013. In addition, ATRA significantly affects hospital Medicare reimbursement in that it requires the Medicare program to recoup funds from hospitals based on changes in documentation and coding that have increased Medicare IPPS payments but that do not represent real increases in the intensity of services provided to patients. Fitch Ratings approximates the annualized impact of sequestration cuts in Medicare spending that went into effect in April of 2013 at $11 billion. The fiscal year 2015 IPPS final rule reduced standardized amounts by a second 0.8% installment, for a cumulative reduction of 1.6% for fiscal year 2015. In the final IPPS regulations for federal fiscal year 2016, CMS made an 0.8 percent recoupment adjustments for federal fiscal year 2016 for a cumulative reduction of 2.4%. and stated that it planned to make an additional recoupment adjustment in the federal fiscal year 2017 IPPS regulations.

In addition, ahead of a December 13, 2013 deadline, a bipartisan and bicameral budget agreement staved off further sequestration cuts, while keeping the current Medicare sequestration cuts in place. The agreement included restructuring of Medicaid DSH payments reductions by delaying the fiscal year 2014

DSH payment cuts until fiscal year 2016, but increasing the overall level of reductions and extending cuts through fiscal year 2023. The $85 billion agreement replaced $63 million in sequester cuts.

While the budget agreement offered limited relief from sequestration cuts for certain defense and non-defense spending for fiscal years 2014 and 2015, the budget agreement does not extend relief to sequestration reductions impacting Medicare. On March 3, 2016, CMS stated that the 2% reduction to Medicare providers and insurers will continue until further notice for Medicare Fee-For-Service program claims with dates of service or dates of discharge on or after April 1, 2013, subject to additional Congressional action. Also, certain commercial Medicare Advantage plans are passing this reduction on to health care providers. The BBA extended 2% sequestration for Medicare, through fiscal year 2025.

It is possible that Congress will take action to eliminate some or all of the reductions in the future and any Congressional action could be made retroactive in order to eliminate some or all of the cuts even to the extent they were imposed. However, there is no certainty that Congress will take any action. Absent further Congressional action, these automatic spending cuts will become permanent. Because Congress may make changes to the budget in the future, it is impossible to predict the impact any spending cuts may have upon Members of the Obligated Group. Similarly, it is impossible to predict whether any automatic reductions to Medicare may be triggered in lieu of other spending cuts that may be proposed by Congress. If and to the extent Medicare and/or Medicaid spending is reduced under either scenario, this may have a material adverse effect upon the financial condition of the Members of the Obligated Group. Ultimately, these reductions or alternatives could have a disproportionate impact on hospital providers and could have an adverse effect on the financial condition of the Members of the Obligated Group, which could be material.

State and Local Budgets

Most states in which the Obligated Group Members operate health care facilities have recently faced or are currently facing severe financial challenges, including erosion of general fund tax revenues, fluctuating real estate values, slower economic growth and higher unemployment, each of which may continue or worsen over the coming years. These factors have resulted in shortfalls between anticipated revenues and spending demands. The financial challenges facing states may negatively affect System entities in a number of ways, including but not limited to, elimination or reduction of state and local health care safety net programs (resulting in a greater number of indigent, uninsured or underinsured patients) and reductions in Medicaid reimbursement rates. The financial challenges may also result in a greater number of uninsured or underinsured patients who are unable to pay for their care or access primary care facilities, a greater number of individuals who qualify for Medicaid and reductions in Medicaid reimbursement rates. In addition, shortfalls between revenues and spending of state and local governments have in the past, and may in the future, result in cutbacks to state and local government health care programs. Such cutbacks may result in reduced or delayed Medicaid reimbursement. It cannot be predicted what actions will be taken in the current and future years by the state legislatures of the states in which System facilities are located and the governors of these states to address those financial problems. The states' actions will likely depend on national and state economic conditions and other factors that are uncertain at this time.

Nonprofit Health Care Environment

Each of the Obligated Group Members is a not for profit corporation, exempt from federal income taxation as an organization described in Section 501(c)(3) of the Code. Therefore, each Obligated Group Member is subject to federal, state and local laws, regulations, rulings and court decisions relating to its organization and operation, including its operation for charitable purposes. At the same time, the Obligated Group as a whole conducts large-scale complex business transactions and is a major employer

in its geographic areas. There can often be a tension between the rules designed to regulate a wide range of charitable organizations and the day-to-day operations of a complex health care organization.

The operations and practices of nonprofit, tax-exempt hospitals are routinely challenged or criticized for inconsistency or inadequate compliance with the regulatory requirements for, and societal expectations of, nonprofit tax-exempt organizations. These challenges, in some cases, are broader than concerns about compliance with federal and state statutes and regulations, such as Medicare and Medicaid compliance, and instead in many cases are examinations of core business practices of the health care organizations. A common theme of these challenges is that nonprofit hospitals may not confer community benefits that equal the benefits received from tax-exempt status. Areas which have come under examination have included pricing practices, cost shifting charity care expenditures to commercial payors, billing and collection practices, charitable care methods of providing and reporting community benefit, executive compensation, exemption of property from real property taxation, and others. These challenges and questions have come from a variety of sources, including state attorneys general, the IRS, labor unions, Congress, state legislatures, and patients, and in a variety of forums, including legislation, regulations, hearings, audits and litigation. These challenges or examinations include the following, among others:

Nonprofit Hospitals' 501(c)(3) Status

The Affordable Care Act added to the Code a new Section 501(r) which applies to charitable hospitals or other charitable organizations whose principal purpose is to provide hospital care. Section 501(r) adds four requirements, in addition to those required under Section 501(c)(3) of the Code, which must be satisfied in order for such organizations to continue to be treated as exempt organizations under Section 501(c)(3) of the Code. First, a "community needs assessment" must be conducted every three years and an "implementation strategy" must be adopted to meet the needs identified in the assessment. Second, written policies regarding financial assistance and emergency medical care must be established, including policies relating to the basis for calculating patient charges and actions to be taken in the event of nonpayment. Third, limits must be established for emergency or other medically necessary care charges to patients eligible for financial assistance. Fourth, certain billing and collection requirements must be met, including a prohibition on "extraordinary collection actions" unless a "reasonable effort" has been made to determine whether the patient is eligible for financial assistance. *See* also "Federal Health Care Reform and Other Governmental Initiatives" above.

IRS Community Benefit and Section 501(r) Initiatives

The IRS continues to direct attention toward the community benefit practices of tax-exempt hospitals, particularly following the Affordable Care Act's significant changes to the tax exemption standards for hospitals. Section 501(r) of the Code, adopted under the Affordable Care Act, includes four primary adjustments to the federal income tax exemption requirements for nonprofit hospitals. In addition to complying with the requirements of Section 501(c)(3) and the community benefit standards described in Rev. Rul. 69-545, 1969-2 CB 117, tax-exempt hospitals now must also: (i) conduct community health needs assessments once every three years (or else pay a $50,000 excise tax) and adopt an implementation strategy to meet the identified community needs; (ii) communicate their financial assistance policies, including a policy to provide emergency medical treatment without discrimination, to the communities they serve; (iii) limit charges for patients eligible for financial assistance to no more than the amounts generally billed to individuals who have insurance covering such care and refrain from using "gross charges" when billing such individuals; and (iv) comply with certain billing and collection standards, to include refraining from taking extraordinary collection actions without first making reasonable efforts to determine whether the individual is eligible for assistance under the hospital's financial assistance policy. Final regulations have been issued under Section 501(r) implementing these

requirements, and these regulations are complex and administratively burdensome. Also, under the Affordable Care Act, the IRS must review the community benefit activities of each tax-exempt hospital at least once every three years. In February 2009, the IRS issued its Hospital Compliance Project Final Report (the "*IRS Final Report*") that determined that the reporting of community benefit by nonprofit hospitals varied widely, both as to types of programs and expenditures classified as community benefit and the measurement of community benefits. As a result, the IRS issued the revised Form 990 that includes Schedule H, effective for tax years beginning after March 23, 2010, which is designed to provide uniformity regarding types of programs and expenditures reported as community benefit by nonprofit hospitals. As the IRS collects and reviews information from hospitals about the level and types of community benefit provided, the IRS may issue a more stringent interpretation of community benefit. Findings from Schedule H reports may also revive proposals in Congressional committees which, from time to time, have been made to codify additional requirements for hospitals' tax exempt status, including requirements to provide minimum levels of charity care.

Congressional Hearings

Senate and House committees have conducted several nationwide investigations of hospital billing and collection practices and prices charged to uninsured patients and have considered reforms to the nonprofit sector, including proposed reform in the area of tax-exempt health care organizations, as part of health care reform generally. In addition, the House Ways and Means Committee and Senate Finance Committee continue to evaluate comprehensive tax reform. The Ways and Means Committee has formed eleven tax reform working groups including one focused on the Charitable/Exempt Organizations sector. Comprehensive tax reform could impact tax exemption for all organizations, not only health care organizations which are tax-exempt under Section 501(c)(3) of the Code. *See* "IRS Examination of Compensation Practices," "IRS Community Benefit and Section 501(r) Initiatives" above and "Challenges to Real Property Tax Exemption" below under the caption "Nonprofit Health Care Environment."

Bond Examinations

IRS officials have indicated that more resources will be invested in audits of tax-exempt bonds in the charitable organization sector with specific review of private use. A schedule to the revised Form 990 return (Schedule K), is intended to address what the IRS believes is significant noncompliance with recordkeeping and record retention requirements. Schedule K also requires tax-exempt organizations to report on the investment and use of bond proceeds to address IRS concerns regarding compliance with arbitrage rebate requirements and the compliant use of bond-financed facilities.

IRS Examination of Compensation Practices

For nearly the past decade, the IRS has been concerned about executive compensation practices of tax-exempt hospitals. In 2004, the IRS began a new program to measure compliance by tax-exempt organizations with requirements that they do not pay excessive compensation. The IRS Final Report examined tax-exempt organizations' practices and procedures with regard to compensation and benefits paid to their officers and other defined "insiders." The IRS Final Report indicated that the IRS (1) will continue to heavily scrutinize executive compensation arrangements, practices and procedures, and (2) in certain circumstances, may conduct further investigations or impose fines on tax-exempt organizations.

IRS Scrutiny of Employee Classification

The IRS is aggressively pursuing businesses, including nonprofit tax-exempt organizations, that misclassify their employees as independent contractors. A number of employers incorrectly treat their workers (or a class or group of workers) as independent contractors or other nonemployees to reduce their employment tax withholding burden. An IRS audit of employee classification can result in employment tax liability for the employers, as well as interest and penalties on the amounts owed. Whether a worker is performing services as an employee or as an independent contractor depends on facts and circumstances and generally is determined under various common law tests, like whether the service recipient has the right to direct and control the worker regarding how he or she performs the services. The IRS is offering a Voluntary Classification Settlement program that provides partial relief from federal employment taxes owed for employers that agree to prospectively treat workers as employees and not independent contractors.

Revisions to Form 990, Schedule H

The revised Form 990's Schedule H, which hospitals and health systems must use to report their community benefit activities, has been revised to require details on how a hospital determines eligibility for free or discounted care (if the federal poverty guidelines are not used). Consistent with Section 501(r) of the Code, Schedule H now requires hospitals to describe billing and collection practices permitted under the hospital facility's policies, as well as information about the hospital's emergency medical care policy. Hospitals must complete all of Schedule H for the 2016 tax year, including lines that relate to community health needs assessments.

Litigation Relating to Billing and Collection Practices

Lawsuits have been filed in federal and state courts alleging, among other things, that hospitals have failed to fulfill their obligations to provide charity care to uninsured patients and have overcharged uninsured patients. Many of these cases have since been dismissed by the courts. A number of cases are still pending in various courts around the country with inconsistent results. While it is not possible to make general predictions, some hospitals and health systems have entered into substantial settlements.

Class Actions

Nonprofit hospitals and health systems have also long been subject to a wide variety of other litigation risks, including liability for care outcomes, employer liability, property and premises liability, and peer review litigation with physicians, among others. In recent years, consumer class action litigation has emerged as a potentially significant source of litigation liability for nonprofit hospitals and health systems. These class action suits have most recently focused on hospital billing and collections practices and breaches of privacy, and they may be used for a variety of currently unanticipated causes of action. Since the subject matter of class action suits may involve uninsured risks, and since such actions often involve alleged large classes of plaintiffs, they may have material adverse consequences on nonprofit hospitals and health systems in the future.

Attorneys General and Other State Oversight or Audits

State nonprofit public benefit corporations, including the Obligated Group Members, are subject to oversight and examination by the Alaska, California, Montana, New Mexico, Oregon, Texas and Washington Attorneys General to ensure their charitable purposes are being carried out, that their fundraising and investment activities comply with state law and that the terms of charitable gifts are followed. In addition, state legislatures may direct state executive bodies to monitor or audit levels of

charity care being provided in nonprofit hospitals. For example, California's Bureau of State Audits was previously directed to investigate whether California's nonprofit hospitals were providing enough charity care and community benefit to justify their tax-exempt status.

Financial Assistance and Charity Care

Some state laws, including several states in which the Obligated Group Members do business, require hospitals to maintain written policies about discount payment and charity care and/or to follow specific billing and collection procedures. The Members of the Obligated Group have adopted and maintain such policies.

Challenges to Real Property Tax Exemptions

The real property tax exemptions afforded to certain nonprofit health care providers by state and local taxing authorities are being scrutinized, and in some cases have been challenged in court, on the grounds that the health care providers were not engaged in charitable activities. Court challenges have been based on a variety of grounds, including allegations of aggressive billing and collection practices, excessive financial margins and operations that closely resemble for-profit businesses. Several of these disputes have been determined in favor of the taxing authorities or have resulted in settlements. In addition, some states have proposed overhauling their property tax exemption laws. For example, in 2015, Oregon established a legislative workgroup to examine and propose future legislation to overhaul the property tax exemption procedures for all charitable entities, including hospitals and nonprofit health care organizations. A 2017 draft bill is being circulated in the Oregon Legislature that includes proposals for mandatory minimum charity care and community benefit expenditures by hospitals in order to maintain property tax exemption. While the Members of the Obligated Group are not aware of any current challenge to the tax exemption afforded to any material real property of the Obligated Group, there can be no assurance that these types of challenges will not occur in the future.

The foregoing are some examples of the challenges and examinations facing nonprofit health care organizations. They are indicative of a greater scrutiny of the billing, collection and other business practices of these organizations, and may indicate an increasingly more difficult operating environment for health care organizations, including the System. The challenges and examinations, and any resulting legislation, regulations, judgments, or penalties, could have a material adverse effect on the Obligated Group.

Charity Care

Hospitals are permitted to acquire tax-exempt status under the Code because the provision of health care historically has been treated as a "charitable" enterprise. This treatment arose before most Americans had health insurance, when charitable donations were required to fund the health care provided to the sick and disabled. Some commentators and others have taken the position that, with the onset of employer health insurance and governmental reimbursement programs, there is no longer any justification for special tax treatment for the health care industry, and the availability for tax-exempt status should be eliminated. Management of the System considers the likelihood of such a dramatic change in the law to be remote; nevertheless, federal and state tax authorities are beginning to demand that tax-exempt hospitals justify their tax-exempt status by documenting their charitable care and other community benefits. The legislatures of some states in which the Obligated Group operates, including the California, Oregon and Washington legislatures, have attempted to pass legislation mandating charity care levels or imposing other requirements relating to charity care. Management of PSJH cannot predict whether such legislation will be implemented in the future and cannot predict the affect it may have on the Obligated Group's financial condition, though such effect may be material.

As further described above under the caption "BONDHOLDERS' RISKS – Nonprofit Health Care Environment – Litigation Relating to Billing and Collection Practices," charity care issues also serve as the basis of certain claims against major hospital systems throughout the United States on behalf of uninsured patients. Many lawsuits filed against non-profit hospitals raise a number of claims against the hospital defendants, including claims that the defendants, by accepting tax-exempt status, entered into agreements with the federal, state and local governments promising to provide free or reduced care to all those who need it; the uninsured patients are beneficiaries of those agreements and can bring suit on them; the defendants engaged in illegal and oppressive tactics against the uninsured; the defendants engaged in illegal price discrimination by charging the uninsured rates far in excess of the rates charged to such third party payors as Medicare and certain insurers; the defendants violated state consumer fraud statutes; the defendants allowed a portion of their properties to be used by for-profit entities at less than fair value and engaged in other inappropriate transactions with doctors and certain insiders; the defendants transferred monies illegally to their affiliates for other than charitable purposes; and the defendants and the American Hospital Association, another named defendant in many of the lawsuits, conspired with the defendants to charge illegal prices to the uninsured. As described above under the caption, "*Federal Health Care Reform and Other Initiatives*," the Affordable Care Act imposes additional requirements for tax-exemption upon tax-exempt hospitals, including obligations to adopt and publicize a financial assistance policy; limit charges to patients who qualify for financial assistance to the amounts generally billed to insured patients; and control the billing and collection processes. In addition, tax-exempt hospitals must conduct a community needs assessment and adopt an implementation strategy to meet those identified needs. Failure to complete a community health needs assessment in any applicable three-year period can result in a penalty on the organization of up to $50,000, in addition to possible revocation of status as a section 501(c)(3) organization.

The Affordable Care Act also imposes new reporting and disclosure requirements on hospital organizations. The IRS is required to review information about a hospital's community benefit activities at least once every three years. The Affordable Care Act requires the Secretary of the Treasury, in consultation with the Secretary of HHS, to submit annually a report to Congress with information regarding the levels of charity care, bad debt expenses, unreimbursed costs of government programs, as well as costs incurred by tax-exempt hospitals for community benefit activities. The Secretary of the Treasury, in consultation with the Secretary of HHS, must conduct a study of the trends in these amounts, and submit a report on such study to Congress not later than five years after the date of enactment of the Affordable Care Act. These statutorily mandated requirements for periodic review and submission of reports relating to community benefit provided by section 501(c)(3) hospital organizations may increase the likelihood that Congress will consider additional requirements for section 501(c)(3) hospital organizations in the future and may increase IRS scrutiny of particular 501(c)(3) hospital organizations. In addition, some states mandate that their attorney generals annually evaluate hospital charity care. For example, in Montana, the Attorney General produces an annual report to the public addressing hospital charity care and community benefit compared to taxes that would otherwise be paid if hospitals were for-profit.

The IRS has also issued Notice 2015-5, which contains final regulations that provide guidance regarding the requirements for charitable hospital organizations added by the Affordable Care Act. These final regulations discuss, among other matters, the related excise tax and reporting requirements for charitable hospitals and the consequences for failure to satisfy the Affordable Care Act requirements for tax-exempt hospitals.

Security and Enforceability

Enforceability of the Master Indenture and the Series 2016 Obligations

Each Obligated Group Member has made a covenant in the Master Indenture to make payments when due under the Master Indenture and on the Obligations issued under the Master Indenture, including the Series 2016 Obligations. Each Obligated Group Member is also a maker of the Series 2016 Obligations. Each of the Series 2016 Obligations is a joint and several obligation of each Obligated Group Member. The enforceability of the joint and several obligations of each Obligated Group Member is uncertain. As a consequence, the property of the Obligated Group Members that are not the beneficiaries of the proceeds of the Series 2016 Bonds may not be available to make such payments. Notwithstanding these uncertainties, the accounts of the Obligated Group Members are combined and will continue to be combined for financial reporting purposes and will be used in determining whether various financial covenants and tests included in the Master Indenture are met.

Special counsel to the Obligated Group will deliver an opinion concurrently with the delivery of the Series 2016 Bonds to the effect that the Master Indenture and the Series 2016 Obligations are enforceable in accordance with their terms. However, such opinion will be qualified as to the joint and several obligation of the Obligated Group Members to make payments of debt service on the Series 2016 Obligations. In such opinion of such special counsel, such joint and several obligation may not be enforceable against an Obligated Group Member under any of the following circumstances:

- To the extent payments on the Series 2016 Obligations are requested to be made from assets of such Obligated Group Member which are donor-restricted or which are subject to a direct, express or charitable trust which does not permit the use of such assets for such payments.

- If the purpose of the debt created and evidenced by the Series 2016 Obligations is not consistent with the charitable purposes of such Obligated Group Member, or if the debt was incurred by or issued for the benefit of an entity other than a nonprofit corporation which is exempt from federal income taxes under Sections 501(a) and 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "*Code*"), and is not a "private foundation" as defined in Section 509(a) of the Code.

- To the extent payments on the Series 2016 Obligations would result in the cessation or discontinuation of any material portion of the health care or related services previously provided by such Obligated Group Member.

- If and to the extent payments are requested to be made pursuant to any loan violating applicable usury laws.

These limitations on the enforceability of the joint and several obligations of the Obligated Group Members on the Series 2016 Obligations also apply to their obligations on other Obligations. If the obligation of a particular Obligated Group Member to make payment on an Obligation is not enforceable, and payment is not made on such Obligation when due in full, then Events of Default will arise under the Master Indenture.

An Obligated Group Member may not be required to make payments on or provide amounts for the payment of an Obligation, including the Series 2016 Obligations, issued by or for the benefit of another entity if and to the extent that any such payment or transfer would render such Member insolvent or would conflict with or not be permitted by or would be subject to recovery for the benefit of other

creditors of such Member under applicable fraudulent conveyance, bankruptcy, insolvency, moratorium or other similar laws affecting the enforcement of creditors' rights. There is no clear precedent in the law as to whether payments on Obligations (including the Series 2016 Obligations) by an Obligated Group Member may be voided by a trustee in bankruptcy in the event of a bankruptcy of such Obligated Group Member, or by third party creditors in an action brought pursuant to state fraudulent conveyances statutes. Under the United States Bankruptcy Code, a trustee in bankruptcy and, under state fraudulent conveyance statutes, a creditor of a related guarantor, may avoid any obligation incurred by a related guarantor if, among other bases therefor, (1) the guarantor has not received fair consideration or reasonably equivalent value in exchange for the guaranty, and (2) the guaranty renders the guarantor insolvent, as defined in the United States Bankruptcy Code or state fraudulent conveyances statutes, or the guarantor is undercapitalized. Under such principles, the obligation of an Obligated Group Member to make payments on Obligations (including the Series 2016 Obligations) that secures Related Bonds (including the Series 2016 Bonds) not issued for the direct benefit of such Obligated Group Member may be considered a guaranty.

Application by courts of the tests of "insolvency," "reasonably equivalent value" and "fair consideration" has resulted in a conflicting body of case law. If judicial action were brought to compel an Obligated Group Member to make a payment on an Obligation (including the Series 2016 Obligations), a court might not enforce such payment in the event it is determined that sufficient consideration for the Member's obligation was not received, or that the incurrence of such obligation has rendered or will render the Member insolvent, or the Member is or will thereby become undercapitalized.

In addition, state courts have common law authority and authority under state statutes to terminate the existence of a nonprofit corporation or undertake supervision of its affairs on various grounds, including a finding that such corporation has insufficient assets to carry out its stated charitable purposes or has taken some action which renders it unable to carry out such purposes. Such action may arise on the court's own motion or pursuant to a petition of the state attorney general or such other persons who have interests different from those of the general public, pursuant to the common law and statutory power to enforce charitable trusts and to see to the application of their funds to their intended charitable uses.

An action to enforce a charitable trust and to see to the application of its funds could also arise if an action to enforce the obligation to make payments on an Obligation would result in the cessation or discontinuation of any material portion of the health care or related service previously provided by the Obligated Group Member from which payment is requested.

Unsecured Obligations

None of the property or revenues of the Obligated Group Members are pledged as security for the Series 2016 Bonds or the Series 2016 Obligations. In the event of a default and the exercise by the Bond Trustee or the Master Trustee of remedies available to it, the Bond Trustee or Master Trustee, as applicable, would be an unsecured creditor with no rights to any specific revenues or facilities of the Obligated Group Members.

The health care facilities of the Members are not general purpose buildings and may not be suitable for industrial or commercial use. Consequently, if an event of default were to occur and the Bond Trustee or the Master Trustee were in a position to sell or lease the facilities as a result of the exercise of available remedies, it could be difficult to find a buyer or lessee. As a result, the Bond Trustee or the Master Trustee may not obtain an amount sufficient to satisfy obligations on the Bonds or the Series 2016 Fixed Rate Taxable Obligations, whether pursuant to a judgment against any Obligated Group Member or otherwise.

Amendments to the Master Indenture and the Indentures

Certain amendments to the Master Indenture may be made with the consent of the owners of not less than a majority of the aggregate principal amount of the outstanding Obligations. Amendments to the Master Indenture may be obtained with the consent of the owners of Obligations other than the Series 2016 Fixed Rate Taxable Obligations. Certain amendments to the Indentures may be made with the consent of the owners of not less than a majority of the outstanding principal amount of the Bonds. Such amendments may adversely affect the security of owners of the Series 2016 Fixed Rate Taxable Obligations and the Bonds.

The rights of the Beneficial Owners of the Bonds to consent to these amendments and the process of soliciting consents are determined pursuant to the book-entry procedures of DTC (so long as the Bonds are held in book-entry only form).

Availability of Remedies

The remedies available to the Bond Trustee, the Master Trustee, the Owners and the Beneficial Owners of the Bonds upon an event of default under the Indentures and the Master Indenture are in many respects dependent upon judicial actions which are often subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, including, specifically, the Bankruptcy Code, the remedies provided in the Indentures and the Master Indenture may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the delivery of the Bonds will be qualified as to the enforceability of the various legal instruments by limitations imposed by general principles of equity and by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors' generally and laws relating to fraudulent conveyances.

Bankruptcy

In the event an Obligated Group Member files for protection from creditors under the United States Bankruptcy Code, the rights and remedies of the Owners of the Series 2016 Bonds would be subject to various provisions of the United States Bankruptcy Code. If an Obligated Group Member were to commence a proceeding in bankruptcy, payments made by that Obligated Group Member during the 90-day period immediately preceding such commencement (or, under certain circumstances, during the preceding one-year period) may be voided as preferential transfers to the extent such payments allow the recipients thereof to receive more than they would have received in the event of the liquidation of such Obligated Group Member. Security interests and other liens granted by such Obligated Group Member to the Bond Trustee or the Master Trustee and perfected during such preference period may also be voided as preferential transfers to the extent such security interest or other lien secures obligations that arose prior to the date of such grant or perfection.

A bankruptcy filing would operate as an automatic stay of the commencement or continuation of any judicial or other proceeding against such Obligated Group Member and its property and as an automatic stay of any act or proceeding to enforce a lien upon or to otherwise exercise control over its property as well as various other actions to enforce, maintain or enhance the rights of the Bond Trustee and the Master Trustee. If the bankruptcy court so ordered, the property of such Obligated Group Member could be used for the financial rehabilitation of such Obligated Group Member despite any security interest of the Bond Trustee or the Master Trustee therein. The rights of the Bond Trustee and the Master Trustee to enforce their respective interests and other liens could be delayed during the pendency of the rehabilitation proceeding.

An Obligated Group Member could also file a plan for the adjustment of its debts in any such proceeding which could include provisions modifying or altering the rights of creditors generally, or any class of them, secured or unsecured. The plan, when confirmed by a court, binds all creditors who had notice or knowledge of the plan and, with certain exceptions, discharges all claims against the debtor to the extent provided for in the plan. No plan may be confirmed unless certain conditions are met, among which are conditions that the plan be feasible and that it shall have been accepted by each class of claims impaired thereunder. Each class of claims has accepted the plan if at least two-thirds in dollar amount and more than one-half in number of the class cast votes in its favor. Even if the plan is not so accepted, it may be confirmed if the court finds that the plan is fair and equitable with respect to each class of non-accepting creditors impaired thereunder and does not discriminate unfairly. Any such plan could adversely affect the Owners and Beneficial Owners of the Series 2016 Bonds.

Under the provisions of the new amendments to the United States Bankruptcy Code, a bankruptcy court could appoint a patient advocate, the cost of which would be an administrative expense of the estate and certain reimbursements from federal agencies could be discontinued.

In addition, the bankruptcy of a health plan or physician group that is a party to a significant managed care arrangement with one or more Obligated Group Members, or that of any significant contract payor obligated to any one or more Obligated Group Members, could have material adverse effects on the Obligated Group.

Patient Service Revenues

Net patient service revenues realized by the Obligated Group Members are derived from a variety of sources and will vary among the individual facilities owned and operated by the Obligated Group Members and also among the various market areas and regions in which such facilities are located. Certain facilities and regions may realize substantially more revenues from private payment programs, such as managed care organizations, than do others.

A substantial portion of the net patient service revenues of the Obligated Group Members is derived from third-party payors which pay for the services provided to patients covered by third parties for services. These third-party payors include the federal Medicare program, state Medicaid programs and private health plans and insurers, including health maintenance organizations and preferred provider organizations. Many of those programs make payments to Obligated Group Members in amounts that may not reflect the direct and indirect costs of the Obligated Group Members providing services to patients.

The financial performance of the Obligated Group has been and could be in the future adversely affected by the financial position or the insolvency or bankruptcy of or other delay in receipt of payments from third-party payors that provide coverage for services to their patients.

Health care providers have been and continue to be affected significantly by changes made in the last several years in federal and state health care laws and regulations, particularly those pertaining to Medicare and Medicaid. The purpose of much of this statutory and regulatory activity has been to reduce the rate of increase in health care costs, particularly costs paid under the Medicare and Medicaid programs.

Medicare and Medicaid Programs

Approximately 31.3% and 15.8% of the System's combined pro forma net patient service revenue for the 12-month period ended December 31, 2015 were derived from the Medicare program and

Medicaid programs, respectively. Medicare and Medicaid are the commonly used names for reimbursement or payment programs governed by certain provisions of the federal Social Security Act. Medicare is an exclusively federal program, and Medicaid is a combined federal and state program.

Medicare

Medicare is a federal governmental health insurance system under which physicians, hospitals and other health care providers are reimbursed or paid directly for services provided to eligible elderly and disabled persons. Medicare provides certain health care benefits to beneficiaries who are 65 years of age or older, blind, disabled or qualify for the End Stage Renal Disease Program. Medicare Part A covers inpatient hospital services, skilled nursing care, hospice and some home health care, and Medicare Part B covers physician services, outpatient hospital services, diagnostic tests, outpatient therapy and some supplies. Medicare is administered by CMS. In order to achieve and maintain Medicare certification, a health care provider must meet CMS's "Conditions of Participation" on an ongoing basis, as determined by the state in which the provider is located and/or The Joint Commission ("*The Joint Commission*") or the Healthcare Facilities Accreditation Program.

The Affordable Care Act has made several changes to the Medicare program, ranging from changes to amounts payable to providers through imposition, directly or indirectly, of quality assurance measures. Certain of those changes, such as market basket reductions, market productivity adjustments, hospital acquired conditions penalties, readmission rate penalties and DSH payment reductions, are summarized above under the caption "Health Care Reform and other Governmental Initiatives."

The Medicare Integrity Program ("*MIP*") was established, as authorized by the Health Insurance Portability and Accountability Act of 1996 ("*HIPAA*"), to deter fraud and abuse in the Medicare program. MIP allows CMS to enter into contracts with outside entities to insure the "integrity" of the Medicare program. Such entities, including recovery audit contractors ("*RACs*") and Medicare zone program integrity contractors ("*ZPICs*"), are contracted by CMS to review claims and medical charts, both on a prepayment and post-payment basis, conduct cost report audits and identify cases of suspected fraud. The Affordable Care Act expanded Medicare's RAC audit program to include Medicaid, using state-based RAC contracts. RACs and ZPICs have the authority to deny and recover payments as well as to refer cases to the Office of Inspector General ("*OIG*").

Medicare audits may result in reduced reimbursement or in repayment obligations related to past alleged overpayments and may also delay Medicare payments to providers pending resolution of the appeals process. The Affordable Care Act explicitly gives the Secretary of HHS the authority to suspend Medicare and Medicaid payments to a provider or supplier during a pending investigation of fraud. The Affordable Care Act also amended certain provisions of the federal False Claims Act (the "*FCA*") (discussed below) to include retention of overpayments as a violation. It also added provisions relating to the timing of the obligations to identify, report and reimburse overpayments. The effect of these changes on existing programs and systems of the Obligated Group cannot be predicted.

Payment for Inpatient Hospital Services. A substantial portion of the Medicare revenues of the Members of the Obligated Group is anticipated to be derived from payments made for services rendered to Medicare beneficiaries under a hospital inpatient prospective payment system ("*IPPS*"). Under IPPS, for each covered hospitalization Medicare pays a predetermined base operating payment and a separate predetermined base payment for capital-related costs. Each hospitalization of a Medicare beneficiary is classified into one of several hundred DRGs, which determines the IPPS base payment rate for the hospitalization. The IPPS payment rate is not correlated to the hospital's actual cost of treating a particular patient. It is a fixed sum, generally based on national DRG rates and a Hospital Wage Index intended to reflect geographic differences in the costs of labor. Several hospital characteristics are

reflected in payment adjustments, including an indirect medical education adjustment, the disproportionate share adjustment to pay certain hospitals for a portion of the higher costs of treating a large proportion of poor patients and for indirect costs of operating in areas accessible to poor patients and outlier case adjustments (an additional payment for selected cases of unusually long stays or high costs).

In addition, DRG rates are subject to annual adjustment by CMS or Congress and are subject to federal budget considerations. The legislation that created the IPPS requires that payments under the IPPS be adjusted annually based on the national average cost of providing inpatient services (the "*market basket*"). For every year since 1983, Congress has modified the increases and given substantially less than the increase in the "market basket" index. There is no assurance that future updates in the IPPS payments will come any closer to keeping pace with the increases in the cost of providing hospital services. If a hospital incurs operating and capital costs in treating Medicare inpatients which exceed the DRG level of reimbursement, the hospital will experience a loss from providing these services.

In recent years, CMS has implemented a number of initiatives that may adversely affect Medicare payment to the Members of the Obligated Group, including reduced payment for certain cases in which a beneficiary acquires a complication or condition while in the hospital; an overall reduction in payment to fund bonus payments to some hospital who satisfy CMS's "value-based purchasing" criteria; and reduced payments to hospitals whose readmission rate for patients with specified diagnoses exceeds the anticipated readmission rate.

There is no assurance that the Obligated Group will be paid amounts that will reflect adequately its costs incurred in providing inpatient hospital services to Medicare beneficiaries, as well as any changes in the cost of providing health care or in the cost of health care technology being made available to Medicare beneficiaries. The ultimate effect of the IPPS on the Obligated Group will depend on the Obligated Group Members' ability to control costs involved in providing inpatient hospital services.

Inpatient rehabilitation facilities and units ("*IRFs*") and inpatient psychiatric facilities and unit ("*IPFs*") have been excluded from the DRG-based PPS established for general inpatient acute care facilities. Both IPFs and IRFs are paid by Medicare under a separate generally higher-paying inpatient prospective payment system that is distinct from general inpatient PPS. The Social Security Act authorizes the Secretary of HHS to determine which facilities are classified as IRFs. Such facilities and units are required to draw at least 60% of their inpatients from 13 specific rehabilitation diagnoses identified by CMS, in order to qualify for payment as an IRF. Effective October 1, 2014, CMS reduced the number of diagnoses presumed to "count" toward meeting the 60% rule. There is no guarantee that the IRF payment will be adequate to cover the Obligated Group's cost of furnishing care, or that a given IRF will continue to satisfy the 60% rule.

Recent Medicare Payment Advisory Commission ("*MedPAC*") guidance has recommended site-neutral payment policies for certain services provided in the IRF setting. These policies reflect MedPAC's position that Medicare should not pay more for care in one setting than in another if the care can safely and effectively be provided in a lower cost setting. Accordingly, MedPAC has proposed to reimburse certain IRF services at rates commensurate with payments made to skilled nursing facilities. To the extent adopted by CMS, these policies would have the potential to decrease Medicare revenues available to IRFs.

Payment for Hospital Outpatient Services. A significant amount of the Obligated Group's revenue is anticipated to come from hospital outpatient services to Medicare beneficiaries. Outpatient hospital services are paid by Medicare at predetermined rates based upon Ambulatory Payment Classification Groups ("*APCs*"). The payment rate established for each APC is based upon national

median hospital costs (including operating and capital costs) adjusted for variations in labor costs across geographic areas. Depending on the services provided, hospitals may be paid for more than one APC per patient encounter. CMS makes additional payment adjustments including: (i) outlier payments for services where the hospital's costs exceed a threshold amount determined by CMS for that service and (ii) transitional pass-through payments for certain drugs and medical devices. Some hospital outpatient services (such as physical, speech and occupational therapy) are paid on the basis of the Medicare Physician Fee Schedule, instead of APCs. There can be no assurance that Medicare's hospital outpatient rates will be sufficient to cover the actual costs allocable to Medicare patient care. Because of the fixed nature of Medicare payments for hospital outpatient services, the ultimate effect depends upon the hospital's ability to control the costs of providing such services. In addition, Congress or regulators in the future may impose additional limits or cutbacks in such payments or modify the method of calculating such payments.

Provider-Based, Off-Campus Hospital Outpatient Departments. Section 603 of the BBA reduces Medicare payments to newly-enrolled provider-based, off-campus hospital outpatient departments ("*HOPDs*") by excluding such facilities from payment under the OPPS beginning January 1, 2017. While this change does not affect already existing and enrolled provider-based, off-campus HOPDs that were billing for services prior to November 2, 2015, newly-enrolled provider-based, off-campus HOPDs will receive lower payments than in previous years for providing the same services. MedPAC has also recommended site neutral payment policies for provider-based departments. In addition, through a new claims modifier, CMS is collecting data on off-campus HOPD services which could be used for future payment changes for off-campus sites.

Payments for other Types of Services. Medicare reimburses skilled nursing facilities ("*SNFs*"), home health agencies ("*HHAs*"), and hospices each according to a separate and distinct system. SNFs are reimbursed under a prospective payment system that establishes a per-diem rate based on resource utilization groups that reflect the resources necessary to furnish care to the patient. HHAs are reimbursed under a prospective payment system that employs home health resource groups that reflect the patient's condition and expected resources used in providing services. Lastly, hospice payments are made according to four separate rates established by CMS that reflect the intensity and location of the hospice services rendered. CMS updates payment rates for these providers annually, and as with other provider reimbursement systems, there is no assurance that the Obligated Group will be paid amounts that will adequately reflect its costs incurred in providing health care services to Medicare beneficiaries.

Payment for Physician Services. Medicare pays for the services of physicians (and certain other professional and ancillary providers) under Part B of the Medicare program based on a national fee schedule called the "resource-based-relative-value scale ("*RB-RVS*") that is subject to annual adjustment. Medicare's physician fee schedule was previously limited by the Sustainable Growth Rate ("*SGR*"), which was widely criticized as an unworkable formula. On April 16, 2015, President Obama signed into law MACRA, which replaced the SGR formula with statutorily prescribed physician payment updates and incentives comprising the Quality Payment Program. Beginning July 1, 2015, MACRA increases Medicare physician payments by 0.5% annually until 2019 and then provides for no additional increases to base physician reimbursement through 2025. Beginning January 1, 2019, and carrying through 2025, physician payment adjustments will occur through the Quality Payment Program's two reimbursement tracks—the Merit-based Incentive Payment System ("*MIPS*") or an Advanced Alternative Payment Model ("*APM*"). In calculating physician payment adjustments, MIPS streamlines existing quality and value programs, accounting for physician performance under the meaningful use of electronic health records incentive program, the value-based modifier, and physician quality reporting system. Payments to physicians participating in APMs similarly account for performance under such programs. Beginning January 1, 2026, and effective January 1 of each subsequent calendar year, physician payments will be increased 0.75% for physicians who adequately participate in APMs, and 0.25% for those in MIPS. The

CMS proposed rule implementing MACRA was published on April 27, 2016 and must be finalized before November 1, 2016. The outcomes of these programs, including the likelihood of being revised or expanded or their effect on health care organizations revenues or financial performance cannot be predicted, and it remains unclear what effect this legislation will have on the Members of the Obligated Group. For example, these programs may encourage more physicians to retire, not accept Medicare (or only accept Medicare Advantage). Alternatively, or in addition to other externalities of the implementation of these programs, increased focus and performance scoring on resource use may impact utilization of health care resources across the System. Furthermore, implementation of a quality payment system will likely require regular reporting to CMS and greater internal resources to monitor performance and prevent payment reductions.

Medicare Advantage Plans. The Balanced Budget Act of 1997 substantially expanded the health-plan options for Medicare beneficiaries by creating a new Medicare PART C program, currently called Medicare Advantage Plans. The purpose of the program was to provide Medicare beneficiaries with an opportunity to obtain Medicare-covered services through various managed care organizations and other alternatives to traditional fee-for-service Medicare. However, Medicare beneficiaries may elect to remain in traditional fee-for-service Medicare.

Hospitals are paid by some Medicare Advantage Plans at the same rates as under traditional fee-for-service Medicare and in other cases the Medicare Advantage Plan establishes its own payment schedule. The latter type of Medicare Advantage Plan poses the same risks for the Obligated Group as are discussed below with respect to managed care organizations generally. It is impossible to determine the effect on the Obligated Group and its revenues of Medicare managed-care programs which may be instituted in the future.

Additional Medicare Payments to Hospitals. Additional Medicare payments may be made to individual hospitals. For example, hospitals that treat a disproportionately large number of low-income patients are known as disproportionate share hospitals and receive the DSH payments described above. Additional "outlier payments" are also made to hospitals that treat patients who are more costly to treat than the average patient. In addition, hospitals are paid for a portion of their direct and indirect graduate-medical-education ("*GME*") costs and their bad debts on Medicare co-payments and deductibles. These forms of additional payments are also subject to reductions and modifications as a result of amendments to relevant statutes or regulations. For example, the fiscal year 2017 federal budget proposes to reduce Medicare indirect GME payments by 10%. Certain Obligated Group Member hospitals have from time to time qualified for DSH payments and GME payments. *See* APPENDIX A – "OPERATIONS – Detailed Market Information."

Medicare Conditions of Participation; Utilization Review. Hospitals must comply with standards called "Conditions of Participation" in order to be eligible for continuing enrollment in Medicare and Medicaid. CMS is responsible for ensuring that hospitals meet these regulatory Conditions of Participation. Failure of an Obligated Group Member to comply with the Conditions of Participation could result in loss of such Member's eligibility to participate in the Medicare and Medicaid programs, which would have a material negative effect on the financial conditions and results of operation of the Obligated Group. Such requirements also apply to home health, hospice and skilled nursing facilities.

Medicare and Medicaid EHR Incentive Program

The 2009 Health Information Technology for Economic and Clinical Health Act (the "*HITECH Act*"), enacted as part of the Recovery Act, established programs under Medicare and Medicaid to provide incentive payments for the "meaningful use" of certified electronic health record ("*EHR*") technology. Beginning in 2011, the Medicare and Medicaid EHR incentive programs provide incentive payments to

eligible professionals and eligible hospitals for demonstrating meaningful use of certified EHR technology. Health care providers demonstrate their meaningful use of EHR technology by meeting objectives specified by CMS for using health information technology and by reporting on specified clinical quality measures. Pursuant to the Recovery Act, and commencing in 2016, hospitals and physicians who have not satisfied the performance and reporting criteria for demonstrating meaningful use will have their Medicare payments significantly reduced. The payment reduction starts at 1% and increases each year that an eligible professional does not demonstrate meaningful use, to a maximum of 5%. In addition, beginning in 2014, the federal government (including both CMS and HHS) began auditing hospitals' and providers' records related to their attestation of being "meaningful users" in order to obtain the incentive payments. A hospital or provider that fails the audit will have an opportunity to appeal. Ultimately, hospitals or providers that fail on appeal will have to repay any incentive payments they received through these programs. The Obligated Group expects to demonstrate meaningful use consistent with such requirements.

Medicaid

Medicaid is a health insurance program for certain low-income and needy individuals that is jointly funded by the federal government and the states. Medicaid is designed to pay providers for care given to the medically indigent and others who receive federal aid. Medicaid is funded by federal and state appropriations and administered by the various states. The amount of funds the federal government provides varies by state according to a statutorily prescribed formula. Under the Health Care Reform Law, the federal government pays 100% of the Medicaid costs of those newly eligible from 2014 to 2016; however, this higher matching rate gradually phases down to 90% by 2020 and remains at that level.

Pursuant to broad federal guidelines and CMS approval, each state establishes its own state plan, which sets forth the operation of its Medicaid program, including eligibility standards; the type, amount, duration, and scope of services; sets the payment rates for services; and the payment methodology for different providers of Medicaid services. Subject to minimum federal guidelines, states are given fairly broad discretion in the administration of their Medicaid program, at times resulting in substantial variation in how states operate Medicaid. For example, although Medicaid programs have historically paid providers on a fee for service basis, the majority of Medicaid enrollees now receive services through managed care arrangements where states contract with Medicaid MCOs to deliver care through their networks. Most of these delivery systems pay providers on a monthly capitation payment rate.

Every state except Alaska has created some form of a health care provider tax or assessment program which authorizes the collection of revenue from specified categories of health care providers. In most states, the provider tax assessment is used as a mechanism to generate new in-state funds and match them with federal matching Medicaid dollars. While provider tax assessments are often allocated back to the taxed health care entities in accordance with legislation, such allocations may not equal or exceed the amount paid. While the impact of such tax assessments to date has been neutral on the Obligated Group's financial condition in the aggregate, management cannot predict the future of any provider tax assessments at either the state or federal level, or whether any such provider tax assessments will have a material adverse effect on the Obligated Group's future financial condition.

The Affordable Care Act makes changes to Medicaid funding and substantially increases the potential number of Medicaid beneficiaries, as well as federal financial support for that increased enrollment, and expanded the RAC Medicare program to include Medicaid, using state-based RAC contracts. Management of the Members of the Obligated Group cannot predict the effect of these changes to the Medicaid program on the operations, results from operations or financial condition of the System or the Obligated Group.

Children's Health Insurance Program

The Children's Health Insurance Program ("*CHIP*") is an insurance program jointly funded by the federal and state governments for children in families which are financially ineligible for Medicaid, but cannot afford commercial health insurance. Similar to Medicaid, each state administers CHIP, creating its own program based upon minimum federal guidelines and approval by CMS.

The federal government provides matching funds to states that provide children's health insurance programs ("*SCHIP*") to targeted uninsured low-income children. If it does not meet the federal requirements, a state can lose its federal funding for the program.

From time to time, Congress and/or the President may seek to expand or contract SCHIP. The Affordable Care Act authorized an extension of the SCHIP program through September 30, 2015. The adoption of MACRA extended the SCHIP program for an additional two years beyond that. In addition, in a November 25, 2015 HHS notice, the agency increased federal program matching percentages as authorized by the Affordable Care Act.

Any future reduction in SCHIP funding could adversely impact the amount of revenue received by the Obligated Group Members.

Private Health Plans and Managed Care

Managed care plans generally use discounts and other economic incentives to reduce or limit the cost and utilization of health care services. Payments to the Obligated Group from managed care plans typically are lower than those received from traditional indemnity/commercial insurers. Defined broadly, for the 12-month period ended December 31, 2015, managed care payments (excluding capitated Medicare and Medicaid contracts) constituted approximately 51.4% of the System's combined pro forma net patient service revenues. There is no assurance that the Obligated Group Members will maintain managed care contracts or obtain other similar contracts in the future. Failure to maintain contracts could have the effect of reducing the market share of the Obligated Group and the Obligated Group's net patient service revenues. Conversely, participation may maintain or increase the patient base but could result in lower net income or operating losses to the Obligated Group if it is unable to adequately contain its costs.

Management of the Members of the Obligated Group anticipate that the Affordable Care Act will substantially alter the commercial health care insurance industry. The Affordable Care Act imposes, over time, increased regulation of the industry, the use and availability of exchanges in which health insurance can be purchased by certain groups and segments of the population, the extension of subsidies and tax credits for premium payments by some consumers and employers and the imposition upon commercial insurers of certain terms and conditions that must be included in contracts with providers. In addition, the Affordable Care Act imposes many new obligations on states related to health care insurance. Nationally, some private payers have withdrawn, or are seriously considering withdrawing, from health insurance exchanges in various states. It is unclear how the increased federal oversight of state health care may affect future state oversight or affect the Members of the Obligated Group. The effects of these changes upon the financial condition of any third-party payors that offer health care insurance, rates paid by third-party payors to providers and thus the revenues of the Obligated Group, and upon the operations, results of operations and financial condition of the System and the Obligated Group cannot be predicted.

Many preferred provider organizations ("*PPOs*") and health maintenance organizations ("*HMOs*") currently pay providers on a negotiated fee-for-service basis or on a fixed rate per day of care, which, in each case, usually is discounted from the typical charges for the care provided. The discounts offered to HMOs and PPOs may result in payment to a provider that is less than its actual cost. In

addition, the volume of patients directed to a hospital may vary significantly from projections, and/or changes in the utilization of certain services offered by the provider may be dramatic and unexpected, thus further jeopardizing the provider's ability to contain costs.

Some HMOs employ a "capitation" payment method under which hospitals are paid a predetermined periodic rate for each enrollee in the HMO who is "assigned" or otherwise directed to receive care at a particular hospital. In a capitation payment system, the hospital assumes a financial risk for the cost and scope of care given to the HMO's enrollees. In some cases, the capitated payment covers total hospital patient care provided. However, if payment under an HMO or PPO contract is insufficient to meet the hospital's costs of care or if utilization by enrollees materially exceeds projections, the financial condition of the hospital could erode rapidly and significantly.

Many private health plans and managed care organizations are mirroring federal initiatives to encourage providers to be more accountable for patient care by tying reimbursement to the quality and value provided to beneficiaries. Increasingly, health plans have also implemented "narrow networks" which limit the in-network providers available to enrollees in an effort to contain costs.

As a consequence of the above factors, the effect of managed care on the Obligated Group's financial condition is difficult to predict and may be different in the future than the financial statements for the current periods reflect.

State Laws

The federal Affordable Care Act imposed many new obligations on states related to health care insurance. Prior to the passage of the Affordable Care Act, many states increased regulations related to the managed care industry. State legislatures cited their right and obligation to regulate and oversee health care insurance and enacted sweeping measures that aimed to protect consumers and, in some cases, providers. For example, a number of states enacted laws mandating a minimum of 48-hour hospital stays for women after delivery; laws prohibiting "gag clauses" (contract provisions that prohibit providers from discussing various issues with their patients); laws defining "emergencies," which provide that a health care plan may not deny coverage for an emergency room visit if a lay person would perceive the situation as an emergency; and laws requiring direct access to obstetrician-gynecologists without the requirement of a referral from a primary care physician.

Due to this increased oversight, the Obligated Group could become subject to a variety of state health care laws and regulations affecting health care providers. In addition, the Obligated Group Members could be subject to state laws and regulations prohibiting, restricting, or otherwise governing PPOs, third-party administrators, physician-hospital organizations, independent practice associations or other intermediaries, fee-splitting, the "corporate practice of medicine," selective contracting, "any willing provider" laws and "freedom of choice" laws, coinsurance and deductible amounts, insurance agency and brokerage, quality assurance, utilization review, credentialing activities, provider and patient grievances, mandated benefits, rate increases, out-of-network billing, hospital facility fees, payment of prevailing wages for projects financed through conduit revenue bonds, and many other practices. For example, California has enacted a law that requires payment of prevailing wages for projects financed through conduit revenue bonds.

Dependence upon Third-Party Payors

The Obligated Group's ability to develop and expand its services and, therefore, profitability, is dependent upon its ability to enter into contracts with third-party payors at competitive rates. There can be no assurance that it will be able to attract third-party payors, and where it does, no assurance that it will

be able to contract with such payors on advantageous terms. The inability of the Obligated Group to contract with a sufficient number of such payors on advantageous terms would have a material adverse effect on the Obligated Group's future operations and financial results. Further, while the Obligated Group expects to control health care service utilization and increase quality, the Obligated Group cannot predict changes in utilization patterns or on health care providers.

Physician Contracting and Relations

The Obligated Group Members may wish to contract with physician organizations ("*POs*") (e.g., independent physician practices or associations, physician-hospital organizations, faculty practice plans, etc.) to arrange for the provision of physician and ancillary services. Because POs are separate legal entities with their own goals, obligations to shareholders, financial status, and personnel, there are risks involved in contracting with the POs.

The success of the Obligated Group Members will be partially dependent upon their ability to contract with POs, and upon the abilities of the POs, including their employed physicians, to perform their obligations and deliver high quality patient care in a cost-effective manner. There can be no assurance that the Obligated Group will be able to contract with and retain the requisite number of POs, or that such POs will deliver high quality health care services. Without contracting with a sufficient number and type of POs, the Obligated Group could fail to be competitive, could fail to keep or attract payor contracts, or could be prohibited from operating until it has arranged for physician services necessary to provide adequate access for patients. Such occurrences could have a material adverse impact on the business or operations of the Obligated Group Members.

As a consequence of the above factors, the effect of POs on the Obligated Group's financial condition is difficult to predict and may be different in the future than the financial statements for the current periods reflect.

Regulatory Environment

Licensing, Surveys, Investigations and Audits

Health care facilities, including those of the Obligated Group, are subject to numerous legal, regulatory, professional and private licensing, certification and accreditation requirements. These include, but are not limited to, requirements relating to Medicare Conditions of Participation, requirements for participation in Medicaid/Medi-Cal, state licensing agencies, private payors and the accreditation standards of The Joint Commission. Renewal and continuation of certain of these licenses, certifications and accreditations are based on inspections, surveys, audits, investigations or other reviews, some of which may require affirmative actions by an Obligated Group Member.

Hospitals that participate in the Medicare and Medicaid programs are subject from time to time to audits and other investigations relating to various aspects of their operations and billing practices, as well as to retroactive audit adjustments with respect to reimbursements claimed under those programs. Medicare and Medicaid regulations also provide for withholding reimbursement payments under certain circumstances. New billing rules and reporting requirements for which there is not clear guidance from CMS or state Medicaid agencies could result in claims submissions being considered inaccurate. The penalties for violations may include an obligation to refund money to the Medicare or Medicaid program, payment of criminal or civil fines and, for serious or repeated violations, exclusion from participation in federal health care programs.

MIP was established, as authorized by HIPAA, to deter fraud and abuse in the Medicare program. MIP allows CMS to enter into contracts with outside entities and insure the "integrity" of the Medicare program. Such entities, ZPICs (also discussed above, under the caption " – Medicare and Medicaid Programs"), are contracted by CMS to review claims and medical charts, both on a prepayment and post-payment basis, conduct cost report audits and identify cases of suspected fraud. ZPICs have the authority to deny and recover payments as well as to refer cases to the OIG. CMS is also planning to enable ZPICs to compile claims data from multiple sources in order to analyze the complete claims histories of beneficiaries for inconsistencies.

Medicare audits may result in reduced reimbursement or in repayment obligations related to past alleged overpayments and may also delay Medicare payments to providers pending resolution of the appeals process. The Affordable Care Act explicitly gives the Secretary of HHS the authority to suspend Medicare and Medicaid payments to a provider or supplier during a pending investigation of fraud. The Affordable Care Act also amended certain provisions of the FCA to include retention of overpayments as a violation. It also added provisions relating to the timing of the obligations to identify, report and reimburse overpayments. The effect of these changes on existing programs and systems of the Members of the Obligated Group cannot be predicted.

Management of the Obligated Group Members currently anticipates no difficulty renewing or continuing currently held licenses, certifications or accreditations, nor does such management anticipate a reduction in third-party payments from events that would materially adversely affect the operations or financial condition of the Obligated Group. Nevertheless, actions in any of these areas could result in the loss of utilization or revenues, or the ability of an Obligated Group Member to operate all or a portion of its health care facilities, and consequently, could have a material and adverse effect on the Obligated Group.

Negative Ranking Based on Clinical Outcomes, Cost, Quality, Patient Satisfaction and Other Performance Measures

Health plans, Medicare, Medicaid, employers, trade groups and other purchasers of health services, private standard-setting organizations and accrediting agencies increasingly are using statistical and other measures in efforts to characterize, publicize, compare, rank and change the quality, safety and cost of health care services provided by hospitals and physicians. Published rankings, such as Medicare's "Hospital Compare" quality ranking system, "score cards," "pay for performance" and other financial and non-financial incentive programs, are being introduced to affect the reputation and revenue of hospitals and members of their medical staffs and to influence the behavior of consumers and providers such as Obligated Group Members. Currently prevalent are measures of quality based on clinical outcomes of patient care, reduction in costs, patient satisfaction and investment in health information technology. Measures of performance set by others that characterize a hospital negatively may adversely affect its reputation and financial condition.

Civil and Criminal Fraud and Abuse Laws and Enforcement

Federal and state health care fraud and abuse laws regulate both the provision of services to government program beneficiaries and the methods and requirements for submitting claims for services rendered to beneficiaries. Under these laws, individuals and organizations can be penalized for submitting claims for services that are not provided, billed in a manner other than as actually provided, not medically necessary, provided by an improper person, accompanied by an illegal inducement to utilize or refrain from utilizing a service or product, or billed in a manner that does not otherwise comply with applicable government requirements.

Federal and state governments have a range of criminal, civil and administrative sanctions available to penalize and remediate health care fraud and abuse, including exclusion of the provider from participation in the Medicare and Medicaid programs, fines, civil monetary penalties, and suspension of payments and, in the case of individuals, imprisonment. Fraud and abuse may be prosecuted by one or more government entities and/or private individuals, and more than one of the available penalties may be imposed for each violation.

Laws governing fraud and abuse apply to all individuals and health care enterprises with which a hospital does business, including other hospitals, home health agencies, long term care entities, infusion providers, pharmaceutical providers, insurers, health maintenance organizations, preferred provider organizations, third party administrators, physicians, physician groups, and physician practice management companies. Fraud and abuse prosecutions can have a catastrophic effect on a provider and potentially a material adverse impact on the financial condition of other entities in the health care delivery system of which that entity is a part.

Based upon the prohibited activity in which the provider has engaged, governmental agencies and officials may bring actions against providers under civil or criminal False Claims Acts, statutes prohibiting referrals for compensation (including the federal "*Anti-Kickback Law*") or fee-splitting, or the "Stark Law" (discussed below) which prohibits certain referrals by a physician to certain organizations in which the physician has a financial relationship, unless an exception applies. The civil and criminal monetary assessments and penalties arising out of such investigations and prosecutions may be substantial. In addition, the provider may be denied participation in the Medicare and/or Medicaid programs. If and to the extent a Member of the Obligated Group engaged in a prohibited activity and judicial or administrative proceedings concluded adversely to that Member, the outcome could materially affect the Obligated Group.

The Obligated Group Members have internal policies and procedures and have developed and implemented a compliance program that Management, believes will effectively reduce exposure for violations of these laws. However, because the government's enforcement efforts presently are widespread within the industry and may vary from region to region, there can be no assurance that the compliance program will significantly reduce or eliminate the exposure of the Obligated Group Members to civil or criminal sanctions or adverse administrative determinations.

Federal Self-Referrals Prohibition (the Stark Law)

The Ethics in Patient Referrals Act of 1989 ("*Stark I*"), as amended in Omnibus Budget Reconciliation Act of 1993 ("*Stark II*") (collectively, the "*Stark Law*"), prohibits a physician from referring Medicare patients for specified "designated health services" to entities with which the physician or an immediate family member of the physician has a financial relationship unless an exception applies. The Stark Law also prohibits the entity receiving the tainted referral from billing for such services. "Designated health services" ("*DHS*") include, but are not limited to, clinical laboratory services, physical and occupational therapy, radiology and certain other diagnostic services, radiation therapy, home health services, and inpatient and outpatient hospital services. A "financial relationship" is defined to include any ownership or investment interest in the entity or any compensation arrangement between the entity and the physician. The Stark Law contains a number of exceptions. For example, space and equipment rental arrangements, bona fide employment relationships, personal service arrangements, arrangements unrelated to the provision of designated health services and physician recruitment arrangements that meet specified requirements are excepted from the referral prohibition.

The Stark Law was expanded to apply to state Medicaid programs indirectly. Section 1903(s) of the Social Security Act denies federal financial participation to state Medicaid programs for services furnished to Medicaid patients pursuant to a physician referral prohibited by the Stark Law.

Penalties for violation of the Stark Law include denial of payment, recoupment, refunds of amounts paid in violation of the law, exclusion from the Medicare or Medicaid program, and substantial civil monetary penalties (up to $15,000 per service, $100,000 for each arrangement or scheme intended to circumvent or to violate the statute, or $10,000 per day for false reporting or failure to report certain information required under the law). Violation of the Stark Law may also provide the basis for a claim under the FCA (see discussion below).

Moreover, because the government does not need to prove any intent by a provider to violate the law, a small technical violation of the Stark Law can trigger substantial financial penalties, as described above. In the Physician Fee Schedule final rule for calendar year 2016, CMS eased some of the technical burdens associated with Stark Law compliance, but the practical outcome remains unclear. CMS has also established a voluntary self-disclosure program under which hospitals and other entities may report Stark Law violations and seek a reduction in potential obligations. However, the program is relatively new and it is therefore difficult to determine at this time whether it will provide significant monetary relief to hospitals that discover inadvertent Stark Law violations.

The Members of the Obligated Group have and may have in the future various relationships with physicians that may be characterized as financial arrangements under the Stark Law. The statutes and interpretive regulations contain numerous ambiguities and are subject to varying interpretations. Under these circumstances, it is not possible to ascertain with certainty the effects that the Stark Law may have on the Obligated Group's operations or financial results.

False Claims Act

The FCA makes it illegal to submit or present a false, fictitious or fraudulent claim to the federal government and may include claims that are simply erroneous. FCA investigations and cases have become common in the health care field and may cover a range of activity from intentionally inflated billings, to highly technical billing infractions, to allegations of inadequate care. Violation or alleged violation of the FCA most often results in settlements that require multi-million dollar payments and compliance agreements. The FCA provides for potentially severe penalties: treble damages, attorneys' fees and civil fines of $5,000 to $10,000 per claim. Effective August 1, these penalties will be based on the Bureau of Labor Statistics' Consumer Price Index for October 2015 and increase to $10,781 to $21,562 per claim for violations occurring after November 2, 2015. The FCA also permits individuals to initiate civil actions on behalf of the government in lawsuits called "qui tam" actions. Qui tam plaintiffs, or "whistleblowers," share in the damages recovered by the government or recovered independently if the government does not participate. The FCA has become one of the government's primary weapons against health care fraud. FCA violations or alleged violations could lead to settlements, fines, exclusions or reputation damage that could have a material adverse impact on a hospital.

In order to prevail, the government or the whistleblower must establish that the false claims were submitted "knowingly." Under the FCA, a claim may be determined to have been submitted knowingly if it is submitted in "deliberate ignorance" or "reckless disregard" of the truth or falsity of the information contained in the claim, in addition to claims actually known to be false. Some regulators and whistleblowers have asserted that claims submitted to governmental payers that do not comply fully with regulations or guidelines come within the scope of the FCA. Recently, the U.S. Supreme Court in *Universal Health Services, Inc. v. United States ex rel. Escobar* held that the theory of "implied false certification" can be used as a basis for FCA liability when (1) a claim does more than request payment

and makes specific representations about the goods or services provided; and (2) the failure to disclose noncompliance with material regulations or contractual provisions makes the representations "misleading half-truths." The application of this new standard is unclear but could lead to an increase in FCA claims in the healthcare industry based on this theory of liability.

Amendments to the FCA in the Fraud Enhancement and Recovery Act of 2009 ("*FERA*") have expanded the reach of the FCA. FERA expanded the FCA's reverse false claims provision, imposing liability on any person who "knowingly conceals" or "knowingly and improperly avoids or decreases" an "obligation to pay or transmit money or property to the Government," whether the person uses a false record or statement to do so. FERA also clarified that an "obligation" can arise from the retention of an overpayment.

The Affordable Care Act also amended certain provisions of the FCA to make retention of overpayments beyond 60 days of discovery a violation. It also added provisions concerning the timing of the obligation to identify, report and refund an overpayment. On February 12, 2016, CMS issued the Medicare overpayments final rule, with an emphasis for providers on developing robust compliance programs. In the final rule, CMS imposes a new "reasonable diligence" standard for identifying overpayments that must be reported and returned within 60 days. CMS clarifies that the 60-day timeframe for report and return begins when either reasonable diligence is completed (including determination of the overpayment amount) or on the day the person received credible information of a potential overpayment if the person failed to conduct reasonable diligence and the person in fact received an overpayment. CMS relaxed the look back period for identifying overpayments in its final rule from 10 years to 6 years. The final rule does, however, impose an affirmative duty to proactively determine whether overpayments have been made. This expansion of the FCA exposes hospitals and other health care providers to liability under the FCA for a considerably broader range of claims than in the past.

Management is not aware of any pending FCA lawsuits filed against it. Because such lawsuits are filed under seal, however, there can be no guarantee that one or more lawsuits has not been filed or will not be filed in the future.

Federal Civil Monetary Penalty Law

The federal civil monetary penalty law ("*CMPL*") provides for administrative sanctions against health care providers for a broad range of billing and other abuses. For example, penalties may be imposed for the knowing presentation of claims that are (i) incorrectly coded for payment, (ii) for services that are known to be medically necessary, (iii) for services furnished by an excluded party, or (iv) otherwise false. Under the Affordable Care Act, Congress amended the CMPL to authorize civil monetary penalties for a number of additional activities, including (i) knowingly making or using a false record or statement material to a false or fraudulent claim for payment, (ii) failing to grant the OIG timely access for audits, investigations, or evaluations, and (iii) failing to report and return a known overpayment within statutory time limits. The CMPL authorizes imposition of civil monetary penalties ranging from $10,000 to $50,000 for each item or service improperly claimed and each instance of prohibited conduct. Health care providers may be found liable under the CMPL even when they did not have actual knowledge of the impropriety of the claim. It is sufficient that the provider "should have known" that the claim was false, and ignorance of the Medicare regulations is no defense.

Review of Outlier Payments

CMS is reviewing health care providers that are receiving large proportions of their Medicare revenues from outlier payments. Health care providers found to have obtained inappropriately high outlier payments will be subject to further investigation by the CMS Program Integrity Unit and

potentially the OIG. Management of the Members of the Obligated Group does not believe that any potential review of the Members would materially adversely affect the System's results of operations.

Federal Patient Privacy Laws - Health Insurance Portability and Accountability Act

HIPAA addresses the confidentiality of individuals' health information. Disclosure of certain broadly defined protected health information ("*PHI*") is prohibited unless expressly permitted under the provisions of HIPAA and its implementing regulations or authorized by the patient. HIPAA's privacy provisions extend not only to patient medical records, but also to a wide variety of health care clinical and financial settings where patient privacy restrictions often impose new communication, operational, accounting and billing restrictions.

In addition to provisions governing the portability of health insurance and health care fraud, HIPAA includes administrative simplification provisions ("*AS Provisions*") intended to reduce costs and administrative burdens in the health care industry by standardizing the electronic transmission of many administrative and financial transactions that currently are carried out manually on paper or in many different electronic formats. Congress recognized, however, that standardization of information formats and greater use of electronic technology presents additional privacy and security risks due to the increased likelihood that databases of personally identifiable health care information ("*Protected Health Information*" or "*PHI*") will be created and the ease with which vast amounts of such data can be transmitted. Therefore, HIPAA and its implementing regulations established regulations broadly defining PHI and prohibiting its disclosure unless authorized by the patient or for purposes set forth in the regulations. As a consequence, HIPAA extends to not only to patient medical records, but also to a wide variety of health care clinical and financial settings where patient privacy restrictions often impose complex communication, operational, accounting and billing restrictions. HIPAA's privacy and security standards apply to health plans, health care clearinghouses, and health care providers ("*Covered Entities*") and their creation and use of PHI. In addition, Covered Entities must enter into contracts with their business associates with whom they share PHI to assure that such information is appropriately safeguarded and that other HIPAA requirements are met.

The HIPAA privacy regulations (the "*Privacy Rule*") impose requirements on the use and disclosure of protected health information, create individual rights, and mandate certain administrative requirements for Covered Entities. In addition, HIPAA's security regulations (the "*Security Rule*") require Covered Entities to assess risks and develop and implement appropriate security measures to protect PHI, with particular focus on administrative procedures, physical safeguards, technical security services, and technical security mechanisms. Compliance with these rules add costs and create potentially unanticipated sources of legal liability.

The HITECH Act

Provisions in the 2009 Health Information Technology for Economic and Clinical Health Act (the "*HITECH Act*"), enacted as part of the Recovery Act, increase the maximum civil monetary penalties for violations of HIPAA and grant enforcement authority of HIPAA to state attorneys general. The HITECH Act also (i) extends the reach of HIPAA beyond Covered Entities, (ii) imposes a breach notification requirement on Covered Entities and their business associates, (iii) limits certain uses and disclosures PHI, and (iv) restricts Covered Entities' marketing communications. Management does not anticipate that compliance with the HITECH Act will have a material effect on the operations of the Obligated Group.

HITECH's breach notification requirement (the "*Breach Notification Rule*"), in particular, may expose Covered Entities such as hospitals to heightened liability. The Breach Notification Rule created a

uniform federal breach notification law that mirrors protections that many states have passed in recent years. The Breach Notification Rule requires Members of the Obligated Group to notify patients of any unauthorized access, acquisition, or disclosure of their unsecured PHI unless it is demonstrated that there is a low probability that the protected health information was not compromised based on a four-factor test. In addition, all breaches must be reported to the Secretary of HHS. If more than 500 individuals are affected by the breach, (i) the Covered Entity must also notify the media and (ii) the Secretary of HHS will post a description of the breach on its website. These reporting obligations increase the risk of government enforcement as well as class action lawsuits, especially if large numbers of individuals are affected by a breach.

Any violation of HIPAA, the HITECH Act, or the regulations promulgated under either is subject to civil and criminal penalties that include monetary penalties and/or imprisonment. Monetary penalties range: (a) in the case of violations due to willful neglect, from a minimum of $10,000 or $50,000 per violation depending on whether the violation was corrected within 30 days of the date the violator knew or should have known of the violation, and (b) in the case of all other violations, from a minimum of $100 to $1,000 per violation. The HITECH Act also significantly increased the amount of civil penalties to $1.5 million for violations during a calendar year under HIPAA. In addition, the HITECH Act authorized state attorney's general to bring civil actions seeking either injunction or damages in response to violations of HIPAA privacy and security regulations that threaten state residents. The Members of the Obligated Group believe they are in substantial compliance with all applicable current requirements of HIPAA.

State Patient Privacy Laws

State and local authorities are increasingly focused on the importance of protecting the confidentiality of individual's personal information, including patient health information. Certain states, including California and Texas, have created privacy regulations that are more stringent than federal law. In addition, some states require covered health plans and health care providers to file a health information report attesting to and demonstrating compliance with federal and state laws protecting individually identifiable health information. Certain state consumer protection laws may also provide a basis for legal action for privacy and security breaches and, unlike HIPAA, authorize a private right of action.

Implementation of Revised ICD-10

In 2009, CMS published the final rule adopting the International Classification of Diseases, 10th Revision coding system ("*ICD-10*"). ICD-10, implementation of which became effective on October 1, 2015, provides a common approach to the classification of diseases and other health problems, allowing the United States to align with other nations to better share medical information, diagnosis, and treatment codes. Implementation of ICD-10 is not without risk as its implementation requires staff retraining, process redesign, and modification of computer applications due to dramatic increases in codes and digit size. Due to these changes, there is a potential for temporary coding and payment backlog, increases in claims errors, and revenue stream disruption. In addition, because of the magnitude of the transition across the industry, implementation of ICD-10 may add pressure to health care organizations cash flows. Furthermore, health care organizations may become dependent on outside software vendors, clearinghouses and third-party billing services to develop products and services to assist in timely, complete and successful implementation of ICD-10 which will likely result in increased training and related implementation costs for the Obligated Group. Lastly, although implementation became effective, it remains unclear what potential implementation issues may arise and the costs associated with addressing such issues.

Submission and processing of claims data under ICD-10 will be more complex; it is likely that some claims may be rejected or delayed due to faulty transmission or receipt of data. Delayed payments would result in lower cash flow to providers. Members of the Obligated Group implemented ICD-10 in advance of the October 1, 2015 deadline. However, Management cannot in these early stages predict the impact of these changes on the finances and operations of the Obligated Group.

Security Breaches and Unauthorized Releases of Personal Information

Federal and state authorities are increasingly focused on the importance of protecting the confidentiality of individuals' personal information, including patient health information. Many states have enacted laws requiring businesses to notify individuals of security breaches that result in the unauthorized release of personal information. In some states, notification requirements may be triggered even where information has not been used or disclosed, but rather has been inappropriately accessed. State consumer protection laws may also provide the basis for legal action for privacy and security breaches and frequently, unlike HIPAA, authorize a private right of action. In particular, the public nature of security breaches exposes health organizations to increased risk of individual or class action lawsuits from patients or other affected persons, in addition to government enforcement. Failure to comply with restrictions on patient privacy or to maintain robust information security safeguards, including taking steps to ensure that contractors who have access to sensitive patient information maintain the confidentiality of such information, could consequently damage a health care provider's reputation and materially adversely affect business operations.

Patient Transfers; the Emergency Medical Treatment and Active Labor

In response to concerns regarding inappropriate hospital transfers of emergency patients based on the patient's inability to pay for the services provided, Congress enacted an "anti-dumping" statute known as the Emergency Medical Treatment and Active Labor Act ("*EMTALA*"). Generally, EMTALA requires that Medicare-participating hospitals provide an "appropriate medical screening" to all patients who "come to the emergency department" to determine if an emergency medical condition exists. If an emergency medical condition exists, the hospital must provide treatment within its capabilities until the patient's condition is stabilized or arrange an appropriate transfer to another hospital. EMTALA requirement apply to all persons regardless of the person's insurance coverage or ability to pay. A hospital may not delay the provision of a medical screening examination in order to inquire about the patient's ability to pay or method of payment.

Over the last few years, the federal government has increased its enforcement of EMTALA. Failure to comply with the law can result in exclusion from the Medicare and/or Medicaid programs, as well as civil and criminal penalties. In addition, a hospital may be held liable to a patient who suffered injuries as a result of a violation of EMTALA and may be liable to the receiving hospital for financial losses suffered as a result of a transfer in violation of EMTALA. Substantial failure of the Obligated Group to meet its responsibilities under EMTALA could materially adversely affect the financial condition of the Obligated Group. Outpatient facilities that are included as part of a hospital by virtue of a provider-based status designation are required to adhere to EMTALA's requirements, regardless of whether they are located on or away from the hospital's main campus.

Management is not aware of any pending or threatened claim, investigation or enforcement action regarding patient transfers that, if determined adversely to a Member, would have material adverse consequences to the Obligated Group.

340B Drug Pricing Program

Hospitals that participate in the prescription drug discount program established under Section 340B of the federal Public Health Service Act (the "*340B Program*") are able to purchase certain outpatient drugs for patients at a reduced cost. The federal agency that administers the 340B Program, HHS's Health Resources and Services Administration, issued a proposed rule on August 28, 2015 which addresses key policy issues related to the 340B Program, including but not limited to, eligibility requirements for participating hospitals, outpatient facilities and patients, registration requirements, drug eligibility, and manufacturer compliance. If adopted in its current form, the proposed rule could, among other things, restrict Members of the Obligated Group from purchasing drugs from the 340B Program. Such restrictions could have a material adverse effect on the Obligated Group. The agency has not announced when it expects to issue its final guidance.

State Certificates of Need

Certain states administer a certificate of need ("*CON*") program which applies to the incurrence of capital expenditures, the offering of certain new institutional health services, the cessation of certain services and the acquisition of major medical equipment. Legislation creating CON programs often stipulates requirements that the program be consistent with the respective state health plan in effect pursuant to such legislation and provide for penalties to enforce program requirements. Alaska, Montana, Oregon and Washington employ CON programs, whereby health care facilities are required to obtain state approval for certain projects, including the construction or development of a new health care facility, the sale, purchase or lease of part or all of any existing hospital, change in bed capacity of a health care facility which increases the total number of licensed beds or redistributes beds, and the offering of a new tertiary health service.

Neither Texas nor New Mexico have certificate of need programs that create barriers to entrance by new competitors or the expansion of services and facilities by existing or new competitors. While it is possible that a state's CON program could be modified or eliminated, the Obligated Group is not aware of any proposed revisions that would have a material and adverse impact on the results of operations or financial condition of the Members of the Obligated Group. Changes to the CON program could have either significant adverse or positive impact, depending in part upon their relative impact on other health care providers. Additional regulation could make it more difficult and costly for the Members of the Obligated Group to expand their services and facilities. Any additional deregulation could result in the entrance of new competitors, or the expansion of services and facilities by existing or new competitors, in the service area in which the Obligated Group competes.

California Nursing Legislation

California law requires the California Department of Health Services to adopt regulations specifying nurse-to-patient ratios for general acute care hospitals. These regulations, which became effective on January 1, 2004, require hospitals to comply with specified nurse-to-patient ratios at all times. They range from one nurse per patient in trauma units to one nurse to 6 patients in a medical/surgery unit. The required staffing, in aggregate, is more costly than prior staffing patterns. During the 2016 session, the California Legislature will consider a bill to increase nurse staffing ratios at freestanding skilled nursing facilities (not hospital-based). The bill will likely pass the legislature and be presented to the Governor for consideration. Currently there is no indication whether or not the Governor will sign the bill into law. The bill could result in $460 million in Medi-Cal costs and require the hiring of approximately 10,000 clinical nurse assistants to comply with the bill's requirements.

Environmental Laws and Regulations

The Obligated Group's health care operations generate medical waste that must be disposed of in compliance with federal, state and local environmental laws, rules and regulations. The Obligated Group's operations, as well as the Obligated Group's purchases and sales of facilities, also are subject to compliance with various other environmental laws, rules and regulations. The Obligated Group anticipates that compliance will not materially affect the Obligated Group's business, financial condition or results of operations.

Management of the System is not aware of any pending or threatened claim, investigation or enforcement action regarding environmental issues or any instance of contamination affecting a Member of the Obligated Group that, if determined adversely to that Member, would have material adverse consequences to the Obligated Group.

Increased Enforcement Affecting Clinical Research

In addition to increasing enforcement of laws governing payment and reimbursement, the federal government has also stepped up enforcement of laws and regulations governing the conduct of clinical trials at hospitals. HHS elevated and strengthened its Office of Human Research Protection, one of the agencies with responsibilities for monitoring federally funded research. In addition, the National Institutes of Health ("*NIH*") significantly increased the number of facility inspections that these agencies perform. The U.S. Food and Drug Administration ("*FDA*") also has authority over the conduct of clinical trials performed in hospitals when these trials are conducted on behalf of sponsors seeking FDA approval to market the drug or device that is the subject of the research. The FDA's inspection of facilities has increased significantly in recent years. These agencies' enforcement powers range from substantial fines and penalties to exclusions of researchers and suspension or termination of entire research programs. Management believes that clinical research being conducted by the Obligated Group Members is in substantial compliance with material applicable requirements, but no assurance can be made that the FDA will not take a contrary position or that such position will not have a material adverse effect on the future operations or financial condition of Members of the Obligated Group.

Liability Under State Health Care Fraud and Abuse Laws

A number of states, including those in which the Obligated Group maintains facilities, have adopted fraud and abuse laws similar to the federal laws discussed above, including: (1) anti-kickback and fee-splitting statutes designed to prohibit inducements or improper remuneration for the referral of patients, (2) self-referral statutes similar to the Stark Law, some of which extend beyond the related state Medicaid program to prohibit the payment or receipt of remuneration for the referral of patients and physician self-referrals regardless of the source of the payment for the care, and (3) false claims statutes expanding the prohibition against the submission of false claims to nonfederal third party payors. In addition, some of these states also prohibit the corporate practice of medicine, limiting the entities that can lawfully employ physicians. Penalties for violation of these state laws may include fines, penalties or exclusion from Medicaid.

Certain Business Transactions

Physician Relations

The primary relationship between a hospital and physicians who practice in it is through the hospital's organized medical staff. Medical staff bylaws, rules and policies establish the criteria and procedures by which a physician may have his or her privileges or membership curtailed, denied or

revoked. Physicians who are denied medical staff membership or certain clinical privileges, or who have membership or privileges curtailed, denied or revoked, often file legal actions against hospitals. Such action may include a wide variety of claims, some of which could result in substantial uninsured damages to a hospital. In addition, failure of the hospital governing body to adequately oversee the conduct of the medical staff may result in hospital liability to third parties. All hospitals, including those owned and operated by the Members of the Obligated Group, are subject to such risk.

Physician Contracting

Members of the Obligated Group may contract with POs (such as independent physician associations and physician-hospital organizations) to arrange for the provision of physician and ancillary services.

The success of the Obligated Group will be partially dependent upon its ability to attract physicians to join the POs at facilities operated by the Obligated Group and to participate in their networks, and upon the ability of the physicians, including the employed physicians, to perform their obligations and deliver high quality patient care in a cost-effective manner. There can be no assurance that the Obligated Group will be able to attract and retain the requisite number of physicians, or that physicians will deliver high quality health care services. Without paneling a sufficient number and type of providers, the Obligated Group could fail to be competitive, could fail to keep or attract payor contracts, or could be prohibited from operating until its panel provided adequate access to patients. Such occurrences could have a material adverse effect on the business or operations of the Obligated Group.

Affiliations, Mergers, Acquisitions and Divestitures

The Obligated Group Members evaluate and pursue potential acquisition, merger and affiliation candidates as part of the overall strategic planning and development process. As part of its ongoing planning and property management functions, the Obligated Group reviews the use, compatibility and business viability of many of the operations of the Members, and from time to time the Members may pursue changes in the use of, or disposition of, their facilities. Likewise, Obligated Group Members occasionally receive offers from, or conduct discussions with, third parties about the potential acquisition of operations and properties which may become subsidiaries or affiliates of the Obligated Group Members in the future, or about the potential sale of some of the operations or property which are currently conducted or owned by the Members. Discussions with respect to affiliation, merger, acquisition, disposition or change of use of facilities, including those which may affect such Members, are held from time to time with other parties. These may be conducted with acute care hospital facilities and may relate to potential affiliation with an Obligated Group Member. As a result, it is possible that the current organization and assets of the Members may change from time to time.

In addition to relationships with other hospitals and physicians, the Obligated Group Members may consider investments, ventures, affiliations, development and acquisition of other health care-related entities. These may include home health care, long-term care entities or operations, infusion providers, pharmaceutical providers, and other health care enterprises which support the overall operations of the Obligated Group Members. In addition, the Obligated Group Members may pursue such transactions with health insurers, HMOs, preferred provider organizations, third-party administrators and other health insurance-related businesses. All of these transactions could attract regulatory review at the federal level (*see* "-Antitrust" below) and the state level, where Attorneys General may be required to review non-profit hospital transactions to ensure the public's interest and benefit is considered. Because of the integration occurring throughout the health care field, Management, will consider such arrangements if there is a perceived strategic or operational benefit for the Obligated Group Members. Any such initiative may involve significant capital commitments and/or capital or operating risk (including, potentially,

insurance risk) in a business in which the Obligated Group Members may have less expertise than in hospital operations. There can be no assurance that these projects, if pursued, will not lead to material adverse consequences to the Obligated Group.

The conditions for adding new Members of to the Obligated Group are described in APPENDIX D – "SUMMARY OF THE MASTER INDENTURE – The Obligated Group – Entrance Into the Obligated Group" and "– Holdover Provisions Regarding Entry Into and Withdrawal From the Obligated Group."

Antitrust

Enforcement of antitrust laws against health care providers is becoming more common, and antitrust liability may arise in a wide variety of circumstances including medical staff privilege disputes, third party contracting, physician relations, employee compensation and joint venture, merger, affiliation and acquisition activities. In some respects, the application of federal and state antitrust laws to health care is still evolving, and enforcement activity by federal and state agencies appears to be increasing. At various times, health care providers may be subject to an investigation by a governmental agency charged with the enforcement of the antitrust laws, or may be subject to administrative or judicial action by a federal or state agency or a private party. Violation of the antitrust laws could be subject to criminal or civil enforcement by federal and state agencies, as well as by private litigants. Among the remedies available against persons found liable of violating antitrust prohibitions are treble damages, payment of plaintiff's attorney fees, and, in the case of a consolidation, divestiture, any of which could be significant. The ability to consummate mergers, acquisitions or affiliations may also be impaired by the antitrust laws, potentially limiting the ability of health care providers to fulfill their strategic plans.

Other common areas of potential antitrust liability are joint activities among providers with respect to payor contracting, medical staff credentialing, and allegations of exclusion of competitors from market opportunities. From time to time, the Obligated Group is or will be involved in a variety of activities that could receive scrutiny under the antitrust laws, and it cannot be predicted when or to what extent liability may arise. With respect to payor contracting, an Obligated Group Member may, from time to time, be involved in joint contracting activity with other hospitals or providers. The precise degree to which this or similar joint contracting activities may expose the participants to antitrust risk from governmental or private sources is dependent on a myriad of factual matters which may change from time to time. Management is not aware of any interest by the FTC in the Obligated Group consolidation, but cannot guarantee that it will not face antitrust scrutiny in the future.

Hospitals, including the hospitals owned and operated by Members of the Obligated Group, regularly have disputes regarding credentialing and peer review, and may be subject to liability in this area. In addition, hospitals occasionally indemnify medical staff members who are involved in such credentialing or peer review activities, and may also be liable with respect to such indemnity. Court decisions have also established private causes of action against hospitals which use their local market power to promote ancillary health care businesses in which they have an interest. Such activities may result in monetary liability for the participating hospitals under certain circumstances where a competitor suffers business damage.

Wage and Hour Class Actions and Litigation

Federal law and many states' laws impose standards related to worker classification, eligibility and payment for overtime, liability for providing rest periods and similar requirements. Large employers with complex workforces, such as hospitals, are susceptible to actual and alleged violations of these standards. In recent years there has been a proliferation of lawsuits over these "wage and hour" issues,

often in the form of large class actions. For large employers, such as hospitals, such class actions can involve multi-million dollar claims, judgments and settlements. A major class action decided or settled adversely to an Obligated Group Member could have a material adverse impact on its financial condition and results of operations. *See* APPENDIX A – "OTHER INFORMATION – Litigation Affecting the System."

Health Care Worker Classification

Health care providers, like all businesses, are required to withhold income taxes from amounts paid to employees. If the employer fails to withhold the tax, the employer becomes liable for payment of the tax imposed on the employee. On the other hand, businesses are not required to withhold federal taxes from amounts paid to a worker classified as an independent contractor. The IRS has established criteria for determining whether a worker is an employee or an independent contractor for tax purposes. If the IRS were to reclassify a significant number of hospital independent contractors (e.g. physician medical directors) as employees, back taxes and penalties could be material.

Pension and Benefit Funds

As large employers, hospitals may incur significant expenses to fund pension and benefit plans for employees and former employees and to fund required worker's compensation benefits. Funding obligations in some cases may be erratic or unanticipated and may require significant commitments of available cash needed for other purposes. In addition, to the extent investment returns are lower than anticipated or losses on investments occur, the Members of the Obligated Group may also be required to make additional deposits in connection with pension fund liabilities.

The Internal Revenue Service issued a private letter ruling in 1988 ruling that pension plans established by the Sisters of Providence (the "*Plan*") were "church plans" as provided in the Code. In addition, the Department of Labor issued an Advisory Opinion in 1991 that the Plans were "church plans" as defined under ERISA.

A number of lawsuits have recently been brought which challenge the church plan status of plans established by religiously affiliated hospitals on the basis that, among other things, such plans were not established by a church. The Plan is a subject of such a lawsuit. Providence Health & Services believes that the Plan was established by the Sisters of Providence, a religious order of the Catholic Church, and not by an organization affiliated with a church.

If the Plan was found to not meet the definition of a church plan, it would be required to comply with certain requirements of ERISA and the Code, including requirements related to funding, vesting and payment of premiums to the Pension Benefit Guaranty Corporation ("*PBGC*"). Depending on the funded status of the Plan for a given year, application of ERISA to the Plan could have a material adverse impact on the Obligated Group by requiring additional cash contributions to the Plan's trust and payment of premiums to the PBGC.

Tax Matters

Tax Exemption for Not-For-Profit Corporations

Loss of tax-exempt status by a Member of the Obligated Group could result in loss of tax-exemption on other tax-exempt debt issued for the benefit of such Obligated Group Member, and defaults in covenants regarding the Series 2016 Tax-Exempt Bonds and other related tax-exempt debt would likely be triggered. Such an event would have material adverse consequences on the financial condition of the

Obligated Group. Management is not aware of any transactions or activities currently ongoing that are likely to result in the revocation of the tax-exempt status of any Member of the Obligated Group. As described above under the caption "Health Care Reform," the Affordable Care Act has expanded the requirements for maintenance of Section 501(c)(3) status by hospitals to include maintenance and monitoring of charity care policies and procedures.

The maintenance by each Member of the Obligated Group of its respective status as an organization described in Section 501(c)(3) of the Code is contingent upon compliance with general rules promulgated in the Code and related regulations regarding the organization and operation of tax-exempt entities, including their operation for charitable and educational purposes and their avoidance of transactions that may cause their assets to inure to the benefit of private individuals. The IRS has announced that it intends to closely scrutinize transactions between not-for-profit corporations and for-profit entities, and in particular has issued audit guidelines for tax-exempt hospitals. Although specific activities of hospitals, such as medical office building leases and compensation arrangements and other contracts with physicians, have been the subject of interpretations by the IRS in the form of private letter rulings, many activities have not been addressed in any official opinion, interpretation or policy of the IRS. Because the Obligated Group Members conduct large-scale and diverse operations involving private parties, there can be no assurances that certain of its transactions would not be challenged by the IRS.

The IRS has taken the position that hospitals that are in violation of the Anti-Kickback Law may also be subject to revocation of their tax-exempt status. *See* the information herein under the caption "BONDHOLDERS' RISKS – Regulatory Environment – Civil and Criminal Fraud and Abuse Laws and Enforcement." As a result, tax-exempt hospitals, such as those of the Obligated Group Members, which have, and will continue to have, extensive transactions with physicians are subject to an increased degree of scrutiny and perhaps enforcement by the IRS.

The Taxpayers Bill of Rights 2, referred to for purposes of this Offering Memorandum as the "*Intermediate Sanctions Law*," allows the Internal Revenue Service to impose "intermediate sanctions" against certain individuals in circumstances involving the violation by tax-exempt organizations of the prohibition against private inurement. Prior to the enactment of the Intermediate Sanctions Law, the only sanction available to the IRS was revocation of an organization's tax-exempt status. Intermediate sanctions may be imposed in situations in which a "disqualified person" (such as an "insider") (i) engages in a transaction with a tax-exempt organization on other than a fair market value basis, (ii) receives unreasonable compensation from a tax-exempt organization or (iii) receives payment in an arrangement that violates the prohibition against private inurement. These transactions are referred to as "excess benefit transactions." A disqualified person who benefits from an excess benefit transaction will be subject to an excise tax equal to 25% of the amount of the excess benefit. Organizational managers who participate in the excess benefit transaction knowing it to be improper are subject to an excise tax equal to 10% of the amount of the excess benefit, subject to a maximum penalty of $10,000. A second penalty, in the amount of 200% of the excess benefit, may be imposed on the disqualified person (but not upon the organizational manager) if the excess benefit is not corrected within a specified period of time.

In certain cases, the IRS has imposed substantial monetary penalties and future charity care or public benefit obligations on tax-exempt hospitals in lieu of revoking their tax-exempt status, as well as requiring that certain transactions be altered, terminated or avoided in the future and/or requiring governance or management changes. These penalties and obligations are typically imposed on the tax-exempt hospital pursuant to a "closing agreement" with respect to the hospital's alleged violation of Section 501(c)(3) exemption requirements. Given the size of the Obligated Group, the wide range of complex transactions entered into by the Obligated Group Members and the uncertainty regarding how tax-exemption requirements may be applied by the IRS, Obligated Group Members are, and will be, at risk for incurring monetary and other liabilities imposed by the IRS through this "closing agreement" or

similar process. Like certain of the other business and legal risks described herein which apply to large multi-hospital systems, these liabilities are probable from time to time and could be substantial, in some cases involving millions of dollars, and in extreme cases could be materially adverse.

Bills have been introduced in Congress that would require a tax-exempt hospital to provide a certain amount of charity care and care to Medicare and Medicaid patients in order to maintain its tax-exempt status and avoid the imposition of an excise tax. Other legislation would have conditioned a hospital's tax-exempt status on the delivery of adequate levels of charity care. Congress has not enacted such bills. However, there can be no assurance that similar state or federal legislative proposals or judicial actions will not be adopted in the future. *See* the discussion above under "Nonprofit Health Care Environment – Nonprofit Hospitals' 501(c)(3) Status" for a discussion of the effect of certain elements of the Affordable Care Act on nonprofit hospitals, including conditioning a hospital's tax-exempt status on the delivery of adequate levels of charity care.

In recent years, the IRS and state, county and local taxing authorities have been undertaking audits and reviews of the operations of tax-exempt hospitals with respect to their exempt activities and the generation of unrelated business taxable income. The Obligated Group Members participate in activities that may generate unrelated business taxable income. Management of the System believes it has properly accounted for and reported unrelated business taxable income; nevertheless, an investigation or audit could lead to a challenge which could result in taxes, interest and penalties with respect to unreported unrelated business taxable income and in some cases could ultimately affect the tax-exempt status of a Member of the Obligated Group as well as the exclusion from gross income for federal income tax purposes of the interest payable on the Series 2016 Tax-Exempt Bonds and other tax-exempt debt of the Obligated Group. In addition, legislation, if any, which may be adopted at the federal, state and local levels with respect to unrelated business income cannot be predicted. For example, three cities in Washington State have chosen to change their tax code to require tax-exempt hospitals to pay business and occupation taxes despite their non-profit status. Any legislation could have the effect of subjecting a portion of the income of the Obligated Group Members to federal or state income taxes.

In addition, failure of a hospital facility to meet the additional requirements of Section 501(r) of the Code could subject revenues of the hospital facility to federal income tax.

Obligated Group Members have been and most likely will be audited from time to time by the IRS. Management of the System believes that it has properly complied with the tax laws. Nevertheless, because of the complexity of the tax laws and the presence of issues about which reasonable persons can differ, an audit could result in additional taxes, interest and penalties. An audit could ultimately affect the tax-exempt status of a Member of the Obligated Group as well as the exclusion from gross income for federal income tax purposes of the interest payable with respect to the Series 2016 Tax-Exempt Bonds and other tax-exempt debt of the Obligated Group.

In addition to the foregoing proposals with respect to income of not-for-profit corporations, various state and local governmental bodies have challenged the tax-exempt status of not-for-profit institutions and have sought to remove the exemption of property from real estate taxes of part or all of the property of various not-for-profit institutions on the grounds that a portion of their property was not being used to further the charitable purposes of the institutions or that the institutions did not provide sufficient care to indigent persons so as to warrant exemption from taxation as a charitable institution. Several of these disputes have been determined in favor of the taxing authorities or have resulted in settlements.

It is not possible to predict the scope or effect of future legislative or regulatory actions with respect to taxation of not-for-profit corporations. There can be no assurance that future changes in the

laws and regulations of federal, state or local governments will not materially adversely affect the operations and financial condition of the Obligated Group Members by requiring any of them to pay income or local property taxes.

Tax-Exempt Status of Series 2016 Tax-Exempt Bonds

The Code imposes a number of requirements that must be satisfied for interest on state and local obligations, such as the Series 2016 Tax-Exempt Bonds, to be excludable from gross income for federal income tax purposes. These requirements include, among other things, limitations on the use of bond proceeds and facilities financed with bond proceeds, limitations on the investment earnings of bond proceeds prior to expenditure, a requirement that certain investment earnings on bond proceeds be paid periodically to the United States, and a requirement that the Issuer file an information report with the IRS. The Issuer, the Obligated Group Members and the Bond Trustee have covenanted to comply with these requirements to the extent applicable. Failure to comply with the requirements stated in the Code and related regulations, rulings and policies may result in the treatment of the interest on the Series 2016 Tax-Exempt Bonds as taxable. Such adverse treatment may be retroactive to the date of issuance. In such event, the Series 2016 Tax-Exempt Bonds are not subject to redemption solely as a consequence thereof, although principal thereof may be accelerated.

IRS officials have recently indicated that more resources will be invested in audits of tax-exempt bonds in the charitable organization sector. The Series 2016 Tax-Exempt Bonds may be, from time to time, subject to audits by the IRS. The Obligated Group Agent believes that the Series 2016 Tax-Exempt Bonds properly comply with the tax laws. In addition, bond counsel for each series of the Series 2016 Tax-Exempt Bonds will render an opinion with respect to the tax-exempt status of the applicable Series 2016 Tax-Exempt Bonds. The Obligated Group Agent has not sought to obtain a private letter ruling from the IRS with respect to the Series 2016 Tax-Exempt Bonds, and opinions of bond counsel are not binding on the IRS. There is no assurance that an IRS examination on the Series 2016 Tax-Exempt Bonds will not adversely affect the market value of the Series 2016 Bonds.

State and Local Tax Exemption

In California it is possible that legislation may be proposed to strengthen the role of the California Franchise Tax Board and the Attorney General in supervising nonprofit health systems and other legislation that would require a financial impact analysis for consent to hospital and other health care transactions. It is likely that the loss by an Obligated Group Member of federal tax exemption would also trigger a challenge to its state tax exemption. Depending on the circumstances, such event could be material and adverse.

State, county and local taxing authorities undertake audits and reviews of the operations of tax-exempt health care providers with respect to their real property tax exemptions. In some cases, particularly where authorities are dissatisfied with the amount of services provided to indigents, the real property tax-exempt status of the health care providers has been questioned. The majority of the real property of the Obligated Group Members is currently treated as exempt from real property taxation. Although the real property tax exemption of the Obligated Group Members with respect to their core hospital facilities has not, to the knowledge of management, been under challenge, an investigation or audit could lead to a challenge that could adversely affect the real property tax exemption of the Obligated Group Members.

In 2015, both the Oregon and Washington legislatures failed to pass multiple bills which would have changed the definition of "charity care" and mandated specified levels of charity care in order to maintain property tax exemption. Draft 2017 Oregon legislation is being circulated and is designed to

accomplish similar goals to the 2015 legislation. In 2016, Washington added $100,000 of enforcement funding to the Washington Department of Health budget to ensure hospitals are complying with charity care laws and rules.

Alaska continues to face significant financial challenges from the continued $3-4 billion structural budget deficit. Unless this issue is adequately resolved in the 2017 legislative session, it is expected that both Alaska and its local municipalities will begin to look for new revenue sources to make up for the shortfall. The outcome is unpredictable and may include limiting property tax exemptions and imposing other charity care and community benefit obligations on not for profit facilities.

It is not possible to predict the scope or effect of future legislative or regulatory actions with respect to taxation of nonprofit corporations. There can be no assurance that future changes in the laws and regulations of state or local governments will not materially adversely affect the operations and financial condition of the Obligated Group Members by requiring any of them to pay income or local property taxes.

Conditions to Approval of Combination

The establishment of PSJH as the sole member of Providence Health & Services and SJHS (the *"Combination"*) was subject to the consent of the Attorney General of the State of California (the "*Attorney General*"). The Attorney General provided conditional consent to the Combination on June 21, 2016 (the *"Consent"*). The Consent is specifically conditioned on a number of conditions generally applicable to PSJH, Providence Health & Services, SJHS, St. Mary Medical Center, Redwood Memorial Hospital of Fortuna, St. Joseph Hospital of Eureka, Queen of the Valley Medical Center, Hoag Memorial Hospital Presbyterian, Mission Hospital Regional Medical Center, St. Joseph Hospital of Orange, St. Jude Hospital, Santa Rosa Memorial Hospital, SRM Alliance Hospital Service, Providence Health System–Southern California, Providence Saint John's Health Center and Providence Saint Joseph Medical Center (the *"California Hospitals"*).

Among the conditions set forth in the Consent are the following: (i) for eleven years, no sale, lease or transfer of control of the California Hospitals; (ii) for ten years, each California Hospital will continue to be operated as a general acute care hospital, with current bed levels maintained; (iii) for five years, the general service lines provided by each California Hospital will be maintained; (iv) for five years, each California Hospital will continue to participate in the Medi-Cal program; (v) for six years, each California Hospital will provide a designated minimum amount of charity care; (vi) for six years, each California Hospital will provide a designated minimum amount of community benefit services; and (vii) for eleven years, each California Hospital will make an annual filing with the Attorney General describing in detail compliance with each condition set forth in the Consent. Compliance with any of the conditions set forth in the Consent may be waived upon the consent of the Attorney General.

The conditions set forth in the Consent generally reflect the manner in which the California Hospitals are currently operated. However, the existence of the conditions may in the future limit the ability of management to make decisions with respect to the operations of one or more of the California Hospitals which, in the absence of the conditions, management would otherwise elect to execute.

Other Risks

Indigent Care

Tax-exempt hospitals often treat large numbers of "indigent" patients who, for various reasons, are unable to pay for their medical care. These hospitals may be susceptible to economic and political

changes which could increase the number of indigent persons or the responsibility for caring for this population. General economic conditions which affect the number of employed individuals who have health insurance coverage will similarly affect the ability of patients to pay for their care. The Affordable Care Act imposes requirements on tax-exempt hospitals to develop, implement and monitor charity care policies and procedures. In addition, as described above, one of the objectives of the Affordable Care Act has been to expand Medicaid and extend the availability and affordability of health care insurance to those segments of the population who have not been able to afford health care insurances or who have not had access to health care services. As a consequence, a reduction in the volume of patients who have historically been afforded care under indigent care programs has been observed in the patient mix for 2014 and 2015, and is expected to continue.

Bond Ratings

There is no assurance that the ratings assigned to the Series 2016 Bonds will not be lowered or withdrawn at any time, the effect of which could adversely affect the market price for and marketability of the Series 2016 Bonds. *See* the information herein under the caption "RATINGS."

Staffing Shortages

In recent years, the health care industry has suffered from a scarcity of nursing and other qualified health care technicians and personnel. This scarcity may intensify if utilization of health care services increases as a consequence of the expansion of the number of insured consumers occurs as anticipated as a consequence of the Affordable Care Act. This trend could force the Members of the Obligated Group to pay higher salaries to nursing and other qualified health care technicians and personnel as competition for such employees intensifies and, in an extreme situation, could lead to difficulty in keeping the facilities licensed to provide nursing care and thus eligible for reimbursement under Medicare and Medicaid. The California nurse staff ratios law (discussed above) could intensify the effect of nursing shortages for the Obligated Group's California facilities.

Cyber Attacks

Despite the implementation of network security measures by the Members of the Obligated Group, their information technology systems may be vulnerable to breaches, hacker attacks, computer viruses, physical or electronic break-ins and other similar events or issues. The Federal Bureau of Investigation has expressed concern that health care systems are a prime target for such cyber-attacks due to the mandatory transition from paper records to electronic health records and a higher financial payout for medical records in the black market and health care systems have recently been subject to such attacks. Such events or issues could lead to the inadvertent disclosure of protected health information or other confidential information or could have an adverse effect on the ability of the Members of the Obligated Group to provide health care services.

Facility Damage

Hospitals are highly dependent on the condition and functionality of their physical facilities. Damage from natural causes, fire, deliberate acts of destruction, terrorism or various facility system failures may have a material adverse impact on hospital operations, financial conditions and results of operations, especially if insurance is inadequate to cover resulting property and business losses.

Many of the facilities of the Obligated Group Members are in proximity of active earthquake faults. Although the facilities are covered by earthquake insurance, a significant earthquake affecting one or more of these facilities could have a material adverse effect on the Obligated Group and could result in

material damage and temporary or permanent cessation of operations at one or more of the facilities of the Obligated Group Members.

Earthquakes affecting California hospitals have prompted the State of California to propose hospital seismic safety standards. California's Hospital Seismic Safety Act (the "*Seismic Safety Act*") requires each acute care hospital facility in California either to comply with new hospital seismic safety standards on or before a deadline specified by California or to cease acute care operations. Classification is a factor of the earthquake risk in the facility's geographic area and the structural attributes of a hospital facility. The Seismic Safety Act requires hospital facilities in the highest category of risk (those that are considered hazardous and at risk of collapse or significant loss of life in the event of an earthquake) to be replaced or retrofitted to higher seismic safety standards. The California facilities of the Obligated Group Members are presently in compliance with such seismic safety standards.

Infectious Disease Outbreak

The Obligated Group's business and financial results could be harmed by a national or localized outbreak of a highly contagious or epidemic disease. If an outbreak of an infectious disease such as the Zika virus or Ebola virus were to occur nationally or in the Obligated Group's service area, its business and financial results could be adversely effected. The treatment of a highly contagious disease at one of the Obligated Group Member's facilities may result in a temporary shutdown or diversion of patients. In addition, unaffected individuals may decide to defer elective procedures or otherwise avoid medical treatment, resulting in reduced patient volumes and operating revenues. The Obligated Group cannot predict any costs associated with the potential treatment of an infectious disease outbreak or preparation for such treatment.

Professional Liability Claims and Liability Insurance

In recent years, the number of professional and general liability suits and the dollar amounts of damage recoveries have increased nationwide, resulting in substantial increases in malpractice insurance premiums. Professional liability and other actions alleging wrongful conduct and seeking punitive damages often are filed against health care providers. Litigation may also arise from the corporate and business activities of the Obligated Group Members and their affiliates, employee-related matters, medical staff and provider network matters and denials of medical staff and provider network membership and privileges. As with professional liability, many of these risks are covered by insurance, but some are not. For example, some antitrust claims, business disputes and workers' compensation claims are not covered by insurance or other sources and, in whole or in part, may be a liability of an Obligated Group Member and its affiliates if determined or settled adversely. Claims for punitive damages may not be covered by insurance under certain state laws. Although the Members of the Obligated Group currently maintain actuarially determined self-insurance reserves and carry excess malpractice and general liability insurance which management of the System considers adequate, the Obligated Group is unable to predict the availability, cost or adequacy of such insurance in the future.

Other Risk Factors Generally Affecting Health Care Facilities

In the future, the following factors, among others, may adversely affect the operations of health care providers, including the Members of the Obligated Group, or the market value of the Bonds, to an extent that cannot be determined at this time:

1. A significant portion of the revenues of the Obligated Group is derived from investments in securities. Any significant disruption of the securities markets or weakness in the investment climate may potentially materially adversely affect the Obligated Group's revenues.

2. Hospitals are major employers, combining a complex mix of professional, quasi-professional, technical, clerical, housekeeping, maintenance, dietary and other types of workers in a single operation. As with all large employers, the Members of the Obligated Group bear a wide variety of risks in connection with its employees. These risks include strikes and other related work actions, labor relations, contract disputes, discrimination claims, personal tort actions, work-related injuries, exposure to hazardous materials, interpersonal torts (such as between employees, between physicians or management and employees, or between employees and patients), and other risks that may flow from the relationships between employer and employee or between physicians, patients and employees. Many of these risks are not covered by insurance, and certain of them cannot be anticipated or prevented in advance. In addition, health systems may incur significant expenses to fund pension and benefit plans for employees and former employees and to fund required workers' compensation benefits. The Obligated Group Members are subject to all of the risks listed above, and such risks, alone or in combination, could have material adverse consequences to the financial condition or operations of one or more of the Obligated Group Members.

3. Competition from other hospitals and other competitive facilities now or hereafter located in the respective service areas of the facilities operated by the Members of the Obligated Group may adversely affect revenues of the Obligated Group. Development of health maintenance and other alternative health delivery programs could result in decreased usage of inpatient hospital facilities and other facilities operated by the Members of the Obligated Group.

4. Cost and availability of any insurance, including self-insurance, such as malpractice, fire, automobile, and general comprehensive liability, that hospitals and other health care facilities of similar size and type as those operated by the Obligated Group generally carry may adversely affect revenues. The costs of such insurance have increased significantly in the past few years, and such increases are likely to continue in the near future.

5. The occurrences of natural disasters, in addition to earthquakes, may damage some or all of the facilities, interrupt utility service to some or all of the facilities or otherwise impair the operation of some or all of the facilities operated by the Members of the Obligated Group or the generation of revenues from some or all of the facilities.

6. Scientific and technological advances, new procedures, drugs and appliances, preventive medicine, occupational health and safety and outpatient health care delivery may reduce utilization and revenues of the facilities of the Obligated Group. Technological advances in recent years have accelerated the trend toward the use by hospitals of sophisticated and costly equipment and services for diagnosis and treatment. The acquisition and operation of certain equipment or services may continue to be a significant factor in hospital utilization, but the ability of the Members of the Obligated Group to offer the equipment or services may be subject to the availability of equipment or specialists, governmental approval or the ability to finance these acquisitions or operations.

7. Reduced demand for the services of the Members of the Obligated Group that might result from decreases in population in their respective service areas.

8. Increased unemployment or other adverse economic conditions in the service areas of the Members of the Obligated Group which would increase the proportion of patients who are unable to pay fully for the cost of their care.

9. Any increase in the quantity of indigent care provided which is mandated by law or required due to increased needs of the community in order to maintain the charitable status of the Obligated Group Members.

10. Regulatory actions which might limit the ability of the Obligated Group Members to undertake capital improvements at their respective facilities or to develop new institutional health services.

11. The occurrence of a large scale terrorist attack or other mass casualty incident that increases the proportion of patients who are unable to pay fully for the cost of their care and that disrupts the operation of certain health care facilities by resulting in an abnormally high demand for health care services.

CONTINUING DISCLOSURE

The Obligated Group, through the Obligated Group Agent, has undertaken all responsibility for any continuing disclosure to the Owners of the Bonds. Under a Providence St. Joseph Health Master Continuing Disclosure Agreement, dated as of the Closing Date, between the Obligated Group Agent and the Dissemination Agent (the "*Master Continuing Disclosure Agreement*"), the Obligated Group Agent has agreed to provide to the Dissemination Agent certain financial information and operating data for each of PSJH's fiscal years, in accordance with the requirements of the Master Continuing Disclosure Agreement. Financial information respecting the Obligated Group, derived from the System's audited financial statements, will be included in the annual report provided pursuant to the Master Continuing Disclosure Agreement. *See* APPENDIX E – "FORM OF MASTER CONTINUING DISCLOSURE AGREEMENT."

ABSENCE OF MATERIAL LITIGATION

There is no controversy of any nature now pending against any Obligated Group Member or, to the knowledge of officers of the Obligated Group Agent, threatened which seeks to restrain or enjoin the issuance, sale, execution or delivery of the Bonds or which in any way contests or affects the validity of the Bonds or any proceedings of any Obligated Group Member taken with respect to the issuance or sale thereof, or the pledge or application of any moneys or security provided for the payment of the Bonds, or the use of the Bond proceeds.

There is no litigation pending against the Obligated Group Members nor to the knowledge of the Obligated Group Agent is any litigation threatened, which would, if adversely determined, cause any material adverse change in the properties, financial condition or the conduct of the affairs of the Obligated Group Members, taken as a whole.

TAX MATTERS

General

Interest on the Bonds is not excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "*Code*").

The following is a summary of certain material federal income tax consequences of holding and disposing of the Bonds. This summary is based upon laws, regulations, rulings and judicial decisions now in effect. Legislative, judicial and administrative changes may occur, possibly with retroactive effect, that could alter or modify the continued validity of the statements and conclusions set forth herein. This summary does not discuss all aspects of federal income taxation that may be relevant to investors. This summary is intended as a general explanatory discussion of the consequences of holding the Bonds generally and does not purport to furnish information in the level of detail or with the investor's specific tax circumstances that would be provided by an investor's own tax advisor. For example, except as

explicitly provided below, it generally is addressed only to original purchasers of the Bonds that are "U.S. Holders" (as defined below), deals only with Bonds held as capital assets within the meaning of Section 1221 of the Code and does not address tax consequences to holders that may be relevant to investors subject to special rules, such as individuals, trusts, estates, tax-exempt investors, cash method taxpayers, dealers in securities, currencies or commodities, banks, thrifts, insurance companies, electing large partnerships, mutual funds, regulated investment companies, real estate investment trusts, S corporations, persons that hold Bonds as part of a straddle, hedge, integrated or conversion transaction, and persons whose "functional currency" is not the U.S. dollar. In addition, this summary does not address alternative minimum tax issues or the indirect consequences to a holder of an equity interest in a holder of Bonds. This summary was prepared in connection with the offering of the Bonds. Each prospective investor should consult with its own tax advisor regarding the application of United States federal income tax laws, as well as any state, local, foreign or other tax laws, to such investor's particular situation.

As used herein, a "*U.S. Holder*" is a "U.S. person" that is a beneficial owner of a Bond. A "*Non-U.S. Holder*" is a holder (or beneficial owner) of a Bond that is not a U.S. Person. For these purposes, a "*U.S. person*" is a citizen or resident of the United States, a corporation or partnership created or organized in or under the laws of the United States or any political subdivision thereof (except, in the case of a partnership, to the extent otherwise provided in Treasury regulations), an estate the income of which is subject to United States federal income taxation regardless of its source or a trust if (i) a United States court is able to exercise primary supervision over the trust's administration and (ii) one or more United States persons have the authority to control all of the trust's substantial decisions.

Tax Status of the Bonds

The Bonds will be treated, for federal income tax purposes, as a debt instrument. Accordingly, interest will be included in the income of the holder as it is paid (or, if the holder is an accrual method taxpayer, as it is accrued) as interest.

If the excess of the stated redemption price at maturity of a Bond over its "*issue price*" exceeds a specified de minimis amount (generally equal to 0.25% of the stated redemption price at maturity multiplied by the number of complete years to maturity), the excess is treated as original issue discount ("*OID*"). The issue price of the Bonds is the first price at which a substantial amount of the Bonds is sold to the public. The issue price of the Bonds is expected to be the amount set forth on the cover page of this Offering Circular but is subject to change based on actual sales.

With respect to a U.S. Holder that purchases in the initial offering a Bond issued with OID, the amount of OID that accrues during any accrual period equals (i) the "adjusted issue price" of the Bond at the beginning of the accrual period (which price equals the issue price of such Bond plus the amount of OID that has accrued on a constant-yield basis in all prior accrual periods minus the amount of any payments, other than "qualified stated interest," received on the Bond in prior accrual periods) multiplied by (ii) the yield to maturity of such Bond (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of each accrual period) less (iii) any qualified stated interest payable on the Bond during such accrual period. The amount of OID so accrued in a particular accrual period will be considered to be received ratably on each day of the accrual period.

A U.S. Holder of a Bond issued with OID must include in gross income for federal income tax purposes the amount of OID accrued with respect to each day during the taxable year that the U.S. Holder owns the Bond. Such an inclusion in advance of receipt of the cash attributable to the income is required even if the U.S. Holder is on the cash method of accounting for United States federal income tax purposes. The amount of OID that is includible in a U.S. Holder's gross income will increase the U.S.

Holder's tax basis in the Bond. The adjusted tax basis in a Bond will be used to determine taxable gain or loss upon a disposition (for example, upon a sale or retirement) of the Bond.

Holders of the Bonds that allocate a basis in the Bonds that is greater than the principal amount of the Bonds should consult their own tax advisors with respect to whether or not they should elect to amortize such premium under Section 171 of the Code.

If a holder purchases the Bonds after the initial offering for an amount that is less than the principal amount of the Bonds, and such difference is not considered to be de minimis, then such discount will represent market discount that ultimately will constitute ordinary income (and not capital gain). Further, absent an election to accrue market discount currently, upon a sale or exchange of a Bond, a portion of any gain will be ordinary income to the extent it represents the amount of any such market discount that was accrued through the date of sale. In addition, absent an election to accrue market discount currently, the portion of any interest expense incurred or continued to carry a market discount Bond that does not exceed the accrued market discount for any taxable year, will be deferred.

Medicare Tax

An additional 3.8% tax will be imposed on the net investment income (which includes interest, original issue discount and gains from a disposition of a Bond) of certain individuals, trusts and estates. Prospective investors in the Bonds should consult their tax advisors regarding the possible applicability of this tax to an investment in the Bonds.

Sale and Exchange of Bonds; Defeasance

Upon a sale or exchange of a Bond, a holder generally will recognize gain or loss on the Bonds equal to the difference between the amount realized on the sale and its adjusted tax basis in such Bond. Such gain or loss generally will be capital gain (although any gain attributable to accrued market discount of the Bond not yet taken into income will be ordinary) if the holder holds the Bond as a capital asset. The adjusted basis of the holder in a Bond (without OID) will (in general) equal its original purchase price and decreased by any payments received on the Bond. In general, if the Bond is held for longer than one year, any gain or loss would be long term capital gain or loss, and capital losses are subject to certain limitations.

If the liability of the Corporation in respect of a Bond ceases as a result of an election by the Corporation to pay and discharge the indebtedness on such Bond by depositing with the Bond Trustee sufficient cash and/or Government Obligations to pay or redeem and discharge the indebtedness on such Bond (a "*legal defeasance*"), under current tax law a holder will be deemed to have sold or exchanged such Bond. In the event of such a legal defeasance, a holder generally will recognize gain or loss on the deemed exchange of the Bonds. Ownership of the Bonds after a deemed sale or exchange as a result of a legal defeasance may have tax consequences different than those described in this "TAX MATTERS" section and each holder should consult its own tax advisor regarding the consequences to such holder of a legal defeasance of the Bonds.

Backup Withholding

The Corporation or its paying agent, if any (the "*payor*"), must report annually to the IRS and to each U.S. Holder any interest that is payable to the U.S. Holder, subject to certain exceptions. Under Section 3406 of the Code and applicable Treasury Regulations, a non-corporate U.S. Holder of the Bonds may be subject to backup withholding at the current rate of 28% (subject to future adjustment) with respect to "reportable payments," which include interest paid on the Bonds and the gross proceeds of a

sale, exchange, redemption or retirement of the Bonds. The payor will be required to deduct and withhold the prescribed amounts if (i) the payee fails to furnish a taxpayer identification number ("*TIN*") to the payor in the manner required, (ii) the IRS notifies the payor that the TIN furnished by the payee is incorrect, (iii) there has been a "notified payee underreporting" described in Section 3406(c) of the Code or (iv) there has been a failure of the payee to certify under penalty of perjury that the payee is not subject to withholding under Section 3406(a)(1)(C) of the Code. Amounts paid as back-up withholding do not constitute an additional tax and will be credited against the U.S. Holder's federal income tax liabilities (and possibly result in a refund), so long as the required information is timely provided to the IRS.

Certain U.S. Federal Income and Estate Tax Consequences to Non-U.S. Holders

This section describes certain U.S. federal income and estate tax consequences to Non U.S. Holders.

If, under the Code, interest on the Bonds is "effectively connected with the conduct of a trade or business within the United States" by a Non-U.S. Holder, such interest will be subject to U.S. federal income tax in a similar manner as if the Bonds were held by a U.S. Holder, as described above, and in the case of Non-U.S. Holders that are corporations may be subject to U.S. branch profits tax at a rate of up to 30%, unless an applicable tax treaty provides otherwise. Such Non-U.S. Holder will not be subject to withholding taxes, however, if it provides a properly executed Form W 8ECI to the payor.

Interest on the Bonds held by other Non-U.S. Holders may be subject to withholding taxes of up to 30% of each payment made to the Non-U.S. Holders unless the "portfolio interest" exemption applies. In general, interest paid on the Bonds to a Non-U.S. Holder will qualify for the portfolio interest exemption, and thus will not be subject to U.S. federal withholding tax, if (1) such Non-U.S. Holder is not a "controlled foreign corporation" (within the meaning of Section 957 of the Code) related, directly or indirectly, to the Corporation or a bank and the payor receives a certification of such facts from the Non U.S. Holder; and (2) the payor receives from the Non-U.S. Holder who is the beneficial owner of the obligation a statement signed by such person under penalties of perjury, on IRS Form W 8BEN or IRS Form W 8BEN E (or successor form), certifying that such owner is not a U.S. Holder and providing such owner's name and address. Alternative methods may be applicable for satisfying the certification requirement described above. Foreign trusts and their beneficiaries are subject to special rules, and such persons should consult their own tax advisors regarding the certification requirements.

If a Non-U.S. Holder does not claim, or does not qualify for, the benefit of the portfolio interest exemption, the Non-U.S. Holder may be subject to a 30% withholding tax on interest payments on the Bonds. However, the Non-U.S. Holder may be able to claim the benefit of a reduced withholding tax rate under an applicable income tax treaty between the Non-U.S. Holder's country of residence and the U.S. Non-U.S. Holders are urged to consult their own tax advisors regarding their eligibility for treaty benefits. The required information for claiming treaty benefits is generally submitted on Form W 8BEN or IRS Form W 8BEN E. In addition, a Non-U.S. Holder may under certain circumstances be required to obtain a U.S. taxpayer identification number.

A Non-U.S. Holder will generally not be subject to U.S. federal income tax or withholding tax on gain recognized on a sale, exchange, redemption or other disposition of a Bond. (Such gain does not include proceeds attributable to accrued but unpaid interest on the Bonds, which will be treated as interest.) A Non-U.S. Holder may, however, be subject to U.S. federal income tax on such gain if: (1) the Non-U.S. Holder is a nonresident alien individual who was present in the United States for 183 days or more in the taxable year of the disposition, or (2) the gain is effectively connected with the conduct of a U.S. trade of business, as provided by applicable U.S. tax rules (in which case the U.S. branch profits tax may also apply), unless an applicable tax treaty provides otherwise.

The payor must report annually to the IRS and to each Non-U.S. Holder any interest that is subject to U.S. withholding taxes or that is exempt from U.S. withholding taxes pursuant to an income tax treaty or certain provisions of the Code. Copies of these information returns may also be made available under the provisions of a specific tax treaty or agreement with the tax authorities of the country in which the Non-U.S. Holder resides.

Payments to Non-U.S. Holders will be net of any applicable withholding tax. The Corporation is not providing any indemnification or gross-up in regard to such taxes.

A Non-U.S. Holder generally will not be subject to backup withholding with respect to payments of interest on the Bonds as long as the Non-U.S. Holder (i) has furnished to the payor a valid IRS Form W 8BEN or IRS Form W 8BEN E certifying, under penalties of perjury, its status as a non-U.S. person, (ii) has furnished to the payor other documentation upon which it may rely to treat the payments as made to a non-U.S. person in accordance with Treasury regulations, or (iii) otherwise establishes an exemption. A Non-U.S. Holder may be subject to information reporting and/or backup withholding on a sale of the Bonds through the United States office of a broker and may be subject to information reporting (but generally not backup withholding) on a sale of the Bonds through a foreign office of a broker that has certain connections to the United States, unless the Non-U.S. Holder provides the certification described above or otherwise establishes an exemption. Non-U.S. Holders should consult their own tax advisors regarding their qualification for exemption from backup withholding and the procedure for obtaining such an exemption.

Amounts withheld under the backup withholding rules may be refunded or credited against the Non-U.S. Holder's U.S. federal income tax liability, if any, provided that the required information is timely furnished to the IRS.

In addition to the rules described above concerning the potential imposition of withholding on interest payments to Non-U.S. Holders, payments of interest after June 30, 2014, to Non-U.S. Holders that are "financial institutions" may be subject to a withholding tax of 30% unless an agreement is in place between the financial institution or the jurisdiction in which the Non U.S. Holder is a tax resident and the U.S. Treasury to collect and disclose information about accounts, equity investments, or debt interests in the financial institution held by one or more U.S. persons or the financial institution is a resident in a jurisdiction that has entered into such an agreement. For these purpose, a "financial institution" means any entity that (i) accepts deposits in the ordinary course of a banking or similar business, (ii) holds financial assets for the account of others as a substantial portion of its business, or (iii) is engaged (or holds itself out as being engaged) primarily in the business of investing, reinvesting or trading in securities, partnership interests, commodities or any interest (including a futures contract or option) in such securities, partnership interests or commodities.

Payments of interest to non-financial non-U.S. entities (other than publicly traded foreign entities, entities owned by residents of U.S. possessions, foreign governments, international organizations, or foreign central banks), will also be subject to a withholding tax of 30% if the entity does not certify that the entity does not have any substantial U.S. owners or provide the name, address and TIN of each substantial U.S. owner.

If a Non-U.S. Holder would be subject to the withholding on payments of interest described in the two preceding paragraphs, the gross proceeds from a disposition of a Bond may also be subject to a withholding tax of 30% after December 31, 2018.

APPROVAL OF LEGALITY

The validity of the Bonds and certain legal matters incident to the issuance of the Bonds are subject to the approving opinion of Chapman and Cutler LLP, special counsel to the Corporation. Certain legal matters will be passed upon for the Obligated Group by its Executive Vice President, Chief Legal Officer; and for the Underwriters by their counsel, Hawkins Delafield & Wood LLP.

RATINGS

Fitch, Inc. ("*Fitch*") has assigned a rating of "AA-" (Stable) to the Bonds. Any explanation of such rating may only be obtained from Fitch. (Such rating is consistent with the rating assigned by Fitch to the long-term indebtedness of the New Obligated Group Members, while Fitch had previously assigned a rating of "AA" to the long-term indebtedness of the Existing Obligated Group Members). Moody's Investor Services ("*Moody's*") has assigned a rating of "Aa3" (Stable) to the Bonds. Any explanation of such rating may only be obtained from Moody's. S&P Global Ratings ("*S&P*") has assigned a rating of "AA-" (Stable) to the Bonds. Any explanation of the significance of such rating may only be obtained from S&P.

Generally, rating agencies base their ratings on the information and materials furnished to them and on investigations, studies and assumptions by the ratings agencies. There is no assurance that a particular rating will be maintained for any given period of time or that it will not be lowered or withdrawn entirely if, in the judgment of the agency originally establishing the rating, circumstances so warrant. The Corporation, the Underwriters and the Obligated Group have undertaken no responsibility to oppose any such proposed revision or withdrawal of any rating of the Bonds. The Underwriters have undertaken no responsibility to bring to the attention of the Owners of the Bonds any such proposed revision or withdrawal. Any such change in or withdrawal of any rating could have an adverse effect on the market price of the Bonds.

UNDERWRITING

Merrill Lynch, Pierce, Fenner & Smith Incorporated, for itself and as representative on behalf of Citigroup Capital Markets Inc., Morgan Stanley & Co. LLC and Wells Fargo Securities, LLC (collectively, the "*Underwriters*"), has agreed to purchase the Series 2016H Bonds at a price equal to $_____ (which is the aggregate principal amount of the Series 2016H Bonds, *less* an Underwriters' discount of $_____) pursuant to a bond purchase agreement entered into by and among the Underwriters, Providence Health & Services and the Obligated Group Agent (the "*Series 2016H Bond Purchase Agreement*"). The Underwriters have also agreed to purchase the Series 2016I Bonds at a price equal to $_____ (which is the aggregate principal amount of the Series 2016I Bonds, *less* an Underwriters' discount of $_____) pursuant to a bond purchase agreement entered into by and among the Underwriters, Providence Health & Services and the Obligated Group Agent (the "*Series 2016I Bond Purchase Agreement*" and, together with the Series 2016H Bond Purchase Agreement, the "*Bond Purchase Agreements*"). The Bond Purchase Agreements provide, respectively, that the Underwriters will purchase all of the Series 2016H Bonds and all of the Series 2016I Bonds, if any are purchased. The obligation of the Underwriters to accept delivery of the Bonds is subject to various conditions contained in the Bond Purchase Agreements.

The Underwriters intend to offer the Bonds to the public initially at the offering prices set forth on the front cover of this Offering Memorandum, which may subsequently change without any requirement of prior notice. The Underwriters reserve the right to join with dealers (including dealers depositing the Bonds into investment trusts) at prices lower than the initial public offering prices.

Citigroup Global Markets Inc., one of the underwriters of the Bonds, has entered into a retail distribution agreement with each of TMC Bonds L.L.C. ("*TMC*") and UBS Financial Services Inc. ("*UBSFS*"). Under these distribution agreements, Citigroup Global Markets Inc. may distribute municipal securities to retail investors through the financial advisor network of UBSFS and the electronic primary offering platform of TMC. As part of this arrangement, Citigroup Global Markets Inc. may compensate TMC (and TMC may compensate its electronic platform member firms) and UBSFS for their selling efforts with respect to the Bonds.

Morgan Stanley, parent company of Morgan Stanley & Co. LLC., one of the underwriters of the Bonds, has entered into a retail distribution arrangement with its affiliate Morgan Stanley Smith Barney LLC. As part of the distribution arrangement, Morgan Stanley & Co. LLC may distribute municipal securities to retail investors through the financial advisor network of Morgan Stanley Smith Barney LLC. As part of this arrangement, Morgan Stanley & Co. LLC may compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Bonds.

Wells Fargo Securities is the trade name for certain securities-related capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Securities, LLC, member NYSE, FINRA, NFA and SIPC.

The Existing Obligated Group and the New Obligated Group Members have agreed to indemnify the Underwriters against certain civil liabilities, including certain liabilities arising out of incorrect statements or information in this Offering Memorandum.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. The Underwriters and their respective affiliates may have, from time to time, performed and may in the future perform, various investment banking services for Providence Health & Services, SJHS and/or the Obligated Group, for which they may have received or will receive customary fees and expenses. In the ordinary course of their various business activities, the Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of Providence Health & Services, SJHS and/or the Obligated Group.

OTHER RELATIONSHIPS

It is currently expected that an affiliate of Merrill Lynch, Pierce, Fenner & Smith, Citigroup Capital Markets Inc. and/or Wells Fargo Securities, LLC, each an underwriter of the Bonds, will purchase one or more series of the Series 2016 Bank Direct Purchase Bonds.

It is also currently expected that US Bancorp, or an affiliate, will purchase one or more series of the Series 2016 Bank Direct Purchase Bonds. US Bancorp is the marketing name for U.S. Bancorp and its subsidiaries, including U.S. Bancorp Investments, Inc., and U.S. Bank National Association, which is serving as Bond Trustee under the Indentures for the Bonds.

The Series 2016 Bank Direct Purchase Bonds are <u>not</u> being offered by this Offering Memorandum.

INDEPENDENT AUDITORS

The combined financial statements of Providence Health & Services as of December 31, 2015 and 2014 and for the fiscal years then ended, included in this Offering Memorandum in APPENDIX B-1, have been audited by KPMG LLP, independent auditors, as stated in their report included in this Offering Memorandum in APPENDIX B-1.

The consolidated financial statements of St. Joseph Health System and Affiliates as of June 30, 2015 and 2014 and for the years then ended, included in this Offering Memorandum in APPENDIX B-2, have been audited by Ernst &Young LLP, independent auditors, as stated in their report included in this Offering Memorandum in APPENDIX B-2.

VERIFICATION

Concurrently with the issuance of the Bonds, Grant Thornton LLP (the "*Verification Agent*"), will deliver a report with respect to the mathematical accuracy of certain computations, contained in schedules provided to them, which were prepared by the Underwriters, relative to the sufficiency of moneys and securities deposited into various escrow funds established pursuant to several escrow agreements to pay, when due, the principal, whether at maturity or upon mandatory tender or prior redemption, interest and redemption premium requirements of certain of the Bonds To Be Refinanced. The report of the Verification Agent will include the statement that the scope of its engagement is limited to verifying the mathematical accuracy of the aforesaid computations and that it has no obligation to update its report because of events occurring, or data or information coming to its attention, subsequent to the date of the report.

FINANCIAL ADVISOR

Ponder & Co. has served as financial advisor to PSJH in connection with the Bonds. Ponder & Co. is not obligated to undertake, and has not undertaken, an independent verification or to assume responsibility for the accuracy, completeness or fairness of the information contained in this Offering Memorandum. Ponder & Co. is an independent advisory firm and is not engaged in the business of underwriting or distributing municipal securities or other public securities.

ERISA CONSIDERATIONS

The Employee Retirement Income Security Act of 1974, as amended ("*ERISA*"), and the Code generally prohibit certain transactions between employee benefit plans under ERISA or tax-qualified retirement plans under the Code, (collectively, the "*Plans*") and persons who, with respect to a Plan, are fiduciaries or other "parties in interest" within the meaning of ERISA or "disqualified persons" within the meaning of the Code. In addition, each fiduciary of a Plan (a "*Plan Fiduciary*") must give appropriate consideration to the facts and circumstances that are relevant to an investment in the Bonds, including the roles that such an investment in the Bonds would play in the Plan's overall investment portfolio. Each Plan Fiduciary, before deciding to invest in the Bonds, must be satisfied that such investment in the Bonds is a prudent investment for the Plan, that the investments of the Plan, including the investment in the Bonds, are diversified so as to minimize the risk of large losses and that an investment in the Bonds complies with the documents of the Plan and related trust, to the extent such documents are consistent with ERISA. All Plan Fiduciaries, in consultation with their advisers, should carefully consider the impact of ERISA and the Code on an investment in any Bond, including the applicability to such investment of the fiduciary responsibility and prohibited transaction provisions of ERISA and the Code or similar laws.

MISCELLANEOUS

All quotations from and summaries and explanations of the Indentures, the Master Indenture and the Supplement and other documents contained herein do not purport to be complete, and reference is made to said documents and statutes for full and complete statements of their provisions. The appendices attached hereto are a part of this Offering Memorandum. All projections, forecasts, estimates and other statements in this Offering Memorandum involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact.

Information relating to DTC and the book-entry system described herein under the heading "BOOK-ENTRY ONLY SYSTEM" has been furnished by DTC and is believed to be reliable.

References to website addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such websites and the information or links contained therein are not incorporated into, and are not part of, this final Offering Memorandum.

EXECUTION

This Offering Memorandum has been issued by Providence Health & Services. This Offering Memorandum is not to be construed as a contract or agreement between any of the Obligated Group Members and the purchasers or Owners of any of the Bonds.

PROVIDENCE HEALTH & SERVICES

By: _____

Rod Hochman, M.D.
President and Chief Executive Officer

By: _____

Todd Hofheins
Executive Vice President and Chief Financial Officer

APPENDIX A

Information Concerning

PROVIDENCE ST. JOSEPH HEALTH
AND THE OBLIGATED GROUP

The information contained herein as APPENDIX A has been obtained from the Obligated Group Members

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SYSTEM OVERVIEW

General

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 St. Joseph Health System, a California nonprofit public benefit corporation ("*SJHS*"), each of which controls a multi-state health system, creating one of the largest health care systems in the United States (the "*System*"). Such transaction is referred to in this APPENDIX A as the "*Combination*." The System, headquartered in Renton, Washington, is structured with a centralized operating model and governed by a co-sponsorship council made up of members of its two sponsoring ministries, Providence Ministries and St. Joseph Health Ministry.

Prior to the Combination, the sole corporate member of PH&S was Providence Ministries, a religious congregation of Roman Catholic women founded in 1843, which established Providence Health & Services in 1856 when it began establishing schools, hospitals and orphanages throughout the Northwest. Over the years, other Catholic Sisters, including the Little Company of Mary and Dominican communities, transferred sponsorship of their ministries to Providence Ministries. Recently Swedish Health System, Pacific Medical Centers and Kadlec Medical Center have joined Western Health Connect, whose sole corporate member is PH&S, as secular affiliates who share common values and commitment to serving all members of their communities. At the time of the Combination, Providence Ministries was operating health care facilities in Washington, California, Oregon, Montana and Alaska.

Similarly, prior to the Combination, the sole corporate member of SJHS was St. Joseph Health Ministry, a religious congregation of Roman Catholic women who landed on the shores of Eureka, California in 1912, ready to serve as educators for the growing population. Soon, the greatest need became health care services and, with the help of like-minded community members, the Sisters of St. Joseph established St. Joseph Hospital, Eureka. From there, the ministry grew, establishing roots in Orange, California and expanding through Southern California, the High Desert, northern California, west Texas and eastern New Mexico. SJHS established many key partnerships along the way. Of particular note, in 1998, Covenant Health System ("*CHS*") was formed through a merger of Lubbock Methodist Hospital System and St. Mary Hospital in Lubbock, Texas. More recently, SJHS and Hoag Memorial Hospital Presbyterian affiliated, which allowed the SJHS health system to expand services throughout Orange County, California.

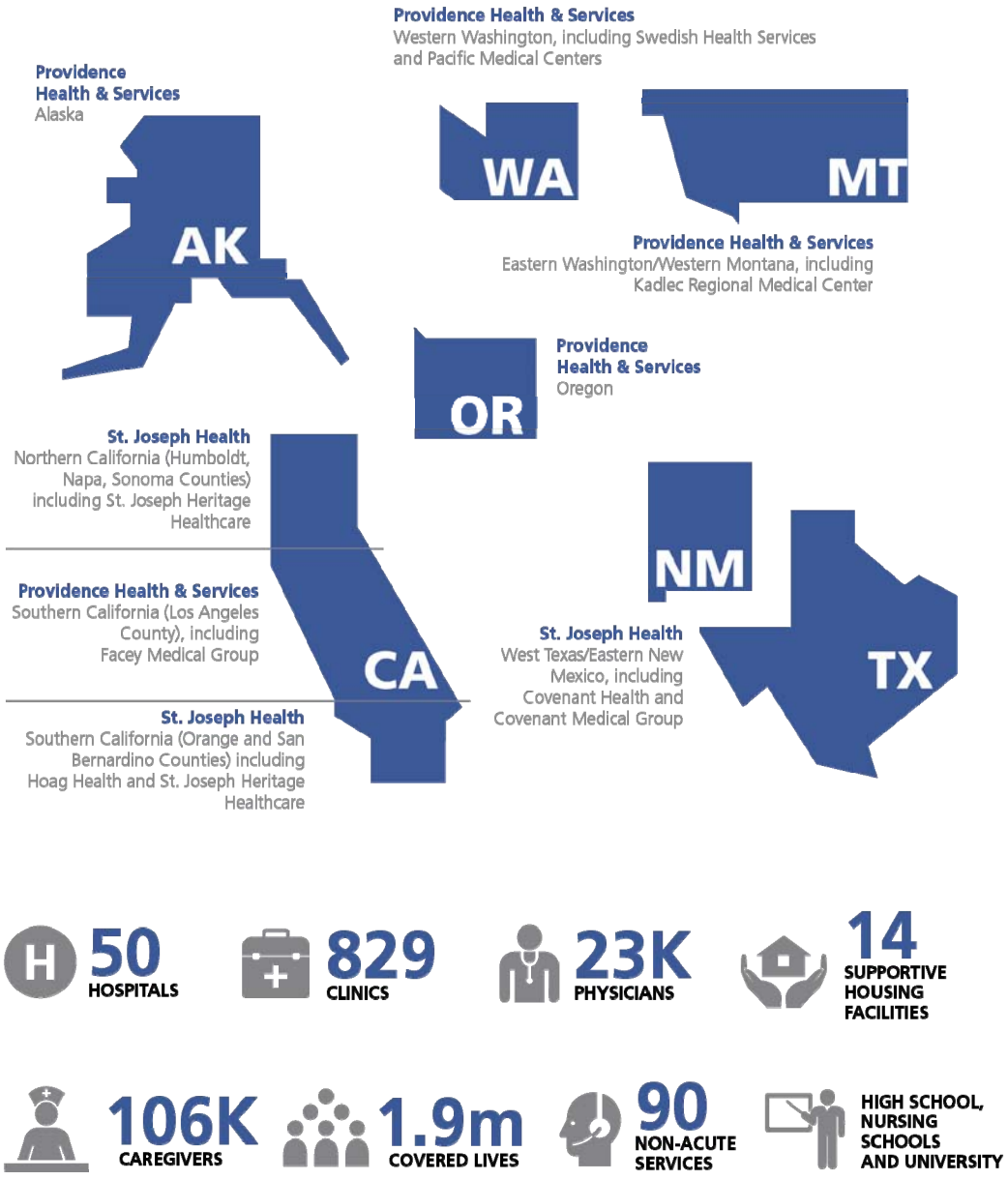
As a result of the Combination, the System operates acute care hospitals, long-term care facilities, ambulatory procedure centers, community clinics, physician practices, pharmacies, home health services, rehab facilities, a high school, a university and health plans in seven states across the western United States. For the twelve-month period ended December 31, 2015, the System's unaudited pro forma combined annual operating revenue would have been $20.8 billion and, as of December 31, 2015, the unaudited pro forma combined net assets of the System would have been $13.4 billion, assuming for these purposes that the Combination was effective for the entire period. *See* "FINANCIAL INFORMATION" below.

Mission and Vision

Our Promise: Together, we answer the call of every person we serve: Know me, care for me, ease my way®

The mission and vision of the System is to improve the health of the communities it serves, especially by addressing the needs of those who are poor and vulnerable. By providing high quality,

affordable health care and related services, the System ensures the continued vibrancy of not only nonprofit health care in the western United States, but also strengthens Catholic healthcare in the western United States. The graphic below illustrates the eight distinct operating markets in the seven states in which the System operates.



Above information (within the graphic) all as of June 30, 2016, after taking into account the Combination.

Obligated Group

Concurrent with the issuance of the Series 2016 Bonds, the entities listed in the following table (collectively, the "*Obligated Group*" or the "*Obligated Group Members*") will be the members of the Obligated Group created under the Master Trust Indenture (Amended and Restated), dated as of May 1, 2003 (as supplemented and amended, the "*Master Indenture*"). The Corporation will not be a member of

the Obligated Group on the date the Series 2016 Bonds are issued (the "*Closing Date*"), but expects to join the Obligated Group within a year of the Closing Date.

The listing of the Obligated Group Members as of the Closing Date and the abbreviated references to them used throughout this APPENDIX A appear in the table below:

LIST OF OBLIGATED GROUP MEMBERS

Obligated Group Member	Incorporation	APPENDIX A Reference
Providence Health & Services	Washington nonprofit	"*PH&S*"
Providence Health & Services – Washington	Washington nonprofit	"*Providence – Washington*"
Providence Health System – Southern California	California nonprofit religious	"*Providence – Southern California*"
Little Company of Mary Ancillary Services Corporation	California nonprofit public benefit	"*LCMASC*"
Providence Saint John's Health Center	California nonprofit religious	"*Providence – Saint John's*"
Providence St. Joseph Medical Center	Montana nonprofit	"*Providence – SJMC Montana*"
Providence Health & Services – Montana	Montana nonprofit	"*Providence – Montana*"
Providence Health & Services – Oregon	Oregon nonprofit	"*Providence – Oregon*"
Providence Health & Services – Western Washington	Washington nonprofit	"*Providence – Western Washington*"
Swedish Health Services	Washington nonprofit	"*Swedish*"
Swedish Edmonds	Washington nonprofit	"*Swedish Edmonds*"
PacMed Clinics	Washington nonprofit	"*PacMed*"
Western HealthConnect	Washington nonprofit	"*Western HealthConnect*"
Kadlec Regional Medical Center	Washington nonprofit	"*Kadlec*"
St. Joseph Health System	California nonprofit public benefit	"*SJHS*"
St. Joseph Hospital of Orange	California nonprofit public benefit	"St. *Joseph Orange*"
St. Jude Hospital, Inc. [(1)]	California nonprofit public benefit	"*St. Jude*"
Mission Hospital Regional Medical Center	California nonprofit public benefit	"*Mission Hospital*"
St. Mary Medical Center	California nonprofit public benefit	"*St. Mary*"
Hoag Memorial Hospital Presbyterian	California nonprofit public benefit	"*Hoag Hospital*"
Queen of the Valley Medical Center	California nonprofit public benefit	"*Queen of the Valley*"
Santa Rosa Memorial Hospital	California nonprofit public benefit	"*Santa Rosa Memorial*"
SRM Alliance Hospital Services [(2)]	California nonprofit public benefit	"*SRMAHS*"
St. Joseph Hospital of Eureka	California nonprofit public benefit	"*St. Joseph Eureka*"
Redwood Memorial Hospital of Fortuna	California nonprofit public benefit	"*Redwood Memorial*"
Covenant Health System	Texas nonprofit	"*CHS*"
Methodist Children's Hospital [(3)]	Texas nonprofit	"*Covenant Children's*"
Methodist Hospital Levelland [(4)]	Texas nonprofit	"*Covenant Levelland*"
Methodist Hospital Plainview [(5)]	Texas nonprofit	"*Covenant Plainview*"

[(1)] Doing business as St. Jude Medical Center
[(2)] Doing business as Petaluma Valley Hospital
[(3)] Doing business as Covenant Children's Hospital
[(4)] Doing business as Covenant Hospital Levelland
[(5)] Doing business as Covenant Hospital Plainview

Providence – Washington is currently the Obligated Group Agent pursuant to the Master Indenture. The Obligated Group will designate the Corporation as the new Obligated Group Agent when, as and if the Corporation becomes a Member of the Obligated Group. *See* also "GOVERNANCE AND MANAGEMENT – Control of Certain Obligated Group Members" below.

Under the Master Indenture, debt incurred or secured through the issuance of Obligations under the Master Indenture, including the Obligations securing the Series 2016 Bonds (collectively referred to as the "*Series 2016 Obligations*"), are the responsibility, jointly and severally, of the Obligated Group Members. Pursuant to the Master Indenture, Obligated Group Members may be added to and withdrawn from the Obligated Group under certain conditions described in the Master Indenture. *See* APPENDIX C – "SUMMARY OF THE MASTER INDENTURE." **INDEBTEDNESS EVIDENCED OR SECURED BY OBLIGATIONS ISSUED UNDER THE MASTER INDENTURE IS SOLELY THE OBLIGATION OF THE OBLIGATED GROUP, AND SUCH OBLIGATIONS ARE NOT**

GUARANTEED BY, OR THE LIABILITIES OF, SISTERS OF PROVIDENCE, MOTHER JOSEPH PROVINCE, ANY OTHER PROVINCE OF THE SISTERS OF PROVIDENCE MONTREAL CONGREGATION, THE LITTLE COMPANY OF MARY SISTERS, AMERICAN PROVINCE, SISTERS OF ST. JOSEPH OF ORANGE, THE ROMAN CATHOLIC CHURCH, OR ANY AFFILIATE OF THE CORPORATION THAT IS NOT AN OBLIGATED GROUP MEMBER.

Non-Obligated Group System Affiliates

In addition to the Obligated Group Members, the System includes: health plans; a provider network; numerous fundraising foundations; Providence Health Care Ventures, Inc., a Washington corporation that invests in health care activities in the Spokane area; various not-for-profit corporations that own and operate assisted living facilities and low-income housing projects, including housing facilities for the elderly; and the University of Great Falls, located in Great Falls, Montana. The System also includes multiple operations involving or supporting home health, outpatient surgery, imaging services and other professional services provided through for-profit and non-profit entities that are not part of the Obligated Group. These entities are organized as subsidiaries of the Corporation or partnerships or joint ventures with other entities. Obligated Group Members also may engage in informal alliances and/or contract-based physician relationships.

Affiliates that are not Obligated Group Members as of the Closing Date are referred to in this APPENDIX A as the "*Non-Obligated Group System Affiliates*."

Certain Non-Obligated Group Member System Affiliates that are of significant operational or strategic importance are described below and other Non-Obligated Group System Affiliates are discussed elsewhere in this APPENDIX A only to the extent they are viewed by System management to be of particular operational or strategic importance.

Health Plans

The System operates Providence Plan Partners *("PPP")*, which consists of Providence Preferred, a network PPO; Providence Health Plan *("PHP")*, a non-profit health care service contractor domiciled in the State of Oregon; and Providence Health Assurance, a wholly-owned subsidiary of Providence Health Plan *(collectively referred to as the "Health Plans")*. In addition, CHS has a 67% beneficial membership interest in SHA, L.L.C., doing business as FirstCare ("*FirstCare*"), a health maintenance organization operating in the West/Central Texas area. The remaining 33% is owned by Hendrick Medical Center, a not for profit corporation located in Abilene, Texas. On a revenue basis, PPP and PHP contribute more than half of the portion of Non-Obligated Group revenue of the System.

PHP has been providing health insurance in the communities it serves for over thirty years. PHP provides third-party health benefits administrative services for self-funded employers and insurance coverage for large group employers, small group employers, individual and family coverage under the Affordable Care Act (the "*ACA*"), Medicare Advantage, Managed Medicaid risk administration, workers compensation case management services ("*MCO*") and network access services under Providence Preferred plans. As of December 31, 2015, PHP had over 517,000 plan members and approximately one million managed lives across the System. PHP's network includes over 25,000 providers, hospitals, pharmacies and facilities nationwide.

The System defines success for PHP as measurably improving the health outcomes of the communities it serves. As such, it works with individuals, business partners and physicians to offer end-to-end solutions that improve health outcomes and improve the patient experience, while striving for

financial integrity and sustainability. PHP provides direct support and/or manages Accountable Care Organizations in four of its markets: Western Washington, Eastern Washington/Western Montana, Oregon and Los Angeles County. The System believes that population health proficiency is central to its core values and an essential aspect of fulfilling its overall mission of improving the health of the communities it serves.

Integrated Physician Operations

The Providence St. Joseph Health Employed Provider Network (the "*Provider Network*"), which is comprised of eight provider service organizations in seven states, includes more than 6,500 employed providers serving over 800 sites. These employed providers conducted 8 million visits in 2015.

Medical groups within the Providence St. Joseph Health Employed Provider Network include: Providence Medical Group, a network of 3,000 providers spanning Alaska, Washington, Oregon and Montana; Swedish Medical Group, which includes 1,200 providers in clinics throughout Washington's greater Puget Sound area; Pacific Medical Centers, with more than 200 providers in western Washington, and Kadlec, with more than 200 providers serving communities in southeast Washington. In California and Texas, the Provider Network consists of four foundations: Providence Medical Institute and Facey Medical Foundation, with 500 providers in Southern California; St. Joseph Heritage Healthcare, with more than 1,900 providers in Northern and Southern California; and Covenant Medical Group, with more than 500 providers operating in West Texas/Eastern New Mexico (collectively, the "*Medical Practice Foundations*").

The four Medical Practice Foundations contract with multi-specialty physician groups on an exclusive basis to provide physician services to the patients of the Medical Practice Foundations. Providence Medical Institute and Facey Medical Foundation, which each have as their respective sole corporate member Providence Health System-Southern California, operate in Southern California, while St. Joseph Heritage Healthcare, the corporate members of which are certain Obligated Group Members, operates in Northern and Southern California and Covenant Medical Group, the corporate member of which is CHS, operates in West Texas/Eastern New Mexico. During the past two fiscal years ended June 30, 2015, the Medical Practice Foundations had over 2.3 million patient encounters annually and managed approximately 320,000 capitated lives served by over 2,800 primary care, specialty and affiliated physicians.

The Medical Practice Foundations work collaboratively with physicians to coordinate care between the institution (hospitals or other providers such as rehab, skilled nursing, home health, and more) and the professional (physician) to deliver quality and cost-effective patient care. Over 12,000 medical staff work within the System's hospitals. In addition to the coordination of patient care, the Medical Practice Foundations also coordinate the administration functions to receive and distribute at-risk and fee-for-service payments.

The System's providers include experts in heart services, cancer care, brain and spine treatment, primary care and other specialties. The System's providers also support community health education, participate in clinical research and serve at-risk populations of uninsured and underinsured individuals.

STRATEGIC INITIATIVES

Investing in Health Improvement and Access to Care

As health care evolves, the System is responding with a vision and core strategy to transform and innovate at scale. Across the western United States, the System shares one strategic plan designed to

improve the health of entire populations by supporting the well-being of each person served by the System. That strategy is supported by four key principles:

- *Transform*: Develop innovative tools and techniques to better serve the System's customers
- *Strengthen the Core*: Ensure optimal performance of core facilities, operations and caregivers
- *Growth*: Expand care within the System's existing footprint and beyond
- *Whole Person Care*: Be a catalyst for change in mental wellness

The System's common strategic plan is affirmed and implemented through a single operating company structure which is active in eight geographic markets, with common operating and growth objectives. The effectiveness and consistency of this overall strategy is emphasized by operational systems and practices, such as the Market Leadership Council in which the senior-most executive from each of the System's eight markets and the President of Operations of the Corporation, to whom they directly report, participate. *See* also "GOVERNANCE AND MANAGEMENT – Support Services" below.

Specific Areas of Focus and Success

While the System is working on initiatives throughout its eight markets, below are a few key initiatives and success stories that illustrate its strategic focus.

Telehealth. Over the last few years, the System has worked to be at the forefront of the digital revolution occurring in healthcare, using digital strategies and a digital platform to enhance the customer experience. Recent key priorities include: rolling out a new business-to-business technical infrastructure, developing self-service features for customers, accelerating deployment velocity and efficiency, and developing capabilities to be able to easily deploy to new service lines. The System's fully integrated platform supports both expert-to-expert telehealth as well as direct to consumer telehealth. These initiatives are intended to improve the quality of communication for clinicians and patients, reduce cost and accelerate deployment, implement safe and easy self-service features, and develop capabilities to be able to deploy easily to new service lines. In 2015, the expert-to-expert telehealth platform for Telestroke was launched in 43 locations, while the Telehospitalist program completed a successful pilot in 2015 and is now being deployed more broadly. Health eXpress, presently a $39 per visit urgent care telehealth offering, is now available in Washington and Oregon. The System intends to continue to strive to develop new and innovative ways for patients to access the ever changing health care landscape.

Express Care Virtual. To provide health care to patients how, when and where they want, the System launched an entire on-demand solution called "Express Care Virtual". Patients receive primary care conveniently through a virtual visit online or at home, as well as in a retail setting. The program supports goals to improve the patient experience through easier access and digital tools. The System is collaborating with Walgreens to open 25 clinics in Walgreens stores in Oregon and Washington in 2016 and 2017, starting with six clinics in Portland and Seattle, which opened in February 2016. In addition, 25 standalone retail clinics will be opening throughout Washington, Oregon, California, and Montana in 2016 and 2017. Express Care Virtual clinics will be equipped with in-clinic "Appointments Now Available" monitors, website registration and scheduling, as well as walk-in kiosks. Express Care Virtual will also be supported by a mobile app with clinic locater, scheduling, registration and MyChart access as well as integrated telehealth.

Population Health. Management believes that population health is an essential part of achieving the System's strategy of creating healthier communities by advancing programs and services that improve the System's understanding of the needs of its populations, increasing access to care and improving its capacity to better manage and coordinate care across the continuum. Population health initiatives serve as the foundation for care management and coordination across the System, including innovations adopted by Providence Plan Partners, investments in health informatics and analytics, as well as proactive outreach activity and establishment of wellness centers in Southern California and Express Care Virtual clinics in Washington and Oregon.

Pioneering New Models of Care and Payment. The System strives to be a leader in transforming how care is delivered and reimbursed. Recognizing the value of advance care planning in the lives of its customers, the System pioneered with its partners new payment codes that reimburse clinicians for having these discussions with their patients. Recently, the Centers for Medicare and Medicaid Services adopted these recommendations developed by the System and its partners that advance care planning be added as an optional, separately billable, element of the annual wellness visit. These codes will go into effect in 2016 and are expected to be instrumental for the System, other Catholic ministries, and other providers that are committed to whole-person care models.

Clinical Institutes. The Institute for Mental Health and Wellness was created in 2016 to lead a national effort that is designed to improve mental health and reduce the burden on individuals, families and communities. Supported by an initial investment of $100 million from the System, the Institute for Mental Health and Wellness will fund research and startup operations that advance upstream solutions for mental health awareness, diagnosis and treatment.

The Cancer Institute was created in 2016 to maximize the impact of System-wide expertise, with more than 400 oncology clinicians providing care to approximately 25,000 newly diagnosed cancer patients. The Cancer Institute will provide personalized medicine and innovative research, deliver treatment to patients close to home and, when necessary, connect patients to physicians and caregivers elsewhere within the System.

The Musculoskeletal Institute brings together orthopedic programs from Providence, Hoag, St. Joseph's, Swedish, and other affiliated organizations to deliver exceptional surgical and non-surgical care to communities and purchasers dealing with the significant financial and lifestyle burdens of bone and joint disease. Clinicians collaborate on care pathways, innovative care models, and research to better deliver a high-value clinical outcome to patients dealing with the full spectrum of musculoskeletal conditions. In particular, clinicians, therapists, nurses, and administrators are working together to develop care products, such as episodic bundles and care packages for high volume, high-cost procedures, that will allow both the organization and its independent clinician partners to succeed and grow under the high expectations of both governmental and private payers. Additionally, multi-disciplinary teams will lead outreach, education, and local collaborations with athletes of all ages and skill levels to form meaningful connections within communities and impact wellness and healthy lifestyles for current and future generations.

The Institute for Mental Health and Wellness, the Cancer Institute and the Musculoskeletal Institute are expected to be the first of a number of institutes within the System that will share best practices, gather and disseminate information through accessible registries, engage clinicians across geographic regions and areas of expertise, and share the benefit of advancements in research and care with patients.

Consumer Health Engagement and Support. The System is developing tools and services designed to engage consumers and maintain them within the System's operations, moving from an

episodic approach to building customers for life. For example, a new service line was launched for the age 65 and over population that aims to assist them in living safely in their homes and defer the stress and costs of moving to a long term care facility. The program partners with clinics to support day-to-day living tasks like meal delivery and transportation, improve the overall safety of their homes, and provide trusted planning and advice about aging optimally.

Caregiver Engagement. The System is working within its existing facilities and with its existing caregivers to enhance their development and ability so that they can better serve the System's customers. By inspiring caregivers through engagement and opportunities, the System believes it can best forward its mission of improving the health of the communities it serves, one customer at a time. The System also routinely partners with physicians, both formally and informally, to strengthen clinical services and to provide them with the facilities and services they need to best serve their customers.

Strategic Affiliations and Initiatives

As part of its overall strategic planning and development process, the System regularly evaluates and, if deemed beneficial, selectively pursues, opportunities to affiliate with other service providers and invests in new facilities, programs or other health care-related entities. Likewise, the System is frequently presented with opportunities from, and conducts discussions with, third parties regarding potential affiliations, partnerships, mergers or acquisitions, including some that could affect the Obligated Group Members. System management opportunistically pursues such arrangements when there is a perceived strategic or operational benefit that is expected to enhance the System's ability to achieve its mission or strategic objectives. As a result, it is possible that the current organization and assets of the Obligated Group may change from time to time. Any such current discussions are preliminary in nature and do not necessarily indicate an intention to expand or contract the System, through partnership, affiliation, merger or acquisition, or to add or withdraw Members of the Obligated Group.

OPERATIONS

Facilities

The System spans seven states across the western United States, and operates 50 acute care hospitals, 23 long-term care facilities, 829 clinics, 14 supportive housing facilities, health plans, physician practices, pharmacies, home health services, rehab facilities, a university and a high school. The System is organized into eight geographic markets which are described in more detail below. In each of its markets, the System's acute care hospitals have, cumulatively, the greatest or second greatest market share. *See* "GOVERNANCE AND MANAGEMENT – Support Service."

On a combined basis, as of June 30, 2016, the Obligated Group Members had 11,872 licensed beds within owned or leased acute care hospitals and 1,609 licensed beds within owned or leased long-term care facilities with a combined licensed bed complement of 13,481.

A list of the System's acute care facilities in each market as of June 30, 2016, each of which are owned or operated by an Obligated Group Member, is provided in the table below.

List of Acute Care Facilities By Market

Market	Facility	Location(s)	Licensed Acute Care Beds*
Alaska			
	Providence Alaska Medical Center	Anchorage	401
	Providence Kodiak Island Medical Center(1)	Kodiak	25
	Providence Seward Medical and Care Center(1)	Seward	6
	Providence Valdez Medical Center(1)	Valdez	11
Western Washington			
	Providence Centralia Hospital	Centralia	128
	Providence Regional Medical Center Everett	Everett	501
	Providence St. Peter Hospital(2)	Olympia	390
	Swedish Edmonds (3)	Edmonds	217
	Swedish Medical Center Campuses(4):		1,359
	Swedish Ballard	Ballard	
	Swedish Issaquah	Issaquah	
	Swedish Cherry Hill	Seattle	
	Swedish First Hill	Seattle	
Eastern Washington/Western Montana			
	Providence St. Joseph's Hospital	Chewelah	25
	Providence Mount Carmel Hospital	Colville	50
	Providence Sacred Heart Medical Center and Children's Hospital	Spokane	644
	Providence Holy Family Hospital	Spokane	272
	Providence St. Mary Medical Center	Walla Walla	142
	Kadlec Regional Medical Center	Richland	270
	St. Patrick Hospital	Missoula (MT)	253
	Providence St. Joseph Medical Center	Polson (MT)	22
Oregon			
	Providence Hood River Memorial Hospital	Hood River	25
	Providence Medford Medical Center	Medford	168
	Providence Milwaukie Hospital	Milwaukie	77
	Providence Newberg Medical Center	Newberg	40
	Providence Willamette Falls Medical Center	Oregon City	143
	Providence St. Vincent Medical Center	Portland	523
	Providence Portland Medical Center	Portland	483
	Providence Seaside Hospital(5)	Seaside	34
Northern California			
	St. Joseph Hospital	Eureka	153
	Redwood Memorial Hospital	Fortuna	35
	Queen of the Valley Medical Center	Napa	191
	Petaluma Valley Hospital	Petaluma Valley	80
	Santa Rosa Memorial Hospital	Santa Rosa	338
Southern California (Los Angeles County)			
	Providence St. Joseph Medical Center	Burbank	392
	Providence Holy Cross Medical Center	Mission Hills	329
	Providence Little Company of Mary Medical Center San Pedro	San Pedro	183
	Providence Saint John's Health Center	Santa Monica	266
	Providence Tarzana Medical Center	Tarzana	249

Market	Facility	Location(s)	Licensed Acute Care Beds*
	Providence Little Company of Mary Medical Center Torrance	Torrance	327
Southern California (Orange and San Bernardino Counties)			
	St. Mary Medical Center	Apple Valley	212
	St. Jude Medical Center	Fullerton	329
	Mission Hospital Regional Medical Center Campuses[6]:		588
	Mission Hospital Regional Medical Center	Mission Viejo	
	Mission Hospital Laguna Beach	Laguna Beach	
	Hoag Memorial Hospital Presbyterian Campuses[7]:		568
	Hoag Memorial Hospital Presbyterian	Newport Beach	
	Hoag Hospital Irvine	Irvine	
	St. Joseph Hospital of Orange[8]	Orange	463
West Texas/Eastern New Mexico			
	Covenant Hospital Levelland	Levelland	48
	CHS Campuses:		771
	Covenant Medical Center	Lubbock	
	Covenant Medical Center - Lakeside	Lubbock	
	Covenant Children's Hospital	Lubbock	73
	Covenant Hospital Plainview	Plainview	68
TOTAL			**11,872**

* Includes all acute care licensure categories except for normal newborn bassinettes and partial hospitalization psychiatric beds

(1) Leased and/or managed by Providence – Washington

(2) Includes a 50-bed chemical dependency center

(3) The legal entity Swedish Edmonds operates the hospital under a lease with Public Hospital District No. 2 of Snohomish County

(4) Four campuses with three licenses

(5) Leased to and managed by Providence – Oregon

(6) Two campuses on one license, including 36 acute care psychiatric beds in Laguna Beach

(7) Two campuses on one license

(8) Includes 37 acute care psychiatric beds

The following is a list of the System's principal owned or leased long-term care facilities as of June 30, 2016.

List of Long-Term Care Facilities By Market

Market	Facility	Location(s)	Licensed Long-Term Care Beds
Facilities Owned or Leased By Obligated Group Members:			
Alaska			
	Providence Kodiak Island Medical Center[1]	Kodiak	22
	Providence Seward Medical and Care Center[1]	Seward	40
	Providence Valdez Medical Center[1]	Valdez	10
	Providence Extended Care	Anchorage	96
	Providence Transitional Care Center	Anchorage	50
Western Washington			
	Providence Marionwood	Issaquah	117
	Providence Mother Joseph Care Center	Olympia	152
	Providence Mount St. Vincent	Seattle	215
Eastern Washington/Montana			
	Providence St. Joseph's Hospital	Chewelah	40
	Providence Mount Carmel Hospital	Colville	5
	Providence St. Joseph Care Center	Spokane	162
Oregon			
	Providence Benedictine Nursing Center[2]	Mt. Angel	98
	Providence Child Center	Portland	58
Northern California			
	St. Joseph Hospital of Eureka	Eureka	15
	Santa Rosa Memorial Hospital	Santa Rosa	31
Southern California (Los Angeles County)			
	Providence Holy Cross Medical Center	Mission Hills	48
	Providence Little Company of Mary Recovery Center[3]	San Pedro	48
	Providence Little Company of Mary Subacute Care Center San Pedro	San Pedro	125
	Providence Little Company of Mary Transitional Care Center	Torrance	115
	Providence St. Elizabeth Care Center	North Hollywood	52
Southern California (Orange County)			
	Mission Hospital Regional Medical Center Campuses[4]:		29
	Mission Hospital Regional Medical Center – Mission Viejo	Mission Viejo	
	Mission Hospital Regional Medical Center – Laguna Beach	Laguna Beach	
SUBTOTAL			**1,528**
Facilities Not Owned or Leased By Obligated Group Members:			
Texas			
	Covenant Specialty Hospital	Lubbock	56
	Texas Specialty Hospital	Lubbock	25
SUBTOTAL			**81**
GRAND TOTAL			**1,609**

(1) Leased and/or managed by Providence – Washington
(2) Also includes 15 adult foster care units
(3) Includes chemical dependency program
(4) Two campuses on one license, including 36 acute psychiatric beds in Laguna Beach

Utilization

A summary of certain acute care utilization data for the Obligated Group is provided in the table below.

OBLIGATED GROUP
Pro Forma Combined Acute Care Utilization Data
(in 000s)

	Twelve-Months Ended December 31		Six-Months Ended June 30
	2014	2015	2016
Admits or Discharges	488	519	264
OP Visits (incl Physicians)	20,373	21,951	11,753
ED Visits	1,871	2,100	1,030
Surgeries	356	374	190

Source: Providence St. Joseph Health

Additional Market Information

Alaska

As the largest health system in Alaska, the System operates 16 facilities throughout the state, with a 32 percent inpatient market share statewide in 2015. Providence Alaska Medical Center ("*PAMC*") is the largest hospital in the state, with an inpatient market share of 58 percent in its service area in 2015. The System's sixteen Alaska facilities are located in the Anchorage area and in the remote communities of Kodiak, Seward and Valdez. PAMC is a 401-bed acute care facility and the only comprehensive tertiary referral center in the state. PAMC features the Children's Hospital at Providence (the only children's hospital in Alaska), the state's only Level III NICU, Heart and Cancer Centers, the state's largest emergency department, full diagnostic, rehab and surgical services as well as both inpatient and outpatient mental health and substance abuse services for adults and children. Three critical access hospitals are located in the remote communities of Kodiak, Seward and Valdez, all co-located with skilled nursing facilities. The System operates community mental health centers in Kodiak and Valdez. The System also operates a family practice residency program, a continuum of senior and community services, and a developing medical group. Certain of the System's affiliates also partner to provide additional services through five joint ventures including: Providence Imaging Center, St. Elias Long Term Acute Care Hospital, Imaging Associates, LifeMed Alaska (a medical transport / air ambulance service) and Creekside Surgery Center. Additionally, services are expanded to communities in Alaska and Oregon via connecting technologies (e.g. Telestroke and eICU services).

Western Washington

In the Western Washington market, the System operates eight hospitals, with a 29 percent inpatient market share in 2015. The Western Washington market is comprised of three geographic regions: the Northwest, Southwest and the greater Puget Sound area.

In the Northwest Washington region, the System provides a variety of services that include Providence Regional Medical Center Everett ("*PRMCE*"), Providence Medical Group ("*PMG*"), Providence Institute for Healthier Communities ("*PIHC*"), Providence Hospice and Home Care Snohomish County ("*PHHC*"), PacLab and Providence-Swedish Health Alliance. In addition, the System has numerous collaborative and contractual relationships with other health care entities across the continuum of care, including Fairfax Hospital and Bethany of the Northwest. PRMCE's Colby and Pacific campuses provide general acute care, associated diagnostic and therapeutic services, and the region's Level II Trauma Center. PRMCE is also the region's tertiary services provider in cardiac,

thoracic, vascular services, maternal-fetal medicine, neonatal intensive care, neurology, neurosurgery, inpatient rehabilitation, and cancer services. The Mill Creek campus provides outpatient x-ray, pharmacy, urgent care, and laboratory services in addition to leased space for primary and specialty care. PMG provides an ambulatory care network and community-wide tertiary specialty base through employed or contracted primary care and specialty providers in nine primary care locations, two urgent care locations and eight specialty services throughout Snohomish county. PHHC is the largest provider of home care services in Snohomish County, including hospice, home health and emergency response and support.

In the Southwest Washington Region, the System serves a five-county area consisting of Thurston, Lewis, Mason, Grays Harbor and Pacific counties. The area is served by Providence Centralia Hospital, Providence St. Peter Hospital, PMG, Providence Mother Joseph Care Center and Providence SoundHome Care and Hospice. There are four formal service lines in the Southwest region: Orthopedics, Oncology, Cardiovascular and Neurosciences.

Swedish is the largest nonprofit health care provider in the greater Puget Sound area with five hospital campuses: First Hill and Cherry Hill (in Seattle), Ballard, Edmonds and Issaquah. Swedish also has ambulatory care centers in Redmond and Mill Creek, and a network of more than 100 primary care and specialty clinics throughout the Puget Sound area. Swedish Medical Group ("*SMG*") is an operating division set up to manage and support the organization's employed primary care and specialty providers. SMG includes approximately 1,000 physicians and advanced practice clinicians in more than 115 primary care and specialty care clinics.

Eastern Washington/ Western Montana

In Eastern Washington, the System operates six hospitals, with a 52 percent market share in 2015. Providence Health Care ("*PHC*") operates System hospitals in Spokane and Stevens counties, which had a 68 percent market share in 2015. Providence Sacred Heart Medical Center serves as the tertiary referral center for the broad geographic region of the inland Northwest. The physician market in the community continues to consolidate with the majority electing to align with either PHC or a competitor in Spokane, leaving very few independent providers outside of the OB/GYN groups. PHC continues to grow the physician delivery system, primarily through recruitment rather than acquisitions. PMG is the largest multi-specialty group in Spokane.

In Western Montana, the System operates two facilities within a ten-county acute care market, with a 38 percent market share in 2015. In Western Montana, Providence St. Patrick Hospital ("*SPH*"), Providence St. Joseph Medical Center ("*SJMC*") and PMG provide services for more than 200,000 patients in the primary service area and more than 400,000 in contiguous areas. Located in Missoula, SPH is a regional tertiary care center, operating the area's only Level II Trauma Center and air transport program. SPH offers accredited chest pain and stroke programs and is a center for general acute inpatient services, inpatient rehabilitation and neurobehavioral care. In August 2015, SPH opened the Family Maternity Center to resume obstetrical care after a 40 year hiatus. SJMC in Polson is one of eight critical access hospitals in the region. Located on the Flathead Indian Reservation, SJMC provides acute inpatient care, primary care and specialty clinics, outpatient diagnostic and surgical services and an assisted living center. To increase ambulatory care access and foster referral relationships throughout Western Montana, PMG operates 26 primary care and specialty locations and numerous outreach sites with 171 providers.

Oregon

Oregon operations include eight hospitals, forty-four primary care and eight immediate care clinics with more than 1,400 employed physicians. Providence St. Vincent Medical Center provides tertiary care to the Portland metropolitan market. Oregon and Portland service area inpatient market

shares were 18 percent and 38 percent, respectively, in 2015. The System operates home health care, housing and numerous community affiliates and partners throughout Oregon. The System health plan operations are headquartered, and a majority of its customers live, in the region. As of December 31, 2015, PHP had approximately 547,000 enrolled members, PHA had 36,000 members and PHAP had approximately 107,000 enrollees/members in the state of Oregon Medicaid program. PMG also has operations in Oregon, with 90 clinics across the market. The System also offers home health care, housing and numerous community affiliates and partners. *See* also "SYSTEM OVERVIEW – Non-Obligated Group System Affiliates – Health Plans."

Northern California

The System's facilities in Northern California serve the north coast and Napa/Sonoma valley communities with five hospitals, ambulatory surgery centers, urgent care centers, wellness centers, physician offices, home health and rehab sites. The System's acute care facilities in Northern California, had a 40 percent market share in the service area in 2015 with more than 1 million outpatient visits and over 28,000 patient discharges in 2015. St. Joseph Heritage Healthcare operates three professional service agreements in the region and has 134 physician partners and continually evaluates expansion of the physician affiliate network. St. Joseph Hospital-Eureka offers the only Level II Neonatal Intensive Care Unit on the North Coast. The Northern California region increased access to care through the establishment of rural health clinics in Humboldt County, partnership with University of California San Francisco, prompt care clinics and the expansion of its provider network.

Southern California – Los Angeles County

In Los Angeles County, the System operates six acute care facilities, with a 9 percent inpatient market share in 2015. Its largest hospital in the market , Providence St. Joseph Medical Center, is located in Burbank and is home to the Roy and Patricia Disney Family Cancer Center. The System also operates hospitals in Mission Hills, San Pedro, Tarzana, Torrance and Santa Monica. Providence Medical Foundation ("*PMF*") operates 63 practice locations in the market, offering over 20 types of specialty care and serving 1 million patients in 2015. PMF includes the Facey/PMI Medical Foundations, the fourth largest physician network in the State of California. The System also operates Providence Partners for Health, an innovative physician alliance of more than 1,100 physicians that aims to improve quality, efficiency and care coordination in Los Angeles County. Providence Trinity Care Hospice served 1,522 patients across the market in 2015. The System's one high school, Providence High School, is also located in the market. It is an accredited, Catholic, college-preparatory school with focus programs in medical, media and technology fields. While it is a small part of the system, the high school offers the System a unique perspective on the issues surrounding high school age students.

Southern California – Orange and San Bernardino Counties

The System operates seven acute care facilities within Orange and San Bernardino Counties: Apple Valley, Fullerton, Mission Viejo, Laguna Beach, Newport Beach, Irvine and Orange, with a 30 percent inpatient market share in Orange County for 2015. St. Jude Medical Center in Fullerton includes a Level III Neonatal Intensive Care Unit. Mission Hospital is located on two campuses in Mission Viejo and Laguna Beach and maintains the market's Level II Trauma Center as well as a Women's Center. The Diabetes Education Center and Heart and Vascular Center at St. Mary in Apple Valley is a key centerpiece in the market's whole body care initiative. Hoag Hospital, which is also comprised of two campuses, in Newport Beach and Irvine, also includes Hoag Orthopedic Institute, part of St. Joseph Hoag Health alliance. In 2015, the System discharged more than 99,000 patients, had 2.9 million outpatient visits and cared for 330,000 patients in its emergency departments across the market. St. Joseph Heritage Healthcare operates five unique professional service agreements with the southern California Obligated

Group Members and had approximately 213,000 patient enrollees, over 400 physician partners and over 1,400 physician affiliates as of December 31, 2015.

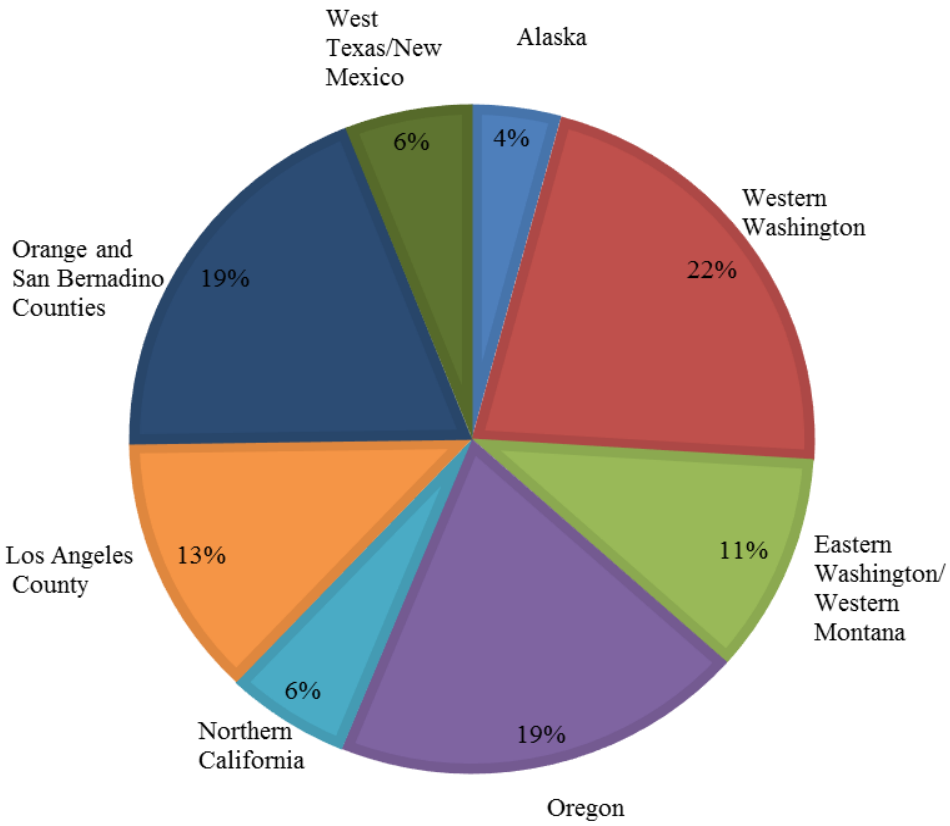
West Texas/ Eastern New Mexico

The West Texas and Eastern New Mexico operations include Covenant Health and Covenant Medical Group ("Covenant"). Covenant is the market's largest health system with five licensed hospitals capturing an approximate 38 percent market share in 2015, with over 28,000 inpatients visits and over 1 million outpatients visits. The system also operates Covenant Medical Group, a physician network of 320 employed and aligned physicians, and the FirstCare health plan with 163,500 covered lives. As the only faith-based, integrated health network in the West Texas/Eastern New Mexico region, Covenant serves an area with a population of more than 750,000 residents. Covenant Health Partners is a physician-hospital cooperative organization based in Lubbock, Texas.

Sources of Revenues

Assuming for these purposes that the Combination was effective for the entire twelve-month period ended December 31, 2015, the System's unaudited combined pro forma net patient operating revenue by geographic market for the period would have been as follows:

2015 Net Patient Operating Revenue by Market



Using the same assumptions described above, but using SJHS June 30, 2015 payor mix figures as an estimate for December 31, 2015 figures, the unaudited combined pro forma net patient service revenues of the System for the period would have been generated from the following payment sources:

	Pro Forma Twelve-month period ended December 31, 2015
Medicare	31.2%
Medicaid/Medi-Cal	15.7%
Commercial Insurance and other	50.7%
Self-Pay	2.4%
	100%

Source: Providence St. Joseph Health.

Medicare and Medicaid. For information regarding the Medicare and Medicaid/Medi-Cal programs, including regulatory actions affecting, and legislative reductions in, Medicare or Medicaid/Medi-Cal payment rates, *see* "BONDHOLDERS' RISKS" in the front part.

Other Payers. As discussed under "BONDHOLDERS' RISKS" in the front part, it is important to the Obligated Group to maintain contractual relations with third party payers for health care. These payers include health maintenance organizations and preferred provider organizations, as well as similar entities. These payers contract for care for their covered beneficiaries at rates different from the Obligated Group Members' established billing rates. Group Health Cooperative, a Washington-based health care cooperative ("*Group Health*"), agreed in March 2016 to be acquired by Kaiser Permanente. The System has a number of long-term contracts with Group Health. Management continues to assess the impact of the acquisition on the Obligated Group.

FINANCIAL INFORMATION

PH&S has a fiscal year ending December 31, and SJHS has a fiscal year ending June 30. The Corporation has adopted a fiscal year ending December 31. To enable certain financial results to be presented on a consistent basis in this APPENDIX A, notwithstanding the difference in fiscal years of PH&S and SJHS, unaudited pro forma combined financial results of the Corporation are presented for the twelve-month periods ended December 31, 2014 and 2015, and the six-month periods ended June 30, 2015 and 2016.

The unaudited pro forma combined financial information presented below of the Corporation as of and for the twelve-month periods ended December 31, 2014 and 2015 have been derived by the Corporation's management as a combination of PH&S's audited financial statements as of and for the fiscal year ended December 31, 2014 and 2015, and SJHS's unaudited financial information for the years ended December 31, 2014 and 2015. No pro forma adjustments have been made to the historical financial results for purposes of this presentation. The unaudited pro forma combined financial information presented below of the Corporation as of and for the six-month periods ended June 30, 2015 and 2016, have been derived by the Corporation's management as a combination of PH&S's unaudited combined financial information as of and for the six-month periods ended June 30, 2015 and 2016 and SJHS's unaudited consolidated financial information as of and for the six-month periods ended June 30, 2015 and 2016. No pro forma adjustments have been made to the historical financial results for purposes of this presentation. This financial information should be read in conjunction with the audited combined financial statements of Providence Health & Services, including the notes thereto, and the report of KPMG LLP, independent auditors, thereon contained in APPENDIX B-1; and the audited consolidated

financial statements of St. Joseph Health System, including the notes thereto, and the report of Ernst & Young LLP, independent auditors, thereon contained in APPENDIX B-2.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make assumptions, estimates and judgments that affect the amounts reported in the combined financial statements, including the notes thereto, and related disclosures of commitments and contingencies, if any. System management considers critical accounting policies to be those that require the more significant judgments and estimates in the preparation of its financial statements, including the following: recognition of net operating revenues, which includes contractual allowances; impairment of long-lived assets; valuation of investments; accounting for expenses in connection with restructuring activities; provisions for bad debt; and reserves for losses and expenses related to health care professional and general liability risks. Management relies on historical experience and on other assumptions believed to be reasonable under the circumstances in making its judgments and estimates. Actual results could differ materially from those estimates.

The affiliation between PH&S and SJHS will be accounted for as an acquisition in accordance with Financial Accounting Standards Board, Accounting Standards Codification 958-805 *Not-for-Profit Entities Business Combinations*. The initial accounting for the acquisition is not complete, pending the determination of the fair value of certain assets acquired and liabilities assumed. The resulting contribution from the affiliation, which is currently estimated by management to be a benefit of approximately $5.0 billion, will be in a separate caption within net nonoperating gains.

Historical Financial Information

During the twelve-month periods ended December 31, 2014 and 2015, the unaudited pro forma combined net operating revenues and total assets attributable to the Obligated Group Members were approximately 80.7% and 84.2%, respectively, and 90.0% and 90.8%, respectively, of the System totals. For the six-month period ended June 30, 2016, the unaudited pro forma combined net operating revenues attributable to the Obligated Group, and total assets attributable to the Obligated Group Members were approximately 83.6% and 88.8%, respectively, of the System totals.

The unaudited pro forma combined financial statements as of and for the twelve-months ended December 31, 2014 and 2015; and as of and for the six-months ended June 30, 2015 and 2016 do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. The results of operations for the six-month period ending June 30, 2016 reflected in such tables may not be indicative of the operating results expected for the full year ending December 31, 2016.

Summary Unaudited Pro Forma Combined Statements of Revenues and Expenses
Providence St. Joseph Health (System)

	Pro Forma Twelve-months Ended December 31, (in 000's of dollars)		*Pro Forma* Six-Months Ended June 30, (in 000's of dollars)	
	2014	2015	2015	2016
Operating Revenues:				
Net Patient Service Revenues	$14,657,200	$16,575,307	$8,388,155	$8,549,070
Premium Revenues	2,822,310	3,114,044	1,533,316	1,848,211
Other Revenues	921,984	1,114,422	562,051	509,430
Total Operating Revenues	18,401,494	20,803,773	10,483,522	10,906,711
Operating Expenses:				
Salaries and Wages	7,003,506	7,852,333	3,805,509	4,223,327
Depreciation	978,927	989,467	490,636	503,170
Interest and Amortization	279,872	258,094	133,940	127,102
Other Expenses	9,918,796	11,400,853	5,820,417	6,029,342
Total Operating Expenses	18,181,101	20,500,747	10,250,502	10,882,941
Excess of Revenues Over Expenses from Operations	220,393	303,026	233,020	23,770
Net Nonoperating Gains (Losses)	574,115	(270,390)	139,174	158,564
Excess of Revenues Over Expenses	$794,508	$32,636	$372,194	$182,334

Summary Unaudited Pro Forma Combined Balance Sheets
Providence St. Joseph Health (System)

	Pro Forma As of December 31, (in 000's of dollars) 2014	*Pro Forma* As of December 31, (in 000's of dollars) 2015	*Pro Forma* As of June 30, (in 000's of dollars) 2016
ASSETS			
Current Assets:			
Cash and Cash Equivalents	$1,658,614	$1,200,695	$1,329,030
Short-term Investments	915,494	876,338	874,375
Accounts Receivable, Net	2,018,707	2,200,076	2,234,444
Supplies Inventory at Cost	252,228	262,099	266,337
Other Current Assets	881,976	744,428	827,411
Current Portion of Funds Held by Trustee	76,365	54,740	53,714
Total Current Assets	**5,803,384**	**5,338,376**	**5,585,311**
Assets Whose Use is Limited:			
Long-Term Investments	6,972,501	7,210,249	7,338,456
Gift, Annuity, Trust and Other	249,759	267,879	275,772
Funds Held by Trustee	260,483	354,188	437,360
Assets Whose use is Limited	**7,482,743**	**7,832,316**	**8,051,588**
Property, Plant & Equipment, Net	**10,618,398**	**10,478,047**	**10,618,489**
Total Other Assets	**991,770**	**1,209,879**	**1,340,594**
Total Assets	**$24,896,295**	**$24,858,618**	**$25,595,982**
LIABILITIES AND NET ASSETS			
Current Liabilities:			
Master Trust Debt classified as Short-term	12,500	137,500	272,500
Accounts Payable	643,567	555,246	512,812
Accrued Compensation	1,023,077	924,622	1,258,335
Payable to Contractual Agencies	211,689	172,179	171,124
Other Current Liabilities	1,343,591	1,274,701	1,241,409
Current Portion of Long-Term Debt	250,692	301,168	285,692
Total Current Liabilities	**3,485,116**	**3,365,416**	**3,741,872**
Long-Term Debt, Net of Current Portion	6,252,171	6,074,977	6,112,724
Other Long-Term Liabilities	1,907,613	2,013,186	2,098,501
Total Liabilities	**11,644,900**	**11,453,579**	**11,953,097**
Net Assets:			
Unrestricted	12,518,373	12,612,098	12,804,522
Temporarily Restricted	555,920	589,524	623,346
Permanently Restricted	177,102	203,417	215,017
Total Net Assets	**$13,251,395**	**$13,405,039**	**$13,642,885**
Total Liabilities and Net Assets	**24,896,295**	**24,858,618**	**25,595,982**

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the discussion and analysis below, management has summarized the unaudited pro forma combined results of the System, assuming that the Combination was in effect during the twelve-month periods ended December 31, 2014 and 2015 as well as the six-month periods ending June 30, 2015 and 2016. The following documents are incorporated herein by reference and are available for review on the Electronic Municipal Market Access ("*EMMA*") website of the Municipal Securities Rulemaking Board ("*MSRB*"):

Providence Health & Services

- Management's Discussion and Analysis of Financial Condition and Results of Operations, Year Ended December 31, 2015
- Management's Discussion and Analysis of Financial Condition and Results of Operations, Fiscal Year 2014
- Management's Discussion and Analysis of Financial Condition and Results of Operations, Quarter ended June 30, 2016

St. Joseph Health System

- Management's Discussion and Analysis of Financial Condition and Results of Operations for the year ending June 30, 2014
- Management's Discussion and Analysis of Financial Condition and Results of Operations for the year ending June 30, 2015
- Management's Discussion and Analysis of Financial Condition and Results of Operations for the twelve months ended June 30, 2016 (Unaudited)

Overview. The System experienced a significant increase in patient volume between 2014 and 2015, with an overall 6% increase in discharges and a 7% increase in outpatient visits. The System also experienced strong growth in emergency department visits and surgeries. While some of this growth was attributable to affiliations with or acquisitions of other entities, most of it was derived from an increase in volume across the existing System footprint. These volume increases were accompanied by lower reimbursement rates driven by less favorable payer mix as a result of Medicaid expansion and exchange products, changes in procedure mix, including significant increases in observation medicine and overall pressure on unit of service rates. In addition to these headwinds, the System, consistent with the rest of the industry, was met with an increase in expenses due to pharmaceutical prices and labor rates. The combined revenue and expense pressure have offset System efficiency initiatives which has caused the overall profitability of the System to remain relatively flat on a pro forma combined basis for the twelve-month period ended 2015 versus 2014. In the first half of calendar year 2016, volume growth continued, though the reimbursement rate and labor costs issues have intensified, creating a decline in overall profitability. This trend was demonstrated as an increase in Medicaid patients, volume growth occurring in less profitable areas (outpatient and ambulatory services, etc.) and expense challenges related to agency staffing and pharmaceutical costs.

Volume Growth. The unfavorable changes in patient mix and reimbursement rates which began in 2015 remain a challenge across the healthcare industry. While the System experienced an initial financial improvement in 2013 and 2014 as many previously uninsured patients gained coverage through Medicaid as part of the ACA, 2015 and 2016 trends have favored increases in volume from lower reimbursement payers. Specifically, the System experienced higher growth among Medicaid patients due to expansion of Medicaid under the ACA in all of the states it serves. This volume was accompanied with an increase in the acuity level, requiring additional resources to clinically attend to patients. Volume

growth has also been higher in outpatient and ambulatory services, largely outpacing acute and inpatient services. This increase was partially attributable to growth from prior year physician practice clinic acquisitions in California, and Group Health agreements in Washington. Lower revenue per visit, compared to acute care services, further reduced aggregate System operating profitability.

Operating Revenue. Operating revenue grew 13 percent for the twelve-month period ended December 31, 2015 compared to 2014, and 4 percent for the six-month period ended June 30, 2016 compared to the six-month period ended June 30, 2015. A significant portion of this growth related to provider tax programs in Washington and California and was accompanied by an increase in tax expense within operating expenses. Volume related revenue growth occurred in most markets and across the System's delivery spectrum, with increases in inpatient, outpatient, and primary care services and in markets from Alaska to California over the prior twelve-month period.

Operating Expenses. Operating expenses grew 13 percent for the twelve-month period ended December 31, 2015 compared to 2014 and 6 percent for the six-month period ended June 30, 2016 compared to the six-month period ended June 30, 2015. Labor expense growth increased as a response to an increase in volume, but also because the System utilized employee merit and staffing agency rate increases in order to keep pace with market trends for existing employees. In addition, labor expense outpaced the increase in full-time equivalents on a percentage basis in part due to higher utilization of agency labor to staff open positions. While top line revenue growth for the System was relatively high due to its geographic position in economically strong markets, these same factors caused pressure on expenses, as the System was forced to compete for employees. Beyond pay increases, the System has developed new and innovative ways to engage its employee population, including structured professional development programs and regular communication efforts. Tax expense increases were higher than the prior twelve-month period due to the timing of provider tax payments in 2015. The System is focused on expense reduction across the operating spectrum as it expects to be operating in this lower reimbursement environment moving forward.

Nonoperating. Nonoperating gains and losses are primarily comprised of investment income, but also include pension settlement costs and innovation projects expense. Investment losses for the twelve-month period ended December 31, 2015 were $153 million, compared to gains of $280 million for the twelve-month period ended December 31, 2014. Investment gains for the six-month period ended June 30, 2016 were $261 million, compared to $165 million for the six-month period ended June 30, 2015.

Liquidity. Cash and investments declined from $9.5 billion as of December 31, 2014 to $9.3 billion as of December 31, 2015, before rebounding to $9.5 billion as of June 30, 2016. The fluctuation in cash and investments was due to investment income or losses (a $153 million loss in the twelve-month period ending December 31, 2015) and capital investment in System facilities. Compared to operating expenses on a Days Cash on Hand basis, the System's liquidity has declined, primarily due to the fact that cash balances did not maintain pace with the increase in expenses attributable to the System's growth over the last year and a half. The cost of a day of cash grew 13 percent from the twelve-months ended December 31, 2014 to 2015, with an additional 6 percent increase in 2016 (through June 30, 2016) over the comparable 2015 period. This caused Days Cash on Hand to decline from 203 days as of December 31, 2014 to 167 days as of June 30, 2016. *See* also "SYSTEM FINANCIAL RATIOS".

Leverage. Aggregate debt outstanding increased from December 31, 2014 to December 31, 2015 and again at June 30, 2016; however, leverage has not increased as a percentage of the aggregate System capitalization, causing a decrease in key leverage ratios, including Debt to Capitalization. *See* also "SYSTEM FINANCIAL RATIOS". As part of the plan of finance discussed in the front part, the System expects to issue a modest amount of new debt and expects a commensurate, modest increase in overall System leverage. *See* "PLAN OF FINANCE."

Providence Health Plan. The Providence Health Plan enrollment growth has continued in 2016 through an expansion of services and coverages. Connected lives member months, a measure of coverage for insured and self-funded members, increased from 2,996 member months in 2015 to 3,691 member months for the first six months of 2016. This growth in member coverage represented a 23 percent increase compared to the corresponding prior period. Premium revenue grew at a slower rate than enrollments, as more enrollees opted for high deductible plans in order to lower their premium payments. Management is reviewing a number of options, including rate increases, limiting geographic markets, and medical management strategies to ensure that PHP achieves a positive operating margin while continuing to grow and expand its market penetration with the delivery system. *See* also "SYSTEM OVERVIEW – Non-Obligated Group System Affiliates – Health Plans."

SYSTEM FINANCIAL RATIOS

Liquidity and Capital Resources

The table below this caption includes the pro forma Liquidity and Days Cash on Hand calculations of the System at December 31, 2014 and 2015 and June 30, 2016, assuming for these purposes that the Combination was effective on each such date. PHP holds approximately 7.0% of the cash and cash equivalents and management-designated cash and investments set forth below to satisfy certain statutory reserve requirements, as of June 30, 2016.

	Pro forma December 31 (in 000's of dollars)		Pro forma June 30 (in 000's of dollars)
	2014	2015	2016
Cash and Cash Equivalents	1,658,614	1,200,695	1,329,030
Short-term Investments	915,494	876,338	874,375
Management-designated Cash and Investments	6,972,501	7,210,249	7,338,456
Unrestricted Cash and Investments	9,546,609	9,287,282	9,541,861
Days Cash on Hand[(1)]	203	174	167

(1) Calculated as follows: (Unrestricted cash & investments)/((total operating expenses – depreciation and amortization expenses)/days outstanding during the period). Expenses are the unaudited pro forma combined expenses of the System for the applicable period ended on the date shown.

Additional information regarding the liquidity position of PH&S and of SJHS, respectively, as of June 30, 2016 is contained in Providence Health & Services' Management's Discussion and Analysis of Financial Condition and Results of Operations, Quarter June 30, 2016 and SJHS's Management's Discussion and Analysis of Financial Condition and Results of Operations for the twelve months ended June 30, 2016 (Unaudited), as incorporated by reference under the caption "MANAGEMENT'S DISCUSSION AND ANALYSIS," above.

The Corporation intends to have a single investment program within the first twelve months of the Combination. Presently, the Corporation's finance staff administers the investments for both the PH&S and SJHS funds.

The Audit & Compliance Committee, a committee of the Corporation's Board of Directors, approves the investment policies and asset allocations for the investment funds. The Corporation utilizes external investment consultants to provide professional investment analysis and guidance and to assist in evaluating the performance of the Program's managers. Professional investment management firms invest all the assets in the Program.

Unrestricted Investments – PH&S. PH&S maintains a long-term investment program comprised of three funds: the health care facilities, the foundations and PHP, respectively. Each fund may maintain its own investment and asset allocation policies.

The following is the aggregate asset allocation of the PH&S program portfolios as of December 31, 2015.

Aggregate Portfolios (excluding Retirement Plans)	
Cash	23%
Domestic and International Equities	23%
Fixed Income	39%
Alternative Investments[(1)]	15%

(1) Includes hedge funds, real property, private equity and commodities.

Unrestricted Investments – SJHS. The following is the aggregate asset allocation of SJHS program portfolios as of December 31, 2015.

Aggregate Portfolios (excluding Retirement Plans)	
Cash	14%
Domestic and International Equities	27%
Fixed Income	33%
Alternative Investments[(1)]	26%

(1) Includes hedge funds, real property, private equity and commodities.

Pro Forma Capitalization

The table below this caption includes the pro forma capitalization of the System at December 31, 2014 and 2015, assuming for these purposes that the Combination was effective on December 31, 2014. In addition, the column headed "2015 *Pro Forma* System, As Adjusted" shows the adjusted capitalization of the System as of December 31, 2015, on the assumption that the Series 2016 Bonds had been issued and the application of the proceeds had occurred on that date.

	As of December 31 (in 000's of dollars)		
	2014 *Pro Forma* System	2015 *Pro Forma* System	2015 *Pro Forma* System, As Adjusted
Long-Term Debt:			
System Long-Term Indebtedness	5,766,745	5,827,445	4,443,755
Series 2016 Bonds[(1)]	-	-	1,819,740
Loans from Affiliates and Other	561,179	518,285	262,940
Subtotal	6,327,924	6,345,730	6,526,435
Less: Current Portion of Long-Term Debt	(250,692)	(301,168)	(363,642)
Net Long-Term Debt	6,077,232	6,044,562	6,162,793
Net Assets – Unrestricted	12,518,373	12,612,098	12,612,098
Total Capitalization	18,595,605	18,656,660	18,774,891
Percent of Net Long-Term Debt to Capitalization	32.7%	32.4%	32.8%

(1) Expected. Assumes the refunding of certain existing bonds and the issuance of replacement debt currently described under the caption "PLAN OF FINANCE" in the front part.

Debt Service Coverage

The following table sets forth pro forma coverage of maximum annual debt service on indebtedness of the System for the twelve-months ended December 31, 2014 and 2015, assuming for these purposes that the Combination was effective as of January 1, 2014.

	Twelve-Months Ended December 31 (in 000's of dollars)	
	2014 *Pro Forma* System	2015 *Pro Forma* System
Income Available for Debt Service:		
Excess of Revenues Over Expenses	$ 794,508	$ 32,636
Less/Plus: (Gains)/Losses from Affiliations	(466,814)	25,425
Plus: Unrealized Losses on Trading Securities	304,157	381,035
Plus: Loss on Extinguishment of debt	85,522	69
Plus: Pension settlement costs and other	16,361	44,600
Plus: Depreciation	978,927	989,467
Plus: Interest and Amortization	279,872	258,094
Income Available for Debt Service	$1,992,533	$1,731,326
Debt Service Requirements[(1)]:		
Post-Closing Pro Forma MADS[(2)]	$375,154	$375,154
Pro Forma Coverage of Debt Service Requirements	5.3x	4.6x

(1) Debt Service Requirements has the meaning assigned such term in the Master Indenture (*see* APPENDIX C – "SUMMARY OF THE MASTER INDENTURE").

(2) Expected. Maximum annual debt service assumes that Series 2009A, 2013D, 2013E and a portion of the 2016 taxable fixed rate bonds have smoothed level debt service over 20 years at rates of 6.25%, 4.379%, 5.00% and 2.52%, respectively, and that a portion of the 2016 taxable fixed rate bonds bear interest at a rate of 3.47%, unsmoothed and with sinking fund payments from 2044 to 2047. In addition, it assumes the refunding of certain existing bonds and the issuance of replacement debt currently described under the caption "PLAN OF FINANCE" in the front part.

GOVERNANCE AND MANAGEMENT

Corporate Governance

The Corporation serves as the parent and corporate member of PH&S and SJHS. The Corporation is currently seeking tax exemption under Section 501(c)(3) of the Internal Revenue Code.

Prior to the Combination, the sole corporate member of PH&S was Providence Ministries, which acted through its sponsors, who are five individuals appointed by the Provincial Superior of the Sisters of Providence, Mother Joseph Province. Similarly, the sole corporate member of SJHS was St. Joseph Health Ministry, a California non-profit public benefit corporation. Providence Ministries and St. Joseph Health Ministry are each a public juridic person under Canon law, responsible for assuring the Catholic identity and fidelity to the mission of their respective Systems. Pursuant to the Combination, Providence Ministries and St. Joseph Health Ministry have entered into an agreement that establishes a co-sponsorship model through contractual obligations exercised by the parties' sponsors collectively (the "*Co-Sponsors Council*"). The Co-Sponsors' Council retains certain reserved rights with respect to the

Corporation. Among the powers reserved to the Co-Sponsors' Council are the following powers over the affairs of the Corporation (excluding certain affiliates, such as: Providence – Western Washington, Western HealthConnect, Swedish, Swedish Edmonds, PacMed, Kadlec and Hoag Hospital): to amend or repeal the articles of incorporation or bylaws of the Corporation; the appointment and removal, with or without cause, of the directors of the Corporation; the appointment and removal, with or without cause, of the President and Chief Executive Officer of the Corporation; the approval of the acquisition of assets, incurrence of debt, encumbering of assets and sale of certain property of the Corporation; the approval of operating and capital budgets, upon recommendation of the Corporation Board of Directors; and the approval of dissolution, consolidation or merger. The Corporation has reserved rights over PH&S and SJHS, which powers may be exercised by Board of the Corporation.

Boards of Directors

The table below lists the current members of the Board of Directors of the Corporation, their professional affiliations and the expiration of their terms in office:

Name	Professional Affiliation	Term Expires (December 31)
Richard Blair, Chair †	Retired Healthcare Executive	2018
David Olsen, Vice Chair ‡	Retired Executive, Starbucks (Washington)	2018
Dick Allen ‡	Healthcare Executive	2018
Isiaah Crawford, PhD Δ	President, University of Puget Sound (Washington)	2018
Lucille Dean, SP †	Retired President, University of Great Falls (Montana)	2018
Diane Hejna, CSJ, RN. Δ	Vice President of Mission Integration, Innovation Institute	2018
Michael Holcomb ‡	Retired Assistant General Manager, Snohomish County Public Utility District (Washington)	2018
Phyllis Hughes, RSM, PhD. Δ	Retired Healthcare Executive (California)	2018
Thomas Kopfensteiner ‡	Executive Vice President of Mission, Catholic Health Initiatives	2018
Sallye Liner, MSN, RN †	Retired Executive Vice President/Chief Clinical Officer – Novant Health (North Carolina)	2018
Mary Lyons, PhD. Δ	President Emerita and Chair of Leadership Studies, USD	2018
Walter "Bill" Noce, Jr. †	Retired Healthcare Executive (California)	2018
Carolina Reyes, M.D. Δ	Member, Washington Hospital Center Obstetrics & Gynecology Practice Committee (Washington, DC)	2018
Phoebe Yang Δ	Chief Strategy Officer for a Population Health Company	2018
Rod Hochman, M.D.	President & CEO, Providence St. Joseph Health	Ex-officio

† Not eligible for an additional term.
‡ Eligible for one additional three-year term.
Δ Eligible for up to two additional three-year terms.

Control of Certain Obligated Group Members

General

PH&S is the sole corporate member, directly or indirectly, of each of Providence – Washington, Providence – Southern California, LCMASC, Providence – St. John's, Providence – SJMC Montana, Providence – Montana, Providence – Oregon, Swedish, Swedish Edmonds, Pac Med, Western Health Connect and Kadlec, and co-corporate member of Providence – Western Washington.

SJHS is the sole corporate member of Redwood Memorial, St. Joseph Eureka, Santa Rosa Memorial and Queen of the Valley and, as more fully described hereinafter, a corporate member of St. Joseph Orange, St. Jude, Mission Hospital and St. Mary.

Southern California Region

In connection with the March 2013 affiliation of SJHS and Hoag Hospital, a new entity known as Covenant Health Network, Inc. ("*CHN*"), a California nonprofit public benefit corporation, was created. CHN is a corporate member of Hoag Hospital and St. Joseph Orange, St. Jude, Mission Hospital and St. Mary (the "*SJHS Southern California Hospitals*"). CHN, The George Hoag Family Foundation ("*Hoag Family Foundation*") and the constituent churches of the Los Ranchos Presbytery of the Presbyterian Church (USA) as represented by the Association of Presbyterian Ministers ("*APM*") are the corporate members of Hoag Hospital. **None of CHN, Hoag Family Foundation or APM is an Obligated Group Member or is obligated for payment on the Series 2016 Bonds**.

SJHS, CHN, Hoag Hospital and the SJHS Southern California Hospitals created an affiliation pursuant the terms of an Affiliation Agreement dated as of October 15, 2012 (the "*CHN Affiliation Agreement*"). The CHN Affiliation, which became effective as of March 1, 2013, is designed to allow SJHS and each of the SJHS Southern California Hospitals on the one hand, and Hoag Hospital on the other hand, to preserve their respective Catholic and Presbyterian heritages and identities while creating an integrated community health care delivery system.

CHN does not have any corporate members, and neither SJHS, its affiliates, nor Hoag Hospital has any ownership interest in CHN. CHN's governing board consists of seven members, four of whom are designated by SJHS. The remaining three members are designated by Hoag Family Foundation and APM, acting collaboratively. In accordance with the CHN Affiliation Agreement, SJHS shall at all times have the right to designate at least a majority of the CHN board members. The CHN board is principally responsible for providing strategic planning leadership and oversight for each of Hoag Hospital, the SJHS Southern California Hospitals and any other affiliated providers in the Southern California region.

CHN and SJHS have certain reserved powers with respect to the governance, management and operation of each of the SJHS Southern California Hospitals and Hoag Hospital. Some of these powers may be exercised only by a supermajority vote of the CHN Board of Directors, meaning the affirmative vote of at least three of the four members designated by SJHS, and of at least two of the three members designated by Hoag Family Foundation and APM. These reserved powers include, among others, certain actions relating to: (i) changes in articles and bylaws, (ii) certain board member and management appointments and removals; and (iii) certain mergers, acquisitions, joint ventures, asset sales, cash transfers and financings. Hoag Family Foundation and APM also have reserved powers with respect to certain management and operating matters and transactions involving Hoag Hospital.

West Texas/Eastern New Mexico Region

SJHS and Lubbock Methodist Hospital System ("*LMHS*") are the corporate members of CHS. CHS is the sole corporate member of Covenant Children's, Covenant Levelland and Covenant Plainview. **LMHS is not an Obligated Group Member and is not obligated for payment on the Series 2016 Bonds.**

CHS was formed in 1998 pursuant to an affiliation between SJHS and LMHS and its affiliates, pursuant to which CHS became the sole corporate member of certain entities previously affiliated with LMHS and, together with certain of such entities, joined the obligated group to which SJHS and its affiliates were party.

CHS is governed by a 19-member board of directors. LMHS and SJHS each appoint eight directors. SJHS also appoints the Chief Executive Officer of CHS, who is an ex-officio voting director. The CHS Chief of Staff and Covenant Children's Hospital Chief of Staff also serve as ex-officio voting directors. SJHS has extensive authority with respect to the financial affairs of CHS and its subsidiaries, including, but not limited to, the approval of budgets of CHS and its subsidiaries and selection and retention of auditors.

As part of the affiliation, SJHS, CHS and LMHS entered into an agreement that significantly restricts the ability of SJHS to sever its relationship with CHS and the entities formerly affiliated with LMHS. Under certain circumstances, it also restricts CHS and SJHS from a wide variety of transactions (the "*Covered Transactions*"), including: (i) certain management agreements, leases, joint ventures and other transactions that might have the effect of transferring control of Covenant Medical Center or all assets of CHS and its subsidiaries to an unrelated third party, or in a manner that voids or reduces LMHS's right, as a member, to appoint directors; (ii) a sale, transfer or conveyance of all or substantially all of CHS' assets (including all of CHS' affiliates, taken in the aggregate); (iii) an affiliation, management agreement, lease or joint venture under which a third party acquires the right to control CHS, as a whole; or (iv) any other transaction in which the ability to appoint and remove more than 50% of the directors of CHS is transferred to a third party.

In the event SJHS or CHS undertakes a Covered Transaction, they are 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 CHS and a simultaneous obligation to offer CHS' membership rights to LMHS at the same purchase price, adjusted upward by a formula that reflects the dissolution percentages Pursuant to the terms of the affiliation, the dissolution percentages are SJHS – 57%; LMHS – 43%.

Executive Leadership

The CEO of the Corporation has established a 15-member executive leadership team known as the Executive Council, the members of which are listed below.

Rod Hochman, M.D., President and CEO of the Corporation, joined PH&S in 2012 and served as its president and CEO. He is a member of the governing council of the American Hospital Association and vice chair elect for the Catholic Health Association. Prior to joining PH&S, Rod served as president and CEO of Swedish Health Services in Seattle. He also held executive positions with Sentara Health Care in Virginia, the Health Alliance of Greater Cincinnati and Guthrie Health System in Pennsylvania. He was a clinical fellow in internal medicine at Harvard Medical School and Dartmouth Medical School and received his bachelor's degree and medical degree from Boston University. He is a fellow of the American College of Physicians and the American College of Rheumatology.

Mike Butler, President of Operations of the Corporation, Chief Executive of PH&S, joined PH&S in 1998, most recently serving as president of operations and services. Prior to PH&S, Mike was the chief operating and financial officer for the Franciscan Health System in Tacoma, Washington, and Catholic Health Initiatives in Englewood, Colorado He currently serves as a board member for Vizient, MultiScale Health Networks and Medical Teams International. He holds a bachelor's degree in accounting and finance from California State University, Fullerton.

Annette M. Walker, President of Strategy of the Corporation, Chief Executive of SJHS, joined SJHS in 2005 as executive vice president of strategic services and most recently as interim president and CEO. While Annette was originally called to serve in laboratory science, over the years she developed extensive experience in strategy, physician integration and wellness. Annette has served on the boards of Santa Rosa Memorial, Petaluma Valley, Queen of the Valley and Mission Hospitals as well as the Congregation of St. Joseph Educational Network. She is also president of American Unity, a SJHS professional liability company. Annette holds a bachelor's degree in biology from Loyola Marymount University and a master's degree in health care administration from University of Minnesota.

Darrin Montalvo, President of Enterprise Services of the Corporation. In his previous role, Darrin was the president of integrated services for SJHS. He previously served as the executive vice president for SJHS's Southern California Region and chief financial officer. Darrin is on the advisory board of Santé Ventures and on the boards of the University of San Diego, Ministry Leadership Center, American Unity, St. Joseph Heritage Healthcare, Covenant Health System and FirstCare Health Plan. He holds a bachelor's degree in economics/business from the University of California, Los Angeles and a master's degree in business administration from the University of Southern California.

Richard Afable, M.D., M.P.H. Executive Vice President of the Corporation for the Southern California Region-Orange County/High Desert, President and CEO, St. Joseph Hoag Health. Previously, Rick was the president and CEO of Hoag Hospital. In a previous role, he served as the chief medical officer of Catholic Health East, a 33-hospital health system on the eastern seaboard of the United States. He is the current board chair of the Hospital Association of Southern California and is an officer/chair-elect of the California Hospital Association. He holds a bachelor's degree from Loyola University of Chicago, and a master's in Public Health from the University of Illinois. He attended medical school at Loyola-Stritch School of Medicine in Maywood, Illinois. He is board certified in internal medicine and is a fellow of the American College of Physicians.

Debra Canales, Executive Vice President and Chief Administrative Officer of the Corporation, joined PH&S in 2014 as executive vice president and chief people and experience officer. An experienced health care executive, Deb served with CHE Trinity Health as executive vice president and chief administrative officer, and as senior vice president of human resources for Centura Health. Deb is a member of the boards of AMICA Mutual Insurance, The Breakaway Group Healthcare Division of Xerox and the Inforum Women's Alliance Group. She holds a bachelor's degree in business administration from the University of Texas, Austin, and holds a professional coach certification credential from International Coach Federation.

Amy Compton-Phillips, M.D., Executive Vice President and Chief Clinical Officer of the Corporation. Prior to joining PH&S, Amy was the chief quality officer at Kaiser Permanente. Amy joined Kaiser Permanente as an internist in 1993, holding a variety of leadership roles in operations, population health and quality. She is a frequent speaker and author, currently serving as a lead advisor for New England Journal Catalyst. She holds a bachelor's degree from Johns Hopkins University and earned her medical degree from the University of Maryland School of Medicine. She is also a graduate of the Advanced Leadership Program at the University of North Carolina Kenan-Flagler Business School.

Shannon Dwyer, Executive Vice President and General Counsel of the Corporation, joined SJHS in 1998 as corporate counsel and became executive VP and general counsel for SJHS. Prior to SJHS, Shannon served as in-house legal counsel for a national physician practice management company. Shannon serves as a board member for American Unity and as board chair for Health Associates Credit Union. She holds a bachelor's degree in political science from Syracuse University in New York. She also holds a master's degree in health care administration from Southeastern University in Fort Lauderdale, Fla. She received her law degree from California Western School of Law in San Diego, California, and completed the Harvard Law School Executive Education Program in Leadership in Corporate Counsel.

Jo Ann Escasa-Haigh, Executive Vice President and Chief Integration Officer of the Corporation, Chief Financial Officer of SJHS, joined SJHS in 2007, and most recently served as executive vice president and chief financial officer. In previous roles, Jo Ann was vice president of finance at PacifiCare (now United Healthcare). She is a member of the board of trustees for St. Joseph Hospital in Orange, California, American Unity, Active Wellness, and Community Partnership Fund. She holds a bachelor's degree in business administration from California State University, Fullerton and a master's degree in business administration from the University of California, Irvine.

Todd Hofheins, Executive Vice President and Chief Financial Officer of the Corporation, joined PH&S in 2004, most recently serving as executive vice president and chief financial officer. His other roles included serving as chief financial officer for PH&S's Washington-Montana region. Todd has more than 15 years of health care finance experience in roles at Harborview Medical Center in Seattle and as a senior manager of accounting firms KPMG, LLP, and Arthur Andersen, LLP. He holds a bachelor's degree in accounting from Pacific Lutheran University College of Business.

Orest Holubec, Senior Vice President and Chief Communication and External Affairs Officer, joined PH&S in 2010, most recently serving as senior vice president of marketing and communication. Prior to PH&S, Orest served as corporate director of external communication for Mercy Health in Ohio. He also served as director of communication and press secretary to the governor of Ohio and held communication leadership roles for the Ohio legislature and the Ohio Secretary of State's office. He holds a bachelor's degree in philosophy from John Carroll University.

Aaron Martin, Executive Vice President and Chief Digital and Innovation Officer of the Corporation; Managing General Partner, Providence Ventures, joined PH&S in 2014 as the senior vice president of strategy and innovation. Previously, Aaron worked at Amazon where he led the team that transitioned traditional publishers from a physical books business to Kindle. He also held leadership positions at McKinsey & Company and was an executive founder of two early-stage technology companies. Aaron is a board member for Avia Health Innovation, Sqord Inc., and Inland Northwest Health Services. He holds a master's degree in finance and health care management from The Wharton School, University of Pennsylvania.

Rhonda Medows, M.D., Executive Vice President and Chief Population Health Officer of the Corporation, joined PH&S in 2015. Prior to joining PH&S, Rhonda served as an executive vice president and chief medical officer at UnitedHealth Group. In previous roles, she was a commissioner for the Georgia Department of Community Health, the state health officer for Georgia and secretary of the Agency for Health Care Administration in Florida. She also was the chief medical officer for the Centers for Medicare and Medicaid Services, Southeast Region. Rhonda serves on the Physician-Focused Payment Model Technical Advisory Committee of the U.S. Department of Health & Human Services. She received her bachelor's degree from Cornell University and her medical degree from Morehouse School of Medicine. Rhonda practiced family medicine at the Mayo Clinic and Kaiser Permanente.

Sr. Marian Schubert, CSJ, Executive Vice President and Chief Mission Officer of the Corporation, previously, served as the executive vice president of mission integration for SJHS. Sr. Marian has been a member of the Sisters of St. Joseph of Orange since 1978 and has served in several executive positions. Sr. Marian currently serves on the boards of Santa Rosa Memorial and Petaluma Valley Hospital and chairs the Community Partnership Fund in Orange, California. She holds a bachelor's degree in nursing from Mount St. Mary's College in Los Angeles, a master's degree and nurse practitioner certificate from the University of California, San Francisco and a master's degree in health care mission from the Aquinas Institute, St. Louis, Mo.

Cindy Strauss, Executive Vice President and Chief Legal Officer of the Corporation, joined PH&S in 2012 as senior vice president and chief legal officer, after serving as vice president and chief legal officer for Swedish Health Services for 12 years. Cindy also worked for PH&S earlier in her career, serving as an associate general counsel and senior attorney. She began her career in health law as an attorney with Davis Wright Tremaine in Seattle. Cindy holds a bachelor's degree from the University of Washington and a law degree from Cornell University Law School.

Support Services

Corporate officers and supporting staff oversee the management activities carried on, on a day-to-day basis, by the management staff of each service area. Each service area Chief Executive Officer reports to a Market Chief Executive, who oversees their management with emphasis on the service area's achievements in productivity, developing integrated delivery systems, meeting financial guidelines, maintaining or increasing market share, and responding to unmet health care needs in the community, especially the unmet needs of the poor. The Chief Financial Officer and his staff coordinate the annual budget and five-year forecasts (also updated annually) of the service areas, and manage the capital acquisition and management activities of the Obligated Group. Other areas in which the corporate staff provides centralized services or coordinates the activities of the service areas include: legal affairs, insurance and risk management, materials management, technical support, fund raising, quality of care, medical ethics, pastoral services, mission effectiveness, human resources, planning and policy development, and public affairs.

OTHER INFORMATION

Employees

As of July 1, 2016, the effective date of the Combination, the System employed approximately 124,000 people, which represents approximately 92,225 full-time equivalent employees ("*FTEs*"). Of the total employees in the System, approximately 28% are represented by more than 20 different labor unions.

Management of the System believes the salary levels and benefits packages for its employees are competitive in most of the respective markets, and that the System generally has good relationships with its caregivers. In the past 18 months, the System has experienced strikes at three different facilities, as a result of contract negotiations. In each situation, the facility operated with qualified replacement employees and did not experience any disruption to hospital operations or patient service, and ultimately settled the contract. Management is also aware of ongoing organizing efforts by labor unions, particularly in California.

Insurance

The System has developed insurance programs that provide coverage for the vast majority of insurable risks. The program uses benchmarking and insurance analytics to guide its decisions regarding both the type of coverage it purchases and the limits of that insurance. The analytics use claims and historical data to estimate the likelihood of certain events occurring such as an earthquake or an anti-trust claim. The premium for additional limit can then be compared to the probability of the event to pinpoint when the purchase of additional insurance limit no longer provides a value to the System. The insurance team and brokers negotiate almost all of the policies directly to obtain the most favorable terms of coverage possible. Policies are also reviewed to ensure no coverage gaps – what is excluded in one policy must be covered by a different policy. Insurers must have an A rating or better to be on the System program. Management meets with most of its underwriters at least once a year to obtain updates on any changes in business strategy or capacity. PH&S and SJHS each currently self-insure a portion of its professional and general liability. Such claims are paid through trust arrangements which are funded to a 75 percent confidence level based on projections from outside actuaries. The major lines of insurance renewed yearly include property, directors and officers, employment practices, auto, fiduciary, cyber/information security, workers' compensation, crime, and aviation.

Retirement Plans – PH&S

As described more completely under the caption "Retirement Plans" in Note 8 to the combined PH&S financial statements included in APPENDIX B-1, PH&S currently sponsors defined contribution plans. Although PH&S had certain defined benefit plans in place prior to January 1, 2010, in April 2009, the PH&S Board of Directors approved a freeze of the two existing defined benefit plans, a cap on the ongoing PH&S cash balance interest credit formula and the implementation of new defined contribution plans referenced within Note 8, all effective December 31, 2009.

PH&S's remaining unfunded liability with respect to the frozen defined benefit plans increased from approximately $668.2 million at December 31, 2014 to approximately $715.8 million at December 31, 2015. The increase in the unfunded liability occurred primarily due to a change in the valuation discount rate and lower plan asset returns. *See* Note 8 within the PH&S financial statements included in APPENDIX B-1.

PH&S previously intended to fund its unfunded defined benefit pension plan liabilities over a 20-year period. The majority of the liabilities arise under a single "church plan" that is exempt from the funding amortization standards set forth in the Internal Revenue Code and the Employee Retirement Income Security Act of 1974 ("*ERISA*"). Otherwise unfunded liabilities arising under two other defined benefit pension plans (Swedish and Willamette), which are subject to federally mandated funding amortization standards, would be funded in accordance with such standards.

PH&S has revised its previous pension funding strategy, and now expects to fully fund all otherwise unfunded defined benefit pension plan liabilities over a timeframe of seven to ten years. This funding acceleration is expected to be accomplished through the following primary means: (1) direct funding of contributions to the plans' trusts; (2) the move to a more liability-driven investment glide-path strategy intended to insulate the trusts from exposure to increased volatility and unfunded liability exposure; and (3) a change in investment allocation.

Retirement Plans – Swedish Health Services

As described more completely under the caption "Retirement Plans" in Note 8 to the PH&S financial statements included in APPENDIX B-1, Swedish currently sponsors various defined

contribution plans, covering all employees hired after December 31, 2006 as well as other groups. In addition, Swedish sponsors a defined benefit plan that has been completely frozen as of 2009 to new entrants and is only providing ongoing benefit accruals for approximately 1,600 employees.

Swedish's unfunded liability with respect to the defined benefit plan (the "*Swedish Plan*") decreased from approximately $340.8 million at December 31, 2014, to approximately $336.1 million at December 31, 2015. The decrease in the unfunded liability occurred primarily due to a combination of assumptions changes, the change in the valuation discount rate, and plan asset returns. *See* Note 8 within the PH&S financial statements included in APPENDIX B-1.

An actuary has certified an Adjusted Funding Target Attainment Percentage ("*AFTAP*") of 96 percent as of January 1, 2015. As a result, the Swedish Plan is not considered to be "At-Risk" under ERISA's minimum funding standards for the 2015 year. Restriction of the Plan's lump sum form of payment is not required in 2015. During 2016, contributions of approximately $37.0 million are scheduled to be made, ensuring the plan remains compliant with minimum ERISA funding requirements. Management is implementing a plan to address the unfunded status in a manner similar to the approach taken with the PH&S pension plans.

Retirement Plans –SJHS

SJHS 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, SJHS makes contributions to all eligible employees based on years of service. SJHS contributed approximately $90.2 million and approximately $87.3 million in the fiscal years ended June 30, 2014 and June 30, 2015, respectively, to the defined contribution plan.

SJHS 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. *See* Note 6 of the audited consolidated financial statements of SJHS included in APPENDIX B-2 for more information related to the SJHS Employee Benefit Plans.

Compliance with California Seismic Standards

California's Hospital Seismic Safety Act (the "*Seismic Safety Act*") requires licensed acute care functions to be conducted only in facilities that meet specified seismic safety standards. The System has proactively worked towards seismic regulatory compliance for all of its California acute hospital facilities, as well as structural ("*SPC*") compliance and non-structural building systems bracing and anchorage ("*NPC*") compliance.

SJHS formally received seismic compliance extensions from the Office of Statewide Health Planning and Development ("*OSHPD*") via Senate Bill 90 for five hospital campuses with SPC1 (non-compliant) buildings: St. Joseph Eureka; General Hospital, Eureka; Queen of the Valley; St. Jude; St. Joseph Orange; and Mission Hospital, Laguna Beach. The total area of SJHS California acute care facilities is just under 3 million square feet. Of that total area, approximately 91 percent is already in seismic compliance with the 2015 deadline, and that same area is approximately 56 percent seismically compliant with the 2030 deadline.

Relative to non-structural (building system bracing) compliance status, seven of the SJHS acute care facilities received exemption through January 2030 under Senate Bill 499, and three SJHS campuses are fully NPC compliant through January 2030, which leaves one remaining campus. This one campus is mostly NPC compliant through January 2030, except for two buildings, which were granted exemptions until January 2020, and are planned to complete construction by January 2017 to then be NPC compliant through 2030. Hoag Hospital has also been actively achieving compliance with the Seismic Safety Act, 100 percent of the 1 million square feet Newport Beach campus are fully compliant with seismic standards of inpatient care to 2030. Seven buildings are currently classified as SPC-2, which would need to be either upgraded to SPC-4D or removed from providing acute-care services by 2030. In addition, there are 17 buildings at the campus that are currently classified as NPC-2. These would need to be upgraded and reclassified to NPC-5 by 2030 and meets the requirements of the Seismic Safety Act and Senate Bill 90. Senate Bill 90 was intended for extensions to reclassify building(s) from SPC-1 to SPC-2. Since, currently, all buildings are SPC-2 or higher, SB-90 is now irrelevant for the Newport Beach campus of Hoag Hospital. The Irvine campus of Hoag Hospital has OSHPD approval for use as an acute care facility to 2030 and beyond from a structural (i.e. SPC) perspective. Both of the existing buildings at the Irvine campus of Hoag Hospital are currently classified as NPC-2 and would need to be upgraded and reclassified to NPC-5 by January 1, 2030.

Providence Saint John's Health Center is seismically compliant to 2030 and beyond. Providence Little Company of Mary Medical Center Torrance, Providence St Joseph Burbank and Holy Cross are seismically compliant to 2030. With additional work these three campuses will be compliant beyond 2030. Three buildings at Providence Tarzana Medical Center do not meet seismic regulations. Plans have been submitted (4D) to OSHPD for all three of the buildings. The System expects to begin work in 2017 on two of the three structures. At Providence Little Company of Mary Medical Center San Pedro, two buildings do not meet 2020 requirements. Construction on those buildings is scheduled to begin in 2017 to bring the campus up to seismic compliance to 2030.

Lastly, note that in light of the newly adopted Structural Performance Category 4D (SPC-4D) classification, the System is proactively evaluating several SPC2 buildings throughout its California hospital campuses for potential SPC-4D retrofit and re-classification for use beyond the January 2030 seismic compliance deadline. While it is too early to get definitive OSHPD review to determine the full impact, the retrofit and SPC-4D reclassification of those approved buildings will mitigate some of the longer term, January 2030 hospital replacement requirements and capital expenditures.

Community Benefit

The System provided on a combined basis $1.5 billion in community benefit for the calendar year ending December 31, 2015 and $707 million for the six-months ended June 30, 2016.

Community benefits are changing as the needs of the communities served by the System change. The reduced need for charity care (due to the increased Medicaid coverage) allows greater opportunity to invest in organizations and programs that can help improve the health and well-being of larger groups of people. Answering the call of the System's mission to care for everyone, the System serves large populations of patients covered by Medicaid and also those who receive free or discounted care. As reimbursement for government-sponsored medical care is likely to continue to decline from past levels, community benefit spending related to the unpaid costs of Medicaid continues to increase year over year.

Interest Rate Swap Arrangements

The Corporation and/or certain of its affiliates enter into interest rate swap contracts ("*Swaps*") from time to time to increase or decrease variable rate debt exposure, to achieve a targeted mix of fixed

and floating rate indebtedness and for other purposes. At December 31, 2015, SJHS was party to seven interest rate swap agreements with a current notional amount totaling approximately $492.3 million and with varying expiration dates. PH&S is not party to any interest rate swap agreements. The swap agreements require SJHS to make fixed rate payments in exchange for variable rate payments made by the counterparties. The market risk exposure of these agreements occurs when the fixed rate paid is greater than the variable rate received. At December 31, 2014 and 2015, the total fair value of the combined interest rate swaps of approximately $109.2 million and approximately $112.5 million, respectively, represents the estimated amount the SJHS 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 and losses. As required by its swap agreements, SJHS restricted approximately $7.5 million and approximately $9.8 million in collateral held for the swap with one or more counterparties at December 31, 2014 and 2015 respectively. *See* Note 5 of the audited consolidated financial statements of SJHS included in APPENDIX B-2 for more information related to the SJHS Swaps and the section entitled "BONDHOLDERS' RISKS – Interest Rate Swaps and Hedge Risk" in the front part for a description of the general risks related to interest rate swaps.

Tax-Exempt Status and Other Tax Matters

For a discussion of risks associated with tax-exempt status and other tax matters, *see* "BONDHOLDERS' RISKS – Tax-Exempt Status and Other Tax Matters" in the front part.

Litigation Affecting the System

Certain material litigation may result in an adverse outcome to the System. The System is involved in litigation and regulatory investigations arising in the course of doing business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the System's future consolidated financial position or results of operations.

A number of civil actions are pending or threatened against certain Affiliates, including Obligated Group Members, alleging medical malpractice. In the opinion of management of the Corporation, based upon the advice of legal counsel and risk management personnel, the probable recoveries in these proceedings and the estimated costs and expenses of defense will be within applicable insurance limits or will not materially adversely affect the business or properties of the System.

Accreditation and Memberships

The System's acute care hospital facilities are appropriately licensed by applicable state licensing agencies, certified for Medicare and Medicaid/Medi-Cal reimbursement, and (except Covenant Levelland, Providence Seward Medical Center, Providence Valdez Medical Center and Swedish Issaquah) accredited by The Joint Commission. Each long-term care facility or unit is licensed by applicable state licensing agencies and is appropriately certified for Medicare and Medicaid/Medi-Cal reimbursement.

APPENDIX B-1

AUDITED FINANCIAL STATEMENTS – PROVIDENCE HEALTH & SERVICES

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KPMG

PROVIDENCE HEALTH & SERVICES

Combined Financial Statements

December 31, 2015 and 2014

(With Independent Auditors' Report Thereon)

KPMG LLP
Suite 2900
1918 Eighth Avenue
Seattle, WA 98101

Independent Auditors' Report

The Board of Directors
Providence Health & Services:

We have audited the accompanying combined financial statements of Providence Health & Services, which comprise the combined balance sheets as of December 31, 2015 and 2014, and the related combined statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance 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 combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined 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 combined financial statements referred to above present fairly in all material respects, the financial position of Providence Health & Services as of December 31, 2015 and 2014, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the combined financial statements as a whole. The supplemental information, included on pages 38 and 39 is presented for the purpose of additional analysis and is not a required part of the combined 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 combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the combined financial statements as a whole.

KPMG LLP

Seattle, Washington
March 9, 2016

PROVIDENCE HEALTH & SERVICES

Combined Balance Sheets

December 31, 2015 and 2014

(In thousands of dollars)

Assets		2015	2014
Current assets:			
Cash and cash equivalents	$	729,321	1,237,337
Short-term management-designated investments		200,251	199,338
Accounts receivable, less allowance for bad debts of $343,835 in 2015 and $289,908 in 2014		1,569,827	1,419,495
Other receivables, net		399,291	375,185
Supplies inventory		194,619	185,821
Other current assets		140,836	203,337
Current portion of funds held by trustee		54,740	76,365
Total current assets		3,288,885	3,696,878
Assets whose use is limited:			
Management-designated cash and investments		4,930,858	4,601,153
Gift annuities, trusts, and other		93,804	53,954
Funds held by trustee		272,902	179,473
Assets whose use is limited, net of current portion		5,297,564	4,834,580
Property, plant, and equipment, net		6,580,860	6,622,566
Other assets		572,968	568,884
Total assets	$	15,740,277	15,722,908

See accompanying notes to combined financial statements.

(Continued)

PROVIDENCE HEALTH & SERVICES

Combined Balance Sheets

December 31, 2015 and 2014

(In thousands of dollars)

Liabilities and Net Assets	2015	2014
Current liabilities:		
Current portion of long-term debt	$ 244,532	202,287
Master trust debt classified as short-term	137,500	12,500
Accounts payable	427,567	521,942
Accrued compensation	641,406	738,075
Payable to contractual agencies	104,651	151,778
Retirement plan obligations	190,278	185,517
Current portion of self-insurance liability	118,898	108,943
Other current liabilities	463,198	465,865
Total current liabilities	2,328,030	2,386,907
Long-term debt, net of current portion	3,729,795	3,844,262
Other long-term liabilities:		
Self-insurance liability, net of current portion	292,843	274,541
Pension benefit obligation	1,063,581	1,040,939
Other liabilities	290,380	227,099
Total other long-term liabilities	1,646,804	1,542,579
Total liabilities	7,704,629	7,773,748
Net assets:		
Unrestricted:		
Controlling interest	7,541,875	7,492,324
Noncontrolling interest	44,904	45,302
Temporarily restricted	324,891	305,277
Permanently restricted	123,978	106,257
Total net assets	8,035,648	7,949,160
Total liabilities and net assets	$ 15,740,277	15,722,908

See accompanying notes to combined financial statements.

PROVIDENCE HEALTH & SERVICES

Combined Statements of Operations

Years ended December 31, 2015 and 2014

(In thousands of dollars)

	2015	2014
Operating revenues:		
Net patient service revenues	$ 11,969,116	10,294,637
Provision for bad debts	(185,567)	(193,018)
Net patient service revenues less provision for bad debts	11,783,549	10,101,619
Premium and capitation revenues	1,862,236	1,682,968
Other revenues	787,996	696,390
Total operating revenues	14,433,781	12,480,977
Operating expenses:		
Salaries and wages	5,983,719	5,248,196
Employee benefits	1,357,703	1,220,078
Purchased healthcare	1,045,019	909,154
Professional fees	582,600	514,990
Supplies	2,072,005	1,792,707
Purchased services	1,105,189	977,247
Depreciation	630,537	676,357
Interest	153,480	155,343
Amortization	720	5,671
Other	1,240,993	762,082
Total operating expenses	14,171,965	12,261,825
Excess of revenues over expenses from operations	261,816	219,152
Net nonoperating (losses) gains:		
Gain from affiliations	—	476,110
Loss on extinguishment of debt	(69)	(85,522)
Investment (losses) income, net	(113,617)	178,043
Pension settlement costs and other	(71,305)	(16,361)
Total net nonoperating (losses) gains	(184,991)	552,270
Excess of revenues over expenses	76,825	771,422
Net assets released from restriction for capital	20,372	13,646
Change in noncontrolling interests in consolidated joint ventures	(398)	584
Pension related changes	(27,415)	(249,011)
Contributions, grants, and other	(20,231)	(8,639)
Increase in unrestricted net assets	$ 49,153	528,002

See accompanying notes to combined financial statements.

PROVIDENCE HEALTH & SERVICES

Combined Statements of Changes in Net Assets

Years ended December 31, 2015 and 2014

(In thousands of dollars)

	Unrestricted: controlling interest	Unrestricted: noncontrolling interest	Temporarily restricted	Permanently restricted	Total net assets
Balance, December 31, 2013	$ 6,964,906	44,718	223,548	84,313	7,317,485
Excess of revenues over expenses	771,422	—	—	—	771,422
Restricted contributions from affiliations	—	—	50,401	14,515	64,916
Contributions, grants, and other	(8,639)	—	93,563	7,429	92,353
Net assets released from restriction	13,646	—	(62,235)	—	(48,589)
Change in noncontrolling interests in consolidated joint ventures	—	584	—	—	584
Pension related changes	(249,011)	—	—	—	(249,011)
Increase in net assets	527,418	584	81,729	21,944	631,675
Balance, December 31, 2014	7,492,324	45,302	305,277	106,257	7,949,160
Excess of revenues over expenses	76,825	—	—	—	76,825
Contributions, grants, and other	(20,231)	—	88,214	17,721	85,704
Net assets released from restriction	20,372	—	(68,600)	—	(48,228)
Change in noncontrolling interests in consolidated joint ventures	—	(398)	—	—	(398)
Pension related changes	(27,415)	—	—	—	(27,415)
Increase in net assets	49,551	(398)	19,614	17,721	86,488
Balance, December 31, 2015	$ 7,541,875	44,904	324,891	123,978	8,035,648

See accompanying notes to combined financial statements.

PROVIDENCE HEALTH & SERVICES

Combined Statements of Cash Flows

Years ended December 31, 2015 and 2014

(In thousands of dollars)

	2015	2014
Cash flows from operating activities:		
Increase in net assets	$ 86,488	631,675
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Gains from affiliations	—	(541,026)
Depreciation and amortization	631,257	682,028
Provision for bad debt	185,567	193,018
Loss on extinguishment of debt	69	85,522
Equity income from joint ventures	(40,871)	(39,159)
Restricted contributions and investment income received	(112,763)	(94,024)
Net realized and unrealized losses (gains) on investments	187,912	(109,622)
Distributions from joint ventures	47,424	37,687
Changes in certain current assets and current liabilities	(492,347)	(21,062)
Change in certain long-term assets and liabilities	104,225	266,280
Net cash provided by operating activities	596,961	1,091,317
Cash flows from investing activities:		
Property, plant, and equipment additions	(637,262)	(537,301)
Proceeds from disposal of property, plant, and equipment	8,354	6,901
Purchases of investments	(6,851,705)	(5,555,329)
Proceeds from sales of investments	6,293,325	5,340,773
Change in other long-term assets and other	(12,463)	11,199
Change in funds held by trustee, net	(71,804)	(35,630)
Cash paid for affiliations, net of cash acquired	—	(98,958)
Net cash used in investing activities	(1,271,555)	(868,345)
Cash flows from financing activities:		
Proceeds from restricted contributions and restricted income	112,763	94,024
Debt borrowings	453,088	1,193,228
Debt payments	(400,379)	(1,112,836)
Other financing activities	1,106	(13,016)
Net cash provided by financing activities	166,578	161,400
(Decrease) increase in cash and cash equivalents	(508,016)	384,372
Cash and cash equivalents, beginning of year	1,237,337	852,965
Cash and cash equivalents, end of year	$ 729,321	1,237,337
Supplemental disclosure of cash flow information:		
Cash paid for interest (net of amounts capitalized)	$ 141,554	136,066

See accompanying notes to combined financial statements.

(1) Organization

(a) Sisters of Providence

Sisters of Providence (the Congregation), a religious congregation of Roman Catholic women, was founded in 1843. The religious congregation's central headquarters is in Montreal, Quebec, Canada. Sisters of Providence – Mother Joseph Province (the Province) was formed in 2000 through the combination of the Sacred Heart Province (founded in 1856) and the St. Ignatius Province (founded in 1891). The activities of the Province include apostolic works in healthcare, social services, and education. Members of the Province serve in these works through related and unrelated organizations. The Province is compensated for the services of its members. The Province has 130 professed members and maintains provincial administration offices in Renton, Washington. The members of the Province represent the Congregation in the following:

- Archdiocese of Los Angeles, California
- Archdiocese of Portland, Oregon
- Archdiocese of Seattle, Washington
- Diocese of Cubao, Philippines
- Diocese of Orlando, Florida
- Diocese of Spokane, Washington
- Diocese of Yakima, Washington
- Diocesis Santiago de Maria, El Salvador

(b) Providence Health & Services

The Public Juridic Person, Providence Ministries, is the sole Member of Providence Health & Services and controls certain aspects of the various corporations comprising Providence Health & Services through certain reserved rights.

Providence Ministries sponsors various corporations comprising Providence Health & Services including:

- Providence Health & Services – Washington
- Providence Health & Services – Oregon
- Providence Health System – Southern California (cosponsored by the Congregation and the American Province of the Little Company of Mary Sisters)
- Providence Health & Services – Montana
- Providence St. Joseph Medical Center
- St. Thomas Child and Family Center Corporation
- University of Great Falls

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- Providence Plan Partners
- Providence Health Plan (the Health Plan)
- Providence Health Assurance
- Providence Health System Housing; The St. Luke Association; The Lundberg Association; Providence St. Francis Association; Providence Blanchet Association; Providence Rossi Association; Providence Peter Claver Association; The Gamelin Association; The Gamelin Oregon Association; The Gamelin California Association; Providence St. Elizabeth House Association; Gamelin Washington Association; Providence Gamelin House Association
- Providence Oregon Management Corporation
- Providence Ventures, Inc.
- Providence Assurance, Inc.
- Inland Northwest Health Services

Providence Ministries and Western HealthConnect are co-Members of Providence Health & Services – Western Washington.

Western HealthConnect, a secular Washington nonprofit corporation, is the sole corporate member of the following organizations:

- Swedish Health Services
- Swedish Edmonds
- Kadlec Regional Medical Center
- PacMed Clinics D/B/A Pacific Medical Centers
- Western HealthConnect Ventures, Inc.
- Health Connect Partners

Providence Health & Services and Western HealthConnect, inclusive of all sponsored and corporate members, are collectively referred to as the Health System.

The Health System owns or operates 34 general acute care hospitals, three ambulatory care centers, six medical groups, six long-term care facilities, seven homecare and hospice entities, five assisted living facilities, a high school, a university, 13 low-income housing projects, the Health Plan, a health services contractor, two programs of all inclusive care for the elderly, and 23 controlled fundraising foundations.

The Health System provides inpatient, outpatient, primary care, and home care services in Alaska, Washington, Montana, Oregon, and Southern California. The Health System operates these businesses primarily in the greater metropolitan areas of Anchorage, Alaska; Seattle, Spokane, Kennewick, and Olympia, Washington; Missoula, Montana; Portland and Medford, Oregon; and Los Angeles, California.

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(c) Tax Exempt Status

The Health System and substantially all of the various corporations within the Health System have been recognized as exempt from federal income taxes, except on unrelated business income, under Section 501(a) of the Internal Revenue Code (IRC) as an organization described in Section 501(c)(3) of the IRC.

Providence Plan Partners, Providence Health Plan, and Providence Health Assurance are not-for-profit entities and have been recognized as exempt from federal income taxes, except on unrelated business income, as social welfare organizations under Section 501(c)(4) of the IRC.

(d) Organizational Changes

Affiliation Activity

Effective March 1, 2014, the Health System entered into an affiliation agreement with Sisters of Charity of Leavenworth Health System (SCL) to transfer sponsorship of Saint John's Health Center (Saint John's) to the Health System. Saint John's operates a nonprofit medical center, a cancer institute, and physician clinics to serve the Santa Monica, California community and surrounding area. The fair value of the net assets acquired was $430,728,000, which included $64,487,000 in restricted net assets. Unrestricted net assets of $366,241,000 exceeded total cash consideration of $186,217,000. The Health System recognized a gain from affiliation in the amount of $180,024,000 as the excess of the fair value of the unrestricted net assets over total consideration. The $64,487,000 of restricted net assets is recorded in restricted net assets in the combined statement of changes in net assets. The results of operations of Saint John's entities have been included in the combined statements of operations of the Health System effective as of the date of affiliation during 2014.

Effective May 1, 2014, the Health System entered into an affiliation agreement with PacMed Clinics (PacMed). PacMed is a private, nonprofit, multi-specialty medical group with nine clinics in the Puget Sound area and more than 150 primary care and specialty providers at the date of affiliation. Pursuant to the affiliation agreement, Western HealthConnect became PacMed's sole corporate Member. No cash or other purchase consideration was transferred to effect the affiliation. The results of operations of PacMed entities have been included in the combined statements of operations of the Health System effective as of the date of affiliation. The affiliation resulted in an excess of assets acquired over liabilities assumed, or a contribution from PacMed to the Health System of $84,717,000, which is included in gain from affiliation during 2014.

Effective June 13, 2014, the Health System entered into an affiliation agreement with Kadlec Health System (Kadlec). Kadlec operates a nonprofit medical center, a neurological resource center, a supporting foundation, and physician clinics to serve the area of Kennewick, Pasco, and Richland, Washington. Pursuant to the affiliation agreement, Western HealthConnect became the sole member of Kadlec. No cash or other purchase consideration was transferred to effect the affiliation. The results of operations of Kadlec have been included in the combined statements of operations of the Health System effective as of the date of affiliation. The affiliation resulted in an excess of assets acquired over liabilities assumed, or a contribution from Kadlec to the Health System of $211,798,000. The unrestricted portion of the contribution of $211,369,000 is included in gain from affiliation in the

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accompanying combined statement of operations. The remaining $429,000 of the contribution is recorded in restricted net assets in the combined statement of changes in net assets during 2014.

The financial results of the affiliated entities discussed above are included in the Health System's 2014 combined statement of operations from the effective date of each respective affiliation through December 31, 2014. The following table summarizes the aggregate amounts included in the 2014 combined statement of operations (in thousands of dollars) related to the affiliated entities, excluding gain from affiliations:

Total operating revenues	$	648,634
Excess of revenues over expenses from operations		52,151
Excess of revenues over expenses		39,369

The following table summarizes the aggregate amounts included in the December 31, 2014 combined balance sheets related to the affiliated entities discussed above (in thousands of dollars):

Cash and investments	$	201,534
Accounts receivable, net of allowances		103,444
Property, plant, and equipment, net		594,323
Other assets		189,408
Total assets	$	1,088,709
Accounts payable and accrued compensation	$	93,604
Long-term debt, net of current portion		343,614
Other liabilities		97,571
Total liabilities		534,789
Net assets		553,920
Total liabilities and net assets	$	1,088,709

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The financial statements of the Health System are presented on a combined basis due to the operational interdependence of the organization and because the respective Boards of Directors and corporate officers of Providence Health & Services and Western HealthConnect are comprised of the same individuals. All significant transactions and accounts between divisions and combined affiliates of the Health System have been eliminated. The Health System has performed an evaluation of subsequent events through March 9, 2016, which is the date these combined financial statements were issued.

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(b) Use of Estimates

The preparation of the combined financial statements in conformity with U.S. generally accepted accounting principles 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 combined financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(c) Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with an original or remaining maturity of three months or less when acquired.

(d) Supplies Inventory

Supplies inventory is stated at the lower of cost (first-in, first-out) or market.

(e) Property, Plant, and Equipment

Property, plant, and equipment are stated at cost. Improvements and replacements of plant and equipment are capitalized. Maintenance and repairs are expensed. The cost of the property, plant, and equipment sold or retired and the related accumulated depreciation are removed from the accounts, and the resulting gain or loss is recognized at the time of disposal.

The Health System assesses potential impairment to their long-lived assets when there is evidence that events or changes in circumstances have made recovery of the carrying value of the assets unlikely. An impairment loss, equal to the excess, if any, of the carrying value over the fair value less disposal costs, is recognized when the sum of the expected future undiscounted net cash flows from the use and disposal of the asset is less than the carrying amount of the asset.

(f) Depreciation

The provision for depreciation is determined by the straight-line method, which allocates the cost of tangible property equally over its estimated useful life or lease term.

(g) Capitalized Interest

Interest capitalized on amounts expended during construction is a component of the cost of additions to be allocated to future periods through the provision for depreciation. Capitalization of interest ceases when the addition is substantially complete and ready for its intended use. The Health System capitalized $10,573,000 and $4,044,000 of interest costs during the years ended December 31, 2015 and 2014, respectively.

(h) Financing Costs

Financing costs are recorded in other assets and are amortized using the effective-interest method over the term of the related debt, or to the earliest date at which a creditor can demand payment.

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(i) Goodwill and Indefinite Lived Intangible Assets

Goodwill and indefinite lived intangible assets, which are not amortized as they are considered to have an indefinite life, are recorded in other assets as the excess of cost over fair value of the acquired net assets. Goodwill and indefinite lived intangible assets are tested at least annually for impairment.

(j) Intangible Assets with a Finite Life

Intangible assets that are determined to have a finite life are recorded in other assets. Such assets are amortized by the straight-line method, which allocates the cost of tangible property equally over the asset's estimated useful life or agreement term.

(k) Assets Whose Use Is Limited

The Health System has designated all of its investments in debt and equity securities, hedge funds, and collective investment funds as trading. These investments are reported on the combined balance sheets at fair value.

Assets whose use is limited primarily include assets held by trustees under indenture agreements, self-insurance funds, funds held for the payment of health plan medical claims and other statutory reserve requirements, assets held by related foundations, and designated assets set aside by the management of Providence Health & Services for future capital improvements and other purposes, over which management retains control.

Assets held by trustee obtained from borrowings under the Health System's master trust indenture for construction and other ongoing projects were $133,594,000 and $51,433,000 as of December 31, 2015 and 2014, respectively. Assets held by trustee for purposes of funding future obligations related to certain self-insurance programs and retirement plans were $171,075,000 and $190,819,000 at December 31, 2015 and 2014, respectively.

(l) Net Assets

Unrestricted net assets are those that are not subject to donor-imposed stipulations. Amounts related to the Health System's noncontrolling interests in certain joint ventures are included in unrestricted net assets. Temporarily restricted net assets are those whose use by the Health System has been limited by donors to a specific time period and/or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Health System in perpetuity. Unless specifically stated by donors, gains and losses on temporarily and permanently restricted net assets are recorded as temporarily restricted.

(m) 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 contributions if they are received with donor stipulations that limit the use of the donated assets. When the terms of a donor restriction are met, temporarily restricted net assets are reclassified as unrestricted net assets and reported as other operating revenues in the combined statements of operations or changes in net assets as net assets released from restriction.

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(n) Net Patient Service Revenues

The divisions of the Health System have agreements with governmental and other third-party payors that provide for payments to the divisions at amounts different from the Health System's established charges. Payment arrangements for major third-party payors may be based on prospectively determined rates, reimbursed cost, discounted charges, per diem payments, predetermined rates per HMO enrollee per month, or other methods.

Net patient service revenues are reported at the estimated net realizable amounts due from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with governmental payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as appropriate. Adjustments from finalization of prior years' cost reports and other third-party settlement estimates resulted in an increase in net patient service revenues of $44,786,000 and $31,098,000 for the years ended December 31, 2015 and 2014, respectively.

The composition of significant third-party payors for the years ended December 31, 2015 and 2014, as a percentage of net patient service revenues, is as follows:

	2015	2014
Commercial	50%	52%
Medicare	32	33
Medicaid	17	14
Self-pay	1	1
	100%	100%

(o) Provision for Bad Debts

The Health System provides for an allowance against patient accounts receivable for amounts that could become uncollectible. The Health System estimates this allowance based on the aging of accounts receivable, historical collection experience by payor, and other relevant factors. There are various factors that can impact the collection trends, such as changes in the economy, which in turn have an impact on unemployment rates and the number of uninsured and underinsured patients, the increased burden of copayments to be made by patients with insurance coverage and business practices related to collection efforts. These factors continuously change and can have an impact on collection trends and the estimation process used by the Health System. The Health System records a provision for bad debts in the period of services on the basis of past experience, which has historically indicated that many patients are unresponsive or are otherwise unwilling to pay the portion of their bill for which

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they are financially responsible. The estimates made and changes affecting those estimates for the years ended December 31, 2015 and 2014 are summarized below:

		2015	2014
		(In thousands of dollars)	
Changes in allowance for doubtful accounts:			
Allowance for doubtful accounts at beginning of year	$	289,908	358,966
Write-off of uncollectible accounts, net of recoveries		(131,640)	(262,076)
Provision for bad debts		185,567	193,018
Allowance for doubtful accounts at end of year	$	343,835	289,908

(p) Premium Revenues, Premiums Receivable, Unearned Premiums, and Capitation Revenues

Health plan revenues consist of premiums paid by employers, individuals, and agencies of the federal and state governments for healthcare services. Health plan revenues are received on a prepaid basis and are recognized as revenue during the month for which the enrolled member is entitled to healthcare services. Premiums received for future months are recorded as unearned premiums.

Similar to health plan premiums, capitation revenues are received on a prepaid basis and are recognized as revenue during the month for which the enrolled member is entitled to healthcare services.

(q) Other Operating Revenues

Other operating revenues include meaningful use revenue, rental revenue, equity earnings from joint ventures, contributions released from restrictions, cafeteria revenue, and other miscellaneous revenue.

(r) Charity and Unsponsored Community Benefit Costs

The divisions of the Health System have policies that provide for serving those without the ability to pay. The policies also provide for discounted sliding scale payments based on the income and assets of the person responsible for the bill. In addition to uncompensated care, the Health System's divisions also provide services that benefit the poor and others in the communities they serve.

Information for the Health System for the years ended December 31, 2015 and 2014 is summarized below:

		2015	2014
		(In thousands of dollars)	
Cost of charity care provided	$	180,256	205,555
Unpaid cost of Medicaid services		537,894	443,623
Unsponsored community benefit costs	$	718,150	649,178

The cost of charity care provided is calculated based on each division's aggregate relationship of costs to charges. The unpaid cost of Medicaid services is the cost of treating Medicaid patients in excess of government payments. Unpaid cost of Medicaid services are net of revenues of $1,552,853,000 and $1,377,866,000 for the years ended December 31, 2015 and 2014, respectively.

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(s) Net Nonoperating Losses and Gains

Net nonoperating gains primarily include investment income from trading securities, income from recipient organizations, pension settlement costs, and other income. Additionally, contributions from affiliations with Saint John's, PacMed, and Kadlec are included in net nonoperating gains in 2014.

(t) Excess of Revenues over Expenses

Excess of revenues over expenses includes all changes in unrestricted net assets, except for net assets released from restriction for the purchase of property, certain changes in funded status of postretirement benefit plans, net changes in noncontrolling interests in combined joint ventures, and other.

(u) Income and Other Taxes

The Health System recognizes the effect of income tax positions only if those positions are more likely than not of being sustained upon an audit by the taxing authority. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs.

Various states in which the Health System operates have instituted a provider tax on certain patient service revenues at qualifying hospitals to increase funding from other sources and obtain additional Federal funds to support increased payments to providers for Medicaid services. These taxes are included in other expenses in the accompanying combined statements of operations and were $527,789,000 and $129,384,000 for the years ended December 31, 2015 and 2014, respectively. These programs resulted in enhanced payments from these states in the way of lump-sum payments and per claim increases. These enhanced payments are included in net patient service revenues in the accompanying combined statements of operations and were $612,282,000 and $129,349,000 for the years ended December 31, 2015 and 2014, respectively.

(v) Recently Issued or Adopted Accounting Standards

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, to clarify the principles for recognizing revenue and to improve financial reporting by creating common revenue recognition guidance for GAAP and International Financial Reporting Standards. The core principle of the new guidance 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. The amendments in the ASU can be applied either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying the update recognized at the date of the initial application along with additional disclosures. The Health System is currently evaluating the impact of ASU 2014-09, including the methods of implementation, which is effective for the fiscal year beginning on January 1, 2018.

In March 2015, the FASB issued ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs*. This update changes the presentation of debt issuance costs in the financial statements. Under the ASU, an entity presents such costs in the balance sheet as a direct deduction from the recognized liability rather than as an asset. Amortization of the costs is reported as interest expense. The Health System

(Continued)

has considered the provisions of this standard and will adopt in the fiscal year beginning January 1, 2016. The Health System does not believe that the provisions of this standard will have a material impact in its combined financial statements.

In May 2015, the FASB issued ASU 2015-07, *Fair Value Measurement (Topic 820) – Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, which eliminates the requirement to categorize investments in the fair value hierarchy if their fair value is measured at net asset value per share, or its equivalent, (NAV) using the practical expedient in the FASB's fair value measurement guidance. The Health System adopted this standard effective December 31, 2015. As a result of the adoption of the standard, the Health System modified its fair value hierarchy disclosures.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which requires lessees to recognize a lease liability and a right of use asset for all lease obligations with exception to short-term leases. The lease liability will represent the lessee's obligation to make lease payments arising from the lease measured on a discounted basis and the right of use asset will represent the lessee's right to use or control the use of a specified asset for a lease term. The lease guidance also simplifies accounting for sale leaseback transactions. The Health System is currently evaluating the impact of ASU 2016-02, which is effective for the fiscal year beginning on January 1, 2019 with retrospective application to the earliest presented period.

(w) Reclassifications

Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

(3) Fair Value of Financial Instruments

ASC Topic 820 (Topic 820), *Fair Value Measurements*, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Health System has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The fair value of assets whose use is limited, other than those investments measured using NAV as a practical expedient for fair value, is estimated using quoted market prices or other observable inputs when quoted market prices are unavailable. For long-term debt, the fair value is based on Level 2 inputs, such as the

discounted value of the future cash flows using current rates for debt with the same remaining maturities, considering the existing call premium and protection. The carrying value and fair value of long-term debt, including accrued interest, was $4,149,702,000 and $4,438,718,000, respectively, as of December 31, 2015, and $4,097,789,000 and $4,421,616,000, respectively, as of December 31, 2014.

Other financial instruments of the Health System include cash and cash equivalents and other current assets and liabilities. The carrying amount of these instruments approximates fair value because these items mature in less than one year.

The following table presents the Health System's activity for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as defined in Topic 820 for the years ended December 31, 2015 and 2014 (in thousands of dollars):

Balance at December 31, 2013	$	25,950
Total realized and unrealized gains (losses), net		(2,257)
Total purchases		1,418
Total sales		(1,072)
Transfers into Level 3		2,997
Balance at December 31, 2014	$	27,036
Total realized and unrealized gains (losses), net		(131)
Total purchases		30,398
Total sales		(2,258)
Transfers into Level 3		10,982
Transfers out of Level 3		(3,895)
Balance at December 31, 2015	$	62,132

There were no significant transfers between assets classified as Level 1 and Level 2 during the years ended December 31, 2015 and 2014.

Level 3 assets include charitable remainder trusts, real property and equity investments in healthcare technology start-ups through the Health System's innovation venture capital fund. Fair values of real property were estimated using a market approach. Fair values of charitable remainder trusts were estimated using an income approach. Fair value of equity investments in healthcare technology start-ups were estimated using a combination of income and market approach.

(Continued)

(4) Assets Whose Use is Limited

The composition of assets whose use is limited at December 31, 2015 is set forth in the following table:

	December 31, 2015	Fair value measurements at reporting date using		
		Level 1	Level 2	Level 3
		(In thousands of dollars)		
Management-designated cash and investments:				
Cash and cash equivalents	$ 613,736	613,736	—	—
Domestic equity securities:				
Mutual funds:				
Large capitalization	183,018	183,018	—	—
Medium-small cap and other	149,291	149,291	—	—
Technology	133,510	133,510	—	—
Financial services	103,049	103,049	—	—
Consumer services	93,663	93,663	—	—
Other industries	196,044	196,044	—	—
Foreign equity securities:				
Mutual funds:				
Large capitalization	91,639	91,639	—	—
Medium-small cap and other	64,545	64,545	—	—
Other industries	68,034	68,034	—	—
Debt securities – U.S. Treasury	1,001,525	717,466	284,059	—
Debt securities – State Treasury	27,754	—	27,754	—
Domestic corporate debt securities	643,590	—	643,590	—
Foreign corporate debt securities	87,423	—	87,423	—
Other	272,782	515	272,267	—
Investments measured using NAV	1,401,506			
Total management-designated cash and investments	$ 5,131,109			
Gift annuities, trusts, and other	$ 93,804	23,856	7,816	62,132
Funds held by trustee:				
Cash and cash equivalents	$ 176,134	176,134	—	—
Domestic equity securities	334	334	—	—
Foreign equity securities	162	162	—	—
Debt securities – U.S. Treasury	64,874	63,650	1,224	—
Domestic corporate debt securities	48,478	—	48,478	—
Foreign corporate debt securities	15,971	—	15,971	—
Collateralized debt securities	21,108	—	21,108	—
Other	581	87	494	—
Total funds held by trustee	$ 327,642			

(Continued)

The composition of assets whose use is limited at December 31, 2014 is set forth in the following table:

	December 31, 2014	Fair value measurements at reporting date using		
		Level 1	Level 2	Level 3
		(In thousands of dollars)		
Management-designated cash and investments:				
Cash and cash equivalents	$ 401,728	401,728	—	—
Domestic equity securities:				
Mutual funds:				
Large capitalization	139,544	139,544	—	—
Medium-small cap and other	143,501	143,501	—	—
Consumer services	269,565	269,565	—	—
Financial services	129,676	129,676	—	—
Technology	105,950	105,950	—	—
Other industries	120,761	120,761	—	—
Foreign equity securities:				
Mutual funds				
Large capitalization	177,185	177,185	—	—
Medium-small cap and other	39,315	39,315	—	—
Other industries	83,455	83,455	—	—
Debt securities – U.S. Treasury	1,211,814	1,054,362	157,452	—
Debt securities – State Treasury	21,926	81	21,845	—
Domestic corporate debt securities	532,840	—	532,840	—
Foreign corporate debt securities	96,487	—	96,487	—
Other	177,374	12,216	162,504	2,654
Investments measured using NAV	1,149,370			
Total management-designated cash and investments	$ 4,800,491			
Gift annuities, trusts, and other	$ 53,954	20,454	9,118	24,382
Funds held by trustee:				
Cash and cash equivalents	$ 85,038	85,038	—	—
Domestic equity securities	22,159	22,159	—	—
Foreign equity securities:	1,900	1,900	—	—
Debt securities – U.S. Treasury	84,725	82,125	2,600	—
Domestic corporate debt securities	32,017	—	32,017	—
Foreign corporate debt securities	19,953	—	19,953	—
Mortgage-backed securities	5,956	—	5,956	—
Other	4,090	—	4,090	—
Total funds held by trustee	$ 255,838			

(Continued)

The Health System participates in various funds that are not actively marketed on an open exchange. These investments consist of shares or units in investment funds as opposed to direct interests in the funds' underlying holdings, which may be marketable. Due to the nature of these funds the net asset value per share, or its equivalent, reported by each fund manager is used as a practical expedient to estimate the fair value of the Health System's interest therein. Management believes that the carrying amounts of these financial instruments, provided by the fund managers, are reasonable estimates of fair value.

The following table presents information for investments where the NAV was used to value the investments as of December 31 (in thousands of dollars):

	Fair value		Unfunded Commitments	Redemption frequency	Redemption notice period
	2015	2014			
Hedge funds					
Relative value	$ 180,756	159,753	—	Quarterly	60 – 90 days
Risk parity	155,928	148,543	—	Monthly	5 – 15 days
Growth	169,490	151,218	—	Quarterly	45 – 90 days
Diversified	83,274	85,712	—	Monthly	2 – 90 days
Other	14,613	7,517	—	Monthly or Quarterly	30 – 90 days
Collective investment funds:					
Equities	572,214	522,009	—	Monthly	6 – 60 days
Fixed income	216,243	74,618	—	Daily	3 days
Private equity	8,988	—	75,408	Not applicable	Not applicable
Total	$ 1,401,506	1,149,370	75,408		

The following is a summary of the nature of these investments and their associated risks:

Hedge funds are portfolios of investments that use advanced investment strategies such as leveraged, long, short, and derivative positions in both domestic and international markets with the goal of diversifying portfolio risk and generating return. The Health System's investments in hedge funds include $44,980,000 subject to lockup provisions that limit the Health System's ability to access cash for one or more years from the initial investment.

Collective investment funds are funds that pursue diversification of domestic and foreign equity and fixed income securities. The Health System's investments in collective investment funds have no lockup provisions or other restrictions, other than outlined in the table above, that limit its ability to access cash.

Private equity funds are funds that make opportunistic investments that are primarily private in nature. These investments cannot be redeemed by the Health System; rather the Health System has committed an amount to invest in the private funds over the respective commitment periods. After the commitment period has ended, the nature of the investments in this category is that the distributions are received through the liquidation of the underlying assets.

The Health System offsets the fair value of various investment derivative instruments when executed with the same counterparty under a master netting arrangement. The Health System invests in a variety of investment derivative instruments through a fixed-income manager that has executed a master netting arrangement with the counterparties of each of its futures and forward currency purchase and sale contracts

(Continued)

whereby the financial instruments held by the same counterparty are legally offset as the instruments are settled.

The following table presents gross investment derivative assets and liabilities reported on a net basis included in management-designated investments in the combined balance sheets:

	2015 (In thousands of dollars)
Derivative assets:	
Futures contracts	$ 404,677
Forward currency and other contracts	41,617
	446,294
Derivative liabilities:	
Futures contracts	(404,677)
Forward currency and other contracts	(42,289)
	(446,966)

Investment derivative instruments, reported in management-designated investments in the combined balance sheets, are recorded at fair value.

The Health System's management designated cash and investments include funds held on behalf of non-controlled entities of $59,569,000 and $0 at December 31, 2015 and 2014, respectively. An offsetting liability to recognize the obligation back to the non-controlled entities is included in other liabilities in the accompanying combined balance sheets.

Investment income from management-designated cash and investments and funds held by trustee are included in net nonoperating gains and are comprised of the following for the years ended December 31, 2015 and 2014:

	2015	2014
	(In thousands of dollars)	
Interest income	$ 64,797	71,108
Net realized gains on sale of investments	25,280	365,413
Change in net unrealized losses on trading securities	(203,694)	(258,478)
Total	$ (113,617)	178,043

(Continued)

(5) Property, Plant, and Equipment

Property, plant, and equipment and the total accumulated depreciation at December 31, 2015 and 2014 are shown below:

	Approximate useful life (years)	2015	2014
		(In thousands of dollars)	
Land	—	$ 757,469	756,304
Buildings and improvements	5–60	5,834,374	5,643,827
Equipment:			
Fixed	5–25	1,055,751	1,041,956
Major movable and minor	3–20	4,405,945	4,138,703
Rental property	15–40	914,353	898,609
Construction in progress	—	274,883	216,549
		13,242,775	12,695,948
Less accumulated depreciation		6,661,915	6,073,382
Property, plant, and equipment, net		$ 6,580,860	6,622,566

Construction in progress primarily represents renewal and replacement of various facilities in the Health System's operating divisions, as well as costs capitalized related to software development.

(6) Other Assets

Other assets at December 31, 2015 and 2014 are as follows:

	2015	2014
	(In thousands of dollars)	
Unamortized financing costs, net	$ 34,639	35,744
Investment in nonconsolidated joint ventures	141,182	116,747
Interest in noncontrolled foundations	128,341	136,597
Notes receivable	45,889	37,989
Long-term reinsurance receivable	33,032	39,530
Goodwill and intangibles	169,584	163,540
Other	20,301	38,737
Total other assets	$ 572,968	568,884

The Health System participates in various joint ventures for the purpose of furthering its healthcare mission. These joint ventures exist in all geographic locations in which the Health System operates. The primary purposes of the ventures are to provide outpatient services such as laboratory, outpatient surgery, and medical imaging. Various joint ventures, throughout the Health System, are controlled and consequently are

combined in the financial statements of the Health System. All other joint ventures are accounted for under the equity method of accounting. The Health System recorded earnings from equity method investees of $40,871,000 and $39,159,000 for the years ended December 31, 2015 and 2014, respectively, the majority of which are included in other operating revenues in the accompanying combined statements of operations.

(7) Short-Term and Long-Term Debt

The Health System has borrowed Master Trust debt issued through the following:

- California Health Facilities Financing Authority (CHFFA)
- Alaska Industrial Development and Export Authority (AIDEA)
- Hospital Facilities Authority of Multnomah County (HFAMC)
- Washington Health Care Facilities Authority (WHCFA)
- Montana Facility Finance Authority (MFFA)
- Oregon Facilities Authority (OFA)

(Continued)

Short-term and long-term unpaid principal at December 31, 2015 and 2014 consists of the following:

	Maturing through	Coupon rates	Unpaid principal 2015	Unpaid principal 2014
			(In thousands of dollars)	
Master trust debt:				
Fixed:				
Series 1996, CHFFA Revenue Bonds	2015	4.00 – 6.00%	$ —	2,035
Series 1997, Direct Obligation Notes	2017	7.70%	1,445	2,090
Series 2003II, AIDEA Revenue Bonds	2015	4.63 – 5.25%	—	4,600
Series 2005, Direct Obligation Notes	2030	4.31 – 5.39%	44,380	46,295
Series 2006A, WHCFA Revenue Bonds	2036	4.50 – 5.00%	210,555	210,555
Series 2006B, MFFA Revenue Bonds	2026	4.00 – 5.00%	54,495	58,170
Series 2006C, WHCFA Revenue Bonds	2033	5.25%	69,425	69,425
Series 2006D, WHCFA Revenue Bonds	2033	5.25%	69,275	69,275
Series 2006E, WHCFA Revenue Bonds	2033	5.25%	26,350	26,350
Series 2006II, AIDEA Revenue Bonds	2036	5.00%	51,905	54,355
Series 2008C, CHFFA Revenue Bonds	2038	3.00 – 6.50%	15,785	17,715
Series 2009A, Direct Obligation Notes	2019	5.05 – 6.25%	165,000	165,000
Series 2009B, CHFFA Revenue Bonds	2039	5.50%	150,000	150,000
Series 2010A, WHCFA Revenue Bonds	2039	4.88 – 5.25%	174,240	174,240
Series 2011A, AIDEA Revenue Bonds	2041	5.00 – 5.50%	122,720	122,720
Series 2011B, WHCFA Revenue Bonds	2021	2.00 – 5.00%	58,995	67,390
Series 2011C, OFA Revenue Bonds	2026	3.50 – 5.00%	18,375	20,405
Series 2012A, WHCFA Revenue Bonds	2042	2.00 – 5.00%	497,850	503,955
Series 2012B, WHCFA Revenue Bonds	2042	4.00 – 5.00%	100,000	100,000
Series 2013A, OFA Revenue Bonds	2024	2.00 – 5.00%	66,600	72,515
Series 2013D, Direct Obligation Notes	2023	4.38%	252,285	252,285
Series 2014A, CHFFA Revenue Bonds	2038	2.00 – 5.00%	274,465	275,850
Series 2014B, CHFFA Revenue Bonds	2044	4.25 – 5.00%	118,740	118,740
Series 2014C, WHCFA Revenue Bonds	2044	4.00 – 5.00%	92,245	92,245
Series 2014D, WHCFA Revenue Bonds	2041	5.00%	178,770	178,770
Series 2015A, WHCFA Revenue Bonds	2045	4.00%	77,635	—
Series 2015C, OFA Revenue Bonds	2045	4.00 – 5.00%	71,070	—
Total fixed			2,962,605	2,854,980
Variable:				
Series 2012C, WHCFA Revenue Bonds	2042	0.05%	80,000	80,000
Series 2012D, WHCFA Revenue Bonds	2042	0.05%	80,000	80,000
Series 2012E, Direct Obligation Notes	2042	0.17%	233,525	235,705
Series 2013C, OFA Revenue Bonds	2022	1.08%	135,375	148,750
Series 2013E, Direct Obligation Notes	2017	3.00%	200,000	322,250
Total variable			728,900	866,705

(Continued)

	Maturing through	Coupon rates	Unpaid principal 2015	Unpaid principal 2014
			(In thousands of dollars)	
Commercial Paper, Series 2015B	2016	0.21%	125,000	—
U.S. Bank Credit Facility	2016	0.56%	12,500	12,500
Unpaid principal, master trust debt			3,829,005	3,734,185
Premiums and discounts, net			117,320	123,941
Master trust debt, including premiums and discounts, net			3,946,325	3,858,126
Other long-term debt			165,502	200,923
Total debt			$ 4,111,827	4,059,049

	2015	2014
	(In thousands of dollars)	
Current portion of long-term debt	$ 244,532	202,287
Short-term master trust debt	137,500	12,500
Long-term debt, classified as a long-term liability	3,729,795	3,844,262
Total debt	$ 4,111,827	4,059,049

An Obligated Group was formed for issuing debt under a master trust indenture. Members of the Obligated Group are jointly and severally responsible for all borrowings under the master trust indenture of the Obligated Group. The master trust indenture and bond trust indentures for each debt issue require the Obligated Group to meet certain financial covenants. The members of the Obligated Group include the following:

- Providence Health & Services – Washington (exclusive of Inland Northwest Health Services)
- Western HealthConnect
- Providence Health & Services – Oregon (exclusive of Providence Plan Partners)
- Providence Health System – Southern California (exclusive of Medical Institute of Little Company of Mary, Lifecare Ventures, Inc., TrinityCare Hospice, and Facey)
- Providence St. Joseph Medical Center, and Providence Health & Services – Montana

The Obligated Group excludes related housing projects financed by the U.S. Department of Housing and Urban Development and foundations.

In August and September 2015, the Health System issued $77,635,000 of Series 2015A WHCFA fixed rate revenue bonds and $71,070,000 of Series 2015C OFA fixed rate revenue bonds, respectively. The intended use of funds was to cover certain capital investment.

In November 2014, the Health System issued $178,770,000 of Series 2014D WHCFA fixed rate revenue bonds. The proceeds were used to redeem Series 2006B WHCFA revenue bonds, Series 2006A WHCFA revenue bonds, Series 2010 WHCFA revenue bonds, and Series 2012 WHCFA revenue bonds, which were

(Continued)

issued by Kadlec prior to the affiliation. In connection with the Series 2014D issuance, Kadlec became a member of the Obligated Group.

In September 2014, the Health System issued $92,245,000 of Series 2014C WHCFA fixed rate revenue bonds. The proceeds were used for the partial redemption of Series 2009A PHS Direct Obligation bonds. In connection with the Series 2014C issuance, Swedish Edmonds and PacMed became members of the Obligated Group.

In August 2014, the Health System issued $118,740,000 of Series 2014B CHFFA fixed rate revenue bonds. The proceeds were used to redeem Series 2013F Commercial Paper, which was issued to finance the purchase of Saint John's. In connection with the Series 2014B issuance, Saint John's became a member of the Obligated Group.

In June 2014, the Health System issued $275,850,000 of Series 2014A CHFFA fixed rate revenue bonds. The proceeds were used for the partial redemption of Series 2008C CHFFA bonds.

In connection with the Series 2015A-C issuances and the Series 2014A-D issuances, the Health System recorded losses due to extinguishment of debt of $69,000 and $85,522,000 in 2015 and 2014, respectively, which were recorded in net nonoperating gains in the accompanying combined statements of operations.

(a) Master Trust Debt Classified as Short-Term

Commercial Paper, Series 2015B

In September 2015, the Health System issued Series 2015B commercial paper obligations. During 2015, the Health System made principal and interest payments on matured commercial paper and reissued new commercial paper, maintaining a balance ranging between $27,000,000 and $125,000,000 throughout the year. The average interest rate in effect during 2015 was 0.21%.

U.S. Bank Credit Facility

The Health System has a $150,000,000 Credit Facility with U.S. Bank, of which $12,500,000 in borrowings was outstanding at December 31, 2015 and 2014.

(b) Other Long-Term Debt

Other long-term debt primarily includes capital leases, notes payable, and bonds that are not under the master trust indenture. Other long-term debt at December 31, 2015 and 2014 consists of the following:

	2015	2014
	(In thousands of dollars)	
Capital leases	$ 103,789	114,963
Notes payable	46,988	74,381
Bonds not under master trust indenture and other	14,725	11,579
Total other long-term debt	$ 165,502	200,923

(Continued)

Scheduled principal payments of long-term debt, considering all obligations under the master trust indenture as due according to their long-term amortization schedule, for the next five years and thereafter are as follows:

	Master trust	Other	Total
		(In thousands of dollars)	
2016	$ 221,535	22,997	244,532
2017	160,175	18,825	179,000
2018	62,960	8,800	71,760
2019	165,895	8,074	173,969
2020	68,830	8,092	76,922
Thereafter	3,012,110	98,714	3,110,824
Scheduled principal payments of long-term debt	3,691,505	$ 165,502	3,857,007
Short-term master trust debt	137,500		
Total master trust debt	$ 3,829,005		

Leases

The Health System leases various medical and office equipment and buildings under operating leases. Future minimum lease commitments under noncancelable operating leases for the next five years and thereafter are as follows (in thousands of dollars):

2016	$ 124,188
2017	116,588
2018	103,487
2019	94,394
2020	82,802
Thereafter	613,139
	$ 1,134,598

Rental expense was $216,657,000 and $193,875,000 for the years ended December 31, 2015 and 2014, respectively, and is included in other expenses in the accompanying combined statements of operations.

(8) Retirement Plans

(a) Defined Benefit Plans

Cash Balance Retirement Plan

The Health System had a noncontributory cash balance plan covering substantially all Providence employees called the Providence Health & Services Cash Balance Retirement Plan Trust (the Cash Balance Plan). The plan was frozen effective December 31, 2009. The plan benefits are based on

defined average compensation and years of service. The plan has a five-year cliff vesting schedule. The Health System's funding policy is based on the actuarially determined cost method, and includes normal service cost and prior service costs amortized over a 20-year period. Under the Cash Balance Plan, each employee carries an individual account balance. The Health System makes an annual contribution and provides an annual interest credit to each employee's account.

Supplemental Executive Retirement Plan

The Health System has a noncontributory supplemental executive retirement plan (the SERP) covering certain employees who were employed in certain key positions or pay grades or that have been designated by the Health System. The plan was frozen effective December 31, 2009. The plan benefits were based on defined average compensation and years of service. The vesting period for the plan requires an executive attain age 55 with at least five years of eligible service. The Health System's funding policy is based on the actuarially determined cost method, and includes normal service cost and prior service costs amortized over a 20-year period. Under the SERP, each employee carries an individual account balance. The Health System makes an annual contribution and provides an annual interest credit to each employee's account.

Swedish Health Services Pension Plan

The Swedish Health Services Pension Plan (the Pension Plan) is a noncontributory plan covering a majority of Swedish employees, and provides benefits based on number of years of credited service and compensation earned during the participation in the Pension Plan. The Pension Plan is frozen to all former and existing nonrepresented employees and to all new participants. Only represented employees that were active in the plan on December 31, 2009 remain in the plan actively accruing benefits. The Health System makes annual contributions to the Pension Plan.

Willamette Falls Pension Plan

The Willamette Falls Pension Plan is also a noncontributory plan covering a majority of employees at Providence Willamette Falls. The plan was frozen effective February 2008. The plan benefits are based on years of service and compensation during an employee's period of employment. The funding policy is based on the actuarially determined cost method, and includes normal service cost and prior service costs amortized over a 20-year period. Under the Willamette Falls Pension Plan, each employee carries an individual monthly annuity benefit.

The Cash Balance Plan, the SERP, the Pension Plan, and the Willamette Falls Pension Plan are collectively "the defined benefit plans."

The Health System's contributions to these defined benefit plans for the years ended December 31, 2015 and 2014 were $90,562,000 and $100,380,000, respectively.

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The measurement dates for the defined benefit plans are December 31, 2015 and 2014. A rollforward of the change in benefit obligation and change in the fair value of plan assets for the defined benefit plans is as follows:

	2015	2014
	(In thousands of dollars)	
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	$ 2,827,325	2,592,617
Service cost	24,858	22,851
Interest cost	113,956	124,911
Actuarial (gain) loss	(134,753)	289,225
Benefits paid and other	(231,159)	(202,279)
Projected benefit obligation at end of year	2,600,227	2,827,325
Change in fair value of plan assets:		
Fair value of plan assets at beginning of year	1,782,250	1,773,628
Actual return on plan assets	(106,400)	110,521
Employer contributions	90,562	100,380
Benefits paid and other	(231,159)	(202,279)
Fair value of plan assets at end of year	1,535,253	1,782,250
Funded status	(1,064,974)	(1,045,075)
Unrecognized net actuarial loss	470,429	441,783
Unrecognized prior service cost	5,068	6,299
Net amount recognized	$ (589,477)	(596,993)
Amounts recognized in the consolidated balance sheets consist of:		
Current liabilities	$ (1,393)	(4,136)
Noncurrent liabilities	(1,063,581)	(1,040,939)
Unrestrieted net assets	475,497	448,082
Net amount recognized	$ (589,477)	(596,993)
Weighted average assumptions:		
Discount rate	4.58%	4.20%
Rate of increase in compensation levels	3.50	3.50
Long-term rate of return on assets	6.80	7.00

(Continued)

Net periodic pension cost for the defined benefit plans for 2015 and 2014 includes the following components:

	2015	2014
	(In thousands of dollars)	
Components of net periodic pension cost:		
Service cost	$ 24,858	22,851
Interest cost	113,956	124,911
Expected return on plan assets	(115,711)	(118,676)
Amortization of prior service cost	1,231	1,231
Recognized net actuarial loss	26,163	14,340
Settlement expense	32,549	32,798
Net periodic pension cost	$ 83,046	77,455

Total expense for all of the Health System's defined benefit plans for the years ended December 31, 2015 and 2014 was $83,046,000 and $77,455,000, respectively. Included in the total expense is $32,549,000 and $32,798,000 of settlement costs that were incurred in 2015 and 2014, respectively, related to settlements that were greater than the sum of the service cost and interest cost components of net periodic pension cost. This settlement expense is included in net nonoperating gains in the accompanying combined statements of operations. The remaining expense for the defined benefit plans is included in employee benefits in the accompanying combined statements of operations.

The accumulated benefit obligation was $2,555,741,000 and $2,771,511,300 at December 31, 2015 and 2014, respectively.

The following pension benefit payments reflect expected future service. Payments expected to be paid over the next 10 years are as follows (in thousands of dollars):

2016	$ 194,339
2017	176,086
2018	186,764
2019	192,506
2020 – 2025	1,104,643
	$ 1,854,338

The Health System expects to contribute approximately $71,600,000 to the defined benefit plans in 2016.

The expected long-term rate of return on plan assets is the expected average rate of return on the funds invested currently and on funds to be invested in the future in order to provide for the benefits included in the projected benefit obligation. The Health System used 6.8% and 7.0% in calculating the 2015 and 2014 expense amounts, respectively. This assumption is based on capital market assumptions and the plan's target asset allocation.

(Continued)

The Health System continues to monitor the expected long-term rate of return. If changes in those parameters cause 6.8% to be outside of a reasonable range of expected returns, or if actual plan returns over an extended period of time, suggest that general market assumptions are not representative of expected plan results, the Health System may revise this estimate prospectively.

Target asset allocation and expected long-term rate of return on assets (ELTRA) for the years ended December 31, 2015 and 2014, respectively, were as follows:

	2015 Target	2015 ELTRA	2014 Target	2014 ELTRA
Cash and eash equivalents	2%	1% – 3%	5%	1% – 4%
Equity securities	47	5% – 8%	35	5% – 8%
Debt securities	35	2% – 6%	50	3% – 5%
Other securities	16	5% – 8%	10	6% – 9%
Total	100%	6.80%	100%	7.00%

(Continued)

The following table presents the Health System's defined benefit plan assets measured at fair value at December 31, 2015:

	December 31, 2015	Fair value measurements at reporting date using		
		Level 1	Level 2	Level 3
		(In thousands of dollars)		
Assets:				
Cash and cash equivalents	$ 38,530	38,530	—	—
Domestic equity securities:				
Mutual funds:				
Large capitalization	16,180	16,180	—	—
Technology	63,668	63,668	—	—
Financial services	52,988	52,988	—	—
Consumer services	48,814	48,814	—	—
Other	96,105	96,105	—	—
Foreign equity securities:				
Mutual funds:				
Large capitalization	14,487	14,487	—	—
Consumer services	14,216	14,216	—	—
Technology	10,693	10,693	—	—
Other	11,983	11,983	—	—
Debt securities – state and government	242,808	169,396	73,412	—
Foreign securities – state and government	7,500	—	7,500	—
Domestic corporate debt securities	115,999	—	115,999	—
Foreign corporate debt securities	15,095	—	15,095	—
Other	7,781	—	7,781	—
Investments measured using NAV	778,406			
Total	$ 1,535,253			

(Continued)

The following table presents the Health System's defined benefit plan assets measured at fair value at December 31, 2014:

	December 31, 2014	Fair value measurements at reporting date using		
		Level 1	Level 2	Level 3
		(In thousands of dollars)		
Assets:				
Cash and cash equivalents	$ 44,670	44,670	—	—
Domestic equity securities:				
Mutual funds:				
Medium-small cap and other	2,252	2,252	—	—
Consumer services	184,842	184,842	—	—
Financial services	68,769	68,769		
Technology	45,304	45,304	—	—
Other	62,558	62,558	—	—
Foreign equity securities:				
Mutual funds:				
Large capitalization	44,450	44,450	—	—
Consumer services	15,809	15,809	—	—
Technology	11,777	11,777	—	—
Other	19,809	19,809	—	—
Debt securities – state and government	281,432	208,804	72,628	—
Foreign securities – state and government	14,596	—	14,596	—
Domestic corporate debt securities	129,564	—	129,564	—
Foreign corporate debt securities	22,291	—	22,291	—
Other	13,108	3,246	9,862	—
Investments measured using NAV	821,019			
Total	$ 1,782,250			

The Health System defined benefit plans participate in various funds that are not actively marketed on an open exchange. These investments consist of shares or units in investment funds as opposed to direct interests in the funds' underlying holdings, which may be marketable. Due to the nature of these funds the net asset value per share, or its equivalent, reported by each fund manager is used as a practical expedient to estimate the fair value of the Health System's interest therein. Management believes that the carrying amounts of these financial instruments, provided by the fund managers, are reasonable estimates of fair value.

(Continued)

The following table presents information for investments where either the NAV per share or its equivalent was used to value the investments as of December 31:

	Fair value 2015	Fair value 2014	Redemption frequency	Redemption notice period
Hedge funds				
Risk parity	$ 125,398	138,886	Monthly	5 – 15 days
Growth	142,320	140,305	Quarterly	45 – 90 days
Other	1,444	2,993	Monthly or Quarterly	30 – 90 days
Collective investment funds:				
Equities	355,462	349,662	Monthly	6 – 60 days
Fixed income	153,782	189,173	Daily	3 days
Total	$ 778,406	821,019		

There were no significant transfers between assets classified as Level 1 and Level 2 during the years ended December 31, 2015 and 2014.

(b) Defined Contribution Plans

401(a) Service Plan

The Health System sponsors the Providence Health & Services 401(a) Service Plan (the Service Plan). The Service Plan covers substantially all Providence employees, with contributions based on defined eligible compensation and years of service. The plan has a five-year cliff vesting schedule. The Health System contributed $153,563,000 to the Service Plan in 2015 related to prior years, and has accrued a liability of $161,947,000 as of December 31, 2015 related to contributions to be made in 2016 for plan year 2015. The accrued balance has been included in the current portion of retirement plan obligations on the accompanying combined balance sheets.

403(b) Value Plan

The Health System also sponsors the Providence Health & Services 403(b) Value Plan (the Value Plan). The plan is a defined contribution plan, which includes a qualified cash or deferred arrangement, for the benefit of eligible employees. Vesting is immediate. Total Value Plan expense, primarily related to contributions, was $77,070,000 and $74,760,000 in 2015 and 2014, respectively, and is included in employee benefits expense in the accompanying combined statements of operations.

Providence, Swedish, PAML Multiple Employer 401(k) Plan

The Health System sponsors the Providence, Swedish, PAML Multiple Employer 401(k) Plan which covers certain Providence affiliates unable to participate in the Service Plan and the Value Plan. The plan is a defined contribution plan with contributions based on defined eligible compensation. The plan has a four-year cliff vesting schedule. Total plan expense, primarily related to contributions, was $47,590,000 and $42,781,000 in 2015 and 2014, respectively, and is included in employee benefits expense in the accompanying combined statements of operations.

(Continued)

(9) Self-Insurance Liability

The Health System has established self-insurance programs for professional and general liability and workers' compensation insurance coverage. These programs provide insurance coverage for healthcare institutions associated with the Health System. The Health System also operates an insurance captive, Providence Assurance, Inc., to self-insure or reinsure certain layers of professional and general liability risk.

The Health System accrues estimated self-insured professional and general liability and workers' compensation insurance claims based on management's estimate of the ultimate costs for both reported claims and actuarially determined estimates of claims incurred-but-not-reported. Insurance coverage in excess of the per occurrence self-insured retention, has been secured with insurers or reinsurers for specified amounts for professional, general, and workers' compensation liabilities. Decisions relating to the limit and scope of the self-insured layer and the amounts of excess insurance purchased are reviewed each year, subject to management's analysis of actuarial loss projections and the price and availability of acceptable commercial insurance.

At December 31, 2015 and 2014, the estimated liability for future costs of professional and general liability claims was $249,013,000 and $232,639,000, respectively. At December 31, 2015 and 2014, the estimated workers' compensation obligation was $162,728,000 and $150,845,000, respectively, in the accompanying combined balance sheets. At December 31, 2015 and 2014, $292,843,000 and $274,541,000, respectively, of these amounts were included as self-insurance liability, net of current portion, with the remainder included within current portion of self-insurance liability, in the accompanying combined balance sheets.

(10) Commitments

Firm purchase commitments, primarily related to construction, software, and supplies, at December 31, 2015, are approximately $163,590,000.

(11) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at December 31, 2015 and 2014:

	2015	2014
	(In thousands of dollars)	
Program support	$ 184,340	160,842
Low-income housing	32,950	34,036
Capital acquisition and other	107,601	110,399
Total temporarily restricted net assets	$ 324,891	305,277

The Health System's fundraising foundations have obtained contributions to support the various programs offered by the Health System. Many of these contributions remain temporarily restricted as of December 31, 2015 and 2014 because the time or purpose restrictions stipulated by the donor have not been met. Generally, program support consists of items that will defray the cost of operating certain patient care activities of the Health System.

(Continued)

Other revenues included $48,228,000 and $48,589,000 of assets released from restriction for operations for the years ended December 31, 2015 and 2014, respectively.

Permanently restricted net assets are restricted to investments in perpetuity, the income of which is expendable primarily for program support.

(12) Litigation and Contingencies

The healthcare industry is subject to numerous laws and regulations from federal, state, and local governments. Compliance with these laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time. Government monitoring and enforcement activity continues with respect to investigations and allegations concerning possible violations by healthcare providers of regulations, which could result in the imposition of significant fines and penalties, as well as significant repayments of patient services previously billed. Institutions within the Health System are subject to similar regulatory reviews.

Management is aware of certain asserted and unasserted legal claims and regulatory matters arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Health System's combined financial statements.

(13) Functional Expenses

The Health System provides healthcare services to residents within its geographic service areas. Expenses related to providing these services for the years ended December 31, 2015 and 2014 are as follows:

	2015	2014
	(In thousands of dollars)	
Healthcare expenses	$ 10,700,175	9,199,881
Purchased healthcare expenses	1,045,019	909,154
General and administrative expenses	2,426,771	2,152,790
Total operating expenses	$ 14,171,965	12,261,825

PROVIDENCE HEALTH & SERVICES

Supplemental Schedule – Balance Sheet Information

December 31, 2015 (with combined totals for 2014)

(In thousands of dollars)

Assets	Alaska	Washington	Montana	Oregon	Providence Plan Partners	Southern California	System office, eliminations, and other	2015 Total Health System	2014 Total Health System
Current assets:									
Cash and cash equivalents	$ 213,952	191,084	7,779	207,553	74,695	(113,363)	147,621	729,321	1,237,337
Short-term management-designated investments	—	—	—	—	—	18,721	181,530	200,251	199,338
Accounts receivable, net	160,005	815,096	51,729	319,025	—	298,333	(74,361)	1,569,827	1,419,495
Other receivables, net	20,088	939,747	82,816	98,241	53,994	109,741	(905,336)	399,291	375,185
Supplies inventory	12,605	85,491	5,991	37,507	—	28,461	24,564	194,619	185,821
Other current assets	1,090	33,651	247	22,443	3,803	24,030	55,572	140,836	203,337
Current portion of funds held by trustee	76	2,672	1	1,478	—	64	50,449	54,740	76,365
Total current assets	407,816	2,067,741	148,563	686,247	132,492	365,987	(519,961)	3,288,885	3,696,878
Assets whose use is limited:									
Management-designated cash and investments	523,467	1,350,622	47,682	1,204,626	570,946	218,945	1,014,570	4,930,858	4,601,153
Gift annuities, trusts, and other	360	16,366	2,351	27,886	—	15,116	31,725	93,804	53,954
Funds held by trustee	—	66,617	—	68,371	15,793	350	121,771	272,902	179,473
Assets whose use is limited, net	523,827	1,433,605	50,033	1,300,883	586,739	234,411	1,168,066	5,297,564	4,834,580
Property, plant, and equipment, net	552,020	3,065,950	94,018	1,030,286	69,003	1,025,488	744,095	6,580,860	6,622,566
Other assets	26,746	241,655	21,127	61,618	1,381	230,317	(9,876)	572,968	568,884
Total assets	$ 1,510,409	6,808,951	313,741	3,079,034	789,615	1,856,203	1,382,324	15,740,277	15,722,908
Liabilities and Net Assets									
Current liabilities:									
Current portion of long-term debt	$ 26,748	99,844	4,179	40,312	—	30,569	42,880	244,532	202,287
Master trust debt classified as short-term	—	—	—	—	—	—	137,500	137,500	12,500
Accounts payable	14,237	198,078	12,596	58,642	1,657	100,033	42,324	427,567	521,942
Accrued compensation	24,888	224,403	10,118	108,782	—	71,063	202,152	641,406	738,075
Payable to contractual agencies	5,742	51,047	122	3,812	2,952	8,168	32,808	104,651	151,778
Retirement plan obligations	—	—	—	—	—	—	190,278	190,278	185,517
Current portion of self-insurance liability	—	10,802	—	—	—	—	108,096	118,898	108,943
Other current liabilities	4,833	1,068,887	79,540	94,507	288,701	119,630	(1,192,900)	463,198	465,865
Total current liabilities	76,448	1,653,061	106,555	306,055	293,310	329,463	(436,862)	2,328,030	2,386,907
Long-term debt, net of current portion (1)	253,626	2,164,345	52,037	292,987	—	671,023	295,777	3,729,795	3,844,262
Other long-term liabilities	21,773	454,702	6,380	45,460	1,382	65,524	1,051,583	1,646,804	1,542,579
Total liabilities	351,847	4,272,108	164,972	644,502	294,692	1,066,010	910,498	7,704,629	7,773,748
Net assets:									
Unrestricted	1,145,988	2,409,856	142,933	2,326,791	494,923	639,972	426,316	7,586,779	7,537,626
Temporarily restricted	9,668	91,567	3,973	71,771	—	110,599	37,313	324,891	305,277
Permanently restricted	2,906	35,420	1,863	35,970	—	39,622	8,197	123,978	106,257
Total net assets	1,158,562	2,536,843	148,769	2,434,532	494,923	790,193	471,826	8,035,648	7,949,160
Total liabilities and net assets	$ 1,510,409	6,808,951	313,741	3,079,034	789,615	1,856,203	1,382,324	15,740,277	15,722,908

(1) The Obligated Group debt is joint and several for the Obligated Group members, however, the balance sheets of the individual entities only include their allocated portions.

See accompanying independent auditors' report.

PROVIDENCE HEALTH & SERVICES

Supplemental Schedule – Statement of Operations Information

December 31, 2015 (with combined totals for 2014)

(In thousands of dollars)

	Alaska	Washington	Montana	Oregon	Providence Plan Partners	Southern California	System office, eliminations, and other	2015 Total Health System	2014 Total Health System
Operating revenues:									
Net patient service revenues	$ 836,680	6,218,533	352,193	2,778,202	—	2,302,762	(519,254)	11,969,116	10,294,637
Provision for bad debts	(24,946)	(77,864)	(5,092)	(6,163)	—	(67,149)	(4,353)	(185,567)	(193,018)
Net patient service revenues less provision for bad debts	811,734	6,140,669	347,101	2,772,039	—	2,235,613	(523,607)	11,783,549	10,101,619
Premium and capitation revenues	—	181,793	—	96,362	1,330,926	253,155	—	1,862,236	1,682,968
Other revenues	51,996	314,105	26,771	263,283	79,623	113,959	(61,741)	787,996	696,390
Total operating revenues	863,730	6,636,567	373,872	3,131,684	1,410,549	2,602,727	(585,348)	14,433,781	12,480,977
Operating expenses:									
Salaries and wages	270,356	2,648,830	120,575	1,199,743	2,920	885,997	855,298	5,983,719	5,248,196
Employee benefits	24,395	368,935	10,693	117,004	17	80,075	756,584	1,357,703	1,220,078
Purchased healthcare	—	90,852	—	30,800	1,270,029	97,412	(444,074)	1,045,019	909,154
Professional fees	19,041	159,648	17,401	74,346	25,505	240,884	45,775	582,600	514,990
Supplies	111,607	1,015,985	73,416	518,569	659	318,183	33,586	2,072,005	1,792,707
Purchased services	53,791	407,247	38,484	154,627	146,166	166,111	138,763	1,105,189	977,247
Depreciation	54,600	263,881	11,263	107,851	2,098	70,778	120,066	630,537	676,357
Interest	14,725	86,479	2,689	5,994	—	32,617	10,976	153,480	155,343
Amortization	(12)	(1,045)	438	(325)	—	746	918	720	5,671
Other	24,528	498,491	14,186	194,265	38,759	293,719	177,045	1,240,993	762,082
Total operating expenses	573,031	5,539,303	289,145	2,402,874	1,486,153	2,186,522	1,694,937	14,171,965	12,261,825
Excess (deficit) of revenues over expenses from operations	290,699	1,097,264	84,727	728,810	(75,604)	416,205	(2,280,285)	261,816	219,152
Net nonoperating (losses) gains	(4,485)	(45,752)	226	(28,337)	7,855	(17,580)	(96,918)	(184,991)	552,270
Excess (deficit) of revenues over expenses	286,214	1,051,512	84,953	700,473	(67,749)	398,625	(2,377,203)	76,825	771,422
Net assets released from restriction for capital	109	7,027	(92)	2,618	—	9,622	1,088	20,372	13,646
Change in noncontrolling interests in consolidated joint ventures	(73)	(397)	—	(804)	—	(819)	1,695	(398)	584
Pension related changes	—	(19,156)	—	1,263	—	—	(9,522)	(27,415)	(249,011)
Interdivision transfers	(171,911)	(954,602)	(79,776)	(685,019)	—	(480,719)	2,372,027	—	—
Contributions, grants, and other	(3,497)	(8,491)	10	(2,769)	—	(4,073)	(1,411)	(20,231)	(8,639)
Increase (decrease) in unrestricted net assets	$ 110,842	75,893	5,095	15,762	(67,749)	(77,364)	(13,326)	49,153	528,002

See accompanying independent auditors' report.

APPENDIX B-2

AUDITED FINANCIAL STATEMENTS – ST. JOSEPH HEALTH SYSTEM

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Consolidated Financial Statements and Supplementary Information

St. Joseph Health System and Affiliates
A St. Joseph Health Ministry Corporation
Fiscal Years Ended June 30, 2015 and 2014
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, 2015 and 2014

Contents

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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, 2015 and 2014, 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.

Building a better working world

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, 2015 and 2014, 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 consolidated 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 consolidated 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 consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

Ernst & Young LLP

September 25, 2015

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

Consolidated Balance Sheets
(In Thousands)

	June 30	
	2015	**2014**
Assets		
Current assets:		
Cash and equivalents	**$ 443,611**	$ 269,991
Short-term marketable securities	**654,022**	852,635
Patient accounts receivable, less allowance for doubtful accounts ($224,090 and $240,482 as of June 30, 2015 and 2014, respectively)	**641,115**	641,384
Other assets	**311,629**	258,722
Total current assets	**2,050,377**	2,022,732
Long-term marketable securities	**1,154,106**	1,080,035
Assets limited as to use:		
Board designated	**1,493,406**	1,546,445
Held in trust	**115,467**	115,077
Total assets limited as to use	**1,608,873**	1,661,522
Property and equipment, net	**4,027,998**	3,853,737
Investments and other	**151,236**	130,225
Collateral held for swap counterparty	**1,477**	–
Notes receivable	**20,420**	21,711
Deferred financing costs, net	**20,576**	22,570
Goodwill and other intangibles, net	**254,221**	234,176
	447,930	408,682
Total assets	**$ 9,289,284**	$ 9,026,708
Liabilities and net assets		
Current liabilities:		
Accounts payable	**$ 153,913**	$ 133,843
Accrued compensation and related liabilities	**298,029**	302,343
Accrued liabilities	**512,895**	491,547
Payable to third-party payors	**63,683**	62,317
Current maturities of long-term debt	**48,201**	49,025
Total current liabilities	**1,076,721**	1,039,075
Interest rate swaps	**101,064**	85,838
Other liabilities	**234,609**	257,313
Long-term debt, less current maturities	**2,391,905**	2,327,367
Total liabilities	**3,804,299**	3,709,593
Net assets:		
Unrestricted:		
Controlling interest	**4,987,486**	4,893,626
Noncontrolling interests in subsidiaries	**146,020**	107,624
Temporarily restricted	**270,330**	246,259
Permanently restricted	**81,149**	69,606
	5,484,985	5,317,115
Total liabilities and net assets	**$ 9,289,284**	$ 9,026,708

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	
	2015	**2014**
Revenues:		
Patient service, net of contractual allowances and discounts	**$ 4,955,644**	$ 4,480,661
Provision for doubtful accounts	**182,093**	205,438
Net patient service, net of provision for doubtful accounts	**4,773,551**	4,275,223
Premium	**1,192,711**	1,130,559
Other	**272,254**	225,884
Total revenues	**6,238,516**	5,631,666
Expenses:		
Compensation and benefits	**2,535,488**	2,467,614
Supplies and other	**1,494,824**	1,139,382
Professional fees and purchased services	**1,705,587**	1,598,746
Depreciation and amortization	**343,777**	303,521
Interest	**103,460**	110,737
Impairment of goodwill	**–**	27,754
Total expenses	**6,183,136**	5,647,754
Operating income (loss)	**55,380**	(16,088)
Nonoperating gains, net	**4,899**	324,875
Excess of revenues over expenses	**60,279**	308,787
Less: Excess of revenues over expenses attributable to noncontrolling interests	**17,192**	15,985
Excess of revenues over expenses attributable to controlling interests	**$ 43,087**	$ 292,802
Unrestricted net assets		
Excess of revenues over expenses attributable to controlling interests	**$ 43,087**	$ 292,802
Net assets released from restrictions and other attributable to controlling interests	**50,773**	2,425
Increase in unrestricted net assets attributable to controlling interests	**93,860**	295,227
Excess of revenues over expenses attributable to noncontrolling interests	**17,192**	15,985
Net assets released from restrictions and other attributable to noncontrolling interests	**21,204**	15,221
Increase in unrestricted net assets attributable to noncontrolling interests	**38,396**	31,206
Increase in unrestricted net assets	**132,256**	326,433
Temporarily and permanently restricted net assets		
Restricted contributions and other, net	**83,073**	60,205
Restricted net assets released from restrictions	**(47,459)**	(33,384)
Increase in temporarily and permanently restricted net assets	**35,614**	26,821
Increase in net assets	**167,870**	353,254
Net assets at beginning of period	**5,317,115**	4,963,861
Net assets at end of period	**$ 5,484,985**	$ 5,317,115

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	
	2015	**2014**
Cash flows from operating activities and nonoperating gains		
Increase in net assets	**$ 167,870**	$ 353,254
Adjustments to reconcile increase in net assets to net cash provided by operating activities and nonoperating gains:		
Impairment of goodwill	**–**	27,754
Provision for doubtful accounts	**182,093**	205,438
Depreciation and amortization	**343,777**	303,521
Loss on disposal of assets	**17,338**	5,906
Loss on debt extinguishment	**–**	7,326
Amortization of deferred financing costs and bond premium	**7,807**	1,078
Change in fair value of investments designate as trading	**102,606**	(181,967)
Noncontrolling interest of acquired entities	**(13,276)**	–
Restricted contributions and other, net	**(83,073)**	(60,205)
Change in fair value of interest rate swap agreements	**15,226**	(145)
Changes in operating assets and liabilities:		
Patient accounts receivable	**(176,736)**	(239,274)
Investments designated as trading	**74,585**	(161,076)
Other assets	**(52,609)**	38,515
Accounts payable	**19,673**	(43,023)
Accrued compensation and related liabilities	**(4,539)**	(7,081)
Accrued liabilities	**62,461**	85,416
Payable to third-party payors	**1,366**	(13,556)
Other liabilities	**(23,794)**	5,086
Net cash provided by operating activities and nonoperating gains	**640,775**	326,967
Investing activities		
Purchase of property and equipment	**(570,938)**	(458,010)
Increase in investments and other	**(27,396)**	(15,725)
(Increase) decrease in collateral held for swap counterparty	**(1,477)**	8,926
Decrease in notes receivable	**1,566**	1,441
Distribution from affiliates	**7,244**	–
Acquisitions, net of cash acquired	**(19,018)**	(26,092)
Net cash used in investing activities	**(610,019)**	(489,460)
Financing activities		
Restricted contributions and other	**83,073**	60,205
Proceeds from line of credit	**130,000**	–
Repayment of line of credit	**(15,000)**	(24,000)
Repayment of short-term debt	**(275)**	–
Proceeds from long-term debt	**–**	701,720
Refunding of long-term debt	**–**	(552,844)
Repayment of long-term debt	**(54,934)**	(44,849)
Payment for debt extinguishment	**–**	(33,303)
Increase in deferred financing costs	**–**	(3,958)
Net cash provided by financing activities	**142,864**	102,971
Increase (decrease) in cash and equivalents	**173,620**	(59,522)
Cash and equivalents at beginning of period	**269,991**	329,513
Cash and equivalents at end of period	**$ 443,611**	$ 269,991

See accompanying notes.

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

Notes to Consolidated Financial Statements

June 30, 2015

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.

In July 2015, the Health System signed a letter of intent with Providence Health & Services (PH&S) to create a new, single organization. PH&S is a non-profit Catholic health care ministry committed to providing for the needs of the communities it serves in Alaska, California, Montana, Oregon, and Washington – with its system office located in Renton, Washington.

Hoag Memorial Hospital Presbyterian and Affiliates

The Health System's affiliation with Hoag Memorial Hospital Presbyterian and Affiliates (Hoag) became effective on March 1, 2013. 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.

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 and is consolidated with Hoag'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) (1,053 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.

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 (3,967 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

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). It is also the sole corporate member of St. Joseph Professional Services Enterprises, Inc. (PSE), a company formed to participate in health care-related ventures; Revenue Cycle Services, LLC, a company formed to provide billing and collection services from health plan payors on behalf of the hospital affiliates; and St. Joseph Health System Foundation, a company formed to administer funds for charitable purposes.

Through PSE, the Health System owns a controlling interest in Heritage Investment Group I, LLC, a real estate company formed to construct, own, and manage a medical office building. As of June 30, 2015, the Health System owns 62.8% of Innovation Institute, a company formed to engage in health care-related activities with other health systems, technology companies, and private investors and 95% of Datu Health, a company formed to develop technology applications for physicians and patients.

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).

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.

1. Summary of Significant Accounting Policies (continued)

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.

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.

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:

	2015	2014
Government	**44%**	44%
Contracted	**43**	42
Self-pay and others	**13**	14
	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.

1. Summary of Significant Accounting Policies (continued)

The Health System's allowance for doubtful accounts as a percentage of self-pay and others accounts receivable increased from 85% as of June 30, 2014, to 95% as of June 30, 2015, due to a decrease in collections in this payor category. The Health System had no significant changes in its charity care or uninsured discount policies during its fiscal years 2015 and 2014. 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, 2015.

Other Assets

Other assets primarily consist of inventories, prepaid expenses, 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:

	2015	2014
	(In Thousands)	
Inventories	**$ 65,505**	$ 64,673
California Hospital Fee receivable	**79,293**	30,312
Other current assets	**166,831**	163,737
	$ 311,629	$ 258,722

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 Health System's Board of Trustees (the Board) for future capital improvements, over which the Board retains control and may at its discretion subsequently use for other purposes.

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. Depreciation expense for the fiscal years ended June 30, 2015 and 2014, was $335,035,000 and $294,648,000, 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. The Health System primarily uses the income and market approaches to valuation that include the discounted cash flow method, the guideline company method, as well as other generally accepted valuation methodologies to determine the fair value of its reporting units (Level 3 within the fair value hierarchy). 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 5 to 9 years. Certain trade names are amortized over a useful life ranging from 2 to 5 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.

1. Summary of Significant Accounting Policies (continued)

In fiscal year 2014, goodwill impairment was recorded due to certain future cash flow projections not supporting the recorded goodwill balance. The Health System completed the fair value assessment as of April 1, 2014, its annual impairment test date, and identified that the estimated fair value of one of its reporting units was less than its carrying value. The Health System then compared the implied fair value of the goodwill with the carrying amount of that goodwill. As the carrying amount of the reporting unit's goodwill exceeded the implied fair value, the Health System recognized a noncash impairment charge of $27,754,000.

The Health System's goodwill balance was $189,368,000 as of June 30, 2015, and $161,033,000 as of June 30, 2014. The accumulated impairment losses were $45,655,000 as of June 30, 2015, and June 30, 2014.

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

	2015	2014	Average Useful Life (Years)
	(In Thousands)		
Customer and contract	**$ 34,750**	$ 34,500	18
Covenant not to compete	**28,100**	24,601	7
Trade name – Hoag	**16,000**	16,000	Indefinite
Trade name – other	**3,400**	3,400	4
Other	**11,842**	11,322	7
	94,092	89,823	
Accumulated amortization	**(29,239)**	(16,680)	
Other intangibles, net	**$ 64,853**	$ 73,143	

1. Summary of Significant Accounting Policies (continued)

Amortization expense for the fiscal years ended June 30, 2015 and 2014, was $8,742,000 and $8,873,000, respectively. The future amortization of identifiable intangible assets by year, as of June 30, 2015, is as following (in thousands):

2016	$ 8,742
2017	8,742
2018	8,742
2019	8,742
2020	8,242
2021 and thereafter	5,643
	$ 48,853

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, 2015 and 2014. The undiscounted accruals for professional and general liability claims totaled $48,482,000 at June 30, 2015, and $38,200,000 at June 30, 2014. 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 as of June 30, 2015 and 2014. 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

1. Summary of Significant Accounting Policies (continued)

bank letters of credit with the insurance companies. 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, 2015 and 2014. The undiscounted accruals for workers' compensation claims totaled $120,848,000 at June 30, 2015, and $117,059,000 at June 30, 2014. Receivables for insurance recoveries for Hoag were $10,859,000 and $10,552,000 at June 30, 2015 and 2014, 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.

Other Liabilities

Other liabilities consist of the following as of June 30:

	2015	2014
	(In Thousands)	
Workers' compensation	**$ 93,070**	$ 89,723
Professional and general liability	**20,058**	17,534
Other liabilities	**121,481**	150,056
	$ 234,609	$ 257,313

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).

1. Summary of Significant Accounting Policies (continued)

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 unrestricted contributions in the consolidated financial statements.

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. Favorable differences between final settlements and amounts accrued in previous years of $11,382,000 and $23,858,000 are reflected in net patient service revenue for the fiscal years ended June 30, 2015 and 2014, respectively.

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.

1. Summary of Significant Accounting Policies (continued)

Patient service revenues, net of contractual allowances and discounts, recognized for the fiscal years ended June 30 are as follows:

	2015	2014
	(In Thousands)	
Government	**$ 2,133,145**	$ 1,739,320
Contracted	**2,535,718**	2,421,859
Self-pay and others	**286,781**	319,482
	$ 4,955,644	$ 4,480,661

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 was $509,566,000 in 2015 and $514,042,000 in 2014.

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

1. Summary of Significant Accounting Policies (continued)

premium revenue for the contracts for the fiscal years ended June 30 was $683,145,000 in 2015 and $616,517,000 in 2014. 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 $92,827,000 and $86,143,000 at June 30, 2015 and 2014, 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.

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.

1. Summary of Significant Accounting Policies (continued)

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, 2015 or 2014.

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.

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.

1. Summary of Significant Accounting Policies (continued)

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.

In June 2012, the legislation governing the 30-Month Program was amended to allow for the fee-for-service portion to be administered separately from the managed care portion. CMS approval for the fee-for-service portion of the 30-Month Program was obtained in June 2012. In May and June 2013, CMS approved the managed care portion of the 30-Month Program covering the period from July 1, 2011 to June 30, 2013. Revenue and expense were recognized upon approval for both the fee-for-service portion and the managed care portion.

The 36-Month Program fee-for-service and managed care portions are again administered separately. CMS approved the fee-for-service portion of the 36-Month Program in December 2014, the managed care portion of the 30-Month Program covering the period from July 1, 2013 to December 31, 2013, in December 2014, and the non-expansion part of the managed care portion of the 36-Month Program covering the period from January 1, 2014 to June 30, 2014, in June 2015.

During the fiscal year ended June 30, 2014, the Health System recognized only the fee-for-service portion of the 30-Month Program as the managed care portion was not approved. The Health System recognized QA Fees in the amount of $44,506,000 and pledge payments to CHFT of $938,000 within supplies and other expenses as well as Supplemental Payment revenue of $45,657,000 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.

1. Summary of Significant Accounting Policies (continued)

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, 2015 and 2014, Medicare incentives of $12,053,000 and $15,668,000, 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 $1,101,000 in 2015 and $5,103,000 in 2014, 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.

Adoption of New Accounting Pronouncements

Effective July 1, 2013, the Health System adopted a new accounting standard relating to the offsetting of financial instruments. Adoption of the new standard did not have a significant effect on the Health System's consolidated financial statements.

In October 2012, an accounting standard was released that requires classification of cash receipts from the sale of donated financial assets to be consistent with cash donations received within the

1. Summary of Significant Accounting Policies (continued)

statement of cash flows. The Health System adopted the accounting standard effective July 1, 2013, which did not have a significant effect on the Health System's consolidated financial statements.

In February 2013, an accounting standard was released and required jointly and severally liable entities to measure its obligation as the aggregate amount the entity has agreed with co-obligors to pay and any additional amount it expects to pay on behalf of one or more co-obligors. The Health System adopted the accounting standard effective July 1, 2014, which did not have a significant effect on the Health System's consolidated financial statements.

In April 2013, an accounting standard was released and required nonprofits to recognize uncompensated services received from affiliates that provide a direct benefit at cost. The Health System adopted the accounting standard effective July 1, 2014, which did not have a significant effect on the Health System's consolidated financial statements.

Recent Accounting Pronouncements

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 Health System is currently evaluating the effect of this standard on the Health System's consolidated financial statements.

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 debt and 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 and equity 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 equity securities.

2. Fair Value Measurements (continued)

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).

(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 monthly with 60 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 ten 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 daily liquidity with 10 days' notice to quarterly liquidity with 60 days' notice. The remaining real return positions have initial investment terms greater than ten 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.

2. Fair Value Measurements (continued)

Total unfunded commitments were $120,880,000 and $76,666,000 as of June 30, 2015 and 2014, respectively. The value for these funds recorded under the equity method of accounting and included within the tables below was $1,216,499,000 at June 30, 2015, and $982,413,000 at June 30, 2014.

The following tables provide the composition of certain assets and liabilities as of June 30:

	June 30, 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	Equity Method Investments	Valuation Technique (a,b,c)
			(In Thousands)				
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**
	$ 654,022	**$ 206,087**	**$ 447,935**	**$ –**	**$ 654,022**	**$ –**	
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**
	$ 1,154,106	**$ 535,890**	**$ 185,440**	**$ 230**	**$ 721,560**	**$ 432,546**	

2. Fair Value Measurements (continued)

	June 30, 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	Equity Method Investments	Valuation Technique (a,b,c)
			(In Thousands)				
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**
	$ 1,608,873	**$ 543,410**	**$ 281,510**	**$ –**	**$ 824,920**	**$ 783,953**	
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**

	June 30, 2014	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	Equity Method Investments	Valuation Technique (a,b,c)
			(In Thousands)				
Current assets							
Cash and equivalents	$ 269,991	$ 244,887	$ 25,104	$ –	$ 269,991	$ –	a
Short-term marketable securities:							
Money market funds and commercial papers	$ 21,135	$ 21,135	$ –	$ –	$ 21,135	$ –	a
Mutual funds	12,451	12,451	–	–	12,451	–	a
U.S. Treasury securities	279,789	–	279,789	–	279,789	–	a
Corporate and other debt securities	330,419	21,278	309,139	2	330,419	–	a,c
Corporate equity securities	208,312	208,312	–	–	208,312	–	a
Other	529	–	529	–	529	–	a
	$ 852,635	$ 263,176	$ 589,457	$ 2	$ 852,635	$ –	
Long-term marketable securities:							
Mutual funds	$ 196,508	$ 196,508	$ –	$ –	$ 196,508	$ –	a
U.S. Treasury securities	70,535	–	70,535	–	70,535	–	a
Corporate and other debt securities	53,331	–	53,331	–	53,331	–	a
Corporate equity securities	444,035	443,988	–	47	444,035	–	a
Other	315,626	–	–	–	–	315,626	a
	$ 1,080,035	$ 640,496	$ 123,866	$ 47	$ 764,409	$ 315,626	

2. Fair Value Measurements (continued)

	June 30, 2014	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	Equity Method Investments	Valuation Technique (a,b,c)
			(In Thousands)				
Assets limited as to use:							
Board designated:							
Money market funds and commercial papers	$ 334,843	$ 334,843	$ –	$ –	$ 334,843	$ –	a
Mutual funds	213,592	213,592	–	–	213,592	–	a
U.S. Treasury securities	115,212	–	115,212	–	115,212	–	a
Corporate and other debt securities	102,791	–	102,791	–	102,791	–	a
Corporate equity securities	211,532	211,001	280	251	211,532	–	a
Other	683,552	8,177	8,588	–	16,765	666,787	a
	$ 1,661,522	$ 767,613	$ 226,871	$ 251	$ 994,735	$ 666,787	
Liabilities:							
Interest rate swaps	$ 85,838	$ –	$ 85,838	$ –	$ 85,838	$ –	c

Activity for the fiscal year ended June 30, 2015, for investments with significant unobservable inputs (Level 3) consists of the following (in thousands):

Balance at July 1, 2014	$ 300
Sales	(327)
Transfers, net	187
Realized gains, included in nonoperating gains	16
Net unrealized gains, included in nonoperating gains	54
Balance at June 30, 2015	$ 230

In addition to amounts included in the previous table, the Health System's investments in partnerships, limited liability companies, and similarly structured entities of $33,400,000 and $18,058,000 as of June 30, 2015 and 2014, 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.

The Health System sponsors certain deferred compensation plans for which plan assets of $51,169,000 and $49,701,000 composed of certain mutual funds (Level 1) were maintained and recorded within investments and other as of June 30, 2015 and 2014, respectively.

2. Fair Value Measurements (continued)

The Health System received restricted and unrestricted pledges and contributions. Amounts remaining to be collected were $58,063,000 and $38,318,000 as of June 30, 2015 and 2014, respectively. Included in these amounts are long-term irrevocable planned gifts that are valued using discounted cash flow projections.

Investment Gains and Losses

Interest, dividends, and realized gains on sales of marketable securities of $154,706,000 and $174,743,000, net of related fees, are included in nonoperating gains, net for the fiscal years ended June 30, 2015 and 2014, respectively.

Also included in nonoperating gains, net are unrealized losses of $102,606,000 and net unrealized gains of $181,967,000 for the fiscal years ended June 30, 2015 and 2014, respectively.

3. Property and Equipment

Property and equipment consist of the following at June 30:

	2015	**2014**
	(In Thousands)	
Land	**$ 298,242**	$ 298,540
Buildings and land improvements	**3,445,940**	3,240,505
Leasehold improvements	**334,251**	314,930
Equipment	**2,380,712**	2,148,431
Construction in progress	**843,652**	886,511
	7,302,797	6,888,917
Less accumulated depreciation	**(3,274,799)**	(3,035,180)
	$ 4,027,998	$ 3,853,737

Included in accrued liabilities were purchases of property and equipment of $34,231,000 and $75,276,000 at June 30, 2015 and 2014, respectively.

3. Property and Equipment (continued)

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, 2015 and 2014, was $7,669,000 and $11,735,000, respectively, and is included in other liabilities in the accompanying consolidated balance sheets.

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 ten 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.

SJO is considered the owner of both the medical office buildings and parking structures 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

3. Property and Equipment (continued)

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, 2015 and 2014 (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.

The cost of the medical office buildings and parking structures are amortized over the economic life. Rent payments paid by SJO and Heritage 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:		
2016	$	371
2017		500
2018		639
2019		219
2020		66
Thereafter		62,956
Total	$	64,751

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 $230,000,000 and $107,000,000 in outstanding borrowings under this credit facility at June 30, 2015 and 2014, 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 $23,000,000 and $31,000,000 in outstanding borrowings as of June 30, 2015 and 2014, respectively (see Note 5). The credit facility was renewed in January 2014 to expire on January 31, 2017.

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, 2015, the Health System had provided an aggregate of $49,634,000 of these letters of credit for its workers' compensation and other insurance plans. At June 30, 2015 and 2014, 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).

5. Long-Term Debt (continued)

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

	2015	2014
	(In Thousands)	
CSCDA Series 1999, 2000, and 2007A-F fixed rate tax-exempt bonds, net of unamortized premium of $2,044, due in varying amounts through 2047; coupon rates of 4.50% to 5.75%	**$ 578,414**	$ 592,719
LHFDC Series 2008A multi-annual three-year put bonds due in 2030; coupon rate of 3.05%	**42,375**	43,925
LHFDC Series 2008B fixed rate tax-exempt bonds, due in varying amounts through 2023; coupon rates of 4.00% to 5.00%	**71,240**	83,050
CHFFA Series 2009A fixed rate tax-exempt bonds, net of unamortized discount of $2,424, due in varying amounts through 2039; coupon rates of 5.50% and 5.75%	**182,671**	182,570
CHFFA Series 2009BCD fixed rate multi-annual three-, five-, and seven-year put bonds, net of unamortized premium of $19,136, due in varying amounts through 2034; coupon rates of 4.00% to 5.25%	**219,666**	231,624
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 0.13%	**302,110**	302,110
CHFFA Series 2013A fixed rate tax-exempt bonds, net of unamortized premium of $4,254, due in varying amounts through 2037; coupon rates of 4.00% to 5.00%	**329,094**	329,287
CHFFA Series 2013BCD fixed rate multi-annual four-, six-, and seven-year put bonds, net of unamortized premium of $34,098, due in varying amounts through 2043; coupon rates of 4.15% to 4.26%	**364,098**	370,961

5. Long-Term Debt (continued)

	2015	2014
	(In Thousands)	
Bank line of credit, balloon payment due June 2019; interest rates of 0.84% to 0.92%	**$ 230,000**	$ 107,000
Bank line of credit, balloon payment due January 2017; interest rate of 0.70% to 0.79%	**23,000**	31,000
Lease financing obligation *(see Note 3)*	**64,751**	66,233
Capitalized leases	**19,674**	23,088
Other	**13,013**	12,825
	2,440,106	2,376,392
Less current portion of long-term debt	**(48,201)**	(49,025)
	$ 2,391,905	$ 2,327,367

The effective interest rate on tax-exempt debt was 5.26% and 5.21% at June 30, 2015 and 2014, respectively.

The aggregate amount of principal maturities and sinking fund requirements related to long-term debt at June 30, 2015, is as follows (in thousands):

Year:	
2016	$ 48,201
2017	85,815
2018	59,971
2019	264,095
2020	48,314
Thereafter	1,933,710
	$ 2,440,106

5. Long-Term Debt (continued)

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.

In July 2013, the Health System issued $654,840,000 of CHFFA fixed rate revenue bonds. The proceeds of the issuance were used to refund Hoag's outstanding obligations of $552,844,000, to reimburse certain prior expenditures, and to prospectively finance projects at various hospitals. Effective with the issuance of the CHFFA fixed rate revenue bonds, Hoag Memorial Hospital Presbyterian entered the Health System's Obligated Group, and St. Joseph Home Health North exited the group.

The fair value of the fixed rate tax-exempt bonds was estimated at $1,877,993,000 and $1,955,963,000 at June 30, 2015 and 2014, 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.

At June 30, 2015, the Health System was party to seven interest rate swap agreements with a current notional amount totaling $500,245,000 and with varying expirations. In June 2014, the Health System novated and restructured four swap agreements totaling $222,600,000, diversifying counterparties and increasing collateral threshold limits. There was no change to the notional value of the interest rate swaps. 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, 2015 and 2014, the total fair value of the combined interest rate swaps of $101,064,000 and $85,838,000, 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

5. Long-Term Debt (continued)

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 $1,477,000 assets as collateral held for the swap counterparty at June 30, 2015, as required by its swap agreements. The Health System did not restrict any assets as collateral held for the swap counterparty at June 30, 2014.

Debt Covenants

As of June 30, 2015, 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, 2015, 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, 2015, the Health System is in compliance with all debt covenants.

Interest Cost

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

	2015	**2014**
	(In Thousands)	
Interest paid	**$ 101,492**	$ 109,659
Amortization of deferred financing costs	**1,968**	1,078
Total interest expense	**$ 103,460**	$ 110,737

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 $87,332,000 and $90,184,000 in 2015 and 2014, respectively, to the plan.

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.

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. As of June 30, 2015 and 2014, there were no plan assets.

	2015	2014
	(In Thousands)	
Change in benefit obligations:		
Accumulated postretirement benefit obligation at beginning of year	**$ 43,337**	$ 40,975
Service cost	**633**	2,582
Interest cost	**588**	1,710
Actuarial gain (loss)	**2,616**	(438)
Benefits paid	**(2,110)**	(1,528)
Change in plan provision	**(27,324)**	36
Accumulated postretirement benefit obligation at end of year recognized in the consolidated balance sheets	**$ 17,740**	$ 43,337
Amounts recognized in changes to unrestricted net assets:		
Prior service cost	**$ 14,118**	$ (12,408)
Net actuarial gain	**9,719**	13,126
Total	**$ 23,837**	$ 718
Components of net periodic benefit costs:		
Service cost	**$ 633**	$ 2,582
Interest cost	**588**	1,710
Amortization of net loss	**(792)**	(691)
Amortization of prior service cost	**(797)**	3,169
Net periodic benefit (gain) cost	**$ (368)**	$ 6,770

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

	2015	2014
Weighted average discount rate for benefit obligation	**3.30%**	3.70%
Weighted average discount rate for net periodic benefit cost	**3.20%**	4.05%

6. Employee Benefit Plans (continued)

The assumed annual health care cost trend rate for the retiree health plan is 7.75% for 2015, 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 2016	$	3,080
Expected benefit payments:		
2016	$	3,080
2017		2,617
2018		2,588
2019		2,483
2020		2,152
2021–2025		5,562

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:

	2015	2014
	(In Thousands)	
Health care services	**$ 5,122,957**	$ 4,514,610
General and administrative	**1,060,179**	1,133,144
	$ 6,183,136	$ 5,647,754

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.

8. Charity Care (continued)

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 $65,179,000 and $89,117,000 in 2015 and 2014, respectively.

9. Community Benefits (Unaudited)

The Health System's policy is also 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.

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:

2015	Total Community Benefit Expense, at Cost			Unsponsored Community Benefit Expense, at Cost	
	Amount	% of Total Expenses	Direct Offsetting Revenue	Amount	% of Total Expenses
			(In Thousands)		
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	**$ 1,058,438**	**17.2**	**$ 617,038**	**$ 441,400**	**7.2**

2014	Total Community Benefit Expense, at Cost			Unsponsored Community Benefit Expense, at Cost	
	Amount	% of Total Expenses	Direct Offsetting Revenue	Amount	% of Total Expenses
			(In Thousands)		
Benefits for the poor:					
Traditional charity care (audited)	$ 89,117	1.6	$ –	$ 89,117	1.6
Community services for the poor	47,113	0.8	2,950	44,163	0.8
Unpaid cost of state and local programs	620,670	11.0	385,479	235,191	4.2
Total quantifiable benefits for the poor	756,900	13.4	388,429	368,471	6.6
Community services for the broader community	49,185	0.9	1,318	47,867	0.8
Total community benefits	$ 806,085	14.3	$ 389,747	$ 416,338	7.4

In addition, the Health System incurred $471,806,000 and $387,278,000 in costs in excess of reimbursement from the Medicare program for the fiscal years ended June 30, 2015 and 2014, respectively.

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:

	2015	2014
	(In Thousands)	
Program development	**$ 112,267**	$ 95,404
Building and equipment	**98,997**	100,237
Deferred for future use	**16,960**	11,675
Health care operations	**7,360**	6,812
Indigent care	**4,315**	4,779
Research	**3,907**	2,868
Education	**13,260**	10,932
Other	**13,264**	13,552
Total temporarily restricted net assets	**$ 270,330**	$ 246,259

10. Temporarily and Permanently Restricted Net Assets (continued)

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

	2015	2014
	(In Thousands)	
Program development	**$ 62,945**	$ 52,615
Building and equipment	**106**	106
Deferred for future use	**3,733**	3,582
Health care operations	**3,936**	3,888
Indigent care	**2,170**	1,816
Research	**301**	300
Education	**4,238**	3,666
Other	**3,720**	3,633
Total temporarily restricted net assets	**$ 81,149**	$ 69,606

Endowments

The Health System's endowment consists of approximately 162 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

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 (in thousands):

	2015			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
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**

	2014			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Board-designated endowment funds	$ 62,937	$ 17,560	$ 3,017	$ 83,514
Donor-restricted endowment funds	–	40,273	66,589	106,862
Total funds	$ 62,937	$ 57,833	$ 69,606	$ 190,376

10. Temporarily and Permanently Restricted Net Assets (continued)

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

	2015			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
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	**$ 46,861**	**$ 63,442**	**$ 81,149**	**$ 191,452**

	2014			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Endowment net assets, July 1, 2013	$ 56,425	$ 43,692	$ 65,674	$ 165,791
Realized investment gains (losses), net	5,703	9,566	(65)	15,204
Unrealized gains, net	2,914	5,705	33	8,652
Contributions, net	(1,508)	1,693	3,845	4,030
Appropriation of endowment assets for expenditure	(597)	(2,823)	119	(3,301)
Endowment net assets, June 30, 2014	$ 62,937	$ 57,833	$ 69,606	$ 190,376

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

10. Temporarily and Permanently Restricted Net Assets (continued)

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.

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 31 years. Lease expense for the fiscal years ended June 30 was $92,849,000 in 2015 and $90,416,000 in 2014. Sublease revenues relating to building space under various noncancelable leases were $11,512,000 in 2015 and $13,873,000 in 2014. The leases provide that the minimum monthly lease payments may be adjusted for inflation. Minimum lease commitments at June 30, 2015, are as follows (in thousands):

Year:	
2016	$ 88,419
2017	81,940
2018	78,367
2019	74,967
2020	61,333
Thereafter	258,365
	643,391
Less sublease revenue	(36,710)
	$ 606,681

Litigation

In June 2014, the Health System became aware of and notified approximately 33,000 patients that a thumb drive containing data pertaining to X-rays went missing. The Health System believes that the drive was taken from a staff member's locker during a burglary at the Santa Rosa Memorial Imaging Center that occurred on June 2, 2014. All affected patients and regulatory agencies have been notified and corrective actions have been in progress. Shortly after the Health System's notification, a putative class action was filed in Sonoma County Superior Court. The Health System filed a demurrer seeking to dismiss the case in its entirety. The demurrer was granted and the case was dismissed with prejudice. This matter is now closed.

11. Commitments and Contingencies (continued)

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 Health System is vigorously defending the actions. The cases are in their preliminary stages and as a result, the likelihood of an unfavorable outcome and the potential financial impact are unknown.

St. Joseph Hospital of Eureka has been named in three complaints alleging the existence of toxic mold at its facility and damages resulting therefrom. The hospital is vigorously defending the actions. The hospital was successful in having the case dismissed against 18 of the 20 plaintiffs under the workers' compensation exclusivity doctrine. The two remaining plaintiffs are the only non-employee plaintiffs. The case for the remaining two plaintiffs is in the preliminary stage and as a result, the likelihood of an unfavorable outcome and the potential financial impact are unknown.

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 Civil Division of the Department of Justice (DOJ) contacted the Health System in connection with its nationwide review of whether, in certain cases, hospital charges to the federal government relating to implantable cardio-defibrillators (ICDs) met the CMS criteria. In connection with this nationwide review, the DOJ indicated that it would review certain ICD billing and medical records at certain of the Health System's hospitals for the period from October 2003 to the present. In the interest of avoiding the delay, uncertainty, inconvenience, and expense of protracted litigation, and without any admission of liability, the Health System reached a settlement with the DOJ, which is reflected in the Health System's consolidated financial statements as of June 30, 2015.

11. Commitments and Contingencies (continued)

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 $1,366,017,000 to meet these seismic standards, and in some cases these projects will meet enhanced standards for 2030. Of the total projected costs, $1,061,330,000 has been spent through June 30, 2015, with additional commitments of $10,801,000. The Health System is compliant with all current seismic standards for all of its California hospitals.

12. Subsequent Events

The Health System has evaluated subsequent events occurring between the end of the most recent fiscal year ended June 30, 2015 and September 25, 2015, the date the accompanying consolidated financial statements were issued. In July 2015, the Health System signed a letter of intent with PH&S to create a new, single organization. PH&S is a non-profit Catholic health care ministry committed to providing for the needs of the communities it serves in Alaska, California, Montana, Oregon, and Washington – with it system office located in Renton, Washington.

Supplementary Information

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	311,629	–	264,250	31,152	–	1,119	–	60	243	13,634	–	1,171	240,201	71,428
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	4,027,998	83,227	3,468,106	314,320	–	–	10,311	11,691	88	132,253	–	8,002	3,626,844	401,154
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	254,221	22,474	206,969	–	–	–	–	–	–	9,910	–	14,868	37,259	216,962
	447,930	(37,177)	350,973	81,071	6,016	255	11,889	8,260	171	11,604	–	14,868	459,145	(11,215)
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	$ 153,913	$ –	$ 140,408	$ 4,724	$ –	$ 986	$ –	$ –	$ 201	$ 6,248	$ 29	$ 1,317	$ 118,610	$ 35,303
Accrued compensation and related liabilities	298,029	–	242,145	44,375	600	–	–	–	4,153	2,328	–	4,428	251,291	46,738
Accrued liabilities	512,895	(1,373)	363,769	109,368	–	25,044	–	2,889	5,609	6,755	–	834	343,566	169,329
Payable to third-party payors	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
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	234,609	–	119,632	104,035	–	10,005	6	–	171	–	–	760	183,065	51,544
Notes payable and interest due (from) to affiliates	–	1,821,980	97,288	(2,088,469)	–	124	7	10,650	31,393	130,499	(5,509)	2,037	(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
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	$ 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	$ 8,076,411	$ (33,829)	$ 5,644,805	$ 1,239,496	$ 896,178	$ 329,761
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	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 (from) to 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	$ 8,076,411	$ (33,829)	$ 5,644,805	$ 1,239,496	$ 896,178	$ 329,761

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	$ 5,644,805	$ (347,037)	$ 842,565	$ 1,006,705	$ 630,455	$ 292,936	$ 2,598,733	$ 211,252	$ 156,732	$ 16,968	$ 235,496
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	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	$ 5,644,805	$ (347,037)	$ 842,565	$ 1,006,705	$ 630,455	$ 292,936	$ 2,598,733	$ 211,252	$ 156,732	$ 16,968	$ 235,496

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	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	$ 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 Organization	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	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 (from) to 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	$ 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 Statements 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	272,254	(155,271)	(101,575)	283,550	12,072	3,346	3,354	88,777	115,376	–	22,625	192,472	79,782
Total revenues	6,238,516	(155,269)	5,864,685	283,550	12,072	3,346	3,354	88,777	115,376	–	22,625	4,695,510	1,543,006
Expenses:													
Compensation and benefits	2,535,488	(25,955)	2,304,913	160,216	–	–	–	54,247	30,704	–	11,363	2,017,426	518,062
Supplies and other	1,494,824	(24,124)	1,458,624	29,007	13,769	59	1,095	2,270	11,193	–	2,931	1,241,333	253,491
Professional fees and purchased services	1,705,587	(84,462)	1,561,782	118,279	169	–	29	40,100	63,467	–	6,223	814,257	891,330
Depreciation and amortization	343,777	5,985	300,393	31,469	–	649	335	144	3,541	–	1,261	306,906	36,871
Interest	103,460	(6,237)	90,500	9,859	–	3,285	564	1	5,448	–	40	96,365	7,095
Total expenses	6,183,136	(134,793)	5,716,212	348,830	13,938	3,993	2,023	96,762	114,353	–	21,818	4,476,287	1,706,849
Operating income (loss)	55,380	(20,476)	148,473	(65,280)	(1,866)	(647)	1,331	(7,985)	1,023	–	807	219,223	(163,843)
Nonoperating gains (losses), net	4,899	(27,013)	28,001	(12,594)	2,069	651	–	(2)	(2,091)	15,878	–	59,282	(54,383)
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 Statements 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 Statements 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 Statements 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 Statements 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

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

Consolidating Balance Sheet
(In Thousands)

June 30, 2014

	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
Assets													
Current assets:													
Cash and equivalents	$ 269,991	$ (40,591)	$ 258,542	$ –	$ 8,941	$ 3,098	$ 1,273	$ –	$ 32,390	$ 3,402	$ 2,936	$ 120,512	$ 149,479
Short-term marketable securities	852,635	–	662,604	101,383	13,676	–	–	–	–	74,972	–	726,886	125,749
Patient accounts receivable, less allowance for doubtful accounts	641,384	–	641,384	–	–	–	–	–	–	–	–	546,267	95,117
Other assets	258,722	–	218,651	28,301	1,119	214	60	70	6,216	1,911	2,180	200,486	58,236
Total current assets	2,022,732	(40,591)	1,781,181	129,684	23,736	3,312	1,333	70	38,606	80,285	5,116	1,594,151	428,581
Long-term marketable securities	1,080,035	–	876,882	136,235	66,918	–	–	–	–	–	–	955,544	124,491
Assets limited as to use:													
Board designated	1,546,445	–	1,513,438	–	–	–	–	–	–	33,007	–	1,359,297	187,148
Held in trust	115,077	–	13,885	101,192	–	–	–	–	–	–	–	104,745	10,332
Total assets limited as to use	1,661,522	–	1,527,323	101,192	–	–	–	–	–	33,007	–	1,464,042	197,480
Property and equipment, net	3,853,737	88,202	3,449,681	287,772	–	10,959	12,027	79	2,340	–	2,677	3,616,596	237,141
Investments and other	130,225	(58,228)	115,569	48,117	235	11,484	8,030	184	4,834	–	–	341,315	(211,090)
Notes receivable	21,711	–	1,938	19,773	–	–	–	–	–	–	–	21,711	–
Deferred financing costs, net	22,570	–	19,063	3,507	–	–	–	–	–	–	–	22,570	–
Goodwill and other intangibles, ne	234,176	24,093	194,146	–	–	–	–	–	1,069	–	14,868	38,879	195,297
	408,682	(34,135)	330,716	71,397	235	11,484	8,030	184	5,903	–	14,868	424,475	(15,793)
Total assets	$ 9,026,708	$ 13,476	$ 7,965,783	$ 726,280	$ 90,889	$ 25,755	$ 21,390	$ 333	$ 46,849	$ 113,292	$ 22,661	$ 8,054,808	$ 971,900
Liabilities and net assets (deficit)													
Current liabilities:													
Accounts payable	$ 133,843	$ –	$ 121,461	$ 2,374	$ 698	$ –	$ –	$ 212	$ 6,026	$ 327	$ 2,745	$ 96,093	$ 37,750
Accrued compensation and related liabilities	302,343	–	243,133	46,216	–	–	–	4,336	4,634	–	4,024	257,179	45,164
Accrued liabilities	491,547	(1,419)	296,154	169,519	17,513	–	2,580	5,832	–	–	1,368	357,372	134,175
Payable to third-party payors	62,317	–	62,317	–	–	–	–	–	–	–	–	62,317	–
Current maturities of long-term debt	49,025	(32,085)	35,524	45,586	–	–	–	–	–	–	–	45,937	3,088
Total current liabilities	1,039,075	(33,504)	758,589	263,695	18,211	–	2,580	10,380	10,660	327	8,137	818,898	220,177
Interest rate swaps	85,838	–	–	85,838	–	–	–	–	–	–	–	85,838	–
Other liabilities	257,313	–	117,874	128,786	10,109	6	–	185	–	–	353	208,834	48,479
Notes payable and interest due to (from) affiliates	–	1,887,245	90,477	(2,007,878)	114	–	11,740	22,528	(825)	(3,504)	103	(230,673)	230,673
Long-term debt, less current maturities	2,327,367	(1,934,463)	1,993,193	2,248,065	–	20,572	–	–	–	–	–	2,319,646	7,721
Total liabilities	3,709,593	(80,722)	2,960,133	718,506	28,434	20,578	14,320	33,093	9,835	(3,177)	8,593	3,202,543	507,050
Net assets (deficit):													
Controlling interest	5,209,491	77,729	4,914,495	7,774	62,455	5,177	7,070	(32,760)	37,014	116,469	14,068	4,852,265	357,226
Noncontrolling interests in subsidiaries	107,624	16,469	91,155	–	–	–	–	–	–	–	–	–	107,624
	5,317,115	94,198	5,005,650	7,774	62,455	5,177	7,070	(32,760)	37,014	116,469	14,068	4,852,265	464,850
Total liabilities and net assets	$ 9,026,708	$ 13,476	$ 7,965,783	$ 726,280	$ 90,889	$ 25,755	$ 21,390	$ 333	$ 46,849	$ 113,292	$ 22,661	$ 8,054,808	$ 971,900

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

Consolidating Balance Sheet of Regional Entities
(In Thousands)

June 30, 2014

	Total Regional Entities	Eliminations	Southern California Region	Northern California Region	Texas Region	Heritage
Assets						
Current assets:						
Cash and equivalents	$ 258,542	$ (93,574)	$ 212,190	$ 40,633	$ 93,567	$ 5,726
Short-term marketable securities	662,604	–	404,615	154,078	88,344	15,567
Patient accounts receivable, less allowance for doubtful accounts	641,384	–	344,223	130,092	136,631	30,438
Other assets	218,651	–	83,512	37,920	72,439	24,780
Total current assets	1,781,181	(93,574)	1,044,540	362,723	390,981	76,511
Long-term marketable securities	876,882	2,365	512,486	198,668	163,363	–
Assets limited as to use:						
Board designated	1,513,438	–	1,479,418	13,361	19,159	1,500
Held in trust	13,885	–	3,344	7,045	3,496	–
Total assets limited as to use	1,527,323	–	1,482,762	20,406	22,655	1,500
Property and equipment, net	3,449,681	–	2,430,710	634,818	289,121	95,032
Investments and other	115,569	–	76,713	5,071	29,185	4,600
Notes receivable	1,938	–	1,021	815	102	–
Deferred financing costs, net	19,063	–	13,643	4,336	1,084	–
Goodwill and other intangibles, net	194,146	–	66,273	–	–	127,873
	330,716	–	157,650	10,222	30,371	132,473
Total assets	$ 7,965,783	$ (91,209)	$ 5,628,148	$ 1,226,837	$ 896,491	$ 305,516
Liabilities and net assets						
Current liabilities:						
Accounts payable	$ 121,461	$ 2	$ 61,003	$ 21,641	$ 21,627	$ 17,188
Accrued compensation and related liabilities	243,133	–	131,836	52,598	47,215	11,484
Accrued liabilities	296,154	–	137,872	34,977	82,833	40,472
Payable to third-party payors	62,317	–	32,654	17,500	12,163	–
Current maturities of long-term debt	35,524	–	16,288	4,738	14,140	358
Total current liabilities	758,589	2	379,653	131,454	177,978	69,502
Other liabilities	117,874	–	68,929	6,718	35,916	6,311
Notes payable and interest due to (from) affiliates	90,477	(93,576)	126,939	24,287	(280)	33,107
Long-term debt, less current maturities	1,993,193	–	1,474,866	340,298	132,847	45,182
Total liabilities	2,960,133	(93,574)	2,050,387	502,757	346,461	154,102
Net assets:						
Controlling interest	4,914,495	2,365	3,506,543	723,814	530,359	151,414
Noncontrolling interests in subsidiaries	91,155	–	71,218	266	19,671	–
	5,005,650	2,365	3,577,761	724,080	550,030	151,414
Total liabilities and net assets	$ 7,965,783	$ (91,209)	$ 5,628,148	$ 1,226,837	$ 896,491	$ 305,516

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

Consolidating Balance Sheet of Southern California Region
(In Thousands)

June 30, 2014

	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	$ 212,190	$ –	$ –	$ –	$ 2,171	$ 625	$ 123,309	$ 15,305	$ 13,118	$ 5,947	$ 51,715
Short-term marketable securities	404,615	–	70,987	64,667	89,565	65,746	110,734	2,916	–	–	–
Patient accounts receivable, less allowance for doubtful accounts	344,223	(945)	63,185	51,076	80,218	48,137	79,037	–	–	7,874	15,641
Other assets	83,512	(17,076)	18,130	10,390	14,144	6,561	28,567	4,536	12,627	449	5,184
Total current assets	1,044,540	(18,021)	152,302	126,133	186,098	121,069	341,647	22,757	25,745	14,270	72,540
Long-term marketable securities	512,486	–	208,374	279,012	–	25,100	–	–	–	–	–
Assets limited as to use:											
Board designated	1,479,418	–	58,939	26,079	94,308	3,819	1,162,748	133,525	–	–	–
Held in trust	3,344	–	3,344	–	–	–	–	–	–	–	–
Total assets limited as to use	1,482,762	–	62,283	26,079	94,308	3,819	1,162,748	133,525	–	–	–
Property and equipment, net	2,430,710	(51,564)	475,955	613,834	343,645	138,036	741,576	–	129,934	2,157	37,137
Investments and other	76,713	(283,434)	14,402	(626)	21,251	1,210	237,601	32,835	16	–	53,458
Notes receivable	1,021	–	939	–	–	82	–	–	–	–	–
Deferred financing costs, net	13,643	–	5,495	4,192	2,612	1,344	–	–	–	–	–
Goodwill and other intangibles, net	66,273	(1,791)	–	–	13,717	–	–	–	–	–	54,347
	157,650	(285,225)	20,836	3,566	37,580	2,636	237,601	32,835	16	–	107,805
Total assets	$ 5,628,148	$ (354,810)	$ 919,750	$ 1,048,624	$ 661,631	$ 290,660	$ 2,483,572	$ 189,117	$ 155,695	$ 16,427	$ 217,482
Liabilities and net assets (deficit)											
Current liabilities:											
Accounts payable	$ 61,003	$ (81)	$ 21,386	$ 355	$ 1,743	$ 1,106	$ 31,236	$ 119	$ 253	$ 109	$ 4,777
Accrued compensation and related liabilities	131,836	(2,909)	22,938	17,371	18,630	11,354	56,786	732	–	2,170	4,764
Accrued liabilities	137,872	(10,680)	17,557	27,115	40,741	14,059	42,229	63	481	1,410	4,897
Payable to third-party payors	32,654	–	1,111	3,998	14,716	11,493	1,336	–	–	–	–
Current maturities of long-term debt	16,288	(358)	6,317	4,149	3,165	964	–	–	–	–	2,051
Total current liabilities	379,653	(14,028)	69,309	52,988	78,995	38,976	131,587	914	734	3,689	16,489
Other liabilities	68,929	(3,220)	7,919	2,022	4,017	731	49,908	2,539	–	–	5,013
Notes payable and interest due to (from) affiliates	126,939	–	12,552	6,041	82,153	6,711	(25,807)	2,797	–	17,713	24,779
Long-term debt, less current maturities	1,474,866	(26,063)	372,881	349,973	177,726	55,922	539,763	–	–	–	4,664
Total liabilities	2,050,387	(43,311)	462,661	411,024	342,891	102,340	695,451	6,250	734	21,402	50,945
Net assets (deficit):											
Controlling interest	3,506,543	(382,717)	457,089	637,600	318,740	188,320	1,788,121	182,867	154,961	(4,975)	166,537
Noncontrolling interests in subsidiaries	71,218	71,218	–	–	–	–	–	–	–	–	–
	3,577,761	(311,499)	457,089	637,600	318,740	188,320	1,788,121	182,867	154,961	(4,975)	166,537
Total liabilities and net assets	$ 5,628,148	$ (354,810)	$ 919,750	$ 1,048,624	$ 661,631	$ 290,660	$ 2,483,572	$ 189,117	$ 155,695	$ 16,427	$ 217,482

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

Consolidating Balance Sheet of Northern California Region
(In Thousands)

June 30, 2014

	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
Assets												
Current assets:												
Cash and equivalents	$ 40,633	$ –	$ 16,106	$ 6,921	$ 7,872	$ –	$ 4,256	$ –	$ 42	$ 235	$ 26	$ 5,175
Short-term marketable securities	154,078	–	77,150	54,110	–	163	19,686	–	2,969	–	–	–
Patient accounts receivable, less allowance for doubtful accounts	130,092	–	32,048	55,692	9,969	24,441	6,448	879	–	615	–	–
Other assets	37,920	(694)	6,640	14,265	2,797	11,758	1,661	18	–	211	–	1,264
Total current assets	362,723	(694)	131,944	130,988	20,638	36,362	32,051	897	3,011	1,061	26	6,439
Long-term marketable securities	198,668	–	92,154	71,372	–	602	31,568	–	–	–	–	2,972
Assets limited as to use:												
Board designated	13,361	–	–	5,213	2,076	6,072	–	–	–	–	–	–
Held in trust	7,045	–	–	–	–	(60)	–	–	–	–	–	7,105
Total assets limited as to use	20,406	–	–	5,213	2,076	6,012	–	–	–	–	–	7,105
Property and equipment, net	634,818	–	215,607	184,396	16,439	205,801	9,564	756	227	1,505	428	95
Investments and other	5,071	(3,441)	994	5,541	233	1,060	185	–	478	21	–	–
Notes receivable	815	–	135	–	–	548	132	–	–	–	–	–
Deferred financing costs, net	4,336	–	1,339	2,378	16	582	21	–	–	–	–	–
	10,222	(3,441)	2,468	7,919	249	2,190	338	–	478	21	–	–
Total assets	$ 1,226,837	$ (4,135)	$ 442,173	$ 399,888	$ 39,402	$ 250,967	$ 73,521	$ 1,653	$ 3,716	$ 2,587	$ 454	$ 16,611
Liabilities and net assets (deficit)												
Current liabilities:												
Accounts payable	$ 21,641	$ 1	$ 602	$ 11,549	$ 2,062	$ 5,656	$ 774	$ 3	$ –	$ 994	$ –	$ –
Accrued compensation and related liabilities	52,598	–	19,635	15,671	3,682	10,193	2,592	772	–	53	–	–
Accrued liabilities	34,977	(694)	15,532	10,373	2,237	6,125	946	205	–	152	–	101
Payable to third-party payors	17,500	–	3,494	3,130	(573)	8,225	3,224	–	–	–	–	–
Current maturities of long-term debt	4,738	–	1,343	2,322	104	–	71	–	–	898	–	–
Total current liabilities	131,454	(693)	40,606	43,045	7,512	30,199	7,607	980	–	2,097	–	101
Other liabilities	6,718	–	994	2,606	177	1,170	185	–	–	–	56	1,530
Notes payable and interest due to (from) affiliates	24,287	(1)	(5,375)	(33,537)	21,487	34,748	(635)	8,003	525	–	–	(928)
Long-term debt, less current maturities	340,298	(1)	151,110	126,115	234	60,857	1,764	–	–	219	–	–
Total liabilities	502,757	(695)	187,335	138,229	29,410	126,974	8,921	8,983	525	2,316	56	703
Net assets (deficit):												
Controlling interest	723,814	(3,706)	254,838	261,659	9,992	123,993	64,600	(7,330)	3,191	271	398	15,908
Noncontrolling interests in subsidiaries	266	266	–	–	–	–	–	–	–	–	–	–
	724,080	(3,440)	254,838	261,659	9,992	123,993	64,600	(7,330)	3,191	271	398	15,908
Total liabilities and net assets	$ 1,226,837	$ (4,135)	$ 442,173	$ 399,888	$ 39,402	$ 250,967	$ 73,521	$ 1,653	$ 3,716	$ 2,587	$ 454	$ 16,611

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

Consolidating Balance Sheet of Texas Region

(In Thousands)

June 30, 2014

	Texas Region	Elimination	Covenant Lubbock	Covenant Levelland	Covenant Plainview	Covenant LTAC	Covenant Medical Group	Methodist Medical Group	Covenant Surgicenter	Covenant Diagnostic Imaging	Hospice of Lubbock	Covenant Health Partners	First Care	Methodist Service Provider Organization	Covenant Foundation
Assets															
Current assets:															
Cash and equivalents	$ 93,567	$ –	$ 31,147	$ 2,315	$ 19,363	$ 4,802	$ 5,704	$ –	$ 754	$ 157	$ 5,010	$ 3,000	$ 12,790	$ 3,378	$ 5,147
Short-term marketable securities	88,344	–	68,621	4,060	15	–	95	–	1,096	–	–	–	14,457	–	–
Patient accounts receivable, less allowance for doubtful accounts	136,631	–	87,317	1,837	6,863	1,725	5,165	–	2,253	795	675	–	30,001	–	–
Other assets	72,439	–	51,154	2,559	3,472	150	5,644	–	590	115	180	391	5,291	285	2,608
Total current assets	390,981	–	238,239	10,771	29,713	6,677	16,608	–	4,693	1,067	5,865	3,391	62,539	3,663	7,755
Long-term marketable securities	163,363	–	108,763	–	–	–	–	–	–	–	–	–	45,398	–	9,202
Assets limited as to use:															
Board designated	19,159	–	2	41	–	–	–	–	–	–	–	–	–	–	19,116
Held in trust	3,496	–	269	–	–	–	–	–	–	–	–	–	–	–	3,227
Total assets limited as to use	22,655	–	271	41	–	–	–	–	–	–	–	–	–	–	22,343
Property and equipment, net	289,121	–	258,513	1,757	6,648	1,075	1,954	–	1,769	447	154	–	14,825	1,973	6
Investments and other	29,185	(35,113)	11,347	–	–	–	25,060	536	154	–	143	–	–	27,058	–
Notes receivable	102	–	102	–	–	–	–	–	–	–	–	–	–	–	–
Deferred financing costs, net	1,084	–	1,084	–	–	–	–	–	–	–	–	–	–	–	–
	30,371	(35,113)	12,533	–	–	–	25,060	536	154	–	143	–	–	27,058	–
Total assets	$ 896,491	$ (35,113)	$ 618,319	$ 12,569	$ 36,361	$ 7,752	$ 43,622	$ 536	$ 6,616	$ 1,514	$ 6,162	$ 3,391	$ 122,762	$ 32,694	$ 39,306
Liabilities and net assets (deficit)															
Current liabilities:															
Accounts payable	$ 21,627	$ –	$ 14,829	$ 487	$ 1,929	$ 387	$ 252	$ –	$ 453	$ 38	$ 242	$ 5	$ 1,578	$ 7	$ 1,420
Accrued compensation and related liabilities	47,215	–	27,048	789	4,274	467	9,092	–	188	166	135	2,904	2,129	–	23
Accrued liabilities	82,833	–	5,481	902	120	201	2,688	–	–	35	–	–	73,222	–	184
Payable to third-party payors	12,163	–	11,219	107	837	–	–	–	–	–	–	–	–	–	–
Current maturities of long-term debt	14,140	–	14,000	–	–	–	–	–	–	–	–	–	140	–	–
Total current liabilities	177,978	–	72,577	2,285	7,160	1,055	12,032	–	641	239	377	2,909	77,069	7	1,627
Other liabilities	35,916	–	10,320	–	–	–	25,060	536	–	–	–	–	–	–	–
Notes payable and interest due (from) to affiliates	(280)	–	(165,969)	623	9,959	112	104,602	–	135	–	144	(2,014)	–	50,201	1,927
Long-term debt, less current maturities	132,847	–	130,984	–	–	–	–	–	–	–	–	–	1,863	–	–
Total liabilities	346,461	–	47,912	2,908	17,119	1,167	141,694	536	776	239	521	895	78,932	50,208	3,554
Net assets (deficit):															
Controlling interest	530,359	(54,784)	570,407	9,661	19,242	6,585	(98,072)	–	5,840	1,275	5,641	2,496	43,830	(17,514)	35,752
Noncontrolling interests in subsidiaries	19,671	19,671	–	–	–	–	–	–	–	–	–	–	–	–	–
	550,030	(35,113)	570,407	9,661	19,242	6,585	(98,072)	–	5,840	1,275	5,641	2,496	43,830	(17,514)	35,752
Total liabilities and net assets	$ 896,491	$ (35,113)	$ 618,319	$ 12,569	$ 36,361	$ 7,752	$ 43,622	$ 536	$ 6,616	$ 1,514	$ 6,162	$ 3,391	$ 122,762	$ 32,694	$ 39,306

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

Consolidating Statements of Operations
(In Thousands)

Year Ended June 30, 2014

	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	$ 4,480,661	$ –	$ 4,480,661	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ 3,968,450	$ 512,211
Provision for doubtful accounts	205,438	–	205,438	–	–	–	–	–	–	–	–	185,084	20,354
Net patient service, net of provision for doubtful accounts	4,275,223	–	4,275,223	–	–	–	–	–	–	–	–	3,783,366	491,857
Premium	1,130,559	–	1,130,559	–	–	–	–	–	–	–	–	316,303	814,256
Other	225,884	(134,254)	(124,750)	280,377	12,840	3,346	3,354	75,198	80,840	–	28,933	166,174	59,710
Total revenues	5,631,666	(134,254)	5,281,032	280,377	12,840	3,346	3,354	75,198	80,840	–	28,933	4,265,843	1,365,823
Expenses:													
Compensation and benefits	2,467,614	(34,370)	2,264,587	150,286	–	–	–	53,042	22,631	–	11,438	2,022,148	445,466
Supplies and other	1,139,382	(22,110)	1,109,404	38,640	2,273	(97)	1,093	2,467	4,600	–	3,112	937,101	202,281
Professional fees and purchased services	1,598,746	(69,311)	1,425,796	134,270	156	–	33	42,025	50,556	–	15,221	790,840	807,906
Depreciation and amortization	303,521	5,776	284,013	12,128	–	649	335	206	326	–	88	278,096	25,425
Interest	110,737	(6,328)	96,292	16,891	–	3,256	620	–	–	–	6	109,683	1,054
Impairment of goodwill	27,754	(5,525)	33,279	–	–	–	–	–	–	–	–	1,002	26,752
Total expenses	5,647,754	(131,868)	5,213,371	352,215	2,429	3,808	2,081	97,740	78,113	–	29,865	4,138,870	1,508,884
Operating (loss) income	(16,088)	(2,386)	67,661	(71,838)	10,411	(462)	1,273	(22,542)	2,727	–	(932)	126,973	(143,061)
Nonoperating gains (losses), net	324,875	5,061	320,717	(25,204)	7,263	603	3	(6)	31	16,407	–	349,836	(24,961)
Excess (deficiency) of revenues over expenses	308,787	2,675	388,378	(97,042)	17,674	141	1,276	(22,548)	2,758	16,407	(932)	476,809	(168,022)
Less: Excess of revenues over expenses attributable to noncontrolling interests	15,985	1,399	14,586	–	–	–	–	–	–	–	–	–	15,985
Excess (deficiency) of revenues over expenses attributable to controlling interests	$ 292,802	$ 1,276	$ 373,792	$ (97,042)	$ 17,674	$ 141	$ 1,276	$ (22,548)	$ 2,758	$ 16,407	$ (932)	$ 476,809	$ (184,007)

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

Consolidating Statements of Operations of Regional Entities
(In Thousands)

Year Ended June 30, 2014

	Total Regional Entities	Eliminations	Southern California Region	Northern California Region	Texas Region	Heritage
Revenues:						
Patient service, net of contractual allowances and discounts	$ 4,480,661	$ –	$ 2,497,878	$ 984,150	$ 768,944	$ 229,689
Provision for doubtful accounts	205,438	–	90,447	62,248	45,626	7,117
Net patient service, net of provision for doubtful accounts	4,275,223	–	2,407,431	921,902	723,318	222,572
Premium	1,130,559	–	301,260	15,044	512,205	302,050
Other	(124,750)	(272,411)	41,999	24,752	55,436	25,474
Total revenues	5,281,032	(272,411)	2,750,690	961,698	1,290,959	550,096
Expenses:						
Compensation and benefits	2,264,587	(29,187)	1,241,304	469,631	433,318	149,521
Supplies and other	1,109,404	(8,539)	633,911	179,824	211,981	92,227
Professional fees and purchased services	1,425,796	(234,684)	503,695	196,183	557,608	402,994
Depreciation and amortization	284,013	–	182,901	54,336	34,414	12,362
Interest	96,292	–	66,693	17,542	8,153	3,904
Impairment of goodwill	33,279	32,277	1,002	–	–	–
Total expenses	5,213,371	(240,133)	2,629,506	917,516	1,245,474	661,008
Operating income (loss)	67,661	(32,278)	121,184	44,182	45,485	(110,912)
Nonoperating gains, net	320,717	–	257,179	39,973	22,502	1,063
Excess (deficiency) of revenues over expenses	388,378	(32,278)	378,363	84,155	67,987	(109,849)
Less: Excess (deficiency) of revenues over expenses attributable to noncontrolling interests	14,586	–	17,544	(101)	(2,857)	–
Excess (deficiency) of revenues over expenses attributable to controlling interests	$ 373,792	$ (32,278)	$ 360,819	$ 84,256	$ 70,844	$ (109,849)

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

Consolidating Statements of Operations of Southern California Region

(In Thousands)

Year Ended June 30, 2014

	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	$ 2,497,878	$ (2,673)	$ 466,626	$ 377,633	$ 473,948	$ 269,655	$ 726,580	$ –	$ –	$ 45,547	$ 140,562
Provision for doubtful accounts	90,447	–	8,854	19,756	22,189	14,613	24,020	–	–	839	176
Net patient service, net of provision for doubtful accounts	2,407,431	(2,673)	457,772	357,877	451,759	255,042	702,560	–	–	44,708	140,386
Premium	301,260	–	90,305	89,839	9,638	20,893	90,585	–	–	–	–
Other	41,999	(128,766)	12,995	10,335	14,870	2,671	53,762	20,788	11,858	121	43,365
Total revenues	2,750,690	(131,439)	561,072	458,051	476,267	278,606	846,907	20,788	11,858	44,829	183,751
Expenses:											
Compensation and benefits	1,241,304	(27,919)	263,612	201,338	200,514	141,029	363,334	–	–	30,163	69,233
Supplies and other	633,911	(33,384)	122,704	80,285	104,103	53,103	211,276	23,226	3,117	11,618	57,863
Professional fees and purchased services	503,695	(74,221)	142,189	107,462	95,840	62,837	141,901	–	1,731	5,943	20,013
Depreciation and amortization	182,901	(1,649)	40,592	26,195	22,834	10,447	74,530	–	2,793	785	6,374
Interest	66,693	(1,013)	16,745	19,213	10,316	2,817	18,322	–	–	8	285
Impairment of goodwill	1,002	–	–	1,002	–	–	–	–	–	–	–
Total expenses	2,629,506	(138,186)	585,842	435,495	433,607	270,233	809,363	23,226	7,641	48,517	153,768
Operating income (loss)	121,184	6,747	(24,770)	22,556	42,660	8,373	37,544	(2,438)	4,217	(3,688)	29,983
Nonoperating gains (losses), net	257,179	(27,576)	33,224	50,215	14,242	7,878	172,637	3,815	74	9	2,661
Excess (deficiency) of revenues over expenses	378,363	(20,829)	8,454	72,771	56,902	16,251	210,181	1,377	4,291	(3,679)	32,644
Less: Excess of revenues over expenses attributable to noncontrolling interests	17,544	17,544	–	–	–	–	–	–	–	–	–
Excess (deficiency) of revenues over expenses attributable to controlling interests	$ 360,819	$ (38,373)	$ 8,454	$ 72,771	$ 56,902	$ 16,251	$ 210,181	$ 1,377	$ 4,291	$ (3,679)	$ 32,644

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

Consolidating Statements of Operations of Northern California Region

(In Thousands)

Year Ended June 30, 2014

	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	$ 984,150	$ (537)	$ 232,466	$ 393,362	$ 84,821	$ 216,602	$ 42,558	$ 9,700	$ –	$ 4,528	$ 650	$ –
Provision for doubtful accounts	62,248	–	14,379	25,269	7,448	11,482	3,443	212	–	15	–	–
Net patient service, net of provision for doubtful accounts	921,902	(537)	218,087	368,093	77,373	205,120	39,115	9,488	–	4,513	650	–
Premium	15,044	–	10,775	4,269	–	–	–	–	–	–	–	–
Other	24,752	(1,174)	9,274	5,677	2,319	4,633	1,194	–	–	6	–	2,823
Total revenues	961,698	(1,711)	238,136	378,039	79,692	209,753	40,309	9,488	–	4,519	650	2,823
Expenses:												
Compensation and benefits	469,631	–	136,554	173,711	43,083	86,503	19,811	8,309	–	1,367	293	–
Supplies and other	179,824	(369)	43,575	67,296	11,558	44,706	5,806	2,171	–	2,243	267	2,571
Professional fees and purchased services	196,183	(1,342)	49,182	70,928	17,707	48,761	8,922	1,396	–	506	29	94
Depreciation and amortization	54,336	–	16,378	18,620	3,608	13,370	1,408	345	–	566	27	14
Interest	17,542	–	6,771	6,784	23	3,659	98	139	–	68	–	–
Total expenses	917,516	(1,711)	252,460	337,339	75,979	196,999	36,045	12,360	–	4,750	616	2,679
Operating income (loss)	44,182	–	(14,324)	40,700	3,713	12,754	4,264	(2,872)	–	(231)	34	144
Nonoperating gains (losses), net	39,973	96	18,588	15,137	(443)	431	6,005	–	6	–	–	153
Excess (deficiency) of revenues over expenses	84,155	96	4,264	55,837	3,270	13,185	10,269	(2,872)	6	(231)	34	297
Less: Deficiency of revenues over expenses attributable to noncontrolling interests	(101)	(101)	–	–	–	–	–	–	–	–	–	–
Excess (deficiency) of revenues over expenses attributable to controlling interests	$ 84,256	$ 197	$ 4,264	$ 55,837	$ 3,270	$ 13,185	$ 10,269	$ (2,872)	$ 6	$ (231)	$ 34	$ 297

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

Consolidating Statements of Operations of Texas Region

(In Thousands)

Year Ended June 30, 2014

	Texas Region	Eliminations	Covenant Lubbock	Covenant Levelland	Covenant Plainview	Covenant LTAC	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	$ 768,944	$ (53,476)	$ 617,000	$ 21,260	$ 46,478	$ 21,152	$ 91,386	$ 13,204	$ 5,121	$ 6,819	$ –	$ –	$ –	$ –
Provision for doubtful accounts	45,626	–	27,222	1,424	4,985	372	10,503	385	738	(3)	–	–	–	–
Net patient service, net of provision for doubtful accounts	723,318	(53,476)	589,778	19,836	41,493	20,780	80,883	12,819	4,383	6,822	–	–	–	–
Premium	512,205	(1,837)	–	–	–	–	–	–	–	–	–	514,042	–	–
Other	55,436	(38,120)	35,040	1,564	5,270	2	31,044	–	35	180	3,265	12,926	–	4,230
Total revenues	1,290,959	(93,433)	624,818	21,400	46,763	20,782	111,927	12,819	4,418	7,002	3,265	526,968	–	4,230
Expenses:														
Compensation and benefits	433,318	(1,837)	243,177	11,013	17,372	8,931	108,439	3,721	2,060	2,923	1,766	35,165	–	588
Supplies and other	211,981	(5,155)	148,146	3,404	11,037	5,266	16,840	4,905	769	1,510	219	21,567	12	3,461
Professional fees and purchased services	557,608	(92,356)	132,803	5,839	8,178	3,345	9,628	1,794	719	1,731	2,588	483,093	–	246
Depreciation and amortization	34,414	–	29,333	354	1,016	218	260	452	191	180	–	2,338	72	–
Interest	8,153	–	8,035	5	3	–	26	–	–	–	–	84	–	–
Total expenses	1,245,474	(99,348)	561,494	20,615	37,606	17,760	135,193	10,872	3,739	6,344	4,573	542,247	84	4,295
Operating (loss) income	45,485	5,915	63,324	785	9,157	3,022	(23,266)	1,947	679	658	(1,308)	(15,279)	(84)	(65)
Nonoperating gains (losses), net	22,502	299	27,843	387	122	7	26	280	2	212	244	276	(11,914)	4,718
Excess (deficiency) of revenues over expenses	67,987	6,214	91,167	1,172	9,279	3,029	(23,240)	2,227	681	870	(1,064)	(15,003)	(11,998)	4,653
Less: Deficiency of revenues over expenses attributable to noncontrolling interests	(2,857)	(2,857)	–	–	–	–	–	–	–	–	–	–	–	–
Excess (deficiency) of revenues over expenses attributable to controlling interests	$ 70,844	$ 9,071	$ 91,167	$ 1,172	$ 9,279	$ 3,029	$ (23,240)	$ 2,227	$ 681	$ 870	$ (1,064)	$ (15,003)	$ (11,998)	$ 4,653

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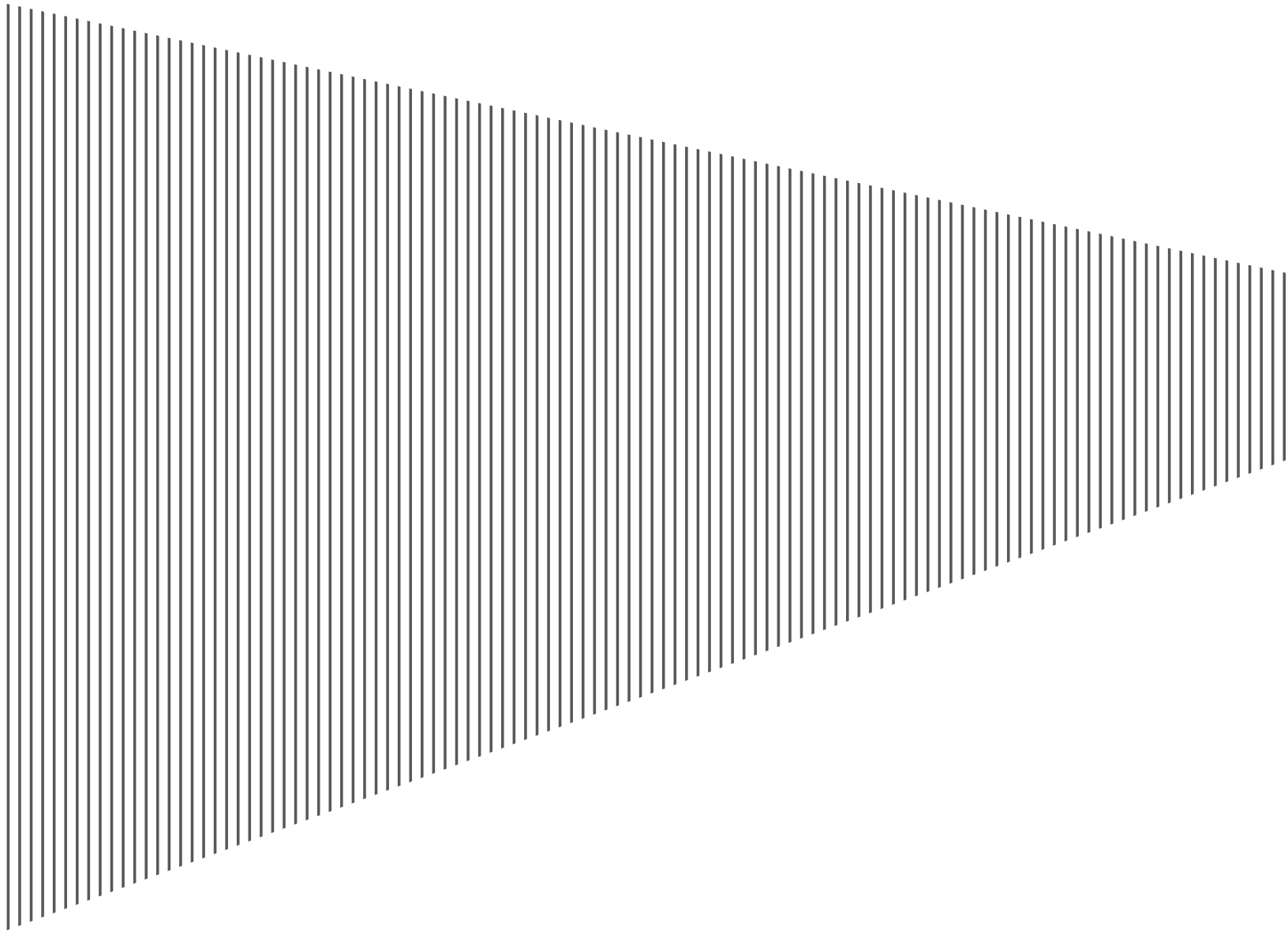

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APPENDIX C

SUMMARY OF THE TRUST INDENTURES

The following is a summary of certain provisions of the Series 2016H Indenture and the Series 2016I Indenture (collectively, the "Indentures" and, individually, an "Indenture"), which are not described elsewhere in this Offering Memorandum. The Indentures are substantially identical.

These summaries do not purport to be comprehensive and reference should be made to each Indenture for a full and complete statement of its provisions.

TABLE OF CONTENTS

DEFINITIONS OF CERTAIN TERMS

The following are definitions of certain terms used in this Summary of the Trust Indentures. All capitalized terms not defined below or elsewhere in this Offering Memorandum have the meanings set forth in the related Indenture.

"*Additional Bonds*" means bonds issued under the related Indenture subsequent to the initial issuance of the related Series of Bonds that are consolidated with such Bonds or which are issued as a separate series. The Additional Bonds consolidated with an initial Series of Bonds shall be treated as a single series of that Series of Bonds for all purposes pursuant to the related Indenture.

"*Business Day*" means any day other than (A) a Saturday or Sunday or legal holiday or a day on which banking institutions in the city or cities in which the Designated Office of the Bond Trustee is located are authorized by law or executive order to close or (B) a day on which the New York Stock Exchange is closed.

"*Code*" means the Internal Revenue Code of 1986, as amended, or any successor statute thereto and any regulations promulgated thereunder.

"*Default*" means any event which is or after notice or lapse of time or both would become an Event of Default.

"*Designated Office*" means the Designated Office of the Bond Trustee in Seattle, Washington, and such other offices as the Bond Trustee may designate from time to time by written notice to the Corporation and the Holders.

"*Investment Securities*" means: (1) direct nonprepayable, noncallable obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States of America) or direct nonprepayable, noncallable obligations, the timely payment of the principal of and interest on which is fully guaranteed by the United States of America, including instruments evidencing a direct ownership interest in securities described in this clause such as CATS, TIGRs, and Stripped Treasury Coupons rated or assessed in the highest Rating Categories by S&P and Moody's and held by a custodian for safekeeping on behalf of holders of such securities; and (2) money market funds registered under the Investment Company Act of 1940, the shares in which are registered under the Securities Act of 1933 and that have a rating by S&P of AAAm-G, AAAm or AAm, including such funds for which the Bond Trustee or its affiliates provide investment advisory or other management services.

"*Mandatory Sinking Account Payment*" means, with respect to the Series 2016I Bonds, the amount required by the Series 2016I Indenture to be paid on any particular date for the retirement of the Series 2016I Bonds of a specified stated maturity.

"*Obligated Group Agent*" means Providence Health & Services – Washington or such other person as shall be designated as such from time to time pursuant to the Master Indenture.

"*Opinion of Counsel*" means a written opinion of counsel (who may be counsel for the Corporation) not objected to by the Bond Trustee.

"*Outstanding*" when used as of any particular time with reference to Bonds, means (subject to the provisions of the related Indenture relating to disqualified bonds) all Bonds theretofore, or thereupon being, authenticated and delivered by the Bond Trustee under the related Indenture, except

(1) Bonds theretofore cancelled by the Bond Trustee or surrendered to the Bond Trustee for cancellation; (2) Bonds with respect to which all liability of the Corporation shall have been discharged in accordance with the related Indenture, including Bonds (or portions of Bonds) disqualified pursuant to the terms of the related Indenture; and (3) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Bond Trustee pursuant to the applicable Indenture.

"*Person*" means an individual, corporation, firm, association, partnership, trust, limited liability company or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

"*Principal Payment Date*" means (i) each date, if any, upon which the Series 2016I Bonds are subject to redemption from Mandatory Sinking Account Payments pursuant to the Series 2016I Indenture and (ii) the date of final maturity of any Bond as set forth in the related Indenture or, with respect to any Additional Bonds, the date or dates designated in the Supplemental Indenture authorizing the issuance of such any Additional Bonds.

"*Supplemental Indenture*" means any indenture duly authorized and entered into between the Corporation or the Obligated Group Agent and the Bond Trustee after the execution of either of the Indentures, authorizing the issuance of Additional Bonds or supplementing, modifying or amending either of the Indentures; but only if and to the extent that such Supplemental Indenture is specifically authorized by either of the Indentures.

TRUST INDENTURES

The following is a summary of certain provisions of the Indentures. This summary does not purport to be complete or definitive and reference is made to each of the Indentures for the complete terms thereof.

General

The Series 2016H Indenture and the Series 2016I Indenture set forth the terms of the Series 2016H Bonds and the Series 2016I Bonds, respectively, the nature and extent of security, the various rights of the holders of such Bonds, the rights, duties and immunities of the applicable Bond Trustee and the rights and obligations of the Corporation. Certain provisions of the Indentures are summarized below; other provisions are summarized in this Offering Memorandum under the caption "THE BONDS."

Interest on the Bonds

Interest on the Bonds will accrue beginning on the date of issuance of the Bonds and will be payable on April 1 and October 1 of each year, commencing April 1, 2017, or, with respect to any Additional Bonds, such dates as shall be specified in the Supplemental Indenture authorizing their issuance. Interest on the Bonds shall be calculated on the basis of a three hundred sixty (360) day year consisting of twelve (12) thirty (30) day months.

Funds and Accounts

Each Indenture creates an Indenture Fund, a Bond Fund, an Interest Account, a Principal Account and a Redemption Fund. All of such Funds and Accounts are to be held by the applicable Bond Trustee pursuant to the related Indenture.

Establishment and Pledge of Indenture Fund. The Bond Trustee establishes for the sole benefit of the Bondholders, a master fund referred to as the "*Indenture Fund*" containing the Bond Fund and the Redemption Fund and each of the accounts contained therein. The Indenture Fund and each of the funds and accounts in the Indenture Fund shall be identified on the books of the Bond Trustee and shall be maintained by the Bond Trustee and held in trust apart from all other moneys and securities held under the related Indenture or otherwise, and the Bond Trustee shall have the exclusive and sole right of withdrawal therefrom in accordance with the terms of the related Indenture. All amounts deposited with the Bond Trustee pursuant to the related Indenture shall be held, disbursed, allocated and applied by the Bond Trustee only as provided in the related Indenture.

Subject only to the provisions of the related Indenture permitting or requiring the application thereof for the purposes and on the terms and conditions set forth in the related Indenture, the Indenture Fund and all amounts held therein are pledged, assigned and transferred, pursuant to the related Indenture, by the Corporation to the Bond Trustee for the benefit of the Bondholders to secure the full payment of the principal or Redemption Price of and interest on the Bonds in accordance with their terms and the provisions of the related Indenture. Pursuant to the Indentures, the Corporation grants to the Bond Trustee a security interest in the respective Indenture Funds, and acknowledges and agrees that the Indenture Fund and all amounts on deposit therein shall constitute collateral security to secure the full payment of the principal or Redemption Price of and interest on the Bonds in accordance with their terms and the provisions of the related Indenture. For purposes of creating, perfecting and maintaining the security interest of the Bond Trustee on behalf of the Bondholders in and to the Indenture Fund and all amounts on deposit therein, the Corporation and the Bond Trustee have agreed that: (1) each Indenture shall constitute a "security agreement" for purposes of the Uniform Commercial Code; (2) the Bond Trustee shall maintain on its books records reflecting the interest, as set forth in the related Indenture, of the Bondholders in the Indenture Fund and/or the amounts on deposit therein; (3) the Indenture Fund and the amounts on deposit therein and any proceeds thereof shall be held by the Bond Trustee acting in its capacity as an agent of the Bondholders, and the holding of such items by the Bond Trustee (including the transfer of any items among the funds and accounts in the Indenture Fund) is deemed possession of such items on behalf of the Bondholders; and (4) notwithstanding anything to the contrary contained in the related Indenture, the Bond Trustee shall not be responsible for any initial or continuation filings of any financing statements or the information contained therein (including the exhibits thereto), the perfection of any such security interests, or the accuracy or sufficiency of any description of collateral in such initial filings or for filing any modifications or amendments to the initial or continuation filings required by any amendments to Article 9 of the Uniform Commercial Code.

Nothing in either Indenture or in the Bonds, expressed or implied, shall be construed to constitute a security interest under the Uniform Commercial Code or otherwise in the assets of any Member of the Obligated Group other than in any interest in the related Indenture Fund and/or the amounts on deposit therein and as provided in the related Indenture.

Bond Fund. Upon the receipt thereof, the Bond Trustee shall deposit all payments received from the Corporation (other than amounts which are to be applied to the Redemption Fund or income or profit from investments which are to be invested pursuant to the related Indenture), and, if a deficiency exists with respect to the Bonds after the application of payments, as directed by the Corporation pursuant to the related Indenture, any payment received under the related Series 2016 Fixed Rate Taxable Obligation, in a special fund designated the "*Bond Fund*" which the Bond Trustee shall establish and maintain and hold in trust and which shall be disbursed and applied only as authorized in the related Indenture.

At the times specified below, the Bond Trustee shall allocate within each Bond Fund in the following order of priority the following amounts to the following accounts or funds, each of which

the Bond Trustee shall establish and maintain and hold in trust and each of which shall be disbursed and applied only as follows:

(1) On each Interest Payment Date, the Bond Trustee shall deposit in the "*Interest Account*" of the Bond Fund the aggregate amount of interest becoming due and payable on such Interest Payment Date on all Bonds then Outstanding, until the balance in said account is equal to said aggregate amount of interest; and

(2) On each Principal Payment Date, the Bond Trustee shall deposit in the "*Principal Account*" of the Bond Fund the aggregate amount of principal becoming due and payable on such Principal Payment Date, until the balance in said account is equal to said aggregate amount of such principal.

At least six (6) but not more than twenty (20) Business Days before each Interest Payment Date, the Bond Trustee shall determine the amount, if any, credited or to be credited to the Bond Fund during the period from the day after the last Interest Payment Date to the next succeeding Interest Payment Date from any source. The Bond Trustee shall give notice to the Corporation of such amount and the amount due, which notice shall be mailed or sent by facsimile transmission so that the Corporation will receive such notice by the Business Day before such next succeeding Interest Payment Date.

Interest Account. All amounts in the Interest Account of the Bond Fund shall be used and withdrawn by the Bond Trustee solely for the purpose of paying interest on the Bonds as it shall become due and payable (including accrued interest on any Bonds redeemed prior to maturity pursuant to the related Indenture).

Principal Account. All amounts in the Principal Account of the Bond Fund shall be used and withdrawn by the Bond Trustee solely to pay at maturity the Bonds.

Redemption Fund. Upon the receipt thereof, the Bond Trustee shall deposit the following amounts in a special fund designated the "*Redemption Fund*" which the Bond Trustee shall establish and maintain and hold in trust:

(1) all moneys deposited by the Corporation with the Bond Trustee directed to be deposited in the Redemption Fund; and

(2) all interest, profits and other income received from the investment of moneys in the Redemption Fund.

All amounts deposited in the Redemption Fund shall be used and withdrawn by the Bond Trustee solely for the purpose of redeeming Bonds, in the manner and upon the terms and conditions specified in the related Indenture, at the date of redemption for which notice has been given; *provided that*, at any time prior to the selection of Bonds for such redemption, the Bond Trustee shall, upon direction of the Corporation or the Obligated Group Agent, apply such amounts to the purchase of Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as the Corporation or the Obligated Group Agent may direct, except that the purchase price (exclusive of accrued interest) may not exceed the Redemption Price then applicable to such Bonds; and *provided*, *further*, that in lieu of redemption at such date of redemption, or in combination therewith, amounts in such account may be transferred to the Principal Account as set forth in a Request of the Corporation.

Particular Covenants

Punctual Payment. The Corporation shall punctually pay the principal or Redemption Price and interest to become due in respect of all the Bonds, in strict conformity with the terms of the Bonds and of the related Indenture, according to the true intent and meaning thereof. When and as paid in full, all Bonds shall be delivered to the Bond Trustee and shall forthwith be cancelled by the Bond Trustee and delivered to, or upon the order of, the Corporation.

Compliance With Indenture. The Corporation covenants not to issue, or permit to be issued, any Additional Bonds in any manner other than in accordance with the provisions of the related Indenture, and shall not suffer or permit any Default (within its power to prevent) to occur under the related Indenture, but shall faithfully observe and perform all the covenants, conditions and requirements of the related Indenture. Nothing in the either Indenture shall limit the ability of the Corporation or any other Member of the Obligated Group to incur indebtedness or other obligations.

Against Encumbrances. The Corporation shall not create or suffer to be created any pledge, lien, charge or other encumbrance upon all or any part of the Indenture Fund or any of the amounts held therein pledged or assigned under the related Indenture while any of the Bonds are Outstanding, except the pledge and assignment created by the related Indenture and any statutory liens or other liens arising by operation of law. The Corporation will assist, at its own cost and expense, the Bond Trustee in contesting any pledge, lien, charge or other encumbrance that does not comply with the provisions of the related Indenture.

Limitations on Consolidated Bonds. The Corporation covenants and agrees that: (1) Additional Bonds that are consolidated with an initially issued Series of Bonds constitute a part of such Series of Bonds; (2) the Additional Bonds that are consolidated with a Series of Bonds, shall mature on the same date as such Series of Bonds, bear interest at the same rate per annum as such Series of Bonds, and shall be subject to redemption at the same times and at the same redemption price as such Series of Bonds; (3) each Additional Bond to be consolidated with a Series of Bonds shall have the same minimum denominations; and (4) as a condition to the issuance of such Additional Bonds to be consolidated with a Series of Bonds, there shall be delivered to the Bond Trustee a certificate of the Corporation, certifying that, after consultation with counsel experienced in federal securities and tax laws, the issuance and consolidation of such Additional Bonds will not cause (i) any adverse tax impact on the Holders of Outstanding Bonds of such Series, (ii) the Outstanding Bonds of such Series are not required to be registered under the Securities Act of 1933, as amended or (iii) the related Indenture is not required to be qualified under the Trust Indenture Act of 1939, as amended.

The limitations and conditions in the immediately preceding paragraph shall not apply to any Additional Bonds issued under a related Indenture which will not be consolidated with a Series of Bonds described in this Offering Memorandum.

Replacement of Series 2016 Fixed Rate Taxable Obligations with Obligations Issued Under a Separate Master Indenture. The Series 2016 Fixed Rate Taxable Obligations, shall be surrendered by the Bond Trustee and delivered to the Master Trustee for cancellation upon receipt by the Bond Trustee and the Corporation of the following:

(1) a Request of the Corporation requesting such surrender and delivery and stating that the Corporation has become a member of an obligated group under a replacement master indenture (other than the Master Indenture) (or the Corporation is obligated, by its articles of incorporation, bylaws or by contract or otherwise, to make payments to an entity that is a member of such an obligated group in amounts sufficient to enable the

entity to make payments with respect to obligations issued under such replacement master indenture) and that an obligation is being issued to the Bond Trustee under such replacement master indenture (the "*Replacement Master Indenture*");

(2) a properly executed obligation (the "*Replacement Obligation*") issued under the Replacement Master Indenture and registered in the name of the Bond Trustee with the same tenor and effect as the Series 2016 Fixed Rate Taxable Obligation being replaced (in a principal amount equal to the then Outstanding principal amount of such Series of Bonds), duly authenticated by the master trustee under the Replacement Master Indenture;

(3) an Opinion of Counsel selected by the Corporation or the Obligated Group Agent and not objected to by the Bond Trustee, addressed to the Bond Trustee, to the effect that the Replacement Obligation has been validly issued under the Replacement Master Indenture and constitutes a valid and binding obligation of the Corporation (or the entity to which the Corporation is obligated to make the payments referred in paragraph (1) above) and each other Member of the Obligated Group (if any) which is jointly and severally liable under the Replacement Master Indenture, subject to such qualifications as are acceptable to the Bond Trustee;

(4) a copy of the Replacement Master Indenture, certified as a true and accurate copy by the master trustee under the Replacement Master Indenture; and

(5) written confirmation from each Rating Agency then rating such Series 2016 Fixed Rate Taxable Obligation, that the replacement of such Series 2016 Fixed Rate Taxable Obligation, will not, by itself, result in the withdrawal or reduction (without regard to any refinement or gradation of rating category by numerical modifier or otherwise or any related ratings outlook) in the then-current ratings on such Series 2016 Fixed Rate Taxable Obligation.

Events of Default; Remedies

Events of Default. The following events shall be "*Events of Default*" under each Indenture:

(A) default in the due and punctual payment of the principal or Redemption Price of, or interest on, any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by acceleration or otherwise;

(B) if any material representation or warranty made by the Corporation in the related Indenture or made by the Corporation in any document, instrument or certificate furnished to the Bond Trustee in connection with the issuance of the related Bonds shall at any time prove to have been incorrect in any respect as of the time made and shall not be brought into compliance within a period of sixty (60) days after written notice has been given to the Corporation and Obligated Group Agent by the Bond Trustee;

(C) if the Corporation shall fail to observe or perform any other covenant, condition, agreement or provision in the related Indenture on its part to be observed or performed, or shall breach any warranty by the Corporation contained in the related Indenture, for a period of sixty (60) days after written notice, specifying such failure or breach and requesting that it be remedied, has been given to the Corporation and Obligated Group Agent by the Bond Trustee; except that, if such failure or breach can be

remedied but not within such sixty (60) day period and if the Corporation has taken all action reasonably possible to remedy such failure or breach within such sixty (60) day period, such failure or breach shall not become an Event of Default for so long as the Corporation shall diligently proceed to remedy such failure or breach in accordance with and subject to any directions or limitations of time established by the Bond Trustee;

(D) any Event of Default as defined in and under the Master Indenture.

Acceleration of Maturity. If default in the due and punctual payment of the principal or Redemption Price of, or interest on, any Bond of the related Series when and as the same shall become due and payable shall occur, then, and in each and every such case during the continuance of such Event of Default, the Bond Trustee may, upon notice in writing to the Corporation, declare the principal of all of the Bonds of the related Series then Outstanding, and the interest accrued thereon, to be due and payable immediately at the applicable Redemption Price, together with interest payable thereon to the accelerated payment date, and upon any such declaration by the Bond Trustee the same shall become and shall be immediately due and payable, anything in the related Indenture or in the related Bonds contained to the contrary notwithstanding.

Any such declaration, however, is subject to the condition that if, at any time after such declaration and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, there shall be deposited with the Bond Trustee a sum sufficient to pay all the principal or the Redemption Price of and interest on the Bonds payment of which is overdue, with interest on such overdue principal at the rate borne by such Bonds, and the reasonable charges and expenses of the Bond Trustee, and any and all other Events of Defaults known to the Bond Trustee (other than in the payment of principal of and interest on such Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Bond Trustee or provision deemed by the Bond Trustee to be adequate shall have been made therefor, then, and in every such case, the Bond Trustee shall, on behalf of the Holders of all of such Bonds, by written notice to the Corporation, rescind and annul such declaration and its consequences and waive such Events of Default; but no such rescission and annulment shall extend to or shall affect any subsequent Events of Default, or shall impair or exhaust any right or power consequent thereon.

Rights as a Secured Party. The Bond Trustee, as appropriate, may exercise all of the rights and remedies of a secured party under the Uniform Commercial Code with respect to securities in each Indenture Fund, including without limitation the Bond Funds and the Redemption Funds, including the right to sell or redeem such securities and the right to retain the securities in satisfaction of the obligation of the Corporation under the related Indenture.

Application of Moneys Collected by Bond Trustee. If an Event of Default shall occur and be continuing, all moneys then held or thereafter received by the Bond Trustee under any of the provisions of the related Indenture shall be applied by the Bond Trustee as follows and in the following order:

(A) To the payment of any expenses necessary in the opinion of the Bond Trustee to protect the interests of the Holders of the applicable Series of Bonds and payment of reasonable fees and expenses of the Bond Trustee (including reasonable fees and disbursements of its counsel) incurred in and about the performance of its powers and duties under the related Indenture; and

(B) To the payment of the principal or Redemption Price of and interest then due on the applicable Series of Bonds (upon presentation of the Bonds to be paid, and stamping thereon of the

payment if only partially paid, or surrender thereof if fully paid) subject to the provisions of the related Indenture, as follows:

(1) Unless the principal of all of the applicable Series of Bonds shall have become or have been declared due and payable,

First: To the payment to the Persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment or installments due on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the Persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the Persons entitled thereto of the unpaid principal or Redemption Price of any Bonds which shall have become due, whether at maturity or by call for redemption, in the order of their due dates, with interest on the overdue principal at the rate borne by the respective Bonds, and, if the amount available shall not be sufficient to pay in full all the Bonds due on any date, together with such interest, then to the payment thereof ratably, according to the amounts of principal or Redemption Price due on such date to the Persons entitled thereto, without any discrimination or preference.

(2) If the principal of all of the applicable Series of Bonds shall have become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon such Bonds, with interest on the overdue principal at the rate borne by the respective Bonds, and, if the amount available shall not be sufficient to pay in full the whole amount so due and unpaid, then to the payment thereof ratably, without preference or priority of principal over interest, or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, according to the amounts due respectively for principal and interest, to the Persons entitled thereto without any discrimination or preference.

Bond Trustee to Represent Bondholders. The Bond Trustee is irrevocably appointed under each Indenture (and the successive respective Holders of the related Series of Bonds, by taking and holding the same, shall be conclusively deemed to have so appointed the Bond Trustee) as Bond Trustee and true and lawful attorney-in-fact of the Holders of the related Series of Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such Holders under the provisions of the related Bonds, the related Indenture and applicable provisions of any law.

Upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Bond Trustee to represent such Bondholders, the Bond Trustee in its discretion may, and upon the written request of the Holders of not less than a majority in aggregate principal amount of the related Bonds then Outstanding, and upon being indemnified to its satisfaction therefor, shall, proceed to protect or enforce its rights or the rights of such Holders by such appropriate action, suit, mandamus or other proceedings as it shall deem most effectual to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained in the related Indenture, or in aid of the execution of any power therein granted, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Bond Trustee, or in such Holders under the related Bonds, the related Indenture or any applicable law; and upon instituting such proceeding, the Bond Trustee shall be entitled, as a matter of right, to the appointment of a receiver of the amounts pledged under the related Indenture, pending such proceedings. All rights of action under the related Indenture or the related Bonds or otherwise may be prosecuted and enforced by the Bond Trustee without the possession of any of the related Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or

proceeding instituted by the Bond Trustee shall be brought in the name of the Bond Trustee for the benefit and protection of all the Holders of such Bonds, subject to the provisions of the related Indenture.

Bondholders' Direction of Proceedings. The Holders of a majority in aggregate principal amount of the Bonds of a Series then Outstanding shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Bond Trustee, and upon indemnifying the Bond Trustee to its satisfaction therefor, to direct the time, method and place of conducting all remedial proceedings taken by the Bond Trustee under the related Indenture, provided that such direction shall not be otherwise than in accordance with law and the provisions of the related Indenture, and that the Bond Trustee shall have the right to decline to follow any such direction which in the opinion of the Bond Trustee would be unjustly prejudicial to Bondholders not parties to such direction.

Limitation on Bondholders' Right to Sue. No Holder of any Bond shall have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the related Indenture or any applicable law with respect to such Bond, unless (1) such Holder shall have given to the Bond Trustee written notice of the occurrence of an Event of Default; (2) the Holders of not less than a majority in aggregate principal amount of the Bonds then Outstanding shall have made written request upon the Bond Trustee to exercise the powers granted under the related Indenture or to institute such suit, action or proceeding in its own name; (3) such Holder or said Holders shall have tendered to the Bond Trustee indemnity satisfactory to it against the costs, expenses and liabilities to be incurred in compliance with such request; and (4) the Bond Trustee shall have refused or omitted to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Bond Trustee.

Such notification, request, tender of indemnity and refusal or omission are declared under the Indenture, in every case, to be conditions precedent to the exercise by any Holder of Bonds of any remedy under the related Indenture or under law; it being understood and intended that no one or more Holders of Bonds shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the related Indenture or the rights of any other Holders of Bonds, or to enforce any right under the related Indenture or applicable law with respect to the Bonds, except in the manner provided in the related Indenture, and that all proceedings at law or in equity to enforce any such right shall be instituted, had and maintained in the manner provided in the related Indenture and for the benefit and protection of all Holders of such Outstanding Bonds, subject to the provisions of the related Indenture.

Absolute Obligation of the Corporation. Notwithstanding any other provision contained in either Indenture, or in the related Bonds, nothing shall affect or impair the obligation of the Corporation, which is absolute and unconditional, to pay the principal or Redemption Price of and interest on the related Series of Bonds to the respective Holders of the related Series of Bonds at their respective dates of maturity, or upon call for redemption, as provided, or, subject to applicable provisions in the related Indenture, affect or impair the right of such Holders to enforce such payment by virtue of the contract embodied in the related Series of Bonds.

Waiver of Past Defaults and Events of Default. The Bond Trustee may, and upon request of the Holders of not less than a majority in aggregate principal amount of the Outstanding Bonds of a Series shall, on behalf of the Holders of all the related Bonds waive any past Default or Event of Default under the related Indenture and its consequences, except a Default or Event of Default: (1) in the payment of the principal or Redemption Price of or interest on any Bond, or (2) in respect of a covenant or other provision of the related Indenture which, pursuant to the related Indenture section summarized under the caption "Modification or Amendment of Indentures" below, cannot be modified or amended without the consent of the Holder of each Outstanding Bond of a Series affected.

Upon any such waiver, such Default or Event of Default shall cease to exist, and any Event of Default arising from such Default or other waived Event of Default shall be deemed to have been cured, for every purpose of the related Indenture, but no such waiver shall extend to any subsequent or other Default or Event of Default or impair any right consequent thereon.

Modification or Amendment of Indentures

Each Indenture and the rights and obligations of the Corporation, the Holders of the related Bonds and the Bond Trustee may be modified or amended from time to time and at any time by an indenture or indentures supplemental thereto, which the Corporation and the Bond Trustee may enter into when the written consent of the Holders of a majority in aggregate principal amount of the Bonds of such Series then Outstanding shall have been filed with the Bond Trustee. No such modification or amendment shall (1) extend the stated maturity of any Bond of such Series, or reduce the amount of principal thereof, or extend the time of payment or change the method of computing the rate of interest thereon, or extend the time of payment of interest thereon, or reduce any premium payable upon the redemption thereof, without the consent of the Holder of each Bond of such Series so affected, or (2) reduce the aforesaid percentage of Bonds of such Series the consent of the Holders of which is required to effect any such modification or amendment, or permit the creation of any lien on the Indenture Fund and other assets pledged under the related Indenture prior to or on a parity with the lien created by the related Indenture, or deprive the Holders of the Bonds of such Series of the lien created by the related Indenture on such assets (except as expressly provided in the related Indenture), without the consent of the Holders of all Bonds of such Series then Outstanding. It shall not be necessary for the consent of such Bondholders to approve the particular form of any Supplemental Indenture, but it shall be sufficient if such consent shall approve the substance thereof. Promptly after the execution by the Corporation and the Bond Trustee of any Supplemental Indenture pursuant to this paragraph, the Bond Trustee shall mail a notice, setting forth in general terms the substance of such Supplemental Indenture to such Bondholders at the addresses shown on the registration books maintained by the Bond Trustee. Any failure to give such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such Supplemental Bond Indenture.

Each Indenture and the rights and obligations of the Corporation, the Bond Trustee and the Holders of the Bonds may also be modified or amended from time to time and at any time by an indenture or indentures supplemental thereto, which the Corporation and the Bond Trustee may enter into without the necessity of obtaining the consent of any Bondholders, only to the extent permitted by law and only for any one or more of the following purposes:

(1) to add to the covenants and agreements of the Corporation contained in the related Indenture other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power reserved to or conferred upon the Corporation; provided, however, that no such covenant, agreement, pledge, assignment or surrender shall materially adversely affect the interests of the Holders of the Bonds;

(2) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the related Indenture, or in regard to matters or questions arising under the related Indenture, as the Corporation or the Bond Trustee may deem necessary or desirable and not inconsistent with the related Indenture, and which shall not materially adversely affect the interests of the Holders of the Bonds;

(3) to modify, amend or supplement the related Indenture in such manner as to permit the qualification thereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute, and which shall not materially adversely affect the interests of the Holders of the Bonds;

(4) to evidence or give effect to, or to conform to the terms and provisions of, any insurance policy, letter of credit or other credit enhancement for the Bonds;

(5) to facilitate and implement any book entry system (or any termination of a book entry system) with respect to the Bonds;

(6) to provide for the issuance of Additional Bonds; or

(7) to make any other amendment which the Bond Trustee has determined will not materially adversely affect the interests of the Bond Trustee or the Holders of the Bonds.

The Bond Trustee may in its discretion, but shall not be obligated to, enter into any such Supplemental Indenture authorized by the related Indenture which materially adversely affects the Bond Trustee's own rights, duties or immunities under the related Indenture or otherwise.

Defeasance

Discharge of Indenture. The Bonds of each Series may be paid or discharged by the Corporation or the Bond Trustee on behalf of the Corporation in any of the following ways:

(A) by paying or causing to be paid the principal or Redemption Price of and interest on all Bonds of a Series Outstanding, as and when the same become due and payable;

(B) by depositing with the Bond Trustee, in trust, at or before maturity, moneys or securities in the necessary amount (as provided in the related Indenture) to pay when due or redeem all Bonds then Outstanding; or

(C) by delivering to the Bond Trustee, for cancellation by it, all Bonds of a Series then Outstanding.

If the Corporation shall also pay or cause to be paid all other sums payable under the related Indenture by the Corporation, then and in that case at the election of the Corporation or the Obligated Group Agent (evidenced by a Certificate of the Corporation or the Obligated Group Agent filed with the Bond Trustee signifying the intention of the Corporation or the Obligated Group Agent to discharge all such indebtedness and the related Indenture), and notwithstanding that any Bonds of such Series shall not have been surrendered for payment, the related Indenture and the pledge of the Indenture Fund and all amounts held therein made under the related Indenture and all covenants, agreements and other obligations of the Corporation and Obligated Group Agent under the related Indenture (except as otherwise provided in the related Indenture) shall cease, terminate, become void and be completely discharged and satisfied and the Bonds shall be deemed paid. In such event, upon the request of the Corporation or the Obligated Group Agent, the Bond Trustee shall cause an accounting for such period or periods as may be requested by the Corporation or the Obligated Group Agent to be prepared and filed with the Corporation and shall execute and deliver to the Corporation all such instruments as may be necessary to evidence such discharge and satisfaction, and the Bond Trustee shall pay over, transfer, assign or deliver to the Corporation all moneys or securities or other property held by it pursuant to the

related Indenture which are not required for the payment or redemption of Bonds of such Series not theretofore surrendered for such payment or redemption.

Discharge of Liability on Bonds. Upon the deposit with the Bond Trustee, in trust, at or before maturity, of money or securities in the necessary amount (as provided in the related Indenture) to pay or redeem any Outstanding Bond of the related Series of Bonds (whether upon or prior to the maturity or the redemption date of such Bond), provided that, if such Bond is to be redeemed prior to maturity, notice of such redemption shall have been given as provided in the related Indenture or provision satisfactory to the Bond Trustee shall have been made for the giving of such notice and any conditions to the redemption set forth in such notice shall have been satisfied, then all liability of the Corporation in respect of such Bond shall cease, terminate and be completely discharged, and such Bond shall be deemed paid, except only that thereafter the Holder thereof shall be entitled to payment of the principal or Redemption Price of and interest on such Bond by the Corporation, and the Corporation shall remain liable for such payments, but only out of such money or securities deposited with the Bond Trustee as aforesaid for its payment, subject, however, to certain provisions of the related Indenture.

The Corporation may at any time surrender to the Bond Trustee for cancellation by it any Bonds of a Series previously issued and delivered, which the Corporation may have acquired in any manner whatsoever, and such Bonds, upon such surrender and cancellation, shall be deemed to be paid and retired.

Deposit of Money or Securities with Bond Trustee. Whenever in either Indenture it is provided or permitted that there be deposited with or held in trust by the Bond Trustee money or securities in the necessary amount to pay or redeem any Bonds, the money or securities so to be deposited or held may include money or securities held by the Bond Trustee in the funds and accounts established pursuant to the related Indenture and shall be:

(A) lawful money of the United States of America in an amount equal to the principal amount of such Bonds and all unpaid interest thereon to maturity, except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption shall have been given as provided in the related Indenture or provision satisfactory to the Bond Trustee shall have been made for the giving of such notice, the amount to be deposited or held shall be the principal amount or Redemption Price of such Bonds and all unpaid interest thereon to the redemption date; or

(B) Investment Securities described in clause (1) of the definition thereof in "DEFINITIONS OF CERTAIN TERMS" above (not callable by the holder thereof prior to maturity), the principal of and interest on which when due will provide money sufficient to pay the principal or Redemption Price of and all unpaid interest to maturity, or to the redemption date, as the case may be, on such Bonds to be paid or redeemed, as such principal or Redemption Price and interest become due; provided that, in the case of Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in the related Indenture or provision satisfactory to the Bond Trustee shall have been made for the giving of such notice; *provided*, in each case, that the Bond Trustee shall have been irrevocably instructed (by the terms of the related Indenture or by direction of the Corporation or the Obligated Group Agent) to apply such money to the payment of such principal or Redemption Price and interest with respect to such Bonds.

Waiver of Personal Liability

No member, officer, agent or employee of the Corporation or any other Member of the Obligated Group shall be individually or personally liable for the payment of the principal or Redemption Price of or interest on the Bonds of a Series or be subject to any personal liability or accountability by

reason of the issuance thereof or the performance of any duty under the related Indenture; but nothing contained in the related Indenture shall relieve any such member, officer, agent or employee from the performance of any official duty provided by law or by such Indenture.

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APPENDIX D

SUMMARY OF THE MASTER INDENTURE

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The following is a summary of certain provisions of the Master Indenture. This summary does not purport to be complete and is qualified in its entirety by reference to the Master Indenture for a complete statement of the provisions of such documents.

DEFINITIONS OF CERTAIN WORDS AND TERMS

The terms defined below are among those used in this Offering Memorandum and the summary of the Master Indenture which follows.

"Book Value" when used with respect to Property, means the value of such Property, net of accumulated depreciation and amortization, as reflected in the most recent financial statements of the Credit Group or any Credit Group Member, *provided* that such value with respect to the Credit Group shall be calculated in such a manner that no portion of the value of any Property of any Credit Group Member is included more than once.

"California Corporation" means Providence Health System – Southern California, a California nonprofit religious corporation, and its successors and assigns, and any surviving, resulting or transferee entity thereof.

"Capitalized Lease" means any lease of real or personal property which, in accordance with generally accepted accounting principles, is required to be capitalized on the balance sheet of the lessee.

"Capitalized Rentals" means, as of the date of determination, the aggregate Net Rentals due and to become due under a Capitalized Lease.

"CHS" means Covenant Health System, a Texas nonprofit corporation, and its successors and assigns, and any surviving, resulting or transferee entity thereof.

"Code" means the Internal Revenue Code of 1986, as now in existence or hereafter amended, together with all applicable regulations promulgated heretofore or hereafter thereunder. Each reference to a section of the Code shall be deemed to include the United States Treasury Regulations, including temporary and proposed regulations, relating to such section which are applicable to a series of Related Bonds or the use of the proceeds thereof.

"Consultant" means a professional consulting, financial advisory, accounting, investment banking or commercial banking firm selected by the Obligated Group Agent and not unacceptable to the Master Trustee, having the skill and experience necessary to render the particular report required and having a favorable reputation for such skill and experience, which firm does not control any Credit Group Member and is not controlled by or under common control with any Credit Group Member.

"Corporate Charter" means, with respect to any Credit Group Member, (a) the articles of incorporation, certificate of incorporation, corporate charter or other document pursuant to which such Credit Group Member was organized and is existing under the laws of the United States of

America or any state thereof, (b) the bylaws, code of regulations or similar set of governing or operating provisions adopted by such Credit Group Member pursuant to applicable law, and (c) any resolutions or other official action of the Governing Body of such Credit Group Member relating to the particular power or particular decision then under consideration.

"Covenant Children's" means Methodist Children's Hospital, a Texas nonprofit corporation, and its successors and assigns, and any surviving, resulting or transferee entity thereof.

"Covenant Levelland" means Methodist Hospital Levelland, a Texas nonprofit corporation, and its successors and assigns, and any surviving, resulting or transferee entity thereof.

"Covenant Plainview" means Methodist Hospital Plainview, a Texas nonprofit corporation, and its successors and assigns, and any surviving, resulting or transferee entity thereof.

"Counsel" means an attorney duly admitted to practice law before the highest court of any state and, without limitation, may include independent or in-house legal counsel for any Credit Group Member, the Master Trustee or a Related Bond Trustee.

"Credit Group" means, collectively, all the Credit Group Members.

"Credit Group Member" means (a) each Obligated Group Member, (b) each Limited Credit Group Participant, (c) each Unlimited Credit Group Participant, or (d) each Designated Affiliate.

"Debt Service Requirements" means, with respect to the period of time for which calculated, the aggregate of the payments required to be made during such period in respect of principal (whether at maturity, as a result of mandatory sinking fund redemption, mandatory prepayment or otherwise) and interest on outstanding Funded Indebtedness of each Person or a group of Persons with respect to which calculated; *provided* that: (a) interest shall be excluded from the determination of the Debt Service Requirements to the extent that Funded Interest is used to pay such interest when due and payable; (b) principal of Funded Indebtedness shall be excluded from the determination of Debt Service Requirements to the extent of amounts on deposit in an irrevocable escrow if such amounts (including, where appropriate, the earnings or other increment to accrue thereon) are applied to pay such principal; (c) principal of Funded Indebtedness shall be excluded to the extent such principal is paid when due and payable with the proceeds of other Funded Indebtedness; (d) debt service on outstanding Funded Indebtedness of a Limited Credit Group Participant shall be excluded unless an Obligated Group Member, Designated Affiliate or Unlimited Credit Group Participant is also obligated with respect to such Funded Indebtedness; (e) principal and interest of Funded Indebtedness during a particular period shall be excluded if the obligation to pay such principal and interest was created by a Guaranty and such Guaranty does not require the Person acting as guarantor to pay such principal or interest during such period because conditions precedent such as, but not limited to, a demand for payment from such Person or default by the Primary Obligor have not been met; and (f) principal of Funded Indebtedness

shall be excluded from the determination of Debt Service Requirements to the extent that the amount of such principal falling due in the year of determination represents 25% or more of the original aggregate principal amount of such Funded Indebtedness and such amount was either paid when due or refinanced in such year of determination.

"Designated Affiliate" means a Person designated by the Obligated Group Agent as such in accordance with the Master Indenture, and over which any Obligated Group Member maintains control, directly or indirectly, including the power to direct or approve the management, policies and actions of such Designated Affiliate to the extent required to cause such Designated Affiliate to comply with the terms and conditions of the Master Indenture applicable to the Designated Affiliate, whether through the ownership of such Person's voting securities, partnership interests, membership, reserved powers, contractual rights, the power to appoint, directly or through other controlled Persons, such Person's members, trustees or directors or otherwise.

"Edmonds" means Swedish Edmonds, a Washington nonprofit corporation, and its successors and assigns, and any surviving, resulting, or transferee entity thereof.

"Effective Date" means May 16, 2003, which is the date of the original execution and delivery of the Master Indenture.

"Escrow Obligations" means, (i) with respect to any Obligation which secures a series of Related Bonds, the obligations permitted to be used to defease, refund or advance refund such series of Related Bonds under the Related Bond Indenture, or (ii) with respect to any other Obligation, those securities identified as such in the Supplemental Master Indenture pursuant to which such Obligation was issued.

"Existing Master Notes" means all of the Master Notes issued under (and as defined in) the Original Master Indenture which are outstanding on the Effective Date and which shall remain outstanding immediately thereafter as Obligations under the Master Indenture, as set forth in Exhibit E to the Master Indenture.

"Expenses" means, for any period, the aggregate of all expenses calculated under generally accepted accounting principles, including, without limitation, any taxes, incurred by the Person or group of Persons involved during such period, but excluding (a) interest on Funded Indebtedness, (b) depreciation and amortization, (c) any unrealized loss resulting from changes in the value of investment securities, (d) extraordinary expenses and other non-recurring, non-cash expenses (including, without limitation, losses on the sale of assets other than in the ordinary course of business and losses on the extinguishment of debt), (e) any expense resulting from a forgiveness of or the establishment of reserves against Indebtedness of an affiliate which does not constitute an extraordinary expense, (f) losses resulting from any reappraisal, revaluation or write-down of assets, and (g) if such calculation is being made with respect to the Credit Group, excluding any such expenses attributable to transactions between any Credit Group Member and any other Credit Group Member.

"Facilities" means all land, leasehold interests and buildings and all fixtures and equipment (as defined in the Uniform Commercial Code or equivalent statute in effect in the state where such fixtures and equipment are located) of a Person.

"Fiscal Year" means, for the Obligated Group Agent, any 12-month period beginning on January 1 of any calendar year and ending on December 31 of such calendar year or such other consecutive 12-month period selected by the Obligated Group Agent as its fiscal year; and for any other Credit Group Member, any consecutive 12-month period selected by such Credit Group Member and not unacceptable to the Obligated Group Agent, as the fiscal year for such Credit Group Member, whether or not such 12-month period corresponds to the 12-month period selected by the Obligated Group Agent as its fiscal year.

"Funded Indebtedness" means, with respect to any Person, (a) all Indebtedness of such Person for money borrowed or credit extended which is not Short-Term; (b) all Indebtedness of such Person for money borrowed or credit extended pursuant to a commercial paper program, (c) all Indebtedness of such Person incurred or assumed in connection with the acquisition or construction of Property which is not Short-Term; (d) any Guaranty by such Person of Indebtedness for money borrowed or credit extended, which Indebtedness so guaranteed is not Short-Term; and (e) Capitalized Rentals under Capitalized Leases entered into by the Person; *provided, however,* that Funded Indebtedness that could be described by more than one of the foregoing categories shall not in any case be considered more than once for the purpose of any calculation made pursuant to the Master Indenture; and *provided further,* that Funded Indebtedness shall not include (1) Indebtedness of one Credit Group Member to another Credit Group Member, (2) the joint and several liability of any Credit Group Member on Funded Indebtedness issued by another Credit Group Member, (3) Interest Rate Agreements, (4) any obligation to repay moneys deposited by patients or others with a Credit Group Member as security for or as prepayment of the cost of patient care or any rights of residents of life care, elderly housing or similar facilities to endowment or similar funds deposited by or on behalf of such residents, or (5) any guaranty by any Credit Group Member of Indebtedness of any other Credit Group Member; *provided, however,* with respect to any guaranty of Indebtedness of a Limited Credit Group Participant, the amount of Indebtedness of any Limited Credit Group Participant so guaranteed which exceeds the maximum amount required to be paid or available to an Obligated Group Member or a Designated Affiliate by such Limited Credit Group Participant pursuant to the contract or agreement between such Limited Credit Group Participant and the Obligated Group Member or Designated Affiliate shall be included as Funded Indebtedness.

"Funded Interest" means amounts irrevocably deposited in escrow to pay interest on Funded Indebtedness or on Related Bonds and interest earned on amounts irrevocably deposited in escrow to the extent such interest earned is applied to pay interest on Funded Indebtedness or on Related Bonds.

"Governing Body" means, with respect to any Credit Group Member, the members, board of directors, board of trustees or similar group of individuals in which the right to exercise the particular power or make the particular decision then under consideration is vested by the Corporate Charter of such Credit Group Member.

"Granting Clauses" means the granting clauses identified as such at the beginning of the Master Indenture, including any supplements or amendments thereto made in conformity therewith.

"Guaranty" means all obligations of a Person guaranteeing or, in effect guaranteeing, any Indebtedness or other obligation of any Primary Obligor in any manner, whether directly or indirectly, including, but not limited to, obligations incurred through an agreement, contingent or otherwise, by such Person: (a) to purchase such Indebtedness or obligation or any Property constituting security therefor; (b) to advance or supply funds: (1) for the purchase or payment of such Indebtedness or obligation, or (2) to maintain working capital or other balance sheet condition; (c) to purchase securities or other Property or services primarily for the purpose of assuring the creditor of such Indebtedness or obligation of the ability of the Primary Obligor to make payment of the Indebtedness or obligation; or (d) otherwise to assure the creditor of the Indebtedness or obligation against loss in respect thereof.

"Historical Debt Service Coverage Ratio" means, for any period of time, the ratio consisting of a numerator equal to the amount determined by dividing Income Available for Debt Service for that period by the Debt Service Requirements on Funded Indebtedness for such period and a denominator of one; *provided* that, when such calculation is being made with respect to the Credit Group, Income Available for Debt Service and Debt Service Requirements shall be determined only with respect to those Persons who are Credit Group Members at the close of such period.

"Hoag Hospital" means Hoag Memorial Hospital Presbyterian, a California nonprofit public benefit corporation, and its successors and assigns, and any surviving, resulting or transferee entity thereof.

"Income Available for Debt Service" means, for any period, the sum of (a) the excess (or deficit) of Revenues over Expenses of the Obligated Group Members, the Designated Affiliates and the Unlimited Credit Group Participants for such period, plus (b) for each Limited Credit Group Participant, the sum of (i) the amount actually received by an Obligated Group Member during such period pursuant to the contract or agreement between such Limited Credit Group Participant and the Obligated Group Member or Designated Affiliate and (ii) the amount paid by such Limited Credit Group Participant during such period on outstanding Funded Indebtedness of such Limited Credit Group Participant with respect to which an Obligated Group Member, Designated Affiliated or Unlimited Credit Group Participant is also obligated.

"Indebtedness" means, for any Person, (a) all Guaranties by such Person, (b) all liabilities (exclusive of reserves such as those established for deferred taxes or litigation) recorded or required to be recorded as such on the audited financial statements of such Person in accordance with generally accepted accounting principles, and (c) all obligations for the payment of money incurred or assumed by such Person (1) due and payable in all events or (2) if incurred or assumed primarily to assure the repayment of money borrowed or credit extended, due and payable upon the occurrence of a condition precedent or upon the performance of work, possession of Property as lessee, rendering of services by others or otherwise and shall include, without limitation, Non-Recourse Indebtedness; *provided,* that Indebtedness shall not include Indebtedness of one

Credit Group Member to another Credit Group Member, any Guaranty by any Credit Group Member of Indebtedness of any other Credit Group Member, the joint and several liability of any Obligated Group Member on Indebtedness issued by another Obligated Group Member, Interest Rate Agreements or any obligation to repay moneys deposited by patients or others with a Credit Group Member as security for or as prepayment of the cost of patient care or any rights of residents of life care, elderly housing or similar facilities to endowment or similar funds deposited by or on behalf of such residents.

"Interest Rate Agreement" means an interest rate exchange, hedge or similar agreement, which agreement may include, without limitation, an interest rate swap, a forward or futures contract or an option (*e.g.* a call, put, cap, floor or collar) and which agreement does not constitute an obligation to repay money borrowed, credit extended or the equivalent thereof.

"Kadlec" means Kadlec Regional Medical Center, a Washington nonprofit corporation, and its successors and assigns, and any surviving, resulting, or transferee entity thereof.

"LCMASC" means Little Company of Mary Ancillary Services Corporation, a California nonprofit public benefit corporation, and its successors and assigns, and any surviving, resulting, or transferee entity thereof.

"Lien" means any mortgage, pledge or lease of, security interest in or lien, charge, restriction or encumbrance on any Property of the Person involved in favor of, or which secures any Indebtedness to, any Person other than a Credit Group Member and any Capitalized Lease under which any Credit Group Member is lessee and the lessor is not a Credit Group Member.

"Limited Credit Group Participant" means a Person designated in writing by the Obligated Group Agent to the Master Trustee with whom an Obligated Group Member or a Designated Affiliate has entered into a contract or other agreement, under which such Person is obligated to make such portion of the payments required by the Master Indenture (a) in the amount specified in such contract or other agreement or (b) subject to such limitations as described therein, perform all of the other obligations of a Credit Group Member under the Master Indenture, and do all things necessary to permit the Obligated Group to perform its obligations and covenants under the Master Indenture; *provided,* that together with such identification there shall be delivered to the Master Trustee (1) a fully executed copy of such contract or other agreement and (2) an opinion of Counsel acceptable to the Master Trustee to the effect that such contract or other agreement is a valid and binding obligation of such Person enforceable in accordance with its terms, subject to customary exceptions for bankruptcy, insolvency and other laws generally affecting enforcement of creditors' rights and application of general principles of equity and to the exceptions permitted by the Master Indenture.

"Master Indenture" means the Master Trust Indenture (Amended and Restated) dated as of May 1, 2003, amending and restating the Original Master Indenture, between the Obligated Group and the Master Trustee, as it may from time to time be supplemented or amended.

"Master Trustee" means The Bank of New York Mellon Trust Company, N.A. in its capacity as successor Master Trustee under the Master Indenture, and its successors in the trusts created under the Master Indenture.

"Material Obligated Group Member" means any Obligated Group Member which for any of the three Fiscal Years preceding the occurrence of any event described in this APPENDIX C in subsection (d) or (e) under the caption "THE MASTER INDENTURE – Events of Default" shall have had Revenues greater than or equal to ten percent (10%) of the Revenues of the Credit Group for such Fiscal Year or shall have owned Property having a Book Value greater or equal to ten percent (10%) of the Property of the Credit Group for such Fiscal Year.

"Mission Hospital" means Mission Hospital Regional Medical Center, a California nonprofit public benefit corporation, and its successors and assigns, and any surviving, resulting or transferee entity thereof.

"Montana Corporation" means Providence Health & Services – Montana, a Montana nonprofit corporation (formerly known as St. Patrick Hospital and Health Sciences Center), and its successors and assigns, and any surviving, resulting or transferee entity thereof.

"Net Rentals" means all fixed rents (including as such all payments which the lessee is obligated to make to the lessor on termination of the lease or surrender of the Property other than upon termination of the lease for a default thereunder) payable under a lease or sublease of real or personal Property excluding any amounts required to be paid by the lessee (whether or not designated as rents or additional rents) on account of maintenance, repairs, insurance, taxes and similar charges. Net Rentals for any future period under any so-called "percentage lease" shall be computed on the basis of the amount reasonably estimated to be payable thereunder for such period, but in any event not less than the amount paid or payable thereunder during the immediately preceding period of the same duration as such future period; *provided,* that the amount estimated to be payable under any such percentage lease shall in all cases recognize any change in the applicable percentage called for by the terms of such lease.

"Non-Recourse Indebtedness" means any Indebtedness the liability for which is effectively limited to property, plant and equipment (as classified under generally accepted accounting principles) and the income therefrom, the cost of which property, plant and equipment shall have been financed with the proceeds of such Indebtedness with no recourse, directly or indirectly, to any other Property of any Credit Group Member.

"Obligated Group" means, collectively, the Obligated Group Members.

"Obligated Group Agent" means the Washington Corporation or such other Obligated Group Member as may be designated from time to time pursuant to written notice to the Master Trustee executed by each Obligated Group Member.

"Obligated Group Member" or *"Member of the Obligated Group"* means the Washington Corporation, the Oregon Corporation, the California Corporation, Western Washington, LCMASC, Providence Health & Services, the Montana Corporation, St. Joseph, Swedish, PSJHC,

Edmonds, WHC, PacMed, Kadlec, SJHS, St. Joseph Orange, St. Jude, Mission Hospital, St. Mary, Hoag Hospital, Queen of the Valley, Santa Rosa Memorial, SRMAHS, St. Joseph Eureka, Redwood Memorial, CHS, Covenant Children's, Covenant Levelland, Covenant Plainview and any Person who is listed on Exhibit C to the Master Indenture as a result of having fulfilled the requirements for entry into the Obligated Group pursuant to the Master Indenture and which has not, in either case, ceased such status pursuant to the Master Indenture.

"Obligation holder" means the registered owner of any fully registered or book entry Obligation unless alternative provision is made in the Supplemental Master Indenture pursuant to which such Obligation is issued for establishing ownership of such Obligation, in which case such alternative provision shall control.

"Obligations" means all Obligations issued under the Master Indenture, including (i) the Existing Master Notes and (ii) any evidence of Indebtedness or of an Interest Rate Agreement issued by an Obligated Group Member pursuant to the Master Indenture which has been authenticated by the Master Trustee pursuant to the terms of the Master Indenture.

"Officer's Certificate" means a certificate signed, in the case of a certificate delivered by a corporation, by any officer authorized to sign pursuant to law or the by-laws or by resolution of such corporation or, in the case of a certificate delivered by any other Person, the chief executive or chief financial officer of such other Person.

"Opinion of Bond Counsel" means a written opinion of nationally recognized municipal bond counsel, which counsel and opinion, including, without limitation, the scope, form, substance and other aspects thereof, are not unacceptable to the Master Trustee.

"Oregon Corporation" means Providence Health & Services – Oregon, an Oregon nonprofit corporation, and its successors and assigns, and any surviving, resulting or transferee entity thereof.

"Original Master Indenture" means the Master Trust Indenture dated as of August 1, 1985, as supplemented and amended through the Forty-Fourth Supplemental Master Trust Indenture (Amendment and Restatement; Oregon No. 1) and First Supplemental Master Trust Indenture (Oregon No. 1) dated as of May 1, 2003 among the Washington Corporation, the Oregon Corporation, the California Corporation and the Master Trustee.

"Outstanding Obligations" or *"Obligations outstanding"* means all Obligations which have been duly authenticated and delivered by the Master Trustee under the Master Indenture or the Original Master Indenture, including the Existing Master Notes, except:

(a) Obligations canceled after purchase in the open market or because of payment at or prepayment or redemption prior to maturity;

(b) (i) Obligations for the payment, prepayment or redemption of which cash or Escrow Obligations shall have been theretofore deposited with the Master Trustee (whether upon or prior to the maturity, prepayment or redemption date of any such

Obligations); *provided* that if such Obligations are to be prepaid or redeemed prior to the maturity thereof, notice of such prepayment or redemption shall have been given or irrevocable arrangements satisfactory to the Master Trustee shall have been made therefor, or waiver of such notice satisfactory in form to the Master Trustee shall have been filed with the Master Trustee and (ii) Obligations securing Related Bonds for the payment, prepayment or redemption of which cash or Escrow Obligations shall have been theretofore deposited with the Related Bond Trustee (whether upon or prior to the maturity, prepayment or redemption date of any such Obligations); *provided* that if such Related Bonds are to be prepaid or redeemed prior to the maturity thereof, notice of such prepayment or redemption shall have been given or arrangements satisfactory to the Related Bond Trustee shall have been made therefor, or waiver of notice satisfactory in form to the Related Bond Trustee shall have been filed with the Related Bond Trustee;

(c) Obligations in lieu of which others have been authenticated under the Master Indenture or the Original Master Indenture; and

(d) For the purpose of all consents, approvals, waivers and notices required to be obtained or given under the Master Indenture, Obligations held or owned by any Credit Group Member.

Notwithstanding the foregoing, any Obligation securing Related Bonds shall be deemed outstanding if such Related Bonds are Outstanding.

"Outstanding Related Bonds" or *"Related Bonds outstanding"* means all Related Bonds which have been duly authenticated and delivered by the Related Bond Trustee under the Related Bond Indenture and are deemed outstanding under the terms of such Related Bond Indenture or, if such Related Bond Indenture does not specify when Related Bonds are deemed outstanding thereunder, all such Related Bonds which have been so authenticated and delivered, except:

(a) Related Bonds canceled after purchase in the open market or because of payment at or prepayment or redemption prior to maturity;

(b) Related Bonds for the payment or prepayment or redemption of which cash or Escrow Obligations of the type described in clause (i) of the definition thereof shall have been theretofore deposited with the Related Bond Trustee (whether upon or prior to the maturity, prepayment or redemption date of any such Bonds) in accordance with the Related Bond Indenture; *provided* that if such Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given or arrangements satisfactory to the Related Bond Trustee shall have been made therefor, or waiver of such notice satisfactory in form to the Related Bond Trustee shall have been filed with the Related Bond Trustee;

(c) Related Bonds in lieu of which others have been authenticated under the Related Bond Indenture; and

(d) For the purposes of all covenants, approvals, waivers and notices required to be obtained or given under the Related Bond Indenture, Related Bonds held or owned by any Credit Group Member.

"PacMed" means PacMed Clinics, a Washington nonprofit corporation, and its successors and assigns, and any surviving, resulting, or transferee entity thereof.

"Permitted Encumbrances" means the Master Indenture, any Related Loan Document, any Related Bond Indenture and, as of any particular time:

(a) Any Lien on Property acquired subject to an existing Lien, if at the time of such acquisition, the aggregate amount remaining unpaid on the Indebtedness secured thereby (whether or not assumed by the Credit Group Member) does not exceed the fair market value or (if such Property has been purchased) the lesser of the acquisition price or the fair market value of the Property subject to such Lien as determined in good faith by the Governing Body of the Credit Group Member;

(b) Any Lien on any Property of any Credit Group Member granted in favor of or securing Indebtedness to any other Credit Group Member;

(c) Any Lien on Property if such Lien equally and ratably secures all of the Obligations;

(d) Liens on or in Property given, granted, bequeathed or devised by the owner thereof existing at the time of such gift, grant, bequest or devise, *provided* that such Liens Secure Indebtedness which is not assumed by any Credit Group Member and such Liens attach solely to the Property (including the income therefrom) which is the subject of such gift, grant, bequest or devise;

(e) Any security interest in a project fund, rebate fund, any depreciation reserve, debt service or interest reserve, debt service fund or any similar fund established pursuant to the terms of any Supplemental Master Indenture, Related Bond Indenture or Related Loan Document in favor of the Master Trustee, a Related Bond Trustee or the creditor of the Indebtedness issued pursuant to such Supplemental Master Indenture, Related Bond Indenture or Related Loan Document or the provider of any liquidity or credit support for such Related Bond or Indebtedness;

(f) Any Lien on any Related Bond or any evidence of Indebtedness of any Credit Group Member acquired by or on behalf of any Credit Group Member by the provider of liquidity or credit support for such Related Bond or Indebtedness;

(g) Liens on accounts receivable arising as a result of the sale of such accounts receivable with or without recourse, *provided* that the principal amount of Indebtedness secured by any such Lien does not exceed the aggregate sales price of such accounts receivable received by the Credit Group Member selling the same by more than 25%;

(h) Liens on any Property of a Credit Group Member existing on the Effective Date or existing at the time any Person becomes a Credit Group Member; *provided* that no such Lien (or the amount of Indebtedness secured thereby) may be increased, extended, renewed or modified to apply to any Property of such Credit Group Member not subject to such Lien on such date unless such Lien as so increased, extended, renewed or modified is otherwise permitted under the Master Indenture;

(i) Liens on Property of a Person existing at the time such Person is merged into or consolidated with a Credit Group Member, or at the time of a sale, lease or other disposition of the Property of a Person as an entirety or substantially as an entirety to a Credit Group Member which becomes part of a Property that secures Indebtedness that is assumed by a Credit Group Member as a result of any such merger, consolidation or acquisition; *provided,* that no such Lien may be increased, extended, renewed or modified after such date to apply to any Property of a Credit Group Member not subject to such Lien on such date unless such Lien as so increased, extended, renewed or modified is otherwise permitted under the Master Indenture;

(j) Liens which secure Non-Recourse Indebtedness;

(k) Liens on any Property of a Credit Group Member to secure any Indebtedness incurred for the purpose of financing all or any part of the purchase price or the cost of constructing or improving the Property subject to such Liens; *provided,* that such Liens shall not apply to any Property theretofore owned by a Credit Group Member, other than any theretofore unimproved real property on which the Property so constructed or improved is located; and

(l) Liens on Property of a Credit Group Member, in addition to those Liens permitted as defined above in this definition of Permitted Encumbrances, if the aggregate Book Value of the Property subject to a Lien of the type described in this subsection (l) does not exceed 25% of the aggregate Book Value of the property, plant and equipment of the Credit Group (as shown on the most recently available financial statements delivered pursuant to the Master Indenture).

"Permitted Investments" means (i) with respect to any Obligation which secures a series of Related Bonds, the obligations in which the Related Bond Trustee may invest funds under the Related Bond Indenture, (ii) with respect to any Obligations for which a Supplemental Master Indenture specifies certain permitted investments, the investments so specified and (iii) in all other cases such legal and prudent investments as are selected by the Obligated Group Agent by notice in writing to the Master Trustee.

"Person" means any natural person, firm, joint venture, association, partnership, business trust, corporation, limited liability corporation, public body, agency or political subdivision thereof or any other similar entity.

"Primary Obligor" means the Person who is primarily obligated on an obligation that is guaranteed by another Person.

"Property" means any and all rights, titles, and interests in and to any and all property, whether real or personal, tangible (including cash) or intangible, and wherever situated and whether now owned or hereafter acquired.

"Providence Health & Services" means Providence Health & Services, a Washington nonprofit corporation, and its successors and assigns, and any surviving, resulting or transferee corporation thereof.

"PSJHC" means Providence Saint John's Health Center, a California nonprofit religious corporation, and its successors and assigns, and any surviving, resulting, or transferee entity thereof.

"Queen of the Valley" means Queen of the Valley Medical Center, a California nonprofit public benefit corporation, and its successors and assigns, and any surviving, resulting or transferee entity thereof.

"Redwood Memorial" means Redwood Memorial Hospital of Fortuna, a California nonprofit public benefit corporation, and its successors and assigns, and any surviving, resulting or transferee entity thereof.

"Related Bond Indenture" means any bond indenture, bond resolution, or similar instrument pursuant to which a series of Related Bonds is issued.

"Related Bond Trustee" means the trustee appointed under any Related Bond Indenture and any successor trustee thereunder or, if no trustee is appointed under any Related Bond Indenture, the Related Issuer.

"Related Bonds" means any revenue bonds or similar obligations, the proceeds of which are loaned or otherwise made available to any Credit Group Member in consideration, whether in whole or in part, of the execution, authentication and delivery of an Obligation or Obligations.

"Related Issuer" means the issuer of a series of Related Bonds.

"Related Loan Document" means any document or documents (including, without limitation, any lease, sublease or installment sales contract) pursuant to which any proceeds of any Related Bonds are advanced to any Credit Group Member (or any Property financed or refinanced with such proceeds is leased, sublet or sold to a Credit Group Member).

"Revenues" means, for any period, the revenues of a Person, as determined in accordance with generally accepted accounting principles; but excluding (a) any unrealized gain or loss resulting from changes in the value of investment securities, (b) any gains on the sale or other disposition of fixed or capital assets not in the ordinary course, (c) earnings resulting from any reappraisal, revaluation or write-up of fixed or capital assets, or (d) any revenues recognized from deferred revenues related to entrance fees; *provided, however,* that if such calculation is being made with respect to the Credit Group, such calculation shall be made in such a manner so as to

exclude any revenues attributable to transactions between any Credit Group Member and any other Credit Group Member.

"Santa Rosa Memorial" means Santa Rosa Memorial Hospital, a California nonprofit public benefit corporation, and its successors and assigns, and any surviving, resulting or transferee entity thereof.

"Series 2016H Bonds" means the Providence St. Joseph Health Obligated Group Taxable Bonds, Series 2016H, described in the forepart of this Offering Memorandum.

"Series 2016I Bonds" means the Providence St. Joseph Health Obligated Group Taxable Bonds, Series 2016I, described in the forepart of this Offering Memorandum.

"Short-Term" when used in connection with Indebtedness, means Indebtedness of a Person for money borrowed or credit extended having an original maturity less than or equal to one year and not renewable at the option of the debtor for, or subject to any binding commitment to refinance or otherwise provide for such Indebtedness having, a term greater than one year beyond the date of original issuance.

"SJHS" means St. Joseph Health System, a California nonprofit public benefit corporation, and its successors and assigns, and any surviving, resulting or transferee entity thereof.

"SRMAHS" means SRM Alliance Hospital Services, a California nonprofit public benefit corporation, and its successors and assigns, and any surviving, resulting or transferee entity thereof.

"St. Joseph" means Providence St. Joseph Medical Center, a Montana nonprofit corporation (formerly known as St. Joseph Hospital Corporation), and its successors and assigns, and any surviving, resulting or transferee entity thereof.

"St. Joseph Eureka" means St. Joseph Hospital of Eureka, a California nonprofit public benefit corporation, and its successors and assigns, and any surviving, resulting or transferee entity thereof.

"St. Joseph Orange" means St. Joseph Hospital of Orange, a California nonprofit public benefit corporation, and its successors and assigns, and any surviving, resulting or transferee entity thereof.

"St. Jude" means St. Jude Hospital, Inc., a California nonprofit public benefit corporation, and its successors and assigns, and any surviving, resulting or transferee entity thereof.

"St. Mary" means St. Mary Medical Center, a California nonprofit public benefit corporation, and its successors and assigns, and any surviving, resulting or transferee entity thereof.

"Supplemental Master Indenture" means (i) any supplemental indenture constituting a part of the Original Master Indenture pursuant to which an Existing Master Note was issued and (ii) an indenture amending or supplementing the Master Indenture entered into pursuant to the requirements of the Master Indenture summarized in this APPENDIX C under the captions "THE MASTER INDENTURE – Supplemental Master Indentures not Requiring Consent of Obligation Holders" and "– Supplemental Master Indentures Requiring Consent of Obligation Holders" on or after the Effective Date.

"Swedish" means Swedish Health Services, a Washington nonprofit corporation and its successors and assigns, and any surviving, resulting or transferee entity thereof.

"Tax-Exempt Organization" means a Person organized under the laws of the United States of America or any state thereof which is an organization described in Section 501(c)(3) of the Code, which is exempt from federal income taxation under Section 501(a) of the Code, and which is not a "private foundation" within the meaning of Section 509(a) of the Code, or corresponding provisions of federal income tax laws from time to time in effect.

"Trust Estate" has the meaning set forth in the Granting Clauses of the Master Indenture.

"Unlimited Credit Group Participant" means a Person designated in writing by the Obligated Group Agent to the Master Trustee with whom an Obligated Group Member or a Designated Affiliate has entered into a contract or other agreement, under which such Person is obligated to make all of the transfers required by the Master Indenture, perform all of the other obligations of a Credit Group Member thereunder, and do all things necessary to permit the Obligated Group to perform its obligations and covenants thereunder, *provided* that together with such identification there be delivered to the Master Trustee (a) a fully executed copy of such contract or other agreement and (b) an opinion of Counsel acceptable to the Master Trustee to the effect that such contract or other agreement is a valid and binding obligation of such Person enforceable in accordance with its terms, subject to customary exceptions for bankruptcy, insolvency and other laws generally affecting enforcement of creditors' rights and application of general principles of equity and to the exceptions set forth in Exhibit A to the Master Indenture.

"Washington Corporation" means Providence Health & Services – Washington, a Washington nonprofit corporation, and its successors and assigns, and any surviving, resulting or transferee entity thereof.

"Western Washington" means Providence Health & Services – Western Washington, a Washington nonprofit corporation, and its successors and assigns, and any surviving, resulting or transferee entity thereof.

"WHC" means Western HealthConnect, a Washington nonprofit corporation, and its successors and assigns, and any surviving, resulting, or transferee entity thereof.

THE MASTER INDENTURE

The Master Indenture sets forth, among other things, the terms on which the Obligated Group Members may incur and secure debt, and, in connection with such provisions, the Master Indenture imposes restrictions upon the Obligated Group Members. The following summarizes certain provisions of the Master Indenture; however, it is not a comprehensive description, and reference is made to the full text of the Master Indenture for a complete recital of its terms.

THE OBLIGATIONS; SECURITY FOR OBLIGATIONS; PAYMENT OF OBLIGATIONS

There is authorized the issuance under the Master Indenture of one or more series of Obligations. Each series of Obligations shall be issued pursuant to a Supplemental Master Indenture, *provided* that a single Supplemental Master Indenture may provide for the issuance of one or more series of Obligations. Each series of Obligations shall be designated so as to differentiate the Obligations of such series from the Obligations of any other series. Unless provided to the contrary in a Supplemental Master Indenture, Obligations shall be issued as fully registered Obligations. No Obligations may be issued under the Master Indenture except in accordance with the requirements set forth in the Master Indenture.

All Obligations issued and outstanding under the Master Indenture are equally and ratably secured by the Master Indenture except to the extent specifically provided otherwise as permitted by the Master Indenture. Any one or more series of Obligations issued under the Master Indenture may, so long as any Liens created in connection therewith constitute Permitted Encumbrances, be secured by security (including, without limitation, letters or lines of credit, insurance or Liens on Property, including Facilities or Property of the Credit Group Members, or security interests in a depreciation reserve, debt service or interest reserve or debt service or similar funds). Such security need not extend to any other Indebtedness (including any other Obligations or series of Obligations).

Each Obligated Group Member unconditionally and irrevocably jointly and severally agrees that it will promptly pay the principal of and interest, premium, if any, on, and the tender purchase price of every Obligation issued under the Master Indenture at the place, on the dates and in the manner provided therein and in said Obligations according to the true intent and meaning thereof, notwithstanding any specific schedule of payment included in such Obligation. If any Obligated Group Member does not make payment of any installment of principal, premium or interest on any Obligation when due or the purchase price of any Obligation when due and payable, the Master Trustee shall provide prompt written notice of each nonpayment to each Obligated Group Member and the Obligated Group Agent. Each Obligated Group Member shall cause each Designated Affiliate it controls and each Unlimited Credit Group Participant and Limited Credit Group Participant with which it has entered into a contract or agreement to pay or otherwise transfer to such Obligated Group Member, the Obligated Group Agent or another Obligated Group Member such amounts as are necessary to duly and punctually pay the principal of and interest and premium, if any, on, and the purchase price of all Outstanding Obligations, and any other amounts payable by the Obligated Group Members under the Master Indenture, on the dates, at the times, at the places and in the manner provided therein and in such Obligations (subject, in the case of any Limited Credit Group Participant, to contractual limitations). In addition, each

Obligated Group Member shall cause each Designated Affiliate which it controls to cause each Unlimited Credit Group Participant and Limited Credit Group Participant with which the Designated Affiliate has entered into a contract or agreement to pay or otherwise transfer such amounts to the Obligated Group Agent (subject, in the case of any Limited Credit Group Participant, to contractual limitations).

CREDIT GROUP MEMBERS

The Obligated Group Agent may designate (i) any Person which meets the requirements of the definition of an "Unlimited Credit Group Participant" as an Unlimited Credit Group Participant, (ii) any Person which meets the requirements of the definition of a "Limited Credit Group Participant" as a Limited Credit Group Participant, and (iii) any Person which meets the requirements of the definition of a "Designated Affiliate" as a Designated Affiliate, in each case by filing a written notice with the Master Trustee. Such notice shall be filed prior to the date such identification is to become effective, with such Person to be deemed a Credit Group Member as of the date specified in such notice. Such Person shall thereafter be considered a Credit Group Member until such time as the Obligated Group Agent shall file with the Master Trustee (i) a notice declaring that such Person is no longer a Credit Group Member effective as of the date of filing or, if later, as of the date specified in the notice, and (ii) a certificate of the Obligated Group Agent to the effect that immediately after the withdrawal of such Person from the Credit Group no event will have occurred which with the passage of time or the giving of notice, or both, would become an event of default under the Master Indenture.

Each Obligated Group Member covenants that it will cause each Designated Affiliate under its control and each Limited Credit Group Participant or Unlimited Credit Group Participant with which the Obligated Group Member maintains a contract or agreement to comply with the terms and conditions of the Master Indenture which are applicable to such Person. In addition, each Obligated Group Member covenants that it will cause each Designated Affiliate under its control to cause each Limited Credit Group Participant and Unlimited Credit Group Participant with which such Designated Affiliate maintains a contract or agreement to comply with the terms and provisions of the Master Indenture which are applicable to such Participant.

Notwithstanding any of the other provisions of the Master Indenture, it is expressly agreed by the parties thereto that no Credit Group Member other than the Obligated Group Members shall be directly obligated to make any payment thereunder.

THE OBLIGATED GROUP

Entrance Into the Obligated Group. A Person may become an Obligated Group Member only if the provisions summarized herein under the caption "THE MASTER INDENTURE – Holdover Provisions Regarding Entry Into and Withdrawal From the Obligated Group" are satisfied, unless (a) all Existing Master Notes are no longer Outstanding or (b) the holders of all Outstanding Existing Master Notes have consented to the applicability of the provisions of the Master Indenture summarized under this caption in lieu of said holdover provisions. Subject to the provisions of the foregoing sentence, any Person may become an Obligated Group Member if the following provisions are satisfied:

(a) Such Person shall execute and deliver to the Master Trustee a Supplemental Master Indenture acceptable to the Master Trustee which shall also be executed by the Master Trustee and the Obligated Group Agent on behalf of each then-current Obligated Group Member, containing (i) the agreement of such Person to become an Obligated Group Member and thereby to become subject to compliance with all provisions of the Master Indenture, and unconditionally and irrevocably (subject to the right of such Person to cease its status as an Obligated Group Member pursuant to the terms and conditions of the Master Indenture summarized below under the subcaption "Cessation of Status as an Obligated Group Member") to jointly and severally make payments upon each Obligation at the times and in the amounts provided in each such Obligation, and (ii) certain representations and warranties by such Person set forth in the Master Indenture;

(b) The Obligated Group Agent shall, by appropriate action of its Governing Body, have approved the admission of such Person to the Obligated Group and each of the other Obligated Group Members shall have taken such action, if any, required by their own by-laws or organizational documents to approve the admission of such Person to the Obligated Group;

(c) The Master Trustee shall have received (i) a certificate of the Obligated Group Agent which demonstrates that, immediately upon such Person becoming an Obligated Group Member, the Obligated Group Members would not, as a result of such transaction, be in default in the performance or observance of any covenant or condition to be performed or observed by them under the Master Indenture, (ii) an opinion of Counsel to the effect that (A) the instrument described in paragraph (a) above has been duly authorized, executed and delivered and constitutes a legal, valid and binding agreement of such Person, enforceable in accordance with its terms, subject to customary exceptions for bankruptcy, insolvency and other laws generally affecting enforcement of creditors' rights and application of general principles of equity and to the exceptions set forth in Exhibit A of the Master Indenture, (B) the addition of such Person to the Obligated Group will not adversely affect the status as a Tax-Exempt Organization of any Obligated Group Member which otherwise has such status, (C) the Person which is to become an Obligated Group Member is liable on all Obligations outstanding under the Master Indenture, as if such Obligations were originally issued by such Person, subject only to the applicable exceptions set forth in Exhibit A of the Master Indenture, and (D) under then existing law such Person becoming an Obligated Group Member will not subject any Obligation to the registration provisions of the Securities Act of 1933, as amended (or that such Obligations have been so registered if registration is required), and (iii) if all amounts due or to become due on all Related Bonds have not been paid to the holders thereof or provision for such payment has not been made in such manner as to have resulted in the defeasance of all Related Bond Indentures, an Opinion of Bond Counsel to the effect that under then existing law the addition of such Person as an Obligated Group Member would not adversely affect the validity of any Related Bond or any exemption from federal or state income taxation of interest payable on such Related Bond otherwise entitled to such exemption; and

(d) Exhibit C of the Master Indenture is amended to add such Person as an Obligated Group Member.

Cessation of Status as an Obligated Group Member. Each Obligated Group Member covenants that it will not take any action, corporate or otherwise, which would cause it or any successor thereto into which it is merged or consolidated under the terms of the Master Indenture to cease to be an Obligated Group Member unless (a) if any Existing Master Note is Outstanding and the holder thereof has not consented to the applicability of the provisions of the Master Indenture summarized under this caption in lieu of the provisions summarized herein under the caption "THE MASTER INDENTURE – Holdover Provisions Regarding Entry Into and Withdrawal from the Obligated Group," said holdover provisions are satisfied or (b) if said holdover provisions are not required to be complied with, then:

(a) If the Obligated Group Member proposing to withdraw from the Obligated Group is a party to any Related Loan Documents with respect to Related Bonds which remain outstanding, another Obligated Group Member shall issue an Obligation under the Master Indenture evidencing or assuming the obligation of the withdrawing Obligated Group Member in respect of such Related Bonds;

(b) Prior to cessation of such status, there is delivered to the Master Trustee an Opinion of Bond Counsel to the effect that, under then existing law, the cessation by the Obligated Group Member of its status as an Obligated Group Member will not adversely affect the validity of any Related Bond or any exemption from federal or state income taxation of interest payable thereon to which such Related Bond would otherwise be entitled;

(c) The Master Trustee shall have received a certificate of the Obligated Group Agent to the effect that prior to and immediately after such cessation, no event of default exists under the Master Indenture and no event shall have occurred which with the passage of time or the giving of notice, or both, would become such an event of default;

(d) Prior to such cessation there is delivered to the Master Trustee an opinion of Counsel to the effect that the cessation by such Obligated Group Member of its status as an Obligated Group Member will not adversely affect the status as a Tax-Exempt Organization of any Obligated Group Member which otherwise has such status; and

(e) Prior to cessation of such status, the Obligated Group Agent consents in writing to the withdrawal by such Obligated Group Member.

Upon such cessation in accordance with the foregoing provisions, Exhibit C of the Master Indenture shall be amended to delete therefrom the name of such Person.

RATES AND CHARGES

Each Obligated Group Member covenants and agrees to cause each Designated Affiliate under its control and each Unlimited Credit Group Participant or Limited Credit Group Participant with which it or any Designated Affiliate under its control maintains a contract or agreement to conduct its business on a revenue producing basis and to exercise such skill and diligence as to provide income from its Property, together with other available funds, sufficient to pay promptly

all payments of principal and interest on its Indebtedness, all expenses of operation, maintenance and repair of its Property and all other payments required to be made by it under the Master Indenture, to the extent permitted by law.

Not later than 30 days after delivery of the financial information required to be delivered pursuant to the provisions of the Master Indenture summarized herein under the caption "THE MASTER INDENTURE – Financial Statements," the Obligated Group Agent shall calculate the Historical Debt Service Coverage Ratio of the Credit Group for each Fiscal Year and deliver a copy of such calculations to the Persons to whom financial statements are required to be delivered pursuant to such provisions.

If in any such Fiscal Year the calculations prepared pursuant to the immediately preceding paragraph demonstrate that the Historical Debt Service Coverage Ratio of the Credit Group is less than 1.10 to 1, the Master Trustee shall require the Obligated Group Agent at its expense to retain a Consultant to make recommendations with respect to the rates, fees and charges of the Credit Group and the Credit Group Members' methods of operation and other factors affecting its financial condition in order to increase the Historical Debt Service Coverage Ratio for the succeeding Fiscal Year to at least 1.10 to 1.

A copy of the Consultant's report and recommendations, if any, shall be filed with each Credit Group Member, the Master Trustee and each Related Bond Trustee. Each Obligated Group Member shall follow, and each Obligated Group Member shall cause each Designated Affiliate under its control and each Limited Credit Group Participant or Unlimited Credit Group Participant with which it or any Designated Affiliate under its control maintains a contract or agreement, to follow the recommendations of the Consultant applicable to it to the extent feasible (as determined in the reasonable judgment of the Governing Body of such Obligated Group Member) and permitted by law, subject in the case of a Limited Credit Group Participant to the terms of its contract or agreement.

The requirements summarized under this caption shall not be construed to prohibit any Credit Group Member from serving indigent patients to the extent required for such Member to continue its qualification as a Tax-Exempt Organization or from serving any other class or classes of patients without charge or at reduced rates so long as such service does not prevent the Credit Group from satisfying the other requirements summarized under this caption.

The foregoing provisions notwithstanding, if in any Fiscal Year the Historical Debt Service Coverage Ratio of the Credit Group is less than 1.10 to 1, the Master Trustee shall not be obligated to require the Obligated Group Agent to retain a Consultant to make such recommendations if: (a) there is filed with the Master Trustee (who shall provide a copy to each Related Bond Trustee) a written report addressed to them of a Consultant (which Consultant and report, including, without limitation, the scope, form, substance and other aspects of such report, are not unacceptable to the Master Trustee) which contains an opinion of such Consultant that applicable laws or regulations have prevented the Credit Group from generating Income Available for Debt Service during such Fiscal Year in an amount sufficient to produce a Historical Debt Service Coverage Ratio of the Credit Group of 1.10 to 1 or higher, and, if requested by the Master Trustee, such report is accompanied by a concurring opinion of Counsel (which Counsel and opinion, including, without

limitation, the scope, form, substance and other aspects thereof, are not unacceptable to the Master Trustee) as to any conclusions of law supporting the report of such Consultant; (b) the report of such Consultant indicates that the fees and rates charged by the Credit Group Members are such that, in the opinion of the Consultant, the Credit Group has generated the maximum amount of Revenues reasonably practicable given such laws or regulations; and (c) the Historical Debt Service Coverage Ratio of the Credit Group was at least 1.00 to 1 for such Fiscal Year. The Obligated Group Agent shall not be required to cause the Consultant's report referred to in the preceding sentence to be prepared more frequently than once every two Fiscal Years if at the end of the first of such two Fiscal Years the Obligated Group Agent provides to the Master Trustee (who shall provide a copy to each Related Bond Trustee) an opinion of Counsel (which Counsel and opinion, including, without limitation, the scope, form, substance and other aspects thereof, are not unacceptable to the Master Trustee) to the effect that the applicable laws and regulations underlying the Consultant's report delivered in respect of the previous Fiscal Year have not changed in any material way.

MERGER, CONSOLIDATION, SALE OR CONVEYANCE

(a) Each Obligated Group Member agrees that it will not merge into, or consolidate with, one or more corporations which are not Obligated Group Members, or allow one or more of such corporations to merge into it, or sell or convey all or substantially all of its Property to any Person who is not an Obligated Group Member, unless:

(i) Any successor corporation to such Obligated Group Member (including, without limitation, any purchaser of all or substantially all the Property of such Obligated Group Member) is a corporation organized and existing under the laws of the United States of America or a state thereof and shall execute and deliver to the Master Trustee an appropriate instrument, satisfactory to the Master Trustee, containing the agreement of such successor corporation to assume, jointly and severally with all other Obligated Group Members, the due and punctual payment of the principal of and interest on, premium, if any, on, and the purchase price of, all Obligations according to their tenor and the due and punctual performance and observance of all the covenants and conditions of the Master Indenture to be kept and performed by such Obligated Group Member;

(ii) Immediately after such merger or consolidation, or such sale or conveyance, no Obligated Group Member would be in default in the performance or observance of any covenant or condition of any Related Loan Document or the Master Indenture and the Master Trustee shall receive an Officer's Certificate of the Obligated Group Agent to such effect;

(iii) The Master Trustee receives an opinion of Counsel to the effect that (a) such consolidation, merger, conveyance or transfer and any such assumption and Supplemental Master Indenture delivered in connection therewith comply with the requirements described under the Master Indenture; (b) all conditions precedent to such transaction have been complied with; (c) the Person which is the surviving entity meets the conditions contained in the Master Indenture and is liable on all Obligations Outstanding issued thereunder, as if such Obligations were originally issued by such Person; and (d) under

then existing law such merger, consolidation, sale or conveyance will not subject any Obligations to the registration provisions of the Securities Act of 1933, as amended (or that such Obligations have been so registered if registration is required); and

(iv) If all amounts due or to become due on all Related Bonds have not been fully paid to the holders thereof or fully provided for, there shall be delivered to the Master Trustee an Opinion of Bond Counsel to the effect that under then existing law the consummation of such merger, consolidation, sale or conveyance would not adversely affect the validity of such Related Bonds or the exemption otherwise available from federal or state income taxation of interest payable on such Related Bonds.

(b) In case of any such consolidation, merger, sale or conveyance and upon any such assumption by the successor corporation, such successor corporation shall succeed to and be substituted for its predecessor, with the same effect as if it had been named under the Master Indenture as such Obligated Group Member, and the Obligated Group Member which is a party to such transaction, if it is not the survivor, shall thereupon be relieved of any further obligation or liabilities under the Master Indenture or upon the Obligations and such Obligated Group Member as the predecessor or non-surviving corporation may thereupon or at any time thereafter be dissolved, wound up or liquidated. Any successor corporation to such Obligated Group Member thereupon may cause to be signed and may issue in its own name Obligations under the Master Indenture. All Obligations so issued by such successor corporation under the Master Indenture shall in all respects have the same legal rank and benefit under the Master Indenture as Obligations theretofore or thereafter issued in accordance with the terms of the Master Indenture as though all of such Obligations had been issued under the Master Indenture by such prior Obligated Group Member without any such consolidation, merger, sale or conveyance having occurred.

(c) In case of any such consolidation, merger, sale or conveyance such changes in phraseology and form (but not in substance) may be made in Obligations thereafter to be issued as may be appropriate.

(d) Any such consolidation, merger, sale or conveyance shall be on such terms as shall fully preserve the right and powers of the Master Trustee and the owners of the Obligations.

(e) Except as may be expressly provided in any Supplemental Master Indenture, the ability of any Designated Affiliate, Unlimited Credit Group Participant or Limited Group Participant to merge into, or consolidate with, one or more corporations, or allow one or more corporations to merge into it, or sell or convey all or substantially all of its Property to any Person is not limited by the provisions of the Master Indenture.

FINANCIAL STATEMENTS

(a) Each Obligated Group Member covenants that it will, and will cause each Designated Affiliate under its control and each Limited Credit Group Participant or Unlimited Credit Group Participant with which it or any Designated Affiliate under its control maintains a contract or agreement to (i) keep or cause to be kept proper books of records and accounts in which full, true and correct entries will be made of all dealings or transactions of or in relation to its business and

affairs in accordance with generally accepted accounting principles consistently applied, except as may be disclosed in the notes to the audited financial statements hereinafter referred to, if any, and (ii) deliver to the Obligated Group Agent within 120 days after the end of the Fiscal Year of such Obligated Group Member, Designated Affiliate, Unlimited Credit Group Participant or Limited Credit Group Participant, as the case may be, audited financial statements of, or including the operations of, such Obligated Group Member, Designated Affiliate, Unlimited Credit Group Participant or Limited Credit Group Participant. The foregoing notwithstanding, (i) the financial condition and results of operations of a Limited Credit Group Participant need not be audited *provided* that (a) the revenues of such Limited Credit Group Participant represent 5% or less of the Revenues of the Credit Group for such Fiscal Year and (b) the aggregate revenues of all Limited Credit Group Participants described in (i) represent 15% or less of Revenues of the Credit Group for such Fiscal Year and (ii) a Designated Affiliate, Limited Credit Group Participant or Unlimited Credit Group Participant need not deliver separate audited financial statements to the Obligated Group Agent as described in clause (ii) of the preceding sentence if the operations of such Designated Affiliate, Limited Credit Group Participant or Unlimited Credit Group Participant, as the case may be, will be included in the audited financial statements of an Obligated Group Member or in the consolidated audited financial statements of the Obligated Group.

(b) Within 150 days after the last day of each Fiscal Year of the Obligated Group Agent, the Obligated Group Agent shall provide to the Master Trustee a certificate containing an unaudited compilation of the financial position of the Credit Group and an unaudited combined statement of changes in net assets and statement of cash flows for such Fiscal Year and an unaudited combining statement of operations for such Fiscal Year, based in each case on the most recent audited financial statements delivered to the Obligated Group Agent by the Credit Group Members. The Obligated Group Agent shall (i) attach the audited financial statements of, or audited financial statements which include the operations of, the Obligated Group Members, the Designated Affiliates, the Unlimited Credit Group Participants and the Limited Credit Group Participants, and, to the extent audited financial statements are not prepared for any Limited Credit Group Participant in accordance with the provisions of the prior paragraph, unaudited financial statements of such Limited Credit Group Participant and (ii) certify that it has derived the financial information from the audited financial statements referred to in clause (i).

For the purpose of making this compilation on a Fiscal Year basis, or for purposes of combinations or consolidation of accounting information, with respect to those Credit Group Members whose actual Fiscal Year is different from the Obligated Group Agent's Fiscal Year, the actual Fiscal Year of such Credit Group Members which ended within the relevant Fiscal Year of the Obligated Group Agent shall be used.

If the operations of all Credit Group Members are included within one set of audited financial statements, the Obligated Group Agent may deliver such statements to the Master Trustee within 150 days after the last day of each Fiscal Year of the Obligated Group Agent in lieu of the requirements of this paragraph (b) and paragraph (a) above. To the extent that generally accepted accounting principles would require consolidation of certain financial information of entities which are not Credit Group Members with financial information of one or more Credit Group Members, consolidated financial statements prepared in accordance with generally accepted accounting principles which include information with respect to entities which are not Credit

Group Members may be delivered in satisfaction of the requirements of the Master Indenture summarized under this subcaption so long as: (a) supplemental information in sufficient detail to separately identify the information with respect to the Credit Group Members is delivered to the Master Trustee with the audited financial statements; (b) such supplemental information has been subjected to the auditing procedures applied in the audit of the combined financial statements delivered to the Master Trustee and, in the opinion of the accountant, is fairly stated in all material respects in relation to the combined financial statements taken as a whole; and (c) such supplemental information is used for the purposes of the Master Indenture or for any agreement, document or certificate executed and delivered in connection or pursuant to the Master Indenture. The foregoing notwithstanding, supplemental information is not required to be so identified or used *provided* that the aggregate Income Available for Debt Service of such entities which are not Credit Group Members but which in accordance with general accepted accounting principles are consolidated with the financial information of one or more Credit Group Members is less than 10% of the Income Available for Debt Service of the Credit Group.

(c) The Obligated Group Agent shall deliver with the audited financial statements or certificate delivered pursuant to (b), an Officer's Certificate (i) setting forth the calculation of the Historical Debt Service Coverage Ratio of the Credit Group for the reported Fiscal Year, and (ii) stating that (x) a review of the activities of the Credit Group during the reported Fiscal Year and of performance under the Master Indenture has been made under the supervision of the Obligated Group Agent, and (y) to the best of the signer's knowledge, based on such review, the Credit Group has fulfilled all its obligations under the Master Indenture throughout such Fiscal Year or, if there has been a default in the fulfillment of any such obligation, specifying each such default known to the signer and the nature and status thereof.

The Obligated Group Agent shall also provide to the Master Trustee a then-current list of the Obligated Group Members, the Limited Credit Group Participants, the Unlimited Credit Group Participants and the Designated Affiliates concurrently with the delivery of the financial information required to be delivered pursuant to the provisions of the Master Indenture summarized under this subcaption.

(d) If an event of default under the Master Indenture has occurred, but only in such case, the Obligated Group Members shall provide such additional information as the Master Trustee or any Related Bond Trustee may reasonably request concerning any Credit Group Member in order to enable the Master Trustee or such Related Bond Trustee to determine whether the covenants, terms and provisions of the Master Indenture have been complied with by the Credit Group Members.

PERMITTED FUNDED INDEBTEDNESS

Except as may be expressly provided in any Supplemental Master Indenture, the ability of any Credit Group Member to incur Funded Indebtedness including, with respect to Obligated Group Members, Funded Indebtedness evidenced by Obligations and the amount and terms of such Funded Indebtedness, is not limited by the provisions of the Master Indenture.

SALE, LEASE OR OTHER DISPOSITION OF PROPERTY

Except as summarized above in this APPENDIX C under the caption "THE MASTER INDENTURE – Merger, Consolidation Sale or Conveyance" or in any Supplemental Master Indenture, the ability of any Credit Group Member to sell, lease, or otherwise dispose of (including, without limitation, any involuntary disposition) any Property is not limited by the provisions of the Master Indenture.

LIENS ON PROPERTY

No Obligated Group Member shall, and no Obligated Group Member shall permit any Designated Affiliate under its control or any Limited Credit Group Participant or Unlimited Credit Group Participant with which it or any Designated Affiliate under its control maintains a contract or agreement to, create or incur or permit to be created or incurred to exist any Lien on any Property of any Credit Group Member to secure Indebtedness except Permitted Encumbrances.

OTHER COVENANTS OF THE OBLIGATED GROUP

Each Obligated Group Member covenants to, and each Obligated Group Member covenants to cause each Designated Affiliate under its control and each Limited Credit Group Participant or Unlimited Credit Group Participant with which it or any Designated Affiliate under its control maintains a contract or agreement to:

(a) Except as otherwise expressly provided under the Master Indenture (i) subject to the requirements summarized in this APPENDIX C in subsection (e) under the caption "THE MASTER INDENTURE – Merger, Consolidation, Sale or Conveyance," preserve its corporate or other separate legal existence, and (ii) be qualified to do business and conduct its affairs in each jurisdiction where its ownership of Property or the conduct of its business or affairs requires such qualification.

(b) Promptly pay or otherwise satisfy and discharge all of its obligations and Indebtedness and all demands and claims against it as and when the same become due and payable which if not so paid, satisfied or discharged would constitute a default or an event of default in subsection (c) summarized in this APPENDIX C under the caption "THE MASTER INDENTURE – Events of Default."

(c) At all times comply with all terms, covenants and provisions of any Liens at such time existing upon its Property or any part thereof or securing any of its Indebtedness.

(d) In the case of any Person which is a Tax-Exempt Organization at the time it becomes a Credit Group Member, so long as all amounts due or to become due on all Related Bonds have not been fully paid to the holders thereof or provision for such payment has not been made, to take no action or suffer any action to be taken by others, including any action which would result in the alteration or loss of its status as a Tax-Exempt Organization, which could result in any such Related Bond being declared invalid or result

in the interest on any Related Bond, which is otherwise exempt from federal or state income taxation, becoming subject to such taxation.

(e) Operate all of its Facilities so as not to discriminate on a legally impermissible basis.

(f) At its sole cost and expense, promptly comply with all present and future laws, ordinances, orders, decrees, decisions, rules, regulations and requirements of every duly constituted governmental authority, commission and court and the officers thereof which may be applicable to it or any of its affairs, business, operations and Property, any part thereof, any of the streets, alleys, passageways, sidewalks, curbs, gutters, vaults and vault spaces adjoining any of its Property or any part thereof or to the use or manner of use, occupancy or condition of any of its Property or any part thereof, the violation of which would have a material adverse impact on the financial condition of the Obligated Group or would materially impair the use of such Property.

The foregoing notwithstanding, any Credit Group Member may (i) cease to be a nonprofit corporation or (ii) take actions which could result in the alteration or loss of its status as a Tax-Exempt Organization if prior thereto there is delivered to the Master Trustee (1) an Opinion of Bond Counsel to the effect that such actions would not adversely affect the validity of any Related Bond or the exemption from federal or state income taxation of interest payable on any Related Bond otherwise entitled to such exemption or adversely affect the enforceability in accordance with its terms of the Master Indenture against any Person, and (2) an opinion of Counsel to the effect that under then-existing law such action will not subject any Obligations to the registration provisions of the Securities Act of 1933, as amended (or that such Obligations have been so registered if registration is required).

EVENTS OF DEFAULT

Each of the following events is declared an "event of default" under the Master Indenture:

(a) Failure of the Obligated Group to pay any installment of interest on, principal of, or premium on, or purchase price of, any Obligation when the same shall become due and payable, whether at maturity, upon any date fixed for prepayment or by acceleration or otherwise and the continuance of the failure for such applicable grace period set forth in the Supplemental Master Indenture pursuant to which such Obligation is issued; or

(b) Failure of any Obligated Group Member to comply with, observe or perform any of the covenants, conditions, agreements or provisions described in the Master Indenture (other than those described in (a) above and to remedy such default within 60 days after written notice thereof to such Obligated Group Member and the Obligated Group Agent from the Master Trustee or the holders of at least 25% in aggregate principal amount of the outstanding Obligations; *provided,* that if such default cannot with due diligence and dispatch be wholly cured within 60 days but can be wholly cured, the failure of the Obligated Group Member to remedy such default within such 60-day period shall not

constitute a default under the Master Indenture if the Obligated Group Member shall commence with due diligence and dispatch the curing of such default and, having so commenced the curing of such default, shall thereafter prosecute and complete the same with due diligence and dispatch; or

(c) Default in the payment of the principal of, premium, if any, or interest on any Funded Indebtedness (other than Non-Recourse Indebtedness or any Funded Indebtedness evidenced by an Obligation) of any Obligated Group Member in an amount in excess of 1% of the Revenues of the Credit Group, including, without limitation, any Funded Indebtedness created by any Related Loan Document, as and when the same shall become due, or an event of default as defined in any mortgage, indenture, loan agreement or other instrument under or pursuant to which there was issued or incurred, or by which there is secured, any such Funded Indebtedness (including any Obligation) of any Obligated Group Member, and which default in payment or event of default entitles the holder thereof (or a credit enhancer exercising the rights of such holder) to declare or, in the case of any Obligation, to request that the Master Trustee declare, such Funded Indebtedness due and payable prior to the date on which it would otherwise become due and payable; *provided, however,* that such default shall not constitute an event of default under the Master Indenture if within 30 days, or within the time allowed for service of a responsive pleading if any proceeding to enforce payment of the Funded Indebtedness is commenced (i) the Obligated Group Members in good faith commence proceedings to contest the existence or payment of such Funded Indebtedness, and (ii) sufficient moneys are escrowed with a bank or trust company for the payment of such Funded Indebtedness; or

(d) Any Material Obligated Group Member admits insolvency, or is generally not paying its debts as such debts become due, or makes an assignment for the benefit of creditors or applies for or consents to the appointment of a trustee, custodian or receiver for such Member, or for a substantial portion of its Property; or

(e) A trustee, custodian or receiver is appointed for any Material Obligated Group Member or for a substantial portion of its Property and is not discharged within 60 days after such appointment; or

(f) Bankruptcy, dissolution, reorganization, arrangement, insolvency or liquidation proceedings, proceedings under Title 11 of the United States Code, as amended, or other proceedings for relief under any bankruptcy law or similar law for the relief of debtors are instituted by or against any Obligated Group Member (other than bankruptcy proceedings instituted by any Obligated Group Member against third parties), and if instituted against any Obligated Group Member are allowed against such Obligated Group Member or are consented to or are not dismissed, stayed or otherwise nullified within 60 days after such institution; or

(g) Any representation or warranty made by any Obligated Group Member in the Master Indenture or in any statement or certificate furnished to the Master Trustee or the purchaser of any Obligation in connection with the sale of any Obligation or furnished

by any Obligated Group Member pursuant to the Master Indenture proves untrue in any material respect as of the date of the issuance or making thereof and shall not be corrected or brought into compliance within 30 days after written notice thereof to the Obligated Group Agent by the Master Trustee or the holders of at least 25% in aggregate principal amount of the Outstanding Obligations; *provided, however,* that if such representation or warranty cannot be corrected or brought into compliance within 30 days of the receipt of such notice, no event of default shall occur under the Master Indenture so long as the Obligated Group is diligently working to correct such untrue representation or warranty.

If an event of default has occurred and is continuing, the Master Trustee may, and if requested by the holders of not less than a majority in aggregate principal amount of Outstanding Obligations shall, by notice in writing delivered to the Obligated Group Agent, declare the entire principal amount of all Obligations then outstanding under the Master Indenture and the interest accrued thereon immediately due and payable, and the entire principal and such interest shall thereupon become immediately due and payable, subject, however, to the provisions of the Master Indenture with respect to waivers of events of default summarized in the second following paragraph.

Upon the occurrence of any event of default under the Master Indenture and subject to the provisions thereof, the Master Trustee may pursue any available remedy including a suit, action or proceeding at law or in equity to enforce the payment of the principal of, premium, if any, and interest on, the Obligations outstanding thereunder and any other sums due thereunder and may collect such sums in the manner provided by law out of the Property of any Obligated Group Member wherever situated.

If, at any time after the principal of all Obligations shall have been so declared due and payable, and before any judgment or decree for the payment of the moneys due shall have been obtained or entered and before the acceleration of any Related Bond, any Obligated Group Member shall pay or shall deposit with the Master Trustee a sum sufficient to pay all matured installments of interest upon all such Obligations and the principal of, and premium, if any, on, all such Obligations that shall have become due otherwise than by acceleration (with interest on overdue installments of interest and on such principal and premium, if any, at the rate borne by such Obligations to the date of such payment or deposit, to the extent permitted by law) and the reasonable expenses of the Master Trustee, and any and all events of default under the Master Indenture, other than the nonpayment of principal of, and accrued interest on, such Obligations that shall have become due by acceleration, shall have been remedied, then and in every such case the holders of a majority in aggregate principal amount of all Obligations then outstanding, by written notice to the Obligated Group Agent and to the Master Trustee, may waive all events of default and rescind and annul such declaration and its consequences; but no such waiver or rescission and annulment shall extend to or affect any subsequent event of default, or shall impair any right consequent thereon.

SUBSTITUTION OF OBLIGATIONS

All Obligations issued pursuant to the Master Indenture shall, upon the request of the Obligated Group Agent, and subject to the prior written consent of any credit enhancer of any

Outstanding Related Bonds, be surrendered to the Master Trustee upon presentation to the Master Trustee of:

(a) one or more original replacement obligations (the *"Substitute Obligations"*) issued by or on behalf of the members of a new credit group (collectively, the *"New Group"*) under and pursuant to and secured by a master trust indenture (the *"Replacement Master Indenture"*) executed by or on behalf of the New Group and an independent corporate trustee (the *"New Trustee"*) meeting the eligibility requirements of the Master Trustee as set forth in the Master Indenture, which Substitute Obligations have been duly authenticated by the New Trustee under the terms of the Replacement Master Indenture;

(b) An Opinion of Bond Counsel that the surrender of the Obligations and the acceptance by the Master Trustee of the Substitute Obligations will not adversely affect the validity of the Related Bonds or any exemption for the purposes of federal income taxation to which interest on any Obligations or any Related Bonds would otherwise be entitled;

(c) An executed counterpart of the Replacement Master Indenture;

(d) An opinion of Independent Counsel to the Obligated Group addressed to the Master Trustee, the Related Bond Trustees, the Related Issuers and any credit enhancer for the Related Bonds to the effect that:

(i) The Replacement Master Indenture has been duly authorized, executed and delivered by each member of the New Group, each Substitute Obligation has been duly authorized, executed and delivered by or on behalf of a member of the New Group and each of the Replacement Master Indenture and each Substitute Obligation is a legal, valid and binding obligation of each member of the New Group, subject in each case to customary exceptions for bankruptcy, insolvency and other laws generally affecting enforcement of creditors' rights and application of general principles of equity and to the matters described in Exhibit A to the Master Indenture;

(ii) All requirements and conditions to the issuance of the Substitute Obligations set forth in the Replacement Master Indenture have been complied with and satisfied;

(iii) Registration of the Substitute Obligations under the Securities Act of 1933, as amended, is not required or, if such registration is required, the New Group has complied with all applicable provisions of said Act; and

(iv) Qualification of the Replacement Master Indenture under the Trust Indenture Act of 1939, as amended, is not required, or if such qualification is required, the New Group has complied with all applicable provisions of such Act.

(e) Such other opinions and certificates as the Master Trustee may reasonably require, together with payment of all outstanding fees and expenses of the Master Trustee and with such reasonable indemnities as are satisfactory to it.

SUPPLEMENTAL MASTER INDENTURES NOT REQUIRING CONSENT OF OBLIGATION HOLDERS

Subject to the limitations summarized below under the subcaption "Supplemental Master Indentures Requiring Consent of Obligation Holders" with respect to the provisions of the Master Indenture summarized under this subcaption, the Obligated Group Members and the Master Trustee may, without the consent of, or notice to, any of the Obligation holders, amend or supplement the Master Indenture for any one or more of the following purposes:

(a) To cure any ambiguity or defective provision in or omission from the Master Indenture in such manner as is not inconsistent with and does not impair the security of the Master Indenture or adversely affect the holder of any Obligation;

(b) To grant to or confer upon the Master Trustee for the benefit of the Obligation holders any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Obligation holders and the Master Trustee, or either of them, to add to the covenants of the Obligated Group Members for the benefit of the Obligation holders or to surrender any right or power conferred under the Master Indenture upon any Obligated Group Member;

(c) To assign and pledge under the Master Indenture any additional revenues, properties or collateral;

(d) To evidence the succession of another corporation to the agreements of an Obligated Group Member or the Master Trustee, or the successor of any thereof under the Master Indenture;

(e) To permit the qualification of the Master Indenture under the Trust Indenture Act of 1939, as then amended, or under any similar federal statute hereafter in effect or to permit the qualification of any Obligations for sale under the securities laws of the United States or any state of the United States;

(f) To provide for the refunding or advance refunding of any Obligation;

(g) To provide for the issuance of Obligations;

(h) To reflect the addition to or withdrawal of an Obligated Group Member from the Obligated Group, including the necessary changes to Exhibit B and Exhibit C of the Master Indenture;

(i) To provide for the issuance of Obligations with original issue discount, provided such issuance would not materially adversely affect the holders of Outstanding Obligations;

(j) To permit an Obligation to be secured by security which is not extended to all Obligation holders, provided such security consists of a Lien which constitutes a Permitted Encumbrance; and

(k) To make any other change which, in the opinion of the Master Trustee, does not materially adversely affect the holders of any of the Obligations, including, without limitation, any modification, amendment or supplement to the Master Indenture or any indenture supplemental thereto in such a manner as to establish or maintain the exemption of interest on any Related Bonds from federal income taxation under applicable provisions of the Code.

SUPPLEMENTAL MASTER INDENTURES REQUIRING CONSENT OF OBLIGATION HOLDERS

In addition to Supplemental Master Indentures summarized above in this APPENDIX C under the subcaption "Supplemental Master Indentures not Requiring Consent of Obligation Holders" and subject to the terms and provisions contained in this subcaption, and not otherwise, the holders of a majority in aggregate principal amount of the Obligations which are outstanding under the Master Indenture at the time of the execution of such Supplemental Master Indenture or, in case less than all of the several series of Obligations are affected thereby, the holders of a majority in aggregate principal amount of the Obligations of the series affected thereby which are outstanding thereunder at the time of the execution of such Supplemental Master Indenture, shall have the right, from time to time, anything contained in the Master Indenture to the contrary notwithstanding, to consent to and approve the execution by the Obligated Group Members and the Master Trustee of such Supplemental Master Indentures as shall be deemed necessary and desirable by the Obligated Group Members for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Master Indenture or in any Supplemental Master Indenture; *provided, however,* that nothing summarized under this subcaption shall permit, or be construed as permitting,

(a) An extension of the stated maturity or reduction in the principal amount of, or a reduction in the rate or extension of the time of paying of interest on, or a reduction of any premium payable on the redemption of, any Obligation, without the consent of the holder of such Obligation,

(b) A reduction in the aforesaid aggregate principal amount of Obligations the holders of which are required to consent to any such Supplemental Master Indenture, without the consent of the holders of all the Obligations at the time outstanding which would be affected by the action to be taken,

(c) The creation of any lien ranking prior to or on a parity with the lien of the Master Indenture with respect to the Trust Estate, if any, subject thereto, or the termination of the lien of the Master Indenture on any Property at any time subject thereto, or the deprivation of the holder of any Obligation of the security afforded by the lien of the Master Indenture except as otherwise provided therein, or

(d) Modification of the rights, duties or immunities of the Master Trustee, without the written consent of the Master Trustee.

HOLDOVER PROVISIONS REGARDING ENTRY INTO AND WITHDRAWAL FROM THE OBLIGATED GROUP

The definitions and provisions set forth below under this subcaption relate solely to the requirements for admission to and withdrawal from the Obligated Group so long as any Existing Master Notes remain outstanding and the holders thereof have not otherwise consented to applicability of the provisions of the Master Indenture summarized in this APPENDIX C under the caption "THE MASTER INDENTURE – The Obligated Group."

Definitions of Certain Words and Terms. The following words and terms shall have the following meanings when used under this subcaption unless the context or use indicates another or different meaning or intent. Capitalized terms used below and not otherwise defined below shall have the meanings ascribed thereto as set forth above in this APPENDIX C under the caption "DEFINITIONS OF CERTAIN WORDS AND TERMS."

"Additional Indebtedness" means Indebtedness incurred by any Member of the Obligated Group subsequent to the date on which it becomes a Member of the Obligated Group.

"Affiliate" means a corporation, partnership, joint venture, association, business trust or similar entity organized under the laws of the United States of America or any state thereof: (a) which controls or which is controlled by, directly or indirectly, a Member of the Obligated Group; or (b) a majority of the members of the Directing Body of which are members of the Directing Body of a Member of the Obligated Group. For the purposes of this definition, control means with respect to: (a) a corporation having stock, the ownership, directly or indirectly, of more than 50% of the securities (as defined in Section 2(1) of the Securities Act of 1933, as amended) of any class or classes, the holders of which are ordinarily, in the absence of contingencies, entitled to elect a majority of the directors (or persons performing similar functions) of such corporation; (b) a not for profit corporation not having stock, having the power to elect or appoint, directly or indirectly, a majority of the Directing Body of such corporation; or (c) any other entity, the power to direct the management of such entity through the ownership of at least a majority of its voting securities or the right to designate or elect at least a majority of the members of its Directing Body, by contract or otherwise. For the purposes of this definition, "Directing Body" means: (a) with respect to a corporation having stock, such corporation's board of directors and the owners, directly or indirectly, of more than 50% of the securities (as defined in Section 2(1) of the Securities Act of 1933, as amended) of any class or classes, the holders of which are ordinarily, in the absence of contingencies, entitled to elect a majority of the corporation's directors (each of which groups shall be considered a Directing Body); (b) with respect to a not for profit corporation not having stock, such corporation's members if the members have complete discretion to elect the corporation's directors, or the corporation's directors if the corporation's members do not have such discretion or if the corporation has no members; and (c) with respect to any other entity, its governing board or body. For the purposes of this definition, all references to directors and members shall be deemed to include all entities performing the function of directors or members however denominated.

"Balloon Indebtedness" means Indebtedness, other than Short-Term Indebtedness, 25% or more of the original principal amount of which matures during any consecutive twelve-month period if such maturing principal amount is not required to be amortized by mandatory redemption or prepayment prior to such period.

"Board Designated Assets" means cash, cash equivalent deposits and marketable securities that have been designated by the Governing Body of any Member of the Obligated Group for specific uses.

"Bonds" means Related Bonds.

"Book Value," when used with respect to Property of any Member of the Obligated Group, means the value of such Property, net of accumulated depreciation and amortization, as reflected in the most recent audited financial statements of such entity which have been prepared in accordance with Generally Accepted Accounting Principles, and when used with respect to Property of the Obligated Group, means the aggregate of the values of such Property, as reflected in the most recent audited combined financial statements of the Obligated Group prepared in accordance with Generally Accepted Accounting Principles, *provided* that such aggregate shall be calculated in such a manner that no portion of the value of any Property of any Member of the Obligated Group is included more than once; *provided, however,* that (i) there shall be excluded from the determination of Book Value as of any date the value of any Property disposed of since the date of the most recent audited financial statements of such Member or the Obligated Group, as the case may be, as such value was reflected on such financial statements, and (ii) there shall be included in the determination of Book Value as of any date the value of any Property acquired since the date of the most recent audited financial statements of such Member or the Obligated Group, as the case may be, as such value would be reflected in accordance with Generally Accepted Accounting Principles on the financial statements of such Member or the Obligated Group, as the case may be, on the date of such determination of Book Value.

"Capitalized Lease" means any lease of real or personal Property which, in accordance with Generally Accepted Accounting Principles, is required to be capitalized on the balance sheet of the lessee.

"Capitalized Rentals" means, as of the date of determination, the amount at which the aggregate Net Rentals due and to become due under a Capitalized Lease under which a Person is a lessee would be reflected as a liability on a balance sheet of such Person.

"Code" means the Internal Revenue Code of 1954, as amended.

"Commercial Paper Indebtedness" means Short-Term Indebtedness incurred as part of a financing program which contemplates the refunding or advance refunding from time to time of the principal of maturing Short-Term Indebtedness with the proceeds from the issuance of additional Short-Term Indebtedness.

"Commitment Indebtedness" means the obligation of any Person to repay amounts disbursed pursuant to a commitment from a financial institution to refinance when due or when

required to be purchased or redeemed other Indebtedness of such Person, which other Indebtedness would be classified as Short-Term, Balloon or Put Indebtedness and which other Indebtedness was incurred in accordance with the provisions of the Master Indenture, plus any fees payable to such financial institution for such commitment.

"Completion Indebtedness" means any Indebtedness for borrowed money: (a) incurred for the purpose of financing the completion of the acquisition, construction, remodeling, renovation or equipping of Facilities with respect to which Indebtedness for borrowed money has been incurred by any Member of the Obligated Group in accordance with the provisions of the Master Indenture; and (b) with a principal amount not in excess of the amount required to provide a completed and equipped facility of substantially the same type and scope contemplated at the time such prior Indebtedness was originally incurred, to provide for any requisite capitalized interest or reserve funds and to pay the cost and expenses of issuing such completion Indebtedness.

"Compounded Value" means (i) with respect to any Indebtedness or portion thereof which is Municipal Multiplier Indebtedness, the initial price or initial principal amount at which such Municipal Multiplier Indebtedness was offered for sale to the public or sold to the initial purchaser(s) thereof at the original offering or sale thereof, without reduction to reflect underwriters' discount or placement fees, compounded at the original issue yield to maturity of such Municipal Multiplier Indebtedness to the date of determination of compounded value in the manner provided in the indenture or other agreement pursuant to which such Municipal Multiplier Indebtedness was issued less, with respect to any Municipal Multiplier Indebtedness with interest payable on a current basis, any interest paid or payable during such period; and (ii) with respect to any Master Note or portion thereof which is issued in connection with the issuance of Municipal Multiplier Bonds, the aggregate Compounded Values of all such Municipal Multiplier Bonds.

"Construction Index" means the health care component of the implicit price deflator for the gross national product as most recently reported prior to the date in question by the United States Department of Commerce or its successor agency, or, if such index is no longer published, such other index which is certified to be comparable and appropriate by the Obligated Group Representative in an Officer's Certificate delivered to the Master Trustee.

"Consultant" means a professional consulting firm having the skill and experience necessary to render the particular report required and having a recognized reputation for such skill and experience, which firm shall have no interest, direct or indirect, in any Member of the Obligated Group and shall not have a partner, member, director, officer or employee who is a member, director, officer or employee of any Member of the Obligated Group, it being understood that an arm's-length contract between such firm and a Member of the Obligated Group for the performance of consulting or accounting services shall not in and of itself be regarded as creating an interest in or an employee relationship with such entity.

"Corporate Charter" means, with respect to any Member of the Obligated Group, (a) the articles of incorporation, certificate of incorporation, corporate charter or other document pursuant to which such Member was organized and is existing under the laws of the United States of America or any state thereof, (b) the bylaws, code of regulations or similar set of governing or operating provisions adopted by such Member pursuant to applicable law and (c) any resolutions

or other official action of the Governing Body of such Member relating to the particular power or particular decision then under consideration.

"Cross-over Date" with respect to Cross-over Refunding Indebtedness, means the date on which the principal portion of the Cross-over Refunded Indebtedness is paid or redeemed from the proceeds of such Cross-over Refunding Indebtedness.

"Cross-over Refunded Indebtedness" means Indebtedness of a Person refunded by Cross-over Refunding Indebtedness.

"Cross-over Refunding Indebtedness" means Indebtedness of a Person issued for the purpose of refunding other Indebtedness of such Person if the proceeds of such Cross-over Refunding Indebtedness are irrevocably deposited in escrow to secure the payment of the applicable Cross-over Date of the Cross-over Refunded Indebtedness, and the earnings on such escrow deposit are required to be applied to pay interest either on such Refunding Indebtedness or such Refunded Indebtedness until the Cross-over Date.

"Current Assets" and *"Current Liabilities"* mean such assets and liabilities of the Obligated Group as shall be determined to be current assets or current liabilities, as the case may be, in accordance with Generally Accepted Accounting Principles; *provided, however,* that such current assets shall also include: (a) Board Designated Assets to the extent that such assets would be classified as current assets in accordance with Generally Accepted Accounting Principles if they were not so designated; and (b) the amount of moneys held by the Master Trustee or any Related Bond Trustee which are required by the Master Indenture or any Related Bond Indenture, as the case may be, to be applied to pay the portion of interest or principal on any Master Notes or Related Bonds, as the case may be, which interest or principal is classified as a current liability in accordance with Generally Accepted Accounting Principles.

"Current Value" means, with respect to Property, Plant and Equipment: (a) the aggregate fair market value of such Property, Plant and Equipment as reflected in the most recent written report of an appraiser, in the case of real Property, who is a member of the American Institute of Real Estate Appraisers (MAI), delivered to the Master Trustee (which report shall be dated not more than three years prior to the date as of which Current Value is to be calculated) increased or decreased by a percentage equal to the aggregate percentage increase or decrease in the Construction Index from the date of such report to the date as of which Current Value is to be calculated; plus (b) the Book Value of any Property, Plant and Equipment acquired since the last such report increased or decreased by a percentage equal to the aggregate percentage increase or decrease in the Construction Index from the date of such acquisition to the date as of which Current Value is to be calculated; minus (c) the greater of the Book Value or the fair market value (as reflected in such most recent appraiser's report) of any Property, Plant and Equipment disposed of since the last such report increased or decreased by a percentage equal to the aggregate percentage increase or decrease in the Construction Index from the later of (i) the date of such report or (ii) the date of the acquisition of such Property, Plant and Equipment, to the date as of which Current Value is to be calculated.

"Debt Service Requirements" means, with respect to the period of time and the Funded Indebtedness for which calculated, the aggregate of the payments required to be made in respect of principal (whether at maturity, as a result of mandatory sinking fund redemption or mandatory prepayment or otherwise) and interest on such Funded Indebtedness for such period; *provided* that: (a) the amount of such payments for a future period shall be calculated in accordance with certain assumptions contained in the Original Master Indenture; (b) interest shall be excluded from the determination of the Debt Service Requirements for any past or future period to the extent that Escrowed Interest was, with respect to a past period, or is, with respect to a future period, available to pay such interest; (c) principal shall be excluded from the determination of the Debt Service Requirements for any past period to the extent that such principal was refunded with the proceeds of Additional Indebtedness; (d) principal shall be excluded from the determination of Debt Service Requirements to the extent that amounts are on deposit in an Irrevocable Deposit for such Indebtedness; and (e) the Compounded Value of any Municipal Multiplier Indebtedness shall be excluded from the determination of the Debt Service Requirements for any period unless such Compounded Value was or is actually due and payable during such period.

"Encumbered" means subject to a Lien or lease other than a Lien or lease described in subparagraphs (a) or (c) through (u) of the definition of "Permitted Encumbrances" under this subcaption below; *provided* that the proceeds of any Master Note or Related Bonds on deposit in a construction fund created in connection with the issuance of such Master Note or Related Bonds which are held as security for the payment of such Master Note or Related Bonds or any Indebtedness incurred to purchase such Master Note or purchased with the proceeds of such Related Bonds shall not be deemed to be Encumbered if such proceeds are to be applied to construct or otherwise acquire Property which is not subject to a Lien or lease.

"Escrowed Interest" means amounts deposited in escrow in connection with the issuance of Funded Indebtedness or Related Bonds to pay interest on such Funded Indebtedness or Related Bonds during the acquisition, construction, remodeling, renovation or equipping period of the Facilities to be financed or refinanced with the proceeds of such Funded Indebtedness or Related Bonds.

"Event of Default" means any event described as an event of default pursuant to the Master Indenture.

"Expenses" means, for any period, the aggregate of all expenses (including, without limitation, any taxes) incurred during such period by the Person or group of Persons involved, and, if such calculation is being made with respect to the Obligated Group, excluding any such expenses attributable to transactions between any Member of the Obligated Group and any other Member of the Obligated Group, in all cases as calculated in accordance with Generally Accepted Accounting Principles.

"Facilities" means all land, leasehold interests and buildings of the Obligated Group and all fixtures and equipment (as defined in the Uniform Commercial Code or equivalent statute in effect in the state where such Property is located) of the Obligated Group.

"Financial Consultant" means a professional investment banking firm, commercial banking institution or financial advisory firm having the skill and experience necessary to render the particular report required and having a recognized reputation for such skill and experience, which firm shall have no interest, direct or indirect, in any Member of the Obligated Group or any Related Issuer and shall not have a partner, member, director, officer or employee who is a member, director, officer or employee of any Member of the Obligated Group or any Related Issuer; it being understood that an arm's-length contract between such firm or institution and any Member of the Obligated Group or any Related Issuer for the performance of investment banking, commercial banking or financial advisory services shall not in and of itself be regarded as creating an interest in or an employee relationship with such entity.

"Fiscal Year" means any twelve-month period beginning on January 1 of any calendar year and ending on December 31 of such year, or any other twelve-month period selected by the Obligated Group as the fiscal year of the Obligated Group, as certified to the Master Trustee by the Obligated Group Representative.

"Funded Indebtedness" means with respect to any Person (i) all Indebtedness for borrowed money of such Person which is not Short-Term; (ii) all Short-Term Indebtedness of such Person incurred pursuant to the provisions of the Original Master Indenture; (iii) all Indebtedness of such Person incurred or assumed in connection with the acquisition or construction of Property which is not Short-Term; (iv) all Indebtedness whether or not incurred or assumed by such Person which is not Short-Term secured by any Lien on Property of such Person; (v) all Guaranties by such Person of Indebtedness of another Person which would be considered Funded Indebtedness under this definition; (vi) all Commercial Paper Indebtedness of such Person; and (vii) Capitalized Rentals under Capitalized Leases entered into by such Person.

"Generally Accepted Accounting Principles" means generally accepted accounting principles as from time to time in effect.

"Governing Body" means, with respect to any Member of the Obligated Group, the members, board of directors, board of trustees or similar group of individuals in which the right to exercise the particular powers or make the particular decision then under consideration is vested by the Corporate Charter of such Member of the Obligated Group.

"Guaranteed Debt Service Coverage Ratio" means the ratio consisting of (i) a numerator equal to the amount determined by dividing the Primary Obligor's Income Available for Debt Service on Guaranteed Debt for the most recent fiscal year of the Primary Obligor for which audited financial statements are available by the Maximum Annual Debt Service Requirement on the Indebtedness guaranteed and on all other Indebtedness of the Primary Obligor and (ii) a denominator of one.

"Guaranty" means all obligations of a Person guaranteeing or, in effect, guaranteeing any Indebtedness of any Primary Obligor in any manner, whether directly or indirectly, including, but not limited to, obligations incurred through an agreement, contingent or otherwise, by such Person: (1) to purchase such Indebtedness or any Property constituting security therefor; (2) to advance or supply funds: (i) for the purchase or payment of such Indebtedness, (ii) to maintain working capital

or other balance sheet condition, or (iii) to otherwise advance or make available funds for the purchase or payment of such Indebtedness; (3) to purchase securities or other Property or services primarily for the purpose of assuring the owner of such Indebtedness of the ability of the Primary Obligor to make payment of the Indebtedness; or (4) otherwise to assure the owner of the Indebtedness of the Primary Obligor against loss in respect thereof.

"Historical Debt Service Coverage Ratio" means, for any period of time, the ratio consisting of (i) a numerator equal to the amount determined by dividing Income Available for Debt Service for that period by the Debt Service Requirements for such period and (ii) a denominator of one.

"Historical Pro Forma Debt Service Coverage Ratio" means, for any period of time, the ratio consisting of (i) a numerator equal to the amount determined by dividing Income Available for Debt Service for that period by the Maximum Annual Debt Service Requirement for the Funded Indebtedness then outstanding and the Funded Indebtedness then proposed to be issued, giving effect to the application of the proceeds of such proposed Funded Indebtedness, and (ii) a denominator of one.

"Historical/Projected Debt Service Coverage Ratio" means, for any future period of time, the ratio consisting of (i) a numerator equal to the amount determined by dividing (a) the sum of (x) the projected Income Available for Debt Service for such period of the Person then seeking to incur Funded Indebtedness, calculated as if such Person were the only Member of the Obligated Group, plus (y) the Income Available for Debt Service of all other Members of the Obligated Group for the most recent full Fiscal Year for which financial statements reported upon by independent certified public accountants are available, calculated as if such Persons were the only Members of the Obligated Group, by (b) the Maximum Annual Debt Service Requirement for all Funded Indebtedness of the Obligated Group then outstanding and the Funded Indebtedness then proposed to be issued, giving effect to the application of the proceeds of such proposed Funded Indebtedness, and (ii) a denominator of one.

"Income Available for Debt Service" means, for any period of time, the sum of (i) the excess of Revenues over Expenses of the Person or group of Persons involved and (ii) interest on Funded Indebtedness, depreciation and amortization expenses and extraordinary expenses of the Person or group of Persons involved (including, without limitation, losses on the sale of assets other than in the ordinary course of business and losses on the extinguishment of the debt), as calculated in accordance with Generally Accepted Accounting Principles.

"Income Available for Debt Service on Guaranteed Debt" means, for any fiscal year of a Primary Obligor, all Revenues of the Primary Obligor minus its operating expenses and other proper charges determined in accordance with Generally Accepted Accounting Principles (other than interest on the obligation guaranteed and on other Funded Indebtedness, amortization and depreciation for the period of determination).

"Indebtedness" means, for any Person, (a) all Guaranties by such Person, (b) all liabilities (exclusive of reserves such as those established for deferred taxes) recorded or required to be recorded as liabilities on the financial statements of such Person in accordance with Generally

Accepted Accounting Principles, and (c) all obligations for the payment of moneys incurred or assumed by such Person (i) due and payable in all events or (ii) if incurred or assumed primarily to assure the repayment of moneys borrowed or credit extended, due and payable upon the occurrence of a condition precedent or upon the performance of work, possession of Property as lessee, rendering of services by others or otherwise, and shall include, without limitation, Non-Recourse Indebtedness; *provided* that Indebtedness shall not include Indebtedness of one Member of the Obligated Group to another Member of the Obligated Group or any Guaranty by any Member of the Obligated Group of Indebtedness of any Member of the Obligated Group.

"Independent Architect" means an architect, engineer or firm of architects or engineers selected by any Member of the Obligated Group licensed by, or permitted to practice in, the state where the construction involved is located, which architect or engineer or firm of architects or engineers in the case of an individual, shall not be a member, director, officer or employee of any Member of the Obligated Group or any Related Issuer and, in the case of a firm, shall not have a partner, member, director, officer or employee who is a member, director, officer or employee of any Member of the Obligated Group or any Related Issuer; it being understood that an arm's-length contract with any Member of the Obligated Group or any Related Issuer for the performance of architectural or engineering services shall not in and of itself be regarded as creating an employee relationship with such entity and that the term Independent Architect may include an architect or engineer or firm of architects or engineers who otherwise meet the requirements of this definition and who also are under contract to construct the facilities which they have designed.

"Independent Counsel" means an attorney or firm of attorneys duly admitted to practice law before the highest court of any state and who, in the case of an individual, shall not be an officer or employee of any Member of the Obligated Group or any Related Issuer, and which in the case of any firm, shall not have a partner or employee who is such an officer or employee; it being understood that an arm's-length contract with any Member of the Obligated Group or any Related Issuer for the provision of legal services shall not in and of itself be regarded as creating an employee relationship with such entity.

"Interest" when used with respect to payments on Municipal Multiplier Indebtedness, means the interest component of the Compounded Value thereof.

"Irrevocable Deposit" means the irrevocable deposit in trust of cash in an amount (or United States Government Obligations the principal of and interest on which will be in an amount) and under terms sufficient to pay all or a portion of the principal of, and premium, if any, and interest on, as the same shall become due or payable upon redemption, any Indebtedness which would otherwise be considered Outstanding. The trustee of such deposit may be the Master Trustee, a Related Bond Trustee or any other trustee authorized to act in such capacity.

"Lien" means any mortgage or pledge of, security interest in or lien, charge or encumbrance on any Property of any Member of the Obligated Group which secures any obligation to any Person other than any Member of the Obligated Group and any Capitalized Lease under which any Member of the Obligated Group is lessee and the lessor is not a Member of the Obligated Group.

"Master Noteholder," "holder" or *"owner of the Master Notes"* means the registered owner of any fully registered or book-entry Master Note and the bearer of any Master Note in bearer or coupon form or which is registered to bearer unless alternative provision is made in the indenture supplemental thereto pursuant to which such Master Note is issued for establishing ownership of such Master Note, in which case such alternative provision shall control.

"Master Notes" means Obligations as defined in the Master Indenture.

"Maximum Annual Debt Service Requirement" means the largest Debt Service Requirements for the current or any succeeding Fiscal Year.

"Member" or *"Member of the Obligated Group"* means an Obligated Group Member as defined in the Master Indenture.

"Municipal Multiplier Bonds" means any Related Bonds which represent Municipal Multiplier Indebtedness with respect to the Related Issuer thereof.

"Municipal Multiplier Indebtedness" means any Indebtedness, or portion thereof, which at the time of the original offering or sale thereof, is offered for sale to the public or sold to the initial purchaser or purchasers thereof with a stated interest rate which is less than the original issue yield to maturity thereof or with no stated interest rate, and with respect to which a Compounded Value is required to be determined by the indenture or other agreement pursuant to which such Indebtedness was issued.

"Net Rentals" means all fixed rents (including as such all payments which the lessee is obligated to make to the lessor on termination of the lease or surrender of the Property other than upon termination of the lease for a default thereunder) payable under a lease or sublease of real or personal Property excluding any amounts required to be paid by the lessee (whether or not designated as rents or additional rents) on account of maintenance, repairs, insurance, taxes and similar charges. Net Rentals for any future period under any so-called "percentage lease" shall be computed on the basis of the amount reasonably estimated to be payable thereunder for such period, but in any event not less than the amount paid or payable thereunder during the immediately preceding period of the same duration as such future period unless the amount in such future period is reduced as a result of a reduction in the applicable percentage under such lease.

"Non-Recourse Indebtedness" means any Indebtedness secured by a Lien, liability for which is effectively limited to the Property subject to such Lien with no recourse, directly or indirectly, to any other Property of any Member of the Obligated Group.

"Obligated Group" means the Washington Corporation, the Oregon Corporation, the California Corporation and any other Person designated as a Member of the Obligated Group pursuant to the Master Indenture, in any case which has not ceased such status pursuant to the Master Indenture.

"Obligated Group Representative" means the Washington Corporation, or any other Member of the Obligated Group designated to the Master Trustee by a Written Request signed by all Members of the Obligated Group.

"Officer's Certificate" means a certificate signed, in the case of a certificate delivered on behalf of any corporation, by the President or any Vice-President of such corporation or any other person duly authorized by such corporation or, on behalf of any other Person, the chief executive or chief financial officer of such other Person.

"Original Master Indenture" means the Master Trust Indenture dated as of August 1, 1985, from the Washington Corporation, the Oregon Corporation and the California Corporation to the Master Trustee, as it may from time to time be amended or supplemented in accordance with its terms, including, without limitation, as amended and supplemented by the Master Indenture.

"Outstanding" means, in the case of Indebtedness of a Person other than Related Bonds or Master Notes, all such Indebtedness of such Person which has been issued except (i) any such portion thereof cancelled after purchase on the open market or surrendered for cancellation to the trustee for such Indebtedness or because of payment at or redemption prior to maturity, (ii) any such Indebtedness in lieu of which other Indebtedness has been duly issued, (iii) any such Indebtedness which is no longer deemed outstanding under its terms and with respect to which such Person is no longer liable under the terms of such Indebtedness and (iv) any Indebtedness for which an Irrevocable Deposit has been established.

"Outstanding Bonds" or *"Bonds Outstanding"* means all Related Bonds which have been duly authenticated and delivered by the Related Bond Trustee under the Related Bond Indenture except (i) those which are deemed not to be outstanding under the Related Bond Indenture pursuant to which the bonds were issued, (ii) those for which an Irrevocable Deposit has been established and (iii) for the purpose of any waivers, consents, notices or other actions under the Master Indenture, bonds held by any Member of the Obligated Group.

"Outstanding Master Notes" or *"Master Notes Outstanding"* means all Master Notes which have been duly authenticated and delivered by the Master Trustee under the Master Indenture, except:

(a) Master Notes cancelled after purchase in the open market or because of payment at or prepayment or redemption prior to maturity;

(b) Master Notes for the payment or redemption of which cash or United States Government Obligations shall have been theretofore deposited with the Master Trustee (whether upon or prior to the maturity, prepayment or redemption date of any such Master Notes) in accordance with the Master Indenture; *provided* that if such Master Notes are to be prepaid or redeemed prior to the maturity thereof, notice of such prepayment or redemption shall have been given or arrangements satisfactory to the Master Trustee shall have been made therefor, or waiver of such notice satisfactory in form to the Master Trustee shall have been filed with the Master Trustee;

(c) Master Notes in lieu of which others have been authenticated under the Master Indenture;

(d) Master Notes for which an Irrevocable Deposit has been established; and

(e) For the purpose of any waivers, consents, notices or other actions with respect to such Master Notes, Master Notes held by any Member of the Obligated Group.

"Permitted Encumbrances" means as of any particular time:

(a) Any Lien, easement, right-of-way, covenant, condition, restriction, exception, defect in and irregularity of title and encroachment on adjoining real estate with respect to which the parties secured or benefited are all Members of the Obligated Group;

(b) Any Lien on Property not otherwise included within this definition which is permitted under the provisions of the Original Master Indenture summarized below under the subcaption "Liens on Property;"

(c) Leases whereunder any Member of the Obligated Group is lessor which relate to Property which is of a type that is customarily the subject of such leases, including, without limitation, office space for physicians and educational institutions, food service facilities, parking facilities, barber shops, beauty shops, flower shops, gift shops, radiology, pathology or other hospital-based specialty services and pharmacy and similar departments; leases whereunder any Member of the Obligated Group is lessor entered into in accordance with the disposition of Property provisions of the Original Master Indenture;

(d) Liens arising by reason of good faith deposits with any Member of the Obligated Group in connection with tenders, leases of real estate, bids or contracts (other than contracts for the payment of money), deposits by any Member of the Obligated Group to secure public or statutory obligations, or to secure, or in lieu of, surety, stay or appeal bonds, and deposits as security for the payment of taxes or assessments or other similar charges; any Lien arising by reason of deposits with, or the giving of any form of security to, any governmental agency or any body created or approved by law or governmental regulation for any purpose at any time as required by law or governmental regulation as a condition to the transaction of any business or the exercise of any privilege or license, or to enable any Member of the Obligated Group to maintain self-insurance or to participate in any funds established to cover any insurance risks or in connection with workmen's compensation, unemployment insurance, pensions or profit sharing plans or other social security plans or programs, or to share in the privileges or benefits required for corporations participating in such arrangements;

(e) Liens for taxes and special assessments which are not then delinquent, or if then delinquent are being contested in accordance with the Original Master Indenture;

(f) Utility, access and other easements and rights-of-way, restrictions, encumbrances and exceptions which do not materially interfere with or materially impair

the operation of the Property affected thereby (or, if such Property is not being then operated, the operation for which it was designed or last modified);

(g) Any mechanic's, laborer's, materialman's, supplier's or vendor's lien or right in respect thereof if payment is not yet due under the contract in question or if such Lien is being contested in accordance with the Original Master Indenture;

(h) Such minor defects and irregularities of title as normally exist with respect to Property similar in character to the Property involved and which do not materially adversely affect the value of, or materially impair, the Property affected thereby for the purpose for which it was acquired or is held by the owner thereof;

(i) Zoning laws and similar restrictions which are not violated by the Property affected thereby;

(j) Statutory rights under Section 291, Title 42 of the United States Code, as a result of what are commonly known as Hill-Burton Grants, and similar rights under other federal statutes or statutes of the state in which the Property involved is located;

(k) All right, title and interest of the state where the Property involved is located, municipalities and the public in and to tunnels, bridges and passageways over, under or upon a public way;

(l) Liens on or in Property given, bequeathed or devised to a Member of the Obligated Group existing at the time of such gift, bequest or devise, *provided* that (i) such Liens attach solely to the Property which is the subject of such gift, bequest or devise, and (ii) the Indebtedness secured by such Liens is not assumed by any Member of the Obligated Group;

(m) Liens of or resulting from any judgment or award, the time for the appeal or petition for rehearing of which shall not have expired, or in respect of which any Member of the Obligated Group shall at any time in good faith be prosecuting an appeal or proceeding for a review and in respect of which a stay of execution pending such appeal or proceeding for review shall have been secured;

(n) Any Lien on any Related Bond or any evidence of Indebtedness of any Member of the Obligated Group acquired by or on behalf of any Member of the Obligated Group which secures Commitment Indebtedness and only Commitment Indebtedness;

(o) Liens on moneys deposited by patients or others with any Member of the Obligated Group as security for or as prepayment for the cost of patient care or any rights of residents of life care or similar facilities to endowment or similar funds deposited by or on behalf of such residents;

(p) Liens on Property received by any Member of the Obligated Group through gifts, grants or bequests, such Liens being due to restrictions on such gifts, grants or bequests of Property or the income thereon;

(q) Liens on Property due to rights of third party payors for recoupment of excess payments to any Member of the Obligated Group;

(r) Liens on Property if such Lien equally and ratably secures all of the Master Notes and only the Master Notes and, at the option of the Obligated Group, any one or more Related Loan Documents;

(s) Any security interest in any depreciation reserve, debt service reserve, debt service or similar fund established pursuant to the terms of any Related Supplemental Indenture or any Related Bond Indenture in favor of the Master Trustee, the Related Bond Trustee, the Related Issuer or the holder of the Indebtedness issued pursuant to such Related Supplemental Indenture or Related Bond Indenture or any related Commitment Indebtedness;

(t) Liens on accounts receivable arising as a result of a sale of such accounts receivable with recourse, *provided* that the principal amount of Indebtedness secured by any such Lien does not exceed the aggregate sale price of such accounts receivable received by the Member of the Obligated Group selling the same; and

(u) Such Liens, covenants, conditions and restrictions, if any, as are set forth in Exhibit D to the Original Master Indenture existing on Property of the California Corporation located in Oakland, California on the date of the execution and delivery of the Original Master Indenture.

"Primary Obligor" means the Person who is primarily obligated on an obligation which is guaranteed by another Person.

"Principal" when used with respect to payments on Municipal Multiplier Indebtedness, means the principal component of the Compounded Value thereof.

"Principal Amount" when used with respect to Municipal Multiplier Indebtedness, means an amount equal to the original principal amount of such Indebtedness and not its Compounded Value.

"Projected Debt Service Coverage Ratio" means, for any future period of time, the ratio consisting of (i) a numerator equal to the amount determined by dividing the projected Income Available for Debt Service for that period by the Maximum Annual Debt Service Requirements for the Funded Indebtedness expected to be outstanding during such period and (ii) a denominator of one.

"Projected Rate" means, for the purpose of estimating the Debt Service Requirements for any particular Indebtedness of the Obligated Group as if such Indebtedness were long-term

fixed-rate Indebtedness, the projected yield at par of a hypothetical obligation of the Obligated Group in the same principal amount as the Indebtedness with respect to which debt service is being estimated, the interest on which is exempt from federal income tax (or, if it is not expected that it will be reasonably possible to issue such tax-exempt obligations to refinance the Indebtedness with respect to which debt service is being estimated, obligations the interest on which is subject to federal income tax) payable on an approximately level annual debt service basis with a 20-year term as set forth in the report of a Financial Consultant, which report shall state that in determining the Projected Rate such Financial Consultant reviewed (to the extent available) the yield evaluations at par of not less than five obligations selected by such Financial Consultant, which obligations such Financial Consultant states in its opinion are reasonable comparators for utilizing in developing such Projected Rate and which obligations: (i) were outstanding on a date selected by the Financial Consultant which date so selected occurred during the three month period preceding the date of the calculation utilizing the Projected Rate in question, (ii) to the extent practicable, are obligations of persons engaged in operations similar to those of the Obligated Group and having a credit rating similar to that of the Obligated Group, (iii) are not entitled to the benefits of any credit enhancement including, without limitation, any letter of credit or insurance policy, and (iv) to the extent practicable, have a 20-year remaining term and a level annual debt service amortization schedule).

"Property, Plant and Equipment" means all Property of the Members of the Obligated Group which is classified as property, plant and equipment under Generally Accepted Accounting Principles.

"Put Date" means any date on which Put Indebtedness may become payable or required to be purchased or redeemed, at the option of the holder thereof, prior to its stated maturity date.

"Put Indebtedness" means Indebtedness which is payable, or required to be purchased or redeemed, at the option of the holder thereof prior to its stated maturity date.

"Related Bond Indenture" means any indenture, bond resolution or similar instrument pursuant to which any series of Related Bonds is issued.

"Related Bond Trustee" means the trustee under any Related Bond Indenture and any successor trustee thereunder or, if no trustee is appointed under any Related Bond Indenture, the Related Issuer.

"Related Bonds" means revenue bonds or similar obligations issued by any state of the United States of America or any municipal corporation or other political subdivision formed under the laws thereof or any constituted authority, agency or instrumentality of any of the foregoing empowered to issue obligations on behalf thereof, the proceeds of which are loaned or otherwise made available to any Member of the Obligated Group in consideration, whether in whole or in part, of the execution, authentication and delivery of a Master Note or Master Notes to such governmental issuer.

"Related Issuer" means the issuer of any series of Related Bonds.

"Related Loan Document" means the document or documents (including, without limitation, any lease) pursuant to which any proceeds of any Related Bonds are advanced to any Member of the Obligated Group.

"Related Master Note" means a Master Note issued to a Related Issuer in connection with the issuance of Related Bonds.

"Related Supplemental Indenture" means an indenture supplementing the Master Indenture entered into pursuant to the Master Indenture.

"Revenues" means, for any period: (i) in the case of any Person providing health care services, the sum of (a) gross patient service revenues less contractual allowances and provisions for uncollectible accounts, free care and discounted care, plus (b) other operating revenues, plus (c) non-operating revenues (other than Contributions, income derived from the sale of assets not in the ordinary course of business, any gain or loss from the extinguishment of debt or any other extraordinary item), plus (d) Contributions, all as determined in accordance with Generally Accepted Accounting Principles; and (ii) in the case of any other Person, gross revenues less sale discounts and sale returns and allowances, as determined in accordance with Generally Accepted Accounting Principles, but excluding in any event (a) any gains or losses on the sale or other disposition of investments or fixed or capital assets not in the ordinary course, (b) earnings resulting from any reappraisal, revaluation or write-up of assets and (c) any Escrowed Interest (and any investment earnings thereon) otherwise included in Revenues to the extent that a corresponding calculation of Debt Service Requirements has been reduced by such amount; *provided, however,* that, if such calculation is being made with respect to the Obligated Group, such calculation shall be made in such a manner so as to exclude any revenues attributable to transactions between any Member of the Obligated Group and any other Member of the Obligated Group.

"Short-Term" when used in connection with Indebtedness, means having an original stated maturity (without regard to whether such Indebtedness is payable, or required to be purchased or redeemed, at the option of the holder thereof, prior to its stated maturity date) less than or equal to one year and not renewable or extendable at the option of the debtor for a term greater than one year beyond the date of original issuance.

"Subordinated Indebtedness" shall mean Indebtedness which contains provisions substantially in the form set forth in Exhibit C of the Original Master Indenture.

"Tax-Exempt Organization" means (i) a Person organized under the laws of the United States of America or any state thereof which is an organization described in Section 501(c)(3) of the Code and which is exempt from federal income taxes under Section 501(a) of the Code and is not a "private foundation" within the meaning of Section 509(a) of the Code, or corresponding provisions of federal income tax laws from time to time in effect and (ii) a governmental unit, within the meaning of Section 103(b) of the Code, or corresponding provisions of federal income tax laws from time to time in effect.

"Unsecured" when used in connection with Indebtedness, means not secured by a Lien or lease other than a Lien or lease described in subparagraphs (a) and (c) through (u) of the definition of "Permitted Encumbrances" herein, or if secured by such a Lien or lease, means that portion of such Indebtedness equal to the same portion of such Indebtedness by which, at the date on which such Lien or lease was granted, the amount of such Indebtedness exceeded the fair market value of the Property securing such Indebtedness, as determined in good faith by the Obligated Group Representative.

"Unsecured Debt Ratio" means, as of any date of calculation, the ratio consisting of (i) a numerator determined by dividing the Book Value or, at the option of the Obligated Group, the Current Value, of Property which is not Encumbered by the aggregate principal amount of all Unsecured Indebtedness then Outstanding and (ii) a denominator of one.

"Written Request" means with reference to a Related Issuer, a request in writing signed by the Chairman, Vice-Chairman, Mayor, Clerk, President, Vice President, Executive Director, Assistant or Associate Executive Director, Secretary or Assistant Secretary of the Related Issuer and with reference to a Member of the Obligated Group means a request in writing signed by the President or a Vice President of such Member of the Obligated Group, or by any other duly authorized persons designated by the Related Issuer or Member of the Obligated Group, as the case may be.

* * * *

Admission to the Obligated Group. Any Person may become a Member of the Obligated Group only if:

(a) All Members of the Obligated Group execute and deliver to the Master Trustee an instrument or instruments consenting to the admission of such Person to the Obligated Group;

(b) A supplemental indenture to the Master Indenture is executed by such Person whereby such Person agrees to become a Member of the Obligated Group and to be jointly and severally liable with the other Members of the Obligated Group for the performance of all covenants contained in the Master Indenture and in the Master Notes;

(c) Nothing in the Corporate Charter or Bylaws of such Person or in any instrument or agreement to which such Person is a party or by which such Person or any of its Property is bound shall restrict the ability of such Person to perform its obligations under the Master Indenture or to aid, assist and confer benefits upon the other Members of the Obligated Group or acquire, own, hold, mortgage and dispose of and invest its funds for the use and benefit of the Obligated Group and in furtherance of the purposes of the Obligated Group; and

(d) The Master Trustee receives (i) an Officer's Certificate of the Obligated Group Representative which demonstrates that, immediately upon such Person becoming a Member, the Obligated Group would not, as a result of such transaction, be in default in

the performance or observance of the covenants or conditions to be performed or observed by it under the provisions of the Original Master Indenture summarized below in this APPENDIX C Under the subcaption "Covenants as to Corporate Existence, Maintenance of Property, and Similar Matters; Right of Contest," "Rates and Charges," "Merger, Consolidation, Sale or Conveyance," "Permitted Additional Indebtedness," "Sale, Lease or Other Disposition of Property," and "Liens on Property" and the Obligated Group could meet the conditions described below in this APPENDIX C under the subcaption "Liens on Property" for the creation of an additional Lien on Property and the conditions described below in this APPENDIX C in subsection (a) under the subcaption "Permitted Additional Indebtedness" for the incurrence of one dollar of additional Funded Indebtedness; (ii) an opinion of Independent Counsel to the effect that the addition of such Person as a Member will not adversely affect the status as a Tax-Exempt Organization of any Member which otherwise has such status; and (iii) if all amounts due or to become due on all Related Bonds, the interest on which is exempt from federal income taxation, have not been paid to the holders thereof, an opinion of nationally recognized municipal bond counsel to the effect that under then existing law the consummation of such transaction would not adversely affect the validity of or the exemption from federal or state income taxation of interest payable on any such Related Bond otherwise entitled to such exemption.

Upon compliance with the foregoing conditions, such Person shall become a Member of the Obligated Group and shall be jointly and severally liable for the performance of all covenants contained under the Master Indenture and in the Master Notes.

Withdrawal from the Obligated Group. Each Member of the Obligated Group covenants that it will not take any action, corporate or otherwise, which would cause it or any other Member of the Obligated Group to cease being a Member unless:

(a) The Master Trustee shall have received an instrument or instruments in writing executed by all Members of the Obligated Group consenting to such withdrawal;

(b) The Member proposing to cease such status is not a party to any Related Loan Document with respect to Related Bonds which remain outstanding;

(c) Prior to the cessation of such status, there is delivered to the Master Trustee an opinion of nationally recognized municipal bond counsel to the effect that, under then existing law, the cessation by the Member of its status as a Member will not adversely affect the validity of any Related Bond or the exemption from federal or state income taxation of interest payable on any Related Bond otherwise entitled to such exemption;

(d) Prior to the cessation of such status, there is delivered to the Master Trustee a written report by a Consultant stating that immediately after such cessation (i) all conditions described below in this APPENDIX C under the subcaption "Liens on Property" would be met for the creation of an additional Lien on Property and (ii) all the conditions described below in this APPENDIX C in subsection (a) under the subcaption "Permitted Additional Indebtedness" would be met for the incurrence by the Obligated Group of one dollar of additional Funded Indebtedness;

(e) If it is assumed that such cessation results in a transfer in other than an arm's length transaction to an unrelated entity of Property owned by the Member proposing to cease such status, the conditions precedent to such a transfer to an entity which is not a Member of the Obligated Group described below in this APPENDIX C under the subcaption "Sale, Lease or Other Disposition of Property" have been complied with;

(f) Prior to the cessation of such status, there is delivered to the Master Trustee (i) an opinion of Independent Counsel to the effect that the cessation by such Member of such status will not adversely affect the status as a Tax-Exempt Organization of any other Member which otherwise has such status and the liability of the Obligated Group with respect to any outstanding Master Notes issued for the benefit of such Member will not be adversely affected by such cessation and (ii) if all amounts due or to become due on all Related Bonds, the interest on which is exempt from federal income taxation, have not been paid to the holders thereof, an opinion of nationally recognized municipal bond counsel to the effect that under then existing law the cessation by such Member of such status will not adversely affect the validity of or the exemption from federal or state income taxation of interest payable on any Related Bond otherwise entitled to such exemption; and

(g) Prior to and after such cessation no Event of Default exists under the Master Indenture.

Upon compliance with the foregoing conditions, the Master Trustee shall, at the expense of the Obligated Group, deliver to such Member an instrument releasing such Member from the Obligated Group and from the performance of the covenants contained in the Master Indenture and in the Master Notes. Such release shall be binding on all holders of the Master Notes and all other Members.

The following covenants relate solely to the requirements for admission into and withdrawal from the Obligated Group under the circumstances set forth in this APPENDIX C in the first paragraph under the caption "THE MASTER INDENTURE – Holdover Provisions Relating to Admission Into and Withdrawal From the Obligated Group." They are not ongoing covenants of the Obligated Group under the Master Indenture.

Covenants as to Corporate Existence, Maintenance of Property, and Similar Matters; Right of Contest. Each Member covenants to:

(a) Except as otherwise expressly provided in the Master Indenture, (i) preserve its corporate or other separate legal existence, (ii) preserve all its rights and licenses to the extent necessary or desirable in the operation of its business and affairs and (iii) be qualified to do business and conduct its affairs in each jurisdiction where its ownership of Property or the conduct of its business or affairs requires such qualification; *provided, however,* that nothing in the Master Indenture shall be construed to obligate any Member to retain or preserve any of its rights or licenses or to obligate any Member to retain, preserve or keep in effect the rights, licenses or qualifications no longer used or, in the judgment of the Governing Body of such Member, useful in the conduct of its business.

(b) (i) Remain a Member throughout the term of the Master Indenture, except as permitted by the conditions described above in this APPENDIX C under the caption "THE MASTER INDENTURE – Holdover Provisions Regarding Entry Into and Withdrawal from the Obligated Group – Withdrawal from the Obligated Group"; and

(ii) In the case of the Washington Corporation, the Oregon Corporation and the California Corporation and each other Member which is a Tax-Exempt Organization at the time it becomes a Member, so long as the Master Indenture shall remain in force and effect and so long as all amounts due or to become due on all Related Bonds, the interest on which is exempt from federal income taxation, have not been fully paid to the holders thereof or provision for such payment has not been made, to take no action or suffer any action to be taken by others: (A) which could result in the alteration or loss of its status as a Tax- Exempt Organization, or (B) which could result in any such Related Bond being declared invalid or result in the interest on any Related Bond, which is otherwise exempt from federal or state income taxation, becoming subject to such taxation.

The foregoing provisions of this subparagraph (b) notwithstanding, any of the Washington Corporation, the Oregon Corporation and the California Corporation, and any other Member which was a Tax-Exempt Organization when it became a Member, may take actions which could result in the alteration or loss of its status as a Tax-Exempt Organization if, prior to such cessation or the taking of such action, there is delivered to the Master Trustee an opinion of nationally recognized municipal bond counsel to the effect that such cessation or such alteration or loss would not adversely affect the validity of any Related Bond or the exemption from federal or state income taxation of interest payable on any Related Bond otherwise entitled to such exemption.

(c) At all times use its Facilities only in furtherance of its lawful corporate purposes and cause its business to be carried on and conducted and its Property and each part thereof to be maintained, preserved and kept in good repair, working order and condition and make all necessary and proper repairs (interior and exterior, structural and non-structural, ordinary as well as extraordinary and foreseen as well as unforeseen), renewals and replacements thereof so that its operations and business shall at all times be conducted in an efficient, proper and advantageous manner; *provided, however,* that nothing contained in the Master Indenture shall be construed (i) to prevent it from ceasing to operate any portion of its Property, if in its reasonable judgment (evidenced, in the case of such a cessation other than in the ordinary course of business, by a determination by its Governing Body) it is advisable not to operate the same, or if it intends to sell or otherwise dispose of the same and within a reasonable time endeavors to effect such sale or other disposition, or (ii) to obligate it to retain, preserve, repair, renew or replace any Property, leases, rights, privileges or licenses no longer used or, in the judgment of its Governing Body, useful in the conduct of its business.

(d) Pay, or cause to be paid: (i) all taxes, levies, assessments and charges on account of the use, occupancy or operation of its Property, including, but not limited to, all sales, use, occupation, real and personal Property taxes, all permit and inspection fees, occupation and license fees and all water, gas, electric, light, power or other utility charges

assessed or charged on or against its Property or on account of its use or occupancy thereof or the activities conducted thereon or therein; and (ii) all taxes, assessments and impositions, general and special, ordinary and extraordinary, of every name and kind, which shall be taxed, levied, imposed or assessed during the term of the Master Indenture upon all or any part of its Property, or its interest or the interest of any Related Issuer or either of them in and to its Property, or upon its interest or the interest of any Related Issuer or the interest of either of them in the Master Indenture or the amounts payable under the Master Indenture or under the Master Notes. If under applicable law any such tax, levy, charge, fee, rate, imposition or assessment may at the option of the taxpayer be paid in installments, such Member may exercise such option.

(e) At its sole cost and expense, promptly comply with all present and future laws, ordinances, orders, decrees, decisions, rules, regulations and requirements of every duly constituted governmental authority, commission and court and the officers thereof which may be applicable to it or any of its affairs, business, operations and Property, any part thereof, any of the streets, alleys, passageways, sidewalks, curbs, gutters, vaults and vault spaces adjoining any of its Property or any part thereof or to the use or manner of use, occupancy or condition of any of its Property or any part thereof.

(f) Promptly pay or otherwise satisfy and discharge all of its obligations and Indebtedness and all demands and claims against it as and when the same become due and payable.

(g) At all times comply with all terms, covenants and provisions of any Liens at such time existing upon its Property or any part thereof or securing any of its Indebtedness.

(h) Procure and maintain all necessary licenses and permits and maintain the status of its health care Facilities (other than those not currently having such status) as providers of health care services eligible for participation in those third-party reimbursement programs which its Governing Body determines are appropriate; *provided, however,* that a Member need not comply with the conditions described above in this APPENDIX C in subsection (h) under the caption "THE MASTER INDENTURE – Holdover Provisions Regarding Entry Into and Withdrawal from the Obligated Group – Covenants as to Corporate Existence, Maintenance of Property, and Similar Matters; Rights of Contest" if and to the extent that its Governing Body shall have determined in good faith, as evidenced by a resolution, that maintenance of such status is not in such Person's best interests and that lack of such status would not materially impair the ability of the Obligated Group to pay its Indebtedness when due.

(i) Operate all of its Facilities so as not to discriminate on any legally impermissible basis.

A Member shall not be required to pay any tax, levy, charge, fee, rate, assessment or imposition referred to above, to remove any Lien, easement, right-of-way, covenant, condition, restriction, exception, defect in or irregularity of title or encroachment required to be removed as

described under this subcaption, to pay or otherwise satisfy and discharge its obligations, its Indebtedness (other than any Master Notes) and demands and claims against it or to comply with any Lien, law, ordinance, rule, order, decree, decision, regulation or requirement referred to under this subcaption, so long as such Member shall contest, in good faith and at its cost and expense, in its own name and behalf, the amount or validity thereof, in an appropriate manner or by appropriate proceedings which shall operate during the pendency thereof to prevent the collection of or other realization upon the tax, levy, charge, fee, rate, assessment, imposition, obligation, Indebtedness, demand, claim, Lien, easement, right-of-way, covenant, condition, restriction, exception, defect in or irregularity of title or encroachment so contested, and the sale, forfeiture, or loss of its Property or any part thereof, *provided,* that no such contest shall subject any Related Issuer, any Master Noteholder or the Master Trustee to the risk of any liability unless such Related Issuer, Master Noteholder or Master Trustee are indemnified to their respective satisfaction by the Obligated Group. While any such matters are pending, the Obligated Group shall not be required to pay, remove or cause to be discharged the tax, levy, fee, rate, charge, assessment, imposition, obligation, Indebtedness, demand, claim, Lien, easement, right-of-way, covenant, condition, restriction, exception, defect in or irregularity of title or encroachment being contested unless the Obligated Group agrees to settle such contest. Each such contest shall be promptly prosecuted to final conclusion (subject to the right of the Obligated Group to settle such contest), and in any event the Obligated Group will save all Related Issuers, all Related Bond Trustees, all Master Noteholders and the Master Trustee harmless from and against all losses, judgments, decrees and costs (including attorneys fees and expenses in connection therewith) as a result of such contest and will, promptly after the final determination of such contest or settlement thereof, pay and discharge the amounts which shall be levied, assessed or imposed or determined to be payable therein, together with all penalties, fines, interests, costs and expenses thereon or incurred in connection therewith. The Member engaging in such a contest shall give the Master Trustee prompt written notice of any such contest.

If the Master Trustee shall notify the Obligated Group Representative that, in the opinion of Independent Counsel, by nonpayment of any of the foregoing items the Property of the Obligated Member or any substantial part thereof will be subject to imminent loss or forfeiture, then the Obligated Group shall promptly pay all such unpaid items and cause them to be satisfied and discharged.

The foregoing notwithstanding, no provision of the Master Indenture shall be deemed to require any Member of the Obligated Group to perform or permit the performance of any abortion, sterilization or any other medical or surgical operation, to conduct its medical or surgical affairs or to operate its Facilities in any manner which its Governing Body in good faith believes is contrary to the religious principles and beliefs or the morals and teachings of the Roman Catholic Church (including, without limitation, the Ethical and Religious Directives for Catholic Health Care Services of the United States Conference of Catholic Bishops in general, or Sisters of Providence, Mother Joseph Province, in particular).

Rates and Charges. The Obligated Group agrees to operate its Facilities, and to charge such fees and rates for its facilities and services, as to provide income from its operations together with other available funds sufficient to pay promptly all payments of principal of and interest on all Master Notes and on all Indebtedness of each Member which is not evidenced or secured by a

Master Note, all expenses of operation, maintenance and repair of the Property of the Obligated Group and all other payments required to be made by the Obligated Group under the Master Indenture, to the extent permitted by law. The Obligated Group further covenants and agrees that it will, from time to time as often as necessary, to the extent permitted by law, revise its rates, fees and charges in such manner as may be necessary or proper to comply with the provisions of the Original Master Indenture summarized under of this subcaption.

The Obligated Group Representative covenants and agrees that each financial report delivered pursuant to the Original Master Indenture, if any, will be accompanied by an Officer's Certificate of the Obligated Group Representative (the *"Annual Coverage Certificate"*) certifying whether the Historical Debt Service Coverage Ratio of the Obligated Group for the Fiscal Year covered by such report is greater than, equal to or less than 1.25:1.

If in any Fiscal Year the Historical Debt Service Coverage Ratio of the Obligated Group, as shown by the Annual Coverage Certificate, is less than 1.25:1, then the Obligated Group shall engage a Consultant to make recommendations with respect to rates, fees, charges and expenses and the Obligated Group's methods of operation and other factors affecting its financial condition in order to increase such Historical Debt Service Coverage Ratio to at least 1.25:1.

A copy of the Consultant's report and recommendations, if any, shall be filed with the Master Trustee and each Related Issuer. The Obligated Group shall follow each recommendation of the Consultant to the extent deemed feasible by the Obligated Group Representative. No default shall be deemed to occur under the provisions of the Original Master Indenture summarized under this subcaption if (i) such recommendations are followed to the extent so deemed feasible by the Obligated Group Representative, notwithstanding that such Historical Debt Service Coverage Ratio is not re-attained, and (ii) the Historical Debt Service Coverage Ratio is at least 1.0:1, but the Obligated Group shall continue to be obligated to employ such a Consultant and obtain such a report in any Fiscal Year in which the Annual Coverage Certificate discloses that such ratio of 1.25:1 is not being maintained. The provisions of the Original Master Indenture summarized under this subcaption shall not be construed to prohibit the Members of the Obligated Group from serving indigent patients or from serving any other class or classes of patients without charge or at reduced rates so long as such service does not prevent the Obligated Group from satisfying the other requirements of this caption.

The foregoing provisions notwithstanding, if in any Fiscal Year the Historical Debt Service Coverage Ratio, as shown by the Annual Coverage Certificate, is less than 1.25:1, the Obligated Group shall not be required to engage a Consultant to make such recommendations if: (A) there is filed with the Master Trustee (who shall provide a copy to each Related Issuer) a written report addressed to the Master Trustee of a Consultant which demonstrates, or which contains an opinion of such Consultant, that applicable laws or regulations have prevented, or have substantially contributed to preventing, the Obligated Group from generating Income Available for Debt Service in such amount and such report is accompanied by a concurring opinion of Independent Counsel as to any conclusions of law supporting such report; and (B) the Historical Debt Service Coverage Ratio was at least 1.0:1. The Obligated Group shall not be required to cause the alternate Consultant's report referred to in this paragraph to be prepared more frequently than once every two Fiscal Years if at the end of the first of such two Fiscal Years the Obligated Group provides

to the Master Trustee (who shall provide a copy to each Related Issuer) an opinion of Independent Counsel to the effect that the applicable laws and regulations underlying the Consultant's report delivered in the previous year have not changed in any material way.

The foregoing notwithstanding, the Obligated Group shall not be required to comply with any recommendation of the Consultant made pursuant to the provisions of the Original Master Indenture summarized under this subcaption if the Obligated Group Representative delivers to the Master Trustee a copy of a resolution of its Governing Body to the effect that such recommendation is contrary to the religious principles and beliefs or the morals and teachings of the Roman Catholic Church (including, without limitation, the Ethical and Religious Directives for Catholic Health Care Services of the United States Conference of Catholic Bishops in general, or Sisters of Providence, Mother Joseph Province, in particular) and stating the specific grounds for such conclusion. From and after the date of delivery of a resolution pursuant to the provisions summarized under this subcaption, the Obligated Group shall implement the remaining recommendations of the Consultant, but shall not be required to comply with the particular recommendations which are not in keeping with said principles, beliefs, morals and teachings for so long as the Historical Debt Service Coverage Ratio is at least 1.0:1.

Merger, Consolidation, Sale or Conveyance. (a) Each Member agrees that it will not merge into, or consolidate with, one or more corporations which are not Members of the Obligated Group, allow one or more of such corporations to merge into such Member or sell or convey all or substantially all of its Property to any Person who is not a Member of the Obligated Group unless:

(i) Either (A) such Member of the Obligated Group is the surviving corporation or (B) such successor corporation is a corporation organized and existing under the laws of the United States of America or a state thereof with all necessary licenses to operate the Facilities owned or operated by the predecessor corporation, if the successor corporation intends to operate such Facilities, and such successor corporation becomes a Member of the Obligated Group pursuant to the provisions of the Original Master Indenture described above in this APPENDIX C under the caption "THE MASTER INDENTURE – Holdover Provisions Regarding Entry Into and Withdrawal from the Obligated Group – Admission to the Obligated Group" or the Member shall comply with the provisions of the Original Master Indenture described above in this APPENDIX C under the caption "THE MASTER INDENTURE – Holdover Provisions Regarding Entry Into and Withdrawal from the Obligated Group – Withdrawal from the Obligated Group" dealing with termination of such status;

(ii) The Obligated Group immediately after such merger or consolidation, or such sale or conveyance, would not be in default in the performance or observance of any covenant or condition of any Related Loan Document or the Master Indenture, and the conditions described in this APPENDIX C under the caption "THE MASTER INDENTURE – Holdover Provisions Regarding Entry Into and Withdrawal from the Obligated Group – Liens on Property" would be met for the creation of an additional Lien on Property and the conditions described below in this APPENDIX C in subsection (a) under the caption "THE MASTER INDENTURE – Holdover Provisions Regarding Entry Into and Withdrawal from the

Obligated Group – Permitted Additional Indebtedness" would be met for the incurrence of one dollar of Funded Indebtedness; and

(iii) If all amounts due or to become due on all Related Bonds, the interest on which is exempt from federal income taxation, have not been fully paid to the holders thereof or fully provided for, there shall be delivered to the Master Trustee an opinion of nationally recognized municipal bond counsel to the effect that under then existing law the consummation of such merger, consolidation, sale or conveyance, would not adversely affect the validity or any exemption otherwise available from federal or state income taxation of interest payable on any such Related Bonds.

(b) In case of any such consolidation, merger, sale or conveyance and upon any such assumption by the successor corporation, such successor corporation shall succeed to and be substituted for its predecessor, with the same effect as if it had been named in the Master Indenture as a Member of the Obligated Group.

Permitted Additional Indebtedness. So long as any Master Notes are outstanding, each Member agrees that it will not incur any Additional Indebtedness other than:

(a) Funded Indebtedness, other than Guaranties, if prior to the incurrence thereof, or if such Funded Indebtedness was incurred in accordance with another subsection under this subcaption and the Obligated Group wishes to have such Indebtedness classified as having been issued under this subsection (a), prior to such classification, there is delivered to the Master Trustee:

(i) An Officer's Certificate of the Obligated Group Representative certifying that the Historical Pro Forma Debt Service Coverage Ratio of the Obligated Group for the most recent Fiscal Year preceding the date of delivery of such Officer's Certificate for which financial statements reported upon by independent certified public accountants are available was not less than 1.25:1; or

(ii) (A) An Officer's Certificate of the Obligated Group Representative certifying that the Historical Debt Service Coverage Ratio of the Obligated Group for the most recent Fiscal Year preceding the date of delivery of such Officer's Certificate for which financial statements reported upon by independent certified public accountants are available was not less than 1.25:1; and

(B) Either (x) an Officer's Certificate of the Obligated Group Representative (or, if the Historical Debt Service Coverage Ratio of the Obligated Group certified to in the Officer's Certificate of the Obligated Group Representative then being delivered pursuant to subsection (ii)(A) above is less than 1.75:1, at the request of the Master Trustee a written Consultant's report) to the effect that the Projected Debt Service Coverage Ratio of the Obligated Group for each of the next two full succeeding Fiscal Years or, if such Indebtedness is being incurred in connection with the financing of Facilities, for the first two full Fiscal Years succeeding the projected completion date of such Facilities, is not less than

1.25:1, which Officer's Certificate (or Consultant's report, if so required) shall include forecasted balance sheets, statements of revenue and expense and statements of changes in financial position for each of such two Fiscal Years and a statement of the relevant assumptions upon which such forecasted statements are based, which financial statements must indicate that sufficient revenues and cash flow could be generated to meet the operating expenses of the Obligated Group's proposed and existing Facilities and the debt service requirements of the Obligated Group's other existing Indebtedness during such two Fiscal Years; or (y) an Officer's Certificate of the Obligated Group Representative (or, if the Historical Debt Service Coverage Ratio of the Obligated Group certified to in the Officer's Certificate of the Obligated Group Representative then being delivered pursuant to subsection (ii)(A) above is less than 1.75:1, at the request of the Master Trustee a written Consultant's report (which report may be based, insofar as it relates to historical financial information, upon a report of an independent certified public accountant)) to the effect that the Historical/Projected Debt Service Coverage Ratio of the Obligated Group for each of the next two full succeeding Fiscal Years or, if such Indebtedness is being incurred in connection with the financing of Facilities, the two full Fiscal Years succeeding the projected completion date of such Facilities, is not less than 1.25:1, which Officer's Certificate (or Consultant's report, if so required) shall include historical and forecasted balance sheets, statements of revenue and expense and statements of changes in financial position for the relevant Fiscal Years and a statement of the relevant assumptions upon which such forecasted financial statements are based, and which forecasted financial statements must indicate that sufficient revenues and cash flow could be generated to pay the operating expenses of the Obligated Group's existing and proposed Facilities and the debt service requirements of the Obligated Group's other existing Indebtedness during the two Fiscal Years covered by such forecasted financial statements; *provided* that the requirements of the foregoing subsections (ii)(A) or (B), as the case may be, shall be deemed satisfied if the following conditions are satisfied:

(1) The Officer's Certificate referred to in subsection (ii)(A) is accompanied by a report of a Consultant which demonstrates, or which contains an opinion of such Consultant, that applicable laws or regulations have prevented or will prevent, or have substantially contributed or will substantially contribute to preventing, the Obligated Group from generating the amount of Income Available for Debt Service required to be generated by such subsections as a prerequisite to the issuance of Funded Indebtedness, and, if requested by the Master Trustee, such report is accompanied by a concurring opinion of Independent Counsel as to any conclusions of law supporting such report; and

(2) The Historical Debt Service Coverage Ratio, the Projected Debt Service Coverage Ratio and the Historical/Projected Debt Service Coverage Ratio, of the Obligated Group referred to in the applicable subsection are at least 1.0:1.

(b) Completion Indebtedness without limit if there is delivered to the Master Trustee: (i) an Officer's Certificate of the Obligated Group Representative stating that at the time the original Indebtedness for the Facilities to be completed was issued, the Obligated Group had reason to believe that the proceeds of such Funded Indebtedness together with other moneys then expected to be available would provide sufficient moneys for the completion of such Facilities; and (ii) a statement of an Independent Architect or an expert acceptable to the Master Trustee setting forth the amount estimated to be needed to complete the Facilities.

(c) Funded Indebtedness for the purpose of refinancing or refunding (whether in advance or otherwise) any outstanding Funded Indebtedness so as to render it no longer outstanding if prior to the incurrence thereof:

(i) Either (A) an Officer's Certificate of the Obligated Group Representative is delivered to the Master Trustee stating that the Maximum Annual Debt Service Requirement of all Funded Indebtedness of the Obligated Group then to be outstanding, taking the issuance of the proposed Funded Indebtedness and the refunding or refinancing of the existing Funded Indebtedness into account, will not exceed the Maximum Annual Debt Service Requirement of all Funded Indebtedness of the Obligated Group outstanding immediately prior to such issuance and refunding or refinancing by more than 10%, or (B) the conditions described in subsection (a) under this subcaption are met with respect to such proposed Funded Indebtedness, taking into account the refunding or refinancing of the Funded Indebtedness to be refunded or refinanced; and

(ii) There is delivered to the Master Trustee an opinion of Independent Counsel stating that upon the incurrence of such proposed Funded Indebtedness and application of the proceeds thereof, the outstanding Funded Indebtedness to be refunded thereby will no longer be outstanding within the meaning of the Master Indenture.

(d) Short-Term Indebtedness incurred in anticipation of the refunding thereof by Funded Indebtedness if the conditions described in subsection (a) above are met with respect to such Short-Term Indebtedness when it is assumed that such Indebtedness is Funded Indebtedness which matures over a term of 20 years from the date of issuance of such Short-Term Indebtedness, bears interest at the Projected Rate and is payable over a 20-year term on a level annual debt service basis.

(e) Short-Term Indebtedness (other than Short-Term Indebtedness incurred in accordance with subsection (d) above) and Guaranties of Short-Term Indebtedness, the total principal amount of which Short-Term Indebtedness and guaranteed Short-Term Indebtedness (with the principal amount of such guaranteed Short-Term Indebtedness which is deemed to be Indebtedness of the guarantor to be calculated in accordance with subsection (h) under this subcaption and in accordance with the provisions of the Original Master Indenture summarized below in this APPENDIX C under the subcaption "Calculation of Debt Service and Debt Service Coverage" does not exceed 15% of the Revenues of the

Obligated Group as reflected in the most recent available audited financial statements of the Obligated Group; *provided, however,* that for a period of twenty consecutive calendar days in each Fiscal Year the total principal amount of such Short-Term Indebtedness of the Obligated Group and Guaranties of Short-Term Indebtedness by the Obligated Group (calculated as provided above) shall be not more than 3% of the Revenues of the Obligated Group during the preceding Fiscal Year. For the purposes of this subsection (e), Short-Term Indebtedness shall be deemed not to include overdrafts to banks to the extent there are immediately available funds of the Obligated Group sufficient to pay such overdrafts and such overdrafts are incurred and corrected in the normal course of business.

(f) Non-Recourse Indebtedness if: (i) such Indebtedness is secured by a Lien on Property which is part of the Property, Plant and Equipment of the Obligated Group; and (ii) the total principal amount of such Non- Recourse Indebtedness outstanding after the incurrence of such Indebtedness will not exceed 10% of either (A) the Book Value of Property, Plant and Equipment of the Obligated Group as reflected in the latest available financial statements of the Obligated Group reported upon by an independent certified public accountant or (B) at the option of the Obligated Group, the Current Value of such Property, Plant and Equipment.

(g) Balloon Indebtedness and Put Indebtedness if the conditions described in subsection (a) above are met with respect to such Indebtedness when it is assumed that such Indebtedness matures over a 20-year term from its date of incurrence, bears interest at the Projected Rate and is payable on a level annual debt service basis.

(h) Guaranties of the payment by another Person not a Member of the Obligated Group of a sum certain if the conditions set forth in subsection (a) above are satisfied when it is assumed that the obligation guaranteed is Indebtedness of the Obligated Group; *provided, however,* that if the obligation guaranteed is Short-Term Indebtedness, Balloon or Put Indebtedness or Commercial Paper Indebtedness, the assumptions set forth in subsections (d), (g) or (i), as the case may be, shall be utilized in making such determination; *provided, further,* that for such purpose the Maximum Annual Debt Service Requirement on the obligation guaranteed shall be the Exposure on Guaranteed Debt with respect to such obligation; and *provided further* that the Obligated Group's Income Available for Debt Service shall not be deemed to include any Revenues of the Primary Obligor.

(i) Commercial Paper Indebtedness if (i) the conditions described in subsection (a) above are met with respect to such Indebtedness when it is assumed that such Indebtedness matures over a 20-year term from its date of incurrence, bears interest at the Projected Rate and is payable on a level annual debt service basis or (ii) such Indebtedness is incurred solely to refund or advance refund the principal of outstanding Commercial Paper Indebtedness.

(j) Liabilities for contributions to self-insurance programs required or permitted to be maintained under the Master Indenture.

(k) Commitment Indebtedness without limit.

(l) Subordinated Indebtedness without limit.

(m) Indebtedness incurred in connection with a sale of accounts receivable with recourse consisting of an obligation to repurchase all or a portion of such accounts receivable upon certain conditions, *provided* that the principal amount of such Indebtedness permitted hereby shall not exceed the aggregate sales price of such accounts receivable received by the Member of the Obligated Group incurring such Indebtedness.

(n) Cross-over Refunding Indebtedness if prior to the issuance of such Cross-over Refunding Indebtedness either (i) an Officer's Certificate of the Obligated Group Representative is delivered to the Master Trustee stating that, immediately after the issuance of the proposed Cross-over Refunding Indebtedness, the Maximum Annual Debt Service Requirement of all Funded Indebtedness of the Obligated Group will not be increased by more than 5%, or (ii) the conditions described in subsection (a) under this subcaption are met with respect to such proposed Cross-over Refunding Indebtedness.

(o) Liabilities (other than those of the types described in subsections (a) through (n) above) incurred in the ordinary course of the Obligated Group's business, including, without limitation, payments for goods and services, operating leases and general and hospital professional liability claims.

(p) Indebtedness incurred on or prior to March 31, 1986 in an aggregate principal amount, together with the principal amount of the first Master Note issued under the Master Indenture, not in excess of $340,000,000 incurred for the purposes of refinancing certain outstanding indebtedness of the Washington Corporation, the Oregon Corporation and the California Corporation and of financing all or a portion of the costs of the acquisition, construction, renovation and equipping of certain health care and related facilities for the Washington Corporation, the Oregon Corporation and the California Corporation.

(q) Indebtedness, the principal amount of which at the time incurred, together with the aggregate principal amount of all other Indebtedness then outstanding which was issued on or after the date of the execution and delivery of the Original Master Indenture without meeting any of the requirements of subsections (a) - (p) hereof, does not exceed 20% of the Revenues of the Obligated Group as reflected in the most recent available audited financial statements of the Obligated Group.

The Obligated Group covenants that liabilities of the type permitted to be incurred under subparagraph (o) above will not be allowed to become overdue for a period in excess of that which is ordinary for similar institutions without being contested in good faith and by appropriate proceedings.

Calculation of Debt Service and Debt Service Coverage. The various calculations of the amount of Indebtedness of various entities, the amortization schedule of such Indebtedness and

the debt service payable with respect to such Indebtedness for future periods required under certain provisions of the Master Indenture shall be made in a manner consistent with the provisions summarized in this APPENDIX C under the caption "THE MASTER INDENTURE – Holdover Provisions Regarding Entry Into and Withdrawal from the Obligated Group – Permitted Additional Indebtedness" and under this caption. In the case of Indebtedness issued pursuant to the conditions described above in this APPENDIX C in subsections (d), (g) and (i)(i) under the caption "THE MASTER INDENTURE – Holdover Provisions Regarding Entry Into and Withdrawal from the Obligated Group – Permitted Additional Indebtedness," and in the case of Short-Term Indebtedness, Balloon Indebtedness, Put Indebtedness and Commercial Paper Indebtedness incurred pursuant to the conditions described above in this APPENDIX C in subsection (q) under the caption "THE MASTER INDENTURE – Holdover Provisions Regarding Entry Into and Withdrawal from the Obligated Group – Permitted Additional Indebtedness," unless such Indebtedness is reclassified as provided under this subcaption, the amortization schedule of such Indebtedness and the debt service payable with respect to such Indebtedness for future periods shall be calculated on the assumption that such Indebtedness is being issued simultaneously with such calculation; *provided, however,* that the amortization schedule and debt service payable with respect to Indebtedness issued pursuant to the conditions described above in this APPENDIX C in subsection (g) under the caption "The Master Indenture – Holdover Provisions Regarding Entry Into and Withdrawal from the Obligated Group – Permitted Additional Indebtedness" and with respect to Balloon Indebtedness and Put Indebtedness incurred pursuant to the conditions described above in this APPENDIX C in subsection (q) under the caption "THE MASTER INDENTURE – Holdover Provisions Regarding Entry Into and Withdrawal from the Obligated Group – Permitted Additional Indebtedness" shall be adjusted to include the principal amount thereof actually payable in accordance with its terms within the 12-month period immediately succeeding the date of any such calculation. In determining the amount of debt service payable on Indebtedness in the course of various calculations required under certain provisions of the Master Indenture, if the terms of the Indebtedness being considered are such that interest thereon for any future period of time is expressed to be calculated at a rate which is not then susceptible of precise determination, then for the purpose of making such determination of debt service, interest on such Indebtedness for such period (the *"Determination Period"*) shall be computed by assuming that the rate of interest applicable to the Determination Period is equal to the average annual rate of interest (calculated in the manner in which the rate of interest for the Determination Period is expressed to be calculated) which would have been in effect for any 12 month period ending not more than 60 days prior to the date on which such calculation is made, *provided* that if the index or other basis for calculating such interest was not in existence during any portion of any such 12 month period, the rate of interest for such portion of such period shall be deemed to be the rate of interest borne by such Indebtedness when issued.

Short-Term Indebtedness incurred under the conditions described above in this APPENDIX C in subsection (d) or subsection (q) under the caption "THE MASTER INDENTURE – Holdover Provisions Regarding Entry Into and Withdrawal from the Obligated Group – Permitted Additional Indebtedness" shall be deemed payable in accordance with the assumptions set forth in the conditions described above in this APPENDIX C in subsection (d) under the caption "The Master Indenture – Holdover Provisions Regarding Entry Into and Withdrawal from the Obligated Group – Permitted Additional Indebtedness."

Except as provided above under this subcaption, Balloon Indebtedness incurred under the conditions described above in this APPENDIX C in subsection (d) or subsection (q) under the caption "THE MASTER INDENTURE – Holdover Provisions Regarding Entry Into and Withdrawal from the Obligated Group – Permitted Additional Indebtedness" shall be deemed payable in accordance with the assumptions set forth in the conditions described above in this APPENDIX C in subsection (g) under the caption "THE MASTER INDENTURE – Holdover Provisions Regarding Entry Into and Withdrawal from the Obligated Group – Permitted Additional Indebtedness."

Except as provided above under this subcaption, Put Indebtedness incurred under the conditions described above in this APPENDIX C in subsection (g) or subsection (q) under the caption "THE MASTER INDENTURE – Holdover Provisions Regarding Entry Into and Withdrawal from the Obligated Group – Permitted Additional Indebtedness" shall be deemed payable in accordance with the assumptions set forth in the conditions described above in this APPENDIX C in subsection (g) under the caption "THE MASTER INDENTURE – Holdover Provisions Regarding Entry Into and Withdrawal from the Obligated Group – Permitted Additional Indebtedness" *provided* that if the option of the holder to require that such Put Indebtedness be paid, purchased or redeemed prior to its stated maturity date has expired as of the date of calculation, such Put Indebtedness shall be deemed payable in accordance with its terms.

Guaranties incurred under the conditions described above in this APPENDIX C in subsection (h) or subsection (q) under the caption "THE MASTER INDENTURE – Holdover Provisions Regarding Entry Into and Withdrawal from the Obligated Group – Permitted Additional Indebtedness" shall be deemed to be payable in accordance with the assumptions set forth in the conditions described above in this APPENDIX C in subsection (h) under the caption "THE MASTER INDENTURE – Holdover Provisions Regarding Entry Into and Withdrawal from the Obligated Group – Permitted Additional Indebtedness."

Commercial Paper Indebtedness incurred under the conditions described above in this APPENDIX C in subsection (i) or subsection (q) under the caption "THE MASTER INDENTURE – Holdover Provisions Regarding Entry Into and Withdrawal from the Obligated Group – Permitted Additional Indebtedness" shall be deemed to be payable in accordance with the assumptions set forth in the conditions described above in this APPENDIX C in subsection (i) under the caption "THE MASTER INDENTURE – Holdover Provisions Regarding Entry Into and Withdrawal from the Obligated Group – Permitted Additional Indebtedness."

Master Notes issued to secure Indebtedness permitted to be incurred under the conditions described above in this APPENDIX C under the caption "THE MASTER INDENTURE – Holdover Provisions Regarding Entry Into and Withdrawal from the Obligated Group – Permitted Additional Indebtedness" shall not be treated as Additional Indebtedness.

No debt service shall be deemed payable with respect to Commitment Indebtedness until such time as funding occurs under the commitment which gave rise to such Commitment Indebtedness. From and after such funding, the amount of such debt service shall be calculated in accordance with the actual amount required to be repaid on such Commitment Indebtedness and the actual interest rate and amortization schedule applicable thereto utilizing the various assumptions contained under this subcaption and the conditions described above in this APPENDIX

C under the caption "THE MASTER INDENTURE – Holdover Provisions Regarding Entry Into and Withdrawal from the Obligated Group – Permitted Additional Indebtedness." No Additional Indebtedness shall be deemed to arise when any funding occurs under any such commitment or any such commitment is renewed upon terms which provide for substantially the same terms of repayment of amounts disbursed pursuant to such commitment as obtained prior to such renewal. No Additional Indebtedness shall be deemed to arise when variable rate Indebtedness converts to fixed rate Indebtedness if such conversion is in accordance with the provisions applicable to such variable rate Indebtedness when it was initially incurred. In making any determination of or with regard to Debt Service Requirements under the Master Indenture, the Master Trustee may rely on such opinions or reports of Consultants as it deems appropriate.

The Obligated Group may elect to have Indebtedness issued pursuant to one provision set forth above in this APPENDIX C under the caption "THE MASTER INDENTURE – Holdover Provisions Regarding Entry Into and Withdrawal from the Obligated Group – Permitted Additional Indebtedness" classified as having been incurred under another provision set forth above in this APPENDIX C under the caption "THE MASTER INDENTURE – Holdover Provisions Regarding Entry Into and Withdrawal from the Obligated Group – Permitted Additional Indebtedness" by demonstrating compliance with such other provision on the assumption that such Indebtedness is being reissued on the date of delivery of the materials required to be delivered under such other provision including the certification of any applicable Projected Rate. From and after such demonstration, such Indebtedness shall be deemed to have been incurred under the provision with respect to which such compliance has been demonstrated until any subsequent reclassification of such Indebtedness.

Sale, Lease or Other Disposition of Property. The Obligated Group agrees that it will not, in any Fiscal Year, sell, lease or otherwise dispose of Property which, when aggregated with all other such transfers of Property in such Fiscal Year, totals in excess of 5% of the total value of the Obligated Group's Property (calculated on the basis of the Book Value of the assets shown on the assets side of the balance sheet in the most recent financial statements of the Obligated Group which have been reported on by an independent certified public accountant, or if the Obligated Group so elects, on the basis of Current Value) except for transfers of Property:

(a) In the ordinary course of business;

(b) In return for other Property of equal value;

(c) To any Person, if prior to such sale, lease or other disposition there is delivered to the Master Trustee an Officer's Certificate of the Obligated Group Representative stating that, in the judgment of the signer, such Property has, or within the next succeeding 24 calendar months is reasonably expected to, become inadequate, obsolete, worn out, unsuitable, unprofitable, undesirable or unnecessary and the sale, lease, removal or other disposition thereof will not impair the structural soundness, efficiency or economic value of the remaining Property;

(d) To another Member of the Obligated Group (including dividends paid to Members of the Obligated Group);

(e) Which transfer is upon fair and reasonable terms no less favorable to the Member transferring the same than would obtain in a comparable arm's-length transaction, and, if the Property transferred constitutes Property, Plant and Equipment, following such transfer the proceeds received by the Obligated Group are applied to acquire additional Property or are applied to repay the principal of Funded Indebtedness of any Member of the Obligated Group; pending such application such proceeds shall be invested in commercially reasonable investments;

(f) To a Person which is not a Member of the Obligated Group, if such Person shall become a Member of the Obligated Group pursuant to the provisions summarized in this APPENDIX C under the caption "THE MASTER INDENTURE – Holdover Provisions Regarding Entry Into and Withdrawal from the Obligated Group – Admission to the Obligated Group" substantially contemporaneously with such transfer;

(g) To any Person, if such Property consists solely of assets which are specifically restricted by the donor or grantor to a particular purpose which is inconsistent with their use for payment on the Master Notes or other Indebtedness for borrowed money or for the payment of costs and expenses of operation;

(h) Which constitutes Property, Plant and Equipment if prior to such transfer there is delivered to the Master Trustee an Officer's Certificate of the Obligated Group Representative to the effect that after such transfer the Projected Debt Service Coverage Ratio for each of the next two succeeding Fiscal Years would not be less than 2:1;

(i) Which does not constitute Property, Plant and Equipment if prior to such transfer there is delivered to the Master Trustee an Officer's Certificate of the Obligated Group Representative stating that after such transfer (i) the Projected Debt Service Coverage Ratio for each of the next two succeeding Fiscal Years would not be less than 2:1; and (ii) the ratio of Current Assets to Current Liabilities of the Obligated Group immediately after such transfer would be not less than 1.5:1; or

(j) In the case of cash or cash equivalents, as a loan to any Person *provided* that (i) such loan has been evidenced in writing, (ii) such loan bears interest at a reasonable interest rate as determined by the Obligated Group Representative, and (iii) there is a reasonable expectation that such loan will be repaid in accordance with its terms.

The foregoing notwithstanding, no Member of the Obligated Group will sell, lease, donate or otherwise dispose of or use any Property (a) which could reasonably be expected to result in a reduction of the Income Available for Debt Service of the Obligated Group such that the Master Trustee may require the Obligated Group to retain a Consultant pursuant to the conditions summarized above in this APPENDIX C under the caption "THE MASTER INDENTURE – Holdover Provisions Regarding Entry Into and Withdrawal from the Obligated Group – Rates and Charges," or (b) if a Consultant has been retained under the conditions summarized above in this APPENDIX C under the caption "THE MASTER INDENTURE – Holdover Provisions Regarding Entry Into and Withdrawal from the Obligated Group – Rates and Charges," such action, in the opinion of such

Consultant, will have an adverse effect on the Income Available for Debt Service of the Obligated Group.

The parties to the Master Indenture agree that the rendering of any service or the making of any loan or the extension of any credit by any Member of the Obligated Group in the ordinary course of such Member's business with or to any Affiliate which is not a Member of the Obligated Group for an amount not less than the cost thereof to such Member of the Obligated Group shall not be deemed to give rise to a transfer subject to the provisions summarized under this subcaption. For the purposes of the provisions summarized under this subcaption, the discontinuance by any Member of the Obligated Group of any activity or business in anticipation of the commencement or expansion by an Affiliate which is not a Member of the Obligated Group of a substantially similar activity or business shall be deemed to be a transaction subject to the limitations of such provisions.

Liens on Property. Each Member agrees that it will keep its Property free and clear of all Liens, leases, easements, rights-of-way, covenants, conditions, restrictions, exceptions, defects in and irregularities of title and encroachments on adjoining real estate which are not Permitted Encumbrances. For the purposes of this provision, a Member shall be deemed to own any Property subject to a Capitalized Lease under which such Member is lessor or lessee.

In addition to the Permitted Encumbrances referred to in subsections (a) or (c) through (u) of the definition thereof appearing herein, a Lien on Property of any Member of the Obligated Group securing Indebtedness shall be permitted if after giving effect to such Lien, the Unsecured Debt Ratio is at least 1.25:1.0; *provided* that at the time of the creation of such Lien, if either (i) the most recently filed Officer's Certificate of the Obligated Group Representative in which a statement of the Unsecured Debt Ratio is made states that the Unsecured Debt Ratio is less than 1.25:1.0, or (ii) the principal amount of Indebtedness to be secured by such Lien exceeds $10,000,000, then prior to the creation of such Lien there shall be filed with the Master Trustee an Officer's Certificate of the Obligated Group Representative stating that the Unsecured Debt Ratio, giving effect to such Lien, is at least 1.25:1.0.

The Obligated Group Representative covenants and agrees that each financial report delivered pursuant to the Original Master Indenture, if any, will be accompanied by an Officer's Certificate of the Obligated Group Representative certifying whether the Unsecured Debt Ratio as of the end of the year covered by such report is greater than, equal to or less than 1.25:1.0.

ADDITIONAL COVENANTS UNDER THE MASTER INDENTURE FOR THE BENEFIT OF THE SERIES 2006A BOND INSURER

General. The Series 2006A Supplemental Indenture (as hereinafter defined) contains certain covenants of the Obligated Group (the *"Series 2006A Bond Insurer Covenants"*) for the benefit of the Series 2006A Bond Insurer (as hereinafter defined) that apply in addition to, and not in substitution for, the remaining provisions of the Master Indenture, as they may from time to time be amended or supplemented pursuant to the provisions of the Master Indenture. The Series 2006A Bond Insurer Covenants shall only be applicable during the period any Series 2006A Bonds (as hereinafter defined) are outstanding and the Series 2006A Bond Insurer is not in default

of its obligations under the Series 2006A Bond Insurance Policy (as hereinafter defined). The Series 2006A Bond Insurer Covenants may be modified, amended or waived at any time with the prior written consent of the Series 2006A Bond Insurer and without the consent of the Master Trustee, any Related Bond Trustee, any Related Issuer, any holder of any Obligation, or any holder of any Related Bonds. The Obligated Group currently expects that the Series 2006A Bonds will be refunded on or about the same time as the issuance of the Series 2016H Bonds and the Series 2016I Bonds. ON THE DATE OF ISSUE OF THE SERIES 2016H BONDS AND THE SERIES 2016I BONDS, NEITHER THE SERIES 2016H BONDS NOR THE SERIES 2016I BONDS WILL BE ENTITLED TO ANY BOND INSURANCE PROVIDED BY THE SERIES 2006A BOND INSURER OR ANY OTHER BOND INSURANCE POLICY.

Additional Definitions. The following defined terms apply only to the provisions summarized in this APPENDIX C under the caption "THE MASTER INDENTURE – Additional Covenants under the Master Indenture for the Benefit of the Series 2006A Bond Insurer." Other terms which are capitalized herein but not defined herein shall have the meanings assigned to them in the Series 2006A Supplemental Indenture and the Master Indenture.

"Days of Operating Expenses" means, for any period, (a) Operating Expenses of the Tested Group for such period divided by (b) the number of days in such period.

"Debt to Capitalization Ratio" means, as of any date of determination, the ratio of (a) Indebtedness as of such date to (b) Total Capitalization as of such date. For purposes of this definition, (i) Indebtedness shall include the principal amount of any Guaranty only if the Tested Group or a member thereof has made a payment pursuant to such Guaranty within the three most recent Fiscal Years of the Obligated Group, (ii) Indebtedness shall include the present value of the rental requirements of operating leases to the extent they are used principally to acquire, construct or improve a capital asset with a value of $25,000,000 or more and (A) the term of the operating lease is for ten years or more or (B) the operating lease is between any member of the Tested Group and any entity (1) controlled by any affiliate of such member or (2) in which any affiliate of such member has an ownership interest; and (iii) Indebtedness shall not include any other operating leases.

"Fiscal Year" means each twelve-month period beginning on January 1 of a calendar year and ending on December 31 of such calendar year, or any other period of twelve consecutive full calendar months selected by the Obligated Group Agent as the Fiscal Year for the Members.

"Fitch" means Fitch Ratings, a Delaware corporation, and its successors and assigns, and if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating organization, "Fitch" shall be deemed to refer to any other nationally recognized securities rating organization designated by the Obligated Group Agent by notice to the Master Trustee.

"force majeure" means acts of God; strikes, lockouts or other industrial disturbances; acts of public enemies; orders or restraints of any kind of the government of the United States or of any state of the United States or any of their departments, agencies, subdivisions or officials, or any civil or military authority; insurrections; riots; landslides; earthquakes; fires; storms; droughts;

floods; explosions; breakage, malfunction or accident to facilities, machinery, transmission pipes or canals; or any other cause or event not reasonably within the control of any member of the Tested Group.

"Moody's" means Moody's Investors Service, Inc., a Delaware corporation, and its successors and assigns, and if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating organization, "Moody's" shall be deemed to refer to any other nationally recognized securities rating organization designated by the Obligated Group Agent by notice to the Master Trustee.

"Net Assets" means, as of any date in respect of the Tested Group, the difference between (a) Total Assets and (b) Total Liabilities.

"Operating Expenses" means those expenses classified as operating expenses in the annual audited or interim unaudited quarterly, as applicable, financial statements of the Tested Group; *provided, however,* that Operating Expenses (a) shall not include depreciation or amortization expenses and (b) shall include interest expense on any outstanding Funded Indebtedness of the Tested Group and the Tested Group's allowance for bad or uncollectible debt.

"S&P" means Standard & Poor's Ratings Service, a division of The McGraw-Hill Companies, Inc., a New York corporation, and its successors and assigns, and if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating organization, "S&P" shall be deemed to refer to any other nationally recognized securities rating organization designated by the Obligated Group Agent by notice to the Master Trustee.

"Series 2006A Bond Insurer" means Financial Guaranty Insurance Company, a New York stock insurance company, or any successor thereto.

"Series 2006A Bond Insurance Policy" means the municipal bond new issue insurance policy (including all endorsements) with respect to the Series 2006A Bonds issued by the Series 2006A Bond Insurer in favor of the bond trustee for the Series 2006A Bonds that guarantees payment of principal of, and interest on, the Series 2006A Bonds.

"Series 2006A Bonds" means the Washington Health Care Facilities Authority Revenue Bonds, Series 2006A (Providence Health & Services), dated June 22, 2006 and issued in the original aggregate principal amount of $212,165,000.

"Series 2006A Obligation" means the Providence Health & Services Obligated Group Series 2006A Direct Note Obligation (Washington No. 1), dated June 22, 2006 and issued pursuant to the Series 2006A Supplemental Indenture.

"Series 2006A Supplemental Indenture" means the Ninth Supplemental Master Trust Indenture (Washington No. 1) dated as of June 1, 2006 between the Obligated Group and the Master Trustee.

"Swap Contract" means (a) any and all swap transactions, basis swaps, credit derivative transactions, forward rate transactions, commodity swaps, commodity options, forward commodity contracts, equity or equity index swaps or options, bond or bond price or bond index swaps or options or forward bond or forward bond price or forward bond index transactions, interest rate options, cap transactions, floor transactions, collar transactions or any other similar transactions or any combination of any of the foregoing (including any options to enter into any of the foregoing), whether or not any such transaction is governed by or subject to any master agreement, and (b) any and all transactions of any kind, and the related confirmations, which are subject to the terms and conditions of, or governed by, any form of master agreement published by the International Swaps and Derivatives Association, Inc.

"Tested Group" means, as of any date, (a) all Credit Group Members, if the Total Operating Revenues of all Obligated Group Members and of all Unlimited Credit Group Participants for the then-most recent Fiscal Year for which audited financial statements are available was not less than 75% of the Total Operating Revenues of the Credit Group for such Fiscal Year; and (b) all Obligated Group Members and all Unlimited Credit Group Members, if the Total Operating Revenues of all Obligated Group Members and of all Unlimited Credit Group Participants for the then-most recent Fiscal Year for which audited financial statements are available was less than 75% of the Total Operating Revenues of the Credit Group for such Fiscal Year.

"Total Assets" means, as of any date in respect of the Tested Group, the aggregate Book Value of the assets of the Tested Group as of such date, excluding restricted and temporarily restricted net assets, as reflected in the most recent audited financial statements of the Credit Group.

"Total Capitalization" means, as of any date in respect of the Tested Group, the sum of (a) Indebtedness and (b) Net Assets.

"Total Liabilities" means, as of any date in respect of the Tested Group, without duplication, all liabilities of the Tested Group shown on the balance sheet of the Credit Group.

"Total Operating Revenues" for any Fiscal Year means the total operating revenues as shown on the statements of operations included in the audited financial statements of the Credit Group for such Fiscal Year.

"Unrestricted Cash and Investments" means the sum of (a) cash, cash equivalents and investments held by the Tested Group; (b) marketable securities of the Tested Group (including long-term and short-term investments); and (c) unrestricted board-designated funds of the Tested Group; *provided, however,* that "Unrestricted Cash and Investments" shall not include the following: trustee-held funds; debt service funds; construction funds; debt service reserve funds; litigation reserves; self-insurance and captive insurer reserves to the extent they have been funded with cash; pension and retirement funds; the amount realized from the sale or factoring of accounts receivable; or collateral pledged or posted, or required to be pledged or posted, pursuant to any Swap Contract; *provided further,* that the outstanding principal amount of any Short-Term Indebtedness or any Indebtedness the holders of which have the option to tender such Indebtedness

for purchase or payment prior to maturity or earlier redemption shall be deducted from the calculation of "Unrestricted Cash and Investments" unless there exists a firm refinancing commitment with respect to such Indebtedness from a qualified financial institution rated at least "A+" by S&P or "A1" by Moody's and such commitment provides for repayment over a term of not less than two years. For purposes of this definition, if marketable securities are loaned pursuant to a security lending program, either the fair market value of such securities or any cash held as collateral under such securities lending program shall be included as Unrestricted Cash and Investments, but not both amounts.

Maintenance of Total Operating Revenues. The Total Operating Revenues of all Obligated Group Members and of all Unlimited Credit Group Participants for each Fiscal Year shall be not less than 75% of the Total Operating Revenues of the Credit Group for such Fiscal Year; *provided, however,* that failure to comply with the foregoing covenant for any Fiscal Year shall not constitute an event of default under the Master Indenture if, (a) as of the end of the first six months of the immediately succeeding Fiscal Year, the Total Operating Revenues of all Obligated Group Members and of all Unlimited Credit Group Participants is not less than 75% of the Total Operating Revenues of the Credit Group for such six-month period or (b) such failure to comply with the foregoing covenant is due solely to force majeure, but only for so long as such force majeure continues to make compliance with such covenant not reasonably practicable, in the reasonable judgment of the Governing Body of the Obligated Group Agent. Determination of compliance with the foregoing test for any Fiscal Year shall be based on the audited financial statements of the Credit Group for such Fiscal Year; compliance with the foregoing test for any subsequent six-month period shall be based on the unaudited financial statements of the Credit Group for such six-month period.

Additional Provisions Relating to Compliance with Rates and Charges. For purposes of determining compliance with the provisions of the Master Indenture summarized in this APPENDIX C under the caption "THE MASTER INDENTURE – Rates and Charges" as of any date, the financial and other relevant information of the Tested Group shall be used rather than such information of the Credit Group.

Additional Provisions Regarding Liens. (a) The Obligated Group agrees that the aggregate Book Value of Property subject to Liens of the types described in subsections (g), (j), (k) and (l) of the definition of "Permitted Encumbrances" contained in this APPENDIX C under the caption "DEFINITIONS OF CERTAIN WORDS AND TERMS" shall not exceed 25% of the aggregate Book Value of the property, plant and equipment of the Obligated Group (as shown on the most recently available financial statements delivered pursuant to the provisions of the Master Indenture summarized in this APPENDIX C under the caption "THE MASTER INDENTURE – Financial Statements").

(b) The Obligated Group shall not be permitted to incur any additional Liens if (i) it is in violation of the provisions of the Master Indenture summarized in this APPENDIX C under the caption "THE MASTER INDENTURE – Rates and Charges," as modified by the provisions of the Series 2006A Supplemental Indenture summarized in this APPENDIX C under the caption "THE MASTER INDENTURE – Additional Covenants under the Master Indenture for the Benefit of the Series 2006A Bond Insurer – Rates and Charges," or of the provisions of the Series 2006A

Supplemental Indenture summarized in this APPENDIX C under the captions "THE MASTER INDENTURE – Additional Covenants under the Master Indenture for the Benefit of the Series 2006A Bond Insurer – Liquidity Covenant" or "THE MASTER INDENTURE – Additional Covenants under the Master Indenture for the Benefit of the Series 2006A Bond Insurer – Total Debt to Capitalization Ratio; Limitation on Indebtedness" or (ii) there is an existing event of default under the Master Indenture of the type described in paragraph (a) of the provisions of the Master Indenture described in this APPENDIX C under the caption "THE MASTER INDENTURE – Events of Default."

Rates and Charges. In addition to the covenants contained in the Master Indenture and summarized in this APPENDIX C under the caption "THE MASTER INDENTURE – Rates and Charges," the Obligated Group further agrees under the Series 2006A Supplemental Indenture as follows:

(a) Any Consultant hired pursuant to the provisions of the Master Indenture summarized in this APPENDIX C under the caption "THE MASTER INDENTURE – Rates and Charges" shall be reasonably acceptable to the Series 2006A Bond Insurer, and shall be hired within 30 days after it is determined that the Historical Debt Service Coverage Ratio of the Credit Group for any Fiscal Year is less than 1.10:1.0;

(b) If (i) the Obligated Group does not hire a Consultant satisfying the requirements of the provisions of the Master Indenture summarized in this APPENDIX C under the caption "THE MASTER INDENTURE – Rates and Charges" and of the provisions of the Series 2006A Supplemental Indenture summarized in this APPENDIX C under the caption "THE MASTER INDENTURE – Additional Covenants under the Master Indenture for the Benefit of the Series 2006A Bond Insurer – Rates and Charges," or (ii) the Credit Group does not comply with the recommendations of the Consultant to the extent feasible (as determined in the reasonable judgment of the Governing Body of the Obligated Group Agent) and permitted by law, or (iii) the Historical Debt Service Coverage Ratio is less than 1.00:1.0 (A) for any Fiscal Year in which Unrestricted Cash and Investments of the Tested Group are less than 110 Days of Operating Expenses or (B) for any two consecutive Fiscal Years, regardless of the Unrestricted Cash and Investments of the Tested Group in either of such Fiscal Years, an event of default shall be deemed to have occurred under the Master Indenture; and

(c) If the Credit Group does not comply with the recommendations of a Consultant hired pursuant to the requirements of the provisions of the Master Indenture summarized in this APPENDIX C under the caption "THE MASTER INDENTURE – Rates and Charges" because such compliance, in the reasonable judgment of the Governing Body of the Obligated Group Agent, is not feasible, or because such compliance is not permitted by law, the Obligated Group Agent shall deliver to the Series 2006A Bond Insurer a report (i) explaining why such compliance is not deemed to be feasible or why it is not permitted by law, as the case may be, and (ii) describing what actions the Credit Group has taken and will be taking to increase the Historical Debt Service Coverage Ratio to at least 1.10 to 1, as required by the provisions of the Master Indenture summarized in this APPENDIX C under the caption "THE MASTER INDENTURE – Rates and Charges."

Liquidity Covenant. The Obligated Group agrees under the Series 2006A Supplemental Indenture that the Tested Group shall maintain Unrestricted Cash and Investments equal to at least 45 Days of Operating Expenses (the *"Liquidity Requirement"*) as of each June 30, as reflected on the unaudited financial statements of the Credit Group as of such June 30, and as of each December 31, as reflected on the audited financial statements of the Credit Group as of such December 31. A preliminary calculation of compliance with the foregoing covenant as of each December 31 shall be provided by the Obligated Group Agent to the Master Trustee and the Series 2006A Bond Insurer within 60 days after the end of each Fiscal Year, based on the unaudited financial statements of the Credit Group for such Fiscal Year. The Obligated Group Agent shall deliver to the Master Trustee and the Series 2006A Bond Insurer, promptly after (a) the unaudited financial statements of the Credit Group for each six-month period ending on June 30 become available and (b) the audited financial statements of the Credit Group for each Fiscal Year become available, an Officer's Certificate of the Obligated Group Agent setting forth a calculation of the Liquidity Requirement as of such June 30 or December 31. If Unrestricted Cash and Investments are less than 60 Days of Operating Expenses as of any June 30 or December 31, the Obligated Group shall prepare and deliver to the Series 2006A Bond Insurer a management report of the Obligated Group (a) stating the reasons for the decline in Days of Operating Expenses below 60, (b) describing the actions taken prior to the date of such report in remedying such decline and (c) including a plan of recovery and specifying the steps management of the Obligated Group is taking and will take in the future to restore Days of Operating Expenses to 60 or more.

Total Debt to Capitalization Ratio; Limitation on Indebtedness. The Obligated Group agrees under the Series 2006A Supplemental Indenture that the Tested Group shall maintain a Debt to Capitalization Ratio of the Tested Group as of the end of each Fiscal Year, as reflected on the audited financial statements of the Credit Group for such Fiscal Year, of not greater than 0.65:1.0. The Obligated Group Agent shall deliver to the Master Trustee and the Series 2006A Bond Insurer, not later than 150 days after the end of each Fiscal Year, an Officer's Certificate of the Obligated Group Agent setting forth a calculation of the Debt to Capitalization Ratio of the Tested Group as of the end of such Fiscal Year. In the event that the Officer's Certificate shall disclose that the Debt to Capitalization Ratio required by the preceding sentence is not being maintained, the Obligated Group shall, within 30 days following the delivery of such Officer's Certificate, employ a Consultant reasonably acceptable to the Series 2006A Bond Insurer to prepare a report containing recommendations as to changes in the operating policies of the Tested Group designed to cause such Debt to Capitalization Ratio to be attained as of the end of the then-current Fiscal Year. A copy of such report shall be delivered simultaneously to the Master Trustee and the Series 2006A Bond Insurer. Each Obligated Group Member and, if applicable, Unlimited Credit Group Participant shall follow the recommendations of the Consultant applicable to it to the extent feasible (as determined in the reasonable judgment of the Governing Body of the Obligated Group Agent) and permitted by law, and the Obligated Group shall deliver quarterly reports (within 60 days after the end of each fiscal quarter) to the Series 2006A Bond Insurer detailing the actions being taken to decrease the Debt to Capitalization Ratio to not greater than 0.65:1.0. No Event of Default shall occur under the Master Indenture if such recommendations are followed pursuant to the foregoing requirements, notwithstanding that such Debt to Capitalization Ratio is not subsequently attained, but the Obligated Group shall continue to be obligated to employ such a Consultant and obtain such a report in any year where such Officer's Certificate discloses that such Debt to Capitalization Ratio is not being maintained. The failure of the Obligated Group to employ

a Consultant when required, or to follow such Consultant's recommendations pursuant to the foregoing requirements, or the failure of the Tested Group to attain a Debt to Capitalization Ratio of 0.65:1.0 or less for two consecutive Fiscal Years or to attain a Debt to Capitalization Ratio of 0.70:1.0 or less for any Fiscal Year, shall constitute an event of default under the Master Indenture.

If an Obligated Group Member or, if applicable, an Unlimited Credit Group Participant, does not comply with the recommendations of a Consultant hired pursuant to the requirements of the provisions of the Series 2006A Supplemental Indenture summarized in this APPENDIX C under this caption "THE MASTER INDENTURE – Additional Covenants under the Master Indenture for the Benefit of the Series 2006A Bond Insurer – Total Debt to Capitalization Ratio; Limitation on Indebtedness" because such compliance, in the reasonable judgment of the Governing Body of the Obligated Group Agent, is not feasible, or because such compliance is not permitted by law, the Obligated Group Agent shall deliver to the Series 2006A Bond Insurer a report (i) explaining why such compliance is not deemed to be feasible or why it is not permitted by law, as the case may be, and (ii) describing what actions such Obligated Group Member or Unlimited Credit Group Participant, as the case may be, has taken and will be taking to cause the Debt to Capitalization Ratio of the Tested Group to be not greater than 0.65:1.0 as of the end of the then-current Fiscal Year.

The Obligated Group shall not incur any Indebtedness for borrowed money if, after giving effect to such incurrence and to the application of the proceeds thereof, the Debt to Capitalization Ratio would exceed 0.65 to 1.0.

Additional Restrictions with respect to Hedging Transactions. The Obligated Group shall not enter into any Swap Contract relating to Indebtedness without the prior written consent of the Series 2006A Bond Insurer unless the following conditions are met:

(a) The Swap Contract must be entered into as a hedge against swaps outstanding (such as basis swaps or reverse swaps), or against Indebtedness then outstanding or to be issued, or as a means of achieving a forward refunding or other forward transaction;

(b) The Swap Contract shall not contain any leverage element or multiplier component greater than 1.0x unless there is a matching hedge arrangement then in effect which effectively offsets the exposure from any such element or component;

(c) The counterparty to the Swap Contract or its guarantor must have its unenhanced long- term debt or claims-paying ability rated at least "A" by S&P and "A2" by Moody's;

(d) The Swap Contract shall provide that it will not terminate for events related to the counterparty to the Swap Contract (such as a rating downgrade); and

(e) Unless the obligation of the Obligated Group Member that will be a party to such Swap Contract is insured, the net settlement, breakage or other termination amounts of all other uninsured Swap Contracts then in effect together with the Swap Contract then

proposed to be executed, determined at the time of its execution and delivery, would not result in Unrestricted Cash and Investments being less than 60 Days of Operating Expenses.

For purposes of debt service calculations under the Master Indenture, interest on Indebtedness that is hedged by a Swap Contract shall be deemed to accrue at the variable or fixed rate payable under the Swap Contract by the Obligated Group Member that is a party thereto, except that historical debt service calculations shall include all amounts paid by any such party in excess of the amounts received by such party from the counterparty to the Swap Contract.

Amendment of Master Indenture. Any amendment to the Master Indenture requiring the consent of holders of Obligations pursuant to the provisions of the Master Indenture summarized in this APPENDIX C under the caption "THE MASTER INDENTURE – Supplemental Master Indentures – Supplemental Master Indentures Requiring Consent of Obligation Holders" shall also require the consent of the Series 2006A Bond Insurer. Any rating agency then maintaining a rating of the Series 2006A Bonds must receive notice of any such proposed amendment, including a draft thereof, at least 15 days in advance of the execution of such amendment. The Series 2006A Bond Insurer shall be provided with a transcript of all proceedings relating to the execution of any such amendment.

Financial Reporting. In addition to the requirements of the Master Indenture described in this APPENDIX C under the caption "THE MASTER INDENTURE – Financial Statements," the Obligated Group agrees under the Series 2006A Supplemental Indenture that it will provide certain other financial information and reports to the Series 2006A Bond Insurer at the times and in the manner specified in the Series 2006A Supplemental Indenture.

Put Indebtedness. With respect to any Related Bonds insured by the Series 2006A Bond Insurer the owners of which have the option to tender such Related Bonds for purchase prior to maturity or earlier redemption, such Related Bonds must have the benefit of a liquidity facility providing support for the purchase of any such tendered Related Bonds reasonably satisfactory to the Series 2006A Bond Insurer unless (a) the senior Funded Indebtedness of the Tested Group that is not entitled to any credit enhancement is rated not lower than the "AA" category by two of the following: S&P, Moody's and Fitch, (b) the Tested Group maintains cash, cash equivalents and marketable securities, as of each June 30 and December 31, in an amount that is not less than the principal amount of such Related Bonds, and (c) such Related Bonds are rated in the highest short-term rating category by two of the following: S&P, Moody's and Fitch.

Reimbursement of Expenses. The Obligated Group agrees under the Series 2006A Supplemental Indenture to pay, or reimburse the Series 2006A Bond Insurer for its payment of, any and all charges, fees, costs and expenses that the Series 2006A Bond Insurer may reasonably pay or incur in connection with the following:

(a) The administration, enforcement, defense or preservation of any rights or security under the Master Indenture, including the Series 2006A Supplemental Indenture and the bond indenture and loan agreement entered into in connection with the Series 2006A Bonds (referred to herein collectively as the *"Transaction Documents"*);

(b) The pursuit of any remedies under any Transaction Document or otherwise afforded by law or equity;

(c) Any amendment, waiver or other action with respect to any Transaction Document, whether or not executed or completed;

(d) The violation by the Obligated Group of any law, rule, regulation, judgment, order or decree applicable to it;

(e) Any advances or payments made by the Series 2006A Bond Insurer to cure defaults of the Obligated Group under any Transaction Document; or

(f) Any litigation or other dispute arising in connection with any Transaction Document or the transactions contemplated thereby, other than any such litigation or other dispute arising from the failure of the Series 2006A Bond Insurer to honor its payment obligations under the Series 2006A Bond Insurance Policy.

The Series 2006A Bond Insurer reserves the right to charge a reasonable fee as a condition to executing any amendment, waiver or consent proposed with respect to any Transaction Document. The obligations of the Obligated Group arising under the provisions of the Series 2006A Supplemental Indenture summarized in this APPENDIX C under this caption "THE MASTER INDENTURE – Additional Covenants under the Master Indenture for the Benefit of the Series 2006A Bond Insurer – Reimbursement of Expenses" prior to the satisfaction and discharge of the Series 2006A Bonds shall survive such satisfaction and discharge.

Series 2006A Bond Insurer Deemed Holder of Obligation for Certain Purposes. For purposes of consents, approvals, notices and direction of remedies under the Master Indenture, the Series 2006A Bond Insurer shall be deemed to be the holder of the Series 2006A Obligation created by the Series 2006A Supplemental Indenture, unless the Series 2006A Bond Insurer is insolvent or is in default of its payment obligations under the Series 2006A Bond Insurance Policy, in which case such Series 2006A Obligation shall be disregarded and each holder of a Series 2006A Bond shall be deemed to hold a Series 2006A Obligation in a principal amount equal to the aggregate principal amount of Series 2006A Bonds held by such holder.

Sales of Accounts Receivable. The Obligated Group may not sell accounts receivable in an aggregate amount that is in excess of 25% of the net accounts receivable of the Obligated Group as reflected on the most recent audited financial statements of the Credit Group.

Amendment to Certain Default Provision under Master Indenture. The phrase "1% of the Revenues of the Credit Group" appearing in paragraph (c) of the provisions of the Master Indenture summarized in this APPENDIX C under the caption "THE MASTER INDENTURE – Events of Default" shall be deemed to read "$20,000,000."

Requirements for Unlimited Credit Group Participant Contracts. For the purpose of determining the constituent entities in the Tested Group and for the purpose of determining

compliance with the provisions of the Series 2006A Supplemental Indenture summarized in this APPENDIX C under the caption "THE MASTER INDENTURE

Additional Covenants under the Master Indenture for the Benefit of the Series 2006A Bond Insurer - Maintenance of Total Operating Revenues," a Person otherwise constituting an Unlimited Credit Group Participant within the meaning of the definition thereof contained in this APPENDIX C under the caption "DEFINITIONS OF CERTAIN WORDS AND TERMS" shall be included in the Tested Group and shall be included in determining such compliance if (a) the contract between an Obligated Group Member and such Person described in the definition of "Unlimited Credit Group Participant" contained in this APPENDIX C under the caption "DEFINITIONS OF CERTAIN WORDS AND TERMS" is in a form that has been approved by the Series 2006A Bond Insurer and (b) such contract provides for the enforcement thereof by the Master Trustee pursuant to the provisions of the Master Indenture.

Notice of Events of Default. The Obligated Group Agent shall give notice to the Series 2006A Bond Insurer of any event of default under the Master Indenture known to the Obligated Group Agent within 30 days after obtaining knowledge thereof.

Maintenance of Insurance. Each member of the Tested Group shall maintain or cause to be maintained, to the extent available on commercially reasonable terms, insurance in such amounts and covering such risks as, in the reasonable judgment of the Governing Body of the Obligated Group Agent, are customary in the case of corporations engaged in the same or similar activities and similarly situated.

Each member of the Tested Group may self-insure any of the risks described in the preceding paragraph if, in the reasonable judgment of the Governing Body of the Obligated Group Agent, such self-insurance is in the best interests of such member of the Tested Group; *provided, however,* that (a) no member of the Tested Group may self-insure against casualty losses to any real or tangible personal Property owned, leased or used by it without the prior written consent of the Series 2006A Bond Insurer, unless insurance against such casualty losses is not available on commercially reasonable terms; and (b) deductibles are permitted to the extent they are reasonable, as determined in the reasonable judgment of the Governing Body of the Obligated Group Agent.

ADDITIONAL COVENANTS UNDER THE MASTER INDENTURE FOR THE BENEFIT OF THE SERIES 2006C-E BOND INSURER

General. The Series 2006C-E Supplemental Indentures (as hereinafter defined) contain certain covenants of the Obligated Group (the *"Series 2006C-E Bond Insurer Covenants"*) for the benefit of the Series 2006C-E Bond Insurer (as hereinafter defined) that apply in addition to, and not in substitution for, the remaining provisions of the Master Indenture, as they may from time to time be amended or supplemented pursuant to the provisions of the Master Indenture. The Series 2006C-E Bond Insurer Covenants shall only be applicable during the period any Series 2006C-E Bonds (as hereinafter defined) are outstanding and the Series 2006C-E Bond Insurer is not in default of its obligations under the Series 2006C-E Bond Insurance Policies (as hereinafter defined). The Series 2006C-E Bond Insurer Covenants may be modified, amended or waived at any time with the prior written consent of the Series 2006C-E Bond Insurer and without

the consent of the Master Trustee, any Related Bond Trustee, any Related Issuer, any holder of any Obligation or any holder of any Related Bonds. ON THE DATE OF ISSUE OF THE ISSUE OF THE SEIRES 2016H BONDS AND THE SERIES 2016I BONDS, NEITHER THE SERIES 2016H BONDS NOR THE SERIES 2016I BONDS WILL BE ENTITLED TO ANY BOND INSURANCE PROVIDED BY THE SERIES 2006C-E BOND INSURER OR ANY OTHER BOND INSURANCE POLICY.

Additional Definitions. The following defined terms apply only to the provisions summarized in this APPENDIX C under this caption "THE MASTER INDENTURE – Additional Covenants under the Master Indenture for the Benefit of the Series 2006C-E Bond Insurer." Other terms which are capitalized herein but not defined herein shall have the meanings assigned to them in the Series 2006C-E Supplemental Indentures and the Master Indenture.

"Series 2006C-E Bond Insurer" means Assured Guaranty Corp. (formerly known as Financial Security Assurance Inc.), a New York stock insurance company, or any successor thereto.

"Series 2006C-E Bond Insurance Policies" means, collectively, the municipal bond insurance policy (including all endorsements) with respect to each series of the Series 2006C-E Bonds issued by the Series 2006C-E Bond Insurer in favor of the bond trustee for each series of the Series 2006C-E Bonds that guarantees payment of principal of, and interest on, the Series 2006C-E Bonds.

"Series 2006C-E Bonds" means, collectively, (i) the Washington Health Care Facilities Authority Revenue Bonds, Series 2006C (Providence Health & Services), dated June 22, 2006 and issued in the original aggregate principal amount of $69,425,000, (ii) the Washington Health Care Facilities Authority Revenue Bonds, Series 2006D (Providence Health & Services), dated June 22, 2006 and issued in the original aggregate principal amount of $69,275,000 and (iii) the Washington Health Care Facilities Authority Revenue Bonds, Series 2006E (Providence Health & Services), dated June 22, 2006 and issued in the original aggregate principal amount of $26,350,000.

"Series 2006C-E Obligations" means, collectively, (i) the Providence Health & Services Obligated Group Series 2006C Direct Note Obligation (Washington No. 2), (ii) the Providence Health & Services Obligated Group Series 2006D Direct Note Obligation (Washington No. 3) and (iii) the Providence Health & Services Obligated Group Series 2006E Direct Note Obligation (Washington No. 4), each dated June 22, 2006 and issued pursuant to the related Series 2006C-E Supplemental Indenture.

"Series 2006C-E Supplemental Indentures" means, collectively, (i) the Eleventh Supplemental Master Trust Indenture (Washington No. 2), (ii) the Twelfth Supplemental Master Trust Indenture (Washington No. 3) and (iii) the Thirteenth Supplemental Master Trust Indenture (Washington No. 4), each dated as of June 1, 2006 and each between the Obligated Group and the Master Trustee.

Additional Covenants for Benefit of Series 2006C-E Bond Insurer. The Series 2006C-E Bond Insurer Covenants are identical in all material respects to the Series 2006A Bond Insurer Covenants, as summarized above, except as follows:

(a) References to the Series 2006A Bonds, the bond indenture and loan agreement entered into in connection with the Series 2006A Bonds and the Series 2006A Supplemental Indenture contained in this APPENDIX C under the caption "THE MASTER INDENTURE – Additional Covenants under the Master Indenture for the Benefit of the Series 2006A Bond Insurer" shall be read and interpreted as meaning the related series of Series 2006C-E Bonds, the bond indenture and loan agreement for the related series of Series 2006C-E Bonds and the related Series 2006C-E Supplemental Indenture;

(b) References to the Series 2006A Bond Insurer and the Series 2006A Bond Insurance Policy contained in this APPENDIX C under the caption "THE MASTER INDENTURE – Additional Covenants under the Master Indenture for the Benefit of the Series 2006A Bond Insurer" shall be read and interpreted as meaning the Series 2006C-E Bond Insurer and the related Series 2006C-E Bond Insurance Policy;

(c) References to the Series 2006A Obligation contained in this APPENDIX C under the caption "THE MASTER INDENTURE – Additional Covenants under the Master Indenture for the Benefit of the Series 2006A Bond Insurer" shall be read and interpreted as meaning the related Series 2006C-E Obligation issued pursuant to the related Series 2006C-E Supplemental Indenture;

(d) The provision of the Series 2006A Supplemental Indenture described in this APPENDIX C in clause (a) under the caption "THE MASTER INDENTURE – Additional Covenants under the Master Indenture for the Benefit of the Series 2006A Bond Insurer – Additional Provisions Regarding Liens" is deleted in its entirety from the Series 2006C-E Supplemental Indentures and replaced with the following provision:

> "(a) Subsection (l) of the definition of "Permitted Encumbrances" contained in this APPENDIX C under the caption "DEFINITIONS OF CERTAIN WORDS AND TERMS" shall be deemed to read in its entirety as follows:
>
> '(l) Liens on Property of a Credit Group Member, in addition to (i) those Liens permitted as defined above in subsections (b) through (f) of this definition of Permitted Encumbrances, and (ii) those Liens permitted as defined above in subsections (a), (h) and (i) of this definition of Permitted Encumbrances which encumber Property with a Book Value not in excess of 5% of the property, plant and equipment of the Obligated Group (as shown on the most recently available financial statements delivered pursuant to the provisions of the Master Indenture summarized in this APPENDIX C under the caption "THE MASTER INDENTURE – Financial Statements"), if the aggregate Book Value of the Property subject to

a Lien of the type described in this subsection (l) does not exceed 25% of the aggregate Book Value of the property, plant and equipment of the Obligated Group (as shown on the most recently available financial statements delivered pursuant to the provisions of the Master Indenture summarized in this APPENDIX C under the caption "THE MASTER INDENTURE – Financial Statements")."

and

(e) The definition of "Transaction Documents" contained in this APPENDIX C under the caption "THE MASTER INDENTURE – Additional Covenants under the Master Indenture for the Benefit of the Series 2006A Bond Insurer – Reimbursement of Expenses" shall mean the Master Indenture, the related Series 2006C-E Supplemental Indenture and the bond indenture, loan agreement, auction agreement and broker dealer agreements entered into with respect to the related series of Series 2006C-E Bonds.

APPENDIX E

FORM OF MASTER CONTINUING DISCLOSURE AGREEMENT

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PROVIDENCE ST. JOSEPH HEALTH
MASTER CONTINUING DISCLOSURE AGREEMENT

This Providence St. Joseph Health Master Continuing Disclosure Agreement (the "Agreement") is executed and delivered as of September 28, 2016 by Providence Health & Services – Washington (the "Obligated Group Agent") on behalf of itself and other Obligated Group Members, and Digital Assurance Certification, L.L.C. (the "Dissemination Agent"), with respect to the Covered Bonds/Notes (as defined below), in order to assist Underwriters in complying with subsection (b)(5) of the Rule (as defined below).

ARTICLE I.

DEFINITIONS

Section 1.1. Definitions. Capitalized terms used in this Agreement and not otherwise defined shall have the meanings assigned such terms in the Master Indenture (as defined below). The following terms used in this Agreement shall have the following respective meanings:

(a) "Annual Financial Information" means, collectively, (i) updated versions of financial information and operating data for the Obligated Group which is of the type contained in APPENDIX A of the Official Statement provided in connection with the offering of the Initial Covered Bonds/Notes (as defined below) under the following captions:

(1) OPERATIONS – Facilities (the first sentence and the charts appearing thereunder);

(2) OPERATIONS - Utilization;

(3) OPERATIONS − Sources of Revenues (the chart and source of revenues table appearing thereunder);

(4) FINANCIAL INFORMATION − Historical Financial Information – Summary Combined Pro Forma Statements of Revenues and Expenses Providence St. Joseph Health (System);

(5) FINANCIAL INFORMATION − Historical Financial Information − Summary Combined Pro Forma Balance Sheet Providence St. Joseph Health (System);

(6) SYSTEM FINANCIAL RATIOS – Liquidity and Capital Resources (the tables appearing thereunder);

(7) SYSTEM FINANCIAL RATIOS − Pro Forma Capitalization (the tables appearing thereunder);

(8) SYSTEM FINANCIAL RATIOS − Debt Service Coverage (the tables appearing thereunder);

(9) MANAGEMENT'S DISCUSSION AND ANALYSIS; and

(10) OTHER INFORMATION – Interest Rate Swap Arrangements;

and the following operating data, if not included within the information referenced in (1) through (8) above, shall also be included in Annual Financial Information:

(1) Number of licensed beds (for the Obligated Group in the aggregate and by facility); and

(2) Admissions;

(ii) information regarding amendments to this Agreement required pursuant to Sections 4.2(d) and (e) of this Agreement; and (iii) Audited Financial Statements, if available, or Unaudited Financial Statements in the event that Audited Financial Statements are not then available. (The descriptions contained in Section 1.1(a)(i) hereof of financial information and operating data constituting Annual Financial Information are of general categories of financial information and operating data. When such descriptions include information that no longer can be generated because the operations to which it related have been materially changed or discontinued, a statement to that effect shall be provided in lieu of such information. Any Annual Financial Information containing modified financial information or operating data shall explain, in narrative form, the reasons for the modification and the impact of the modification on the type of financial information or operating data being provided.)

(b) "Audited Financial Statements" means the annual financial statements of the Providence St. Joseph Health, audited by such auditor as shall then be required or permitted by State law or the Master Indenture, including schedules detailing Obligated Group information within the consolidated financial statements of Providence St. Joseph Health. Audited Financial Statements shall be prepared in accordance with GAAP; provided, however, that pursuant to Sections 4.2(a) and (e) hereof, the Obligated Group Agent may from time to time, if required by Federal or State legal requirements, modify the accounting principles to be followed in preparing its financial statements. The notice of any such modification required by Section 4.2(a) hereof shall include a reference to the specific Federal or State law or regulation describing such accounting principles, or other description thereof.

(c) "Counsel" means a nationally recognized counsel knowledgeable in federal securities laws.

(d) "Covered Bonds/Notes" means, collectively, the Initial Covered Bonds/Notes and any other Related Bonds or notes which are designated by the Obligated Group Agent as being covered by the continuing disclosure undertaking set forth in this Agreement, as provided in Section 5.1 hereof.

(e) "Dissemination Agent" means a person or entity recognized as having experience in the area of continuing disclosure with respect to securities and appointed by the Obligated Group Agent to serve in such capacity, initially Digital Assurance Certification, L.L.C. ("DAC").

(f) "GAAP" means generally accepted accounting principles as prescribed from time to time by the Financial Accounting Standards Board or any successor to the duties or responsibilities thereof.

(g) "Initial Covered Bonds/Notes" means the bonds/notes listed in EXHIBIT B hereto.

(h) "Master Indenture" means the Master Trust Indenture (Amended and Restated) dated as of May 1, 2003, as supplemented and amended from time to time, by and among the Obligated Group Members and The Bank of New York Mellon Trust Company, N.A., as successor Master Trustee to Mellon Bank, N.A., as master trustee (the "Master Trustee"), as the same may be supplemented and amended from time to time.

(i) "Member," "Members" and "Obligated Group Members" shall have the meanings ascribed thereto in the Master Indenture.

(j) "MSRB" means the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934, or any successor thereto or to the functions of the MSRB contemplated by this Agreement.

(k) "Notice Event" means any of the following events with respect to the Covered Bonds/Notes or other Related Bonds or indebtedness evidenced by an Obligation:

(1) principal and interest payment delinquencies;

(2) non-payment related defaults, if material;

(3) unscheduled draws on debt service reserves reflecting financial difficulties;

(4) unscheduled draws on credit enhancements or bond insurance reflecting financial difficulties;

(5) substitution of credit or liquidity providers or their failure to perform;

(6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices of determinations with respect to the tax status of the Covered Bonds/Notes, or other material events affecting the tax status of the Covered Bonds/Notes;

(7) modifications to rights of holders of the Covered Bonds/Notes, if material;

(8) Bond calls, if material, and tender offers;

(9) defeasances;

(10) release, substitution, or sale of property securing repayment of the Covered Bonds/Notes, if material;

(11) rating changes;

(12) bankruptcy, insolvency, receivership or similar event[1] of an Obligated Group Member;

(13) the consummation of a merger, consolidation, or acquisition involving an Obligated Group Member or the sale of all or substantially all of the assets of an Obligated Group Member, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

(14) appointment of a successor or additional trustee or the change of name of a trustee, if material.

(l) "Obligated Group" means, collectively, all Obligated Group Members. (Obligated Group Members for purposes of this definition includes each Obligated Group Member until (i) such Member withdraws from the Obligated Group and retains no liability for the repayment of any Related Bonds, (ii) such Member merges with another Obligated Group Member or (iii) such Member merges with another Person which becomes an Obligated Group Member, all in accordance with the Master Indenture. The Obligated Group Agent means the Obligated Group Agent appointed from time to time pursuant to the Master Indenture.)

(m) "Official Statement" means (i) the Official Statement referenced in Section 1.1(a) above, and (ii) any future official offering document provided in connection with the issuance of other Covered Bonds/Notes.

(n) "Outstanding" shall have the meaning ascribed thereto in the Master Indenture.

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[1] For the purposes of the event identified in clause (12) above, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the entity in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or government authority has assumed jurisdiction over substantially all of the assets or business of the entity, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the entity.

(o) "Person" shall have the meaning ascribed thereto in the Master Indenture.

(p) "Related Bonds" shall have the meaning ascribed thereto in the Master Indenture.

(q) "Related Bond Indenture" shall have the meaning ascribed thereto in the Master Indenture.

(r) "Rule" means Rule 15c2-12 promulgated by the SEC under the Securities Exchange Act of 1934 (17 CFR Part 240, §240.15c2-12), as amended, as in effect on the date of this Agreement, including any official interpretations thereof issued either before or after the effective date of this Agreement which are applicable to this Agreement.

(s) "SEC" means the United States Securities and Exchange Commission.

(t) "State" means the State of Washington.

(u) "Unaudited Financial Statements" means the same as Audited Financial Statements, except that they shall not have been audited.

(v) "Underwriters" means, collectively, all "participating underwriters" (as described in paragraph (a) of the Rule) of Covered Bonds/Notes.

ARTICLE II.

THE UNDERTAKING

Section 2.1. Purpose; No Issuer Responsibility or Liability. This Agreement is being executed and delivered solely to assist the Underwriters in complying with subsection (b)(5) of the Rule. The Obligated Group Agent acknowledges that the issuers of each series of Covered Bonds/Notes have undertaken no responsibility, and shall not be required to undertake any responsibility, with respect to any reports, notices or disclosures required by or provided pursuant to this Agreement, and shall have no liability to any Person, including any holder of the Covered Bonds/Notes, with respect to any such reports, notices or disclosures.

Section 2.2. Annual Financial Information. (a) The Obligated Group Agent shall provide Annual Financial Information with respect to each fiscal year of the Obligated Group Agent, commencing with fiscal year ending December 31, 2016, by no later than the date which is the last day of the sixth calendar month after the end of the respective fiscal year, to the Dissemination Agent. The Dissemination Agent shall provide notice in writing to the Obligated Group Agent that such Annual Financial Information is required to be provided by such date, at least 15 Business Days but not more than 45 Business Days in advance of such date. The Dissemination Agent shall provide such Annual Financial Information to (i) the MSRB and (ii) the issuer of each series of Covered Bonds/Notes, in each case within three (3) Business Days after receipt by the Dissemination Agent.

(b) The Dissemination Agent shall provide, in a timely manner, notice of any failure of the Obligated Group Agent or the Dissemination Agent to provide the Annual Financial Information by the date specified in subsection (a) above, in each case to (i) the MSRB and (ii) the issuer of each series of Covered Bonds/Notes and (iii) if such failure is of the Obligated Group Agent, the Obligated Group Agent.

Section 2.3. Audited Financial Statements. If not provided as part of Annual Financial Information by the date required by Section 2.2(a) hereof, the Obligated Group Agent shall provide Audited Financial Statements, when and if available, to the Dissemination Agent. The Dissemination Agent shall provide any such Audited Financial Statements to (i) the MSRB and (ii) the issuer of each series of Covered Bonds/Notes, in each case within three (3) Business Days after receipt by the Dissemination Agent.

Section 2.4. Notice Events. (a) If a Notice Event occurs, the Obligated Group Agent shall provide, in a timely manner not in excess of nine (9) Business Days after the occurrence of such Notice Event, notice of such Notice Event to the Dissemination Agent. The Dissemination Agent shall provide notice of each such Notice Event to (i) the MSRB and (ii) the issuer of each series of Covered Bonds/Notes, in each case within one (1) Business Day after receipt by the Dissemination Agent.

(b) Any notice of a defeasance of Covered Bonds/Notes shall state whether the applicable Covered Bonds/Notes have been escrowed to maturity or to an earlier redemption date and the timing of such maturity or redemption.

(c) The Dissemination Agent shall promptly advise the Obligated Group Agent and the issuer of each series of Covered Bonds/Notes whenever, in the course of performing its duties as Dissemination Agent under this Agreement, the Dissemination Agent has actual notice of an occurrence which, if material, would require the Obligated Group Agent to provide notice of a Notice Event hereunder; provided, however, that the failure of the Dissemination Agent so to advise the Obligated Group Agent or such issuers shall not constitute a breach by the Dissemination Agent of any of its duties and responsibilities under this Agreement.

Section 2.5. Additional Information. Nothing in this Agreement shall be deemed to prevent the Obligated Group Agent from disseminating any other information, using the means of dissemination set forth in this Agreement or any other means of communication, or including any other information in any Annual Financial Information or notice of Notice Event hereunder, in addition to that which is required by this Agreement. If the Obligated Group Agent chooses to do so, the Obligated Group Agent shall have no obligation under this Agreement to update such additional information or include it in any future Annual Financial Information or notice of a Notice Event hereunder.

Section 2.6. Suspension of Obligations. Anything herein to the contrary notwithstanding, the obligations to file Annual Financial Information, Audited Financial Statements, Notice Event notices and additional information pursuant to Sections 2.2, 2.3, 2.4 and 2.5 hereof may be suspended with respect to a series of Covered Bonds/Notes for so long as

the issuer of such series of Covered Bonds/Notes advises the Dissemination Agent that such Covered Bonds/Notes are eligible for exception from the requirements of the Rule pursuant to Section 15c2-12(d)(1)(iii) thereof and directs the Dissemination Agent to suspend such filings, which advice and direction shall be in writing delivered to the Dissemination Agent, provided that notice of such suspension is filed promptly by the Dissemination Agent as directed in writing by the Obligated Group Agent to the extent and in the manner that otherwise would be required for Annual Financial Information, Audited Financial Statements, Notice Event notices and such additional information.

Section 2.7. Additional Disclosure Obligations. The Obligated Group Agent acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the Obligated Group Agent and that, under some circumstances, compliance with this Agreement without additional disclosures or other action may not fully discharge all duties and obligations of the Obligated Group Agent under such laws.

Section 2.8. No Previous Non-Compliance. The Obligated Group Agent represents that in the previous five (5) years it has not failed to comply in all material respects with any undertaking in a written contract or agreement specified in paragraph (b)(5)(i) of the Rule.

ARTICLE III.

OPERATING RULES

Section 3.1. Reference to Other Filed Documents. It shall be sufficient for purposes of Section 2.2 hereof if the Obligated Group Agent provides Annual Financial Information by specific reference to documents either (i) available to the public on the MSRB internet website (currently, *www.emma.msrb.org*) or (ii) filed with the SEC. The provisions of this Section shall not apply to notices of Notice Events pursuant to Section 2.4 hereof.

Section 3.2. Submission of Information. Annual Financial Information may be set forth or provided in one document or a set of documents, and at one time or in part from time to time.

Section 3.3. Dissemination Agents. The Dissemination Agent, with the prior written consent of the Obligated Group Agent in each instance, may from time to time designate an agent to act on its behalf in providing or filing notices, documents and information as required of an issuer of Covered Bonds/Notes or the Obligated Group Agent under this Agreement, and revoke or modify any such designation. The Obligated Group Agent may, upon 30 days written notice to the Dissemination Agent, remove the then-current Dissemination Agent and either appoint a new Dissemination Agent or assume for itself the duties of the Dissemination Agent hereunder. The Dissemination Agent may, upon 30 days written notice to the Obligated Group Agent, resign its duties as Dissemination Agent hereunder.

Section 3.4. Transmission of Notices, Documents and Information. (a) Unless otherwise required by the MSRB, all notices, documents and information provided to the MSRB shall be provided to the MSRB's Electronic Municipal Markets Access (EMMA) system, the current Internet Web address of which is *www.emma.msrb.org*.

(b) All notices, documents and information provided to the MSRB shall be provided in an electronic format as prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB.

(c) The Obligated Group Agent hereby agrees, for so long as DAC is the Dissemination Agent, to timely provide all information filed with DAC in a form and style consistent with that otherwise filed with the MSRB for posting on DAC's website (www.dacbond.com).

(d) Notwithstanding any provision in this Agreement to the contrary, in the event that reports or event notices contemplated by this Agreement cannot be directly filed on EMMA with respect to particular Covered Bonds/Notes because such Covered Bonds/Notes are not determined by the MSRB to be eligible municipal securities (for example, taxable securities that are issued directly by an Obligated Group Member), then the reports and event notices contemplated by this Agreement shall be filed on DAC's website rather than on EMMA.

Section 3.5. Fiscal Year. (a) The Obligated Group Agent's current fiscal year ends on December 31, and the Obligated Group Agent shall promptly notify the Dissemination Agent in writing of each change in its fiscal year. The Dissemination Agent shall provide such notice to (i) the MSRB, and (ii) the issuer of each series of Covered Bonds/Notes, in each case within three (3) Business Days after receipt by the Dissemination Agent.

(b) Annual Financial Information shall be provided at least annually notwithstanding any fiscal year longer than 12 calendar months.

ARTICLE IV.

EFFECTIVE DATE, TERMINATION, AMENDMENT AND ENFORCEMENT

Section 4.1. Effective Date, Termination. (a) This Agreement shall be effective immediately upon its execution and delivery.

(b) The Obligated Group Agent's and the Dissemination Agent's obligations under this Agreement shall terminate upon a legal defeasance, prior redemption or payment in full of all of the Covered Bonds/Notes.

(c) If the Obligated Group Agent's obligations under a loan agreement or similar document relating to a series of Covered Bonds/Notes are assumed in full by some other entity, such entity shall be responsible for compliance with this Agreement in the same manner as if it were the Obligated Group Agent, and thereupon the original Obligated Group Agent shall have no further responsibility hereunder.

(d) This Agreement, or any provision hereof, shall be null and void in the event that (1) the Obligated Group Agent delivers to the Dissemination Agent an opinion of Counsel, addressed to the Obligated Group Agent, the issuer of each series of Covered Bonds/Notes and the Dissemination Agent, to the effect that those portions of the Rule which require this Agreement, or such provision, as the case may be, do not or no longer apply to the Covered Bonds/Notes, whether because such portions of the Rule are invalid, have been repealed, or otherwise, as shall be specified in such opinion, and (2) the Dissemination Agent delivers copies of such opinion to (i) the MSRB and (ii) the issuer of each series of Covered Bonds/Notes. The Dissemination Agent shall so deliver such opinion within one (1) Business Day after receipt by the Dissemination Agent.

Section 4.2. Amendment. (a) This Agreement may be amended, by written agreement of the parties, without the consent of the holders of the Covered Bonds/Notes (except to the extent required under clause (4)(a)(ii) below), if all of the following conditions are satisfied: (1) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of the Obligated Group Agent or the type of business conducted thereby, (2) this Agreement as so amended would have complied with the requirements of the Rule as of the date of this Agreement, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, (3) the Obligated Group Agent shall have delivered to the Dissemination Agent an opinion of Counsel, addressed to the Obligated Group Agent, the issuer of each series of Covered Bonds/Notes and the Dissemination Agent, to the same effect as set forth in clause (2) above, (4) either (i) the Obligated Group Agent shall have delivered to the Dissemination Agent an opinion of Counsel or a determination by an entity, in each case unaffiliated with the issuer of each series of Covered Bonds/Notes or the Obligated Group Agent (such as bond counsel or counsel to the Dissemination Agent), addressed to the Obligated Group Agent, the issuers of each series of Covered Bonds/Notes and the Dissemination Agent, to the effect that the amendment does not materially impair the interests of the holders of the Covered Bonds/Notes or (ii) the holders of the Covered Bonds/Notes consent to the amendment to this Agreement pursuant to the same procedures as are required for amendments to the applicable Related Bond Indenture for such Covered Bonds/Notes with consent of holders of Covered Bonds/Notes (pursuant to the provisions of the applicable Related Bond Indenture, as in effect at the time of the amendment), and (5) the Dissemination Agent shall have delivered copies of such opinion(s) and amendment to (i) the MSRB and (ii) the issuers of each series of Covered Bonds/Notes. The Dissemination Agent shall so deliver such opinion(s) and amendment within one (1) Business Day after receipt by the Dissemination Agent.

(b) In addition to subsection (a) above, this Agreement may be amended by written agreement of the parties, without the consent of the holders of the Covered Bonds/Notes, if all of the following conditions are satisfied: (1) an amendment to the Rule is adopted, or a new or modified official interpretation of the Rule is issued, after the effective date of this Agreement which is applicable to this Agreement, (2) the Obligated Group Agent shall have delivered to the Dissemination Agent an opinion of Counsel, addressed to the Obligated Group Agent, the issuers of each series of Covered Bonds/Notes and the Dissemination Agent, to the effect that performance by the Obligated Group Agent and the Dissemination Agent under this Agreement

as so amended will not result in a violation of the Rule and (3) the Dissemination Agent shall have delivered copies of such opinion and amendment to (i) the MSRB and (ii) the issuers of each series of Covered Bonds/Notes. The Dissemination Agent shall so deliver such opinion and amendment within one (1) Business Day after receipt by the Dissemination Agent.

(c) This Agreement may be amended by written agreement of the parties, without the consent of the holders of the Covered Bonds/Notes, if all of the following conditions are satisfied: (1) the Obligated Group Agent shall have delivered to the Dissemination Agent an opinion of Counsel, addressed to the Obligated Group Agent, the issuers of each series of Covered Bonds/Notes and the Dissemination Agent, to the effect that the amendment is permitted by rule, order or other official pronouncement, or is consistent with any interpretive advice or no-action positions of Staff of the SEC, and (2) the Dissemination Agent shall have delivered copies of such opinion and amendment to (i) the MSRB and (ii) the issuers of each series of Covered Bonds/Notes. The Dissemination Agent shall so deliver such opinion and amendment within one (1) Business Day after receipt by the Dissemination Agent.

(d) To the extent any amendment to this Agreement results in a change in the type of financial information or operating data provided pursuant to this Agreement, the first Annual Financial Information provided thereafter shall include a narrative explanation of the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

(e) If an amendment is made pursuant to Section 4.2 (a) hereof to the accounting principles to be followed by the Obligated Group Agent in preparing its financial statements, the Annual Financial Information for the fiscal year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. Such comparison shall include a qualitative and, to the extent reasonably feasible, quantitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information.

Section 4.3. Benefit; Third-Party Beneficiaries; Enforcement. (a) The provisions of this Agreement shall constitute a contract with and inure solely to the benefit of the holders from time to time of the Covered Bonds/Notes, except that (i) beneficial owners of Covered Bonds/Notes shall be third-party beneficiaries of this Agreement and (ii) the issuers of each series of Covered Bonds/Notes shall be deemed to be a third-party beneficiary of this Agreement and shall be entitled to enforce the rights of the Dissemination Agent under this Agreement to the extent the Dissemination Agent shall fail or refuse or shall be unable to take any enforcement action hereunder. The provisions of this Agreement shall create no rights in any Person or entity except as provided in this subsection (a) and in subsection (b) of this Section.

(b) The obligations of the Obligated Group Agent to comply with the provisions of this Agreement shall be enforceable (i) in the case of enforcement of obligations to provide financial statements, financial information, operating data and notices, by any holder of outstanding Covered Bonds/Notes, or by the Dissemination Agent on behalf of the holders of

outstanding Covered Bonds/Notes, or (ii), in the case of challenges to the adequacy of the financial statements, financial information and operating data so provided, by the Dissemination Agent on behalf of the holders of outstanding Covered Bonds/Notes; provided, however, that the Dissemination Agent shall not be required to take any enforcement action except at the written direction of the issuer of a series of Covered Bonds/Notes (but such issuer shall have no obligation to take any such action), or the holders of not less than 25% in aggregate principal amount of the Covered Bonds/Notes at the time outstanding, who shall have provided the Dissemination Agent with adequate security and indemnity. The holders' and Dissemination Agent's rights to enforce the provisions of this Agreement shall be limited solely to a right, by action in mandamus or for specific performance, to compel performance of the Obligated Group Agent's obligations under this Agreement. In consideration of the third-party beneficiary status of beneficial owners of Covered Bonds/Notes pursuant to subsection (a) of this Section, beneficial owners shall be deemed to be holders of Covered Bonds/Notes for purposes of this subsection (b).

(c) Any failure by the Obligated Group Agent or the Dissemination Agent to perform in accordance with this Agreement shall not constitute a default or an Event of Default under any Related Bond Indenture (or applicable loan agreement) or the Master Indenture, and the rights and remedies provided by any Related Bond Indenture (or applicable loan agreement) or the Master Indenture upon the occurrence of a default or an Event of Default shall not apply to any such failure.

(d) This Agreement shall be construed and interpreted in accordance with the laws of the State, and any suits and actions arising out of this Agreement shall be instituted in a court of competent jurisdiction in the State; provided, however, that to the extent this Agreement addresses matters of federal securities laws, including the Rule, this Agreement shall be construed in accordance with such federal securities laws and official interpretations thereof.

ARTICLE V.

CONTINUING DISCLOSURE CERTIFICATES

Section 5.1. Continuing Disclosure Certificates. The Obligated Group Agent shall prepare a Continuing Disclosure Certificate in the form attached hereto as EXHIBIT A in connection with each offering of Related Bonds to confirm that such Related Bonds are Covered Bonds/Notes and shall deliver the same to the Dissemination Agent for dissemination to the Underwriters of such Related Bonds and, upon written request, the issuer of such Related Bonds. Continuing Disclosure Certificates which are prepared pursuant to this Section 5.1 may identify additional types of financial information and operating data, if any, included in the Official Statement for the offering of such Related Bonds which shall be included in the Annual Reports to be prepared subsequent to the issuance of such Related Bonds pursuant to Section 2.2 hereof.

ARTICLE VI.

MISCELLANEOUS

Section 6.1. Counterparts. This Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties have each caused this Agreement to be executed by their duly authorized representatives, all as of the date first above written.

PROVIDENCE HEALTH & SERVICES
–WASHINGTON

By:_____

By:_____

DIGITAL ASSURANCE
CERTIFICATION, L.L.C.,
as Dissemination Agent

By:_____
An Authorized Representative

EXHIBIT A

Form of Continuing Disclosure Certificate

CONTINUING DISCLOSURE CERTIFICATE

The undersigned, as the duly appointed and acting [President and Chief Executive Officer and System Director - Vice President/Treasurer], respectively, of Providence Health & Services – Washington ("PHS-WA"), which is the Obligated Group Agent under (and as defined in) the Master Trust Indenture (Amended and Restated) dated as of May 1, 2003, as supplemented and amended from time to time (the "Master Indenture") by and among the Obligated Group Members (as defined in the Master Indenture) and The Bank of New York Mellon Trust Company, N.A., as successor Master Trustee to Mellon Bank, N.A., as master trustee (the "Master Trustee"), hereby certify on behalf of the Obligated Group Agent pursuant to the Providence St. Joseph Health Master Continuing Disclosure Agreement dated September __, 2016 (the "Master Continuing Disclosure Agreement"), as follows:

(1) Definitions. Capitalized terms used but not defined herein shall have the meanings ascribed thereto in the Master Continuing Disclosure Agreement.

(2) Purpose. The Obligated Group Agent is delivering this Continuing Disclosure Certificate to the Dissemination Agent pursuant to Section 5.1 of the Master Continuing Disclosure Agreement.

(3) Written Undertaking. The Obligated Group Agent hereby designates the Master Continuing Disclosure Agreement to be the written undertaking under paragraph (b)(5) of the Rule entered into by the Obligated Group Agent as an Obligated Person with respect to the [BONDS] (the "_____Bonds"), which _____ Bonds by virtue of such designation constitute Covered Bonds/Notes under the Master Continuing Disclosure Agreement.

(4) [Compliance with Loan Agreement Covenant. The Obligated Group Agent hereby agrees to comply with the covenant regarding continuing disclosure set forth in Section _____ of the Loan Agreement, dated as of _____, 20__.]

(5) Participating Underwriters. The following is the name, address and telephone number of the representative of the Participating Underwriters of the _____ Bonds:

[INSERT UNDERWRITER INFORMATION]

IN WITNESS WHEREOF the undersigned has executed and delivered this Continuing Disclosure Certificate to the Dissemination Agent, which has received the same, all as of the ___ day of _____, 20__.

PROVIDENCE HEALTH & SERVICES – WASHINGTON,
on its own behalf and as Obligated Group Agent

By: _____

By: _____

Acknowledgment of Receipt:
DIGITAL ASSURANCE CERTIFICATION, L.L.C.,
as Dissemination Agent

By:_____
Authorized Officer

(*Signature Page to Continuing Disclosure Certificate - Series _____ Bonds*)

EXHIBIT B

THE BONDS

[*SERIES 2016 BONDS*]

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