Consolidated Financial Statements and Single Audit Reports

Cedars-Sinai Medical Center
Year Ended June 30, 2015
With Report of Independent Auditors

Ernst & Young LLP

Building a better working world

Cedars-Sinai Medical Center

Consolidated Financial Statements and Single Audit Reports

Year Ended June 30, 2015

Contents

Building a better
working world

Ernst & Young LLP
Suite 500
725 South Figueroa Street
Los Angeles, CA 90017-5418

Tel: +1 213 977 3200
Fax: +1 213 977 3729
ey.com

Report of Independent Auditors

Management and the Board of Directors
Cedars-Sinai Medical Center

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Cedars-Sinai Medical Center (the Medical Center), 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 years then ended, and the related notes to the 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of 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 evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Cedars-Sinai Medical Center as of June 30, 2015 and 2014, and the consolidated results of its operations, changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Expenditures of Federal Awards as required by US Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we also have issued our report dated October 22, 2015, on our consideration of the Medical Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Medical Center's internal control over financial reporting and compliance.

Ernst & Young LLP

October 22, 2015

Cedars-Sinai Medical Center

Consolidated Balance Sheets

(Dollar Amounts Expressed in Thousands)

	June 30	
	2015	**2014**
Assets		
Current assets:		
Cash and cash equivalents	**$ 370,147**	$ 309,527
Short-term investments	**835,160**	780,474
Board-designated assets	**667,691**	632,135
Assets limited as to use	**12,345**	12,440
Patient accounts receivable, less allowance for uncollectible accounts of $179,332 in 2015 and $269,713 in 2014	**537,305**	476,571
Inventory	**31,492**	29,770
Prepaid expenses and other assets	**152,298**	96,197
Total current assets	**2,606,438**	2,337,114
Property and equipment, net	**1,775,267**	1,766,785
Investments	**194,403**	181,630
Assets restricted for the acquisition of property and equipment	**8,094**	8,707
Permanently restricted net assets	**282,648**	267,774
Other assets	**345,382**	229,015
Total assets	**$ 5,212,232**	$ 4,791,025

Cedars-Sinai Medical Center

Consolidated Balance Sheets (continued)

(Dollar Amounts Expressed in Thousands)

	June 30	
	2015	**2014**
Liabilities and net assets		
Current liabilities:		
Accounts payable and other accrued liabilities	**$ 297,236**	$ 241,890
Accrued payroll and related liabilities	**268,506**	246,792
Due to third-party payers	**6,280**	3,936
Current maturities of long-term debt	**34,535**	41,260
Total current liabilities	**606,557**	533,878
Long-term debt, less current maturities	**1,010,846**	1,048,570
Accrued workers' compensation and malpractice insurance claims, less current portion	**110,431**	107,506
Other liabilities	**58,287**	49,743
Commitments and contingencies		
Net assets:		
Unrestricted:		
Controlling interests	**2,795,124**	2,503,967
Noncontrolling interests	**35,617**	–
Temporarily restricted	**312,722**	279,587
Permanently restricted	**282,648**	267,774
Total net assets	**3,426,111**	3,051,328
Total liabilities and net assets	**$ 5,212,232**	$ 4,791,025

See accompanying notes.

Cedars-Sinai Medical Center

Consolidated Statements of Operations and Changes in Net Assets

(Dollar Amounts Expressed in Thousands)

	Year Ended June 30	
	2015	**2014**
Unrestricted net assets activity		
Unrestricted revenues, gains, and other support:		
Net patient service revenue	**$ 3,027,778**	$ 2,767,492
Provision for bad debts	**(17,943)**	(184,138)
Net patient service revenue less provision for bad debts	**3,009,835**	2,583,354
Premium revenues	**85,093**	68,474
Other operating revenues	**97,228**	140,970
Investment (loss) income associated with operations	**(341)**	3,731
Net assets released from restrictions	**163,865**	135,466
Total unrestricted revenues, gains, and other support	**3,355,680**	2,931,995
Expenses:		
Salaries and related costs	**1,516,308**	1,416,028
Professional fees	**164,895**	126,295
Materials, supplies, and other	**1,132,083**	909,540
Interest	**41,577**	44,067
Depreciation and amortization	**163,153**	152,405
Total expenses	**3,018,016**	2,648,335
Operating income	**337,664**	283,660
Investment (loss) income associated with future operating and capital needs	**(13,606)**	155,734
Excess of revenues over expenses	**324,058**	439,394
Less: excess of revenues over expenses attributable to noncontrolling interest	**(1,309)**	–
Excess of revenues over expenses attributable to the Medical Center	**$ 322,749**	$ 439,394

Consolidated Statements of Operations and Changes in Net Assets (continued)

(Dollar Amounts Expressed in Thousands)

	Year Ended June 30 2015	2014
Unrestricted net assets activity (continued)		
Unrestricted controlling net assets activity:		
Excess of revenues over expenses attributable to the Medical Center	**$ 322,749**	$ 439,394
Contributions and net assets released from restrictions related to property and equipment	**27,062**	1,251
Change in pension liability	**(58,654)**	(15,828)
Increase in unrestricted net assets attributable to the Medical Center	**291,157**	424,817
Unrestricted noncontrolling net assets activity:		
Change in noncontrolling interests	**34,847**	–
Excess of revenues over expenses attributable to noncontrolling interests	**1,309**	–
Distributions to noncontrolling interests	**(539)**	–
Increase in unrestricted net assets attributable to noncontrolling interests	**35,617**	–
Increase in unrestricted net assets	**326,774**	424,817
Temporarily restricted net assets activity		
Contributions and grants	**185,631**	126,599
Investment income	**13,116**	12,761
Net assets released from restrictions	**(165,612)**	(136,717)
Increase in temporarily restricted net assets	**33,135**	2,643
Permanently restricted net assets activity		
Contributions	**14,874**	16,642
Increase in permanently restricted net assets	**14,874**	16,642
Increase in net assets	**374,783**	444,102
Net assets at beginning of year	**3,051,328**	2,607,226
Net assets at end of year	**$ 3,426,111**	$ 3,051,328

See accompanying notes.

Cedars-Sinai Medical Center

Consolidated Statements of Cash Flows
(Dollar Amounts Expressed in Thousands)

	Year Ended June 30	
	2015	**2014**
Operating activities		
Increase in net assets	**$ 374,783**	$ 444,102
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	**163,153**	149,624
Provision for bad debts	**17,943**	184,138
Noncontrolling interests	**(34,847)**	–
Unrealized losses (gains) on investments	**72,223**	(120,631)
Changes in operating assets and liabilities:		
Patient accounts receivable	**(74,447)**	(215,509)
Inventory, prepaid expenses, and other current assets	**(57,582)**	7,583
Accounts payable and other accrued liabilities	**57,313**	35,893
Due to (from) third-party payers	**2,344**	(13,737)
Accrued payroll and related liabilities	**54,653**	55,880
Net cash provided by operating activities before net purchases of trading investments	**575,536**	527,343
Net purchases of trading investments	**(126,662)**	(333,308)
Net cash provided by operating activities	**448,874**	194,035
Investing activities		
Expenditures for property and equipment	**(170,470)**	(188,388)
Acquisition of property held for future use	**–**	(5,326)
Purchase consideration for acquisitions	**(52,337)**	(15,500)
Increase in other assets	**(36,990)**	(7,000)
Net purchases of alternative investments	**(48,481)**	(2,492)
Decrease (increase) in assets restricted for the acquisition of property and equipment	**613**	(1,043)
Increase in permanently restricted assets	**(14,874)**	(16,642)
Net cash used in investing activities	**(322,539)**	(236,391)
Financing activities		
Principal payments on long-term debt	**(44,449)**	(44,505)
Increase (decrease) in other long-term liabilities	**(21,266)**	11,669
Net cash used in financing activities	**(65,715)**	(32,836)
Increase (decrease) in cash and cash equivalents	**60,620**	(75,192)
Cash and cash equivalents – beginning of year	**309,527**	384,719
Cash and cash equivalents – end of year	**$ 370,147**	$ 309,527

Consolidated Statements of Cash Flows (continued)

(Dollar Amounts Expressed in Thousands)

	Year Ended June 30	
	2015	**2014**
Supplemental cash flow information		
Interest paid	**$ 52,311**	$ 50,888
Issuance of debt in exchange for interest in property	**$ –**	$ 14,000

The Medical Center capitalized property and equipment for approximately $18,329 and $14,382 at June 30, 2015 and 2014, respectively, that had not been paid. The offsetting amount due was recorded in the consolidated balance sheets under accounts payable and other accrued liabilities.

See accompanying notes.

1. Summary of Significant Accounting Policies

Cedars-Sinai Medical Center, a California nonprofit, public benefit corporation (the Medical Center), is tax exempt under the provisions of the Internal Revenue Code and applicable provisions of the Franchise Tax Code of the State of California. The Medical Center owns and operates the hospital, and provides patient care, medical research, health education, and community service.

Cedars-Sinai Medical Care Foundation (the Foundation), a California nonprofit, public benefit corporation that operates, manages and maintains a multispecialty clinic, holds payor contracts and the assets of acquired physician and physician group practices and independent practice associations and contracts for physician services pursuant to professional services agreements. The Foundation is tax exempt under the provisions of the Internal Revenue Code and applicable provisions of the Franchise Tax Code of the state of California. The Medical Center is the sole corporate member of the Foundation.

The consolidated financial statements include the accounts of the Medical Center and its affiliate/subsidiary organizations. Where the Medical Center has a majority voting interest but less than 100% ownership interest, the Medical Center consolidates the subsidiary's results and reflects the noncontrolling interests in the performance indicator. All significant intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States (U.S. 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.

(Dollar Amounts Expressed in Thousands)

1. Summary of Significant Accounting Policies (continued)

Net Patient Service Revenues

The Medical Center has agreements with third-party payers that provide for payments to the Medical Center at amounts different from established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenues are reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers.

The Medical Center 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. Compliance with such laws and regulations can be subject to future governmental review and interpretation, as well as significant regulatory action, including fines, penalties, and exclusion from the Medicare and Medicaid programs. The Medical Center believes it is in compliance with all applicable laws and regulations, and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing that may have a material impact on the consolidated financial statements.

Net patient service revenue is as follows:

	Year Ended June 30	
	2015	**2014**
Medicare	**$ 664,199**	$ 708,868
Medi-Cal	**263,538**	121,581
HMO/PPO	**1,878,510**	1,610,449
Other	**221,531**	326,594
Patient service revenue, net of contractual allowances and discounts	**3,027,778**	2,767,492
Provision for bad debts	**(17,943)**	(184,138)
Patient service revenue, net	**$ 3,009,835**	$ 2,583,354

1. Summary of Significant Accounting Policies (continued)

The administrative procedures related to the cost reimbursement programs in effect generally preclude final determination of amounts due until cost reports are audited or otherwise reviewed and settled upon with the applicable administrative agencies. Estimation differences between final settlements and amounts accrued in previous years are reported as adjustments of the current year's net patient service revenue. In the opinion of management, adequate provision has been made for adjustments, if any, that might result from subsequent review. During the year ended June 30, 2015, the Medical Center experienced an increase in net patient service revenue from commercial insurance payers and a corresponding decrease in net patient service revenue from self-pay payers as a result of the Affordable Care Act. The Medical Center recorded revenues from the California Hospital Fee Program under net patient service revenues from Medi-Cal, as further described below.

During 2015 and 2014, the Medical Center received information requiring changes in its estimates of the settlements due for certain open cost report years. Based on this information, adjustments to the open cost report years increased net patient service revenues and operating income by $685 and $8,284 for the years ended June 30, 2015 and 2014, respectively.

Medi-Cal Fee Program

As part of the American Recovery and Reinvestment Act economic stimulus package passed in 2009, Congress temporarily increased the Federal Medical Assistance Percentage (FMAP) for all states, allowing states to draw down increased federal dollars for hospitals that provide medical care for Medicaid patients. California hospitals organized to pursue this stimulus funding through the California Hospital Fee Program (the "Program"). Passed into law by the California state government and approved by the Centers for Medicare and Medicaid Services in fiscal 2012, the Program provided enhanced revenues related to provision of services to Medicaid patients, offset to a degree by the requirement to pay a fee (known as the Quality Assurance (QA) Fee) based on established rates applied to each hospital's historical patient days. In September 2012, the California state government passed into law a measure that extended this program for 30 months, from July 1, 2011 through December 31, 2013. Under these measures, the QA Fee in aggregate for the state served as the amount that was put up to draw on amounts under the FMAP program. The distribution of the amounts took the form of two components for the Medical Center: an expense related to the QA Fee and revenues related to Medi-Cal business. Total QA Fees (recorded as materials, supplies, and other) incurred by the Medical Center during

1. Summary of Significant Accounting Policies (continued)

fiscal 2015 and 2014 were $10,286 and $23,242, respectively, while revenue from the Program (recorded as net patient service revenues) totaled $3,611 and $26,086 for 2015 and 2014, respectively. In connection with the extended program, the Medical Center applied for a grant from the California Health Foundation & Trust totaling $6,675 related to future shortfalls from the Program during the two and one-half years through December 31, 2013, which was recorded during 2015.

A new 36-month program (the New Program), from January 1, 2014 through December 31, 2016, was approved in December 2014. The Medical Center retroactively recorded the QA Fee and revenues from the New Program for the period from January 1, 2014 through June 30, 2015. Total QA Fees (recorded as materials, supplies, and other) incurred by the Medical Center during 2015 were $147,925, while revenue from the New Program (recorded as net patient service revenues) totaled $155,456 for 2015.

Premium Revenues and Related Costs

The Foundation has agreements with various health maintenance organizations (HMOs) to provide medical services to subscribing participants. Under these agreements, the Foundation receives monthly capitation payments based on the number of each HMO's participants, regardless of services actually performed by the Foundation. Such payments are recorded as premium revenues.

The costs of health services provided by other health care providers to the participants, including administrative costs and out-of-area or emergency services, are included in professional fees, and totaled approximately $37,606 and $34,574 for the years ended June 30, 2015 and 2014, respectively. Such costs are accrued in the period in which the services are provided based in part on estimates, including an accrual for services provided by others, but not reported to the Foundation.

1. Summary of Significant Accounting Policies (continued)

Provision for Uncollectible Accounts

Patient service revenue, net of contractual allowances and discounts, is reduced by the provision for bad debts, and accounts receivable is reduced by an allowance for uncollectible accounts. The Medical Center establishes an allowance for uncollectible accounts based on many factors, including payer mix, age of receivables, historical cash collection experience, and other relevant information. A significant portion of the Medical Center's uninsured patients will be unable or unwilling to pay for services provided, and a significant portion of the Medical Center's insured patients will be unable or unwilling to pay for co-payments and deductibles. Thus, the Medical Center records a significant provision for bad debts related to these insured and uninsured patients in the period the services are provided. The Medical Center writes down the expected reimbursement after reasonable collection efforts have been exhausted.

During the year ended June 30, 2015, the Medical Center recorded a change in estimate related to the prior period, which reduced the provision for bad debts by $42,060. This change in estimate was driven by the fact that collections exceeded the amounts initially anticipated with respect to certain payers including Medi-Cal Managed Care and ACA Healthcare Exchange plans. Further, the Medical Center experienced a decline in the proportion of self-pay payers in 2015 resulting in an additional decline in the provision for bad debts.

Charity Care

The Medical Center provides care to patients who meet certain criteria under its charity care policies. Essentially, these policies define charity services as those services for which the anticipated payment, if any, is less than the cost of providing services. During the year ended June 30, 2015 and 2014, the Medical Center incurred $23,139 and $44,468 in costs to provide charity care, respectively.

Excess of Revenues Over Expenses

The consolidated statements of activities include the excess of revenues over expenses, which is considered the performance indicator. Changes in unrestricted net assets, which are excluded from the excess of revenues over expenses, include contributions of long-lived assets (including assets acquired using contributions which, by donor restrictions, were to be used for the purposes of acquiring such assets) and changes in benefit plan liabilities.

1. Summary of Significant Accounting Policies (continued)

Inventory

Inventory is stated at cost (using the first-in, first-out method), which is not in excess of market value.

Acquisitions

The accounting for acquisitions requires extensive use of estimates and judgments to measure the fair value of the identifiable tangible and intangible assets acquired and liabilities assumed. Additionally, the Medical Center determines whether an acquired entity is considered to be a business or a set of net assets, because the excess of the purchase price over the fair value of net assets acquired can only be recognized as goodwill in a business combination.

The Medical Center routinely enters into purchase agreements with various healthcare providers and entities. During the year ended June 30, 2015, the Medical Center recorded tangible assets (including working capital) of $4,989, non-compete intangible assets of $1,300, goodwill of $80,895, and noncontrolling interests of $34,847 as a result of acquisitions during the year.

Goodwill is evaluated, at a minimum, on an annual basis as of June 30, and whenever events and changes in circumstances suggest that the fair value of a reporting unit is less than its carrying value. At June 30, 2015, the Medical Center performed a qualitative assessment concluding that it is more likely than not that the fair value of the reporting unit containing goodwill exceeds its carrying value as of June 30, 2015. As such, goodwill is not impaired as of June 30, 2015.

At June 30, 2015 and 2014, goodwill, which is included in other assets, totaled $159,805 and $76,474, respectively.

Care of the Poor and Community Benefit (Unaudited)

The Medical Center's mission is to improve the health status of its community, regardless of the patient's ability to pay, including charity patients. The Medical Center provides programs and activities that contribute to charity care, care of the poor, and community benefit. These programs and activities serve a majority of persons who are beneficiaries of Medi-Cal, and county, state, and federal programs for which the costs of providing the services are not fully reimbursed. Also included are activities that improve the community's health status, and educate

(Dollar Amounts Expressed in Thousands)

1. Summary of Significant Accounting Policies (continued)

or provide social services to the elderly and children. The Medical Center's unreimbursed costs for care of the poor and community benefits were approximately 22.3% and 28.1% of total operating expenses for the years ended June 30, 2015 and 2014, respectively. The costs associated with these programs and activities are as follows:

	Year Ended June 30	
	2015	**2014**
Traditional charity care and uninsured patients (Category 1)	**$ 23,139**	$ 44,468
Unpaid cost of state programs (Category 2)	**70,290**	71,573
Unpaid cost of specialty government programs (Category 3)	**–**	5,181
Unpaid cost of federal programs (Category 4)	**294,183**	373,079
Research (Category 5)	**178,156**	145,996
Community benefit (Category 6)	**106,467**	102,638
Total community benefit	**672,235**	742,935
A portion of the above cost was supported by the help of:		
Federal, state, and local grants	**(66,570)**	(47,835)
Charitable giving	**(35,926)**	(33,839)
Community benefit, net of support by others	**$ 569,739**	$ 661,261

The Medical Center uses the following six categories to classify care of the poor and community benefit:

Category 1: Traditional Charity Care and Uninsured Patients – (care of the poor) includes the cost of services provided to persons who cannot afford health care because of inadequate resources and/or who are uninsured or underinsured. If there is any subsidy donated for these services, that amount is deducted from the gross amount.

Category 2: Unpaid Cost of State Programs – also benefits the poor, but is listed separately. This amount represents the unpaid cost of services provided to patients in the Medi-Cal program or enrolled in HMO and Preferred Provider Option (PPO) plans under contract with the Medi-Cal program.

1. Summary of Significant Accounting Policies (continued)

Category 3: Unpaid Costs of Specialty Government Programs – also provides community benefit under such programs as the Veterans Administration, Los Angeles Police Department, Short Doyle, Proposition 99, and other programs to benefit the poor. This amount represents the unpaid cost of services provided to patients in these various programs.

If this community benefit was not provided, federal, state, or local governments would need to furnish these services.

Category 4: Unpaid Cost of Federal Programs – primarily benefits the elderly. This amount represents the unpaid cost of services provided to patients in the Medicare program and enrolled in HMO and PPO plans under contract with the Medicare program. Included in these amounts are $57,092 and $124,396 for the years ended June 30, 2015 and 2014, respectively, of unpaid cost of services provided to patients in the Medicare program who are also in the Medi-Cal program.

Category 5: Research – cost of providing translational and clinical research and studies on health care delivery. During the years ended June 30, 2015 and 2014, the Medical Center received outside support for its research efforts totaling $102,496 and $81,674, respectively. Thus, for the years ended June 30, 2015 and 2014, the net cost incurred by the Medical Center was $75,661 and $64,322, respectively.

Category 6: Community Benefit – cost of services that are beneficial to the broader community, i.e., other needy populations that may not qualify as poor, but that need special services and support. Examples include the elderly, substance abusers, the homeless, victims of child abuse, and persons with AIDS. They also include the cost of health promotion and education, and health clinics and screenings.

Property and Equipment

Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset, and is computed using the straight-line method. Interest costs incurred during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets.

1. Summary of Significant Accounting Policies (continued)

Gifts of long-lived assets such as land, buildings, or equipment that do not contain explicit donor stipulations, which specify how the donated assets must be used, are reported as unrestricted support, and are excluded from excess of revenue over expenses. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

The Medical Center accounts for software development costs in accordance with Accounting Standard Codification (ASC) 350, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*. All costs incurred in the planning stage of developing the software are expensed as incurred, as are internal and external training costs and maintenance costs. External and internal costs, excluding general and administrative costs and overhead costs, incurred during the applicable development stage of internally used software are capitalized. Such costs include external direct costs of materials and services consumed in development or obtaining the software, payroll, and payroll-related costs for employees who are directly associated with and who devote time to developing the software. Development changes that result in appropriate functionality of the software, which enable it to perform tasks that it was previously incapable of performing, are also capitalized.

Capitalized internal-use software development costs are amortized on a straight-line basis over their estimated useful life of three to seven years. Amortization begins when all substantial testing of the software is completed and the software is ready for its intended use.

Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of

The Medical Center accounts for the impairment and disposition of long-lived assets in accordance with ASC 360, *Accounting for the Impairment or Disposal of Long-Lived Assets*. In accordance with ASC 360, long-lived assets to be held are reviewed for events or changes in circumstances that indicate that their carrying value may not be recoverable. The Medical Center determined that no assets are impaired at June 30, 2015.

1. Summary of Significant Accounting Policies (continued)

Board-Designated Assets

Board-designated assets include investments designated by the Medical Center's Board of Directors (Board) for future capital expenditures, physician programs, academic programs, and fund raising. However, the Board retains control of these assets and will, at its discretion, and if necessary, use these assets for operating purposes. As a result, Board-designated assets are included in current assets.

Assets Limited as to Use

Assets limited as to use include assets held by trustees that are restricted under bond indentures for the acquisition of property and equipment and restricted for the payment of self-insurance liabilities. The current portion of assets limited as to use includes amounts that will be used to pay self-insurance classified as current liabilities.

Investments

The Medical Center has designated its investments in equity securities with readily determinable fair values and all investments in debt securities as "trading," in accordance with ASC 954, *Health Care Entities*. Those securities are measured at fair value in the accompanying consolidated balance sheets. Fair value is determined using a market approach based on quoted prices for similar securities in active markets or quoted prices for identical securities in inactive markets. Management determines the appropriate classification of all investments at the date of purchase and reevaluates such designations at each consolidated balance sheet date.

Investment income or loss on temporarily restricted net assets (including realized and unrealized gains and losses on investments, interest, and dividends) is reported as unrestricted net assets activity unless the income or loss is restricted by donor or law.

All of the Medical Center's investments are invested in accordance with Board-approved policies, which include, among other matters, targeted investment returns balanced by diversification of the investment portfolio, establishment of credit risk parameters, and limitation in the amount of investment in any single instrument. As part of its investment policies and strategies, the Medical Center's Investment Committee (the Investment Committee) meets

1. Summary of Significant Accounting Policies (continued)

periodically to review performance. At least annually, the Investment Committee reviews and formulates a specific investment and allocation plan. Any adjustments that are deemed necessary are based on specific criteria, i.e., the Medical Center's necessary funding, obligations, expenses, and liquidity needs.

Alternative Investments

Certain of the Medical Center's investments are made through alternative investments, which include investments in limited partnerships and limited liability companies. The Medical Center generally contracts with fund managers, who have full discretionary authority over investment decisions. The Medical Center accounts for its ownership interests in the partnerships using the equity method of accounting. These investments provide the Medical Center with a proportionate share of the entities' gains and losses, which are included in investment income in the accompanying consolidated statements of operations and changes in net assets. As of June 30, 2015 and 2014, these alternative investments comprised approximately 28% and 29%, respectively, of the Medical Center's total cash, cash equivalents, and investments.

Alternative investments include certain other risks that may not exist with other investments that are more widely traded. These risks include reliance on the skill of the fund managers, who often employ complex strategies with various financial instruments, including futures contracts, foreign currency contracts, structured notes, and other investment vehicles. Additionally, alternative investments may have limited information on a fund's underlying assets and valuation, and limited redemption or redemption-penalty provisions. Management believes that the Medical Center, in consultation with its Investment Committee, has the capacity to analyze and interpret the risks associated with alternative investments and, with this understanding, has determined that investing in these investments creates a balanced approach to its portfolio management.

Deferred Financing Costs

Costs incurred in obtaining long-term financing are amortized over the term of the related debt using the effective interest method. Unamortized deferred financing costs were $6,788 and $7,373 at June 30, 2015 and 2014, respectively, and are included in other assets.

1. Summary of Significant Accounting Policies (continued)

Medical Malpractice Insurance

The Medical Center is self-insured for the first $3,000 in professional malpractice and general liability losses per occurrence effective October 1, 2005, and was self-insured for the first $2,000 effective October 1, 2004, and $1,000 for prior periods. The Medical Center purchases excess insurance coverage resulting in total coverage of $200,000 per occurrence, insuring all employees, volunteers, and members of the medical faculty. Effective for the year beginning October 1, 2005, the insurance purchased was excess over an attachment point of $1,000 for each and every claim and another $2,000 per claim with a $10,000 annual aggregate. Effective October 1, 2013, the aggregate was raised to $15,000. The Medical Center had no aggregate limit for the three years beginning October 1, 2002. Accruals for insured, uninsured claims and claims incurred but not reported are estimated by an actuary based on the Medical Center's claims experience. Such accruals, which totaled $55,467 and $58,075 at June 30, 2015 and 2014, respectively, are recorded using a 1.6% discount factor at June 30, 2015 and 2014, respectively. The basis for the rate is the risk-free rate of return at the end of each year and the estimated period over which claims will be settled. The accruals represent the total actuarially determined loss without reduction for the portion that is expected to be recoverable through insurance ($9,635 and $15,398 at June 30, 2015 and 2014, respectively). The expected amounts to be recovered through insurance are included in other assets in the accompanying consolidated balance sheets.

Workers' Compensation Insurance

The Medical Center carries workers' compensation insurance insuring employees with a self-insured primary limit of $1,000 effective February 1, 2005, and decreasing amounts in earlier years. Accruals for insured, uninsured claims and claims incurred but not reported are estimated by an actuary based upon the Medical Center's claims experience. Such accruals, which totaled $84,332 and $76,048 at June 30, 2015 and 2014, respectively, are recorded using a 2.1% discount factor at June 30, 2015 and 2014, respectively. The basis of the rate is the risk-free rate of return at the end of each year and the estimated period over which claims will be settled. The accruals represent the total actuarially determined loss without reduction for the portion that is expected to be recoverable through insurance ($15,336 and $13,919 at June 30, 2015 and 2014, respectively). The expected amounts to be recovered through insurance are included in other assets in the accompanying consolidated balance sheets.

1. Summary of Significant Accounting Policies (continued)

Cash Equivalents

The Medical Center considers all highly liquid debt instruments with original maturity dates at the time of purchase of three months or less to be cash equivalents.

Donor-Restricted Gifts

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Conditional promises to give cash and indications of intentions to give are not recognized until the conditions are satisfied or removed. 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 purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted contributions in the accompanying consolidated financial statements.

Fair Value of Financial Instruments

The Medical Center's consolidated balance sheets include the following financial instruments: cash and cash equivalents, investments, patient accounts receivable, accounts payable and other accrued liabilities, pension liabilities, and long-term obligations. The Medical Center considers the carrying amounts of current assets and liabilities in the consolidated balance sheets to approximate the fair value of these financial instruments because of the relatively short period of time between origination of the instruments and their expected realization. Pledges receivable, accrued workers' compensation, malpractice insurance claims, and pension liabilities are recorded at their estimated present value using appropriate discount rates. Marketable securities are recorded at fair value based on quoted prices from recognized security exchanges and other methods, as further described in Note 5. Alternative investments are recorded using the equity method of accounting, which approximates fair value. Tax-exempt financings are carried at amortized cost. The fair value of tax-exempt financings is estimated based on current market rates, as further described in Note 3.

1. Summary of Significant Accounting Policies (continued)

Income Taxes

The Medical Center and its related affiliates have been determined to qualify as exempt from federal and state income taxes under Section 501(a) as organizations described in Section 501(c)(3) of the Internal Revenue Code.

Most of the income received by the Medical Center is exempt from taxation, as income related to the mission of the organization. Accordingly, there is no material provision for income taxes for these entities. However, some of the income received by the exempt entities is subject to taxation as unrelated business income. The Medical Center and its subsidiaries file federal and state income tax returns.

The Medical Center completed an analysis of its tax positions, in accordance with ASC 740, *Income Taxes*, and determined that there are no uncertain tax positions taken or expected to be taken. The Medical Center has recognized no interest or penalties related to uncertain tax positions. The Medical Center is subject to routine audits by the taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Medical Center believes it is no longer subject to income tax examinations for years prior to 2011.

Concentrations of Credit Risk

Financial instruments, which potentially subject the Medical Center to concentrations of credit risk, consist primarily of investments and accounts receivable. Investments are made in a variety of financial instruments with prudent diversification requirements. The Medical Center seeks diversification among its investments by limiting the amount of investments that can be made with any one obligor. The investment portfolio is managed by professional investment managers within the guidelines established by the Board, which, as a matter of policy, limit the amounts that may be invested in any one issuer.

(Dollar Amounts Expressed in Thousands)

1. Summary of Significant Accounting Policies (continued)

The Medical Center grants credit without collateral to its patients, most of whom are area residents and are insured under third-party agreements. The mix of net receivables from patients and third-party payers is as follows:

	June 30	
	2015	**2014**
Medicare	**13%**	14%
Medi-Cal	**4**	3
Other third-party payers	**81**	79
Self-pay and other	**2**	4
	100%	100%

Recent Accounting Pronouncements

In May 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update (ASU) 2015-07, *Fair Value Measurement*, which removes 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 and limits the disclosure requirement. ASU 2015-07 is effective for annual and interim periods beginning after December 15, 2015. The Medical Center is currently evaluating the effect of this standard to the consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, *Interest – Imputation of Interest*, which requires that debt issuance costs be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. ASU 2015-03 is effective for fiscal years beginning after December 15, 2015, and is to be applied on a retrospective basis. The Medical Center is currently evaluating the effect of this standard to the consolidated financial statements.

In May 2014 the FASB issued ASU No. 2014-09, *"Revenue from Contracts with Customers (Topic 606),"* and in August 2015 the FASB issued ASU 2015-14, *"Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date,"* which defers the effective date of ASU 2014-09 by one year. ASU 2014-09 requires the entity to recognize revenue for the transfer of goods or services equal to the amount that it expects to be entitled to receive for those goods or services, effective for periods beginning after December 15, 2017. The Medical Center is currently evaluating the effect of this standard to the consolidated financial statements.

(Dollar Amounts Expressed in Thousands)

2. Property and Equipment

Property and equipment consist of the following:

	June 30 2015	June 30 2014
Land	**$ 56,522**	$ 56,522
Buildings and land improvements	**1,923,871**	1,838,934
Equipment	**362,090**	322,890
Software and software implementation costs	**483,856**	412,678
	2,826,339	2,631,024
Less accumulated depreciation and amortization	**1,233,437**	1,070,810
	1,592,902	1,560,214
Construction in progress	**182,365**	206,571
	$ 1,775,267	$ 1,766,785

Depreciation and amortization expense on property, plant, and equipment was $162,427 and $152,077 for the years ended June 30, 2015 and 2014, respectively.

Construction in progress consists of the following:

	June 30 2015	June 30 2014
Buildings and land improvements	**$ 109,016**	$ 114,079
Equipment	**1,670**	5,844
Software and software implementation costs	**64,278**	77,741
Capitalized interest	**7,401**	8,907
	$ 182,365	$ 206,571

If each project included in construction in progress were placed in service at June 30, 2015, at the costs capitalized at that date, the Medical Center's annual depreciation would increase by approximately $15,039 (unaudited). This estimate of incremental annual depreciation is subject to change as additional costs are incurred to complete these projects. The Medical Center estimates that it will cost approximately $110,482 (unaudited) to complete the projects currently under construction.

(Dollar Amounts Expressed in Thousands)

2. Property and Equipment (continued)

Software and software implementation costs include the following:

	2015	2014
Cost including CIP	**$ 549,598**	$ 492,664
Less accumulated amortization	**287,893**	226,633
	$ 261,704	$ 266,031
Amortization expense during the year	**$ 61,260**	$ 55,283
Weighted-average life in years	**6.7**	6.8

Estimated future amortization expense:	
2016	$ 71,000
2017	57,195
2018	45,329
2019	36,008
2020	23,708
Thereafter	28,464
	$ 261,704

Software and software implementation costs include the cost of completed projects and the cost and capitalized interest related to projects in the process of implementation. Estimated future amortization includes the amortization of projects in the process of implementation, assuming the cost at June 30, 2015, is the cost of the completed project.

During fiscal 2006, the Medical Center completed the construction of a new patient care tower. The Federal Emergency Management Agency (FEMA) provided a grant to enhance the earthquake resistance of the patient care tower. These funds were restricted for the purpose of repairing or reconstructing certain acute care hospital facilities under the Seismic Hazard Mitigation Program for Hospitals (SHMPH) and were subject to certain other conditions which expired in January 2015. As a result of the expiration of the conditions associated with these funds, the Medical Center recorded $25,314 as contributions and net assets released from restriction related to property and equipment in the consolidated statement of operations and changes in net assets in fiscal 2015.

(Dollar Amounts Expressed in Thousands)

3. Long-Term Debt

Long-term debt issued and outstanding as of the following:

	June 30 2015	June 30 2014
$518,820 Revenue Bonds, Series 2005; principal payments of $8,525 to $42,270 are due annually through 2035; interest is payable semiannually at 5.0%; the amount reported includes unamortized premiums of $10,314 and $11,175 at June 30, 2015 and 2014, respectively	**469,779**	479,680
$535,000 Revenue Bonds, Series 2009; principal payments of $1,045 to $68,860 are due annually through 2039; interest is payable semiannually at 3.5% to 5%; the amount reported includes unamortized premiums of $4,563 and $4,801 at June 30, 2015 and 2014, respectively	**$ 439,563**	$ 461,576
$148,400 Revenue Bonds, Series 2011; principal payments of $9,845 to $18,900 are due annually through 2021; interest is payable semiannually at 3.0% to 5.0%; the amount reported includes unamortized premiums of $6,969 and $9,059 at June 30, 2015 and 2014, respectively	**122,639**	134,574
Other notes payable, secured by deeds of trust	**13,400**	14,000
	1,045,381	1,089,830
Less current maturities	**34,535**	41,260
	$ 1,010,846	$ 1,048,570

The fair value of the tax-exempt financings, determined using Level 2 inputs (refer to Note 4 for description) primarily related to comparable market prices, was estimated to be $1,075,575 and $1,115,995 at June 30, 2015 and 2014, respectively.

Revenue of the Medical Center (excluding all other related organizations) is pledged to secure the payment of the principal and interest on all bonds and certificates under a Master Trust.

(Dollar Amounts Expressed in Thousands)

3. Long-Term Debt (continued)

Indenture (Indenture). The Indenture contains covenants restricting additional debt and providing for the maintenance of certain financial ratios. The Medical Center was in compliance with these covenants at June 30, 2015. In December 2012, the Medical Center entered into a $50,000 credit agreement (the "Agreement") with a bank that will expire in February 2018. The Medical Center may borrow under the Agreement with interest charged at either the London Interbank Offered Rate (LIBOR) plus an applicable margin of 0.5% based on the Medical Center's Moody's rating (currently AI), or at the greater of the bank's fluctuating prime rate minus 1.5%, or I%. At June 30, 2015, the three-month LIBOR rate was 0.28% and the bank's prime rate was 3.25%. The Medical Center also pays a 0.125% annual commitment fee on the unused credit line. The Agreement is secured on a parity basis under the Bond Indenture with the Tax-Exempt financings of the Medical Center. No amounts have been borrowed under the Agreement.

In April 2014, the Medical Center purchased a partial interest in adjacent property from two sellers for $19,000 and issued two notes totaling $14,000. Both notes bear interest at 6%; one $3,000 note requires annual principal payments of $600, and the other $11,000 note is interest only through 2023; after that, the interest rate reduces to 5%, and the note is payable at the Medical Center's discretion with a final due date in 2033.

In November 2013, the Medical Center entered into a second $50,000 credit agreement with another bank that will expire in November 2018. The terms are substantially similar to the agreement described above except the commitment fee on the unused credit line is as of June 30, 2014, 0.10% and the applicable Margin is 0.7% based on the Medical Center's maintaining its Moody's rating. No amounts have been borrowed under this agreement.

The combined aggregate amount of maturities and sinking fund requirements (excluding the unamortized premium of $21,846 at June 30, 2015) for the five fiscal years succeeding June 30, 2015, and thereafter, is as follows:

2016	$ 34,535
2017	36,230
2018	38,015
2019	39,930
2020	41,305
Thereafter	833,520
	$ 1,023,535

3. Long-Term Debt (continued)

For the years ended June 30, 2015 and 2014, interest costs incurred totaled $49,120 and $50,332, respectively, of which $7,543 and $6,265, respectively, were capitalized as part of the cost of construction in progress.

4. Retirement Plans

During 1990, the Board authorized the suspension of the Medical Center's noncontributory, defined benefit plan, which covered substantially all eligible employees (the Suspended Employee Plan). Benefit accruals under the Suspended Employee Plan were suspended effective December 31, 1990. Effective July 1, 2003, the Medical Center began offering a defined benefit plan to its employees. Rather than design a new plan, the Medical Center amended the Suspended Employee Plan (the Defined Benefit Plan) to capture the new defined benefit activity.

During 1991, the Medical Center implemented a defined contribution plan (the Defined Contribution Plan) covering substantially all employees covered under the Suspended Employee Plan. Contributions under the Defined Contribution Plan are calculated based on each employee's salary and totaled $61,704 and $55,544 for the years ended June 30, 2015 and 2014, respectively. Employees have the choice of participation in either the Defined Benefit Plan or the Defined Contribution Plan and can change the selection once during their employment.

In addition, certain key employees of the Medical Center are covered by separate defined contribution and defined benefit retirement plans, which are not governed by the Employee Retirement Income Security Act of 1974. Contributions under these plans are calculated based on each key employee's salary and totaled $17,603 and $16,430 for the years ended June 30, 2015 and 2014, respectively.

(Dollar Amounts Expressed in Thousands)

4. Retirement Plans (continued)

The following tables present information related to changes in projected benefit obligations, plan assets and their composition, funded status, the accumulated benefit obligation, and net periodic pension cost for all defined benefit plans at June 30, 2015 and 2014, and for the years then ended. The Medical Center has established a policy to fully fund its Defined Benefit Plan. Pursuant to this policy, the Medical Center contributed $43,719 to its Defined Benefit Plan in September 2015.

	Year Ended June 30	
	2015	**2014**
Change in projected benefit obligations:		
Projected benefit obligations at beginning of year	**$ 376,013**	$ 312,940
Service cost	**21,708**	18,704
Interest cost	**15,833**	15,319
Actuarial losses	**52,309**	37,266
Benefits paid	**(21,404)**	(8,216)
Settlement	**(5,509)**	–
Projected benefit obligations at end of year	**438,949**	376,013
Change in plan assets:		
Fair value of plan assets at beginning of year	**356,677**	332,276
Actual gain on plan assets	**5,655**	33,523
Employer contributions	**52,900**	–
Benefits paid	**(21,404)**	(8,216)
Expenses paid	**(1,920)**	(906)
Settlement	**(5,509)**	–
Fair value of plan assets at end of year	**386,399**	356,677
Funded status	**$ (52,550)**	$ (19,336)

(Dollar Amounts Expressed in Thousands)

4. Retirement Plans (continued)

	June 30 2015	June 30 2014
Composition of plan assets:		
Short-term money market funds	**7%**	2%
Government and corporate debt	**4**	9
Equity securities	**5**	7
Mutual funds	**84**	75
Alternative investments	**–**	7
	100%	100%

	June 30 2015	June 30 2014
Amounts recognized as other assets in the consolidated balance sheets	**$ –**	$ 2,092
Amounts recognized as other liabilities in the consolidated balance sheets	**$ 52,550**	$ 21,428
Unrecognized losses as a component of net periodic pension costs	**$ 161,691**	$ 103,038
Accumulated benefit obligations	**$ 386,399**	$ 355,703

	Year Ended June 30 2015	Year Ended June 30 2014
Net periodic benefit cost recognized:		
Service cost	**$ 21,708**	$ 18,704
Interest cost	**15,833**	15,319
Expected return on plan assets	**(22,005)**	(20,373)
Amortization of net loss	**9,872**	9,194
Amortization of prior service costs	**269**	–
Net periodic benefit cost	**$ 25,677**	$ 22,844

(Dollar Amounts Expressed in Thousands)

4. Retirement Plans (continued)

	June 30	
	2015	**2014**
Weighted-average assumptions used to determine benefit obligations consist of the following:		
Discount rate used to determine service cost	**4.3%**	5.0%
Discount rate used to determine projected benefit obligation	**4.6**	4.3
Expected long-term rate of return on plan assets	**6.1**	6.4
Rate of increase in future compensation levels	**4.0**	4.0

The expected rate of return on plan assets is updated annually, taking into consideration the plan's asset allocation, historical returns on the types of assets held in the trusts, and the current economic environment.

Amounts included in unrestricted net assets that have not been recognized in net periodic pension cost:

	June 30	
	2015	**2014**
Unrecognized prior service costs	**$ 1,957**	$ 2,227
Unrecognized prior loss	**159,734**	100,810
	$ 161,691	$ 103,037

The unrecognized prior losses and unamortized prior service costs expected to be recognized over the next fiscal year are $16,944 and $9,872 at June 30, 2015 and 2014, respectively.

Plan Assets

Approximately 85% of plan assets relate to long-term investment activities covering the Medical Center's general employee population. The other 15% of the assets relates to a special plan for highly compensated employees closer to retirement age. The combined target allocation is approximately 50% equities, 40% fixed income, and 10% short-term instruments, with no allocation to alternative investments. All investments are highly liquid investments.

4. Retirement Plans (continued)

The Medical Center uses a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- Level 1 – Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

- Level 2 – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instruments. This includes model-derived valuations whose significant inputs are observable.

- Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Fair values are based on one or more of three valuation techniques. The valuation techniques are 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).

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The following table presents the financial instruments in the Medical Center's defined benefit plans carried at fair value as of June 30, 2015, by valuation hierarchy.

(Dollar Amounts Expressed in Thousands)

4. Retirement Plans (continued)

		Level 1		Level 2		Total	Valuation Technique (a, b, c)
Cash	**$**	**27,115**	**$**	**–**	**$**	**27,115**	**a**
Equities		**17,877**		**–**		**17,877**	**a**
U.S. Treasury securities		**12,497**		**–**		**12,497**	**a**
Mortgage-backed securities		**–**		**4,691**		**4,691**	**a**
Mutual funds[1]		**324,219**		**–**		**324,219**	**a**
	$	**381,708**	**$**	**4,691**	**$**	**386,399**	

[1] 40% of mutual funds invest in bonds and 60% invest in global equities.

The following table presents the financial instruments in the Medical Center's defined benefit plans, carried at fair value as of June 30, 2014, by valuation hierarchy.

		Level 1		Level 2		Total	Valuation Technique (a, b, c)
Cash	$	5,009	$	–	$	5,009	a
Equities		25,707		–		25,707	a
U.S. Treasury securities		26,936		–		26,936	a
Mortgage-backed securities		–		5,070		5,070	a
Mutual funds[1]		268,398		–		268,398	a
Alternative investments[2]		–		25,557		25,557	a
	$	326,050	$	30,627	$	356,677	

[1] 41% of mutual funds invest in bonds, 33% invest in global equities, and the remaining 26% invest globally in a diverse range of equities, bonds, and commodities.

[2] Alternative investments are accounted for using net asset value, which approximates the fair value. The investments are redeemable monthly with 10 to 15 days' notice.

4. Retirement Plans (continued)

Plan Investment Strategy

The Medical Center's investment policy generally reflects the long-term nature of the pension plan's funding obligations. Assets are invested to achieve a rate of return consistent with policy allocation targets, which significantly contributes to meeting the current and future obligations of the plan, and strives to help ensure solvency of the plan over time. This objective is to be achieved through a well-diversified asset portfolio and emphasis on long-term capital appreciation as a primary source of return. The plan utilizes a multi-manager structure of complementary investment styles and classes. Manager qualitative performance is continually evaluated, while a manager's investment performance is judged over an investment market cycle of at least three years.

Plan assets are exposed to risk and fluctuations in market value from year to year. To minimize risk, each manager maintains a diversification of their portfolio to insulate the portfolio from substantial losses in any single security or sector of the market. The asset allocation is reviewed for deviations in the allowable range for each asset class, and rebalancing is implemented as necessary.

The long-term rate of return of the plan investment allocation is designed to be commensurate with a conservatively managed balance allocation. Fixed-income securities consist of investment-grade bonds.

Each investment type is managed by an asset manager specializing in various security types. The investment objective of the Plan over a three- to five-year period is to produce a rate of return that equals or exceeds the appropriate bond index, S&P 500 stock index, or other appropriate international equity index.

As part of investment policies and strategies, the plans' Investment Committee meets periodically to review performance. At least annually, the Investment Committee reviews and formulates the specific investment and allocation plan. Any adjustments that are deemed necessary are based on specific criteria, i.e., necessary plan funding, plan obligations, plan expenses, and plan liquidity needs.

(Dollar Amounts Expressed in Thousands)

4. Retirement Plans (continued)

Plan Cash Flows

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

2016	$ 15,936
2017	17,842
2018	19,306
2019	21,639
2020	24,379
2021 through 2024	149,020

5. Investments

Investments, combined with cash and cash equivalents and pledges receivable, are classified as follows for presentation in the accompanying consolidated balance sheets:

	Cash, Cash Equivalents, and Investments	**Pledges and Other**	**Total**
June 30, 2015:			
Cash and cash equivalents	**$ 370,147**	**$ –**	**$ 370,147**
Short-term investments	**835,160**	**–**	**835,160**
Board-designated assets	**667,691**	**–**	**667,691**
Assets limited to use	**12,345**	**–**	**12,345**
Long-term investments	**194,403**	**–**	**194,403**
Assets restricted for the acquisition of property and equipment	**1,040**	**7,054**	**8,094**
Permanently restricted assets	**236,389**	**46,259**	**282,648**
	$ 2,317,175	**$ 53,313**	**$ 2,370,488**

(Dollar Amounts Expressed in Thousands)

5. Investments (continued)

	Cash, Cash Equivalents, and Investments	Pledges and Other	Total
June 30, 2014:			
Cash and cash equivalents	$ 309,527	$ –	$ 309,527
Short-term investments	780,474	–	780,474
Board-designated assets	632,135	–	632,135
Assets limited to use	12,440	–	12,440
Long-term investments	181,630	–	181,630
Assets restricted for the acquisition of property and equipment	400	8,307	8,707
Permanently restricted assets	223,954	43,820	267,774
	$ 2,140,560	$ 52,127	$ 2,192,687

Assets limited to use include the following:

	June 30	
	2015	**2014**
Restricted for payment of certain self-insurance liabilities	**$ 12,345**	$ 12,440

Investment loss or income on cash and cash equivalents, investments, and assets limited as to use consists of the following:

	June 30	
	2015	**2014**
Interest and dividend income	**$ 62,479**	$ 37,422
Realized (loss) gains	**(806)**	1,412
Unrealized (loss) gains, net	**(72,224)**	120,631
Investment (loss) income included in the consolidated statements of operations and changes in net assets as unrestricted net assets	**$ (10,551)**	$ 159,465

(Dollar Amounts Expressed in Thousands)

5. Investments (continued)

Investment loss and income on workers' compensation trust funds and medical malpractice funds totaled $343 and $3,695 for the years ended June 30, 2015 and 2014, respectively.

The following tables present the financial instruments carried at fair value as of June 30, 2015 and 2014, by valuation hierarchy as defined in Note 4. Alternative investments (Note 1) are accounted for using the equity method of accounting, which is not a fair value measurement. There were no significant transfers between Levels 1, 2, and 3 during the years ended June 30, 2015 and 2014. See Note 4 for a description of the valuation techniques.

	Level 1	Level 2	Level 3	Fair Value	Equity Method	Carrying Value	Valuation Technique (a, b, c)
June 30, 2015:							
Equities	**$ 223,547**	**$ –**	**$ –**	**$ 223,547**	**$ –**	**$ 223,547**	**a**
U.S. government debt	**34,881**	**–**	**–**	**34,881**	**–**	**34,881**	**a**
Corporate debt (domestic)	**–**	**637,621**	**–**	**637,621**	**–**	**637,621**	**a**
Foreign government debt	**–**	**17,608**	**–**	**17,608**	**–**	**17,608**	**a**
Alternative investments (*)	**–**	**–**	**–**	**–**	**641,852**	**641,852**	
Mutual funds and other	**391,519**	**–**	**–**	**391,519**	**–**	**391,519**	**a**
	$ 649,947	**$ 655,229**	**$ –**	**$ 1,305,176**	**$ 641,852**	**$ 1,947,028**	

	Level 1	Level 2	Level 3	Fair Value	Equity Method	Carrying Value	Valuation Technique (a, b, c)
June 30, 2014:							
Equities	$ 181,589	$ –	$ –	$ 181,589	$ –	$ 181,589	a
U.S. government debt	45,021	–	–	45,021	–	45,021	a
Corporate debt (domestic)	–	563,775	–	563,775	–	563,775	a
Foreign government debt	–	17,588	–	17,588	–	17,588	a
Alternative investments (*)	–	–	–	–	616,832	616,832	
Mutual funds and other	406,228	–	–	406,228	–	406,228	a
	$ 632,838	$ 581,363	$ –	$ 1,214,201	$ 616,832	$ 1,831,033	

(*) Alternative investments are accounted for using net asset value, which approximates the fair value. The investments are redeemable monthly, quarterly, semiannually, annually, or at the end of the term.

The Medical Center received restricted and unrestricted pledges and contributions amounting to $83,833 and $60,421 for the years ended June 30, 2015 and 2014, respectively, that were subject to fair value measurement. Contributions were measured based on the actual cash received or, for pledge receivables, using discounted cash flow projections. Approximately $9,299 of the contributions received in fiscal 2015 was recorded as a pledge receivable as of June 30, 2015.

(Dollar Amounts Expressed in Thousands)

6. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	June 30	
	2015	**2014**
Health care services	**$ 210,353**	$ 207,735
Purchase of capital assets	**8,094**	8,707
Health education and research	**94,275**	63,145
	$ 312,722	$ 279,587

During the years ended June 30, 2015 and 2014, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes of health care services and health education totaling $163,865 and $135,466, respectively, and capital expenditures and contributions totaling $27,062 and $1,251, respectively.

Permanently restricted assets and net assets at June 30, 2015 and 2014, are restricted to investments that are to be held in perpetuity to provide a permanent source of income.

Pledges are recognized as contributions at the present value of expected future payments. The discount rate used is the estimated risk-free discount rate at the time of the donation (1.08% to 7.18%). Pledges receivable in temporarily and permanently restricted net assets are scheduled to be received as follows:

	June 30	
	2015	**2014**
Due in one year or less	**$ 31,973**	$ 32,539
Due after one year through five years	**71,115**	61,213
Due after five years	**57,054**	57,394
	160,142	151,146
Less amount representing interest	**18,694**	18,997
Pledges receivable, net	**$ 141,448**	$ 132,149

(Dollar Amounts Expressed in Thousands)

6. Temporarily and Permanently Restricted Net Assets (continued)

Of the $141,448 and $132,149 pledges receivable at June 30, 2015 and 2014, respectively, $46,513 and $52,127, respectively, have been reflected in assets restricted for the acquisition of property and equipment and permanently restricted net assets in the accompanying consolidated balance sheets (Note 5). The remainder is included in other assets and prepaid expenses and other assets.

During the years ended June 30, 2015 and 2014, the Medical Center had the following endowment-related activities:

	Permanently Restricted	Unrestricted	Total
Year ended June 30, 2015:			
Endowment net assets, beginning of year	**$ 267,774**	**$ 336,627**	**$ 604,401**
Contributions	**14,874**	**40,232**	**55,106**
Investment income	**2,022**	**3,963**	**5,985**
Transfers of investment income to unrestricted funds	**(2,022)**	**(2,062)**	**(4,084)**
Endowment net assets, end of year	**$ 282,648**	**$ 378,760**	**$ 661,408**

	Permanently Restricted	Unrestricted	Total
Year ended June 30, 2014:			
Endowment net assets, beginning of year	$ 251,132	$ 262,292	$ 513,424
Contributions	16,642	40,695	57,337
Investment income	2,126	35,592	37,718
Transfers of investment income to unrestricted funds	(2,126)	(1,952)	(4,078)
Endowment net assets, end of year	$ 267,774	$ 336,627	$ 604,401

The Medical Center's endowment consists of 211 individual funds for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board to function as endowments. As required by U.S. Generally Accepted Accounting Principles (U.S. GAAP), net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

6. Temporarily and Permanently Restricted Net Assets (continued)

The Medical Center's Board has interpreted the Uniform Prudent Management of Institutional Funds Act as requiring the preservation of the corpus of the various donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Medical Center classifies as permanently restricted net assets (a) the original value of gifts donated, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The Medical Center has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity, as well as Board-designated funds. Under this policy, as approved by the Board, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield of market benchmarks. Actual returns in any given year may vary from this goal.

To satisfy the long-term rate of return objectives, the Medical Center relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Medical Center targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term objectives within prudent constraints.

7. Commitments and Contingencies

Pending claims and legal proceedings at June 30, 2015, are set forth below. For all matters where a loss is probable and reasonably estimable, an estimate of the loss or a range of loss is provided. Where no estimate is provided, a loss is not probable or an amount of loss is not reasonably estimable at this time.

Litigation – Employment Practices (Class Action). On June 27, 2012, plaintiffs filed a purported class action complaint against the Medical Center alleging a series of damages related to alleged misclassification of employees in the Medical Center's Enterprise Information Services Department (EIS).

7. Commitments and Contingencies (continued)

The complaint, as subsequently amended, charges failure of EIS to pay overtime wages; failure to provide meal periods or compensation in lieu thereof; failure to provide rest periods or compensation in lieu thereof; failure to timely pay wages at separation; failure to provide accurate itemized wage statements; unfair business practices; and violation of the Private Attorney General Act. The allegations are related to the implementation of a software system impacting physician orders.

Pending court approval, this case has been settled for an immaterial amount. The settlement would address all potential members of the class.

Litigation – Employment Practices (Class Action). On September 25, 2012, the plaintiff filed a purported "class action" complaint against the Medical Center and the Foundation. The complaint charges failure to pay overtime wages; failure to pay minimum wages; failure to provide meal periods or compensation in lieu thereof; failure to provide rest periods or compensation in lieu thereof; failure to timely pay wages at separation; failure to provide accurate itemized wage statements; and unfair business practices.

The case has been assigned to the "complex" division of the Superior Court. Outside counsel has been retained and the Medical Center is vigorously defending the class act function and other allegations.

Other. In addition to the above, the Medical Center is a defendant in various other legal actions arising from the normal conduct of business. Management believes that the ultimate resolution of all proceedings will not have a material adverse effect upon the consolidated financial position, results of operations, or cash flows of the Medical Center. Further, new claims or inquiries may be initiated against the Medical Center from time to time. These matters could (1) require the Medical Center to pay substantial damages or amounts in judgments or settlements, which individually or in the aggregate could exceed amounts, if any, that may be recovered under the insurance policies where coverage applies and is available; (2) cause the Medical Center to incur substantial expenses; and (3) require significant time and attention from management.

(Dollar Amounts Expressed in Thousands)

7. Commitments and Contingencies (continued)

The Medical Center cannot predict the results of current or future claims and lawsuits. The Medical Center recognizes that, where appropriate, the Medical Center's interests may be best served by resolving certain matters without litigation. If a non-litigated resolution is not appropriate or possible with respect to a particular matter, the Medical Center will defend itself vigorously. The ultimate resolution of claims against the Medical Center, individually or in the aggregate, could have a material adverse effect on the Medical Center's business (both in the near and long term), consolidated financial condition, results of operations, or cash flows.

The Medical Center leases certain office space under the terms of noncancelable operating leases, whose terms vary in length from month to month to 15 years, with renewal options upon prior written notice, typically for 5 years depending upon the agreed-upon terms with the local landlord. Rents under our lease amounts generally increase from 2% to 5% on an annual basis. Future minimum lease commitments under noncancelable operating leases are as follows:

2016	$ 55,772
2017	51,902
2018	44,994
2019	40,327
2020	35,936
Thereafter	154,123
	$ 383,054

Rental expense was $65,208 and $57,002 during the years ended June 30, 2015 and 2014, respectively.

(Dollar Amounts Expressed in Thousands)

8. Functional Expenses

The Medical Center provides general health care services to residents within its geographic location. Expenses related to providing these services are as follows:

	Year Ended June 30	
	2015	**2014**
Health care services	**$ 2,490,960**	$ 2,232,470
General and administrative	**515,130**	400,899
Fund raising	**11,926**	14,966
	$ 3,018,016	$ 2,648,335

9. Subsequent Events

On September 1, 2015, the Medical Center acquired the stock of CFHS Holdings, Inc., which owns and operates Marina Del Rey Hospital, a community hospital with 145 licensed beds; and converted CFHS Holdings, Inc. to a California nonprofit public benefit corporation. The Medical Center also acquired Centinela Freeman Holdings, Inc., a California for-profit entity, which owns the adjoining Medical Office Building to Marina Del Rey Hospital.

Single Audit Reports

Ernst & Young LLP
Suite 500
725 South Figueroa Street
Los Angeles, CA 90017-5418

Tel: +1 213 977 3200
Fax: +1 213 977 3729
ey.com

Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Management and the Board of Directors
Cedars-Sinai Medical Center

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Cedars-Sinai Medical Center (the Medical Center), which comprise the consolidated balance sheet as of June 30, 2015, and the related consolidated statements of operations and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 22, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Medical Center's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Medical Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Medical Center's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Medical Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct, and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ernst + Young LLP

October 22, 2015

Ernst & Young LLP
Suite 500
725 South Figueroa Street
Los Angeles, CA 90017-5418

Tel: +1 213 977 3200
Fax: +1 213 977 3729
ey.com

Report of Independent Auditors on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by OMB Circular A-133

Management and the Board of Directors
Cedars-Sinai Medical Center

Report on Compliance for Each Major Federal Program

We have audited Cedars-Sinai Medical Center's (the Medical Center's) compliance with the types of compliance requirements described in the US Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on the Medical Center's major federal program for the year ended June 30, 2015. The Medical Center's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Medical Center's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Medical Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Medical Center's compliance.

Opinion on Each Major Federal Program

In our opinion, Cedars-Sinai Medical Center complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2015.

Report on Internal Control Over Compliance

Management of the Medical Center is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Medical Center's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Medical Center's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Ernst + Young LLP

December 22, 2015

Supplementary Information

Cedars-Sinai Medical Center

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2015

Federal Grantor/Program or Cluster Title-Pass Through Grantor	CFDA No.	Pass Through Grantor Identifying No.	Federal Expenditures
Research and Development Cluster			
Department of Defense			
Military Medical Research and Development	12.420		$ 1,638,700
Pass Through-Duke University	12.420	W81XWH-12-1-0447	220,554
Pass Through-Duke University	12.420	W81XWH-14-1-0111	8,238
Pass Through-University of California-Los Angeles	12.420	W81XWH-14-1-0602	26,014
Pass Through-University of Southern California	12.420	W81XWH-12-1-0282	28,751
Total Pass Through-Department of Defense			283,557
Total Department of Defense			**1,922,257**
National Aeronautics and Space Administration			
Exploration			
Pass Through-Duke University	43.003	NNX 11AC60G	372,407
Total National Aeronautics and Space Administration			**372,407**
National Science Foundation			
Mathematical and Physical Sciences	47.049		71,557
Total National Science Foundation			**71,557**
Department of Veterans Affairs			
Veterans Affairs Greater Los Angeles Healthcare System	64.Unknown		58,442
Total Department of Veterans Affairs			**58,442**
Department of Health and Human Services			
Food and Drug Administration Research			
Pass Through-Seattle Children's Research Institute	93.103	R01 FD004099	3,905
Pass Through-University of Pennsylvania	93.103	R01 FD003516	25,185
Total Pass Through-Food and Drug Administration Research			29,090
Total Food and Drug Administration Research			29,090
Environmental Health			
Pass Through-University of California Berkeley	93.113	R01 ES009137	1,336
Oral Diseases and Disorders Research			
Pass Through-University of Rochester	93.121	R01 DE019902	1,044
Human Genome Research			
Pass Through-University of Southern California	93.172	R01HG006705	18,168
Research and Training in Complementary and Integrative Health	93.213		7,202
Research on Healthcare Costs, Quality and Outcomes	93.226		419,431
Pass Through-Trustees of Dartmouth College	93.226	R01 HS021747	3,157
Total Research on Healthcare Costs, Quality and Outcomes			422,588
Mental Health Research Grants			
Pass through-Johns Hopkins University School of Medicine	93.242	R25MH080661	2,672
Alcohol Research Programs	93.273		780,999
Pass Through-University of Southern California	93.273	P50 AA011999	114,615
Total Alcohol Research Programs			895,614

See notes to Schedule of Expenditures of Federal Awards

Cedars-Sinai Medical Center

Schedule of Expenditures of Federal Awards (continued)

Year Ended June 30, 2015

Federal Grantor/Program or Cluster Title-Pass Through Grantor	CFDA No.	Pass Through Grantor Identifying No.	Federal Expenditures
Mental Health Research Career/Scientist Development Awards	93.281		$ (2,569)
Discovery and Applied Research for			
Technological Innovations to Improve Human Health	93.286		179,775
Trans-NIH Research Support			
Pass Through-Broad Institute	93.310	U54 DE023789	232,877
National Center for Advancing Translational Sciences			
Pass Through-University of California-Los Angeles	93.350	KL2 TR000122	121,914
Pass Through-University of California-Los Angeles	93.350	UL1 TR000124	194,055
Total Pass Through-National Center for Advancing Translational Sciences			315,969
Total National Center for Advancing Translational Sciences			315,969
Nursing Research			
Pass Through-University of California-San Francisco	93.361	R01NR012003	54,572
National Center for Research Resources			
Pass Through-Los Angeles Biomedical Research Institute	93.389	M01 RR00425-38	(67,740)
Pass Through-University of California-Los Angeles	93.389	UL1RR033176	2,056,546
Pass Through-University of California-Los Angeles	93.389	UL1 TR000124	13,767
Total Pass Through-National Center for Research Resources			2,002,573
Total National Center for Research Resources			2,002,573
Cancer Cause and Prevention Research	93.393		1,018,282
Pass Through-Fred Hutchinson Cancer Research Center	93.393	R01CA131255	47,527
Pass Through-University of California-Los Angeles	93.393	P01CA163200	239,535
Total Pass Through-Cancer Cause and Prevention Research			287,062
Total Cancer Cause and Prevention Research			1,305,344
Cancer Detection and Diagnosis Research	93.394		602,173
Pass Through-American College of Radiology Diagnostic Administration	93.394	U10CA21661	(387)
Total Cancer Detection and Diagnosis Research			601,786
Cancer Treatment Research	93.395		827,501
Pass Through-University of Pennsylvania	93.395	R01CA149425	12,632
Pass Through-Southwest Oncology Group	93.395	U10 CA032102	80
Pass Through-American College of Radiology Diagnostic Administration	93.395	U10CA021661	(1,330)
Pass Through-University of California-Los Angeles	93.395	R01 CA160427	43,811
Pass Through-Brigham and Women's Hospital	93.395	U10 CA076001	4,283
Pass Through-Childrens Hospital Philadelphia	93.395	U10 CA098543	2,459
Pass Through-Oregon Health Science University	93.395	U10 CA032102	12,200
Pass Through-Washington University in St. Louis	93.395	Unknown	2,429
Pass Through-NRG Oncology Foundation	93.395	U10 CA180868	17,309
Total Pass Through-Cancer Treatment Research	93.395		93,873
Total Cancer Treatment Research			921,374
Cancer Biology Research	93.396		1,396,938
Pass Through-Indiana University	93.396	R01CA143057	222,754
Pass Through-University of California-Los Angeles	93.396	R01 CA136841	413,235
Pass Through-University of Pennsylvania	93.396	R01CA0894481	28,467
Total Pass Through-Cancer Biology Research			664,456
Total Cancer Biology Research			2,061,394

See notes to Schedule of Expenditures of Federal Awards

Cedars-Sinai Medical Center

Schedule of Expenditures of Federal Awards (continued)

Year Ended June 30, 2015

Federal Grantor/Program or Cluster Title-Pass Through Grantor	**CFDA No.**	**Pass Through Grantor Identifying No.**	**Federal Expenditures**
Cancer Centers Support Grants			
Pass Through-Fred Hutchinson Cancer Research Center	93.397	5 P50 CA083636-08	$ 56,641
Pass Through-University of California-Los Angeles	93.397	P50CA092131	456
Total Pass Through-Cancer Centers Support Grants			57,097
Total Cancer Centers Support Grants			57,097
Cancer Research Manpower	93.398		107,957
Cancer Control			
Pass Through-American College of Radiology Diagnostic Administration	93.399	1207	46,637
Cardiovascular Diseases Research	93.837		9,665,487
Pass Through-Emory University	93.837	U01HL105561	112,864
Pass Through-University of California-Los Angeles	93.837	P01 HL028481	482,182
Pass Through-New York School of Medicine	93.837	RO1HL105907	4
Pass Through-Menssana Research Institute	93.837	R44HL0597	186
Pass Through-Wake Forest University	93.837	R01HL111362	522,928
Pass Through-Stanford University	93.837	HL093475	21,568
Pass Through-New England Research Institute	93.837	HL68270	52,100
Pass Through-Allina Health	93.837	UM1 HL087394	187,446
Pass Through-Los Angeles Biomedical Research Institute	93.837	U19 HL069757	10,877
Pass Through-RTI International	93.837	U01 HL11991	22,796
Pass Through-Weill Cornell Medical College	93.837	R01HL118019	52,159
Pass Through-Weill Cornell Medical College	93.837	R01HL111141	45,278
Pass Through-Weill Cornell Medical College	93.837	R01HL115150	52,251
Pass Through-Johns Hopkins University School of Medicine	93.837	HHSN26801000032C	366,454
Pass Through-Johns Hopkins University School of Medicine	93.837	P01 HL0107153	81,315
Pass Through-Johns Hopkins University School of Medicine	93.837	R01HL119012	85,978
Pass Through-San Diego State University	93.837	P01 HL112730	579,479
Pass Through-Rhode Island Hospital	93.837	R01HL119012	58,614
Pass Through-Capricor	93.837	R44HL095203	407,203
Total Pass Through-Cardiovascular Diseases Research			3,141,682
Total Cardiovascular Diseases Research			12,807,169
Lung Diseases Research	93.838		4,282,142
Pass Through-Duke University	93.838	U01 HL11018	292,931
Pass Through-Duke University	93.838	U01 HL110967	100,173
Pass Through-Yale University	93.838	R01 HL109233	13,670
Pass Through-Benaroya Research Institute	93.838	P01 HL098067	443,263
Pass Through-Johns Hopkins University School of Medicine	93.838	P01HL077180	420,582
Pass Through-Cincinnati Children's Hospital Medical Center	93.838	U01 HL122642	71,860
Total Pass Through-Lung Diseases Research			1,342,479
Total Lung Diseases Research			5,624,621

See notes to Schedule of Expenditures of Federal Awards

Federal Grantor/Program or Cluster Title-Pass Through Grantor	CFDA No.	Pass Through Grantor Identifying No.	Federal Expenditures
Arthritis, Musculoskeletal and Skin Diseases Research	93.846		$ 393,133
Pass Through-University of Alabama-Birmingham	93.846	R01AR060240	56,189
Pass Through-University of Colorado	93.846	1 R01 AR051394-01A1	37,671
Pass Through-University of Houston	93.846	P01AR052915	262,870
Pass Through-University of Pennsylvania	93.846	AR057319	4,248
Pass Through-Oklahoma Medical Research Foundation	93.846	P50 AR060804	16,472
Pass Through-Penn State	93.846	U34AR067392	15,631
Total Pass Through-Arthritis, Musculoskeletal and Skin Diseases Research			393,081
Total Arthritis, Musculoskeletal and Skin Diseases Research			786,214
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847		7,389,054
Pass Through-University of California-San Diego	93.847	5 P30 DK063491	103,085
Pass Through-Los Angeles Biomedical Research Institute	93.847	5 P30 DK063491	(3,720)
Pass Through-Los Angeles Biomedical Research Institute	93.847	R01 DK085175	8,382
Pass Through-Connecticut Childrens Medical Center	93.847	U01DK095745	18,817
Pass Through-University of California-Los Angeles	93.847	P01DK098108	265,106
Pass Through-University of Alabama-Birmingham	93.847	DK071176	315,707
Pass Through-Johns Hopkins University School of Medicine	93.847	U01 DK085689	553,550
Pass Through-Duke University	93.847	R01 DK098382	65,963
Total Pass Through-Diabetes, Digestive, and Kidney Diseases Extramural Research			1,326,890
Total Diabetes, Digestive, and Kidney Diseases Extramural Research			8,715,944
Digestive Diseases and Nutrition Research			
Pass Through-University of California-Los Angeles	93.848	DK082927	52,905
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853		1,733,280
Pass Through-University of Southern California	93.853	U01NS056256 01	(4,395)
Pass Through-University of South Carolina Medical School	93.853	U01NS05872B	8,627
Pass Through-Mass General Hospital	93.853	P50NS051343	(20,266)
Pass Through-Johns Hopkins University School of Medicine	93.853	U01NS062851	(2,666)
Pass Through-Johns Hopkins University School of Medicine	93.853	U01 NS080824	36,291
Pass Through-University of California-Los Angeles	93.853	P50NS044378	34,410
Pass Through-University of California-Los Angeles	93.853	R01 NS077706	3,565
Pass Through-University of California-Irvine	93.853	U54NS091046	382,553
Pass Through-University of California-Irvine	93.853	U24NS078370	3,003
Pass Through-Yale University	93.853	R01 NA086329	1,374
Pass Through-University of California-San Diego	93.853	P50NS044148	42,341
Pass Through-Partners Healthcare	93.853	U01NS088312	13,002
Total Pass Through-Extramural Research Programs in the Neurosciences and Neurological Disorders			497,839
Total Extramural Research Programs in the Neurosciences and Neurological Disorders			2,231,119

See notes to Schedule of Expenditures of Federal Awards

Cedars-Sinai Medical Center

Schedule of Expenditures of Federal Awards (continued)

Year Ended June 30, 2015

Federal Grantor/Program or Cluster Title-Pass Through Grantor	CFDA No.	Pass Through Grantor Identifying No.	Federal Expenditures
Allergy, Immunology and Transplantation Research	93.855		$ 3,207,724
Pass Through-Duke University	93.855	U19AI1056363	14,854
Pass Through-Brigham and Womens Hospital	93.855	UAI063623	45,778
Pass Through-Mount Sinai School Medicine	93.855	U01 AI063594	15,475
Pass Through-Oregon Health Sciences University	93.855	U01 AI095776	144,223
Pass Through-University of Colorado	93.855	R56 AI103023	14,831
Pass Through-Medical University of South Carolina	93.855	R34 AI114453	13,916
Pass Through-Stanford University	93.855	U01 AI06706810	11,308
Total Pass Through-Allergy, Immunology and Transplantation Research			260,385
Total Allergy, Immunology and Transplantation Research			3,468,109
Biomedical Research and Research Training	93.859		484,904
Pass Through-Thomas Jefferson University	93.859	R01 GM106047	13,764
Total Biomedical Research and Research Training			498,668
Child Health and Human Development Extramural Research	93.865		497,838
Pass Through-Columbia University Medical Center	93.865	U01 HD055651	4,071
Pass Through-Medical College of Georgia	93.865	R01HD029364	(10)
Pass Through-University of Colorado Springs	93.865	R01 HD073491	195,910
Total Pass Through-Child Health and Human Development Extramural Research			199,971
Total Child Health and Human Development Extramural Research			697,809
Aging Research			
Pass Through-NeuroVision Imaging, LLC	93.866	R41 AG044897	41,652
Vision Research	93.867		2,033,730
Pass Through-Oregon Health Sciences University	93.867	R01EY019474	28,364
Total Pass Through-Child Health and Human Development Extramural Research			28,364
Total Child Health and Human Development Extramural Research			2,062,094
National Cancer Institute	93.Unknown		11,392
Pass Through-Cleveland Clinic	93.Unknown	HHSN268200700036C	33
Pass Through-Johns Hopkins University	93.Unknown	HHSN26800736197	36,904
Pass Through-Tufts University	93.Unknown	HHSN261201000129	17,268
Pass Through-University California-San Francisco	93.Unknown	N01-A1-15416	39,398
Pass Through-Washington University in St. Louis	93.Unknown	HHSN261201000061C	(20,501)
Total Pass Through-National Cancer Institute			73,102
Total National Cancer Institute			84,494

See notes to Schedule of Expenditures of Federal Awards

Cedars-Sinai Medical Center

Schedule of Expenditures of Federal Awards (continued)

Year Ended June 30, 2015

Federal Grantor/Program or Cluster Title-Pass Through Grantor	CFDA No.	Pass Through Grantor Identifying No.	Federal Expenditures
Trans-NIH Recovery Act Research Support	ARRA 93.701		$ 7,535,895
Pass Through-Dana Farber Cancer Institute	ARRA 93.701	U01CA062490	(160)
Total Trans-NIH Recovery Act Research Support			7,535,735
Total Research and Development Cluster			**56,293,696**
National Bioterrorism Hospital Preparedness Program			
Pass Through-County of Los Angeles	93.889	H-705557	210,397
Total Department of Health and Human Services			**54,079,430**
Total Expenditures of Federal Awards			**$ 56,504,093**

See notes to Schedule of Expenditures of Federal Awards

Cedars-Sinai Medical Center

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2015

1. Federal awards expended are reported on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States.

2. Federal Expenditures of $56,504,093 are reported in Cedars-Sinai Medical Center's financial statements for the fiscal year ended June 30, 2015, as net assets released from restrictions. Negative amounts shown on the Schedule of Expenditures of Federal Awards represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

3. Of the federal expenditures presented in the accompanying Schedule of Expenditures of Federal Awards, Cedars-Sinai Medical Center provided federal awards to subrecipients as follows:

Research and Development Cluster:		
Military Medical Research and Development	12.420	$ 95,583
Oral Diseases and Disorders Research	93.121	26,727
Research on Healthcare Costs, Quality and Outcomes	93.226	65,861
Alcohol Research Programs	93.273	36,356
Discovery and Applied Research for Technological Innovations to Improve Human Health	93.286	20,255
Cancer Detection and Diagnosis Research	93.394	11,136
Cancer Treatment Research	93.395	19,186
Cancer Biology Research	93.396	345,165
Cardiovascular Diseases Research	93.837	816,837
Lung Diseases Research	93.838	669,213
Arthritis, Musculoskeletal and Skin Diseases Research	93.846	48,289
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	849,522
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	786,151
Child Health and Human Development Extramural Research	93.865	99,716
Total Research and Development Cluster		**$ 3,889,997**

Cedars-Sinai Medical Center

Schedule of Findings and Questioned Costs

Year Ended June 30, 2015

Part I—Summary of Auditor's Results

Financial Statements Section

Type of auditor's report issued (unmodified, qualified, adverse or disclaimer):	Unmodified			
Internal control over financial reporting:				
Material weakness(es) identified?		**yes**	X	**no**
Significant deficiency(ies) identified?		**yes**	X	**none reported**
Noncompliance material to financial statements noted?		**yes**	X	**no**

Federal Awards Section

Internal control over major federal programs:				
Material weakness(es) identified?		**yes**	X	**no**
Significant deficiency(ies) identified?		**yes**	X	**none reported**
Type of auditor's report issued on compliance for major federal programs (unmodified, qualified, adverse or disclaimer):	Unmodified			
Any audit findings disclosed that are required to be reported in accordance with section .510(a) of OMB Circular A-133?		**yes**	X	**no**

Part I—Summary of Auditor's Results (continued)

Identification of major programs:

CFDA number(s)	Name of federal program or cluster
Various, as reported in Schedule of Expenditures of Federal Awards	Research and Development Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	$ 1,695,123
Auditee qualified as low-risk auditee?	X **yes** ___ **no**

Part II—Financial Statement Findings Section

This section identifies the significant deficiencies, material weaknesses, fraud, noncompliance with provisions of laws, regulations, contracts and grant agreements, and abuse related to the financial statements for which *Government Auditing Standards* require reporting in a Circular A-133 audit.

No such items were identified.

Part III—Federal Award Findings and Questioned Costs Section

This section identifies the audit findings required to be reported by Circular A-133 section .510(a) (for example, material weaknesses, significant deficiencies and material instances of noncompliance, including questioned costs), as well as any abuse findings involving federal awards that are material to a major program.

No such items were identified.

EY | Assurance | Tax | Transactions | Advisory

About EY
EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization and may refer to one or more of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

ey.com