INTEGRIS *HEALTH*, INC.
AND CONTROLLED ENTITIES

Consolidated Financial Statements
and Supplemental Schedules

June 30, 2015 and 2014

(With Independent Auditors' Report Thereon)

KPMG LLP
210 Park Avenue, Suite 2850
Oklahoma City, OK 73102-5683

Independent Auditors' Report

The Board of Directors
INTEGRIS *Health*, Inc.:

We have audited the accompanying consolidated financial statements of INTEGRIS *Health*, Inc. and controlled entities, which comprise the consolidated balance sheets as of June 30, 2015 and 2014, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of INTEGRIS *Health*, Inc. and controlled entities as of June 30, 2015 and 2014, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information included in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

Oklahoma City, Oklahoma
September 21, 2015

INTEGRIS *HEALTH* , INC.
AND CONTROLLED ENTITIES

Consolidated Balance Sheets

June 30, 2015 and 2014

(In thousands)

Assets		**2015**	**2014**
Current assets:			
Cash and cash equivalents	$	31,996	131,547
Short-term investments		239,818	193,909
Accounts receivable, net:			
Patients		157,836	147,671
Affiliates		714	146
Current portion of notes receivable		20	24
Inventories		27,753	24,698
Prepaid expenses and other current assets		14,332	11,614
Total current assets		472,469	509,609
Assets whose use is limited		971,549	954,671
Property and equipment:			
Land and improvements		61,703	61,067
Buildings and leasehold improvements		693,985	695,434
Equipment		740,209	717,960
`		1,495,897	1,474,461
Less accumulated depreciation and amortization		950,057	918,360
		545,840	556,101
Construction in progress		75,598	28,265
		621,438	584,366
Other assets, net		112,900	116,437
Total assets	$	2,178,356	2,165,083

(Continued)

INTEGRIS *HEALTH*, INC.
AND CONTROLLED ENTITIES

Consolidated Balance Sheets

June 30, 2015 and 2014

(In thousands)

Liabilities and Net Assets		**2015**	**2014**
Current liabilities:			
Accounts payable, accrued expenses, and other	$	316,442	199,277
Employee compensation and related liabilities		73,710	68,322
Current portion of long-term debt		13,615	18,560
Current portion of capital lease obligations		344	200
Due to affiliates		9,569	10,721
Total current liabilities		413,680	297,080
Long-term debt, less current portion		442,843	424,354
Capital lease obligations, less current portion		1,027	1,568
Other long-term liabilities		298,725	270,338
Total liabilities		1,156,275	993,340
Net assets:			
Unrestricted		975,892	1,135,675
Temporarily restricted		33,891	24,384
Permanently restricted		6,243	6,308
Total net assets of INTEGRIS *Health*		1,016,026	1,166,367
Noncontrolling ownership interest in equity of consolidated affiliates – unrestricted		6,055	5,376
Total net assets		1,022,081	1,171,743
Commitments and contingencies			
Total liabilities and net assets	$	2,178,356	2,165,083

See accompanying notes to consolidated financial statements.

INTEGRIS *HEALTH*, INC.
AND CONTROLLED ENTITIES

Consolidated Statements of Operations

Years ended June 30, 2015 and 2014

(In thousands)

		2015	2014
Operating revenues:			
Patient service revenue (net of contractual allowances and discounts)	$	1,476,190	1,406,813
Provision for bad debts		(98,224)	(121,454)
Net patient service revenue prior to accrual of CMS Settlement		1,377,966	1,285,359
Accrual of CMS Settlement		(140,000)	—
Net patient service revenue		1,237,966	1,285,359
Premium revenue		1,486	1,465
Other operating revenue		145,244	112,381
Total operating revenues		1,384,696	1,399,205
Operating expenses:			
Salaries and related expenses		741,689	703,621
Supplies and other expenses		584,635	517,604
Professional services		37,648	46,792
Depreciation and amortization		68,031	68,366
Provision for bad debts (nonpatient)		3	45
Interest expense		22,282	24,039
Total operating expenses		1,454,288	1,360,467
(Loss) income from operations		(69,592)	38,738
Nonoperating revenue (expense):			
Investment income, net		17,136	59,522
Equity in income of affiliates, net		(2,446)	(2,574)
Loss on extinguishment of debt		(26,040)	—
Other, net		(9,681)	(1,773)
Total nonoperating (expense) revenue, net		(21,031)	55,175
Net (loss) income		(90,623)	93,913
Net (loss) income attributable to noncontrolling interest		(623)	(649)
Net (loss) income attributable to INTEGRIS *Health*	$	(91,246)	93,264

See accompanying notes to consolidated financial statements.

INTEGRIS *HEALTH*, INC.
AND CONTROLLED ENTITIES

Consolidated Statements of Changes in Net Assets

Years ended June 30, 2015 and 2014

(In thousands)

		2015	2014
Changes in unrestricted net assets:			
Net (loss) income attributable to INTEGRIS *Health*	$	(91,246)	93,264
Pension liability adjustment		(56,351)	(4,221)
Net assets released from restrictions used for purchase of property and equipment		2,154	240
Contributions of long-lived assets		2,335	247
Other changes, net		(16,675)	1,262
(Decrease) increase in unrestricted net assets		(159,783)	90,792
Changes in temporarily restricted net assets:			
Contributions received for operations		2,230	2,111
Investment (expense) income		(2,049)	228
Change in value of split-interest agreement		(5)	(14)
Net assets released from restrictions		(3,427)	(1,611)
Other changes, net		12,758	216
Increase in temporarily restricted net assets		9,507	930
Changes in permanently restricted net assets:			
Contributions received for operations		49	939
Investment income		22	465
Other changes, net		(136)	(118)
(Decrease) increase in permanently restricted net assets		(65)	1,286
(Decrease) increase in net assets of INTEGRIS *Health*		(150,341)	93,008
Net assets of INTEGRIS *Health*, beginning of year		1,166,367	1,073,359
Net assets of INTEGRIS *Health*, end of year	$	1,016,026	1,166,367

See accompanying notes to consolidated financial statements.

INTEGRIS *HEALTH* , INC.
AND CONTROLLED ENTITIES

Consolidated Statements of Cash Flows

Years ended June 30, 2015 and 2014

(In thousands)

		2015	2014
Cash flows from operating activities:			
(Decrease) increase in net assets	$	(150,341)	93,008
Adjustments to reconcile changes in net assets to net cash provided by operating activities:			
Pension liability adjustment		56,351	4,221
Net unrealized gain (loss) on investments		44,393	(24,849)
Net realized gain on investments		(38,665)	(27,979)
Contributions of long lived assets		(2,335)	(247)
Loss on extinguishment of long-term debt		26,040	—
Change in split-interest agreement		10	14
Provision for uncollectible accounts		98,227	121,499
Depreciation and amortization		68,031	68,366
Amortization of bond premiums/discounts		(247)	(8)
Net (gain) loss on PPE disposal		(205)	289
Earnings from investments in affiliates		(18,433)	(6,935)
Distributions from unconsolidated affiliates		16,867	17,084
Other changes in affiliates		(882)	(184)
Change in fair value of interest rate swap agreements		2,066	81
Revenues and gains in excess of expenses incurred attributable to noncontrolling interests		623	649
(Increase) decrease in:			
Patient receivables		(108,393)	(135,668)
Other receivables		(563)	194
Other assets		(34,552)	(4,427)
Increase (decrease) in:			
Accounts payable and accrued liabilities		121,401	34,984
Other noncurrent liabilities		(30,039)	(15,457)
Net cash provided by operating activities		49,354	124,635
Cash flows from investing activities:			
Purchases of property and equipment		(103,033)	(75,482)
Proceeds from disposal of PPE		976	106
(Sales) purchases of investments in affiliates and contributions to joint ventures		10,674	(1,093)
Sale of noncontrolling interest recorded in net assets		266	—
Acquisition of physician practices and facilities		—	(4,100)
Purchases of short-term investments and assets limited to use, net		(68,514)	(70,639)
Net cash used in investing activities		(159,631)	(151,208)
Cash flows from financing activities:			
Proceeds from issuance of debt		360,503	—
Redemption of long-term debt		(335,568)	—
Debt issuance costs		(2,458)	—
Principal payments on capital lease obligations		(396)	(328)
Principal payments on long-term debt		(11,145)	(11,785)
Contributions from minority interest holders		—	—
Distributions to noncontrolling interest holders		(210)	(950)
Net cash provided (used) in financing activities		10,726	(13,063)
Net decrease in cash and cash equivalents		(99,551)	(39,636)
Cash and cash equivalents at beginning of year		131,547	171,183
Cash and cash equivalents at end of year	$	31,996	131,547
Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
Interest	$	23,522	24,327
Federal income taxes		1,273	1,691
Supplemental disclosure of noncash operating activities:			
Contributions of long lived assets	$	2,335	247
Supplemental disclosure of noncash financing activities:			
Capital lease obligations incurred	$	—	1,810

See accompanying notes to consolidated financial statements.

(1) Organization and Summary of Significant Accounting Policies

(a) Organization and Nature of Business

INTEGRIS *Health*, Inc. and its controlled entities (INTEGRIS *Health*) operate an integrated delivery system, which provides a wide variety of healthcare services in the state of Oklahoma. INTEGRIS *Health*, except for INTEGRIS Pro*Health*, Inc. and subsidiaries (PHI), INTEGRIS Cardiovascular Physicians, and INTEGRIS *Health* Partners, are not-for-profit private corporations as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code.

Significant controlled entities include INTEGRIS Baptist Medical Center, Inc. (IBMC), INTEGRIS South Oklahoma City Hospital Corporation d/b/a INTEGRIS Southwest Medical Center, Inc. (ISOCHC), and INTEGRIS Rural *Health*, Inc. (IRH). IBMC operates a licensed 629-bed healthcare facility in northwest Oklahoma City, ISOCHC operates a licensed 389-bed facility in south Oklahoma City, and IRH owns INTEGRIS Baptist Regional *Health* Center, Miami, Oklahoma; INTEGRIS Bass Baptist *Health* Center, Enid, Oklahoma; INTEGRIS Grove Hospital, Grove, Oklahoma; and INTEGRIS Canadian Valley Hospital, Yukon, Oklahoma.

(b) Basis of Presentation

The consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles (GAAP).

(c) Use of Estimates

The preparation of the consolidated financial statements in conformity with 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 and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates for INTEGRIS include malpractice and liability costs, pension benefit obligation, valuation of interest rate swaps, and valuation of accounts receivable.

(d) Principles of Consolidation

The consolidated financial statements include the accounts of the following controlled entities:

- IBMC and subsidiaries
- ISOCHC
- IRH
- Baptist Healthcare of Oklahoma, Inc. (BHO)
- INTEGRIS *Health* Edmond (IHE)
- INTEGRIS *Health* Foundation, Inc.
- INTEGRIS Ambulatory Care Corporation and subsidiaries (IACC)

- INTEGRIS Realty Corporation and subsidiary (Realty)
- PHI
- INTEGRIS *Health* Partners (IHP)
- INTEGRIS Cardiovascular Physicians (ICP)
- Quality Alliance Assurance Company (Cayman), Ltd. (Quality Alliance)
- INTEGRIS Hospice, Inc. (Hospice)

Significant intercompany accounts and transactions have been eliminated.

(e) Cash and Cash Equivalents

Cash and cash equivalents include demand deposits, short-term overnight investments, and other investments with original maturities at the date of purchase of three months or less. The majority of cash and cash equivalents are on deposit with one financial institution.

(f) Short-Term Investments

Short-term investments are stated at fair value and consist primarily of investments in cash and cash equivalents, U.S. government and agency obligations, and corporate obligations.

(g) Donor-Restricted Gifts

Unconditional promises to give cash and other assets to INTEGRIS *Health* and its tax-exempt controlled affiliates are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the accompanying consolidated statements of operations and changes in net assets as net assets released from restrictions and other operating revenue.

(h) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by INTEGRIS *Health* and its tax-exempt controlled affiliates have been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by INTEGRIS *Health* and its tax-exempt controlled affiliates in perpetuity.

(i) Net Income

The consolidated statements of operations and changes in net assets include net income. Changes in unrestricted net assets, which are excluded from net income, consistent with industry practice, include permanent transfers of assets to and from affiliates for other than goods and services, contributions of long-lived assets (including assets acquired using contributions, which by donor restriction were to be used for the purposes of acquiring such assets), and other items required by U.S. GAAP to be reported separately.

(j) Net Patient Service Revenue and Accounts Receivable

Net patient service revenue is recorded at established rates, net of contractual adjustments, charity care adjustments, administrative adjustments, and net patient bad debt. Retroactively calculated contractual adjustments arising under reimbursement agreements with third-party payors are accrued on an estimated basis in the period the related services are rendered. Adjustments to estimates in future periods are recorded as final settlements are determined or as additional information becomes available.

Net patient service revenue in the accompanying consolidated statements of operations and changes in net assets has been reduced by amounts resulting from contractual allowances related to the participation in Medicare, Medicaid, discount arrangements, and other prospective reimbursement programs as follows:

		2015	2014
Patient service revenue (net of contractual allowances and discounts, before provision for bad debt, in thousands):			
Medicare	$	375,009	345,732
Medicaid		166,028	162,672
Managed care		759,274	681,473
Commercial and other		83,828	106,313
Private pay		92,051	110,623
	$	1,476,190	1,406,813

Accounts receivable are recorded net of an allowance for uncollectible accounts and contractual adjustments of approximately $551,223,000 and $470,709,000 at June 30, 2015 and 2014, respectively. Although INTEGRIS *Health* estimates uncollectible accounts on a reasonable basis, the net patient accounts receivable balance is subject to an accounting loss if patients and third-party payors are unable to meet their contractual obligations.

The allowance and resulting provision for bad debts is based upon a combination of the aging of receivables and management's assessment of historical and expected net collections considering business and economic conditions, trends in healthcare coverage, and other collection indicators. Management assesses the adequacy of the allowance for doubtful accounts based upon historical write-off experience and payment trends by payor category. Patient accounts are also monitored, and, if necessary, past due accounts are placed with collection agencies in accordance with guidelines established by INTEGRIS *Health*. All patient balances regardless of payor source are collected in accordance with a predefined time limited process designed to give the patient an opportunity to pay the balance before writing off the balance to bad debt expense and turning the account over to a collection agency.

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For receivables associated with services provided to patients who have third-party coverage, INTEGRIS *Health* analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debt, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which include both patients without insurance and patients with deductible and copayment balance due for which third-party coverage exists for part of the bill), INTEGRIS *Health* records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the billed rates (which are discounted from gross charges for all uninsured self-pay patients by 62% in 2015 and in 2014 as discussed below) and the amounts actually collected after all reasonable collection efforts have been exhausted is written off against the allowance for doubtful accounts.

The Internal Revenue Service enacted 501(r) guidance for nonprofit hospitals on March 23, 2010, by the Patient Protection and Affordable Care Act. Hospital organizations covered by Section 501(r) may not charge an individual eligible for a financial assistance policy more than the amount generally billed to individuals with insurance covering their healthcare. As a result of this guidance, INTEGRIS *Health* implemented a policy effective July 1, 2011 that discounted all private pay patient charges by 55%. This adjustment is considered a contractual adjustment rather than a bad debt adjustment. As of July 1, 2013, this private pay adjustment was increased to 62% of patient charges. The adjustment is recorded as a direct reduction to net patient service revenue instead of bad debt.

INTEGRIS *Health*’s allowance for doubtful accounts for self-pay patients was 98.5% of self-pay accounts receivable at June 30, 2015 and 2014. Negative trends experienced in the collection of amounts from self-pay patients continued in fiscal year 2015 and have kept this allowance rate high. INTEGRIS *Health* does not maintain a material allowance for doubtful accounts from third-party payors, nor did it have significant write-offs from third-party payors other than for contractual allowances.

(k) Charity Care

Certain of the healthcare related controlled entities provide care without charge to patients who meet certain criteria under INTEGRIS *Health*’s charity care policy. Because these entities do not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net revenue or included in net accounts receivable in the accompanying consolidated financial statements.

(l) Electronic Health Record Incentive Payment Program

The American Recovery and Reinvestment Act of 2009 established incentive payments under the Medicare and Medicaid programs for hospitals that meaningfully use certified electronic health record (EHR) technology. In order to qualify for the Act’s Stage One reporting period, a hospital must meet certain designated EHR meaningful use criteria from both mandatory and optionally selected requirements for ninety consecutive days within the Act’s reporting year. During 2015, INTEGRIS *Health*’s eligible hospitals and physicians received approximately $1,378,000 of reimbursement payments under the Act’s Stage One reporting period. The payments were recorded as other operating revenue in the accompanying consolidated statements of operations and changes in net assets for the year ended June 30, 2015.

INTEGRIS *Health* has elected to apply the grant accounting guidance in International Accounting Standards (IAS) 20 to these incentive payments. IAS 20 does not allow incentive payments to be recognized as income until there is reasonable assurance that the entity will successfully demonstrate compliance with the minimum number of meaningful use objectives. INTEGRIS *Health*'s management believes the relevant criteria were met for Stage One reporting and determined compliance was reasonably assured.

(m) Assets Whose Use Is Limited and Investment Income

Assets whose use is limited includes assets designated by the board of directors for future capital improvements, self-insurance programs, debt service requirements, and other general purposes, over which the board retains control and may, at its discretion, subsequently use for other purposes; assets restricted by trustee under bond indenture agreement; and assets restricted by donors as to use. Marketable equity securities with readily determinable fair values and all debt securities are recorded at fair value. Fair values are based on quoted market prices, if available, or estimated using quoted market prices for similar securities. Realized and unrealized gains and losses on investments are determined by comparison of the actual cost of the proceeds at the time of disposition, or market values as of the end of the financial statement period. The cost of securities sold is based on the specific-identification method.

Investment income, including income on assets whose use is limited and income on short-term investments, is reported as operating and nonoperating revenue. Investment income includes the loss from the change in fair value of interest rate swaps described in note 1(q) of approximately $2,066,000 in 2015 and the loss of approximately $81,000 in 2014. All investments are classified as trading securities, and the change in unrealized gains and losses on investments is included in the determination of net income.

INTEGRIS *Health* invests in various securities. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonable to assume that changes in the values of investment securities will occur in the near term and that such changes could be material to the accompanying consolidated financial statements.

(n) Inventories

Inventories consist of pharmaceuticals, dietary, and medical supplies and are valued at the lower of cost (first-in, first-out) or market.

(o) Property and Equipment

Property and equipment are recorded at cost or, if donated, at fair value on the date of receipt. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed on the straight-line method. Assets under capital leases are amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the assets. Such amortization is included in depreciation and amortization in the consolidated financial statements.

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Expenditures that increase values, change capacities, or extend useful lives of assets are capitalized. Interest costs are capitalized for construction projects that require a period of time to ready them for their intended use. Routine maintenance, repairs, and renewals are charged to operations.

Long-lived assets, such as property, plant, and equipment, and purchased intangible assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset be tested for possible impairment, INTEGRIS *Health* first compares undiscounted cash flows expected to be generated by an asset to the carrying value of the asset. If the carrying value of the long-lived asset is not recoverable on an undiscounted cash flow basis, impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values, and third-party independent appraisals, as considered necessary.

(p) Other Assets

Interests in earnings and losses, dividends, and contributions to affiliates not controlled by INTEGRIS *Health* are accounted for using the equity method. These investments are included in other assets.

Debt offering costs, which are included in other assets, are amortized using the straight-line method over the life of the related debt, which does not vary materially from the interest method. Amortization expense on debt offering costs of approximately $155,000 and $311,000 was recognized during 2015 and 2014, respectively.

(q) Derivative Instruments and Hedging Activities

INTEGRIS *Health* uses interest rate swap agreements to manage interest rate risk and accounts for derivative instruments utilized in connection with these activities at fair value. The accounting for changes in the fair value of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and, if so, the reason for holding it. For hedges of exposure to changes in fair value, the gain or loss on the derivative instrument is recognized in earnings in the period of change together with the offsetting loss or gain on the hedged item attributable to the risk being hedged. For hedges of exposure to changes in cash flow, the effective portion of the gain or loss on the derivative instrument is reported initially as a component of other changes in net assets and is subsequently reclassified into earnings when the forecasted transaction affects earnings. Any ineffectiveness of designated hedges is reported in earnings. If the derivative instrument does not qualify or is not designated as part of a hedging relationship, INTEGRIS *Health* accounts for changes in fair value of the derivative in earnings as they occur.

To qualify as a hedge, the hedge relationship is designated and formally documented at inception detailing the particular risk management objective and strategy for the hedge, which includes the item and risk that is being hedged, the derivative that is being used, as well as how effectiveness is being assessed. A derivative must be highly effective in accomplishing the objective of offsetting either changes in fair value or cash flows for the risk being hedged. The effectiveness of these hedging relationships is evaluated on a retrospective and prospective basis using quantitative measures of correlation. If a hedge relationship is found to be ineffective, it no longer qualifies as a hedge and any excess gains or losses attributable to such ineffectiveness, as well as subsequent changes in fair value, are recognized in earnings.

None of INTEGRIS *Health*'s interest rate swaps are designated as hedges, and all changes in fair value are recorded as an increase or decrease in investment income. The unrealized loss recognized for the year ended June 30, 2015 was approximately $2,066,000 and an unrealized loss was recognized for the year ended June 30, 2014 of $81,000. The difference between the fixed rate paid and the floating rate received is recognized as an increase or decrease in investment income.

By using derivative financial instruments to hedge exposures to changes in interest rates, INTEGRIS *Health* exposes itself to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty owes INTEGRIS *Health*. When the fair value of the derivative contract is negative, INTEGRIS *Health* owes the counterparty, and, therefore, INTEGRIS *Health* is not exposed to the counterparty's credit risk in these circumstances. INTEGRIS *Health* minimizes counterparty credit risk in derivative instruments by entering into transactions with high-quality counterparties.

Market risk is the adverse effect on the value of a derivative instrument that results from a change in interest rates. The market risk associated with interest rate contracts is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken.

INTEGRIS *Health* does not enter into derivative instruments for any purpose other than to manage interest rate risk. INTEGRIS *Health* does not speculate using derivative instruments.

(r) Asset Retirement Obligations

INTEGRIS *Health* recognizes the fair value of a liability for legal obligations associated with asset retirements in the period in which the obligation is incurred, if a reasonable estimate of the fair value of the obligation can be made. Uncertainty about the timing and (or) method of settlement of a conditional asset retirement obligation is factored into the measurement of the liability when sufficient information exists. When the liability is initially recorded, the cost of the asset retirement obligation is capitalized by increasing the carrying amount of the related long-lived asset. The liability is accreted to its present value each period, and the capitalized cost associated with the retirement obligation is depreciated over the useful life of the related asset. Upon settlement of the obligation, any difference between the cost to settle the asset retirement obligation and the liability recorded is recognized as a gain or loss in the accompanying consolidated statements of operations and changes in net assets.

The liability for the asset retirement obligation is approximately $3,776,000 and $3,897,000 and the future value of the asset retirement obligation is approximately $5,433,000 and $5,822,000 as of June 30, 2015 and 2014, respectively. Substantially all of the obligation relates to estimated costs to remove asbestos and underground storage tanks from various facilities. Changes from June 30, 2014 are primarily due to remediation activities, changes in inflation rates, and revisions to estimates of the amount of asbestos at specific facilities.

(s) Pension and Other Postretirement Plans

INTEGRIS *Health* has a frozen defined-benefit pension plan (the Pension Plan) covering certain eligible employees and employees of controlled entities and affiliates upon their retirement. Eligible employees include those over 21 years of age who have attained at least 1,000 hours of service. The benefits are based on the employee's years of service and compensation. INTEGRIS *Health* also offers eligible employees of INTEGRIS *Health* and controlled entities and affiliates certain postretirement healthcare and life insurance benefits.

INTEGRIS *Health* records annual amounts relating to its pension and postretirement plans based on calculations that incorporate various actuarial and other assumptions, including discount rates, mortality, assumed rates of return, compensation increases, turnover rates, and healthcare cost trend rates. INTEGRIS *Health* reviews its assumptions on an annual basis and makes modifications to the assumptions based on current rates and trends when it is appropriate to do so. The effect of modifications to those assumptions is recorded in unrestricted net assets and amortized to net periodic cost over future periods using the corridor method. INTEGRIS *Health* believes that the assumptions utilized in recording its obligations under its plans are reasonable based on its experience and market conditions.

The funded status reported on the consolidated balance sheet as of June 30, 2015 and 2014 was measured as the difference between the fair value of the plan assets and the benefit obligation on a plan-by-plan basis. The net periodic costs are recognized as employees render the services necessary to earn the postretirement benefits.

Beginning July 1, 2009, the Pension Plan was closed to new participants. Employees hired or rehired on or after July 1, 2009, will receive an additional contribution to their Retirement Savings Plan account. Similar to the cash balance contribution under the Retirement Plan, the new INTEGRIS *Health* Basic Contribution is equal to 3% of pay for the first ten years of service and 4% of pay thereafter, based on years of vesting service. In order to qualify for this annual contribution the employee must work at least 1,000 hours in the fiscal year and is an active employee on the last day of the fiscal year. Participants are responsible for directing the investment of the funds, using the investment fund options offered in the Retirement Savings Plan.

The revised 2014 Adjusted Funding Target Attainment Percentage (AFTAP) certification for the INTEGRIS Health, Inc. Retirement Plan (the Plan) indicates the 2014 AFTAP is 90.29%. Because the 2014 AFTAP certification is at least 90%, the 2015 AFTAP will be deemed to be 90.29% until the earlier of March 31, 2016 or the actual 2015 AFTAP certification. The Plan is not subject to restrictions imposed by Section 206(g)(3)(C) of ERISA and Section 436(d)(3) of the Internal Revenue Code of 1986 (the Code), because the Plan's adjusted funding target attainment percentage for the plan year that began on July 1, 2014 is at least 80 percent.

As of January 1, 2013, the Pension Plan was frozen. All employees now receive the INTEGRIS *Health* basic contribution in the Retirement Savings Plan. For the Pension Plan, vesting service and credited service for the purposes of calculating the rule of 85 eligibility continue.

(t) Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation. The system has reclassified certain accounts from non-operating to operating to more closely align with other non-profit healthcare systems reporting, which allows for more comparability. The accounts impacted include interest expense, minority owned healthcare joint venture income, working capital investment earnings, and asset disposals. These changes are presented in the consolidated statement of operations and consolidated statement of cash flows.

(u) Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The standard permits the use of either the retrospective or cumulative effect transition method.

In August 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606)*, which deferred the effective date of the new revenue recognition standard for one year. The new standard is effective for INTEGRIS *Health* July 1, 2018. INTEGRIS *Health* is evaluating the effect that ASU 2014-09 will have on its consolidated financial statements and related disclosures.

In February 2015, the FASB issued ASU No. 2015-02, *Consolidation (Topic 810)*, to improve targeted areas of the consolidation guidance and reduce the number of consolidation models. The new consolidation standard changes the way reporting enterprises evaluate whether (a) they should consolidate limited partnerships and similar entities, (b) fees paid to a decision maker or service provider are variable interests in a variable interest entity (VIE), and (c) variable interests in a VIE held by related parties of the reporting enterprise require the reporting enterprise to consolidate the VIE. It also eliminates the VIE consolidation model based on majority exposure to variability that applied to certain investment companies and similar entities. The guidance is effective for annual and interim periods in fiscal years beginning after December 15, 2016. Early adoption is allowed, including early adoption in an interim period. A reporting enterprise is permitted to apply either a modified retrospective approach or full retrospective application. INTEGRIS *Health* is evaluating the effect that ASU 2015-02 will have on its consolidated financial statements and related disclosures.

(2) Fair Value of Financial Instruments

Cash and cash equivalents, accounts receivable, accounts payable, accrued expenses and other, and employee compensation and related liabilities: The carrying values reported in the consolidated balance sheets approximate their fair values because of the short maturity of these financial instruments.

Short-term investments and assets whose use is limited and notes receivable: These financial instruments are stated at fair value. Fair values for marketable equity and debt securities are based on quoted market prices for those or similar securities. The fair value of notes receivable approximates carrying value based on investment rates currently available with similar terms and average maturities.

Long-term debt: Fair values for these financial instruments are based on borrowing rates currently available with similar terms and average maturities, which represent level 2 fair value measures. The carrying value of long-term debt at June 30, 2015 and 2014 is approximately $456,458,000 and $442,914,000, respectively, and the fair value is approximately $458,341,000 and $460,260,000, respectively.

Interest rate swaps: The interest rate swap agreements are carried at fair value, which is determined based on the difference between the fixed and estimated variable cash flows of the agreements adjusted for the risk of default. The fair value of all interest rate swaps as of June 30, 2015 and 2014 is approximately $59,198,000 and $57,132,000, respectively, and is presented in other long-term liabilities in the consolidated financial statements.

(3) Net Patient Service Revenue and Premium Revenue

The healthcare related controlled entities have agreements with third-party payors that provide for reimbursement at amounts different from their established rates. A summary of the basis of reimbursement with major third-party payors is as follows:

- Medicare: Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Medicare outpatient services are paid under an outpatient prospective payment system, similar to inpatient acute services. Psychiatric services and medical education costs related to Medicare beneficiaries are paid based upon a cost reimbursement methodology. The healthcare related controlled entities of INTEGRIS *Health* are reimbursed for cost reimbursable items at an interim rate with final settlement determined after submission of annual cost reports by the respective affiliates and audits by the Medicare fiscal intermediary.
- Medicaid: Inpatient services rendered to Medicaid program beneficiaries are reimbursed at a prospectively determined rate per discharge. INTEGRIS *Health* recognizes income from Medicaid for services provided by primary care physicians employed by INTEGRIS *Health*. The payments are received in return for services provided in the month of payment. INTEGRIS *Health* has no obligation to provide services after the month of payment and has no obligation to pay for services of other providers should the patient seek care from another party.
- Commercial Insurance: The healthcare related controlled entities have entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment under these arrangements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Medicare cost report settlements are estimated in the period services are provided to the program beneficiaries. These estimates are revised as needed until final settlement of the cost report. Laws and regulations governing the Medicare program are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Net patient service revenue for 2015 and 2014 includes approximately $6,147,000 and $4,645,000, respectively, of adjustments for estimated cost report settlements and final settlements. In addition to the $6,147,000 in FY15, a $140,000,000 accrual has been made. Refer to footnote 16 for more detail.

(Continued)

The Supplemental Hospital Offset Payment Program (SHOPP) program was created and implemented by the State of Oklahoma in fiscal year 2012 for the purpose of assuring access to quality care for Oklahoma Medicaid members. The program is designed to assess Oklahoma hospitals, unless exempt, a supplemental hospital offset payment program fee. The collected fees are placed in pools and then allocated to hospitals as directed by legislation. The Oklahoma *Health* Care Authority (OHCA) does not guarantee that allocations will equal or exceed the amount of the supplemental hospital offset payment program fee paid by the hospital. The SHOPP program assessment rate is assessed on a calendar year basis. For calendar year 2015, the SHOPP assessment rate is 3.0% of net patient service revenue. For calendar year 2014, the SHOPP assessment rate was 2.95% of net patient service revenue. The total fee incurred in 2015 and 2014 was approximately $32,924,000 and $30,298,000, respectively, and is included in supplies and other expenses in the consolidated statements of operations. The allocation from the pool in 2015 and 2014 was approximately $68,128,000 and $62,419,000, respectively, for all INTEGRIS *Health* facilities and is included in net patient service revenue in the consolidated statements of operations. The SHOPP program is expected to remain in effect through 2017.

(4) Investments

(a) Assets Whose Use Is Limited

Assets whose use is limited include the following at June 30 (in thousands):

	2015		2014	
	Cost	**Fair value**	**Cost**	**Fair value**
Board designated:				
Cash and cash equivalents	$ 28,914	28,914	19,213	19,213
U.S. government and agency obligations	131,250	131,892	92,040	92,694
Marketable equity securities	396,050	406,473	162,904	207,528
Corporate and other obligations	246,099	244,267	467,172	464,149
Accrued interest receivable	1,544	1,544	1,093	1,093
	803,857	813,090	742,422	784,677

	2015		2014	
	Cost	**Fair value**	**Cost**	**Fair value**
Amounts held as collateral by counterparties to interest rate swaps and held in escrow for purchase transactions:				
Cash and cash equivalents	12,179	12,179	11,973	11,973
By donors:				
Cash and cash equivalents	1,345	1,345	358	358
U.S. government and agency obligations	6,063	6,093	5	5
Marketable equity securities	18,390	18,904	12,432	15,192
Corporate and other obligations	11,442	11,356	6,821	7,080
Accrued interest receivable	71	71	12	11
	37,311	37,769	19,628	22,646
By INTEGRIS Health Foundation boards:				
Cash and cash equivalents	$ 212	212	458	458
U.S. government and agency obligations	969	974	2	2
Marketable equity securities	2,952	3,041	15,776	20,090
Corporate and other obligations	1,841	1,827	8,645	9,361
Accrued interest receivable	11	11	15	15
	5,985	6,065	24,896	29,926
By board for self-insurance program:				
Cash and cash equivalents	3,376	3,376	19,436	19,436
U.S. government and agency obligations	57,990	58,896	18,450	26,854
Marketable equity securities	28,094	27,972	52,411	51,150
Corporate and other obligations	12,085	11,937	7,414	7,771
Accrued interest	265	265	238	238
	101,810	102,446	97,949	105,449
Total assets whose use is limited	$ 961,142	971,549	896,868	954,671

(Continued)

(b) Short-Term Investments

Short-term investments, which are reported at fair value at June 30, include (in thousands):

		2015	2014
Board designated:			
Cash and cash equivalents	$	47,414	1,865
U.S. government and agency obligations		—	66,016
Corporate and other obligations		187,764	125,880
Accrued interest receivable		138	148
		235,316	193,909
By donors:			
Cash and cash equivalents		1,052	—
Corporate and other obligations		3,447	—
Accrued interest receivable		3	—
		4,502	—
Short-term investments	$	239,818	193,909

(c) Investment Income

Investment income, and gains and losses on short-term investments and assets whose use is limited are comprised of the following for the years ended June 30 (in thousands):

		2015	2014
Interest and dividend income, net	$	25,093	6,775
Unrealized loss on derivatives		(2,066)	(81)
Net realized gains on sales of securities		38,665	27,979
Net unrealized (loss) gains on trading securities		(44,393)	24,849
	$	17,299	59,522

(5) Long-Term Debt

Long-term debt includes the following at June 30 (in thousands):

	2015	2014
Health System Revenue Refunding Bond Series (2015A) of the Oklahoma Development Finance Authority in the aggregate amount of $200,060 at stated rates ranging from 1.00% to 5.00%, issued April 2015, maturing at various dates between August 2015 and August 2038, including a premium of $21,898 at June 30, 2015.	$ 221,958	—
Health System Revenue Refunding Bond Series (2015B) of the Oklahoma Development Finance Authority in the aggregate amount of $48,425 as multi-modal, variable rates that may bear interest at a Window Rate, Daily Rate, Weekly Rate, Direct Purchase Rate, Indexed Rate, Commercial Paper Rate, or Long Term Rate. At June 30, 2015 windows rate was 0.23%. Issued April 2015, maturing at various dates through 2033.	48,425	—
Health System Revenue Refunding bonds Series (2015C) of the Oklahoma Development Finance Authority in the aggregate amount of $89,880 at variable rates as determined by the remarketing agent (0.93% as of June 30, 2015). Issued June 2015, maturing at various dates through August 2033.	89,880	—
Health System Revenue and Refunding Bonds (Series 2013A) of the Oklahoma Development Finance Authority in the aggregate amount of $48,990 at variable rates as determined by the remarketing agent (0.79% at June 30, 2015 and 2014). Issued May 2013, maturing at various dates through 2035.	48,115	48,565
Health System Revenue and Refunding Bonds (Series 2013B) of the Oklahoma Development Finance Authority in the aggregate amount of $48,955 at variable rates as determined by the remarketing agent (0.86% as of June 30, 2015 and 2014). Issued May 2013, maturing at various dates through 2035.	48,080	48,530
Health System Revenue and Refunding Bonds (Series 2011A) of the Oklahoma Development Finance Authority in the aggregate amount of $48,690 at variable rates as determined by the remarketing agent (0.86% at June 30, 2014). Issued July 2011, maturing at various dates through August 2033. Refunded in June 2015.	—	45,855

		2015	2014
Health System Revenue and Refunding Bonds (Series 2011B) of the Oklahoma Development Finance Authority in the aggregate amount of $49,070 at variable rates as determined by the remarketing agent (0.96% at June 30, 2014). Issued July 2011, maturing at various dates through August 2033. Refunded in June 2015.	$	—	46,110
Health System Revenue and Refunding Bonds (Series 2008B) of the Oklahoma Development Finance Authority in the aggregate amount of $114,670 at stated rates ranging from 5.0% to 5.25%, issued July 2008, maturing at various dates between August 2009 and August 2038, including discount of $1,174 at June 30, 2014. Refunded in April 2015.		—	83,266
Health System Revenue and Refunding Bonds (Series 2008C) of the Oklahoma Development Finance Authority in the aggregate amount of $117,000 at stated rates ranging from 4.04% to 5.38%, issued July 2008, maturing at various dates between August 2014 and August 2029, including premium of $858 at June 30, 2014. Refunded in April 2015.		—	117,858
Health System Revenue and Refunding Bonds (Series 2007A-3) of the Oklahoma Development Finance Authority in the aggregate amount of $52,975 at variable rates as determined by the remarketing agent (0.03% at June 30, 2014) issued November 2007, maturing at various dates through August 2033. Refunded in April 2015.		—	49,000
Taxable Variable Rate Demand Bonds (Series 1997) at variable rates as determined by the remarketing agent (0.20% at June 30, 2014) issued May 1, 1997, interest payable monthly, principal payable annually through maturity in June 2017. On June 1, 2015, the bonds were redeemed and letter of credit terminated.		—	3,730
		456,458	442,914
Less current portion		13,615	18,560
Long-term portion	$	442,843	424,354

All debt is secured by the revenues and receivables of the Obligated Group and the members of the Obligated Group are jointly and severally liable for the entire debt. The Obligated Group was comprised of IBMC, ISOCHC, and IRH as of June 30, 2014. IHE was added to the Obligated Group in April 2015. In connection with the various bonds, the Obligated Group must comply with financial covenants and other various covenants that may require, restrict, limit, or prohibit certain transactions or activities. As of June 30, 2015, management believes the Obligated Group was in compliance with all debt covenants. In addition, management believes INTEGRIS *Health* was in compliance with debt covenants on other outstanding indebtedness as of June 30, 2015. The Obligated Group represents approximately 95% and 94% of net assets and approximately 88% and 86% of total operating revenues of INTEGRIS *Health* as of and for the years ended June 30, 2015 and 2014, respectively.

In April 2015, the Obligated Group issued the Series 2015A and Series 2015B Health System Revenue Refunding Bonds of the Oklahoma Development Finance Authority in the amounts of $200,060,000 and $48,425,000, respectively. Proceeds of the 2015 Bonds were used to refund the Series 2008B, 2008C, and 2007A-3 Bonds. INTEGRIS *Health* recognized a loss of approximately $26,000,000 related to the extinguishment of the debt. The Series 2015A was issued as fixed rate debt. The Series 2015B was issued as variable debt with the initial sale at a Window Rate.

In June 2015, the Obligated Group issued the Series 2015C Health System Revenue Refunding Bonds of the Oklahoma Development Finance Authority in the amount of $89,880,000. Proceeds of the 2015C Bonds were used to refund the Series 2011A and 2011B bonds. The Series 2015C Bonds were purchased by a single financial institution in a direct, private placement transaction and will bear interest at variable rates of interest calculated monthly pursuant to a floating rate at a percentage of one month LIBOR plus a spread. The spread is based on the rating of the long-term debt of the Obligated Group.

In May 2013, the Obligated Group issued the Series 2013A and Series 2013B *Health* System Revenue and Refunding Bonds of The Oklahoma Development Finance Authority in the amounts of $48,990,000 and $48,955,000, respectively. The 2013 Bonds were purchased by a single financial institution in a direct, private placement transaction and will bear interest at variable rates of interest calculated monthly pursuant to a floating rate at a percentage of one month LIBOR plus a spread. The spread is based on the rating of the long-term debt of the Obligated Group. The 2013A Bonds are subject to a mandatory tender by the holder of the bonds at the end of seven years and the 2013B Bonds are subject to a mandatory tender by the holder of the bonds at the end of eight years, unless the holding period is renewed and extended by the bondholder. Upon a mandatory tender the Obligated Group will have the ability to convert to another interest rate mode (daily, weekly, term rate, flexible rate, or fixed rate) and remarket the 2013 Bonds. The 2013A and 2013B bonds are classified in the accompanying consolidated balance sheet and the maturity table below in accordance with the mandatory tender provisions in place with the holder of the bonds.

During 1999, INTEGRIS *Health* entered into agreements whereby INTEGRIS *Health* agrees to receive variable market-indexed payments in exchange for fixed rate interest payments. The notional principal amount underlying these interest rate swaps at June 30, 2015 and 2014 was $112,400,000 and $113,300,000, respectively. The interest rate swaps mature in August 2029. The variable payment rates approximate 67% of the one-month USD-LIBOR-BBA. The fixed payment rate is 3.519%.

During 2005, INTEGRIS *Health* entered into agreements whereby INTEGRIS *Health* agrees to receive variable market-indexed payments in exchange for fixed rate interest payments. The notional principal amount underlying these interest rate swaps at June 30, 2015 and 2014 was $94,050,000 and $94,950,000, respectively. The interest rate swaps mature in August 2035. The variable payment rates approximate 67% of the one-month USD-LIBOR-BBA, which approximates the variable rates of the series 2013A and 2013B bonds. The fixed payment rate is 3.568%.

During fiscal year 2008, INTEGRIS *Health* entered into agreements whereby INTEGRIS *Health* agrees to receive variable market-indexed payments in exchange for fixed rate interest payments. The notional principal amount underlying these interest rate swaps at June 30, 2015 and 2014 was $137,575,000 and $140,750,000, respectively. The interest rate swaps mature in August 2033. The variable payment rates approximate 67% of three-month USD-LIBOR-BBA, which approximates the variable rates of the series 2015B and 2015C bonds. The fixed payment rate is 3.619%.

In the event all of the variable rate demand bonds were tendered and the remarketing agent was unable to remarket the bonds, INTEGRIS *Health*'s required repayment of principal as compared to scheduled principal repayments are as follows (in thousands):

		Scheduled principal payments	Including mandatory and SBPA tendered bonds
Year ending June 30:			
2016	$	13,615	13,615
2017		12,490	12,490
2018		13,055	13,055
2019		14,860	14,860
2020		15,525	55,140
Thereafter		365,015	325,400
Total	$	434,560	434,560

During 2015, INTEGRIS *Health* entered into a line of credit with Bank of Oklahoma, N.A. in the amount of $75,000 that expires on July 1, 2016. There were no amounts outstanding under the line of credit as of June 30, 2015.

During 2014, INTEGRIS *Health* extended the line of credit with Wells Fargo in the amount of $3 million with a variable interest rate of 1.98% from August 30, 2013 to September 30, 2014. The line of credit was not renewed in fiscal year 2015. The outstanding balance was $0 at June 30, 2015 and $1,151,000 at June 30, 2014.

Quality Alliance entered into a Standby Letter of Credit with Commerce Bank for $11,000,000 in fiscal year 2015. The Letter of Credit secures Quality Alliance's insurance obligations for the employed physicians.

(6) Investments in Affiliates

INTEGRIS *Health* owns interests of less than or equal to 50% in Two Corporate Plaza, L.L.C. (Plaza), a real estate limited liability company; Medical Plaza Imaging Center LLC (MPIC), a healthcare limited liability company; Advanced Imaging LLC (Advanced Imaging) a healthcare limited liability company; Southwest Ambulatory Surgery Center, LLC (SW Ortho), a surgery center limited liability company; Fresenius INTEGRIS, L.L.C. (Fresenius), a healthcare limited liability company; InteliStaf, a medical personnel agency; Diagnostic Lab of Oklahoma (DLO), a comprehensive medical laboratory; INTEGRIS HMA, LLC (INTEGRIS HMA), a healthcare limited liability company; and ProCure, a cancer treatment center. These investments are accounted for using the equity method and are recorded in other assets, net.

INTEGRIS *Health* purchased an interest in VADovations, Inc. in 2011. VADovations is a research and development company. INTEGRIS *Health* owns 75% of the stock and controls 40% of the representation on the board of directors. Based upon the level of control maintained, this investment is also accounted for using the equity method and is recorded in other assets, net.

INTEGRIS Health sold the remaining ownership interest held in INTEGRIS HMA in March 2015. Additionally, ownership interest held in Fresenius was sold in May 2015.

Following is a summary of the ownership interests, carrying values, and equity in earnings (losses) of investments in affiliates at June 30, 2015 and 2014 (in thousands):

	Ownership interest		Carrying value		Equity in earnings (losses)	
	2015	**2014**	**2015**	**2014**	**2015**	**2014**
Plaza	33.33%	33.33%	$ 512	545	(33)	(30)
MPIC	50.00	50.00	599	640	174	289
Advanced Imaging	50.00	50.00	180	171	9	(33)
SW Ortho	19.37	18.37	6,165	5,773	2,902	2,781
Fresenius	—	49.00	—	545	750	(698)
InteliStaf	32.00	32.00	281	270	502	385
DLO	49.00	49.00	13,388	11,352	15,755	11,451
ProCure	3.65	3.65	1,619	2,007	(388)	(721)
VADovations, Inc.	75.00	75.00	(4,360)	(1,914)	(2,446)	(2,574)
INTEGRIS HMA	—	20.00	—	8,104	1,208	(3,915)
			$ 18,384	27,493	18,433	6,935

(7) Noncontrolling Interests

INTEGRIS *Health* controls and, therefore, consolidates certain investees in its partnerships and joint ventures with physicians and nonphysicians to operate hospitals and other health-related ventures. The activity for noncontrolling interest for the years ended June 30, 2015 and 2014 is summarized below (in thousands):

		2015	2014
Noncontrolling ownership interest in equity of consolidated affiliates, beginning of year	$	5,376	5,785
Revenue and gains in excess of expenses and losses attributable to noncontrolling interest		623	649
Grand Lake buyout		—	(108)
Sold portion of Lakeside interest		266	—
Distributions to noncontrolling interest holders		(210)	(950)
Noncontrolling ownership interest in equity of consolidated affiliates, end of year	$	6,055	5,376

(8) Malpractice and Liability Costs

INTEGRIS *Health* is involved in litigation arising in the ordinary course of business. Claims alleging malpractice have been asserted against INTEGRIS *Health* and are currently in various stages of litigation. Currently, there are varying insurance programs and arrangements in place.

Effective July 1, 1995, INTEGRIS *Health* formed Quality Alliance, a captive insurance company formed for the purpose of providing coverage to INTEGRIS *Health* and all of its controlled entities for medical malpractice and other liability risks. Quality Alliance charges premiums to the respective entities for coverage and accrues losses based on estimates that incorporate past experience as well as other considerations, which are based on actuarial estimates from an independent third-party actuary. Adjustments to the liability based on subsequent developments or other changes in the estimate are reflected in the consolidated statements of operations and changes in net assets in the period in which such adjustments become known. Quality Alliance maintains reinsurance coverage to reduce exposure from significant individual and aggregate losses. INTEGRIS *Health* has an undiscounted accrued liability for estimated claims incurred of approximately $87,829,000 and $90,288,000 as of June 30, 2015 and 2014, respectively.

Claims arising from services provided to patients through June 30, 2015 and 2014 have been filed requesting damages in excess of insurance and the amount accrued for estimated malpractice costs. It is the opinion of management, however, after consulting with its legal counsel, insurance carrier, and actuary, that estimated costs to be incurred will be covered by professional liability insurance and the amount accrued for estimated malpractice costs. Due to the inherent uncertainties and subjectivity involved in accounting for contingencies, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

(Continued)

(9) Pension and Postretirement Benefit Plans

INTEGRIS *Health* has a defined-benefit pension plan (the Pension Plan) covering certain eligible employees and employees of controlled entities and affiliates. Eligible employees include those over 21 years of age who have attained at least 1,000 hours of service. The benefits are based on the employee's years of service and compensation. Employees newly hired or rehired after July 1, 2009 were no longer able to access this plan. As of January 1, 2013, the Pension Plan was frozen.

INTEGRIS *Health*'s funding policy for the Pension Plan is to contribute at least the minimum amount necessary to satisfy the funding standards of the Employee Retirement Income Security Act of 1974, as amended. The minimum contributions were approximately $7,900,000 and $15,300,000 in 2015 and 2014, respectively. Contributions of approximately $32,000,000 and $22,000,000 were made in 2015 and 2014, respectively.

INTEGRIS *Health* also offers eligible employees of INTEGRIS *Health* and controlled entities and affiliates certain postretirement healthcare and life insurance benefits. INTEGRIS *Health*'s funding policy is to pay the benefits as they are incurred.

The following table sets forth the pension and postretirement benefit plan's benefit obligations, fair value of plan assets, and funded status as of June 30, 2015 and 2014 (in thousands):

		Pension plan		**Postretirement benefit plan**	
		2015	**2014**	**2015**	**2014**
Projected benefit obligation at June 30	$	614,037	572,571	2,832	3,594
Fair value of plan assets at June 30		410,686	392,130	—	—
Funded status	$	(203,351)	(180,441)	(2,832)	(3,594)
Accrued benefit cost recognized in the balance sheet	$	(203,351)	(180,441)	(2,832)	(3,541)

Net assets include approximately $199,697,000 and $142,506,000 related to the pension plan as of June 30, 2015 and 2014, respectively. The June 30, 2015 and 2014 amount is comprised of net actuarial loss of approximately $199,697,000 and $142,506,000, respectively, and prior service credits of approximately $0 for both years. The net loss and prior service cost for the pension plan as of June 30, 2015 that will be amortized from net assets into net periodic benefit cost over the next fiscal year are approximately $3,900,000. There was no net loss or prior service cost amortized during the year ended June 30, 2015.

(Continued)

Actuarial assumptions utilized for the plans are as follows:

	Pension plan		Postretirement benefit plan	
	2015	**2014**	**2015**	**2014**
Weighted average assumptions as of June 30 used to determine net periodic benefit cost:				
Discount rate	4.53%	5.00%	4.53%	5.00%
Expected long-term rate of return on plan assets	7.72	7.00	—	—
Healthcare cost trend rate	—	—	8.00	8.50
Weighted average assumptions as of June 30 used to determine the benefit obligation:				
Discount rate	4.79%	4.53%	4.79%	4.53%
Healthcare cost trend rate	—	—	8.00	8.50

The accumulated benefit obligation for the Pension Plan was approximately $614,037,000 and $572,571,000 at June 30, 2015 and 2014, respectively. The Plan updated the mortality assumption by adopting the RP-2014 mortality table.

For measurement purposes, medical claims in 2015 are assumed to be 8.0% greater than medical claims for 2014. The trend is graded down so that medical claims in 2022 and later are assumed to be 4.5% greater than claims in the prior year.

Summary information for the plans is as follows:

	Pension plan		Postretirement benefit plan	
	2015	**2014**	**2015**	**2014**
Net periodic benefit cost	$ (2,282,000)	4,254,000	135,000	110,000
INTEGRIS *Health* contributions	32,000,000	22,000,000	136,000	132,000
Benefits paid	19,006,000	16,887,000	144,000	140,000

The following tables present information about INTEGRIS *Health*'s pension plan assets that are measured at fair value on a recurring basis as of June 30, 2015 and 2014 (in thousands). The table indicates the fair value hierarchy of the valuation techniques utilized to determine such fair values. In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities. Fair values determined by Level 2 inputs utilize data points that are observable, such as quoted prices, interest rates, and yield curves. Fair values determined by Level 3 inputs are unobservable data points for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability.

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	2015
Equity:				
Common stocks:				
Consumer discretionary	$ 21,360	—	—	21,360
Consumer staples	5,744	—	—	5,744
Energy	16,194	—	—	16,194
Financials	59,285	—	—	59,285
Healthcare	17,447	—	—	17,447
Industrials	28,712	—	—	28,712
Information technology	57,718	—	—	57,718
Materials	310	—	—	310
Telecommunications services	2,484	—	—	2,484
Total common stocks	209,253	—	—	209,253
Publicly traded mutual funds – equity	39,331	—	—	39,331
Total equity	248,584	—	—	248,584
Fixed income:				
Publicly traded mutual funds – fixed income	79,277	44,063	—	123,341
Total fixed income	79,277	44,063	—	123,341
Real estate	—	—	4,013	4,013
Limited partnerships	—	—	19,530	19,530
Cash and cash equivalents	14,259	—	—	14,259
Total assets	$ 342,121	44,063	23,543	409,727

Plan assets also include $959,000 of accrued interest at June 30, 2015.

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	2014
Equity:				
Common stocks:				
Consumer discretionary	$ 17,025	—	—	17,025
Consumer staples	3,014	—	—	3,014
Energy	5,419	—	—	5,419
Financials	29,738	—	—	29,738
Healthcare	2,182	—	—	2,182
Industrials	7,341	—	—	7,341
Information technology	14,566	—	—	14,566
Materials	382	—	—	382
Telecommunications services	1,828	—	—	1,828
Utilities	7,360	—	—	7,360
Total common stocks	88,855	—	—	88,855
Publicly traded mutual funds – equity	118,397	—	—	118,397
Total equity	207,252	—	—	207,252
Fixed income:				
Publicly traded mutual funds – fixed income	117,267	—	—	117,267
Total fixed income	117,267	—	—	117,267
Real estate	—	—	4,519	4,519
Limited Partnerships	40,983	—	14,595	55,578
Cash and cash equivalents	7,324	—	—	7,324
Total assets	$ 372,826	—	19,114	391,940

Plan assets also include $190,000 of accrued interest at June 30, 2014.

(Continued)

The weighted average asset allocation of INTEGRIS *Health*'s pension benefits at June 30, 2015 and 2014, by asset category are as follows:

	Plan assets at June 30	
	2015	**2014**
Asset category:		
Equity securities	61%	53%
Debt securities	30	30
Cash	3	2
Real estate	1	1
Master limited partnerships	5	14
	100%	100%

The Pension Plan is administered by a board appointed committee that maintains a well developed investment policy stating the guidelines for the performance and allocation of plan assets, performance review procedures, and updating the policy itself. The committee adheres to traditional capital market pricing theory, recognizing that over the long run the risk of owning equities should be rewarded with a somewhat greater return than available from fixed income investments. However, the committee also recognizes that the avoidance of large risks is desirable and is willing to trade off certain higher return opportunities in order to preserve a lower risk investment profile. At least annually, the Pension Plan asset allocation guidelines are reviewed in respect to evolving risk and return expectations. Current guidelines permit the committee to manage the target allocation of funds between equities and debt securities at its discretion; however, based on evaluations conducted periodically, the committee has maintained a target allocation of assets in the range of 50%–70% equities and 30%–50% debt securities.

The long-term return forecasting methodology for both equity and fixed income securities is based on the capital asset pricing model using historical data supplied by Ibbotson Associates. Based on the historical range of target asset allocations and the historical rates of return for each asset class, the expected long-term rate of return of Pension Plan assets has ranged from 6.3%–8.6%. The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories.

INTEGRIS *Health* plans to contribute a minimum of $23,000,000 to the Plan during the upcoming year.

(Continued)

The expected benefits to be paid are as follows:

		Pension plan	Postretirement benefit plan
2016	$	21,193,000	221,000
2017		23,093,000	228,000
2018		24,260,000	233,000
2019		25,913,000	236,000
2020		27,273,000	237,000
2021–2025		157,313,000	1,132,000

The expected benefits are estimated based on the same assumptions used to measure the benefit obligations of INTEGRIS *Health* at June 30, 2015 and include benefits attributable to estimated future employee service.

(10) Other Employee Benefit Plans

INTEGRIS *Health* is self-insured for the purpose of providing medical and dental benefits to all eligible employees of INTEGRIS *Health* and affiliates through several plans. Eligible employees are allowed to select coverage through an affiliated preferred provider organization or a health maintenance organization. Claims and premiums under this plan are paid with funds provided by the operations of INTEGRIS *Health* as well as employee contributions. INTEGRIS *Health* has an accrued liability for estimated claims incurred of approximately $7,859,000 and $4,932,000 as of June 30, 2015 and 2014, respectively.

INTEGRIS *Health* is self-insured for workers' compensation for substantially all employees of INTEGRIS *Health* and affiliates through several plans. The accrued liability for estimated claims incurred is approximately $14,709,000 and $13,380,000 as of June 30, 2015 and 2014, respectively. INTEGRIS *Health* maintained an irrevocable letter of credit issued by a bank in favor of the Oklahoma Workers' Compensation Court (the Court) in the aggregate amount of $5,400,000 through September 2013. Until then the letter of credit was required by the Court to allow INTEGRIS *Health* and affiliates to carry workers' compensation risk without insurance. Starting in fiscal year 2014, the Court changed requirements and INTEGRIS was granted the ability to set up a Reserve Escrow account in the amount of $6,000,000. In October 2013, such an account was set up with Bank of Oklahoma and the balance at June 30, 2015 was $6,081,000. The court will reevaluate the required reserve annually.

INTEGRIS *Health* administers a retirement savings plan for its employees and employees of controlled entities and affiliates. Eligible employees may contribute pretax wages in accordance with the retirement savings plan. INTEGRIS *Health* and affiliates match certain contributions made by their employees. INTEGRIS *Health* also makes contributions on behalf of employees based on years of service (the INTEGRIS *Health* Basic Contributions). Contributions of approximately $35,007,000 and $32,451,000 were made by INTEGRIS *Health* in 2015 and 2014, respectively.

(11) Charity Care and Uncompensated Care

The healthcare related controlled entities provide care to patients who lack financial resources and are deemed medically and financially indigent. Because the healthcare related entities do not pursue collection of amounts determined to qualify as charity care, these amounts are removed from net patient service revenue.

INTEGRIS accepts patients regardless of their ability to pay. A patient is classified as a traditional charity patient by meeting the requirements of system approved policies. Essentially, these policies define traditional charity services as those services for which the ability to pay from existing patient resources is not reasonably expected. The amount of traditional charity care provided, determined on the basis of cost, was approximately $38,695,000 and $32,699,000 for the years ended June 30, 2015 and 2014, respectively. INTEGRIS estimated the cost of charity care based on a ratio of total operating expenses to gross charges. Additionally, INTEGRIS has a 62% private pay discount and considers the private pay discount and all Medicaid contractual adjustments to be a component of total charity care.

(12) Concentration of Credit Risk

INTEGRIS *Health* grants credit without collateral to patients, most of who are insured under third-party payor agreements. Gross outstanding Medicare and Medicaid payor receivables represented approximately 37% and 41% of total gross outstanding receivables at June 30, 2015 and 2014, respectively.

Through various legislative actions, Congress has mandated the Centers for Medicare and Medicaid Services (CMS) should phase out cost-based reimbursement in favor of prospective payment mechanisms. In the recent past this has been accomplished for most services that are provided by INTEGRIS *Health* facilities. Many of these changes had the effect of restraining net patient revenue growth. Reimbursement levels are often established for political rather than economic benefit. Based on previous trends, it is assumed that this situation should continue into the near future without major changes. This will continue to limit net patient revenue growth from these payor sources.

(13) Federal Income Taxes

INTEGRIS *Health* has certain subsidiaries and operations such as partnership interests, retail pharmacies, and outside laboratory services that are taxable for federal income tax purposes. The taxable activities of all includible entities have approximately $10,455,000 and $6,049,000 in net deferred tax assets, against which a 100% valuation allowance has been recorded, for the years ended June 30, 2015 and 2014, respectively.

(14) Functional Expenses

INTEGRIS *Health* and its controlled entities provide a variety of healthcare services. Expenses related to providing these services are as follows (in thousands) for the year ended June 30, 2015.

		2015	2014
Healthcare services	$	1,195,000	1,128,000
General and administrative		259,000	232,000
	$	1,454,000	1,360,000

(15) Fair Value Disclosures

The financial assets recorded at fair value on a recurring basis primarily relate to investments and assets limited as to use and derivatives. A fair value hierarchy is utilized that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

The following tables present information about INTEGRIS *Health's* assets and liabilities that are measured at fair value on a recurring basis as of June 30, 2015 and 2014 (in thousands), and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value. In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities. Fair values determined by Level 2 inputs utilize data points that are observable, such as quoted prices, interest rates, and yield curves. Fair values determined by Level 3 inputs are unobservable data points for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability.

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	2015
Equity:				
Common stocks:				
Consumer discretionary	$ 35,242	—	—	35,242
Consumer staples	9,650	—	—	9,650
Energy	27,115	—	—	27,115
Financials	102,818	—	—	102,818
Healthcare	30,607	—	—	30,607
Industrials	47,596	—	—	47,596
Information technology	100,311	—	—	100,311
Materials	517	—	—	517
Telecommunications services	4,724	—	—	4,724
Total common stocks	358,580	—	—	358,580
Publicly traded mutual funds – equity	128,548	—	—	128,548
Fixed income:				
Treasury and federal agencies:				
Short (less than 5 years)	55,119	—	—	55,119
Intermediate (5–10 years)	—	—	—	—
Long (more than 10 years)	5,430	—	—	5,430
Total treasury and federal agencies	60,549	—	—	60,549

(Continued)

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	2015
Nongovernmental obligations:				
Short (less than 5 years)	$ 32,608	136,699	830	170,137
Intermediate (5–10 years)	—	14,829	—	14,829
Long (over 10 years)	45	74,537	—	74,582
Total nongovernmental obligations	32,653	226,065	830	259,548
Publicly traded mutual funds – fixed income	277,794	—	—	277,794
Total fixed income	370,996	226,065	830	597,891
Real estate	—	—	2,293	2,293
Limited partnerships	—	—	6,273	6,273
Publicly traded mutual funds - other investments	102,983	—	—	102,983
Cash and cash equivalents	12,769	—	—	12,769
Total assets	$ 973,876	226,065	9,396	1,209,337
Liabilities:				
Interest rate swap agreements	$ —	59,198	—	59,198

Total invested assets also included approximately $2,030,000 of accrued income at June 30, 2015.

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	2014
Equity:				
Common stocks:				
Consumer discretionary	$ 8,773	—	—	8,773
Consumer staples	12,260	—	—	12,260
Energy	9,793	—	—	9,793
Financials	7,501	—	—	7,501
Healthcare	16,637	—	—	16,637
Industrials	12,819	—	—	12,819
Information technology	75,394	—	—	75,394
Materials	8,498	—	—	8,498
Telecommunications services	9,262	—	—	9,262
Utilities	7,848	—	—	7,848
Total common stocks	168,785	—	—	168,785
Marketable limited partnerships	3,527	—	—	3,527
Publicly traded mutual funds – equity	101,958	—	—	101,958
Total equity	274,270	—	—	274,270
Fixed income:				
Treasury and federal agencies:				
Short (less than 5 years)	59,777	89	—	59,866
Intermediate (5–10 years)	8,951	1,090	—	10,041
Long (more than 10 years)	29,387	44,550	—	73,937
Total treasury and federal agencies	98,115	45,729	—	143,844
Nongovernmental obligations:				
Short (less than 5 years)	—	177,446	—	177,446
Intermediate (5–10 years)	—	16,814	—	16,814
Long (over 10 years)	—	4,000	—	4,000
Total nongovernmental obligations	—	198,260	—	198,260
Preferred stocks nonconvertible	279	—	—	279
Publicly traded mutual funds – fixed income	466,073	—	—	466,073
Total fixed income	564,467	243,989	—	808,456

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	2014
Real estate	—	—	3,226	3,226
Limited partnerships	—	—	1,447	1,447
Cash and cash equivalents	59,678	—	—	59,678
Total assets	$ 898,415	243,989	4,673	1,147,077
Liabilities:				
Interest rate swap agreements	$ —	57,132	—	

Total invested assets also included approximately $1,503,000 of accrued income at June 30, 2014.

(16) CMS Settlement

On April 7, 2009, INTEGRIS Health, Inc. ("INTEGRIS Health") was notified by its Medicare Administrative Contractor ("MAC") of a proposed reduction in its Medicare Disproportionate Share Program ("DSH") payment for 2007, because of their objection to the inclusion of certain Medicaid days for acute adolescent psychiatric treatment services in the calculation of its DSH payment. A final determination was deferred until CMS had ruled on a similar adjustment for an unrelated healthcare system in Oklahoma. If determined adversely, a portion of the DSH payments for 2005-2015 would be recoupable by CMS and, based on an average adjustment of $13-15 million per year over the ten-year period, would result in a settlement payment and adjustment to the Obligated Group's earnings in the year of determination of approximately $140 million. On March 20, 2015, INTEGRIS Health was informed by its MAC that a Notice of Program Reimbursement ("NPR") would be issued (i) on April 17, 2015, relating to INTEGRIS Bass Baptist Health Center-Enid ("INTEGRIS Bass") for the fiscal year ended June 30, 2007, and (ii) on May 15, 2015, relating to INTEGRIS Baptist Medical Center for the fiscal year ended June 30, 2007.

On May 15, 2015, INTEGRIS Health received a NPR, informing it that the audit of the Medicare Cost Report for INTEGRIS Bass for the period ending June 30, 2007 had been completed, resulting in an adjustment to the cost report in a net amount due the program of approximately $2.3 million (the "Disputed Amount").

On May 29, 2015, INTEGRIS Health received a NPR, informing it that the audit of the Medicare Cost Report for INTEGRIS Baptist for the period ending June 30, 2007 had been completed, resulting in an adjustment to the cost report in a net amount due the program of approximately $11 million (the "Disputed Amount").

INTEGRIS Health remains steadfast in its belief that the inclusion of such patient days in its cost reports is justified. To preserve its appeal rights, INTEGRIS Health has paid the Disputed Amount for 2007 and is pursuing all available administrative and legal remedies. INTEGRIS Health continues to believe that its position will be sustained.

As a result of the issuance of the above NPRs, INTEGRIS Health did record an estimate of $140 million for the exposure associated with this dispute. This amount is reported on a separate line in the consolidated statements of operations and is included in the calculation of Net Patient Service Revenue and as a corresponding liability in the consolidated balance sheet. Management does not believe that this decision will have a material impact on future operations or the financial profile of INTEGRIS Health.

(17) Commitments and Contingencies

As discussed in note 8, INTEGRIS *Health* and its controlled entities are involved in litigation associated with alleged malpractice and general liability claims, which arise out in the ordinary course of business. It is the opinion of management, upon consultation with legal counsel, that self-insurance reserves are sufficient to cover the related exposure, and that the outcome of these matters will not have a material adverse effect on INTEGRIS *Health*'s consolidated financial position or results of operations.

In the normal course of operations, INTEGRIS *Health* receives grants and other funding from the federal government. These activities are subject to audit by agents of the funding authority, the purpose of which is to ensure compliance with conditions precedent to providing of such funds. Management believes that the liability, if any, for any reimbursement that may arise as the result of grant audits, would not be material to the consolidated financial statements.

The U.S. Department of Justice and other federal agencies are increasing resources dedicated to regulatory investigations and compliance audits of healthcare providers. INTEGRIS *Health* is subject to these regulatory efforts. In consultation with legal counsel, management does not expect that the resolution of regulatory compliance matters will have a material adverse effect on INTEGRIS *Health*'s consolidated financial position or results of operations.

Certain controlled entities have projects to construct and expand facilities and purchase medical equipment, which are in various stages of completion. As of June 30, 2015 and 2014, the estimated remaining costs to complete these projects totaled approximately $135,658,000 and $7,050,000, respectively. These costs are expected to be incurred in future fiscal years.

Future minimum lease payments for all noncancelable leases with terms greater than one year are as follows (in thousands):

2016	$	9,479
2017		6,481
2018		5,715
2019		3,298
2020		1,156
Thereafter		1,228
Total	$	27,357

Operating lease expense approximated $22,777,000 and $18,945,000 in 2015 and 2014, respectively.

(18) Subsequent Events

Management of INTEGRIS *Health* has evaluated subsequent events through September 21, 2015, the date on which the consolidated financial statements were issued.

INTEGRIS *HEALTH*, INC.
AND CONTROLLED ENTITIES

Consolidating Schedule – Balance Sheet Information

June 30, 2015

(In thousands)

Assets		**INTEGRIS Baptist Medical Center, Inc.**	**INTEGRIS South Oklahoma City Hospital Corporation**	**INTEGRIS Rural Health, Inc.**	**INTEGRIS Health Edmond**	**Obligated group combined total**	**All others**	**Reclassifications and eliminations**	**Consolidated total**
Current assets:									
Cash and cash equivalents	$	398,108	20,549	1,730	—	420,387	148,320	(536,711)	31,996
Short-term investments		67,939	37,425	41,031	—	146,395	93,423	—	239,818
Accounts receivable, net:									
Patients		77,414	24,842	23,424	5,329	131,009	26,827	—	157,836
Affiliates		—	—	1,345	—	1,345	68,982	(69,613)	714
Current portion of notes receivable		—	—	20	—	20	—	—	20
Inventories		13,909	2,636	6,008	818	23,371	4,382	—	27,753
Prepaid expenses and other current assets		563	118	211	—	892	13,440	—	14,332
Total current assets		557,933	85,570	73,769	6,147	723,419	355,374	(606,324)	472,469
Assets whose use is limited		495,421	112,339	102,587	—	710,347	261,202	—	971,549
Property and equipment, net		166,163	64,470	152,900	92,224	475,757	145,681	—	621,438
Other assets, net		40,848	4,404	8,449	—	53,701	1,233,612	(1,174,413)	112,900
Total assets	$	1,260,365	266,783	337,705	98,371	1,963,224	1,995,869	(1,780,737)	2,178,356
Liabilities and Net Assets									
Current liabilities:									
Accounts payable, accrued expenses and other	$	124,868	11,499	32,979	1,326	170,672	145,770	—	316,442
Employee compensation and related liabilities		19,473	8,082	8,184	1,487	37,226	36,484	—	73,710
Current portion of long-term debt		13,615	—	—	—	13,615	—	—	13,615
Current portion of capital lease obligations		—	—	—	—	—	344	—	344
Due to affiliates		96,574	571	85,627	77,658	260,430	355,463	(606,324)	9,569
Total current liabilities		254,530	20,152	126,790	80,471	481,943	538,061	(606,324)	413,680
Long-term debt, less current portion		442,843	—	—	—	442,843	3,259	(3,259)	442,843
Capital lease obligations, less current portion		—	—	—	—	—	1,027	—	1,027
Other long-term liabilities		61,982	274	482	—	62,738	235,987	—	298,725
Total liabilities		759,355	20,426	127,272	80,471	987,524	778,334	(609,583)	1,156,275
Net Assets of INTEGRIS *Health*		501,317	246,357	210,433	17,900	976,007	1,211,173	(1,171,154)	1,016,026
Noncontrolling ownership interest in equity								—	
of consolidated affiliates – unrestricted		(307)	—	—	—	(307)	6,362	—	6,055
Total net assets (deficit)		501,010	246,357	210,433	17,900	975,700	1,217,535	(1,171,154)	1,022,081
Total liabilities and net assets	$	1,260,365	266,783	337,705	98,371	1,963,224	1,995,869	(1,780,737)	2,178,356

See accompanying independent auditors’ report.

Schedule 2

INTEGRIS *HEALTH* , INC.
AND CONTROLLED ENTITIES

Consolidating Schedule – Statement of Operations and Changes in Net Assets Information

Year ended June 30, 2015

(In thousands)

	INTEGRIS Baptist Medical Center, Inc.	INTEGRIS South Oklahoma City Hospital Corporation	INTEGRIS Rural Health, Inc.	INTEGRIS Health Edmond	Obligated group combined total	All others	Reclassifications and eliminations	Consolidated total
Operating revenues:								
Patient service revenue (net of contractual allowances and discounts)	$ 735,448	261,427	264,027	50,012	1,310,914	180,255	(14,979)	1,476,190
Provision for bad debts	(40,669)	(31,941)	(18,028)	(3,373)	(94,011)	(4,213)	—	(98,224)
Net patient service revenue prior to accrual of CMS Settlement	694,779	229,486	245,999	46,639	1,216,903	176,042	(14,979)	1,377,966
Accrual of CMS settlement	(111,368)	—	(28,632)	—	(140,000)	—	—	(140,000)
Net patient service revenue	583,411	229,486	217,367	46,639	1,076,903	176,042	(14,979)	1,237,966
Premium revenue	216	—	45	—	261	1,225	—	1,486
Other operating revenue	51,766	14,511	10,152	1,461	77,890	282,121	(214,767)	145,244
Total operating revenues	635,393	243,997	227,564	48,100	1,155,054	459,388	(229,746)	1,384,696
Operating expenses:								
Salaries and related expenses	225,774	93,563	94,852	16,410	430,599	316,233	(5,143)	741,689
Supplies and other expenses	291,995	75,285	91,989	14,304	473,573	217,510	(106,448)	584,635
Professional services	119,081	53,690	37,150	7,977	217,898	30,694	(210,944)	37,648
Depreciation and amortization	23,670	9,273	12,495	5,450	50,888	17,143	—	68,031
Provision for bad debt (nonpatient)	—	3	(1)	—	2	1	—	3
Interest expense	13,986	3,433	5,859	—	23,278	(965)	(31)	22,282
Total operating expenses	674,506	235,247	242,344	44,141	1,196,238	580,616	(322,566)	1,454,288
(Loss) Income from operations	(39,113)	8,750	(14,780)	3,959	(41,184)	(121,228)	92,820	(69,592)
Nonoperating revenue (expense):								
Investment income, net	4,046	1,045	969	—	6,060	11,076	—	17,136
Equity in income of affiliates, net	(2,446)	—	—	—	(2,446)	—	—	(2,446)
Loss on extinguishment of debt	(25,045)	(42)	(908)	—	(25,995)	(45)	—	(26,040)
Other, net	330	—	(6)	—	324	(10,005)	—	(9,681)
Total nonoperating (expense) revenue, net	(23,115)	1,003	55	—	(22,057)	1,026	—	(21,031)
Net (loss) income	(62,228)	9,753	(14,725)	3,959	(63,241)	(120,202)	92,820	(90,623)
Net (loss) income attributable to noncontrolling interest	4		—	—	4	(627)	—	(623)
Net (loss) income attributable to INTEGRIS *Health*	(62,224)	9,753	(14,725)	3,959	(63,237)	(120,829)	92,820	(91,246)
Other changes in net assets:								
Pension liability adjustment	—	—	—	—	—	(56,351)	—	(56,351)
Other, net	(79,712)	570	890	25,000	(53,252)	41,170	9,338	(2,744)
Change in net assets	(141,936)	10,323	(13,835)	28,959	(116,489)	(136,010)	102,158	(150,341)
Net assets (deficit) of INTEGRIS *Health* , beginning of year	643,246	236,036	224,269	(11,059)	1,092,492	1,347,187	(1,273,312)	1,166,367
Net assets (deficit) of INTEGRIS *Health* , end of year	$ 501,310	246,359	210,434	17,900	976,003	1,211,177	(1,171,154)	1,016,026

See accompanying independent auditors' report.