Ochsner Health System
Annual Financial Information Disclosure

For the Year Ended
December 31, 2016

System Overview

Ochsner Health System ("OHS") is a Louisiana-based nonprofit corporation and an organization exempt from taxation under Section 501(c)(3) of the Internal Revenue Code (the "Code") founded on providing the best patient care, research and education. OHS is the "parent company" of the largest non-profit, academic, multi-specialty, integrated healthcare delivery system in the Gulf Coast region ("Ochsner" or the "System") with eight hospitals and 68 health centers. When combined with affiliated hospitals, Ochsner owns, provides management assistance and support, or is affiliated with 29 hospitals. It also employs over 1,200 active staff physicians that have 1,115 board certifications in 67 specialties, trains over 280 medical residents and fellows annually, has 451 Doctor of Medicine students enrolled in the University of Queensland, Ochsner Clinical School, and is currently conducting over 1,000 clinical research studies. In 2016, more than 446,000 people from all 50 states and more than 80 countries visited Ochsner.

Ochsner is recognized nationally for quality. Awards and recognitions in 2016 include:

- Ochsner Medical Center, Ochsner Baptist Medical Center and Ochsner Medical Center - West Bank Campus has been named to the Truven 100 Top Hospitals Award list as one of the 15 U.S. Major Teaching Hospitals.

- Ochsner Medical Center-Baton Rouge became one of only 10 hospitals in the United States to receive both the 2017 100 Top Hospitals® Award by Truven Health Analytics and the 100 Top Hospitals® Everest Award.

- Healthgrades named Ochsner Medical Center, Ochsner Health Center – Elmwood, and Ochsner Medical Center – West Bank Campus as Distinguished Hospitals for safety and quality.

- Ochsner Medical Center, Ochsner Baptist Medical Center, and Ochsner Medical Center – West Bank Campus have received the Healthgrades 2016 Distinguished Hospital Award for Clinical Excellence ™ for the seventh year in a row.

- Ochsner Medical Center, Ochsner Baptist Medical Center and Ochsner Medical Center – West Bank Campus received the Healthgrades 2016 America's 50 Best Hospitals Award™ .

- *Becker's Hospital Review* has recognized Ochsner Medical Center as one of "100 Great Hospitals in America" for 2016. This is the fifth consecutive year that Ochsner Medical Center has been recognized with this award.

- *Becker's Hospital Review* announced Ochsner Medical Center – Baton Rouge as the only Louisiana hospital named to the 2016 "100 Great Community Hospitals" list.

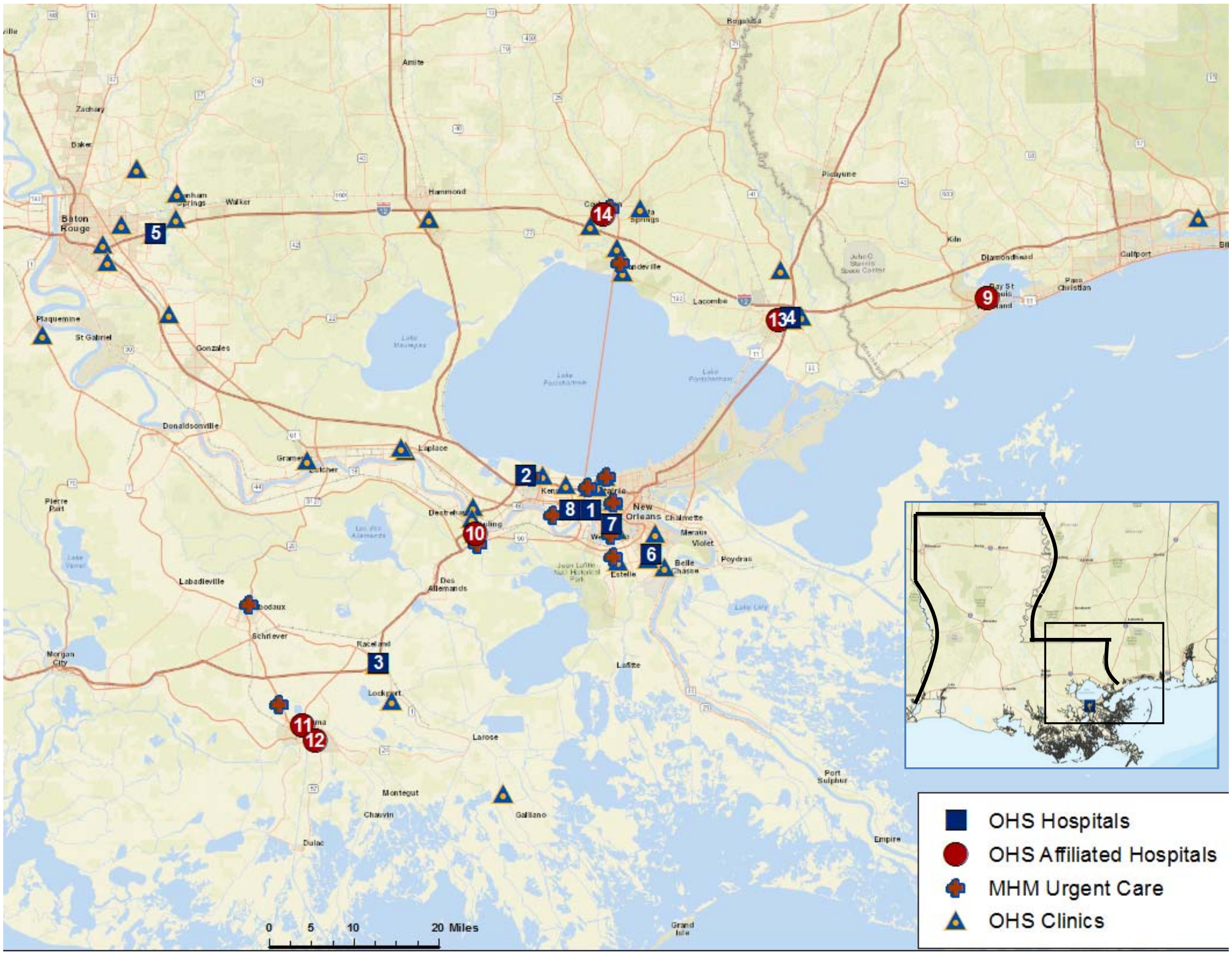
- Ochsner Medical Center, Ochsner Baptist Medical Center and Ochsner Medical Center – West Bank Campus have again been ranked among the best hospitals in the country in three medical specialties, according to U.S. News and World Report's 2016-17 Best Hospitals rankings. Ochsner Medical Center, Ochsner Baptist Medical Center and Ochsner Medical Center – West Bank Campus were also ranked #1 among the best hospitals in Louisiana and #1 among the best hospitals in the New Orleans metro area as well as being recognized among the Best Hospitals in Southeastern Louisiana.

- Ochsner has been named one of four finalists in the Health Acceleration Challenge by the Forum on Health Care Innovation – a collaboration between Harvard Business School (HBS) and Harvard Medical School (HMS) – for its work on the Ochsner Hypertension Digital Medicine Program.

- Ochsner Medical Center was recognized as first in the country for liver transplants for the fifth year in a row by CareChex® – a division of Comparion®.

- Ochsner Hospital for Children is the only children's hospital in Louisiana to receive the 2016 Women's Choice Award® as one of America's Best Hospitals for Children.

The following map indicates the locations of Ochsner's acute care hospitals and health centers. See "Health Care Operations of the Credit Group – Facilities" herein for more information regarding Ochsner's health care facilities.



Ochsner Health System Hospitals

Ochsner Medical Center (1)	Ochsner Medical Center Kenner (2)	Ochsner St. Anne General Hospital (3)
Ochsner Medical Center Northshore (4)	Ochsner Medical Center Baton Rouge (5)	Ochsner Medical Center West Bank(6)
Ochsner Baptist Medical Center (7)	Ochsner Elmwood Hospital (8)	

Ochsner Health System Affiliate Hospitals

Hancock Medical Center (9)	St. Charles Parish Hospital (10)	Terrebonne General Medical Center (11)
Leonard J Chabert Medical Center (12)	Slidell Memorial Hospital (13)	St Tammany Parish Hospital(14)

* Lafayette General Health's 7 hospitals, CHRISTUS Health Louisiana's 6 hospitals, Glenwood Regional Medical Center and Southwest Mississippi Regional Medical Center are excluded from map as each is located outside of the Service Area as hereinafter defined.

Forward Looking Information:

This Financial Information Disclosure contains disclosures, which contain "forward looking statements" within the meaning of the Federal securities laws. Forward looking statements include all statements that do not relate solely to historical or current fact and can be identified by the use of words "expect", "anticipate", "intend", "project", "likely", "may", "might", "estimate", "budget" and similar words or expressions. These forward looking statements are based on the current plans and expectations of Ochsner Health System ("OHS") as of the date of this report and are subject to a number of known and unknown risks and uncertainties inherent in the operation of health care facilities, many of which are beyond OHS's control, that could significantly affect current plans and expectations and OHS's future financial position and results of operations.

Important factors that could cause results to differ materially from those expected by management include, but are not limited to, general, economic and business, competition from other healthcare facilities in the service areas, an unfavorable pricing environment, inability to achieve expected efficiencies in operations or effectively control health care costs, the efforts of insurers and others to contain health care costs, changes in Medicare or Medicaid reimbursement formulas, the risk that managed care provider arrangements will not be negotiated or renewed on acceptable terms, future divestitures or acquisitions which may have a financial impact, availability and terms of capital to fund future expansion and ongoing capital needs, new laws or regulations, the possible enactment of federal or state health care reform, fines or penalties related to regulatory matters, changes in accounting standards and practices, the outcome of pending and future litigation and government investigations, labor issues and the ability to attract and retain qualified management and other personnel, including physicians, nurses and medical support personnel.

Given these uncertainties, bondholders and prospective bondholders are cautioned not to unduly rely on such forward-looking statements when evaluating the information presented in this report. OHS disclaims any obligation, and makes no promise, to update any such factors or forward looking statements or to disclose any facts, events or circumstances after the date hereof that may affect the accuracy of any forward looking statements, whether as a result of changes in underlying factors, to reflect new information, as a result of the occurrence of events or developments or otherwise.

Description of Credit Group

OHS was formed in July 2006 and is the sole corporate member of OCF and until December 31, 2016 the sole corporate member of Ochsner Community Hospitals ("OCH"). OCH, a Louisiana nonprofit corporation and an organization exempt from taxation under Section 501(c)(3) of the Code, was formed on July 17, 2006 for the purpose of acquiring certain medical facilities from Tenet Healthcare Corporation that now operate as Ochsner Medical Center - Kenner, Ochsner Medical Center – Westbank Campus and Ochsner Baptist Medical Center. Effective December 31, 2016 OCH was merged with and into OCF, with OCF continuing as the surviving entity.

OCF is the only Obligated Group Member under the Master Indenture. Certain affiliates of OCF have been designated as Designated Affiliates and Credit Group Members under the Master Indenture. Credit Group or Credit Group Members means all Obligated Group Members and Designated Affiliates. Under the Master Indenture, Obligated Group Members are jointly and severally liable to make payments with respect to Obligations issued under the Master Indenture. Designated Affiliates are not obligated to make payments with respect to Obligations but may be required to transfer to Obligated Group Members, to the extent legally available, amounts necessary to enable the Obligated Group Members to make payments under the Master Indenture. Obligated Group Members may designate entities as Designated Affiliates under the Master Indenture, and may rescind such designation at any time. Designated Affiliates have not changed since the 2017 Preliminary Official Statement dated April 25, 2017. OCF and Designated Affiliates constituted 93.4% of the consolidated total assets of OHS as of December 31, 2016 and 99.9% of the consolidated total revenue of OHS for the year ended December 31, 2016.

Obligated Group Member

OCF is the only Obligated Group Member under the Master Indenture. OCF is headquartered in New Orleans, Louisiana, and, either directly or through its fully owned affiliates or subsidiaries, owns and operates seven hospitals and other healthcare facilities, including:

- OMC, a 499-bed acute care hospital located in New Orleans, Louisiana, which serves as the flagship of Ochsner, and includes an 11-story clinic building, a 137-room hotel and related medical facilities located on a main campus in Jefferson Parish at the western end of New Orleans;
- Ochsner Elmwood Hospital, a 66 bed satellite hospital of OMC, located in Elmwood, Louisiana;
- Ochsner Medical Center – Westbank Campus, a 165-bed acute care satellite hospital of OMC in New Orleans, Louisiana,
- Ochsner Baptist Medical Center, a 102-bed acute care satellite hospital of OMC in New Orleans, Louisiana.
- Ochsner Medical Center - Kenner, a 110-bed acute care hospital in Kenner, Louisiana;
- Ochsner Medical Center – Baton Rouge, a 150-bed acute care hospital in Baton Rouge, Louisiana;
- Ochsner Medical Center – Northshore, a 157-bed acute care hospital in Slidell, Louisiana;
- 68 health centers throughout southeast Louisiana and Mississippi;
- 12 Urgent Care Clinics and 4 Occupational Health Clinics throughout Greater New Orleans; and,
- Several fitness centers that operate as Ochsner Fitness Center.

OCF, through its fully owned subsidiary, operates Ochsner St. Anne General Hospital, a 35-bed acute care hospital in Raceland, Louisiana;

OCF, either directly or through its fully owned affiliates or subsidiaries, provides management assistance and support to three hospitals:

- Leonard J. Chabert Medical Center ("LJCMC"), a 156-bed public, safety net hospital in Houma, Louisiana;
- Hancock Medical Center, a 47-bed acute care hospital in Bay St. Louis, Mississippi;
- St. Charles Parish Hospital ("SCPH"), a 59-bed public, safety net hospital in Luling, Louisiana;

OCF also has joint operating agreements with three hospitals:

- Terrebonne General Medical Center ("TGMC"), a 321-bed acute care hospital in Houma, Louisiana;
- St. Tammany Parish Hospital("STPH"), a 232-bed acute care hospital in Covington, Louisiana;
- Slidell Memorial Hospital ("SMH"), a 229-bed public acute care hospital in Slidell, Louisiana

OCF also entered into strategic partnerships to create clinical affiliations with Lafayette General Health, CHRISTUS Health Louisiana, Glenwood Regional Medical Center and Southwest Mississippi Regional Medical Center.

In recent years, OCF and OHS have entered into several strategic partnership and affiliation agreements that increase local access to care, improve quality, reduce the cost of healthcare, and share best practices and resources in order to improve the health of Louisiana communities. Agreements completed in 2016 and 2017 are as follows:

- Slidell Memorial Hospital. Effective January 1, 2016, OHS and OCF entered into a Joint Operating Agreement ("JOA") with SMH to align both parties' respective assets and operations located in eastern St. Tammany Parish and to share resources, expand services, and implement advanced, patient-centered technology with a focus on continued quality improvements and cost reduction by coordinating and improving resources. SMH remains a public hospital. Pursuant to the JOA, Ochsner Medical Center—North Shore and SMH operate on an integrated basis. Joint activity and decisions are coordinated by a Strategy and Oversight Committee that includes equal representation from both parties. Being financially integrated with SMH, OCF recognizes other operating revenue or other operating expense related to this JOA in its consolidated statements of operations.

- Glenwood Regional Medical Center. On April 6, 2016, OHS announced the formation of a strategic partnership with Glenwood Regional Medical Center focused on increasing local access to specialty care, expanding telemedicine services, sharing best practices and resources to expand services, improve quality and reduce the cost of healthcare in the Northeast Louisiana region.

- Ochsner-Acadia LLC. On May 27, 2016, OCF entered into a joint venture with Acadia Healthcare to open an 82-bed behavioral health facility in LaPlace, Louisiana. The partners will repurpose the existing River Parishes Hospital to accommodate the behavioral health facility and Acadia Healthcare will invest more than $16 million in the facility build-out. Estimated to open in the fourth quarter of 2017, the new facility is expected to serve more than 2,500 inpatients and more than 3,100 outpatients. While Ochsner physicians will staff the facility, this venture will create an additional 145 jobs in St. John Parish.

- St. Bernard Parish Hospital. On October 3, 2016, OCF entered into a Cooperative Endeavor Agreement with St. Bernard Parish Hospital Service District for OCF to provide certain administrative services and operational support to St. Bernard Parish Hospital, a public hospital, on an interim basis during which time the parties will evaluate a potential longer-term relationship to facilitate continued access to appropriate care for the residents of St. Bernard Parish.

- Southwest Mississippi Regional Medical Center. On November 10, 2016, OHS and Southwest Mississippi Regional Medical Center executed a strategic partnership designed to allow the collaboration needed to offer patients access to more highly specialized innovative care locally and to provide an opportunity to share best practices and protocols while increasing learning opportunities for physicians and leaders at both organizations.

- On January 10, 2017, OCF completed the acquisition of Millennium Healthcare Management, Inc. ("MHM). The acquisition added 12 Urgent Care and 4 Occupational Health clinic locations to the services OCF provides in the Greater New Orleans area with expanded services and program options and better access to the most appropriate care at a wider range of destinations.

Governance

As of the release date of this document, there have been no changes to Governance since the 2017 Preliminary Official Statement dated April 25, 2017.

Executive Leadership

As of the release date of this document, there have been no changes to the Executive Leadership since the 2017 Preliminary Official Statement dated April 25, 2017.

Management Discussion and Analysis of Financial Results

Executive Summary:

OHS had Income from Operations of $50.4 million (1.8% of Total Unrestricted Revenues) for 2016 compared to $67.1 million (2.6% of Total Unrestricted Revenues) for 2015 and operating EBITDA was $219.6 million (7.8% of Total Unrestricted Revenues) for 2016 compared to $220.5 million (8.5% of Total Unrestricted Revenues) for 2015. Operating performance in 2016 was negatively impacted by changes to the Louisiana state sales tax legislation that went into effect in April 2016 and the record flooding in Baton Rouge in August 2016.

Statement of Operations:

The System achieved Total Unrestricted Revenues of approximately $2.8 billion for 2016, an increase of $219.7 million or 8.5% over the same period in 2015 primarily due to organic growth as well as an increase in patients referred from affiliates and outlying facilities through OHS's regional referral center. Net Patient Service Revenue Less Provision for Bad Debts increased $175.8 million or 8.7%. Premium Revenue decreased $3.2 million. When comparing 2016 to 2015, discharges increased 1.9%, patient days increased 3.9%, inpatient surgical procedures increased less than 1 percent, outpatient surgical procedures increased 11.2%, emergency room visits increased 2.9%, clinic relative value units increased 10.9%, clinic visits increased 9.5%, and unique clinic patients visits increased 7.7%. OHS continues to see an increase in patients referred from affiliates and outlying facilities through its regional referral center. Inpatient transfers to Ochsner Medical Center in 2016 increased 13.9% over 2015. Revenue received from any of our managed or affiliated hospitals is not included within Net Patient Service Revenue.

Other Operating Revenue for 2016 was $323.0 million, a $45.3 million increase over 2015. Other Operating Revenue for 2016 includes a $7.9 million increase related to pharmacy revenue, a $7.0 million increase in EHR incentives and an $11.3 million increase related to funding in 2016 from partners of partially owned subsidiaries formed exclusively for charitable, educational and scientific purposes. Other Operating Revenue includes $42.0 million in 2016 and $38.1 million in 2015 related to management agreements and joint operating agreements.

The Provision for Bad Debt for Ochsner Health System, as a percentage of Patient Service Revenue – Net of Contractual Allowances and Discounts and Premium Revenue net of Medical Services to Outside Providers, was 3.6% for 2016 compared to 4.2% for 2015. A portion of the reduction in bad debt can be attributed to Louisiana expanding Medicaid in July 2016 which increased Medicaid as a percentage of gross revenue from 12% in 2015 to 14% in 2016. Bad Debt and Charity Care combined accounted for 5.0% of Patient Service Revenue – Net of Contractual Allowances and Discounts and Premium Revenue net of Medical Services to Outside Providers for 2016 compared to 6.5% for 2015.

Salaries and Wages for 2016 were $1.3 billion, a $106.5 million increase over 2015. The majority of the increase is related to additional staffing and additional providers needed to meet increased patient demand. Total providers increased by 10.2% or 128 full-time equivalents ("FTEs"). That includes a 5.6% increase in physicians, or 49 FTEs, and a 21.0% increase in the number of other providers, or 78 FTEs. Ochsner employs over 1,200 active staff physicians and over 500 other providers.

Medical Services to Outside Providers expense for 2016 decreased by $9.7 million from 2015. The System currently provides services to approximately 35,000 senior members under a capitation contract for both physician and hospital services.

Medical Supplies and Services increased by $64.5 million when comparing 2016 to 2015. Medical Supplies and Services as a percentage of Total Unrestricted Revenues was 17.1% for 2016 and 16.1% for 2015. $34.6 million of the increase is due to increased volume in the pharmacies and an increase in chemotherapy and infusion drugs. Ochsner continues to see a continuing shift toward higher acuity patients. $20.3 million of the increase is due to an increase in medical supplies and implants, related to Transapical Valve replacements, Cath Lab procedures and Electrophysiology Lab procedures.

Other operating expenses which includes building and equipment, insurance, professional services and general and administrative expenses for 2016 increased by $38.9 million over 2015. $8.1 million of the increase is related to software maintenance contracts. $2.1 million of the increase is related to dietary purchased services that we previously included in salary and supplies expense. $7.7 million of the increase is related to sales tax due to changes to the Louisiana State Sales Tax legislation that went into effect during April 2016.

Excluding the loss on early extinguishment of debt, OHS had a non-operating gain of $17.9 million for 2016 and $11.4 million for 2015. Non-operating gains and losses include realized gains and losses, as well as changes in the market value of the pooled investment portfolio. 2016 also includes a $39.1 million loss on early extinguishment of debt related to the advance refunding of the Series 2011 Bonds. Similarly, 2015 includes a $13.0 million loss on early extinguishment of debt related to refinancing a portion of the Series 2007 Bonds.

Ratings

As of the release date of this document, there have been no changes to the ratings since the 2017 Preliminary Official Statement dated April 25, 2017. Moody's Investors Service, Inc. has provided a rating for the Bonds of A3. Fitch Ratings has provided a rating for the Bonds of A-.

Liquidity and Cash Position:

At December 31, 2016, Ochsner Health System had unrestricted cash and investments of $851.0 million which equates to 117 days cash on hand. The $59.5 million decrease from December 2015 includes a $27.1 million increase in Patient Accounts Receivable, Net and a $22.8 million increase in Other Receivables. Also, OHS spent $54.3 million more in 2016 on capital expenditures than was spent in 2015, primarily related to the strategic capital plan that started in 2015. This was offset by a $46.1 million of net realized and unrealized non-operating gains due to changes in the market value of the pooled investment portfolio.

Cash and Investments; Days Cash on Hand.

The table below includes Cash and Investments and Days Cash on Hand at December 31, 2016 and 2015. Dollar amounts are in thousands.

	Cash and Investments		Days Cash on Hand	
	Dec. 31, 2016	**Dec. 31, 2015**	**Dec. 30, 2016**	**Dec. 31, 2015**
Monthly Liquidity	$ 720,629	$ 828,635	99	124
Liquidity greater than 30 days and less than one year	114,000	64,295	16	10
Locked Up (liquidity one year or more)	16,376	17,576	2	3
Total	$ 851,005	$ 910,506	117	137

Debt and Annual Debt Service Coverage. As of December 31, 2016, OHS had $1.05 billion in total long term debt outstanding compared to $1.06 billion at December 31, 2015. The long term debt to capitalization ratio for OHS was 63.0% in 2015 versus 64.2% in 2015. On May 12, 2016, OHS closed the financing of the Series 2016 Refunding Revenue Bonds which refunded the full amount of the Series 2011 bonds.

Debt Service Coverage Calculation:	**2016**	**2015**
Income Available for Debt Service	$226,549	$236,492
Annual Debt Service	$72,021	$58,085
Annual Debt Service Coverage Ratio	3.2x	4.0x

Series	Par Outstanding	Final Maturity	Interest Mode
Series 2007A	250,805,000	5/15/2047	Fixed
Series 2007B (2)	53,445,000	5/15/2047	Fixed
Series 2015 Taxable	252,820,000	5/15/2045	Fixed
Series 2015 Tax Exempt Refunding	112,815,000	5/15/2047	Fixed
Series 2016 Tax Exempt Refunding	155,660,000	5/15/2047	Fixed
March 2013 Note Payable (1)	6,126,905	3/31/2033	Fixed
December 2013 Note Payable (1)	54,027,842	12/31/2028	Fixed
July 2014 Note Payable (1)	74,286,238	8/15/2034	Fixed
December 2013 Promissory Note	14,697,917	12/30/2020	Variable (4)
October 2014 Promissory Note	19,066,667	10/31/2021	Fixed
September 2015 Promissory Note	27,000,000	9/30/2022	Variable (4)
2006 Working Capital Note(3)	8,604,288	5/1/2026	Variable
Software and Equipment Loans(3)	3,131,231	N/A	N/A
Capital Lease Obligations(3)	14,910,925	N/A	N/A
TOTAL	1,047,397,013		

Note:

(1) Not an obligation of a credit group member or a supplemental obligation of the Master Indenture.

(2) Guaranteed by Ochsner Clinic Foundation and effective upon the merger of Ochsner Community Hospitals with and into Ochsner Clinic Foundation on December 31, 2016, Ochsner Clinic Foundation assumed all of the indebtedness of Ochsner Community Hospitals, including the 2007B bonds.

(3) Not secured by an Obligation issued under the Master Indenture.

(4) OCF entered into an interest rate swap agreement to synthetically fix the interest rate.

Ochsner Health System and Subsidiaries

Consolidated Statements of Operations
As of December 31, 2016 and 2015
($ In Thousands)

	2016	2015	Difference
Unrestricted revenues:			
Patient service revenue, net of contractual allowances and discounts	$2,285,483	$2,117,008	$ 168,475
Provision for bad debts	(88,454)	(95,738)	7,284
Net patient service revenue, less provision for bad debts	2,197,029	2,021,270	175,759
Premium revenue	286,186	289,420	(3,234)
Other operating revenue	322,978	277,671	45,307
Net assets released from restriction, used for operations	6,040	4,132	1,908
Total unrestricted revenues	2,812,233	2,592,493	219,740
Expenses:			
Salaries and wages	1,258,517	1,152,055	106,462
Benefits	179,299	158,432	20,867
Medical services to outside providers	132,534	142,255	(9,721)
Medical supplies and services	480,654	416,142	64,512
Other operating expenses	542,293	503,381	38,912
Depreciation and amortization	115,832	103,683	12,149
Interest	52,718	49,469	3,249
Total expenses	2,761,847	2,525,417	236,430
Income from operations	50,386	67,076	(16,690)
Non-operating gains and losses:			
Investment and other realized gains - net	7,613	16,264	(8,651)
Loss on early extinguishment of debt	(39,110)	(12,982)	(26,128)
Unrealized gains (losses) on alternative investments - net	10,241	(4,826)	15,067
Total non-operating losses	(21,256)	(1,544)	(19,712)
Excess of revenues over expenses	$ 29,130	$ 65,532	$ (36,402)

Ochsner Health System and Subsidiaries

Consolidated Balance Sheets

As of December 31, 2016 and 2015

($ In Thousands)

	December 31, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	$ 121,569	$ 290,803
Assets limited as to use, required for current liabilities	5,600	3,858
Patient accounts receivable, net	252,598	225,527
Other receivables	99,516	76,671
Inventories	56,022	50,409
Prepaid expenses and other current assets	39,731	37,634
Estimated third-party payor settlements	19,626	17,552
Total current assets	594,662	702,454
Assets limited as to use:		
By Board for capital improvements, charity, research, and other	729,436	619,703
Under bond indenture agreements	21,477	36,040
Under self-insurance trust fund	9,135	11,921
Donor-restricted long-term investments	78,433	65,533
Total assets limited as to use	838,481	733,197
Less assets limited as to use, required for current liabilities	(5,600)	(3,858)
Non-current assets limited as to use	832,881	729,339
Investments in unconsolidated affiliates, real estate, and other	14,045	6,653
Property, net	821,692	754,843
Goodwill	43,558	43,077
Intangible assets	11,467	11,482
Other assets	32,534	23,950
Total assets	$ 2,350,839	$ 2,271,798

Ochsner Health System and Subsidiaries

Consolidated Balance Sheets
As of December 31, 2016 and 2015
($ In Thousands)

	December 31, 2016	December 31, 2015
Liabilities and net assets		
Current liabilities:		
Accounts payable	$ 150,332	$ 140,116
Accrued salaries, wages, and benefits	149,483	148,252
Deferred revenue	9,669	12,850
Estimated third-party payor settlements	3,769	4,778
Bonds payable, current portion	7,030	6,740
Notes payable, current	52,430	52,430
Long-term debt, current portion	15,566	17,858
Other current liabilites	30,927	30,919
Total current liabilities	419,206	413,943
Pension and postretirement obligations	166,532	152,346
Bonds payable	828,408	810,166
Long-term debt	188,693	203,741
Other long-term liabilities	36,982	36,038
Total liabilities	1,639,821	1,616,234
Net assets:		
Unrestricted	596,966	565,116
Temporarily restricted	88,219	66,685
Permanently restricted	25,833	23,763
Total net assets	711,018	655,564
Total liabilities and net assets	$ 2,350,839	$ 2,271,798

Ochsner Health System and Subsidiaries
Condensed Consolidated Statements of Cash Flows
As of December 31, 2016 and 2015
($ In Thousands)

	2016	2015
Cash Flows from Operating Activities:		
Increase in net assets	$ 55,454	$ 63,854
Adjustments to reconcile increase in net assets		
to net cash provided by operating activites:		
Pension related changes other than net periodic pension costs	26,449	7,907
Depreciation and amortization	115,832	103,683
Provision for bad debts	88,454	95,738
Non-cash portion of loss on early extinguishment of debt	3,196	3,603
Amortization of deferred financing costs and debt discounts	498	1,080
Income from equity-method investment, net of cash received	(62)	(352)
Net realized and unrealized (gains) losses on investments	(42,653)	5,363
Gain on contribution of property to joint venture	(6,994)	-
Other reconciling items, net	(2,070)	(1,245)
Changes in operating assets and liabilities, net of acquisitions:		
Patient accounts receivable	(115,525)	(107,438)
Other current and non-current assets	(41,110)	(32,508)
Accounts payable	1,189	18,981
Accrued expenses and other liabilities	(17,475)	2,927
Net cash provided by operating activities	65,183	161,593
Cash Flows from Investing Activities:		
Purchases of assets whose use is limited and other investments	(256,336)	(220,787)
Sales and maturities of assets whose use is limited and other investments	192,980	44,842
Capital expenditures	(166,159)	(114,444)
Other	(948)	3,016
Net cash used in investing activities	(230,463)	(287,373)
Cash Flows from Financing Activities:		
Repayment of bonds payable and long-term debt	(175,183)	(140,158)
Proceeds from bonds payable and long-term borrowings	174,369	404,357
Payments of debt financing costs	(2,229)	(3,824)
Payments on capital lease obligations	(2,981)	(2,816)
Proceeds from contributions restricted for long-term investments	2,070	366
Net cash (used in) provided by financing activities	(3,954)	257,925
Net (Decrease) Increase in Cash and Cash Equivalents	(169,234)	132,145
Cash and Cash Equivalents, Beginning of Year	290,803	158,658
Cash and Cash Equivalents, End of Period	$121,569	$290,803

OCHSNER HEALTH SYSTEM UTILIZATION STATISTICS

	2014	2015	2016
Licensed Beds (1)	1,267	1,283	1,284
Average Number of Beds in Use (2)	1,346	1,371	1,372
Discharges Including Newborn	62,517	65,843	67,454
Discharges Excluding Newborn	56,771	60,186	61,341
Patient Days Including Newborn	301,055	313,483	326,145
Patient Days Excluding Newborn	287,706	300,526	312,349
Average Daily Census (3)	788	824	853
Percent Occupancy (3)	58.54%	60.04%	62.20%
Average Length of Stay	4.8	4.8	4.8
Adjusted Patient Days (3)	576,981	612,443	659,409
Clinic Visits	1,520,006	1,650,544	1,806,594
Clinic RVUs (4)	5,037,600	5,455,838	6,050,375
Unique Clinic Patients (5)	384,181	411,988	446,515
Employed Physician FTEs	822.8	875.0	924.1
Transfers through Regional Referral Center	6,442	8,787	10,201

	Ochsner Medical Center	OMC West Bank	Ochsner St. Anne	OMC Baton Rouge	OMC North Shore	OMC Kenner	Ochsner Baptist Med. Ctr.	TOTAL
Licensed Beds (1)	565	165	35	150	157	110	102	1,284
Average Number of Beds in Use (2)	561	181	35	159	165	115	156	1,372
Discharges Including Newborn	27,751	7,842	1,989	8,421	4,595	7,146	9,710	67,454
Discharges Excluding Newborn	27,751	6,854	1,678	7,127	4,595	6,216	7,120	61,341
Patient Days Including Newborn	167,747	32,606	7,102	29,522	21,551	25,815	41,802	326,145
Patient Days Excluding Newborn	167,747	30,237	6,422	26,767	21,551	23,578	36,047	312,349
Average Daily Census (3)	458	83	18	73	59	64	98	853
Percent Occupancy (3)	81.70%	45.64%	50.13%	46.00%	35.69%	56.02%	63.13%	62.20%
Average Length of Stay	6.0	4.2	3.6	3.5	4.7	3.6	4.3	4.8
Adjusted Patient Days (3)	304,024	62,330	33,424	81,365	43,580	57,519	77,167	659,409

(1) Data excludes NICU and Nursery Beds.
(2) Data excludes Nursery beds, but includes NICU beds, a large number of beds in use will yield an amount greater than the number of licensed beds.
(3) Data excludes Normal Newborn Days.
(4) Clinic RVUs were restated in 2013 and 2014 to conform to the 2015 and 2016 presentation.
(5) Data includes the numbers of patients seen in a 12 month rolling period.

OCHSNER HEALTH SYSTEM GROSS REVENUE BY PAYOR
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2016

Payor Groupings	**2015**	**2016**
Managed Care and Commercial	39%	38%
Medicare Managed Care	23%	24%
Medicare - Traditional	22%	21%
Medicaid	12%	14%
Other	4%	3%
TOTAL	100%	100%

Consolidated Financial Statements

Ochsner Health System and Subsidiaries
Years Ended December 31, 2016 and 2015
With Report of Independent Auditors

Ernst & Young LLP

Building a better working world

Ochsner Health System and Subsidiaries

Consolidated Financial Statements

Years Ended December 31, 2016 and 2015

Contents

Ernst & Young LLP
3900 One Shell Square
701 Poydras Street
New Orleans, LA 70139

Tel: +1 504 581 4200
Fax: +1 504 596 4233
ey.com

Report of Independent Auditors

The Board of Directors
Ochsner Health System and Subsidiaries

We have audited the accompanying consolidated financial statements of Ochsner Health System and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2016 and 2015, 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 Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Ochsner Health System and its subsidiaries at December 31, 2016 and 2015, and the consolidated results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

April 24, 2017

Ochsner Health System and Subsidiaries

Consolidated Balance Sheets

(In Thousands)

	December 31, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	$ 121,569	$ 290,803
Assets limited as to use required for current liabilities	5,600	3,858
Patient accounts receivable – net	252,598	225,527
Accounts receivable other	99,516	76,671
Inventories	56,022	50,409
Prepaid expenses and other current assets	39,731	37,634
Estimated third-party payor settlements	19,626	17,552
Total current assets	594,662	702,454
Assets limited as to use:		
By Board for capital improvements, charity, research, and other	729,436	619,703
Under bond indenture agreements	21,477	36,040
Under self-insurance trust fund	9,135	11,921
Donor-restricted long-term investments	78,433	65,533
Total assets limited as to use	838,481	733,197
Less assets limited as to use required for current liabilities	(5,600)	(3,858)
Non-current assets limited as to use	832,881	729,339
Investments in unconsolidated affiliates, real estate, and other	14,045	6,653
Property – net	821,692	754,843
Goodwill	43,558	43,077
Intangible assets	11,467	11,482
Other assets	32,534	23,950
Total assets	$ 2,350,839	$ 2,271,798

	December 31, 2016	December 31, 2015
Liabilities and net assets		
Current liabilities:		
Accounts payable	$ 150,332	$ 140,116
Accrued salaries, wages, and benefits	149,483	148,252
Deferred revenue	9,669	12,850
Estimated third-party payor settlements	3,769	4,778
Bonds payable – current portion	7,030	6,740
Notes payable – current	52,430	52,430
Long-term debt – current portion	15,566	17,858
Other current liabilities	30,927	30,919
Total current liabilities	419,206	413,943
Pension and postretirement obligations	166,532	152,346
Bonds payable	828,408	810,166
Long-term debt	188,693	203,741
Other long-term liabilities	36,982	36,038
Total liabilities	1,639,821	1,616,234
Commitments and contingencies *(Notes 5 and 17)*		
Net assets:		
Unrestricted	596,966	565,116
Temporarily restricted	88,219	66,685
Permanently restricted	25,833	23,763
Total net assets	711,018	655,564
Total liabilities and net assets	$ 2,350,839	$ 2,271,798

See notes to financial statements.

Ochsner Health System and Subsidiaries

Consolidated Statements of Operations
(In Thousands)

	Year Ended December 31, 2016	2015
Unrestricted revenues:		
Patient service revenue – net of contractual allowances and discounts	$ 2,285,483	$ 2,117,008
Provision for bad debts	(88,454)	(95,738)
Net patient service revenue, less provision for bad debts	2,197,029	2,021,270
Premium revenue	286,186	289,420
Other operating revenue	322,978	277,671
Net assets released from restrictions used for operations	6,040	4,132
Total unrestricted revenues	2,812,233	2,592,493
Expenses:		
Salaries and wages	1,258,517	1,152,055
Benefits	179,299	158,432
Medical services to outside providers	132,534	142,255
Medical supplies and services	480,654	416,142
Other operating expenses	542,293	503,381
Depreciation and amortization	115,832	103,683
Interest	52,718	49,469
Total expenses	2,761,847	2,525,417
Operating income	50,386	67,076
Non-operating gains (losses):		
Investment and other realized gains – net	7,613	16,264
Loss on early extinguishment of debt	(39,110)	(12,982)
Unrealized gains (losses) on alternative investments	10,241	(4,826)
Total non-operating losses	(21,256)	(1,544)
Excess of revenues over expenses	$ 29,130	$ 65,532

See notes to financial statements.

Ochsner Health System and Subsidiaries

Consolidated Statements of Changes in Net Assets

(In Thousands)

	Year Ended December 31, 2016	2015
Unrestricted net assets		
Excess of revenues over expenses	$ 29,130	$ 65,532
Change in net unrealized gains (losses) on investments excluding alternative investments	28,251	(16,820)
Net assets released from restrictions used for capital acquisitions	918	1,001
Pension-related changes other than net periodic pension costs	(26,449)	(7,907)
Increase in unrestricted net assets	31,850	41,806
Temporarily restricted net assets		
Contributions	25,892	26,810
Investment income	2,601	5
Net assets released from restrictions used for:		
Operations	(6,041)	(4,132)
Capital acquisitions	(918)	(1,001)
Increase in temporarily restricted net assets	21,534	21,682
Permanently restricted net assets		
Contributions	2,070	366
Increase in permanently restricted net assets	2,070	366
Increase in net assets	55,454	63,854
Net assets – beginning of year	655,564	591,710
Net assets – end of year	$ 711,018	$ 655,564

See notes to financial statements.

Ochsner Health System and Subsidiaries

Consolidated Statements of Cash Flows

(In Thousands)

	Year Ended December 31, 2016	2015
Operating activities		
Increase in net assets	$ 55,454	$ 63,854
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Pension-related changes other than net periodic pension costs	26,449	7,907
Depreciation and amortization	115,832	103,683
Provision for bad debts	88,454	95,738
Non-cash portion of loss on early extinguishment of debt	3,196	3,603
Amortization of deferred financing costs and debt discounts	498	1,080
Income from equity-method investments, net of cash received	(62)	(352)
Net realized and unrealized (gains) losses on investments	(42,653)	5,363
Gain on contribution of property to joint venture	(6,994)	–
Other, net	(2,070)	(1,245)
Changes in operating assets and liabilities, net of acquisitions:		
Patient accounts receivable	(115,525)	(107,438)
Other current and non-current assets	(41,110)	(32,508)
Accounts payable	1,189	18,981
Accrued expenses and other liabilities	(17,475)	2,927
Net cash provided by operating activities	65,183	161,593
Investing activities		
Purchases of assets whose use is limited and other investments	(256,336)	(220,787)
Sales and maturities of assets whose use is limited and other investments	192,980	44,842
Capital expenditures	(166,159)	(114,444)
Other	(948)	3,016
Net cash used in investing activities	(230,463)	(287,373)
Financing activities		
Repayment of bonds payable and long-term debt	(175,183)	(140,158)
Proceeds from long-term borrowings	174,369	404,357
Payments of debt financing costs	(2,229)	(3,824)
Payments on capital lease obligations	(2,981)	(2,816)
Proceeds from contributions restricted for long-term investments	2,070	366
Net cash (used in) provided by financing activities	(3,954)	257,925
Net (decrease) increase in cash and cash equivalents	(169,234)	132,145
Cash and cash equivalents – beginning of year	290,803	158,658
Cash and cash equivalents – end of year	$ 121,569	$ 290,803

See notes to financial statements.

1. Summary of Significant Accounting Policies

Organization

Ochsner Health System (OHS or Ochsner) is a not-for-profit, non-stock membership corporation and the parent company of Ochsner Clinic Foundation (OCF).

OCF, located in New Orleans, Louisiana, is a not-for-profit institution that, either directly or through its fully owned subsidiaries, owns and operates an acute care hospital known as Ochsner Medical Center (OMC), an 11-story clinic building, a 143-room hotel and related medical facilities located on a main campus in Jefferson Parish at the western end of New Orleans. OCF also owns 100% of the outstanding common stock of Ochsner System Protection Company (OSPC), a captive insurance company domiciled in Louisiana. OCF owns Ochsner Medical Center West Bank and Ochsner Baptist Medical Center, which are operated as remote campuses of OMC. It also owns and operates health centers throughout southeast Louisiana; owns a hospital in Baton Rouge that operates as Ochsner Medical Center Baton Rouge; owns a hospital in Slidell, Louisiana that operates as Ochsner Medical Center – North Shore; owns a hospital in Kenner, Louisiana that operates as Ochsner Medical Center – Kenner; operates a hospital in Raceland, Louisiana known as Ochsner St. Anne General Hospital; and owns several fitness centers that operate as Ochsner Fitness Center. OCF also provides management assistance and support for a hospital in Houma, Louisiana, known as Leonard J. Chabert Medical Center (Chabert); for a hospital in Luling, Louisiana, known as St. Charles Parish Hospital (SCPH); and for a hospital in Bay St. Louis, Mississippi known as Hancock Medical Center (Hancock). OCF also entered into an agreement with St. Bernard Parish Hospital (SBPH) in Chalmette, Louisiana in October of 2016 to provide certain administrative services and operational support on an interim basis while both parties evaluate a potential longer-term relationship.

Prior to December 31, 2016, Ochsner Community Hospitals (OCH) owned and operated Ochsner Medical Center – Kenner. It also owned Ochsner Medical Center West Bank and Ochsner Baptist Medical Center and leased these 2 facilities to OCF. OCH was merged with and into OCF effective December 31, 2016.

Basis of Presentation and Principles of Consolidation

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). The consolidated financial statements include the accounts of OHS and OCF and their wholly owned subsidiaries.

1. Summary of Significant Accounting Policies (continued)

All intercompany accounts and transactions have been eliminated upon consolidation. The assets of any member of the consolidated group may not be available to meet the obligations of other members in the group, except as disclosed in Notes 7, 8, and 9.

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 consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include investments with a maturity of three months or less when purchased, excluding amounts whose use is limited by board designation, under bond indenture agreements, or under self-insurance agreements.

Inventories

Inventories are stated at the lower of first-in, first-out cost or market value.

Pledges Receivable

Unconditional promises to give are recognized as revenues at their fair values in the period received. Pledges receivable are recorded net of necessary discounts and allowances. The current portion of pledges receivable is recorded in accounts receivable other and the non-current portion is recorded in other assets in the consolidated balance sheets.

1. Summary of Significant Accounting Policies (continued)

Pledges receivable as of December 31 are expected to be realized as follows (in thousands):

	2016	2015
In one year or less	$ 11,302	$ 5,564
Between one and five years	13,217	11,309
Greater than five years	11,761	8,052
	36,280	24,925
Less discount (ranging from 0.63%–4.50% at December 31, 2016 and 2015) and allowance for uncollectible pledges	(2,478)	(2,227)
Pledges receivable – net	$ 33,802	$ 22,698

Investments

Investments held by OHS are included in assets limited as to use in the consolidated balance sheets. Substantially all of OHS' investments are designated as other-than-trading investments. Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated balance sheets. Investments also include investments in private equity funds, hedge funds, real estate funds, offshore fund vehicles, and funds of funds structured as limited liability corporations or partnerships or trusts. These investments are termed alternative investments in the notes to the consolidated financial statements and are accounted for under the equity method, which approximates fair value. These funds invest in certain types of financial instruments, including, among others, futures and forward contracts, options, and securities sold not yet purchased, intended to hedge against changes in the market value of investments. These financial instruments, which involve varying degrees of risk, may result in loss due to changes in the market (market risk).

Investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in excess of revenues over expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments, other than alternative investments, are excluded from excess of revenues over expenses. If management believes a decline in the value of a particular investment is temporary, the decline is included in change in net unrealized gains (losses) excluding alternative investments on the consolidated statements of changes in net assets. If the decline is evaluated as being other than temporary, the carrying value of the

1. Summary of Significant Accounting Policies (continued)

investment is written down and an impairment loss is recorded in non-operating gains and losses in the consolidated statements of operations. OHS recorded impairment losses on investment securities of approximately $1.6 million and $4.9 million for the years ended December 31, 2016 and 2015, respectively.

Assets Limited as to Use

Assets limited as to use primarily include assets held by trustees under indenture agreements, self-insurance trust agreements, investments restricted by donors, and designated assets set aside by the Board of Trustees (the Board) primarily for future capital improvements, over which the Board retains control and may, at its discretion, subsequently use for other purposes. Amounts required to meet current liabilities of OHS have been classified in the consolidated balance sheets as current assets.

Property – Net

Property improvements and additions are recorded at cost and capitalized and depreciated on the straight-line basis over the following estimated useful lives of the assets:

	Years
Land improvements	5–25
Buildings and building improvements	10–40
Leasehold improvements	12–20
Equipment, furniture, and fixtures	2–20

Impairment of Long-Lived Assets

OHS evaluates the carrying value of long-lived assets to be held and used when events and circumstances warrant such a review. The carrying value of a long-lived asset is considered impaired when the anticipated undiscounted cash flow from such asset is separately identifiable and is less than its carrying value. In that event, a loss is recognized based on the amount by which the carrying value exceeds the fair value of the long-lived asset. Fair value is determined primarily using the anticipated cash flows discounted at a rate commensurate with the risk involved. There were no impairment charges on long-lived assets recognized for the years ended December 31, 2016 or 2015.

1. Summary of Significant Accounting Policies (continued)

Capitalization of Interest

OHS capitalizes interest expense on qualifying construction-in-progress expenditures based on an imputed interest rate estimating OHS' average cost of borrowed funds. Such capitalized interest becomes part of the cost of the related asset and is depreciated over its estimated useful life. Capitalized interest costs totaled approximately $2.2 million and $0.9 million for the years ended December 31, 2016 and 2015, respectively.

Goodwill and Intangible Assets

Goodwill and intangible assets, consisting primarily of trade name and employment contracts, were recorded mainly as a result of the merger of Alton Ochsner Medical Foundation with Ochsner Clinic LLC in 2001, which resulted in the creation of OCF. Goodwill represents the excess of the fair value of the consideration conveyed in the acquisition over the fair value of net assets acquired. Goodwill and indefinite-lived intangible assets arising from business combinations are not amortized, but rather are tested for impairment at least annually at the reporting unit level. Impairment is the condition that exists when the carrying amount of goodwill or intangible assets exceeds its implied fair value. Additional impairment assessments may be performed on an interim basis if OHS encounters events or changes in circumstances that would indicate that it is more likely than not that the carrying value of goodwill or intangible assets has been impaired. OHS has selected October 31 as its annual testing date and has determined that its reporting unit is OCF.

For purposes of the October 31, 2016, annual impairment test, OHS applied the optional provisions of Accounting Standards Update (ASU) No. 2011-08, *Intangibles – Goodwill and Other (Topic 350): Testing Goodwill for Impairment*, which provides for a qualitative impairment analysis. A qualitative impairment analysis concluded that it was more likely than not that the fair value exceeded the carrying value of the applicable reporting units. Therefore, the two-step impairment analysis was not required, and no impairment charge was recorded as of the October 31, 2016, annual impairment test.

Due to the merger of OCH into OCF, OHS performed an additional quantitative impairment assessment as of December 31, 2016. The first step in the impairment process is to estimate the fair value of the reporting unit and then compare it to the carrying value, including goodwill. If the fair value exceeds the carrying value, no further action is required and no impairment loss is

1. Summary of Significant Accounting Policies (continued)

recognized. OHS determined that the use of the income and market approaches were the most appropriate methods of measuring fair value of the reporting units. These are considered Level 3 valuations in the valuation hierarchy described in Note 2.

Under the income approach, fair value is estimated using a discounted cash flow analysis. Under the market approach, fair value is estimated using a guideline company method and a comparable transaction method. Both the income approach and the market approach require significant assumptions to determine the fair value of each reporting unit. The significant assumptions used in the income approach include estimates of future revenues, profits, capital expenditures, working capital requirements, operating plans, industry data, and an appropriate discount rate for each reporting unit. The significant assumptions used in the market approach include the determination of appropriate market comparables and estimated multiples of net revenue and earnings before interest, taxes, depreciation, and amortization. OHS engaged a third-party valuation firm to assist in these fair value calculations for 2016 and 2015. OHS performed Step 1 of the impairment test using a quantitative impairment analysis as of December 31, 2016, as well as for the annual impairment test as of October 31, 2015, and concluded the fair value exceeded the carrying value, and no further action was required for 2016 or 2015.

Deferred Revenue

OHS, through OCF, engages in research activities funded by contracts from U.S. Government agencies and other private sources. Revenue related to grants and contracts is recognized as the related costs are incurred. Amounts received from grant and contract sponsors for which OCF has not yet fulfilled its obligations are included in deferred revenue in the accompanying consolidated balance sheets and recognized in future periods once the obligations have been satisfied.

Deferred revenue also includes amounts related to Medicaid supplemental payments which are yet to be recognized as revenue, as well as payments received in advance of services rendered for OCF's electronic health records (EHR) services agreements (see Note 14).

1. Summary of Significant Accounting Policies (continued)

Deferred Financing Costs

In connection with the issuance of bonds and long-term debt, certain financing costs were capitalized, and are being amortized over the respective lives of the bonds and long-term debt. These costs are approximately $11.5 million and $11.9 million net of accumulated amortization at December 31, 2016 and 2015, respectively, and are included as a reduction to bonds payable and long-term debt in the accompanying consolidated balance sheets.

Derivative Financial Instruments

OHS utilizes interest rate swap agreements to manage its interest rate exposure. Changes in the fair value of OHS swaps not designated as hedges are recorded as non-operating gains and losses in the consolidated statements of operations. Changes in the fair value of OHS swaps that are designated as hedges are recorded as changes in unrestricted net assets in the consolidated statements of changes in net assets.

Estimated Workers' Compensation, Professional and General Liability, and Employee Health Claims

OHS is self-insured for workers' compensation, professional and general liability, and employee health claims. The provisions for estimated workers' compensation, professional liability, and employee health claims include estimates for the ultimate costs for both reported claims and claims incurred but not reported. These estimates incorporate OHS' past experience, as well as other considerations, including the nature of claims, industry data, relevant trends, and the use of actuarial information.

Accounting for Pension and Other Postretirement Plans

OHS recognizes the overfunded or underfunded status of its pension and other postretirement plans as an asset or liability in its consolidated balance sheets. Changes in the funded status of the pension and other postretirement plans are reported as a change in unrestricted net assets presented below the excess of revenues over expenses financial statement line item in the consolidated statement of changes in net assets in the year in which the changes occur.

1. Summary of Significant Accounting Policies (continued)

Reinsurance

OSPC relies on reinsurance to limit its retained property insurance risk. In entering into reinsurance agreements, management considers a variety of factors, including the creditworthiness of reinsurers. In preparing its financial statements, management makes estimates of amounts receivable from reinsurers, which includes consideration of amounts, if any, estimated to be uncollectible by management based on an assessment of factors including an assessment of the creditworthiness of the reinsurers. OSPC cedes 100% of the underlying risk, and as a result, OSPC retains no insurance risk. However, OSPC is not relieved of its primary obligation and is subject to credit risk of its reinsurers. OSPC's last reinsurance contract ended on May 31, 2014. Its expiration coincided with the expiration of the last policy written by OSPC.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by OHS has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by OHS in perpetuity.

Consolidated Statements of Operations

For purposes of presentation, all revenues and expenses are reported as operating except for investment income, the loss from early extinguishment of debt, and other gains and losses – net, which are reported as non-operating.

Excess of Revenues Over Expenses

The consolidated statements of operations include excess of revenues over expenses, which represents OHS' performance indicator. Changes in unrestricted net assets, which are excluded from excess of revenues over expenses, consistent with industry practice, include unrealized gains and losses on other-than-trading investments, contributions used to acquire property and equipment, and pension-related changes other than net periodic pension costs.

1. Summary of Significant Accounting Policies (continued)

Net Patient Service Revenue

Net patient service revenue is recognized as services are performed and is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Amounts OHS receives for treatment of patients covered by governmental programs such as Medicare and Medicaid and other third-party payors such as health maintenance organizations, preferred provider organizations, and other private insurers are generally less than OHS' established billing rates. Additionally, to provide for accounts receivable that could become uncollectible in the future, OHS establishes an allowance for doubtful accounts to reduce the carrying value of such receivables to their estimated net realizable value. Third-party accounts are pursued until all payments and adjustments are posted to the patient account. For those accounts with a patient balance after third-party liability is finalized or accounts for uninsured patients, the patient receives statements and collection letters. Patients who express an inability to pay are reviewed for potential sources of financial assistance, including OHS' charity care policy. If the patient is deemed unwilling to pay, the account is written off as bad debt and transferred to an outside collection agency for additional collection efforts.

Accordingly, the revenues and accounts receivable reported in OHS' consolidated financial statements are recorded at the net amount expected to be received. 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 and are adjusted as final settlements are determined.

Charity Care

OHS provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Records of charges foregone for services and supplies furnished under the charity care policy are maintained to identify and monitor the level of charity care provided. Because OHS does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. OHS estimates its costs of care provided under its charity care programs by applying a ratio of direct and indirect costs to charges to the gross foregone charges associated with providing care to charity patients. OHS' gross charity care charges include only services provided to patients who are unable to pay and qualify under

1. Summary of Significant Accounting Policies (continued)

OHS' charity care policies. The ratio of cost to charges is calculated based on OHS' total expenses divided by gross patient revenue. During the years ended December 31, 2016 and 2015, the estimated costs incurred by OHS to provide care to patients who met certain criteria under its charity care policy were approximately $42.2 million and $54.4 million, respectively.

Community Benefit

Since December 2010, OHS and four other health care providers have formed 14 nonprofit organizations with the purpose to create a vehicle to provide services to low-income and needy patients. Expenditures recorded by OHS to fund the organizations for the years ended December 31, 2016 and 2015, were approximately $40.7 million and $50.8 million, respectively, and are included in other operating expenses in the consolidated statements of operations.

Provision and Allowance for Doubtful Accounts

To provide for accounts receivable that could become uncollectible in the future, OHS establishes an allowance for doubtful accounts to reduce the carrying value of such receivables to their estimated net realizable value. The primary uncertainty lies with uninsured patient receivables and deductibles, co-payments, or other amounts due from individual patients. Payment pressure from managed care/indemnity payors also affects OHS' provision for doubtful accounts.

There are various factors that can impact collection trends, such as changes in the economy, which in turn have an impact on unemployment rates and the number of uninsured and underinsured patients, the volume of patients through OHS' emergency departments, the increased burden of co-payments and deductibles to be made by patients with insurance, and business practices related to collection efforts. These factors continuously change and can have an impact on collection trends and the estimation process.

OHS has an established process to determine the adequacy of the allowance for doubtful accounts that relies on a number of analytical tools and benchmarks to arrive at a reasonable allowance. No single statistic or measurement determines the adequacy of the allowance for doubtful accounts. Some of the analytical tools that OHS utilizes include, but are not limited to, historical cash collection experience, revenue trends by payor classification, and revenue days in accounts receivable. Accounts receivable are written-off after collection efforts have been followed in accordance with OHS' policies.

1. Summary of Significant Accounting Policies (continued)

Other Operating Revenue

Other operating revenue includes pharmacy revenue, rental revenue, durable medical equipment rentals and sales, gift shop revenues, EHR incentive payments, revenue from joint operating agreements and management agreements, income from equity-method investees, fitness center revenue, hotel revenue, and revenues from other miscellaneous sources.

HIT Incentive Payments and Other Benefits

Beginning in 2012, OHS, through OCF, achieved compliance with certain of the health information technology (HIT) requirements under the American Recovery and Reinvestment Act of 2009. As a result, OCF recognized approximately $9.4 million and $2.4 million in other operating revenue in the accompanying consolidated statements of operations for 2016 and 2015, respectively, for EHR incentives related to Medicaid and Medicare programs. These incentives partially offset the operating expenses OCF has incurred and continues to incur from its investment in HIT systems. At December 31, 2016, OCF had approximately $0.6 million included in accounts receivable other in the accompanying consolidated balance sheets related to these incentives. No such receivables were recorded for these incentives at December 31, 2015. OHS accounts for EHR incentive payments under the grant accounting model as grants related to income.

Medicare and Medicaid EHR incentive payments are recognized as revenue after OHS has determined it is reasonably assured to comply with the meaningful use criteria over the entire applicable compliance period. OHS' compliance with the meaningful use criteria is subject to audit by the federal government.

Donor-Restricted Gifts

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received, which is then treated as cost. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations as net assets released from restrictions. Contributions for which restrictions are met in the same period in which the unconditional promise to give is received are recorded as unrestricted revenue.

1. Summary of Significant Accounting Policies (continued)

Fair Value of Financial Instruments Other Than Investments

The following methods and assumptions were used by OHS in estimating the fair value of its financial instruments:

Current Assets and Liabilities

OHS considers the carrying amounts of financial instruments classified as current assets and liabilities to be a reasonable estimate of their fair values.

Bonds Payable

The fair values of OHS' revenue bonds are based on currently traded values of similar financial instruments as disclosed in Note 8.

Notes Payable and Long-Term Debt

OHS considers the carrying value of its notes payable and long-term debt to approximate fair value at December 31, 2016, due to the variable nature of the interest rate or based on a comparison of its fixed rates to current market rates.

Income Taxes

OHS and its subsidiaries qualify as tax-exempt organizations under Section 501(a) and are described in Section 501(c)(3) of the Internal Revenue Code and are exempt from federal and state income taxes. Management annually reviews its tax positions and has determined that there are no material uncertain tax positions that require recognition in the accompanying consolidated balance sheets. The statute of limitations remains open for tax years 2013 through 2016 in OHS' main tax jurisdictions.

Concentration of Credit Risk

OHS grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements.

1. Summary of Significant Accounting Policies (continued)

Risks and Uncertainties

OHS' business could be impacted by continuing price pressure on new and renewal business, OHS' ability to effectively control health care costs, additional competitors entering OHS' markets, and federal and state legislation in the area of health care reform. Changes in these areas could adversely impact OHS' operations in the future.

In March 2010, the Patient Protection and Affordability Care Act (ACA), a comprehensive health care reform bill, was signed into law. The legislation is complex and will be phased in over several years.

OHS is unable to predict the full impact of the ACA on its future revenues and operations at this time due to the law's complexity, the limited amount of implementing regulations and interpretive guidance, uncertainty regarding the ultimate number of uninsured patients who will obtain insurance coverage, uncertainty regarding future negotiations with payors, and gradual or potentially delayed implementation. However, OHS expects that several provisions of the ACA could have a material effect on its business. Any reductions to OHS' reimbursement under the Medicare and Medicaid programs by the ACA could adversely affect its business and results of operations to the extent such reductions are not offset by increased revenues from providing care to previously uninsured individuals.

Reclassification

Certain prior year amounts have been reclassified to conform to the 2016 presentation as disclosed in Note 10. These reclassifications had no impact on total assets, liabilities, or changes in net assets.

New Accounting Pronouncements

In April 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs*. ASU 2015-03 requires that debt issuance costs be presented in the balance sheet as a direct deduction from the carrying amount of debt liability, consistent with debt discounts or premiums. The recognition and measurement guidance for debt issuance costs is not affected by the amendments in ASU 2015-03. The provisions of ASU 2015-03 were effective for OHS starting January 1, 2016. The

1. Summary of Significant Accounting Policies (continued)

adoption of ASU 2015-03 and reclassification of debt issuance costs resulted in reductions in other assets, bonds payable, and long-term debt of approximately $11.9 million, $9.1 million, and $2.8 million, respectively, as of December 31, 2015.

In August 2014, the FASB issued ASU 2014-15, *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. This ASU requires management to assess a company's ability to continue as a going concern and to provide related footnote disclosures when conditions give rise to substantial doubt about a company's ability to continue as a going concern within one year from the financial issuance date. The provisions of ASU 2014-15 were effective for OHS starting January 1, 2016. The adoption of this guidance did not have an impact to OHS' consolidated financial statements.

Pending Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU 2014-09 provides for a single comprehensive principles-based standard for the recognition of revenue across all industries through the application of the following five-step process:

Step 1: Identify the contract(s) with a customer.
Step 2: Identify the performance obligations in the contract.
Step 3: Determine the transaction price.
Step 4: Allocate the transaction price to the performance obligations in the contract.
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

Among other provisions and in addition to expanded disclosure about the nature, amount, timing, and uncertainty of revenue, as well as certain additional quantitative and qualitative disclosures, ASU 2014-09 changes the health care industry specific presentation guidance under ASU 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*. The provisions of ASU 2014-09 are effective for OHS starting January 1, 2018, including interim periods within that reporting period. Early application is permitted only for annual periods beginning after December 15, 2016, including interim periods within that reporting period. OHS is currently evaluating the impact on its consolidated financial statements from the adoption of this guidance.

1. Summary of Significant Accounting Policies (continued)

In January 2016, the FASB issued ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities.* ASU 2016-01 requires that investments in equity securities, and other ownership interests in an entity that do not result in consolidation and are not accounted for under the equity method, be measured at fair value at the end of each reporting period, and the resulting changes in fair value be recognized in excess of revenues over expenses. OHS will no longer be able to recognize unrealized holding gains and losses on equity securities it classifies today as available for sale in other changes in unrestricted net assets. The provisions of ASU 2016-01 are effective for OHS starting January 1, 2018, including interim periods within that reporting period. The adoption of ASU 2016-01 will result in a reclassification of unrealized holding gains and losses on equity securities from other changes in unrestricted net assets to excess of revenues over expenses.

In February 2016, the FASB issued ASU 2016-02, *Leases*. ASU 2016-02 requires companies that lease assets to recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in its balance sheet. The pronouncement will also require additional disclosures about the amount, timing, and uncertainty of cash flows arising from leases. The provisions of ASU 2016-02 are effective for OHS starting January 1, 2019, including interim periods within that reporting period, and early adoption is permitted. Management is currently evaluating the impact of this pronouncement on OHS' consolidated financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Under the new standard, the presentation of financial information for not-for-profits, specifically with respect to liquidity, financial performance, and cash flows, will be simplified and provide more relevant information to donors, grantors, creditors, and other users. This includes areas such as net asset classification, investment return, expenses, liquidity and availability of resources, and a change in the presentation of operating cash flows. The provisions of ASU 2016-14 are effective for OHS for the fiscal year starting January 1, 2018, and for interim periods starting January 1, 2019, and early adoption is permitted. Management is currently evaluating the impact of this pronouncement on OHS' consolidated financial statements.

1. Summary of Significant Accounting Policies (continued)

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*, which is intended to reduce diversity in practice on how certain transactions are classified in the statement of cash flows. The new standard addresses eight issues: debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies; distributions received from equity method investments; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. The provisions of ASU 2016-15 are effective for OHS starting January 1, 2018, including interim periods within that reporting period, and early adoption is permitted. Management is currently evaluating the impact of this pronouncement on OHS' consolidated financial statements.

In March 2017, the FASB issued ASU 2017-07, *Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. The amendments in ASU 2017-07 require that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. It also requires the other components of net periodic pension cost and net periodic postretirement benefit cost to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations. The provisions of ASU 2017-07 are effective for OHS starting January 1, 2019, including interim periods within that reporting period, and early adoption is permitted. Management is currently evaluating the impact of this pronouncement on OHS' consolidated financial statements.

2. Assets Limited as to Use and Related Fair Value Measurements and Disclosures

Accounting Standards Codification (ASC) 820, *Fair Value Measurement*, establishes a common definition for fair value to be applied to U.S. GAAP requiring use of fair value, establishes a framework for measuring fair value, and expands disclosures about such fair value measurements. ASC 820 establishes a hierarchy for ranking the quality and reliability of the information used to determine fair values. ASC 820 requires that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

Level 1 – Unadjusted quoted market prices in active markets for identical assets or liabilities.

Level 2 – Unadjusted quoted prices in active markets for similar assets or liabilities, unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices are observable for the asset or liability.

Level 3 – Unobservable inputs for the asset or liability.

OHS endeavors to utilize the best available information in measuring fair value. Financial assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurement. Transfers into and transfers out of the hierarchy levels are recognized as if they had taken place at the end of the reporting period. There were no transfers between Level 1 and Level 2 in the years ended December 31, 2016 and 2015.

Assets and Liabilities Measured at Fair Value

Recurring Fair Value Measurements

The fair values of assets measured at estimated fair value on a recurring basis are estimated as described in the preceding section. These estimated fair values and their corresponding fair value hierarchy in accordance with ASC 820 are summarized as follows (in thousands):

2. Assets Limited as to Use and Related Fair Value Measurements and Disclosures (continued)

	December 31, 2016			
	Fair Value Measurements at Reporting Date Using			
	Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Estimated Fair Value
Money market funds[a]	$ 31,621	$ –	$ –	$ 31,621
Fixed income investments[a]	270,900	–	–	270,900
Marketable equity securities[a]	166,667	–	–	166,667
Diversifiers[a]	69,344	–	–	69,344
Natural resources and other[a]	31,345	–	–	31,345
Total	$ 569,877	$ –	$ –	$ 569,877

	December 31, 2015			
	Fair Value Measurements at Reporting Date Using			
	Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Estimated Fair Value
Money market funds[a]	$ 49,100	$ –	$ –	$ 49,100
Fixed income investments[a]	171,089	–	–	171,089
Marketable equity securities[a]	192,180	–	–	192,180
Diversifiers[a]	162,012	–	–	162,012
Natural resources and other[a]	22,880	–	–	22,880
Total	$ 597,261	$ –	$ –	$ 597,261

[a] Valuation of these securities classified as Level 1 is based on unadjusted quoted prices in active markets that are readily and regularly available. Investments classified as Level 1 include mutual funds that are publicly traded.

2. Assets Limited as to Use and Related Fair Value Measurements and Disclosures (continued)

Alternative investments and other investments of approximately $265.7 million and $133.0 million at December 31, 2016 and 2015, respectively, are not included in these tables since they are accounted for using the equity method of accounting and not measured at fair value. Real estate investments of approximately $5.7 million and $6.4 million at December 31, 2016 and 2015, respectively, are not included in these tables since they are accounted for at cost.

Investment income and other gains and losses are classified as non-operating and comprise interest and dividend income of approximately $11.7 million and $16.2 million (net of expenses of approximately $1.5 million and $1.0 million for the years ended December 31, 2016 and 2015, respectively) and realized net losses on sales of securities of approximately $4.1 million during 2016 and realized net gains on sales of securities of approximately $48,000 during 2015. Unrealized losses on alternative investments were approximately $10.2 million and $4.8 million for 2016 and 2015, respectively. Unrealized gains (losses) on investments other than alternative investments are recorded at fair value and are included in other changes in unrestricted net assets.

3. Net Patient Service Revenue

Net patient service revenue is recognized when services are provided. OHS has agreements with third-party payors that provide for payments to OHS at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered.

A summary of the significant payment arrangements with major third-party payors follows:

Medicare and Medicaid

Inpatient acute care services and defined capital costs related 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 inpatient rehabilitation services are also paid at prospectively determined rates per discharge, based on a patient classification system. Psychiatric services rendered to Medicare beneficiaries are reimbursed on a prospectively determined rate per day. Outpatient services to Medicare beneficiaries are paid on a prospectively determined amount per procedure. Medicare skilled nursing care is paid on a prospectively determined amount per diem based on a patient classification system. The Medicare program’s share of indirect medical education costs is reimbursed based on a stipulated formula.

3. Net Patient Service Revenue (continued)

The Medicare program's share of direct medical education costs is reimbursed based on a prospectively determined amount per resident. Inpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined per diem rates. Outpatient services rendered to Medicaid program beneficiaries are reimbursed on a cost basis subject to certain limits.

OHS records retroactive Medicare and Medicaid settlements based upon estimates of amounts that are ultimately determined through annual cost reports filed with and audited by the fiscal intermediary. The difference between estimated and audited settlements is recorded as an adjustment to net patient service revenue in the year a determination is made. The favorable resolution of reimbursement issues under appeal by OHS is reported as an increase in net patient service revenue in the year the issue is resolved.

As a result of retroactive settlements of certain prior year cost reports, OHS recorded changes in estimates during the years ended December 31, 2016 and 2015. As a result of changes in prior year estimates, net patient service revenues increased approximately $1.6 million and $1.2 million in 2016 and 2015, respectively.

Medicaid Supplemental Payment Program

Since December 2010, Ochsner's hospitals and eight other hospitals (Baton Rouge General Medical Center, CHRISTUS Schumpert Health System, CHRISTUS St. Frances Cabrini Hospital, CHRISTUS St. Patrick Hospital, Lakeview Regional Medical Center, The Regional Medical Center of Acadiana, Rapides Regional Medical Center, and Tulane University Hospital and Clinic) entered into collaborations with the State and several units of local government in Louisiana (Jefferson Parish Hospital Service District No. 1, Jefferson Parish Hospital Service District No. 2, Natchitoches Hospital District No. 1, Jefferson Parish Human Services Authority, Terrebonne Parish Hospital Service District #1, Southern Regional Medical Corporation, Hospital Service District No. 3 of the Parish of Allen, The Parish Hospital Service District for the Parish of Orleans – District A, Savoy Medical Center, Hospital Service District No. 1 of Iberia Parish, St. Tammany Parish Hospital Service District No. 1, St. Tammany Parish Hospital Service District No. 2, and Vermilion Parish Hospital Service District #2) to more fully fund the Medicaid program (the Program) to ensure services remain available to low-income and needy patients in the respective communities.

3. Net Patient Service Revenue (continued)

These collaborations enable the governmental entities to increase support for the Uncompensated Care Cost (UCC) program for hospital services to the Medicaid and uninsured populations, the Medicaid Upper Payment Limits (UPL) programs for hospital and physician services to the

Medicaid fee-for-service population, and the Full Medicaid Payment (FMP) program for physician services to the Medicaid managed care population. Each State's UCC and UPL methodology must comply with its State plan and be approved by the Centers for Medicare & Medicaid Services (CMS). Under the UCC and UPL programs, federal matching funds are not available for Medicaid payments that exceed a provider's individual UPL or UCC entitlement.

Under the FMP program, Medicaid Managed Care Organizations contracted to pay increased reimbursement for physician services that more closely aligns the reimbursement rates for the Medicaid managed care population with the equivalent total reimbursement rates for the Medicaid fee-for-service population.

In 2016 and 2015, OHS recognized approximately $195.6 million and $164.6 million, respectively, in net patient service revenue related to the Program and recorded accounts receivable of approximately $15.1 million at December 31, 2016, and deferred revenue of approximately $4.1 million at December 31 2015. Such amounts are included in accounts receivable other and deferred revenue, respectively, in the accompanying consolidated balance sheets.

Humana Inc.

OHS entered into a provider contract with Humana Inc. to provide services for its commercial and senior members on a fee-for-service basis for physician services and at prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates for hospital services. Also, OHS provided services to approximately 35,000 senior members under a capitation contract for both physician and hospital services. Premium revenue from Humana Inc. under the capitation contract approximated $286.2 million and $289.4 million in 2016 and 2015, respectively, and is included in premium revenue in the accompanying consolidated statements of operations. Expenses for medical services to outside providers under the capitation contract approximated $132.5 million and $142.3 million in 2016 and 2015, respectively, and are included in medical services to outside providers in the

3. Net Patient Service Revenue (continued)

accompanying consolidated statements of operations. Net revenue from Humana Inc. on a fee-for-service basis approximated $173.1 million and $181.6 million in 2016 and 2015, respectively, and is included in net patient service revenue in the accompanying consolidated statements of operations.

Managed Care

OHS has also entered into contractual arrangements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. Inpatient and outpatient services rendered to managed care subscribers are reimbursed at prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

OHS recognizes net patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients who are not eligible for charity care, OHS recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). Based on historical experience, a significant portion of OHS' uninsured and underinsured patients will be incapable or reluctant to pay for the services provided. Therefore, OHS records a significant provision for bad debts in the period the services are provided related to patient receivables and deductibles, co-payments, or other amounts due from individual patients who have been deemed unwilling to pay.

The table below shows the sources of patient service revenue (net of contractual allowances and discounts), before the provision for bad debts, for the years ended December 31 (in thousands).

	2016	2015
Government agencies	$ 797,771	$ 722,364
Patients	29,405	49,501
Managed care/indemnity	1,458,307	1,345,143
Patient service revenue, net of contractual allowances and discounts	$ 2,285,483	$ 2,117,008

4. Patient Accounts Receivable

At December 31, OHS' patient accounts receivable balances were due from the following sources (in thousands):

	2016	2015
Managed care/indemnity	$ 186,105	$ 145,830
Government agencies	87,735	93,073
Patients	25,330	39,538
Total	299,170	278,441
Less allowance for doubtful accounts	(46,572)	(52,914)
Patient accounts receivable – net	$ 252,598	$ 225,527

The allowance for doubtful accounts due from patients was 4.5% and 5.6% of the accounts receivable balance at December 31, 2016 and 2015, respectively. The allowance for doubtful accounts due from managed care/indemnity payors was 10.4% and 9.0% of the accounts receivable balance at December 31, 2016 and 2015, respectively.

A summary of activity in the allowance for doubtful accounts is as follows (in thousands):

	Balance at Beginning of Year	Provision for Doubtful Accounts	Accounts Written Off, Net of Recoveries	Balance at End of Year
Year Ended December 31, 2015	$ 51,589	$ 95,738	$ (94,413)	$ 52,914
Year Ended December 31, 2016	52,914	88,454	(94,796)	46,572

5. Property – Net

OHS' investment in property at December 31 is as follows (in thousands):

	2016	2015
Land and improvements	$ 97,599	$ 94,552
Buildings and leasehold improvements	694,184	669,388
Equipment, furniture, and fixtures	1,058,700	1,083,683
Building and building improvements held for lease	51,396	45,875
Construction-in-progress	99,906	36,845
Total property – at cost	2,001,785	1,930,343
Less accumulated depreciation	1,180,093	1,175,500
Property – net	$ 821,692	$ 754,843

Depreciation and amortization expense totaled approximately $115.8 million and $103.7 million for the years ended December 31, 2016 and 2015, respectively.

At December 31, 2016 and 2015, OHS has purchase commitments totaling approximately $87.0 million and $29.7 million, respectively, toward additional capital expenditures.

OHS leases certain software and equipment under capital leases. Capital lease assets are included in equipment, furniture, and fixtures in the accompanying consolidated balance sheets as of December 31 and are as follows (in thousands):

	2016	2015
Software and equipment	$ 23,668	$ 16,679
Accumulated amortization	(7,675)	(5,173)
Net carrying value of capital lease assets	$ 15,993	$ 11,506

Amortization expense applicable to the capital lease asset is included in depreciation and amortization in the accompanying consolidated statements of operations.

6. Goodwill and Indefinite-Lived Intangible Assets

On August 31, 2001, Alton Ochsner Medical Foundation and Ochsner Clinic LLC effected a merger transaction resulting in the creation of OCF and the net assets of Ochsner Clinic LLC being acquired by Alton Ochsner Medical Foundation.

The cost to acquire Ochsner Clinic LLC was allocated to the assets acquired and liabilities assumed according to their estimated fair values. In addition, the carrying values of certain other assets and liabilities of Ochsner Clinic LLC were changed to reflect management's estimate of fair value under purchase accounting.

On May 2, 2016, OCF acquired 100% of the equity interest in Sculpting Center of New Orleans, LLC. As part of this transaction, OCF recorded $0.5 million of goodwill related to the acquisition.

Amounts recorded as goodwill and indefinite-lived intangible assets as of December 31 are as follows (in thousands):

	2016	2015
Goodwill	$ 43,558	$ 43,077
Trade name – intangible assets	$ 11,433	$ 11,433
Other – intangible assets	34	49
	$ 11,467	$ 11,482

7. Notes Payable

OCF has a loan agreement with a bank that provides a credit line with maximum borrowings of $53.0 million. The line of credit currently expires on June 12, 2017. Borrowings under the arrangement are unsecured; however, OCF must meet certain financial covenants. Management believes OCF was in compliance with these covenants at December 31, 2016 and 2015. At December 31, 2016 and 2015, OCF had borrowings outstanding under this arrangement of approximately $52.4 million. The interest rate on outstanding borrowings is based on the London Interbank Offered Rate (LIBOR) and, consequently, fluctuates from month to month. The rate on outstanding indebtedness under this arrangement was 2.12% and 1.74% at December 31, 2016 and 2015, respectively. All amounts are classified as current at December 31, 2016 and 2015.

8. Bonds Payable

At December 31, bonds payable consisted of the following tax-exempt and taxable bonds (in thousands). The tax-exempt revenue bonds were issued by the Louisiana Public Facilities Authority (LPFA) on behalf of OCF. The taxable bonds were issued by OCF.

	2016	2015
Series 2007-A tax-exempt bonds issued by the LPFA September 2007, due serially 2009–2047, annual interest rates ranging from 5.00% to 5.50%	$ 250,805	$ 255,345
Series 2007-B tax-exempt bonds issued by the LPFA September 2007, due serially 2009–2047 annual interest rates ranging from 5.00% to 5.50%	53,445	53,660
Series 2011 tax-exempt bonds issued by the LPFA May 2011, due serially 2017–2023, then on term in 2031, 2037, and 2041, at annual interest rates ranging from 4.00% to 6.75%	–	150,000
Series 2015 taxable bonds issued June 2015, due in 2045, annual interest rate at 5.90%	252,820	252,820
Series 2015 tax-exempt bonds issued by the LPFA August 2015, due serially 2016–2035, then on term in 2040 and 2047, annual interest rates ranging from 2.00% to 5.00%	112,815	114,800
Series 2016 tax-exempt bonds issued by the LPFA May 2016, due serially 2023-2036, then on term in 2041 and 2047, annual interest rates ranging from 3.00% to 5.00%	155,660	–
Unamortized net bond premium (discount)	18,768	(638)
Total	844,313	825,987
Less deferred financing costs	8,875	9,081
Less current portion	7,030	6,740
Non-current portion of bonds payable	$ 828,408	$ 810,166

The Series 2007-A, Series 2011, Series 2015 taxable, and Series 2015 tax-exempt bonds are general obligations of OCF. Effective on December 31, 2016, the 2007-B bonds also became general obligations of OCF. The security includes a pledge of all present and future accounts receivable of OCF and a mortgage of certain property.

8. Bonds Payable (continued)

Also, under the terms of the bond indenture, OCF and OCH are required to make certain deposits of principal and interest with a trustee. Such deposits are included with assets limited as to use in the consolidated financial statements. The bond indenture also places limits on the incurrence of additional borrowings by OCF and requires that OCF satisfy certain measures of financial performance as long as the bonds are outstanding. Management is not aware of any noncompliance with these requirements.

In June 2015, OCF issued taxable bonds in the amount of $252.8 million and in August 2015, the Louisiana Public Facilities Authority issued tax-exempt revenue bonds in the amount of $114.8 million under a loan agreement with OCF. OCF used a portion of the proceeds to pay the cost of partially refunding the Series 2007-A and 2007-B bonds in the amounts of approximately $96.9 million and $20.3 million, respectively, resulting in a loss on extinguishment of approximately $13.0 million.

In May 2016, the Louisiana Public Facilities Authority issued tax-exempt revenue bonds in the amount of $155.7 million under a loan agreement with OCF. OCF used the proceeds to pay the cost of refunding the Series 2011 bonds in the amount of $150.0 million resulting in a loss on extinguishment of approximately $39.1 million.

At December 31, 2016, scheduled repayments of principal and sinking fund installments to retire the bonds payable for the next five fiscal years are as follows (in thousands):

Years ending December 31:		
2017	$	7,030
2018		7,345
2019		7,695
2020		8,065
2021		8,465

The estimated fair value of the Series 2007-A tax-exempt bonds, Series 2007-B tax-exempt bonds, Series 2011 tax-exempt bonds, 2015 tax-exempt bonds, 2015 taxable bonds, and Series 2016 tax-exempt bonds as of December 31, 2016 and 2015, is approximately $875.9 million and $887.9 million, respectively. This fair value is based on quoted market prices for similarly rated health care revenue bond issues, a Level 2 input.

9. Long-Term Debt

A summary of long-term debt at December 31 is as follows (in thousands):

	2016	2015
Working capital note, due May 2026 (subject to six additional 5-year extensions), including accrued interest at rates varying from .88% to 1.85% during 2016 with a rate of 1.85% as of December 31, 2016	$ 8,604	$ 8,508
Note payable 4.61% Senior Secured Note, entered into March 2013, due March 2033	6,127	6,375
Note payable 5.26% Senior Secured Note, entered into December 2013, due December 2028	54,028	57,177
Promissory note entered into December 2013, due December 2020 with interest synthetically fixed at 3.97%	14,698	16,773
Note payable 5.09% Senior Secured Note, entered into July 2014, due August 2034	74,286	76,818
Promissory note entered into October 2014, due October 2021 with interest at 3.75%	19,067	20,533
Promissory note entered into September 2015, due September 2022 with interest synthetically fixed at 4.13%	27,000	30,000
Software and equipment loans, due varying dates in 2016–2019	3,131	8,664
Total long-term debt	206,941	224,848
Less deferred financing costs	2,658	2,847
Less unamortized discount	24	402
Less current portion	15,566	17,858
Non-current portion of long-term debt	$ 188,693	$ 203,741

9. Long-Term Debt (continued)

St. Anne

On May 1, 2006, OCF entered into lease and management services agreements with Lafourche Parish Hospital Service District No. 2 (Lafourche), which owns and operates St. Anne General Hospital and related facilities (St. Anne) of Raceland, Louisiana. Under the agreements, OCF leases the St. Anne buildings and facilities, purchased working capital and certain equipment of St. Anne, and operates the hospital for a specified period of time. As part of the agreement, OCF entered into an unsecured note payable with Lafourche for the purchase of its working capital and equipment for $7.1 million. On December 31, 2010, OCF and Lafourche executed an amendment in which the principal and all accrued and unpaid interest of approximately $8.0 million became the new principal amount of the note and the note was extended for five years to a maturity date of May 1, 2016. On June 1, 2015, OCF and Lafourche executed an amendment in which the aggregate principal and accrued interest amount of approximately $8.4 million was extended to 2026 with six 5-year renewal options, to concur with the lease agreement. The interest rate on the working capital note, based on the 5-Year Yield Tax Exempt Insured Revenue Bond Rate published by Bloomberg, was 1.85% and 1.31% at December 31, 2016 and 2015, respectively. All amounts are classified as non-current at December 31, 2016 and 2015, and are included in long-term debt on the consolidated balance sheets.

March 2013 Note Payable

Pursuant to OCF's purchase of two Medical Office Buildings on November 15, 2012, OCF entered into a loan in the principal amount of $7.0 million on March 12, 2013. The loan is secured by first mortgage liens on medical office building properties at 1850 East Gause Boulevard (North Shore Medical Office Building 1) and 105 Medical Center Drive (North Shore Medical Office Building 2), both in Slidell, Louisiana, and both in close proximity to Ochsner Medical Center – North Shore. The loan is in the form of a Senior Secured Note bearing interest at the fixed annual rate of 4.61%. Principal and interest payments are due monthly based upon a 20-year (240-month) amortization period and actual/360-day interest period.

9. Long-Term Debt (continued)

December 2013 Note Payable

OCF entered into a loan in the principal amount of $63.0 million on December 30, 2013. The loan is secured by first mortgage liens on OCF facilities at 2005 Veterans Memorial Boulevard, Metairie, Louisiana, and 1950 Gause Boulevard, Slidell, Louisiana. The loan is in the form of a Senior Secured Note bearing interest at the fixed annual rate of 5.26%. Principal and interest payments are due monthly based upon a 15-year (180-month) amortization period and actual/360-day interest period.

December 2013 Promissory Note

OCF entered into a loan with a financial institution (the 2013 Loan) in the principal amount of $20.8 million on December 31, 2013. The 2013 Loan is in the form of a promissory note bearing stated interest of 30-day LIBOR plus 2.00%. The security includes a pledge of all present and future accounts receivable of OCF and a mortgage of certain property. Principal and interest payments are due monthly based upon a 15-year (180-month) fixed principal payment amortization period with the balance of the outstanding principal due on a 7-year maturity date of December 30, 2020, and actual/360-day interest period. As part of a program to manage interest rate risk, OHS entered into an interest rate swap agreement on December 19, 2013, effective as of December 30, 2013. OCF pays a 1.97% fixed interest rate on the outstanding notional amount based on the outstanding principal balance of the 2013 Loan to the counterparty and receives the floating amount of 30-day LIBOR as of the date of rate-set. The effect of the swap agreement is to fix OCF's interest rate on the 2013 Loan at 3.97%. At December 31, 2016 and 2015, the fair value of the interest rate swap agreement was a liability of $171,000 and $320,000, respectively, and is included in other long-term liabilities in the consolidated balance sheets.

July 2014 Note Payable

OCF entered into a loan in the principal amount of $80.0 million on July 31, 2014. The loan is secured by first mortgage liens on OCF facilities at 17000 Medical Center Drive, Baton Rouge, Louisiana, and 16777 Medical Center Drive, Baton Rouge, Louisiana. The loan is in the form of a Senior Secured Note bearing interest at the fixed annual rate of 5.09%. Principal and interest payments are due monthly based upon a 20-year (240-month) amortization period and actual/360-day interest period.

9. Long-Term Debt (continued)

October 2014 Promissory Note

OCF entered into a loan with a financial institution (the 2014 Loan) in the principal amount of $22.0 million on October 30, 2014. The 2014 Loan is in the form of a promissory note bearing stated interest of 3.75%. The security includes a pledge of all present and future accounts receivable of OCF and a mortgage of certain property. Principal and interest payments are due quarterly with the first payment due on February 1, 2015, and based upon a 15-year fixed principal payment amortization period. The balance of the outstanding principal is due on a 7-year maturity date of October 31, 2021, and actual/360-day interest period.

September 2015 Promissory Note

OCF entered into a loan with a financial institution (the 2015 Loan) in the principal amount of $30.0 million on September 30, 2015. The 2015 Loan is in the form of a promissory note bearing stated interest of 3-month LIBOR plus 2.25%. The security includes a pledge of all present and future accounts receivable of OCF and a mortgage of certain property. Principal and interest payments are due quarterly beginning January 1, 2016, based upon a 10-year fixed quarterly principal payment amortization period, with the balance of the outstanding principal due on a 7-year maturity date of September 30, 2022, and actual/360-day interest period. As part of a program to manage interest rate risk, OHS entered into an interest rate swap agreement on September 1, 2015, effective as of September 30, 2015. OCF pays a 1.88% fixed interest rate on the outstanding notional amount based on the outstanding principal balance of the 2015 Loan to the counterparty and receives the floating amount of 3-month LIBOR as of the date of rate-set. The effect of the swap agreement is to fix OCF's interest rate on the 2015 Loan at 4.13%. At December 31, 2016, the fair value of the interest rate swap agreement was an asset of $7,000 and is included within other assets in the consolidated balance sheet. At December 31, 2015, the fair value of the interest rate swap agreement was a liability of $190,000 and is included in other long-term liabilities in the consolidated balance sheets.

9. Long-Term Debt (continued)

At December 31, 2016, scheduled repayments of long-term debt for the next five fiscal years are as follows (in thousands):

Years ending December 31:		
2017	$	15,566
2018		13,291
2019		13,616
2020		20,224
2021		23,870

10. Employee Benefit Plans

Defined Benefit Pension Plan

Certain employees of OCF and its subsidiaries are covered under a defined benefit pension plan (the Defined Benefit Plan). The Defined Benefit Plan is non-contributory and provides benefits that are based on the participants' credited service and average compensation during the last five years of covered employment. As of December 31, 2006, benefit accruals ceased for all plan participants under age 40 and those over age 40 who elected to freeze their retirement plan benefits. OCF made an additional change to the Defined Benefit Plan, and as of December 31, 2009, benefit accruals ceased for all plan participants under age 55 with less than 10 years of service (rounded to the nearest 6 months). Physician/executive participants are frozen as of December 31, 2009, regardless of age and service. Participants who are not frozen as of December 31, 2009, can accrue benefits until the earlier of age 65 or December 31, 2015. No new participants are allowed to enter the Defined Benefit Plan. OCF makes contributions to its qualified plan that satisfy the minimum funding requirements under the Employee Retirement Income Security Act of 1974. These contributions are intended to provide not only for benefits attributed to services rendered to date but also those expected to be earned in the future.

10. Employee Benefit Plans (continued)

The following table sets forth the changes in benefit obligations, changes in plan assets, and components of net periodic benefit cost (in thousands):

	December 31, 2016	December 31, 2015
Change in benefit obligation:		
Benefit obligation – beginning of year	$ 542,801	$ 561,526
Service cost	–	–
Interest cost	23,619	22,378
Actuarial loss (gain)	22,379	(18,678)
Benefits paid	(34,984)	(22,425)
Benefit obligation – end of year	553,815	542,801
Change in plan assets:		
Fair value of plan assets – beginning of year	406,618	420,066
Actual return on plan assets	22,165	372
Employer contributions	10,610	8,605
Benefits paid	(34,984)	(22,425)
Fair value of plan assets – end of year	404,409	406,618
Funded status	$ (149,406)	$ (136,183)

10. Employee Benefit Plans (continued)

	December 31, 2016	2015
Amounts recognized in the consolidated balance sheets consist of:		
Pension and postretirement obligations – current portion	$ –	$ –
Pension and postretirement obligations – non-current portion	(149,406)	(136,183)
Unrestricted net assets	N/A	N/A
Amounts recognized in unrestricted net assets:		
Net actuarial loss	253,845	228,062
Prior service credit	–	–
Total amounts recognized	253,845	228,062
Other changes in plan assets and benefit obligations recognized in unrestricted net assets:		
Net loss	32,623	14,469
Recognized loss	(6,840)	(5,857)
Recognized prior service credit	–	–
Total amounts recognized	$ 25,783	$ 8,612

Weighted average assumptions used to determine projected benefit obligations at December 31 were as follows:

	2016	2015
Weighted average discount rate	4.15%	4.35%
Rate of compensation increase	N/A	N/A

10. Employee Benefit Plans (continued)

Net periodic pension cost for the years ended December 31 includes the following components (in thousands):

	2016	2015
Service cost	$ –	$ –
Interest cost	23,619	22,378
Expected return on plan assets	(32,409)	(33,519)
Amortization of net loss	6,840	5,857
Recognized prior service credit	–	–
Net periodic pension benefit	$ (1,950)	$ (5,284)

Weighted average assumptions used to determine net periodic pension cost for the years ended December 31 were as follows:

	2016	2015
Weighted-average discount rate	4.35%	4.06%
Expected return on plan assets	7.70%	8.10%
Rate of compensation increase	N/A	N/A

10. Employee Benefit Plans (continued)

The fair values of the Defined Benefit Plan assets at December 31 are as follows (in thousands):

	2016			
	Fair Value Measurements at Reporting Date Using			
	Quoted Prices in Active Markets for Observable Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Estimated Fair Value
Money market funds[a]	$ 28,126	$ –	$ –	$ 28,126
Fixed income investments[a][b][c]	16,994	48,662	–	65,656
Marketable equity securities[a][b][c]	71,874	42,869	46,541	161,284
Absolute return[b][c]	10,807	10,647	79,996	101,450
Private equity/venture capital[c]	–	–	14,770	14,770
Natural resources[a][c]	27,731	–	5,392	33,123
Total	$ 155,532	$ 102,178	$ 146,699	$ 404,409

	2015			
	Fair Value Measurements at Reporting Date Using			
	Quoted Prices in Active Markets for Observable Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Estimated Fair Value
Money market funds[a]	$ 8,499	$ –	$ –	$ 8,499
Fixed income investments[a][b][c]	15,292	46,135	–	61,427
Marketable equity securities[a][b][c]	77,168	37,567	42,503	157,238
Absolute return[b][c]	10,847	–	121,636	132,483
Private equity/venture capital[c]	–	–	17,299	17,299
Natural resources[a][c]	23,939	–	5,733	29,672
Total	$ 135,745	$ 83,702	$ 187,171	$ 406,618

[a] Valuation of these securities classified as Level 1 is based on unadjusted quoted prices in active markets that are readily and regularly available.

10. Employee Benefit Plans (continued)

(b) Represents funds invested in common/collective trust funds or other alternative investments. Investments classified as Level 1 represent a fund that is publicly traded. Valuation of this fund is based on unadjusted quoted prices in active markets that are readily and regularly available. Level 2 classification represents investments in common/collective trust funds or other alternative investment funds. The estimated fair value is based upon the reported Net Asset Value (NAV) provided by fund managers, and this value represents the amount at which transfers into and out of the fund are affected. This fund provides reasonable levels of price transparency and can be corroborated through observable market data.

(c) In general, investments classified within Level 3 are alternative investments and use many of the same valuation techniques and inputs as described above, including reported NAV. However, if key inputs are unobservable, or if the investments are less liquid and there is very limited trading activity, the investments are generally classified as Level 3. The use of independent non-binding broker quotations to value investments generally indicates there is a lack of liquidity or the general lack of transparency in the process to develop the valuation estimates generally causing these investments to be classified in Level 3. This category includes funds that are invested in hedge fund and private equity investments that provide little or no price transparency due to the infrequency with which the underlying assets trade and generally require additional time to liquidate in an orderly manner. Accordingly, the values of these alternative asset classes are based on inputs that cannot be readily derived from or corroborated by observable market data and are based on investment balances provided by fund managers and adjusted for contributions and distributions in the event such balances pertain to an interim date. The 2015 amounts reflected above include the reclassification of $19 million of investments from Level 3 to Level 2.

A rollforward of the fair value measurements for all assets measured at estimated fair value on a recurring basis using significant unobservable (Level 3) inputs for the year ended December 31, 2016, is as follows (in thousands):

	January 1, 2016	Gains (Losses)	Purchases	Sales	December 31, 2016
Fixed income	$ –	$ –	$ –	$ –	$ –
Equity securities	42,503	4,038	–	–	46,541
Absolute return	121,636	1,094	10,000	(52,734)	79,996
Private equity/venture capital	17,299	2,306	85	(4,920)	14,770
Natural resources	5,733	314	–	(655)	5,392
Total	$ 187,171	$ 7,752	$ 10,085	$ (58,309)	146,699

10. Employee Benefit Plans (continued)

The Defined Benefit Plan asset allocation as of the measurement dates (December 31, 2016 and 2015) and the target asset allocation, presented as a percentage of total plan assets, were as follows:

	2016	2016 Target Allocation	2015
Debt securities	16%	15%	15%
Equity securities	40	40	39
Private equity/venture capital	4	2	4
Hedge funds	25	33	33
Natural resources/REITs	8	10	7
Other	7	–	2

Asset allocations and investment performance are formally reviewed at regularly scheduled meetings several times during the year by the Investment Committee of OCF. OCF utilizes an investment consultant and multiple managers for different asset classes. The Investment Committee takes into account liquidity needs of the plan to pay benefits in the short term and the anticipated long-term obligations of the Defined Benefit Plan.

The primary financial objectives of the Defined Benefit Plan are to (1) provide a stream of relatively predictable, stable, and constant earnings in support of the Defined Benefit Plan's annual benefit obligations and (2) preserve and enhance the real (inflation-adjusted) value of the assets of the Defined Benefit Plan. The long-term investment objectives of the Defined Benefit Plan are to (1) attain the average annual total return assumed in the Defined Benefit Plan's most recent actuarial assumptions (net of investment management fees) over rolling five-year periods, (2) outperform the Defined Benefit Plan's custom benchmark, and (3) outperform the median return of a pool of retirement funds to be identified in conjunction with OCF's investment consultant.

The asset allocation is designed to provide a diversified mix of asset classes, including U.S. and foreign equity securities, fixed income securities, real estate investment trusts (REITs), natural resources, cash, and funds to hedge against deflation and inflation. Risk management practices include various criteria for each asset class, including measurement against several benchmarks, achievement of a positive risk-adjusted return, and investment guidelines for each class of assets that enumerate types of investment allowed in each category.

10. Employee Benefit Plans (continued)

The OCF Retirement Plan Statement of Investment Policies and Objectives provides for a range of minimum and maximum investments in each asset class to allow flexibility in achieving the expected long-term rate of return. Historical return patterns and correlations, consensus return forecast, and other relevant financial factors are analyzed to check for reasonableness and appropriateness of the asset allocation to ensure that the probability of meeting actuarial assumptions is reasonable. OCF Treasury staff oversees the day-to-day activities involving assets of the Defined Benefit Plan and the implementation of any changes adopted by the Investment Committee.

OCF currently expects to make a contribution to the Defined Benefit Plan of approximately $15.1 million in 2017.

For 2016 and 2015, OCF's Defined Benefit Plan had accumulated benefit obligations of approximately $553.8 million and $542.8 million, respectively.

The estimated net loss for the Defined Benefit Plan that will be amortized from accumulated unrestricted net assets into net periodic benefit cost over the next fiscal year is approximately $7.5 million.

Future benefit payments expected to be paid in each of the next five fiscal years and in the aggregate for the following five years as of December 31, 2016, are as follows (in thousands):

Years ending December 31:	
2017	$ 26,356
2018	28,035
2019	29,479
2020	30,842
2021	32,153
2022–2026	175,200
	$ 322,065

10. Employee Benefit Plans (continued)

Defined Contribution Plans

All employees of OCF meeting eligibility requirements may participate in the Ochsner Clinic Foundation 401(k) Plan (the Plan). OCF may annually elect to make a retirement contribution on behalf of eligible employees in an amount up to 2% of the participant's annual eligible compensation. In addition, OCF may annually elect to make a match for eligible employees of 50% of the first 4% the employees contribute into the Plan. At December 31, 2016 and 2015, OHS has accrued approximately $28.1 million and $24.6 million, respectively, for matching contributions to the Plan for the 2016 and 2015 fiscal years, respectively.

Certain OCF employees are also covered under a 457(f) plan. The 457(f) plan was created to replace 100% of the benefit target for employees under age 65 as of December 31, 2009, whose benefits in the Defined Benefit Plan were frozen. The participant pays taxes at vesting and payout occurs at the later of age 65 or retirement. Participants of the 457(f) plan also participate in the 401(k) contributions. OHS' accompanying consolidated balance sheets reflect a liability of approximately $13.6 million and $12.6 million for the 457(f) plan at December 31, 2016 and 2015, respectively.

Other Postretirement Benefits

OCF also provides certain health care and life insurance benefits for retired employees. OCF funds these benefits on a pay-as-you-go basis. The obligations under the postretirement plan are approximately $2.0 million and $1.9 million at December 31, 2016 and 2015, respectively.

11. Endowment Funds and Temporarily and Permanently Restricted Net Assets

OHS has 776 temporarily restricted funds and 66 permanently restricted funds established for a variety of purposes. These funds are classified and reported based on the existence or absence of donor-imposed restrictions. Restricted net assets include funds dedicated to Medical Education, Nursing Education, Pastoral Care, Biomedical Research, Cancer Research, Cardiology Research, Transplant Research and Alzheimer's Research.

11. Endowment Funds and Temporarily and Permanently Restricted Net Assets (continued)

ASC 958-205, *Not-for-Profit Entities – Presentation of Financial Statements*, provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA), which the state of Louisiana enacted on July 1, 2010.

UPMIFA requires OHS to classify the portion of each donor-restricted endowment fund that is not classified as permanently restricted net assets as temporarily restricted net assets (time restricted) until appropriated for expenditure. Temporarily restricted net assets available for appropriations at December 31, 2016 and 2015, total approximately \$6.8 million and \$5.7 million, respectively. Management retroactively adopted UPMIFA as of January 1, 2009.

UPMIFA also requires that OHS preserve the historic dollar value of the donor restricted endowed funds. Therefore, permanently restricted net assets contain the aggregate fair market value of (1) an endowment fund at the time it became an endowment fund, (2) each subsequent donation to the fund at the time it is made, and (3) each accumulation made pursuant to a direction in the applicable gift instrument at the time the accumulation is added to the fund.

Restricted Net Assets as of December 31, 2016, by Purpose

	Temporarily Restricted	Permanently Restricted	Total
	(In Thousands)		
Research	$ 13,402	$ 17,671	$ 31,073
Education	5,685	3,488	9,173
Other	69,132	4,674	73,806
Total	$ 88,219	$ 25,833	$ 114,052

Restricted Net Assets as of December 31, 2015, by Purpose

	Temporarily Restricted	Permanently Restricted	Total
	(In Thousands)		
Research	$ 11,707	$ 17,165	$ 28,872
Education	5,643	3,431	9,074
Other	49,335	3,167	52,502
Total	$ 66,685	$ 23,763	$ 90,448

11. Endowment Funds and Temporarily and Permanently Restricted Net Assets (continued)

Endowment Net Asset Composition by Type of Fund as of December 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	(In Thousands)			
Donor-restricted funds	$ –	$ 10,399	$ 25,833	$ 36,232
Board-designated funds	1,391	–	–	1,391
Total	$ 1,391	$ 10,399	$ 25,833	$ 37,623

Endowment Net Asset Composition by Type of Fund as of December 31, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	(In Thousands)			
Donor-restricted funds	$ –	$ 8,668	$ 23,763	$ 32,431
Board-designated funds	1,341	–	–	1,341
Total	$ 1,341	$ 8,668	$ 23,763	$ 33,772

Changes in Endowment Net Assets for the Year Ended December 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	(In Thousands)			
Beginning balance	$ 1,341	$ 8,668	$ 23,763	$ 33,772
Investment gain	87	2,300	8	2,395
Contributions	–	5	2,042	2,047
Appropriations for expenditures	(37)	(554)	–	(591)
Transfers	–	(20)	20	–
Ending balance	$ 1,391	$ 10,399	$ 25,833	$ 37,623

11. Endowment Funds and Temporarily and Permanently Restricted Net Assets (continued)

Changes in Endowment Net Assets for the Year Ended December 31, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	(In Thousands)			
Beginning balance	$ 1,378	$ 8,859	$ 23,397	$ 33,634
Investment (loss) gain	(10)	40	(2)	28
Contributions	–	1	339	340
Appropriations for expenditures	(27)	(203)	–	(230)
Transfers	–	(29)	29	–
Ending balance	$ 1,341	$ 8,668	$ 23,763	$ 33,772

Funds With Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or current law requires OHS to retain as a fund of perpetual duration. In accordance with U.S. GAAP, deficiencies of this nature are reported in unrestricted net assets. There were no such deficiencies as of December 31, 2016. Such deficiencies totaled approximately $2,000 as of December 31, 2015. Any such deficiencies resulted from unfavorable market fluctuations.

Return Objectives and Risk Parameters

OHS has investment and spending practices for endowment assets that intend to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that OHS must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. The policy allows the endowment assets to be invested in a manner that is intended to produce results that exceed the price and yield results of the allocation index while assuming a moderate level of investment risk. OHS expects its endowment funds to provide a rate of return that preserves the gift and generates earnings to achieve the endowment purpose.

11. Endowment Funds and Temporarily and Permanently Restricted Net Assets (continued)

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, OHS relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and interest and dividend income. OHS uses a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints to preserve capital.

Spending Policy and How the Investment Objectives Relate to Spending Policy

It is OHS' objective to establish a payout rate from endowment accounts that provides a stable, predictable level of spending for the endowed purposes that will increase with the rate of inflation, and to continue to invest in accordance with policy goals of providing for a rate of growth in the endowment earnings that meets or exceeds the rate of inflation. The annual spending appropriation will be subject to a minimum rate of 4% and a maximum rate of 7% of each endowment fund's current market value. Temporarily restricted net assets, along with other donor-restricted funds, include the spending appropriation and investment income of the endowments and are pending appropriation for expenditure consistent with the specific purpose of the fund.

12. Business Combinations, Strategic Partnership, and Affiliation Agreements

Business Combinations

During 2016 and 2015, OCF completed several physician practice acquisitions, none of which were material to the results of operations. In 2016, OCF also purchased 100% of the equity interest of Sculpting Center of New Orleans, LLC for $0.7 million.

Subsequent Event

On January 9, 2017, OCF completed the acquisition of Millennium Healthcare Management, Inc. (MHM). MHM is a leading provider of urgent care and occupational medicine in Louisiana and consists of 12 urgent care and 4 occupational health clinics. Under the terms of the acquisition, OCF paid approximately $31.3 million in cash. Results of operations of MHM will be included in OHS' consolidated financial statements from the date of acquisition.

12. Business Combinations, Strategic Partnership, and Affiliation Agreements (continued)

Strategic Partnerships and Affiliation Agreements

In recent years, OHS has entered into several strategic partnership and affiliation agreements. While the direct financial impact of these agreements is not material, they are a component of OHS' efforts to increase local access to care, improve quality, reduce the cost of healthcare, and share best practices and resources in order to improve the health of Louisiana communities. OHS now has strategic partnerships and clinical affiliations with Lafayette General Health, CHRISTUS Health Louisiana, IASIS Glenwood Regional Medical Center, and Southwest Mississippi Regional Medical Center.

OHS and OCF also have Joint Operating Agreements (JOA) with St. Tammany Parish Hospital (STPH), Terrebonne General Medical Center (TGMC), and Slidell Memorial Hospital (SMH). These JOAs are intended to coordinate resources with the goal of lowering costs, improving quality, and creating a seamless clinical environment for patients in each of their respective local regions. STPH, TGMC, and SMH all remain public hospitals governed by their respective Boards. OCF is financially integrated with these hospitals and recognizes other operating revenue or other operating expense related to the JOAs in its consolidated statements of operations.

OCF also provides management assistance and support for Chabert and SCPH. Under these management agreements, OCF receives management fees and any excess of revenues over expenses generated by each of the facilities annually, as well as reimbursement of purchased services incurred on behalf of the facilities. OCF also has management agreements with Hancock and an interim management agreement with SBPH. Under its management agreements with Hancock and SBPH, OCF receives management fees as well as reimbursement of expenses incurred for providing management assistance and support services.

In October 2016, OCF entered into a professional services agreement with Adeptus Health, Inc. (Adeptus) to enhance access to emergency medical care in Louisiana. Ochsner opened a freestanding emergency department in Marrero, Louisiana, and Adeptus managed the operations. On March 30, 2017, OCF and Adeptus terminated this agreement and the previously established joint venture for a payment to Adeptus of approximately $1.2 million.

13. Equity Method Investments and Joint Ventures

Investment in Equity Investees

OHS' investment in unconsolidated affiliates at December 31 and its income from equity investees for the years then ended are as follows (in thousands):

2016	Ownership Interest	Investment in Equity Investees	Equity in Income of Equity Investees
Southeast Louisiana Homecare LLC	25%	$ 3,176	$ 359
Louisiana Extended Care Hospital of Kenner, LLC	25%	82	123
OSR Louisiana, LLC	49%	–	(252)
Ochsner-Acadia, LLC	25%	6,994	–
		$ 10,252	$ 230

2015	Ownership Interest	Investment in Equity Investees	Equity in Income of Equity Investees
Southeast Louisiana Homecare LLC	25%	$ 2,565	$ 309
Louisiana Extended Care Hospital of Kenner, LLC	25%	380	42
		$ 2,945	$ 351

On June 15, 2015, OCF entered into a joint venture with Pennsylvania-based Select Medical Corporation to jointly open a new, 60-bed, acute inpatient rehabilitation hospital in 2016. Construction began in early 2016. The new partnership will initially focus on managing OCF's current acute rehab services provided in a 29-bed unit, which is licensed separately as a hospital, within the Ochsner Medical Center-Elmwood Campus. This joint venture did not have material operations during the year ended December 31, 2016.

13. Equity Method Investments and Joint Ventures (continued)

On May 17, 2016, OCF formed a joint venture with Acadia Healthcare (Acadia) to open and operate to an 82-bed behavioral health facility in Laplace, Louisiana. Ochsner contributed the facility and recorded a gain of $6,994 for a 25% interest in the joint venture and Acadia will contribute the facility build out, equipment and working capital. Construction began in 2016 and the facility is estimated to open in 2018. This joint venture did not have any operations during the year ended December 31, 2016.

14. Electronic Health Records Services Agreements

In order to develop a better clinical integration and provide cost savings for our JOA partners, OCF has entered into electronic health records services and hosting agreements to implement and support a common EHR system. During 2015, OCF implemented its EHR system at STPH and continues to host and maintain it. In December 2015, OCF entered into a similar agreement with TGMC and implemented its EHR system during 2016 and 2017. These agreements were not material to OCF's operating income for 2016 or 2015.

15. Functional Expenses

OHS provides general health care services primarily to residents within its geographic location. Expenses related to providing these services for the years ended December 31 are as follows (in thousands):

	2016	2015
Health care services	$ 1,902,533	$ 1,714,394
General and administrative	790,743	743,479
Medical education	38,716	38,797
Research	13,999	13,423
Fitness center	12,310	11,894
Hotel	3,546	3,430
	$ 2,761,847	$ 2,525,417

16. Supplemental Disclosures of Cash Flow Information

	Year Ended December 31, 2016	2015
Cash paid for interest (net of amounts capitalized)	$ 52,567	$ 46,668
Supplemental non-cash investing and financing activities:		
Property purchases included in accounts payable	$ 14,625	$ 5,598
Property purchases financed by capital leases and long-term debt	$ 6,474	$ 8,051

17. Commitments and Contingencies

Professional and General Liability Insurance

Professional and general liability claims have been asserted against OHS by various claimants. The claims are in various stages of processing, and some may ultimately be brought to trial. Incidents occurring through December 31, 2016, may result in the assertion of additional claims.

OCF participates in a risk management program to provide for professional and general liability coverage.

Under this program, OCF carries professional and general liability insurance coverage for up to $65.0 million each of annual aggregate claims subject to certain deductible provisions. OCF is self-insured with respect to the first $3.0 million of each claim for professional liability with an annual aggregate exposure of $6.0 million. General liability claims are subject to a retention of $1.0 million per claim and $2.0 million annual aggregate. OHS also carries additional coverage on certain community hospitals that carry similar coverage with lower self-retention and aggregate levels.

Professional liability claims are limited by Louisiana statute to $500,000 per occurrence, the first $100,000 of which is payable by the health care provider and the remainder of which is payable by the Patient's Compensation Fund (the Fund) for participants in the Fund. The Fund was established by the Medical Malpractice Act (the Act), which was enacted in 1975 by the State of Louisiana. The Act established the Fund and limited recovery in medical malpractice cases to $500,000. The limitation on recovery has been challenged and, to date, successfully defended in

17. Commitments and Contingencies (continued)

the courts. Expenditures recorded by OHS for participation in the Fund for the years ended December 31, 2016 and 2015, were approximately $17.9 million and $19.8 million, respectively, and are included in other operating expenses in the accompanying consolidated statements of operations.

OCF has an established trust fund held by a financial institution. Disbursements are made from the trust fund for self-insured professional and general liability claims, claims administration costs, and legal fees. The amounts to be contributed to the trust funds are determined annually by an independent actuary. The trust fund assets for OCF in the aggregate totaled approximately $9.1 million and $11.9 million at December 31, 2016 and 2015, respectively. The trust fund assets are included in assets limited as to use under self-insurance trust fund in the accompanying consolidated balance sheets. The estimated liability recorded by OCF in the aggregate for claims, based on the actuarial report, is approximately $13.8 million with no estimated reinsurance recoveries at December 31, 2016, and $14.0 million with no estimated reinsurance recoveries at December 31, 2015. The estimated liability is included in other current liabilities and other long-term liabilities in the accompanying consolidated balance sheets. The estimated liability for OCF was discounted at approximately 2.5% at both December 31, 2016 and 2015. If the risk management program is terminated, the trust fund balances, if any, revert to OCF after satisfaction of outstanding claims. Any proceeds from such a reversion would be used to reduce future costs for liability coverage.

Estimated Workers' Compensation and Employee Health Claims

OHS is self-insured for workers' compensation and employee health claims. The estimated liability for workers' compensation and employee health claims totaled approximately $18.8 million at both December 31, 2016 and 2015, which is included in accrued salaries, wages, and benefits; other current liabilities; and other long-term liabilities in the accompanying consolidated balance sheets.

Property Insurance

OHS carries property insurance coverage through third-party insurers. The policy limit is $750.0 million and is subject to a deductible of $250,000 per occurrence for property damage and 24 hours for the time element. The Named Wind sublimit is $160.0 million. The Named Wind deductible is 3% for property damage and 72 hours for the time element, subject to a minimum of $500,000 and a maximum of $50.0 million. OHS also carried coverage on certain community hospitals with self-retention and aggregate levels.

17. Commitments and Contingencies (continued)

Lease Commitments

OHS leases certain software and equipment under capital leases. The capital lease obligations are included in other current liabilities and other non-current liabilities in the accompanying consolidated balance sheets.

Additionally, OHS leases assets under various rental agreements. OHS leases have varying terms, which may include renewal or purchase options and escalation clauses that are factored into determining minimum lease payments. The following schedule summarizes OHS' future annual minimum rental commitments on outstanding leases as of December 31, 2016 (in thousands):

	Lease Obligations	
	Capital	**Operating**
2017	$ 5,774	$ 34,905
2018	4,801	29,239
2019	2,624	22,626
2020	1,532	17,955
2021	180	16,150
Thereafter	–	102,619
Total minimum lease payments	14,911	$ 223,494
Less amounts representing interest	(845)	
	14,066	
Less current maturities	(5,400)	
Capital lease obligations – non-current	$ 8,666	

Rent expense, which relates primarily to cancelable or short-term operating leases for equipment and buildings, was approximately $53.5 million and $48.3 million for the years ended December 31, 2016 and 2015, respectively.

17. Commitments and Contingencies (continued)

Operating Leases – Lessor

OHS leases office space to other businesses. Lease terms generally range from one to four years, with options of renewal for additional periods. All such property leases provide for minimum annual rentals, and all rental revenue has been recorded on a straight-line basis. Following is a schedule by years of future minimum rental payments under non-cancelable operating leases as of December 31, 2016 (in thousands):

Years ending December 31:	
2017	$ 7,859
2018	5,927
2019	2,581
2020	1,097
2021	874
Thereafter	6,831
Total minimum lease payments to be received	$ 25,169

Contingencies

The health care industry as a whole is subject to numerous complex laws and regulations of federal, state, and local governments. Compliance with these laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. Such compliance with laws and regulations in the health care industry has come under increased government scrutiny. OHS and its subsidiaries are parties to various legal proceedings and potential claims arising in the ordinary course of their business. Management of OHS believes the reserves it has established for these issues are adequate and does not believe, based on current facts and circumstances and after review with counsel, that these matters will have a material adverse effect on OHS' consolidated statements of financial position or results of operations.

17. Commitments and Contingencies (continued)

The Tax Relief and Health Care Act of 2006 authorized a permanent program involving the use of third-party recovery audit contractors (RACs) to identify Medicare and Medicaid overpayments and underpayments made to providers. RACs are compensated based on the amount of both overpayments and underpayments they identify by reviewing claims submitted to Medicare for correct coding and medical necessity. Payment recoveries resulting from RAC reviews are appealable through administrative and judicial processes. Payment recoveries and denials resulting from RAC reviews can be appealed through administrative and judicial processes, and management intends to pursue the reversal of adverse determinations where appropriate. In addition to overpayments that are not reversed on appeal, OHS will incur additional costs to respond to requests for records and to pursue the reversal of payment denials. OHS expects the RACs will continue to seek CMS approval to review additional issues.

Management of OHS believes that the reserves it has established for RAC reviews, which are included in other long-term liabilities in the accompanying consolidated balance sheets, are adequate but cannot predict with certainty the impact of the Medicare and Medicaid RAC program on its future consolidated results of operations or cash flows.

18. Subsequent Events

OHS has evaluated subsequent events through April 24, 2017, the date the accompanying consolidated financial statements were available for issuance.

EY | Assurance | Tax | Transactions | Advisory

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

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

ey.com