KPMG

INTEGRIS *HEALTH*, INC.
AND CONTROLLED ENTITIES

Consolidated Financial Statements
and Supplemental Schedules

June 30, 2017 and 2016

(With Independent Auditors' Report Thereon)

KPMG LLP
210 Park Avenue, Suite 2650
Oklahoma City, OK 73102-5683

Independent Auditors' Report

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

We have audited the accompanying consolidated financial statements of INTEGRIS *Health*, Inc. and controlled entities, which comprise the consolidated balance sheets as of June 30, 2017 and 2016, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of INTEGRIS *Health*, Inc. and controlled entities as of June 30, 2017 and 2016, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matter

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

KPMG LLP

Oklahoma City, Oklahoma
September 22, 2017

INTEGRIS *HEALTH*, INC.
AND CONTROLLED ENTITIES

Consolidated Balance Sheets

June 30, 2017 and 2016

(In thousands)

Assets		**2017**	**2016**
Current assets:			
Cash and cash equivalents	$	38,408	46,793
Short-term investments		201,540	219,923
Patient accounts receivable, net		193,190	186,876
Current portion of notes receivable		10	17
Inventories		32,560	28,066
Prepaid expenses and other current assets		15,563	19,436
Total current assets		481,271	501,111
Assets whose use is limited		843,022	816,401
Property and equipment:			
Land and improvements		56,556	61,094
Buildings and leasehold improvements		646,071	707,673
Equipment		883,470	791,121
		1,586,097	1,559,888
Less accumulated depreciation and amortization		903,307	986,079
		682,790	573,809
Construction in progress		62,486	130,383
		745,276	704,192
Other assets, net		77,670	75,038
Total assets	$	2,147,239	2,096,742

(Continued)

INTEGRIS *HEALTH*, INC.
AND CONTROLLED ENTITIES

Consolidated Balance Sheets

June 30, 2017 and 2016

(In thousands)

Liabilities and Net Assets		**2017**	**2016**
Current liabilities:			
Accounts payable, accrued expenses, and other	$	299,789	324,972
Employee compensation and related liabilities		52,513	72,649
Current portion of long-term debt		13,055	12,490
Current portion of capital lease obligations		380	398
Due to affiliates		7,484	10,007
Total current liabilities		373,221	420,516
Long-term debt, less current portion		415,372	429,390
Capital lease obligations, less current portion		212	612
Long-term pension liability		296,506	323,584
Other long-term liabilities		95,681	117,510
Total liabilities		1,180,992	1,291,612
Net assets:			
Unrestricted		900,101	752,023
Temporarily restricted		52,162	40,455
Permanently restricted		6,650	6,168
Total net assets of INTEGRIS *Health*		958,913	798,646
Noncontrolling ownership interest in equity of consolidated affiliates – unrestricted		7,334	6,484
Total net assets		966,247	805,130
Commitments and contingencies			
Total liabilities and net assets	$	2,147,239	2,096,742

See accompanying notes to consolidated financial statements.

INTEGRIS *HEALTH*, INC.
AND CONTROLLED ENTITIES

Consolidated Statements of Operations

Years ended June 30, 2017 and 2016

(In thousands)

	2017	2016
Operating revenues:		
Patient service revenue (net of contractual allowances and discounts)	$ 1,513,381	1,526,020
Provision for bad debts	(102,303)	(137,309)
Net patient service revenue	1,411,078	1,388,711
Premium revenue	2,723	1,631
Other operating revenue	144,728	153,276
Total operating revenues	1,558,529	1,543,618
Operating expenses:		
Salaries and related expenses	805,622	798,784
Supplies and other expenses	628,923	629,054
Professional services	40,837	41,233
Depreciation and amortization	80,013	70,191
Recovery of bad debts (nonpatient)	(8)	(4)
Interest expense	16,814	17,163
Goodwill impairment	—	8,583
Total operating expenses	1,572,201	1,565,004
Loss from operations	(13,672)	(21,386)
Nonoperating revenue (expense):		
Net investment income (loss)	132,263	(35,123)
Net equity in loss of affiliates	(1,817)	(2,248)
Note receivable impairment	—	(31,381)
Other, net	(4,791)	(2,221)
Total nonoperating revenue (expense), net	125,655	(70,973)
Net income (loss)	111,983	(92,359)
Net loss attributable to noncontrolling interest	(1,426)	(877)
Net income (loss) attributable to INTEGRIS *Health*	$ 113,409	(91,482)

See accompanying notes to consolidated financial statements.

INTEGRIS *HEALTH*, INC.
AND CONTROLLED ENTITIES

Consolidated Statements of Changes in Net Assets

Years ended June 30, 2017 and 2016

(In thousands)

		2017	2016
Changes in unrestricted net assets:			
Net income (loss) attributable to INTEGRIS *Health*	$	113,409	(91,482)
Pension liability adjustment		35,949	(134,529)
Net assets released from restrictions used for purchase of property and equipment		2,938	3,829
Contributions of long-lived assets		2,938	3,848
Other changes, net		(7,156)	(5,535)
Increase (decrease) in unrestricted net assets		148,078	(223,869)
Changes in temporarily restricted net assets:			
Contributions received for operations		12,052	14,222
Investment income (expense)		3,411	(1,453)
Change in value of split-interest agreement		(19)	(19)
Net assets released from restrictions		(4,049)	(5,293)
Other changes, net		312	(893)
Increase in temporarily restricted net assets		11,707	6,564
Changes in permanently restricted net assets:			
Contributions received for operations		61	51
Investment income (expense)		706	(77)
Other changes, net		(285)	(49)
Increase (decrease) in permanently restricted net assets		482	(75)
Increase (decrease) in net assets of INTEGRIS *Health*		160,267	(217,380)
Net assets of INTEGRIS *Health*, beginning of year		798,646	1,016,026
Net assets of INTEGRIS *Health*, end of year	$	958,913	798,646

See accompanying notes to consolidated financial statements.

INTEGRIS *HEALTH*, INC.
AND CONTROLLED ENTITIES

Consolidated Statements of Cash Flows

Years ended June 30, 2017 and 2016

(In thousands)

		2017	2016
Cash flows from operating activities:			
Increase (decrease) in net assets	$	160,267	(217,380)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:			
Pension liability adjustment		(35,949)	134,529
Net unrealized gain (loss) on investments		(78,852)	43,409
Net realized gain on investments		(9,505)	(2,660)
Contributions of long lived assets		(2,938)	(3,848)
Change in split-interest agreement		24	24
Provision for uncollectible accounts		102,295	137,305
Depreciation and amortization		80,013	70,191
Goodwill impairment		—	8,583
Note receivable impairment		—	31,381
Amortization of bond premiums/discounts		(963)	(963)
Net loss on property and equipment disposal		367	1,432
Income from investments in affiliates		(17,293)	(17,265)
Distributions from unconsolidated affiliates		20,003	20,465
Change in fair value of interest rate swap agreements		(25,900)	20,272
Revenues and gains in excess of expenses incurred attributable to noncontrolling interest		1,426	877
(Increase) decrease in:			
Patient receivables		(108,609)	(166,344)
Other receivables		7	717
Other assets		(4,090)	(6,919)
Increase (decrease) in:			
Accounts payable and accrued liabilities		(47,842)	7,906
Other noncurrent liabilities		12,918	(12,456)
Net cash provided by operating activities		45,379	49,256
Cash flows from investing activities:			
Purchases of property and equipment		(118,374)	(150,153)
Proceeds from disposal of property and equipment		138	125
Purchases of investments in affiliates and contributions to joint ventures		(2,163)	(4,300)
Sales of short-term investments and assets limited to use, net		80,119	134,293
Net cash used in investing activities		(40,280)	(20,035)
Cash flows from financing activities:			
Principal payments on capital lease obligations		(418)	(361)
Principal payments on long-term debt		(12,490)	(13,615)
Distributions to noncontrolling interest holders		(576)	(448)
Net cash used in financing activities		(13,484)	(14,424)
Net (decrease) increase in cash and cash equivalents		(8,385)	14,797
Cash and cash equivalents at beginning of year		46,793	31,996
Cash and cash equivalents at end of year	$	38,408	46,793
Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
Interest	$	16,638	16,108
Federal income taxes		1,065	1,362
Supplemental disclosure of noncash operating activities:			
Contributions of long lived assets	$	2,938	3,848
Goodwill impairment		—	8,583

See accompanying notes to consolidated financial statements.

(1) Organization and Summary of Significant Accounting Policies

(a) Organization and Nature of Business

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

Significant controlled entities include INTEGRIS Baptist Medical Center, Inc. (IBMC), INTEGRIS South Oklahoma City Hospital Corporation d/b/a INTEGRIS Southwest Medical Center, Inc. (ISOCHC), INTEGRIS *Health* Edmond, Inc. (IHE) and INTEGRIS Rural *Health*, Inc. (IRH). IBMC operates a licensed 657-bed healthcare facility in northwest Oklahoma City, ISOCHC operates a licensed 334-bed facility in south Oklahoma City, IHE operates a licensed 40-bed facility in Edmond, OK, and IRH owns INTEGRIS Miami Hospital, Miami, Oklahoma; INTEGRIS Bass Baptist *Health* Center, Enid, Oklahoma; INTEGRIS Grove Hospital, Grove, Oklahoma; and INTEGRIS Canadian Valley Hospital, Yukon, Oklahoma.

(b) Basis of Presentation

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

(c) Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates for INTEGRIS *Health* include malpractice and liability costs, pension benefit obligation, valuation of interest rate swaps, and valuation of accounts receivable.

(d) Principles of Consolidation

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

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

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

Significant intercompany accounts and transactions have been eliminated.

(e) Cash and Cash Equivalents

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

(f) Short-Term Investments

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

(g) Donor-Restricted Gifts

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

(h) Temporarily and Permanently Restricted Net Assets

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

(i) Net Income (Loss)

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

(j) Net Patient Service Revenue and Accounts Receivable

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

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

		2017	2016
Patient service revenue (net of contractual allowances and discounts, before provision for bad debt, in thousands):			
Medicare	$	413,941	386,437
Medicaid		166,239	165,345
Managed care		837,282	830,898
Commercial and other		20,315	38,758
Private pay		75,604	104,582
	$	1,513,381	1,526,020

Accounts receivable are recorded net of contractual allowances and discounts of approximately $684,757,000 and $645,936,000 at June 30, 2017 and 2016, respectively. Although INTEGRIS *Health* estimates uncollectible accounts on a reasonable basis, the net patient accounts receivable balance is subject to an accounting loss if patients and third-party payors are unable to meet their contractual obligations.

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

For receivables associated with services provided to patients who have third-party coverage, INTEGRIS *Health* analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debt, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which include both patients without insurance and patients with deductible and copayment balance due for which third-party coverage exists for part of the bill), INTEGRIS *Health* records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the billed rates (which are discounted from gross charges for all uninsured self-pay patients by 80% and 62%, respectively, in 2017 and 2016 as discussed below) and the amounts actually collected after all reasonable collection efforts have been exhausted is written off against the allowance for doubtful accounts.

The Internal Revenue Service enacted 501(r) guidance for nonprofit hospitals on March 23, 2010, by the Patient Protection and Affordable Care Act. Hospital organizations covered by Section 501(r) may not charge an individual eligible for a financial assistance policy more than the amount generally billed to individuals with insurance covering their healthcare. As a result of this guidance, INTEGRIS *Health* implemented a policy effective July 1, 2011 that discounted all private pay patient charges by 55%. This adjustment is considered a contractual adjustment rather than a bad debt adjustment. As of July 1, 2013, this private pay adjustment was increased to 62% of patient charges and as of July 1, 2016 the adjustment was increased to 80% of patient charges. The adjustment is recorded as a direct reduction to net patient service revenue instead of bad debt.

INTEGRIS *Health's* allowance for doubtful accounts for self-pay patients was 99.8% and 98.7% of self-pay accounts receivable at June 30, 2017 and 2016, respectively. Issues experienced in the collection of amounts from self-pay patients continued in fiscal year 2017 and have kept this allowance rate high. INTEGRIS *Health* does not maintain a material allowance for doubtful accounts from third-party payors, nor did it have significant write-offs from third-party payors other than for contractual allowances.

(k) Charity Care

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

(l) Electronic Health Record Incentive Payment Program

The American Recovery and Reinvestment Act of 2009 established incentive payments under the Medicare and Medicaid programs for hospitals and physicians that meaningfully use certified electronic health record (EHR) technology. In order to qualify for the Act's Stage Two reporting period, a hospital and eligible physicians must meet certain designated EHR meaningful use criteria from both mandatory and optionally selected requirements for ninety consecutive days within the Act's reporting year. For the years ended June 30, 2017 and 2016, INTEGRIS *Health's* eligible hospitals and physicians received approximately $2,925,000 and $8,987,000, respectively, of reimbursement payments under the Act's Modified Stage Two reporting period. The payments were recorded as other operating revenue in the accompanying consolidated statements of operations and changes in net assets.

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

(m) Assets Whose Use Is Limited and Investment Income

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

Investment income, including income on assets whose use is limited and income on short-term investments, is reported as operating and nonoperating revenue. Investment income includes the gain from the change in fair value of interest rate swaps described in note 1(r) of approximately $25,900,000 in 2017 and loss of approximately $20,272,000 in 2016. All investments are classified as trading securities, and the change in unrealized gains and losses on investments is included in the determination of net income.

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

(n) Inventories

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

(o) Property and Equipment

Property and equipment are recorded at cost or, if donated, at fair value on the date of receipt. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed on the straight-line method. Depreciation expense was approximately $79,723,000 and $69,692,000 for the years ended June 30, 2017 and 2016, respectively. Assets under capital leases are amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the assets. Such amortization is included in depreciation and amortization in the consolidated financial statements. Expenditures that increase values, change capacities, or extend useful lives of assets are capitalized. Interest costs are capitalized for construction projects that require a period of time to ready them for their intended use. Routine maintenance, repairs, and renewals are charged to operations.

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

(p) Other Assets

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

(q) Goodwill

Goodwill is an asset representing the future economic benefits arising from other assets required in a business combination that are not individually identified and separately recognized.

(r) Derivative Instruments and Hedging Activities

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

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

None of INTEGRIS *Health's* interest rate swaps are designated as hedges, and all changes in fair value are recorded as an increase or decrease in investment income. The unrealized gain recognized for the year ended June 30, 2017 was approximately $25,900,000 compared to an unrealized loss for the year ended June 30, 2016 of approximately $20,272,000. The difference between the fixed rate paid and the floating rate received is recognized as an increase or decrease in interest expense.

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

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

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

(s) Asset Retirement Obligations

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

The liability for the asset retirement obligation is approximately $3,910,000 and $3,743,000 and the future value of the asset retirement obligation is approximately $5,354,000 and $5,292,000 as of June 30, 2017 and 2016, respectively. Substantially all of the obligation relates to estimated costs to remove asbestos and underground storage tanks from various facilities. Changes are primarily due to remediation activities, changes in inflation rates, and revisions to estimates of the amount of asbestos at specific facilities.

(t) Pension and Other Postretirement Plans

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

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

The funded status reported on the consolidated balance sheet as of June 30, 2017 and 2016 was measured as the difference between the fair value of the plan assets and the benefit obligation on a plan-by-plan basis. The net periodic costs are recognized as employees render the services necessary to earn the postretirement benefits.

Beginning July 1, 2009, the Pension Plan was closed to new participants. Employees hired or rehired on or after July 1, 2009, will participate in a Retirement Savings Plan. INTEGRIS *Health* contributes an amount greater than or equal to 3% of pay based on years of vesting service in the Retirement Savings Plan. In order to qualify for this annual contribution the employee must work at least 1,000 hours in the fiscal year and is an active employee on the last day of the fiscal year. Participants are responsible for directing the investment of the funds, using the investment fund options offered in the Retirement Savings Plan.

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

(u) Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expect to be entitled in exchange for those goods or services. An entity also should disclose sufficient quantitative and qualitative information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The standard is effective for INTEGRIS *Health* July 1, 2018 (as amended in August 2015 by ASU 2015-14, *Deferral of the Effective Date*). The standard permits the use of either the retrospective or cumulative effect transition method. INTEGRIS *Health* is evaluating the effect that ASU 2014-09 will have on its consolidated financial statements and related disclosures.

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

In July 2015, the FASB issued ASU 2015-11, *Simplifying the Measurement of Inventory*, which changes the measurement principle for inventory from the lower of cost or market to the lower of cost and net realizable value. ASU 2015-11 is effective for INTEGRIS *Health* for the fiscal year beginning after December 15, 2016. INTEGRIS *Health* does not expect ASU 2015-11 to have a material effect on the consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which supersedes FASB ASC Topic 840, *Leases*, and makes other conforming amendments to U.S. GAAP. ASU 2016-02 requires, among other changes to the lease accounting guidance, lessees to recognize most leases on-balance sheet via a right of use asset and lease liability, and additional qualitative and quantitative disclosures. ASU 2016-02 is effective for INTEGRIS *Health* for annual periods in fiscal years beginning after December 15, 2019, permits early adoption, and mandates a modified retrospective transition method. INTEGRIS *Health* is evaluating the effect that ASU 2016-02 will have on its consolidated financial statements and related disclosures.

In August 2016, the FASB issued ASU No. 2016 14, *Presentation of Financial Statements of Not-for-Profit Entities*, to improve the current net asset classification requirements and the information presented in financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. This ASU makes several improvements to current reporting requirements that address complexities about the use of the currently required three classes of net assets that focus on (a) the absence or presence of donor-imposed restrictions and whether those restrictions are temporary or permanent, (b) deficiencies in the transparency and utility of information useful in assessing an entity's liquidity caused by potential misunderstandings and confusion about the term "unrestricted net assets", (c) inconsistencies in the type of information provided about expenses, and (d) impediment of preparing the indirect method reconciliation if a not-for-profit entity chooses to use the direct method of presenting operating cash flows. The guidance is effective for annual periods in fiscal years beginning after December 15, 2017. Early adoption is allowed. INTEGRIS Health is evaluating the effect that ASU 2016-14 will have on its consolidated financial statements and related disclosures.

(2) Fair Value of Financial Instruments

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

Short-term investments and assets whose use is limited and notes receivable: These financial instruments are stated at fair value. Fair values for marketable equity and debt securities are based on quoted market prices for those or similar securities.

Long-term debt: Fair values for these financial instruments are based on borrowing rates currently available with similar terms and average maturities, which represent Level 2 fair value measures. The carrying value of long-term debt at June 30, 2017 and 2016 is approximately $428,427,000 and $441,880,000, respectively, and the fair value is approximately $432,530,000 and $458,564,000, respectively.

Interest rate swaps: The interest rate swap agreements are carried at fair value, which is determined based on the difference between the fixed and estimated variable cash flows of the agreements adjusted for the risk of default. The fair value of all interest rate swaps as of June 30, 2017 and 2016 is approximately $53,570,000 and $79,470,000, respectively, and is presented in other long-term liabilities in the consolidated financial statements.

(3) Net Patient Service Revenue and Premium Revenue

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

- Medicare: Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Medicare outpatient services are paid under an outpatient prospective payment system, similar to inpatient acute services. Psychiatric services and medical education costs related to Medicare beneficiaries are paid based upon a cost

(Continued)

reimbursement methodology. The healthcare related controlled entities of INTEGRIS Health are reimbursed at an interim rate with final settlement determined after submission of annual cost reports by the respective affiliates and audits by the Medicare fiscal intermediary.

- Medicaid: Inpatient services rendered to Medicaid program beneficiaries are reimbursed at a prospectively determined rate per discharge. INTEGRIS Health recognizes income from Medicaid for services provided by primary care physicians employed by INTEGRIS *Health*. The payments are received in return for services provided in the month of payment. INTEGRIS *Health* has no obligation to provide services after the month of payment and has no obligation to pay for services of other providers should the patient seek care from another party.
- Commercial Insurance: The healthcare related controlled entities have entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment under these arrangements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Medicare cost report settlements are estimated in the period services are provided to the program beneficiaries. These estimates are revised as needed until final settlement of the cost report. Laws and regulations governing the Medicare program are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Net patient service revenue for 2017 and 2016 includes approximately $774,000 and $2,384,000, respectively, of adjustments for estimated cost report settlements and final settlements.

The Supplemental Hospital Offset Payment Program (SHOPP) program was created and implemented by the State of Oklahoma in fiscal year 2012 for the purpose of assuring access to quality care for Oklahoma Medicaid members. The program is designed to assess Oklahoma hospitals, unless exempt, a supplemental hospital offset payment program fee. The collected fees are placed in pools and then allocated to hospitals as directed by legislation. The Oklahoma Health Care Authority (OHCA) does not guarantee that allocations will equal or exceed the amount of the supplemental hospital offset payment program fee paid by the hospital. The SHOPP program assessment rate is assessed on a calendar year basis. For calendar years 2017 and 2016, the SHOPP assessment rates are 3.6% and 3.0% of net patient service revenue, respectively. The total fee incurred in 2017 and 2016 was approximately $37,300,000 and $33,578,000, respectively, and is included in supplies and other expenses in the consolidated statements of operations. The allocation from the pool in 2017 and 2016 was approximately $69,133,000 and $65,781,000, respectively, for all INTEGRIS *Health* facilities and is included in net patient service revenue in the consolidated statements of operations. The SHOPP program is expected to remain in effect through 2020.

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(4) Investments

(a) Assets Whose Use is Limited

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

	2017		2016	
	Cost	**Fair value**	**Cost**	**Fair value**
Board designated:				
Cash and cash equivalents	$ 26,451	26,451	14,701	14,701
U.S. government and agency obligations	78,837	78,417	83,991	84,626
Marketable equity securities	280,825	317,806	400,884	373,391
Corporate and other obligations	238,233	236,195	183,306	180,918
Accrued interest receivable	1,088	1,088	1,147	1,147
	625,434	659,957	684,029	654,783
Amounts held as collateral by counterparties to interest rate swaps and held in escrow for purchase transactions:				
Cash and cash equivalents	8,720	8,720	24,490	24,490
By donors:				
Cash and cash equivalents	2,907	2,907	788	788
U.S. government and agency obligations	4,807	4,896	4,505	4,538
Marketable equity securities	19,235	20,260	21,488	20,048
Corporate and other obligations	12,820	12,769	9,838	9,710
Accrued interest receivable	76	76	61	61
	39,845	40,908	36,680	35,145
By INTEGRIS *Health* Foundation boards:				
Cash and cash equivalents	1,200	1,200	2	2
U.S. government and agency obligations	1,982	2,019	20	20
Marketable equity securities	7,928	8,349	90	96
Corporate and other obligations	5,286	5,265	46	45
Accrued interest receivable	31	31	—	—
	16,427	16,864	158	163

	2017		2016	
	Cost	**Fair value**	**Cost**	**Fair value**
By board for self-insurance program:				
Cash and cash equivalents	$ 3,438	3,438	3,071	3,071
U.S. government and agency obligations	71,129	79,998	70,213	66,357
Marketable equity securities	6,715	6,965	5,927	6,700
Corporate and other obligations	26,132	26,034	25,411	25,543
Accrued interest	138	138	149	149
	107,552	116,573	104,771	101,820
Total assets whose use is limited	$ 797,978	843,022	850,128	816,401

(b) Short-Term Investments

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

	2017	2016
Board designated:		
Cash and cash equivalents	$ 36,391	41,390
Corporate and other obligations	164,897	169,605
Accrued interest receivable	252	210
	201,540	211,205
By donors:		
Cash and cash equivalents	—	1,629
Corporate and other obligations	—	7,080
Accrued interest receivable	—	9
	—	8,718
Short-term investments	$ 201,540	219,923

(c) Investment Income

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

		2017	2016
Interest and dividend income, net	$	19,493	24,167
Unrealized gain (loss) on derivatives		25,900	(20,272)
Net realized gains on sales of securities		9,505	2,660
Net unrealized gain (loss) on trading securities		78,852	(43,409)
	$	133,750	(36,854)

(5) Long-Term Debt

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

		2017	2016
Health System Revenue Refunding Bond Series (2015A) of the Oklahoma Development Finance Authority in the aggregate amount of $200,060 at stated rates ranging from 1.00% to 5.00%, issued April 2015, maturing at various dates between August 2015 and August 2038, including a premium of $19,972 and $20,935 at June 30, 2017 and 2016, respectively.	$	206,872	213,755
Health System Revenue Refunding Bond Series (2015B) of the Oklahoma Development Finance Authority in the aggregate amount of $48,425 as multi-modal, variable rates that may bear interest at a Window Rate, Daily Rate, Weekly Rate, Direct Purchase Rate, Indexed Rate, Commercial Paper Rate, or Long Term Rate. At June 30, 2017 and 2016 windows rate was 1.26% and 0.74%, respectively. Issued April 2015, maturing at various dates through 2033.		46,075	47,260
Health System Revenue Refunding bonds Series (2015C) of the Oklahoma Development Finance Authority in the aggregate amount of $89,880 at variable rates as determined by the remarketing agent (1.59% and 1.22% as of June 30, 2017 and 2016, respectively). Issued June 2015, maturing at various dates through August 2033.		85,685	87,820

		2017	2016
Health System Revenue and Refunding Bonds (Series 2013A) of the Oklahoma Development Finance Authority in the aggregate amount of $48,990 at variable rates as determined by the remarketing agent (1.66% and 1.16% at June 30, 2017 and 2016 respectively). Issued May 2013, maturing at various dates through 2035.	$	44,915	46,540
Health System Revenue and Refunding Bonds (Series 2013B) of the Oklahoma Development Finance Authority in the aggregate amount of $48,955 at variable rates as determined by the remarketing agent (1.73% and 1.23% as of June 30, 2017 and 2016, respectively). Issued May 2013, maturing at various dates through 2035.		44,880	46,505
		428,427	441,880
Less current portion		13,055	12,490
Long-term portion	$	415,372	429,390

All debt is secured by the revenues and receivables of the Obligated Group and the members of the Obligated Group are jointly and severally liable for the entire debt. The Obligated Group is comprised of IBMC, ISOCHC, IRH and IHE as of June 30, 2017 and 2016. In connection with the various bonds, the Obligated Group must comply with financial covenants and other various covenants that may require, restrict, limit, or prohibit certain transactions or activities. As of June 30, 2017, management believes the Obligated Group was in compliance with all debt covenants. In addition, management believes INTEGRIS *Health* was in compliance with debt covenants on other outstanding indebtedness as of June 30, 2017. The Obligated Group represents approximately 83% and 84% of total operating revenues of INTEGRIS *Health* as of and for the years ended June 30, 2017 and 2016, respectively.

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

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

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

During 1999, INTEGRIS *Health* entered into agreements whereby INTEGRIS *Health* agrees to receive variable market-indexed payments in exchange for fixed rate interest payments. The notional principal amount underlying these interest rate swaps at June 30, 2017 and 2016 was $101,800,000 and $107,200,000, respectively. The interest rate swaps mature in August 2029. The variable payment rates approximate 67% of the one-month USD-LIBOR-BBA. The fixed payment rate is 3.519%.

During 2005, INTEGRIS *Health* entered into agreements whereby INTEGRIS *Health* agrees to receive variable market-indexed payments in exchange for fixed rate interest payments. The notional principal amount underlying these interest rate swaps at June 30, 2017 and 2016 was $87,650,000 and $90,900,000, respectively. The interest rate swaps mature in August 2035. The variable payment rates approximate 67% of the one-month USD-LIBOR-BBA, which approximates the variable rates of the Series 2013A and 2013B bonds. The fixed payment rate is 3.568%.

During fiscal year 2008, INTEGRIS *Health* entered into agreements whereby INTEGRIS *Health* agrees to receive variable market-indexed payments in exchange for fixed rate interest payments. The notional principal amount underlying these interest rate swaps at June 30, 2017 and 2016 was $131,175,000 and $134,425,000, respectively. The interest rate swaps mature in August 2033. The variable payment rates approximate 67% of three-month USD-LIBOR-BBA, which approximates the variable rates of the Series 2015B and 2015C bonds. The fixed payment rate is 3.619%.

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

		Scheduled principal payments	Including mandatory and SBPA tendered bonds
Year ending June 30:			
2018	$	13,055	13,055
2019		14,860	14,860
2020		15,525	55,140
2021		16,080	51,910
2022		16,760	12,810
Thereafter		332,175	260,680
Total	$	408,455	408,455

During 2015, INTEGRIS *Health* entered into a line of credit with Bank of Oklahoma, N.A. in the amount of $75,000 that expires on July 1, 2018. There were no amounts outstanding under the line of credit as of June 30, 2017 and 2016.

Quality Alliance had a Standby Letter of Credit with Commerce Bank for $11,000,000 in fiscal years 2017 and 2016. The Letter of Credit secures Quality Alliance's insurance obligations for the employed physicians. The line of credit expires on September 2, 2017.

(6) Investments in Affiliates

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

INTEGRIS *Health* purchased an interest in VADovations, Inc. in 2011. VADovations is a research and development company. INTEGRIS *Health* owns 75% of the stock and controls 40% of the representation on the board of directors. Based upon the level of control maintained, this investment is also accounted for using the equity method and is recorded in other assets, net. In addition, INTEGRIS *Health* has a note receivable due from VADovations. The balance, including accrued interest, was approximately $10,436,000 and $10,043,000 as of June 30, 2017 and 2016, respectively and is included in other assets, net, in the accompanying balance sheet.

The carrying value of the investment in ProCure was written down to zero in conjunction with the impairment of the note receivable from Procure in 2016. Please see note 18 for additional details.

Following is a summary of the ownership interests, carrying values, and equity in earnings (losses) of investments in affiliates at June 30, 2017 and 2016 (in thousands):

	Ownership interest		Carrying value		Equity in earnings (losses)	
	2017	2016	2017	2016	2017	2016
Plaza	33.33 %	33.33 %	$ 424	459	(36)	(53)
MPIC	50.00	50.00	324	383	(48)	(62)
Advanced imaging	50.00	50.00	15	158	(8)	(22)
SW Ortho	19.86	19.86	6,456	6,203	3,045	2,618
InteliStaf	32.00	32.00	487	314	1,069	612
DLO	49.00	49.00	12,140	13,222	15,088	16,984
ProCure	—	3.65	—	—	—	(564)
VADovations, Inc.	75.00	75.00	(2,426)	(2,608)	(1,817)	(2,248)
			$ 17,420	18,131	17,293	17,265

(7) Noncontrolling Interests

INTEGRIS *Health* controls and, therefore, consolidates certain investees in its partnerships and joint ventures with physicians and nonphysicians to operate hospitals and other health-related ventures. The activity for noncontrolling interest for the years ended June 30, 2017 and 2016 is summarized below (in thousands):

	2017	2016
Noncontrolling ownership interest in equity of consolidated affiliates, beginning of year	$ 6,484	6,055
Revenue and gains in excess of expenses and losses attributable to noncontrolling interest	1,426	877
Distributions to noncontrolling interest holders	(576)	(448)
Noncontrolling ownership interest in equity of consolidated affiliates, end of year	$ 7,334	6,484

(8) Malpractice and Liability Costs

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

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Effective July 1, 1995, INTEGRIS *Health* formed Quality Alliance, a captive insurance company formed for the purpose of providing coverage to INTEGRIS *Health* and all of its controlled entities for medical malpractice and other liability risks. Quality Alliance charges premiums to the respective entities for coverage and accrues losses based on estimates that incorporate past experience as well as other considerations, which are based on actuarial estimates from an independent third-party actuary. Adjustments to the liability based on subsequent developments or other changes in the estimate are reflected in the consolidated statements of operations and changes in net assets in the period in which such adjustments become known. Quality Alliance maintains reinsurance coverage to reduce exposure from significant individual and aggregate losses. INTEGRIS *Health* has an undiscounted accrued liability for estimated claims incurred of approximately $84,795,000 and $85,938,000 as of June 30, 2017 and 2016, respectively, recorded in other long term liabilities.

Claims arising from services provided to patients through June 30, 2017 and 2016 have been filed requesting damages in excess of insurance and the amount accrued for estimated malpractice costs. It is the opinion of management, however, after consulting with its legal counsel, insurance carrier, and actuary, that estimated costs to be incurred will be covered by professional liability insurance and the amount accrued for estimated malpractice costs. Due to the inherent uncertainties and subjectivity involved in accounting for contingencies, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

(9) Pension and Postretirement Benefit Plans

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

INTEGRIS *Health’s* funding policy for the Pension Plan is to contribute at least the minimum amount necessary to satisfy the funding standards of the Employee Retirement Income Security Act of 1974, as amended. The minimum contributions were approximately $12,478,000 and $10,165,000 in 2017 and 2016, respectively. Contributions of approximately $0 and $17,000,000 were made in 2017 and 2016, respectively.

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

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The following table sets forth the pension and postretirement benefit plan's benefit obligations, fair value of plan assets, and funded status as of June 30, 2017 and 2016 (in thousands):

		Pension plan		Postretirement benefit plan	
		2017	**2016**	**2017**	**2016**
Projected benefit obligation at June 30	$	695,917	713,635	2,272	2,768
Fair value of plan assets at June 30		399,411	390,051	—	—
Funded status	$	(296,506)	(323,584)	(2,272)	(2,768)
Accrued benefit cost recognized in the balance sheet	$	(296,506)	(323,584)	(2,272)	(2,768)

Net assets include approximately $300,966,000 and $334,290,000 related to the pension plan as of June 30, 2017 and 2016, respectively which is comprised fully of a net actuarial loss. The net loss and prior service cost for the pension plan as of June 30, 2017 that will be amortized from net assets into net periodic benefit cost over the next fiscal year are approximately $7,100,000. There was no net loss or prior service cost amortized during the year ended June 30, 2017.

Actuarial assumptions utilized for the plans are as follows:

	Pension plan		Postretirement benefit plan	
	2017	**2016**	**2017**	**2016**
Weighted average assumptions as of June 30 used to determine net periodic benefit cost:				
Discount rate	3.81 %	4.79 %	3.81 %	4.79 %
Expected long-term rate of return on plan assets	7.51	7.35	—	—
Healthcare cost trend rate	—	—	7.00	7.50
Weighted average assumptions as of June 30 used to determine the benefit obligation:				
Discount rate	3.87	3.81	3.87	3.81
Healthcare cost trend rate	—	—	7.00	7.50

The accumulated benefit obligation for the Pension Plan was approximately $695,917,000 and $713,635,000 at June 30, 2017 and 2016, respectively. The mortality assumption was updated at June 30, 2017 to the RP-2014 Mortality Table with Conduent modification of MP-2016 improvement scale on a fully generational basis to reflect the most recent information published by the Society of Actuaries Retirement Plans Experience Committee. The Conduent Modified Projection Scale is identical to the MP-2016 Projection Scale except for ultimate improvement rates.

For measurement purposes, medical claims in 2017 are assumed to be 7% greater than medical claims for 2016. The trend is graded down so that medical claims in 2022 and later are assumed to be 4.5% greater than claims in the prior year.

Summary information for the plans is as follows:

	Pension plan		Postretirement benefit plan	
	2017	**2016**	**2017**	**2016**
Net periodic benefit cost	$ 6,246,000	2,641,000	5,000	34,000
INTEGRIS *Health* contributions	—	17,000,000	179,000	176,000
Benefits paid	32,059,000	27,163,000	190,000	183,000

The following tables present information about INTEGRIS *Health's* pension plan assets that are measured at fair value on a recurring basis as of June 30, 2017 and 2016 (in thousands). The table indicates the fair value hierarchy of the valuation techniques utilized to determine such fair values. In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities. Fair values determined by Level 2 inputs utilize data points that are observable, such as quoted prices, interest rates, and yield curves. Fair values determined by Level 3 inputs are unobservable data points for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability.

	Quoted prices in active markets for identical assets (Level 1)	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**2017**
Equity:				
Common stocks:				
Consumer discretionary	$ 9,070	—	—	9,070
Consumer staples	2,264	—	—	2,264
Energy	9,718	—	—	9,718
Financials	16,952	—	—	16,952
Healthcare	8,762	—	—	8,762
Industrials	11,135	—	—	11,135
Information technology	8,823	—	—	8,823
Materials	498	—	—	498
Telecommunications services	1,836	—	—	1,836
Utilities	2,089	—	—	2,089
Total common stocks	71,147	—	—	71,147

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	2017
Publicly traded mutual funds – equity	$ 74,043	—	—	74,043
Total equity	145,190	—	—	145,190
Fixed income:				
Treasury and federal agencies:				
Long (more than 10 years)	20,401	—	—	20,401
Total treasury and federal agencies	20,401	—	—	20,401
Nongovernmental obligations:				
Short (less than 5 years)	25,327	25,158	—	50,485
Intermediate (5–10 years)	—	16,460	—	16,460
Long (over 10 years)	—	7,874	—	7,874
Total nongovernmental obligations	25,327	49,492	—	74,819
Publicly traded mutual funds – fixed income	94,816	—	—	94,816
Total fixed income	140,544	49,492	—	190,036
Real estate	—	—	2,729	2,729
Limited partnerships	25,640	—	21,641	47,281
Cash and cash equivalents	13,300	—	—	13,300
Total assets	$ 324,674	49,492	24,370	398,536

Plan assets also include $876,000 of accrued interest at June 30, 2017.

		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	2016
Equity:					
Common stocks:					
Consumer discretionary	$	22,633	—	—	22,633
Consumer staples		1,374	—	—	1,374
Energy		5,305	—	—	5,305
Financials		31,756	—	—	31,756
Healthcare		6,977	—	—	6,977
Industrials		16,977	—	—	16,977
Information technology		16,753	—	—	16,753
Materials		109	—	—	109
Telecommunications services		810	—	—	810
Total common stocks		102,694	—	—	102,694
Publicly traded mutual funds – equity		111,012	—	—	111,012
Total equity		213,706	—	—	213,706
Fixed income:					
Treasury and federal agencies:					
Long (more than 10 years)		19,432	—	—	19,432
Total treasury and federal agencies		19,432	—	—	19,432

(Continued)

		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	2016
Nongovernmental obligations:					
Short (less than 5 years)	$	32,354	4,053	—	36,407
Intermediate (5–10 years)		—	32,201	—	32,201
Long (over 10 years)		—	15,586	—	15,586
Total nongovernmental obligations		32,354	51,840	—	84,194
Publicly traded mutual funds – fixed income		39,753	—	—	39,753
Total fixed income		91,539	51,840	—	143,379
Real estate		—	—	3,545	3,545
Limited partnerships		—	—	19,917	19,917
Cash and cash equivalents		8,777	—	—	8,777
Total assets	$	314,022	51,840	23,462	389,324

Plan assets also include $727,000 of accrued interest at June 30, 2016.

The weighted average asset allocation of INTEGRIS *Health's* pension benefits at June 30, 2017 and 2016, by asset category are as follows:

		Plan assets at June 30	
		2017	2016
Asset category:			
Equity securities	$	36 %	55 %
Debt securities		48	37
Cash		3	2
Real estate		—	1
Master limited partnerships		13	5
	$	100 %	100 %

(Continued)

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

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

INTEGRIS *Health* expects to contribute $21,000,000 to the Plan during the upcoming year.

The expected benefits to be paid are as follows:

	Pension plan	Postretirement benefit plan
2018	$ 24,537,000	182,000
2019	26,074,000	186,000
2020	27,713,000	189,000
2021	29,258,000	189,000
2022	30,395,000	188,000
2023–2027	166,594,000	870,000

The expected benefits are estimated based on the same assumptions used to measure the benefit obligations of INTEGRIS *Health* at June 30, 2017 and include benefits attributable to estimated future employee service.

(10) Other Employee Benefit Plans

INTEGRIS *Health* is self-insured for the purpose of providing medical and dental benefits to all eligible employees of INTEGRIS *Health* and affiliates through several plans. Eligible employees are allowed to select coverage through an affiliated preferred provider organization or a health maintenance organization. Claims and premiums under this plan are paid with funds provided by the operations of INTEGRIS *Health* as well as employee contributions. INTEGRIS *Health* has an accrued liability for estimated claims incurred of approximately $8,409,000 and $8,681,000 as of June 30, 2017 and 2016, respectively, recorded in other long term liabilities.

INTEGRIS *Health* is self-insured for workers' compensation for substantially all employees of INTEGRIS *Health* and affiliates through several plans. The accrued liability for estimated claims incurred is approximately $14,373,000 and $15,129,000 as of June 30, 2017 and 2016, respectively, recorded in other long term liabilities. Starting in fiscal year 2014, the Oklahoma Workers' Compensation Court changed requirements and INTEGRIS *Health* was granted the ability to set up a Reserve Escrow account in the amount of $6,000,000. In October 2013, such an account was set up with Bank of Oklahoma. Effective November 1, 2015, INTEGRIS *Health* chose to replace the escrow account with a surety bond. The bond is with Travelers Casualty and Surety Company of America in the amount of $7,808,000. The escrow account has been closed.

INTEGRIS *Health* administers a retirement savings plan for its employees and employees of controlled entities and affiliates. Eligible employees may contribute pretax wages in accordance with the retirement savings plan. INTEGRIS *Health* and affiliates match certain contributions made by their employees. INTEGRIS *Health* also makes contributions on behalf of employees based on years of service (the INTEGRIS *Health* Basic Contributions). Contributions of approximately $26,039,000 and $37,517,000 were made by INTEGRIS *Health* in 2017 and 2016, respectively.

(11) Charity Care and Uncompensated Care

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

INTEGRIS *Health* accepts patients regardless of their ability to pay. A patient is classified as a traditional charity patient by meeting the requirements of system approved policies. Essentially, these policies define traditional charity services as those services for which the ability to pay from existing patient resources is not reasonably expected. The amount of traditional charity care provided, determined on the basis of cost, was approximately $20,254,000 and $39,134,000 for the years ended June 30, 2017 and 2016, respectively. INTEGRIS *Health* estimated the cost of charity care based on a ratio of total operating expenses to gross charges. Additionally, INTEGRIS *Health* provides a private pay discount and considers the private pay discount and all Medicaid contractual adjustments to be a component of total charity care.

(12) Concentration of Credit Risk

INTEGRIS *Health* grants credit without collateral to patients, most of who are insured under third-party payor agreements. Gross outstanding Medicare and Medicaid payor receivables represented approximately 38% and 36% of total gross outstanding receivables at June 30, 2017 and 2016, respectively.

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

(13) Federal Income Taxes

INTEGRIS *Health* has certain subsidiaries and operations such as partnership interests, retail pharmacies, and outside laboratory services that are taxable for federal income tax purposes. The taxable activities of all includible entities have approximately $8,082,000 and $8,253,000 in net deferred tax assets, against which a 100% valuation allowance has been recorded, for the years ended June 30, 2017 and 2016, respectively.

(14) Functional Expenses

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

		2017	2016
Healthcare services	$	1,284,000	1,279,000
General and administrative		288,000	286,000
	$	1,572,000	1,565,000

(15) Fair Value Disclosures

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

The following tables present information about INTEGRIS *Health's* assets and liabilities that are measured at fair value on a recurring basis as of June 30, 2017 and 2016 (in thousands), and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value. In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities. Fair values determined by Level 2 inputs utilize data points that are observable, such as quoted prices, interest rates, and yield curves. Fair values determined by Level 3 inputs are unobservable data points for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability.

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	2017
Equity:				
Common stocks:				
Consumer discretionary	$ 21,157	—	—	21,157
Consumer staples	5,258	—	—	5,258
Energy	22,888	—	—	22,888
Financials	40,713	—	—	40,713
Healthcare	21,025	—	—	21,025
Industrials	24,432	—	—	24,432
Information technology	18,926	—	—	18,926
Materials	981	—	—	981
Telecommunications services	4,189	—	—	4,189
Utilities	5,311	—	—	5,311
Total common stocks	164,880	—	—	164,880
Publicly traded mutual funds – equity	261,378	—	—	261,378
Fixed income:				
Treasury and federal agencies:				
Short (less than 5 years)	33,224	—	—	33,224

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	2017
Long (more than 10 years)	$ 7,160	—	—	7,160
Total treasury and federal agencies	40,384	—	—	40,384
Nongovernmental obligations:				
Short (less than 5 years)	26,967	103,614	—	130,581
Intermediate (5–10 years)	—	15,147	—	15,147
Long (over 10 years)	—	24,819	—	24,819
Total nongovernmental obligations	26,967	143,580	—	170,547
Publicly traded mutual funds – fixed income	254,035	—	—	254,035
Total fixed income	321,386	143,580	—	464,966
Real estate	—	—	1,560	1,560
Limited partnerships	60,489	—	10,351	70,840
Cash and cash equivalents	79,352	—	—	79,352
Total assets	$ 887,485	143,580	11,911	1,042,976
Liabilities:				
Interest rate swap agreements	$ —	53,570	—	53,570

Total invested assets also included approximately $1,586,000 of accrued income at June 30, 2017.

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	2016
Equity:				
Common stocks:				
Consumer discretionary	$ 41,846	—	—	41,846
Consumer staples	3,522	—	—	3,522
Energy	10,369	—	—	10,369
Financials	62,230	—	—	62,230
Healthcare	13,013	—	—	13,013
Industrials	32,378	—	—	32,378
Information technology	33,577	—	—	33,577
Materials	207	—	—	207
Telecommunications services	3,749	—	—	3,749
Total common stocks	200,891	—	—	200,891
Publicly traded mutual funds – equity	258,843	—	—	258,843
Fixed income:				
Treasury and federal agencies:				
Short (less than 5 years)	37,923	—	—	37,923
Long (more than 10 years)	3,880	—	—	3,880
Total treasury and federal agencies	41,803	—	—	41,803
Nongovernmental obligations:				
Short (less than 5 years)	25,369	104,065	—	129,434
Intermediate (5–10 years)	—	13,941	—	13,941
Long (over 10 years)	—	39,871	—	39,871
Total nongovernmental obligations	25,369	157,877	—	183,246
Publicly traded mutual funds – fixed income	253,551	—	—	253,551
Total fixed income	320,723	157,877	—	478,600
Real estate	—	—	2,026	2,026
Limited partnerships	—	—	8,059	8,059
Publicly traded mutual funds – other investments	59,212	—	—	59,212
Cash and cash equivalents	27,117	—	—	27,117
Total assets	$ 866,786	157,877	10,085	1,034,748
Liabilities:				
Interest rate swap agreements	$ —	79,470	—	79,470

Total invested assets also included approximately $1,576,000 of accrued income at June 30, 2016.

(16) CMS Settlement

On April 7, 2009, INTEGRIS *Health* was notified by its Medicare Administrative Contractor (MAC) of a proposed reduction in its Medicare Disproportionate Share Program (DSH) payment for 2007, because of their objection to the inclusion of certain Medicaid days for acute adolescent psychiatric treatment services in the calculation of its DSH payment. A final determination was deferred until CMS had ruled on a similar adjustment for an unrelated healthcare system in Oklahoma. If determined adversely, a portion of the DSH payments for 2005-2015 would be recoupable by CMS and, based on an average adjustment of $13-15 million per year over the ten-year period, would result in a settlement payment and adjustment to the Obligated Group’s earnings in the year of determination of approximately $140,000,000. On March 20, 2015, INTEGRIS *Health* was informed by its MAC that a Notice of Program Reimbursement (NPR) would be issued (i) on April 17, 2015, relating to INTEGRIS Bass Baptist *Health* Center-Enid (INTEGRIS Bass) for the fiscal year ended June 30, 2007, and (ii) on May 15, 2015, relating to INTEGRIS Baptist Medical Center for the fiscal year ended June 30, 2007.

On May 15, 2015, INTEGRIS *Health* received a NPR, informing it that the audit of the Medicare Cost Report for INTEGRIS Bass for the period ending June 30, 2007 had been completed, resulting in an adjustment to the cost report in a net amount due the program of approximately $2,300,000 (the Disputed Amount).

On May 29, 2015, INTEGRIS *Health* received a NPR, informing it that the audit of the Medicare Cost Report for INTEGRIS Baptist for the period ending June 30, 2007 had been completed, resulting in an adjustment to the cost report in a net amount due the program of approximately $11,000,000 (the Disputed Amount).

On April 17, 2017, INTEGRIS *Health* received an amended NPR, informing it that the reopening of the Medicare Cost Report for INTEGRIS Baptist for the period ending June 30, 2005 had been completed, resulting in an adjustment to the cost report in a net amount due the program of approximately $11,100,000 (the Disputed Amount).

On June 2, 2017, INTEGRIS *Health* received a NPR, informing it that the audit of the Medicare Cost Report for INTEGRIS Bass for the period ending June 30, 2008 had been completed, resulting in an adjustment to the cost report in a net amount due the program of approximately $3,000,000 (the Disputed Amount).

INTEGRIS *Health* remains steadfast in its belief that the inclusion of such patient days in its cost reports is justified. To preserve its appeal rights, INTEGRIS *Health* has paid the Disputed Amounts for which it has received NPRs and is pursuing all available administrative and legal remedies.

The June 30, 2007 cost reports for both INTEGRIS Baptist and INTEGRIS Bass have been appealed to the Provider Reimbursement Review Board (PRRB.) The providers were granted an expedited hearing by the PRRB which took place June 21, 2016. A decision by the PRRB has not yet been rendered. The current trend is for PRRB to render a decision in two to three years from the date of the hearing.

INTEGRIS *Health* continues to believe that its position will be sustained.

As a result of the issuance of the above NPRs, INTEGRIS *Health* recorded an estimate of $140,000,000 for the exposure associated with this dispute in fiscal year 2015. The liability is approximately $112,450,000 and $126,763,000 on June 30, 2017 and 2016, respectively. Management does not believe that this decision will have a material impact on future operations or the financial profile of INTEGRIS *Health*.

(17) Goodwill

During 2016, INTEGRIS *Health* experienced increased competition for two of its components, resulting in a decline in future projected earnings. As a result, in 2016, goodwill impairment losses of $4,483,000 and $4,100,000 were recognized in the cardiology physician group component and catheterization laboratory component as the carrying amounts of the components were greater than the fair values of the components (as determined using the expected present value of the future cash flows) and the carrying amount of the component goodwill exceeded the implied fair value of that goodwill.

There was no impairment of goodwill during 2017.

(18) ProCure

At June 30, 2016, INTEGRIS *Health* had a 3.65% ownership in ProCure Midwest Holdings LLC (Procure). The business is a Proton Treatment Center located on the INTEGRIS Cancer Center campus. Procure has a Senior Unsecured Paid-In-Kind (PIK) Note, which is subordinate to certain bank loans, with INTEGRIS *Health* dated April 19, 2007 for $16,000,000 plus accrued interest. As of June 30, 2016 the operations of Procure deteriorated such that there was substantial doubt that the entity would be able to continue as a going concern. As a result, an impairment loss of $31,381,000, which was comprised of $16,000,000 of principal, $14,326,950 of accrued interest, and $1,054,257 of investment in ProCure, was recognized in the statement of operations in 2016. During August of 2016, INTEGRIS *Health* received notification from financial institutions confirming that a bankruptcy filing was likely for Procure, as of the end of the calendar year if an equity partner was not in place. Additionally, they indicated that the prospects for full recovery of their loan were nonexistent which further indicates that the PIK note is not recoverable.

(19) Commitments and Contingencies

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

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

(Continued)

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

Certain controlled entities have projects to construct and expand facilities and purchase medical equipment, which are in various stages of completion. As of June 30, 2017, the estimated remaining costs to complete these projects totaled approximately $164,537,000.

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

2018	$	10,849
2019		8,314
2020		2,329
2021		975
2022		497
Thereafter		813
Total	$	23,777

Operating lease expense approximated $22,963,000 and $24,120,000 in 2017 and 2016, respectively.

(20) Subsequent Events

Management of INTEGRIS *Health* has evaluated subsequent events through September 22, 2017, the date on which the consolidated financial statements were issued.

Schedule 1

INTEGRIS *HEALTH*, INC.
AND CONTROLLED ENTITIES

Consolidating Schedule – Balance Sheet Information

June 30, 2017

(In thousands)

Assets		INTEGRIS Baptist Medical Center, Inc.	INTEGRIS South Oklahoma City Hospital Corporation	INTEGRIS Rural Health, Inc.	INTEGRIS Health Edmond	Obligated group combined total	All others	Reclassifications and eliminations	Consolidated total
Current assets:									
Cash and cash equivalents	$	314,607	42,604	25,929	1,842	384,982	204,540	(551,114)	38,408
Short-term investments		84,966	34,502	28,901	—	148,369	53,171	—	201,540
Patient accounts receivable, net		108,766	27,092	23,837	7,785	167,480	25,710	—	193,190
Affiliates		8,569	2,320	4,435	39	15,363	2,094	(17,457)	—
Current portion of notes receivable		—	—	3	—	3	7	—	10
Inventories		17,330	2,996	5,840	970	27,136	5,424	—	32,560
Prepaid expenses and other current assets		570	59	203	—	832	14,731	—	15,563
Total current assets		534,808	109,573	89,148	10,636	744,165	305,677	(568,571)	481,271
Assets whose use is limited		406,778	89,879	59,511	—	556,168	286,854	—	843,022
Property and equipment, net		172,614	58,630	155,287	89,574	476,105	269,171	—	745,276
Other assets, net		42,058	4,404	4,323	—	50,785	1,299,589	(1,272,704)	77,670
Total assets	$	1,156,258	262,486	308,269	100,210	1,827,223	2,161,291	(1,841,275)	2,147,239
Liabilities and Net Assets									
Current liabilities:									
Accounts payable, accrued expenses and other	$	120,765	9,555	31,932	716	162,968	136,821	—	299,789
Employee compensation and related liabilities		13,217	4,761	4,880	824	23,682	28,831	—	52,513
Current portion of long-term debt		13,055	—	—	—	13,055	—	—	13,055
Current portion of capital lease obligations		—	—	—	—	—	380	—	380
Due to affiliates		15,283	—	56,306	—	71,589	504,467	(568,572)	7,484
Total current liabilities		162,320	14,316	93,118	1,540	271,294	670,499	(568,572)	373,221
Long-term debt, less current portion		415,372	—	—	—	415,372	398	(398)	415,372
Capital lease obligations, less current portion		—	—	—	—	—	212	—	212
Long-term pension liability		—	—	—	—	—	296,506	—	296,506
Other long-term liabilities		56,461	282	469	—	57,212	38,469	—	95,681
Total liabilities		634,153	14,598	93,587	1,540	743,878	1,006,084	(568,970)	1,180,992
Net assets of INTEGRIS *Health*		522,421	247,888	214,682	98,670	1,083,661	1,147,557	(1,272,305)	958,913
Noncontrolling ownership interest in equity of consolidated affiliates – unrestricted		(316)	—	—	—	(316)	7,650	—	7,334
Total net assets		522,105	247,888	214,682	98,670	1,083,345	1,155,207	(1,272,305)	966,247
Total liabilities and net assets	$	1,156,258	262,486	308,269	100,210	1,827,223	2,161,291	(1,841,275)	2,147,239

See accompanying independent auditors' report.

Schedule 2

INTEGRIS *HEALTH*, INC.
AND CONTROLLED ENTITIES

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

Year ended June 30, 2017

(In thousands)

	INTEGRIS Baptist Medical Center, Inc.	INTEGRIS South Oklahoma City Hospital Corporation	INTEGRIS Rural Health, Inc.	INTEGRIS Health Edmond	Obligated group combined total	All others	Reclassifications and eliminations	Consolidated total
Operating revenues:								
Patient service revenue (net of contractual allowances and discounts)	$ 769,270	239,833	256,177	64,425	1,329,705	196,955	(13,279)	1,513,381
Provision for bad debts	(41,625)	(24,815)	(19,494)	(5,576)	(91,510)	(10,793)	—	(102,303)
Net patient service revenue	727,645	215,018	236,683	58,849	1,238,195	186,162	(13,279)	1,411,078
Premium revenue	240	—	17	—	257	2,466	—	2,723
Other operating revenue	27,393	13,477	9,725	2,296	52,891	541,343	(449,506)	144,728
Total operating revenues	755,278	228,495	246,425	61,145	1,291,343	729,971	(462,785)	1,558,529
Operating expenses:								
Salaries and related expenses	251,279	92,753	97,566	21,021	462,619	344,625	(1,622)	805,622
Supplies and other expenses	309,338	77,499	93,677	17,602	498,116	253,507	(122,700)	628,923
Professional services	123,086	49,713	40,085	11,266	224,150	38,390	(221,703)	40,837
Depreciation and amortization	23,627	9,897	13,004	5,244	51,772	28,241	—	80,013
Recovery of bad debt (nonpatient)	(8)	—	—	—	(8)	—	—	(8)
Interest expense	5,504	2,042	5,026	3,031	15,603	1,242	(31)	16,814
Total operating expenses	712,826	231,904	249,358	58,164	1,252,252	666,005	(346,056)	1,572,201
Income (loss) from operations	42,452	(3,409)	(2,933)	2,981	39,091	63,966	(116,729)	(13,672)
Nonoperating revenue (expense):								
Net investment income	85,609	13,986	12,279	39	111,913	20,350	—	132,263
Net equity in loss of affiliates	(1,817)	—	—	—	(1,817)	—	—	(1,817)
Other, net	402	—	(6)	—	396	(5,151)	(36)	(4,791)
Total nonoperating revenue (expense), net	84,194	13,986	12,273	39	110,492	15,199	(36)	125,655
Net income	126,646	10,577	9,340	3,020	149,583	79,165	(116,765)	111,983
Net income (loss) attributable to noncontrolling interest	3	—	—	—	3	(1,429)	—	(1,426)
Net income attributable to INTEGRIS *Health*	126,643	10,577	9,340	3,020	149,580	80,594	(116,765)	113,409
Other changes in net assets:								
Pension liability adjustment	—	—	—	—	—	35,949	—	35,949
Other, net	(34,274)	308	715	10,012	(23,239)	20,426	13,722	10,909
Change in net assets	92,369	10,885	10,055	13,032	126,341	136,969	(103,043)	160,267
Net assets (deficit) of INTEGRIS *Health*, beginning of year	430,052	237,003	204,627	85,638	957,320	1,010,588	(1,169,262)	798,646
Net assets (deficit) of INTEGRIS *Health*, end of year	$ 522,421	247,888	214,682	98,670	1,083,661	1,147,557	(1,272,305)	958,913

See accompanying independent auditors' report.