FRANCISCAN MISSIONARIES OF OUR LADY HEALTH SYSTEM, INC. AND AFFILIATED ORGANIZATIONS

Consolidated Financial Statements
and Supplemental Schedules

June 30, 2016 and 2015

(With Independent Auditors' Report Thereon)

FRANCISCAN MISSIONARIES OF OUR LADY HEALTH SYSTEM, INC. AND AFFILIATED ORGANIZATIONS

June 30, 2016 and 2015

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KPMG LLP
Suite 2150
301 Main Street
Baton Rouge, LA 70801

Independent Auditors' Report

The Board of Trustees
Franciscan Missionaries of Our Lady Health System, Inc.:

We have audited the accompanying consolidated financial statements of Franciscan Missionaries of Our Lady Health System, Inc. and affiliated organizations (the System), which comprise the consolidated balance sheets as of June 30, 2016 and 2015, and the related consolidated statements of operations and changes in unrestricted net assets, 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 Franciscan Missionaries of Our Lady Health System, Inc. and affiliated organizations as of June 30, 2016 and 2015, 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 Matters

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information included in Schedules 1 through 3 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. The supplementary information included in Schedule 4 is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and accordingly, we do not express an opinion or provide any assurance on it.

KPMG LLP

Baton Rouge, Louisiana
November 9, 2016

FRANCISCAN MISSIONARIES OF OUR LADY HEALTH SYSTEM, INC. AND AFFILIATED ORGANIZATIONS

Consolidated Balance Sheets

June 30, 2016 and 2015

(In thousands)

Assets		**2016**	**2015**
Current assets:			
Cash and cash equivalents	$	177,365	162,626
Short-term investments		2,345	22,319
Patient receivables, net of allowance for uncollectible accounts of $312,426 and $290,114 in 2016 and 2015, respectively		230,652	229,512
Other current assets		114,024	107,811
Total current assets		524,386	522,268
Assets limited as to use, net of current portion		848,231	852,336
Property and equipment, net		1,136,174	1,120,735
Other assets		182,025	153,691
Total assets	$	2,690,816	2,649,030
Liabilities and Net Assets			
Current liabilities:			
Lines of credit	$	18,316	481
Current installments of long-term debt		13,707	16,592
Current portion of capital lease obligations		4,828	4,841
Accounts payable		101,116	105,729
Other current liabilities		172,756	165,899
Total current liabilities		310,723	293,542
Professional and general liabilities, excluding current portion		28,652	30,361
Long-term debt, excluding current installments		589,381	601,116
Capital lease obligations, excluding current portion		21,792	12,348
Accrued pension cost		511,312	381,555
Other long-term liabilities		25,010	22,200
Total liabilities		1,486,870	1,341,122
Net assets:			
Unrestricted		1,116,132	1,245,310
Temporarily restricted		45,325	36,869
Permanently restricted		5,400	5,300
Total net assets attributable to Franciscan Missionaries of Our Lady Health System, Inc.		1,166,857	1,287,479
Noncontrolling interests		37,089	20,429
Total net assets		1,203,946	1,307,908
Total liabilities and net assets	$	2,690,816	2,649,030

See accompanying notes to consolidated financial statements.

FRANCISCAN MISSIONARIES OF OUR LADY HEALTH SYSTEM, INC. AND AFFILIATED ORGANIZATIONS

Consolidated Statements of Operations and Changes in Unrestricted Net Assets

Years ended June 30, 2016 and 2015

(In thousands)

		2016	2015
Changes in unrestricted net assets:			
Unrestricted revenues:			
Net patient service revenue, net of contractual allowances and discounts	$	1,917,861	1,744,010
Provision for uncollectible accounts		(174,526)	(133,719)
Net patient service revenue		1,743,335	1,610,291
Other revenue		104,524	105,186
Equity in income from equity investees, net		12,239	16,064
Total unrestricted revenues		1,860,098	1,731,541
Net assets released from restrictions used for operations:			
Satisfaction of program restrictions		4,647	5,797
Expiration of time restrictions		171	161
Total net assets released from restrictions used for operations		4,818	5,958
Total unrestricted revenues and other support		1,864,916	1,737,499
Operating expenses:			
Salaries and wages		723,866	674,236
Employee benefits		177,793	155,301
Total salaries, wages, and employee benefits		901,659	829,537
Physician fees		69,839	63,724
Professional services		22,990	24,923
Other services		285,163	285,333
Leases, insurance, and utilities		68,203	68,568
Supplies		377,396	319,601
Depreciation and amortization		104,380	95,245
Interest		23,618	23,638
Other		3,335	3,239
Total operating expenses		1,856,583	1,713,808
Operating income before impairment and settlement of pension plans		8,333	23,691
Impairment		4,356	—
Settlement of pension plans		9,571	—
Operating (loss) income		(5,594)	23,691

(Continued)

FRANCISCAN MISSIONARIES OF OUR LADY HEALTH SYSTEM, INC. AND AFFILIATED ORGANIZATIONS

Consolidated Statements of Operations and Changes in Unrestricted Net Assets

Years ended June 30, 2016 and 2015

(In thousands)

		2016	2015
Nonoperating gains (losses):			
Investment return		(12,889)	6,479
Loss on extinguishment of debt		—	(35,507)
Other		(4,295)	(5,622)
Change in fair value of interest rate swap agreements		(4,785)	(1,247)
Total nonoperating losses, net		(21,969)	(35,897)
Expenses and losses in excess of unrestricted revenues, gains, and other support before noncontrolling interest		(27,563)	(12,206)
Noncontrolling interests		(3,852)	(3,341)
Expenses and losses in excess of unrestricted revenues, gains, and other support attributable to Franciscan Missionaries of Our Lady Health System, Inc.		(31,415)	(15,547)
Pension-related changes other than net periodic pension cost		(100,335)	(63,946)
Other		2,572	(5,068)
Decrease in unrestricted net assets	$	(129,178)	(84,561)

See accompanying notes to consolidated financial statements.

FRANCISCAN MISSIONARIES OF OUR LADY HEALTH SYSTEM, INC. AND AFFILIATED ORGANIZATIONS

Consolidated Statements of Changes in Net Assets

Years ended June 30, 2016 and 2015

(In thousands)

	2016	2015
Changes in unrestricted net assets:		
Expenses and losses in excess of unrestricted revenues, gains, and other support attributable to Franciscan Missionaries of Our Lady Health System, Inc.	$ (31,415)	(15,547)
Pension-related changes other than net periodic pension cost	(100,335)	(63,946)
Other	2,572	(5,068)
Decrease in unrestricted net assets	(129,178)	(84,561)
Changes in temporarily restricted net assets:		
Contributions	12,694	9,299
Income from long-term investments, net	580	822
Net assets released from restrictions	(4,818)	(5,958)
Other	—	(50)
Increase in temporarily restricted net assets	8,456	4,113
Changes in permanently restricted net assets:		
Contributions	100	—
Increase in permanently restricted net assets	100	—
Changes in noncontrolling interests:		
Unrestricted revenues, gains, and other support in excess of expenses and losses	3,852	3,341
Distributions	(3,639)	(3,458)
Acquired controlling interest	—	(1,096)
Increase due to acquisition	17,108	—
Other	(661)	51
Increase (decrease) in noncontrolling interests	16,660	(1,162)
Decrease in net assets	(103,962)	(81,610)
Net assets, beginning of year	1,307,908	1,389,518
Net assets, end of year	$ 1,203,946	1,307,908

See accompanying notes to consolidated financial statements.

FRANCISCAN MISSIONARIES OF OUR LADY HEALTH SYSTEM, INC. AND AFFILIATED ORGANIZATIONS

Consolidated Statements of Cash Flows

Years ended June 30, 2016 and 2015

(In thousands)

		2016	2015
Cash flows from operating activities:			
Decrease in net assets	$	(103,962)	(81,610)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:			
Depreciation and amortization		104,380	95,245
Impairment		4,356	—
Provision for uncollectible accounts		174,526	133,719
(Gain) loss on sale or disposal of property and equipment, net		(40)	470
Net realized and unrealized losses (gains) on assets limited as to use and investment securities		20,253	(1,458)
Income from equity investees		(12,239)	(16,064)
Change in value of interest rate swap agreements		4,785	1,247
Amortization of net premium on bond issues		(700)	(127)
Pension-related changes other than net periodic pension cost		100,335	63,946
Loss on early extinguishment of debt, noncash portion		—	35,507
Acquired controlling interest, net		—	1,044
Sale of noncontrolling interest		(17,108)	—
Distributions to noncontrolling interest		3,639	3,458
Return of income from equity investees		13,959	15,107
Changes in operating assets and liabilities:			
Receivables		(170,219)	(155,507)
Inventories		(2,081)	(6,200)
Prepaid expenses and other assets		2,190	1,642
Accounts payable, accrued expenses, and other liabilities		29,248	30,310
Professional and general liabilities		(1,709)	154
Net cash provided by operating activities		149,613	120,883

FRANCISCAN MISSIONARIES OF OUR LADY HEALTH SYSTEM, INC. AND AFFILIATED ORGANIZATIONS

Consolidated Statements of Cash Flows

Years ended June 30, 2016 and 2015

(In thousands)

		2016	2015
Cash flows from investing activities:			
Capital expenditures		(105,785)	(54,060)
Proceeds from sale of property and equipment		40	—
Purchases of assets limited to use		(84,274)	(111,670)
Sales of assets limited to use		86,190	117,888
Cash paid for equity investees and other acquisitions, net of cash acquired		(35,176)	(3,936)
Net cash used in investing activities		(139,005)	(51,778)
Cash flows from financing activities:			
Repayment of long-term debt		(49,079)	(184,453)
Escrow deposit for extinguishment of debt		—	(30,499)
Repayment of capital lease obligations, net		(5,717)	(12,578)
Proceeds from issuance of long-term debt		35,160	202,881
Proceeds from line of credit		30,000	6,000
Payments on line of credit		(12,165)	(11,251)
Payment of bond issuance costs		(132)	(3,293)
Acquired controlling interest		—	(1,044)
Sale of noncontrolling interest		9,703	—
Distributions to noncontrolling interest		(3,639)	(3,458)
Net cash provided by (used in) financing activities		4,131	(37,695)
Increase in cash and cash equivalents		14,739	31,410
Cash and cash equivalents, beginning of year		162,626	131,216
Cash and cash equivalents, end of year	$	177,365	162,626
Supplemental non-cash disclosures:			
Write off of unamortized debt issuance costs, discounts and premiums for extinguishment of debt	$	—	5,008
Accounts payable for construction projects		5,927	7,165
Capital lease obligations		264	14,854

See accompanying notes to consolidated financial statements.

(1) Organization and Summary of Significant Accounting Policies

Franciscan Missionaries of Our Lady Health System, Inc. (FMOLHS or the System) is a not-for-profit, nonstock membership corporation and is a wholly owned subsidiary of Franciscan Missionaries of Our Lady in Baton Rouge, Louisiana (FMOL). The members of FMOL are the Provincial and the members of the Council of the Franciscan Missionaries of Our Lady – North American Province. FMOLHS is the sole member and has sole voting control of five medical centers and their affiliates (FMOLHS Affiliates). All of these entities are not-for-profit, nonstock membership corporations. The medical centers are as follows:

- Our Lady of the Lake Hospital, Inc. d/b/a Our Lady of the Lake Regional Medical Center (the Lake) – Baton Rouge, Louisiana
- Our Lady of the Lake Ascension Community Hospital, Inc. d/b/a St. Elizabeth Hospital (St. Elizabeth) – Gonzales, Louisiana
- Our Lady of Lourdes Regional Medical Center, Inc. (Lourdes) – Lafayette, Louisiana
- St. Francis Medical Center, Inc. (St. Francis) – Monroe, Louisiana
- Our Lady of the Angels Hospital, Inc. (Angels) – Bogalusa, Louisiana

The FMOLHS Affiliates participate together in a captive insurance company, Louise Insurance Co., Ltd. (Louise), which is wholly owned by FMOLHS (note 19).

The significant accounting policies used by FMOLHS in preparing and presenting its consolidated financial statements follow:

(a) Principles of Consolidation

The consolidated financial statements include the accounts of FMOLHS, its wholly owned subsidiaries, and the FMOLHS Affiliates. All significant intercompany balances and transactions have been eliminated in consolidation. Third-party equity interest in the consolidated subsidiaries and affiliates are reflected as noncontrolling interest in FMOLHS's consolidated financial statements. For subsidiaries in which FMOLHS does not have a controlling interest, FMOLHS records such investments under the equity method of accounting.

(b) Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. The current economic environment has increased the degree of uncertainty inherent in these estimates and assumptions.

Significant items subject to such estimates and assumptions include the determination of the allowances for uncollectible accounts and contractual adjustments, reserves for general and professional liability claims, reserves for workers' compensation claims, reserves for employee healthcare claims, estimated third-party payor settlements, certain investments in alternative funds, valuation of derivatives, useful lives of property and equipment, and the actuarially determined benefit liability related to FMOLHS's pension plans and postretirement health plans. In addition, laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates related to these programs will change by a material amount in the near term.

(c) Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less when purchased, excluding amounts included in assets limited as to use.

FMOLHS maintains bank accounts at various financial institutions covered by Federal Depository Insurance Corporation (FDIC). FMOLHS may maintain bank account balances in excess of the FDIC insured limit. FMOLHS believes it is not exposed to any significant credit risk related to cash.

(d) Investments and Investment Return

Investments in equity securities with readily determinable fair values and all investments in debt securities, except for investments in the common stock of equity investees accounted for using the equity method, are recorded at fair value. The estimated fair value of these investments is based on quoted market prices.

FMOLHS also invests in alternative assets such as hedge funds, private equity funds, and commingled funds. When FMOLHS's investment in alternative assets represents investments organized as corporations, or trusts with legal structures similar to a corporation, with ownership less than 20%, and transacts frequently (at least quarterly), FMOLHS accounts for these investments at net asset value as a practical expedient to fair value. Net asset value is based on the fair value of the underlying investments. When FMOLHS's investment in alternative assets represents investments organized as limited partnerships, or limited liability companies with specific ownership accounts or trusts with legal structures similar to a partnership, FMOLHS accounts for these investments using the equity method, which generally approximates net asset value.

The net asset value for alternative assets for which quoted market prices are not available is based on the most recent valuations provided by the external investment managers, adjusted for receipts and disbursements through June 30. FMOLHS reviews and evaluates the values provided by the managers and agrees with the valuation methods and assumptions used to determine those values. Therefore, FMOLHS believes the carrying amount of these financial instruments is a reasonable estimate of fair value. Because alternative assets are not readily marketable, their estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for such investments existed.

Dividend, interest, and other income, realized and unrealized gains and losses on investments recorded at fair value, alternative assets recorded at net asset value, and changes in the carrying value of alternative investments recorded on the equity method, are included as expenses and losses in excess of unrestricted revenues, gains, and other support in the consolidated statements of operations unless their use is temporarily or permanently restricted by explicit donor stipulations or law. Donated investments are recorded at fair value at the date of receipt.

(e) Inventories

Inventories, consisting primarily of medical supplies and pharmaceuticals, are stated at the lower of cost (average-cost method) or market and are included in other current assets in the accompanying consolidated balance sheets.

(f) Assets Limited as to Use

Assets limited as to use include the following:

- Assets set aside by the Board of Directors for future capital acquisitions, capital improvements, and debt service, over which the Board of Directors retains control and may at its discretion subsequently use for other purposes.
- Assets held by trustees under indenture agreements, self-insurance trust arrangements, and terms of donor restrictions.

Amounts required to satisfy current requirements for the payment of current construction costs and debt service costs are classified as other current assets in the accompanying consolidated balance sheets.

(g) Components of Net Assets

Net assets, revenues, and other support and expenses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of FMOLHS and changes therein are classified and reported as follows:

Unrestricted Net Assets – Unrestricted net assets are net assets whose use is not restricted by donors, even though their use may be limited in other respects, such as by contracts or by board designation.

Temporarily Restricted Net Assets – Temporarily restricted net assets are net assets subject to donor-imposed stipulations that may or will be met either by actions of FMOLHS and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of operations as net assets released from restrictions.

Permanently Restricted Net Assets – Permanently restricted net assets are net assets subject to donor-imposed stipulations that are maintained permanently by FMOLHS. Generally, the donors of these assets permit FMOLHS to use all or part of the income earned on related investments for specific or general purposes.

Unrealized gains and losses are recorded as temporarily restricted net assets if the terms of the gift restrict the use of the income. Permanently restricted net assets are increased if the term of the gift that gave rise to the investment requires the unrealized gain be added to the principal of a permanent endowment.

Generally, losses on the investments of restricted endowments reduce temporarily restricted net assets to the extent donor-imposed temporary restrictions on net appreciation of investments have not been met before the loss occurs. Any remaining losses reduce unrestricted net assets, but can be restored through subsequent investment gains.

(h) Bond Issuance Costs

Bond issuance costs, included in other assets in the accompanying consolidated financial statements, premiums, and discounts, costs of letters of credit, and standby purchase agreements are being amortized over the terms of the related bond issues using a method that approximates the effective-interest method. Accumulated amortization was approximately $6,848 and $6,465 at June 30, 2016 and 2015, respectively.

(i) Property and Equipment

Property and equipment, including leasehold improvements, are stated at cost upon acquisition or fair value if donated. Depreciation is computed primarily on the straight-line method based upon the shorter of the estimated useful lives of the assets or the lease term. Equipment under capital lease is amortized using the straight-line method over the shorter of the lease term of the equipment or its useful life. Such amortization is included in depreciation and amortization expense in the accompanying consolidated financial statements.

Gifts of long-lived assets, such as land, buildings, or equipment, are reported as unrestricted support, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor time stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service. Contributions restricted for the purchase of property and equipment for which restrictions are met within the same year as the contributions are received are reported as increases in unrestricted net assets in the accompanying consolidated financial statements.

(j) Business Combination

FMOLHS accounts for business combinations using the acquisition method. The assets acquired consist primarily of property and equipment, intangibles, and licenses. The assets acquired and liabilities assumed, if any, are measured at fair value on the acquisition date using the appropriate valuation method. The noncontrolling interest associated with joint venture acquisitions is also measured and recorded at fair value as of the acquisition date. The residual purchase price is recorded as cost in excess of net assets acquired. The operations of the acquisitions are included in the consolidated financial statements from their respective dates of acquisition.

(k) Cost in Excess of Net Assets Acquired

Cost in excess of net assets acquired, or goodwill, included in other assets, is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. Cost in excess of net assets acquired is reviewed for impairment at least annually. FMOLHS applies the provisions of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 350, *Intangibles – Goodwill and Other*, which provides an entity the option to perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount prior to performing the two-step goodwill impairment test. If this is the case, the two-step goodwill impairment test is required. If it is more likely than not that the fair value of a reporting is greater than its carrying amount, the two-step goodwill impairment test is not required.

If the two-step goodwill impairment test is required, first, the fair value of the reporting unit is compared with its carrying amount (including cost in excess of net assets acquired). If the fair value of the reporting unit is less than its carrying amount, an indication of cost in excess of net assets acquired impairment exists for the reporting unit and the entity must perform step two of the impairment test (measurement). Under step two, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. The implied fair value of cost in excess of net assets acquired is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation and the residual fair value after this allocation is the implied fair value of the reporting unit goodwill. Fair value of the reporting unit is determined using a discounted cash flow analysis. If the fair value of the reporting unit exceeds its carrying amount, step two does not need to be performed.

FMOLHS performs its annual impairment review of cost in excess of net assets acquired at June 30, and when a triggering event occurs between annual impairment tests. For 2016, FMOLHS performed a qualitative assessment of cost in excess of net assets acquired and determined that it is more likely than not that the fair values of its reporting units are less than the carrying amounts. Accordingly, an impairment loss of $943 was recorded in 2016 and no impairment loss was recorded in 2015.

Accumulated amortization for all costs in excess of net assets acquired was $15,846 at June 30, 2016 and 2015.

(l) Capitalization of Interest

FMOLHS capitalizes the interest costs of borrowings, net of related investment income on the unexpended funds, during the construction period of major projects as a component of the asset. Net interest expense capitalized was $502 and $620 for the years ended June 30, 2016 and 2015, respectively.

(m) Impairment of Long-lived Assets

Long-lived assets, such as property and equipment, 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 to be tested for possible impairment, FMOLHS first compares the undiscounted future cash flows expected to be generated by the assets to its carrying value. If the carrying amount of the long-lived asset is not recoverable on an undiscounted cash flow basis, an impairment charge is recognized to the extent the carrying amount of the asset exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values, and third-party appraisals, as considered necessary.

The System recorded an impairment loss of $3,413 in 2016 for property and equipment. No impairment loss was recorded in 2015.

Assets to be disposed of are separately presented in the accompanying consolidated balance sheets and reported at the lower of carrying amount or fair value less costs to sell, and are no longer depreciated. There are no assets reported as assets to be disposed of at June 30, 2016 or 2015.

(n) Estimated Workers' Compensation, Professional Liability, and Employee Health Claims

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

(o) Consolidated Statements of Operations

Transactions deemed to be ongoing, major, or central to the provision of healthcare services are reported as operating revenues and expenses. Peripheral or incidental transactions are reported as nonoperating gains and losses. Investment return, consisting of dividends and interest earned on investments, as well as realized and unrealized gains and losses on the investment portfolio, the loss on extinguishment of debt, medical office building rental income, the change in value of interest rate swap agreement, and gains and losses on asset disposals are reported as nonoperating gains or losses.

The consolidated statements of operations include expenses and losses in excess of unrestricted, gains, and other support, which is an indicator of financial performance. Changes in unrestricted net assets that are excluded from expenses and losses in excess of unrestricted revenues, gains, and other support include permanent transfers of assets to and from affiliates for other than goods and services, pension-related changes other than net periodic pension cost, and contributions of long-lived assets (including assets acquired using contributions that by donor restriction were to be used for the purpose of acquiring such assets).

(p) Net Patient Service Revenue and Patient Accounts Receivable

Net patient service revenue is recognized as services are performed and is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors.

Retroactively calculated contractual adjustments arising under reimbursement agreements with third-party payors are accrued on an estimated basis in the period the related services are rendered and are adjusted as final settlements are determined.

Patient receivables are reduced by an allowance for uncollectible accounts. The allowance for uncollectible accounts is based upon management’s assessment of historical and expected net collections considering historical business and economic conditions, trends in healthcare coverage, major payor sources, and other collection indicators. Periodically throughout the year, management assesses the adequacy of the allowance for uncollectible accounts based upon historical write-off experience by payor category. The results of this review are then used to make modifications to the provision for uncollectible accounts to establish an appropriate allowance for uncollectible receivables. After satisfaction of amounts due from insurance, FMOLHS Affiliates follow established guidelines for placing certain past-due patient balances with collection agencies, subject to the terms of certain restrictions on collection efforts as determined by FMOLHS Affiliates.

(q) Charity Care

The FMOLHS Affiliates provide care to patients who meet certain criteria under their charity care policies without charge or at amounts less than its established rates. Because the FMOLHS Affiliates do not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as revenue.

The FMOLHS Affiliates maintain records to identify and monitor the level of charges forgone that are associated with the charity care they provide. Charges forgone, based on established rates, totaled approximately $267,546 and $235,718 for the years ended June 30, 2016 and 2015, respectively.

The FMOLHS Affiliates do not include charity care in net patient service revenue. The cost of charity care provided in 2016 and 2015 approximated $20,156 and $21,386, respectively. FMOLHS Affiliates estimated these costs by calculating a ratio of cost to gross charges and then multiplying that ratio by the gross charity charges associated with providing care to charity patients.

(r) Electronic Health Record Incentive Program

The Centers for Medicare & Medicaid Services (CMS) have implemented provisions of the American Recovery and Reinvestment Act of 2009 that provide incentive payments beginning in 2011 for the meaningful use of certified electronic health record (EHR) technology. CMS has defined meaningful use as meeting certain objectives and clinical quality measures based on current and updated technology capabilities over predetermined reporting periods as established by CMS. The Medicare EHR incentive program provides annual incentive payments to eligible professionals, eligible hospitals, and critical access hospitals, as defined, that are meaningful users of certified EHR technology. The Medicaid EHR incentive program provides annual incentive payments to eligible professionals and hospitals for efforts to adopt, implement, and meaningfully use certified EHR technology. FMOLHS utilizes a contingency accounting model to recognize EHR incentive revenues. FMOLHS records EHR incentive revenue when FMOLHS has complied with the meaningful use criteria for a full reporting period and when management determines that all uncertainties and contingencies are resolved prior to the recognition of income. In fiscal 2016 and 2015, FMOLHS recorded EHR incentive revenues of $2,786 and $6,161 comprised of $1,096 and $2,973 of Medicare revenues and $1,690 and $3,188 of Medicaid revenues, respectively. EHR incentive revenues are included in net patient service revenue in the accompanying consolidated statements of operations. There were no EHR incentive receivables from Medicare and Medicaid at June 30, 2016 and 2015.

(s) Income Taxes

FMOLHS and the FMOLHS Affiliates are exempt from federal income taxes under Section 501(a) of the Internal Revenue Code (IRC) as organizations described in IRC Section 501(c)(3). Certain of the FMOLHS Affiliates' subsidiaries are subject to federal and state income taxes, provisions for which have been reflected in the accompanying consolidated financial statements. The amounts of such provisions are not material.

FMOLHS recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. No reserves for uncertain tax positions have been recorded.

(t) Asset Retirement Obligation

FMOLHS recognizes the fair value of a liability for legal obligations associated with asset retirements in the period in which it is incurred, if a reasonable estimate of the fair value of the obligation can be made. When the liability is initially recorded, FMOLHS capitalizes the cost of the asset retirement obligation by increasing the carrying amount of the related long-lived asset. Over time, 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 consolidated statements of operations. The liability is included in other long-term liabilities in the accompanying consolidated balance sheets.

(u) Fair Value Measurements

FMOLHS applies ASC Topic 820, *Fair Value Measurement*, which defines fair value, establishes an enhanced framework for measuring fair value, and expands disclosures about fair value measurements, including those required for certain investments in funds that do not have readily determinable fair values including private equity investments, hedge funds, real estate, and other funds. ASC Topic 820 permits, as a practical expedient, the estimation of the fair value of investments in investment companies for which the investment does not have a readily determinable fair value using net asset value per share or its equivalent. Net asset value, in many instances, may not equal fair value that would be calculated pursuant to other related requirements of ASC Topic 820.

FMOLHS utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. FMOLHS determines fair value based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are categorized in one of the following levels:

- Level 1 Inputs: Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the reporting entity at the measurement date.
- Level 2 Inputs: Other than quoted prices included in Level 1 inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.
- Level 3 Inputs: Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at measurement date.

(v) Fair Value Option

ASC Sub Topic 825-10, *Financial Instruments – Overall*, gives FMOLHS the irrevocable option to report most financial assets and financial liabilities at fair value on an instrument-by-instrument basis, with changes in fair value reported in earnings. FMOLHS has not elected to apply the fair value option to any assets or liabilities.

(w) Recent Accounting Pronouncements

The FASB issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*, in May 2014, which was amended by ASU No. 2015-14, *Revenue from Contracts with Customers*, in August 2015. ASU 2014-09 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 expects to be entitled in exchange for those goods or services. An entity should also 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 new standard is effective for annual reporting periods beginning after December 15, 2017. FMOLHS will implement the provisions of ASU 2014-09 and ASU 2015-14 as of July 1, 2018. FMOLHS has not yet determined the impact of the new standard on its current policies for revenue recognition.

The FASB issued ASU 2015-03, *Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Cost*, in April 2015, which contains provisions to simplify the presentation of debt issuance costs. The provisions require that debt issuance costs related to recognized debt liabilities be presented on the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. Adoption of this standard should be applied on a retrospective basis. The new standard is effective for annual reporting periods beginning after December 15, 2015. FMOLHS will implement the provisions of ASU 2015-03 as of July 1, 2016.

The FASB issued ASU No. 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, in May 2015. ASU 2015-07 removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The ASU also removes the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient, limiting the disclosures to investments which the entity has elected to measure the fair value using the practical expedient. Adoption of this standard should be applied on a retrospective basis. The new standard is effective for annual reporting periods beginning after December 15, 2015. FMOLHS will implement the provisions of ASU 2015-07 as of July 1, 2016.

The FASB issued ASU 2016-02, *Leases (Topic 842)*, which introduces a right-of-use model which requires lessees to recognize all leases, other than short-term leases with a maximum possible term of one year or less, on their balance sheet. Also the amortization of these leases will be dependent of the portion of the underlying asset being utilized during the lease term. ASU 2016-02 is effective for FMOLHS beginning July 1, 2019, with early adoption permitted. FMOLHS is currently evaluating the impact of the ASU, but is currently unable to estimate the effect, if any.

The FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, in August 2016. ASU 2016-14 changes how not-for-profit entities, including health entities, report net asset classes, expenses and liquidity in their financial statements. The new standard permits early adoption and is effective for annual reporting periods beginning after December 15, 2017. FMOLHS will implement the provisions of ASU 2016-14 as of July 1, 2018.

(In thousands)

(2) Short-term Investments and Assets Limited as to Use

Short-term investments at June 30, 2016 and 2015 consist of the following:

	2016	2015
Asset category:		
Cash	$ 2	1,604
Equity securities:		
U.S. companies	2,343	3,974
U.S. companies – alternative investments	—	1,285
International companies	—	1,784
International companies – alternative investments	—	705
Real assets	—	648
Real assets – alternative investments	—	500
Fixed-income securities:		
U.S. government guaranteed	—	125
U.S. agency	—	456
Corporate	—	672
Municipal	—	49
Alternative investments	—	662
Other	—	988
Emerging markets – alternative investments	—	1,280
Alternative asset funds:		
Hedge funds	—	5,686
Natural resource funds	—	286
Real estate fund	—	122
Private equity funds	—	1,493
Total	$ 2,345	22,319

(In thousands)

The composition of assets limited as to use at June 30, 2016 and 2015 is as follows:

	2016				
	Board-designated for capital	Trusteed bond funds	Self-insurance trust funds	Other	Total
Asset category:					
Cash	$ 19,597	21,223	—	4,076	44,896
Equity securities:					
U.S. companies	67,795	—	4,612	6,264	78,671
U.S. companies – alternative investments	67,821	—	—	—	67,821
International companies	66,737	—	—	423	67,160
International companies – alternative investments	34,694	—	—	—	34,694
Real assets	41,398	—	—	—	41,398
Real assets – alternative investments	47,934	—	—	—	47,934
Fixed-income securities:					
U.S. government guaranteed	6,664	—	2,578	—	9,242
U.S. agency	11,817	—	9,201	1,818	22,836
Corporate	32,862	—	8,544	963	42,369
Municipal	1,546	—	6,056	—	7,602
Alternative investments	27,877	—	—	—	27,877
Other	42,194	—	2,224	493	44,911
Emerging markets – alternative investments	51,663	—	—	—	51,663
Alternative asset funds:					
Hedge funds	212,898	—	—	129	213,027
Natural resource funds	9,327	—	—	—	9,327
Real estate fund	3,891	—	—	—	3,891
Private equity funds	56,122	—	—	—	56,122
	802,837	21,223	33,215	14,166	871,441
Less amounts classified as current assets, included in other current assets	—	21,223	—	1,987	23,210
Noncurrent portion	$ 802,837	—	33,215	12,179	848,231

(In thousands)

	2015				
	Board-designated for capital	Trusteed bond funds	Self-insurance trust funds	Other	Total
Asset category:					
Cash	$ 52,635	19,247	—	4,502	76,384
Equity securities:					
U.S. companies	69,231	—	4,533	6,999	80,763
U.S. companies – alternative investments	52,298	—	—	—	52,298
International companies	72,624	—	—	499	73,123
International companies – alternative investments	28,703	—	—	—	28,703
Real assets	26,366	—	—	—	26,366
Real assets – alternative investments	20,364	—	—	—	20,364
Fixed-income securities:					
U.S. government guaranteed	5,107	—	3,086	—	8,193
U.S. agency	18,560	—	11,542	1,422	31,524
Corporate	27,370	—	9,511	760	37,641
Municipal	1,979	—	5,222	—	7,201
Alternative investments	26,965	—	—	—	26,965
Other	40,311	—	2,214	640	43,165
Emerging markets – alternative investments	52,114	—	—	—	52,114
Alternative asset funds:					
Hedge funds	231,452	—	—	130	231,582
Natural resource funds	11,636	—	—	—	11,636
Real estate fund	4,985	—	—	—	4,985
Private equity funds	60,817	—	—	50	60,867
	803,517	19,247	36,108	15,002	873,874
Less amounts classified as current assets, included in other current assets	—	19,247	—	2,291	21,538
Noncurrent portion	$ 803,517	—	36,108	12,711	852,336

(a) Board-designated for Capital

In accordance with Board approval, the FMOLHS Affiliates have designated assets to fund future capital acquisitions and capital improvements.

The FMOLHS Affiliates invest their board-designated for capital funds together within FMOLHS in a capital reserve investment fund held in a Northern Trust custodial account. Through usage of unitized accounting, these investments are segregated for each FMOLHS Affiliate. Investments held as board-designated for capital are managed by several money managers, which focus on different investment strategies and provide diversity to the investments.

(In thousands)

(b) Alternative Assets

Alternative assets (included in short-term investments and assets limited as to use) include limited partnerships and offshore investment funds. These funds invest in certain types of financial instruments, including, among others, futures and forward contracts, options, and securities sold not yet purchased, intended to hedge against changes in the market value of investments. These financial instruments, which involve varying degrees of risk, may result in loss due to changes in the market (market risk). Alternative assets by strategy type are as follows:

		2016	2015
Alternative assets:			
U.S. companies	$	67,821	53,583
International companies		34,694	29,408
Real assets		47,934	20,864
Fixed income		27,877	27,952
Emerging markets		51,663	53,394
Hedge funds		213,027	237,268
Private equity		56,122	62,360
Natural resources		9,327	11,922
Real estate funds		3,891	5,107
Total alternative assets	$	512,356	501,858

At June 30, 2016, FMOLHS's remaining outstanding commitments to private equity interests totaled $23,024. The projected capital call amounts for the next five fiscal years and thereafter are summarized in the table below:

		Projected capital calls
Fiscal year:		
2017	$	12,718
2018		6,289
2019		4,017
2020		—
2021		—
Thereafter		—
	$	23,024

Private equity interests have 10-year terms, with extensions of 1 to 4 years. As of June 30, 2016, the average remaining life of the private equity interests is approximately 2.2 years.

(In thousands)

At June 30, 2016 and 2015, FMOLHS had hedge fund investments of $280,849 and $290,851, respectively, which were restricted from redemption for lock-up periods. Some of the hedge fund investments with redemption restrictions allow early redemption for specified fees. The terms and conditions upon which an investor may redeem an investment vary, usually requiring 30 to 180 days' notice after the initial lock-up period.

Based upon the terms and conditions in effect at June 30, 2016, FMOLHS's hedge fund investments can be redeemed or sold as follows:

		Amount
Fiscal year:		
2017	$	267,220
2018		6,420
2019		—
2020		—
2021		—
2022–2025		—
Thereafter		7,209
Total	$	280,849

(c) *Trusteed Bond Funds*

Certain trusteed bond funds have been established in accordance with the requirements of indentures related to various bond obligations. The consolidated trusteed bond funds as of June 30, 2016 and 2015 consist of the following categories:

		2016	2015
Principal and interest funds	$	21,223	19,247
Less amounts classified as other current assets		21,223	19,247
Noncurrent portion	$	—	—

The above funds were established in accordance with related indentures to secure the payment of principal and interest on the related obligations, and to pay or reimburse the FMOLHS Affiliates for payment of the costs of the acquisition, construction, and installation of certain extensions and improvements to their facilities. Amounts classified as current represent funds deposited to pay related debt service costs classified as current liabilities. Information regarding FMOLHS's debt obligations is included in note 10.

(In thousands)

(d) Self-insurance Trust Funds

The self-insurance trust funds represent amounts designated to pay certain self-insured losses (note 19).

(e) Other

Other assets limited at to use as of June 30, 2016 and 2015 consist of the following:

		2016	2015
Scholarships – by donor	$	959	1,475
Healthcare services – by donor		12,128	12,117
Resident deposits		47	113
Escrow, security deposits, and surplus cash		168	377
Capital improvement – by grantor agency		864	920
		14,166	15,002
Less amounts classified as current		1,987	2,291
	$	12,179	12,711

All investments are considered "trading" for accounting purposes. All unrestricted investment income, including both realized and unrealized gains and losses, is included in the reported total of expenses and losses in excess of unrestricted revenues, gains, and other support in the consolidated statements of operations. The following schedule for the years ended June 30, 2016 and 2015 summarizes the investment return and its classification in the consolidated statements of operations:

		Unrestricted	Temporarily restricted	Total
2016:				
Dividends and interest, net of expenses of $2,252	$	7,364	580	7,944
Realized and unrealized gains, net		(20,253)	—	(20,253)
Investment return	$	(12,889)	580	(12,309)
2015:				
Dividends and interest, net of expenses of $2,709	$	5,021	822	5,843
Realized and unrealized gains, net		1,458	—	1,458
Investment return	$	6,479	822	7,301

(In thousands)

Investments, in general, are exposed to various risks such as interest rate, credit, and overall market volatility. As such, it is reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the consolidated balance sheets, statements of operations, and statements of changes in net assets.

(3) Patient Receivables

The composition of net patient receivables at June 30, 2016 and 2015 is as follows:

		2016	2015
Patient accounts receivable	$	543,078	519,626
Less allowance for uncollectible accounts		312,426	290,114
	$	230,652	229,512

For patient receivables associated with self-pay patients, including patients with deductibles and copayment balances for which third-party coverage provides for a portion of the services provided, FMOLHS Affiliates record an estimated provision for uncollectible accounts in the year of service.

(4) Other Current Assets

The composition of other current assets at June 30, 2016 and 2015 is as follows:

		2016	2015
Other receivables	$	24,454	26,596
Inventories		37,911	35,076
Prepaid expenses and other current assets		28,449	24,601
Assets limited as to use required for current liabilities		23,210	21,538
	$	114,024	107,811

(In thousands)

(5) Property and Equipment

A summary of property and equipment as of June 30, 2016 and 2015 is as follows:

		2016	2015	Estimated useful lives
Land	$	125,366	124,329	—
Land improvements		25,310	25,090	2–40 years
Buildings and building improvements		1,185,195	1,149,162	5–50 years
Fixed equipment		118,688	120,792	3–50 years
Movable equipment		734,137	655,158	3–25 years
Leasehold improvements		16,978	14,947	5–15 years
Building and building improvements held for lease		—	713	2–22 years
Construction in progress		15,007	17,550	—
		2,220,681	2,107,741	
Less accumulated depreciation		1,084,507	987,006	
	$	1,136,174	1,120,735	

At June 30, 2016, the FMOLHS Affiliates were obligated under purchase commitments of $4,943 relating to the completion of various construction projects and purchases of equipment. Approximately $5,927 and $7,165 related to such projects and other property additions are included in accounts payable at June 30, 2016 and 2015, respectively.

(6) Other Assets

The composition of other assets at June 30, 2016 and 2015 is as follows:

		2016	2015
Unamortized bond issuance costs, net of accumulated amortization	$	6,197	6,448
Investments in equity investees		57,467	46,262
Cost in excess of net assets acquired		103,356	78,804
Fair value of interest rate swap agreements		1,538	3,638
Other		13,467	18,539
	$	182,025	153,691

(In thousands)

(7) Investment in Equity Investees

A summary of the FMOLHS's investment in equity investees at June 30, 2016 and 2015 included in other assets in the consolidated balance sheets, and its income from equity investees for the years ended June 30, 2016 and 2015 are as follows:

	Ownership interest		Investment in investees	Equity income (loss) of investees
2016:				
Convenient Care, LLC	50%	$	2,538	994
Capital Area Shared Service Organization – Lake	48		—	(388)
Surgical Specialty Center of Baton Rouge, LLC	49		6,308	6,812
Regional Eye Surgery Center LLC	13		246	232
Baton Rouge Physical Therapy – Lake	29		790	352
Lake Urgent Care Ascension – Lake	30		309	86
Premier Health Holdings, LLC	50		3,367	(751)
Gamma Knife of LA	50		2,300	—
Innovation Institute	16		9,981	(19)
Baton Rouge Physical Therapy – St. Elizabeth	4		98	44
P&S Surgery Center, LLC	50		10,611	(693)
Northeast Louisiana Cancer Institute, LLC	50		2,566	517
Northeast Louisiana Physician Hospital Organization	25		135	(15)
Louisiana Home Care of Monroe, LLC	33		69	45
St. Francis Urgent Care	50		160	(76)
Lourdes After Hours, LLC	50		261	210
LHCG VIII	33		413	63
Park Place Surgery Center	45		4,707	2,740
H & S Land Company, LLC	50		232	—
Resource Optimization and Innovation, LLC	10		9,275	2,034
Capital Area Shared Service Organization – St. Elizabeth	17		—	(137)
Lake Urgent Care Ascension – St. Elizabeth	20		206	58
Mary Bird Perkins Cancer Center – St. Elizabeth	35		2,895	131
		$	57,467	12,239

(In thousands)

	Ownership interest		Investment in investees	Equity income (loss) of investees
2015:				
Convenient Care, LLC	50%	$	2,230	958
Capital Area Shared Service Organization – Lake	48		—	—
Surgical Specialty Center of Baton Rouge, LLC	49		6,179	6,390
Regional Eye Surgery Center LLC	13		167	268
Baton Rouge Physical Therapy – Lake	29		638	50
Lake Urgent Care Ascension – Lake	30		295	387
Premier Health Holdings, LLC	50		4,118	318
Baton Rouge Physical Therapy – St. Elizabeth	4		79	10
P&S Surgery Center, LLC	50		11,396	(389)
Northeast Louisiana Cancer Institute, LLC	50		2,363	632
Northeast Louisiana Physician Hospital Organization	25		150	(34)
Louisiana Home Care of Monroe, LLC	33		24	51
St. Francis Urgent Care	50		136	—
Lourdes After Hours, LLC	50		302	451
LHCG VIII	33		385	34
Park Place Surgery Center	45		5,364	4,778
H & S Land Company, LLC	50		235	—
Resource Optimization and Innovation, LLC	10		9,241	1,785
Capital Area Shared Service Organization – St. Elizabeth	17		—	—
Lake Urgent Care Ascension – St. Elizabeth	20		196	210
Mary Bird Perkins Cancer Center – St. Elizabeth	35		2,764	165
		$	46,262	16,064

(8) Lines of Credit

At June 30, 2016, FMOLHS affiliates had various unsecured working capital lines of credit with banks in aggregate amount of $49,750, bearing interest at variable rates expiring at various dates through March 2017. Outstanding amounts at June 30, 2016 and 2015 were $18,316 and $481, respectively. FMOLHS affiliates expect to renew the lines of credit at expiration under substantially the same terms and conditions.

(In thousands)

(9) Other Current Liabilities

The composition of other current liabilities at June 30, 2016 and 2015 is as follows:

		2016	2015
Accrued salaries and related expenses	$	89,638	82,426
Accrued interest		8,921	7,651
Due to third-party payors		24,298	27,614
Accrued expenses and other current liabilities		49,899	48,208
	$	172,756	165,899

(10) Long-term Debt

A summary of long-term debt at June 30, 2016 and 2015 is as follows:

		2016	2015
Obligated Group bonds:			
Louisiana Public Facilities Authority Hospital Revenue and Refunding Bonds Series 1998A, $72,560 tax-exempt bonds; due in varying installments through 2026 with interest fixed at rates ranging from 5.50% to 5.75%	$	29,890	33,715
Louisiana Public Facilities Authority Hospital Revenue and Refunding Bonds Series 1998B, $31,050 tax-exempt bonds; due in varying installments through 2017, with interest fixed at rates ranging from 3.5% to 5.00%		4,600	9,350
Louisiana Public Facilities Authority Hospital Revenue Bonds Series 2005A, $80,000 tax-exempt bonds; refunded in August 2015, with interest fixed at rates ranging from 5.00% to 5.25%		—	35,020
Louisiana Public Facilities Authority Hospital Revenue Bonds Series 2005B, $50,000 tax-exempt bonds; due in varying installments from 2014 through 2031, which bear interest at a variable rate (0.17% at June 30, 2016)		48,925	49,300
Louisiana Public Facilities Authority Hospital Revenue Bonds Series 2005D, $88,325 bonds due in varying installments through 2029, which bear interest at a variable rate (0.17% at June 30, 2016)		67,725	71,300
Louisiana Public Facilities Authority Hospital Revenue Refunding Bonds Series 2008A, $47,185 bonds; due in varying installments through 2026, which bear interest at a variable rate (0.20% at June 30, 2016)		44,175	44,175

(In thousands)

	2016	2015
Louisiana Public Facilities Authority Hospital Revenue Refunding Bonds Series 2012A, $56,530 bonds; due in varying installments through 2033, with interest fixed at 2.47%	56,530	56,530
Louisiana Public Facilities Authority Hospital Revenue Bonds Series 2012B, $100,000 bonds; due in varying installments through 2043, with interest at fixed rates ranging from 3.50% to 5.00%	100,000	100,000
Louisiana Public Facilities Authority Hospital Revenue Refunding Bonds Series 2015A, $190,710; due in varying installments through 2040, with interest fixed rates ranging from 3.50% to 5.00%	190,710	190,710
Master Trust Indenture Note (Franciscan Missionaries of our Lady Health System Project) Series 2015B, Northern Trust Company Note; due in full on August 17, 2025, with variable interest rate at LIBOR plus .95% (1.41% at June 30, 2016)	35,160	—
	577,715	590,100
Add unamortized premiums	17,769	18,469
Total Obligated Group bonds	595,484	608,569
Other debt due in varying installments through 2033	7,604	9,139
Total long-term debt for FMOLHS	603,088	617,708
Less current installments of long-term debt	13,707	16,592
	$ 589,381	601,116

FMOLHS and its affiliates participate in an Obligated Group Master Trust Indenture whereby the obligated issuers have agreed to be jointly and severally liable for timely payments due and for the performance and observance of all covenants and agreements pursuant to the trust indenture. FMOLHS directs the proceeds of the borrowed funds to the particular affiliate benefiting therefrom and separate escrow funds are maintained by the trustee for each of the affiliates to support each affiliate's allocated portion of the bonds (note 2). The total debt subject to the Obligated Group guarantee and Master Trust Indenture amounted to $595,484 and $608,569 as of June 30, 2016 and 2015, respectively.

The Master Trust Indenture covering the bond issues contains numerous covenants typical of such agreements, including a liquidity ratio, debt service coverage ratio, and leverage ratio. In addition, the Obligated Group members are subject to restrictions on maintenance of revenue, incurrence of additional debt, disposition of assets, maintenance of insurance, and other restrictions. Obligations of the Obligated Group under the Master Trust Indenture are general obligations secured by the full faith and credit of the

Obligated Group. None of the bonds are secured by a mortgage on, or security interest in, any real or personal property of FMOLHS or its affiliates.

In 2005, FMOLHS completed a system-wide refinancing for the purposes of advance refunding certain 1998A and 1998C bonds and providing additional capital by issuing four series of revenue bonds. The following bond series were issued by the Louisiana Public Facilities Authority (the Authority): $80,000 fixed rate Revenue Bonds (Series 2005A), $100,000 variable rate Revenue Bonds (Series 2005B and 2005C in the amounts of $50,000 each), and $89,325 in variable rate Revenue and Refunding bonds (Series 2005D). The variable rate bonds were issued as auction rate securities. The four bond issues totaled $269,325, of which approximately $83,000 represented refunding of existing bonds and the remainder of approximately $186,000 was designated for capital improvements, including facility modifications and additions and new equipment acquisitions. The variable rate bonds originally issued as auction rate securities have been refinanced and thus the auction rate component is removed.

In May 2008, FMOLHS tendered its 2005B and 2005C auction rate bonds and reissued 2005B and 2005C bonds at weekly variable interest modes. In July and August 2008, the 2005D and 1998B auction rate bonds were tendered by FMOLHS and reissued at daily variable interest modes. In August 2008, the 2008A bonds were issued by FMOLHS. These bonds, issued in the amount of $47,185, bear interest at a variable rate based upon a weekly index rate and are due in 2025. These bonds refunded $42,735 of the 1998A bonds and $3,225 of the 1998C bonds.

In 2009, FMOLHS completed a system-wide issuance of $125,000 of Hospital Revenue Bonds Series 2009 (the 2009A Series). The proceeds for the 2009A Series were used for (i) acquiring, constructing, and equipping a replacement hospital for Lourdes; (ii) acquiring, constructing, and equipping improvement and renovations to the existing Lake facilities, to accommodate modern demands for space and utility and building a satellite outpatient facility in Livingston Parish, Louisiana; and (iii) paying the costs of issuance of the bonds.

In 2009, in addition to the issuance of the 2009A Series, FMOLHS (i) converted the interest rate from the daily variable interest modes to a fixed rate on the Series 1998B and (ii) converted the interest rate from the weekly variable interest modes top a fixed rate on the Series 2005C.

In 2012, FMOLHS completed an issuance of $100,000 of Hospital Revenue Bonds Series 2012 (the 2012B Series). The proceeds for the 2012B Series were used for (i) acquiring, constructing, and equipping a patient tower and other capital improvements at the campus of the Lake and (ii) paying the costs of issuance of the bonds. FMOLHS also completed a $56,530 issuance of Hospital Revenue Bonds Series 2012 (the 2012A Series). The proceeds for the 2012A Series were used to refund all outstanding 2005C bonds and prepayment cost.

On August 7, 2014, FMOLHS completed a refinancing of the Series 2008A through the purchase of the Bonds by Capital One Municipal Funding. The interest rate on the Series 2008A Bonds is computed as a percentage of London Interbank Offered Rate (LIBOR) plus a spread and matures in varying installments through 2025.

(In thousands)

On August 25, 2014, FMOLHS completed a refinancing of the Series 2005B and L Series 2005D through the purchase of the Notes by MUFG Union Bank, N.A. f/k/a Union Bank, N.A. The interest rates on the Series 2005B and Series 2005D Revenue Notes are computed as a percentage of LIBOR plus a spread and matures in varying installments through 2028.

On March 1, 2015, FMOLHS completed the issuance of $190,710 of the Louisiana Public Facilities Authority Hospital Revenue Refunding Bonds (FMOLHS Project – Series 2015A). The proceeds of the bonds were issued for the purpose of advance refunding $44,980 of the Series 2005A, advance refunding all $125,000 of the outstanding Series 2009A, and paying the costs of issuance. Series 2015A shall mature on July 1, 2039. The extinguishment of these bonds resulted in a loss on early extinguishment of debt of $35,507 related to deposits to escrow for early extinguishment of 2005A and 2009A, the removal of the prior bond issuance costs and the unamortized premium and discount.

On August 1, 2015, FMOLHS entered into a taxable loan agreement with The Northern Trust Company. The loan proceeds were used to refund the remaining portion of the 2005A Series and the related issuance costs. The principal amount of the loan agreement is $35,160 and will mature on August 17, 2025. The interest rate is computed at the Index rate, which shall be LIBOR Index plus the applicable spread.

FMOLHS and FMOLHS Affiliates made cash payments for interest of $19,808 and $20,632 during the years ended June 30, 2016 and 2015, respectively.

Aggregate maturities of long-term debt at June 30, 2016 follow:

Year ending June 30:		
2017	$	13,707
2018		13,153
2019		15,314
2020		16,208
2021		15,480
Thereafter		511,457
	$	585,319

(11) Interest Rate Swaps

FMOLHS uses interest rate-related derivative instruments to manage its exposure related to changes in interest rates on its variable rate debt instruments. FMOLHS does not enter into derivative instruments for any purpose other than cash flow hedging. FMOLHS does not speculate using derivative instruments.

By using derivative financial instruments to hedge exposures to changes in interest rates, FMOLHS 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 FMOLHS, which creates credit risk for FMOLHS. When the fair value of a derivative contract is negative, FMOLHS owes the counterparty, and therefore, FMOLHS is not exposed to the counterparty's credit risk in those circumstances. FMOLHS minimizes counterparty credit risk in derivative instruments by entering into transactions with high-quality counterparties.

(In thousands)

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

FMOLHS entered into an interest rate swap agreement with Merrill Lynch Capital Services with respect to the 2005D refunding series. Such agreement is intended to reduce the impact of changes in interest rates on the variable rate debt. The swap agreement effectively changes FMOLHS's interest rate exposure on the 2005D variable rate debt to a fixed rate of 3.53%.

In 2005, FMOLHS also obtained preapproval from the Louisiana Public Facilities Authority for the issuance of revenue refunding bonds in 2008 to advance refund the approximately $48,000 of 1998A and 1998C bonds. In 2005, FMOLHS entered into a forward starting interest rate swap agreement with Goldman Sachs Capital Markets to effectively change FMOLHS's interest rate exposure on the 2008 bonds once issued from a variable rate to a fixed rate of 3.66%.

In June 2007, FMOLHS entered into two Constant Maturity Swaps (CMS) with Merrill Lynch. Under these swap agreements, FMOLHS receives variable rate payments based on the ten-year International Swaps and Derivatives Association Inc. swap rate and makes variable rate payments based on one-month LIBOR. The total notional amount of the first swap is $88,325, with an effective date of July 1, 2008, and the total notional amount of the second swap is $49,075, with an effective date of May 29, 2008.

The interest rate swap agreements are not afforded hedge accounting treatment in the consolidated financial statements and are marked to fair value through the consolidated statements of operations. The net unrealized loss on the interest rate swaps for the years ended June 30, 2016 and 2015 was $4,785 and $1,247, respectively, and is included in nonoperating gains (losses) in the accompanying consolidated statements of operations.

The following is a summary of the contracts outstanding at June 30, 2016 and 2015 and are recorded, as applicable, in either other assets or other long-term liabilities:

June 30, 2016

Related bond issuance	Notional amount	Maturity date	Average rate paid	Average rate received	Increase (decrease) in interest expense	Swap fair value
2005D	$ 67,725	7/1/2028	3.53%	0.23%	$ 2,232	(11,608)
2005D	67,725	7/1/2028	0.23	1.01	(483)	905
2008A	45,487	7/1/2025	3.66	0.23	1,564	(7,066)
2008A	45,625	7/1/2025	0.23	1.01	(356)	633

(In thousands)

June 30, 2015						
Related bond issuance	Notional amount	Maturity date	Average rate paid	Average rate received	Increase (decrease) in interest expense	Swap fair value
2005D	$ 71,300	7/1/2028	3.53%	0.12%	$ 2,432	(9,662)
2005D	71,300	7/1/2028	0.12	1.28	(831)	2,127
2008A	45,696	7/1/2025	3.66	0.12	1,619	(6,327)
2008A	45,875	7/1/2025	0.12	1.28	(534)	1,511

(12) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets restricted by time and purpose at June 30, 2016 and 2015 are available for the following purposes:

	2016	2015
Healthcare services	$ 30,365	22,059
Elderly housing	9,359	9,517
Building and equipment acquisitions	116	116
Educational services	5,287	5,040
Other	198	137
	$ 45,325	36,869

Permanently restricted net assets totaled $5,400 and $5,300 at June 30, 2016 and 2015, the income from which is restricted for educational services.

Net assets released from restrictions for the years ended June 30, 2016 and 2015 are as follows:

	2016	2015
Healthcare services	$ 3,061	5,008
Elderly housing	171	161
Educational services and other	1,586	789
	$ 4,818	5,958

(13) Net Patient Service Revenue

The FMOLHS Affiliates have agreements with governmental and other third-party payors that provide for reimbursement to the FMOLHS Affiliates at amounts different from their established rates. Contractual adjustments under third-party reimbursement programs represent the difference between billings at established rates for services and amounts reimbursed by third-party payors. Management regularly analyzes the historical contractual adjustments for each payor group to determine if current estimates for contractual adjustment allowances need to be revised. A summary of the basis of reimbursement with major third-party payors is as follows:

(a) Medicare

Substantially all 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. Certain types of exempt services and other defined payments related to Medicare beneficiaries are paid based on cost reimbursement or other retroactive determination methodologies. The FMOLHS Affiliates are paid for retroactively determined items at tentative rates with final settlement determined after submission of annual cost reports by FMOLHS Affiliates and audits by the Medicare fiscal intermediary. The FMOLHS Affiliates' Medicare cost reports have been audited by the Medicare fiscal intermediary through varying years ranging from June 30, 2010 to June 30, 2014.

(b) Medicaid

Inpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined per diem rates. These rates vary according to a hospital classification system that is based on bed size, teaching status, and other factors. Additional outlier payments are made for neonatal intensive care patients with extended lengths of stay. Outpatient services rendered to Medicaid program beneficiaries are reimbursed based upon a cost reimbursement methodology. The FMOLHS Affiliates are paid at a tentative rate with final settlement determined after submission of annual cost reports by FMOLHS Affiliates and audits by the Medicaid fiscal intermediary. The FMOLHS Affiliates' Medicaid cost reports have been audited by the Medicaid fiscal intermediary through varying years ranging from June 30, 2005 to June 30, 2012.

(c) Blue Cross

Inpatient services rendered to Blue Cross subscribers are paid at prospectively determined per diem rates. Outpatient services are paid based on a fee schedule.

(d) Certain Commercial Insurance Carriers, Health Maintenance Organizations, and Preferred Provider Organizations

Payment methodologies under these agreements include prospectively determined rates per discharge, discounts from established charges, prospectively determined per diem rates, and fee schedules.

The FMOLHS Affiliates' net patient service revenue for the years ended June 30, 2016 and 2015 increased \$1,259 and \$16,382, respectively, due to changes in previously estimated allowances as a result of final settlements, closure on years that are no longer subject to audits, and prior year retroactive adjustments.

With the expansion of prepayment reviews, including recovery audit contractor (RAC) reviews by the Centers for Medicare and Medicaid Services (CMS), the FMOLHS Affiliates continue to experience changes to net patient service revenue for prior years of service. Due to completed, pending, and projected RAC reviews, the FMOLHS Affiliates' net patient revenue increased by $17,694 and decreased $2,792 for the years ended June 30, 2016 and 2015, respectively.

(In thousands)

The FMOLHS's Affiliates' net patient service revenue is also reduced by provision for uncollectible accounts. The historical collections and write-offs of bad debts are reviewed annually and periodically during the fiscal year to determine if adjustments need to occur to the allowance for uncollectible accounts. The allowance for uncollectible accounts includes an analysis of self-pay patients without insurance coverage, and an analysis of deductibles and copayment balances for patients with insurance coverage. FMOLHS's Affiliates' allowance for uncollectible accounts increased $22,312 and is primarily due to collections for the self-pay patients covered by the Cooperative Endeavor Agreement (note 22).

Presented below is a summary of amounts comprising net patient service revenue for the years ended June 30, 2016 and 2015:

	2016	2015
Inpatient revenue	$ 2,148,485	2,007,895
Outpatient revenue	3,081,813	2,501,719
Gross patient service revenue	5,230,298	4,509,614
Less provision for contractual and other adjustments	3,312,437	2,765,604
Less provision for uncollectible accounts	174,526	133,719
Net patient service revenue	$ 1,743,335	1,610,291

The composition of net patient service revenue, before provision for uncollectible accounts, by major payor source is as follows:

	2016	Percentage	2015	Percentage
Medicare	$ 520,414	27%	$ 504,386	29%
Medicaid	263,841	13	230,084	13
Blue Cross	431,636	23	379,251	22
Self-pay	224,011	12	156,154	9
Managed care/other	477,959	25	474,135	27
	$ 1,917,861	100%	$ 1,744,010	100%

In the spring of 2010, the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act (collectively, the Health Care Acts) were signed into law by President Obama. The impact of the Health Care Acts is complicated and difficult to predict, but FMOLHS anticipates its reimbursement in the future will be affected by major elements of the Health Care Acts designed to (1) increase insurance coverage, (2) change provider and payor behavior, and (3) encourage alternative delivery models. Many healthcare reform variables remain unknown and are, among other things, dependent on implementation by federal and state governments and reactions by providers, payors, employers, and individuals. FMOLHS continues to monitor developments in healthcare reform and participates actively in contemplating and designing new programs that are encouraged and/or required by the Health Care Acts.

(In thousands)

The Health Information Technology for Economic and Clinical Health (HITECH) Act was enacted as part of the American Recovery and Reinvestment Act of 2009 and signed into law in February 2009. In the context of the HITECH Act, FMOLHS must implement a certified Electronic Health Record (EHR) in an effort to promote the adoption and “meaningful use” of health information technology (HIT). The HITECH Act includes significant monetary incentives and payment penalties meant to encourage the adoption of EHR technology. FMOLHS anticipates that its current efforts at implementing an enterprise-wide EHR will enable its compliance with Meaningful Use objectives mandated in the HITECH legislation.

(14) Business and Credit Concentrations

The FMOLHS Affiliates grant credit to their patients, substantially all of whom are local residents. The FMOLHS Affiliates generally do not require collateral or other security in extending credit to patients; however, they routinely obtain assignment of (or are otherwise entitled to receive) patients’ benefits payable under their health insurance programs, plans, or policies (e.g., Medicare, Medicaid, Blue Cross, health maintenance organizations, preferred provider arrangements, and commercial insurance policies).

The mix of accounts receivable from patients and third-party payors at June 30, 2016 and 2015 is as follows:

	2016	2015
Medicare	23%	24%
Medicaid	10	11
Blue Cross	20	18
Self-pay	20	17
Managed care/other	27	30
	100%	100%

(15) Related-party Transactions

The FMOL Sisters formed the Franciscan Fund (Fund) to support community programs in the operating areas of the FMOLHS hospitals. Each FMOLHS hospital makes contributions to the Fund based on a percentage of earnings determined by the Fund, then can submit grant applications to the Fund to receive moneys back for supporting its community programs. Grant making decisions are made by the FMOL Sisters and no guarantee is provided that each hospital will receive back their specific contribution amounts in the form of a formal grant from the Fund. During 2016 no contributions were made to the Fund, and during 2015 FMOLHS contributed $7,000 to the Fund.

The affiliation agreement between FMOLHS Affiliate and Mary Bird Perkins Cancer Center was effective July 1, 2012. This agreement is to further enhance the cancer program operations, including clinical research, and to provide the community with comprehensive cancer care services. The cost of this program is shared by both entities and the operating expense for FMOLHS for the years ended June 30, 2016 and 2015 was $861 and $1,157, respectively.

During 2013, FMOLHS Affiliate also entered into Management Services agreements with Mary Bird Perkins Cancer Center to manage the business operations of medical oncology services. The services provided by Mary Bird Perkins Cancer Center included management of operations, scheduling and registration of patients, management of billing and collections services, and staffing support for clinical and nonclinical personnel. The management services and staffing expenses incurred for the year ended June 30, 2016 and 2015 were $7,345 and $3,829, respectively.

Effective February 2012, FMOLHS amended the Operating Agreement with Resource Optimization & Innovation, LLC, which is organized to facilitate and administer the purchasing, manufacturing, processing, and distribution of medical and pharmaceutical products and services at competitive prices. FMOLHS's ownership percentage in Resource Optimization & Innovation, LLC is 10%, and the equity in income from this equity investee for the years ended June 30, 2016 and 2015 was $2,034 and $1,785, respectively.

The Lake contributed $3,800 (50% ownership interest) to Premier Health Holdings, LLC, which was formed on December 31, 2014. Premier Health Holdings, LLC owns, leases, and provides management services for urgent care centers. Management and consulting services are provided to urgent care centers owned or partially owned by the Lake, St. Elizabeth, and Lourdes. The Lake also owns 50% of Convenient Care, LLC, and some members with ownership in the remaining 50% of Convenient Care, LLC also have an ownership interest in Premier Health Holdings, LLC.

(In thousands)

(16) Retirement Plans

(a) Defined Benefit Plans

FMOLHS Affiliates sponsor various defined benefit plans (the Plans). The following tables at June 30, 2016 and 2015 sets forth, in the aggregate, the Plans' changes in benefit obligations, changes in plan assets, and the funded status of the Plans:

		2016	2015
Change in benefit obligation:			
Projected benefit obligation, beginning of year	$	937,717	856,985
Service cost		25,864	26,306
Interest cost		43,829	38,738
Plan amendments		—	1,440
Actuarial losses		72,999	35,011
Benefits paid		(87,923)	(20,763)
Projected benefit obligation, end of year		992,486	937,717
Change in plan assets:			
Fair value of plan assets, beginning of year		556,162	558,921
Actual return on plan assets		(15,653)	1,745
Contributions made		28,588	16,259
Benefits paid		(87,923)	(20,763)
Fair value of plan assets, end of year		481,174	556,162
Funded status	$	(511,312)	(381,555)
Amounts recognized in the consolidated balance sheets consist of:			
Accrued pension cost	$	(511,312)	(381,555)
Amounts recognized in unrestricted net assets:			
Prior service cost	$	395	370
Net actuarial loss		331,836	231,526
	$	332,231	231,896

Weighted average assumptions used to determine the projected benefit obligations at June 30, 2016 and 2015 were as follows:

	2016	2015
Weighted average discount rate:		
Lake (including FMOLHS and St. Elizabeth)	4.02%	4.74%
Lourdes	3.95	4.74
St. Francis	3.92	4.74
Rate of compensation increase	3.00-4.00	3.00–4.00

(In thousands)

Effective February 1, 2016, the Plans were amended to allow for a temporary and voluntary lump sum window option. The lump sum window option election period was February 8, 2016 through March 31, 2016. As a result of the lump sum window option participants elected to early withdraw \$63,765. As a result of the participation levels for certain Plans, FMOLHS recorded an additional \$9,571 in settlement expense during the year ended June 30, 2016.

Net periodic pension cost for the years ended June 30, 2016 and 2015 includes the following components:

		2016	2015
Service cost, benefits earned during the year	$	25,864	26,306
Interest cost on projected benefit obligation		43,829	38,738
Expected return on plan assets		(41,639)	(41,218)
Amortization of actuarial losses		20,409	12,215
Amortization of prior service cost		(25)	(237)
Net periodic pension cost		48,438	35,804
Settlement expense		9,571	—
Other changes in plan assets and benefit obligations recognized in unrestricted net assets:			
Net actuarial loss		130,291	74,484
Amortization of net actuarial losses		(29,981)	(12,215)
Amortization of prior service cost		25	237
Prior service credit		—	1,440
		100,335	63,946
Total recognized in net periodic benefit costs and unrestricted net assets	$	158,344	99,750

Weighted average assumptions used to determine net periodic pension cost for the years ended June 30, 2016 and 2015 were as follows:

	2016	2015
Weighted average discount rate	4.74%	4.58%
Expected return on plan assets	7.50	7.50
Rate of compensation increase	3.0–4.0	3.50–4.25

(In thousands)

The defined-benefit pension plan asset allocation as of the measurement date (June 30, 2016 and 2015) and the target asset allocation, presented as a percentage of total plan assets, were as follows:

	2016	2015	Target allocation
U.S. equity	18%	19%	15%–25%
Global equity	16	16	10–20
Real assets	12	7	5–15
Fixed income and cash	10	18	10–25
Emerging markets	7	7	3–10
Hedge funds	30	30	15–35
Private equity funds	6	4	2–10

FMOLHS overall expected long-term rate of return on assets is 7.50%. 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. The return is based on historical returns, without adjustments.

FMOLHS provides investment oversight for all of the FMOLHS Affiliates' defined benefit plans. Asset allocations and investment performance are formally reviewed quarterly by the FMOLHS Investment Committee (Investment Committee). FMOLHS utilizes an investment advisor, multiple managers for different asset classes, and a separate custodian in managing the pooled funds.

The asset allocation is designed to provide a diversified mix of asset classes, including U.S. and foreign equity securities, fixed-income securities, hedge funds, real estate investment trusts, and cash. The investment goals for the pooled funds are to achieve returns in the top half of a representative universe of professionally managed funds with a percentage of equity, fixed income, and alternate investments to be indicative of the asset mix policy of the fund; to exceed the return of a balanced market index weighted to replicate the asset allocation policy of the plan; to exceed the rate of inflation as measured by the consumer price index (CPI) by at least 500 basis points on an annualized basis; to achieve a positive risk-adjusted return; and to achieve a rate of return above the current actuarial assumption. Risk management practices include various criteria for each asset class, including measurement against various benchmarks, achievement of a positive risk-adjusted return, and investment guidelines for each class of assets that enumerate types of investments allowed in each category.

FMOLHS's retirement plan assets are reported at fair value. Level 1 assets include investments in publicly traded equity securities and mutual funds. These securities (or the underlying investments of the funds) are actively traded and valued using quoted prices for identical securities from the market exchanges. Level 2 assets consist of fixed-income securities and comingled funds that are not actively traded or whose underlying investments are valued using observable marketplace inputs. The fair value of plan assets invested in fixed-income securities is generally determined using valuation models that use observable inputs such as interest rates, bond yields, low-volume market quotes, and quoted prices for similar assets. Plan assets that are invested in comingled, hedge, and private equity funds are valued using a unit price or net asset value (NAV) that is based on the underlying investments of the fund. Level 3 assets include investments in private equities and hedge funds valued using significant unobservable inputs.

(In thousands)

The following is a summary of the levels within the fair value hierarchy of plan assets as of June 30, 2016 and 2015:

	June 30, 2016			
	Level 1	Level 2	Level 3	Total
Asset category:				
Cash	$ 21,686	—	—	21,686
Equity securities:				
U.S. companies	34,098	—	—	34,098
U.S. companies – alternative investments	—	8,700	45,443	54,143
International companies	47,359	—	—	47,359
International companies – alternative investments	—	31,370	—	31,370
Real assets	26,695	—	—	26,695
Real assets – alternative investments	—	11,691	16,945	28,636
Fixed-income securities:				
U.S. government guaranteed	1,395	—	—	1,395
U.S. agency	—	2,450	—	2,450
Corporate	—	7,214	—	7,214
Municipal	—	352	—	352
Alternative investments	—	—	5,089	5,089
Other	11,743	551	—	12,294
Emerging markets – alternative investments	—	17,242	18,426	35,668
Alternative asset funds:				
Hedge funds	—	—	145,289	145,289
Natural resource funds	—	—	3,997	3,997
Real estate funds	—	—	3,247	3,247
Private equity funds	—	—	20,192	20,192
Total	$ 142,976	79,570	258,628	481,174

(In thousands)

	June 30, 2015			
	Level 1	Level 2	Level 3	Total
Asset category:				
Cash	$ 14,839	—	—	14,839
Equity securities:				
U.S. companies	60,693	—	—	60,693
U.S. companies – alternative investments	—	—	44,942	44,942
International companies	60,110	—	—	60,110
International companies – alternative investments	—	28,372	—	28,372
Real assets	21,660	—	—	21,660
Real assets – alternative investments	—	14,569	—	14,569
Fixed-income securities:				
U.S. government guaranteed	4,038	—	—	4,038
U.S. agency	—	14,354	—	14,354
Corporate	—	21,765	—	21,765
Municipal	—	1,759	—	1,759
Alternative investments	—	—	21,636	21,636
Other	16,842	3,019	—	19,861
Emerging markets – alternative investments	—	18,196	20,301	38,497
Alternative asset funds:				
Hedge funds	—	—	164,013	164,013
Natural resource funds	—	—	4,289	4,289
Real estate funds	—	—	1,718	1,718
Private equity funds	—	—	19,047	19,047
Total	$ 178,182	102,034	275,946	556,162

There were no transfers into or out of Level 1, Level 2, and Level 3 investments during fiscal 2016 and 2015.

(In thousands)

The fair values of the following plan assets have been estimated using the net assets value per share as of June 30, 2016 and 2015:

		2016	2015	Redemption terms**	Notice period (days)	Remaining life**
Asset category:						
U.S. equity funds (a)	$	54,143	44,942	Quarterly	60	—
International equity funds (b)		31,370	28,372	Monthly	10	—
International emerging markets (c)		35,668	38,497	Monthly	30	—
Fixed income funds (d)		5,089	21,636	—	—	1 year
Hedge fund of funds (e)		145,289	164,013	Quarterly – annually	30–180	—
Real asset funds (f)		28,636	14,569	Monthly	24	—
U.S. venture capital funds (g)		5,822	6,366	—	—	4–6 years
U.S. private equity (h)		2,940	3,295	—	—	4–6 years
International private equity (i)		11,429	9,386	—	—	4–6 years
Natural resources (j)		3,997	4,289	—	—	4–6 years
Real estate funds (k)		3,247	1,718	—	—	1 year

** Information reflects a range of various terms from multiple investments

(a) The primary objective of the U.S. equity funds is to match the risk and return characteristics of the S&P 500 Index.

(b) The international equity fund's investment objective is to outperform the MSCI World Market Index by investing in a portfolio of publicly traded equity securities.

(c) The investment objective of the international emerging markets equity funds is to outperform the MSCI Emerging Markets Index, net of dividend withholding taxes, by investing in a portfolio of non-U.S. emerging market equities.

(d) The primary objective of the fixed income fund is to outperform the Northern Trust Bond Indexes and the S&P LSTA Leveraged Loan Index by focusing their investments in asset-based lending, senior-secured debt, and fixed income securities.

(e) The hedge fund of funds' objective is to develop and actively maintain an investment portfolio of long-term returns through strategies such as multistrategy, event focused, distressed, U.S. long/short, and global long/short.

(f) The real asset funds seek to generate a total return in the long-term through investments in commodity-related instruments globally.

(In thousands)

(g) U.S. venture capital funds invest in target funds, which in turn, make venture capital investments primarily in emerging growth companies with the objective of obtaining long-term growth capital.

(h) U.S. private equity funds invest in private limited partnerships, which in turn, make investments in equity securities, warrants, or other options that are generally not actively traded at the time of investment.

(i) International private equity funds invest in limited partnerships, which in turn, make international private equity investments with the objective of obtaining long-term growth of capital.

(j) Natural resources funds invest in limited partnerships, which in turn, make oil, gas, and timber investments.

(k) Private real estate invest its capital on a pari passu basis in certain real estate funds formed as limited partnerships, limited liability companies, private real estate investment trusts, or similar entities that will, in turn, invest in office, retail, industrial and other commercial real estate properties, as well as in select residential properties, or in real estate-related securities.

The following tables present a roll-forward of the fair value of Level 3 (significant unobservable inputs) plan assets for the years ended June 30, 2016 and 2015:

	June 30, 2016								
	Hedge Funds	Natural Resource Funds	Real Estate Funds	Real assets	Private Equity	Emerging Markets	Equity	Fixed income	Total
Beginning balance as of June 30, 2015	$ 164,013	4,289	1,718	—	19,047	20,301	44,942	21,636	275,946
Total gains or losses:									
Realized and unrealized gains and losses:									
Relating to assets held at end of year	(11,805)	(292)	1,529	3,395	1,145	(1,875)	501	(342)	(7,744)
Relating to assets sold during the year	(31)	—	—	—	—	—	—	—	(31)
Purchases, issuances, sales, and settlements:									
Purchases	11,500	—	—	13,550	—	—	—	—	25,050
Sales	(18,388)	—	—	—	—	—	—	(16,205)	(34,593)
Ending balance as of June 30, 2016	$ 145,289	3,997	3,247	16,945	20,192	18,426	45,443	5,089	258,628

(In thousands)

	June 30, 2015							
	Hedge Funds	Natural Resource Funds	Real Estate Funds	Private Equity	Emerging Markets	Equity	Fixed income	Total
Beginning balance as of June 30, 2014	$ 162,702	5,087	2,478	14,757	20,739	40,476	3,184	249,423
Total gains or losses:								
Realized and unrealized gains and losses:								
Relating to assets held at end of year	1,825	(872)	(760)	2,270	(438)	4,466	(854)	5,637
Relating to assets sold during the year	8	—	—	—	—	—	—	8
Purchases, issuances, sales, and settlements:								
Purchases	4,000	105	—	2,020	—	—	19,714	25,839
Sales	(4,522)	(31)	—	—	—	—	(408)	(4,961)
Ending balance as of June 30, 2015	$ 164,013	4,289	1,718	19,047	20,301	44,942	21,636	275,946

The asset allocation policy provides for a range of minimum and maximum investments in each asset class to allow flexibility in achieving expected long-term rate of return. Historical return patterns and correlations, consensus return forecast, and other relevant financial factors are analyzed to check for reasonableness and appropriateness of the asset allocation to ensure that the probability of meeting actuarial assumptions is reasonable. The Investment Committee monitors manager performance, rate of return, and risk factors on a quarterly basis and makes required adjustments to achieve expected returns.

As of June 30, 2016 and 2015, the Plans had accumulated benefit obligations (ABO) of $907,731 and $863,532, respectively. At June 30, 2016 and 2015, the fair value of plan assets falls short of the ABO by $426,557 and $307,370, respectively.

The estimated net loss and prior service cost that will be amortized from unrestricted net assets into net periodic benefit cost over the next fiscal year is $(35,068) and $(20,383), respectively.

Future benefit payments expected to be paid in each of the next five fiscal years and five years thereafter as of June 30, 2016 are as follows:

Year(s) ending June 30:	
2017	$ 28,299
2018	31,647
2019	34,626
2020	37,703
2021	40,621
2022–2026	242,883

(In thousands)

(b) Defined Contribution Plans

The FMOLHS Affiliates also sponsor 403(b) and 401(k) plans. These defined contribution plans are available to substantially all employees. No contributions are made to the Plans by the FMOLHS Affiliates.

The defined benefit pension plans were closed to new entrants in 2006 and a new defined contribution plan was created for those hired after June 30, 2006, the FMOL Health System Retirement Plan (FMOL Plan). Substantially all employees of the FMOLHS Affiliates meeting eligibility requirements may participate in the FMOL Plan. The FMOLHS Affiliates may annually elect to make a contribution on behalf of those participants in an amount determined by the FMOLHS Affiliates. Contribution expense of $12,261 and $10,457 was recorded for the years ended June 30, 2016 and 2015, respectively.

(c) Retiree Medical Plan

Lourdes offers partially subsidized healthcare benefits to employees who retired before June 30, 2006. Costs are accrued for this plan during the service lives of covered employees. Retirees contribute a portion of the self-funded cost of healthcare benefits and Lourdes contributes the remainder. The healthcare plan is funded on a pay-as-you-go basis. Lourdes retains the right to modify or terminate the benefits and/or cost sharing provisions. The accrued liability for such benefits was approximately $26 and $328 at June 30, 2016 and 2015, respectively, and is included in other long-term liabilities.

(17) Functional Expense

The FMOLHS Affiliates provide healthcare and other services to residents within its service area. Expenses related to providing these services for the years ended June 30, 2016 and 2015 are as follows:

		2016	2015
Healthcare services	$	1,185,415	1,059,603
General and administrative		656,483	624,375
Educational services		22,673	21,761
Fund-raising		5,939	8,069
	$	1,870,510	1,713,808

(18) Fair Value of Financial Instruments

(a) Fair Value of Financial Instruments

The carrying amounts of all applicable asset and liability financial instruments reported in the consolidated balance sheets, except for long-term debt, approximate their estimated fair values, in all significant respects, at June 30, 2016 and 2015.

(In thousands)

FMOLHS's financial instruments for which estimated fair values differ from their carrying amounts at June 30, 2016 and 2015 are summarized as follows:

		2016		2015	
		Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Liabilities – long-term debt	$	603,088	652,918	617,708	629,326

The fair value of long-term debt, which is a Level 2 estimate is determined by discounting the future cash flows of each instrument at rates that reflect rates currently observed in publicly trade debt markets for debt of similar terms to companies with comparable credit risk.

(b) *Fair Value Hierarchy*

The following tables present the placement in the fair value hierarchy of assets and liabilities that are measured at fair value on a recurring basis as of June 30, 2016 and 2015:

		June 30, 2016			
		Level 1	Level 2	Level 3	Total
Assets category:					
Equity securities:					
U.S. companies	$	81,013	13,397	—	94,410
International companies		67,160	34,694	—	101,854
Real assets		41,398	20,634	—	62,032
Fixed-income securities:					
U.S. government guaranteed		9,242	—	—	9,242
U.S. agency		—	22,836	—	22,836
Corporate		—	42,369	—	42,369
Municipal		—	7,602	—	7,602
Other		38,470	6,441	—	44,911
Emerging markets		—	25,474	—	25,474
Alternative asset funds:					
Hedge funds		—	130	—	130
Private equity		—	13	—	13
Interest rate swaps		—	1,538	—	1,538
Total – categorized	$	237,283	175,128	—	412,411

(In thousands)

	June 30, 2016			
	Level 1	Level 2	Level 3	Total
Assets limited as to use and short-term investments accounted for using the equity method and cash – uncategorized				$ 462,913
				$ 875,324
Liabilities:				
Interest rate swaps	$ —	18,674	—	18,674

	June 30, 2015			
	Level 1	Level 2	Level 3	Total
Assets category:				
Equity securities:				
U.S. companies	$ 84,735	29,407	—	114,142
International companies	74,906	—	—	74,906
Real assets	27,014	20,864	—	47,878
Fixed-income securities:				
U.S. government guaranteed	8,319	—	—	8,319
U.S. agency	—	31,981	—	31,981
Corporate	—	38,313	—	38,313
Municipal	—	7,250	—	7,250
Other	37,608	6,546	—	44,154
Emerging markets	—	25,744	—	25,744
Alternative asset funds:				
Hedge funds	—	130	—	130
Private equity	—	78	—	78
Interest rate swaps	—	3,638	—	3,638
Total – categorized	$ 232,582	163,951	—	396,533

(In thousands)

	June 30, 2015			
	Level 1	Level 2	Level 3	Total
Assets limited as to use and short-term investments accounted for using the equity method and cash – uncategorized				$ 503,298
				$ 899,831
Liabilities:				
Interest rate swaps	$ —	15,989	—	15,989

The fair values of the following investments have been estimated using the net assets value per share as of June 30, 2016 and 2015:

	2016	2015	Redemption terms**	Notice period (days)	Remaining life**
Asset category:					
International emerging markets (a)	$ 25,474	25,744	Monthly	30	—
Real asset funds (b)	20,634	20,864	Monthly	24	—

** Information reflects a range of various terms from multiple investments

(a) The investment objective of the international emerging markets equity funds is to outperform the MSCI Emerging Markets Index, net of dividend withholding taxes, by investing in a portfolio of non-U.S. emerging market equities.

(b) The real asset funds seek to generate a total return in the long-term through investments in commodity-related instruments globally.

FMOLHS's accounting policy is to recognize transfers between levels of the fair value hierarchy on the date of the event or change in circumstances that caused the transfer. There were no significant transfers into or out of Level 1, Level 2, or Level 3 for the years ended June 30, 2016 or 2015.

The investments classified as Level 2 are as follows:

- Shares or units in investment funds as opposed to direct interests in the funds' underlying holdings, which may be marketable. Because the net asset value reported by each fund is used as a practical expedient to estimate the fair value of FMOLHS's interest therein, its classification in Level 2 is based on FMOLHS's ability to redeem its interest at or near the date of the consolidated balance sheets. If the interest can be redeemed in the near term, the investment is classified in Level 2. The classification of investments in the fair value hierarchy is not necessarily an indication of the risks, liquidity, or degree of difficulty in estimating the fair value of each investment's underlying assets and liabilities.

- Bonds whose fair values are determined by independent vendors. The vendors compile prices from various sources and may apply matrix pricing for similar bonds or loans where no price is observable in an actively traded market. If available, the vendor may also use quoted prices for recent trading activity of assets with similar characteristics to the bond being valued.

(c) Limitations

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

(19) Insurance Programs

The FMOLHS Affiliates are qualified under the State of Louisiana medical malpractice program and are self-insured for the first $100 of professional liability per occurrence; additional coverage is provided by the Louisiana Patients' Compensation Fund for the next $400 of professional liability up to the present statutory maximum of $500 per claim (exclusive of additional amounts for future medical expenses provided by law.) FMOLHS's professional and general liability insurance program is managed through Louise, its wholly owned captive insurer. As of June 30, 2016, FMOLHS has significant excess insurance coverage in place for general and professional liability risks, with a $2,000 self-insured retention for professional liability and a $1,000 layer of self-insurance for general liability. A $6,000 aggregate sits above these limits, covering general and professional liability. Incurred losses identified under FMOLHS's incident reporting system and incurred, but not reported losses are accrued based on estimates that incorporate FMOLHS's past experience, as well as other considerations such as the nature of each claim or incident, relevant trend factors, and advice from consulting actuaries. The reserve for estimated professional and general liability, and worker's compensation costs is approximately $28,652 and $30,361 as of June 30, 2016 and 2015, respectively. Claims liabilities are estimated at a present value of future claims payments using a discount rate of 3%.

FMOLHS has established a self-insurance trust fund for payment of liability claims and makes deposits to the fund in amounts determined by consulting actuaries. FMOLHS also has substantial excess liability coverage available under the provisions of certain claims-made policies, currently expiring on June 30, 2017. To the extent that any claims-made coverage is not renewed or replaced with equivalent value insurance, claims based on occurrences during the term of such coverage, but reported subsequently, would be uninsured. Management believes, based on incidents identified through the incident reporting process that any such claims would not have a material effect on FMOLHS's results of operations or financial position. In any event, management anticipates that the claims-made coverage currently in place will be renewed or replaced with equivalent insurance as the term of such coverage expires.

(In thousands)

FMOLHS is also self-insured with respect to employee health coverage (up to $500 limit per claim) and workers' compensation (up to a limit of $450 per individual claim). Substantial coverage with a third-party carrier is maintained for potential excess losses under the workers' compensation program. The employee health self-insured reserves are approximately $10,110 and $10,740 as of June 30, 2016 and 2015, respectively, and are included in other current liabilities in the consolidated balance sheets. The workers' compensation reserves are approximately $13,288 and $15,590 as of June 30, 2016 and 2015, respectively, and are included in professional and general liabilities in the consolidated balance sheets.

(20) Leases – Lessor

FMOLHS Affiliates lease office space and clinical facilities under operating leases. The terms of these leases range from month to month to 20 years. Assets held for lease at June 30, 2016 and 2015 consist of buildings and improvements with an original cost of $235,994 and $231,071, respectively, and fixed equipment with an original cost of $23,316 and $19,754, respectively. Total accumulated depreciation is $126,357 and $121,891 at June 30, 2016 and 2015, respectively. Future minimum lease payments to be received at June 30, 2016 are as follows:

Year ending June 30:		
2017	$	10,673
2018		9,009
2019		7,194
2020		6,870
2021		6,635
Thereafter		14,864
	$	55,245

(21) Commitments and Contingencies

(a) Investments

As it relates to alternative assets, FMOLHS is obligated under certain limited partnership agreements to provide advance funding up to specific levels upon the request of the general partner. See note 2(b).

(In thousands)

(b) *Capital Leases*

As of June 30, 2016, FMOLHS Affiliates were obligated under various capital leases, each with noncancelable terms in excess of one year. Future minimum lease payments as of June 30, 2016 are as follows:

Year ending June 30:		
2017	$	6,296
2018		5,843
2019		5,248
2020		5,225
2021		2,480
Thereafter		11,412
Total minimum lease payments		36,504
Less amounts representing interest		9,884
Present value of future minimum lease payments		26,620
Less current portion of capital lease obligations		4,828
Capital lease obligations excluding current portion	$	21,792

The net book value of assets under capital lease as of June 30, 2016 and 2015 was $25,926 and $25,575, respectively.

For the year ended June 30, 2016, FMOLHS entered into new capital leases for equipment in the amount of $264. $14,854 in new capital leases were entered into for the year ended June 30, 2015.

(c) *Operating Leases – Lessee*

Rental expense for all operating leases totaled $24,979 and $24,628 for the years ended June 30, 2016 and 2015, respectively. Future minimum rental payments under operating leases that have initial or remaining noncancelable terms in excess of one year as of June 30, 2016 follow:

Year ending June 30:		
2017	$	17,627
2018		12,644
2019		11,530
2020		10,893
2021		9,649
Thereafter		23,786
	$	86,129

(d) *Asset Retirement Obligations*

FMOLHS recognizes obligations associated with the future retirement of long-lived assets. Estimated asset retirement obligations of $1,941 and $1,849 for the years ended June 30, 2016 and 2015, respectively, are classified as a long-term liability.

(e) *Contingent Liabilities*

FMOLHS and the FMOLHS Affiliates have certain pending and threatened litigation and claims incurred in the ordinary course of business; however, management believes that the probable resolution of such contingencies will not exceed the self-insurance reserves or insurance coverage, and will not materially affect the financial position or the results of operations.

(f) *Regulatory Compliance*

The U.S. Department of Justice and other federal agencies are increasing resources dedicated to regulatory investigations and compliance audits of healthcare providers. The FMOLHS Affiliates are subject to these regulatory efforts and have corporate compliance committees that monitor and respond to regulatory changes and any issues that may arise.

In consultation with legal counsel, management is not aware of any issues that could have a material adverse effect on the FMOLHS Affiliates' financial position or results of operations.

(g) *Information Technology Contract*

Beginning in fiscal year 2009, FMOLHS entered into a variety of contracts with a major information technology vendor. The agreements are generally for terms of seven years. The contracts generally commit FMOLHS to the purchase of a variety of information technology products and services from this vendor for defined-payment streams over the terms of the contracts. Certain software license and related implicit maintenance costs were capitalized at the inception of the agreements in the amount of $17,621, with recognition of an associated liability related to FMOLHS's acquisition of these intangible assets. Capitalized software and implied maintenance costs are being amortized over the estimated useful life of the software licenses (generally seven years) and the implicit maintenance period (which varies depending on first date of productive use), respectively. Other contract costs are evaluated for capitalization or expense recognition under relevant accounting literature as associated products and/or services are provided.

(In thousands)

The following table summarizes FMOLHS's future payment commitments under the contract as of June 30, 2016:

	Capitalized software obligation	Other
2017	$ 2,090	8,517
2018	2,795	7,972
2019	2,795	7,972
2020	2,795	7,972
Total	10,475	$ 32,433
Less amounts representing interest at 4.19%	935	
Long-term obligation (included in other long-term liabilities)	$ 9,540	

(22) Cooperative Endeavor Agreements

(a) Our Lady of the Lake Cooperative Endeavor Agreement

As part of its mission to ensure an appropriate supply of medical professionals in its service area and improve graduate medical education in the region, the Lake entered into an agreement with the State of Louisiana Department of Health and Hospitals (DHH) and Louisiana State University Health Sciences (LSU) in February 2010. The parties received associated governmental approval of the agreement from the Center for Medicare and Medicaid Services (CMS) on July 13, 2010. Major components of the agreement are as follows:

- The Lake constructed a medical education building (MEB) to house LSU training programs (which was donated by the Lake to LSU at completion of construction), expand its clinical capacity by 60 licensed beds, and implement a Trauma Center. The Lake recorded $1,950 and $2,098 in other current liabilities in the consolidated balance sheets as of June 30, 2016 and 2015 to reflect its promise to give in accordance with relevant accounting literature, related to the MEB.
- DHH provided payments under a reimbursement structure to the Lake, which are intended to compensate the Lake for incremental costs associated with higher Medicaid and uninsured patient volumes that have occurred with the Lake's increased role in LSU's graduate medical education program. The supplemental hospital payments received through June 30, 2016 were based on estimated costs for Medicaid and uninsured patients. A reconciliation of all costs and payments for fiscal years ending June 30, 2016 made pursuant to this agreement will occur in fiscal year 2016. For the years ended June 30, 2016 and 2015, the Lake recorded additional net

patient service revenues less the estimated amounts for retroactive adjustments under the agreement of $113,293 and $113,937, respectively.

The Cooperative Endeavor Agreement was amended on April 10, 2013 to ensure viability of existing LSU Health outpatient facilities and patient care services and programs. The major components of the Lake's amended agreement includes:

- The Lake manages and operates the operations of LSU Health outpatient facilities. The reimbursement structure of the agreement was revised to include payment to the Lake for the operations of these facilities. Lease agreements were implemented for LSU Health outpatient facilities and equipment.
- GME program amendments were implemented for assignment of GME reimbursement caps.
- Clinical service agreements were implemented with LSU School of Medicine to provide professional services at the LSU Health clinics.
- For the years ended June 30, 2016 and 2015, the amount paid to LSU for leased building and equipment, GME faculty and resident expenses, and costs of clinical services associated with the Cooperative Endeavor Agreement was $39,141 and $38,737, respectively.

(b) Our Lady of Angels Cooperative Endeavor Agreement

Angels entered into an agreement with the DHH and LSU in January 2014. Angels receives disproportionate share payments and other supplemental payments from DHH to cover costs associated with higher Medicaid and uninsured patient volumes for this service area. The commencement date for patient care services for Angels was March 7, 2014. For the years ended June 30, 2016 and 2015, Angels recorded additional net patient service revenue of $43,479 and $32,319, respectively.

The major components of the Angels' agreement includes:

- Angels leases facilities and equipment and manages the operations of the hospital and outpatient facilities.
- Angels agrees to continue the graduate medical education and training programs in Bogalusa, Louisiana.
- Angels established clinical services agreements, including the LSU School of Medicine, to provide professional services at the hospital and outpatient facilities.
- For the years ended June 30, 2016 and 2015, the amount paid to LSU for leased buildings and equipment, GME faculty and resident expenses, and costs of clinical services associated with the Cooperative Endeavor Agreement was $12,641 and $14,378, respectively.

(In thousands)

(23) Acquisition

FMOLHS's controlled joint venture, OLOL/USP Surgery Centers, LLC (OLOL/USP), manages the day-to-day operations of two surgery facilities. On October 1, 2015, OLOS/USP acquired a new surgical facility in Slidell, Louisiana for a purchase price of approximately $21,117. Accordingly, the results of operations of the new surgical facility since October 1, 2015 have been included in the fiscal 2016 consolidated statement of operations.

The following summarizes the allocation of the assets acquired and liabilities assumed on October 1, 2015, as well as the fair value of the noncontrolling interest acquired.

Cash	$	1,110
Accounts receivable		2,834
Current assets		1,953
Property and equipment		18,202
Goodwill		23,251
Current liabilities		(4,621)
Capital lease obligation and other liabilities		(14,207)
Noncontrolling interest		(7,405)
Total purchase price	$	21,117

(24) Subsequent Events

FMOLHS has evaluated subsequent events from the balance sheet date through November 9, 2016, the date at which the consolidated financial statements were available to be issued, and determined that there were no other items to disclose.

SUPPLEMENTAL SCHEDULES

Schedule 1

FRANCISCAN MISSIONARIES OF OUR LADY HEALTH SYSTEM, INC. AND AFFILIATED ORGANIZATIONS

Consolidating Schedule – Balance Sheet Information

June 30, 2016
(with comparative totals as of June 30, 2015)

(In thousands)

Assets	Franciscan Missionaries of Our Lady Health System, Inc. and subsidiaries	Our Lady of the Lake Regional Medical Center, Inc. and affiliated organizations	St. Elizabeth Hospital	St. Francis Medical Center Inc. and subsidiaries	Our Lady of Lourdes Regional Medical Center, Inc. and subsidiaries	Our Lady of the Angels Hospital	Eliminations	Total 2016	Total 2015
Current assets:									
Cash and cash equivalents	$ 29,477	85,627	17,861	8,764	28,163	7,473	—	177,365	162,626
Short-term investments	2,343	—	—	2	—	—	—	2,345	22,319
Receivables:									
Patients	464	374,813	24,654	55,693	59,832	27,622	—	543,078	519,626
Less allowance for uncollectible accounts	—	(234,147)	(11,774)	(26,237)	(22,579)	(17,689)	—	(312,426)	(290,114)
Net patient receivables	464	140,666	12,880	29,456	37,253	9,933	—	230,652	229,512
Other current assets	21,204	91,799	3,317	(1,987)	14,493	(10,957)	(3,845)	114,024	107,811
Total current assets	53,488	318,092	34,058	36,235	79,909	6,449	(3,845)	524,386	522,268
Assets limited as to use, net of current portion	32,500	668,233	8,229	117,112	22,157	—	—	848,231	852,336
Property and equipment, net	89,340	641,663	50,777	110,450	241,978	1,966	—	1,136,174	1,120,735
Other assets	24,224	116,995	5,185	23,214	31,966	5,191	(24,750)	182,025	153,691
Total assets	$ 199,552	1,744,983	98,249	287,011	376,010	13,606	(28,595)	2,690,816	2,649,030
Liabilities and Net Assets									
Current liabilities:									
Lines of credit	$ —	18,316	—	—	—	—	—	18,316	481
Current installments of long-term debt	—	7,549	513	3,157	2,488	—	—	13,707	16,592
Current portion of capital lease obligations	2,404	2,319	85	—	20	—	—	4,828	4,841
Accounts payable	15,697	64,706	3,171	7,689	10,524	1,790	(2,461)	101,116	105,729
Other current liabilities	30,636	83,831	13,730	21,218	19,888	4,837	(1,384)	172,756	165,899
Total current liabilities	48,737	176,721	17,499	32,064	32,920	6,627	(3,845)	310,723	293,542
Professional and general liabilities, excluding current portion	25,632	17,240	1,669	5,037	3,311	—	(24,237)	28,652	30,361
Long-term debt, excluding current installments	—	281,434	13,606	125,726	168,615	—	—	589,381	601,116
Capital lease obligations, excluding current portion	7,136	14,647	—	—	9	—	—	21,792	12,348
Accrued pension cost	27	335,217	—	80,781	95,287	—	—	511,312	381,555
Other long-term liabilities	22,666	559	—	1,941	27	—	(183)	25,010	22,200
Total liabilities	104,198	825,818	32,774	245,549	300,169	6,627	(28,265)	1,486,870	1,341,122
Net assets:									
Unrestricted	95,126	838,961	65,114	39,405	70,995	6,661	(130)	1,116,132	1,245,310
Temporarily restricted	228	40,556	361	2,057	2,005	318	(200)	45,325	36,869
Permanently restricted	—	5,400	—	—	—	—	—	5,400	5,300
Total net assets attributable to Franciscan Missionaries of Our Lady Health System, Inc.	95,354	884,917	65,475	41,462	73,000	6,979	(330)	1,166,857	1,287,479
Noncontrolling interests	—	34,248	—	—	2,841	—	—	37,089	20,429
Total net assets	95,354	919,165	65,475	41,462	75,841	6,979	(330)	1,203,946	1,307,908
Total liabilities and net assets	$ 199,552	1,744,983	98,249	287,011	376,010	13,606	(28,595)	2,690,816	2,649,030

See accompanying independent auditors' report.

Schedule 2

FRANCISCAN MISSIONARIES OF OUR LADY HEALTH SYSTEM, INC. AND AFFILIATED ORGANIZATIONS

Consolidating Schedule – Statement of Operations Information

Year ended June 30, 2016
(with comparative totals for the year ended June 30, 2015)

(In thousands)

	Franciscan Missionaries of Our Lady Health System, Inc. and subsidiaries	Our Lady of the Lake Regional Medical Center, Inc. and affiliated organizations	St. Elizabeth Hospital	St. Francis Medical Center Inc. and subsidiaries	Our Lady of Lourdes Regional Medical Center, Inc. and subsidiaries	Our Lady of the Angels Hospital	Eliminations	Total 2016	Total 2015
Changes in unrestricted net assets:									
Unrestricted revenues:									
Net patient service revenue, net of contractual allowances and discounts	$ 13,412	1,172,581	115,672	247,723	292,969	75,504	—	1,917,861	1,744,010
Provision for uncollectible accounts	109	(110,517)	(18,166)	(23,314)	(12,282)	(10,356)	—	(174,526)	(133,719)
Net patient service revenue	13,521	1,062,064	97,506	224,409	280,687	65,148	—	1,743,335	1,610,291
Other revenue	178,437	84,307	1,794	12,428	10,441	1,121	(184,004)	104,524	105,186
Equity in income from equity investees, net	2,015	7,336	94	(220)	3,014	—	—	12,239	16,064
Total unrestricted revenues	193,973	1,153,707	99,394	236,617	294,142	66,269	(184,004)	1,860,098	1,731,541
Net assets released from restrictions used for operations:									
Satisfaction of program restrictions	247	2,476	148	706	317	753	—	4,647	5,797
Expiration of time restrictions	—	171	—	—	—	—	—	171	161
Total net assets released from restrictions used for operations	247	2,647	148	706	317	753	—	4,818	5,958
Total unrestricted revenues and other support	194,220	1,156,354	99,542	237,323	294,459	67,022	(184,004)	1,864,916	1,737,499
Operating expenses:									
Salaries and wages	63,520	407,390	44,534	98,232	85,481	24,709	—	723,866	674,236
Employee benefits	16,996	98,965	12,027	25,712	22,012	4,855	(2,774)	177,793	155,301
Total salaries, wages, and benefits	80,516	506,355	56,561	123,944	107,493	29,564	(2,774)	901,659	829,537
Physician fees	—	44,724	381	4,264	13,600	7,120	(250)	69,839	63,724
Professional services	2,283	16,868	379	2,938	431	91	—	22,990	24,923
Other services	68,489	222,255	18,899	56,592	51,942	12,509	(145,523)	285,163	285,333
Leases, insurance, and utilities	11,332	34,050	3,351	10,331	11,068	5,780	(7,709)	68,203	68,568
Supplies	30,366	229,645	12,572	46,819	81,462	5,538	(29,006)	377,396	319,601
Depreciation and amortization	26,158	46,470	3,746	12,151	15,795	60	—	104,380	95,245
Interest	498	11,589	538	4,921	6,072	—	—	23,618	23,638
Other	982	1,271	1	520	561	—	—	3,335	3,239
Total operating expenses	220,624	1,113,227	96,428	262,480	288,424	60,662	(185,262)	1,856,583	1,713,808
Operating income (loss) before impairment and settlement of pension plans	(26,404)	43,127	3,114	(25,157)	6,035	6,360	1,258	8,333	23,691
Impairment	—	—	—	4,356	—	—	—	4,356	—
Settlement of pension plans	—	—	—	4,611	4,960	—	—	9,571	—
Operating income (loss)	(26,404)	43,127	3,114	(34,124)	1,075	6,360	1,258	(5,594)	23,691

(Continued)

Schedule 2

FRANCISCAN MISSIONARIES OF OUR LADY HEALTH SYSTEM, INC. AND AFFILIATED ORGANIZATIONS

Consolidating Schedule – Statement of Operations Information

Year ended June 30, 2016
(with comparative totals for the year ended June 30, 2015)

(In thousands)

	Franciscan Missionaries of Our Lady Health System, Inc. and subsidiaries	Our Lady of the Lake Regional Medical Center, Inc. and affiliated organizations	St. Elizabeth Hospital	St. Francis Medical Center Inc. and subsidiaries	Our Lady of Lourdes Regional Medical Center, Inc. and subsidiaries	Our Lady of the Angels Hospital	Eliminations	Total 2016	Total 2015
Nonoperating gains (losses):									
Investment return	$ 2,757	(13,056)	(125)	(2,150)	(317)	2	—	(12,889)	6,479
Loss on extinguishment of debt	—	—	—	—	—	—	—	—	(35,507)
Other	21	(3,057)	—	—	—	—	(1,259)	(4,295)	(5,622)
Change in fair value of interest rate swap agreement	(4,785)	—	—	—	—	—	—	(4,785)	(1,247)
Total nonoperating gains (losses), net	(2,007)	(16,113)	(125)	(2,150)	(317)	2	(1,259)	(21,969)	(35,897)
Unrestricted revenues, gains, and other support in excess of (less than) expenses and losses	(28,411)	27,014	2,989	(36,274)	758	6,362	(1)	(27,563)	(12,206)
Noncontrolling interests	—	(2,494)	—	—	(1,358)	—	—	(3,852)	(3,341)
Unrestricted revenues, gains, and other support in excess of (less than) expenses and losses attributable to FMOLHS	(28,411)	24,520	2,989	(36,274)	(600)	6,362	(1)	(31,415)	(15,547)
Pension-related changes other than net periodic pension cost	—	(75,422)	—	(10,586)	(14,327)	—	—	(100,335)	(63,946)
Other	74,319	(38,456)	(6,178)	(13,040)	(10,196)	(5,520)	1,643	2,572	(5,068)
Increase (decrease) in unrestricted net assets	$ 45,908	(89,358)	(3,189)	(59,900)	(25,123)	842	1,642	(129,178)	(84,561)

See accompanying independent auditors' report.

FRANCISCAN MISSIONARIES OF OUR LADY HEALTH SYSTEM, INC. AND AFFILIATED ORGANIZATIONS

Consolidating Schedule – Statement of Changes in Net Assets Information

Year ended June 30, 2016
(with comparative totals for the year ended June 30, 2015)

(In thousands)

	Franciscan Missionaries of Our Lady Health System, Inc. and subsidiaries	Our Lady of the Lake Hospital, Inc. and Affiliated Organizations	St. Elizabeth Hospital	St. Francis Medical Center Inc. and subsidiaries	Our Lady of Lourdes Regional Medical Center, Inc. and subsidiaries	Our Lady of the Angels Hospital	Eliminations	Total 2016	Total 2015
Changes in unrestricted net assets:									
Unrestricted revenues, gains, and other support in excess of (less than) expenses and losses attributable to FMOLHS	$ (28,411)	24,520	2,989	(36,274)	(600)	6,362	(1)	(31,415)	(15,547)
Pension-related changes other than net periodic pension cost	—	(75,422)	—	(10,586)	(14,327)	—	—	(100,335)	(63,946)
Other	74,319	(38,456)	(6,178)	(13,040)	(10,196)	(5,520)	1,643	2,572	(5,068)
Increase (decrease) in unrestricted net assets	45,908	(89,358)	(3,189)	(59,900)	(25,123)	842	1,642	(129,178)	(84,561)
Changes in temporarily restricted net assets:									
Contributions	33	10,269	173	764	583	1,071	(199)	12,694	9,299
Income from long-term investments, net	—	567	13	—	—	—	—	580	822
Net assets released from restrictions	(246)	(2,648)	(148)	(706)	(317)	(753)	—	(4,818)	(5,958)
Other	—	—	—	—	—	—	—	—	(50)
Increase in temporarily restricted net assets	(213)	8,188	38	58	266	318	(199)	8,456	4,113
Changes in permanently restricted net :									
Contributions	—	100	—	—	—	—	—	100	—
Increase in permanently restricted net asserts	—	100	—	—	—	—	—	100	—
Changes in noncontrolling interest:									
Unrestricted revenues, gains, and other support in excess of expenses and losses attributable to FMOLHS	—	2,494	—	—	1,358	—	—	3,852	3,341
Distributions	—	(1,531)	—	—	(2,108)	—	—	(3,639)	(3,458)
Acquired controlling interest	—	—	—	—	—	—	—	—	(1,096)
Sale of noncontrolling interest	—	17,108	—	—	—	—	—	17,108	—
Other	—	(661)	—	—	—	—	—	(661)	51
Changes in noncontrolling interest	—	17,410	—	—	(750)	—	—	16,660	(1,162)
Increase (decrease) in net assets	45,695	(63,660)	(3,151)	(59,842)	(25,607)	1,160	1,443	(103,962)	(81,610)
Net assets, beginning of year	49,659	982,825	68,626	101,304	101,448	5,819	(1,773)	1,307,908	1,389,518
Net assets, end of year	$ 95,354	919,165	65,475	41,462	75,841	6,979	(330)	1,203,946	1,307,908

See accompanying independent auditors' report.

FRANCISCAN MISSIONARIES OF OUR LADY HEALTH SYSTEM, INC. AND AFFILIATED ORGANIZATIONS

Service to the Community (Unaudited)

June 30, 2016 and 2015

FMOLHS and the FMOLHS Affiliates are active, caring members of the communities they serve. In carrying out its mission of meeting the health needs of the people of God, the Board of Directors has established a policy under which FMOLHS Affiliates provide care to needy members of their communities. Following that policy, healthcare services costing $20,156 and $21,386 were provided without charge during the years ended June 30, 2016 and 2015, respectively. Charges foregone, based on established rates, totaled $267,546 and $235,718 for the years ended June 30, 2016 and 2015, respectively.

The FMOLHS Affiliates also participate in government programs including Medicare, Medicaid, and the TriCare program. Under these programs, the FMOLHS Affiliates provide care to patients at payment rates that are determined by the federal and state governments, regardless of actual cost. In some cases, these programs pay the FMOLHS Affiliates at amounts, which are less than their cost of providing services. The following table summarizes the amount of charges foregone (i.e., contractual adjustments) and the estimated losses incurred by the FMOLHS Affiliates due to inadequate payments by these programs and for charity for the years ended June 30, 2016 and 2015:

		2016		2015	
		Charges foregone	Estimated unreimbursed costs	Charges foregone	Estimated unreimbursed costs
Medicare	$	1,436,942	110,356	1,169,467	93,158
Medicaid		519,459	54,960	447,599	58,629
Other		13,823	303	10,638	615
Charity		267,546	20,156	235,718	21,386
	$	2,237,770	185,775	1,863,422	173,788

In addition to community services directly associated with providing hospital based care, FMOLHS Affiliates serve their communities in numerous other ways. Although the FMOLHS Affiliates have estimated the cost of each of these efforts to serve their communities, management, and the Boards of Directors believe that such costs represent only some of the many ways FMOLHS Affiliates serve their communities. The estimated costs for the years ended June 30, 2016 and 2015 are as follows:

		Net community benefit expense	
		2016	2015
Subsidized health services	$	4,022	1,862
Community health improvement services		3,691	4,105
Health professions education		20,447	20,882
Community building activities		17	120
Donations or in-kind contributions		1,991	1,282
Total	$	30,168	28,251

(Continued)

FRANCISCAN MISSIONARIES OF OUR LADY HEALTH SYSTEM, INC. AND AFFILIATED ORGANIZATIONS

Service to the Community (Unaudited)

June 30, 2016 and 2015

Subsidized health services – Include the discount provided, at cost, to all patients that have no form of insurance coverage. Programs such as St. Elizabeth Community Clinic, Bayou Health Clinic, St. Bernadette's Clinic, and Jackson Street Clinic. Mental health services and palliative care are also provided to the community.

Community health improvement services – Include activities carried out to improve community health and costs, which are underwritten by FMOLHS Affiliates. These services include Camp Bluebird, Lafayette Community Healthcare Clinic, a medication program, Congregational Health Services, Northside High School Health Center, community seminars, immunological support, parish nurse program, LakeLine Direct, St. Martha Activity Center, Care Bus health services to students, ALS Clinic, Health Teacher School based program, and depression/anxiety screening.

Health professions education – Includes assistance to future healthcare professionals, nursing students, and pharmacy students. Clinical setting for undergraduate, vocational training, internships, clerkships, and residencies. Collaboration with local colleges for supervision and clinical training in pharmacy, respiratory therapy, health information management, and medical technology. Registered nurse recruitment activities, OLOL College, and participation in Medicare's Graduate Medical Education through affiliation with Louisiana Medical School and Medical Center of Louisiana at New Orleans will continue to support availability of future healthcare professionals.

(Continued)

FRANCISCAN MISSIONARIES OF OUR LADY HEALTH SYSTEM, INC. AND AFFILIATED ORGANIZATIONS

Service to the Community (Unaudited)

June 30, 2016 and 2015

Community building activities – Include leadership development and training for community members such as emergency preparedness programs; community health education such as classes on breast feeding, childbirth basics, sibling class, and ABC's of childcare; community support with Meals on Wheels; community based clinical services, including health screenings, discounted services provided to Louisiana Baptist Children's Home, Veteran's Administration, Rural Hospitals, ULM Athletic Department, MDA, Wellspring, and Handicap Children; workforce development, including Area Health Education Center; and provides community clinics, St. Vincent DePaul Charitable Pharmacy and Mary Bird Perkins use of land and buildings.

Donations or in kind contributions – Include donations to various area community organizations such as United Way. Families Helping Families, Children's Coalition, Wellspring, YMCA, Haiti Project, Prevent Child Abuse, Komen Foundation, Alzheimer's Foundation, March of Dimes, Junior Achievement, Cystic Fibrosis, Community Fund for the Arts, and Miles Perret Cancer Foundation, as well as employee costs associated with board and community involvement in various community organizations.

KPMG

FRANCISCAN MISSIONARIES OF OUR LADY HEALTH SYSTEM, INC. AND AFFILIATED ORGANIZATIONS

Consolidated Financial Statements
and Supplemental Schedules

June 30, 2016 and 2015

(With Independent Auditors' Report Thereon)

FRANCISCAN MISSIONARIES OF OUR LADY HEALTH SYSTEM, INC. AND AFFILIATED ORGANIZATIONS

June 30, 2016 and 2015

Table of Contents

KPMG LLP
Suite 1100
One Jackson Place
188 East Capitol Street
Jackson, MS 39201-2127

Independent Auditors' Report

The Board of Trustees
Franciscan Missionaries of Our Lady Health Systems, Inc.:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Franciscan Missionaries of Our Lady Health System, Inc. and affiliated organizations (the System), which comprise the consolidated balance sheets as of June 30, 2016 and 2015, and the related consolidated statements of operations and charges in unrestricted net assets, 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 and the standards applicable to financial audit contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 Franciscan Missionaries of Our Lady Health Systems, Inc. and affiliated organizations as of June 30, 2016 and 2015, 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 Matters

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information included in Schedules 1 through 3 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. The supplementary information included in Schedule 4 is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2016, on our consideration of Franciscan Missionaries of Our Lady Health System, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Franciscan Missionaries of Our Lady Health System, Inc.'s internal control over financial reporting and compliance.

KPMG LLP

Baton Rouge, Louisiana
November 9, 2016

FRANCISCAN MISSIONARIES OF OUR LADY HEALTH SYSTEM, INC. AND AFFILIATED ORGANIZATIONS

Consolidated Balance Sheets

June 30, 2016 and 2015

(In thousands)

Assets		**2016**	**2015**
Current assets:			
Cash and cash equivalents	$	177,365	162,626
Short-term investments		2,345	22,319
Patient receivables, net of allowance for uncollectible accounts of $312,426 and $290,114 in 2016 and 2015, respectively		230,652	229,512
Other current assets		114,024	107,811
Total current assets		524,386	522,268
Assets limited as to use, net of current portion		848,231	852,336
Property and equipment, net		1,136,174	1,120,735
Other assets		182,025	153,691
Total assets	$	2,690,816	2,649,030
Liabilities and Net Assets			
Current liabilities:			
Lines of credit	$	18,316	481
Current installments of long-term debt		13,707	16,592
Current portion of capital lease obligations		4,828	4,841
Accounts payable		101,116	105,729
Other current liabilities		172,756	165,899
Total current liabilities		310,723	293,542
Professional and general liabilities, excluding current portion		28,652	30,361
Long-term debt, excluding current installments		589,381	601,116
Capital lease obligations, excluding current portion		21,792	12,348
Accrued pension cost		511,312	381,555
Other long-term liabilities		25,010	22,200
Total liabilities		1,486,870	1,341,122
Net assets:			
Unrestricted		1,116,132	1,245,310
Temporarily restricted		45,325	36,869
Permanently restricted		5,400	5,300
Total net assets attributable to Franciscan Missionaries of Our Lady Health System, Inc.		1,166,857	1,287,479
Noncontrolling interests		37,089	20,429
Total net assets		1,203,946	1,307,908
Total liabilities and net assets	$	2,690,816	2,649,030

See accompanying notes to consolidated financial statements.

FRANCISCAN MISSIONARIES OF OUR LADY HEALTH SYSTEM, INC. AND AFFILIATED ORGANIZATIONS

Consolidated Statements of Operations and Changes in Unrestricted Net Assets

Years ended June 30, 2016 and 2015

(In thousands)

		2016	2015
Changes in unrestricted net assets:			
Unrestricted revenues:			
Net patient service revenue, net of contractual allowances and discounts	$	1,917,861	1,744,010
Provision for uncollectible accounts		(174,526)	(133,719)
Net patient service revenue		1,743,335	1,610,291
Other revenue		104,524	105,186
Equity in income from equity investees, net		12,239	16,064
Total unrestricted revenues		1,860,098	1,731,541
Net assets released from restrictions used for operations:			
Satisfaction of program restrictions		4,647	5,797
Expiration of time restrictions		171	161
Total net assets released from restrictions used for operations		4,818	5,958
Total unrestricted revenues and other support		1,864,916	1,737,499
Operating expenses:			
Salaries and wages		723,866	674,236
Employee benefits		177,793	155,301
Total salaries, wages, and employee benefits		901,659	829,537
Physician fees		69,839	63,724
Professional services		22,990	24,923
Other services		285,163	285,333
Leases, insurance, and utilities		68,203	68,568
Supplies		377,396	319,601
Depreciation and amortization		104,380	95,245
Interest		23,618	23,638
Other		3,335	3,239
Total operating expenses		1,856,583	1,713,808
Operating income before impairment and settlement of pension plans		8,333	23,691
Impairment		4,356	—
Settlement of pension plans		9,571	—
Operating (loss) income		(5,594)	23,691

(Continued)

FRANCISCAN MISSIONARIES OF OUR LADY HEALTH SYSTEM, INC. AND AFFILIATED ORGANIZATIONS

Consolidated Statements of Operations and Changes in Unrestricted Net Assets

Years ended June 30, 2016 and 2015

(In thousands)

		2016	2015
Nonoperating gains (losses):			
Investment return		(12,889)	6,479
Loss on extinguishment of debt		—	(35,507)
Other		(4,295)	(5,622)
Change in fair value of interest rate swap agreements		(4,785)	(1,247)
Total nonoperating losses, net		(21,969)	(35,897)
Expenses and losses in excess of unrestricted revenues, gains, and other support before noncontrolling interest		(27,563)	(12,206)
Noncontrolling interests		(3,852)	(3,341)
Expenses and losses in excess of unrestricted revenues, gains, and other support attributable to Franciscan Missionaries of Our Lady Health System, Inc.		(31,415)	(15,547)
Pension-related changes other than net periodic pension cost		(100,335)	(63,946)
Other		2,572	(5,068)
Decrease in unrestricted net assets	$	(129,178)	(84,561)

See accompanying notes to consolidated financial statements.

FRANCISCAN MISSIONARIES OF OUR LADY HEALTH SYSTEM, INC. AND AFFILIATED ORGANIZATIONS

Consolidated Statements of Changes in Net Assets

Years ended June 30, 2016 and 2015

(In thousands)

	2016	2015
Changes in unrestricted net assets:		
Expenses and losses in excess of unrestricted revenues, gains, and other support attributable to Franciscan Missionaries of Our Lady Health System, Inc.	$ (31,415)	(15,547)
Pension-related changes other than net periodic pension cost	(100,335)	(63,946)
Other	2,572	(5,068)
Decrease in unrestricted net assets	(129,178)	(84,561)
Changes in temporarily restricted net assets:		
Contributions	12,694	9,299
Income from long-term investments, net	580	822
Net assets released from restrictions	(4,818)	(5,958)
Other	—	(50)
Increase in temporarily restricted net assets	8,456	4,113
Changes in permanently restricted net assets:		
Contributions	100	—
Increase in permanently restricted net assets	100	—
Changes in noncontrolling interests:		
Unrestricted revenues, gains, and other support in excess of expenses and losses	3,852	3,341
Distributions	(3,639)	(3,458)
Acquired controlling interest	—	(1,096)
Increase due to acquisition	17,108	—
Other	(661)	51
Increase (decrease) in noncontrolling interests	16,660	(1,162)
Decrease in net assets	(103,962)	(81,610)
Net assets, beginning of year	1,307,908	1,389,518
Net assets, end of year	$ 1,203,946	1,307,908

See accompanying notes to consolidated financial statements.

FRANCISCAN MISSIONARIES OF OUR LADY HEALTH SYSTEM, INC. AND AFFILIATED ORGANIZATIONS

Consolidated Statements of Cash Flows

Years ended June 30, 2016 and 2015

(In thousands)

		2016	2015
Cash flows from operating activities:			
Decrease in net assets	$	(103,962)	(81,610)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:			
Depreciation and amortization		104,380	95,245
Impairment		4,356	—
Provision for uncollectible accounts		174,526	133,719
(Gain) loss on sale or disposal of property and equipment, net		(40)	470
Net realized and unrealized losses (gains) on assets limited as to use and investment securities		20,253	(1,458)
Income from equity investees		(12,239)	(16,064)
Change in value of interest rate swap agreements		4,785	1,247
Amortization of net premium on bond issues		(700)	(127)
Pension-related changes other than net periodic pension cost		100,335	63,946
Loss on early extinguishment of debt, noncash portion		—	35,507
Acquired controlling interest, net		—	1,044
Sale of noncontrolling interest		(17,108)	—
Distributions to noncontrolling interest		3,639	3,458
Return of income from equity investees		13,959	15,107
Changes in operating assets and liabilities:			
Receivables		(170,219)	(155,507)
Inventories		(2,081)	(6,200)
Prepaid expenses and other assets		2,190	1,642
Accounts payable, accrued expenses, and other liabilities		29,248	30,310
Professional and general liabilities		(1,709)	154
Net cash provided by operating activities		149,613	120,883

(Continued)

FRANCISCAN MISSIONARIES OF OUR LADY HEALTH SYSTEM, INC. AND AFFILIATED ORGANIZATIONS

Consolidated Statements of Cash Flows

Years ended June 30, 2016 and 2015

(In thousands)

	2016	2015
Cash flows from investing activities:		
Capital expenditures	(105,785)	(54,060)
Proceeds from sale of property and equipment	40	—
Purchases of assets limited to use	(84,274)	(111,670)
Sales of assets limited to use	86,190	117,888
Cash paid for equity investees and other acquisitions, net of cash acquired	(35,176)	(3,936)
Net cash used in investing activities	(139,005)	(51,778)
Cash flows from financing activities:		
Repayment of long-term debt	(49,079)	(184,453)
Escrow deposit for extinguishment of debt	—	(30,499)
Repayment of capital lease obligations, net	(5,717)	(12,578)
Proceeds from issuance of long-term debt	35,160	202,881
Proceeds from line of credit	30,000	6,000
Payments on line of credit	(12,165)	(11,251)
Payment of bond issuance costs	(132)	(3,293)
Acquired controlling interest	—	(1,044)
Sale of noncontrolling interest	9,703	—
Distributions to noncontrolling interest	(3,639)	(3,458)
Net cash provided by (used in) financing activities	4,131	(37,695)
Increase in cash and cash equivalents	14,739	31,410
Cash and cash equivalents, beginning of year	162,626	131,216
Cash and cash equivalents, end of year	$ 177,365	162,626
Supplemental non-cash disclosures:		
Write off of unamortized debt issuance costs, discounts and premiums for extinguishment of debt	$ —	5,008
Accounts payable for construction projects	5,927	7,165
Capital lease obligations	264	14,854

See accompanying notes to consolidated financial statements.

(1) Organization and Summary of Significant Accounting Policies

Franciscan Missionaries of Our Lady Health System, Inc. (FMOLHS or the System) is a not-for-profit, nonstock membership corporation and is a wholly owned subsidiary of Franciscan Missionaries of Our Lady in Baton Rouge, Louisiana (FMOL). The members of FMOL are the Provincial and the members of the Council of the Franciscan Missionaries of Our Lady – North American Province. FMOLHS is the sole member and has sole voting control of five medical centers and their affiliates (FMOLHS Affiliates). All of these entities are not-for-profit, nonstock membership corporations. The medical centers are as follows:

- Our Lady of the Lake Hospital, Inc. d/b/a Our Lady of the Lake Regional Medical Center (the Lake) – Baton Rouge, Louisiana
- Our Lady of the Lake Ascension Community Hospital, Inc. d/b/a St. Elizabeth Hospital (St. Elizabeth) – Gonzales, Louisiana
- Our Lady of Lourdes Regional Medical Center, Inc. (Lourdes) – Lafayette, Louisiana
- St. Francis Medical Center, Inc. (St. Francis) – Monroe, Louisiana
- Our Lady of the Angels Hospital, Inc. (Angels) – Bogalusa, Louisiana

The FMOLHS Affiliates participate together in a captive insurance company, Louise Insurance Co., Ltd. (Louise), which is wholly owned by FMOLHS (note 19).

The significant accounting policies used by FMOLHS in preparing and presenting its consolidated financial statements follow:

(a) Principles of Consolidation

The consolidated financial statements include the accounts of FMOLHS, its wholly owned subsidiaries, and the FMOLHS Affiliates. All significant intercompany balances and transactions have been eliminated in consolidation. Third-party equity interest in the consolidated subsidiaries and affiliates are reflected as noncontrolling interest in FMOLHS's consolidated financial statements. For subsidiaries in which FMOLHS does not have a controlling interest, FMOLHS records such investments under the equity method of accounting.

(b) Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. The current economic environment has increased the degree of uncertainty inherent in these estimates and assumptions.

Significant items subject to such estimates and assumptions include the determination of the allowances for uncollectible accounts and contractual adjustments, reserves for general and professional liability claims, reserves for workers' compensation claims, reserves for employee healthcare claims, estimated third-party payor settlements, certain investments in alternative funds, valuation of derivatives, useful lives of property and equipment, and the actuarially determined benefit liability related to FMOLHS's pension plans and postretirement health plans. In addition, laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates related to these programs will change by a material amount in the near term.

(c) Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less when purchased, excluding amounts included in assets limited as to use.

FMOLHS maintains bank accounts at various financial institutions covered by Federal Depository Insurance Corporation (FDIC). FMOLHS may maintain bank account balances in excess of the FDIC insured limit. FMOLHS believes it is not exposed to any significant credit risk related to cash.

(d) Investments and Investment Return

Investments in equity securities with readily determinable fair values and all investments in debt securities, except for investments in the common stock of equity investees accounted for using the equity method, are recorded at fair value. The estimated fair value of these investments is based on quoted market prices.

FMOLHS also invests in alternative assets such as hedge funds, private equity funds, and commingled funds. When FMOLHS's investment in alternative assets represents investments organized as corporations, or trusts with legal structures similar to a corporation, with ownership less than 20%, and transacts frequently (at least quarterly), FMOLHS accounts for these investments at net asset value as a practical expedient to fair value. Net asset value is based on the fair value of the underlying investments. When FMOLHS's investment in alternative assets represents investments organized as limited partnerships, or limited liability companies with specific ownership accounts or trusts with legal structures similar to a partnership, FMOLHS accounts for these investments using the equity method, which generally approximates net asset value.

The net asset value for alternative assets for which quoted market prices are not available is based on the most recent valuations provided by the external investment managers, adjusted for receipts and disbursements through June 30. FMOLHS reviews and evaluates the values provided by the managers and agrees with the valuation methods and assumptions used to determine those values. Therefore, FMOLHS believes the carrying amount of these financial instruments is a reasonable estimate of fair value. Because alternative assets are not readily marketable, their estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for such investments existed.

Dividend, interest, and other income, realized and unrealized gains and losses on investments recorded at fair value, alternative assets recorded at net asset value, and changes in the carrying value of alternative investments recorded on the equity method, are included as expenses and losses in excess of unrestricted revenues, gains, and other support in the consolidated statements of operations unless their use is temporarily or permanently restricted by explicit donor stipulations or law. Donated investments are recorded at fair value at the date of receipt.

(e) Inventories

Inventories, consisting primarily of medical supplies and pharmaceuticals, are stated at the lower of cost (average-cost method) or market and are included in other current assets in the accompanying consolidated balance sheets.

(f) Assets Limited as to Use

Assets limited as to use include the following:

- Assets set aside by the Board of Directors for future capital acquisitions, capital improvements, and debt service, over which the Board of Directors retains control and may at its discretion subsequently use for other purposes.
- Assets held by trustees under indenture agreements, self-insurance trust arrangements, and terms of donor restrictions.

Amounts required to satisfy current requirements for the payment of current construction costs and debt service costs are classified as other current assets in the accompanying consolidated balance sheets.

(g) Components of Net Assets

Net assets, revenues, and other support and expenses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of FMOLHS and changes therein are classified and reported as follows:

Unrestricted Net Assets – Unrestricted net assets are net assets whose use is not restricted by donors, even though their use may be limited in other respects, such as by contracts or by board designation.

Temporarily Restricted Net Assets – Temporarily restricted net assets are net assets subject to donor-imposed stipulations that may or will be met either by actions of FMOLHS and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of operations as net assets released from restrictions.

Permanently Restricted Net Assets – Permanently restricted net assets are net assets subject to donor-imposed stipulations that are maintained permanently by FMOLHS. Generally, the donors of these assets permit FMOLHS to use all or part of the income earned on related investments for specific or general purposes.

Unrealized gains and losses are recorded as temporarily restricted net assets if the terms of the gift restrict the use of the income. Permanently restricted net assets are increased if the term of the gift that gave rise to the investment requires the unrealized gain be added to the principal of a permanent endowment.

Generally, losses on the investments of restricted endowments reduce temporarily restricted net assets to the extent donor-imposed temporary restrictions on net appreciation of investments have not been met before the loss occurs. Any remaining losses reduce unrestricted net assets, but can be restored through subsequent investment gains.

(h) Bond Issuance Costs

Bond issuance costs, included in other assets in the accompanying consolidated financial statements, premiums, and discounts, costs of letters of credit, and standby purchase agreements are being amortized over the terms of the related bond issues using a method that approximates the effective-interest method. Accumulated amortization was approximately $6,848 and $6,465 at June 30, 2016 and 2015, respectively.

(i) Property and Equipment

Property and equipment, including leasehold improvements, are stated at cost upon acquisition or fair value if donated. Depreciation is computed primarily on the straight-line method based upon the shorter of the estimated useful lives of the assets or the lease term. Equipment under capital lease is amortized using the straight-line method over the shorter of the lease term of the equipment or its useful life. Such amortization is included in depreciation and amortization expense in the accompanying consolidated financial statements.

Gifts of long-lived assets, such as land, buildings, or equipment, are reported as unrestricted support, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor time stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service. Contributions restricted for the purchase of property and equipment for which restrictions are met within the same year as the contributions are received are reported as increases in unrestricted net assets in the accompanying consolidated financial statements.

(j) Business Combination

FMOLHS accounts for business combinations using the acquisition method. The assets acquired consist primarily of property and equipment, intangibles, and licenses. The assets acquired and liabilities assumed, if any, are measured at fair value on the acquisition date using the appropriate valuation method. The noncontrolling interest associated with joint venture acquisitions is also measured and recorded at fair value as of the acquisition date. The residual purchase price is recorded as cost in excess of net assets acquired. The operations of the acquisitions are included in the consolidated financial statements from their respective dates of acquisition.

(k) Cost in Excess of Net Assets Acquired

Cost in excess of net assets acquired, or goodwill, included in other assets, is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. Cost in excess of net assets acquired is reviewed for impairment at least annually. FMOLHS applies the provisions of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 350, *Intangibles – Goodwill and Other*, which provides an entity the option to perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount prior to performing the two-step goodwill impairment test. If this is the case, the two-step goodwill impairment test is required. If it is more likely than not that the fair value of a reporting is greater than its carrying amount, the two-step goodwill impairment test is not required.

If the two-step goodwill impairment test is required, first, the fair value of the reporting unit is compared with its carrying amount (including cost in excess of net assets acquired). If the fair value of the reporting unit is less than its carrying amount, an indication of cost in excess of net assets acquired impairment exists for the reporting unit and the entity must perform step two of the impairment test (measurement). Under step two, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. The implied fair value of cost in excess of net assets acquired is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation and the residual fair value after this allocation is the implied fair value of the reporting unit goodwill. Fair value of the reporting unit is determined using a discounted cash flow analysis. If the fair value of the reporting unit exceeds its carrying amount, step two does not need to be performed.

FMOLHS performs its annual impairment review of cost in excess of net assets acquired at June 30, and when a triggering event occurs between annual impairment tests. For 2016, FMOLHS performed a qualitative assessment of cost in excess of net assets acquired and determined that it is more likely than not that the fair values of its reporting units are less than the carrying amounts. Accordingly, an impairment loss of $943 was recorded in 2016 and no impairment loss was recorded in 2015.

Accumulated amortization for all costs in excess of net assets acquired was $15,846 at June 30, 2016 and 2015.

(l) Capitalization of Interest

FMOLHS capitalizes the interest costs of borrowings, net of related investment income on the unexpended funds, during the construction period of major projects as a component of the asset. Net interest expense capitalized was $502 and $620 for the years ended June 30, 2016 and 2015, respectively.

(m) Impairment of Long-lived Assets

Long-lived assets, such as property and equipment, 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 to be tested for possible impairment, FMOLHS first compares the undiscounted future cash flows expected to be generated by the assets to its carrying value. If the carrying amount of the long-lived asset is not recoverable on an undiscounted cash flow basis, an impairment charge is recognized to the extent the carrying amount of the asset exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values, and third-party appraisals, as considered necessary.

The System recorded an impairment loss of $3,413 in 2016 for property and equipment. No impairment loss was recorded in 2015.

Assets to be disposed of are separately presented in the accompanying consolidated balance sheets and reported at the lower of carrying amount or fair value less costs to sell, and are no longer depreciated. There are no assets reported as assets to be disposed of at June 30, 2016 or 2015.

(n) Estimated Workers' Compensation, Professional Liability, and Employee Health Claims

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

(o) Consolidated Statements of Operations

Transactions deemed to be ongoing, major, or central to the provision of healthcare services are reported as operating revenues and expenses. Peripheral or incidental transactions are reported as nonoperating gains and losses. Investment return, consisting of dividends and interest earned on investments, as well as realized and unrealized gains and losses on the investment portfolio, the loss on extinguishment of debt, medical office building rental income, the change in value of interest rate swap agreement, and gains and losses on asset disposals are reported as nonoperating gains or losses.

The consolidated statements of operations include expenses and losses in excess of unrestricted, gains, and other support, which is an indicator of financial performance. Changes in unrestricted net assets that are excluded from expenses and losses in excess of unrestricted revenues, gains, and other support include permanent transfers of assets to and from affiliates for other than goods and services, pension-related changes other than net periodic pension cost, and contributions of long-lived assets (including assets acquired using contributions that by donor restriction were to be used for the purpose of acquiring such assets).

(p) Net Patient Service Revenue and Patient Accounts Receivable

Net patient service revenue is recognized as services are performed and is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors.

Retroactively calculated contractual adjustments arising under reimbursement agreements with third-party payors are accrued on an estimated basis in the period the related services are rendered and are adjusted as final settlements are determined.

Patient receivables are reduced by an allowance for uncollectible accounts. The allowance for uncollectible accounts is based upon management's assessment of historical and expected net collections considering historical business and economic conditions, trends in healthcare coverage, major payor sources, and other collection indicators. Periodically throughout the year, management assesses the adequacy of the allowance for uncollectible accounts based upon historical write-off experience by payor category. The results of this review are then used to make modifications to the provision for uncollectible accounts to establish an appropriate allowance for uncollectible receivables. After satisfaction of amounts due from insurance, FMOLHS Affiliates follow established guidelines for placing certain past-due patient balances with collection agencies, subject to the terms of certain restrictions on collection efforts as determined by FMOLHS Affiliates.

(q) Charity Care

The FMOLHS Affiliates provide care to patients who meet certain criteria under their charity care policies without charge or at amounts less than its established rates. Because the FMOLHS Affiliates do not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as revenue.

The FMOLHS Affiliates maintain records to identify and monitor the level of charges forgone that are associated with the charity care they provide. Charges forgone, based on established rates, totaled approximately $267,546 and $235,718 for the years ended June 30, 2016 and 2015, respectively.

The FMOLHS Affiliates do not include charity care in net patient service revenue. The cost of charity care provided in 2016 and 2015 approximated $20,156 and $21,386, respectively. FMOLHS Affiliates estimated these costs by calculating a ratio of cost to gross charges and then multiplying that ratio by the gross charity charges associated with providing care to charity patients.

(r) Electronic Health Record Incentive Program

The Centers for Medicare & Medicaid Services (CMS) have implemented provisions of the American Recovery and Reinvestment Act of 2009 that provide incentive payments beginning in 2011 for the meaningful use of certified electronic health record (EHR) technology. CMS has defined meaningful use as meeting certain objectives and clinical quality measures based on current and updated technology capabilities over predetermined reporting periods as established by CMS. The Medicare EHR incentive program provides annual incentive payments to eligible professionals, eligible hospitals, and critical access hospitals, as defined, that are meaningful users of certified EHR technology. The Medicaid EHR incentive program provides annual incentive payments to eligible professionals and hospitals for efforts to adopt, implement, and meaningfully use certified EHR technology. FMOLHS utilizes a contingency accounting model to recognize EHR incentive revenues. FMOLHS records EHR incentive revenue when FMOLHS has complied with the meaningful use criteria for a full reporting period and when management determines that all uncertainties and contingencies are resolved prior to the recognition of income. In fiscal 2016 and 2015, FMOLHS recorded EHR incentive revenues of $2,786 and $6,161 comprised of $1,096 and $2,973 of Medicare revenues and $1,690 and $3,188 of Medicaid revenues, respectively. EHR incentive revenues are included in net patient service revenue in the accompanying consolidated statements of operations. There were no EHR incentive receivables from Medicare and Medicaid at June 30, 2016 and 2015.

(s) Income Taxes

FMOLHS and the FMOLHS Affiliates are exempt from federal income taxes under Section 501(a) of the Internal Revenue Code (IRC) as organizations described in IRC Section 501(c)(3). Certain of the FMOLHS Affiliates' subsidiaries are subject to federal and state income taxes, provisions for which have been reflected in the accompanying consolidated financial statements. The amounts of such provisions are not material.

FMOLHS recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. No reserves for uncertain tax positions have been recorded.

(t) Asset Retirement Obligation

FMOLHS recognizes the fair value of a liability for legal obligations associated with asset retirements in the period in which it is incurred, if a reasonable estimate of the fair value of the obligation can be made. When the liability is initially recorded, FMOLHS capitalizes the cost of the asset retirement obligation by increasing the carrying amount of the related long-lived asset. Over time, 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 consolidated statements of operations. The liability is included in other long-term liabilities in the accompanying consolidated balance sheets.

(u) Fair Value Measurements

FMOLHS applies ASC Topic 820, *Fair Value Measurement*, which defines fair value, establishes an enhanced framework for measuring fair value, and expands disclosures about fair value measurements, including those required for certain investments in funds that do not have readily determinable fair values including private equity investments, hedge funds, real estate, and other funds. ASC Topic 820 permits, as a practical expedient, the estimation of the fair value of investments in investment companies for which the investment does not have a readily determinable fair value using net asset value per share or its equivalent. Net asset value, in many instances, may not equal fair value that would be calculated pursuant to other related requirements of ASC Topic 820.

FMOLHS utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. FMOLHS determines fair value based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are categorized in one of the following levels:

- Level 1 Inputs: Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the reporting entity at the measurement date.
- Level 2 Inputs: Other than quoted prices included in Level 1 inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.
- Level 3 Inputs: Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at measurement date.

(v) Fair Value Option

ASC Sub Topic 825-10, *Financial Instruments – Overall*, gives FMOLHS the irrevocable option to report most financial assets and financial liabilities at fair value on an instrument-by-instrument basis, with changes in fair value reported in earnings. FMOLHS has not elected to apply the fair value option to any assets or liabilities.

(w) Recent Accounting Pronouncements

The FASB issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*, in May 2014, which was amended by ASU No. 2015-14, *Revenue from Contracts with Customers*, in August 2015. ASU 2014-09 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 expects to be entitled in exchange for those goods or services. An entity should also 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 new standard is effective for annual reporting periods beginning after December 15, 2017. FMOLHS will implement the provisions of ASU 2014-09 and ASU 2015-14 as of July 1, 2018. FMOLHS has not yet determined the impact of the new standard on its current policies for revenue recognition.

The FASB issued ASU 2015-03, *Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Cost*, in April 2015, which contains provisions to simplify the presentation of debt issuance costs. The provisions require that debt issuance costs related to recognized debt liabilities be presented on the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. Adoption of this standard should be applied on a retrospective basis. The new standard is effective for annual reporting periods beginning after December 15, 2015. FMOLHS will implement the provisions of ASU 2015-03 as of July 1, 2016.

The FASB issued ASU No. 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, in May 2015. ASU 2015-07 removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The ASU also removes the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient, limiting the disclosures to investments which the entity has elected to measure the fair value using the practical expedient. Adoption of this standard should be applied on a retrospective basis. The new standard is effective for annual reporting periods beginning after December 15, 2015. FMOLHS will implement the provisions of ASU 2015-07 as of July 1, 2016.

The FASB issued ASU 2016-02, *Leases (Topic 842)*, which introduces a right-of-use model which requires lessees to recognize all leases, other than short-term leases with a maximum possible term of one year or less, on their balance sheet. Also the amortization of these leases will be dependent of the portion of the underlying asset being utilized during the lease term. ASU 2016-02 is effective for FMOLHS beginning July 1, 2019, with early adoption permitted. FMOLHS is currently evaluating the impact of the ASU, but is currently unable to estimate the effect, if any.

The FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, in August 2016. ASU 2016-14 changes how not-for-profit entities, including health entities, report net asset classes, expenses and liquidity in their financial statements. The new standard permits early adoption and is effective for annual reporting periods beginning after December 15, 2017. FMOLHS will implement the provisions of ASU 2016-14 as of July 1, 2018.

(In thousands)

(2) Short-term Investments and Assets Limited as to Use

Short-term investments at June 30, 2016 and 2015 consist of the following:

	2016	2015
Asset category:		
Cash	$ 2	1,604
Equity securities:		
U.S. companies	2,343	3,974
U.S. companies – alternative investments	—	1,285
International companies	—	1,784
International companies – alternative investments	—	705
Real assets	—	648
Real assets – alternative investments	—	500
Fixed-income securities:		
U.S. government guaranteed	—	125
U.S. agency	—	456
Corporate	—	672
Municipal	—	49
Alternative investments	—	662
Other	—	988
Emerging markets – alternative investments	—	1,280
Alternative asset funds:		
Hedge funds	—	5,686
Natural resource funds	—	286
Real estate fund	—	122
Private equity funds	—	1,493
Total	$ 2,345	22,319

(In thousands)

The composition of assets limited as to use at June 30, 2016 and 2015 is as follows:

	2016				
	Board-designated for capital	Trusteed bond funds	Self-insurance trust funds	Other	Total
Asset category:					
Cash	$ 19,597	21,223	—	4,076	44,896
Equity securities:					
U.S. companies	67,795	—	4,612	6,264	78,671
U.S. companies – alternative investments	67,821	—	—	—	67,821
International companies	66,737	—	—	423	67,160
International companies – alternative investments	34,694	—	—	—	34,694
Real assets	41,398	—	—	—	41,398
Real assets – alternative investments	47,934	—	—	—	47,934
Fixed-income securities:					
U.S. government guaranteed	6,664	—	2,578	—	9,242
U.S. agency	11,817	—	9,201	1,818	22,836
Corporate	32,862	—	8,544	963	42,369
Municipal	1,546	—	6,056	—	7,602
Alternative investments	27,877	—	—	—	27,877
Other	42,194	—	2,224	493	44,911
Emerging markets – alternative investments	51,663	—	—	—	51,663
Alternative asset funds:					
Hedge funds	212,898	—	—	129	213,027
Natural resource funds	9,327	—	—	—	9,327
Real estate fund	3,891	—	—	—	3,891
Private equity funds	56,122	—	—	—	56,122
	802,837	21,223	33,215	14,166	871,441
Less amounts classified as current assets, included in other current assets	—	21,223	—	1,987	23,210
Noncurrent portion	$ 802,837	—	33,215	12,179	848,231

(In thousands)

	2015				
	Board-designated for capital	Trusteed bond funds	Self-insurance trust funds	Other	Total
Asset category:					
Cash	$ 52,635	19,247	—	4,502	76,384
Equity securities:					
U.S. companies	69,231	—	4,533	6,999	80,763
U.S. companies – alternative investments	52,298	—	—	—	52,298
International companies	72,624	—	—	499	73,123
International companies – alternative investments	28,703	—	—	—	28,703
Real assets	26,366	—	—	—	26,366
Real assets – alternative investments	20,364	—	—	—	20,364
Fixed-income securities:					
U.S. government guaranteed	5,107	—	3,086	—	8,193
U.S. agency	18,560	—	11,542	1,422	31,524
Corporate	27,370	—	9,511	760	37,641
Municipal	1,979	—	5,222	—	7,201
Alternative investments	26,965	—	—	—	26,965
Other	40,311	—	2,214	640	43,165
Emerging markets – alternative investments	52,114	—	—	—	52,114
Alternative asset funds:					
Hedge funds	231,452	—	—	130	231,582
Natural resource funds	11,636	—	—	—	11,636
Real estate fund	4,985	—	—	—	4,985
Private equity funds	60,817	—	—	50	60,867
	803,517	19,247	36,108	15,002	873,874
Less amounts classified as current assets, included in other current assets	—	19,247	—	2,291	21,538
Noncurrent portion	$ 803,517	—	36,108	12,711	852,336

(a) *Board-designated for Capital*

In accordance with Board approval, the FMOLHS Affiliates have designated assets to fund future capital acquisitions and capital improvements.

The FMOLHS Affiliates invest their board-designated for capital funds together within FMOLHS in a capital reserve investment fund held in a Northern Trust custodial account. Through usage of unitized accounting, these investments are segregated for each FMOLHS Affiliate. Investments held as board-designated for capital are managed by several money managers, which focus on different investment strategies and provide diversity to the investments.

(In thousands)

(b) Alternative Assets

Alternative assets (included in short-term investments and assets limited as to use) include limited partnerships and offshore investment funds. These funds invest in certain types of financial instruments, including, among others, futures and forward contracts, options, and securities sold not yet purchased, intended to hedge against changes in the market value of investments. These financial instruments, which involve varying degrees of risk, may result in loss due to changes in the market (market risk). Alternative assets by strategy type are as follows:

		2016	2015
Alternative assets:			
U.S. companies	$	67,821	53,583
International companies		34,694	29,408
Real assets		47,934	20,864
Fixed income		27,877	27,952
Emerging markets		51,663	53,394
Hedge funds		213,027	237,268
Private equity		56,122	62,360
Natural resources		9,327	11,922
Real estate funds		3,891	5,107
Total alternative assets	$	512,356	501,858

At June 30, 2016, FMOLHS's remaining outstanding commitments to private equity interests totaled $23,024. The projected capital call amounts for the next five fiscal years and thereafter are summarized in the table below:

		Projected capital calls
Fiscal year:		
2017	$	12,718
2018		6,289
2019		4,017
2020		—
2021		—
Thereafter		—
	$	23,024

Private equity interests have 10-year terms, with extensions of 1 to 4 years. As of June 30, 2016, the average remaining life of the private equity interests is approximately 2.2 years.

(In thousands)

At June 30, 2016 and 2015, FMOLHS had hedge fund investments of $280,849 and $290,851, respectively, which were restricted from redemption for lock-up periods. Some of the hedge fund investments with redemption restrictions allow early redemption for specified fees. The terms and conditions upon which an investor may redeem an investment vary, usually requiring 30 to 180 days' notice after the initial lock-up period.

Based upon the terms and conditions in effect at June 30, 2016, FMOLHS's hedge fund investments can be redeemed or sold as follows:

		Amount
Fiscal year:		
2017	$	267,220
2018		6,420
2019		—
2020		—
2021		—
2022–2025		—
Thereafter		7,209
Total	$	280,849

(c) *Trusteed Bond Funds*

Certain trusteed bond funds have been established in accordance with the requirements of indentures related to various bond obligations. The consolidated trusteed bond funds as of June 30, 2016 and 2015 consist of the following categories:

		2016	2015
Principal and interest funds	$	21,223	19,247
Less amounts classified as other current assets		21,223	19,247
Noncurrent portion	$	—	—

The above funds were established in accordance with related indentures to secure the payment of principal and interest on the related obligations, and to pay or reimburse the FMOLHS Affiliates for payment of the costs of the acquisition, construction, and installation of certain extensions and improvements to their facilities. Amounts classified as current represent funds deposited to pay related debt service costs classified as current liabilities. Information regarding FMOLHS's debt obligations is included in note 10.

(In thousands)

(d) Self-insurance Trust Funds

The self-insurance trust funds represent amounts designated to pay certain self-insured losses (note 19).

(e) Other

Other assets limited at to use as of June 30, 2016 and 2015 consist of the following:

		2016	2015
Scholarships – by donor	$	959	1,475
Healthcare services – by donor		12,128	12,117
Resident deposits		47	113
Escrow, security deposits, and surplus cash		168	377
Capital improvement – by grantor agency		864	920
		14,166	15,002
Less amounts classified as current		1,987	2,291
	$	12,179	12,711

All investments are considered "trading" for accounting purposes. All unrestricted investment income, including both realized and unrealized gains and losses, is included in the reported total of expenses and losses in excess of unrestricted revenues, gains, and other support in the consolidated statements of operations. The following schedule for the years ended June 30, 2016 and 2015 summarizes the investment return and its classification in the consolidated statements of operations:

		Unrestricted	Temporarily restricted	Total
2016:				
Dividends and interest, net of expenses of $2,252	$	7,364	580	7,944
Realized and unrealized gains, net		(20,253)	—	(20,253)
Investment return	$	(12,889)	580	(12,309)
2015:				
Dividends and interest, net of expenses of $2,709	$	5,021	822	5,843
Realized and unrealized gains, net		1,458	—	1,458
Investment return	$	6,479	822	7,301

(In thousands)

Investments, in general, are exposed to various risks such as interest rate, credit, and overall market volatility. As such, it is reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the consolidated balance sheets, statements of operations, and statements of changes in net assets.

(3) Patient Receivables

The composition of net patient receivables at June 30, 2016 and 2015 is as follows:

		2016	2015
Patient accounts receivable	$	543,078	519,626
Less allowance for uncollectible accounts		312,426	290,114
	$	230,652	229,512

For patient receivables associated with self-pay patients, including patients with deductibles and copayment balances for which third-party coverage provides for a portion of the services provided, FMOLHS Affiliates record an estimated provision for uncollectible accounts in the year of service.

(4) Other Current Assets

The composition of other current assets at June 30, 2016 and 2015 is as follows:

		2016	2015
Other receivables	$	24,454	26,596
Inventories		37,911	35,076
Prepaid expenses and other current assets		28,449	24,601
Assets limited as to use required for current liabilities		23,210	21,538
	$	114,024	107,811

(In thousands)

(5) Property and Equipment

A summary of property and equipment as of June 30, 2016 and 2015 is as follows:

		2016	2015	Estimated useful lives
Land	$	125,366	124,329	—
Land improvements		25,310	25,090	2–40 years
Buildings and building improvements		1,185,195	1,149,162	5–50 years
Fixed equipment		118,688	120,792	3–50 years
Movable equipment		734,137	655,158	3–25 years
Leasehold improvements		16,978	14,947	5–15 years
Building and building improvements held for lease		—	713	2–22 years
Construction in progress		15,007	17,550	—
		2,220,681	2,107,741	
Less accumulated depreciation		1,084,507	987,006	
	$	1,136,174	1,120,735	

At June 30, 2016, the FMOLHS Affiliates were obligated under purchase commitments of $4,943 relating to the completion of various construction projects and purchases of equipment. Approximately $5,927 and $7,165 related to such projects and other property additions are included in accounts payable at June 30, 2016 and 2015, respectively.

(6) Other Assets

The composition of other assets at June 30, 2016 and 2015 is as follows:

		2016	2015
Unamortized bond issuance costs, net of accumulated amortization	$	6,197	6,448
Investments in equity investees		57,467	46,262
Cost in excess of net assets acquired		103,356	78,804
Fair value of interest rate swap agreements		1,538	3,638
Other		13,467	18,539
	$	182,025	153,691

(In thousands)

(7) Investment in Equity Investees

A summary of the FMOLHS's investment in equity investees at June 30, 2016 and 2015 included in other assets in the consolidated balance sheets, and its income from equity investees for the years ended June 30, 2016 and 2015 are as follows:

	Ownership interest	Investment in investees	Equity income (loss) of investees
2016:			
Convenient Care, LLC	50%	$ 2,538	994
Capital Area Shared Service Organization – Lake	48	—	(388)
Surgical Specialty Center of Baton Rouge, LLC	49	6,308	6,812
Regional Eye Surgery Center LLC	13	246	232
Baton Rouge Physical Therapy – Lake	29	790	352
Lake Urgent Care Ascension – Lake	30	309	86
Premier Health Holdings, LLC	50	3,367	(751)
Gamma Knife of LA	50	2,300	—
Innovation Institute	16	9,981	(19)
Baton Rouge Physical Therapy – St. Elizabeth	4	98	44
P&S Surgery Center, LLC	50	10,611	(693)
Northeast Louisiana Cancer Institute, LLC	50	2,566	517
Northeast Louisiana Physician Hospital Organization	25	135	(15)
Louisiana Home Care of Monroe, LLC	33	69	45
St. Francis Urgent Care	50	160	(76)
Lourdes After Hours, LLC	50	261	210
LHCG VIII	33	413	63
Park Place Surgery Center	45	4,707	2,740
H & S Land Company, LLC	50	232	—
Resource Optimization and Innovation, LLC	10	9,275	2,034
Capital Area Shared Service Organization – St. Elizabeth	17	—	(137)
Lake Urgent Care Ascension – St. Elizabeth	20	206	58
Mary Bird Perkins Cancer Center – St. Elizabeth	35	2,895	131
		$ 57,467	12,239

(In thousands)

	Ownership interest		Investment in investees	Equity income (loss) of investees
2015:				
Convenient Care, LLC	50%	$	2,230	958
Capital Area Shared Service Organization – Lake	48		—	—
Surgical Specialty Center of Baton Rouge, LLC	49		6,179	6,390
Regional Eye Surgery Center LLC	13		167	268
Baton Rouge Physical Therapy – Lake	29		638	50
Lake Urgent Care Ascension – Lake	30		295	387
Premier Health Holdings, LLC	50		4,118	318
Baton Rouge Physical Therapy – St. Elizabeth	4		79	10
P&S Surgery Center, LLC	50		11,396	(389)
Northeast Louisiana Cancer Institute, LLC	50		2,363	632
Northeast Louisiana Physician Hospital Organization	25		150	(34)
Louisiana Home Care of Monroe, LLC	33		24	51
St. Francis Urgent Care	50		136	—
Lourdes After Hours, LLC	50		302	451
LHCG VIII	33		385	34
Park Place Surgery Center	45		5,364	4,778
H & S Land Company, LLC	50		235	—
Resource Optimization and Innovation, LLC	10		9,241	1,785
Capital Area Shared Service Organization – St. Elizabeth	17		—	—
Lake Urgent Care Ascension – St. Elizabeth	20		196	210
Mary Bird Perkins Cancer Center – St. Elizabeth	35		2,764	165
		$	46,262	16,064

(8) Lines of Credit

At June 30, 2016, FMOLHS affiliates had various unsecured working capital lines of credit with banks in aggregate amount of $49,750, bearing interest at variable rates expiring at various dates through March 2017. Outstanding amounts at June 30, 2016 and 2015 were $18,316 and $481, respectively. FMOLHS affiliates expect to renew the lines of credit at expiration under substantially the same terms and conditions.

(In thousands)

(9) Other Current Liabilities

The composition of other current liabilities at June 30, 2016 and 2015 is as follows:

		2016	2015
Accrued salaries and related expenses	$	89,638	82,426
Accrued interest		8,921	7,651
Due to third-party payors		24,298	27,614
Accrued expenses and other current liabilities		49,899	48,208
	$	172,756	165,899

(10) Long-term Debt

A summary of long-term debt at June 30, 2016 and 2015 is as follows:

		2016	2015
Obligated Group bonds:			
Louisiana Public Facilities Authority Hospital Revenue and Refunding Bonds Series 1998A, $72,560 tax-exempt bonds; due in varying installments through 2026 with interest fixed at rates ranging from 5.50% to 5.75%	$	29,890	33,715
Louisiana Public Facilities Authority Hospital Revenue and Refunding Bonds Series 1998B, $31,050 tax-exempt bonds; due in varying installments through 2017, with interest fixed at rates ranging from 3.5% to 5.00%		4,600	9,350
Louisiana Public Facilities Authority Hospital Revenue Bonds Series 2005A, $80,000 tax-exempt bonds; refunded in August 2015, with interest fixed at rates ranging from 5.00% to 5.25%		—	35,020
Louisiana Public Facilities Authority Hospital Revenue Bonds Series 2005B, $50,000 tax-exempt bonds; due in varying installments from 2014 through 2031, which bear interest at a variable rate (0.17% at June 30, 2016)		48,925	49,300
Louisiana Public Facilities Authority Hospital Revenue Bonds Series 2005D, $88,325 bonds due in varying installments through 2029, which bear interest at a variable rate (0.17% at June 30, 2016)		67,725	71,300
Louisiana Public Facilities Authority Hospital Revenue Refunding Bonds Series 2008A, $47,185 bonds; due in varying installments through 2026, which bear interest at a variable rate (0.20% at June 30, 2016)		44,175	44,175

(In thousands)

	2016	2015
Louisiana Public Facilities Authority Hospital Revenue Refunding Bonds Series 2012A, $56,530 bonds; due in varying installments through 2033, with interest fixed at 2.47%	56,530	56,530
Louisiana Public Facilities Authority Hospital Revenue Bonds Series 2012B, $100,000 bonds; due in varying installments through 2043, with interest at fixed rates ranging from 3.50% to 5.00%	100,000	100,000
Louisiana Public Facilities Authority Hospital Revenue Refunding Bonds Series 2015A, $190,710; due in varying installments through 2040, with interest fixed rates ranging from 3.50% to 5.00%	190,710	190,710
Master Trust Indenture Note (Franciscan Missionaries of our Lady Health System Project) Series 2015B, Northern Trust Company Note; due in full on August 17, 2025, with variable interest rate at LIBOR plus .95% (1.41% at June 30, 2016)	35,160	—
	577,715	590,100
Add unamortized premiums	17,769	18,469
Total Obligated Group bonds	595,484	608,569
Other debt due in varying installments through 2033	7,604	9,139
Total long-term debt for FMOLHS	603,088	617,708
Less current installments of long-term debt	13,707	16,592
	$ 589,381	601,116

FMOLHS and its affiliates participate in an Obligated Group Master Trust Indenture whereby the obligated issuers have agreed to be jointly and severally liable for timely payments due and for the performance and observance of all covenants and agreements pursuant to the trust indenture. FMOLHS directs the proceeds of the borrowed funds to the particular affiliate benefiting therefrom and separate escrow funds are maintained by the trustee for each of the affiliates to support each affiliate's allocated portion of the bonds (note 2). The total debt subject to the Obligated Group guarantee and Master Trust Indenture amounted to $595,484 and $608,569 as of June 30, 2016 and 2015, respectively.

The Master Trust Indenture covering the bond issues contains numerous covenants typical of such agreements, including a liquidity ratio, debt service coverage ratio, and leverage ratio. In addition, the Obligated Group members are subject to restrictions on maintenance of revenue, incurrence of additional debt, disposition of assets, maintenance of insurance, and other restrictions. Obligations of the Obligated Group under the Master Trust Indenture are general obligations secured by the full faith and credit of the

Obligated Group. None of the bonds are secured by a mortgage on, or security interest in, any real or personal property of FMOLHS or its affiliates.

In 2005, FMOLHS completed a system-wide refinancing for the purposes of advance refunding certain 1998A and 1998C bonds and providing additional capital by issuing four series of revenue bonds. The following bond series were issued by the Louisiana Public Facilities Authority (the Authority): $80,000 fixed rate Revenue Bonds (Series 2005A), $100,000 variable rate Revenue Bonds (Series 2005B and 2005C in the amounts of $50,000 each), and $89,325 in variable rate Revenue and Refunding bonds (Series 2005D). The variable rate bonds were issued as auction rate securities. The four bond issues totaled $269,325, of which approximately $83,000 represented refunding of existing bonds and the remainder of approximately $186,000 was designated for capital improvements, including facility modifications and additions and new equipment acquisitions. The variable rate bonds originally issued as auction rate securities have been refinanced and thus the auction rate component is removed.

In May 2008, FMOLHS tendered its 2005B and 2005C auction rate bonds and reissued 2005B and 2005C bonds at weekly variable interest modes. In July and August 2008, the 2005D and 1998B auction rate bonds were tendered by FMOLHS and reissued at daily variable interest modes. In August 2008, the 2008A bonds were issued by FMOLHS. These bonds, issued in the amount of $47,185, bear interest at a variable rate based upon a weekly index rate and are due in 2025. These bonds refunded $42,735 of the 1998A bonds and $3,225 of the 1998C bonds.

In 2009, FMOLHS completed a system-wide issuance of $125,000 of Hospital Revenue Bonds Series 2009 (the 2009A Series). The proceeds for the 2009A Series were used for (i) acquiring, constructing, and equipping a replacement hospital for Lourdes; (ii) acquiring, constructing, and equipping improvement and renovations to the existing Lake facilities, to accommodate modern demands for space and utility and building a satellite outpatient facility in Livingston Parish, Louisiana; and (iii) paying the costs of issuance of the bonds.

In 2009, in addition to the issuance of the 2009A Series, FMOLHS (i) converted the interest rate from the daily variable interest modes to a fixed rate on the Series 1998B and (ii) converted the interest rate from the weekly variable interest modes top a fixed rate on the Series 2005C.

In 2012, FMOLHS completed an issuance of $100,000 of Hospital Revenue Bonds Series 2012 (the 2012B Series). The proceeds for the 2012B Series were used for (i) acquiring, constructing, and equipping a patient tower and other capital improvements at the campus of the Lake and (ii) paying the costs of issuance of the bonds. FMOLHS also completed a $56,530 issuance of Hospital Revenue Bonds Series 2012 (the 2012A Series). The proceeds for the 2012A Series were used to refund all outstanding 2005C bonds and prepayment cost.

On August 7, 2014, FMOLHS completed a refinancing of the Series 2008A through the purchase of the Bonds by Capital One Municipal Funding. The interest rate on the Series 2008A Bonds is computed as a percentage of London Interbank Offered Rate (LIBOR) plus a spread and matures in varying installments through 2025.

(In thousands)

On August 25, 2014, FMOLHS completed a refinancing of the Series 2005B and L Series 2005D through the purchase of the Notes by MUFG Union Bank, N.A. f/k/a Union Bank, N.A. The interest rates on the Series 2005B and Series 2005D Revenue Notes are computed as a percentage of LIBOR plus a spread and matures in varying installments through 2028.

On March 1, 2015, FMOLHS completed the issuance of $190,710 of the Louisiana Public Facilities Authority Hospital Revenue Refunding Bonds (FMOLHS Project – Series 2015A). The proceeds of the bonds were issued for the purpose of advance refunding $44,980 of the Series 2005A, advance refunding all $125,000 of the outstanding Series 2009A, and paying the costs of issuance. Series 2015A shall mature on July 1, 2039. The extinguishment of these bonds resulted in a loss on early extinguishment of debt of $35,507 related to deposits to escrow for early extinguishment of 2005A and 2009A, the removal of the prior bond issuance costs and the unamortized premium and discount.

On August 1, 2015, FMOLHS entered into a taxable loan agreement with The Northern Trust Company. The loan proceeds were used to refund the remaining portion of the 2005A Series and the related issuance costs. The principal amount of the loan agreement is $35,160 and will mature on August 17, 2025. The interest rate is computed at the Index rate, which shall be LIBOR Index plus the applicable spread.

FMOLHS and FMOLHS Affiliates made cash payments for interest of $19,808 and $20,632 during the years ended June 30, 2016 and 2015, respectively.

Aggregate maturities of long-term debt at June 30, 2016 follow:

Year ending June 30:		
2017	$	13,707
2018		13,153
2019		15,314
2020		16,208
2021		15,480
Thereafter		511,457
	$	585,319

(11) Interest Rate Swaps

FMOLHS uses interest rate-related derivative instruments to manage its exposure related to changes in interest rates on its variable rate debt instruments. FMOLHS does not enter into derivative instruments for any purpose other than cash flow hedging. FMOLHS does not speculate using derivative instruments.

By using derivative financial instruments to hedge exposures to changes in interest rates, FMOLHS 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 FMOLHS, which creates credit risk for FMOLHS. When the fair value of a derivative contract is negative, FMOLHS owes the counterparty, and therefore, FMOLHS is not exposed to the counterparty's credit risk in those circumstances. FMOLHS minimizes counterparty credit risk in derivative instruments by entering into transactions with high-quality counterparties.

(In thousands)

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

FMOLHS entered into an interest rate swap agreement with Merrill Lynch Capital Services with respect to the 2005D refunding series. Such agreement is intended to reduce the impact of changes in interest rates on the variable rate debt. The swap agreement effectively changes FMOLHS's interest rate exposure on the 2005D variable rate debt to a fixed rate of 3.53%.

In 2005, FMOLHS also obtained preapproval from the Louisiana Public Facilities Authority for the issuance of revenue refunding bonds in 2008 to advance refund the approximately $48,000 of 1998A and 1998C bonds. In 2005, FMOLHS entered into a forward starting interest rate swap agreement with Goldman Sachs Capital Markets to effectively change FMOLHS's interest rate exposure on the 2008 bonds once issued from a variable rate to a fixed rate of 3.66%.

In June 2007, FMOLHS entered into two Constant Maturity Swaps (CMS) with Merrill Lynch. Under these swap agreements, FMOLHS receives variable rate payments based on the ten-year International Swaps and Derivatives Association Inc. swap rate and makes variable rate payments based on one-month LIBOR. The total notional amount of the first swap is $88,325, with an effective date of July 1, 2008, and the total notional amount of the second swap is $49,075, with an effective date of May 29, 2008.

The interest rate swap agreements are not afforded hedge accounting treatment in the consolidated financial statements and are marked to fair value through the consolidated statements of operations. The net unrealized loss on the interest rate swaps for the years ended June 30, 2016 and 2015 was $4,785 and $1,247, respectively, and is included in nonoperating gains (losses) in the accompanying consolidated statements of operations.

The following is a summary of the contracts outstanding at June 30, 2016 and 2015 and are recorded, as applicable, in either other assets or other long-term liabilities:

June 30, 2016

Related bond issuance	Notional amount	Maturity date	Average rate paid	Average rate received	Increase (decrease) in interest expense	Swap fair value
2005D	$ 67,725	7/1/2028	3.53%	0.23%	$ 2,232	(11,608)
2005D	67,725	7/1/2028	0.23	1.01	(483)	905
2008A	45,487	7/1/2025	3.66	0.23	1,564	(7,066)
2008A	45,625	7/1/2025	0.23	1.01	(356)	633

(In thousands)

June 30, 2015						
Related bond issuance	Notional amount	Maturity date	Average rate paid	Average rate received	Increase (decrease) in interest expense	Swap fair value
2005D	$ 71,300	7/1/2028	3.53%	0.12%	$ 2,432	(9,662)
2005D	71,300	7/1/2028	0.12	1.28	(831)	2,127
2008A	45,696	7/1/2025	3.66	0.12	1,619	(6,327)
2008A	45,875	7/1/2025	0.12	1.28	(534)	1,511

(12) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets restricted by time and purpose at June 30, 2016 and 2015 are available for the following purposes:

	2016	2015
Healthcare services	$ 30,365	22,059
Elderly housing	9,359	9,517
Building and equipment acquisitions	116	116
Educational services	5,287	5,040
Other	198	137
	$ 45,325	36,869

Permanently restricted net assets totaled $5,400 and $5,300 at June 30, 2016 and 2015, the income from which is restricted for educational services.

Net assets released from restrictions for the years ended June 30, 2016 and 2015 are as follows:

	2016	2015
Healthcare services	$ 3,061	5,008
Elderly housing	171	161
Educational services and other	1,586	789
	$ 4,818	5,958

(13) Net Patient Service Revenue

The FMOLHS Affiliates have agreements with governmental and other third-party payors that provide for reimbursement to the FMOLHS Affiliates at amounts different from their established rates. Contractual adjustments under third-party reimbursement programs represent the difference between billings at established rates for services and amounts reimbursed by third-party payors. Management regularly analyzes the historical contractual adjustments for each payor group to determine if current estimates for contractual adjustment allowances need to be revised. A summary of the basis of reimbursement with major third-party payors is as follows:

(a) Medicare

Substantially all 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. Certain types of exempt services and other defined payments related to Medicare beneficiaries are paid based on cost reimbursement or other retroactive determination methodologies. The FMOLHS Affiliates are paid for retroactively determined items at tentative rates with final settlement determined after submission of annual cost reports by FMOLHS Affiliates and audits by the Medicare fiscal intermediary. The FMOLHS Affiliates' Medicare cost reports have been audited by the Medicare fiscal intermediary through varying years ranging from June 30, 2010 to June 30, 2014.

(b) Medicaid

Inpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined per diem rates. These rates vary according to a hospital classification system that is based on bed size, teaching status, and other factors. Additional outlier payments are made for neonatal intensive care patients with extended lengths of stay. Outpatient services rendered to Medicaid program beneficiaries are reimbursed based upon a cost reimbursement methodology. The FMOLHS Affiliates are paid at a tentative rate with final settlement determined after submission of annual cost reports by FMOLHS Affiliates and audits by the Medicaid fiscal intermediary. The FMOLHS Affiliates' Medicaid cost reports have been audited by the Medicaid fiscal intermediary through varying years ranging from June 30, 2005 to June 30, 2012.

(c) Blue Cross

Inpatient services rendered to Blue Cross subscribers are paid at prospectively determined per diem rates. Outpatient services are paid based on a fee schedule.

(d) Certain Commercial Insurance Carriers, Health Maintenance Organizations, and Preferred Provider Organizations

Payment methodologies under these agreements include prospectively determined rates per discharge, discounts from established charges, prospectively determined per diem rates, and fee schedules.

The FMOLHS Affiliates' net patient service revenue for the years ended June 30, 2016 and 2015 increased \$1,259 and \$16,382, respectively, due to changes in previously estimated allowances as a result of final settlements, closure on years that are no longer subject to audits, and prior year retroactive adjustments.

With the expansion of prepayment reviews, including recovery audit contractor (RAC) reviews by the Centers for Medicare and Medicaid Services (CMS), the FMOLHS Affiliates continue to experience changes to net patient service revenue for prior years of service. Due to completed, pending, and projected RAC reviews, the FMOLHS Affiliates' net patient revenue increased by $17,694 and decreased $2,792 for the years ended June 30, 2016 and 2015, respectively.

(In thousands)

The FMOLHS's Affiliates' net patient service revenue is also reduced by provision for uncollectible accounts. The historical collections and write-offs of bad debts are reviewed annually and periodically during the fiscal year to determine if adjustments need to occur to the allowance for uncollectible accounts. The allowance for uncollectible accounts includes an analysis of self-pay patients without insurance coverage, and an analysis of deductibles and copayment balances for patients with insurance coverage. FMOLHS's Affiliates' allowance for uncollectible accounts increased $22,312 and is primarily due to collections for the self-pay patients covered by the Cooperative Endeavor Agreement (note 22).

Presented below is a summary of amounts comprising net patient service revenue for the years ended June 30, 2016 and 2015:

		2016	2015
Inpatient revenue	$	2,148,485	2,007,895
Outpatient revenue		3,081,813	2,501,719
Gross patient service revenue		5,230,298	4,509,614
Less provision for contractual and other adjustments		3,312,437	2,765,604
Less provision for uncollectible accounts		174,526	133,719
Net patient service revenue	$	1,743,335	1,610,291

The composition of net patient service revenue, before provision for uncollectible accounts, by major payor source is as follows:

		2016	Percentage		2015	Percentage
Medicare	$	520,414	27%	$	504,386	29%
Medicaid		263,841	13		230,084	13
Blue Cross		431,636	23		379,251	22
Self-pay		224,011	12		156,154	9
Managed care/other		477,959	25		474,135	27
	$	1,917,861	100%	$	1,744,010	100%

In the spring of 2010, the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act (collectively, the Health Care Acts) were signed into law by President Obama. The impact of the Health Care Acts is complicated and difficult to predict, but FMOLHS anticipates its reimbursement in the future will be affected by major elements of the Health Care Acts designed to (1) increase insurance coverage, (2) change provider and payor behavior, and (3) encourage alternative delivery models. Many

(Continued)

(In thousands)

healthcare reform variables remain unknown and are, among other things, dependent on implementation by federal and state governments and reactions by providers, payors, employers, and individuals. FMOLHS continues to monitor developments in healthcare reform and participates actively in contemplating and designing new programs that are encouraged and/or required by the Health Care Acts.

The Health Information Technology for Economic and Clinical Health (HITECH) Act was enacted as part of the American Recovery and Reinvestment Act of 2009 and signed into law in February 2009. In the context of the HITECH Act, FMOLHS must implement a certified Electronic Health Record (EHR) in an effort to promote the adoption and "meaningful use" of health information technology (HIT). The HITECH Act includes significant monetary incentives and payment penalties meant to encourage the adoption of EHR technology. FMOLHS anticipates that its current efforts at implementing an enterprise-wide EHR will enable its compliance with Meaningful Use objectives mandated in the HITECH legislation.

(14) Business and Credit Concentrations

The FMOLHS Affiliates grant credit to their patients, substantially all of whom are local residents. The FMOLHS Affiliates generally do not require collateral or other security in extending credit to patients; however, they routinely obtain assignment of (or are otherwise entitled to receive) patients' benefits payable under their health insurance programs, plans, or policies (e.g., Medicare, Medicaid, Blue Cross, health maintenance organizations, preferred provider arrangements, and commercial insurance policies).

The mix of accounts receivable from patients and third-party payors at June 30, 2016 and 2015 is as follows:

	2016	2015
Medicare	23%	24%
Medicaid	10	11
Blue Cross	20	18
Self-pay	20	17
Managed care/other	27	30
	100%	100%

(15) Related-party Transactions

The FMOL Sisters formed the Franciscan Fund (Fund) to support community programs in the operating areas of the FMOLHS hospitals. Each FMOLHS hospital makes contributions to the Fund based on a percentage of earnings determined by the Fund, then can submit grant applications to the Fund to receive moneys back for supporting its community programs. Grant making decisions are made by the FMOL Sisters and no guarantee is provided that each hospital will receive back their specific contribution amounts in the form of a formal grant from the Fund. During 2016 no contributions were made to the Fund, and during 2015 FMOLHS contributed $7,000 to the Fund.

The affiliation agreement between FMOLHS Affiliate and Mary Bird Perkins Cancer Center was effective July 1, 2012. This agreement is to further enhance the cancer program operations, including clinical research, and to provide the community with comprehensive cancer care services. The cost of this program is shared by both entities and the operating expense for FMOLHS for the years ended June 30, 2016 and 2015 was $861 and $1,157, respectively.

During 2013, FMOLHS Affiliate also entered into Management Services agreements with Mary Bird Perkins Cancer Center to manage the business operations of medical oncology services. The services provided by Mary Bird Perkins Cancer Center included management of operations, scheduling and registration of patients, management of billing and collections services, and staffing support for clinical and nonclinical personnel. The management services and staffing expenses incurred for the year ended June 30, 2016 and 2015 were $7,345 and $3,829, respectively.

Effective February 2012, FMOLHS amended the Operating Agreement with Resource Optimization & Innovation, LLC, which is organized to facilitate and administer the purchasing, manufacturing, processing, and distribution of medical and pharmaceutical products and services at competitive prices. FMOLHS's ownership percentage in Resource Optimization & Innovation, LLC is 10%, and the equity in income from this equity investee for the years ended June 30, 2016 and 2015 was $2,034 and $1,785, respectively.

The Lake contributed $3,800 (50% ownership interest) to Premier Health Holdings, LLC, which was formed on December 31, 2014. Premier Health Holdings, LLC owns, leases, and provides management services for urgent care centers. Management and consulting services are provided to urgent care centers owned or partially owned by the Lake, St. Elizabeth, and Lourdes. The Lake also owns 50% of Convenient Care, LLC, and some members with ownership in the remaining 50% of Convenient Care, LLC also have an ownership interest in Premier Health Holdings, LLC.

(In thousands)

(16) Retirement Plans

(a) Defined Benefit Plans

FMOLHS Affiliates sponsor various defined benefit plans (the Plans). The following tables at June 30, 2016 and 2015 sets forth, in the aggregate, the Plans' changes in benefit obligations, changes in plan assets, and the funded status of the Plans:

		2016	2015
Change in benefit obligation:			
Projected benefit obligation, beginning of year	$	937,717	856,985
Service cost		25,864	26,306
Interest cost		43,829	38,738
Plan amendments		—	1,440
Actuarial losses		72,999	35,011
Benefits paid		(87,923)	(20,763)
Projected benefit obligation, end of year		992,486	937,717
Change in plan assets:			
Fair value of plan assets, beginning of year		556,162	558,921
Actual return on plan assets		(15,653)	1,745
Contributions made		28,588	16,259
Benefits paid		(87,923)	(20,763)
Fair value of plan assets, end of year		481,174	556,162
Funded status	$	(511,312)	(381,555)
Amounts recognized in the consolidated balance sheets consist of:			
Accrued pension cost	$	(511,312)	(381,555)
Amounts recognized in unrestricted net assets:			
Prior service cost	$	395	370
Net actuarial loss		331,836	231,526
	$	332,231	231,896

Weighted average assumptions used to determine the projected benefit obligations at June 30, 2016 and 2015 were as follows:

	2016	2015
Weighted average discount rate:		
Lake (including FMOLHS and St. Elizabeth)	4.02%	4.74%
Lourdes	3.95	4.74
St. Francis	3.92	4.74
Rate of compensation increase	3.00-4.00	3.00–4.00

(In thousands)

Effective February 1, 2016, the Plans were amended to allow for a temporary and voluntary lump sum window option. The lump sum window option election period was February 8, 2016 through March 31, 2016. As a result of the lump sum window option participants elected to early withdraw $63,765. As a result of the participation levels for certain Plans, FMOLHS recorded an additional $9,571 in settlement expense during the year ended June 30, 2016.

Net periodic pension cost for the years ended June 30, 2016 and 2015 includes the following components:

		2016	2015
Service cost, benefits earned during the year	$	25,864	26,306
Interest cost on projected benefit obligation		43,829	38,738
Expected return on plan assets		(41,639)	(41,218)
Amortization of actuarial losses		20,409	12,215
Amortization of prior service cost		(25)	(237)
Net periodic pension cost		48,438	35,804
Settlement expense		9,571	—
Other changes in plan assets and benefit obligations recognized in unrestricted net assets:			
Net actuarial loss		130,291	74,484
Amortization of net actuarial losses		(29,981)	(12,215)
Amortization of prior service cost		25	237
Prior service credit		—	1,440
		100,335	63,946
Total recognized in net periodic benefit costs and unrestricted net assets	$	158,344	99,750

Weighted average assumptions used to determine net periodic pension cost for the years ended June 30, 2016 and 2015 were as follows:

	2016	2015
Weighted average discount rate	4.74%	4.58%
Expected return on plan assets	7.50	7.50
Rate of compensation increase	3.0–4.0	3.50–4.25

(In thousands)

The defined-benefit pension plan asset allocation as of the measurement date (June 30, 2016 and 2015) and the target asset allocation, presented as a percentage of total plan assets, were as follows:

	2016	2015	Target allocation
U.S. equity	18%	19%	15%–25%
Global equity	16	16	10–20
Real assets	12	7	5–15
Fixed income and cash	10	18	10–25
Emerging markets	7	7	3–10
Hedge funds	30	30	15–35
Private equity funds	6	4	2–10

FMOLHS overall expected long-term rate of return on assets is 7.50%. 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. The return is based on historical returns, without adjustments.

FMOLHS provides investment oversight for all of the FMOLHS Affiliates' defined benefit plans. Asset allocations and investment performance are formally reviewed quarterly by the FMOLHS Investment Committee (Investment Committee). FMOLHS utilizes an investment advisor, multiple managers for different asset classes, and a separate custodian in managing the pooled funds.

The asset allocation is designed to provide a diversified mix of asset classes, including U.S. and foreign equity securities, fixed-income securities, hedge funds, real estate investment trusts, and cash. The investment goals for the pooled funds are to achieve returns in the top half of a representative universe of professionally managed funds with a percentage of equity, fixed income, and alternate investments to be indicative of the asset mix policy of the fund; to exceed the return of a balanced market index weighted to replicate the asset allocation policy of the plan; to exceed the rate of inflation as measured by the consumer price index (CPI) by at least 500 basis points on an annualized basis; to achieve a positive risk-adjusted return; and to achieve a rate of return above the current actuarial assumption. Risk management practices include various criteria for each asset class, including measurement against various benchmarks, achievement of a positive risk-adjusted return, and investment guidelines for each class of assets that enumerate types of investments allowed in each category.

FMOLHS's retirement plan assets are reported at fair value. Level 1 assets include investments in publicly traded equity securities and mutual funds. These securities (or the underlying investments of the funds) are actively traded and valued using quoted prices for identical securities from the market exchanges. Level 2 assets consist of fixed-income securities and comingled funds that are not actively traded or whose underlying investments are valued using observable marketplace inputs. The fair value of plan assets invested in fixed-income securities is generally determined using valuation models that use observable inputs such as interest rates, bond yields, low-volume market quotes, and quoted prices for similar assets. Plan assets that are invested in comingled, hedge, and private equity funds are valued using a unit price or net asset value (NAV) that is based on the underlying investments of the fund. Level 3 assets include investments in private equities and hedge funds valued using significant unobservable inputs.

(In thousands)

The following is a summary of the levels within the fair value hierarchy of plan assets as of June 30, 2016 and 2015:

	June 30, 2016			
	Level 1	Level 2	Level 3	Total
Asset category:				
Cash	$ 21,686	—	—	21,686
Equity securities:				
U.S. companies	34,098	—	—	34,098
U.S. companies – alternative investments	—	8,700	45,443	54,143
International companies	47,359	—	—	47,359
International companies – alternative investments	—	31,370	—	31,370
Real assets	26,695	—	—	26,695
Real assets – alternative investments	—	11,691	16,945	28,636
Fixed-income securities:				
U.S. government guaranteed	1,395	—	—	1,395
U.S. agency	—	2,450	—	2,450
Corporate	—	7,214	—	7,214
Municipal	—	352	—	352
Alternative investments	—	—	5,089	5,089
Other	11,743	551	—	12,294
Emerging markets – alternative investments	—	17,242	18,426	35,668
Alternative asset funds:				
Hedge funds	—	—	145,289	145,289
Natural resource funds	—	—	3,997	3,997
Real estate funds	—	—	3,247	3,247
Private equity funds	—	—	20,192	20,192
Total	$ 142,976	79,570	258,628	481,174

(In thousands)

	June 30, 2015			
	Level 1	Level 2	Level 3	Total
Asset category:				
Cash	$ 14,839	—	—	14,839
Equity securities:				
U.S. companies	60,693	—	—	60,693
U.S. companies – alternative investments	—	—	44,942	44,942
International companies	60,110	—	—	60,110
International companies – alternative investments	—	28,372	—	28,372
Real assets	21,660	—	—	21,660
Real assets – alternative investments	—	14,569	—	14,569
Fixed-income securities:				
U.S. government guaranteed	4,038	—	—	4,038
U.S. agency	—	14,354	—	14,354
Corporate	—	21,765	—	21,765
Municipal	—	1,759	—	1,759
Alternative investments	—	—	21,636	21,636
Other	16,842	3,019	—	19,861
Emerging markets – alternative investments	—	18,196	20,301	38,497
Alternative asset funds:				
Hedge funds	—	—	164,013	164,013
Natural resource funds	—	—	4,289	4,289
Real estate funds	—	—	1,718	1,718
Private equity funds	—	—	19,047	19,047
Total	$ 178,182	102,034	275,946	556,162

There were no transfers into or out of Level 1, Level 2, and Level 3 investments during fiscal 2016 and 2015.

(In thousands)

The fair values of the following plan assets have been estimated using the net assets value per share as of June 30, 2016 and 2015:

		2016	2015	Redemption terms**	Notice period (days)	Remaining life**
Asset category:						
U.S. equity funds (a)	$	54,143	44,942	Quarterly	60	—
International equity funds (b)		31,370	28,372	Monthly	10	—
International emerging markets (c)		35,668	38,497	Monthly	30	—
Fixed income funds (d)		5,089	21,636	—	—	1 year
Hedge fund of funds (e)		145,289	164,013	Quarterly – annually	30–180	—
Real asset funds (f)		28,636	14,569	Monthly	24	—
U.S. venture capital funds (g)		5,822	6,366	—	—	4–6 years
U.S. private equity (h)		2,940	3,295	—	—	4–6 years
International private equity (i)		11,429	9,386	—	—	4–6 years
Natural resources (j)		3,997	4,289	—	—	4–6 years
Real estate funds (k)		3,247	1,718	—	—	1 year

** Information reflects a range of various terms from multiple investments

(a) The primary objective of the U.S. equity funds is to match the risk and return characteristics of the S&P 500 Index.

(b) The international equity fund's investment objective is to outperform the MSCI World Market Index by investing in a portfolio of publicly traded equity securities.

(c) The investment objective of the international emerging markets equity funds is to outperform the MSCI Emerging Markets Index, net of dividend withholding taxes, by investing in a portfolio of non-U.S. emerging market equities.

(d) The primary objective of the fixed income fund is to outperform the Northern Trust Bond Indexes and the S&P LSTA Leveraged Loan Index by focusing their investments in asset-based lending, senior-secured debt, and fixed income securities.

(e) The hedge fund of funds' objective is to develop and actively maintain an investment portfolio of long-term returns through strategies such as multistrategy, event focused, distressed, U.S. long/short, and global long/short.

(f) The real asset funds seek to generate a total return in the long-term through investments in commodity-related instruments globally.

(In thousands)

(g) U.S. venture capital funds invest in target funds, which in turn, make venture capital investments primarily in emerging growth companies with the objective of obtaining long-term growth capital.

(h) U.S. private equity funds invest in private limited partnerships, which in turn, make investments in equity securities, warrants, or other options that are generally not actively traded at the time of investment.

(i) International private equity funds invest in limited partnerships, which in turn, make international private equity investments with the objective of obtaining long-term growth of capital.

(j) Natural resources funds invest in limited partnerships, which in turn, make oil, gas, and timber investments.

(k) Private real estate invest its capital on a pari passu basis in certain real estate funds formed as limited partnerships, limited liability companies, private real estate investment trusts, or similar entities that will, in turn, invest in office, retail, industrial and other commercial real estate properties, as well as in select residential properties, or in real estate-related securities.

The following tables present a roll-forward of the fair value of Level 3 (significant unobservable inputs) plan assets for the years ended June 30, 2016 and 2015:

	June 30, 2016								
	Hedge Funds	Natural Resource Funds	Real Estate Funds	Real assets	Private Equity	Emerging Markets	Equity	Fixed income	Total
Beginning balance as of June 30, 2015	$ 164,013	4,289	1,718	—	19,047	20,301	44,942	21,636	275,946
Total gains or losses:									
Realized and unrealized gains and losses:									
Relating to assets held at end of year	(11,805)	(292)	1,529	3,395	1,145	(1,875)	501	(342)	(7,744)
Relating to assets sold during the year	(31)	—	—	—	—	—	—	—	(31)
Purchases, issuances, sales, and settlements:									
Purchases	11,500	—	—	13,550	—	—	—	—	25,050
Sales	(18,388)	—	—	—	—	—	—	(16,205)	(34,593)
Ending balance as of June 30, 2016	$ 145,289	3,997	3,247	16,945	20,192	18,426	45,443	5,089	258,628

(In thousands)

	June 30, 2015							
	Hedge Funds	Natural Resource Funds	Real Estate Funds	Private Equity	Emerging Markets	Equity	Fixed income	Total
Beginning balance as of June 30, 2014	$ 162,702	5,087	2,478	14,757	20,739	40,476	3,184	249,423
Total gains or losses:								
Realized and unrealized gains and losses:								
Relating to assets held at end of year	1,825	(872)	(760)	2,270	(438)	4,466	(854)	5,637
Relating to assets sold during the year	8	—	—	—	—	—	—	8
Purchases, issuances, sales, and settlements:								
Purchases	4,000	105	—	2,020	—	—	19,714	25,839
Sales	(4,522)	(31)	—	—	—	—	(408)	(4,961)
Ending balance as of June 30, 2015	$ 164,013	4,289	1,718	19,047	20,301	44,942	21,636	275,946

The asset allocation policy provides for a range of minimum and maximum investments in each asset class to allow flexibility in achieving expected long-term rate of return. Historical return patterns and correlations, consensus return forecast, and other relevant financial factors are analyzed to check for reasonableness and appropriateness of the asset allocation to ensure that the probability of meeting actuarial assumptions is reasonable. The Investment Committee monitors manager performance, rate of return, and risk factors on a quarterly basis and makes required adjustments to achieve expected returns.

As of June 30, 2016 and 2015, the Plans had accumulated benefit obligations (ABO) of $907,731 and $863,532, respectively. At June 30, 2016 and 2015, the fair value of plan assets falls short of the ABO by $426,557 and $307,370, respectively.

The estimated net loss and prior service cost that will be amortized from unrestricted net assets into net periodic benefit cost over the next fiscal year is $(35,068) and $(20,383), respectively.

Future benefit payments expected to be paid in each of the next five fiscal years and five years thereafter as of June 30, 2016 are as follows:

Year(s) ending June 30:	
2017	$ 28,299
2018	31,647
2019	34,626
2020	37,703
2021	40,621
2022–2026	242,883

(In thousands)

(b) *Defined Contribution Plans*

The FMOLHS Affiliates also sponsor 403(b) and 401(k) plans. These defined contribution plans are available to substantially all employees. No contributions are made to the Plans by the FMOLHS Affiliates.

The defined benefit pension plans were closed to new entrants in 2006 and a new defined contribution plan was created for those hired after June 30, 2006, the FMOL Health System Retirement Plan (FMOL Plan). Substantially all employees of the FMOLHS Affiliates meeting eligibility requirements may participate in the FMOL Plan. The FMOLHS Affiliates may annually elect to make a contribution on behalf of those participants in an amount determined by the FMOLHS Affiliates. Contribution expense of $12,261 and $10,457 was recorded for the years ended June 30, 2016 and 2015, respectively.

(c) *Retiree Medical Plan*

Lourdes offers partially subsidized healthcare benefits to employees who retired before June 30, 2006. Costs are accrued for this plan during the service lives of covered employees. Retirees contribute a portion of the self-funded cost of healthcare benefits and Lourdes contributes the remainder. The healthcare plan is funded on a pay-as-you-go basis. Lourdes retains the right to modify or terminate the benefits and/or cost sharing provisions. The accrued liability for such benefits was approximately $26 and $328 at June 30, 2016 and 2015, respectively, and is included in other long-term liabilities.

(17) Functional Expense

The FMOLHS Affiliates provide healthcare and other services to residents within its service area. Expenses related to providing these services for the years ended June 30, 2016 and 2015 are as follows:

		2016	2015
Healthcare services	$	1,185,415	1,059,603
General and administrative		656,483	624,375
Educational services		22,673	21,761
Fund-raising		5,939	8,069
	$	1,870,510	1,713,808

(18) Fair Value of Financial Instruments

(a) *Fair Value of Financial Instruments*

The carrying amounts of all applicable asset and liability financial instruments reported in the consolidated balance sheets, except for long-term debt, approximate their estimated fair values, in all significant respects, at June 30, 2016 and 2015.

(In thousands)

FMOLHS's financial instruments for which estimated fair values differ from their carrying amounts at June 30, 2016 and 2015 are summarized as follows:

	2016		2015	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Liabilities – long-term debt	$ 603,088	652,918	617,708	629,326

The fair value of long-term debt, which is a Level 2 estimate is determined by discounting the future cash flows of each instrument at rates that reflect rates currently observed in publicly trade debt markets for debt of similar terms to companies with comparable credit risk.

(b) *Fair Value Hierarchy*

The following tables present the placement in the fair value hierarchy of assets and liabilities that are measured at fair value on a recurring basis as of June 30, 2016 and 2015:

	June 30, 2016			
	Level 1	Level 2	Level 3	Total
Assets category:				
Equity securities:				
U.S. companies	$ 81,013	13,397	—	94,410
International companies	67,160	34,694	—	101,854
Real assets	41,398	20,634	—	62,032
Fixed-income securities:				
U.S. government guaranteed	9,242	—	—	9,242
U.S. agency	—	22,836	—	22,836
Corporate	—	42,369	—	42,369
Municipal	—	7,602	—	7,602
Other	38,470	6,441	—	44,911
Emerging markets	—	25,474	—	25,474
Alternative asset funds:				
Hedge funds	—	130	—	130
Private equity	—	13	—	13
Interest rate swaps	—	1,538	—	1,538
Total – categorized	$ 237,283	175,128	—	412,411

FRANCISCAN MISSIONARIES OF OUR LADY HEALTH
SYSTEM, INC. AND AFFILIATED ORGANIZATIONS

Notes to Consolidated Financial Statements

June 30, 2016 and 2015

(In thousands)

	June 30, 2016			
	Level 1	Level 2	Level 3	Total
Assets limited as to use and short-term investments accounted for using the equity method and cash – uncategorized				$ 462,913
				$ 875,324
Liabilities:				
Interest rate swaps	$ —	18,674	—	18,674

	June 30, 2015			
	Level 1	Level 2	Level 3	Total
Assets category:				
Equity securities:				
U.S. companies	$ 84,735	29,407	—	114,142
International companies	74,906	—	—	74,906
Real assets	27,014	20,864	—	47,878
Fixed-income securities:				
U.S. government guaranteed	8,319	—	—	8,319
U.S. agency	—	31,981	—	31,981
Corporate	—	38,313	—	38,313
Municipal	—	7,250	—	7,250
Other	37,608	6,546	—	44,154
Emerging markets	—	25,744	—	25,744
Alternative asset funds:				
Hedge funds	—	130	—	130
Private equity	—	78	—	78
Interest rate swaps	—	3,638	—	3,638
Total – categorized	$ 232,582	163,951	—	396,533

(Continued)

(In thousands)

	June 30, 2015				
		Level 1	Level 2	Level 3	Total
Assets limited as to use and short-term investments accounted for using the equity method and cash – uncategorized					$ 503,298
					$ 899,831
Liabilities:					
Interest rate swaps	$	—	15,989	—	15,989

The fair values of the following investments have been estimated using the net assets value per share as of June 30, 2016 and 2015:

		2016	2015	Redemption terms**	Notice period (days)	Remaining life**
Asset category:						
International emerging markets (a)	$	25,474	25,744	Monthly	30	—
Real asset funds (b)		20,634	20,864	Monthly	24	—

** Information reflects a range of various terms from multiple investments

(a) The investment objective of the international emerging markets equity funds is to outperform the MSCI Emerging Markets Index, net of dividend withholding taxes, by investing in a portfolio of non-U.S. emerging market equities.

(b) The real asset funds seek to generate a total return in the long-term through investments in commodity-related instruments globally.

FMOLHS's accounting policy is to recognize transfers between levels of the fair value hierarchy on the date of the event or change in circumstances that caused the transfer. There were no significant transfers into or out of Level 1, Level 2, or Level 3 for the years ended June 30, 2016 or 2015.

The investments classified as Level 2 are as follows:

- Shares or units in investment funds as opposed to direct interests in the funds' underlying holdings, which may be marketable. Because the net asset value reported by each fund is used as a practical expedient to estimate the fair value of FMOLHS's interest therein, its classification in Level 2 is based on FMOLHS's ability to redeem its interest at or near the date of the consolidated balance sheets. If the interest can be redeemed in the near term, the investment is classified in Level 2. The classification of investments in the fair value hierarchy is not necessarily an indication of the risks, liquidity, or degree of difficulty in estimating the fair value of each investment's underlying assets and liabilities.

- Bonds whose fair values are determined by independent vendors. The vendors compile prices from various sources and may apply matrix pricing for similar bonds or loans where no price is observable in an actively traded market. If available, the vendor may also use quoted prices for recent trading activity of assets with similar characteristics to the bond being valued.

(c) Limitations

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

(19) Insurance Programs

The FMOLHS Affiliates are qualified under the State of Louisiana medical malpractice program and are self-insured for the first $100 of professional liability per occurrence; additional coverage is provided by the Louisiana Patients' Compensation Fund for the next $400 of professional liability up to the present statutory maximum of $500 per claim (exclusive of additional amounts for future medical expenses provided by law.) FMOLHS's professional and general liability insurance program is managed through Louise, its wholly owned captive insurer. As of June 30, 2016, FMOLHS has significant excess insurance coverage in place for general and professional liability risks, with a $2,000 self-insured retention for professional liability and a $1,000 layer of self-insurance for general liability. A $6,000 aggregate sits above these limits, covering general and professional liability. Incurred losses identified under FMOLHS's incident reporting system and incurred, but not reported losses are accrued based on estimates that incorporate FMOLHS's past experience, as well as other considerations such as the nature of each claim or incident, relevant trend factors, and advice from consulting actuaries. The reserve for estimated professional and general liability, and worker's compensation costs is approximately $28,652 and $30,361 as of June 30, 2016 and 2015, respectively. Claims liabilities are estimated at a present value of future claims payments using a discount rate of 3%.

FMOLHS has established a self-insurance trust fund for payment of liability claims and makes deposits to the fund in amounts determined by consulting actuaries. FMOLHS also has substantial excess liability coverage available under the provisions of certain claims-made policies, currently expiring on June 30, 2017. To the extent that any claims-made coverage is not renewed or replaced with equivalent value insurance, claims based on occurrences during the term of such coverage, but reported subsequently, would be uninsured. Management believes, based on incidents identified through the incident reporting process that any such claims would not have a material effect on FMOLHS's results of operations or financial position. In any event, management anticipates that the claims-made coverage currently in place will be renewed or replaced with equivalent insurance as the term of such coverage expires.

(In thousands)

FMOLHS is also self-insured with respect to employee health coverage (up to $500 limit per claim) and workers' compensation (up to a limit of $450 per individual claim). Substantial coverage with a third-party carrier is maintained for potential excess losses under the workers' compensation program. The employee health self-insured reserves are approximately $10,110 and $10,740 as of June 30, 2016 and 2015, respectively, and are included in other current liabilities in the consolidated balance sheets. The workers' compensation reserves are approximately $13,288 and $15,590 as of June 30, 2016 and 2015, respectively, and are included in professional and general liabilities in the consolidated balance sheets.

(20) Leases – Lessor

FMOLHS Affiliates lease office space and clinical facilities under operating leases. The terms of these leases range from month to month to 20 years. Assets held for lease at June 30, 2016 and 2015 consist of buildings and improvements with an original cost of $235,994 and $231,071, respectively, and fixed equipment with an original cost of $23,316 and $19,754, respectively. Total accumulated depreciation is $126,357 and $121,891 at June 30, 2016 and 2015, respectively. Future minimum lease payments to be received at June 30, 2016 are as follows:

Year ending June 30:		
2017	$	10,673
2018		9,009
2019		7,194
2020		6,870
2021		6,635
Thereafter		14,864
	$	55,245

(21) Commitments and Contingencies

(a) Investments

As it relates to alternative assets, FMOLHS is obligated under certain limited partnership agreements to provide advance funding up to specific levels upon the request of the general partner. See note 2(b).

(In thousands)

(b) Capital Leases

As of June 30, 2016, FMOLHS Affiliates were obligated under various capital leases, each with noncancelable terms in excess of one year. Future minimum lease payments as of June 30, 2016 are as follows:

Year ending June 30:		
2017	$	6,296
2018		5,843
2019		5,248
2020		5,225
2021		2,480
Thereafter		11,412
Total minimum lease payments		36,504
Less amounts representing interest		9,884
Present value of future minimum lease payments		26,620
Less current portion of capital lease obligations		4,828
Capital lease obligations excluding current portion	$	21,792

The net book value of assets under capital lease as of June 30, 2016 and 2015 was $25,926 and $25,575, respectively.

For the year ended June 30, 2016, FMOLHS entered into new capital leases for equipment in the amount of $264. $14,854 in new capital leases were entered into for the year ended June 30, 2015.

(c) Operating Leases – Lessee

Rental expense for all operating leases totaled $24,979 and $24,628 for the years ended June 30, 2016 and 2015, respectively. Future minimum rental payments under operating leases that have initial or remaining noncancelable terms in excess of one year as of June 30, 2016 follow:

Year ending June 30:		
2017	$	17,627
2018		12,644
2019		11,530
2020		10,893
2021		9,649
Thereafter		23,786
	$	86,129

(d) Asset Retirement Obligations

FMOLHS recognizes obligations associated with the future retirement of long-lived assets. Estimated asset retirement obligations of $1,941 and $1,849 for the years ended June 30, 2016 and 2015, respectively, are classified as a long-term liability.

(e) Contingent Liabilities

FMOLHS and the FMOLHS Affiliates have certain pending and threatened litigation and claims incurred in the ordinary course of business; however, management believes that the probable resolution of such contingencies will not exceed the self-insurance reserves or insurance coverage, and will not materially affect the financial position or the results of operations.

(f) Regulatory Compliance

The U.S. Department of Justice and other federal agencies are increasing resources dedicated to regulatory investigations and compliance audits of healthcare providers. The FMOLHS Affiliates are subject to these regulatory efforts and have corporate compliance committees that monitor and respond to regulatory changes and any issues that may arise.

In consultation with legal counsel, management is not aware of any issues that could have a material adverse effect on the FMOLHS Affiliates' financial position or results of operations.

(g) Information Technology Contract

Beginning in fiscal year 2009, FMOLHS entered into a variety of contracts with a major information technology vendor. The agreements are generally for terms of seven years. The contracts generally commit FMOLHS to the purchase of a variety of information technology products and services from this vendor for defined-payment streams over the terms of the contracts. Certain software license and related implicit maintenance costs were capitalized at the inception of the agreements in the amount of $17,621, with recognition of an associated liability related to FMOLHS's acquisition of these intangible assets. Capitalized software and implied maintenance costs are being amortized over the estimated useful life of the software licenses (generally seven years) and the implicit maintenance period (which varies depending on first date of productive use), respectively. Other contract costs are evaluated for capitalization or expense recognition under relevant accounting literature as associated products and/or services are provided.

(In thousands)

The following table summarizes FMOLHS's future payment commitments under the contract as of June 30, 2016:

		Capitalized software obligation		Other
2017	$	2,090		8,517
2018		2,795		7,972
2019		2,795		7,972
2020		2,795		7,972
Total		10,475	$	32,433
Less amounts representing interest at 4.19%		935		
Long-term obligation (included in other long-term liabilities)	$	9,540		

(22) Cooperative Endeavor Agreements

(a) Our Lady of the Lake Cooperative Endeavor Agreement

As part of its mission to ensure an appropriate supply of medical professionals in its service area and improve graduate medical education in the region, the Lake entered into an agreement with the State of Louisiana Department of Health and Hospitals (DHH) and Louisiana State University Health Sciences (LSU) in February 2010. The parties received associated governmental approval of the agreement from the Center for Medicare and Medicaid Services (CMS) on July 13, 2010. Major components of the agreement are as follows:

- The Lake constructed a medical education building (MEB) to house LSU training programs (which was donated by the Lake to LSU at completion of construction), expand its clinical capacity by 60 licensed beds, and implement a Trauma Center. The Lake recorded $1,950 and $2,098 in other current liabilities in the consolidated balance sheets as of June 30, 2016 and 2015 to reflect its promise to give in accordance with relevant accounting literature, related to the MEB.
- DHH provided payments under a reimbursement structure to the Lake, which are intended to compensate the Lake for incremental costs associated with higher Medicaid and uninsured patient volumes that have occurred with the Lake's increased role in LSU's graduate medical education program. The supplemental hospital payments received through June 30, 2016 were based on estimated costs for Medicaid and uninsured patients. A reconciliation of all costs and payments for fiscal years ending June 30, 2016 made pursuant to this agreement will occur in fiscal year 2016. For the years ended June 30, 2016 and 2015, the Lake recorded additional net

patient service revenues less the estimated amounts for retroactive adjustments under the agreement of $113,293 and $113,937, respectively.

The Cooperative Endeavor Agreement was amended on April 10, 2013 to ensure viability of existing LSU Health outpatient facilities and patient care services and programs. The major components of the Lake's amended agreement includes:

- The Lake manages and operates the operations of LSU Health outpatient facilities. The reimbursement structure of the agreement was revised to include payment to the Lake for the operations of these facilities. Lease agreements were implemented for LSU Health outpatient facilities and equipment.
- GME program amendments were implemented for assignment of GME reimbursement caps.
- Clinical service agreements were implemented with LSU School of Medicine to provide professional services at the LSU Health clinics.
- For the years ended June 30, 2016 and 2015, the amount paid to LSU for leased building and equipment, GME faculty and resident expenses, and costs of clinical services associated with the Cooperative Endeavor Agreement was $39,141 and $38,737, respectively.

(b) Our Lady of Angels Cooperative Endeavor Agreement

Angels entered into an agreement with the DHH and LSU in January 2014. Angels receives disproportionate share payments and other supplemental payments from DHH to cover costs associated with higher Medicaid and uninsured patient volumes for this service area. The commencement date for patient care services for Angels was March 7, 2014. For the years ended June 30, 2016 and 2015, Angels recorded additional net patient service revenue of $43,479 and $32,319, respectively.

The major components of the Angels' agreement includes:

- Angels leases facilities and equipment and manages the operations of the hospital and outpatient facilities.
- Angels agrees to continue the graduate medical education and training programs in Bogalusa, Louisiana.
- Angels established clinical services agreements, including the LSU School of Medicine, to provide professional services at the hospital and outpatient facilities.
- For the years ended June 30, 2016 and 2015, the amount paid to LSU for leased buildings and equipment, GME faculty and resident expenses, and costs of clinical services associated with the Cooperative Endeavor Agreement was $12,641 and $14,378, respectively.

(In thousands)

(23) Acquisition

FMOLHS's controlled joint venture, OLOL/USP Surgery Centers, LLC (OLOL/USP), manages the day-to-day operations of two surgery facilities. On October 1, 2015, OLOS/USP acquired a new surgical facility in Slidell, Louisiana for a purchase price of approximately $21,117. Accordingly, the results of operations of the new surgical facility since October 1, 2015 have been included in the fiscal 2016 consolidated statement of operations.

The following summarizes the allocation of the assets acquired and liabilities assumed on October 1, 2015, as well as the fair value of the noncontrolling interest acquired.

Cash	$	1,110
Accounts receivable		2,834
Current assets		1,953
Property and equipment		18,202
Goodwill		23,251
Current liabilities		(4,621)
Capital lease obligation and other liabilities		(14,207)
Noncontrolling interest		(7,405)
Total purchase price	$	21,117

(24) Subsequent Events

FMOLHS has evaluated subsequent events from the balance sheet date through November 9, 2016, the date at which the consolidated financial statements were available to be issued, and determined that there were no other items to disclose.

SUPPLEMENTAL SCHEDULES

Schedule 1

FRANCISCAN MISSIONARIES OF OUR LADY HEALTH SYSTEM, INC. AND AFFILIATED ORGANIZATIONS

Consolidating Schedule – Balance Sheet Information

June 30, 2016
(with comparative totals as of June 30, 2015)

(In thousands)

Assets	Franciscan Missionaries of Our Lady Health System, Inc. and subsidiaries	Our Lady of the Lake Regional Medical Center, Inc. and affiliated organizations	St. Elizabeth Hospital	St. Francis Medical Center Inc. and subsidiaries	Our Lady of Lourdes Regional Medical Center, Inc. and subsidiaries	Our Lady of the Angels Hospital	Eliminations	Total 2016	Total 2015
Current assets:									
Cash and cash equivalents	$ 29,477	85,627	17,861	8,764	28,163	7,473	—	177,365	162,626
Short-term investments	2,343	—	—	2	—	—	—	2,345	22,319
Receivables:									
Patients	464	374,813	24,654	55,693	59,832	27,622	—	543,078	519,626
Less allowance for uncollectible accounts	—	(234,147)	(11,774)	(26,237)	(22,579)	(17,689)	—	(312,426)	(290,114)
Net patient receivables	464	140,666	12,880	29,456	37,253	9,933	—	230,652	229,512
Other current assets	21,204	91,799	3,317	(1,987)	14,493	(10,957)	(3,845)	114,024	107,811
Total current assets	53,488	318,092	34,058	36,235	79,909	6,449	(3,845)	524,386	522,268
Assets limited as to use, net of current portion	32,500	668,233	8,229	117,112	22,157	—	—	848,231	852,336
Property and equipment, net	89,340	641,663	50,777	110,450	241,978	1,966	—	1,136,174	1,120,735
Other assets	24,224	116,995	5,185	23,214	31,966	5,191	(24,750)	182,025	153,691
Total assets	$ 199,552	1,744,983	98,249	287,011	376,010	13,606	(28,595)	2,690,816	2,649,030
Liabilities and Net Assets									
Current liabilities:									
Lines of credit	$ —	18,316	—	—	—	—	—	18,316	481
Current installments of long-term debt	—	7,549	513	3,157	2,488	—	—	13,707	16,592
Current portion of capital lease obligations	2,404	2,319	85	—	20	—	—	4,828	4,841
Accounts payable	15,697	64,706	3,171	7,689	10,524	1,790	(2,461)	101,116	105,729
Other current liabilities	30,636	83,831	13,730	21,218	19,888	4,837	(1,384)	172,756	165,899
Total current liabilities	48,737	176,721	17,499	32,064	32,920	6,627	(3,845)	310,723	293,542
Professional and general liabilities, excluding current portion	25,632	17,240	1,669	5,037	3,311	—	(24,237)	28,652	30,361
Long-term debt, excluding current installments	—	281,434	13,606	125,726	168,615	—	—	589,381	601,116
Capital lease obligations, excluding current portion	7,136	14,647	—	—	9	—	—	21,792	12,348
Accrued pension cost	27	335,217	—	80,781	95,287	—	—	511,312	381,555
Other long-term liabilities	22,666	559	—	1,941	27	—	(183)	25,010	22,200
Total liabilities	104,198	825,818	32,774	245,549	300,169	6,627	(28,265)	1,486,870	1,341,122
Net assets:									
Unrestricted	95,126	838,961	65,114	39,405	70,995	6,661	(130)	1,116,132	1,245,310
Temporarily restricted	228	40,556	361	2,057	2,005	318	(200)	45,325	36,869
Permanently restricted	—	5,400	—	—	—	—	—	5,400	5,300
Total net assets attributable to Franciscan Missionaries of Our Lady Health System, Inc.	95,354	884,917	65,475	41,462	73,000	6,979	(330)	1,166,857	1,287,479
Noncontrolling interests	—	34,248	—	—	2,841	—	—	37,089	20,429
Total net assets	95,354	919,165	65,475	41,462	75,841	6,979	(330)	1,203,946	1,307,908
Total liabilities and net assets	$ 199,552	1,744,983	98,249	287,011	376,010	13,606	(28,595)	2,690,816	2,649,030

See accompanying independent auditors' report.

FRANCISCAN MISSIONARIES OF OUR LADY HEALTH SYSTEM, INC. AND AFFILIATED ORGANIZATIONS

Consolidating Schedule – Statement of Operations Information

Year ended June 30, 2016
(with comparative totals for the year ended June 30, 2015)

(In thousands)

	Franciscan Missionaries of Our Lady Health System, Inc. and subsidiaries	Our Lady of the Lake Regional Medical Center, Inc. and affiliated organizations	St. Elizabeth Hospital	St. Francis Medical Center Inc. and subsidiaries	Our Lady of Lourdes Regional Medical Center, Inc. and subsidiaries	Our Lady of the Angels Hospital	Eliminations	Total 2016	Total 2015
Changes in unrestricted net assets:									
Unrestricted revenues:									
Net patient service revenue, net of contractual allowances and discounts	$ 13,412	1,172,581	115,672	247,723	292,969	75,504	—	1,917,861	1,744,010
Provision for uncollectible accounts	109	(110,517)	(18,166)	(23,314)	(12,282)	(10,356)	—	(174,526)	(133,719)
Net patient service revenue	13,521	1,062,064	97,506	224,409	280,687	65,148	—	1,743,335	1,610,291
Other revenue	178,437	84,307	1,794	12,428	10,441	1,121	(184,004)	104,524	105,186
Equity in income from equity investees, net	2,015	7,336	94	(220)	3,014	—	—	12,239	16,064
Total unrestricted revenues	193,973	1,153,707	99,394	236,617	294,142	66,269	(184,004)	1,860,098	1,731,541
Net assets released from restrictions used for operations:									
Satisfaction of program restrictions	247	2,476	148	706	317	753	—	4,647	5,797
Expiration of time restrictions	—	171	—	—	—	—	—	171	161
Total net assets released from restrictions used for operations	247	2,647	148	706	317	753	—	4,818	5,958
Total unrestricted revenues and other support	194,220	1,156,354	99,542	237,323	294,459	67,022	(184,004)	1,864,916	1,737,499
Operating expenses:									
Salaries and wages	63,520	407,390	44,534	98,232	85,481	24,709	—	723,866	674,236
Employee benefits	16,996	98,965	12,027	25,712	22,012	4,855	(2,774)	177,793	155,301
Total salaries, wages, and benefits	80,516	506,355	56,561	123,944	107,493	29,564	(2,774)	901,659	829,537
Physician fees	—	44,724	381	4,264	13,600	7,120	(250)	69,839	63,724
Professional services	2,283	16,868	379	2,938	431	91	—	22,990	24,923
Other services	68,489	222,255	18,899	56,592	51,942	12,509	(145,523)	285,163	285,333
Leases, insurance, and utilities	11,332	34,050	3,351	10,331	11,068	5,780	(7,709)	68,203	68,568
Supplies	30,366	229,645	12,572	46,819	81,462	5,538	(29,006)	377,396	319,601
Depreciation and amortization	26,158	46,470	3,746	12,151	15,795	60	—	104,380	95,245
Interest	498	11,589	538	4,921	6,072	—	—	23,618	23,638
Other	982	1,271	1	520	561	—	—	3,335	3,239
Total operating expenses	220,624	1,113,227	96,428	262,480	288,424	60,662	(185,262)	1,856,583	1,713,808
Operating income (loss) before impairment and settlement of pension plans	(26,404)	43,127	3,114	(25,157)	6,035	6,360	1,258	8,333	23,691
Impairment	—	—	—	4,356	—	—	—	4,356	—
Settlement of pension plans	—	—	—	4,611	4,960	—	—	9,571	—
Operating income (loss)	(26,404)	43,127	3,114	(34,124)	1,075	6,360	1,258	(5,594)	23,691

(Continued)

Schedule 2

FRANCISCAN MISSIONARIES OF OUR LADY HEALTH SYSTEM, INC. AND AFFILIATED ORGANIZATIONS

Consolidating Schedule – Statement of Operations Information

Year ended June 30, 2016
(with comparative totals for the year ended June 30, 2015)

(In thousands)

	Franciscan Missionaries of Our Lady Health System, Inc. and subsidiaries	Our Lady of the Lake Regional Medical Center, Inc. and affiliated organizations	St. Elizabeth Hospital	St. Francis Medical Center Inc. and subsidiaries	Our Lady of Lourdes Regional Medical Center, Inc. and subsidiaries	Our Lady of the Angels Hospital	Eliminations	Total 2016	Total 2015
Nonoperating gains (losses):									
Investment return	$ 2,757	(13,056)	(125)	(2,150)	(317)	2	—	(12,889)	6,479
Loss on extinguishment of debt	—	—	—	—	—	—	—	—	(35,507)
Other	21	(3,057)	—	—	—	—	(1,259)	(4,295)	(5,622)
Change in fair value of interest rate swap agreement	(4,785)	—	—	—	—	—	—	(4,785)	(1,247)
Total nonoperating gains (losses), net	(2,007)	(16,113)	(125)	(2,150)	(317)	2	(1,259)	(21,969)	(35,897)
Unrestricted revenues, gains, and other support in excess of (less than) expenses and losses	(28,411)	27,014	2,989	(36,274)	758	6,362	(1)	(27,563)	(12,206)
Noncontrolling interests	—	(2,494)	—	—	(1,358)	—	—	(3,852)	(3,341)
Unrestricted revenues, gains, and other support in excess of (less than) expenses and losses attributable to FMOLHS	(28,411)	24,520	2,989	(36,274)	(600)	6,362	(1)	(31,415)	(15,547)
Pension-related changes other than net periodic pension cost	—	(75,422)	—	(10,586)	(14,327)	—	—	(100,335)	(63,946)
Other	74,319	(38,456)	(6,178)	(13,040)	(10,196)	(5,520)	1,643	2,572	(5,068)
Increase (decrease) in unrestricted net assets	$ 45,908	(89,358)	(3,189)	(59,900)	(25,123)	842	1,642	(129,178)	(84,561)

See accompanying independent auditors' report.

Schedule 3

FRANCISCAN MISSIONARIES OF OUR LADY HEALTH SYSTEM, INC. AND AFFILIATED ORGANIZATIONS

Consolidating Schedule – Statement of Changes in Net Assets Information

Year ended June 30, 2016
(with comparative totals for the year ended June 30, 2015)

(In thousands)

	Franciscan Missionaries of Our Lady Health System, Inc. and subsidiaries	Our Lady of the Lake Hospital, Inc. and Affiliated Organizations	St. Elizabeth Hospital	St. Francis Medical Center Inc. and subsidiaries	Our Lady of Lourdes Regional Medical Center, Inc. and subsidiaries	Our Lady of the Angels Hospital	Eliminations	Total 2016	Total 2015
Changes in unrestricted net assets:									
Unrestricted revenues, gains, and other support in excess of (less than) expenses and losses attributable to FMOLHS	$ (28,411)	24,520	2,989	(36,274)	(600)	6,362	(1)	(31,415)	(15,547)
Pension-related changes other than net periodic pension cost	—	(75,422)	—	(10,586)	(14,327)	—	—	(100,335)	(63,946)
Other	74,319	(38,456)	(6,178)	(13,040)	(10,196)	(5,520)	1,643	2,572	(5,068)
Increase (decrease) in unrestricted net assets	45,908	(89,358)	(3,189)	(59,900)	(25,123)	842	1,642	(129,178)	(84,561)
Changes in temporarily restricted net assets:									
Contributions	33	10,269	173	764	583	1,071	(199)	12,694	9,299
Income from long-term investments, net	—	567	13	—	—	—	—	580	822
Net assets released from restrictions	(246)	(2,648)	(148)	(706)	(317)	(753)	—	(4,818)	(5,958)
Other	—	—	—	—	—	—	—	—	(50)
Increase in temporarily restricted net assets	(213)	8,188	38	58	266	318	(199)	8,456	4,113
Changes in permanently restricted net :									
Contributions	—	100	—	—	—	—	—	100	—
Increase in permanently restricted net asserts	—	100	—	—	—	—	—	100	—
Changes in noncontrolling interest:									
Unrestricted revenues, gains, and other support in excess of expenses and losses attributable to FMOLHS	—	2,494	—	—	1,358	—	—	3,852	3,341
Distributions	—	(1,531)	—	—	(2,108)	—	—	(3,639)	(3,458)
Acquired controlling interest	—	—	—	—	—	—	—	—	(1,096)
Sale of noncontrolling interest	—	17,108	—	—	—	—	—	17,108	—
Other	—	(661)	—	—	—	—	—	(661)	51
Changes in noncontrolling interest	—	17,410	—	—	(750)	—	—	16,660	(1,162)
Increase (decrease) in net assets	45,695	(63,660)	(3,151)	(59,842)	(25,607)	1,160	1,443	(103,962)	(81,610)
Net assets, beginning of year	49,659	982,825	68,626	101,304	101,448	5,819	(1,773)	1,307,908	1,389,518
Net assets, end of year	$ 95,354	919,165	65,475	41,462	75,841	6,979	(330)	1,203,946	1,307,908

See accompanying independent auditors' report.

FRANCISCAN MISSIONARIES OF OUR LADY HEALTH SYSTEM, INC. AND AFFILIATED ORGANIZATIONS

Service to the Community (Unaudited)

June 30, 2016 and 2015

FMOLHS and the FMOLHS Affiliates are active, caring members of the communities they serve. In carrying out its mission of meeting the health needs of the people of God, the Board of Directors has established a policy under which FMOLHS Affiliates provide care to needy members of their communities. Following that policy, healthcare services costing $20,156 and $21,386 were provided without charge during the years ended June 30, 2016 and 2015, respectively. Charges foregone, based on established rates, totaled $267,546 and $235,718 for the years ended June 30, 2016 and 2015, respectively.

The FMOLHS Affiliates also participate in government programs including Medicare, Medicaid, and the TriCare program. Under these programs, the FMOLHS Affiliates provide care to patients at payment rates that are determined by the federal and state governments, regardless of actual cost. In some cases, these programs pay the FMOLHS Affiliates at amounts, which are less than their cost of providing services. The following table summarizes the amount of charges foregone (i.e., contractual adjustments) and the estimated losses incurred by the FMOLHS Affiliates due to inadequate payments by these programs and for charity for the years ended June 30, 2016 and 2015:

		2016		2015	
		Charges foregone	Estimated unreimbursed costs	Charges foregone	Estimated unreimbursed costs
Medicare	$	1,436,942	110,356	1,169,467	93,158
Medicaid		519,459	54,960	447,599	58,629
Other		13,823	303	10,638	615
Charity		267,546	20,156	235,718	21,386
	$	2,237,770	185,775	1,863,422	173,788

In addition to community services directly associated with providing hospital based care, FMOLHS Affiliates serve their communities in numerous other ways. Although the FMOLHS Affiliates have estimated the cost of each of these efforts to serve their communities, management, and the Boards of Directors believe that such costs represent only some of the many ways FMOLHS Affiliates serve their communities. The estimated costs for the years ended June 30, 2016 and 2015 are as follows:

		Net community benefit expense	
		2016	2015
Subsidized health services	$	4,022	1,862
Community health improvement services		3,691	4,105
Health professions education		20,447	20,882
Community building activities		17	120
Donations or in-kind contributions		1,991	1,282
Total	$	30,168	28,251

(Continued)

FRANCISCAN MISSIONARIES OF OUR LADY HEALTH SYSTEM, INC. AND AFFILIATED ORGANIZATIONS

Service to the Community (Unaudited)

June 30, 2016 and 2015

Subsidized health services – Include the discount provided, at cost, to all patients that have no form of insurance coverage. Programs such as St. Elizabeth Community Clinic, Bayou Health Clinic, St. Bernadette's Clinic, and Jackson Street Clinic. Mental health services and palliative care are also provided to the community.

Community health improvement services – Include activities carried out to improve community health and costs, which are underwritten by FMOLHS Affiliates. These services include Camp Bluebird, Lafayette Community Healthcare Clinic, a medication program, Congregational Health Services, Northside High School Health Center, community seminars, immunological support, parish nurse program, LakeLine Direct, St. Martha Activity Center, Care Bus health services to students, ALS Clinic, Health Teacher School based program, and depression/anxiety screening.

Health professions education – Includes assistance to future healthcare professionals, nursing students, and pharmacy students. Clinical setting for undergraduate, vocational training, internships, clerkships, and residencies. Collaboration with local colleges for supervision and clinical training in pharmacy, respiratory therapy, health information management, and medical technology. Registered nurse recruitment activities, OLOL College, and participation in Medicare's Graduate Medical Education through affiliation with Louisiana Medical School and Medical Center of Louisiana at New Orleans will continue to support availability of future healthcare professionals.

(Continued)

Schedule 4

FRANCISCAN MISSIONARIES OF OUR LADY HEALTH SYSTEM, INC. AND AFFILIATED ORGANIZATIONS

Service to the Community (Unaudited)

June 30, 2016 and 2015

Community building activities – Include leadership development and training for community members such as emergency preparedness programs; community health education such as classes on breast feeding, childbirth basics, sibling class, and ABC's of childcare; community support with Meals on Wheels; community based clinical services, including health screenings, discounted services provided to Louisiana Baptist Children's Home, Veteran's Administration, Rural Hospitals, ULM Athletic Department, MDA, Wellspring, and Handicap Children; workforce development, including Area Health Education Center; and provides community clinics, St. Vincent DePaul Charitable Pharmacy and Mary Bird Perkins use of land and buildings.

Donations or in kind contributions – Include donations to various area community organizations such as United Way. Families Helping Families, Children's Coalition, Wellspring, YMCA, Haiti Project, Prevent Child Abuse, Komen Foundation, Alzheimer's Foundation, March of Dimes, Junior Achievement, Cystic Fibrosis, Community Fund for the Arts, and Miles Perret Cancer Foundation, as well as employee costs associated with board and community involvement in various community organizations.

KPMG LLP
Suite 2150
301 Main Street
Baton Rouge, LA 70801

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

The Board of Trustees
Franciscan Missionaries of Our Lady Health System, Inc.:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of Franciscan Missionaries of Our Lady Health System, Inc. and affiliated subsidiaries (the System), which comprise the consolidated balance sheet as of June 30, 2016, and the related consolidated statements of operations and changes in unrestricted net assets, changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated November 9, 2016.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

KPMG LLP

Baton Rouge, Louisiana
November 9, 2016

KPMG LLP
Suite 1100
One Jackson Place
188 East Capitol Street
Jackson, MS 39201-2127

November 15, 2016

The Audit Committee
Franciscan Missionaries of Our Lady Health System, Inc.
Baton Rouge, Louisiana

Ladies and Gentlemen:

In planning and performing our audit of the consolidated financial statements of Franciscan Missionaries of Our Lady Health System, Inc. (the System), as of and for the year ended June 30, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered the System's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

During our audit, we noted certain matters involving deficiencies in internal control and other operational matters that are presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operational efficiencies and are summarized as follows:

HBOC Segregation of Duties

During our audit, we noted that due to high department turnover, programmers have the ability to develop, authorize, and migrate changes into the production environment.

The System should consider segregating the responsibilities of these individuals to limit their ability to only one of these functions.

Management's Response

The HBOC system will be placed into an archived state in the near future to accommodate for EPIC becoming the new Revenue Cycle System. At the time, it is not feasible for the legacy team to segregate duties in this manner. This process continues to be monitored through the normal Change Management Committee Process.

Cerner Change Activity Generation

During our audit we noted various vendors, consultants, and the System's developers have the ability to develop and migrate changes to production through the "build" function of the Cerner system. Additionally, we noted that the Cerner system does not have the ability to generate a complete population of changes.

The System should consider segregating the responsibilities of these individuals to limit their ability to only one of these functions. The System should implement a procedure to track program changes.

Management's Response

FMOLHS IS will assign a clinical delivery manager within the CIS Team that will promote all Cerner changes into production. Changes are tracked through the normal Change Management Process. Cerner does not have a "system" mechanism to track changes in production.

Our audit procedures are designed primarily to enable us to form an opinion on the consolidated financial statements, and therefore may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of the System's organization gained during our work to make comments and suggestions that we hope will be useful to you.

We would be pleased to discuss these comments and recommendations with you at any time.

* * * * * * *

The System's written responses to our comments and recommendations have not been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on it.

This communication is intended solely for the information and use of management, the Audit Committee, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

KPMG LLP

Franciscan Missionaries of Our Lady Health System, Inc. and Affiliated Organizations

Schedule of Compensation, Benefits and Other Payments to Agency Head or Chief Executive Officer

Year Ended June 30, 2016

Agency Head Name: John Finan

This schedule is not applicable as there was no compensation, benefits or other payments to the agency head that are required to be reported under Act 462 of the 2015 Legislative Session.

Purpose	Amount
Salary	0
Benefits-insurance	0
Benefits-retirement	0
Benefits-<list any other here>	0
Car allowance	0
Vehicle provided by government	0
Per diem	0
Reimbursements	0
Travel	0
Registration fees	0
Conference travel	0
Continuing professional education fees	0
Housing	0
Unvouchered expenses*	0
Special meals	0

*an example of an unvouchered expense would be a travel advance

FRANCISCAN MISSIONARIES OF OUR LADY HEALTH SYSTEM, INC. AND AFFILIATED ORGANIZATIONS

Report on Federal Awards in Accordance with the Uniform Guidance

Year ended June 30, 2016

FRANCISCAN MISSIONARIES OF OUR LADY HEALTH SYSTEM, INC. AND AFFILIATED ORGANIZATIONS

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KPMG

KPMG LLP
Suite 2150
301 Main Street
Baton Rouge, LA 70801

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

The Board of Trustees
Franciscan Missionaries of Our Lady Health System, Inc.:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of Franciscan Missionaries of Our Lady Health System, Inc. and affiliated organizations (the System), which comprise the consolidated balance sheet as of June 30, 2016, and the related consolidated statements of operations, changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated November 9, 2016.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

KPMG LLP

Baton Rouge, Louisiana
January 3, 2017

KPMG

KPMG LLP
Suite 2150
301 Main Street
Baton Rouge, LA 70801

Independent Auditors' Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

The Board of Trustees
Franciscan Missionaries of Our Lady Health System, Inc.:

Report on Compliance for Each Major Federal Program

We have audited Franciscan Missionaries of Our Lady Health System, Inc. and affiliated organizations' (the System) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the System's major federal programs for the year ended June 30, 2016. The System's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

The System's consolidated financial statements include the operations of Villa St. Francis, Inc., Assisi Village, Inc., Calais House, Inc., and Chateau Louise, Inc., which collectively received $11,664,198 in federal awards, which is not included in the System's accompanying schedule of expenditures of federal awards for the year ended June 30, 2016. Our audit, described below, did not include the operations of Villa St. Francis, Inc., Assisi Village, Inc., Calais House, Inc., and Chateau Louise, Inc. because those U.S. Housing and Urban Development (HUD) Projects listed above arranged to have separate audits performed in accordance with the Uniform Guidance.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the System's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the System's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the System complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control over Compliance

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

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

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

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

KPMG

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the consolidated financial statements of the System as of and for the year ended June 30, 2016, and have issued our report thereon dated November 9, 2016, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance 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 schedule of expenditure of federal awards is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

Baton Rouge, Louisiana
January 3, 2017

FRANCISCAN MISSIONARIES OF OUR LADY HEALTH SYSTEM, INC. AND AFFILIATED ORGANIZATIONS

Schedule of Expenditures of Federal Awards

Year ended June 30, 2016

Federal sponsor/Program title	Federal CFDA number	Pass-through award number	Pass-through entity	Direct expenditures	Pass-through expenditures	Total expenditures
Student Financial Aid Cluster*						
U S Department of Education						
Our Lady of the Lake College – Federal Work-Study (FWS)	84 033			$ 58,840	—	58,840
Our Lady of the Lake College – Federal Supplemental Education Opportunity Grant (FSEOG)	84 007			102,952	—	102,952
Our Lady of the Lake College – Federal Pell Grant Program (PELL)	84 063			1,867,981	—	1,867,981
Our Lady of the Lake College – Federal Direct Student Loans (Direct Loan)	84 268			16,840,187	—	16,840,187
Total Student Financial Aid Cluster				18,869,960	—	18,869,960
Other Financial Assistance						
U S Department of Education						
Our Lady of the Lake College – Strengthening Institutions Program (Title III)	84 031			489,808	—	489,808
U S Department of Housing and Urban Development						
Our Lady of the Lake Hospital – Supportive Housing Program (SHP)	14 235	LA0100L6H041306	City of Baton Rouge	—	18,216	18,216
Our Lady of the Lake Hospital – Housing Opportunities for Persons with AIDS	14 241	HOPWA-12-0003	City of Baton Rouge	—	79,293	79,293
Total U S Department of Housing and Urban Development				—	97,509	97,509
U S Department of Health and Human Services						
Our Lady of the Lake College – Nurse Anesthetist Traineeships	93 124			41,211	—	41,211
Our Lady of the Lake Hospital – Coordinated Services and Access to Research for Women, Infants, Children, and Youth (Ryan White Part D)	93 153			363,583	—	363,583
Assumption Community Hospital – Small Rural Hospital Improvement Grant Program (SHIP)	93 301			—	—	—
Our Lady of Angels Hospital – Ryan White Title IV Woman, Infants, Children, Youth and Affected Family Members AIDS Healthcare	93 153	H12HA24808	Louisiana State University Health System	—	114,276	114,276
Ollie Steele – Reinvestment of Civil Money Penalties to Benefit Nursing Home Residents	93 636			18,384	—	18,384
St Clare – Reinvestment of Civil Money Penalties to Benefit Nursing Home Residents	93 636			18,384	—	18,384
Our Lady of the Lake Hospital – Grants for Primary Care Training and Enhancement	93 884			233,523	—	233,523
St Elizabeth – National Bioterrorism Hospital Preparedness Program	93 889	059583	Louisiana Hospital Association	—	4,602	4,602
Our Lady of the Lake Hospital – National Bioterrorism Hospital Preparedness Program	93 889	059583	Louisiana Hospital Association	—	32,475	32,475
Assumption Community Hospital – National Bioterrorism Hospital Preparedness Program	93 889	059583	Louisiana Hospital Association	—	3,251	3,251
Our Lady of Angels Hospital – National Bioterrorism Hospital Preparedness Program	93 889	059583	Louisiana Hospital Association	—	3,575	3,575
St Francis Medical Center – National Bioterrorism Hospital Preparedness Program	93 889	059583	Louisiana Hospital Association	—	112,732	112,732
Total CFDA				—	156,635	156,635
Our Lady of the Lake Hospital – HIV Emergency Relief (Ryan White Part A)	93 914	H89HA11432	City of Baton Rouge	—	585,391	585,391
Our Lady of the Lake Hospital – Early Intervention (Ryan White Part C)	93 918			373,112	—	373,112
Total U S Department of Health and Human Services				1,048,197	856,302	1,904,499
U S Department of Homeland Security						
Corporation for National and Community Service						
Assumption Hospital – Hazard Mitigation Grant	97 039			50,000	—	50,000
St Elizabeth Hospital – Hazard Mitigation Grant	97 039			27,551	—	27,551
St Francis Medical Center – Hazard Mitigation Grant	97 039			411	—	411
Total CFDA				77,962	—	77,962
Our Lady of the Lake Hospital – Senior Companion Program (SCP)	94 016			207,306	—	207,306
				285,268	—	285,268
Total federal expenditures				$ 20,693,233	953,811	21,647,044

* Denotes a major program

See accompanying independent auditors' report

See accompanying notes to schedule of expenditures of federal awards

(1) Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Franciscan Missionaries of Our Lady Health System, Inc. and affiliated organizations (the System) under programs of the federal government for the year ended June 30, 2016. The System's consolidated financial statements include the operations of Villa St. Francis, Inc., Assisi Village, Inc., Calais House, Inc., and Chateau Louise, Inc., which collectively received $11,664,198 in federal awards, which is not included in the Schedule. The amounts reported as federal expenditures were obtained from the System's general ledger. Because the Schedule presents only a selected portion of the operations of the System, it is not intended to and does not present the financial position, results of operations, changes in net assets, and cash flows of the System.

For purposes of the Schedule, federal expenditures include all grants, contracts, and similar agreements entered into directly between the System, the agencies and departments of the federal government, and all subawards to the System by nonfederal organizations pursuant to federal grants, contracts, and similar agreements. The information in the Schedule is presented in accordance with the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

(2) Summary of Significant Accounting Policies

For purposes of the Schedule, expenditures of federal award programs are recognized on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The System has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

(3) Federal Direct Student Loans

The System's Federal Direct Student Loans (Direct Loans) included in the Schedule represent loans received by students during fiscal year 2016, which were not made by the System. The System is responsible only for the performance of certain administrative duties with respect to its Federal Direct Student Loan Program, and accordingly, these loans are not included in its consolidated financial statements. The System is not required to maintain the balance of the loans outstanding to students and former students of the System under these programs. Such balances are maintained and administered by the lenders and guarantors of these loans.

During the year ended June 30, 2016, the System expended the following amount of new loans under the Direct Loan Program:

	CFDA number		Amount expended
Unsubsidized direct loans	84.268	$	8,863,373
Direct loans	84.268		3,233,295
Parents' loans for undergraduate students	84.268		621,256
Parents' loans for graduate students	84.268		4,122,263
Total		$	16,840,187

(4) Relationship to Consolidated Financial Statements

Federal expenditures are reported in the System's 2016 consolidated financial statements as follows:

Total expenditures under federal grants and contracts included in other revenue in the consolidated financial statements of the System	$	2,794,713
Federal Supplemental Education Opportunity Grant – agency transactions		102,952
Federal Pell Grant Program – agency transactions		1,867,981
Federal Direct Student Loans (Direct Loan) – agency transactions		16,840,187
Nurse Anesthetists Traineeships – agency transactions		41,211
Federal expenditures per the Schedule	$	21,647,044

(5) Matching Contributions

Although not included on the Schedule, the System made matching contributions of the following during the year ended June 30, 2016:

St. Elizabeth – National Bioterrorism Hospital Preparedness Program	$	460
Our Lady of the Lake Hospital – National Bioterrorism Hospital Preparedness Program		1,057
Assumption Community Hospital – National Bioterrorism Hospital Preparedness Program		187
Our Lady of Angels Hospital – National Bioterrorism Hospital Preparedness Program		358
St. Francis Medical Center – National Bioterrorism Hospital Preparedness Program		1,038
Total matching contributions	$	3,100

(6) Expenditures of Federal Awards to Subrecipents

The System did not have expenditures of federal awards to subrecipients.

FRANCISCAN MISSIONARIES OF OUR LADY HEALTH SYSTEM, INC. AND AFFILIATED ORGANIZATIONS

Notes to Schedule of Findings and Questioned Costs

Year ended June 30, 2016

(1) Summary of Auditor's Results

(a) Type of report issued on whether the financial statements were prepared in accordance with generally accepted accounting principles: **Unmodified**

(b) Internal control deficiencies over financial reporting disclosed by the audit of the financial statements:

- Material weaknesses: **No**
- Significant deficiencies: **None Reported**

(c) Noncompliance material to the financial statements: **No**

(d) Internal control deficiencies over major programs disclosed by the audit:

- Material weaknesses: **No**
- Significant deficiencies: **None reported**

(e) Type of report issued on compliance for major programs: **Unmodified**

(f) Audit findings that are required to be reported in accordance with 2 CFR 200.516(a): **No**

(g) Major programs:

- Student Financial Aid Cluster/U.S. Department of Education – CFDA 84.033, 84.007, 84.063, and 84.268

(h) Dollar threshold used to distinguish between Type A and Type B programs: **$750,000**

(i) Auditee qualified as a low-risk auditee: **Yes**

(2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*

None

(3) Findings and Questioned Costs Relating to Federal Awards

None

Finding No. 2015-001 – Federal Direct Student Loans – Return of Title IV Funds

Federal Program

Federal Direct Student Loans

CFDA #

84.268

Federal Agency

U.S. Department of Education

Federal Award Year

July 1, 2014 through June 30, 2015

Criteria

Per 34 CFR section 668.173 (b) – Timely return of Title IV, Higher Education Act (HEA) program funds. In accordance with procedures established by the Secretary or Federal Family Education Loan (FFEL) Program lender, an institution returns unearned Title IV, HEA program funds timely if— (1) The institution deposits or transfers the funds into the bank account it maintains under §668.163 no later than 45 days after the date it determines that the student withdrew; (2) The institution initiates an electronic funds transfer (EFT) no later than 45 days after the date it determines that the student withdrew; (3) The institution initiates an electronic transaction, no later than 45 days after the date it determines that the student withdrew, then informs a FFEL lender to adjust the borrower's loan account for the amount returned; or (4) The institution issues a check no later than 45 days after the date it determines that the student withdrew. An institution does not satisfy this requirement if— (i) The institution's records show that the check was issued more than 45 days after the date the institution determined that the student withdrew; or (ii) The date on the cancelled check shows that the bank used by the Secretary or FFEL Program lender endorsed that check more than 60 days after the date the institution determined that the student withdrew.

Condition

During our test work it was noted that 2 students' unearned Title IV funds related to Unsubsidized Direct Loans were returned to the Department of Education 49 and 50 days after the date the institution determined that the students withdrew.

Questioned Costs

No questioned costs are associated with this finding.

FRANCISCAN MISSIONARIES OF OUR LADY HEALTH SYSTEM, INC. AND AFFILIATED ORGANIZATIONS

Summary Schedule of Prior Audit Findings

Year ended June 30, 2016

Context

The System hired a new Student Financial Aid (SFA) Director in November 2014. The instance of noncompliance occurred during the beginning of the new SFA Director's employment in this position.

Effect

The System did not comply with the requirements over the prompt return of Title IV funds to the Department of Education.

Recommendation

We recommend that management strengthen the System's policies and procedures to ensure that future returns of Title IV funds are processed promptly.

Finding Status

Management has since remediated the deficiency by utilizing the 0.0 GPA Report from the Registrar at the end of the semester to determine unofficial withdrawals and process their Return of Title IV Funds no later than 15 days after the unofficial withdraw is determined.