



**INTEGRIS *HEALTH*, INC.
AND CONTROLLED ENTITIES**

Consolidated Financial Statements
and Supplemental Schedules

June 30, 2019 and 2018

(With Independent Auditors' Report Thereon)



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

Independent Auditors' Report

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

We have audited the accompanying consolidated financial statements of INTEGRIS *Health*, Inc. and its controlled entities, which comprise the consolidated balance sheets as of June 30, 2019 and 2018, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of INTEGRIS *Health*, Inc. and its controlled entities as of June 30, 2019 and 2018, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.



Other Matter

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

KPMG LLP

Oklahoma City, Oklahoma
September 27, 2019

**INTEGRIS HEALTH, INC.
AND CONTROLLED ENTITIES**

Consolidated Balance Sheets

June 30, 2019 and 2018

(In thousands)

Assets	2019	2018
Current assets:		
Cash and cash equivalents	\$ 60,125	76,645
Short-term investments	160,011	177,176
Patient accounts receivable, net	245,446	211,900
Inventories	49,285	38,234
Prepaid expenses and other current assets	19,305	17,176
Total current assets	<u>534,172</u>	<u>521,131</u>
Assets whose use is limited	804,276	936,233
Property and equipment:		
Land and improvements	61,393	54,962
Buildings and leasehold improvements	727,453	649,187
Equipment	993,835	919,157
	<u>1,782,681</u>	<u>1,623,306</u>
Less accumulated depreciation and amortization	<u>1,039,405</u>	<u>942,307</u>
	743,276	680,999
Construction in progress	<u>53,960</u>	<u>34,313</u>
	797,236	715,312
Other assets, net	65,979	62,847
Goodwill	<u>350,442</u>	<u>18,109</u>
Total assets	<u>\$ 2,552,105</u>	<u>2,253,632</u>

**INTEGRIS HEALTH, INC.
AND CONTROLLED ENTITIES**

Consolidated Balance Sheets

June 30, 2019 and 2018

(In thousands)

Liabilities and Net Assets	2019	2018
Current liabilities:		
Accounts payable, accrued expenses, and other	\$ 209,375	202,561
Employee compensation and related liabilities	74,517	59,311
Current portion of long-term debt	59,763	58,190
Current portion of capital lease obligations	3,022	212
Due to affiliates	2,500	4,962
Total current liabilities	349,177	325,236
Long-term debt, less current portion	460,906	456,220
Capital lease obligations, less current portion	28,911	—
Long-term pension liability	309,935	256,132
Other long-term liabilities	173,052	160,534
Total liabilities	1,321,981	1,198,122
Net assets:		
Without donor restrictions	912,793	992,184
With donor restrictions	56,337	56,091
Total net assets of INTEGRIS Health	969,130	1,048,275
Noncontrolling ownership interest in equity of consolidated affiliates – unrestricted	260,994	7,235
Total net assets	1,230,124	1,055,510
Commitments and contingencies		
Total liabilities and net assets	\$ 2,552,105	2,253,632

See accompanying notes to consolidated financial statements.

**INTEGRIS HEALTH, INC.
AND CONTROLLED ENTITIES**

Consolidated Statements of Operations

Years ended June 30, 2019 and 2018

(In thousands)

	2019	2018
Operating revenues:		
Patient service revenue (net of contractual allowances and discounts)	\$	1,657,802
Provision for bad debts		(148,346)
Net patient service revenue	1,780,189	1,509,456
Premium revenue	7,024	7,916
Other operating revenue	162,933	156,089
Total operating revenues	1,950,146	1,673,461
Operating expenses:		
Salaries and related expenses	986,308	855,519
Supplies and other expenses	785,609	658,587
Professional services	59,452	46,340
Depreciation and amortization	100,366	90,064
Interest expense	21,697	20,191
Total operating expenses	1,953,432	1,670,701
Income (loss) from operations	(3,286)	2,760
Nonoperating revenue (expense):		
Net investment income (loss)	(3,881)	55,055
Net equity in loss of affiliates	(3,584)	(2,807)
Other, net	22,387	(1,430)
Total net nonoperating revenue	14,922	50,818
Net income	11,636	53,578
Net (income) loss attributable to noncontrolling interest	(23,963)	1,914
Net income (loss) attributable to INTEGRIS Health	\$ (12,327)	55,492

See accompanying notes to consolidated financial statements.

**INTEGRIS HEALTH, INC.
AND CONTROLLED ENTITIES**

Consolidated Statements of Changes in Net Assets

Years ended June 30, 2019 and 2018

(In thousands)

	2019	2018
Changes in net assets without donor restrictions:		
Net income (loss) attributable to INTEGRIS <i>Health</i>	\$ (12,327)	55,492
Pension liability adjustment	(74,683)	27,688
Net assets released from restrictions used for purchase of property and equipment	8,285	9,222
Other changes, net	(666)	(319)
Increase (decrease) in net assets without donor restrictions	(79,391)	92,083
Changes in net assets with donor restrictions:		
Contributions received for operations	8,297	6,138
Investment income	1,588	1,608
Change in value of split-interest agreement	(19)	(13)
Net assets released from restrictions	(10,003)	(10,744)
Other changes, net	383	290
Increase (decrease) in net assets with donor restrictions	246	(2,721)
Increase (decrease) in net assets of INTEGRIS <i>Health</i>	(79,145)	89,362
Net assets of INTEGRIS <i>Health</i> , beginning of year	1,048,275	958,913
Net assets of INTEGRIS <i>Health</i> , end of year	969,130	1,048,275
Net assets attributable to noncontrolling interests	260,994	7,235
Total net assets of INTEGRIS <i>Health</i>	\$ 1,230,124	1,055,510

See accompanying notes to consolidated financial statements.

**INTEGRIS HEALTH, INC.
AND CONTROLLED ENTITIES**

Consolidated Statements of Cash Flows

Years ended June 30, 2019 and 2018

(In thousands)

	2019	2018
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ (79,145)	89,362
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Pension liability adjustment	74,683	(27,688)
Net unrealized loss on investments	10,650	9,467
Gain on Deaconess transaction	(8,500)	—
Gain on Health Ventures – OCOM transaction	(11,546)	—
Net realized gain on investments	(6,274)	(33,263)
Change in split-interest agreement	25	18
Depreciation and amortization	100,366	90,064
Amortization of bond premiums/discounts	(1,460)	(1,701)
Net (gain) loss on property and equipment disposal	109	(1,044)
Income from investments in affiliates	(9,558)	(17,235)
Distributions from unconsolidated affiliates	3,606	18,705
Change in fair value of interest rate swap agreements	19,121	(13,484)
Net income (loss) attributable to noncontrolling interest	23,963	(1,914)
(Increase) decrease in:		
Patient receivables	(7,799)	(18,710)
Other assets	4,158	(6,880)
Increase (decrease) in:		
Accounts payable and other current liabilities	(595)	(13,157)
Other noncurrent liabilities	(27,508)	(14,942)
Net cash provided by operating activities	84,296	57,598
Cash flows from investing activities:		
Cash paid for acquisitions, net of cash acquired	(161,854)	—
Acquisition of intangible assets	(2,864)	—
Purchases of property and equipment	(111,886)	(62,215)
Proceeds from disposal of property and equipment	—	3,332
Purchases of investments in affiliates and contributions to joint ventures	(8,900)	—
Sales of short-term investments and assets limited to use, net	144,746	(45,051)
Net cash used in investing activities	(140,758)	(103,934)
Cash flows from financing activities:		
Principal payments on capital lease obligations	(3,574)	380
Principal payments on long-term debt	(15,711)	(13,055)
Contributions from noncontrolling interest holders	77,945	—
Proceeds from issuance of long-term debt	—	99,261
Distributions to noncontrolling interest holders	(18,718)	(2,013)
Net cash provided by financing activities	39,942	84,573
Net increase (decrease) in cash and cash equivalents	(16,520)	38,237
Cash and cash equivalents at beginning of year	76,645	38,408
Cash and cash equivalents at end of year	\$ 60,125	76,645
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest	\$ 20,255	20,294

See accompanying notes to consolidated financial statements.

**INTEGRIS HEALTH, INC.
AND CONTROLLED ENTITIES**

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(1) INTEGRIS Organization

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

INTEGRIS *Health's* wholly-controlled facilities include acute care hospital locations, an outpatient cancer treatment center, a mental health facility, a long-term care hospital, and a rehabilitation center. The following table provides the locations of INTEGRIS's tax-exempt member hospitals (the Tax-Exempt Hospitals) as of June 30, 2019. The Tax-Exempt Hospitals have been recognized as exempt from federal income taxes under the Code as organizations described in Section 501(c)(3).

Tax-exempt hospital	Location (Oklahoma)
INTEGRIS Baptist Medical Center, Inc. (BMC)	Oklahoma City
INTEGRIS <i>Health</i> Mental Health Spencer Campus (IMH)	Oklahoma City
INTEGRIS <i>Health</i> Deaconess Hospital Campus (DCN)	Oklahoma City
INTEGRIS South Oklahoma City Hospital Corporation (SOCHC) d/b/a Southwest Medical Center, Inc. (SMC)	Oklahoma City
INTEGRIS <i>Health</i> Edmond, Inc. (IHE)	Edmond
INTEGRIS <i>Health</i> Cancer Institute (ICIO)	Oklahoma City
INTEGRIS <i>Health</i> Arcadia Trails (a rehab facility) (AT)	Edmond
INTEGRIS Rural Health, Inc. (IRH):	
INTEGRIS Miami Hospital (Miami)	Miami
INTEGRIS Bass Baptist Medical Center (Bass)	Enid
INTEGRIS <i>Health</i> Canadian Valley Hospital (ICVH)	Yukon
INTEGRIS Grove Hospital (Grove)	Grove
INTEGRIS <i>Health</i> Bass Pavilion (a long-term care hospital) (Pavilion)	Enid

INTEGRIS *Health* is the sole member or sole shareholder of certain other wholly-controlled affiliates engaged in health care related activities in support of its mission, including INTEGRIS Medical Group, an Oklahoma not-for-profit organization that consists of employed physicians and advanced practice providers in locations throughout Oklahoma and has been recognized as exempt from federal income taxes under the Code as organizations described in Section 501(c)(3).

Also included in the consolidated financial statements are:

- INTEGRIS *Health* Foundation, Inc.
- INTEGRIS Ambulatory Care Corporation and subsidiaries (IACC)*

**INTEGRIS HEALTH, INC.
AND CONTROLLED ENTITIES**

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

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

* *For-profit, controlled entities*

INTEGRIS *Health* and some of its controlled affiliates participate in joint ventures with physicians and nonphysicians to operate hospitals and other health related ventures. The following table provides the location of the joint venture hospitals along with INTEGRIS *Health*'s ownership interest in those ventures as of June 30, 2019 and 2018:

Entity	Location (Oklahoma)	Ownership interest	
		2019	2018
Consolidated:			
INTEGRIS Health Lakeside Women's Hospital	Oklahoma City	75.0 %	75.0 %
INTEGRIS/USP Health Ventures, LLC (Health Ventures)	Oklahoma City	50.1	—
Baptist Medical Plaza Association	Oklahoma City	94.2	94.2
5300 Grand, LP	Oklahoma City	91.0	—
Quality Cardiac Care Centers, LLC	Oklahoma City	100.0	100.0
Unconsolidated:			
Two Corporate Plaza, LLC	Oklahoma City	33.3 %	33.3 %
Medical Plaza Imaging Center, LLC	Oklahoma City	50.0	50.0
Advanced Imaging, LLC	Oklahoma City	—	50.0
Southwest Orthopedic (SASC)	Oklahoma City	—	18.6
InteliStaf	Oklahoma City	32.0	32.0
Diagnostic Labs of Oklahoma	Oklahoma City	49.0	49.0
LifeCare Health Services, LLC	Oklahoma City	20.6	19.8
VADovations, Inc.	Oklahoma City	75.0	75.0
Emerus Community Hospitals	Oklahoma City	51.0	—
Hefner Pointe Medical Associates, LLC	Oklahoma City	30.0	—

INTEGRIS *Health* and its tax-exempt controlled affiliates receive support from the INTEGRIS *Health* Foundation (Foundation). The Foundation operates as a nonprivate foundation exempt from federal income taxes under Section 501(a) of the Code as an organization described in Section 501(c)(3), and INTEGRIS *Health* is the sole corporate member.

**INTEGRIS HEALTH, INC.
AND CONTROLLED ENTITIES**

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles (GAAP). Significant intercompany accounts and transactions have been eliminated.

(b) Use of Estimates

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

(c) Cash and Cash Equivalents

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

(d) Short-Term Investments

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

(e) Donor-Restricted Gifts

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

(f) Net Assets with Donor Restrictions

Net assets with donor restrictions are those whose use by INTEGRIS Health and its tax-exempt controlled affiliates have been limited by donors to a specific time period or purpose. Net assets with donor restrictions that are perpetual in nature have been restricted by donors to be maintained by INTEGRIS Health and its tax-exempt controlled affiliates in perpetuity.

**INTEGRIS HEALTH, INC.
AND CONTROLLED ENTITIES**

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(g) **Net Income**

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

(h) **Net Patient Service Revenue and Patient Accounts Receivable**

Effective July 1, 2018, INTEGRIS Health adopted the new revenue recognition standard, Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, issued by the FASB in 2014, using the modified retrospective method. With the adoption of the new revenue recognition standard, net patient service revenue is reported at the amount that reflects the consideration to which INTEGRIS Health expects to be entitled in exchange for providing patient care. Healthcare services promised in the contract with a patient represent a bundle of goods and (or) services that is distinct and accounted for as a single performance obligation. The transaction price for the bundled goods and (or) services provided is estimated by reducing the total standard charges by variable price concessions, including contractual adjustments based on the terms provided by (in the case of Medicare and Medicaid) or negotiated with (in the case of managed care and commercial insurance companies) third-party payors, INTEGRIS Health discount policies, and other implicit price concessions based on historical collections experience for uninsured and under-insured patients who do not qualify for financial assistance. A portfolio approach by major payor categories and types of service was used to estimate the historical collections experience. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to net patient service revenue in the period of the change. Portfolio collection estimates are updated at least quarterly based on actual collections experience. INTEGRIS Health believes that revenue recognized by utilizing the portfolio approach approximates the revenue that would have been recognized if an individual contract approach was used. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense.

Revenue related to providing care to patients is recognized as the performance obligation is satisfied over the period of time the patient is receiving treatment, as the patient is simultaneously receiving and consuming the benefits provided by INTEGRIS Health. The performance obligation is generally satisfied over an average period of less than five days for inpatient services and one day for outpatient services. Generally, patients and third-party payors are billed within days after the services are performed and (or) the patient is discharged. The transaction price related to unsatisfied or partially unsatisfied performance obligations at the end of the reporting period primarily relate to inpatient acute care services for patients who remain admitted at that time. These contract assets were \$27,808,650 on July 1, 2018 at the adoption of the new revenue recognition standard. As of June 30, 2019, contract assets of \$26,658,106 were recorded in patient accounts receivable on the consolidated balance sheets.

**INTEGRIS HEALTH, INC.
AND CONTROLLED ENTITIES**

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

Patient accounts receivable is reported at the amount that reflects the consideration to which INTEGRIS *Health* expects to be entitled in exchange for providing patient care. The primary collection risks relate to uninsured patient accounts, including patient accounts for which the primary insurance company has paid the amounts covered by the applicable agreement, but patient responsibility amounts remain outstanding. Implicit price concessions relate primarily to amounts due directly from patients based upon management's assessment of historical write-offs and expected net collections considering business and economic conditions, trends in health care coverage, and other collection indicators. Patient accounts are monitored and, if necessary, past due accounts are placed with collection agencies in accordance with guidelines established by management. Accounts are written off when all reasonable internal and external collection efforts have been performed. Estimated implicit price concessions of \$185,580,000 were recorded as reductions to patient accounts receivable at June 30, 2019 on the consolidated balance sheets.

Prior to July 1, 2018, and the adoption of the new revenue recognition standard, net patient service revenue was recognized as services were provided and 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. Retroactive adjustments were accrued on an estimated basis in the period the related services were rendered and adjusted in future periods as final settlements were determined.

Patient accounts receivable was reported net of estimated allowances for doubtful accounts and contractual adjustments on the consolidated balance sheets. The allowance and resulting provision for bad debts were based upon a combination of the aging of receivables and management's assessment of historical and expected net collections considering business and economic conditions, trends in health care coverage, and other collection indicators for each of its major payor sources of revenue. Management assessed the adequacy of the allowance for doubtful accounts based upon historical write-off experience and payment trends by payor category. For receivables associated with services provided to patients who had third-party coverage, INTEGRIS *Health* analyzed contractually due amounts and provided an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments, or for payors who were known to be having financial difficulties that made the realization of amounts due unlikely). For receivables associated with self-pay patients (which included both patients without insurance and patients with deductible and copayment balances due for which third-party coverage existed for part of the bill), INTEGRIS *Health* recorded a significant provision for bad debts in the period of service on the basis of its past experience, which indicated that many patients were unable or unwilling to pay the portion of their bill for which they were financially responsible. The difference between the billed rates and the amounts actually collected after all reasonable collection efforts were exhausted was charged off against the allowance for doubtful accounts.

The Internal Revenue Service enacted 501(r) guidance for not-for-profit hospitals on March 23, 2010, by the Patient Protection and Affordable Care Act. Hospital organizations covered by Section 501(r) may not charge an individual eligible for a financial assistance policy more than the amount generally billed to individuals with insurance covering their healthcare. As a result of this guidance, INTEGRIS *Health* implemented a policy effective July 1, 2011 that discounted all private pay patient charges. This adjustment is recorded as an explicit price concession.

**INTEGRIS HEALTH, INC.
AND CONTROLLED ENTITIES**

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

INTEGRIS *Health's* allowance for doubtful accounts for self-pay patients was 96.9% and 98.9% of self-pay accounts receivable at June 30, 2019 and 2018, respectively. Issues experienced in the collection of amounts from self-pay patients continued in fiscal year 2019 and have kept this allowance rate high. INTEGRIS *Health* does not maintain a material allowance for doubtful accounts from third-party payors, nor did it have significant write-offs from third-party payors other than for contractual allowances.

(i) ***Charity Care***

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

(j) ***Assets Whose Use Is Limited and Investment Income***

Assets whose use is limited includes assets designated by the board of directors for future capital improvements, self-insurance programs, debt service requirements, and other general purposes, over which the board retains control and may, at its discretion, subsequently use for other purposes; assets restricted by trustee under bond indenture agreement; and assets restricted by donors as to use. Marketable equity securities with readily determinable fair values and all debt securities are recorded at fair value. Fair values are based on quoted market prices, if available, or estimated using quoted market prices for similar securities. Investments in private equity and hedge funds are stated at fair value if readily determinable, or at net asset value as a practical expedient to fair value if fair value is not readily determinable, as estimated by the general partner of the fund and reviewed by management. Realized and unrealized gains and losses on investments are determined by comparison of the actual cost to the proceeds at the time of disposition, or market values as of the end of the financial statement period. The cost of securities sold is based on the specific-identification method.

Investment income, including income on assets whose use is limited and income on short-term investments, is reported as operating and nonoperating revenue. Investment income includes the gains and losses from the change in fair value of interest rate swaps described in note 2(o) of a loss of approximately (\$19,121,000) in 2019 and the gain of approximately \$13,484,000 in 2018. All investments are classified as trading securities, and the change in unrealized gains and losses on investments is included in the determination of net income.

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

(k) ***Inventories***

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

**INTEGRIS HEALTH, INC.
AND CONTROLLED ENTITIES**

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(l) Property and Equipment

Property and equipment are recorded at cost or, if donated, at fair value on the date of receipt. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed on the straight-line method. Depreciation expense was approximately \$100,153,000 and \$89,869,000 for the years ended June 30, 2019 and 2018, respectively. Assets under capital leases are amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the assets. Such amortization is included in depreciation and amortization in the consolidated financial statements. Expenditures that increase values, change capacities, or extend useful lives of assets are capitalized. Interest costs are capitalized for construction projects that require a period of time to ready them for their intended use. Routine maintenance, repairs, and renewals are charged to operations.

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

(m) Other Assets

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

(n) Goodwill and Intangible Assets

Goodwill 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. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized. INTEGRIS Health reviews goodwill annually, or more frequently if circumstances warrant a more timely review, to determine if there has been an impairment. FASB ASC Topic 350, *Intangibles – Goodwill and Other* (ASC 350), provides an entity the option to first assess qualitative factors to determine whether the existence of events or circumstances indicates that it is more likely than not that the fair value of a reporting unit is less than its carrying amount or that indefinite-lived assets are impaired. If, after assessing the totality of events and circumstances, an entity determines it is more likely than not that the fair value of the reporting unit is less than its carrying amount or that the indefinite-lived intangible asset is impaired, then the entity is required to perform the two-step goodwill impairment test described in ASC 350 or determine the fair value of the indefinite-lived intangible asset and perform a quantitative impairment test by comparing the fair value with the carrying amount. However, if an entity concludes otherwise, no further action is required. For the years ended June 30, 2019 and 2018, INTEGRIS prepared a qualitative assessment of goodwill and indefinite-lived intangible assets impairment for all reporting units that have assigned goodwill and indefinite-lived intangible assets. No impairment was identified for the year ended June 30, 2019 or June 30, 2018.

**INTEGRIS HEALTH, INC.
AND CONTROLLED ENTITIES**

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

A summary of goodwill activity for the years ended June 30, 2019 and 2018, is presented below (dollars in thousands):

	2019	2018
Balance at beginning of year	\$ 18,109	18,109
Goodwill from acquisitions	332,333	—
Balance at end of year	\$ 350,442	18,109

(o) ***Derivative Instruments and Hedging Activities***

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

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

None of INTEGRIS *Health's* interest rate swaps are designated as hedges, and all changes in fair value are recorded as an increase or decrease in investment income. The unrealized loss recognized for the year ended June 30, 2019 was approximately \$(19,121,000) and the unrealized gain for the year ended June 30, 2018 was approximately \$13,484,000. The difference between the fixed rate paid and the floating rate received is recognized as an increase or decrease in interest expense.

By using derivative financial instruments to hedge exposures to changes in interest rates, INTEGRIS *Health* exposes itself to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty owes INTEGRIS *Health*. When the fair value of the derivative contract is negative, INTEGRIS *Health* owes the counterparty, and, therefore, INTEGRIS *Health* is not exposed to

**INTEGRIS HEALTH, INC.
AND CONTROLLED ENTITIES**

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

the counterparty's credit risk in these circumstances. INTEGRIS *Health* minimizes counterparty credit risk in derivative instruments by entering into transactions with high-quality counterparties.

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

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

(p) Asset Retirement Obligations

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

The liability for the asset retirement obligation is approximately \$4,888,000 and \$4,101,000 and the future value of the asset retirement obligation is approximately \$5,486,000 and \$5,437,000 as of June 30, 2019 and 2018, respectively. Substantially all of the obligation relates to estimated costs to remove asbestos and underground storage tanks from various facilities. Changes are primarily due to remediation activities, changes in inflation rates, and revisions to estimates of the amount of asbestos at specific facilities.

(q) Pension and Other Postretirement Plans

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

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

**INTEGRIS HEALTH, INC.
AND CONTROLLED ENTITIES**

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

The funded status reported on the consolidated balance sheets as of June 30, 2019 and 2018 was measured as the difference between the fair value of the plan assets and the benefit obligation on a plan-by-plan basis. The net periodic costs are recognized as employees render the services necessary to earn the postretirement benefits.

INTEGRIS *Health* had a single defined benefit pension plan until June 30, 2019, when INTEGRIS *Health* split the plan into Retirement Plan A (Plan A) and Retirement Plan B (Plan B). These plans have identical terms. The creation of Plan B was considered a de-minimus spin-off which required assets to be allocated to Plan B equal to the benefit obligation for the participants of Plan B as of June 30, 2019.

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

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

(r) **Recent Accounting Pronouncements – Adopted**

Effective July 1, 2018, INTEGRIS *Health* adopted, FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, using the modified retrospective method. The core principle of the guidance in this ASU is that an entity should 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. Adoption of ASU 2014-09 resulted in changes to the presentation and disclosure of revenue related to uninsured or underinsured patients. Prior to the adoption of ASU 2014-09, a significant portion of the provision for bad debts related to self-pay patients, as well as co-pays and deductibles owed by patients with insurance. Under ASU 2014-09, the estimated uncollectible amounts due from these patients are generally considered implicit price concessions that are a direct reduction to net patient service revenues and, correspondingly, result in a material reduction in the amounts presented separately as provision for bad debts. Management used a portfolio approach to apply the new model to classes of payors with similar characteristics and analyzed cash collection trends over an appropriate collection look-back period depending on the payor. Management also assessed the impact of the new standard on various reimbursement programs that represent variable consideration and concluded that accounting for these programs under the new standard is substantially consistent with INTEGRIS *Health's* historical accounting practices. While the adoption of ASU 2014-09 had a material impact on the presentation of net patient service revenue in the consolidated statements of operations and changes in net assets and impacted certain disclosures, it did not materially impact INTEGRIS *Health's* financial position, results of operations, or cash flows.

**INTEGRIS HEALTH, INC.
AND CONTROLLED ENTITIES**

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

Effective July 1, 2018, INTEGRIS Health also adopted FASB issued ASU 2018-15, *Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract*, which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software and hosting arrangements that include an internal use software license. The amendments in the ASU require an entity in a hosting arrangement that is a service contract to capitalize certain implementation costs as an asset in the same line item that a prepayment for the fees of the associated hosting arrangement would be presented on the consolidated balance sheets, and expense those costs over the term of the hosting arrangement in the same line item as the fees associated with the hosting element (service) of the arrangement in the consolidated statements of operations and changes in net assets. The adoption of the ASU on a prospective basis beginning July 1, 2018 did not have a material impact on the consolidated financial statements.

For the annual period ending June 30, 2019, INTEGRIS Health adopted ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which requires not-for-profit entities to report two classes of net assets, as well as enhanced disclosures about board designated funds, liquidity, and functional expenses. In connection with the adoption, the opening net assets previously reported for fiscal year 2018 have been reclassified. “Unrestricted” net assets of \$992,184,000, “Temporarily restricted” net assets of \$48,800,000, and “Permanently restricted” net assets of \$7,291,000 have been reclassified to net assets “Without donor restrictions” of \$992,184,000 and “With donor restrictions” of \$56,091,000.

For the annual period ending June 30, 2019, INTEGRIS Health early adopted ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*, which eliminated and (or) modified certain disclosures about recurring and nonrecurring fair value measurements for nonpublic entities.

(s) Recent Accounting Pronouncements – To Be Adopted

In January 2016, the FASB issued ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities (Financial Instruments – Overall Subtopic 825-10)*, which is targeted to improve GAAP as follows: require equity investments to be measured at fair value with changes in fair value being recognized in net income, simplify the assessments of equity investments for impairment by requiring qualitative assessments, eliminate the disclosure of financial instruments being measured at amortized costs and clarifies the need to present separately of financial assets and financial liabilities by measurement category on the balance sheet. The guidance is effective for years beginning after December 15, 2018. Early adoption is allowed after December 15, 2017. INTEGRIS Health does not expect ASU 2016-01 to have a material effect on the consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which significantly modifies the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under current GAAP. While the new standard retains most of the principles of the existing lessor model, it aligns many of those principles with the FASB’s new revenue guidance (ASU 2014-09). Under ASU 2016-02, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach, which includes a number of

**INTEGRIS HEALTH, INC.
AND CONTROLLED ENTITIES**

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

optional practical expedients. In July 2018, the FASB issued ASU 2018-11, *Leases (Topic 842): Targeted Improvements*, which allows lessees and lessors to recognize and measure leases at the beginning of the period of adoption without modifying the comparative period financial statements. Management has evaluated the impact of the provisions of ASU 2016-02, as amended by ASU 2018-01, ASU 2018-11, and ASU 2018-20, which are effective for INTEGRIS *Health* beginning July 1, 2019, and intends to use the retrospective method as of the period of adoption and elect a number of the optional practical expedients. Upon adoption, INTEGRIS *Health* expects to record a material amount of right-of-use assets, representing the present value of future lease payments under leases with terms greater than twelve months. INTEGRIS *Health* also expects to record corresponding liabilities for the same amount. INTEGRIS *Health* does not expect to make any material cumulative adjustments to the opening balance of net assets. Management continues to gather lease contracts and abstract key financial data to calculate and record the right-of-use assets and obligations.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*, which applies to all entities that are required to present a statement of cash flows under Topic 230. ASU 2016-15 addresses the presentation and classification of cash flows related to (i) debt prepayment or debt extinguishment costs, (ii) settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing, (iii) contingent consideration payments made after a business combination, (iv) proceeds from the settlement of insurance claims, (v) proceeds from the settlement of corporate-owned life insurance policies (including bank-owned life insurance policies), (vi) distributions received from equity method investees, (vii) beneficial interests in securitization transactions, and (viii) separately identifiable cash flows and application of the predominance principle. The amendments in ASU 2016-05 should be applied using a retrospective transition method to each period presented, unless it is impracticable. Management is currently evaluating the potential impact of this guidance, which is effective for INTEGRIS *Health* for the annual period ending June 30, 2020 and does not expect the adoption of this guidance to have a material impact on the statement of cash flows.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which requires that a statement of cash flows explain the change during the period in the total of cash and cash equivalents, which will now include restricted cash and restricted cash equivalents in the beginning and ending balances on the statement of cash flows. The ASU is effective for INTEGRIS *Health* for the annual period ending June 30, 2020, and the adoption will result in a change to the beginning and ending balances of cash and cash equivalents reported on the statement of cash flows. Under the new guidance, these balances will include cash and cash equivalents included in assets limited as to use which are currently excluded.

In March 2017, the FASB issued ASU 2017-07 *Compensation – Retirement Benefits (Topic 715)* to improve the presentation of the net periodic pension costs and net periodic postretirement benefit costs. This update requires employers to report the service cost component of net benefit costs in the same line item as other compensation costs arising from services rendered by pertinent employees during the period. The other components of net benefit costs are required to be presented separately in the income statement and outside of the subtotal of income from operations. The amendments in this update are effective for fiscal years beginning after December 15, 2018. Early adoption is permitted. INTEGRIS *Health* is evaluating the effects that ASU 2017-07 will have on the consolidated financials and the related disclosures.

**INTEGRIS HEALTH, INC.
AND CONTROLLED ENTITIES**

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which clarifies and improves current guidance about whether a transfer of assets is a contribution or an exchange transaction and requires entities to determine whether a contribution is conditional based on clarified indicators. The amendments in ASU 2018-08 should be applied using a modified prospective approach. Management has evaluated the impact of this guidance, which is effective for INTEGRIS Health July 1, 2019, and concluded the adoption will not impact the consolidated financial statements.

In August 2018, the FASB issued ASU 2018-14 *Compensation – Retirement Benefits – Defined Benefit Plans-General (Subtopic 715-20)* which offers further guidance related to FASB Concepts Statement, Conceptual Framework of Financial Reporting-Chapter 8: Notes to the Financial Statements issued in March 2014. The ASU modifies the disclosure requirements for employers who sponsor defined benefit pension or other post retirement plans. The effective date of ASU 2018-14 is for fiscal years beginning after December 15, 2020. Early adoption is permitted. INTEGRIS Health is evaluating the effects that ASU 2018-14 will have on the consolidated financial statements and the related disclosures.

(t) **Reclassifications**

Certain reclassifications have been made to the June 30, 2018 financial statements to conform to the June 30, 2019 presentation. The reclassifications had no effect on net income or net assets as previously reported.

(3) Purchase Transactions

INTEGRIS Health accounts for its business combinations under the fundamental requirements of the acquisition method of accounting and under the premise that an acquirer be identified for each business combination. The acquirer is the entity that obtains control of one or more businesses in the business combination and the acquisition date is the date the acquirer achieves control. The assets acquired, liabilities assumed and any noncontrolling interests in the acquired business at the acquisition date are recognized at their fair values as of that date, and the direct costs incurred in connection with the business combination are recorded and expensed separately from the business combination. Acquisitions in which INTEGRIS Health is able to exert significant influence but does not have control are accounted for using the equity method.

Acquired assets and assumed liabilities include, but are not limited to, accounts receivable, inventories, fixed assets, accounts payable and accrued expenses. The valuations are based on appraisal reports or other appropriate valuation techniques to determine the fair value of the assets acquired or liabilities assumed.

The results of operations of the acquired businesses have been included in INTEGRIS Health's financial statements since the acquisition date of each business.

(a) **Health Ventures**

The INTEGRIS Health subsidiary IACC formed Health Ventures in 2019 with USP OKC, Inc. (USP), an unrelated third party, for the purpose of acquiring ownership in or developing freestanding ambulatory surgery centers and surgical hospitals. INTEGRIS Health owns 50.1% and USP owns 49.9% of Health Ventures, which is consolidated based on the control retained by INTEGRIS Health.

**INTEGRIS HEALTH, INC.
AND CONTROLLED ENTITIES**

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(b) Southwest Ambulatory Surgery Center

As of June 30, 2018, IACC owned 18.6% of Southwest Ambulatory Surgery Center, LLC (SASC) and accounted for this investment using the equity method. On November 1, 2018 IACC purchased an additional 6.5% of SASC for approximately \$7,000,000 and contributed the 25.1% ownership to Health Ventures. USP contributed 25% of their ownership of SASC to Health Ventures giving Health Ventures control of SASC. This change in control and consolidation by Health Ventures was a business combination resulting in the application of the acquisition method of accounting. In connection with the change in control IACC adjusted the carrying value of its preexisting ownership of SASC to fair value resulting in a gain of approximately \$11,500,000 which is included in other nonoperating revenue in the consolidated statements of operations. SASC owns and operates Oklahoma Center for Orthopedic and Multi-Specialty Surgery Center, LLC (OCOM), an ambulatory surgery center in Oklahoma City, OK. Health Ventures manages the operations of SASC and OCOM pursuant to a management agreement.

(c) HPI Holdings

On November 1, 2018, Health Ventures acquired 51% of HPI Holdings, LLC (HPI) for approximately \$157,000,000. HPI owns a 100% interest in Community Hospital, LLC, TPG Hospital, LLC, HPI North, LLC and HPI Physicians, LLC in Oklahoma City. Health Ventures manages the operations of HPI pursuant to a management agreement.

The accounting for the SASC and HPI acquisitions is currently preliminary. INTEGRIS Health continues to obtain information relative to the fair values of the assets acquired and liabilities assumed in the transaction, which could result in changes to the amounts allocated below. The purchase price allocation will be completed within one year of the acquisition date.

The following is a preliminary purchase price allocation of the assets and liabilities acquired by Health Ventures in 2019 (in thousands):

	<u>SASC</u>	<u>HPI</u>	<u>Total</u>
Cash and cash equivalents	\$ 3,383	5,071	8,454
Accounts receivable	6,625	19,055	25,680
Prepaid and other current assets	3,474	5,080	8,554
Property and equipment	29,272	22,101	51,373
Goodwill	78,128	254,205	332,333
Other long-term assets	12	787	799
Accounts payable and other	(4,295)	(12,912)	(17,207)
Accrued wages, benefits and taxes	(974)	(3,972)	(4,946)
Long-term debt	(1,416)	(22,014)	(23,430)
Capital lease obligations	(28,056)	(206)	(28,262)
Noncontrolling interest	(60,225)	(110,344)	(170,569)
IACC interest prior to acquisition	(18,971)	—	(18,971)
Cash paid	\$ <u>(6,957)</u>	<u>(156,851)</u>	<u>(163,808)</u>

**INTEGRIS HEALTH, INC.
AND CONTROLLED ENTITIES**

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(d) **Deaconess**

INTEGRIS *Health* acquired Deaconess Hospital on October 1, 2018 for \$6,500,000. The assets recorded in connection with this acquisition included approximately \$3,500,000 of inventory and \$12,000,000 of property and equipment, and liabilities included approximately \$500,000 of accrued expenses. The fair value of the net assets acquired was greater than the purchase price resulting in a gain of approximately \$8,500,000 which is included in other nonoperating revenue in the consolidated statements of operations. Deaconess Hospital (a campus of BMC) is a 110-bed hospital in Northwest Oklahoma City.

(4) Net Patient Service Revenue and Premium Revenue

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

Medicare: Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Medicare outpatient services are paid under an outpatient prospective payment system, similar to inpatient acute services. Psychiatric services and medical education costs related to Medicare beneficiaries are paid based upon a cost reimbursement methodology. The healthcare related controlled entities of INTEGRIS *Health* are reimbursed at an interim rate with final settlement determined after submission of annual cost reports by the respective affiliates and audits by the Medicare fiscal intermediary.

Medicaid: Inpatient services rendered to Medicaid program beneficiaries are reimbursed at a prospectively determined rate per discharge. INTEGRIS *Health* recognizes income from Medicaid for services provided by primary care physicians employed by INTEGRIS *Health*. The payments are received in return for services provided in the month of payment. INTEGRIS *Health* has no obligation to provide services after the month of payment and has no obligation to pay for services of other providers should the patient seek care from another party.

Commercial Insurance: The healthcare related controlled entities have entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment under these arrangements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Private Pay: The tax-exempt entities provide self-pay price concessions to uninsured patients. The pricing is calculated by applying a discount to charges for services received. The price concession was 70% in 2019 and 2018. The consolidated and unconsolidated joint venture entities provide similar discounted pricing to uninsured patients.

Medicare cost report settlements are estimated in the period services are provided to the program beneficiaries. These estimates are revised as needed until final settlement of the cost report. Laws and regulations governing the Medicare program are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Net patient service revenue for 2019 and 2018 includes approximately \$4,719,000 and \$10,548,000, respectively, of adjustments for estimated cost report settlements and final settlements.

**INTEGRIS HEALTH, INC.
AND CONTROLLED ENTITIES**

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

The Supplemental Hospital Offset Payment Program (SHOPP) program was created and implemented by the State of Oklahoma in fiscal year 2012 for the purpose of assuring access to quality care for Oklahoma Medicaid members. The program is designed to assess Oklahoma hospitals, unless exempt, a supplemental hospital offset payment program fee. The collected fees are placed in pools and then allocated to hospitals as directed by legislation. The Oklahoma Health Care Authority (OHCA) does not guarantee that allocations will equal or exceed the amount of the supplemental hospital offset payment program fee paid by the hospital. The SHOPP program assessment rate is assessed on a calendar year basis. For calendar years 2019 and 2018, the SHOPP assessment rates are 2.8% and 3.0% of net patient service revenue, respectively. The total fee incurred in 2019 and 2018 was approximately \$37,353,000 and \$38,368,000, respectively, and is included in supplies and other expenses in the consolidated statements of operations. The allocation from the pool in 2019 and 2018 was approximately \$77,596,000 and \$70,418,000, respectively, for all INTEGRIS *Health* facilities and is included in net patient service revenue in the consolidated statements of operations. The SHOPP program is expected to remain in effect through 2020.

INTEGRIS *Health* recognizes patient service revenue associated with a bundle of goods and/or services to provide patients over the period of time the patient is receiving treatment or as the performance obligation is satisfied. Based on historical experience, a significant portion of INTEGRIS *Health*'s uninsured patients will be unable or unwilling to pay for services provided; thus, INTEGRIS *Health* records a significant uninsured price concession and/or financial assistance related to uninsured patients in the period the services are provided. For uninsured patients that do not qualify for financial assistance, INTEGRIS *Health* recognizes revenue using the "expected value" method for the bundle of goods and/or services provided.

Patient service revenue, net of all price concessions for the year ended June 30, 2019 and June 30, 2018, disaggregated by major payor sources is as follows (dollars in thousands):

	<u>2019</u>	<u>2018</u>
Medicare	\$ 604,078	559,735
Medicaid	204,531	186,111
Managed care	765,663	730,562
Other commercial	180,107	13,282
Private pay	25,810	19,766
	<u>\$ 1,780,189</u>	<u>1,509,456</u>

**INTEGRIS HEALTH, INC.
AND CONTROLLED ENTITIES**

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

The estimated percentage of patient service revenue, net of all price concessions for the year ended June 30, 2019, disaggregated by major service line, is as follows:

	2019
Inpatient	47.6 %
Outpatient	47.0
Other	5.4
Total	100.0 %

(5) Investments

(a) Assets Whose Use is Limited

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

	2019		2018	
	Cost	Fair value	Cost	Fair value
Board designated:				
Cash and cash equivalents	\$ 7,130	7,130	18,736	18,736
U.S. government and agency obligations	86,730	87,329	92,276	90,965
Marketable equity securities	234,876	251,438	302,301	338,533
Corporate and other obligations	227,719	223,938	235,158	221,902
Accrued interest receivable	1,071	1,071	1,273	1,273
	557,526	570,906	649,744	671,409
Amounts held for construction:				
Cash and cash equivalents	81,119	81,119	98,495	98,495
By donors:				
Cash and cash equivalents	200	200	958	958
U.S. government and agency obligations	3,544	3,725	5,245	5,252
Marketable equity securities	17,540	19,344	24,941	27,628
Corporate and other obligations	19,749	19,416	16,035	15,364
Accrued interest receivable	69	69	87	87
	41,102	42,754	47,266	49,289
By INTEGRIS Health Foundation boards:				
Cash and cash equivalents	99	99	256	256
U.S. government and agency obligations	1,756	1,847	1,401	1,403
Marketable equity securities	8,681	9,566	6,659	7,380
Corporate and other obligations	9,778	9,612	4,283	4,104
Accrued interest receivable	34	34	23	23
	20,348	21,158	12,622	13,166

**INTEGRIS HEALTH, INC.
AND CONTROLLED ENTITIES**

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

	2019		2018	
	Cost	Fair value	Cost	Fair value
By board for self-insurance program:				
Cash and cash equivalents	\$ —	—	2,744	2,744
U.S. government and agency obligations	25,185	34,375	18,719	18,565
Marketable equity securities	8,072	8,491	57,557	69,231
Corporate and other obligations	44,940	45,322	13,250	13,192
Accrued interest	151	151	142	142
	<u>78,348</u>	<u>88,339</u>	<u>92,412</u>	<u>103,874</u>
Total assets whose use is limited	\$ <u>778,443</u>	<u>804,276</u>	<u>900,539</u>	<u>936,233</u>

(b) Short-Term Investments

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

	2019	2018
Board designated:		
Cash and cash equivalents	\$ 40,947	36,768
Corporate and other obligations	118,756	140,090
Accrued interest receivable	308	318
Short-term investments	<u>\$ 160,011</u>	<u>177,176</u>

(c) Investment Income

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

	2019	2018
Interest and dividend income, net	\$ 19,200	17,775
Unrealized gain (loss) on derivatives	(19,121)	13,484
Net realized gains on sales of securities	6,490	33,263
Net unrealized loss on trading securities	<u>(10,450)</u>	<u>(9,467)</u>
	<u>\$ (3,881)</u>	<u>55,055</u>

**INTEGRIS HEALTH, INC.
AND CONTROLLED ENTITIES**

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(6) Liquidity and Availability

INTEGRIS *Health's* financial assets available for general expenditures within one year of June 30, 2019 and 2018 are as follows (dollars in thousands):

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 60,125	76,645
Short-term investments	160,011	177,176
Patient accounts receivable	245,446	211,900
Assets limited to use – board designated	592,064	684,575
Other current assets	<u>71,090</u>	<u>55,410</u>
	<u>\$ 1,128,736</u>	<u>1,205,706</u>

INTEGRIS *Health's* board designated assets limited as to use are designated for future capital expenditures and operating reserves, but could be made available, if necessary, for general expenditures within the next year. Accordingly, these funds have been included in the table above. INTEGRIS *Health* has other assets limited to use for donor-restricted purposes, debt service, professional and general liability captive insurance program and other restricted purposes of \$212,212,000 and \$251,658,000 at June 30, 2019 and 2018, respectively that are not for general expenditures and are not included in the table above.

(7) Long-Term Debt

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

	<u>2019</u>	<u>2018</u>
Health System Revenue and Refunding Bonds (Series 2017A) of the Oklahoma Development Finance Authority in the aggregate amount of \$100,000 at variable rates as determined by the remarketing agent (2.85% and 2.46% as of June 30, 2019 and 2018, respectively). Issued December 2017, maturing at various dates through 2047.	\$ 100,000	100,000
Health System Revenue Refunding Bond Series (2015A) of the Oklahoma Development Finance Authority in the aggregate amount of \$200,060 at stated rates ranging from 1.00% to 5.00%, issued April 2015, maturing at various dates between August 2015 and August 2038, including a premium of \$18,047 and \$19,010 at June 30, 2019 and 2018, respectively.	191,672	199,725

**INTEGRIS HEALTH, INC.
AND CONTROLLED ENTITIES**

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

	2019	2018
Health System Revenue Refunding Bond Series (2015B) of the Oklahoma Development Finance Authority in the aggregate amount of \$48,425 as multi-modal, variable rates that may bear interest at a Window Rate, Daily Rate, Weekly Rate, Direct Purchase Rate, Indexed Rate, Commercial Paper Rate, or Long Term Rate. At June 30, 2019 and 2018 windows rate was 2.25% and 1.86%, respectively. Issued April 2015, maturing at various dates through 2033.	\$ 43,330	44,840
Health System Revenue Refunding bonds Series (2015C) of the Oklahoma Development Finance Authority in the aggregate amount of \$89,880 at variable rates as determined by the remarketing agent (3.14% and 2.86% as of June 30, 2019 and 2018, respectively). Issued June 2015, maturing at various dates through August 2033.	80,740	83,450
Health System Revenue and Refunding Bonds (Series 2013A) of the Oklahoma Development Finance Authority in the aggregate amount of \$48,990 at variable rates as determined by the remarketing agent (2.99% and 2.58% at June 30, 2019 and 2018 respectively). Issued May 2013, maturing at various dates through 2035.	41,440	43,215
Health System Revenue and Refunding Bonds (Series 2013B) of the Oklahoma Development Finance Authority in the aggregate amount of \$48,955 at variable rates as determined by the remarketing agent (2.99% and 2.58% as of June 30, 2019 and 2018, respectively). Issued May 2013, maturing at various dates through 2035.	41,405	43,180
INTEGRIS/USP Health Ventures Notes Payable Various debt instruments with Bank of America, GE Healthcare, Arvest and Midfirst Bank, interest rates ranging from 3.25% to 4.33% as of June 30, 2019, maturing at various dates through 2029.	22,082	—
	520,669	514,410
Less current portion	59,763	58,190
Long-term portion	\$ 460,906	456,220

**INTEGRIS HEALTH, INC.
AND CONTROLLED ENTITIES**

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

All Health System Revenue Bonds are secured by the revenues and receivables of the Obligated Group and the members of the Obligated Group are jointly and severally liable for the entire debt. The Obligated Group is comprised of IBMC, ISOCHC, IRH and IHE as of June 30, 2019 and 2018. In connection with the various bonds, the Obligated Group must comply with financial covenants and other various covenants that may require, restrict, limit, or prohibit certain transactions or activities. As of June 30, 2019, management believes the Obligated Group was in compliance with all debt covenants. In addition, management believes INTEGRIS *Health* was in compliance with debt covenants on other outstanding indebtedness as of June 30, 2019. The Obligated Group represents approximately 80% and 87% of total operating revenues of INTEGRIS *Health* as of and for the years ended June 30, 2019 and 2018, respectively.

In December 2017, the Obligated Group issued series 2017A *Health* System Revenue Refunding Bonds of the Oklahoma Development Finance Authority in the amount of \$100,000,000. Proceeds will be used to fund future expansion on the INTEGRIS Edmond campus as well as a replacement bed tower on the INTEGRIS Baptist Hospital Campus. The 2017 Bonds were purchased by a single financial institution in a direct, private placement transaction and will bear interest at variable rates of interest calculated monthly pursuant to a floating rate at a percentage of one-month LIBOR plus a spread. The spread is based on the rating of the long-term debt of the Obligated Group. The Series 2017A bonds are subject to a mandatory tender by the holder of the bonds in 2025, unless the holding period is renewed and extended by the bondholder. Upon a mandatory tender the Obligated Group will have the ability to convert to another interest mode (daily, weekly, term rate, flexible rate, or fixed rate) and remarket the bonds.

In April 2015, the Obligated Group issued the Series 2015A and Series 2015B *Health* System Revenue Refunding Bonds of the Oklahoma Development Finance Authority in the amounts of \$200,060,000 and \$48,425,000, respectively. Proceeds of the 2015 Bonds were used to refund the Series 2008B, 2008C, and 2007A-3 Bonds. INTEGRIS *Health* recognized a loss of approximately \$26,000,000 related to the extinguishment of the debt. The Series 2015A was issued as fixed rate debt. The Series 2015B was issued as variable debt with the initial sale at a Window Rate. The series 2015B bonds are variable rate demand bonds. Liquidity for payment of the Series 2015B bonds tendered for purchase and not remarketed is provided by INTEGRIS under a self-liquidity program. As a result, INTEGRIS has classified the Series 2015B bonds as a current liability in the current portion of long-term debt. Actual scheduled principal repayment dates range from 2019 to 2034.

In June 2015, the Obligated Group issued the Series 2015C *Health* System Revenue Refunding Bonds of the Oklahoma Development Finance Authority in the amount of \$89,880,000. Proceeds of the 2015C Bonds were used to refund the Series 2011A and 2011B bonds. The Series 2015C Bonds were purchased by a single financial institution in a direct, private placement transaction and will bear interest at variable rates of interest calculated monthly pursuant to a floating rate at a percentage of one-month LIBOR plus a spread. The spread is based on the rating of the long-term debt of the Obligated Group. The Series 2015C bonds are subject to a mandatory tender by the holder of the bonds in 2030, unless the holding period is renewed and extended by the bondholder. Upon a mandatory tender the Obligated Group will have the ability to convert to another interest mode (daily, weekly, term rate, flexible rate, or fixed rate) and remarket the bonds.

**INTEGRIS HEALTH, INC.
AND CONTROLLED ENTITIES**

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

In May 2013, the Obligated Group issued the Series 2013A and Series 2013B *Health* System Revenue and Refunding Bonds of The Oklahoma Development Finance Authority in the amounts of \$48,990,000 and \$48,955,000, respectively. The 2013 Bonds were purchased by a single financial institution in a direct, private placement transaction and will bear interest at variable rates of interest calculated monthly pursuant to a floating rate at a percentage of one-month LIBOR plus a spread. The spread is based on the rating of the long-term debt of the Obligated Group. The 2013A Bonds are subject to a mandatory tender by the holder of the bonds at the end of seven years and the 2013B Bonds are subject to a mandatory tender by the holder of the bonds at the end of eight years, unless the holding period is renewed and extended by the bondholder. During 2018, the 2013A and 2013B mandatory tenders were extended to 2027 and 2028, respectively. Upon a mandatory tender the Obligated Group will have the ability to convert to another interest rate mode (daily, weekly, term rate, flexible rate, or fixed rate) and remarket the 2013 Bonds.

The 2013A and 2013B bonds are classified in the accompanying consolidated balance sheet and the maturity table below in accordance with the mandatory tender provisions in place with the holder of the bonds.

During 1999, INTEGRIS *Health* entered into agreements whereby INTEGRIS *Health* agrees to receive variable market-indexed payments in exchange for fixed rate interest payments. The notional principal amount underlying these interest rate swaps at June 30, 2017 was \$101,800,000. The variable payment rates approximate 67% of the one-month USD-LIBOR-BBA. The fixed payment rate is 3.52%. During 2019, these swaps were novated and replaced with a swap related to the 2017A bonds. Under the new agreement, INTEGRIS *Health* agrees to receive variable market-indexed payments in exchange for fixed rate interest payments. The notional principal amount underlying these interest rate swaps at June 30, 2019 was \$100,000,000. The interest rate swaps mature in August 2047. The variable payment rates approximate 70% of the one-month USD-LIBOR-BBA. The fixed payment rate is 2.65%.

During 2005, INTEGRIS *Health* entered into agreements whereby INTEGRIS *Health* agrees to receive variable market-indexed payments in exchange for fixed rate interest payments. The notional principal amount underlying these interest rate swaps at June 30, 2019 and 2018 was \$80,700,000 and \$84,250,000, respectively. The interest rate swaps mature in August 2035. The variable payment rates approximate 67% of the one-month USD-LIBOR-BBA, which approximates the variable rates of the Series 2013A and 2013B bonds. The fixed payment rate is 3.57%.

During fiscal year 2008, INTEGRIS *Health* entered into agreements whereby INTEGRIS *Health* agrees to receive variable market-indexed payments in exchange for fixed rate interest payments. The notional principal amount underlying these interest rate swaps at June 30, 2019 and 2018 was \$123,625,000 and \$127,775,000, respectively. The interest rate swaps mature in August 2033. The variable payment rates approximate 67% of three-month USD-LIBOR-BBA, which approximates the variable rates of the Series 2015B and 2015C bonds. The fixed payment rate is 3.62%.

**INTEGRIS HEALTH, INC.
AND CONTROLLED ENTITIES**

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

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

	Scheduled principal payments	Including mandatory tendered bonds
Year ending June 30:		
2020	\$ 17,963	59,763
2021	18,491	16,936
2022	18,835	17,210
2023	19,617	17,967
2024	20,589	18,844
Thereafter	407,127	371,902
Total	\$ 502,622	502,622

During 2015, INTEGRIS *Health* entered into a line of credit with Bank of Oklahoma, N.A. in the amount of \$75,000 that expires on July 1, 2018. This line of credit was renewed in 2018. There were no amounts outstanding under the line of credit as of June 30, 2019 and 2018.

(8) Net Assets

Net assets with donor restrictions at June 30, 2019 and 2018 were held for the following purposes (dollars in thousands):

	2019	2018
Subject to expenditure for a specific purpose:		
Funds held for specific construction projects	\$ 10,011	16,930
Research and education	2,856	2,975
Community outreach	1,428	1,279
Patient care	32,243	26,224
Other restricted purposes	1,868	1,392
	48,406	48,800
Subject to INTEGRIS <i>Health</i> spending policy and appropriation:		
Endowments	7,931	7,291
Total net assets with donor restrictions	\$ 56,337	56,091

**INTEGRIS HEALTH, INC.
AND CONTROLLED ENTITIES**

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

Net assets were released from donor restrictions by incurring expenses for the years ended June 30, 2019 and 2018, respectively, satisfying the restricted purposes specified by the donors (dollars in thousands):

	2019	2018
Net assets released:		
Construction	\$ 8,285	9,222
Other restricted purposes	1,718	1,522
	\$ 10,003	10,744

Net assets without donor restrictions at June 30, 2019 and 2018, are as follows (dollars in thousands):

	2019	2018
Net assets without donor restrictions:		
Undesignated	\$ 912,793	992,184
Net assets of noncontrolling interests	260,994	7,235
	\$ 1,173,787	999,419

(9) Investments in Affiliates

INTEGRIS *Health* owns noncontrolling interests in Two Corporate Plaza, L.L.C. (Plaza), a real estate limited liability company; Medical Plaza Imaging Center LLC (MPIC), a healthcare limited liability company; IntelliStaf, a medical personnel agency; Diagnostic Lab of Oklahoma (DLO), a comprehensive medical laboratory; Emerus Community Hospitals, a hospital company; Hefner Pointe Medical Associates, LLC, a real estate limited liability company; and LifeCare Health Services, LLC, a healthcare collaborative. These investments are accounted for using the equity method and are recorded in other assets, net.

INTEGRIS *Health* purchased an interest in VADovations, Inc. in 2011. VADovations is a research and development company. INTEGRIS *Health* owns 75% of the stock and controls 40% of the representation on the board of directors. Based upon the level of control maintained, this investment is also accounted for using the equity method and is recorded in other assets, net. In addition, INTEGRIS *Health* has a note receivable due from VADovations. The balance, including accrued interest, was approximately \$15,574,000 and \$13,917,000 as of June 30, 2019 and 2018, respectively and is included in other assets, net, in the accompanying consolidated balance sheet.

**INTEGRIS HEALTH, INC.
AND CONTROLLED ENTITIES**

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

Following is a summary of the ownership interests, carrying values, and equity in earnings (losses) of investments in affiliates at June 30, 2019 and 2018 (in thousands):

	Ownership interest		Carrying value		Equity in earnings (losses)	
	2019	2018	2019	2018	2019	2018
Plaza	33.33 %	33.33 %	\$ 337	387	(50)	(37)
MPIC	50.00	50.00	134	271	(138)	(50)
Advanced imaging	—	50.00	—	15	—	—
SASC	—	18.55	—	6,463	1,491	2,728
InteliStaf	32.00	32.00	550	453	1,440	1,247
DLO	49.00	49.00	11,221	12,240	14,661	14,800
LifeCare Health Services	20.60	19.77	1,488	1,354	134	1,354
Emerus Community Hospitals	51.00	—	4,580	—	(4,396)	—
Hefner Pointe MA, LLC	30.00	—	1,550	—	12	—
VADovations, Inc.	75.00	75.00	(8,817)	(5,233)	(3,584)	(2,807)
			<u>\$ 11,043</u>	<u>15,950</u>	<u>9,570</u>	<u>17,235</u>

The interest in SASC was contributed to Health Ventures as discussed in note 3.

(10) Noncontrolling Interests

INTEGRIS *Health* controls and, therefore, consolidates certain investees in its partnerships and joint ventures with physicians and nonphysicians to operate hospitals and other health-related ventures. The activity for noncontrolling interest for the years ended June 30, 2019 and 2018 is summarized below (in thousands):

	<u>2019</u>	<u>2018</u>
Noncontrolling ownership interest in equity of consolidated affiliates, beginning of year	\$ 7,235	7,334
Contributions from noncontrolling interest holders	77,945	—
Noncontrolling interests for current year acquisitions	170,569	—
Revenue and gains in excess of expenses and losses attributable to noncontrolling interest	23,963	1,914
Distributions to noncontrolling interest holders	<u>(18,718)</u>	<u>(2,013)</u>
Noncontrolling ownership interest in equity of consolidated affiliates, end of year	<u>\$ 260,994</u>	<u>7,235</u>

(11) Malpractice and Liability Costs

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

**INTEGRIS HEALTH, INC.
AND CONTROLLED ENTITIES**

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

Effective July 1, 1995, INTEGRIS *Health* formed Quality Alliance, a captive insurance company formed for the purpose of providing coverage to INTEGRIS *Health* and all of its controlled entities for medical malpractice and other liability risks. Quality Alliance charges premiums to the respective entities for coverage and accrues losses based on estimates that incorporate past experience as well as other considerations, which are based on actuarial estimates from an independent third-party actuary. Adjustments to the liability based on subsequent developments or other changes in the estimate are reflected in the consolidated statements of operations and changes in net assets in the period in which such adjustments become known. Quality Alliance maintains reinsurance coverage to reduce exposure from significant individual and aggregate losses. INTEGRIS *Health* has an undiscounted accrued liability for estimated claims incurred of approximately \$78,786,000 and \$84,282,000 as of June 30, 2019 and 2018, respectively, recorded in accounts payable, accrued expenses, and other and in other long-term liabilities.

Claims arising from services provided to patients through June 30, 2019 and 2018 have been filed requesting damages in excess of insurance and the amount accrued for estimated malpractice costs. It is the opinion of management, however, after consulting with its legal counsel, insurance carrier, and actuary, that estimated costs to be incurred will be covered by professional liability insurance and the amount accrued for estimated malpractice costs. Due to the inherent uncertainties and subjectivity involved in accounting for contingencies, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

(12) Pension and Postretirement Benefit Plans

INTEGRIS *Health* has defined-benefit pension plans covering certain eligible employees and employees of controlled entities and affiliates. Eligible employees include those over 21 years of age who have attained at least 1,000 hours of service. The benefits are based on the employee's years of service and compensation or the cash balance feature of the plan. Employees newly hired or rehired after July 1, 2009 were no longer able to access the pension plans. As of January 1, 2013, the pension plans are frozen except for interest on the cash balance feature of 5% per year.

INTEGRIS *Health*'s funding policy for the pension plans is to contribute at least the minimum amount necessary to satisfy the funding standards of the Employee Retirement Income Security Act of 1974, as amended. The minimum contributions were approximately \$17,099,000 and \$14,754,000 in 2019 and 2018, respectively. Contributions of approximately \$25,320,000 and \$15,859,000 were made in 2019 and 2018, respectively.

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

INTEGRIS *Health* had a single defined benefit pension plan until June 30, 2019, when INTEGRIS *Health* split the plan into Retirement Plan A and Retirement Plan B (collectively the Pension Plans). Plan A and Plan B have identical terms. The creation of Plan B was considered a de-minimus spin-off which required assets to be allocated to Plan B equal to the benefit obligation for the participants of Plan B as of June 30, 2019.

**INTEGRIS HEALTH, INC.
AND CONTROLLED ENTITIES**

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

The following table sets forth the pension and postretirement benefit plan's benefit obligations, fair value of plan assets, and funded status as of June 30, 2019 and 2018 (in thousands):

	Pension plans		Postretirement benefit plan	
	2019	2018	2019	2018
Projected benefit obligation at June 30	\$ 720,319	658,591	2,639	2,648
Fair value of plan assets at June 30	410,384	402,459	—	—
Funded status	<u>\$ (309,935)</u>	<u>(256,132)</u>	<u>(2,639)</u>	<u>(2,648)</u>
Accrued benefit cost recognized in the balance sheet	\$ (309,935)	(256,132)	(2,639)	(2,648)

Net assets include approximately \$346,509,000 and \$271,826,000 related to the pension plan as of June 30, 2019 and 2018, respectively which is comprised fully of a net actuarial loss. The net loss as of June 30, 2019 that will be amortized from net assets into net periodic benefit cost over the next fiscal year is approximately \$8,920,000. The net loss amortized during the year ended June 30, 2019 was approximately \$6,395,000.

Actuarial assumptions utilized for the plans are as follows:

	Pension plans		Postretirement benefit plan	
	2019	2018	2019	2018
Weighted average assumptions as of June 30 used to determine net periodic benefit cost:				
Discount rate	4.32 %	3.87 %	4.32 %	3.87 %
Expected long-term rate of return on plan assets	7.37	7.49	—	—
Healthcare cost trend rate	—	—	7.80	7.00
Weighted average assumptions as of June 30 used to determine the benefit obligation:				
Discount rate	—	—	3.72	4.32
Plan A	3.72	4.32	—	—
Plan B	3.90	—	—	—
Healthcare cost trend rate	—	—	7.40	7.80

The accumulated benefit obligation for the Pension Plans was approximately \$720,319,000 and \$658,591,000 at June 30, 2019 and 2018, respectively. The mortality assumption was updated at June 30, 2019 to the RP-2014 Mortality Table with the MP-2018 improvement scale to reflect the most recent information published by the Society of Actuaries Retirement Plans Experience Committee.

**INTEGRIS HEALTH, INC.
AND CONTROLLED ENTITIES**

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

For measurement purposes, medical claims in 2019 are assumed to be 7.4% greater than medical claims for 2018. The trend is graded down so that medical claims in 2035 and later are assumed to be 4.5% greater than claims in the prior year.

Summary information for the plans is as follows:

	Pension plans		Postretirement benefit plan	
	2019	2018	2019	2018
Net periodic benefit cost	\$ 4,440,000	4,624,000	40,000	(45,000)
INTEGRIS <i>Health</i> contributions	25,320,000	15,859,000	129,000	214,000
Benefits paid	25,234,000	23,174,000	140,000	219,000

The following tables present information about INTEGRIS *Health*'s pension plan assets that are measured at fair value on a recurring basis as of June 30, 2019 and 2018 (in thousands). The table indicates the fair value hierarchy of the valuation techniques utilized to determine such fair values. In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities. Fair values determined by Level 2 inputs utilize data points that are observable, such as quoted prices, interest rates, and yield curves. Fair values determined by Level 3 inputs are unobservable data points for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability (in thousands).

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	2019
Equity:				
Common stocks	\$ 73,311	—	—	73,311
Publicly traded mutual funds – equity	95,675	—	—	95,675
Total equity	168,986	—	—	168,986
Fixed income:				
Treasury and federal agencies	27,497	5,104	—	32,601
Nongovernmental obligations	—	61,639	—	61,639
Publicly traded mutual funds – fixed income	87,979	—	—	87,979
Total fixed income	115,476	66,743	—	182,219
Limited partnerships	23,194	—	—	23,194
Cash and cash equivalents	6,302	—	—	6,302
Investments measured at net asset value	—	—	—	28,977
Total assets	\$ 313,958	66,743	—	409,678

**INTEGRIS HEALTH, INC.
AND CONTROLLED ENTITIES**

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient have not been categorized in the fair value hierarchy table above. Plan assets also include approximately \$706,000 of accrued interest at June 30, 2019.

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	2018
Equity:				
Common stocks	\$ 83,464	—	—	83,464
Publicly traded mutual funds – equity	89,198	—	—	89,198
Total equity	<u>172,662</u>	<u>—</u>	<u>—</u>	<u>172,662</u>
Fixed income:				
Treasury and federal agencies	40,592	8,976	—	49,568
Nongovernmental obligations	—	34,073	—	34,073
Publicly traded mutual funds – fixed income	81,822	—	—	81,822
Total fixed income	122,414	43,049	—	165,463
Limited partnerships	28,219	—	—	28,219
Cash and cash equivalents	9,534	—	—	9,534
Investments measured at net asset value	—	—	—	26,581
Total assets	<u>\$ 332,829</u>	<u>43,049</u>	<u>—</u>	<u>402,459</u>

Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient have not been categorized in the fair value hierarchy table above. Plan assets also include approximately \$825,000 of accrued interest at June 30, 2018.

**INTEGRIS HEALTH, INC.
AND CONTROLLED ENTITIES**

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

The weighted average asset allocation of INTEGRIS *Health's* Pension Plan assets at June 30, 2019 and 2018, by asset category are as follows:

Asset category:	Plan assets at June 30	
	2019	2018
Equity securities	41 %	43 %
Debt securities	44	41
Cash	2	2
Real estate	4	6
Master limited partnerships	9	8
	100 %	100 %

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

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

**INTEGRIS HEALTH, INC.
AND CONTROLLED ENTITIES**

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

The expected benefits to be paid are as follows:

	<u>Pension plans</u>	<u>Postretirement benefit plan</u>
2020	\$ 27,947,000	228,000
2021	29,182,000	232,000
2022	30,379,000	233,000
2023	30,837,000	233,000
2024	31,819,000	230,000
2025–2029	172,812,000	1,035,000

The expected benefits are estimated based on the same assumptions used to measure the benefit obligations of INTEGRIS *Health* at June 30, 2019 and include benefits attributable to estimated future employee service.

INTEGRIS *Health* expects to contribute \$34,400,000 to the Pension Plans during the upcoming year to maintain an 80% funding objective.

(13) Other Employee Benefit Plans

INTEGRIS *Health* is self-insured for the purpose of providing medical and dental benefits to all eligible employees of INTEGRIS *Health* and affiliates through several plans. Eligible employees are allowed to select coverage through an affiliated preferred provider organization or a health maintenance organization. Claims and premiums under this plan are paid with funds provided by the operations of INTEGRIS *Health* as well as employee contributions. INTEGRIS *Health* has an accrued liability for estimated claims incurred of approximately \$7,265,000 and \$8,409,000 as of June 30, 2019 and 2018, respectively, recorded in other long-term liabilities.

INTEGRIS *Health* is self-insured for workers' compensation for substantially all employees of INTEGRIS *Health* and affiliates through several plans. The accrued liability for estimated claims incurred is approximately \$13,717,000 and \$13,801,000 as of June 30, 2019 and 2018, respectively, recorded in other long-term liabilities. INTEGRIS *Health* maintains a surety bond for this program. The bond is with Travelers Casualty and Surety Company of America in the amount of \$7,808,000.

INTEGRIS *Health* administers a retirement savings plan for its employees and employees of controlled entities and affiliates. Eligible employees may contribute pretax wages in accordance with the retirement savings plan. INTEGRIS *Health* and affiliates match certain contributions made by their employees. INTEGRIS *Health* also makes contributions on behalf of employees based on years of service (the INTEGRIS *Health* Basic Contributions). Contributions of approximately \$34,367,000 and \$33,855,000 were made by INTEGRIS *Health* in 2019 and 2018, respectively.

**INTEGRIS HEALTH, INC.
AND CONTROLLED ENTITIES**

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(14) Charity Care and Uncompensated Care

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

INTEGRIS *Health* accepts patients regardless of their ability to pay. A patient is classified as a traditional charity patient by meeting the requirements of system approved policies. Essentially, these policies define traditional charity services as those services for which the ability to pay from existing patient resources is not reasonably expected. The amount of traditional charity care provided, determined on the basis of cost, was approximately \$17,084,000 and \$19,100,000 for the years ended June 30, 2019 and 2018, respectively. INTEGRIS *Health* estimated the cost of charity care based on a ratio of total operating expenses to gross charges. Additionally, INTEGRIS *Health* provides a private pay discount and considers the private pay discount and all Medicaid contractual adjustments to be a component of total charity care.

(15) Concentration of Credit Risk

INTEGRIS *Health* grants credit without collateral to patients, most of who are insured under third-party payor agreements. Gross outstanding Medicare and Medicaid payor receivables represented approximately 34% and 32% of total gross outstanding receivables at June 30, 2019 and 2018, respectively.

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

(16) Federal Income Taxes

INTEGRIS *Health* has certain subsidiaries and operations such as partnership interests, retail pharmacies, and outside laboratory services that are taxable for federal income tax purposes. The taxable activities of all includible entities have approximately \$7,012,000 and \$4,909,000 in net deferred tax assets, against which a 100% valuation allowance has been recorded, for the years ended June 30, 2019 and 2018, respectively.

**INTEGRIS HEALTH, INC.
AND CONTROLLED ENTITIES**

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(17) Functional Expenses

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

	2019				
	Patient care services	General and administrative	Research and education	Fundraising	Total
Salaries, wages, and employee benefits	\$ 849,120	135,516	442	1,230	986,308
Supplies	435,236	1,606	4	260	437,106
Depreciation and amortization	62,474	37,888	—	4	100,366
Interest expense	20,537	1,160	—	—	21,697
Other operating expenses	281,294	124,352	51	2,258	407,955
	<u>\$ 1,648,661</u>	<u>300,522</u>	<u>497</u>	<u>3,752</u>	<u>1,953,432</u>

	2018				
	Patient care services	General and administrative	Research and education	Fundraising	Total
Salaries, wages, and employee benefits	\$ 724,589	129,325	391	1,214	855,519
Supplies	353,315	1,211	5	215	354,746
Depreciation and amortization	57,578	32,479	—	7	90,064
Interest expense	20,191	—	—	—	20,191
Other operating expenses	234,764	113,115	383	1,919	350,181
	<u>\$ 1,390,437</u>	<u>276,130</u>	<u>779</u>	<u>3,355</u>	<u>1,670,701</u>

(18) Fair Value Disclosures

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

**INTEGRIS HEALTH, INC.
AND CONTROLLED ENTITIES**

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

The following tables present information about INTEGRIS Health's assets and liabilities that are measured at fair value on a recurring basis as of June 30, 2019 and 2018 (in thousands) and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value. In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities. Fair values determined by Level 2 inputs utilize data points that are observable, such as quoted prices, interest rates, and yield curves. Fair values determined by Level 3 inputs are unobservable data points for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability (in thousands).

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	2019
Equity:				
Common stocks	\$ 115,915	—	—	115,915
Publicly traded mutual funds – equity	198,808	—	—	198,808
Total equities	<u>314,723</u>	<u>—</u>	<u>—</u>	<u>314,723</u>
Fixed income:				
Treasury and federal agencies	76,104	25,288	—	101,392
Nongovernmental obligations	8,913	92,053	—	100,966
Publicly traded mutual funds – fixed income	250,453	—	—	250,453
Total fixed income	335,470	117,341	—	452,811
Limited partnerships	48,561	—	—	48,561
Cash and cash equivalents	129,575	—	—	129,575
Investments measured at net asset values	—	—	—	16,983
Total assets	<u>\$ 828,329</u>	<u>117,341</u>	<u>—</u>	<u>962,653</u>
Liabilities:				
Interest rate swap agreements	\$ —	59,207	—	59,207

Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient have not been categorized in the fair value hierarchy table above. Total invested assets also included approximately \$1,634,000 of accrued income at June 30, 2019.

**INTEGRIS HEALTH, INC.
AND CONTROLLED ENTITIES**

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	2018
Equity:				
Common stocks	\$ 176,809	—	—	176,809
Publicly traded mutual funds – equity	265,807	—	—	265,807
Total equity	<u>442,616</u>	<u>—</u>	<u>—</u>	<u>442,616</u>
Fixed income:				
Treasury and federal agencies	79,095	30,614	—	109,709
Nongovernmental obligations	6,453	90,866	—	97,319
Publicly traded mutual funds – fixed income	230,351	—	—	230,351
Total fixed income	315,899	121,480	—	437,379
Limited partnerships	58,439	—	—	58,439
Cash and cash equivalents	158,197	—	—	158,197
Investments measured at net asset values	—	—	—	14,935
Total assets	<u>\$ 975,151</u>	<u>121,480</u>	<u>—</u>	<u>1,111,566</u>
Liabilities:				
Interest rate swap agreements	\$ —	40,086	—	40,086

Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient have not been categorized in the fair value hierarchy table above. Total invested assets also included approximately \$1,843,000 of accrued income at June 30, 2018.

(19) CMS Settlement

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

**INTEGRIS HEALTH, INC.
AND CONTROLLED ENTITIES**

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

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

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

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

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

On March 9, 2018, INTEGRIS *Health* received an NPR, informing it that the audit of the Medicare Cost Report for INTEGRIS Baptist for the period ending June 30, 2008 had been completed, resulting in an adjustment to the cost report in a net amount due the program of approximately \$11,500,000 (the Disputed Amount).

On June 21, 2018, INTEGRIS *Health* received an NPR, informing it that the audit of the Medicare Cost Report for INTEGRIS Bass for the period ending June 30, 2009 had been completed, resulting in an adjustment to the cost report in a net amount due the program of approximately \$3,100,000 (the Disputed Amount).

On March 9, 2019, INTEGRIS *Health* received an NPR, informing it that the audit of the Medicare Cost Report for INTEGRIS Baptist for the period ending June 30, 2009 had been completed, resulting in an adjustment to the cost report in a net amount due the program of approximately \$12,100,000 (the Disputed Amount).

On June 21, 2019, INTEGRIS *Health* received an NPR, informing it that the audit of the Medicare Cost Report for INTEGRIS Bass for the period ending June 30, 2010 had been completed, resulting in an adjustment to the cost report in a net amount due the program of approximately \$3,100,000 (the Disputed Amount).

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

The June 30, 2007 cost reports for both INTEGRIS Baptist and INTEGRIS Bass have been appealed to the Provider Reimbursement Review Board (PRRB.) The providers were granted an expedited hearing by the

**INTEGRIS HEALTH, INC.
AND CONTROLLED ENTITIES**

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

PRRB which took place June 21, 2016. A decision by the PRRB has not yet been rendered. The current trend is for PRRB to render a decision in two to three years from the date of the hearing.

The cost reports noted above for INTEGRIS Baptist and Bass have also been appealed to the Provider Reimbursement Review Board (PRRB.)

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

As a result of the issuance of the above NPRs, INTEGRIS *Health* recorded an estimate of \$140,000,000 for the exposure associated with this dispute in fiscal year 2015. The liability is approximately \$81,100,000 and \$95,700,000 on June 30, 2019 and 2018, respectively. Management does not believe that this decision will have a material impact on future operations or the financial profile of INTEGRIS *Health*.

(20) Commitments and Contingencies

As discussed in note 11, INTEGRIS *Health* and its controlled entities are involved in litigation associated with alleged malpractice and general liability claims, which arise out in the ordinary course of business. It is the opinion of management, upon consultation with legal counsel, that self-insurance reserves are sufficient to cover the related exposure, and that the outcome of these matters will not have a material adverse effect on INTEGRIS *Health*'s consolidated financial position or results of operations.

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

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

Certain controlled entities have projects to construct and expand facilities and purchase medical equipment, which are in various stages of completion. As of June 30, 2019, the estimated remaining costs to complete these projects totaled approximately \$68,800,000.

**INTEGRIS HEALTH, INC.
AND CONTROLLED ENTITIES**

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

Litigation

In May 2016, a relator filed a qui tam lawsuit under seal in the Western District of Oklahoma against, among other parties, (i) Oklahoma Center for Orthopaedic & Multispecialty Surgery (OCOM), a surgical hospital jointly owned by USPI, Health Ventures and physicians, (ii) Southwest Orthopaedic Specialists, an independent physician practice group, (iii) Tenet, and (iv) other related entities and individuals. The complaint alleges various violations of the FCA, the Anti-kickback Statute, the Stark law and the Oklahoma Medicaid False Claims Act. In May 2018, IACC and SMC learned that they were parties to the suit when the court unsealed the complaint and the DOJ declined to intervene with respect to the issues involving Tenet, USPI, OCOM, IACC, SMC and individually named employees. In June 2018, the relator filed an amended complaint more fully describing the claims and adding additional defendants. Tenet, USPI, OCOM and individually named employees filed motions to dismiss the case in October 2018, but the court has not yet ruled on the motions. The litigation is currently stayed until October 2019.

At this time, the parties are investigating the claims contained in the amended complaint and cooperating fully with the DOJ. Tenet has met with the DOJ and the Office of Inspector General of the U.S. Department of Health and Human Services to discuss potential resolution of these matters. Because these proceedings and investigations remain at a preliminary stage, INTEGRIS Health is unable to predict with any certainty the terms, or potential impact on our business or financial condition, of any potential resolution of these matters.

Lease Obligations

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

	Operating leases	Capital leases
Fiscal year ending June 30:		
2020	\$ 13,322	3,022
2021	10,877	2,537
2022	10,046	2,817
2023	8,897	3,392
2024	8,500	3,455
Thereafter	54,188	41,805
Total	\$ 105,830	57,028
Less amount representing interest (at ranges from 1.77% to 8.56%)		25,095
Less current installments of obligations under capital leases		3,022
Obligations under capital leases, excluding current installments		\$ 28,911

Operating lease expense approximated \$34,931,000 and \$24,593,000 in 2019 and 2018, respectively.

**INTEGRIS *HEALTH*, INC.
AND CONTROLLED ENTITIES**

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(21) Subsequent Events

Management of INTEGRIS *Health* has evaluated subsequent events through September 27, 2019, the date on which the consolidated financial statements were issued.

**INTEGRIS HEALTH, INC.
AND CONTROLLED ENTITIES**

Consolidating Schedule – Balance Sheet Information

June 30, 2019

(In thousands)

Assets	INTEGRIS Baptist Medical Center, Inc.	INTEGRIS South Oklahoma City Hospital Corporation	INTEGRIS Rural Health, Inc.	INTEGRIS Health Edmond	Obligated group combined total	All others	Reclassifications and eliminations	Consolidated total
Current assets:								
Cash and cash equivalents	\$ 464,603	82,077	65,525	—	612,205	119,888	(671,968)	60,125
Short-term investments	83,853	23,953	17,837	—	125,643	34,368	—	160,011
Patient accounts receivable, net	120,694	24,731	21,902	7,233	174,560	70,886	—	245,446
Inventories	25,417	3,155	6,986	1,991	37,549	11,736	—	49,285
Prepaid expenses and other current assets	1,943	195	201	—	2,339	133,420	(116,454)	19,305
Total current assets	696,510	134,111	112,451	9,224	952,296	370,298	(788,422)	534,172
Assets whose use is limited	425,558	77,719	51,459	—	554,736	249,540	—	804,276
Property and equipment, net	180,682	55,135	143,507	132,990	512,314	284,922	—	797,236
Other assets, net	40,293	4,404	4,321	—	49,018	1,758,498	(1,741,537)	65,979
Goodwill	—	—	—	—	—	350,442	—	350,442
Total assets	\$ 1,343,043	271,369	311,738	142,214	2,068,364	3,013,700	(2,529,959)	2,552,105
Liabilities and Net Assets								
Current liabilities:								
Accounts payable, accrued expenses and other	\$ 131,059	5,184	40,926	8,988	186,157	764,361	(741,143)	209,375
Employee compensation and related liabilities	19,716	5,679	6,169	1,364	32,928	41,590	—	74,518
Current portion of long-term debt	57,325	—	—	—	57,325	2,438	—	59,763
Current portion of capital lease obligations	—	—	—	—	—	3,022	—	3,022
Due to affiliates	70,443	13,559	18,232	3,451	105,685	13,269	(116,454)	2,500
Total current liabilities	278,543	24,422	65,327	13,803	382,095	824,680	(857,597)	349,178
Long-term debt, less current portion	441,262	—	—	—	441,262	19,644	—	460,906
Long-term capital leases, less current portion	—	—	—	—	—	32,239	(3,328)	28,911
Long-term pension liability	—	—	—	—	—	309,935	—	309,935
Other long-term liabilities	63,310	282	465	—	64,057	36,542	72,452	173,051
Total liabilities	783,115	24,704	65,792	13,803	887,414	1,223,040	(788,473)	1,321,981
Net assets of INTEGRIS Health	560,255	246,665	245,946	128,411	1,181,277	1,529,339	(1,741,486)	969,130
Noncontrolling ownership interest in equity of consolidated affiliates – unrestricted	(327)	—	—	—	(327)	261,321	—	260,994
Total net assets	559,928	246,665	245,946	128,411	1,180,950	1,790,660	(1,741,486)	1,230,124
Total liabilities and net assets	\$ 1,343,043	271,369	311,738	142,214	2,068,364	3,013,700	(2,529,959)	2,552,105

See accompanying independent auditors' report.

**INTEGRIS HEALTH, INC.
AND CONTROLLED ENTITIES**

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

Year ended June 30, 2019

(In thousands)

	INTEGRIS Baptist Medical Center, Inc.	INTEGRIS South Oklahoma City Hospital Corporation	INTEGRIS Rural Health, Inc.	INTEGRIS Health Edmond	Obligated group combined total	All others	Reclassifications and eliminations	Consolidated total
Operating revenues:								
Net patient service revenue	\$ 886,500	228,126	244,298	70,675	1,429,599	367,720	(17,130)	1,780,189
Premium revenue	170	—	—	—	170	6,854	—	7,024
Other operating revenue	26,643	13,311	8,920	1,898	50,772	501,143	(388,982)	162,933
Total operating revenues	<u>913,313</u>	<u>241,437</u>	<u>253,218</u>	<u>72,573</u>	<u>1,480,541</u>	<u>875,717</u>	<u>(406,112)</u>	<u>1,950,146</u>
Operating expenses:								
Salaries and related expenses	317,355	98,041	101,014	24,177	540,587	447,059	(1,338)	986,308
Supplies and other expenses	390,684	84,800	91,747	20,193	587,424	342,094	(143,909)	785,609
Professional services	162,433	54,908	45,334	14,794	277,469	55,729	(273,746)	59,452
Depreciation and amortization	24,621	9,253	12,786	4,168	50,828	49,538	—	100,366
Interest expense	6,491	2,286	5,746	3,611	18,134	3,571	(8)	21,697
Total operating expenses	<u>901,584</u>	<u>249,288</u>	<u>256,627</u>	<u>66,943</u>	<u>1,474,442</u>	<u>897,991</u>	<u>(419,001)</u>	<u>1,953,432</u>
Income (loss) from operations	<u>11,729</u>	<u>(7,851)</u>	<u>(3,409)</u>	<u>5,630</u>	<u>6,099</u>	<u>(22,274)</u>	<u>12,889</u>	<u>(3,286)</u>
Nonoperating revenue (expense):								
Net investment income (loss)	(12,723)	1,548	1,485	415	(9,275)	5,394	—	(3,881)
Net equity in loss of affiliates	(3,584)	—	—	—	(3,584)	—	—	(3,584)
Other, net	8,636	—	(6)	—	8,630	13,765	(8)	22,387
Total nonoperating revenue, net	<u>(7,671)</u>	<u>1,548</u>	<u>1,479</u>	<u>415</u>	<u>(4,229)</u>	<u>19,159</u>	<u>(8)</u>	<u>14,922</u>
Net income (loss)	4,058	(6,303)	(1,930)	6,045	1,870	(3,115)	12,881	11,636
Net (income) loss attributable to noncontrolling interest	—	—	—	—	—	(23,963)	—	(23,963)
Net income (loss) attributable to INTEGRIS Health	4,058	(6,303)	(1,930)	6,045	1,870	(27,078)	12,881	(12,327)
Other changes in net assets:								
Pension liability adjustment	—	—	—	—	—	(74,683)	—	(74,683)
Other, net	1,201	96	249	7,051	8,597	409,971	(410,703)	7,865
Change in net assets	5,259	(6,207)	(1,681)	13,096	10,467	308,210	(397,822)	(79,145)
Net assets of INTEGRIS Health, beginning of year	554,996	252,872	247,627	115,315	1,170,810	1,221,129	(1,343,664)	1,048,275
Net assets of INTEGRIS Health, end of year	<u>\$ 560,255</u>	<u>246,665</u>	<u>245,946</u>	<u>128,411</u>	<u>1,181,277</u>	<u>1,529,339</u>	<u>(1,741,486)</u>	<u>969,130</u>

See accompanying independent auditors' report.