INTEGRIS *HEALTH*, INC.
AND CONTROLLED ENTITIES

Consolidated Financial Statements
and Supplemental Schedules

June 30, 2013 and 2012

(With Independent Auditors' Report Thereon)

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

Independent Auditors' Report

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

We have audited the accompanying consolidated financial statements of INTEGRIS *Health*, Inc. and controlled entities, which comprise the consolidated balance sheets as of June 30, 2013 and 2012, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of INTEGRIS *Health*, Inc. and controlled entities as of June 30, 2013 and 2012, 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 23, 2013

INTEGRIS *HEALTH*, INC.
AND CONTROLLED ENTITIES

Consolidated Balance Sheets

June 30, 2013 and 2012

(In thousands)

Assets		2013	2012
Current assets:			
Cash and cash equivalents	$	171,183	130,660
Short-term investments		132,375	131,945
Accounts receivable, net:			
Patients		133,502	130,019
Affiliates		—	3
Current portion of notes receivable		364	688
Inventories		23,015	22,036
Prepaid expenses and other current assets		9,851	9,813
Total current assets		470,290	425,164
Assets whose use is limited		892,738	874,475
Property and equipment:			
Land and improvements		59,233	56,717
Buildings and leasehold improvements		684,549	669,503
Equipment		686,985	648,537
		1,430,767	1,374,757
Less accumulated depreciation and amortization		860,015	795,581
		570,752	579,176
Construction in progress		5,996	5,303
		576,748	584,479
Other assets, net		119,176	102,390
Total assets	$	2,058,952	1,986,508

See accompanying notes to consolidated financial statements.

Liabilities and Net Assets		2013	2012
Current liabilities:			
Accounts payable, accrued expenses and other	$	177,621	188,561
Employee compensation and related liabilities		54,083	55,522
Current portion of long-term debt		18,243	31,769
Current portion of capital lease obligations		118	—
Due to affiliates		11,633	10,726
Total current liabilities		261,698	286,578
Long-term debt, less current portion		436,464	434,131
Capital lease obligations, less current portion		167	188
Other long-term liabilities		281,479	430,622
Total liabilities		979,808	1,151,519
Net assets:			
Unrestricted		1,044,883	808,605
Temporarily restricted		23,454	22,452
Permanently restricted		5,022	4,062
Total net assets of INTEGRIS *Health*		1,073,359	835,119
Noncontrolling ownership interest in equity of consolidated affiliates – unrestricted		5,785	(130)
Total net assets		1,079,144	834,989
Commitments and contingencies			
Total liabilities and net assets	$	2,058,952	1,986,508

INTEGRIS *HEALTH* , INC.
AND CONTROLLED ENTITIES

Consolidated Statements of Operations

Years ended June 30, 2013 and 2012

(In thousands)

		2013	2012
Operating revenues:			
Patient service revenue (net of contractual allowances and discounts)	$	1,366,718	1,372,353
Provision for bad debts		(125,647)	(102,188)
Net patient service revenue		1,241,071	1,270,165
Premium revenue		1,243	1,175
Other operating revenue		84,569	62,716
Total operating revenues		1,326,883	1,334,056
Operating expenses:			
Salaries and related expenses		678,988	675,995
Supplies and other expenses		477,968	488,496
Professional services		48,843	44,203
Depreciation and amortization		68,399	69,191
Provision for bad debts (nonpatient)		94	76
Interest		11,316	11,776
Total operating expenses		1,285,608	1,289,737
Income from operations		41,275	44,319
Nonoperating revenue (expense):			
Investment income (loss), net		53,326	(44,648)
Equity in income of affiliates, net		10,590	16,534
Loss on extinguishment of debt		(1,794)	(423)
Gain on sale of divested facilities		—	39,520
Other, net		(4,801)	(1,448)
Total nonoperating revenue, net		57,321	9,535
Net income		98,596	53,854
Net income attributable to noncontrolling interest		(1,241)	(1,550)
Net income attributable to INTEGRIS *Health*	$	97,355	52,304

See accompanying notes to consolidated financial statements.

INTEGRIS *HEALTH*, INC.
AND CONTROLLED ENTITIES

Consolidated Statements of Changes in Net Assets

Years ended June 30, 2013 and 2012

(In thousands)

		2013	2012
Changes in unrestricted net assets:			
Net income attributable to INTEGRIS *Health*	$	97,355	52,304
Pension liability adjustment		138,713	(133,739)
Net assets released from restrictions used for purchase of property and equipment		1,334	798
Contributions of long-lived assets		1,848	1,152
Other changes, net		(2,972)	(1,834)
Increase (decrease) in unrestricted net assets		236,278	(81,319)
Changes in temporarily restricted net assets:			
Contributions received for purchase of property and equipment		—	(4)
Contributions received for operations		3,027	2,916
Investment income		269	(40)
Change in value of split-interest agreement		(15)	(19)
Net assets released from restrictions		(1,760)	(1,992)
Other changes, net		(519)	230
Increase in temporarily restricted net assets		1,002	1,091
Changes in permanently restricted net assets:			
Contributions received for operations		586	(550)
Investment income		376	68
Other changes, net		(2)	(182)
Increase (decrease) in permanently restricted net assets		960	(664)
Increase (decrease) in net assets of INTEGRIS *Health*		238,240	(80,892)
Net assets of INTEGRIS *Health*, beginning of year		835,119	916,011
Net assets of INTEGRIS *Health*, end of year	$	1,073,359	835,119

See accompanying notes to consolidated financial statements.

INTEGRIS *HEALTH* , INC.
AND CONTROLLED ENTITIES

Consolidated Statements of Cash Flows

Years ended June 30, 2013 and 2012

(In thousands)

		2013	2012
Cash flows from operating activities:			
Increase (decrease) in net assets	$	238,240	(80,892)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:			
Pension liability adjustment		(138,713)	133,739
Net gain on sale of divested facilities		—	(39,520)
Net unrealized (gain) loss on investments		(16,069)	1,866
Net realized (gain) loss on investments		(6,743)	3,326
Contributions of long lived assets		(1,848)	(1,152)
Loss on extinguishment of long-term debt		1,794	423
Provision for uncollectible accounts		125,741	102,264
Depreciation and amortization		68,399	69,191
Amortization of bond premiums/discounts		(49)	(8)
Net loss on disposal of property and equipment		175	881
Earnings from investments in unconsolidated affiliates		(10,590)	(16,534)
Distributions from unconsolidated affiliates		17,087	15,282
Change in fair value of interest rate swap agreements		(28,938)	42,696
Revenues and gains in excess of expenses incurred attributable to noncontrolling interests		1,241	1,550
Purchase of noncontrolling interest recorded in net assets		—	1,997
Net change in receivables, inventories, prepaid expenses and other current assets, accounts payable, accrued expenses and other, employee compensation and related liabilities, and other long-term liabilities and assets (net of pension liability adjustment and impact of acquisitions and divestitures)		(130,426)	(97,315)
Change in short-term investments		(1,365)	75,000
Net cash provided by (used in) operating activities		117,936	212,794
Cash flows from investing activities:			
Purchases of property and equipment		(53,809)	(81,379)
Proceeds from disposal of property, plant, and equipment		147	—
Purchases of investments in affiliates and contributions to joint ventures		—	(17,187)
Purchase of noncontrolling interest recorded in net assets		—	(1,997)
Acquisition of physician practices and facilities		(16,386)	(9,782)
Sales (purchases) of assets limited to use, net		5,484	(181,837)
Proceeds from sale of divested facilities		—	76,095
Net cash provided by (used in) investing activities		(64,564)	(216,087)
Cash flows from financing activities:			
Proceeds from issuance of debt		97,945	97,760
Redemption of long-term debt		(97,945)	(97,525)
Debt issuance costs		(238)	(271)
Principal payments on capital lease obligations		(167)	(510)
Principal payments on long-term debt		(11,441)	(10,725)
Distributions to noncontrolling interest holders		(1,003)	(3,915)
Net cash used in financing activities		(12,849)	(15,186)
Net increase (decrease) in cash and cash equivalents		40,523	(18,479)
Cash and equivalents at beginning of year		130,660	149,139
Cash and equivalents at end of year	$	171,183	130,660
Supplemental disclosure of cash flow information:			
Cash paid during the year for interest	$	24,228	26,387

See accompanying notes to consolidated financial statements.

(1) Organization and Summary of Significant Accounting Policies

(a) Organization and Nature of Business

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

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

BHO had lease agreements to manage and operate various hospital facilities. These leases provided BHO with all rights, title, and interest in the leased facilities and essentially equated to ownership and were, therefore, included in INTEGRIS *Health*'s consolidated financial statements. These leases were in place the first nine months of fiscal year 2012, and effective April 1, 2012, INTEGRIS divested of them. See note 16.

On January 1, 2013, INTEGRIS Ambulatory Care Corporation, a wholly owned subsidiary of INTEGRIS *Health*, acquired 75% ownership of Lakeside Women's Center, a 23 bed women's specialty hospital located in Oklahoma City, for approximately $16.4 million.

IRH also owns various medical office buildings and retirement villages.

(b) Basis of Presentation

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

(c) Use of Estimates

The preparation of 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.

(d) Principles of Consolidation

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

- IBMC and subsidiaries
- ISOCHC
- IRH
- BHO
- INTEGRIS *Health* Edmond (IHE)
- INTEGRIS Baptist Medical Center Foundation, Inc.
- INTEGRIS Ambulatory Care Corporation and subsidiaries (IACC)
- INTEGRIS Realty Corporation and subsidiary (Realty)
- PHI
- INTEGRIS *Health* Partners (IHP)
- INTEGRIS Cardiovascular Physicians (ICP)
- Quality Alliance Assurance Company (Cayman), Ltd. (Quality Alliance)
- Hospice of Oklahoma County, Inc. (Hospice)

Significant intercompany accounts and transactions have been eliminated.

(e) Cash and Cash Equivalents

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

(f) Short-Term Investments

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

(g) Donor-Restricted Gifts

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

(h) Temporarily and Permanently Restricted Net Assets

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

(i) Net Income

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

(j) Net Patient Service Revenue and Accounts Receivable

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

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

		2013	2012
Patient service revenue (net of contractual allowances and discounts, before provision for bad debt, in thousands):			
Medicare	$	340,665	365,206
Medicaid		143,178	138,928
Managed care		601,702	629,441
Commercial and other		157,416	120,398
Private pay		123,757	118,380
	$	1,366,718	1,372,353

Accounts receivable are recorded net of an allowance for uncollectible accounts and contractual adjustments of approximately $455,870,000 and $432,925,000 at June 30, 2013 and 2012, respectively. Although INTEGRIS *Health* estimates uncollectible accounts on a reasonable basis, the net patient accounts receivable balance is subject to an accounting loss if patients and third-party payors are unable to meet their contractual obligations.

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

For receivables associated with services provided to patients who have third-party coverage, INTEGRIS *Health* analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debt, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which include both patients without insurance and patients with deductible and copayment balance due for which third-party coverage exists for part of the bill), INTEGRIS *Health* records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the billed rates (which are discounted from gross charges for all uninsured self-pay patients by 55% in 2013 and 2012 as discussed below) and the amounts actually collected after all reasonable collection efforts have been exhausted is written off against the allowance for doubtful accounts.

The IRS issued new 501(r) guidance for nonprofit hospitals recently. Section 501(r) was enacted 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 health care. As a result of this guidance, INTEGRIS *Health* implemented a policy effective July 1, 2011 that discounts all private pay patient charges by 55%. This adjustment is considered a contractual adjustment rather than a bad debt adjustment; therefore the 55% adjustment is recorded as a direct reduction to net patient service revenue instead of bad debt. This change resulted in less charges being written off to the provision for uncollectible accounts.

INTEGRIS *Health*'s allowance for doubtful accounts for self-pay patients decreased from 99.2% of self-pay accounts receivable at June 30, 2012 to 98.6% of self-pay accounts receivable at June 30, 2013. The slight decrease is caused primarily by the divesture and write-off of the five facilities sold to HMA and their A/R status at June 30, 2012. Without these five in the calculation at June 30, 2012, the rate would have been 98.7%. Negative trends experienced in the collection of amounts from self-pay patients in fiscal year 2013 have kept this allowance rate high. INTEGRIS *Health* does not maintain a material allowance for doubtful accounts from third-party payors, nor did it have significant write-offs from third-party payors other than for contractual allowances.

(k) Charity Care

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

(l) Electronic Health Record Incentive Payment Program

The American Recovery and Reinvestment Act of 2009 established incentive payments under the Medicare and Medicaid programs for hospitals that meaningfully use certified electronic health record (EHR) technology. In order to qualify for the Act's Stage One reporting period, a hospital must meet certain designated EHR meaningful use criteria from both mandatory and optionally selected requirements for ninety consecutive days within the Act's reporting year. During 2013, INTEGRIS *Health*'s eligible hospitals received approximately $13,227,000 of reimbursement payments under the Act's Stage One reporting period. The payments were recorded as other operating revenue in the accompanying consolidated statements of operations and changes in net assets for the year ended June 30, 2013.

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

(m) Assets Whose Use Is Limited and Investment Income

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

(Continued)

Investment income, including income on assets whose use is limited and income on short-term investments, is reported as nonoperating revenue, net of certain interest expense of approximately $12,759,000 and $12,725,000 in 2013 and 2012, respectively. Investment income includes the gain from the change in fair value of interest rate swaps described in note 1(p) of $28,938,000 in 2013 and the loss of $42,696,000 in 2012. All investments are classified as trading securities, and the change in unrealized gains and losses on investments is included in the determination of net income.

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

(n) Inventories

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

(o) Property and Equipment

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

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

(p) Other Assets

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

Debt offering costs, which are included in other assets, are amortized using the straight-line method over the life of the related debt, which does not vary materially from the interest method.

Amortization expense on debt offering costs of approximately $362,000 and $377,000 was recognized during 2013 and 2012, respectively.

(q) Derivative Instruments and Hedging Activities

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

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

None of INTEGRIS *Health*'s interest rate swaps are designated as hedges, and all changes in fair value are recorded as an increase or decrease in investment income. The unrealized gain recognized for the year ended June 30, 2013 was approximately $28,938,000 and an unrealized loss was recognized for the year ended June 30, 2012 of $42,696,000. The difference between the fixed rate paid and the floating rate received is recognized as an increase or decrease in investment income.

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

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

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

(r) Asset Retirement Obligations

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

The liability for the asset retirement obligation is approximately $4,138,000 and $3,903,000 and the future value of the asset retirement obligation is approximately $6,340,000 and $6,202,000 as of June 30, 2013 and 2012, respectively. Substantially all of the obligation relates to estimated costs to remove asbestos and underground storage tanks from various facilities. Changes from June 30, 2012 are primarily due to remediation activities, changes in inflation rates, and revisions to estimates of the amount of asbestos at specific facilities.

(s) Pension and Other Postretirement Plans

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

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

The funded status reported on the consolidated balance sheet as of June 30, 2013 and 2012 was measured as the difference between the fair value of the plan assets and the benefit obligation on a plan-by-plan basis. The net periodic costs are recognized as employees render the services necessary to earn the postretirement benefits.

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

Based on the funded status of the Pension Plan, for the plan years beginning July 1, 2011 and 2012, the Pension Plan became subject to restrictions imposed by Section 206 (g)(3)(c) of ERISA and Section 436 (d)(3) of the Code, which places restrictions on the Pension Plan related to prohibited payments and liabilities.

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

(t) Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

(2) Fair Value of Financial Instruments

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

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

Long-term debt: Fair values for these financial instruments are based on borrowing rates currently available with similar terms and average maturities which represent level 2 fair value measures. The carrying value of long-term debt at June 30, 2013 and 2012 is approximately $454,707,000 and $465,900,000, respectively, and the fair value is approximately $470,650,000 and $488,268,000, respectively.

Interest rate swaps: The interest rate swap agreements are carried at fair value, which is determined based on the difference between the fixed and estimated variable cash flows of the agreements adjusted for the risk of default. The fair value of all interest rate swaps as of June 30, 2013 and 2012 is approximately $57,051,000 and $85,989,000, respectively, and is presented in other long-term liabilities in the consolidated financial statements.

(3) Net Patient Service Revenue and Premium Revenue

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

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

Medicare cost report settlements are estimated in the period services are provided to the program beneficiaries. These estimates are revised as needed until final settlement of the cost report. Laws and regulations governing the Medicare program are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Net patient service revenue for 2013 and 2012 includes $3,470,000 and $10,200,000, respectively, of adjustments for estimated cost report settlements and final settlements.

(Continued)

The Supplemental Hospital Offset Payment Program (SHOPP) program was created and implemented by the State of Oklahoma in fiscal year 2012 for the purpose of assuring access to quality care for Oklahoma Medicaid members. The program is designed to assess Oklahoma hospitals, unless exempt, a supplemental hospital offset payment program fee. The collected fees are placed in pools and then allocated to hospitals as directed by legislation. The Oklahoma Health Care Authority (OHCA) does not guarantee that allocations will equal or exceed the amount of the supplemental hospital offset payment program fee paid by the hospital. The SHOPP program assessment rate is assessed on a calendar year basis. For calendar year 2012 the SHOPP assessment rate was 2.5% of net patient service revenue. For calendar year 2013 the SHOPP assessment rate is 2.6% of net patient service revenue. The total fee incurred in 2013 and 2012 was $27,381,000 and $28,243,000, respectively, and is included in supplies and other expenses in the consolidated statements of operations. The allocation from the pool in 2013 and 2012 was $53,116,000 and $52,501,000, 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 fiscal year 2017.

(Continued)

(4) Investments

(a) Assets Whose Use Is Limited

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

	2013		2012	
	Cost	**Fair value**	**Cost**	**Fair value**
Board designated:				
Cash and cash equivalents	$ 17,827	17,827	98,837	98,837
U.S. government and agency obligations	94,147	93,656	154,125	154,414
Marketable equity securities	135,514	167,623	78,680	86,469
Corporate and other obligations	461,705	454,094	359,033	361,619
Accrued interest receivable	1,308	1,308	1,609	1,609
	710,501	734,508	692,284	702,948
Amounts held as collateral by counterparties to interest rate swaps and held in escrow for purchase transactions:				
Cash and cash equivalents	11,521	11,521	32,105	32,105
By donors:				
Cash and cash equivalents	147	147	175	175
U.S. government and agency obligations	5	5	15	15
Marketable equity securities	11,433	13,721	7,960	8,868
Corporate and other obligations	7,067	7,103	9,364	9,738
Accrued interest receivable	17	17	22	22
	18,669	20,993	17,536	18,818
By the IBMC, ISMC, and IRH Foundation boards:				
Cash and cash equivalents	192	192	307	307
U.S. government and agency obligations	1	1	3	3
Marketable equity securities	14,596	18,186	11,708	12,893
Corporate and other obligations	9,021	9,415	10,775	11,399
Accrued interest receivable	23	23	29	29
	23,833	27,817	22,822	24,631

	2013		2012	
	Cost	**Fair value**	**Cost**	**Fair value**
By board for self-insurance program:				
Cash and cash equivalents	$ 9,090	9,090	15,077	15,077
U.S. government and agency obligations	57,066	55,480	51,888	52,259
Marketable equity securities	19,483	24,320	17,675	19,732
Corporate and other obligations	8,728	8,764	8,532	8,662
Accrued interest	246	245	243	243
	94,613	97,899	93,415	95,973
Total assets whose use is limited	$ 859,137	892,738	858,162	874,475

(b) Short-Term Investments

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

	2013	2012
Cash and cash equivalents	$ 1,860	2,022
Corporate and other obligations	130,420	129,737
Accrued interest receivable	95	186
Short-term investments	$ 132,375	131,945

(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):

	2013	2012
Interest and dividend income, net	$ 14,335	15,965
Interest expense	(12,759)	(12,725)
Unrealized gain (loss) on derivatives	28,938	(42,696)
Net realized gains (losses) on sales of securities	6,743	(3,326)
Net unrealized (losses) gains on trading securities	16,069	(1,866)
	$ 53,326	(44,648)

(Continued)

(5) Long-Term Debt

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

		2013	2012
Health System Revenue and Refunding Bonds (Series 2013A) of the Oklahoma Development Finance Authority in the aggregate amount of $48,990 at variable rates as determined by the remarketing agent (0.81% at June 30, 2013) issued May 2013, maturing at various dates through 2035.	$	48,990	—
Health System Revenue and Refunding Bonds (Series 2013B) of the Oklahoma Development Finance Authority in the aggregate amount of $48,955 at variable rates as determined by the remarketing agent (0.87% at June 30, 2013) issued May 2013, maturing at various dates through 2035.		48,955	—
Health System Revenue and Refunding Bonds (Series 2011A) of the Oklahoma Development Finance Authority in the aggregate amount of $48,690 at variable rates as determined by the remarketing agent (0.89% and 0.92% at June 30, 2013 and 2012, respectively) issued July 2011, maturing at various dates through August 2033.		46,835	47,765
Health System Revenue and Refunding Bonds (Series 2011B) of the Oklahoma Development Finance Authority in the aggregate amount of $49,070 at variable rates as determined by the remarketing agent (1.00% and 1.03% at June 30, 2013 and 2012, respectively) issued July 2011, maturing at various dates through August 2033.		47,165	48,120
Health System Variable Rate Demand Revenue and Refunding Bonds (Series 2008A-1) of the Oklahoma Development Finance Authority in the aggregate amount of $50,715 at variable rates as determined by the remarketing agent (0.35% at June 30, 2012) issued May 2008, maturing at various dates through August 2035. Refunded in May 2013.		—	49,440
Health System Variable Rate Demand Revenue and Refunding Bonds (Series 2008A-2) of the Oklahoma Development Finance Authority in the aggregate amount of $50,680 at variable rates as determined by the remarketing agent (0.40% at June 30, 2012) issued May 2008, maturing at various dates through August 2035. Refunded in May 2013.		—	49,405

		2013	2012
Health System Revenue and Refunding Bonds (Series 2008B) of the Oklahoma Development Finance Authority in the aggregate amount of $114,670 at stated rates ranging from 5.0% to 5.25%, issued July 2008, maturing at various dates between August 2009 and August 2038, including discount of $1,222 and $1,270 at June 30, 2013 and 2012, respectively.	$	89,978	96,305
Health System Revenue and Refunding Bonds (Series 2008C) of the Oklahoma Development Finance Authority in the aggregate amount of $117,000 at stated rates ranging from 4.04% to 5.38%, issued July 2008, maturing at various dates between August 2014 and August 2029, including premium of $913 and $970 at June 30, 2013 and 2012, respectively.		117,914	117,970
Health System Revenue and Refunding Bonds (Series 2007A-3) of the Oklahoma Development Finance Authority in the aggregate amount of $52,975 at variable rates as determined by the remarketing agent (0.05% and 0.21% at June 30, 2013 and 2012, respectively) issued November 2007, maturing at various dates through August 2033.		50,050	51,050
Taxable Variable Rate Demand Bonds (Series 1997) at variable rates as determined by the remarketing agent (0.25% and 0.21% at June 30, 2013 and 2012, respectively) issued May 1, 1997, interest payable monthly, principal payable annually through maturity in June 2017.		4,820	5,845
		454,707	465,900
Less current portion		18,243	31,769
Long-term portion	$	436,464	434,131

All debt except for the Series 1997 bonds is secured by the revenues and receivables of the Obligated Group and the members of the Obligated Group are jointly and severally liable for the entire debt. The Obligated Group is comprised of IBMC, ISOCHC, and IRH. 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, 2013, 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, 2013. The Obligated Group represents approximately 96% and 112% of net assets and approximately 88% of total operating revenues of INTEGRIS *Health* as of and for the years ended June 30, 2013 and 2012, respectively.

The Series 2007A-3, 2008A-1, 2008A-2, 2011A and 2011B bonds are variable rate demand bonds. Accordingly, the bonds are subject to periodic mandatory tender and remarketing provisions. The interest rates at which the bonds are remarketed are determined in accordance with the respective remarketing agreements. With respect to the bonds supported by an SBPA, any principal balance that would require repayment within twelve months under the terms of the SBPA agreements is classified as current. In addition, credit enhancement on certain of these bonds is provided by municipal insurance policies. INTEGRIS *Health*'s management believes that the lending institutions have the ability to meet their obligations, if necessary. The SBPA for the 2007A-3 expires in 2014 while the 2008A-1 and 2008A-2 expired in 2013. Upon expiration the SBPA's may be renewed or replaced. As discussed below the 2008A-1 and 2008A-2 bonds were refunded upon the expiration of the associated SBPA's. In the event that the SBPAs are not renewed and the Obligated Group is unable to replace the facilities, the respective lending institutions must purchase the respective outstanding bonds and principal would be payable by the Obligated Group over a period of five years. The SBPAs also contain certain special default provisions that would result in immediate termination of the agreements requiring the Obligated Group to purchase any tendered bonds that are unable to be remarketed. Additionally, the bonds may be converted to fixed rate bonds by the Obligated Group, subject to certain terms. The interest rate at which the bonds may be converted to fixed rate bonds is to be determined in accordance with the remarketing agreement.

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. Proceeds of the 2013 Bonds were used to refund the Series 2008A-1 and Series 2008A-2 Bonds. The 2013 Bonds were purchased by a single financial institution in a direct, private placement transaction and will bear interest at variable rates of interest calculated monthly pursuant to a floating rate at a percentage of one month LIBOR plus a spread. The spread is based on the rating of the long-term debt of the Obligated Group. The 2013A Bonds are subject to a mandatory tender by the holder of the bonds at the end of seven years and the 2013B Bonds are subject to a mandatory tender by the holder of the bonds at the end of eight years, unless the holding period is renewed and extended by the bondholder. Upon a mandatory tender the Obligated Group will have the ability to convert to another interest rate mode (daily, weekly, term rate, flexible rate or fixed rate) and remarket the 2013 Bonds. As a result of this transaction, the SBPA for the Series 2008A-1 and Series 2008A-2 bonds were terminated and the Series 2008A-1 and Series 2008A-2 bonds were classified in the 2013 consolidated balance sheet in accordance with the mandatory tender provisions in place under the remarketing agreement. 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, 2013 and 2012 was $114,200,000 and $115,000,000, respectively. The interest rate swaps mature in August 2029. The variable payment rates approximate 67% of the one-month USD-LIBOR-BBA. The fixed payment rate is 3.519%.

During 2005, INTEGRIS *Health* entered into agreements whereby INTEGRIS *Health* agrees to receive variable market-indexed payments in exchange for fixed rate interest payments. The notional principal amount underlying these interest rate swaps at June 30, 2013 and 2012 was $95,800,000 and $96,700,000, 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 2008A bonds. The fixed payment rate is 3.568%.

During fiscal year 2008, INTEGRIS *Health* entered into agreements whereby INTEGRIS *Health* agrees to receive variable market-indexed payments in exchange for fixed rate interest payments. The notional principal amount underlying these interest rate swaps at June 30, 2013 and 2012 was $143,825,000 and $146,700,000, 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 2008A bonds. The fixed payment rate is 3.619%.

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

		Scheduled principal payments	Including mandatory and SBPA tendered bonds
Year ending June 30:			
2014	$	11,785	18,243
2015		12,310	66,745
2016		12,770	21,300
2017		13,340	62,765
2018		12,585	21,688
Thereafter		392,224	264,273
Total	$	455,014	455,014

INTEGRIS *Health* has a line of credit with Bank of Oklahoma, N.A. in the amount of $35,000,000. The line of credit expires on February 9, 2014. There were no amounts outstanding under the line of credit as of June 30, 2013 and 2012.

During 2013, INTEGRIS *Health* entered into two lines of credit with Wells Fargo in the amounts of $7 million and $3 million, respectively. The lines of credit have variable interest rates of 0% and 2.02% and expire on March 1, 2014 and August 30, 2013 respectively. Approximately $1.5 million and $1.1 million were outstanding on lines at June 30, 2013. The balances outstanding under lines of credit were included in other current liabilities in the consolidated balance sheets. These lines of credit replaced similar agreements with Wells Fargo of $17 million and $10 million in place at June 30, 2012 with approximately $3.9 million and $1.7 million outstanding on the lines at June 30, 2012. These lines of credit had variable interest rates (0% and 2.21% at June 30, 2012).

(6) Investments in Affiliates

INTEGRIS *Health* owns interests of less than or equal to 50% in Two Corporate Plaza, L.L.C. (Plaza), a real estate limited liability company; Medical Plaza Imaging Center LLC (MPIC), a healthcare limited liability company; Advanced Imaging LLC, (Advanced Imaging) a healthcare limited liability company; Southwest Ambulatory Surgery Center, LLC (SW Ortho), a surgery center limited liability company; Fresenius INTEGRIS, L.L.C. (Fresenius), a healthcare limited liability company; InteliStaf, a medical personnel agency; Diagnostic Lab of Oklahoma (DLO), a comprehensive medical laboratory; INTEGRIS HMA, LLC (INTEGRIS HMA), a healthcare limited liability company (see note 16); and ProCure, a cancer treatment center. These investments are accounted for using the equity method and are recorded in other assets, net.

INTEGRIS *Health* purchased an interest in VADovations 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.

Following is a summary of the ownership interests, carrying values, and equity in earnings (losses) of investments in affiliates at June 30, 2013 and 2012 (in thousands):

	Ownership interest		Carrying value		Equity in earnings (losses)	
	2013	2012	2013	2012	2013	2012
Plaza	33.33%	33.33%	$ 575	620	(45)	(28)
MPIC	50.00	50.00	689	714	399	608
Advanced Imaging	50.00	50.00	204	240	(35)	35
SW Ortho	19.14	19.45	4,076	4,008	2,559	2,516
Fresenius	49.00	49.00	1,243	1,726	171	1,259
InteliStaf	32.00	32.00	212	244	255	339
DLO	49.00	49.00	12,151	13,139	12,242	13,723
ProCure	3.65	3.65	2,727	2,856	(128)	(228)
VADovations, Inc.	75.00	75.00	660	2,543	(1,884)	(1,433)
INTEGRIS HMA	20.00	20.00	12,019	14,963	(2,944)	(257)
			$ 34,556	41,053	10,590	16,534

(7) Noncontrolling Interests

INTEGRIS *Health* controls and therefore consolidates certain investees in its partnerships and joint ventures with physicians and nonphysicians to operate hospitals and other health-related ventures. The activity for noncontrolling interest for the years ended June 30, 2013 and 2012 is summarized below:

	2013	2012
Noncontrolling ownership interest in equity of consolidated affiliates, beginning of year	$ (130)	2,235
Revenue and gains in excess of expenses and losses attributable to noncontrolling interest	1,241	1,550
Lakeside Acquisition	5,677	—
Distributions to noncontrolling interest holders	(1,003)	(3,915)
Noncontrolling ownership interest in equity of consolidated affiliates, end of year	$ 5,785	(130)

(8) Malpractice and Liability Costs

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

Prior to June 30, 1993, INTEGRIS *Health* was primarily insured on an occurrence basis for medical malpractice and other liability risks with individual and aggregate limits of coverage. From July 1, 1993 through June 30, 1995 INTEGRIS *Health* was primarily self-insured, with stop-loss coverage for significant claims, for medical malpractice, and other liability risks.

ISOCHC, BHO, and IRH were insured on a claims-made basis for medical malpractice and other liability risks with individual and aggregate limits of coverage through June 30, 1995.

Effective July 1, 1995, INTEGRIS *Health* formed Quality Alliance, a captive insurance company formed for the purpose of providing coverage to INTEGRIS *Health* and all of its controlled entities for medical malpractice and other liability risks. Quality Alliance charges premiums to the respective entities for coverage and accrues losses based on estimates that incorporate past experience as well as other considerations which are based on actuarial estimates from an independent third-party actuary. Adjustments to the liability based on subsequent developments or other changes in the estimate are reflected in the consolidated statements of operations and changes in net assets in the period in which such adjustments become known. Quality Alliance maintains reinsurance coverage to reduce exposure from significant individual and aggregate losses. INTEGRIS *Health* has an undiscounted accrued liability for estimated claims incurred of approximately $84,745,000 and $90,520,000 as of June 30, 2013 and 2012, respectively.

Claims arising from services provided to patients through June 30, 2013 and 2012 have been filed requesting damages in excess of insurance and the amount accrued for estimated malpractice costs. It is the opinion of management, however, after consulting with its legal counsel, insurance carrier, and actuary, that estimated costs to be incurred will be covered by professional liability insurance and the amount accrued for estimated malpractice costs. Due to the inherent uncertainties and subjectivity involved in accounting for contingencies, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

(9) Pension and Postretirement Benefit Plans

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

INTEGRIS *Health*'s funding policy for the Pension Plan is to contribute at least the minimum amount necessary to satisfy the funding standards of the Employee Retirement Income Security Act of 1974, as amended. Contributions of approximately $25,704,000 and $40,000,000 were made in 2013 and 2012, respectively.

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

The following sets forth the pension and postretirement benefit plan's benefit obligations, fair value of plan assets, and funded status as of June 30, 2013 and 2012 (dollar amounts in thousands):

		Pension plan		Postretirement benefit plan	
		2013	**2012**	**2013**	**2012**
Projected benefit obligation at June 30	$	526,790	612,886	3,333	2,803
Fair value of plan assets at June 30		332,561	286,585	—	—
Funded status	$	(194,229)	(326,301)	(3,333)	(2,803)
Accrued benefit cost recognized in the balance sheet	$	(194,229)	(326,301)	(3,333)	(2,803)

Net assets include approximately $138,548,000 and $278,208,000 related to the pension plan as of June 30, 2013 and 2012, respectively. The June 30, 2013 and 2012 amount is comprised of net actuarial loss of approximately $138,548,000 and $277,498,000 respectively, and prior service credits of approximately $0 and $710,000, respectively. The net loss and prior service cost for the pension plan as of June 30, 2013 that will be amortized from net assets into net periodic benefit cost over the next fiscal year are approximately $2,500,000. There was no net loss or prior service cost amortized during the year ending June 30, 2013.

(Continued)

Actuarial assumptions utilized for the plans are as follows:

	Pension plan		**Postretirement benefit plan**	
	2013	**2012**	**2013**	**2012**
Weighted average assumptions as of June 30 used to determine net periodic benefit cost:				
Discount rate	4.52%/3.72%(1)	6.12%	4.52%	6.12%
Expected long-term rate of return on plan assets	7.00	7.00	—	—
Rate of compensation increase	3.84	5.75	—	—
Healthcare cost trend rate	—	—	8.50	9.00
Weighted average assumptions as of June 30 used to determine the benefit obligation:				
Discount rate	5.00%	4.52%	5.00%	4.52%
Rate of compensation increase	3.84	3.84	—	—
Healthcare cost trend rate	—	—	8.50	9.00

(1) The discount rate was 4.52% from July 1, 2012 to October 31, 2012 and was 3.72% from November 1, 2012 to June 30, 2013.

The accumulated benefit obligation for the Pension Plan was approximately $526,790,000 and $555,020,000 at June 30, 2013 and 2012, respectively.

For measurement purposes, medical claims for 2013 are assumed to be 8.5% greater than medical claims for 2012. The trend is graded down so that medical claims for 2015 are assumed to be 4.50% greater than medical claims for 2014.

Summary information for the plans is as follows:

	Pension plan		**Postretirement benefit plan**	
	2013	**2012**	**2013**	**2012**
Net periodic benefit cost	$ 33,292,717	38,050,032	342	225,790
INTEGRIS *Health* contributions	25,703,812	40,000,000	126,000	138,000
Benefits paid	15,704,072	12,548,769	134,000	147,000

The following table presents information about INTEGRIS *Health*'s pension plan assets that are measured at fair value on a recurring basis as of June 30, 2013 and 2012 (*in thousands*). The table indicates the fair value hierarchy of the valuation techniques utilized to determine such fair values. In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities. Fair values determined by Level 2 inputs utilize data points that are observable, such as quoted prices, interest rates and yield curves. Fair values determined by Level 3 inputs are unobservable data points for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability.

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	2013
Equity:				
Common stocks:				
Consumer discretionary	$ 11,911	—	—	11,911
Consumer staples	10,008	—	—	10,008
Energy	2,245	—	—	2,245
Financials	1,900	—	—	1,900
Health care	1,717	—	—	1,717
Industrials	14,523	—	—	14,523
Information technology	39,743	—	—	39,743
Materials	4,313	—	—	4,313
Telecommunications services	8,509	—	—	8,509
Utilities	5,521	—	—	5,521
Total common stocks	100,390	—	—	100,390
Publicly traded mutual funds – equity	121,597	—	—	121,597
Total equity	221,987	—	—	221,987
Fixed income:				
Publicly traded mutual funds – fixed income	100,239	—	—	100,239
Total fixed income	100,239	—	—	100,239
Real estate	—	—	5,301	5,301
Cash equivalent	4,748	—	—	4,748
Total assets	$ 326,974	—	5,301	332,275

Plan assets also include $286,000 of accrued interest at June 30, 2013.

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	2012
Equity:				
Common stocks:				
Consumer discretionary	$ 12,960	—	—	12,960
Consumer staples	8,611	—	—	8,611
Energy	842	—	—	842
Financials	2,547	—	—	2,547
Health care	2,075	—	—	2,075
Industrials	12,967	—	—	12,967
Information technology	31,469	—	—	31,469
Materials	3,115	—	—	3,115
Telecommunications services	6,114	—	—	6,114
Utilities	5,145	—	—	5,145
Total common stocks	85,845	—	—	85,845
Publicly traded mutual funds – equity	95,178	—	—	95,178
Total equity	181,023	—	—	181,023
Fixed income:				
Publicly traded mutual funds – fixed income	97,540	—	—	97,540
Total fixed income	97,540	—	—	97,540
Real estate	—	—	4,590	4,590
Cash equivalent	3,113	—	—	3,113
Total assets	$ 281,676	—	4,590	286,266

Plan assets also include $320,000 of accrued interest at June 30, 2012.

(Continued)

The weighted average asset allocation of INTEGRIS *Health*'s pension benefits at June 30, 2013 and 2012, by asset category are as follows:

	Plan assets at June 30	
	2013	**2012**
Asset category:		
Equity securities	53%	51%
Debt securities	34	34
Cash	2	1
Real estate	2	2
Master Limited Partnerships	9	12
Total	100	100

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

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

INTEGRIS *Health* plans to make a total contribution of approximately $36,661,000 for the 2014 fiscal year.

(Continued)

The expected benefits to be paid are as follows:

		Pension plan	Postretirement benefit plan
2014	$	16,651,000	243,000
2015		17,852,000	254,000
2016		19,280,000	266,000
2017		21,020,000	272,000
2018		22,661,000	276,000
2019 – 2023		135,077,000	1,351,000

The expected benefits are estimated based on the same assumptions used to measure the benefit obligations of INTEGRIS *Health* at June 30, 2013 and include benefits attributable to estimated future employee service.

(10) Other Employee Benefit Plans

INTEGRIS *Health* is self-insured for the purpose of providing medical and dental benefits to all eligible employees of INTEGRIS *Health* and affiliates through several plans. Eligible employees are allowed to select coverage through an affiliated preferred provider organization or a health maintenance organization. Claims and premiums under this plan are paid with funds provided by the operations of INTEGRIS *Health* as well as employee contributions. INTEGRIS *Health* has an accrued liability for estimated claims incurred of approximately $6,595,000 and $8,795,000 as of June 30, 2013 and 2012, respectively.

INTEGRIS *Health* is self-insured for workers' compensation for substantially all employees of INTEGRIS *Health* and affiliates through several plans. The accrued liability for estimated claims incurred is approximately $12,942,000 and $11,833,000 as of June 30, 2013 and 2012, respectively. INTEGRIS *Health* maintains an irrevocable letter of credit issued by a bank in favor of the Oklahoma Workers' Compensation Court (the Court) in the aggregate amount of $5,400,000. The letter of credit is required by the Court to allow INTEGRIS *Health* and affiliates to carry workers' compensation risk without insurance.

INTEGRIS *Health* and affiliates maintain stop-loss coverage on the self-insured programs to reduce exposure from significant losses.

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 $20,579,000 and $10,856,000 were made by INTEGRIS *Health* in 2013 and 2012, respectively.

(11) Charity Care and Uncompensated Care and Community Benefits

The healthcare related controlled entities provide care to patients who lack financial resources and are deemed medically or 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. The charges related to this care, along with estimates for possible future charity care write-offs related to current accounts receivable, totaled approximately $106,679,000 and $91,631,000 in 2013 and 2012, respectively. The estimated direct and indirect cost of providing these services, calculated using the ratio of patient care cost to charges, was approximately $28,927,000 and $25,053,000 in 2013 and 2012, respectively. In addition, the healthcare related controlled entities provide services through government-sponsored indigent health care programs (such as Medicaid) to other indigent patients.

The healthcare related controlled entities also commit time and resources to endeavors and critical services which meet otherwise unfulfilled community needs. Many of these activities are entered into with the understanding that they will not be self-supporting or financially viable.

(12) Concentration of Credit Risk

INTEGRIS *Health* grants credit without collateral to patients, most of who are insured under third-party payor agreements. Gross outstanding Medicare and Medicaid payor receivables represented approximately 44% and 41% of total gross outstanding receivables at June 30, 2013 and 2012, respectively.

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

(13) Federal Income Taxes

INTEGRIS *Health* has certain subsidiaries and operations such as partnership interests, retail pharmacies and outside laboratory services that are taxable for federal income tax purposes. The taxable activities of all includible entities have approximately $5,673,400 and $5,200,000 in net deferred tax assets, against which a 100% valuation allowance has been recorded, for the years ended June 30, 2013 and 2012, respectively.

(14) Functional Expenses

INTEGRIS *Health* and its controlled entities provide a variety of healthcare services. Expenses related to providing these services are as follows (in thousands) for the year ended June 30, 2013.

		2013	2012
Healthcare services	$	1,098,000	1,109,000
General and administrative		188,000	181,000
	$	1,286,000	1,290,000

(15) Fair Value Disclosures

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

The following tables present information about INTEGRIS *Health*'s assets and liabilities that are measured at fair value on a recurring basis as of June 30, 2013 and 2012 (*in thousands*), and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value. In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities. Fair values determined by Level 2 inputs utilize data points that are observable, such as quoted prices, interest rates and yield curves. Fair values determined by Level 3 inputs are unobservable data points for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability.

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	2013
Equity:				
Common stocks:				
Consumer discretionary	$ 8,879	—	—	8,879
Consumer staples	6,040	—	—	6,040
Energy	1,855	—	—	1,855
Financials	1,803	—	—	1,803
Health care	13,934	—	—	13,934
Industrials	9,378	—	—	9,378
Information technology	63,491	—	—	63,491
Materials	3,035	—	—	3,035
Telecommunications services	6,656	—	—	6,656
Utilities	6,365	—	—	6,365
Total common stocks	121,436	—	—	121,436
Marketable limited partnerships	3,928	—	—	3,928
Publicly traded mutual funds – equity	103,834	—	—	103,834
Total equity	229,198	—	—	229,198
Fixed income:				
Treasury and federal agencies:				
Short (Less than 5 years)	46,338	—	—	46,338
Intermediate (5-10 years)	7,804	2,684	—	10,488
Long (More than 10 years)	39,728	52,582	—	92,310
Total treasury and federal agencies	93,870	55,266	—	149,136

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	2013
Nongovernmental obligations:				
Short (Less than 5 years)	$ —	170,790	—	170,790
Intermediate (5-10 years)	—	17,134	—	17,134
Long (Over 10 years)	—	4,107	—	4,107
Total nongovernmental obligations	—	192,031	—	192,031
Foreign obligations	—	—	—	—
Preferred stocks nonconvertible	454	—	—	454
Publicly traded mutual funds – fixed income	408,034	—	—	408,034
Total fixed income	502,358	247,297	—	749,655
Real estate	—	—	3,029	3,029
Limited Partnerships	157	—	438	595
Cash equivalent	40,947	—	—	40,947
Total assets	$ 772,660	247,297	3,467	1,023,424
Liabilities:				
Interest rate swap agreements	$ —	57,051	—	57,051

Total invested assets also included approximately $1,689,000 of accrued interest at June 30, 2013.

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	2012
Equity:				
Common stocks:				
Consumer discretionary	$ 5,526	—	—	5,526
Consumer staples	3,522	—	—	3,522
Energy	586	—	—	586
Financials	1,409	—	—	1,409
Health care	11,253	—	—	11,253
Industrials	6,234	—	—	6,234
Information technology	36,461	—	—	36,461
Materials	1,770	—	—	1,770
Telecommunications services	2,584	—	—	2,584
Utilities	3,951	—	—	3,951
Total common stocks	73,296	—	—	73,296
Marketable limited partnerships	3,897	—	—	3,897
Publicly traded mutual funds – equity	56,120	—	—	56,120
Total equity	133,313	—	—	133,313
Fixed income:				
Treasury and federal agencies:				
Short (Less than 5 years)	112,518	675	—	113,193
Intermediate (5-10 years)	6,723	3,873	—	10,596
Long (More than 10 years)	41,282	41,603	—	82,885
Total treasury and federal agencies	160,523	46,151	—	206,674
Nongovernmental obligations:				
Short (Less than 5 years)	—	97,750	—	97,750
Intermediate (5-10 years)	—	4,484	—	4,484
Long (Over 10 years)	—	1,235	—	1,235
Total nongovernmental obligations	—	103,469	—	103,469

		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	2012
Foreign obligations	$	—	—	—	—
Preferred stocks nonconvertible		1,272	—	—	1,272
Publicly traded mutual funds – fixed income		408,146	—	—	408,146
Total fixed income		569,941	149,620	—	719,561
Real estate		—	—	2,623	2,623
Cash equivalent		147,337	1,494	—	148,831
Total assets	$	850,591	151,114	2,623	1,004,328
Liabilities:					
Interest rate swap agreements	$	—	85,989	—	85,989

Total invested assets also included approximately $2,090,000 of accrued interest at June 30, 2012.

(16) BHO Lease Divesture

Effective April 1, 2012 INTEGRIS *Health* and Health Management Associates, Inc. (HMA) entered into an agreement whereby substantially all of the assets, operations, lease rights and licenses of INTEGRIS Blackwell Regional Hospital, INTEGRIS Clinton Regional Hospital, INTEGRIS Marshall County Medical Center, INTEGRIS Mayes County Medical Center, and INTEGRIS Seminole Medical Center (all previously consolidated subsidiaries) were sold to a newly formed limited liability company, INTEGRIS HMA, LLC, for $75 million. INTEGRIS also agreed to allow the new company license to use the INTEGRIS name and trademarks in connection with the branding of each of the hospitals and other appropriate HMA affiliates.

HMA contributed $75 million to INTEGRIS HMA, LLC, and these funds were used for the purchase of the facilities. As part of the transaction, PHI contributed $15 million to the new company for a 20% ownership interest, and $15 million was distributed to HMA, which retains an 80% ownership interest. PHI's investment in INTEGRIS HMA, LLC is accounted for using the equity method of accounting beginning April 1, 2012 (see note 6). The Board of Directors of INTEGRIS HMA, LLC consists of ten members, five members appointed by HMA and five members appointed by PHI, with reserve powers retained by HMA to break deadlocks within certain guidelines. HMA is the manager of INTEGRIS HMA, LLC and assumed the oversight of operations of the facilities from INTEGRIS *Health* effective April 1, 2012.

As of a result of the above transactions, the facilities sold are no longer consolidated and INTEGRIS recognized a gain of approximately $39,520,000 which is noted separately on the consolidated statement of operations. The total assets of the divested subsidiaries were $7,347,000 and $21,780,000 at March 31, 2012 and June 30, 2011, respectively, and net assets were $16,550,000 and $19,757,000, respectively. Total operating revenues of the divested subsidiaries were $60,547,000 and $96,161,000 for the nine months ended March 31, 2012 and the year ended June 30, 2011, respectively, and net loss was $4,255,000 and $2,449,000, respectively.

(17) Commitments and Contingencies

As discussed in note 7, INTEGRIS *Health* and its controlled entities are involved in litigation associated with alleged malpractice and general liability claims, which arise out in of 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, 2013 and 2012, the estimated remaining costs to complete these projects totaled approximately $7,505,000 and $8,807,000, respectively. These costs are expected to be incurred in future fiscal years.

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

2014	$	7,217
2015		6,309
2016		3,429
2017		1,816
2018		1,519
Thereafter		2,432

Operating lease expense approximated $19,285,000 and $22,319,000 in 2013 and 2012, respectively.

The Obligated Group has been notified by its Medical Administrative Contractor 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 residential psychiatric treatment services in the calculation of its DSH payment. A final determination has been deferred until CMS has ruled on a similar adjustment for an unrelated health system in Oklahoma. Management believes that the inclusion of such patient days in its cost reports is justified and will be sustained but, if not, it will vigorously pursue all available remedies.

However, if determined adversely, a portion of the DSH payments for fiscal years 2005-2013, inclusive, would be recoupable by CMS and, based on an average adjustment of $13-15 million per year over the 9-year period, would result in a settlement payment and adjustment to the Obligated Group's earnings in the year of determination of approximately $129 million. If determined adversely, INTEGRIS *Health* would be required to exclude certain Medicaid days related to the psychiatric treatment services in question going forward, which may, absent mitigating steps taken by management, have an impact on the Obligated Group's future financial results. Although the timing of a final determination by CMS is not known, management is developing contingency plans to mitigate the negative impact of a possible adverse determination.

(18) Subsequent Events

Management of INTEGRIS *Health* has evaluated subsequent events through September 23, 2013, the date on which the consolidated financial statements were issued.

Schedule 1

INTEGRIS *HEALTH* , INC.
AND CONTROLLED ENTITIES

Consolidating Schedule – Balance Sheet Information

June 30, 2013

(In thousands)

Assets	INTEGRIS Baptist Medical Center, Inc.	INTEGRIS South Oklahoma City Hospital Corporation	INTEGRIS Rural Health, Inc.	Obligated group combined subtotal	Obligated group reclassifications and eliminations	Obligated group combined total	Baptist Healthcare of Oklahoma	Medical Parking, Inc.	Baptist Medical Plaza Associates	All others	Subtotal	Reclassifications and eliminations	Consolidated total
Current assets:													
Cash and cash equivalents	$ 133,996	62,877	84,632	281,505	—	281,505	414	342	—	96,707	378,968	(207,785)	171,183
Short-term investments	84,127	42,057	380	126,564	—	126,564	—	—	—	5,811	132,375	—	132,375
Accounts receivable, net:													
Patients	67,664	23,183	25,737	116,584	—	116,584	1,575	—	—	15,343	133,502	—	133,502
Affiliates	(2)	12	—	10	—	10	—	—	—	84,659	84,669	(84,669)	—
Current portion of notes receivable	—	—	364	364	—	364	—	—	—	—	364	—	364
Inventories	11,769	3,334	5,806	20,909	—	20,909	8	—	—	2,098	23,015	—	23,015
Prepaid expenses and other current assets	704	145	330	1,179	—	1,179	—	—	—	8,672	9,851	—	9,851
Total current assets	298,258	131,608	117,249	547,115	—	547,115	1,997	342	—	213,290	762,744	(292,454)	470,290
Assets whose use is limited	456,766	106,116	86,237	649,119	—	649,119	—	109	184	243,326	892,738	—	892,738
Property and equipment, net	180,718	63,478	161,184	405,380	—	405,380	2,503	2,443	1,755	164,667	576,748	—	576,748
Other assets, net	35,394	4,548	5,075	45,017	15,026	60,043	—	33	38	1,201,751	1,261,865	(1,142,689)	119,176
Total assets	$ 971,136	305,750	369,745	1,646,631	15,026	1,661,657	4,500	2,927	1,977	1,823,034	3,494,095	(1,435,143)	2,058,952
Liabilities and Net Assets													
Current liabilities:													
Accounts payable, accrued expenses and other	$ 29,079	10,773	7,446	47,298	—	47,298	46	21	371	129,885	177,621	—	177,621
Employee compensation and related liabilities	15,337	6,262	8,779	30,378	—	30,378	318	—	2	23,385	54,083	—	54,083
Current portion of long-term debt	4,791	640	5,058	10,489	6,664	17,153	—	501	589	—	18,243	—	18,243
Current portion of capital lease obligations	—	—	—	—	—	—	—	—	—	118	118	—	118
Due to affiliates	30,900	—	11,821	42,721	—	42,721	39,001	—	789	221,576	304,087	(292,454)	11,633
Total current liabilities	80,107	17,675	33,104	130,886	6,664	137,550	39,365	522	1,751	374,964	554,152	(292,454)	261,698
Long-term debt, less current portion	234,317	59,250	131,033	424,600	8,362	432,962	—	1,716	2,014	58,522	495,214	(58,750)	436,464
Capital lease obligations, less current portion	—	—	—	—	—	—	—	—	—	167	167	—	167
Other long-term liabilities	60,108	348	477	60,933	—	60,933	325	—	—	220,221	281,479	—	281,479
Total liabilities	374,532	77,273	164,614	616,419	15,026	631,445	39,690	2,238	3,765	653,874	1,331,012	(351,204)	979,808
Net Assets of INTEGRIS Health	596,901	228,477	205,000	1,030,378	—	1,030,378	(35,190)	689	(1,788)	1,163,209	2,157,298	(1,083,939)	1,073,359
Noncontrolling ownership interest in equity of consolidated affiliates – unrestricted	(297)	—	131	(166)	—	(166)	—	—	—	5,951	5,785	—	5,785
Total net assets (deficit)	596,604	228,477	205,131	1,030,212	—	1,030,212	(35,190)	689	(1,788)	1,169,160	2,163,083	(1,083,939)	1,079,144
Total liabilities and net assets	$ 971,136	305,750	369,745	1,646,631	15,026	1,661,657	4,500	2,927	1,977	1,823,034	3,494,095	(1,435,143)	2,058,952

See accompanying independent auditors' report.

Schedule 2

INTEGRIS *HEALTH*, INC.
AND CONTROLLED ENTITIES

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

Year ended June 30, 2013

(In thousands)

	INTEGRIS Baptist Medical Center, Inc.	INTEGRIS South Oklahoma City Hospital Corporation	INTEGRIS Rural Health, Inc.	Obligated group combined total	Obligated group reclassifications and eliminations	Obligated group combined total	Baptist Healthcare of Oklahoma	Medical Parking, Inc.	Baptist Medical Plaza Associates	All others	Subtotal	Reclassifications and eliminations	Consolidated total
Operating revenues:													
Patient service revenue (net of contractual allowances and discounts)	$ 661,839	264,533	309,525	1,235,897	—	1,235,897	8,617	—	—	139,262	1,383,776	(17,058)	1,366,718
Provision for bad debts	(49,788)	(41,990)	(26,104)	(117,882)	—	(117,882)	(109)	—	—	(7,656)	(125,647)	—	(125,647)
Net patient service revenue	612,051	222,543	283,421	1,118,015	—	1,118,015	8,508	—	—	131,606	1,258,129	(17,058)	1,241,071
Premium revenue	171	—	714	885	—	885	—	—	—	358	1,243	—	1,243
Other operating revenue	28,771	12,211	12,777	53,759	—	53,759	3,701	975	2,761	38,392	99,588	(15,019)	84,569
Total operating revenues	640,993	234,754	296,912	1,172,659	—	1,172,659	12,209	975	2,761	170,356	1,358,960	(32,077)	1,326,883
Operating expenses:													
Salaries and related expenses	255,625	113,360	151,258	520,243	—	520,243	8,643	—	65	150,553	679,504	(516)	678,988
Supplies and other expenses	286,193	91,432	99,352	476,977	—	476,977	3,509	406	1,359	24,447	506,698	(28,730)	477,968
Professional services	19,072	13,140	9,000	41,212	—	41,212	2,403	46	201	7,812	51,674	(2,831)	48,843
Depreciation and amortization	27,344	10,559	12,657	50,560	—	50,560	252	269	451	16,867	68,399	—	68,399
Provision for bad debt (nonpatient)	59	36	—	95	—	95	—	—	—	(1)	94	—	94
Interest	3,499	2,019	5,919	11,437	—	11,437	(38)	15	18	(116)	11,316	—	11,316
Total operating expenses	591,792	230,546	278,186	1,100,524	—	1,100,524	14,769	736	2,094	199,562	1,317,685	(32,077)	1,285,608
Income (loss) from operations	49,201	4,208	18,726	72,135	—	72,135	(2,560)	239	667	(29,206)	41,275	—	41,275
Nonoperating revenue (expense):													
Investment income (loss), net	37,668	4,417	3,973	46,058	—	46,058	58	—	—	7,210	53,326	—	53,326
Equity in income (loss) of affiliates, net	11,719	896	188	12,803	—	12,803	—	—	—	97,363	110,166	(99,576)	10,590
Loss on extinguishment of debt	(817)	(638)	—	(1,455)	—	(1,455)	—	—	—	(339)	(1,794)	—	(1,794)
Other, net	(7,856)	1,712	2,415	(3,729)	—	(3,729)	2	—	(1)	(1,073)	(4,801)	—	(4,801)
Total nonoperating revenue (expense), net	40,714	6,387	6,576	53,677	—	53,677	60	—	(1)	103,161	156,897	(99,576)	57,321
Net income	89,915	10,595	25,302	125,812	—	125,812	(2,500)	239	666	73,955	198,172	(99,576)	98,596
Net income attributable to noncontrolling interest	8	—	(1,069)	(1,061)	—	(1,061)	—	—	—	(180)	(1,241)	—	(1,241)
Net income attributable to INTEGRIS Health	89,923	10,595	24,233	124,751	—	124,751	(2,500)	239	666	73,775	196,931	(99,576)	97,355
Other changes in net assets:													
Pension liability adjustment	—	—	—	—	—	—	—	—	—	138,713	138,713	—	138,713
Other, net	(30,158)	118	38	(30,002)	—	(30,002)	(56,116)	—	(579)	(10,764)	(97,461)	99,633	2,172
Change in net assets	59,765	10,713	24,271	94,749	—	94,749	(58,616)	239	87	201,724	238,183	57	238,240
Net assets (deficit) of INTEGRIS *Health*, beginning of year	537,136	217,764	180,729	935,629	—	935,629	23,426	450	(1,875)	961,485	1,919,115	(1,083,996)	835,119
Net assets (deficit) of INTEGRIS *Health*, end of year	$ 596,901	228,477	205,000	1,030,378	—	1,030,378	(35,190)	689	(1,788)	1,163,209	2,157,298	(1,083,939)	1,073,359

See accompanying independent auditors' report.